



KP TISSUE INC.

UNAUDITED CONDENSED FINANCIAL STATEMENT

**FOR THE 13-WEEK AND 39-WEEK PERIODS ENDED SEPTEMBER 27, 2015
AND SEPTEMBER 28, 2014**

KP Tissue Inc.
Unaudited Condensed Statement of Financial Position

(tabular amounts are in thousands of Canadian dollars)

	September 27, 2015	December 31, 2014
	\$	\$
Assets		
Current assets		
Distributions receivable	1,607	1,601
Receivable from Partnership	31	-
	<u>1,638</u>	<u>1,601</u>
Non-current assets		
Investment in associate (note 5)	153,096	153,732
Total Assets	<u><u>154,734</u></u>	<u><u>155,333</u></u>
Liabilities		
Current liabilities		
Dividend payable (note 7)	1,607	1,601
Payable to Partnership	-	53
Advances from Partnership (note 6)	834	584
Income taxes payable	81	495
	<u>2,522</u>	<u>2,733</u>
Non-current liabilities		
Deferred income taxes (note 6)	1,861	2,005
Total liabilities	<u>4,383</u>	<u>4,738</u>
Equity		
Common shares (note 7)	11,151	10,138
Contributed surplus	144,819	144,819
Deficit	(21,281)	(12,220)
Accumulated other comprehensive income	15,662	7,858
Total equity	<u>150,351</u>	<u>150,595</u>
Total liabilities and equity	<u><u>154,734</u></u>	<u><u>155,333</u></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 (Loss)**

For the 13-week and 39-week periods ended September 27, 2015 and September 28, 2014

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

	13-week period ended September 27, 2015 \$	13-week period ended September 28, 2014 \$	39-week period ended September 27, 2015 \$	39-week period ended September 28, 2014 \$
Equity income (loss) (note 5)	(2,397)	1,235	(3,964)	(944)
Dilution gain (note 7)	7	37	129	95
Income (loss) before income taxes	(2,390)	1,272	(3,835)	(849)
Income taxes (note 6)	(409)	585	(270)	418
Net income (loss) for the period	(1,981)	687	(3,565)	(1,267)
Other comprehensive income (loss) net of tax expense (recovery) (note 8)				
Items that will not be reclassified to net income (loss):				
Remeasurements of pensions	274	(284)	(590)	(4,564)
Remeasurements of post-retirement benefits	145	(1)	(71)	(356)
Items that may be subsequently reclassified to net income (loss):				
Available-for-sale investment	(39)	(26)	(43)	(47)
Cumulative translation adjustment	4,732	2,309	7,847	2,461
Total other comprehensive income (loss) for the period	5,112	1,998	7,143	(2,506)
Comprehensive income (loss) for the period	3,131	2,685	3,578	(3,773)
Basic earnings (loss) per share	(0.22)	0.08	(0.40)	(0.14)
Weighted average number of shares outstanding	8,921,501	8,845,503	8,896,215	8,825,759

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 27, 2015 and September 28, 2014

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

	Common shares		Contributed surplus \$	Retained earnings (deficit) \$	Accumulated other comprehensive income (loss) \$	Total equity \$
	#	\$				
As of January 1, 2014	8,792,974	9,068	144,819	709	3,375	157,971
Issuance of common shares	55,800	877	-	-	-	877
Dividends payable	-	-	-	(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)
As of September 28, 2014	8,848,774	9,945	144,819	(10,245)	5,789	150,308
As of January 1, 2015	8,861,979	10,138	144,819	(12,220)	7,858	150,595
Issuance of common shares (note 7)	64,370	978	-	-	-	978
Dividends payable	-	-	-	(1,607)	-	(1,607)
Dividends paid	-	-	-	(3,199)	-	(3,199)
Fair value adjustment (note 7)	-	35	-	(29)	-	6
Remeasurements of pensions	-	-	-	(590)	-	(590)
Remeasurements of post-retirement benefits	-	-	-	(71)	-	(71)
Available-for-sale investment	-	-	-	-	(43)	(43)
Cumulative translation adjustment	-	-	-	-	7,847	7,847
Net loss for the period	-	-	-	(3,565)	-	(3,565)
As of September 27, 2015	8,926,349	11,151	144,819	(21,281)	15,662	150,351

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 27, 2015 and September 28, 2014

(tabular amounts are in thousands of Canadian dollars)

	39-week period ended September 27, 2015	39-week period ended September 28, 2014
	\$	\$
Cash flows from (used in) operating activities		
Net loss for the period	(3,565)	(1,267)
Items not affecting cash		
Equity loss	3,964	944
Dilution gain	(129)	(95)
Income taxes	(270)	418
Total items not affecting cash	3,565	1,267
Tax payments	(1,405)	(868)
Tax distribution received	571	459
Advances received	834	409
Net cash from (used in) operating activities	-	-
Cash flows from (used in) investing activities		
Investment in associate (note 5)	(195)	(877)
Partnership unit distributions received	4,012	4,757
Net cash from investing activities	3,817	3,880
Cash flows from (used in) financing activities		
Issuance of common shares (note 7)	195	877
Dividends paid	(4,012)	(4,757)
Net cash used in financing activities	(3,817)	(3,880)
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.

