



**KP TISSUE INC.**

**UNAUDITED CONDENSED FINANCIAL STATEMENT**

**FOR THE 13-WEEK AND 39-WEEK PERIODS ENDED SEPTEMBER 28, 2014  
AND SEPTEMBER 29, 2013**

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

(tabular amounts are in thousands of Canadian dollars)

	<b>September 28, 2014</b>	<b>December 31, 2013</b>
	<u>\$</u>	<u>\$</u>
<b>Assets</b>		
<b>Current assets</b>		
Distributions receivable	1,593	1,583
Receivable from Partnership	<u>127</u>	<u>-</u>
	1,720	1,583
<b>Non-current assets</b>		
Investment in associate (note 5)	<u>153,206</u>	<u>161,584</u>
<b>Total Assets</b>	<u><u>154,926</u></u>	<u><u>163,167</u></u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Dividend payable	1,593	1,583
Payable to Partnership	153	-
Advances from Partnership (note 6)	409	-
Income taxes payable	<u>433</u>	<u>580</u>
	2,588	2,163
<b>Non-current liabilities</b>		
Deferred income taxes (note 6)	<u>2,030</u>	<u>3,033</u>
<b>Total liabilities</b>	<u>4,618</u>	<u>5,196</u>
<b>Equity</b>		
Common shares (note 7)	9,945	9,068
Contributed surplus (note 7)	144,819	144,819
Retained earnings (deficit)	(10,245)	709
Accumulated other comprehensive income	<u>5,789</u>	<u>3,375</u>
<b>Total equity</b>	<u>150,308</u>	<u>157,971</u>
<b>Total liabilities and equity</b>	<u><u>154,926</u></u>	<u><u>163,167</u></u>

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 and 39-week periods ended September 28, 2014 and September 29, 2013

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

	13-week period ended September 28, 2014 \$	13-week period ended September 29, 2013 \$	39-week period ended September 28, 2014 \$	39-week period ended September 29, 2013 \$
Equity income (loss) (note 5)	1,235	1,016	(944)	1,497
Gain on remeasurement of over allotment option (note 5)	-	-	-	375
Dilution gain (note 7)	37	69	95	181
<b>Income (loss) before income taxes</b>	<b>1,272</b>	<b>1,085</b>	<b>(849)</b>	<b>2,053</b>
<b>Income tax expense (recovery) (note 6)</b>				
Current	791	293	872	892
Deferred	(206)	277	(454)	737
	<u>585</u>	<u>570</u>	<u>418</u>	<u>1,629</u>
<b>Net income (loss) for the period</b>	<b><u>687</u></b>	<b><u>515</u></b>	<b><u>(1,267)</u></b>	<b><u>424</u></b>
<b>Other comprehensive income (loss) net of tax expense (recovery) (note 8)</b>				
<b>Items that will not be reclassified to net income (loss):</b>				
Remeasurements of pensions	(284)	1,254	(4,564)	6,186
Remeasurements of post-retirement benefits	(1)	1	(356)	221
<b>Items that may be subsequently reclassified to net income (loss):</b>				
Available-for-sale investment	(26)	-	(47)	-
Cumulative translation adjustment	2,309	(807)	2,461	1,150
<b>Total other comprehensive income (loss) for the period</b>	<b><u>1,998</u></b>	<b><u>448</u></b>	<b><u>(2,506)</u></b>	<b><u>7,557</u></b>
<b>Comprehensive income (loss) for the period</b>	<b><u>2,685</u></b>	<b><u>963</u></b>	<b><u>(3,773)</u></b>	<b><u>7,981</u></b>
<b>Basic earnings (loss) per share</b>	<b><u>0.08</u></b>	<b><u>0.06</u></b>	<b><u>(0.14)</u></b>	<b><u>0.05</u></b>
<b>Weighted average number of shares outstanding</b>	<b><u>8,845,503</u></b>	<b><u>8,781,433</u></b>	<b><u>8,825,759</u></b>	<b><u>8,739,702</u></b>

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 periods ended September 28, 2014 and September 29, 2013**

