**KRUGER PRODUCTS L.P.**

**UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENT**

**FOR THE 13-WEEK PERIODS ENDED MARCH 29, 2015**
**AND MARCH 30, 2014**

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

(tabular amounts are in thousands of Canadian dollars)

| | March 29, 2015<br>$ | December 31, 2014<br>$ |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash and cash equivalents | 31,957 | 51,788 |
| Trade and other receivables | 107,154 | 107,092 |
| Receivables from related parties (note 11) | 87 | 301 |
| Advances to partners (note 9) | 1,312 | 3,474 |
| Inventories | 157,487 | 150,328 |
| Current portion of income tax recoverable | 908 | 1,302 |
| Prepaid expenses and other current assets | 12,786 | 7,351 |
| | 311,691 | 321,636 |
| **Non-current assets** | | |
| Property, plant & equipment (note 6) | 683,179 | 652,762 |
| Other long-term assets | 7,719 | 7,738 |
| Income tax recoverable | 16,628 | 15,309 |
| Goodwill | 160,939 | 160,939 |
| Intangible assets | 14,054 | 14,052 |
| Deferred income taxes | 21,810 | 19,565 |
| **Total assets** | 1,216,020 | 1,192,001 |
| **Liabilities** | | |
| **Current liabilities** | | |
| Trade and other payables | 152,294 | 173,228 |
| Payables to related parties (note 11) | 9,443 | 4,387 |
| Distributions payable (notes 9 and 11) | 9,827 | 9,781 |
| Current portion of provisions (note 8) | 3,886 | 2,967 |
| Current portion of long-term debt | 9,539 | 8,879 |
| | 184,989 | 199,242 |
| **Non-current liabilities** | | |
| Long-term debt | 378,923 | 358,646 |
| Other long-term liabilities | 123 | 156 |
| Provisions (note 8) | 6,649 | 6,441 |
| Pensions (note 7) | 116,250 | 98,533 |
| Post-retirement benefits (note 7) | 57,295 | 53,357 |
| **Liabilities to non-unitholders** | 744,229 | 716,375 |
| Current portion of Partnership units liability (note 9) | 6,949 | 6,949 |
| Long-term portion of Partnership units liability (note 9) | 115,537 | 121,174 |
| **Total Partnership units liability** | 122,486 | 128,123 |
| **Total liabilities** | 866,715 | 844,498 |
| **Equity** | | |
| Partnership units (note 9) | 304,015 | 299,616 |
| Retained earnings (deficit) | (21,799) | 4,424 |
| Accumulated other comprehensive income | 67,089 | 43,463 |
| **Total equity** | 349,305 | 347,503 |
| **Total equity and liabilities** | 1,216,020 | 1,192,001 |

**Subsequent events (note 9)**

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 29, 2015 and March 30, 2014

(tabular amounts are in thousands of Canadian dollars)

| | 13-week period ended March 29, 2015 $ | 13-week period ended March 30, 2014 $ |
|---|---|---|
| **Revenue (note 11)** | 265,376 | 234,608 |
| **Expenses** | | |
| Cost of sales (note 11) | 222,540 | 198,871 |
| Selling, general and administrative expenses (note 11) | 21,619 | 20,526 |
| Restructuring costs (note 8) | 1,054 | 2,784 |
| **Operating income** | 20,163 | 12,427 |
| Interest expense | 10,342 | 10,908 |
| Other expense (note 5) | 4,782 | 5,028 |
| **Income before income taxes** | 5,039 | (3,509) |
| **Income taxes (note 10)** | 329 | (286) |
| **Net income (loss) for the period** | 4,710 | (3,223) |
| **Other comprehensive income (loss)** | | |
| **Items that will not be reclassified to net income:** | | |
| Remeasurements of pensions | (17,406) | 1,081 |
| Remeasurements of post-retirement benefits | (3,652) | (847) |
| **Items that may be subsequently reclassified to net income:** | | |
| Available-for-sale investment | (251) | (25) |
| Cumulative translation adjustment | 23,877 | 10,806 |
| **Total other comprehensive income for the period** | 2,568 | 11,015 |
| **Comprehensive income for the period** | 7,278 | 7,792 |

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 29, 2015 and March 30, 2014

