



KP TISSUE INC.

UNAUDITED CONDENSED FINANCIAL STATEMENT

**FOR THE 3-MONTH AND 6-MONTH PERIODS ENDED JUNE 25, 2017
AND JUNE 26, 2016**

KP Tissue Inc.
Unaudited Condensed Statement of Financial Position

(tabular amounts are in thousands of Canadian dollars)

	June 25, 2017	December 31, 2016
	\$	\$
Assets		
Current assets		
Distributions receivable	1,647	1,636
Receivable from Partnership	-	426
Income taxes recoverable	629	-
	<u>2,276</u>	<u>2,062</u>
Non-current assets		
Investment in associate (note 5)	109,750	117,349
Total Assets	<u><u>112,026</u></u>	<u><u>119,411</u></u>
Liabilities		
Current liabilities		
Dividend payable (note 7)	1,647	1,636
Payable to Partnership	271	-
Current portion of advances from Partnership (note 6)	596	914
Income tax payable	-	884
	<u>2,514</u>	<u>3,434</u>
Non-current liabilities		
Deferred income taxes (note 6)	1,021	893
Total liabilities	<u>3,535</u>	<u>4,327</u>
Equity		
Common shares (note 7)	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	<u>108,491</u>	<u>115,084</u>
Total liabilities and equity	<u><u>112,026</u></u>	<u><u>119,411</u></u>
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 6-month periods ended June 25, 2017 and June 26, 2016

(tabular amounts are in 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) (note 5)	115	469	(248)	91
Dilution gain (note 7)	47	255	97	84
Income (loss) before income taxes	162	724	(151)	175
Income taxes (note 6)	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 (note 8)				
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)
Basic loss per share	(0.06)	(0.07)	(0.13)	(0.23)
Weighted average number of shares outstanding	9,144,390	9,016,939	9,130,890	9,005,511

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 6-month periods ended June 25, 2017 and June 26, 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)	62,462	685	-	-	-	685
Dividends payable	-	-	-	(1,624)	-	(1,624)
Dividends paid	-	-	-	(1,620)	-	(1,620)
Fair value adjustment (note 7)	-	(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
As of January 1, 2017	9,091,598	13,176	144,819	(58,729)	15,818	115,084
Issuance of common shares (note 7)	59,581	910	-	-	-	910
Dividends payable	-	-	-	(1,647)	-	(1,647)
Dividends paid	-	-	-	(1,642)	-	(1,642)
Fair value adjustment (note 7)	-	30	-	(30)	-	-
Remeasurements of pensions	-	-	-	(2,130)	-	(2,130)
Remeasurements of post-retirement benefits	-	-	-	(314)	-	(314)
Cumulative translation adjustment	-	-	-	-	(619)	(619)
Net loss for the period	-	-	-	(1,151)	-	(1,151)
As of June 25, 2017	9,151,179	14,116	144,819	(65,643)	15,199	108,491

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

KP Tissue Inc.
Unaudited Condensed Statement of Cash Flows
For the 6-month periods ended June 25, 2017 and June 26, 2016

(tabular amounts are in thousands of Canadian dollars)

	6-month period ended June 25, 2017	6-month period ended June 26, 2016
	\$	\$
Cash flows from (used in) operating activities		
Net loss for the period	(1,151)	(2,083)
Items not affecting cash		
Equity (income) loss	248	(91)
Dilution gain	(97)	(84)
Income taxes	1,000	2,258
Total items not affecting cash	1,151	2,083
Net change in non-cash working capital (note 10)	697	-
Tax payments	(1,774)	(205)
Tax Distribution received	481	-
Advances received	596	205
Net cash from (used in) operating activities	-	-
Cash flows from investing activities		
Partnership unit distributions received	2,368	2,548
Net cash from investing activities	2,368	2,548
Cash flows used in financing activities		
Dividends paid	(2,368)	(2,548)
Net cash used in financing activities	(2,368)	(2,548)
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.

KP Tissue Inc.

