



KP TISSUE INC.

UNAUDITED CONDENSED FINANCIAL STATEMENT

FOR THE 3-MONTH PERIODS ENDED MARCH 31, 2019 AND APRIL 1, 2018

KP Tissue Inc.

Unaudited Condensed Statement of Financial Position

(tabular amounts are in thousands of Canadian dollars)

	March 31, 2019	Restated (note 12) December 31, 2018	Restated (note 12) January 1, 2018
	\$	\$	\$
Assets			
Current assets			
Distributions receivable	1,705	1,694	1,658
Receivable from Partnership	313	269	-
Income taxes recoverable	230	230	826
	<u>2,248</u>	<u>2,193</u>	<u>2,484</u>
Non-current assets			
Investment in associate (note 5)	95,122	99,421	94,952
Total Assets	<u>97,370</u>	<u>101,614</u>	<u>97,436</u>
Liabilities			
Current liabilities			
Dividend payable (note 7)	1,705	1,694	1,658
Payable to Partnership	-	-	52
Current portion of advances from Partnership (note 6)	269	-	309
	<u>1,974</u>	<u>1,694</u>	<u>2,019</u>
Non-current liabilities			
Advances from Partnership (note 6)	-	269	731
Deferred income taxes (note 6)	3,509	3,634	515
Total liabilities	<u>5,483</u>	<u>5,597</u>	<u>3,265</u>
Equity			
Common shares (note 7)	17,683	17,090	15,014
Contributed surplus	144,819	144,819	144,819
Deficit	(85,892)	(82,269)	(77,706)
Accumulated other comprehensive income	15,277	16,377	12,044
Total equity	<u>91,887</u>	<u>96,017</u>	<u>94,171</u>
Total liabilities and equity	<u>97,370</u>	<u>101,614</u>	<u>97,436</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 Income (Loss)

For the 3-month periods ended March 31, 2019 and April 1, 2018

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

	3-month period ended March 31, 2019	3-month period ended April 1, 2018
	\$	\$
Equity loss (note 5)	(1,949)	(1,202)
Dilution gain (note 7)	89	43
Loss before income taxes	(1,860)	(1,159)
Income taxes (note 6)	92	(321)
Net loss for the period	(1,952)	(838)
Other comprehensive income (loss) net of tax expense (recovery) (note 8)		
Items that will not be reclassified to net loss:		
Remeasurements of pensions	277	2,332
Remeasurements of post-retirement benefits	(196)	89
Items that may be subsequently reclassified to net loss:		
Cumulative translation adjustment	(1,100)	1,472
Total other comprehensive income (loss) for the period	(1,019)	3,893
Comprehensive income (loss) for the period	(2,971)	3,055
Basic loss per share	(0.21)	(0.09)
Weighted average number of shares outstanding	9,464,356	9,245,170

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 3-month periods ended March 31, 2019 and April 1, 2018

(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, 2018 Restated (note 12)	9,212,913	15,014	144,819	(77,706)	12,044	94,171
KPT's portion of KPLP change in accounting policy IFRS 15 (note 3)	-	-	-	(748)	-	(748)
Restated total equity as of January 1, 2018	<u>9,212,913</u>	<u>15,014</u>	<u>144,819</u>	<u>(78,454)</u>	<u>12,044</u>	<u>93,423</u>
Issuance of common shares (note 7)	38,122	514	-	-	-	514
Dividends payable	-	-	-	(1,665)	-	(1,665)
Fair value adjustment (note 7)	-	20	-	(20)	-	-
Remeasurements of pensions	-	-	-	2,332	-	2,332
Remeasurements of post-retirement benefits	-	-	-	89	-	89
Cumulative translation adjustment	-	-	-	-	1,472	1,472
Net loss for the period	-	-	-	(838)	-	(838)
As of April 1, 2018 Restated	<u>9,251,035</u>	<u>15,548</u>	<u>144,819</u>	<u>(78,556)</u>	<u>13,516</u>	<u>95,327</u>
As of January 1, 2019 Restated (note 12)	9,409,207	17,090	144,819	(82,269)	16,377	96,017
Issuance of common shares (note 7)	65,308	546	-	-	-	546
Dividends payable	-	-	-	(1,705)	-	(1,705)
Fair value adjustment (note 7)	-	47	-	(47)	-	-
Remeasurements of pensions	-	-	-	277	-	277
Remeasurements of post-retirement benefits	-	-	-	(196)	-	(196)
Cumulative translation adjustment	-	-	-	-	(1,100)	(1,100)
Net loss for the period	-	-	-	(1,952)	-	(1,952)
As of March 31, 2019	<u>9,474,515</u>	<u>17,683</u>	<u>144,819</u>	<u>(85,892)</u>	<u>15,277</u>	<u>91,887</u>

