KRUGER PRODUCTS L.P.

AUDITED CONSOLIDATED FINANCIAL STATEMENT

FOR THE YEARS ENDED DECEMBER 31, 2015 AND DECEMBER 31, 2014

Kruger Products L.P
#200 – 1900 Minnesota Court, Mississauga Ontario L5N 5R5
www.krugerproducts.ca

March 10, 2016

Independent Auditor's Report

To the Unitholders of
Kruger Products L.P.

We have audited the accompanying consolidated financial statements of Kruger Products L.P. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2015 and December 31, 2014 and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Kruger Products L.P. and its subsidiaries as at December 31, 2015 and December 31, 2014 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

(signed) PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants
Toronto, Ontario

Kruger Products L.P.
Consolidated Statement of Financial Position

(tabular amounts are in thousands of Canadian dollars)

	December 31, 2015 $	December 31, 2014 $
Assets		
Current assets		
Cash and cash equivalents	25,455	51,788
Trade and other receivables (note 7)	108,720	107,092
Receivables from related parties (note 17)	185	301
Current portion of advances to partners (note 15)	2,630	3,474
Inventories (note 8)	184,985	150,328
Income tax recoverable (note 16)	772	1,302
Prepaid expenses and other current assets (note 14)	8,429	7,351
	331,176	321,636
Non-current assets		
Advances to partners (note 15)	4,234	-
Property, plant & equipment (note 9)	737,708	652,762
Other long-term assets	8,107	7,738
Goodwill (note 10)	160,939	160,939
Intangible assets (note 10)	15,853	14,052
Deferred income taxes (note 16)	39,411	34,874
Total assets	1,297,428	1,192,001
Liabilities		
Current liabilities		
Trade and other payables (note 12)	180,329	173,228
Payables to related parties (note 17)	3,775	4,387
Distributions payable (notes 15 and 17)	9,871	9,781
Current portion of provisions (note 13)	3,096	2,967
Current portion of long-term debt (note 14)	10,183	8,879
	207,254	199,242
Non-current liabilities		
Long-term debt (note 14)	425,859	358,646
Other long-term liabilities	48	156
Provisions (note 13)	6,180	6,441
Pensions (note 11)	87,164	98,533
Post-retirement benefits (note 11)	57,346	53,357
Liabilities to non-unitholders	783,851	716,375
Current portion of Partnership units liability (note 15)	2,630	6,949
Long-term portion of Partnership units liability (note 15)	122,546	121,174
Total Partnership units liability	125,176	128,123
Total liabilities	909,027	844,498
Equity		
Partnership units (note 15)	318,012	299,616
Retained earnings (deficit)	(29,416)	4,424
Accumulated other comprehensive income	99,805	43,463
Total equity	388,401	347,503
Total equity and liabilities	1,297,428	1,192,001

Commitments and contingencies (note 18)
Subsequent events (notes 14, 15 and 22)

Approved by the Board of Directors

/s/ David Spraley — **Director**

/s/ David Angel — **Director**

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

Kruger Products L.P.
Consolidated Statement of Comprehensive Income
For the years ended December 31, 2015 and December 31, 2014

(tabular amounts are in thousands of Canadian dollars)

	2015 $	2014 $
Revenue (notes 17 and 25)	1,138,870	1,046,168
Expenses		
Cost of sales (notes 17 and 19)	970,759	879,139
Selling, general and administrative expenses (notes 17 and 19)	87,978	82,625
Gain on sale of non-financial assets (note 13)	(1,119)	-
Restructuring costs (note 13)	2,824	2,835
Operating income	78,428	81,569
Interest expense (note 14)	58,164	44,730
Other expense (note 6)	11,331	17,612
Income before income taxes	8,933	19,227
Income taxes (note 16)	7,439	(1,840)
Net income for the year	1,494	21,067
Other comprehensive income (loss)		
Items that will not be reclassified to net income:		
Remeasurements of pensions	7,094	(25,689)
Remeasurements of post-retirement benefits	(2,667)	(3,466)
Items that may be subsequently reclassified to net income:		
Available-for-sale investment	207	15
Cumulative translation adjustment	56,135	23,779
Total other comprehensive income (loss) for the year	60,769	(5,361)
Comprehensive income for the year	62,263	15,706

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

Kruger Products L.P.
Consolidated Statement of Changes in Equity
For the years ended December 31, 2015 and December 31, 2014

(tabular amounts are in thousands of Canadian dollars)

	Partnership units		Retained earnings (deficit)	Accumulated other comprehensive income	Total equity
	#	$	$	$	$
As of January 1, 2014	52,527,550	282,672	50,945	19,669	353,286
Distributions payable (note 15)	-	-	(9,652)	-	(9,652)
Distributions paid (note 15)	-	-	(28,652)	-	(28,652)
Fair value adjustment (note 15)	-	-	(129)	-	(129)
Change in actuarial loss on pension	-	-	(25,689)	-	(25,689)
Change in actuarial loss on post retirement benefits	-	-	(3,466)	-	(3,466)
Change in available-for-sale investment	-	-	-	15	15
Cumulative translation adjustment	-	-	-	23,779	23,779
Net income for the year	-	-	21,067	-	21,067
Issuance of partnership units (note 15)	1,096,710	16,944	-	-	16,944
As of December 31, 2014	53,624,260	299,616	4,424	43,463	347,503
As of January 1, 2015	53,624,260	299,616	4,424	43,463	347,503
Distributions payable (note 15)	-	-	(9,871)	-	(9,871)
Distributions paid (note 15)	-	-	(29,255)	-	(29,255)
Fair value adjustment (note 15)	-	766	(635)	-	131
Change in actuarial gain on pension	-	-	7,094	-	7,094
Change in actuarial loss on post retirement benefits	-	-	(2,667)	-	(2,667)
Change in available-for-sale investment	-	-	-	207	207
Cumulative translation adjustment	-	-	-	56,135	56,135
Net income for the year	-	-	1,494	-	1,494
Issuance of partnership units (note 15)	1,215,833	17,630	-	-	17,630
As of December 31, 2015	54,840,093	318,012	(29,416)	99,805	388,401

