



**KRUGER PRODUCTS L.P.**

**UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENT  
FOR THE 13-WEEK AND 39-WEEK PERIODS ENDED SEPTEMBER 28, 2014  
AND SEPTEMBER 29, 2013**

# Kruger Products L.P.

## Unaudited Condensed Consolidated Statement of Financial Position

(tabular amounts are in thousands of Canadian dollars)

	September 28, 2014	December 31, 2013
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	36,339	87,674
Trade and other receivables	108,386	94,789
Receivables from related parties (note 12)	789	1,429
Advances to partners (note 10)	2,432	-
Inventories	152,479	151,505
Current portion of income tax recoverable	745	630
Prepaid expenses	7,644	4,777
	<u>308,814</u>	<u>340,804</u>
<b>Non-current assets</b>		
Property, plant & equipment (note 7)	635,903	616,687
Other long-term assets	9,621	10,268
Income tax recoverable	15,078	14,132
Goodwill (note 5)	160,842	152,021
Intangible assets	13,993	13,483
Deferred income taxes	18,732	14,141
	<u>1,162,983</u>	<u>1,161,536</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade and other payables	159,236	188,470
Payables to related parties (note 12)	5,397	5,134
Distributions payable (note 10)	9,600	9,455
Current portion of provisions (note 9)	1,946	999
Current portion of long-term debt	11,650	8,276
	<u>187,829</u>	<u>212,334</u>
<b>Non-current liabilities</b>		
Long-term debt	354,941	342,013
Other long-term liabilities	192	323
Provisions (note 9)	7,782	6,615
Pensions (note 8)	102,577	80,380
Post-retirement benefits (note 8)	53,312	48,746
	<u>706,633</u>	<u>690,411</u>
<b>Liabilities to non-unitholders</b>		
Current portion of Partnership units liability (note 10)	3,475	3,475
Long-term portion of Partnership units liability (note 10)	116,796	114,364
	<u>120,271</u>	<u>117,839</u>
<b>Total Partnership units liability</b>	<u>120,271</u>	<u>117,839</u>
<b>Total liabilities</b>	<u>826,904</u>	<u>808,250</u>
<b>Equity</b>		
Partnership units (note 10)	295,422	282,672
Retained earnings	8,270	50,945
Accumulated other comprehensive income	32,387	19,669
	<u>336,079</u>	<u>353,286</u>
<b>Total equity</b>	<u>336,079</u>	<u>353,286</u>
<b>Total equity and liabilities</b>	<u>1,162,983</u>	<u>1,161,536</u>
<b>Subsequent events (note 10)</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 (Loss)**  
**For the 13-week and 39-week periods ended September 28, 2014 and September 29, 2013**

(tabular amounts are in thousands of Canadian dollars)

	13-week period ended September 28, 2014	13-week period ended September 29, 2013	39-week period ended September 28, 2014	39-week period ended September 29, 2013
	\$	\$	\$	\$
		(note 16)		(note 16)
<b>Revenue (note 12)</b>	267,629	243,848	767,521	712,402
<b>Expenses</b>				
Cost of sales (note 12)	219,914	200,811	645,137	585,611
Selling, general and administrative expenses (note 12)	17,717	19,685	58,125	62,853
Recovery of non-financial assets	-	-	-	(1,789)
Restructuring costs (note 9)	-	-	2,835	-
<b>Operating income</b>	29,998	23,352	61,424	65,727
Interest expense	12,622	11,403	34,923	32,300
Other (income) expense (note 6)	2,752	(899)	7,622	1,824
<b>Income before income taxes</b>	14,624	12,848	18,879	31,603
<b>Income taxes (note 11)</b>	(1,477)	(1,315)	(2,118)	(9,653)
<b>Net income for the period</b>	16,101	14,163	20,997	41,256
<b>Other comprehensive income (loss)</b>				
<b>Items that will not be reclassified to net income:</b>				
Remeasurements of pensions	(1,999)	8,580	(31,511)	42,278
Remeasurements of post-retirement benefits	(18)	5	(3,511)	1,509
<b>Items that may be subsequently reclassified to net income:</b>				
Available-for-sale investment	(183)	78	(321)	78
Cumulative translation adjustment	12,260	(5,506)	13,039	7,868
<b>Total other comprehensive income (loss) for the period</b>	10,060	3,157	(22,304)	51,733
<b>Comprehensive income (loss) for the period</b>	26,161	17,320	(1,307)	92,989

