KP TISSUE INC.

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2013 AND THE PERIOD ENDED DECEMBER 31, 2012

KP Tissue Inc.
#200 – 1900 Minnesota Court, Mississauga Ontario L5N 5R5
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March 18, 2014

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 statements of financial position as at December 31, 2013 and December 31, 2012 and the statements of comprehensive income (loss), changes in equity and cash flows for the year ended December 31, 2013 and 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 audits. We conducted our audits 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, 2013 and December 31, 2012 and its financial performance and its cash flows for the year ended December 31, 2013 and the period from October 1, 2012 to December 31, 2012 in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario

KP Tissue Inc.
Statements of Financial Position

(tabular amounts are in thousands of Canadian dollars)

	December 31, 2013 $	December 31, 2012 $
Assets		(note 5)
Current assets		
Distributions receivable	1,583	-
Non-current assets		
Deferred income taxes (note 6)	-	105
Investment in associate (note 5)	161,584	139,499
Total Assets	163,167	139,604
Liabilities		
Current liabilities		
Dividend payable (note 7)	1,583	-
Income taxes payable	580	-
	2,163	-
Non-current liabilities		
Deferred income taxes (note 6)	3,033	-
Total liabilities	5,196	-
Equity		
Common shares (note 7)	9,068	140,000
Contributed surplus (note 7)	144,819	-
Retained earnings (deficit)	709	(583)
Accumulated other comprehensive income	3,375	187
Total equity	157,971	139,604
Total liabilities and equity	163,167	139,604

Subsequent events (note 7)

Approved by the Board of Directors

/s/ David Spraley
Director

/s/ Huw Thomas
Director

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

KP Tissue Inc.
Statements of Comprehensive Income (Loss)
For the year ended December 31, 2013 and the period ended December 31, 2012

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

	2013 $	Period from October 1, 2012 to December 31, 2012 $ (note 5)
Equity income (loss) (note 5)	1,113	(989)
Gain on remeasurement of over allotment option (note 5)	375	-
Dilution gain (note 7)	240	-
Income (loss) before income taxes	1,728	(989)
Income taxes (note 6)		
Current	580	-
Deferred	1,433	(148)
	2,013	(148)
Net loss for the period	(285)	(841)
Other comprehensive income (loss)		
Items that will not be reclassified to net income:		
Remeasurements of pensions (net of tax of $1,215 and nil)	8,130	258
Remeasurements of post-retirement benefits (net of tax of $13)	88	-
Items that may be subsequently reclassified to net income:		
Available-for-sale investment (net of tax of $2)	10	-
Cumulative translation adjustment (net of tax of $475 and $43)	3,178	187
Total other comprehensive income for the period	11,406	445
Comprehensive income (loss) for the period	11,121	(396)
Basic loss per share	**(0.03)**	**(0.11)**
Weighted average number of shares outstanding	**8,752,830**	**8,000,001**

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

KP Tissue Inc.
Statements of Changes in Equity
For the year ended December 31, 2013 and the period ended December 31, 2012

(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 October 1, 2012	-	-	-	-	-	-
Issuance of common shares (note 7)	8,000,001	140,000	-	-	-	140,000
Remeasurements of pensions	-	-	-	258	-	258
Remeasurements of post-retirement benefits	-	-	-	-	-	-
Cumulative translation adjustment	-	-	-	-	187	187
Net income for the period	-	-	-	(841)	-	(841)
As of December 31, 2012	8,000,001	140,000	-	(583)	187	139,604
As of January 1, 2013	8,000,001	140,000	-	(583)	187	139,604
Issuance of common shares (note 7)	792,973	13,887		-	-	13,887
Dividends payable	-	-	-	(1,583)	-	(1,583)
Dividends paid	-	-	-	(5,058)	-	(5,058)
Reduction in legal stated capital (note 7)	-	(144,819)	144,819	-	-	-
Remeasurements of pensions	-	-	-	8,130	-	8,130
Remeasurements of post-retirement benefits	-	-	-	88	-	88
Available-for-sale investment	-	-	-	-	10	10
Cumulative translation adjustment	-	-	-	-	3,178	3,178
Net income for the period	-	-	-	(285)	-	(285)
As of December 31, 2013	8,792,974	9,068	144,819	709	3,375	157,971

