



KRUGER PRODUCTS L.P.

**UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENT
FOR THE 13-WEEK AND 39-WEEK PERIODS ENDED SEPTEMBER 27, 2015
AND SEPTEMBER 28, 2014**

Kruger Products L.P.

Unaudited Condensed Consolidated Statement of Financial Position

(tabular amounts are in thousands of Canadian dollars)

	September 27, 2015 \$	December 31, 2014 \$
Assets		
Current assets		
Cash and cash equivalents	38,547	51,788
Trade and other receivables	118,636	107,092
Receivables from related parties (note 12)	49	301
Advances to partners (note 10)	5,013	3,474
Inventories	175,656	150,328
Current portion of income tax recoverable	1,212	1,302
Prepaid expenses and other current assets	7,784	7,351
	<u>346,897</u>	<u>321,636</u>
Non-current assets		
Property, plant & equipment (note 6)	708,065	652,762
Other long-term assets	7,587	7,738
Income tax recoverable	19,100	15,309
Goodwill	160,939	160,939
Intangible assets	15,449	14,052
Deferred income taxes	22,653	19,565
	<u>1,280,690</u>	<u>1,192,001</u>
Liabilities		
Current liabilities		
Trade and other payables	187,365	173,228
Payables to related parties (note 12)	4,289	4,387
Distributions payable (notes 10 and 12)	9,806	9,781
Current portion of provisions (note 8)	4,255	2,967
Current portion of long-term debt (note 9)	10,011	8,879
	<u>215,726</u>	<u>199,242</u>
Non-current liabilities		
Long-term debt (note 9)	398,949	358,646
Other long-term liabilities	69	156
Provisions (note 8)	7,167	6,441
Pensions (note 7)	106,238	98,533
Post-retirement benefits (note 7)	55,065	53,357
	<u>783,214</u>	<u>716,375</u>
Liabilities to non-unitholders	783,214	716,375
Current portion of Partnership units liability (note 10)	6,949	6,949
Long-term portion of Partnership units liability (note 10)	119,238	121,174
	<u>126,187</u>	<u>128,123</u>
Total Partnership units liability	126,187	128,123
Total liabilities	<u>909,401</u>	<u>844,498</u>
Equity		
Partnership units (note 10)	313,236	299,616
Retained earnings (deficit)	(27,997)	4,424
Accumulated other comprehensive income	86,050	43,463
	<u>371,289</u>	<u>347,503</u>
Total equity	371,289	347,503
Total equity and liabilities	<u>1,280,690</u>	<u>1,192,001</u>
Subsequent events (notes 9 and 10)		

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 27, 2015 and September 28, 2014

(tabular amounts are in thousands of Canadian dollars)

	13-week period ended September 27, 2015 \$	13-week period ended September 28, 2014 \$	39-week period ended September 27, 2015 \$	39-week period ended September 28, 2014 \$
Revenue (note 12)	293,574	267,629	838,287	767,521
Expenses				
Cost of sales (note 12)	247,964	219,914	710,917	645,137
Selling, general and administrative expenses (note 12)	21,630	17,717	64,526	58,125
Recovery of non-financial assets (note 8)	(1,131)	-	(1,131)	-
Restructuring costs (note 8)	781	-	1,835	2,835
Operating income	24,330	29,998	62,140	61,424
Interest expense (note 9)	25,254	12,622	48,069	34,923
Other expense (note 5)	4,821	2,752	10,770	7,622
Income (loss) before income taxes	(5,745)	14,624	3,301	18,879
Income taxes (note 11)	121	(1,477)	1,282	(2,118)
Net income (loss) for the period	(5,866)	16,101	2,019	20,997
Other comprehensive income (loss)				
Items that will not be reclassified to net income:				
Remeasurements of pensions	1,915	(1,999)	(4,123)	(31,511)
Remeasurements of post-retirement benefits	1,447	(18)	(702)	(3,511)
Items that may be subsequently reclassified to net income:				
Available-for-sale investment	(277)	(183)	(306)	(321)
Cumulative translation adjustment	26,229	12,260	42,893	13,039
Total other comprehensive income (loss) for the period	29,314	10,060	37,762	(22,304)
Comprehensive income (loss) for the period	23,448	26,161	39,781	(1,307)

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 27, 2015 and September 28, 2014