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

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

	<b>Partnership units</b>		<b>Retained earnings (deficit)</b>	<b>Accumulated other comprehensive income (loss)</b>	<b>Total equity</b>
	<b>#</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>As of January 1, 2013</b>	51,014,300	257,516	(14,736)	3,245	246,025
Distributions payable	-	-	(9,411)	-	(9,411)
Distributions paid	-	-	(20,599)	-	(20,599)
Change in actuarial gains on pension	-	-	42,278	-	42,278
Change in actuarial gains on post retirement benefits	-	-	1,509	-	1,509
Change in available-for-sale investment	-	-	-	78	78
Cumulative translation adjustment	-	-	-	7,868	7,868
Net income for the period	-	-	41,256	-	41,256
Issuance of partnership units	1,266,276	21,074	-	-	21,074
<b>As of September 29, 2013</b>	<b>52,280,576</b>	<b>278,590</b>	<b>40,297</b>	<b>11,191</b>	<b>330,078</b>
<b>As of January 1, 2014</b>	52,527,550	282,672	50,945	19,669	353,286
Distributions payable (note 10)	-	-	(9,600)	-	(9,600)
Distributions paid (note 10)	-	-	(19,050)	-	(19,050)
Change in actuarial loss on pension	-	-	(31,511)	-	(31,511)
Change in actuarial loss on post retirement benefits	-	-	(3,511)	-	(3,511)
Change in available-for-sale investment	-	-	-	(321)	(321)
Cumulative translation adjustment	-	-	-	13,039	13,039
Net income for the period	-	-	20,997	-	20,997
Issuance of partnership units (note 10)	807,789	12,750	-	-	12,750
<b>As of September 28, 2014</b>	<b>53,335,339</b>	<b>295,422</b>	<b>8,270</b>	<b>32,387</b>	<b>336,079</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 39-week periods ended September 28, 2014 and September 29, 2013

(tabular amounts are in thousands of Canadian dollars)

	39-week period ended September 28, 2014 \$	39-week period ended September 29, 2013 \$
<b>Cash flows from (used in) operating activities</b>		
Net income for the period	20,997	41,256
Items not affecting cash		
Depreciation	26,574	23,864
Amortization	479	415
Gain on sale of fixed assets	(279)	(4)
Change in amortized cost of Partnership units liability	5,907	-
Unrealized foreign exchange loss	1,879	1,566
Interest expense	34,923	32,300
Pension and post retirement benefits	7,439	7,586
Provisions	2,666	697
Income taxes	(2,118)	(9,653)
Recovery of non-financial assets	-	(1,789)
Total items not affecting cash	77,470	54,982
Net change in non-cash working capital (note 15)	(29,663)	(45,101)
Contributions to pension and post-retirement benefit plans	(20,260)	(21,968)
Provisions paid	(1,084)	(2,009)
Income tax payments	(1,622)	(2,119)
<b>Net cash from operating activities</b>	<b>45,838</b>	<b>25,041</b>
<b>Cash flows from (used in) investing activities</b>		
Purchases of property, plant & equipment	(19,994)	(11,554)
Purchases of through-air-dried (TAD) expansion	(7,190)	(33,067)
Available-for-sale investment	-	(836)
Government grants received	-	1,078
Purchases of software	(989)	(93)
Proceeds on sale of property, plant and equipment	578	4
Acquisition of business (note 5)	(23,360)	-
<b>Net cash used in investing activities</b>	<b>(50,955)</b>	<b>(44,468)</b>
<b>Cash flows from (used in) financing activities</b>		
Proceeds from credit facilities	-	10,813
Repayment of credit facilities	(4,334)	(4,096)
Payment of deferred financing fees	-	(612)
Interest paid on credit facilities	(21,196)	(21,181)
Distributions and advances paid (note 12)	(34,287)	(20,599)
Equity issuance costs	-	(1,206)
Proceeds from issuing partnership units	12,750	22,280
<b>Net cash used in financing activities</b>	<b>(47,067)</b>	<b>(14,601)</b>
<b>Effect of exchange rate changes on cash and cash equivalents held in foreign currency</b>		
	849	353
<b>Decrease in cash and cash equivalents during the period</b>	<b>(51,335)</b>	<b>(33,675)</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>36,339</b>	<b>87,814</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 39-week periods ended September 28, 2014 and September 29, 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. (KPGP), 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; Scarborough and Trenton, Ontario 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 16 for further details).

