KP TISSUE INC.

UNAUDITED CONDENSED FINANCIAL STATEMENT

FOR THE 13-WEEK PERIODS ENDED MARCH 27, 2016 AND MARCH 29, 2015

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

(tabular amounts are in thousands of Canadian dollars)

	March 27, 2016 $	December 31, 2015 $
Assets		
Current assets		
Distributions receivable	1,620	1,613
Income taxes recoverable	983	828
	2,603	2,441
Non-current assets		
Investment in associate (note 5)	118,799	126,643
Total Assets	121,402	129,084
Liabilities		
Current liabilities		
Dividend payable (note 7)	1,620	1,613
Payable to Partnership	108	108
Current portion of advances from Partnership (note 6)	205	432
	1,933	2,153
Non-current liabilities		
Advances from Partnership (note 6)	709	709
Deferred income taxes (note 6)	1,154	1,007
Total liabilities	3,796	3,869
Equity		
Common shares (note 7)	11,992	11,577
Contributed surplus	144,819	144,819
Deficit	(54,743)	(49,291)
Accumulated other comprehensive income	15,538	18,110
Total equity	117,606	125,215
Total liabilities and equity	121,402	129,084

Subsequent events (note 7)

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

KP Tissue Inc.
Unaudited Condensed Statement of Comprehensive Loss
For the 13-week periods ended March 27, 2016 and March 29, 2015

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

	13-week period ended March 27, 2016 $	13-week period ended March 29, 2015 $
Equity loss (note 5)	(378)	(658)
Dilution gain (loss) (note 7)	(171)	85
Loss before income taxes	(549)	(573)
Income taxes (note 6)	929	64
Net loss for the period	(1,478)	(637)
Other comprehensive income (loss)		
net of tax expense (recovery) (note 8)		
Items that will not be reclassified to net loss:		
Remeasurements of pensions	(2,380)	(2,495)
Remeasurements of post-retirement benefits	12	(367)
Items that may be subsequently reclassified to net loss:		
Available-for-sale investment	(41)	(36)
Cumulative translation adjustment	(2,531)	3,411
Total other comprehensive income (loss) for the period	(4,940)	513
Comprehensive loss for the period	(6,418)	(124)
Basic loss per share	**(0.16)**	**(0.07)**
Weighted average number of shares outstanding	**8,993,554**	**8,871,820**

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 27, 2016 and March 29, 2015

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

	Common shares		Contributed surplus	Deficit	Accumulated other comprehensive income	Total equity
	#	$	$	$	$	$
As of January 1, 2015	8,861,979	10,138	144,819	(12,220)	7,858	150,595
Issuance of common shares (note 7)	11,863	195	-	-	-	195
Dividends payable	-	-	-	(1,597)	-	(1,597)
Fair value adjustment	-	8	-	(8)	-	-
Remeasurements of pensions	-	-	-	(2,495)	-	(2,495)
Remeasurements of post-retirement benefits	-	-	-	(367)	-	(367)
Available-for-sale investment	-	-	-	-	(36)	(36)
Cumulative translation adjustment	-	-	-	-	3,411	3,411
Net loss for the period	-	-	-	(637)	-	(637)
As of March 29, 2015	8,873,842	10,341	144,819	(17,324)	11,233	149,069
As of January 1, 2016	8,958,589	11,577	144,819	(49,291)	18,110	125,215
Issuance of common shares (note 7)	41,671	429	-	-	-	429
Dividends payable		-	-	(1,620)	-	(1,620)
Fair value adjustment	-	(14)	-	14	-	-
Remeasurements of pensions	-	-	-	(2,380)	-	(2,380)
Remeasurements of post-retirement benefits	-	-	-	12	-	12
Available-for-sale investment	-	-	-	-	(41)	(41)
Cumulative translation adjustment	-	-	-	-	(2,531)	(2,531)
Net loss for the period	-	-	-	(1,478)	-	(1,478)
As of March 27, 2016	9,000,260	11,992	144,819	(54,743)	15,538	117,606

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 27, 2016 and March 29, 2015

(tabular amounts are in thousands of Canadian dollars)