Notes to Unaudited Condensed Financial Statements

For the 6-month periods ended June 25, 2017 and June 26, 2016

(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 25, 2017, the Corporation held a 16.1% (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 June 25, 2017 represents the 91 day period from March 27 to June 25, 2017 and the 3-month period ended June 26, 2016 represents the 91 day period from March 28 to June 26, 2016. The 6-month period ended June 25, 2017 represents the 176 day period from January 1 to June 25, 2017 and the 6-month period ended June 26, 2016 represents the 178 day period from January 1 to June 26, 2016.

These unaudited condensed financial statements were approved by the board of directors on August 8, 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 Corporation 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.

KP Tissue Inc.

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For the 6-month periods ended June 25, 2017 and June 26, 2016

(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:

	6-month period ended June 25, 2017	Year ended December 31, 2016
	\$	\$
Opening balance	117,349	126,643
Investment in associate	910	1,580
Share of income	2,717	5,750
Depreciation of fair value increments	(2,965)	(5,874)
Share of other comprehensive loss	(3,674)	(3,998)
Dilution gain	97	191
Tax Distribution	(1,395)	(432)
Partnership unit distributions	(3,289)	(6,511)
Closing balance	<u>109,750</u>	<u>117,349</u>

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

	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
	\$	\$	\$	\$
Share of income	1,598	1,954	2,717	2,995
Depreciation of fair value increments	(1,483)	(1,485)	(2,965)	(2,904)
	<u>115</u>	<u>469</u>	<u>(248)</u>	<u>91</u>

KP Tissue Inc.
Notes to Unaudited Condensed Financial Statements

For the 6-month periods ended June 25, 2017 and June 26, 2016

(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 16.1% interest as of June 25, 2017 (December 31, 2016 – 16.1%). The financial information was derived from the unaudited condensed consolidated financial statements of KPLP for the 6-month period ended June 25, 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.

	June 25, 2017		
	KPLP basis of accounting	FV increment	KPT basis of accounting
	\$	\$	\$
Current assets	339,448	-	339,448
Non-current assets	995,198	519,462	1,514,660
Liabilities to non-unitholders	825,546	-	825,546
Partnership units liability	142,356	-	142,356
Net assets	366,744		
	3-month period ended June 25, 2017	6-month period ended June 25, 2017	
	\$	\$	
Revenue	314,388	603,659	
Net income	9,947	16,896	
Other comprehensive loss	(17,553)	(21,769)	
Total comprehensive loss	(7,606)	(4,873)	
	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 June 26, 2016	6-month 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)	

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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:

	June 25, 2017	December 31, 2016
	\$	\$
KPLP consolidated equity	366,744	382,633
Add back: Inception value of Partnership units liability	118,562	118,562
Less: Equity pertaining to Kruger Inc. and KPGP	<u>(331,207)</u>	<u>(343,935)</u>
Equity pertaining to KPT	154,099	157,260
Investment in associate recorded in KPT	<u>109,750</u>	<u>117,349</u>
Reconciling difference	44,349	39,911
Reconciling items since inception:		
Equity issuance costs	(11,110)	(11,110)
Depreciation of FV increments	28,706	25,741
Currency translation adjustment in fair value increments	(3,738)	(3,913)
Tax Distribution	3,566	2,171
Gain on exercise of overallotment option	(375)	(375)
Dilution gain	(700)	(603)
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 unaudited condensed statement of comprehensive loss were as follows:

	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
	\$	\$	\$	\$
Current tax expense	199	185	261	235
Deferred tax expense	553	1,144	739	2,023
	<u>752</u>	<u>1,329</u>	<u>1,000</u>	<u>2,258</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:

	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
	\$	\$	\$	\$
Income tax at statutory rate of 26%	42	189	(39)	46
Permanent differences and other	3	(10)	9	(35)
Dilution gain	(12)	(67)	(25)	(22)
Taxed in hands of subsidiaries	(94)	(53)	(276)	(57)
Realization of previously unrecognized tax attributes	435	410	855	729
Change in basis of investment in associate	378	860	476	1,597
	<u>752</u>	<u>1,329</u>	<u>1,000</u>	<u>2,258</u>

Components of the deferred income tax liability were as follows:

	June 25, 2017	December 31, 2016
	\$	\$
Deferred tax liability (asset)		
Pensions	(553)	(417)
Deferred finance fees	(48)	(50)
Property, plant and equipment	3,923	3,546
Other	(2,301)	(2,186)
	<u>1,021</u>	<u>893</u>

The analysis of the deferred tax liability was as follows:

	June 25, 2017	December 31, 2016
	\$	\$
Deferred tax liabilities to be realized greater than 12 months	<u>1,021</u>	<u>893</u>
	<u>1,021</u>	<u>893</u>

In addition to the above, the Corporation has a deferred tax asset of \$4.0 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 6-month period ended June 25, 2017.