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

	<u>Common shares</u>		<u>Contributed surplus</u>	<u>Retained earnings (deficit)</u>	<u>Accumulated other comprehensive income (loss)</u>	<u>Total equity</u>
	<u>#</u>	<u>\$</u>				
<b>As of January 1, 2013</b>	8,000,001	140,000	-	(583)	70	139,487
Issuance of common shares	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
<b>As of September 29, 2013</b>	<b>8,782,807</b>	<b>8,900</b>	<b>144,819</b>	<b>1,190</b>	<b>1,220</b>	<b>156,129</b>
<b>As of January 1, 2014</b>	8,792,974	9,068	144,819	709	3,375	157,971
Issuance of common shares (note 7)	55,800	877	-	-	-	877
Dividends declared	-	-	-	(1,593)	-	(1,593)
Dividends paid	-	-	-	(3,174)	-	(3,174)
Remeasurements of pensions	-	-	-	(4,564)	-	(4,564)
Remeasurements of post-retirement benefits	-	-	-	(356)	-	(356)
Available-for-sale investment	-	-	-	-	(47)	(47)
Cumulative translation adjustment	-	-	-	-	2,461	2,461
Net loss for the period	-	-	-	(1,267)	-	(1,267)
<b>As of September 28, 2014</b>	<b>8,848,774</b>	<b>9,945</b>	<b>144,819</b>	<b>(10,245)</b>	<b>5,789</b>	<b>150,308</b>

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 periods ended September 28, 2014 and September 29, 2013

(tabular amounts are in thousands of Canadian dollars)

	<b>39-week period ended September 28, 2014</b>	<b>39-week period ended September 29, 2013</b>
	\$	\$
<b>Cash flows from (used in) operating activities</b>		
Net income (loss) for the period	(1,267)	424
Items not affecting cash		
Equity loss (income)	944	(1,497)
Gain on remeasurement of over-allotment option	-	(375)
Dilution gain	(95)	(181)
Income taxes	418	1,629
Total items not affecting cash	1,267	(424)
Tax payments	(868)	-
<b>Net cash used in operating activities</b>	<b>(868)</b>	<b>-</b>
<b>Cash flows from (used in) investing activities</b>		
Investment in associate (note 5)	(877)	(13,719)
Partnership unit distributions received	4,757	3,477
Tax distribution received	459	-
Advances received	409	-
<b>Net cash from (used in) investing activities</b>	<b>4,748</b>	<b>(10,242)</b>
<b>Cash flows from (used in) financing activities</b>		
Issuance of common shares (note 7)	877	13,719
Dividends paid	(4,757)	(3,477)
<b>Net cash from (used in) financing activities</b>	<b>(3,880)</b>	<b>10,242</b>
<b>Increase (decrease) in cash and cash equivalents during the period</b>	<b>-</b>	<b>-</b>
<b>Cash and cash equivalents - Beginning of period</b>	<b>-</b>	<b>-</b>
<b>Cash and cash equivalents - End of period</b>	<b>-</b>	<b>-</b>

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 periods ended September 28, 2014 and September 29, 2013

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(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 28, 2014, the Corporation held a 16.6% 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

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 November 11, 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.

The impact of new standards, amendments to standards and interpretations that have been issued but not yet effective for financial periods beginning on or after January 1, 2014 and have not been early adopted have been discussed in the annual financial statements for the year ended December 31, 2013, except for the following:

- (i) IFRS 9, Financial Instruments. In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments, bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. The mandatory effective date of IFRS 9 would be annual periods beginning on or after January 1, 2018, with early adoption permitted. Management is evaluating the standard and has not yet determined the impact on its consolidated financial statements.