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

KP Tissue Inc.
Unaudited Condensed Statement of Cash Flows
For the 3-month periods ended March 31, 2019 and April 1, 2018

(tabular amounts are in thousands of Canadian dollars)

	3-month period ended March 31, 2019	3-month period ended April 1, 2018
	\$	\$
Cash flows from (used in) operating activities		
Net loss for the period	(1,952)	(838)
Items not affecting cash		
Equity loss	1,949	1,202
Dilution gain	(89)	(43)
Income taxes	92	(321)
Total items not affecting cash	1,952	838
Net change in non-cash working capital (note 10)	-	-
Tax payments	-	(244)
Advances received	-	244
Net cash from (used in) operating activities	-	-
Cash flows from investing activities		
Partnership unit distributions received	1,148	1,144
Net cash from investing activities	1,148	1,144
Cash flows used in financing activities		
Dividends paid	(1,148)	(1,144)
Net cash used in financing activities	(1,148)	(1,144)
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 3-month periods ended March 31, 2019 and April 1, 2018

(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 March 31, 2019, the Corporation held a 15.7% (December 31, 2018 – 15.8%) 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, 2018.

The 3-month period ended March 31, 2019 represents the 90 day period from January 1 to March 31, 2019 and the 3-month period ended April 1, 2018 represents the 91 day period from January 1, 2018 to April 1, 2018.

These unaudited condensed financial statements were approved by the board of directors on May 9, 2019.

3 KPT's portion of KPLP change in accounting policy

KPLP adopted IFRS 15, Revenue from Contracts with Customers on January 1, 2018 using the modified retrospective approach. The adoption of this standard had no significant impact on the consolidated financial statements of KPLP. The application of IFRS 15 resulted in a change in KPLP's revenue recognition related to dispensers and related revenue. KPLP recorded a transitional adjustment of \$6.3 million in the deficit, to reduce the balance related to the dispensers recorded in Other long term assets at December 31, 2017. KPT's portion of KPLP's transitional adjustment was \$0.7 million, net of tax, and was recognized in KPT's deficit on January 1, 2018.

KPLP adopted IFRS 16, Leases on January 1, 2019 using the full retrospective approach. The adoption of this standard had a significant impact on the consolidated financial statements of KPLP. IFRS 16 requires lessees to recognize a right-of-use asset and a lease liability reflecting future lease payments for virtually all lease contracts. The right-of-use asset and lease liability were material to the unaudited condensed consolidated statement of financial position of KPLP. There was a change in presentation on the unaudited condensed consolidated statement of comprehensive income (loss) and an increase in Adjusted EBITDA of KPLP. There was no material impact on KPLP's net income or cash flow. KPLP recorded a transitional adjustment at January 1, 2019, on adoption of IFRS 16. Accordingly, KPT has recorded a portion of KPLP's transitional adjustment at January 1, 2019 (refer to note 12 for additional information).

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. On a regular basis and with the information available, management reviews its estimates and judgements, including those related to fair value and the basis of accounting. Actual results could differ from those estimates. When adjustments become necessary, they are reported in earnings in the period in which they occur. The estimates and judgement applied by management that

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

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, 2018.