KP Tissue Inc.

Notes to Unaudited Condensed Financial Statements

For the 39-week periods ended September 27, 2015 and September 28, 2014

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

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 27, 2015, the Corporation held a 16.4% (December 31, 2014 – 16.5%), 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

These condensed financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), 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. These condensed financial statements should be read in conjunction with the annual financial statements of the Corporation for the year ended December 31, 2014. The Corporation reclassified certain prior year amounts in the condensed financial statements to conform to current year presentation.

These condensed financial statements were approved by the board of directors on November 11, 2015.

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 the Corporation for the year ended December 31, 2014 and have been applied to all periods presented.

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, 2016 and have not been early adopted have been discussed in the annual financial statements for the year ended December 31, 2014, except for the following:

- (i) IAS 34 Interim Financial Reporting. The IASB has issued an amendment to clarify what is meant by “information disclosed elsewhere in the interim financial report”. IASB prescribes the minimum content for an interim financial report, and the principles for recognition and measurement in complete and condensed financial statements for an interim period. Management is evaluating the standard and has not yet determined the impact on its unaudited condensed interim financial statements.

4 Critical accounting estimates and judgments

The preparation of these unaudited 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 unaudited condensed financial statements and the disclosure of contingencies at the dates of the unaudited condensed statement of financial position, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The estimates and judgments applied by management that most significantly affect the unaudited condensed financial statements are the same as the ones that applied to the audited financial statements for the year ended December 31, 2014.

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Notes to Unaudited Condensed Financial Statements
For the 39-week periods ended September 27, 2015 and September 28, 2014

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

5 Investment in associate

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

	39-week period ended September 27, 2015	Year ended December 31, 2014
	\$	\$
Opening balance	153,732	161,584
Investment in associate	978	1,070
Share of income	332	3,500
Depreciation of fair value increments	(4,296)	(5,879)
Share of other comprehensive income	8,176	307
Dilution gain	129	102
Tax Distribution	(1,155)	(584)
Partnership unit distributions	(4,800)	(6,368)
Closing balance	<u>153,096</u>	<u>153,732</u>

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

	13-week period ended September 27, 2015	13-week period ended September 28, 2014	39-week period ended September 27, 2015	39-week period ended September 28, 2014
	\$	\$	\$	\$
Share of income (loss)	(966)	2,680	332	3,496
Depreciation of fair value increments	(1,431)	(1,445)	(4,296)	(4,440)
	<u>(2,397)</u>	<u>1,235</u>	<u>(3,964)</u>	<u>(944)</u>

The following summarizes financial information about the assets, liabilities, revenue and net income of KPLP, in which the Corporation holds a 16.4% interest (December 31, 2014 – 16.5%). The financial information was derived from the condensed consolidated financial statements of KPLP for the 39-week period ended September 27, 2015. 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.

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

	September 27, 2015		
	KPLP basis of accounting	FV increment	KPT basis of accounting
	\$	\$	\$
Current assets	346,897	-	346,897
Non-current assets	933,793	560,269	1,494,062
Liabilities to non-unitholders	783,214	-	783,214
Partnership units liability	126,187	-	126,187
Net assets	371,289		
	13-week period ended September 27, 2015	39-week period ended September 27, 2015	
	\$	\$	
Revenue	293,574	838,287	
Net income (loss)	(5,866)	2,019	
Other comprehensive income	29,314	37,762	
Total comprehensive income	23,448	39,781	
	December 31, 2014		
	KPLP basis of accounting	FV increment	KPT basis of accounting
	\$	\$	\$
Current assets	321,636	-	321,636
Non-current assets	870,365	586,516	1,456,881
Liabilities to non-unitholders	716,375	8,800	725,175
Partnership units liability	128,123	-	128,123
Net assets	347,503		
	13-week period ended September 28, 2014	39-week period ended September 28, 2014	
	\$	\$	
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.
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(tabular amounts are in thousands of Canadian dollars, except share amounts)

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

	September 27, 2015	December 31, 2014
	\$	\$
KPLP consolidated equity	371,289	347,503
Add back: Inception value of Partnership units liability	118,562	118,562
Less: Equity pertaining to Kruger Inc. and KPGP	<u>(332,742)</u>	<u>(311,673)</u>
Equity pertaining to KPT	157,109	154,392
Investment in associate recorded in KPT	<u>153,096</u>	<u>153,732</u>
Reconciling difference	4,013	660
Reconciling items since inception:		
Equity issuance costs	(11,110)	(11,110)
Depreciation of FV increments	18,438	14,142
Currency translation adjustment in fair value increments	(4,208)	(2,239)
Tax distribution	1,739	584
Gain on exercise of overallotment option	(375)	(375)
Dilution gain	<u>(471)</u>	<u>(342)</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.