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

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## Notes to Unaudited Condensed Consolidated Financial Statements

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

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

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

- (i) IFRS 15, Revenue from Contracts with Customers, specifies how and when to recognize revenue as well as requiring entities to provide users of financial statements with some informative, relevant disclosures. The standard supersedes IAS 18, Revenue, IAS 11, Construction Contracts, and a number of revenue-related interpretations. Application of the standard is mandatory for all IFRS reporters and it applies to nearly all contracts with customers: the main exceptions are leases, financial instruments and insurance contracts. IFRS 15 must be applied in an entity's first annual IFRS financial statements for periods beginning on or after January 1, 2017 and early adoption is permitted. Management is evaluating the standard and has not yet determined the impact on its consolidated financial statements.
- (ii) IFRS 9, Financial Instruments. In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments, bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. The mandatory effective date of IFRS 9 would be annual periods beginning on or after January 1, 2018, with early adoption permitted. Management is evaluating the standard and has not yet determined the impact on its consolidated financial statements.
- (iii) IAS 19, Employee Benefits. The IASB has issued an amendment to clarify the application of IAS 19, to plans that require employees or third parties to contribute towards the cost of benefits. The mandatory effective date of IAS 19 would be annual periods beginning on or after July 1, 2014, and early adoption is permitted. Management is evaluating the standard and has not yet determined the impact on its consolidated financial statements.

#### 4 Critical accounting estimates and judgments

The preparation of these unaudited condensed interim consolidated 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 interim consolidated financial statements and the disclosure of contingencies at the dates of the unaudited condensed interim consolidated statements 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 interim consolidated financial statements are the same as the ones that applied to the audited consolidated financial statements for the year ended December 31, 2013.

#### 5 Business combinations

##### Acquisition of Metro Paper

On June 3, 2014, the Partnership acquired the Canadian tissue converting assets of Metro Paper Industries Inc. (Metro Paper) for cash consideration of \$23.4 million. The assets acquired include converting equipment in Scarborough and Trenton, Ontario, inventory, the entire Metro Paper North American Away-From-Home (AFH) customer base, as well as facility operating leases. This acquisition will be part of the AFH segment and is expected to create synergies, increase production capacity and add complementary product lines to the Partnership's AFH business.

The acquisition has been accounted for in accordance with IFRS 3, Business Combinations. The excess of the consideration paid over the fair value of the assets acquired resulted in deductible goodwill of \$8.8 million and has been allocated to the Canada CGU. The Partnership has assessed the preliminary fair values of the assets acquired based on information available at the closing date, and therefore the values represent management's best estimates. The fair value of identifiable intangible assets are incomplete and subject to change and will be finalized within 12 months of the acquisition date.

# Kruger Products L.P.

## Notes to Unaudited Condensed Consolidated Financial Statements

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

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

The fair values of the assets acquired were as follows:

	<u>Metro Paper</u>
Fair value of identifiable assets acquired	
Inventory	6,299
Property, plant and equipment	8,240
Goodwill	8,821
Net assets acquired	<u>23,360</u>
Cash paid	<u>23,360</u>

### 6 Other (income) expense

	13-week period ended September 28, 2014 \$	13-week period ended September 29, 2013 \$	39-week period ended September 28, 2014 \$	39-week period ended September 29, 2013 \$
Unrealized foreign exchange (gain) loss	1,796	(927)	1,879	1,566
Change in amortized cost of Partnership units liability	1,043	-	5,907	-
Miscellaneous (income) expense	(87)	28	(164)	258
	<u>2,752</u>	<u>(899)</u>	<u>7,622</u>	<u>1,824</u>

