



**KRUGER PRODUCTS L.P.**

**UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENT**

**FOR THE 13-WEEK PERIODS ENDED MARCH 30, 2014  
AND MARCH 31, 2013**

# Kruger Products L.P.

## Unaudited Condensed Consolidated Statement of Financial Position

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

	March 30, 2014 \$	December 31, 2013 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	52,736	87,674
Trade and other receivables	106,998	94,789
Receivables from related parties (note 10)	592	1,429
Advances to partners (note 8)	347	-
Inventories	156,940	151,505
Current portion of income tax recoverable	474	630
Prepaid expenses	6,180	4,777
	<u>324,267</u>	<u>340,804</u>
<b>Non-current assets</b>		
Property, plant & equipment (note 5)	625,993	616,687
Other long-term assets	10,389	10,268
Income tax recoverable	14,857	14,132
Goodwill	152,021	152,021
Intangible assets	13,348	13,483
Deferred income taxes	15,727	14,141
	<u>1,156,602</u>	<u>1,161,536</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade and other payables	169,406	188,470
Payables to related parties (note 10)	6,084	5,134
Distributions payable (note 8)	9,500	9,455
Current portion of provisions (note 7)	2,528	999
Current portion of long-term debt	11,547	8,276
	<u>199,065</u>	<u>212,334</u>
<b>Non-current liabilities</b>		
Long-term debt	351,239	342,013
Other long-term liabilities	276	323
Provisions (note 7)	7,181	6,615
Pensions (note 6)	75,232	80,380
Post-retirement benefits (note 6)	50,004	48,746
	<u>682,997</u>	<u>690,411</u>
<b>Liabilities to non-unitholders</b>	682,997	690,411
Current portion of Partnership units liability (note 8)	3,475	3,475
Long-term portion of Partnership units liability (note 8)	114,364	114,364
	<u>117,839</u>	<u>117,839</u>
<b>Total Partnership units liability</b>	117,839	117,839
<b>Total liabilities</b>	<u>800,836</u>	<u>808,250</u>
<b>Equity</b>		
Partnership units (note 8)	286,860	282,672
Retained earnings	38,456	50,945
Accumulated other comprehensive income	30,450	19,669
	<u>355,766</u>	<u>353,286</u>
<b>Total equity</b>	355,766	353,286
<b>Total equity and liabilities</b>	<u>1,156,602</u>	<u>1,161,536</u>
<b>Subsequent events (note 8)</b>		

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

**Kruger Products L.P.**  
**Unaudited Condensed Consolidated Statement of Comprehensive Income**  
**For the 13-week periods ended March 30, 2014 and March 31, 2013**

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

	<b>13-week period ended March 30, 2014</b>	<b>13-week period ended March 31, 2013</b>
	<b>\$</b>	<b>\$</b>
		(note 14)
<b>Revenue (note 10)</b>	234,608	221,785
<b>Expenses</b>		
Cost of sales (note 10)	198,871	183,171
Selling, general and administrative expenses (note 10)	20,526	20,785
Restructuring costs (note 7)	2,784	-
<b>Operating income</b>	12,427	17,829
Interest expense	10,908	9,890
Other expense (note 4)	5,028	1,076
<b>Income (loss) before income taxes</b>	(3,509)	6,863
<b>Income taxes (note 9)</b>	(286)	(4,853)
<b>Net income (loss) for the period</b>	(3,223)	11,716
<b>Other comprehensive income (loss)</b>		
<b>Items that will not be reclassified to net income:</b>		
Remeasurements of pensions	1,081	12,495
Remeasurements of post-retirement benefits	(847)	-
<b>Items that may be subsequently reclassified to net income:</b>		
Available-for-sale investment	(25)	-
Cumulative translation adjustment	10,806	4,539
<b>Total other comprehensive income for the period</b>	11,015	17,034
<b>Comprehensive income for the period</b>	7,792	28,750