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

Kruger Products L.P.
Consolidated Statement of Cash Flows
For the years ended December 31, 2015 and December 31, 2014

(tabular amounts are in thousands of Canadian dollars)

	2015 $	2014 $
Cash flows from (used in) operating activities		
Net income for the year	1,494	21,067
Items not affecting cash		
Depreciation	41,643	37,049
Amortization	881	649
Loss (gain) on sale of fixed assets	734	(135)
Change in amortized cost of Partnership units liability (note 6)	4,003	13,759
Unrealized foreign exchange loss (note 6)	6,906	3,522
Interest expense	58,164	44,730
Pension and post retirement benefits	14,146	9,874
Provisions (note 13)	3,034	3,762
Income taxes	7,439	(1,840)
Gain on sale of non-financial assets (note 13)	(1,119)	-
Total items not affecting cash	135,831	111,370
Net change in non-cash working capital (note 26)	(24,540)	(12,454)
Contributions to pension and post-retirement benefit plans	(23,084)	(22,414)
Provisions paid	(3,558)	(2,562)
Income tax payments	(2,107)	(2,102)
Net cash from operating activities	84,036	92,905
Cash flows from (used in) investing activities		
Purchases of property, plant & equipment	(54,701)	(41,034)
Available-for-sale investment	-	(277)
Purchases of software	(2,682)	(1,218)
Proceeds on sale of property, plant and equipment	736	578
Acquisition of business	-	(23,360)
Net cash used in investing activities	(56,647)	(65,311)
Cash flows from (used in) financing activities		
Proceeds from long-term debt	206,000	-
Repayment of long-term debt	(184,856)	(8,577)
Payment of deferred financing fees	(1,388)	-
Interest paid on long-term debt	(44,978)	(28,389)
Distributions and advances paid (note 15)	(31,811)	(29,054)
Proceeds from issuing Partnership units	195	1,070
Net cash used in financing activities	(56,838)	(64,950)
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	3,116	1,470
Decrease in cash and cash equivalents during the year	(26,333)	(35,886)
Cash and cash equivalents - Beginning of year	51,788	87,674
Cash and cash equivalents - End of year	25,455	51,788

The accompanying notes are an integral part of these 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. (ultimate parent), 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) 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 consolidated financial statements were approved by the board of directors of KPGP Inc. on March 9, 2016.

The Partnership consolidates all entities which it controls.

The principal subsidiaries of the Partnership are as follows:

K.T.G. (USA) Inc. (KTG)
Kruger Products (USA) Inc. (KP USA)
Grupo Tissue de Mexico S de RL de CV (GTM)
Kruger Products AFH L.P. (KP AFH)
TAD Luxembourg S.A.R.L
TAD Canco Inc.
Kruger Products Real Estate Holding Inc.
8528365 Canada Inc.
West Tree Farms Limited
White Swan Tissue Company
Aztec Investments Inc.

3 Summary of significant accounting policies

The significant accounting policies used in the preparation of these consolidated financial statements were as follows:

(a) Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, except for the available-for-sale investment and embedded derivatives on debt, which are measured at fair value through profit or loss and accounting for pensions (see note 3(*f*)).

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Partnership's accounting policies. The areas involving a higher degree of judgment or complexity or areas where assumptions and estimates are significant are disclosed in note 4.

(b) Consolidation

Subsidiaries are all those entities over which the Partnership has the power over the investee, is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect these returns through

its power over the investee. Subsidiaries are fully consolidated from the date on which control is transferred to the Partnership and de-consolidated from the date that control ceases. Intercompany transactions, balances and unrealized gains/losses on transactions between group companies are eliminated on consolidation.

The purchase method of accounting is used to account for the acquisition of subsidiaries that are not under common control. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Partnership's share of the identifiable net assets acquired is recorded as goodwill.

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer. The operating segments for the Partnership include Consumer, Away-From-Home (AFH) and Other.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the consolidated financial statements of each entity of the Partnership are measured using the currency of the primary economic environment in which the entity operates (the functional currency). These consolidated financial statements are presented in Canadian dollars, which is the Partnership's functional currency.

The Partnership has determined that its foreign operations located in the United States (KTG and KP USA) and TAD Canco Inc. and TAD Luxembourg S.A.R.L. have a functional currency of U.S. dollars. Mexico (GTM) has a functional currency of the Mexican peso. Consequently, revenue and expenses of these foreign operations are recorded using the rate of exchange in effect at the dates of the transactions and the translation of assets and liabilities uses the rates of exchange in effect at the period-end date, with the resulting net unrealized gains and losses arising from the translation of these foreign operations included as part of the currency translation adjustment in other comprehensive income.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the rate of exchange in effect at the dates of the transactions. Foreign exchange gains and losses arising from translating monetary foreign currency balances are included in selling, general and administrative (SG&A) expenses or other expenses.

(e) Cash and cash equivalents

The Partnership considers all highly liquid investments with an original maturity of three months or less from maturity to be cash equivalents.

(f) Trade receivables

Trade receivables are amounts due from customers from the sale of products or services rendered in the ordinary course of business. Trade receivables are classified as current assets if payment is due within one year or less. Trade receivables are recognized initially at fair value and subsequently measured at amortized cost, less provision for doubtful accounts.

(g) Inventories

Inventories of raw materials and spare parts are valued at the lower of weighted average cost and net realizable value. Finished products and work-in-process are valued at the lower of standard cost and net realizable value and include the cost of raw materials, direct labour and manufacturing overhead expenses. Net realizable value is the estimated selling prices less applicable selling expenses and costs to complete. If the carrying value exceeds the net realizable value, a write-down is recognized.

(h) Borrowing costs

Borrowing costs attributable to the acquisition, construction or production of qualifying assets are added to the cost of these assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognized as interest expense in the consolidated statement of comprehensive income in the period in which they are incurred.