### 7 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	-	-	-	21,783	21,783
Disposals	-	-	(299)	-	(299)
Investment tax credits	-	-	(190)	-	(190)
Transfers	4	863	22,998	(23,865)	-
Acquisition of business	-	-	8,240	-	8,240
Depreciation	-	(3,446)	(22,678)	-	(26,124)
Exchange differences	60	2,409	13,184	153	15,806
<b>As of September 28, 2014</b>	<u>40,628</u>	<u>101,627</u>	<u>483,370</u>	<u>10,278</u>	<u>635,903</u>
<b>As of September 28, 2014</b>					
Cost	40,628	170,248	900,561	10,278	1,121,715
Accumulated depreciation and impairment	-	(68,621)	(417,191)	-	(485,812)
<b>Net book value as of September 28, 2014</b>	<u>40,628</u>	<u>101,627</u>	<u>483,370</u>	<u>10,278</u>	<u>635,903</u>



# Kruger Products L.P.

## Notes to Unaudited Condensed Consolidated Financial Statements

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

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

### 8 Pensions and post-retirement benefits

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

	Pensions		Post-retirement benefit plans	
	September 28, 2014	December 31, 2013	September 28, 2014	December 31, 2013
	%	%	%	%
Assumptions				
Discount rate - accrued benefit obligation	4.00	4.60	4.00	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 has been used in the valuation of the defined benefit pension plans and other benefit plans.

The net benefit pension plan expense included the following components:

	Pensions		Post-retirement benefit plans	
	13-week period ended September 28, 2014	13-week period ended September 29, 2013	13-week period ended September 28, 2014	13-week period ended September 29, 2013
	\$	\$	\$	\$
<b>Net benefit plan expense</b>				
Current service cost	2,073	2,073	362	349
Interest costs	6,412	6,010	544	515
Expected return on plan assets	(5,368)	(4,405)	-	-
	<u>3,117</u>	<u>3,678</u>	<u>906</u>	<u>864</u>

	Pensions		Post-retirement benefit plans	
	39-week period ended September 28, 2014	39-week period ended September 29, 2013	39-week period ended September 28, 2014	39-week period ended September 29, 2013
	\$	\$	\$	\$
<b>Net benefit plan expense</b>				
Current service cost	6,353	6,664	1,086	1,046
Interest costs	19,257	18,012	1,632	1,546
Expected return on plan assets	(16,327)	(13,176)	-	-
Gain on curtailment	-	(124)	-	-
	<u>9,283</u>	<u>11,376</u>	<u>2,718</u>	<u>2,592</u>

# Kruger Products L.P.

## Notes to Unaudited Condensed Consolidated Financial Statements

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

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

### 9 Provisions

	<b>Environmental and asset retirement obligations</b>	<b>Long-term incentives</b>	<b>Restructuring</b>	<b>Total</b>
	\$	\$	\$	\$
	(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>	<u>5,304</u>	<u>1,311</u>	<u>-</u>	<u>6,615</u>
<b>Provisions as of January 1, 2014</b>	5,304	1,311	999	7,614
Additional provisions	340	656	2,010	3,006
Paid during the period	-	(21)	(1,063)	(1,084)
Interest accretion	<u>192</u>	<u>-</u>	<u>-</u>	<u>192</u>
<b>Provisions as of September 28, 2014</b>	5,836	1,946	1,946	9,728
<b>Current</b>	-	-	1,946	1,946
<b>Non-current</b>	<u>5,836</u>	<u>1,946</u>	<u>-</u>	<u>7,782</u>

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 \$0.7 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 incurred restructuring costs of \$2.2 million related to this initiative.

During the first quarter of 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 of approximately

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## Notes to Unaudited Condensed Consolidated Financial Statements

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

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

\$2.0 million, primarily related to severance. As of September 28, 2014, the Partnership had incurred \$0.7 million of the costs associated with this initiative.