**KP Tissue Inc.**  
**Notes to Unaudited Condensed Financial Statements**  
**For the 39-week periods ended September 28, 2014 and September 29, 2013**

(tabular amounts are in thousands of Canadian dollars)

**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.

*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:

	<b>39-week period ended September 28, 2014</b>	<b>Year ended December 31, 2013</b>
	<b>\$</b>	<b>\$</b>
Opening balance	161,584	139,499
Investment in associate	877	13,887
Share of profit	3,496	8,220
Depreciation of fair value increments	(4,440)	(7,107)
Share of other comprehensive income (loss)	(3,055)	13,111
Gain on exercise of over-allotment option	-	375
Dilution gain	95	240
Tax Distribution	(584)	-
Partnership unit distributions	(4,767)	(6,641)
Closing balance	<u>153,206</u>	<u>161,584</u>

**KP Tissue Inc.**  
**Notes to Unaudited Condensed Financial Statements**  
**For the 39-week periods ended September 28, 2014 and September 29, 2013**

(tabular amounts are in thousands of Canadian dollars)

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

	13-week period ended September 28, 2014	13-week period ended September 29, 2013	39-week period ended September 28, 2014	39-week period ended September 29, 2013
	\$	\$	\$	\$
Share of income	2,680	2,381	3,496	6,939
Depreciation of fair value increments	(1,445)	(1,365)	(4,440)	(5,442)
	<u>1,235</u>	<u>1,016</u>	<u>(944)</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 16.6% interest (December 31, 2013 – 16.7%). The financial information was derived from the condensed consolidated financial statements of KPLP for the 39-week period ended September 28, 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.

	<u>September 28, 2014</u>		
	<u>KPLP basis of accounting</u>	<u>FV increment</u>	<u>KPT basis of accounting</u>
	\$	\$	\$
Current assets	308,814	-	308,814
Non-current assets	854,169	595,265	1,449,434
Liabilities to non-unitholders	706,633	9,428	716,061
Partnership units liability	120,271	-	120,271
Net assets	336,079		
	<u>13-week period ended September 28, 2014</u>	<u>39-week period ended September 28, 2014</u>	
	\$	\$	
Revenue	267,629	767,521	
Net income	16,101	20,997	
Other comprehensive income (loss)	10,060	(22,304)	
Total comprehensive income (loss)	26,161	(1,307)	



**KP Tissue Inc.**  
**Notes to Unaudited Condensed Financial Statements**  
**For the 39-week periods ended September 28, 2014 and September 29, 2013**

(tabular amounts are in thousands of Canadian dollars)

	<b>December 31, 2013</b>		
	<b>KPLP basis of accounting</b>	<b>FV increment</b>	<b>KPT basis of accounting</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Current assets	340,804	-	340,804
Non-current assets	820,732	621,512	1,442,244
Liabilities to non-unitholders	690,411	11,238	701,649
Partnership units liability	117,839	-	117,839
Net assets	353,286		
	<b>13-week period ended September 29, 2013</b>	<b>39-week period ended September 29, 2013</b>	
	<b>\$</b>	<b>\$</b>	
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	

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

	<b>September 28, 2014</b>	<b>December 31, 2013</b>
	<b>\$</b>	<b>\$</b>
KPLP consolidated equity	336,079	353,286
Add back: Inception value of Partnership units liability	118,562	118,562
Less: Equity pertaining to Kruger Inc. and KPGP	<u>(301,668)</u>	<u>(314,767)</u>
Equity pertaining to KPT	152,973	157,081
Investment in associate recorded in KPT	<u>153,206</u>	<u>161,584</u>
Reconciling difference	(233)	(4,503)
Reconciling items since inception:		
Equity issuance costs	(11,110)	(11,110)
Depreciation of FV increments	12,703	8,263
Currency translation adjustment in fair value increments	(1,700)	(1,041)
Tax distribution	584	-
Gain on exercise of over-allotment option	(375)	(375)
Dilution gain	<u>(335)</u>	<u>(240)</u>
	<u>-</u>	<u>-</u>

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 39-week period ended September 29, 2013.

