KP TISSUE INC.

UNAUDITED CONDENSED FINANCIAL STATEMENTS

FOR THE 13-WEEK PERIOD ENDED MARCH 31, 2013

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

(tabular amounts are in thousands of Canadian dollars)

	March 31, 2013 $	December 31, 2012 $
Assets		(note 5)
Current assets		
Distributions receivable	1,898	-
Non-current assets		
Deferred income taxes (note 6)	-	123
Investment in associate (note 5)	153,075	139,364
Total Assets	154,973	139,487
Liabilities		
Current liabilities		
Dividend payable	1,898	-
Income taxes payable	213	-
	2,111	-
Non-current liabilities		
Deferred income taxes (note 6)	354	-
Total liabilities	2,465	-
Equity		
Common shares (note 7)	153,125	140,000
Accumulated deficit	(1,349)	(583)
Accumulated other comprehensive income	732	70
Total equity	152,508	139,487
Total liabilities and equity	154,973	139,487

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

KP Tissue Inc.
Unaudited Condensed Statement of Comprehensive Income (Loss)
For the 13-week period ended March 31, 2013

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

	13-week period ended March 31, 2013 $
Equity loss (note 5)	(747)
Gain on remeasurement of over allotment option (note 5)	375
Loss before income taxes	(372)
Income taxes (note 6)	
Current	213
Deferred	106
	319
Net loss for the period	(691)
Other comprehensive income	
Items that will not be reclassified to net income:	
Remeasurements of pensions (net of tax of $272)	1,823
Items that may be subsequently reclassified to net income:	
Cumulative translation adjustment (net of tax of $99)	662
Total other comprehensive income for the period	2,485
Comprehensive income for the period	1,794
Basic loss per share	**(0.08)**
Weighted average number of shares outstanding	**8,667,583**

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

KP Tissue Inc.
Unaudited Condensed Statement of Changes in Equity
For the 13-week period ended March 31, 2013

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

	Common shares		Accumulated deficit	Accumulated other comprehensive income	Total equity
	#	$	$	$	$
As of January 1, 2013 (note 5)	8,000,001	140,000	(583)	70	139,487
Issuance of common shares	750,000	13,125	-	-	13,125
Dividends declared	-	-	(1,898)	-	(1,898)
Remeasurements of pensions	-	-	1,823	-	1,823
Cumulative translation adjustment	-	-	-	662	662
Net loss for the period	-	-	(691)	-	(691)
As of March 31, 2013	8,750,001	153,125	(1,349)	732	152,508

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

KP Tissue Inc.
Unaudited Condensed Statement of Cash Flows
For the 13-week period ended March 31, 2013

(tabular amounts are in thousands of Canadian dollars)

	13-week period ended March 31, 2013
	$
Cash flows from (used in) operating activities	
Net loss for the period	(691)
Items not affecting cash	
Equity loss	747
Gain on remeasurement of overallotment option	(375)
Current income taxes	213
Deferred income taxes	106
Net cash from (used in) operating activities	-
Cash flows used in investing activites	
Investment in associate (note 5)	(13,125)
Net cash used in investing activities	(13,125)
Cash flows from financing activities	
Issuance of common shares (note 7)	13,125
Net cash from financing activities	13,125
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 condensed financial statements.

(tabular amounts are in thousands of Canadian dollars)

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, 2013, the Corporation held a 16.9% 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.

2 Basis of presentation

The condensed financial statements have been prepared in accordance with International Financial Reporting Standards, applicable to the preparation of interim financial statements, including International Accounting Standards (IAS) 34 – Interim Financial Reporting. The condensed financial statements should be read in conjunction with the financial statements for the period ended December 31, 2012. The condensed financial statements were approved by the board of directors on May 13, 2013.

3 Summary of significant accounting policies

The significant accounting policies that have been used in the preparation of these condensed financial statements are described in the annual financial statements of KPT for the year ended December 31, 2012 and have been applied to all periods presented except the following accounting policies, which were adopted effective January 1, 2013:

(i) IFRS 10, Consolidated Financial Statements, requires an entity to consolidate an investee when it has power over the investee, is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. IFRS 10 replaces SIC-12, Consolidation - Special Purpose Entities, and parts of IAS 27, Consolidated and Separate Financial Statements. The adoption of this standard had no significant impact on these condensed financial statements.

(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 adoption of this standard had no significant impact on the measurement of these condensed 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. The adoption of this standard did not require any adjustments to the valuation techniques used by the Corporation to measure fair value and did not result in any measurement adjustments as of January 1, 2013.

4 Critical accounting estimates and judgments

The preparation of these 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 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.

(tabular amounts are in thousands of Canadian dollars)

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

For purposes of equity accounting, the Corporation is required to base its accounting on the fair values of the assets and liabilities of KPLP at the date on which the Corporation acquired its ownership interest. The Corporation has used certain assumptions in determining the adjustments to the carrying amount of the underlying 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 and liabilities of KPLP at the date of acquisition is not complete. Accordingly, these amounts are subject to change and the change could be significant.

