KP TISSUE INC.

AUDITED FINANCIAL STATEMENTS

FOR THE PERIOD ENDED DECEMBER 31, 2012

KP Tissue Inc.
#200 – 1900 Minnesota Court, Mississauga Ontario L5N 5R5
www.kptissueinc.com

March 26, 2013

Independent Auditor's Report

To the Shareholders of
KP Tissue Inc.

We have audited the accompanying financial statements of KP Tissue Inc. which comprise the statement of financial position as at December 31, 2012 and the statements of comprehensive income (loss), changes in equity and cash flows for the period from October 1, 2012 to December 31, 2012, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of KP Tissue Inc. as at December 31, 2012 and its financial performance and its cash flows for the period from October 1, 2012 to December 31, 2012 in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

Mississauga, Ontario

KP Tissue Inc.
Statement of Financial Position

(tabular amounts are in thousands of Canadian dollars)

	December 31, 2012 $
Assets	
Non-current assets	
Investment in associate (note 5)	140,774
Total Assets	140,774
Liabilities	
Non-current liabilities	
Deferred income taxes (note 6)	52
Total liabilities	52
Equity	
Common shares (note 7)	140,000
Retained earnings	627
Accumulated other comprehensive gain	95
Total equity	140,722
Total liabilities and equity	140,774

Subsequent events (note 8)

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

KP Tissue Inc.
Statement of Comprehensive Income
For the period from October 1, 2012 to December 31, 2012

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

	2012 $
Equity income (note 5)	201
Income before income taxes	201
Income taxes (note 6)	
Deferred	52
Net income for the period	149
Other comprehensive income	
Actuarial gains on pensions	341
Actuarial gains on post-retirement benefits	137
Cumulative translation adjustment	95
Total other comprehensive income for the period	573
Comprehensive income for the period	722
Basic earnings per share	**0.02**

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

KP Tissue Inc.
Statement of Changes in Equity
For the period from October 1, 2012 to December 31, 2012

(tabular amounts are in thousands of Canadian dollars)

	Common shares $	Retained earnings $	Accumulated other comprehensive income $	Total equity $
As of October 1, 2012	-	-	-	-
Issuance of common shares (note 7)	140,000	-	-	140,000
Changes in actuarial gains on pensions	-	341	-	341
Changes in actuarial gains on post retirement benefits	-	137	-	137
Cumulative translation adjustment	-	-	95	95
Net income for the period	-	149	-	149
As of December 31, 2012	140,000	627	95	140,722

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

KP Tissue Inc.
Statement of Cash Flows
For the period from October 1, 2012 to December 31, 2012

(tabular amounts are in thousands of Canadian dollars)

	2012 $
Cash flows from (used in) operating activities	
Net income for the period	149
Items not affecting cash	
Equity income	(201)
Deferred income taxes	52
Net cash from (used in) operating activities	-
Cash flows used in investing activites	
Investment in associate (note 5)	(140,000)
Net cash used in investing activities	(140,000)
Cash flows from financing activities	
Issuance of common shares (note 7)	140,000
Net cash from financing activities	140,000
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 financial statements.

(tabular amounts are in thousands of Canadian dollars)

1 General information

KP Tissue Inc. (the Corporation) was incorporated by articles of incorporation under the Canadian Business Corporations Act on October 1, 2012. As of December 31, 2012, the Corporation held a 15.7% interest in Kruger Products L.P. (KPLP), 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.

On January 10, 2013, the Corporation completed the issuance of 750,000 common shares pursuant to the partial exercise of an over-allotment option (refer to note 8 for additional details) and used the proceeds to subscribe for 750,000 additional units of KPLP which, together with the units of KPLP that it already held, resulted in the Corporation having a 16.9% interest in KPLP.

2 Basis of presentation

The financial statements have been prepared in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board. The financial statements have been prepared using the historical cost convention. The financial statements were approved by the board of directors on March 26, 2013.