### 10 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 April 15, 2014, the Partnership paid a distribution of \$9.5 million. 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.

On July 15, 2014, the Partnership paid a distribution of \$9.6 million. Pursuant to the DRIP, a portion of the distribution was reinvested by the partners and the Partnership issued 279,468 additional partnership units at a price of \$15.33 for the gross proceeds of \$4.3 million.

On October 15, 2014, the Partnership paid a distribution of \$9.6 million. Pursuant to the DRIP, a portion of the distribution was reinvested by the partners and the Partnership issued 288,921 additional partnership units at a price of \$14.52 for the gross proceeds of \$4.2 million.

Subsequent to September 28, 2014, the Partnership declared a distribution of \$9.7 million, payable on January 15, 2015.

#### *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.

During the 39-week period ended September 28, 2014, pursuant to the Tax Distribution as defined in the Partnership Agreement, the Partnership made advances to its partners of \$2.4 million, of which \$0.4 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.

### 11 Income taxes

The Partnership is not a tax paying entity for the 39-week periods ended September 28, 2014 and September 29, 2013. The income (loss) from the Partnership flows to the partners, Kruger Inc., KPGP, and KPT. However, the Partnership's subsidiaries Kruger Products (USA) Inc. (KP USA), K.T.G. (USA) Inc. (KTG), TAD Canco Inc., Grupo Tissue de Mexico S de RL de CV (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 39-week period ended September 28, 2014 was (11.2)% (39-week period ended September 29, 2013 – (30.5)%). The tax recovery recorded in the 39-week period ended September 28, 2014 includes a benefit of \$0.01 million of an investment tax credit (39-week period ended September 29, 2013 - \$3.3 million).

# Kruger Products L.P.

## Notes to Unaudited Condensed Consolidated Financial Statements

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

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

The components of income taxes were as follows:

	13-week period ended September 28, 2014	13-week period ended September 29, 2013	39-week period ended September 28, 2014	39-week period ended September 29, 2013
	\$	\$	\$	\$
Current tax expense	452	444	1,693	1,273
Deferred tax credit	(1,929)	(1,759)	(3,811)	(10,926)
	<u>(1,477)</u>	<u>(1,315)</u>	<u>(2,118)</u>	<u>(9,653)</u>

### 12 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.

Sales of goods to Kruger Inc. for the 39-week periods ended September 28, 2014 were \$1.5 million (39-week period ended September 29, 2013 - \$3.8 million). Sales of goods to subsidiaries of Kruger Inc. for the 39-week periods ended September 28, 2014 were \$0.2 million (39-week period ended September 29, 2013 - \$0.5 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 39-week periods ended September 28, 2014 were \$23.3 million (39-week period ended September 29, 2013 - \$21.6 million). Purchases of goods and services from subsidiaries of Kruger Inc. for the 39-week periods ended September 28, 2014 were \$12.1 million (39-week period ended September 29, 2013 - \$6.7 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 selling, general and administrative expenses in the condensed consolidated statements of comprehensive income (loss). During the 39-week periods ended September 28, 2014, management fees of \$3.0 million (39-week period ended September 29, 2013 - \$3.0 million) were paid to Kruger Inc. for management services provided to the Partnership.

Balances due to and from related parties were as follows:

	September 28, 2014	December 31, 2013
	\$	\$
Receivables from Kruger Inc.	601	1,255
Receivables from subsidiaries of Kruger Inc.	35	174
Receivables from KPT	153	-
	<u>789</u>	<u>1,429</u>
Payables to Kruger Inc.	2,976	3,472
Payables to subsidiaries of Kruger Inc.	2,294	1,662
Payables to KPT	127	-
	<u>5,397</u>	<u>5,134</u>

# Kruger Products L.P.

## Notes to Unaudited Condensed Consolidated Financial Statements

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(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, unsecured in nature and non-interest bearing. There were no provisions related to the receivables from related parties as of September 28, 2014 and December 31, 2013. There were no loans outstanding with related parties as of September 28, 2014 and December 31, 2013.