Income taxes

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 temporary differences that are subject to the initial recognition exemption and recognizes newly created temporary differences as they arise. The determination of the temporary differences that are subject to the initial recognition exemption requires significant judgment.

5 Investment in associate

IFRS 3 requires that changes in the determination of fair values estimates during the allocation period be applied retrospectively to the date of acquisition. Accordingly, the December 31, 2012 financial statements have been restated to reflect the following adjustments related to the Corporation's accounting for the acquisition of KPLP. The purchase price allocation has not been finalized and therefore, these adjustments are subject to change.

	As reported December 31, 2012 $	Adjustments	Restated December 31, 2012 $
Share of profit (loss)	201	(1,190)	(989)
Income taxes	52	(175)	(123)
Share of other comprehensive income	573	(266)	307
Investment in associate	140,774	(1,410)	139,364

On January 10, 2013, the underwriters exercised their over-allotment option and the Corporation issued an additional 750,000 common shares. The proceeds of $13.1 million received from the issuance were used to acquire 750,000 additional partnership units of KPLP. As a result of the remeasurement of the over-allotment option entitling the Corporation to acquire additional partnership units of KPLP, a gain of $0.4 million was recorded in the 13-week period ended March 31, 2013.

(tabular amounts are in thousands of Canadian dollars)

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

	March 31, 2013 $	December 31, 2012 $
Opening balance	139,364	-
Investment in associate	13,125	140,000
Share of profit	1,964	167
Depreciation of fair value increments	(2,712)	(1,156)
Share of other comprehensive loss	2,857	353
Gain on exercise of overallotment option	375	-
Distributions	(1,898)	-
Closing balance	153,075	139,364

The following summarizes financial information about the assets, liabilities, revenue and net income of KPLP, in which the Corporation holds a 16.9% interest (December 31, 2012 – 15.7%). The financial information was derived from the condensed consolidated financial statements of KPLP for the 13-week period ended March 31, 2013. 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. The Corporation has engaged a third party to appraise the fair value of its property, plant and equipment and this engagement is not completed. Based on the most updated analysis received from the third party, the Corporation has assessed the preliminary fair values of the assets and liabilities acquired. Therefore, the adjustments made to the carrying amount of the assets and liabilities acquired are management's best estimates, subject to change, and will be finalized within 12 months of the acquisition date.

			March 31, 2013
	KPLP basis of accounting $	FV increment $	KPT basis of accounting $
Current assets	332,398	-	332,398
Non-current assets	773,463	647,759	1,421,222
Liabilities to non-unitholders	711,466	13,515	724,981
Partnership units liability	118,562	-	118,562
Revenue	221,785		
Net income	11,716		
Other comprehensive income	17,034		
Total comprehensive income	28,750		

(tabular amounts are in thousands of Canadian dollars)

	December 31, 2012		
	KPLP basis of accounting $	FV increment (net of amortization) $	KPT basis of accounting $
Current assets	340,623	8,518	349,141
Non-current assets	754,077	656,508	1,410,585
Liabilities to non-unitholders	730,113	13,456	743,569
Partnership units liability	118,562	-	118,562
Revenue	922,874		
Net income	46,552		
Other comprehensive loss	(48,567)		
Total comprehensive loss	(2,015)		

6 Income tax

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.

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:

	13-week period ended March 31, 2013 $
Statutory income tax	(97)
Permanent differences and other	28
Gain on the remeasurement of overallotment option	(98)
Taxed in hands of subsidiaries	43
Realization of previously unrecognized tax attributes	639
Change in basis of investment in associate	(196)
	319

(tabular amounts are in thousands of Canadian dollars)

Components of the deferred income tax liability (asset) were as follows:

	March 31, 2013	December 31, 2012 $
Deferred tax liability (asset)		
Investment in associate	134	(41)
Net operating losses	-	(82)
Property, plant and equipment	220	-
	354	(123)

The analysis of deferred tax liability (asset) was as follows:

	March 31, 2013	December 31, 2012 $
Deferred tax liabilities to be realized greater than 12 months	354	(41)
Deferred tax asset to be realized within 12 months	-	(82)
	354	(123)

The movement in the deferred tax liability (asset) was as follows:

	March 31, 2013	December 31, 2012 $
Opening balance	(123)	-
Charge to deferred income taxes	106	(169)
Charge to other comprehensive income		
- remeasurements of pensions	371	46
	354	(123)

7 Equity

On January 10, 2013, the underwriters exercised their rights under the over-allotment option and the Corporation issued 750,000 common shares at a price of $17.50 per share resulting in gross proceeds of $13.1 million. The proceeds were used to subscribe for 750,000 additional units of KPLP. Together with the units of KPLP that the Corporation already holds, it resulted in the Corporation having a 16.9% interest in KPLP.

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.

(tabular amounts are in thousands of Canadian dollars)

On March 27, 2013, the Corporation declared a dividend of $0.217 per common share to shareholders payable on April 15, 2013. The dividend was declared in connection with the declaration of a corresponding quarterly distribution by KPLP in which KP Tissue holds a limited partnership interest.