(i) Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation, investment tax credits, US State tax credits, government grants and accumulated impairment loss. Cost includes expenditures that are directly attributable to the acquisition of the asset and an estimate of the asset retirement obligation. The Partnership allocates the amount initially recognized to an item of property, plant and equipment to its segregated parts and depreciates each of these segregated parts separately. The Partnership also capitalizes costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of the asset. Subsequent costs are included in the asset's carrying value or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Partnership and the cost can be reliably measured. The carrying amount of a replaced asset is derecognized when replaced. Residual values, method of depreciation and useful lives of property, plant and equipment are reviewed annually and adjusted if appropriate.

Depreciation of property, plant and equipment is generally calculated using the straight-line method to allocate their cost less their residual values over their estimated useful lives as follows:

Buildings	20 to 40 years
Machinery and equipment	5 to 40 years

For certain major pieces of equipment, depreciation is calculated using the unit-of-production method. Assets under construction or development are depreciated from the date the asset is ready for productive use. Land is not depreciated.

Repairs and maintenance costs are charged to the consolidated statement of comprehensive income during the period in which they are incurred.

Gains and losses on disposals of property, plant and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included in SG&A expenses.

(j) Goodwill

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures and represents the excess of the consideration transferred over the Partnership's interest in fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree. Goodwill is carried at cost less accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units (CGUs), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each CGU or group of CGUs to which the goodwill is allocated represents the lowest level within the Partnership at which the goodwill is monitored for internal management purposes.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU is compared to the recoverable amount, which is the higher of the value in use and the fair value less costs to sell. Any goodwill impairment is recognized immediately as an expense and is not subsequently reversed.

(k) Intangible assets

(i) Trademarks

Separately acquired trademarks have indefinite useful lives and are carried at cost. The trademarks have indefinite useful lives as the trademarks can be renewed infinitely without substantial cost. Management believes the trademarks are very well established in the marketplace and will continue to provide benefits indefinitely into the future.

(ii) Software and licences

Costs to purchase non-integral software and licences are capitalized and included as part of intangible assets on the consolidated statement of financial position. Costs associated with maintaining software programs are recognized as an expense as incurred.

Software and licence costs recognized as assets are amortized over their estimated useful lives, which represent management's view of the expected period over which the Partnership will receive benefits from the software and licences. The useful life of software and licences is five years.

(l) Impairment of non-financial assets

The carrying values of non-financial assets with finite lives, such as property, plant and equipment and intangible assets with finite useful lives are assessed for impairment whenever events or changes in circumstances indicate their carrying amounts may not be recoverable. Non-financial assets that are not amortized are subject to an annual impairment test. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use (which is the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets other than goodwill that have suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(m) Related party transactions

Related party transactions that are in the normal course of operations and have commercial substance are made under competitive terms and conditions or in accordance with the agreements with the related party.

(n) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

(o) Provisions

Provisions include environmental and asset retirement obligations, long-term incentives and restructuring. A provision is recognized when the Partnership has a legal or constructive obligation as a result of a past event and it is probable that settlement of the obligation will require a financial payment or cause a financial loss and a reliable estimate can be made of the amount of the obligation.

If some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recorded in the consolidated statement of financial position as a separate asset, but only if it is virtually certain that the reimbursement will be received.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

(p) Government grants, investment tax credits and US State tax credits

Government grants, investment tax credits, and US State tax credits are accounted for using the cost reduction method, whereby such amounts are deducted from the expenditures or assets to which they relate when there is reasonable assurance that the grant or credit will be received and where the Partnership will comply with the conditions attached to the assistance.

(q) Revenue recognition

The Partnership recognizes revenue when it is probable that the economic benefits will flow to the Partnership, the significant risks and benefits of ownership are transferred (based on shipping terms), the price is fixed or determinable and collection of the resulting receivable is reasonably assured.

Revenue is measured based on the price specified in the sales contract and is net of discounts, rebates and allowances. Reductions to revenue for expected and actual payments to customers for rebates and allowances are based on actual expenses incurred during the period, on estimates of what is due to customers for estimated credits earned during the period and any adjustments for credits based on actual activity.

(r) Cost of sales and SG&A expenses

Cost of sales includes cost of finished goods sold, freight, warehousing, handling costs, and inventory write-downs. Marketing, selling, and general and administrative expenses are included in SG&A expenses.

(s) Pensions and post-retirement benefits

The Partnership accrues its obligation under employee benefit plans and the related costs, net of plan assets. The Partnership has the following policies:

- The costs of pensions under defined benefit plans and post-retirement benefits are actuarially determined using the projected unit credit method and management's best estimate of expected plan investment performance for funded plans, salary escalation, retirement ages of employees and expected health-care costs. Actuarial valuations for defined benefit plans and post-retirement benefits are completed annually. The discount rate applied in arriving at the present value of the pension liability represents the yield on high quality corporate bonds denominated in the currency in which the benefits are to be paid and having terms to maturity approximating the terms of the related pension liability.

- Pension assets are valued at fair value.

- Past-service costs from plan amendments are recognized immediately to the extent the benefits are vested in net income and are otherwise amortized on a straight-line basis over the average period until the benefits become vested.

- The actuarial gains or losses are recognized in full in the period in which they occur in other comprehensive income without recycling to the income statement in subsequent periods. Amounts recognized in other comprehensive income are recognized immediately in retained earnings.

- The pension expense is split into two components: (i) current service costs and past-service costs have been recognized in cost of sales and SG&A expenses; and (ii) the interest cost on the benefit obligation offset by the expected return on plan assets is recorded within interest expense on the consolidated statement of comprehensive income.

- The Partnership also participates in a multi-employer pension plan and defined contribution pension plans. The costs of the multi-employer pension plan and defined contribution pension plans are charged to expense as the contributions become payable.

