**KRUGER PRODUCTS L.P.**

**UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE 13-WEEK PERIOD ENDED MARCH 31, 2013 AND
12-WEEK PERIOD ENDED MARCH 25, 2012**

Kruger Products L.P
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# Kruger Products L.P.
## Unaudited Condensed Consolidated Statements of Financial Position

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

| | March 31, 2013<br>$ | December 31, 2012<br>$ |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash and cash equivalents | 92,421 | 121,489 |
| Trade and other receivables | 94,823 | 94,308 |
| Receivables from related parties (note 10) | 794 | 668 |
| Inventories | 127,873 | 116,873 |
| Income tax recoverable | 11,061 | 2,872 |
| Prepaid expenses | 5,426 | 4,413 |
| | 332,398 | 340,623 |
| **Non-current assets** | | |
| Property, plant & equipment (note 4) | 594,620 | 580,814 |
| Other long-term assets | 6,634 | 6,236 |
| Goodwill | 152,021 | 152,021 |
| Intangible assets | 13,699 | 13,828 |
| Deferred income taxes | 6,489 | 1,178 |
| **Total assets** | 1,105,861 | 1,094,700 |
| **Liabilities** | | |
| **Current liabilities** | | |
| Trade and other payables | 165,430 | 186,309 |
| Payables to related parties (note 10) | 3,693 | 9,057 |
| Distribution payable (note 8) | 11,232 | - |
| Current portion of provisions (note 6) | 2,266 | 3,719 |
| Current portion of long-term debt (note 7) | 7,820 | 3,802 |
| | 190,441 | 202,887 |
| **Non-current liabilities** | | |
| Long-term debt (note 7) | 331,851 | 323,885 |
| Other long-term liabilities | 485 | 544 |
| Provisions (note 6) | 6,349 | 5,506 |
| Pensions (note 5) | 133,743 | 148,989 |
| Post-retirement benefits (note 5) | 48,597 | 48,302 |
| Liabilities to non-unitholders | 711,466 | 730,113 |
| Partnership units | 118,562 | 118,562 |
| **Total liabilities** | 830,028 | 848,675 |
| **Equity** | | |
| Partnership units (note 8) | 269,806 | 257,516 |
| Accumulated deficit | (1,757) | (14,736) |
| Accumulated other comprehensive income | 7,784 | 3,245 |
| **Total equity** | 275,833 | 246,025 |
| **Total equity and liabilities** | 1,105,861 | 1,094,700 |

**Reorganization (note 1)**

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

# Kruger Products L.P.
## Unaudited Condensed Consolidated Statements of Comprehensive Income (Loss)
### For the 13-week period ended March 31, 2013 and 12-week period ended March 25, 2012

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

| | 13-week period ended March 31, 2013 $ | 12-week period ended March 25, 2012 $ |
|---|---|---|
| **Revenue (note 10)** | 221,785 | 216,246 |
| **Expenses** | | |
| Cost of sales (note 10) | 157,161 | 151,586 |
| Operating expenses (note 10) | 47,871 | 43,050 |
| Impairment of non-financial assets (note 4) | - | 5,900 |
| Restructuring costs (note 6) | - | 9,100 |
| **Operating income** | 16,753 | 6,610 |
| **Interest expense** | 9,890 | 6,088 |
| **Income before income taxes** | 6,863 | 522 |
| **Income taxes (note 9)** | (4,853) | 163 |
| **Net income for the period** | 11,716 | 359 |
| **Other comprehensive income (loss)** | | |
| **Items that will not be reclassified to net income:** | | |
| Remeasurements of pensions | 12,495 | (11,248) |
| Remeasurements of post-retirement benefits | - | (1,637) |
| **Items that may be subsequently reclassified to net income:** | | |
| Cumulative translation adjustment | 4,539 | (2,781) |
| **Total other comprehensive income (loss) for the period** | 17,034 | (15,666) |
| **Comprehensive income (loss) for the period** | 28,750 | (15,307) |