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

	Partnership units		Retained	Accumulated	Total
	#	\$	earnings (deficit)	other comprehensive income (loss)	equity
			\$	\$	\$
As of January 1, 2014	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
As of September 28, 2014	53,335,339	295,422	8,270	32,387	336,079
As of January 1, 2015	53,624,260	299,616	4,424	43,463	347,503
Distributions payable (note 10)	-	-	(9,806)	-	(9,806)
Distributions paid (note 10)	-	-	(19,449)	-	(19,449)
Fair value adjustment (note 10)	-	491	(360)	-	131
Change in actuarial loss on pension	-	-	(4,123)	-	(4,123)
Change in actuarial loss on post retirement benefits	-	-	(702)	-	(702)
Change in available-for-sale investment	-	-	-	(306)	(306)
Change in translation adjustment	-	-	-	42,893	42,893
Net income for the period	-	-	2,019	-	2,019
Issuance of partnership units (note 10)	854,068	13,129	-	-	13,129
As of September 27, 2015	54,478,328	313,236	(27,997)	86,050	371,289

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 27, 2015 and September 28, 2014

(tabular amounts are in thousands of Canadian dollars)

	39-week period ended September 27, 2015 \$	39-week period ended September 28, 2014 \$
Cash flows from (used in) operating activities		
Net income for the period	2,019	20,997
Items not affecting cash		
Depreciation	29,454	26,574
Amortization	563	479
Loss (gain) on sale of fixed assets	284	(279)
Change in amortized cost of Partnership units liability (note 5)	5,013	5,907
Unrealized foreign exchange loss (note 5)	5,328	1,879
Interest expense	48,069	34,923
Pension and post retirement benefits	11,461	7,439
Provisions (note 8)	2,805	2,666
Income taxes	1,282	(2,118)
Recovery of non-financial assets (note 8)	(1,131)	-
Total items not affecting cash	103,128	77,470
Net change in non-cash working capital (note 15)	(20,158)	(29,663)
Contributions to pension and post-retirement benefit plans	(11,531)	(20,260)
Provisions paid	(978)	(1,084)
Income tax payments	(1,550)	(1,622)
Net cash from operating activities	70,930	45,838
Cash flows from (used in) investing activities		
Purchases of property, plant & equipment	(33,149)	(27,184)
Purchases of software	(1,960)	(989)
Proceeds on sale of property, plant and equipment	736	578
Acquisition of business	-	(23,360)
Net cash used in investing activities	(34,373)	(50,955)
Cash flows from (used in) financing activities		
Repayment of credit facilities	(4,880)	(4,334)
Payment of deferred financing fees	(140)	-
Interest paid on credit facilities	(22,375)	(21,196)
Distributions and advances paid (note 10)	(24,655)	(22,415)
Proceeds from issuing partnership units	195	878
Net cash used in financing activities	(51,855)	(47,067)
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	2,057	849
Decrease in cash and cash equivalents during the period	(13,241)	(51,335)
Cash and cash equivalents - Beginning of period	51,788	87,674
Cash and cash equivalents - End of period	38,547	36,339

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 27, 2015 and September 28, 2014

(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 (IAS) 34 - Interim Financial Reporting as issued by the International Accounting Standards Board (IASB), and with interpretations of the International Financial Reporting Committee which the Canadian Accounting Standards Board has approved for incorporation into Part 1 of the CPA Canada Handbook - Accounting. These condensed 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 November 11, 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) IFRS 15, Revenue from Contracts with Customers. The IASB has issued an amendment to defer the mandatory effective date to interim periods beginning on or after January 1, 2018, and early adoption is permitted. Management is evaluating the amended standard and has not yet determined the impact on its condensed consolidated financial statements.
- (ii) 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 amended standard and has not yet determined the impact on its condensed consolidated financial statements.

Kruger Products L.P.

Notes to Unaudited Condensed Consolidated Financial Statements

For the 39-week periods ended September 27, 2015 and September 28, 2014

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

(iii) 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 amended standard and has not yet determined the impact on its condensed consolidated financial statements.

4 Critical accounting estimates and judgments

The preparation of these unaudited condensed 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 consolidated financial statements and the disclosure of contingencies at the dates of the unaudited condensed consolidated statement of financial position, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The estimates and judgments applied by management that most significantly affect the unaudited condensed 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 September 27, 2015	13-week period ended September 28, 2014	39-week period ended September 27, 2015	39-week period ended September 28, 2014
	\$	\$	\$	\$
Unrealized foreign exchange loss	2,976	1,796	5,328	1,879
Change in amortized cost of Partnership units liability	1,851	1,043	5,013	5,907
Miscellaneous (income) expense	(6)	(87)	429	(164)
	<u>4,821</u>	<u>2,752</u>	<u>10,770</u>	<u>7,622</u>

Kruger Products L.P.