(t) Income taxes

The tax expense for the year comprises current and deferred tax. Tax is recognized in net income, except to the extent that it relates to items recognized in other comprehensive income (loss) or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The Partnership is not a tax paying entity. The income from the Partnership flows to the partners, Kruger Inc., KPGP and KPT. Accordingly no provision for income taxes has been made for the Partnership's income. The U.S. entities, KP USA and KTG are subject to tax on the basis of the tax laws enacted in the U.S. where the entities operate and generate taxable income. The remaining entities, TAD Canco Inc., GTM and TAD Luxembourg S.A.R.L., are subject to tax on the basis of the laws enacted in Canada, Mexico and Luxembourg, respectively.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. The Partnership establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Current tax is the expected tax payable on the taxable income for the year at closing tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill, or from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the consolidated statement of financial position dates and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. Deferred income tax assets and liabilities are presented as non-current.

(u) Financial instruments

Financial assets and liabilities are recognized when the Partnership becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Partnership has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expired.

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, the Partnership classifies its financial instruments in the following categories:

(i) *Financial assets and liabilities at fair value through profit or loss*: A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term. Derivatives are also included in this category unless they are designated as hedges. The financial instruments classified in this category include the embedded derivatives.

Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the consolidated statement of comprehensive income in SG&A expenses. Gains and losses arising from changes in fair value of the embedded derivatives are presented in the consolidated statement of comprehensive income within interest expense in the period in which they arise. Financial assets and liabilities at fair value through profit or loss are classified as current, except for the portion expected to be realized or paid beyond 12 months of the dates of the consolidated statement of financial position, which are classified as non-current.

(ii) *Financial assets and liabilities at fair value through other comprehensive income or loss:* A financial asset or liability is classified in this category if acquired for the purpose of holding the investment for a long-term period. The financial instruments classified in this category would include the available-for-sale investment.

Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the consolidated statement of comprehensive income in SG&A expenses. Gains and losses arising from changes in fair value of the available-for-sale investment are presented in the other comprehensive income in the period in which they arise. Financial assets and liabilities at fair value through other comprehensive income or loss are classified as current, except for the portion expected to be realized or paid beyond 12 months of the dates of the consolidated statement of financial position, which are classified as non-current.

(iii) *Loans and receivables*: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables include cash and cash equivalents, receivables from related parties, trade and other receivables and mortgage receivable. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment. Loans and receivables are classified as current, except for the portion expected to be realized beyond 12 months of the dates of the consolidated statement of

financial position, which are classified as non-current.

(iv) *Financial liabilities at amortized cost*: Financial liabilities at amortized cost include trade and other payables, payables to related parties, long-term debt and the Partnership units liability. Payables are initially recognized at the amount required to be paid less, when material, a discount to reduce the payables to fair value. Subsequently, payables to related parties and trade and other payables are measured at amortized cost using the effective interest method. Long-term debt is recognized initially at fair value, net of any transaction costs incurred and subsequently at amortized cost using the effective interest method. The Partnership units liability is recognized initially at fair value and subsequently at amortized cost. Amortized cost is estimated based on the expected tax distributions to be paid as required by the partnership agreement using a discount rate that reflects current market assessments of the time value of money and the rates specific to the obligation, and a terminal value as the obligation will continue indefinitely.

Financial liabilities are classified as current liabilities if payment is due within 12 months. Otherwise, they are presented as non-current liabilities.

(v) Fair value hierarchy

The Partnership categorizes its financial assets and liabilities measured at fair value into one of three different levels depending on the inputs used in the measurement.

- Level 1 - fair value based on unadjusted quoted prices for identical assets and liabilities in active markets that are accessible at the measurement date;
- Level 2 - valuations determined using directly or indirectly observable inputs other than quoted prices included within Level 1. Derivative instruments in this category are valued using models or other industry standard valuation techniques derived from observable market inputs; and
- Level 3 - valuations based on inputs that are less observable, unavailable or where the observable data does not support a significant portion of the instrument's fair value.

(w) Embedded derivatives

The senior unsecured notes included an early repayment option. The Partnership determined that the early repayment option was an embedded derivative that was not closely related to the senior unsecured notes. Accordingly, the embedded derivative was bifurcated from the senior unsecured notes. The embedded derivative was recorded at its fair value with changes in fair value included in interest expense in the consolidated statement of comprehensive income. On September 30, 2015, the senior unsecured notes were repaid, and the associated embedded derivative was written off and recorded in interest expense in the consolidated statement of comprehensive income for the year ended December 31, 2015. Additional information is disclosed in note 14.

(x) Dividend reinvestment plan

Pursuant to the Dividend Re-investment Plan (DRIP), the Partnership is required to issue Partnership units in lieu of cash distributions at the option of the Partners. Upon settlement of the DRIP, the difference between the distributions declared and the fair value of the units issued is charged to retained earnings.

(y) Accounting standards implemented for the year ended December 31, 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 consolidated financial statements.

(z) Accounting standards issued but not yet applied

The following revised standards and amendments are effective for annual periods beginning on or after January 1, 2016, except as noted below, with earlier application permitted. The Partnership continues to assess the impact of these standards and amendments and has not yet determined whether it will early adopt them.

(i) IFRS 15, Revenue from Contracts with Customers, specifies how and when to recognize revenue as well as requiring entities to provide users of financial statements with some informative, relevant disclosures. The standard supersedes IAS 18, Revenue, IAS 11, Construction Contracts, and a number of revenue-related interpretations. Application of the standard is mandatory for all IFRS reporters and it applies to nearly all contracts with customers: the main exceptions are leases, financial instruments and insurance contracts. 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 consolidated financial statements.

(ii) IFRS 9, Financial Instruments. In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments, bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. The mandatory effective date of IFRS 9 would be annual periods beginning on or after January 1, 2018, with early adoption permitted. Management is evaluating the standard and has not yet determined the impact on its consolidated financial statements.

(iii) IAS 19, Employee Benefits. The IASB has issued an amendment to clarify, 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. The amended standard will not have an impact on the consolidated financial statements.