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

The movement in the deferred tax liability was as follows:

	6-month period ended June 25, 2017	Year ended December 31, 2016
	\$	\$
Opening balance	893	1,007
Charge to net loss	739	406
Charge to other comprehensive loss		
- remeasurements of cumulative translation adjustment	(92)	(337)
Charge to other comprehensive loss		
- remeasurements of post-retirement benefits	(201)	6
Charge to other comprehensive loss		
- remeasurements of pensions	(318)	(183)
Charge to other comprehensive loss		
- mark-to-market on Available-for-sale investment	-	(6)
	<u>1,021</u>	<u>893</u>

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 6-month period ended June 25, 2017, pursuant to the Tax Distribution as defined in the Partnership Agreement, KPT received an advance from KPLP of \$0.6 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 6-month periods ended June 25, 2017 and June 26, 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:

Dividend Payment Date	6-month period ended June 25, 2017			
	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
	<u>3,278</u>		<u>59,581</u>	<u>910</u>

KP Tissue Inc.
Notes to Unaudited Condensed Financial Statements

For the 6-month periods ended June 25, 2017 and June 26, 2016

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

Dividend Payment Date	6-month period ended June 26, 2016			
	Dividends paid	Share price	Issuance of Common shares	Gross proceeds
	\$	\$	#	\$
January 15, 2016	1,613	10.29	41,671	429
April 15, 2016	1,620	12.31	20,791	256
	<u>3,233</u>		<u>62,462</u>	<u>685</u>

On July 17, 2017, the Corporation paid a dividend of \$1.6 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 32,447 common shares at a price of \$13.23.

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

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 6-month period ended June 25, 2017 (6-month period ended June 26, 2016 - \$0.1 million).

8 Income tax recovery on other comprehensive loss

Income tax recovery on other comprehensive loss was as follows:

	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
	\$	\$	\$	\$
Items that will not be reclassified to net loss:				
Remeasurements of pensions	(2,035)	(4,399)	(2,448)	(7,135)
Income tax recovery	264	570	318	926
Net of income tax recovery	<u>(1,771)</u>	<u>(3,829)</u>	<u>(2,130)</u>	<u>(6,209)</u>
Remeasurements of post-retirement benefits	(373)	(286)	(515)	(266)
Income tax recovery	146	112	201	104
Net of income tax recovery	<u>(227)</u>	<u>(174)</u>	<u>(314)</u>	<u>(162)</u>
Items that may be subsequently reclassified to net loss:				
Available-for-sale investment	-	-	-	(47)
Income tax recovery	-	-	-	6
Net of income tax recovery	<u>-</u>	<u>-</u>	<u>-</u>	<u>(41)</u>
Cumulative translation adjustment	(513)	(1,926)	(711)	(4,835)
Income tax recovery	66	251	92	629
Net of income tax recovery	<u>(447)</u>	<u>(1,675)</u>	<u>(619)</u>	<u>(4,206)</u>
Total other comprehensive loss for the period	<u>(2,445)</u>	<u>(5,678)</u>	<u>(3,063)</u>	<u>(10,618)</u>

KP Tissue Inc.
Notes to Unaudited Condensed Financial Statements
For the 6-month periods ended June 25, 2017 and June 26, 2016

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

9 Economic dependence

The Corporation is economically dependent upon the Partnership.

10 Non-cash working capital

	6-month period ended June 25, 2017	6-month period ended June 26, 2016
	\$	\$
Decrease in receivable from Partnership	426	-
Increase in payable to Partnership	271	-
	<u>697</u>	<u>-</u>