Notes to Unaudited Condensed Consolidated Financial Statements

For the 39-week periods ended September 27, 2015 and September 28, 2014

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

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	-	-	-	33,595	33,595
Disposals	(321)	-	(568)	-	(889)
Investment tax credits	-	-	(83)	-	(83)
Transfers	-	1,378	26,158	(27,536)	-
Depreciation	-	(3,632)	(25,703)	-	(29,335)
Exchange differences	195	7,804	43,149	867	52,015
As of September 27, 2015	40,552	109,766	537,763	19,984	708,065
As of September 27, 2015					
Cost	40,552	184,629	994,309	19,984	1,239,474
Accumulated depreciation and impairment	-	(74,863)	(456,546)	-	(531,409)
Net book value as of September 27, 2015	40,552	109,766	537,763	19,984	708,065

7 Pensions and post-retirement benefits

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

Assumptions	Pensions		Post-retirement benefit plans	
	September 27, 2015 %	December 31, 2014 %	September 27, 2015 %	December 31, 2014 %
Discount rate - accrued benefit obligation	3.90	4.00	3.90	4.00
Rate of compensation increases	3.25 - 4.00	3.25 - 4.00		

Kruger Products L.P.

Notes to Unaudited Condensed Consolidated Financial Statements

For the 39-week periods ended September 27, 2015 and September 28, 2014

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

The net benefit pension plan expense included the following components:

	Pensions		Post-retirement benefit plans	
	13-week period ended September 27, 2015 \$	13-week period ended September 28, 2014 \$	13-week period ended September 27, 2015 \$	13-week period ended September 28, 2014 \$
Net benefit plan expense				
Current service cost	2,266	2,073	419	362
Interest cost	6,099	6,412	514	544
Expected return on plan assets	(5,059)	(5,368)	-	-
	<u>3,306</u>	<u>3,117</u>	<u>933</u>	<u>906</u>

	Pensions		Post-retirement benefit plans	
	39-week period ended September 27, 2015 \$	39-week period ended September 28, 2014 \$	39-week period ended September 27, 2015 \$	39-week period ended September 28, 2014 \$
Net benefit plan expense				
Current service cost	6,794	6,353	1,251	1,086
Interest cost	18,334	19,257	1,547	1,632
Expected return on plan assets	(15,223)	(16,327)	-	-
Past service cost ^(a)	3,352	-	64	-
	<u>13,257</u>	<u>9,283</u>	<u>2,862</u>	<u>2,718</u>

a) Recognition of past service cost relating to contract amendments.

Kruger Products L.P.

Notes to Unaudited Condensed Consolidated Financial Statements

For the 39-week periods ended September 27, 2015 and September 28, 2014

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

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	-	970	1,835	2,805
Paid during the period	-	(39)	(939)	(978)
Interest accretion	187	-	-	187
Provisions as of				
September 27, 2015	6,085	3,117	2,220	11,422
Current	-	2,035	2,220	4,255
Non-current	6,085	1,082	-	7,167

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 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 39-week period ended September 27, 2015, \$0.2 million of restructuring charges at the New Westminster plant and other locations were released (39-week period ended September 28, 2014 – nil). On June 30, 2015, the Partnership entered into an agreement to sell certain timber lands at a sale price of \$1.5 million. The sale resulted in a recovery of non-financial assets of \$1.1 million, which was recorded in the consolidated statement of comprehensive income (loss) during the 13-week and 39-week periods ended September 27, 2015. As of September 27, 2015, there was a remaining provision of \$0.2 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 \$2.1 million, primarily related to severance. As of September 27, 2015, the Partnership had incurred \$1.4 million of the costs associated with this initiative. All actions to be taken under the plan were completed as of March 29,

Kruger Products L.P.

Notes to Unaudited Condensed Consolidated Financial Statements

For the 39-week periods ended September 27, 2015 and September 28, 2014

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

2015. The remaining provision of \$0.7 million relates to management's best estimate of the severance costs to be incurred.

In response to market cost pressures, in the first half 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 \$2.0 million, related to severance. As of September 27, 2015, KPLP had incurred \$0.7 million of the costs associated with this initiative and recorded a provision for the remaining \$1.3 million.