(iv) 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 consolidated financial statements.

(v) IFRS 16, Leases. On January 13, 2016, the International Accounting Standards Board issued IFRS 16, Leases which replaces the current guidance in IAS 17, Leases. IFRS 16 requires lessees to recognize a lease liability reflecting future lease payments and a right of use asset for virtually all lease contracts. IFRS 16 must be applied to an entity's first annual IFRS financial statements for periods beginning on or after January 1, 2019, with early adoption permitted. Management is evaluating the standard and has not yet determined the impact on its consolidated financial statements.

(vi) IAS 7, Statement of Cash Flows. The IASB issued an amendment to require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non cash changes. The amendment is effective for annual periods beginning on or after January 1, 2017. Management is evaluating the standard and has not yet determined the impact on its consolidated financial statements.

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

4 Critical accounting estimates and judgments

The preparation of these 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 consolidated financial statements and the disclosure of contingencies at the dates of the consolidated statements of financial position, and the reported amounts of revenues and expenses during the reporting period. On a regular basis and with the information available, management reviews its estimates, including those related to environmental, pensions and post-retirement obligations, the Partnership units liability, and income taxes. Actual results could differ from those estimates. When adjustments become necessary, they are reported in earnings in the period in which they occur. The following are the estimates and judgments applied by management that most significantly affect the Partnership's consolidated financial statements.

Pensions and post-retirement benefit obligations

The present value of the pension and post-retirement obligations is dependent on actuarial calculations, which include a number of assumptions. These assumptions include the discount rate, which is used to calculate the present value of the estimated future cash outflows that will be required to meet the pension obligations. In determining the discount rate to use, the Partnership considers market yields of high quality corporate bonds denominated in Canadian dollars that have terms to maturity approximating the terms of the pension liability.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in note 11.

Partnership units

On December 13, 2012, in connection with the issuance of Partnership units to KPT, the Limited Partnership Agreement was amended to require KPLP, subject to compliance with contractual obligations and applicable law, to make distributions to its partners in such amounts as would enable KPT to discharge its obligation to pay federal and provincial income taxes (the Tax Distribution). Each partner is entitled to its share of the Tax Distribution made in respect of any given year. KPLP determined that it was appropriate to reclassify a portion of its equity to Partnership units liability, since the Tax Distribution represents a contractual obligation to deliver cash and, as such, meets the definition of a financial liability for accounting purposes under IFRS. As of December 31, 2015, $125.2 million was recorded as a liability in respect of this obligation (December 31, 2014 - $128.1 million).

The increase in amortized cost of $4.0 million has been included in Other expense, which includes a decrease of $2.9 million for the reassessment performed as of December 31, 2015. The reassessment reflects KPLP's estimate of the net present value of the financial liability arising from the obligation to make the Tax Distribution using estimates of tax payable by KPT and a discount rate and terminal growth rate of 11.25% and 2.0% (December 31, 2014 – 11.0% and 0%), respectively. The change in the discount rate resulted in a decrease in liability of $3.0 million. The provisions are based on management's best estimate of expected future Tax Distributions. Projections of tax payable are based on additional assumptions including estimates of taxable income and tax rates. Taxable income can differ significantly from accounting income as a result of both timing and permanent tax differences based on enacted tax legislation and therefore changes in the Partnership units obligation are not necessarily indicative of a change in the expected future profitability of KPLP. An increase/decrease in the discount rate by 0.5% would result in a decrease/increase in the Partnership units liability of approximately $6.6 million and $7.5 million, respectively. The discount rate reflects the risks associated with the business, which operates primarily in Canada.

The Partnership units liability was also adjusted during the year ended December 31, 2015 to reflect the current year advances made to the partners required to allow KPT to make tax installment payments. The advances of $6.8 million were partially offset against the Tax Distributions of $2.6 million declared and paid by the Partnership on February 26, 2016. The excess advances over the Tax Distributions in the amount of $4.2 million are repayable by the partners to the Partnership by March 31, 2017.

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

Impairment tests

The Partnership performs an annual impairment test for goodwill and indefinite lived trademarks. As of December 31, 2015, no impairments were identified as a result of these tests. Recoverable amounts are determined based on management's best estimate of value in use. The estimates of value in use are based on the present value of forecasted future cash flows. Additional assumptions include estimates of the discount rate, Adjusted EBITDA, growth rates, and foreign exchange rates.

Income taxes

The Partnership computes its income taxes in each jurisdiction in which its subsidiaries operate. Estimation of income taxes includes evaluating the recoverability of the deferred tax assets and the income taxes recoverable based on an assessment of the ability to use the underlying tax deductions and credits against future taxable income. The assessment requires an estimate of future taxable income compared to the net operating loss carry forwards and US State tax credits. To the extent estimates differ from the final tax return, earnings would be affected in a subsequent period. During the year ended December 31, 2015, the Partnership reassessed its ability to utilize the US State tax credits. As a result of this reassessment, a reversal of $5.5 million of the US State tax credits was recorded in the consolidated statement of comprehensive income.

5 Business combinations

Acquisition of Metro Paper

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

The acquisition has been accounted for in accordance with IFRS 3, Business Combinations. The excess of the consideration paid over the fair value of the assets acquired resulted in tax deductible goodwill of $8.9 million and has been allocated to the Canada CGU. The Partnership has assessed the fair values of the assets acquired based on information available at the closing date, and therefore the values represent management's best estimates.