As of September 28, 2014, the Partnership had declared distributions to its related parties as follows:

	<b>September 28, 2014</b>	<b>December 31, 2013</b>
	<u>\$</u>	<u>\$</u>
Distribution payable to Kruger Inc.	8,006	7,871
Distribution payable to KPGP	1	1
Distribution payable to KPT	<u>1,593</u>	<u>1,583</u>
Total distribution payable	<u><u>9,600</u></u>	<u><u>9,455</u></u>

The Partnership paid Partnership unit distributions, tax distributions and advances to its related parties as follows:

	<b>39-week period ended September 28, 2014</b>			
	<b>Tax</b>		<b>Partnership</b>	
	<b>distributions</b>	<b>Advances</b>	<b>unit</b>	<b>Total</b>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Paid to Kruger Inc.	2,890	2,023	23,745	28,658
Paid to KPGP	1	-	3	4
Paid to KPT	<u>459</u>	<u>409</u>	<u>4,757</u>	<u>5,625</u>
Total paid	<u><u>3,350</u></u>	<u><u>2,432</u></u>	<u><u>28,505</u></u>	<u><u>34,287</u></u>

	<b>39-week period ended September 29, 2013</b>			
	<b>Tax</b>		<b>Partnership</b>	
	<b>distributions</b>	<b>Advances</b>	<b>unit</b>	<b>Total</b>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Paid to Kruger Inc.	-	-	17,119	17,119
Paid to KPGP	-	-	2	2
Paid to KPT	<u>-</u>	<u>-</u>	<u>3,478</u>	<u>3,478</u>
Total paid	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>20,599</u></u>	<u><u>20,599</u></u>

# Kruger Products L.P.

## Notes to Unaudited Condensed Consolidated Financial Statements

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

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

### 13 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.

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 September 28, 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	209,495	52,613	5,521	267,629
Segment operating profit (loss)	37,745	1,767	(1,476)	38,036
Depreciation and amortization				8,528
Interest expense				12,622
Change in amortized cost of Partnership units liability				1,043
Gain on sale of fixed assets				(577)
Unrealized foreign exchange loss				1,796
Income before income taxes				14,624
Income taxes				(1,477)
Net income for the period				<u>16,101</u>

# Kruger Products L.P.

## Notes to Unaudited Condensed Consolidated Financial Statements

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

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

	<b>13-week period ended September 29, 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	200,802	40,321	2,725	243,848
Segment operating profit (loss)	30,087	1,193	(142)	31,138
Depreciation and amortization				7,814
Interest expense				11,403
Unrealized foreign exchange gain				(927)
Income before income taxes				12,848
Income taxes				(1,315)
Net income for the period				14,163

	<b>39-week period ended September 28, 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	624,773	130,359	12,389	767,521
Segment operating profit (loss)	92,235	1,380	(2,418)	91,197
Depreciation and amortization				27,053
Interest expense				34,923
Change in amortized cost of Partnership units liability				5,907
Gain on sale of fixed assets				(279)
Restructuring costs				2,835
Unrealized foreign exchange loss				1,879
Income before income taxes				18,879
Income taxes				(2,118)
Net income for the period				20,997

	<b>39-week period ended September 29, 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	590,563	115,606	6,233	712,402
Segment operating profit (loss)	83,116	5,333	(494)	87,955
Depreciation and amortization				24,279
Interest expense				32,300
Gain on disposal of property, plant and equipment				(4)
Recovery of non-financial assets				(1,789)
Unrealized foreign exchange loss				1,566
Income before income taxes				31,603
Income taxes				(9,653)
Net income for the period				41,256

# Kruger Products L.P.

## Notes to Unaudited Condensed Consolidated Financial Statements

For the 39-week periods ended September 28, 2014 and September 29, 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>Revenue</b>			
	<b>13-week period ended September 28, 2014</b>	<b>13-week period ended September 29, 2013</b>	<b>39-week period ended September 28, 2014</b>	<b>39-week period ended September 29, 2013</b>
<b>Revenue</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Canada	182,260	175,290	516,401	515,939
US	77,758	62,170	230,826	175,635
Mexico	7,611	6,388	20,294	20,828
	<u>267,629</u>	<u>243,848</u>	<u>767,521</u>	<u>712,402</u>

	<b>September 28, 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	296,514	339,389	-	635,903
Goodwill	160,842	-	-	160,842
Intangible assets	13,993	-	-	13,993

	<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

## 14 Financial instruments

### *Classification of financial instruments*

Financial instruments are classified into one of the following categories: fair value through profit and loss, fair value through other comprehensive income, loans and receivables and financial liabilities.



