



KP TISSUE INC.

UNAUDITED CONDENSED FINANCIAL STATEMENT

**FOR THE 3-MONTH AND 9-MONTH PERIODS ENDED SEPTEMBER 30, 2018
AND SEPTEMBER 24, 2017**

KP Tissue Inc.
Unaudited Condensed Statement of Financial Position

(tabular amounts are in thousands of Canadian dollars)

	September 30, 2018	December 31, 2017
	\$	\$
Assets		
Current assets		
Distributions receivable	1,683	1,658
Receivable from Partnership	614	-
Income taxes recoverable	527	826
	<u>2,824</u>	<u>2,484</u>
Non-current assets		
Investment in associate (note 5)	98,458	98,674
	<u>98,458</u>	<u>98,674</u>
Total Assets	<u>101,282</u>	<u>101,158</u>
Liabilities		
Current liabilities		
Dividend payable (note 7)	1,683	1,658
Payable to Partnership	-	52
Current portion of advances from Partnership (note 6)	1,005	309
	<u>2,688</u>	<u>2,019</u>
Non-current liabilities		
Advances from Partnership (note 6)	-	731
Deferred income taxes (note 6)	2,535	1,483
	<u>2,535</u>	<u>1,483</u>
Total liabilities	<u>5,223</u>	<u>4,233</u>
Equity		
Common shares (note 7)	16,577	15,014
Contributed surplus	144,819	144,819
Deficit	(79,035)	(74,952)
Accumulated other comprehensive income	13,698	12,044
	<u>13,698</u>	<u>12,044</u>
Total equity	<u>96,059</u>	<u>96,925</u>
Total liabilities and equity	<u>101,282</u>	<u>101,158</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 and 9-month periods ended September 30, 2018 and September 24, 2017

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

	3-month period ended September 30, 2018 \$	3-month period ended September 24, 2017 \$	9-month period ended September 30, 2018 \$	9-month period ended September 24, 2017 \$
Equity income (loss) (note 5)	(789)	1,179	(3,186)	931
Dilution gain (note 7)	49	39	138	136
Income (loss) before income taxes	(740)	1,218	(3,048)	1,067
Income taxes (note 6)	92	1,288	(49)	2,288
Net loss for the period	(832)	(70)	(2,999)	(1,221)
Other comprehensive income (loss) net of tax expense (recovery) (note 8)				
Items that will not be reclassified to net loss:				
Remeasurements of pensions	1,526	(755)	3,974	(2,885)
Remeasurements of post-retirement benefits	701	287	760	(27)
Items that may be subsequently reclassified to net loss:				
Cumulative translation adjustment	(851)	(4,086)	1,654	(4,705)
Total other comprehensive income (loss) for the period	1,376	(4,554)	6,388	(7,617)
Comprehensive income (loss) for the period	544	(4,624)	3,389	(8,838)
Basic loss per share	(0.09)	(0.01)	(0.32)	(0.13)
Weighted average number of shares outstanding	9,341,392	9,176,138	9,292,592	9,146,312

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 30, 2018 and September 24, 2017

(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, 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
As of January 1, 2018	9,212,913	15,014	144,819	(74,952)	12,044	96,925
KPT's portion of KPLP change in accounting policy (note 3)	-	-	-	(748)	-	(748)
Restated total equity as of January 1, 2018	9,212,913	15,014	144,819	(75,700)	12,044	96,177
Issuance of common shares (note 7)	136,274	1,515	-	-	-	1,515
Dividends payable	-	-	-	(1,683)	-	(1,683)
Dividends paid	-	-	-	(3,339)	-	(3,339)
Fair value adjustment (note 7)	-	48	-	(48)	-	-
Remeasurements of pensions	-	-	-	3,974	-	3,974
Remeasurements of post-retirement benefits	-	-	-	760	-	760
Cumulative translation adjustment	-	-	-	-	1,654	1,654
Net loss for the period	-	-	-	(2,999)	-	(2,999)
As of September 30, 2018	9,349,187	16,577	144,819	(79,035)	13,698	96,059

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 30, 2018 and September 24, 2017

(tabular amounts are in thousands of Canadian dollars)

	9-month period ended September 30, 2018 \$	9-month period ended September 24, 2017 \$
Cash flows from (used in) operating activities		
Net loss for the period	(2,999)	(1,221)
Items not affecting cash		
Equity (income) loss	3,186	(931)
Dilution gain	(138)	(136)
Income taxes	(49)	2,288
Total items not affecting cash	2,999	1,221
Net change in non-cash working capital (note 10)	-	478
Tax payments	(274)	(1,999)
Tax Distribution received	-	481
Advances received	274	1,040
Net cash from (used in) operating activities	-	-
Cash flows from investing activities		
Partnership unit distributions received	3,482	3,586
Net cash from investing activities	3,482	3,586
Cash flows used in financing activities		
Dividends paid	(3,482)	(3,586)
Net cash used in financing activities	(3,482)	(3,586)
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 9-month periods ended September 30, 2018 and September 24, 2017

(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 30, 2018, the Corporation held a 15.9% (December 31, 2017 – 16.0%) 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, 2017.