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

**Kruger Products L.P.**  
**Unaudited Condensed Consolidated Statement of Changes in Equity**

For the 13-week periods ended March 30, 2014 and March 31, 2013

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

	Partnership units		Retained	Accumulated	Total
	#	\$	earnings (deficit)	other comprehensive income (loss)	equity
			\$	\$	\$
<b>As of January 1, 2013</b>	51,014,300	257,516	(14,736)	3,245	246,025
Distribution payable	-	-	(11,232)	-	(11,232)
Change in actuarial gains on pension	-	-	12,495	-	12,495
Cumulative translation adjustment	-	-	-	4,539	4,539
Net income for the period	-	-	11,716	-	11,716
Issuance of partnership units	750,000	12,290	-	-	12,290
<b>As of March 31, 2013</b>	<b>51,764,300</b>	<b>269,806</b>	<b>(1,757)</b>	<b>7,784</b>	<b>275,833</b>
<b>As of January 1, 2014</b>	52,527,550	282,672	50,945	19,669	353,286
Distributions payable (note 8)	-	-	(9,500)	-	(9,500)
Change in actuarial gains on pension	-	-	1,081	-	1,081
Change in actuarial losses on post retirement benefits	-	-	(847)	-	(847)
Change in available-for-sale investment	-	-	-	(25)	(25)
Cumulative translation adjustment	-	-	-	10,806	10,806
Net loss for the period	-	-	(3,223)	-	(3,223)
Issuance of partnership units (note 8)	252,478	4,188	-	-	4,188
<b>As of March 30, 2014</b>	<b>52,780,028</b>	<b>286,860</b>	<b>38,456</b>	<b>30,450</b>	<b>355,766</b>

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

# Kruger Products L.P.

## Unaudited Condensed Consolidated Statement of Cash Flows

For the 13-week periods ended March 30, 2014 and March 31, 2013

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

	13-week period ended March 30, 2014 \$	13-week period ended March 31, 2013 \$
<b>Cash flows from (used in) operating activities</b>		
Net income (loss) for the period	(3,223)	11,716
Items not affecting cash		
Depreciation	8,807	7,333
Amortization	144	132
Gain on sale of fixed assets	-	(4)
Change in amortized cost of Partnership units liability	3,350	-
Unrealized foreign exchange loss	1,679	855
Interest expense	10,908	9,890
Pension and post retirement benefits	2,696	2,708
Provisions	2,184	262
Income taxes	(286)	(4,853)
Total items not affecting cash	29,482	16,323
Net change in non-cash working capital (note 13)	(27,002)	(34,442)
Contributions to pension and post-retirement benefit plans	(7,850)	(7,328)
Provisions paid	(501)	(1,490)
Income tax payments	(373)	(994)
<b>Net cash used in operating activities</b>	<b>(9,467)</b>	<b>(16,215)</b>
<b>Cash flows from (used in) investing activities</b>		
Purchase of property, plant & equipment	(4,135)	(3,017)
Purchases of through-air-dried (TAD) expansion	(6,221)	(19,661)
Purchases of software	(9)	(3)
Proceeds on sale of property, plant and equipment	-	4
<b>Net cash used in investing activities</b>	<b>(10,365)</b>	<b>(22,677)</b>
<b>Cash flows from (used in) financing activities</b>		
Proceeds from credit facilities	-	4,571
Repayment of credit facilities	(204)	(76)
Interest paid on credit facilities	(7,164)	(7,216)
Distributions paid	(12,805)	-
Equity issuance costs	-	(835)
Proceeds from issuing partnership units	4,188	13,125
<b>Net cash from (used in) financing activities</b>	<b>(15,985)</b>	<b>9,569</b>
<b>Effect of exchange rate changes on cash and cash equivalents held in foreign currency</b>	<b>879</b>	<b>255</b>
<b>Decrease in cash and cash equivalents during the period</b>	<b>(34,938)</b>	<b>(29,068)</b>
<b>Cash and cash equivalents - Beginning of period</b>	<b>87,674</b>	<b>121,489</b>
<b>Cash and cash equivalents - End of period</b>	<b>52,736</b>	<b>92,421</b>

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

# Kruger Products L.P.

## Notes to Unaudited Condensed Consolidated Financial Statements

For the 13-week periods ended March 30, 2014 and March 31, 2013

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

### 1 General information

Kruger Products L.P. (KPLP or the Partnership) is a limited partnership registered in the Province of Quebec, Canada whose partners are Kruger Inc., KPGP Inc. and KP Tissue Inc. (KPT). The Partnership manufactures, sells and distributes tissue products for household, industrial and commercial use. The Partnership has plants in New Westminster, British Columbia; Crabtree, Quebec; Sherbrooke, Quebec; Gatineau, Quebec; and Memphis, Tennessee. The Partnership's headquarters are located in Mississauga, Ontario, Canada.