9 Long-term debt and subsequent events

The terms and conditions of the debt facilities as at September 27, 2015 are described in the annual consolidated financial statements of the Partnership for the year ended December 31, 2014. Subsequent to September 27, 2015, the Partnership refinanced the senior unsecured notes, which resulted in the following changes to the debt facilities:

a) Revolving credit facilities

Subsequent to the quarter-end, on September 28, 2015, the Partnership entered into the fifth amended and restated credit agreement (the Credit Agreement) related to its revolving credit facilities (the Credit Facility). The Credit Facility was increased to \$300.0 million from \$125.0 million. The borrowings under the Credit Facility bear interest at Canadian prime rate, U.S. base rate, banker's acceptance rates or Libor, plus a margin varying between 0.20% and 2.375% depending on the Partnership's rate of funded debt to EBITDA and the type of advance. The amended Credit Agreement is for a five year period and will mature September 28, 2020. The Credit Agreement provides for certain restrictive undertakings and covenants to be complied with by the Partnership.

As a result of drawing \$175.0 million to redeem the senior unsecured notes on September 30, 2015, the Partnership is exposed to changes in market interest rates. A 100 basis point increase (decrease) in the market rate of interest would result in a decrease (increase) in net income before tax of \$1.8 million.

As of December 31, 2014, transaction costs of \$0.6 million were deferred and classified as other long-term assets in the consolidated statement of financial position. These transaction costs were written off and recorded in interest expense in the consolidated statement of comprehensive income (loss) during the 13-week and 39-week periods ended September 27, 2015.

b) Senior unsecured notes

Subsequent to the quarter-end, on September 30, 2015, the Partnership repaid the 8.0% senior unsecured notes of \$175.0 million (the Notes). All of the Notes were redeemed at a fixed redemption price of 104% of the principal amount of the Notes, plus accrued and unpaid interest to September 29, 2015. The redemption price of \$7.0 million was recorded in interest expense in the consolidated statement of comprehensive income (loss) during the 13-week and 39-week periods ended September 27, 2015.

Unamortized deferred financing fees of \$2.8 million were written off and recorded in interest expense in the consolidated statement of comprehensive income (loss) during the 13-week and 39-week periods ended September 27, 2015.

The embedded derivative of \$4.1 million (December 31, 2014 - \$2.4 million) associated with the early repayment option was written off and recorded in interest expense in the consolidated statement of comprehensive income (loss) during the 13-week and 39-week periods ended September 27, 2015.

Kruger Products L.P.

Notes to Unaudited Condensed Consolidated Financial Statements

For the 39-week periods ended September 27, 2015 and September 28, 2014

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

10 Distributions and Partnership units liability

	Partnership units liability
	\$
As of January 1, 2015	128,123
Issuance of Partnership units	-
Change in amortized cost of Partnership units liability (note 5)	5,013
Tax Distributions declared	(6,949)
As of September 27, 2015	<u>126,187</u>

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:

Distribution Payment Date	39-week period ended September 27, 2015			
	Partnership unit distributions	Unit price	Issuance of Partnership units	Gross proceeds
	\$	\$	#	\$
January 15, 2015	9,652	16.46	256,590	4,223
April 15, 2015	9,699	15.56	285,231	4,438
July 15, 2015	9,750	14.31	312,247	4,468
	<u>29,101</u>		<u>854,068</u>	<u>13,129</u>

Distribution Payment Date	39-week period ended September 28, 2014			
	Partnership unit distributions	Unit price	Issuance of Partnership units	Gross proceeds
	\$	\$	#	\$
January 15, 2014	9,455	16.59	252,478	4,188
April 15, 2014	9,500	15.51	275,843	4,277
July 15, 2014	9,550	15.33	279,468	4,285
	<u>28,505</u>		<u>807,789</u>	<u>12,750</u>

On August 12, 2015, the Partnership declared a distribution of \$9.8 million, which was paid on October 15, 2015. Pursuant to the DRIP, a portion of the distribution was reinvested by the partners and the Partnership issued 361,765 additional Partnership units at a price of \$12.44 for the gross proceeds of \$4.5 million. During the 39-week period ended September 27, 2015, a fair value adjustment of \$0.5 million was recorded to reflect the market value of the Partnership units issued.

Subsequent to September 27, 2015, the Partnership declared a distribution of \$9.9 million, payable on January 15, 2016.

Kruger Products L.P.