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

# Kruger Products L.P.
# Unaudited Condensed Consolidated Statements of Changes in Equity
### For the 13-week period ended March 31, 2013 and 12-week period ended March 25, 2012

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

| | Partnership units | | Equity | Accumulated deficit | Accumulated other comprehensive income (loss) | Total equity |
|---|---|---|---|---|---|---|
| | # | $ | $ | $ | $ | $ |
| **As of January 1, 2012** | - | - | 279,209 | - | (1,288) | **277,921** |
| Transfer of assets from related parties | - | - | (661) | - | - | **(661)** |
| Change in actuarial losses on pension | - | - | (11,248) | - | - | **(11,248)** |
| Change in actuarial losses on post retirement benefits | - | - | (1,637) | - | - | **(1,637)** |
| Cumulative translation adjustment | - | - | | - | (2,781) | **(2,781)** |
| Net income for the period | - | - | 359 | - | - | **359** |
| **As of March 25, 2012** | **-** | **-** | **266,022** | **-** | **(4,069)** | **261,953** |
| | | | | | | |
| **As of January 1, 2013** | 51,014,300 | 257,516 | - | (14,736) | 3,245 | **246,025** |
| Distributions payable (note 8) | - | - | - | (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 (note 8) | 750,000 | 12,290 | - | - | - | **12,290** |
| **As of March 31, 2013** | **51,764,300** | **269,806** | **-** | **(1,757)** | **7,784** | **275,833** |

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

# Kruger Products L.P.
# Unaudited Condensed Consolidated Statements of Cash Flows
**For the 13-week period ended March 31, 2013 and 12-week period ended March 25, 2012**

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

| | 13-week period ended March 31, 2013<br>$ | 12-week period ended March 25, 2012<br>$ |
|---|---|---|
| **Cash flows from (used in) operating activities** | | |
| Net income for the period | 11,716 | 359 |
| Items not affecting cash | | |
| Depreciation | 7,333 | 5,990 |
| Amortization | 132 | 150 |
| Gain on sale of fixed assets | (4) | - |
| Unrealized foreign exchange (gain) loss | 855 | (565) |
| Interest expense | 9,890 | 6,088 |
| Pension and post retirement benefits | 2,708 | 2,283 |
| Provisions | 262 | 9,427 |
| Income taxes | (4,853) | 163 |
| Impairment of non-financial assets | - | 5,900 |
| Total items not affecting cash | 16,323 | 29,436 |
| Net change in non-cash working capital (note 13) | (34,442) | (10,928) |
| Contributions to pension and post-retirement benefit plans | (7,328) | (8,283) |
| Provisions paid | (1,490) | - |
| Income tax payments | (994) | (9) |
| **Net cash from (used in) operating activities** | (16,215) | 10,575 |
| **Cash flows from (used in) investing activities** | | |
| Purchase of property, plant & equipment | (3,017) | (4,589) |
| Purchases of through-air-dried (TAD) expansion | (19,661) | (28,849) |
| Purchases of software | (3) | - |
| Proceeds on sale of property, plant and equipment | 4 | - |
| **Net cash used in investing activities** | (22,677) | (33,438) |
| **Cash flows from financing activities** | | |
| Proceeds from credit facilities | 4,571 | 37,553 |
| Repayment of credit facilities | (76) | (5,000) |
| Payment of deferred financing fees | - | (2) |
| Transfer of assets to related parties | - | (661) |
| Interest paid on credit facilities | (7,216) | (7,579) |
| Proceeds from issuing partnership units, net | 12,290 | - |
| **Net cash from financing activities** | 9,569 | 24,311 |
| **Effect of exchange rate changes on cash and cash equivalents held in foreign currency** | 255 | (168) |
| **Increase (decrease) in cash and cash equivalents during the period** | (29,068) | 1,280 |
| **Cash and cash equivalents - Beginning of period** | 121,489 | 31,797 |
| **Cash and cash equivalents - End of period** | 92,421 | 33,077 |

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

(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. 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.