### 2 Basis of presentation

These condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) applicable to the preparation of interim financial statements including International Accounting Standard 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 consolidated financial statements should be read in conjunction with the annual consolidated financial statements of the Partnership for the year ended December 31, 2013. The Partnership reclassified certain prior year amounts in the condensed consolidated financial statements to conform to current year presentation (see note 14 for further details).

These condensed consolidated financial statements were approved by the board of directors of KPGP Inc. (KPGP) on May 8, 2014.

### 3 Summary of significant accounting policies

The significant accounting policies that have been used in the preparation of these condensed consolidated financial statements are described in the annual consolidated financial statements of the Partnership 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 consolidated financial statements.
- (ii) IAS 39, Financial Instruments – Recognition and Measurement, has been amended to provide relief from discontinuing hedge accounting when novation of a hedging instrument to a central counterparty meets specified criteria. The adoption of this standard had no significant impact on these condensed consolidated financial statements.
- (iii) IAS 36, Impairment of Assets, has been amended to remove the requirement to disclose the recoverable amount when a cash generating unit (CGU) contains goodwill or indefinite lived intangible assets but there has been no impairment; to require disclosure of the recoverable amount of an asset or CGU when an impairment loss has been recognized or reversed; and to require detailed disclosure of how the fair value less costs of disposal has been measured when an impairment loss has been recognized or reversed. The adoption of this standard had no significant impact on these condensed consolidated financial statements.

# Kruger Products L.P.

## Notes to Unaudited Condensed Consolidated Financial Statements

For the 13-week periods ended March 30, 2014 and March 31, 2013

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

### 4 Other expense

	13-week period ended March 30, 2014	13-week period ended March 31, 2013
	\$	\$
Unrealized foreign exchange loss	1,679	855
Change in amortized cost of Partnership units liability	3,350	-
Gain on sale of fixed assets	-	(4)
Miscellaneous (income) expense	(1)	225
	<u>5,028</u>	<u>1,076</u>

### 5 Property, plant and equipment

	Land \$	Buildings \$	Machinery and equipment \$	Assets under construction or development \$	Total \$
<b>As of January 1, 2014</b>					
Cost	40,564	166,719	854,566	12,207	1,074,056
Accumulated depreciation and impairments	-	(64,918)	(392,451)	-	(457,369)
<b>Net book value as of January 1, 2014</b>	40,564	101,801	462,115	12,207	616,687
Additions	-	-	-	4,869	4,869
Investment tax credits	-	-	(56)	-	(56)
Transfers	-	461	6,307	(6,768)	-
Depreciation	-	(1,144)	(7,260)	-	(8,404)
Exchange differences	48	1,984	10,723	142	12,897
<b>As of March 30, 2014</b>	40,612	103,102	471,829	10,450	625,993
<b>As of March 30, 2014</b>					
Cost	40,612	169,356	873,544	10,450	1,093,962
Accumulated depreciation and impairment	-	(66,254)	(401,715)	-	(467,969)
<b>Net book value as of March 30, 2014</b>	40,612	103,102	471,829	10,450	625,993

# Kruger Products L.P.

## Notes to Unaudited Condensed Consolidated Financial Statements

For the 13-week periods ended March 30, 2014 and March 31, 2013

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

### 6 Pensions and post-retirement benefits

The following were the significant assumptions for the defined benefit pension plans and other benefit plans:

Assumptions	Pensions		Post-retirement benefit plans	
	March 30, 2014	December 31, 2013	March 30, 2014	December 31, 2013
	%	%	%	%
Discount rate - accrued benefit obligation	4.40	4.60	4.40	4.60
Rate of compensation increases	3.25 - 4.00	3.25 - 4.00	3.25 - 4.00	3.25 - 4.00

On February 13, 2014, the Canadian Institute of Actuaries (CIA) released their final report on Canadian Pensioner Mortality. The updated mortality assumption was used in the valuation of the defined benefit pension plans and other benefit plans for the 13-week period ended March 30, 2014.

