



KP TISSUE INC.

**UNAUDITED CONDENSED FINANCIAL STATEMENTS
FOR THE 39-WEEK PERIOD ENDED SEPTEMBER 29, 2013**

KP Tissue Inc.
Unaudited Condensed Statement of Financial Position

(tabular amounts are in thousands of Canadian dollars)

	September 29, 2013	December 31, 2012
	\$	\$
Assets		(note 5)
Current assets		
Distributions receivable	1,581	-
Non-current assets		
Deferred income taxes (note 6)	-	123
Investment in associate (note 5)	158,765	139,364
Total Assets	<u>160,346</u>	<u>139,487</u>
Liabilities		
Current liabilities		
Dividend payable	1,581	-
Income taxes payable	892	-
	<u>2,473</u>	-
Non-current liabilities		
Deferred income taxes (note 6)	1,744	-
Total liabilities	<u>4,217</u>	<u>-</u>
Equity		
Common shares (note 7)	8,900	140,000
Contributed surplus (note 7)	144,819	-
Retained earnings (deficit)	1,190	(583)
Accumulated other comprehensive income	1,220	70
Total equity	<u>156,129</u>	<u>139,487</u>
Total liabilities and equity	<u>160,346</u>	<u>139,487</u>
Subsequent events (note 7)		

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

KP Tissue Inc.
Unaudited Condensed Statement of Comprehensive Income

For the 13-week and 39-week period ended September 29, 2013

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

	13-week period ended September 29, 2013 \$	39-week period ended September 29, 2013 \$
Equity income (note 5)	1,016	1,497
Gain on remeasurement of over allotment option (note 5)	-	375
Dilution gain (note 7)	69	181
Income before income taxes	1,085	2,053
Income taxes (note 6)		
Current	293	892
Deferred	277	737
	570	1,629
Net income for the period	515	424
Other comprehensive income		
Items that will not be reclassified to net income:		
Remeasurements of pensions (net of tax of \$187 and \$924)	1,254	6,186
Remeasurements of post-retirement benefits (net of tax of nil and \$33)	1	221
Items that may be subsequently reclassified to net income:		
Cumulative translation adjustment (net of tax of \$(120) and \$173)	(807)	1,150
Total other comprehensive income for the period	448	7,557
Comprehensive income for the period	963	7,981
Basic earnings per share	0.06	0.05
Weighted average number of shares outstanding	8,781,433	8,739,702

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

KP Tissue Inc.
Unaudited Condensed Statement of Changes in Equity
For the 39-week period ended September 29, 2013

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

	Common shares		Contributed surplus	Retained earnings (deficit)	Accumulated other comprehensive income	Total equity
	#	\$				
As of January 1, 2013	8,000,001	140,000	-	(583)	70	139,487
Issuance of common shares (note 7)	782,806	13,719	-	-	-	13,719
Dividends payable	-	-	-	(1,581)	-	(1,581)
Dividends paid	-	-	-	(3,477)	-	(3,477)
Reduction in legal stated capital	-	(144,819)	144,819	-	-	-
Remeasurements of pensions	-	-	-	6,186	-	6,186
Remeasurements of post-retirement benefits	-	-	-	221	-	221
Cumulative translation adjustment	-	-	-	-	1,150	1,150
Net income for the period	-	-	-	424	-	424
As of September 29, 2013	8,782,807	8,900	144,819	1,190	1,220	156,129

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

KP Tissue Inc.
Unaudited Condensed Statement of Cash Flows
For the 39-week period ended September 29, 2013

(tabular amounts are in thousands of Canadian dollars)

	39-week period ended September 29, 2013
	\$
Cash flows from (used in) operating activities	
Net income for the period	424
Items not affecting cash	
Equity income	(1,497)
Gain on remeasurement of over-allotment option	(375)
Dilution gain	(181)
Current income taxes	892
Deferred income taxes	737
Net cash from (used in) operating activities	<u>-</u>
Cash flows used in investing activities	
Investment in associate (note 5)	(13,719)
Distributions received	3,477
Net cash used in investing activities	<u>(10,242)</u>
Cash flows from financing activities	
Issuance of common shares (note 7)	13,719
Dividends paid	(3,477)
Net cash from financing activities	<u>10,242</u>
Increase (decrease) in cash and cash equivalents during the period	-
Cash and cash equivalents - Beginning of period	<u>-</u>
Cash and cash equivalents - End of period	<u><u>-</u></u>

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

KP Tissue Inc.

Notes to Unaudited Condensed Financial Statements

For the 39-week period ended September 29, 2013

(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 September 29, 2013, the Corporation held a 16.8% 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 for issuance by the board of directors on November 12, 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.

KP Tissue Inc.
Notes to Unaudited Condensed Financial Statements
For the 39-week period ended September 29, 2013

(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		Restated
	December 31, 2012		December 31, 2012
	\$	Adjustments	\$
Share of profit (loss)	201	(1,190)	(989)
Income taxes - deferred	52	(200)	(148)
Share of other comprehensive income	573	(245)	328
Investment in associate	140,774	(1,410)	139,364
Deferred income taxes	52	(175)	(123)

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 during the 39-week period ended September 29, 2013.