Notes to Unaudited Condensed Consolidated Financial Statements

For the 39-week periods ended September 27, 2015 and September 28, 2014

(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:

	39-week period ended September 27, 2015			
	Tax	Advances	Partnership	Total
	distributions		unit	
	\$	\$	\$	\$
Paid to Kruger Inc. ^(a)	2,903	4,179	12,152	19,234
Paid to KPGP	1	-	3	4
Paid to KPT ^(b)	571	834	4,012	5,417
Total paid	3,475	5,013	16,167	24,655

	39-week period ended September 28, 2014			
	Tax	Advances	Partnership	Total
	distributions		unit	
	\$	\$	\$	\$
Paid to Kruger Inc. ^(a)	2,890	2,023	11,873	16,786
Paid to KPGP	1	-	3	4
Paid to KPT ^(b)	459	409	4,757	5,625
Total paid	3,350	2,432	16,633	22,415

- a) During the 39-week periods ended September 27, 2015 and September 28, 2014, Partnership unit distributions were paid to Kruger Inc. net of the DRIP reinvestment. During the 39-week period ended September 27, 2015, Kruger Inc.'s DRIP reinvestment was \$12.2 million (39-week period ended September 28, 2014 - \$11.9 million).
- b) As of April 15, 2015, Partnership unit distributions were paid to KPT net of the DRIP reinvestment. During the 26-week period ended September 27, 2015, KPT's DRIP reinvestment was \$0.8 million.

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 39-week period ended September 27, 2015, pursuant to the Tax Distribution as defined in the Partnership Agreement, the Partnership made advances to its partners of \$5.0 million, of which \$0.8 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 period ended September 27, 2015 and September 28, 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.,

Kruger Products L.P.

Notes to Unaudited Condensed Consolidated Financial Statements

For the 39-week periods ended September 27, 2015 and September 28, 2014

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

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 27, 2015 was 38.8% (39-week period ended September 28, 2014 – (11.2)%).

The components of income taxes were as follows:

	13-week period ended September 27, 2015	13-week period ended September 28, 2014	39-week period ended September 27, 2015	39-week period ended September 28, 2014
	\$	\$	\$	\$
Current tax expense	320	452	1,535	1,693
Deferred tax credit	(199)	(1,929)	(253)	(3,811)
	<u>121</u>	<u>(1,477)</u>	<u>1,282</u>	<u>(2,118)</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 period ended September 27, 2015 were \$0.1 million (39-week period ended September 28, 2014 - \$1.5 million). Sales of goods to subsidiaries of Kruger Inc. for the 39-week period ended September 27, 2015 was \$0.2 million (39-week period ended September 28, 2014 - \$0.2 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 period ended September 27, 2015 were \$22.5 million (39-week period ended September 28, 2014 - \$23.3 million). Purchases of goods and services from subsidiaries of Kruger Inc. for the 39-week period ended September 27, 2015 were \$8.0 million (39-week period ended September 28, 2014 - \$12.1 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 statement of comprehensive income (loss). During the 39-week period ended September 27, 2015, management fees of \$3.1 million (39-week period ended September 28, 2014 - \$3.0 million) were paid to Kruger Inc. for management services provided to the Partnership.

Kruger Products L.P.

Notes to Unaudited Condensed Consolidated Financial Statements

For the 39-week periods ended September 27, 2015 and September 28, 2014

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

Balances due to and from related parties were as follows:

	September 27, 2015	December 31, 2014
	\$	\$
Receivables from Kruger Inc.	34	220
Receivables from subsidiaries of Kruger Inc.	15	28
Receivables from KPT	-	53
	<u>49</u>	<u>301</u>
Payables to Kruger Inc.	3,550	2,978
Payables to subsidiaries of Kruger Inc.	708	1,409
Payables to KPT	31	-
	<u>4,289</u>	<u>4,387</u>

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 27, 2015 and December 31, 2014. There were no loans outstanding with related parties as of September 27, 2015 and December 31, 2014.

As of September 27, 2015, the Partnership had declared distributions to its related parties as follows:

	September 27, 2015	December 31, 2014
	\$	\$
Distribution payable to Kruger Inc.	8,198	8,179
Distribution payable to KPGP	1	1
Distribution payable to KPT	1,607	1,601
Total distribution payable	<u>9,806</u>	<u>9,781</u>

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.

Kruger Products L.P.