The net benefit pension plan expense included the following components:

Net benefit plan expense	Pensions		Post-retirement benefit plans	
	13-week period ended March 30, 2014	13-week period ended March 31, 2013	13-week period ended March 30, 2014	13-week period ended March 31, 2013
	\$	\$	\$	\$
Current service cost	2,334	2,483	362	349
Interest costs	6,443	6,055	544	515
Expected return on plan assets	(5,489)	(4,406)	-	-
Gain on curtailment	-	(124)	-	-
	<u>3,288</u>	<u>4,008</u>	<u>906</u>	<u>864</u>



# Kruger Products L.P.

## Notes to Unaudited Condensed Consolidated Financial Statements

For the 13-week periods ended March 30, 2014 and March 31, 2013

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

### 7 Provisions

	Environmental and asset retirement obligations \$	Long-term incentives \$	Restructuring \$	Total \$
	(a)	(b)	(c)	
<b>Provisions as of December 31, 2013</b>	5,304	1,311	999	7,614
<b>Current</b>	-	-	999	999
<b>Non-current</b>	5,304	1,311	-	6,615
<b>Provisions as of January 1, 2014</b>	5,304	1,311	999	7,614
Additional provisions	340	174	2,010	2,524
Paid during the period	-	(20)	(481)	(501)
Interest accretion	72	-	-	72
<b>Provisions as of March 30, 2014</b>	5,716	1,465	2,528	9,709
<b>Current</b>	-	-	2,528	2,528
<b>Non-current</b>	5,716	1,465	-	7,181

a) Environmental and asset retirement obligations

The Partnership has made a provision for the potential obligation under a land lease at one of its plant locations to demolish the building and restore the land at the end of the lease to its original condition. The current lease ends in 2028 but can be renewed for another term. The estimated undiscounted amount to settle this obligation would be between \$10.6 million and \$13.7 million. The liability is estimated using a discounted cash flow with a discount rate of 4.25%.

b) Long-term incentives

Long-term incentives include the Executive Long-Term Incentive Plan for the Partnership. The plan is based on the earnings before interest, tax, depreciation and amortization (EBITDA) return on capital employed and is paid in the third year following the year it is earned. The compensation expense is recognized over the same period.

c) Restructuring

The restructuring charges at the New Westminster plant and other locations resulted in an increase in provisions of approximately \$8.6 million during fiscal 2012. The provisions are based on management's best estimate of the severance and other costs to be incurred. The remaining provision of \$1.0 million relates primarily to estimated costs to exit certain lease obligations and is expected to be substantially complete by the end of 2014.

In November 2013, the Partnership undertook an initiative to consolidate distribution activities from its Gatineau warehouse to its distribution operations in Laval. The Partnership has incurred restructuring costs of \$2.2 million as of March 30, 2014 related to this initiative.

During the 13-week period ended March 30, 2014, the Partnership undertook a review of corporate overhead costs and identified a number of cost reduction opportunities. The Partnership expects to incur restructuring costs

# Kruger Products L.P.

## Notes to Unaudited Condensed Consolidated Financial Statements

### For the 13-week periods ended March 30, 2014 and March 31, 2013

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

of approximately \$2.0 million, primarily related to severance. As of March 30, 2014, the Partnership incurred \$0.5 million of the costs associated with this initiative.

#### 8 Distributions

##### *Partnership Unit distributions*

On January 15, 2014, the Partnership paid a distribution of \$9.5 million. Pursuant to the Distribution Reinvestment Plan (DRIP), a portion of the distribution was reinvested by the partners and the Partnership issued 252,478 additional partnership units at a price of \$16.59 for the gross proceeds of \$4.2 million.