KP Tissue Inc.
Notes to Unaudited Condensed Financial Statements
For the 39-week period ended September 29, 2013

(tabular amounts are in thousands of Canadian dollars)

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

	September 29, 2013	December 31, 2012
	\$	\$
Opening balance	139,364	-
Investment in associate	13,719	140,000
Share of profit	6,939	167
Depreciation of fair value increments	(5,442)	(1,156)
Share of other comprehensive income	8,687	353
Gain on exercise of overallotment option	375	-
Dilution gain	181	-
Dividends	(5,058)	-
Closing balance	<u>158,765</u>	<u>139,364</u>

The equity income was comprised of the following components:

	13-week period ended September 29, 2013	39-week period ended September 29, 2013
	\$	\$
Share of profit	2,381	6,939
Depreciation of fair value increments	(1,365)	(5,442)
	<u>1,016</u>	<u>1,497</u>

The following summarizes financial information about the assets, liabilities, revenue and net income of KPLP, in which the Corporation holds a 16.8% interest (December 31, 2012 – 15.7%). The financial information was derived from the condensed consolidated financial statements of KPLP for the 39-week period ended September 29, 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.

KP Tissue Inc.
Notes to Unaudited Condensed Financial Statements
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(tabular amounts are in thousands of Canadian dollars)

	September 29, 2013		
	KPLP basis of accounting	FV increment	KPT basis of accounting
	\$	\$	\$
Current assets	329,198	-	329,198
Non-current assets	797,003	630,261	1,427,264
Liabilities to non-unitholders	677,561	13,573	691,134
Partnership units liability	118,562	-	118,562

	13-week period ended September 29, 2013	39-week period ended September 29, 2013
	\$	\$
Revenue	243,848	712,402
Net income	14,163	41,256
Other comprehensive income	3,157	51,733
Total comprehensive income	17,320	92,989

	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

	Year ended December 31, 2012
	\$
Revenue	922,874
Net income	46,552
Other comprehensive loss	(48,567)
Total comprehensive loss	(2,015)

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)

Details of the provision for income taxes were as follows:

	13-week period ended September 29, 2013	39-week period ended September 29, 2013
	\$	\$
Income tax at statutory rate of 26.0%	282	534
Permanent differences and other	(10)	54
Gain on the remeasurement of overallotment option and dilution gain	(18)	(145)
Taxed in hands of subsidiaries	105	373
Realization of previously unrecognized tax attributes	205	1,034
Change in basis of investment in associate	6	(221)
	<u>570</u>	<u>1,629</u>

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

	September 29, 2013	December 31, 2012
		\$
Deferred tax liability (asset)		
Investment in associate	867	(41)
Net operating losses	-	(82)
Deferred finance fees	(41)	-
Property, plant and equipment	974	-
Other	(56)	-
	<u>1,744</u>	<u>(123)</u>

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

	September 29, 2013	December 31, 2012
		\$
Deferred tax liabilities to be realized greater than 12 months	1,744	(41)
Deferred tax asset to be realized within 12 months	-	(82)
	<u>1,744</u>	<u>(123)</u>

KP Tissue Inc.
Notes to Unaudited Condensed Financial Statements
For the 39-week period ended September 29, 2013

(tabular amounts are in thousands of Canadian dollars)

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

	September 29, 2013	December 31, 2012
		\$
Opening balance	(123)	-
Charge to deferred income taxes	737	(169)
Charge to other comprehensive income		
- remeasurements of cumulative translation adjustment	173	-
Charge to other comprehensive income		
- remeasurements of post-retirement benefits	33	-
Charge to other comprehensive income		
- remeasurements of pensions	924	46
	<u>1,744</u>	<u>(123)</u>

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 Inc. (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.

On April 15, 2013, the Corporation paid a dividend of \$0.217 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 23,874 common shares at a price of \$18.58. As a result of the DRIP, a dilution gain of \$0.1 million was recorded in the 39-week period ended September 29, 2013.

On June 26, 2013, the shareholders of KP Tissue Inc. approved a resolution reducing the legal stated capital to \$8.8 million.

On July 15, 2013, the Corporation paid a dividend of \$0.18 per common share to shareholders. Pursuant to the Corporation's DRIP, a portion of the dividend was reinvested by the shareholders, resulting in the Corporation issuing 8,932 common shares at a price of \$16.76. As a result of the DRIP, a dilution gain of \$0.1 million was recorded in the 39-week period ended September 29, 2013.

On August 15, 2013, the Corporation declared a dividend of \$0.18 per common share payable on October 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.

KP Tissue Inc.
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For the 39-week period ended September 29, 2013

(tabular amounts are in thousands of Canadian dollars)

Subsequent to September 29, 2013, the Corporation paid a dividend of \$0.18 per common share to shareholders. Pursuant to the Corporate's DRIP, a portion of the dividend was reinvested by the shareholders, resulting in the Corporation issuing 10,167 common shares at a price of \$16.53.