The fair values of the assets acquired were as follows:

	Metro Paper
Fair value of identifiable assets acquired	
Inventory	6,299
Property, plant and equipment	8,240
Goodwill	8,918
Accrued liabilities	(97)
Net assets acquired	23,360
Cash paid	23,360

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

6 Other expense

	2015 $	2014 $
Unrealized foreign exchange loss	6,906	3,522
Change in amortized cost of Partnership units liability	4,003	13,759
Miscellaneous expense	422	331
	11,331	17,612

7 Trade and other receivables

	December 31, 2015 $	December 31, 2014 $
Trade receivables	100,869	102,555
Other receivables	8,692	5,189
Employee loans	15	20
Less: Allowance for doubtful accounts	(856)	(672)
	108,720	107,092

8 Inventories

	December 31, 2015 $	December 31, 2014 $
Finished products	92,034	65,171
Work-in-process	26,300	30,245
Raw materials and supplies	36,036	27,237
Spare parts	30,615	27,675
	184,985	150,328

Total inventories recognized as cost of sales during the year ended December 31, 2015 were $833.9 million (2014 – $751.8 million). The Partnership wrote-off inventories during the year ended December 31, 2015 totalling $0.4 million (2014 - $0.1 million), primarily related to obsolete packaging. Inventory provisions as of December 31, 2015 were $5.8 million (December 31, 2014 - $5.0 million).

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

9 Property, plant and equipment

	Land	Buildings	Machinery and equipment	Assets under construction or development	Total
	$	$	$	$	$
As of January 1, 2014					
Cost	40,564	166,719	854,566	12,207	1,074,056
Accumulated depreciation and impairment	-	(64,918)	(392,451)	-	(457,369)
Net book value as of January 1, 2014	40,564	101,801	462,115	12,207	616,687
Additions	-	-	-	35,186	35,186
Disposals	-	-	(443)	-	(443)
Investment tax credits	-	-	(525)	-	(525)
Transfers	4	2,658	31,966	(34,628)	-
Acquisition of business	-	-	8,240	-	8,240
Depreciation	-	(4,694)	(31,054)	-	(35,748)
Exchange differences	110	4,451	24,511	293	29,365
As of December 31, 2014	40,678	104,216	494,810	13,058	652,762
As of December 31, 2014					
Cost	40,678	174,340	918,867	13,058	1,146,943
Accumulated depreciation and impairment	-	(70,124)	(424,057)	-	(494,181)
Net book value as of December 31, 2014	40,678	104,216	494,810	13,058	652,762
Additions	-	-	-	59,341	59,341
Disposals	(321)	-	(1,015)	-	(1,336)
Investment tax credits	-	-	(731)	-	(731)
Transfers	-	1,558	36,305	(37,863)	-
Depreciation	-	(4,934)	(35,094)	-	(40,028)
Exchange differences	255	10,178	56,168	1,099	67,700
As of December 31, 2015	40,612	111,018	550,443	35,635	737,708
As of December 31, 2015					
Cost	40,612	187,572	1,019,346	35,635	1,283,165
Accumulated depreciation and impairment	-	(76,554)	(468,903)	-	(545,457)
Net book value as of December 31, 2015	40,612	111,018	550,443	35,635	737,708

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

10 Goodwill and intangible assets

	Trademarks $	Software $	Total $
As of January 1, 2014			
Cost	11,825	3,490	15,315
Accumulated amortization	-	(1,832)	(1,832)
Net book value as of January 1, 2014	11,825	1,658	13,483
Additions	-	1,218	1,218
Amortization	-	(649)	(649)
Net book value as of December 31, 2014	11,825	2,227	14,052
As of January 1, 2015			
Cost	11,825	4,708	16,533
Accumulated amortization	-	(2,481)	(2,481)
Net book value as of January 1, 2015	11,825	2,227	14,052
Additions	-	2,682	2,682
Amortization	-	(881)	(881)
Net book value as of December 31, 2015	11,825	4,028	15,853
As of December 31, 2015			
Cost	11,825	7,390	19,215
Accumulated amortization	-	(3,362)	(3,362)
Net book value as of December 31, 2015	11,825	4,028	15,853

The carrying value of goodwill as of December 31, 2015 was $160.9 million (December 31, 2014 - $160.9 million). An increase of $8.9 million was recorded in the year ended December 31, 2014 related to the acquisition of Metro Paper (note 5).

Impairment tests

The Partnership performed its annual impairment tests for goodwill and indefinite lived trademarks as of December 31, 2015 and December 31, 2014 and no impairments were recognized. Goodwill of $152.0 million is allocated to the Canada Consumer CGU and $8.9 million is allocated to the AFH CGU. The recoverable amount of the CGU is determined based on management’s best estimate of value in use. The estimates of value in use were based on the present value of the forecasted future cash flows expected to be derived from Canada CGU. Based on the sensitivity analysis, no reasonable change in assumptions would result in an impairment.

11 Pensions and post-retirement benefits

The Partnership sponsors a number of defined benefit and defined contribution pension plans, with participation available to substantially all of its employees. Length of service and individual earnings determine the pension and post-retirement benefits for all members of the Partnership plans.

The Partnership has five registered defined benefit pension plans with a final average salary component, four of which are registered in the province of Quebec and one of which is registered in the province of Ontario. The pension

obligation, net of plan assets for these five plans of $64.1 million as of December 31, 2015 (December 31, 2014 - $75.3 million) is included in Pensions on the consolidated statement of financial position.

The Partnership has a Supplementary Retirement Plan (SRP) for designated employees. The accrued benefit liability, net of plan assets related to the SRP as of December 31, 2015 was $15.0 million (December 31, 2014 - $15.1 million) and is supported by irrevocable letters of credit in the amount of $19.0 million (December 31, 2014 - $24.6 million).

The Partnership also sponsors a Term Annuity Arrangement for the Western Manufacturing Division, which provides hourly employees with a bridging supplement commencing at age 61 and payable up to but not including age 65. The Term Annuity Arrangement is unfunded and the pension obligation of $8.0 million as of December 31, 2015 (December 31, 2014 - $8.1 million) is included in pensions on the consolidated statement of financial position.

The Partnership's hourly employees at the Western Manufacturing Division are members of an industry multi-employer pension plan to which the Partnership contributes monies. During the year ended December 31, 2015, the Partnership contributed and expensed $2.6 million (2014 - $2.4 million) related to this defined benefit plan. Sufficient information regarding the Partnership's share of the defined benefit obligation is not available and accordingly the Partnership accounts for the multi-employer plan as a defined contribution plan.