On March 19, 2014, the Partnership declared a distribution of \$9.5 million, which was paid on April 15, 2014. Pursuant to the DRIP, a portion of the distribution was reinvested by the partners and the Partnership issued 275,843 additional partnership units at a price of \$15.51 for the gross proceeds of \$4.3 million.

Subsequent to March 30, 2014, the Partnership declared a distribution of \$9.6 million, payable on July 15, 2014.

##### *Tax distributions*

On February 28, 2014, the Partnership paid a Tax Distribution of \$3.4 million of which \$0.5 million was used to pay the tax instalment on behalf of KPT and \$2.9 million was paid to Kruger Inc. and KPGP.

On March 30, 2014, pursuant to the Tax Distribution as defined in the Partnership Agreement, the Partnership made an advance to its partners of \$0.3 million, of which \$0.06 million was used to pay the monthly tax instalment on behalf of KPT and the remaining was advanced to Kruger Inc. and KPGP. The advances are non-interest bearing and non-recourse and will be settled when the Tax distribution is declared annually.

#### 9 Income taxes

The Partnership is not a tax paying entity for the 13-week periods ended March 30, 2014 and March 31, 2013. The income (loss) from the Partnership flows to the partners, Kruger Inc. (formerly held by Kruger Products 2010 L.P. (KP2010LP), which was amalgamated with Kruger Inc. in October 2013), KPGP, and KPT. However, the Partnership's subsidiaries Kruger Products (USA) Inc. (KP USA), K.T.G. (USA) Inc. (KTG), TAD Canco Inc., GTM and TAD Luxembourg S.A.R.L. are corporate entities and, therefore, are subject to tax.

Income tax expense (recovery) was recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated weighted average annual income tax rate for the 13-week period ended March 30, 2014 was 8.1% (13-week period ended March 31, 2013 - (70.7)%). The tax recovery recorded in the 13-week period ended March 30, 2014 includes a benefit of \$0.02 million of an investment tax credit (13-week period ended March 31, 2013 - \$2.9 million).

# Kruger Products L.P.

## Notes to Unaudited Condensed Consolidated Financial Statements

For the 13-week periods ended March 30, 2014 and March 31, 2013

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

The components of income taxes were as follows:

	<b>13-week period ended March 30, 2014</b>	<b>13-week period ended March 31, 2013</b>
	<b>\$</b>	<b>\$</b>
Current tax expense	722	457
Deferred tax credit	(1,008)	(5,310)
	<u>(286)</u>	<u>(4,853)</u>

### 10 Related party transactions

The Partnership makes sales to and acquires goods and services from Kruger Inc. and its subsidiary companies (related parties) in the normal course of business. These transactions are measured at the exchange amount, which is the amount agreed on by the related parties, and are non-interest bearing.

In addition, there were related party transactions related to distributions and dividends in connection with the corporate reorganization.

Sales of goods to Kruger Inc. for the 13-week period ended March 30, 2014 were \$1.0 million (13-week period ended March 31, 2013 - \$1.1 million). Sales of goods to subsidiaries of Kruger Inc. for the 13-week period ended March 30, 2014 were \$0.1 million (13-week period ended March 31, 2013 - \$0.4 million). Goods are sold based on the price lists in force and terms that would be available to third parties. Services are delivered at the terms outlined in the agreements between the related parties.

Purchases of goods and services from Kruger Inc. for the 13-week period ended March 30, 2014 were \$7.0 million (13-week period ended March 31, 2013 - \$7.1 million). Purchases of goods and services from subsidiaries of Kruger Inc. for the 13-week period ended March 30, 2014 were \$4.6 million (13-week period ended March 31, 2013 - \$2.5 million). Goods are purchased from Kruger Inc. and related parties under normal commercial terms and conditions. These purchases of goods and services are included within cost of sales and operating expenses in the condensed consolidated statements of comprehensive income (loss). During the 13-week period ended March 30, 2014, management fees of \$1.0 million (13-week period ended March 31, 2013 - \$1.0 million) were paid to Kruger Inc. for management services provided to the Partnership.

