KP TISSUE INC.

UNAUDITED CONDENSED FINANCIAL STATEMENT
FOR THE 13-WEEK PERIODS ENDED MARCH 30, 2014 AND MARCH 31, 2013

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

KP Tissue Inc.
Unaudited Condensed Statement of Financial Position

(tabular amounts are in thousands of Canadian dollars)

	March 30, 2014 $	December 31, 2013 $
Assets		
Current assets		
Distributions receivable	1,585	1,583
Income taxes receivable	125	-
Non-current assets		
Investment in associate (note 5)	160,143	161,584
Total Assets	161,853	163,167
Liabilities		
Current liabilities		
Dividend payable	1,585	1,583
Payables to related party	210	-
Income taxes payable	-	580
	1,795	2,163
Non-current liabilities		
Deferred income taxes (note 6)	3,022	3,033
Total liabilities	4,817	5,196
Equity		
Common shares (note 7)	9,321	9,068
Contributed surplus (note 7)	144,819	144,819
Retained earnings (deficit)	(2,524)	709
Accumulated other comprehensive income	5,420	3,375
Total equity	157,036	157,971
Total liabilities and equity	161,853	163,167

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 periods ended March 30, 2014 and March 31, 2013

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

	13-week period ended March 30, 2014 $	13-week period ended March 31, 2013 $
Equity loss (note 5)	(2,083)	(747)
Gain on remeasurement of over allotment option (note 5)	-	375
Dilution gain (note 7)	44	-
Loss before income taxes	(2,039)	(372)
Income tax expense (recovery) (note 6)		
Current	(35)	213
Deferred	(322)	106
	(357)	319
Net loss for the period	(1,682)	(691)
Other comprehensive income (loss)		
Items that will not be reclassified to net loss:		
Remeasurements of pensions - net of tax expense of $23 and $272	157	1,823
Remeasurements of post-retirement benefits - net of tax recovery of $18	(123)	-
Items that may be subsequently reclassified to net loss:		
Available-for-sale investment - net of tax recovery of $1	(4)	-
Cumulative translation adjustment - net of tax expense of $307 and $99	2,049	662
Total other comprehensive income for the period	2,079	2,485
Comprehensive income for the period	397	1,794
Basic loss per share	**(0.19)**	**(0.08)**
Weighted average number of shares outstanding	**8,805,820**	**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 periods ended March 30, 2014 and March 31, 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	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
As of January 1, 2014	8,792,974	9,068	144,819	709	3,375	157,971
Issuance of common shares (note 7)	15,244	253	-	-	-	253
Dividends declared	-	-	-	(1,585)	-	(1,585)
Remeasurements of pensions	-	-	-	157	-	157
Remeasurements of post-retirement benefits	-	-	-	(123)	-	(123)
Available-for-sale investment	-	-	-	-	(4)	(4)
Cumulative translation adjustment	-	-	-	-	2,049	2,049
Net loss for the period	-	-	-	(1,682)	-	(1,682)
As of March 30, 2014	8,808,218	9,321	144,819	(2,524)	5,420	157,036

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 periods ended March 30, 2014 and March 31, 2013

(tabular amounts are in thousands of Canadian dollars)

	13-week period ended March 30, 2014	13-week period ended March 31, 2013
	$	$
Cash flows from (used in) operating activities		
Net loss for the period	(1,682)	(691)
Items not affecting cash		
Equity loss	2,083	747
Gain on remeasurement of overallotment option	-	(375)
Dilution gain	(44)	-
Current income taxes	(35)	213
Deferred income taxes	(322)	106
Total items not affecting cash	1,682	691
Tax payments	(460)	-
Net cash from (used in) operating activities	(460)	-
Cash flows from (used in) investing activites		
Investment in associate (note 5)	(253)	(13,125)
Distributions received	1,583	-
Tax distribution received	460	-
Net cash from (used in) investing activities	1,790	(13,125)
Cash flows from (used in) financing activities		
Issuance of common shares (note 7)	253	13,125
Dividends paid	(1,583)	-
Net cash from (used in) financing activities	(1,330)	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 30, 2014, the Corporation held a 16.7% 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.

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 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. The condensed financial statements should be read in conjunction with the financial statements for the period ended December 31, 2013. The condensed financial statements were approved for issuance by the board of directors on May 8, 2014.

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, 2013 and have been applied to all periods presented except the following accounting policies, which were adopted effective January 1, 2014:

(i) Amendments to IAS 32, Offsetting Financial Assets and Financial Liabilities, prescribe rules for the offsetting of financial assets and financial liabilities. It specifies that a financial asset and a financial liability should be offset and the net amount reported when, and only when an entity has a legally enforceable right to set off the amounts, and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously. The amendments require clarification on four main areas: the meaning of 'currently has a legally enforceable right of set-off', the application of simultaneous realization and settlement, the offsetting of collateral amounts, and the unit of account for applying the offsetting requirements. The adoption of this amendment had no significant impact on these condensed financial statements.

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.

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.