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.

The major components of income taxes recognized in the statement of comprehensive income (loss) were as follows:

	13-week period ended September 27, 2015	13-week period ended September 28, 2014	39-week period ended September 27, 2015	39-week period ended September 28, 2014
	\$	\$	\$	\$
Current tax expense	299	791	907	872
Deferred tax credit	(708)	(206)	(1,177)	(454)
	<u>(409)</u>	<u>585</u>	<u>(270)</u>	<u>418</u>

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Details of the provision for income taxes were as follows:

	13-week period ended September 27, 2015	13-week period ended September 28, 2014	39-week period ended September 27, 2015	39-week period ended September 28, 2014
	\$	\$	\$	\$
Income tax at statutory rate of 26%	(621)	330	(997)	(221)
Permanent differences and other	69	43	136	65
Dilution gain	(2)	(10)	(34)	(25)
Taxed in hands of subsidiaries	(79)	40	(101)	195
Realization of previously unrecognized tax attributes	499	412	1,485	951
Change in basis of investment in associate	(275)	(230)	(759)	(547)
	<u>(409)</u>	<u>585</u>	<u>(270)</u>	<u>418</u>

Components of the deferred income tax liability were as follows:

	September 27, 2015	December 31, 2014
	\$	\$
Deferred tax liability		
Investment in associate	1,056	751
Pensions	(334)	(267)
Deferred finance fees	(63)	(36)
Property, plant and equipment	2,527	2,226
Other	(1,325)	(669)
	<u>1,861</u>	<u>2,005</u>

The analysis of the deferred tax liability was as follows:

	September 27, 2015	December 31, 2014
	\$	\$
Deferred tax liabilities to be realized greater than 12 months	<u>1,861</u>	<u>2,005</u>
	<u>1,861</u>	<u>2,005</u>

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

The movement in the deferred tax liability was as follows:

	September 27, 2015	December 31, 2014
	<u>\$</u>	<u>\$</u>
Opening balance	2,005	3,033
Charge to net loss	(1,177)	(895)
Charge to other comprehensive income (loss)		
- remeasurements of cumulative translation adjustment	1,172	669
Charge to other comprehensive income (loss)		
- remeasurements of post-retirement benefits	(44)	(225)
Charge to other comprehensive income (loss)		
- remeasurements of pensions	(88)	(577)
Charge to other comprehensive income (loss)		
- mark-to-market on Available-for-sale investment	(7)	-
	<u>1,861</u>	<u>2,005</u>

On February 28, 2015, KPT received a tax distribution of \$1.2 million from KPLP for purposes of settling its obligation for federal and provincial taxes, for fiscal 2014.

During the 39-week period ended September 27, 2015, pursuant to the Tax Distribution as defined in the Partnership Agreement, KPT received an advance from KPLP of \$0.8 million to pay the monthly tax instalments. 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, 2015, 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 11,863 common shares at a price of \$16.46. The proceeds were used to acquire additional units of KPLP.

On April 15, 2015, 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 24,933 common shares at a price of \$15.56.

On July 15, 2015, 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 27,575 common shares at a price of \$14.31.

Subsequent to the quarter-end, on October 15, 2015, 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 32,240 common shares at a price of \$12.44.

Subsequent to September 27, 2015, the Corporation declared a dividend of \$0.18 per common share to shareholders, payable on January 15, 2016.

As of April 15, 2015, the Partnership unit distributions were paid to KPT net of the DRIP reinvestment. During the 26-week period ended September 27, 2015, KPT's DRIP reinvestment was \$0.8 million.

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 39-week period ended September 27, 2015.

KP Tissue Inc.
Notes to Unaudited Condensed Financial Statements
For the 39-week periods ended September 27, 2015 and September 28, 2014

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

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 27, 2015	13-week period ended September 28, 2014	39-week period ended September 27, 2015	39-week period ended September 28, 2014
	\$	\$	\$	\$
Items that will not be reclassified to net income (loss):				
Remeasurements of pensions	315	(326)	(678)	(5,246)
Income tax recovery (expense)	(41)	42	88	682
Net of income tax recovery (expense)	<u>274</u>	<u>(284)</u>	<u>(590)</u>	<u>(4,564)</u>
Remeasurements of post-retirement benefits	239	(2)	(115)	(584)
Income tax recovery (expense)	(94)	1	44	228
Net of income tax recovery (expense)	<u>145</u>	<u>(1)</u>	<u>(71)</u>	<u>(356)</u>
Items that may be subsequently reclassified to net income (loss):				
Available-for-sale investment	(45)	(29)	(50)	(54)
Income tax expense	6	3	7	7
Net of income tax expense	<u>(39)</u>	<u>(26)</u>	<u>(43)</u>	<u>(47)</u>
Cumulative translation adjustment	5,438	2,654	9,019	2,829
Income tax recovery	(706)	(345)	(1,172)	(368)
Net of income tax recovery	<u>4,732</u>	<u>2,309</u>	<u>7,847</u>	<u>2,461</u>