Balances due to and from related parties were as follows:

	<b>March 30, 2014</b>	<b>December 31, 2013</b>
	<b>\$</b>	<b>\$</b>
Receivables from Kruger Inc.	486	1,255
Receivables from subsidiaries of Kruger Inc.	106	174
	<u>592</u>	<u>1,429</u>
Payables to Kruger Inc.	4,141	3,472
Payables to subsidiaries of Kruger Inc.	1,943	1,662
	<u>6,084</u>	<u>5,134</u>

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## Notes to Unaudited Condensed Consolidated Financial Statements

For the 13-week periods ended March 30, 2014 and March 31, 2013

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

The receivables from and payables to related parties are due based on commercial terms agreed on between the parties. The receivables and payables are unsecured in nature and non-interest bearing. There were no provisions related to the receivables from related parties as of March 30, 2014. There were no loans outstanding with related parties as of March 30, 2014.

As of March 30, 2014, the Partnership had declared distributions to its related parties as follows:

	<b>March 30, 2014</b>	<b>December 31, 2013</b>
	<u>\$</u>	<u>\$</u>
Distribution payable to Kruger Inc.	7,914	7,871
Distribution payable to KPGP	1	1
Distribution payable to KPT	<u>1,585</u>	<u>1,583</u>
Total distribution payable	<u><u>9,500</u></u>	<u><u>9,455</u></u>

During the 13-week period ended March 30, 2014, the Partnership paid distributions and tax distributions to its related parties as follows:

	<b>Tax distributions</b>	<b>Distributions</b>
	<u>\$</u>	<u>\$</u>
Distribution paid to Kruger Inc.	2,890	7,871
Distribution paid to KPGP	1	1
Distribution paid to KPT	<u>459</u>	<u>1,583</u>
Total distributions paid	<u><u>3,350</u></u>	<u><u>9,455</u></u>

### 11 Segment information

#### Reportable segments

Management has determined the operating segments based on the reports reviewed by the Chief Executive Officer who is considered to be the Chief Operating Decision Maker. The Partnership operates in three industry segments: Consumer, Away-From-Home (AFH) and Other.

a) Consumer

This segment operates using the Partnership's manufacturing facilities in Canada (New Westminster, British Columbia; Crabtree, Quebec; Sherbrooke, Quebec; Gatineau, Quebec) and in the United States (Memphis, Tennessee). The Consumer segment includes sales of branded tissue products such as Cashmere™, Purex™, White Swan™, Scotties™, Sponge Towels™ and White Cloud™ and private label tissue products.

b) AFH

This segment operates using the Partnership's manufacturing facilities in Canada. The AFH business sells tissue products primarily through distributors to businesses involved in property management, health care, food service, manufacturing and lodging and also to public facilities.

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## Notes to Unaudited Condensed Consolidated Financial Statements

For the 13-week periods ended March 30, 2014 and March 31, 2013

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

c) Other

This segment includes sales of parent rolls by the Partnership to other tissue manufacturing companies primarily in the United States and also in Canada. It also includes sales of recycled fibre primarily to its parent company. This segment operates using the Partnership's manufacturing facilities in Canada.

Segment operating profit is the earnings (loss) for each such segment before (i) interest expense, (ii) income taxes, (iii) depreciation, (iv) amortization, (v) impairment (recovery) of non-financial assets, (vi) loss (gain) on disposal of property, plant and equipment, (vii) unrealized foreign exchange loss (gain), (viii) one-time costs related to restructuring activities, and (ix) change in amortized cost of Partnership units liability. The Partnership's assets, operations and employees are located primarily in Canada and the United States. The same long-term assets of the Partnership are used for the Consumer, AFH and Other segments. Accordingly, assets cannot be allocated to these segments.