	13-week period ended March 27, 2016 $	13-week period ended March 29, 2015 $
Cash flows from (used in) operating activities		
Net loss for the period	(1,478)	(637)
Items not affecting cash		
Equity loss	378	658
Dilution (gain) loss	171	(85)
Income taxes	929	64
Total items not affecting cash	1,478	637
Tax payments	(205)	(790)
Tax Distribution received	-	571
Advances received	205	219
Net cash from (used in) operating activities	-	-
Cash flows from (used in) investing activites		
Investment in associate (note 5)	-	(195)
Partnership unit distributions received	1,613	1,595
Net cash from investing activities	1,613	1,400
Cash flows from (used in) financing activities		
Issuance of common shares (note 7)	-	195
Dividends paid	(1,613)	(1,595)
Net cash used in financing activities	(1,613)	(1,400)
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, 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 March 27, 2016, the Corporation held a 16.3% (December 31, 2015 – 16.3%), 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, 2015.

These condensed financial statements were approved by the board of directors on May 4, 2016.

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 Corporaton for the year ended December 31, 2015 and have been applied to all periods presented except the following accounting policies, which were adopted effective January 1, 2016:

(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. The adoption of this standard had no significant impact on these unaudited 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, 2017 and have not been early adopted have been discussed in the annual financial statements for the year ended December 31, 2015, except for the following:

(i) IAS 12, Income Taxes – Deferred Tax. The IASB issued an amendment to clarify the requirements for recognising deferred tax assets on unrealised losses. The amendment clarifies the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. Certain other aspects of accounting for deferred tax assets are also clarified. The amendment is effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. Management is evaluating the standard and has not yet determined the impact on its unaudited condensed 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 judgements applied by management that most significantly affect the

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unaudited condensed financial statements are the same as the ones that applied to the audited financial statements for the year ended December 31, 2015.

5 Investment in associate

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

	13-week period ended March 27, 2016 $
Opening balance	126,643
Investment in associate	429
Share of income	1,041
Depreciation of fair value increments	(1,419)
Share of other comprehensive income (loss)	(5,672)
Dilution gain (loss)	(171)
Impairment in investment in associate	-
Tax Distribution	(432)
Partnership unit distributions	(1,620)
Closing balance	118,799

The equity loss was comprised of the following components:

	13-week period ended March 27, 2016 $	**13-week period ended March 29, 2015 $**
Share of income	1,041	776
Depreciation of fair value increments	(1,419)	(1,434)
	(378)	(658)

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The following summarizes financial information about the assets, liabilities, revenue and net income of KPLP, in which the Corporation holds a 16.3% interest (December 31, 2015 – 16.3%). The financial information was derived from the condensed consolidated financial statements of KPLP for the 13-week period ended March 27, 2016. 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.

			March 27, 2016
	KPLP basis of accounting	**FV increment**	**KPT basis of accounting**
	$	**$**	**$**
Current assets	325,099	-	325,099
Non-current assets	952,074	542,771	1,494,845
Liabilities to non-unitholders	794,916	-	794,916
Partnership units liability	123,778	-	123,778
Net assets	358,479		

	13-week period ended March 27, 2016
	$
Revenue	279,690
Net income	6,390
Other comprehensive loss	(30,919)
Total comprehensive loss	(24,529)

			December 31, 2015
	KPLP basis of accounting	**FV increment**	**KPT basis of accounting**
	$	**$**	**$**
Current assets	331,176	-	331,176
Non-current assets	966,252	551,520	1,517,772
Liabilities to non-unitholders	783,851	-	783,851
Partnership units liability	125,176	-	125,176
Net assets	388,401		

	13-week period ended March 29, 2015
	$
Revenue	265,376
Net income	4,710
Other comprehensive income	2,568
Total comprehensive income	7,278

(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:

	March 27, 2016 $	**December 31, 2015** $
KPLP consolidated equity	358,479	388,401
Add back: Inception value of Partnership units liability	118,562	118,562
Less: Equity pertaining to Kruger Inc. and KPGP	(322,651)	(347,386)
Equity pertaining to KPT	154,390	159,577
Investment in associate recorded in KPT	118,799	126,643
Reconciling difference	35,591	32,934
Reconciling items since inception:		
Equity issuance costs	(11,110)	(11,110)
Depreciation of FV increments	21,286	19,867
Currency translation adjustment in fair value increments	(4,140)	(4,775)
Tax Distribution	2,171	1,739
Gain on exercise of overallotment option	(375)	(375)
Dilution gain	(241)	(412)
Impairment in investment in associate	28,000	28,000
	-	-

With respect to KPT's investment in KPLP, the liability of KPT for the debts, liabilities and other obligations of KPLP is limited to KPT's capital contribution to KPLP.