# Kruger Products L.P.

## Notes to Unaudited Condensed Consolidated Financial Statements

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

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

As of September 28, 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	36,339	36,339
Trade and other receivables	loans and receivables	amortized cost	108,386	108,386
Receivables from related parties	loans and receivables	amortized cost	789	789
Advances to partners	loans and receivables	amortized cost	2,432	2,432
Embedded derivative	fair value through profit or loss	fair value	2,548	2,548
Available-for-sale investment	fair value through other comprehensive income or loss	fair value	585	585
Trade and other payables	financial liabilities	amortized cost	(159,236)	(159,236)
Payables to related parties	financial liabilities	amortized cost	(5,397)	(5,397)
Distribution payable	financial liabilities	amortized cost	(9,600)	(9,600)
Long-term debt	financial liabilities	amortized cost	(366,591)	(385,700)
Partnership unit liability	financial liabilities	amortized cost	(120,271)	(120,271)

The following table details the fair value hierarchy of financial instruments carried at fair value by level as of September 28, 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	-	2,548	-	2,548
Available-for-sale investment	585	-	-	585

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

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
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, advances to partners, 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 September 28, 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 \$40.5 million and \$153.7 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 September 28, 2014, the fair value of the loans payable was \$2.5 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 losses were not significant as of September 28, 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.

## 15 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>September 28, 2014</b>	<b>September 29, 2013</b>
	<u>\$</u>	<u>\$</u>
Decrease (increase) in trade receivables	(11,582)	496
Decrease (increase) in receivables from related parties	638	(232)
Decrease (increase) in inventories	6,113	(18,562)
Increase in prepaid expenses	(2,832)	(2,703)
Increase in other assets	(155)	(1,110)
Decrease (increase) in income tax recoverable	(164)	263
Decrease in trade and other payables	(21,817)	(19,255)
Increase (decrease) in payables to related parties	136	(3,998)
	<u>(29,663)</u>	<u>(45,101)</u>

# Kruger Products L.P.

## Notes to Unaudited Condensed Consolidated Financial Statements

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

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

As of September 28, 2014, purchases of property, plant and equipment of \$0.2 million (September 29, 2013 - \$1.7 million) were not paid.

### 16 Reclassifications in the financial statements

The following items were reclassified in the condensed consolidated statements of comprehensive income (loss) for the 13-week and 39-week periods ended September 29, 2013 to conform to current year presentation:

	13-week period ended September 29, 2013			39-week period ended September 29, 2013		
	As presented	Adjustments	Recast presentation	As presented	Adjustments	Recast presentation
<b>Revenue</b>	243,848	-	243,848	712,402	-	712,402
<b>Expenses</b>						
Cost of sales	172,184	28,627	200,811	502,653	82,958	585,611
Operating expenses <sup>(1)</sup>	47,413	(27,728)	19,685	147,635	(84,782)	62,853
Recovery of non-financial assets	-	-	-	(1,789)	-	(1,789)
<b>Operating income</b>	24,251	(899)	23,352	63,903	1,824	65,727
Interest expense	11,403	-	11,403	32,300	-	32,300
Other expense	-	(899)	(899)	-	1,824	1,824
<b>Income before income taxes</b>	12,848	-	12,848	31,603	-	31,603
<b>Income taxes</b>	(1,315)	-	(1,315)	(9,653)	-	(9,653)
<b>Net income for the period</b>	<u>14,163</u>	<u>-</u>	<u>14,163</u>	<u>41,256</u>	<u>-</u>	<u>41,256</u>

(1) 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 and 39-week periods ended September 29, 2013. Other items remain unchanged.