3 Summary of significant accounting policies

The significant accounting policies used in the preparation of these financial statements are as follows:

(a) Investments in associates

Associates are entities over which the Corporation has significant influence but not control. The Corporation accounts for its investment in associates using the equity method. Under the equity method, the investment is initially recognized at cost and the carrying amount is adjusted for the Corporation's share of profits or losses of associates recognized in the statement of income and its share of other comprehensive income (loss) of associates included in other comprehensive income.

Unrealized gains on transactions between the Corporation and an associate are eliminated to the extent of the Corporation's interest in the associate. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Dilution gains and losses arising from changes in interests in investments in associates are recognized in the statement of income.

The Corporation assesses at each year-end whether there is any objective evidence that its interests in investments in associates are impaired. If so, the carrying value of the Corporation's share of the underlying assets of associates is written down to its net recoverable amount (being the higher of fair value, less cost to sell and value in use) and the loss is charged to the statement of income in other gains and losses (net).

(b) Income tax

Income tax comprises current and deferred tax. Income tax is recognized in the statement of income except to the extent that it relates to items recognized directly in other comprehensive income or directly in equity, in which case the income tax is also recognized directly in other comprehensive income or equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

In general, deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax is not recognized if it arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except, in the case of subsidiaries, where the timing of the reversal of the temporary difference is controlled by the Corporation and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the deferred tax asset is realized or liability is settled. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized.

Deferred income tax assets and liabilities are presented as non-current.

(c) Share capital

Incremental costs directly attributable to the issuance of common shares are recognized as a deduction from equity.

(d) Earnings per share

Basic earnings per share (EPS) is calculated by dividing the net income (loss) for the period attributable to equity owners of the Corporation by the weighted average number of common shares outstanding during the period.

Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to options, warrants and similar instruments is computed using the treasury stock method. The Corporation does not currently have any potentially dilutive instruments.

(e) Accounting standards issued but not yet applied

The following revised standards and amendments are effective for annual periods beginning on or after January 1, 2013, except as noted below, with earlier application permitted. The Corporation has not yet assessed the impact of these standards and amendments or determined whether it will early adopt them.

(i) IFRS 9, Financial Instruments, was issued in November 2009 and addresses the classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39, Financial Instruments - Recognition and Measurement, for debt instruments with a new mixed measurement model having only two categories: amortized cost; and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely. Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income. The amendment is effective for annual periods beginning on or after January 1, 2015.

(ii) IFRS 12, Disclosure of Interests in Other Entities, establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosures that address the nature of, and risks associated with, an entity's interests in other entities. The amendment is effective for annual periods beginning on or after January 1, 2013. The Corporation does not expect that this standard will result in a material impact on the measurement of the financial statements.

(iii) IFRS 13, Fair Value Measurement, is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures. The amendment is effective for annual periods beginning on or after January 1, 2013. The Corporation does not expect that this standard will result in a material impact to the financial statements.

(iv) IAS 1, Presentation of Financial Statements, has been amended to require entities to separate items presented in other comprehensive income (OCI) into two groups, based on whether or not items may be recycled in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately. The amendment is effective for annual periods beginning on or after July 1, 2012, with earlier application permitted.

(v) 2011 annual improvements - improvements and amendments to the following existing standards, basis of conclusions and guidance, effective for years beginning on or after January 1, 2013:

- IAS 1, Presentation of Financial Statements, has been amended to include requirements for comparative financial information when an entity provides an opening statement of financial position.

- IAS 32, Financial Instruments - Presentation, has been amended to clarify the treatment of income tax relating to distributions and transaction costs.

- IAS 34, Interim Financial Reporting, has been amended to include disclosure requirements for segment assets and liabilities.

4 Critical accounting estimates and judgments

The preparation of these financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities in the financial statements and the disclosure of contingencies at the date of the 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 judgments, 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.