5 Investment in associate

Changes in the carrying amount of the investment were as follows:

	3-month period ended March 31, 2019	Restated (note 12) 3-month period ended April 1, 2018
	\$	\$
Opening balance	99,421	94,952
KPT's portion of KPLP change in accounting policy IFRS 15 (note 3)	-	(1,010)
Investment in associate	546	514
Share of income (loss)	(503)	251
Depreciation of fair value increments	(1,446)	(1,453)
Share of other comprehensive income (loss)	(1,280)	4,474
Dilution gain	89	43
Tax Distribution	-	(309)
Partnership unit distributions	(1,705)	(1,665)
Closing balance	<u>95,122</u>	<u>95,797</u>

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

	3-month period ended March 31, 2019	3-month period ended April 1, 2018
	\$	\$
Share of income (loss)	(503)	251
Depreciation of fair value increments	(1,446)	(1,453)
	<u>(1,949)</u>	<u>(1,202)</u>

The following summarizes financial information about the assets, liabilities, revenue and net income of KPLP, in which the Corporation holds a 15.7% interest as of March 31, 2019 (December 31, 2018 – 15.8%). The financial information was derived from the unaudited condensed consolidated financial statements of KPLP for the 3-month period ended March 31, 2019. 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.

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

	March 31, 2019		
	KPLP basis of accounting	FV increment	KPT basis of accounting
	\$	\$	\$
Current assets	497,122	-	497,122
Non-current assets	1,091,077	455,461	1,546,538
Liabilities to non-unitholders	1,116,585	-	1,116,585
Partnership units liability	118,071	-	118,071
Net assets	353,543		

	3-month period ended March 31, 2019
	\$
Revenue	350,977
Net loss	(3,212)
Other comprehensive loss	(6,493)
Total comprehensive loss	(9,705)

	Restated (notes 3 and 12) December 31, 2018		
	KPLP basis of accounting	FV increment	KPT basis of accounting
	\$	\$	\$
Current assets	505,032	-	505,032
Non-current assets	1,091,286	466,047	1,557,333
Liabilities to non-unitholders	1,112,983	-	1,112,983
Partnership units liability	116,524	-	116,524
Net assets	366,811		

	Year ended December 31, 2018
	\$
Revenue	1,370,432
Net income	45,406
Other comprehensive income	50,505
Total comprehensive income	95,911

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

	KPLP basis of accounting	FV increment	Restated (notes 3 and 12) January 1, 2018 KPT basis of accounting
	\$	\$	\$
Current assets	322,469	-	322,469
Non-current assets	1,073,962	497,088	1,571,050
Liabilities to non-unitholders	935,918	-	935,918
Partnership units liability	160,309	-	160,309
Net assets	300,204		

The following shows the reconciliation of KPT's portion of KPLP equity to the investment recorded in KPT:

	March 31, 2019	Restated (note 12) December 31, 2018
	\$	\$
KPLP consolidated equity	353,543	366,811
Add back: Inception value of Partnership units liability	118,562	118,562
Less: Equity pertaining to Kruger Inc. and KPGP	(322,443)	(333,030)
Equity pertaining to KPT	149,662	152,343
Investment in associate recorded in KPT	95,122	99,421
Reconciling difference	54,540	52,922
Reconciling items since inception:		
Equity issuance costs	(11,110)	(11,110)
Depreciation of FV increments	38,893	37,447
Currency translation adjustment in fair value increments	(3,665)	(3,926)
Tax Distribution	3,875	3,875
Gain on exercise of overallotment option	(375)	(375)
Dilution gain	(1,078)	(989)
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.

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

The major components of income taxes recognized in the unaudited condensed statement of comprehensive income (loss) were as follows:

	3-month period ended March 31, 2019	3-month period ended April 1, 2018
	\$	\$
Current tax expense (recovery)	(44)	111
Deferred tax expense (recovery)	136	(432)
	<u>92</u>	<u>(321)</u>

Details of the provision for income taxes were as follows:

	3-month period ended March 31, 2019	3-month period ended April 1, 2018
	\$	\$
Income tax at statutory rate of 26%	(484)	(301)
Permanent differences and other	(8)	16
Dilution gain	(23)	(11)
Taxed in hands of subsidiaries	28	89
Realization of previously unrecognized tax attributes	413	468
Change in basis of investment in associate	166	(582)
	<u>92</u>	<u>(321)</u>