**Reorganization**

On September 21, 2012, the net assets of the tissue business, including those assets, liabilities and results of operations of Former KPLP that are attributable to the tissue business and all of the assets, liabilities and results of operations of West Tree Farms Limited, White Swan Tissue Company, Aztec Investments Inc., Kruger Products (USA) Inc. (KP USA), Grupo Tissue de Mexico S de RL de CV (GTM), K.T.G. (USA) Inc. (KTG), TAD Canco Inc. and TAD Luxembourg S.A.R.L (collectively the Tissue Business) were transferred to the Partnership. The Partnership issued 43,014,300 units to the former owners of the Tissue Business (Former KPLP) in exchange for all of the assets and liabilities of the Tissue Business.

As the Partnership continued the operations of the Tissue Business of Former KPLP, the reorganization has been accounted for in accordance with the continuity of interests method of accounting whereby the assets and liabilities of the Partnership were recorded at the carrying values of the assets and liabilities of the Tissue Business immediately prior to the reorganization. The comparative balances and results of operations included in these consolidated financial statements for period prior to the reorganization are derived from the combined financial statements of the Tissue Business. The combined financial statements of the Tissue Business were prepared on a combined carve-out basis from the books and records of Former KPLP and certain of its subsidiaries to represent the assets, liabilities and operating activities of the Tissue Business as if it had existed as a separate legal entity.

### 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. 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, 2012. These condensed consolidated financial statements were approved by the board of directors of KPGP Inc. (KPGP) on May 13, 2013.

### 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, 2012 and have been applied to all periods presented except the following accounting policies, which were adopted effective January 1, 2013:

(i) IFRS 10, Consolidated Financial Statements, requires an entity to consolidate an investee when it has power over the investee, is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. IFRS 10 replaced SIC-12, Consolidation - Special Purpose Entities, and parts of IAS 27, Consolidated and Separate Financial Statements. The adoption of this standard had no significant impact on these condensed consolidated financial statements.

(ii) IFRS 12, Disclosure of Interests in Other Entities, establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosures that address the nature of, and risks associated with, an entity's interests in other entities. The adoption of this standard had no significant impact on these condensed consolidated financial statements.

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

(iii) IFRS 13, Fair Value Measurement, is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The adoption of this standard did not require any adjustments to the valuation techniques used by the Partnership to measure fair value and did not result in any measurement adjustments as of January 1, 2013.

(iv) IAS 19 (Amended in 2011), Employee Benefits, amends certain accounting requirements for defined benefit plans and termination benefits.

IAS 19 (Amended in 2011) requires the net defined benefit liability (asset) to be recognized on the balance sheet without any deferral of actuarial gains and losses and past service costs as previously allowed. Past service costs are recognized in net income when incurred. Expected returns on plan assets are no longer included in post-employment benefits' expense. Instead, post-employment benefits' expense includes the net interest on the net defined benefit liability (asset) calculated using a discount rate based on market yields on high quality bonds. Remeasurements consisting of actuarial gains and losses, the actual return on plan assets (excluding the net interest component) and any change in the asset ceiling are recognized in other comprehensive income. The Partnership continues to immediately recognize in accumulated deficit all pension adjustments recognized in other comprehensive income (loss). The Partnership also continues to recognize interest expense (income) on net post-employment benefits liabilities (assets) in expense (income) in the condensed consolidated statements of comprehensive income (loss).

The Partnership adopted these amendments retrospectively. The post-employment benefits' finance expense and employee benefit expense for the comparable period have been adjusted to reflect the accounting changes for defined benefit plans. The adjustments for each financial statement line item affected are presented in the tables below.