The Partnership sponsors a defined contribution plan which covers substantially all of its salaried employees. During the year ended December 31, 2015, the Partnership recorded an expense of $2.5 million (2014 - $2.4 million) related to this plan.

KTG sponsors a defined contribution plan that covers substantially all of its employees. During the year ended December 31, 2015, the Partnership recorded an expense of $0.5 million (2014 - $0.6 million) related to this plan.

The Partnership provides certain health and other similar benefits for qualifying retirees (post-retirement benefit plans). These plans are not funded.

The measurement date of the employee future benefit plans is December 31 of each year.

By their design, the defined benefit pension plans and the post-retirement benefits plan exposes the Partnership to the typical risks faced by such plans such as investment performance (pension plans only), changes to the discount rate used to value the obligations, longevity of plan members and future inflation. Pension and benefit risk is managed by regular monitoring of the plans, applicable regulations and other factors that could impact the expenses and cash flows of the Partnership. As of December 31, 2014, the aggregate solvency deficit of the defined benefit plans was $109.7 million (December 31, 2013 - $66.8 million). The next required revaluation will be completed in the first half of fiscal 2016. The funding obligations are dependent on a number of factors, including the assumptions used in the most recent actuarial valuation. Actual contributions that are determined on the basis of future valuation reports may vary significantly from the predictions.

The cumulative actuarial losses recognized in retained earnings as of December 31, 2015 and December 31, 2014 were as follows:

	December 31, 2015 $	December 31, 2014 $
Pensions	87,181	94,275
Post-retirement benefits	17,642	14,975
Total	104,823	109,250

Information about the Partnership's defined benefit pension plans and post-retirement benefit plans was as follows:

	Pensions		Post-retirement benefit plans	
	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014
	$	$	$	$
Change in defined benefit obligation:				
As of January 1	622,187	561,134	53,357	48,746
Current service cost	8,583	7,850	1,671	1,446
Past service cost	3,352	-	64	-
Interest cost	24,432	25,672	2,060	2,175
Employee contributions	3,669	3,773	-	-
Benefits paid	(32,276)	(29,415)	(2,473)	(2,476)
Remeasurements:				
Losses/(Gains) from changes in experience	2,311	2,840	(438)	3
Losses/(Gains) from changes in economic assumptions	9,714	52,217	3,292	3,896
Losses/(Gains) from changes in demographic assumptions	-	(1,884)	(187)	(433)
As of December 31	641,972	622,187	57,346	53,357
Change in plan assets at fair value:				
As of January 1	523,654	480,754	-	-
Expected return on plan assets	20,507	21,698	-	-
Remeasurements:				
Gains on plan assets	19,119	27,484	-	-
Administrative costs	(476)	(578)	-	-
Employer contributions	20,611	19,938	2,473	2,476
Employee contributions	3,669	3,773	-	-
Benefits paid	(32,276)	(29,415)	(2,473)	(2,476)
As of December 31	554,808	523,654	-	-
Accrued benefit liability				
Funded status - deficit	87,164	98,533	57,346	53,357

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

Plan assets, which are funding the Partnership's defined benefit plans, are comprised as follows:

	December 31, 2015 %	December 31, 2014 %
Fixed income	40.4	40.0
Public equities	29.1	31.0
Alternative assets	30.5	29.0
Total	100.0	100.0
Quoted on an active market	68.0	69.0
Unquoted	32.0	31.0
	100.0	100.0

The following were the significant assumptions for the defined benefit pension plans and other benefit plans as of December 31:

	Pensions		Post-retirement benefit plans	
	December 31, 2015 %	December 31, 2014 %	December 31, 2015 %	December 31, 2014 %
Assumptions				
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		

Except for the discount rate, the assumptions represent management's best estimates. The discount rate was based on the yield of high quality Canadian corporate fixed income investments with cash flows that match expected benefit payments.

Post-retirement benefit plans:

For measurement purposes, the trend factor for all health-care expenses, excluding medication, was assumed to be 3.0%. The trend factor for medication was assumed to be 5.0% the first year, with an annual 0.05% reduction for 20 years, and 4.0% thereafter.

The sensitivity analysis presented was performed by changing each assumption individually. If an actual change were to occur, it is likely that some of these assumptions would correlate, which would create a combined impact.

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

The effect of a 1% increase in the health care cost trend rate, a 1% reduction in the discount rate and a one-year change in the life expectancy rate were:

	Health care		Discount rate		Life expectancy	
	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014
	$	$	$	$	$	$
Increase in Post-retirement benefit obligation	5,781	4,862	8,543	7,710	1,583	1,187

Pensions:

Expected fees payable by the plan were deducted from the expected rate of return of plan assets.

The effect of a 1% reduction in the discount rate, a 1% increase in the rate of compensation and one-year change in the life expectancy rate were:

	Discount rate		Rate of compensation		Life expectancy	
	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014
	$	$	$	$	$	$
Increase in Pension expense	2,959	2,957	365	418	166	173
Increase in Pension obligation	100,897	95,447	9,644	9,443	15,065	13,111

Contributions to the defined benefit pension plans for the year ending December 31, 2016 are expected to be $12.7 million.