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

KP Tissue Inc.
Statements of Cash Flows
For the year ended December 31, 2013 and the period ended December 31, 2012

(tabular amounts are in thousands of Canadian dollars)

	2013	Period from October 1, 2012 to December 31, 2012
	$	$
Cash flows from (used in) operating activities		
Net loss for the period	(285)	(841)
Items not affecting cash		
Equity income (loss)	(1,113)	989
Gain on remeasurement of overallotment option	(375)	-
Dilution gain	(240)	-
Current income taxes	580	-
Deferred income taxes	1,433	(148)
Net cash from (used in) operating activities	-	-
Cash flows used in investing activites		
Investment in associate (note 5)	(13,887)	(140,000)
Distributions received	5,058	-
Net cash used in investing activities	(8,829)	(140,000)
Cash flows from financing activities		
Issuance of common shares (note 7)	13,887	140,000
Dividends paid	(5,058)	-
Net cash from financing activities	8,829	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. (KPT or the Corporation) was incorporated by articles of incorporation under the Canadian Business Corporations Act on October 1, 2012. As of December 31, 2013, the Corporation held a 16.7% (December 31, 2012 – 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.

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 (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 financial statements have been prepared using the historical cost convention. The financial statements were approved by the board of directors on March 18, 2014.

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 implemented for the year ended December 31, 2013

(i) 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 did not have a material impact on the financial statements.

(ii) 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 adoption of this standard did not have a material impact on the financial statements.

(iii) 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 amendments have been applied retrospectively, and hence the presentation of items of OCI has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

(f) Accounting standards issued but not yet applied

The following revised standards and amendments are effective for annual periods beginning on or after January 1, 2014, except as noted below, with earlier application permitted. The Corporation continues to assess the impact of these standards and amendments and has not yet 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.

IFRS 9 was amended in November 2013 to (i) include guidance on hedge accounting, (ii) allow entities to early adopt the requirement to recognize changes in fair value attributable to changes in an entity's own credit risk from financial liabilities designated under the fair value option in other comprehensive income without having to adopt the remainder of IFRS 9, and (iii) remove the previous mandatory effective date of January 1, 2015, although the standard is available for early adoption.

(ii) 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 amendment is effective for annual periods beginning on or after January 1, 2014.

(iii) 2012 annual improvements - improvements and amendments to the following existing standards, basis of conclusions and guidance, effective for years beginning on or after January 1, 2014:

- IFRS 3, Business Combinations (with consequential amendments to other standards), clarifies that contingent consideration that is classified as an asset or a liability shall be measured at fair value at each reporting date.

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.

(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.

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. In addition, KPLP adopted IAS 19, Employee Benefits which resulted in a retroactive restatement of KPLP's net income and comprehensive loss for the year ended December 31, 2012. 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 and KPLP's adoption of IAS 19.

	As reported December 31, 2012 $	Adjustments	Restated December 31, 2012 $
Share of profit (loss)	201	(1,190)	(989)
Income taxes - deferred	52	(200)	(148)
Share of other comprehensive income	573	(128)	445
Investment in associate	140,774	(1,275)	139,499
Deferred income taxes	(52)	157	105

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 year ended December 31, 2013.

On April 15, 2013, July 15, 2013, and October 15, 2013, in connection with the Corporation's DRIP, the portion of the distributions received by the shareholders were used to acquire an additional 42,973 units of KPLP for proceeds of $0.8 million (note 7).

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

	December 31, 2013 $	December 31, 2012 $
Opening balance	139,499	-
Investment in associate	13,887	140,000
Share of profit	8,220	167
Depreciation of fair value increments	(7,107)	(1,156)
Share of other comprehensive income	13,111	488
Gain on exercise of overallotment option	375	-
Dilution gain	240	-
Dividends	(6,641)	-
Closing balance	161,584	139,499

The equity income was comprised of the following components:

	2013 $	2012 $
Share of profit	8,220	167
Depreciation of fair value increments	(7,107)	(1,156)
	1,113	(989)

The following summarizes financial information about the assets, liabilities, revenue and net income of KPLP, in which the Corporation holds a 16.7% interest as of December 31, 2013 (December 31, 2012 – 15.7%). The financial information was derived from the financial statements of KPLP for the year ended December 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.