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

| | Partnership units | | Retained earnings (deficit) | Accumulated other comprehensive income (loss) | Total equity |
|---|---|---|---|---|---|
| | # | $ | $ | $ | $ |
| **As of January 1, 2014** | 52,527,550 | 282,672 | 50,945 | 19,669 | **353,286** |
| Distributions payable | - | - | (9,500) | - | **(9,500)** |
| Change in actuarial gains on pension | - | - | 1,081 | - | **1,081** |
| Change in actuarial loss 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 | 252,478 | 4,188 | - | - | **4,188** |
| **As of March 30, 2014** | **52,780,028** | **286,860** | **38,456** | **30,450** | **355,766** |
| **As of January 1, 2015** | 53,624,260 | 299,616 | 4,424 | 43,463 | **347,503** |
| Distributions payable (note 9) | - | - | (9,699) | - | **(9,699)** |
| Fair value adjustment (note 9) | - | 176 | (176) | - | **-** |
| Change in actuarial loss on pension | - | - | (17,406) | - | **(17,406)** |
| Change in actuarial loss on post retirement benefits | - | - | (3,652) | - | **(3,652)** |
| Change in available-for-sale investment | - | - | - | (251) | **(251)** |
| Cumulative translation adjustment | - | - | - | 23,877 | **23,877** |
| Net income for the period | - | - | 4,710 | - | **4,710** |
| Issuance of partnership units (note 9) | 256,590 | 4,223 | - | - | **4,223** |
| **As of March 29, 2015** | **53,880,850** | **304,015** | **(21,799)** | **67,089** | **349,305** |

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 29, 2015 and March 30, 2014**

(tabular amounts are in thousands of Canadian dollars)

| | 13-week period ended March 29, 2015 $ | 13-week period ended March 30, 2014 $ |
|---|---|---|
| **Cash flows from (used in) operating activities** | | |
| Net income (loss) for the period | 4,710 | (3,223) |
| Items not affecting cash | | |
| Depreciation | 9,744 | 8,807 |
| Amortization | 163 | 144 |
| Loss on sale of fixed assets | 165 | - |
| Change in amortized cost of Partnership units liability (note 5) | 1,312 | 3,350 |
| Unrealized foreign exchange loss (note 5) | 3,298 | 1,679 |
| Interest expense | 10,342 | 10,908 |
| Pension and post retirement benefits | 2,680 | 2,696 |
| Provisions (note 8) | 1,333 | 2,184 |
| Income taxes | 329 | (286) |
| Total items not affecting cash | 29,366 | 29,482 |
| Net change in non-cash working capital (note 14) | (23,409) | (27,002) |
| Contributions to pension and post-retirement benefit plans | (3,634) | (7,850) |
| Provisions paid | (265) | (501) |
| Income tax payments | (555) | (373) |
| **Net cash from (used in) operating activities** | 6,213 | (9,467) |
| **Cash flows from (used in) investing activities** | | |
| Purchases of property, plant & equipment | (9,462) | (10,356) |
| Purchases of software | (165) | (9) |
| Proceeds on sale of property, plant and equipment | 186 | - |
| **Net cash used in investing activities** | (9,441) | (10,365) |
| **Cash flows from (used in) financing activities** | | |
| Repayment of credit facilities | (204) | (204) |
| Interest paid on credit facilities | (7,215) | (7,164) |
| Distributions and advances paid (note 9) | (10,411) | (8,870) |
| Proceeds from issuing partnership units | 195 | 253 |
| **Net cash used in financing activities** | (17,635) | (15,985) |
| **Effect of exchange rate changes on cash and cash equivalents held in foreign currency** | 1,032 | 879 |
| **Decrease in cash and cash equivalents during the period** | (19,831) | (34,938) |
| **Cash and cash equivalents - Beginning of period** | 51,788 | 87,674 |
| **Cash and cash equivalents - End of period** | 31,957 | 52,736 |

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 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, 2014. The Partnership reclassified certain prior year amounts in the condensed consolidated financial statements to conform to current year presentation.

These condensed consolidated financial statements were approved by the board of directors of KPGP on May 6, 2015.

### 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, 2014 and have been applied to all periods presented except the following accounting policies, which were adopted effective January 1, 2015:

(i) 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 adoption of this standard had no significant impact on these condensed consolidated financial statements.

The impact of new standards, amendments to standards and interpretations that have been issued but not yet effective for financial periods beginning on or after January 1, 2016 and have not been early adopted have been discussed in the annual financial statements for the year ended December 31, 2014, except for the following:

(i) IAS 19, Employee Benefits. The IASB has issued an amendment to clarify, when determining the discount rate for post-employment benefit obligations, it is the currency that the liabilities are denominated in that is important, and not the country where they arise. The amendment is retrospective but limited to the beginning of the earliest period presented. Management is evaluating the standard and has not yet determined the impact on its condensed consolidated financial statements.