Adjustments to condensed consolidated statement of comprehensive income (loss)

| | **12-week period ended March 25, 2012** |
|---|---|
| Net income before accounting change | 1,660 |
| Increase in: | |
| Cost of sales | 197 |
| Operating expenses | 66 |
| Interest expense | 1,038 |
| Change to net income | 1,301 |
| Net income after accounting change | 359 |

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

| | **12-week period ended March 25, 2012** |
|---|---|
| Comprehensive loss before accounting change | 15,307 |
| Decrease in net income | 1,301 |
| Decrease in other comprehensive loss for remeasurements of pensions | (1,301) |
| Change to comprehensive loss | - |
| Comprehensive loss after accounting change | 15,307 |

## 4 Property, plant and equipment

| | **Land** | **Buildings** | **Machinery and equipment** | **Assets under construction or development** | **Total** |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| **As of January 1, 2013** | | | | | |
| Cost | 40,426 | 132,448 | 634,410 | 203,356 | 1,010,640 |
| Accumulated depreciation and impairments | (1,789) | (60,288) | (367,749) | - | (429,826) |
| **Net book value as of January 1, 2013** | 38,637 | 72,160 | 266,661 | 203,356 | 580,814 |
| **Period from January 1, 2013 to March 31, 2013** | | | | | |
| Additions | - | - | - | 22,663 | 22,663 |
| Capitalized interest | - | - | - | 507 | 507 |
| Government grants and investment tax credits | - | - | (7,676) | - | (7,676) |
| Transfers | - | 51,450 | 149,486 | (200,936) | - |
| Depreciation | - | (1,117) | (7,155) | - | (8,272) |
| Exchange differences | 23 | 2,479 | 7,591 | (3,509) | 6,584 |
| **As of March 31, 2013** | 38,660 | 124,972 | 408,907 | 22,081 | 594,620 |
| **As of March 31, 2013** | | | | | |
| Cost | 40,449 | 186,440 | 782,936 | 22,081 | 1,031,906 |
| Accumulated depreciation and impairment | (1,789) | (61,468) | (374,029) | - | (437,286) |
| **Net book value as of March 31, 2013** | 38,660 | 124,972 | 408,907 | 22,081 | 594,620 |

During the 12-week period ended March 25, 2012, as a result of the decision to cease production of parent rolls for sale in the New Westminster plant, certain production assets and the timber lands became redundant and, accordingly, a charge of $5.9 million was recorded to write down the assets to their estimated fair value.

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

## 5 Pensions and post-retirement benefits

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

| | Pensions | | Other benefit plans | |
|---|---|---|---|---|
| | March 31, 2013 | December 31, 2012 | March 31, 2013 | December 31, 2012 |
| | % | % | % | % |
| Assumptions | | | | |
| Discount rate | 4.25 | 4.25 | 4.25 | 4.25 |
| Rate of compensation increases | 3.25 - 4.00 | 3.25 - 4.00 | 3.25 - 4.00 | 3.25 - 4.00 |

IAS 19 requires the annual expense for the funded benefit plan to include net interest expense, calculated by applying the discount rate to the net defined benefit liability. This replaces the finance charge and expected return on plan assets. The Partnership adopted this amendment retrospectively (refer to note 3).

The net benefit pension plan expense included the following components:

| | Pensions | | Other benefit plans | |
|---|---|---|---|---|
| | 13-week period ended March 31, 2013 | 12-week period ended March 25, 2012 | 13-week period ended March 31, 2013 | 12-week period ended March 25, 2012 |
| | $ | $ | $ | $ |
| **Net benefit plan expense** | | | | |
| Current service cost | 2,483 | 1,954 | 349 | 329 |
| Interest costs | 6,055 | 6,361 | 515 | 554 |
| Expected return on plan assets | (4,406) | (4,843) | - | - |
| Gain on curtailment | (124) | - | - | - |
| | 4,008 | 3,472 | 864 | 883 |

A restructuring of the Partnership's activities at the New Westminster plant during the 12-week period ended March 25, 2012 resulted in the permanent lay-off of 95 active members, resulting in a curtailment gain of $0.1 million during the 13-week period ended March 31, 2013.