Components of the deferred income tax liability were as follows:

	March 31, 2019	Restated (note 12) December 31, 2018
	\$	\$
Deferred tax liability (asset)		
ROU assets and lease liabilities	(968)	(968)
Pensions	(345)	(253)
Deferred finance fees	(18)	(23)
Property, plant and equipment	6,013	5,995
Other	(1,173)	(1,117)
	<u>3,509</u>	<u>3,634</u>

The analysis of the deferred tax liability were as follows:

	March 31, 2019	Restated (note 12) December 31, 2018
	\$	\$
Deferred tax liabilities to be realized greater than 12 months	3,509	3,634
	<u>3,509</u>	<u>3,634</u>

In addition to the above, the Corporation has a deferred tax asset of \$4.6 million (December 31, 2018 - \$4.2 million)

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

related to the Investment in associate which has not been recognized in the unaudited condensed financial statements for 3-month period ended March 31, 2019.

The movement in the deferred tax liability was as follows:

	3-month period ended March 31, 2019	Restated (note 12) 3-month period ended April 1, 2018
	\$	\$
Opening balance	3,634	515
Charge to net loss	136	(432)
Charge to other comprehensive income (loss)		
- remeasurements of cumulative translation adjustment	(164)	220
Charge to other comprehensive income (loss)		
- remeasurements of post-retirement benefits	(138)	13
Charge to other comprehensive income (loss)		
- remeasurements of pensions	41	348
	<u>3,509</u>	<u>664</u>

On February 28, 2018, KPT received a Tax Distribution of \$0.3 million from KPLP for purposes of settling its obligation for federal and provincial taxes, for the year ended December 31, 2017. The Tax Distribution was used to partially settle the advances to KPT recorded during the year ended December 31, 2017. The excess advance over KPT's portion of the Tax Distribution, in the amount of \$0.7 million, was paid by KPT to KPLP during the year ended December 31, 2018. The advances in the amount of \$0.3 million are repayable by KPT and due to the Partnership on or before March 31, 2020.

KPT incurred a loss for tax purposes for the year ended December 31, 2018 and as a result no Tax Distribution was declared on February 28, 2019. As a result of the 2018 loss for tax purposes, KPT is not required to pay monthly tax instalments and as a result did not require any advances from KPLP during the 3-month period ended March 31, 2019.

7 Dividends

During the 3-month periods ended March 31, 2019 and April 1, 2018, the Corporation paid a quarterly dividend of \$0.18 per common share to shareholders. Pursuant to the Corporation 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:

	3-month period ended March 31, 2019			
	Dividends paid	Share price	Issuance of Common shares	Gross proceeds
Dividend Payment Date	\$	\$	#	\$
January 15, 2019	<u>1,694</u>	8.36	<u>65,308</u>	<u>546</u>

KP Tissue Inc.
Notes to Unaudited Condensed Financial Statements

For the 3-month periods ended March 31, 2019 and April 1, 2018

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

Dividend Payment Date	3-month period ended April 1, 2018			
	Dividends paid	Share price	Issuance of Common shares	Gross proceeds
	\$	\$	#	\$
January 15, 2018	1,658	13.50	38,122	514

On April 15, 2019, the Corporation paid a dividend of \$1.7 million to shareholders at \$0.18 per common share. Pursuant to the Corporation DRIP, a portion of the dividend was reinvested by the shareholders, resulting in the Corporation issuing 48,921 common shares at a price of \$8.70.

Subsequent to March 31, 2019, the Corporation declared a dividend of \$0.18 per common share to shareholders, payable on July 15, 2019.

As a result of the DRIP and Kruger's reinvestment of its distribution from KPLP in units of KPLP, a dilution gain of \$0.09 million was recorded during the 3-month period ended March 31, 2019 (3-month period ended April 1, 2018 - \$0.04 million).