Equity method of accounting

The equity method of accounting is being applied by the Corporation as it relates to its investment in KPLP. The conclusion to account for an investment using the equity method, particularly when the percentage of ownership is below 20%, is based on an assessment of several facts and circumstances and ultimately requires significant judgment in reaching a conclusion. Management has reviewed the agreements and made an assessment of the rights of the Corporation. Based on the Corporation having three of nine seats on the board of directors of KPGP Inc. (KPGP), management has concluded that the Corporation has the ability to exercise significant influence over KPLP.

Estimates of fair value and impact on equity income

The Corporation has used certain assumptions in determining the adjustments to the carrying amount of the assets and liabilities of the associate on its acquisition. These assumptions include the royalty rate, discount rate, weighted average cost of capital rate and replacement values for property plant and equipment. The assumptions were determined by looking at comparative companies in the same industry. The adjustments arising on the accounting for the investment in associate are disclosed in note 5. As disclosed in note 5, the evaluation of the fair value of the assets acquired and liabilities assumed is not complete. Accordingly, these amounts are subject to change and the change could be significant.

5 Investment in associate

On December 13, 2012, the Corporation completed its initial public offering of 8,000,000 common shares. The proceeds of $140 million received from the offering were used to acquire 8,000,000 partnership units of KPLP.

	December 31, 2012 $
Opening balance	-
Cost of investment in associate	140,000
Share of profit	201
Depreciation of fair value increments	-
Share of other comprehensive loss	573
Closing balance	140,774

The following summarizes financial information about the assets, liabilities, revenue and net income of KPLP, in which the Corporation holds a 15.7% interest. The financial information was derived from the consolidated financial statements of the KPLP for the year ended December 31, 2012. The amounts disclosed do not include adjustments made to the carrying amount of the assets and liabilities of the associate on its acquisition. As a result of the acquisition being completed on December 13, 2012, the Corporation has not finalized the fair values of the assets and liabilities acquired. The Corporation has engaged a third party to appraise the fair value of its property, plant and equipment and this engagement is not completed. Therefore, the adjustments made to the carrying amount of the assets and liabilities acquired are estimates, subject to change, and will be finalized within 12 months of the acquisition date.

	December 31, 2012 $
Assets	1,094,700
Liabilities to non-unitholders	730,113
Partnership units liability	118,562
Revenue	922,874
Net income	46,552

The Corporation's investment in KPLP has been accounted for using the equity basis of accounting. The Corporation holds 3 of 9 seats on the KPGP board of directors and therefore exercises significant influence over the Partnership's

operations. The Corporation has recognized its share of the net income and other comprehensive income for the period from December 13, 2012 to December 31, 2012.

On December 13, 2012, in connection with the issuance of Partnership units to KPT, the Limited Partnership Agreement was amended to require KPLP, subject to compliance with contractual obligations and applicable law, to make distributions to its partners in such amounts as would enable KPT to discharge its obligation to pay federal and provincial income taxes (the Tax Distribution). Each partner is entitled to its share of the Tax Distribution made in respect of any given year.

Pursuant to the Limited Partnership Agreement, if KPLP is unable to make a Tax Distribution in accordance with the above, it will, subject to applicable law and any contractual restrictions, advance sufficient funds to the Corporation in an amount equal to its share of such Tax Distribution by way of non-recourse, interest-free loans, repayable upon payment by KPLP from the required Tax Distribution.

Pursuant to the Limited Partnership Agreement, unitholders will be permitted to automatically reinvest cash distributions of KPLP (other than cash distributions which represent a Tax Distribution) in additional KPLP units at a price per KPLP unit equal to 97% of the 5-day weighted average trading price of the common shares prior to the declaration of the distribution (the KPLP DRIP). Pursuant to the Limited Partnership Agreement, the Corporation will only be permitted to participate in the KPLP DRIP to the extent required to accommodate participation by holders of common shares in the Corporation DRIP, such that the number of KPLP units issued to the Corporation from time to time pursuant to the KPLP DRIP is equivalent to the number of common shares issued from time to time pursuant to the Corporation DRIP.