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

## 6 Provisions

| | Environmental and asset retirement obligations $ (a) | Long-term incentives $ (b) | Restructuring $ (c) | Total $ |
|---|---|---|---|---|
| **Provisions as of December 31, 2012** | 4,874 | 1,118 | 3,233 | 9,225 |
| **Current** | - | 486 | 3,233 | 3,719 |
| **Non-current** | 4,874 | 632 | - | 5,506 |
| | | | | |
| **Provisions as of December 31, 2012** | 4,874 | 1,118 | 3,233 | 9,225 |
| Additional provisions | 558 | 262 | - | 820 |
| Paid during the period | - | - | (1,490) | (1,490) |
| Interest accretion | 60 | - | - | 60 |
| **Provisions as of March 31, 2013** | 5,492 | 1,380 | 1,743 | 8,615 |
| **Current** | - | 523 | 1,743 | 2,266 |
| **Non-current** | 5,492 | 857 | - | 6,349 |

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%.

Management has retained third parties to assist with updating the estimate of the environmental remediation and asset retirement obligations. Based on the updated information obtained from a third party, an additional provision of $0.6 million was recorded during the 13-week period ended March 31, 2013. Management expects further updates to the third party reports. The provision at the reporting date represents the Partnership’s best estimate of the present value of the environmental and asset retirement obligation.

b) Long-term incentives

Long-term incentives include the Executive Long-Term Incentive Plan for the Partnership. The plan is based on the 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

On March 7, 2012, the Partnership announced its intention to cease production of parent rolls for sale at its New Westminster plant. This portion of the plant was closed on August 31, 2012 and it was expected that the Partnership would incur costs of approximately $7.1 million to close the related facilities. As a result of closing a portion of the plant, certain production assets and timber lands with a carrying value of $5.9 million were written down to their estimated fair value of nil (note 4). In addition, there were other restructuring costs of approximately $2.0 million at other locations.

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

The restructuring charges at the New Westminster plant and other locations resulted in an increase in provisions of approximately $9.1 million. The provisions are based on management's best estimate of the severance and other costs to be incurred and are subject to change based on finalization of the severance packages and the employee's acceptance.

## 7 Long-term debt

| | Maturity | March 31, 2013 $ | December 31, 2012 $ |
|---|---|---|---|
| Revolving credit facilities | 2014 | - | 76 |
| 8% Senior unsecured notes | 2019 | 171,458 | 171,288 |
| 2.87% Nordea facility [(a)] | 2020 | 45,397 | 39,879 |
| Loan payable | 2017 | 3,983 | 3,923 |
| Caisse facility | 2018 | 118,833 | 112,521 |
| | | 339,671 | 327,687 |
| Less: Current portion of long-term debt | | 7,820 | 3,802 |
| | | 331,851 | 323,885 |

The terms and conditions of the debt facilities are disclosed in the annual consolidated financial statements of KPLP for the year ended December 31, 2012.

a) Nordea credit facilities

An additional draw of U.S.$4.5 million was made during the 13-week period ended March 31, 2013.

## 8 Partnership units

On January 10, 2013, the Partnership issued 750,000 additional partnership units at a price of $17.50 per unit to KPT in connection with the partial exercise of the over-allotment option. Costs incurred of $0.9 million in respect of the issuance were netted against the gross proceeds of $13.1 million.

On March 27, 2013, the Partnership declared distributions of $11.2 million.

## 9 Income taxes

The Partnership is not a tax paying entity for the 13-week period ended March 31, 2013 and 12-week period ended March 25, 2012. The income (loss) from the Partnership flows to the partners, Kruger Inc., KPGP, and KP Tissue Inc. (KPT). However, the Partnership's subsidiaries KP USA, 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 31, 2013 was (70.7)% (12-week period ended March 25, 2012 – 31.2%). The tax recovery recorded in the 13-week period ended March 31, 2013 includes a benefit of $2.9 million of an investment tax credit.