8 Income tax recovery (expense) on other comprehensive income (loss)

Income tax recovery (expense) on other comprehensive income (loss) were as follows:

	3-month period ended March 31, 2019	3-month period ended April 1, 2018
	\$	\$
Items that will not be reclassified to net loss:		
Remeasurements of pensions	318	2,680
Income tax expense	(41)	(348)
Net of income tax expense	277	2,332
Remeasurements of post-retirement benefits	(334)	102
Income tax recovery (expense)	138	(13)
Net of income tax recovery (expense)	(196)	89
Items that may be subsequently reclassified to net loss:		
Cumulative translation adjustment	(1,264)	1,692
Income tax recovery (expense)	164	(220)
Net of income tax recovery (expense)	(1,100)	1,472
Total other comprehensive income (loss) for the period	(1,019)	3,893

9 Economic dependence

The Corporation was created to acquire, and its business is limited to holding, a limited partnership interest in the Partnership, which is accounted for as an investment in an associate using the equity method of accounting. As such, the Corporation is economically dependent on the Partnership and exposed to all the risks associated with the business of the Partnership, including, but not limited to, liquidity risk.

KP Tissue Inc.
Notes to Unaudited Condensed Financial Statements

For the 3-month periods ended March 31, 2019 and April 1, 2018

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

10 Non-cash working capital

The change in non-cash working capital on the unaudited condensed statement of cash flows comprised the following:

	3-month period ended March 31, 2019	3-month period ended April 1, 2018
	\$	\$
Increase in receivable from Partnership	(44)	-
Decrease in Income taxes	44	-
	<u>-</u>	<u>-</u>

11 Cash flows used in financing activities

	Dividend payable	Common shares	Total
	\$	\$	\$
As of January 1, 2018	1,658	15,014	16,672
Dividends paid	(1,658)	514	(1,144)
As of April 1, 2018	<u>-</u>	<u>15,528</u>	<u>15,528</u>
As of January 1, 2019	1,694	17,090	18,784
Dividends paid	(1,694)	546	(1,148)
As of March 31, 2019	<u>-</u>	<u>17,636</u>	<u>17,636</u>

KP Tissue Inc.
Notes to Unaudited Condensed Financial Statements

For the 3-month periods ended March 31, 2019 and April 1, 2018

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

12 Transition reconciliation

The following are reconciliations from the previous lease recognition guidance in IAS 17, to the new standard on leases, IFRS 16, adopted January 1, 2019. Reconciliations are provided for the unaudited condensed statement of financial position at December 31, 2018 and January 1, 2018. Refer to note 3 for additional information.

	December 31, 2018			January 1, 2018		
	IAS 17	Transition effect	IFRS 16	IAS 17	Transition effect	IFRS 16
	\$	\$	\$	\$	\$	\$
Assets						
Current assets						
Distributions receivable	1,694	-	1,694	1,658	-	1,658
Receivable from Partnership	269	-	269	-	-	-
Income taxes recoverable	230	-	230	826	-	826
	2,193	-	2,193	2,484	-	2,484
Non-current assets						
Investment in associate	103,143	(3,722)	99,421	98,674	(3,722)	94,952
Total Assets	105,336	(3,722)	101,614	101,158	(3,722)	97,436
Liabilities						
Current liabilities						
Dividend payable	1,694	-	1,694	1,658	-	1,658
Payable to Partnership	-	-	-	52	-	52
Current portion of advances from Partnership	-	-	-	309	-	309
	1,694	-	1,694	2,019	-	2,019
Non-current liabilities						
Advances from Partnership	269	-	269	731	-	731
Deferred income taxes	4,602	(968)	3,634	1,483	(968)	515
Total liabilities	6,565	(968)	5,597	4,233	(968)	3,265
Equity						
Common shares	17,090	-	17,090	15,014	-	15,014
Contributed surplus	144,819	-	144,819	144,819	-	144,819
Deficit	(79,515)	(2,754)	(82,269)	(74,952)	(2,754)	(77,706)
Accumulated other comprehensive income	16,377	-	16,377	12,044	-	12,044
Total equity	98,771	(2,754)	96,017	96,925	(2,754)	94,171
Total liabilities and equity	105,336	(3,722)	101,614	101,158	(3,722)	97,436