Notes to Unaudited Condensed Consolidated Financial Statements

For the 39-week periods ended September 27, 2015 and September 28, 2014

(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, (ix) changes in the amortized cost of the Partnership units liability, and (x) one-time costs due to pension revaluations related to past service. 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 September 27, 2015			
	Consumer	AFH	Other	Total
	\$	\$	\$	\$
Revenue from external customers	230,181	59,524	3,869	293,574
Segment operating profit	32,338	1,763	732	34,833
Depreciation and amortization				10,702
Interest expense				25,254
Change in amortized cost of Partnership units liability				1,851
Loss on sale of fixed assets				145
Recovery of non-financial assets				(1,131)
Restructuring costs				781
Unrealized foreign exchange loss				2,976
Loss before income taxes				(5,745)
Income taxes				121
Net loss for the period				<u>(5,866)</u>

	13-week period ended September 28, 2014			
	Consumer	AFH	Other	Total
	\$	\$	\$	\$
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 27, 2015 and September 28, 2014

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

	39-week period ended September 27, 2015			
	Consumer	AFH	Other	Total
	\$	\$	\$	\$
Revenue from external customers	657,376	165,521	15,390	838,287
Segment operating profit (loss)	91,757	4,786	(411)	96,132
Depreciation and amortization				30,017
Interest expense				48,069
Change in amortized cost of Partnership units liability				5,013
Loss on sale of fixed assets				284
Recovery of non-financial assets				(1,131)
Restructuring costs				1,835
Pension revaluation - past service cost				3,416
Unrealized foreign exchange loss				5,328
Income before income taxes				3,301
Income taxes				1,282
Net income for the period				2,019

	39-week period ended September 28, 2014			
	Consumer	AFH	Other	Total
	\$	\$	\$	\$
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

Kruger Products L.P.

Notes to Unaudited Condensed Consolidated Financial Statements

For the 39-week periods ended September 27, 2015 and September 28, 2014

(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.

	13-week period ended September 27, 2015	13-week period ended September 28, 2014	39-week period ended September 27, 2015	39-week period ended September 28, 2014
Revenue	\$	\$	\$	\$
Canada	183,167	182,260	527,369	516,401
US	101,965	77,758	285,770	230,826
Mexico	8,442	7,611	25,148	20,294
	<u>293,574</u>	<u>267,629</u>	<u>838,287</u>	<u>767,521</u>

	September 27, 2015			
	Canada	US	Mexico	Total
	\$	\$	\$	\$
Property, plant and equipment	308,387	399,678	-	708,065
Goodwill	160,939	-	-	160,939
Intangible assets	15,449	-	-	15,449

	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

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 27, 2015 and September 28, 2014

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

As of September 27, 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	38,547	38,547
Trade and other receivables	loans and receivables	amortized cost	118,636	118,636
Receivables from related party	loans and receivables	amortized cost	49	49
Advances to partners	loans and receivables	amortized cost	5,013	5,013
Available-for-sale investment	fair value through other comprehensive income or loss	fair value	892	892
Trade and other payables	financial liabilities	amortized cost	(187,365)	(187,365)
Payables to related parties	financial liabilities	amortized cost	(4,289)	(4,289)
Distributions payable	financial liabilities	amortized cost	(9,806)	(9,806)
Long-term debt	financial liabilities	amortized cost	(408,960)	(415,773)
Partnership units liability	financial liabilities	amortized cost	(126,187)	(126,187)

The following table details the fair value hierarchy of financial instruments carried at fair value by level as of September 27, 2015:

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Available-for-sale investment	892	-	-	892

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)

Kruger Products L.P.

Notes to Unaudited Condensed Consolidated Financial Statements

For the 39-week periods ended September 27, 2015 and September 28, 2014

(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 distributions payable are short-term financial instruments whose fair value approximates the carrying amount, given they will mature in the near future. As of September 27, 2015, the fair value of the senior notes was \$182.0 million (December 31, 2014 - \$189.0) 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 \$39.6 million and \$192.8 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 September 27, 2015, the fair value of the loans payable was \$1.4 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 September 27, 2015 and have been recorded in other comprehensive income (loss) 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 Non-cash working capital

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

	39-week period ended September 27, 2015	39-week period ended September 28, 2014
	\$	\$
Increase in trade and other receivables	(4,294)	(11,582)
Decrease in receivables from related parties	252	638
Decrease (increase) in inventories	(19,428)	6,113
Increase in prepaid expenses and other current assets	(2,739)	(2,832)
Increase in other long-term assets	(318)	(155)
Increase in income taxes	(1,267)	(164)
Increase (decrease) in trade and other payables	7,734	(21,817)
Increase (decrease) in payables to related parties	(98)	136
	<u>(20,158)</u>	<u>(29,663)</u>