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

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

## 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, 2014.

## 5 Other expense

| | 13-week period ended March 29, 2015 $ | 13-week period ended March 30, 2014 $ |
|---|---|---|
| Unrealized foreign exchange loss | 3,298 | 1,679 |
| Change in amortized cost of Partnership units liability | 1,312 | 3,350 |
| Miscellaneous (income) expense | 172 | (1) |
| | 4,782 | 5,028 |

## 6 Property, plant and equipment

| | Land $ | Buildings $ | Machinery and equipment $ | Assets under construction or development $ | Total $ |
|---|---|---|---|---|---|
| **As of January 1, 2015** | | | | | |
| Cost | 40,678 | 174,340 | 918,867 | 13,058 | 1,146,943 |
| Accumulated depreciation and impairments | - | (70,124) | (424,057) | - | (494,181) |
| **Net book value as of January 1, 2015** | 40,678 | 104,216 | 494,810 | 13,058 | 652,762 |
| Additions | - | - | - | 9,780 | 9,780 |
| Disposals | - | - | (351) | - | (351) |
| Transfers | - | 386 | 8,205 | (8,591) | - |
| Depreciation | - | (1,179) | (8,327) | - | (9,506) |
| Exchange differences | 114 | 4,579 | 25,399 | 402 | 30,494 |
| **As of March 29, 2015** | 40,792 | 108,002 | 519,736 | 14,649 | 683,179 |
| **As of March 29, 2015** | | | | | |
| Cost | 40,792 | 179,910 | 957,059 | 14,649 | 1,192,410 |
| Accumulated depreciation and impairment | - | (71,908) | (437,323) | - | (509,231) |
| **Net book value as of March 29, 2015** | 40,792 | 108,002 | 519,736 | 14,649 | 683,179 |

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

## 7 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 | |
|---|---|---|---|---|
| | March 29, 2015 | December 31, 2014 | March 29, 2015 | December 31, 2014 |
| | % | % | % | % |
| Assumptions | | | | |
| Discount rate - accrued benefit obligation | 3.50 | 4.00 | 3.50 | 4.00 |
| Rate of compensation increases | 3.25 - 4.00 | 3.25 - 4.00 | | |

The net benefit pension plan expense included the following components:

| | Pensions | | Post-retirement benefit plans | |
|---|---|---|---|---|
| | 13-week period ended March 29, 2015 | 13-week period ended March 30, 2014 | 13-week period ended March 29, 2015 | 13-week period ended March 30, 2014 |
| | $ | $ | $ | $ |
| **Net benefit plan expense** | | | | |
| Current service cost | 2,264 | 2,334 | 416 | 362 |
| Interest costs | 6,118 | 6,443 | 516 | 544 |
| Expected return on plan assets | (5,083) | (5,489) | - | - |
| | 3,299 | 3,288 | 932 | 906 |

## 8 Provisions

| | Environmental and asset retirement obligations | Long-term incentives | Restructuring | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| | (a) | (b) | (c) | |
| **Provisions as of January 1, 2015** | 5,898 | 2,186 | 1,324 | 9,408 |
| **Current** | - | 1,643 | 1,324 | 2,967 |
| **Non-current** | 5,898 | 543 | - | 6,441 |
| | | | | |
| **Provisions as of January 1, 2015** | 5,898 | 2,186 | 1,324 | 9,408 |
| Additional provisions | - | 279 | 1,054 | 1,333 |
| Paid during the period | - | (39) | (226) | (265) |
| Interest accretion | 59 | - | - | 59 |
| **Provisions as of March 29, 2015** | 5,957 | 2,426 | 2,152 | 10,535 |
| **Current** | - | 1,734 | 2,152 | 3,886 |
| **Non-current** | 5,957 | 692 | - | 6,649 |

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

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 at the Partnership's option. 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 the year ended December 31, 2012. During the 13-week period ended March 29, 2015, $0.2 million of restructuring charges at the New Westminister plant and other locations were released (13-week period ended March 30, 2014 – nil). As of March 29, 2015, there was a remaining provision of $0.3 million.

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 $2.0 million, primarily related to severance. As of March 29, 2015, the Partnership had incurred $1.3 million of the costs associated with this initiative. The remaining provision of $0.7 million relates primarily to management's best estimate of the severance costs to be incurred.