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

The components of income taxes are as follows:

| | March 31, 2013<br>$ | March 25, 2012<br>$ |
|---|---|---|
| Current tax expense | 457 | 163 |
| Deferred tax expense | (5,310) | - |
| Total tax expense | (4,853) | 163 |

## 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 upon by the related parties and are non-interest bearing.

Sales of goods and services to Kruger Inc. for the 13-week period ended March 31, 2013 were $1.4 million (12-week period ended March 25, 2012 - $0.8 million). Sales of goods to subsidiaries of Kruger Inc. for the 13-week period ended March 31, 2013 were $0.4 million (12-week period ended March 25, 2012 - nil). 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 31, 2013 were $15.2 million (12-week period ended March 25, 2012 - $12.3 million). Purchases of goods and services from subsidiaries of Kruger Inc. for the 13-week period ended March 31, 2013 were $2.5 million (12-week period ended March 25, 2012 - $2.8 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 products sold in the condensed consolidated statements of comprehensive income (loss). During the 13-week period ended March 31, 2013, management fees of $1.0 million (12-week period ended March 25, 2012 - $2.4 million) were paid to Kruger Inc. for management services provided to the Partnership.

a) Balances due to and from related parties

| | March 31, 2013<br>$ | December 31, 2012<br>$ |
|---|---|---|
| Receivables from Kruger Inc. | 794 | 668 |
| Payables to Kruger Inc. | 3,634 | 9,053 |
| Payables to subsidiaries of Kruger Inc. | 59 | 4 |
| | 3,693 | 9,057 |

The receivables from and payables to related parties are due two months after the date of sale or purchase. The receivables and payables are unsecured in nature and bear no interest. No provisions are held against receivables from related parties. There are no loans outstanding with related parties as of March 31, 2013. The Partnership declared distributions to its related parties.

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

| | March 31, 2013 $ |
|---|---|
| Distribution payable to KP2010LP | 9,333 |
| Distribution payable to KPGP | 1 |
| Distribution payable to KPT | 1,898 |
| Total distribution payable | 11,232 |

## 11 Segment information

### Reportable segments

Management has determined the operating segments based on the reports reviewed by the Chief Executive Officer. 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 reviewed by the Chief Executive Officer, who has been identified as the chief operating decision maker based on earnings before interest, income taxes, depreciation, amortization, impairment of non-financial assets, restructuring costs, gains or losses on sales of fixed assets and unrealized foreign exchange gains or losses. 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.

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

| | 13-week period ended March 31, 2013 | | | |
|---|---|---|---|---|
| | Consumer<br>$ | AFH<br>$ | Other<br>$ | Total<br>$ |
| 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 |

| | 12-week period ended March 25, 2012 | | | |
|---|---|---|---|---|
| | Consumer<br>$ | AFH<br>$ | Other<br>$ | Total<br>$ |
| Revenue from external customers | 176,375 | 33,347 | 6,524 | 216,246 |
| Segment operating profit (loss) | 28,049 | 1,920 | (2,784) | 27,185 |
| Depreciation and amortization | | | | 6,140 |
| Interest expense | | | | 6,088 |
| Impairment of non-financial assets | | | | 5,900 |
| Restructuring costs | | | | 9,100 |
| Unrealized foreign exchange gain | | | | (565) |
| Income before income taxes | | | | 522 |
| Income taxes | | | | 163 |
| Net income for the period | | | | 359 |

**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.

| | Revenue | |
|---|---|---|
| | 13-week period ended March 31, 2013<br>$ | 12-week period ended March 25, 2012<br>$ |
| Canada | 157,562 | 154,914 |
| US | 57,134 | 54,495 |
| Mexico | 7,089 | 6,837 |
| | 221,785 | 216,246 |

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

| | March 31, 2013 | | | |
|---|---|---|---|---|
| | Canada | US | Mexico | Total |
| | $ | $ | $ | $ |
| Property, plant and equipment | 292,775 | 301,845 | - | 594,620 |
| Goodwill | 152,021 | - | - | 152,021 |
| Intangible assets | 13,699 | - | - | 13,699 |

| | December 31, 2012 | | | |
|---|---|---|---|---|
| | Canada | US | Mexico | Total |
| | $ | $ | $ | $ |
| Property, plant and equipment | 294,022 | 286,792 | - | 580,814 |
| Goodwill | 152,021 | - | - | 152,021 |
| Intangible assets | 13,828 | - | - | 13,828 |