**KP Tissue Inc.**  
**Notes to Unaudited Condensed Financial Statements**  
**For the 39-week periods ended September 28, 2014 and September 29, 2013**

(tabular amounts are in thousands of Canadian dollars)

**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 September 28, 2014	13-week period ended September 29, 2013	39-week period ended September 28, 2014	39-week period ended September 29, 2013
	\$	\$	\$	\$
Income tax at statutory rate of 26%	330	282	(221)	534
Permanent differences and other	43	(10)	65	54
Gain on the remeasurement of over allotment option and dilution gain	(10)	(18)	(25)	(145)
Taxed in hands of subsidiaries	40	105	195	373
Realization of previously unrecognized tax attributes	412	205	951	1,034
Change in basis of investment in associate	(230)	6	(547)	(221)
	<u>585</u>	<u>570</u>	<u>418</u>	<u>1,629</u>

Components of the deferred income tax liability were as follows:

	September 28, 2014	December 31, 2013
	\$	\$
Deferred tax liability		
Investment in associate	633	1,577
Pensions	(243)	-
Deferred finance fees	-	(37)
Property, plant and equipment	2,053	1,516
Other	(413)	(23)
	<u>2,030</u>	<u>3,033</u>

The analysis of the deferred tax liability was as follows:

	September 28, 2014	December 31, 2013
	\$	\$
Deferred tax liabilities to be realized greater than 12 months	<u>2,030</u>	<u>3,033</u>
	<u>2,030</u>	<u>3,033</u>

**KP Tissue Inc.**  
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(tabular amounts are in thousands of Canadian dollars)

The movement in the deferred tax liability was as follows:

	<b>September 28, 2014</b>	<b>December 31, 2013</b>
	<u>\$</u>	<u>\$</u>
Opening balance	3,033	(105)
Charge to net income (loss)	(454)	1,433
Charge to other comprehensive income (loss)		
- remeasurements of cumulative translation adjustment	368	475
Charge to other comprehensive income (loss)		
- remeasurements of post-retirement benefits	(228)	13
Charge to other comprehensive income (loss)		
- remeasurements of pensions	(682)	1,215
Charge to other comprehensive income (loss)		
- mark-to-market on Available-for-sale investment	(7)	2
	<u>2,030</u>	<u>3,033</u>

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.

For the 39-week period ended September 28, 2014, pursuant to the Tax Distribution as defined in the Partnership Agreement, KPT received an advance from KPLP of \$0.4 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.

**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.

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.

On July 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 19,844 common shares at a price of \$15.33.

On October 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 13,205 common shares at a price of \$14.52.

Subsequent to September 28, 2014, the Corporation declared a dividend of \$0.18 per common share to shareholders, payable on January 15, 2015. The dividend was declared in connection with the declaration of a corresponding quarterly distribution by KPLP in which KPT holds a limited partnership interest.

**KP Tissue Inc.**  
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(tabular amounts are in thousands of Canadian dollars)

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 September 28, 2014.

**8 Income tax recovery (expense) on other comprehensive income (loss)**

Income tax recovery (expense) on other comprehensive income (loss) was as follows:

	13-week period ended September 28, 2014 \$	13-week period ended September 29, 2013 \$	39-week period ended September 28, 2014 \$	39-week period ended September 29, 2013 \$
<b>Items that will not be reclassified to net income (loss):</b>				
Remeasurements of pensions	(326)	1,441	(5,246)	7,110
Income tax recovery (expense)	42	(187)	682	(924)
Net of income tax recovery (expense)	<u>(284)</u>	<u>1,254</u>	<u>(4,564)</u>	<u>6,186</u>
Remeasurements of post-retirement benefits	(2)	1	(584)	254
Income tax recovery (expense)	1	-	228	(33)
Net of income tax recovery (expense)	<u>(1)</u>	<u>1</u>	<u>(356)</u>	<u>221</u>
<b>Items that may be subsequently reclassified to net income (loss):</b>				
Available-for-sale investment	(29)	-	(54)	-
Income tax recovery	3	-	7	-
Net of income tax expense	<u>(26)</u>	<u>-</u>	<u>(47)</u>	<u>-</u>
Cumulative translation adjustment	2,654	(927)	2,829	1,323
Income tax recovery (expense)	(345)	120	(368)	(173)
Net of income tax recovery (expense)	<u>2,309</u>	<u>(807)</u>	<u>2,461</u>	<u>1,150</u>