	<b>13-week period ended March 30, 2014</b>			
	<b>Consumer</b>	<b>AFH</b>	<b>Other</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Revenue from external customers	198,378	33,482	2,748	234,608
Segment operating profit (loss)	24,949	(524)	(262)	24,163
Depreciation and amortization				8,951
Interest expense				10,908
Change in amortized cost of Partnership units liability				3,350
Restructuring costs				2,784
Unrealized foreign exchange loss				1,679
Income before income taxes				(3,509)
Income taxes				(286)
Net loss for the period				(3,223)

	<b>13-week period ended March 31, 2013</b>			
	<b>Consumer</b>	<b>AFH</b>	<b>Other</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Revenue from external customers	184,403	35,281	2,101	221,785
Segment operating profit (loss)	23,923	1,463	(317)	25,069
Depreciation and amortization				7,465
Interest expense				9,890
Gain on sale of fixed assets				(4)
Unrealized foreign exchange loss				855
Income before income taxes				6,863
Income taxes				(4,853)
Net income for the period				11,716

# Kruger Products L.P.

## Notes to Unaudited Condensed Consolidated Financial Statements

For the 13-week periods ended March 30, 2014 and March 31, 2013

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

### Geographic segments

The Partnership operates in Canada, the United States and Mexico. Revenue and assets are allocated to geographic segment based on the location of the customer and long-term assets, respectively.

	<b>13-week period ended March 30, 2014</b>	<b>Revenue 13-week period ended March 31, 2013</b>
	<b>\$</b>	<b>\$</b>
Canada	161,160	157,562
US	66,758	57,134
Mexico	6,690	7,089
	<u>234,608</u>	<u>221,785</u>

	<b>March 30, 2014</b>			
	<b>Canada</b>	<b>US</b>	<b>Mexico</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Property, plant and equipment	291,645	334,348	-	625,993
Goodwill	152,021	-	-	152,021
Intangible assets	13,348	-	-	13,348

	<b>December 31, 2013</b>			
	<b>Canada</b>	<b>US</b>	<b>Mexico</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Property, plant and equipment	292,561	324,126	-	616,687
Goodwill	152,021	-	-	152,021
Intangible assets	13,483	-	-	13,483

# Kruger Products L.P.

## Notes to Unaudited Condensed Consolidated Financial Statements

For the 13-week periods ended March 30, 2014 and March 31, 2013

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

### 12 Financial instruments

#### *Classification of financial instruments*

Financial instruments are classified into one of the following categories: fair value through profit and loss, loans and receivables and financial liabilities. As of March 30, 2014, the classification of the financial instruments, as well as their carrying amounts and fair values, was as follows:

	<b>Classification</b>	<b>Measurement</b>	<b>Carrying amount</b>	<b>Fair Value</b>
			<b>\$</b>	<b>\$</b>
Cash and cash equivalents	loans and receivables	amortized cost	52,736	52,736
Trade and other receivables	loans and receivables	amortized cost	106,998	106,998
Receivables from related parties	loans and receivables	amortized cost	592	592
Embedded derivative	fair value through profit or loss	fair value	3,146	3,146
Available-for-sale investment	fair value through other comprehensive income or loss	fair value	881	881
Trade and other payables	financial liabilities	amortized cost	(169,406)	(169,406)
Payables to related parties	financial liabilities	amortized cost	(6,084)	(6,084)
Distribution payable	financial liabilities	amortized cost	(9,500)	(9,500)
Long-term debt	financial liabilities	amortized cost	(362,786)	(384,516)
Partnership unit liability	financial liabilities	amortized cost	(117,839)	(117,839)

The following table details the fair value hierarchy of financial instruments carried at fair value by level as of March 30, 2014:

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Embedded derivative	-	3,146	-	3,146
Available-for-sale investment	881	-	-	881

As of December 31, 2013, the classification of the financial instruments, as well as their carrying amounts and fair values, was as follows:

	<b>Classification</b>	<b>Measurement</b>	<b>Carrying amount</b>	<b>Fair Value</b>
			<b>\$</b>	<b>\$</b>
Cash and cash equivalents	loans and receivables	amortized cost	87,674	87,674
Trade and other receivables	loans and receivables	amortized cost	94,789	94,789
Receivables from related parties	loans and receivables	amortized cost	1,429	1,429
Embedded derivative	fair value through profit or loss	fair value	3,028	3,028
Available-for-sale investment	fair value through other comprehensive income or loss	fair value	906	906
Trade and other payables	financial liabilities	amortized cost	(188,470)	(188,470)
Payables to related parties	financial liabilities	amortized cost	(5,134)	(5,134)
Distribution payable	financial liabilities	amortized cost	(9,455)	(9,455)
Long-term debt	financial liabilities	amortized cost	(350,289)	(377,295)
Partnership unit liability	financial liabilities	amortized cost	(117,839)	(117,839)