(tabular amounts are in thousands of Canadian dollars)

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

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

	13-week period ended March 30, 2014 $	Year ended December 31, 2013 $
Opening balance	161,584	139,499
Investment in associate	253	13,887
Share of profit (loss)	(538)	8,220
Depreciation of fair value increments	(1,545)	(7,107)
Share of other comprehensive income	2,390	13,111
Gain on exercise of overallotment option	-	375
Dilution gain	44	240
Tax Distribution	(460)	-
Distribution	(1,585)	(6,641)
Closing balance	160,143	161,584

The equity loss was comprised of the following components:

	13-week period ended March 30, 2014 $	13-week period ended March 31, 2013 $
Share of profit (loss)	(538)	1,965
Depreciation of fair value increments	(1,545)	(2,712)
	(2,083)	(747)

The following summarizes financial information about the assets, liabilities, revenue and net income of KPLP, in which the Corporation holds a 16.7% interest (December 31, 2013 – 16.7%). The financial information was derived from the condensed consolidated financial statements of KPLP for the 13-week period ended March 30, 2014. 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.

(tabular amounts are in thousands of Canadian dollars)

			March 30, 2014
	KPLP basis of accounting	FV increment	KPT basis of accounting
	$	$	$
Current assets	324,267	-	324,267
Non-current assets	832,335	612,763	1,445,098
Liabilities to non-unitholders	682,997	13,677	696,674
Partnership units liability	117,839	-	117,839
Net assets	355,766		

	13-week period ended March 30, 2014
	$
Revenue	234,608
Net loss	(3,223)
Other comprehensive income	11,015
Total comprehensive income	7,792

			December 31, 2013
	KPLP basis of accounting	FV increment	KPT basis of accounting
	$	$	$
Current assets	340,804	-	340,804
Non-current assets	820,732	621,512	1,442,244
Liabilities to non-unitholders	690,411	13,677	704,088
Partnership units liability	117,839	-	117,839
Net assets	353,286		

	13-week period ended March 31, 2013
	$
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)

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

	March 30, 2014	December 31, 2013
KPLP consolidated equity	355,766	353,286
Add back: Inception value of Partnership units liability	118,562	118,562
Equity pertaining to Kruger Inc. and KPGP	(317,278)	(314,767)
Equity pertaining to KPT	157,050	157,081
Investment in associate recorded in KPT	160,143	161,584
Reconciling difference	(3,093)	(4,503)
Reconciling items:		
Equity issuance costs since inception	(11,110)	(11,110)
Depreciation of FV increments	9,808	8,263
Currency translation adjustment in fair value increments	(1,592)	(1,041)
Tax distribution	460	-
Gain on exercise of overallotment option	(375)	(375)
Dilution gain	(284)	(240)
	-	-

With respect to KPT's investment in KPLP, KPT does not have any guarantees, or contractual obligations for KPLP's borrowing arrangements.

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 13-week period ended March 31, 2013.

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.

Details of the provision for income taxes were as follows:

	13-week period ended March 30, 2014 $	13-week period ended March 31, 2013 $
Income tax at statutory rate of 26%	(530)	(97)
Permanent differences and other	52	28
Gain on the remeasurement of overallotment option and dilution gain	(11)	(98)
Taxed in hands of subsidiaries	115	43
Realization of previously unrecognized tax attributes	1,721	639
Change in basis of investment in associate	(1,704)	(196)
	(357)	319

(tabular amounts are in thousands of Canadian dollars)

Components of the deferred income tax liability were as follows:

	March 30, 2014 $	December 31, 2013 $
Deferred tax liability (asset)		
Investment in associate	1,639	1,577
Deferred finance fees	-	(37)
Property, plant and equipment	1,700	1,516
Other	(317)	(23)
	3,022	3,033

The analysis of the deferred tax liability was as follows:

	March 30, 2014 $	December 31, 2013 $
Deferred tax liabilities to be realized greater than 12 months	3,022	3,033
	3,022	3,033

The movement in the deferred tax liability was as follows:

	March 30, 2014 $	December 31, 2013 $
Opening balance	3,033	(105)
Charge to net income (loss)	(322)	1,433
Charge to other comprehensive income (loss)		
- remeasurements of cumulative translation adjustment	307	475
Charge to other comprehensive income (loss)		
- remeasurements of post-retirement benefits	(18)	13
Charge to other comprehensive income (loss)		
- remeasurements of pensions	23	1,215
Charge to other comprehensive income (loss)		
- mark-to-market on Available-for-sale investment	(1)	2
	3,022	3,033

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). On February 28, 2014, KPT received a Tax Distribution of $0.5 million from KPLP for purposes of settling its obligations for federal and provincial taxes.

On March 30, 2014, pursuant to the Tax Distribution as defined in the Partnership Agreement, KPT received an advance from KPLP of $0.2 million to pay the monthly tax instalment. The advance is non-interest bearing and non-recourse and will be settled when the Tax Distribution is declared annually.

(tabular amounts are in thousands of Canadian dollars)

7 Dividends

On January 15, 2014, the Corporation paid a dividend of $0.18 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 15,244 common shares at a price of $16.59. The proceeds were used to acquire additional units of KPLP. As a result of the DRIP and Kruger’s reinvestment of its distribution from KPLP in units of KPLP, a dilution gain of $0.01 million was recorded in the period ended March 30, 2014.

On April 15, 2014, 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 20,712 common shares at a price of $15.51.

Subsequent to March 30, 2014, the Corporation declared a dividend of $0.18 per common share to shareholders, payable on July 15, 2014. 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.