In response to market cost pressures, in the first quarter of 2015, senior management undertook a comprehensive review of its cost structure and identified a number of cost reduction opportunities. Included in this initiative are restructuring costs of approximately $1.3 million, related to severance. As of March 29, 2015, KPLP had incurred $0.1 million of the costs associated with this initiative and recorded a provision for the remaining $1.2 million.

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

## 9 Distributions and Partnership units liability

| | Partnership units liability $ |
|---|---|
| As of January 1, 2014 | 117,839 |
| Issuance of Partnership units | - |
| Change in amortized cost of Partnership units liability | 13,759 |
| Tax Distributions paid | (3,475) |
| As of December 31, 2014 | 128,123 |
| As of January 1, 2015 | 128,123 |
| Issuance of Partnership units | - |
| Change in amortized cost of Partnership units liability (note 5) | 1,312 |
| Tax Distributions paid | (6,949) |
| As of March 29, 2015 | 122,486 |

The Partnership unit distributions paid, the portion of the distribution reinvested by the partners, the additional Partnership units issued at the unit price, and the gross proceeds were as follows:

| | 13-week period ended March 29, 2015 | | | |
|---|---|---|---|---|
| Distribution Payment Date | Partnership unit distributions $ | Unit price $ | Issuance of Partnership units # | Gross proceeds $ |
| January 15, 2015 | 9,652 | 16.46 | 256,590 | 4,223 |

| | 13-week period ended March 30, 2014 | | | |
|---|---|---|---|---|
| Distribution Payment Date | Partnership unit distributions $ | Unit price $ | Issuance of Partnership units # | Gross proceeds $ |
| January 15, 2014 | 9,455 | 16.59 | 252,478 | 4,188 |

On March 12, 2015, the Partnership declared a distribution of $9.7 million, which was paid on April 15, 2015. Pursuant to the DRIP, a portion of the distribution was reinvested by the partners and the Partnership issued 285,231 additional Partnership units at a price of $15.56 for the gross proceeds of $4.4 million. A fair value adjustment of $0.2 million was recorded at March 29, 2015 to reflect the market value of the Partnership units issued (December 31, 2014 – $0.1 million).

Subsequent to March 29, 2015, the Partnership declared a distribution of $9.7 million, payable on July 15, 2015.

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

*Tax distributions*

On February 28, 2015, the Partnership declared and paid a Tax Distribution of $7.0 million of which $0.6 million was used to pay the tax instalment on behalf of KPT, $2.9 million was paid to Kruger Inc. and KPGP and $3.5 million was used to settle the advances to Partners.

During the 13-week period ended March 29, 2015, pursuant to the Tax Distribution as defined in the Partnership Agreement, the Partnership made advances to its partners of $1.3 million, of which $0.2 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.

### 10 Income taxes

The Partnership is not a tax paying entity for the 13-week periods ended March 29, 2015 and March 30, 2014. 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. Inc., Group 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 13-week period ended March 29, 2015 was 6.5% (13-week period ended March 30, 2014 – 8.1%). The tax recovery recorded in the 13-week period ended March 29, 2015 did not include a benefit of an investment tax credit (13-week period ended March 30, 2014 - $0.2 million).

The components of income taxes were as follows:

| | 13-week period ended March 29, 2015 | 13-week period ended March 30, 2014 |
|---|---|---|
| | $ | $ |
| Current tax expense | 880 | 722 |
| Deferred tax credit | (551) | (1,008) |
| | 329 | (286) |

### 11 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 13-week periods ended March 29, 2015 were $ 0.05 million (13-week period ended March 30, 2014 - $1.0 million). Sales of goods to subsidiaries of Kruger Inc. for the 13-week periods ended March 29, 2015 was nil (13-week period ended March 30, 2014 - $0.1 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 periods ended March 29, 2015 were $6.6 million (13-week period ended March 30, 2014 - $7.0 million). Purchases of goods and services from subsidiaries of Kruger Inc. for the 13-week periods ended March 29, 2015 were $2.8 million (13-week period ended March 30, 2014 - $4.6 million). Goods are purchased from Kruger Inc. and related parties under normal commercial terms and conditions.