# Kruger Products L.P.

## Notes to Unaudited Condensed Consolidated Financial Statements

For the 13-week periods ended March 30, 2014 and March 31, 2013

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

The following table details the fair value hierarchy of financial instruments carried at fair value by level as of December 31, 2013:

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Embedded derivative	-	3,028	-	3,028
Available-for-sale investment	906	-	-	906

### *Fair value*

Cash and cash equivalents, trade and other receivables, receivables from related parties, trade and other payables and payables to related parties and distribution payable are short-term financial instruments whose fair value approximates the carrying amount, given they will mature in the near future. As of March 30, 2014, the fair value of the senior notes was \$189.0 million (December 31, 2013 - \$189.0 million) based on the trading value of the debt on the over-the-counter market. The fair values of the Nordea Facility and the Caisse Facility were \$43.8 million and \$148.6 million (December 31, 2013 - \$42.1 million and \$143.0 million), respectively, which approximates the current principal amount outstanding as the interest rate approximates current market interest rates. As of March 30, 2014, the fair value of the loans payable was \$3.1 million (December 31, 2013 - \$3.2 million).

Management has estimated the fair value of the embedded derivative using a probability-weighted interest rate pricing method. The valuation methodology used is categorized as a Level 2 methodology.

The fair value of the Available-for-sale investment is based on quoted market price in the active market. Unrealized gains were not significant as of March 30, 2014 and have been recorded in other comprehensive income until realized. The valuation methodology used is categorized as a Level 1 methodology.

### *Fair value of the Partnership units liability*

The Partnership units liability is classified as a financial liability at amortized cost. Management has estimated the fair value of the Partnership units liability using discounted cash flow model. Significant assumptions include the income tax obligation, discount rate and an industry capitalization rate.



# Kruger Products L.P.

## Notes to Unaudited Condensed Consolidated Financial Statements

For the 13-week periods ended March 30, 2014 and March 31, 2013

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

### 13 Consolidated statements of cash flows

#### Non-cash working capital

The change in non-cash working capital on the condensed consolidated statements of cash flows comprises the following:

	<b>March 30, 2014</b>	<b>March 31, 2013</b>
	<b>\$</b>	<b>\$</b>
Increase in trade receivables	(10,576)	(397)
Decrease (increase) in receivables from related parties	490	(126)
Increase in inventories	(4,622)	(9,623)
Increase in prepaid expenses	(1,368)	(994)
Increase in other assets	(28)	(398)
Increase in income tax recoverable	(156)	-
Decrease in trade and other payables	(11,692)	(17,540)
Increase (decrease) in payables to related parties	950	(5,364)
	<u>(27,002)</u>	<u>(34,442)</u>

As of March 30, 2014, purchases of property, plant and equipment of \$0.3 million (March 31, 2013 - \$6.6 million) were not paid.

### 14 Reclassifications in the financial statements

The Partnership reclassified certain prior year amounts in the condensed consolidated financial statements to conform to current year presentation.

The following items were reclassified in the condensed consolidated statements of comprehensive income (loss) for the 13-week period ended March 31, 2013:

- Freight and warehousing costs of \$26.0 million have been reclassified from operating expenses to cost of sales;
- Unrealized foreign exchange loss of \$0.9 million has been reclassified from operating expenses to other expense;
- Miscellaneous expense of \$0.2 million has been reclassified from operating expenses to other expense; and
- Operating expenses were renamed selling, general and administrative expenses.

The reclassification in the financial statements increases the understandability of the Partnership's operations and results in classifications that are more comparable to its peers. The reclassifications had no impact on the reported net income for the 13-week period ended March 31, 2013. Other items remain unchanged.