## 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 31, 2013, the classification of the financial instruments, as well as their carrying amounts and fair values, were as follows:

| | Classification | Measurement | Carrying amount $ | Fair Value $ |
|---|---|---|---|---|
| Cash and cash equivalents | loans and receivables | amortized cost | 92,421 | 92,421 |
| Trade and other receivables | loans and receivables | amortized cost | 94,823 | 94,823 |
| Receivables from related parties | loans and receivables | amortized cost | 794 | 794 |
| Embedded derivative | fair value through profit or loss | fair value | 1,728 | 1,728 |
| Trade and other payables | financial liabilities | amortized cost | (165,430) | (165,430) |
| Payables to related parties | financial liabilities | amortized cost | (3,693) | (3,693) |
| Long-term debt | financial liabilities | amortized cost | (339,671) | (360,812) |
| Partnership unit liability | financial liabilities | amortized cost | (118,562) | (118,562) |

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

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Embedded derivative | - | 1,728 | - | 1,728 |

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

As of December 31, 2012, the classification of the financial instruments, as well as their carrying amounts and fair values, were as follows:

| | Classification | Measurement | Carrying amount $ | Fair Value $ |
|---|---|---|---|---|
| Cash and cash equivalents | loans and receivables | amortized cost | 121,489 | 121,489 |
| Trade and other receivables | loans and receivables | amortized cost | 94,308 | 94,308 |
| Receivables from related parties | loans and receivables | amortized cost | 668 | 668 |
| Embedded derivative | fair value through profit or loss | fair value | 1,728 | 1,728 |
| Commodity swap | fair value through profit or loss | fair value | (44) | (44) |
| Trade and other payables | financial liabilities | amortized cost | (186,265) | (186,265) |
| Payables to related parties | financial liabilities | amortized cost | (9,057) | (9,057) |
| Long-term debt | financial liabilities | amortized cost | (327,687) | (356,008) |
| Partnership unit liability | financial liabilities | amortized cost | (118,562) | (118,562) |

The following table details the fair value hierarchy of financial instruments carried at fair value by level as of December 31, 2012:

| | Level 1 $ | Level 2 $ | Level 3 $ | Total $ |
|---|---|---|---|---|
| Commodity swap | - | (44) | - | (44) |
| Embedded derivative | - | 1,728 | - | 1,728 |

*Fair value*

Cash and cash equivalents, trade and other receivables, receivables from related parties, trade and other payables and payables to related parties are short-term financial instruments whose fair value approximates the carrying amount, given they will mature in the near future. As of March 31, 2013, the fair value of the revolving credit facilities was $nil (December 31, 2012 - $0.1 million), which was based on the current principal amount outstanding as the interest rate floats. As of March 31, 2013, the fair value of the senior notes was $189.0 million (December 31, 2012 - $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 $46.9 million and $121.0 million (December 31, 2012 - $41.5 million and $121.5 million), respectively, which approximates the current principal amount outstanding as the interest rate approximates current market interest rates. As of March 31, 2013, the fair value of the loans payable was $3.9 million (December 31, 2012 - $3.9 million).

The commodity swap does not trade and the price of an identifiable instrument cannot be observed. The fair value of the commodity swap was estimated using a model with the main inputs being the future prices of pulp and the discount rate.

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.

*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.

(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:

| | March 31, 2013 | March 25, 2012 |
|---|---|---|
| | $ | $ |
| Increase in trade receivables | (397) | (2,387) |
| Increase in receivables from related parties | (126) | (651) |
| Decrease (increase) in inventories | (9,623) | 7,515 |
| Increase in prepaid expenses | (994) | (920) |
| Increase in other assets | (398) | (267) |
| Increase in income tax recoverable | - | (783) |
| Decrease in trade and other payables | (17,540) | (13,391) |
| Increase (decrease) in payables to related parties | (5,364) | (44) |
| | (34,442) | (10,928) |

As of March 31, 2013, purchases of property, plant and equipment of $6.6 million (March 25, 2012 - $16.7 million) were not paid.