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

These purchases of goods and services are included within cost of sales and selling, general and administrative expenses in the condensed consolidated statement of comprehensive income. During the 13-week periods ended March 29, 2015, management fees of $1.0 million (13-week period ended March 30, 2014 - $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:

| | March 29, 2015<br>$ | December 31, 2014<br>$ |
|---|---|---|
| Receivables from Kruger Inc. | - | 220 |
| Receivables from subsidiaries of Kruger Inc. | 39 | 28 |
| Receivables from KPT | 48 | 53 |
| | 87 | 301 |
| Payables to Kruger Inc. | 8,513 | 2,978 |
| Payables to subsidiaries of Kruger Inc. | 930 | 1,409 |
| | 9,443 | 4,387 |

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 March 29, 2015 and December 31, 2014. There were no loans outstanding with related parties as of March 29, 2015 and December 31, 2014.

As of March 29, 2015, the Partnership had declared distributions to its related parties as follows:

| | March 29, 2015<br>$ | December 31, 2014<br>$ |
|---|---|---|
| Distribution payable to Kruger Inc. | 8,223 | 8,179 |
| Distribution payable to KPGP | 1 | 1 |
| Distribution payable to KPT | 1,603 | 1,601 |
| Total distribution payable | 9,827 | 9,781 |

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

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

| | 13-week period ended March 29, 2015 | | | |
|---|---|---|---|---|
| | Tax distibutions | Advances | Partnership unit distibutions | Total |
| | $ | $ | $ | $ |
| Paid to Kruger Inc. [a] | 2,903 | 1,093 | 4,028 | 8,024 |
| Paid to KPGP | 1 | - | 1 | 2 |
| Paid to KPT | 571 | 219 | 1,595 | 2,385 |
| Total paid | 3,475 | 1,312 | 5,624 | 10,411 |

| | 13-week period ended March 30, 2014 | | | |
|---|---|---|---|---|
| | Tax distibutions | Advances | Partnership unit distibutions | Total |
| | $ | $ | $ | $ |
| Paid to Kruger Inc. [a] | 2,890 | - | 3,936 | 6,826 |
| Paid to KPGP | 1 | - | 1 | 2 |
| Paid to KPT | 459 | - | 1,583 | 2,042 |
| Total paid | 3,350 | - | 5,520 | 8,870 |

a) During the 13-week period ended March 29, 2015 and March 30, 2014, Partnership unit distributions were paid to Kruger Inc. net of the DRIP reinvestment. During the 13-week period ended March 29, 2015, Kruger Inc.'s DRIP reinvestment was $4.0 million (March 30, 2014 - $3.9 million).

## 12 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.

(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.

| | 13-week period ended March 29, 2015 | | | |
|---|---|---|---|---|
| | **Consumer** | **AFH** | **Other** | **Total** |
| | **$** | **$** | **$** | **$** |
| Revenue from external customers | 210,150 | 48,559 | 6,667 | 265,376 |
| Segment operating profit (loss) | 30,297 | 968 | (148) | 31,117 |
| Depreciation and amortization | | | | 9,907 |
| Interest expense | | | | 10,342 |
| Change in amortized cost of Partnership units liability | | | | 1,312 |
| Loss on sale of fixed assets | | | | 165 |
| Restructuring costs | | | | 1,054 |
| Unrealized foreign exchange loss | | | | 3,298 |
| Income before income taxes | | | | 5,039 |
| Income taxes | | | | 329 |
| Net income for the period | | | | 4,710 |

| | 13-week period ended March 30, 2014 | | | |
|---|---|---|---|---|
| | **Consumer** | **AFH** | **Other** | **Total** |
| | **$** | **$** | **$** | **$** |
| 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 |
| Loss before income taxes | | | | (3,509) |
| Income taxes | | | | (286) |
| Net loss for the period | | | | (3,223) |

**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.

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

| | Revenue | |
|---|---|---|
| | 13-week period ended March 29, 2015 | 13-week period ended March 30, 2014 |
| **Revenue** | $ | $ |
| Canada | 163,393 | 161,160 |
| US | 93,378 | 66,758 |
| Mexico | 8,605 | 6,690 |
| | 265,376 | 234,608 |

| | | | | March 29, 2015 |
|---|---|---|---|---|
| | Canada | US | Mexico | Total |
| | $ | $ | $ | $ |
| Property, plant and equipment | 301,361 | 381,818 | - | 683,179 |
| Goodwill | 160,939 | - | - | 160,939 |
| Intangible assets | 14,054 | - | - | 14,054 |

| | | | | December 31, 2014 |
|---|---|---|---|---|
| | Canada | US | Mexico | Total |
| | $ | $ | $ | $ |
| Property, plant and equipment | 299,127 | 353,635 | - | 652,762 |
| Goodwill | 160,939 | - | - | 160,939 |
| Intangible assets | 14,052 | - | - | 14,052 |