The 3-month period ended September 30, 2018 represents the 91 day period from July 2 to September 30, 2018 and the 3-month period ended September 24, 2017 represents the 91 day period from June 26 to September 24, 2017. The 9-month period ended September 30, 2018 represents the 273 day period from January 1 to September 30, 2018 and the 9-month period ended September 24, 2017 represents the 267 day period from January 1 to September 24, 2017.

These unaudited condensed financial statements were approved by the board of directors on November 7, 2018.

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 unaudited condensed 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. Refer to the unaudited condensed statement of changes in equity on page 3 for the restated total equity as of January 1, 2018.

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 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, 2017.

KP Tissue Inc.
Notes to Unaudited Condensed Financial Statements
For the 9-month periods ended September 30, 2018 and September 24, 2017

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

5 Investment in associate

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

	9-month period ended September 30, 2018	9-month period ended September 24, 2017
	\$	\$
Opening balance	98,674	117,349
KPT's portion of KPLP change in accounting policy (note 3)	(1,010)	-
Investment in associate	1,515	1,339
Share of income	1,179	5,356
Depreciation of fair value increments	(4,365)	(4,425)
Share of other comprehensive income (loss)	7,658	(8,768)
Dilution gain	138	136
Tax Distribution	(309)	(1,395)
Partnership unit distributions	(5,022)	(4,942)
Closing balance	<u>98,458</u>	<u>104,650</u>

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

	3-month period ended September 30, 2018	3-month period ended September 24, 2017	9-month period ended September 30, 2018	9-month period ended September 24, 2017
	\$	\$	\$	\$
Share of income	666	2,639	1,179	5,356
Depreciation of fair value increments	(1,455)	(1,460)	(4,365)	(4,425)
	<u>(789)</u>	<u>1,179</u>	<u>(3,186)</u>	<u>931</u>

The following summarizes financial information about the assets, liabilities, revenue and net income of KPLP, in which the Corporation holds a 15.9% interest as of September 30, 2018 (December 31, 2017 – 16.0%). The financial information was derived from the unaudited condensed consolidated financial statements of KPLP for the 9-month period ended September 30, 2018. 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 30, 2018		
	KPLP basis of accounting	FV increment	KPT basis of accounting
	\$	\$	\$
Current assets	393,901	-	393,901
Non-current assets	972,155	471,798	1,443,953
Liabilities to non-unitholders	853,031	-	853,031
Partnership units liability	159,097	-	159,097
Net assets	353,928		

KP Tissue Inc.
Notes to Unaudited Condensed Financial Statements
For the 9-month periods ended September 30, 2018 and September 24, 2017

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

	3-month period ended September 30, 2018	9-month period ended September 30, 2018
	\$	\$
Revenue	348,420	1,010,928
Net income	4,196	7,417
Other comprehensive income	13,156	46,159
Total comprehensive income	17,352	53,576

	KPLP basis of accounting	FV increment	December 31, 2017
	\$	\$	\$
Current assets	324,967	-	324,967
Non-current assets	974,788	497,088	1,471,876
Liabilities to non-unitholders	815,861	-	815,861
Partnership units liability	160,309	-	160,309
Net assets	323,585		

	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)

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

	September 30, 2018	December 31, 2017
	\$	\$
KPLP consolidated equity	353,928	323,585
Add back: Inception value of Partnership units liability	118,562	118,562
Less: Equity pertaining to Kruger Inc. and KPGP	(321,963)	(295,622)
Equity pertaining to KPT	150,527	146,525
Investment in associate recorded in KPT	98,458	98,674
Reconciling difference	52,069	47,851
Reconciling items since inception:		
Equity issuance costs	(11,110)	(11,110)
Depreciation of FV increments	35,994	31,629
Currency translation adjustment in fair value increments	(3,384)	(3,066)
Tax Distribution	3,875	3,566
Gain on exercise of overallotment option	(375)	(375)
Dilution gain	(931)	(793)
Impairment in investment in associate	28,000	28,000
	-	-

KP Tissue Inc.
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(tabular amounts are in thousands of Canadian dollars, except share amounts)

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 income (loss) were as follows:

	3-month period ended September 30, 2018	3-month period ended September 24, 2017	9-month period ended September 30, 2018	9-month period ended September 24, 2017
	\$	\$	\$	\$
Current tax expense (recovery)	61	(177)	169	84
Deferred tax expense (recovery)	31	1,465	(218)	2,204
	<u>92</u>	<u>1,288</u>	<u>(49)</u>	<u>2,288</u>

Details of the provision for income taxes were as follows:

	3-month period ended September 30, 2018	3-month period ended September 24, 2017	9-month period ended September 30, 2018	9-month period ended September 24, 2017
	\$	\$	\$	\$
Income tax at statutory rate of 26%	(192)	316	(792)	277
Permanent differences and other	2	(25)	32	(16)
Dilution gain	(13)	(10)	(36)	(35)
Taxed in hands of subsidiaries	97	(22)	356	(298)
Realization of previously unrecognized tax attributes	444	366	1,386	1,221
Change in basis of investment in associate	(246)	663	(995)	1,139
	<u>92</u>	<u>1,288</u>	<u>(49)</u>	<u>2,288</u>