6 Income tax

Details of the provision for income taxes and the reconciliation of the combined federal and provincial statutory income tax rates to the effective tax rate on earnings were as follows:

	2012	
	$	%
Statutory income tax	52	26%

Components of the deferred income tax liability were as follows:

	2012
	$
Long-term deferred tax liability	
Investment in associate	134
Net operating losses	(82)
	52

(tabular amounts are in thousands of Canadian dollars)

The analysis of deferred tax liability was as follows:

	2012
	$
Deferred tax liabilities to be realized greater than 12 months	134
Deferred tax asset to be realized within 12 months	(82)
	52

The movement in the deferred tax liability was as follows:

	2012
	$
As of October 1, 2012	-
Charge to statement of income	(52)
As of December 31, 2012	(52)

The Corporation has $0.3 million of net operating loss carry-forwards available as of December 31, 2012, which expire in 2032.

7 Equity

On October 1, 2012, the Corporation issued one common share for cash consideration of $20. The Corporation is authorized to issue an unlimited number of common shares at no par value. The common shares are voting and entitled to dividends if, as and when declared by the board of directors.

On December 13, 2012, the Corporation completed an initial public offering of 8,000,000 common shares at a price of $17.50 per share resulting in gross proceeds of $140 million. The proceeds were used to subscribe for 8,000,000 units of KPLP, resulting in the Corporation having a 15.7% interest in KPLP. The remaining 84.3% interest in KPLP is held by Kruger Products 2010 L.P. and KPGP Inc. (together, Kruger), subsidiaries of Kruger Inc.

Pursuant to the Exchange Agreement, the Corporation has granted Kruger the right to exchange KPLP units it holds for common shares issued by the Corporation on the basis of one KPLP Unit for one common share, subject to adjustment upon the occurrence of certain events that would result in the indirect economic interest in KPLP represented by a common share diverging from the direct economic interest in KPLP represented by a KPLP unit, including splits or consolidations of the common shares without a corresponding split or consolidation of the KPLP units, issuances or repurchases of common shares without corresponding issuances or repurchases of KPLP units, acquisition of assets by the Corporation other than KPLP units or incurrence of liabilities other than ordinary course liabilities, or special distributions by the Corporation, certain other securities, debt or assets to all shareholders. If at any time the Kruger aggregate ownership interest is less than 20% in KPLP, the Corporation may require the exchange of all outstanding KPLP units held by Kruger or its affiliates in return for common shares on the basis of one KPLP unit for one common share subject to adjustment as set forth above.

8 Subsequent events

Over-allotment option

On January 10, 2013, the Corporation announced that it had completed the issuance of 750,000 common shares at a price of $17.50 per common share pursuant to the partial exercise of the over-allotment option granted to the syndicate

of underwriters led by Scotia Capital Inc., as sole bookrunner, National Bank Financial Inc., RBC Dominion Securities Inc. and TD Securities Inc., and which also includes CIBC World Markets Inc., Desjardins Securities Inc., HSBC Securities (Canada) Inc. and Canaccord Genuity Corp. (together, the Underwriters).

The over-allotment option was granted by the Corporation to the Underwriters in connection with the Corporation's previously announced initial public offering of common shares which was completed on December 13, 2012.

The Corporation used the proceeds from the partial exercise of the over-allotment option to subscribe for 750,000 additional units of KPLP which, together with the units of KPLP that it already held, resulted in the Corporation having a 16.9% interest in KPLP. The remaining 83.1% interest in KPLP is held by Kruger Products 2010 L.P. and KPGP Inc., subsidiaries of Kruger Inc.

Dividend declaration

On March 26, 2013, the board of directors of the Corporation declared a dividend of $0.217 per common share to be paid on April 15, 2013 to shareholders of record at the close of business on April 8, 2013. The dividend relates to the period from the initial public offering on December 13, 2012 to March 31, 2013.