## 13 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.

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

As of March 29, 2015, the classification of the financial instruments, as well as their carrying amounts and fair values, was as follows:

| | Classification | Measurement | Carrying amount $ | Fair Value $ |
|---|---|---|---|---|
| Cash and cash equivalents | loans and receivables | amortized cost | 31,957 | 31,957 |
| Trade and other receivables | loans and receivables | amortized cost | 107,154 | 107,154 |
| Receivables from related parties | loans and receivables | amortized cost | 87 | 87 |
| Advances to partners | loans and receivables | amortized cost | 1,312 | 1,312 |
| Embedded derivative | fair value through profit or loss | fair value | 4,016 | 4,016 |
| Available-for-sale investment | fair value through other comprehensive income or loss | fair value | 947 | 947 |
| Trade and other payables | financial liabilities | amortized cost | (152,294) | (152,294) |
| Payables to related parties | financial liabilities | amortized cost | (9,443) | (9,443) |
| Distributions payable | financial liabilities | amortized cost | (9,827) | (9,827) |
| Long-term debt | financial liabilities | amortized cost | (388,462) | (410,554) |
| Partnership units liability | financial liabilities | amortized cost | (122,485) | (122,485) |

The following table details the fair value hierarchy of financial instruments carried at fair value by level as of March 29. 2015:

| | Level 1 $ | Level 2 $ | Level 3 $ | Total $ |
|---|---|---|---|---|
| Embedded derivative | - | 4,016 | - | 4,016 |
| Available-for-sale investment | 1,160 | - | - | 1,160 |

As of December 31, 2014, the classification of the financial instruments, as well as their carrying amounts and fair values, was as follows:

| | Classification | Measurement | Carrying amount $ | Fair Value $ |
|---|---|---|---|---|
| Cash and cash equivalents | loans and receivables | amortized cost | 51,788 | 51,788 |
| Trade and other receivables | loans and receivables | amortized cost | 107,092 | 107,092 |
| Receivables from related parties | loans and receivables | amortized cost | 301 | 301 |
| Advances to partners | loans and receivables | amortized cost | 3,474 | 3,474 |
| Embedded derivative | fair value through profit or loss | fair value | 2,431 | 2,431 |
| Available-for-sale investment | fair value through other comprehensive income or loss | fair value | 1,198 | 1,198 |
| Trade and other payables | financial liabilities | amortized cost | (173,228) | (173,228) |
| Payables to related parties | financial liabilities | amortized cost | (4,387) | (4,387) |
| Distributions payable | financial liabilities | amortized cost | (9,781) | (9,781) |
| Long-term debt | financial liabilities | amortized cost | (367,525) | (393,318) |
| Partnership units liability | financial liabilities | amortized cost | (128,123) | (128,123) |

(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, 2014:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Embedded derivative | - | 2,431 | - | 2,431 |
| Available-for-sale investment | 1,198 | - | - | 1,198 |

*Fair value*

Cash and cash equivalents, trade and other receivables, receivables from related parties, advances to partners, trade and other payables, 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 29, 2015, the fair value of the senior notes was $189.0 million (December 31, 2014 - $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 $41.6 million and $178.0 million (December 31, 2014 - $38.2 million and $163.9 million), respectively, which approximates the current principal amount outstanding as the interest rate approximates current market interest rates. As of March 29, 2015, the fair value of the loans payable was $2.0 million (December 31, 2014 - $2.2 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 March 29, 2015 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.

## 14 Non-cash working capital

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

| | 13-week period ended March 29, 2015 | 13-week period ended March 30, 2014 |
|---|---|---|
| | $ | $ |
| Decrease (increase) in trade and other receivables | 3,891 | (10,576) |
| Decrease in receivables from related parties | 214 | 490 |
| Increase in inventories | (4,515) | (4,622) |
| Increase in prepaid expenses and other current assets | (3,786) | (1,368) |
| Increase in other long-term assets | (19) | (28) |
| Decrease (increase) in income taxes | 159 | (156) |
| Decrease in trade and other payables | (24,408) | (11,692) |
| Increase in payables to related parties | 5,055 | 950 |
| | (23,409) | (27,002) |