KP Tissue Inc.
Notes to Unaudited Condensed Financial Statements
For the 9-month periods ended September 30, 2018 and September 24, 2017

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

Components of the deferred income tax liability were as follows:

	September 30, 2018	December 31, 2017
	<u>\$</u>	<u>\$</u>
Deferred tax liability (asset)		
Pensions	(261)	(540)
Deferred finance fees	(30)	(46)
Property, plant and equipment	5,691	4,970
Other	(2,865)	(2,901)
	<u>2,535</u>	<u>1,483</u>

The analysis of the deferred tax liability were as follows:

	September 30, 2018	December 31, 2017
	<u>\$</u>	<u>\$</u>
Deferred tax liabilities to be realized greater than 12 months	<u>2,535</u>	<u>1,483</u>
	<u>2,535</u>	<u>1,483</u>

In addition to the above, the Corporation has a deferred tax asset of \$4.5 million (December 31, 2017 - \$5.1 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 30, 2018.

The movement in the deferred tax liability was as follows:

	9-month period ended September 30, 2018	9-month period ended September 24, 2017
	<u>\$</u>	<u>\$</u>
Opening balance	1,483	893
Charge to net loss	(218)	2,204
Charge to other comprehensive income (loss)		
- remeasurements of cumulative translation adjustment	246	(703)
Charge to other comprehensive income (loss)		
- remeasurements of post-retirement benefits	430	(17)
Charge to other comprehensive income (loss)		
- remeasurements of pensions	594	(431)
	<u>2,535</u>	<u>1,946</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, is repayable by KPT to KPLP by March 31, 2019.

During the 9-month period ended September 30, 2018, pursuant to the Tax Distribution as defined in the Partnership Agreement, KPT received an advance from KPLP of \$0.3 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.

KP Tissue Inc.
Notes to Unaudited Condensed Financial Statements
For the 9-month periods ended September 30, 2018 and September 24, 2017

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

7 Dividends

During the 9-month periods ended September 30, 2018 and September 24, 2017, 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:

9-month period ended September 30, 2018				
Dividend Payment Date	Dividends paid	Share price	Issuance of Common shares	Gross proceeds
Dividend Payment Date	\$	\$	#	\$
January 15, 2018	1,658	13.50	38,122	514
April 16, 2018	1,665	10.70	47,482	508
July 16, 2018	1,674	9.72	50,670	493
	<u>4,997</u>		<u>136,274</u>	<u>1,515</u>
9-month period ended September 24, 2017				
Dividend Payment Date	Dividends paid	Share price	Issuance of Common shares	Gross proceeds
Dividend Payment Date	\$	\$	#	\$
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
	<u>4,925</u>		<u>92,028</u>	<u>1,339</u>

On October 15, 2018, 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 60,020 common shares at a price of \$8.74.

Subsequent to September 30, 2018, the Corporation declared a dividend of \$0.18 per common share to shareholders, payable on January 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 \$0.1 million was recorded during the 9-month period ended September 30, 2018 (9-month period ended September 24, 2017 - \$0.1 million).

KP Tissue Inc.
Notes to Unaudited Condensed Financial Statements
For the 9-month periods ended September 30, 2018 and September 24, 2017

(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) were as follows:

	3-month period ended September 30, 2018 \$	3-month period ended September 24, 2017 \$	9-month period ended September 30, 2018 \$	9-month period ended September 24, 2017 \$
Items that will not be reclassified to net loss:				
Remeasurements of pensions	1,754	(868)	4,568	(3,316)
Income tax recovery (expense)	(228)	113	(594)	431
Net of income tax recovery (expense)	<u>1,526</u>	<u>(755)</u>	<u>3,974</u>	<u>(2,885)</u>
Remeasurements of post-retirement benefits	1,122	471	1,190	(44)
Income tax recovery (expense)	(421)	(184)	(430)	17
Net of income tax recovery (expense)	<u>701</u>	<u>287</u>	<u>760</u>	<u>(27)</u>
Items that may be subsequently reclassified to net loss:				
Cumulative translation adjustment	(978)	(4,697)	1,900	(5,408)
Income tax recovery (expense)	127	611	(246)	703
Net of income tax recovery (expense)	<u>(851)</u>	<u>(4,086)</u>	<u>1,654</u>	<u>(4,705)</u>
Total other comprehensive income (loss) for the period	<u><u>1,376</u></u>	<u><u>(4,554)</u></u>	<u><u>6,388</u></u>	<u><u>(7,617)</u></u>

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. As a result, the Corporation is currently exposed to the risk associated with the Partnership refinancing the term loan facility with Caisse de dépôt et placement du Quebec.

10 Non-cash working capital

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

	9-month period ended September 30, 2018 \$	9-month period ended September 24, 2017 \$
Decrease in receivable from Partnership	-	426
Increase in payable to Partnership	-	52
	<u>-</u>	<u>478</u>