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 loss were as follows:

	13-week period ended March 27, 2016 $	**13-week period ended March 29, 2015** $
Current tax expense	50	372
Deferred tax (credit) expense	879	(308)
	929	64

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

Details of the provision for income taxes were as follows:

	13-week period ended March 27, 2016 $	13-week period ended March 29, 2015 $
Income tax at statutory rate of 26%	(143)	(149)
Permanent differences and other	(25)	80
Dilution (gain) loss	45	(22)
Taxed in hands of subsidiaries	(4)	4
Realization of previously unrecognized tax attributes	319	404
Change in basis of investment in associate	737	(253)
	929	64

Components of the deferred income tax liability were as follows:

	March 27, 2016 $	December 31, 2015 $
Deferred tax liability (asset)		
Pensions	(426)	(432)
Deferred finance fees	(54)	(55)
Property, plant and equipment	3,047	2,664
Other	(1,413)	(1,170)
	1,154	1,007

The analysis of the deferred tax liability was as follows:

	March 27, 2016 $	December 31, 2015 $
Deferred tax liabilities to be realized greater than 12 months	1,154	1,007
	1,154	1,007

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The movement in the deferred tax liability was as follows:

	March 27, 2016	December 31, 2015
	$	$
Opening balance	1,007	2,005
Charge to net loss	879	(2,510)
Charge to other comprehensive income (loss)		
- remeasurements of cumulative translation adjustment	(378)	1,528
Charge to other comprehensive income (loss)		
- remeasurements of post-retirement benefits	8	(171)
Charge to other comprehensive income (loss)		
- remeasurements of pensions	(356)	151
Charge to other comprehensive income (loss)		
- mark-to-market on Available-for-sale investment	(6)	4
	1,154	1,007

On February 26, 2016, KPT received a Tax Distribution of $0.4 million from KPLP for purposes of settling its obligation for federal and provincial taxes, for the year ended December 31, 2015. The Tax Distribution was used to partially settle the advances to KPT recorded during the year ended December 31, 2015. The excess advance over KPT's portion of the Tax Distribution, in the amount of $0.7 million, is repayable by KPT to KPLP by March 31, 2017.

During the 13-week period ended March 27, 2016, 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 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, 2016, 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 41,671 common shares at a price of $10.29. The proceeds were used to acquire additional units of KPLP.

On April 15, 2016, 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 20,791 common shares at a price of $12.31.

Subsequent to March 27, 2016, the Corporation declared a dividend of $0.18 per common share to shareholders, payable on July 15, 2016.

During the 13-week period ended March 27, 2016, KPT's DRIP reinvestment was $0.4 million.

As a result of the DRIP and Kruger's reinvestment of its distribution from KPLP in units of KPLP, a dilution loss of $0.2 million was recorded during the 13-week period ended March 27, 2016 (13-week period ended March 29, 2015 – gain of $0.09 million).

(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 March 27, 2016 $	13-week period ended March 29, 2015 $
Items that will not be reclassified to net loss:		
Remeasurements of pensions	(2,736)	(2,868)
Income tax recovery	356	373
Net of income tax recovery	(2,380)	(2,495)
Remeasurements of post-retirement benefits	20	(602)
Income tax recovery (expense)	(8)	235
Net of income tax recovery (expense)	12	(367)
Items that may be subsequently reclassified to net loss:		
Available-for-sale investment	(47)	(41)
Income tax recovery	6	5
Net of income tax recovery	(41)	(36)
Cumulative translation adjustment	(2,909)	3,920
Income tax recovery (expense)	378	(509)
Net of income tax recovery (expense)	(2,531)	3,411

9 Economic dependence

The Corporation is economically dependent upon the Partnership.