			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		

	Year ended December 31, 2013 $
Revenue	955,346
Net income	48,928
Other comprehensive income	72,642
Total comprehensive income	121,570

(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	337,751	8,518	346,269
Non-current assets	757,520	656,508	1,414,028
Liabilities to non-unitholders	730,684	13,456	744,140
Partnership units liability	118,562	-	118,562
Net Assets	246,025		

	Year ended December 31, 2012
	$
Revenue	922,874
Net income	41,398
Other comprehensive loss	(43,413)
Total comprehensive loss	(2,015)

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

	December 31, 2013	December 31, 2012
KPLP consolidated equity	353,286	246,025
Add back: Inception value of Partnership units liability	118,562	118,562
Equity pertaining to Kruger Inc. and KPGP	(314,767)	(235,177)
Equity pertaining to KPT	157,081	129,410
Investment in associate recorded in KPT	161,584	139,499
Reconciling difference	(4,503)	(10,089)
Reconciling items:		
Equity issuance costs since inception	(11,110)	(11,110)
Depreciation of FV increments	8,263	1,156
Currency translation adjustment in fair value increments	(1,041)	(135)
Gain on exercise of overallotment option	(375)	-
Dilution gain	(240)	-
	-	-

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

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.

(tabular amounts are in thousands of Canadian dollars)

Details of the provision for income taxes were as follows:

	Year ended December 31, 2013 $	Period from October 1, 2012 to December 31, 2012 $
Income tax at statutory rate of 26%	449	(257)
Permanent differences and other	97	68
Gain on the remeasurement of overallotment option and dilution gain	(160)	-
Taxed in hands of subsidiaries	397	-
Realization of previously unrecognized tax attributes	1,333	-
Change in basis of investment in associate	(103)	41
	2,013	(148)

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

	December 31, 2013 $	December 31, 2012 $
Deferred tax liability (asset)		
Investment in associate	1,577	(23)
Net operating losses	-	(82)
Deferred finance fees	(37)	-
Property, plant and equipment	1,516	-
Other	(23)	-
	3,033	(105)

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

	December 31, 2013 $	December 31, 2012 $
Deferred tax liabilities to be realized greater than 12 months	3,033	(23)
Deferred tax asset to be realized within 12 months	-	(82)
	3,033	(105)

(tabular amounts are in thousands of Canadian dollars)

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

	Year ended December 31, 2013 $	Period from October 1, 2012 to December 31, 2012 $
Opening balance	(105)	-
Charge to net income	1,433	(148)
Charge to other comprehensive income		
- remeasurements of cumulative translation adjustment	475	43
Charge to other comprehensive income		
- remeasurements of post-retirement benefits	13	-
Charge to other comprehensive income		
- remeasurements of pensions	1,215	-
Charge to other comprehensive income		
- mark-to-market on Available-for-sale investment	2	-
	3,033	(105)

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 $0.6 million from KPLP for purposes of settling its obligation for federal and provincial taxes.

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 Inc. (formerly held by Kruger Products 2010L.P. (KP2010LP), which was amalgamated with Kruger Inc. in October 2013) and KPGP Inc. (together, Kruger), subsidiaries of Kruger Inc.

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. 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 $0.1 million was recorded in the year ended December 31, 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. 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 $0.1 million was recorded in the year ended December 31, 2013.

On October 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 10,167 common shares at a price of $16.53. 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 $0.1 million was recorded in the year ended December 31, 2013.

On November 13, 2013, the Corporation declared a dividend of $0.18 per common share and paid on January 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. Pursuant to the Corporate's 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.

Subsequent to December 31, 2013, the Corporation declared a dividend of $0.18 per common share, payable on April 15, 2014.