The net benefit pension plan expense included the following components:

	Pensions		Post-retirement benefit plans	
	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014
	$	$	$	$
Net benefit plan expense				
Current service cost	8,583	7,850	1,671	1,446
Interest cost	24,432	25,672	2,060	2,175
Expected return on plan assets	(20,507)	(21,698)	-	-
Administrative cost	476	578	-	-
Past service cost [(a)]	3,352	-	64	-
	16,336	12,402	3,795	3,621

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

The following amounts are recognized in other comprehensive income:

	Pensions		Post-retirement benefit plans	
	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014
	$	$	$	$
Gains (losses) from changes in experience	(2,311)	(2,840)	438	(3)
Gains (losses) from changes in economic assumptions	(9,714)	(52,217)	(3,292)	(3,896)
Gains (losses) from changes in demographic assumptions	-	1,884	187	433
Gains on plan assets	19,119	27,484	-	-
	7,094	(25,689)	(2,667)	(3,466)

12 Trade and other payables

	December 31, 2015	December 31, 2014
	$	$
Trade payables	82,162	61,666
Accrued expenses	51,485	65,781
Merchandising accruals	46,682	45,781
	180,329	173,228

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

13 Provisions

	Environmental and asset retirement obligations	Long-term incentives	Restructuring	Total
	$	$	$	$
	(a)	(b)	(c)	
Provisions as of January 1, 2014	5,304	1,311	999	7,614
Additional provisions	340	927	2,835	4,102
Paid during the year	-	(52)	(2,510)	(2,562)
Interest accretion	254	-	-	254
Provisions as of December 31, 2014	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	(287)	497	2,824	3,034
Transfer from Trade and other payables	-	-	141	141
Paid during the year	-	(1,910)	(1,648)	(3,558)
Interest accretion	251	-	-	251
Provisions as of December 31, 2015	5,862	773	2,641	9,276
Current	-	455	2,641	3,096
Non-current	5,862	318	-	6,180

(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 3.385% (December 31, 2014 – 4.25%).

(b) Long-term incentives

Long-term incentives include the Executive Long-Term Incentive Plan for the Partnership. The plan is based primarily on earnings before interest, taxes, depreciation and amortization (Adjusted 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 year ended December 31, 2015, $0.2 million of restructuring charges at the New Westminister plant and other locations were released (2014 – nil). On June 30, 2015, the Partnership entered into an agreement to sell certain timber lands for proceeds of $1.5 million. The sale resulted in a gain of $1.1 million, which was recorded in the consolidated statement of

comprehensive income in Gain on sale of non-financial assets during the year ended December 31, 2015. As of December 31, 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 $2.1 million, primarily related to severance. As of December 31, 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, 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 $3.0 million, related to severance. As of December 31, 2015, KPLP had incurred $1.4 million of the costs associated with this initiative and recorded a provision for the remaining $1.6 million.

14 Long-term debt

	Maturity	December 31, 2015 $	December 31, 2014 $
Revolving credit facility [(a)]	2020	204,681	-
8% Senior unsecured notes [(b)]	-	-	172,594
2.87% Nordea facility [(c)]	2019	35,980	37,428
Quebec loan [(d)]	2016	1,051	2,167
Caisse facility [(e)]	2018	194,330	155,336
		436,042	367,525
Less: Current portion of long-term debt		10,183	8,879
		425,859	358,646

a) Revolving credit facility

On May 16, 2013, the Partnership entered into the fourth amended and restated credit agreement related to its revolving credit facility. The credit facility was reduced to $125.0 million. On September 28, 2015, the Partnership entered into the fifth amended and restated credit agreement (the Credit Agreement) related to its revolving credit facility (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 a base rate of 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 ratio of funded debt to EBITDA (as defined in the Credit Agreement) and the type of advance. The Credit Agreement is for a five year period and will mature on September 28, 2020. The Credit Agreement provides for certain restrictive undertakings and covenants to be complied with by the Partnership. Subsequent to the year-end, on March 8, 2016, the Partnership obtained an amendment to provide for an increase in the maximum ratio of funded debt to EBITDA to be complied with by the Partnership during the year ended December 31, 2016. The amendment also provides for the borrowings under the Credit Facility to bear interest during the year ended December 31, 2016 at a base rate of Canadian prime rate, U.S. base rate, banker's acceptance rates or LIBOR, plus a margin varying between 0.20% and 2.875% depending on the ratio of funded debt to EBITDA and the type of advance.

As of December 31, 2015, unamortized deferred financing fees were $1.3 million. As of December 31, 2014 transaction costs of $0.6 million were deferred and classified as Other long-term assets. These transaction costs were written off upon the amendment of the Credit Agreement.

The Credit Agreement is guaranteed by KP USA, GTM, KP AFH and any new subsidiaries acquired by the Partnership (the Restricted Subsidiaries). The Partnership and the Restricted Subsidiaries provide first ranking security interests and hypothecs over their current and future tangible assets to secure the obligations under the Credit Agreement including a pledge of 100% of the stock or ownership interest in all subsidiaries owned by the Partnership and the Restricted Subsidiaries.

As of December 31, 2015, the Partnership had $70.0 million (net of letters of credit of $24.0 million) available on the Credit Facility (December 31, 2014 - $95.4 million, net of letters of credit of $29.6 million). The weighted average interest rate for the year ended December 31, 2015 was 2.74% (2014 – nil).

b) Senior unsecured notes

On August 9, 2011, the Partnership issued $175 million in an aggregate principal amount of 8.0% senior unsecured notes due August 9, 2018 (the Notes) through a private placement. The Partnership paid interest on the Notes in equal instalments on February 9 and August 9 of each year, commencing February 9, 2012. The Partnership had an option to redeem all or part of the Notes at any time prior to August 9, 2015 at an applicable redemption premium and on or after August 9, 2015 at fixed redemption prices plus, in each case, accrued and unpaid interest, if any, to the applicable redemption date. On September 30, 2015, the Partnership repaid the Notes in full. 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 during the year ended December 31, 2015.

Unamortized deferred financing fees of $2.8 million were written off and recorded in interest expense in the consolidated statement of comprehensive income during the year ended December 31, 2015.

The Notes included an early repayment option. The Partnership had determined that the early repayment option was an embedded derivative that was not closely related to the Notes. Accordingly, the embedded derivative had been bifurcated from the Notes. The embedded derivative was recorded at its fair value with changes in fair value included in interest expense in the consolidated statement of comprehensive income. The embedded derivative had a carrying value of $4.1 million at the time it was exercised, and has been written off and recorded in interest expense in the consolidated statement of comprehensive income during the year ended December 31, 2015. An asset of $2.4 million had been recognized as of December 31, 2014 to record the embedded derivative at its fair value.

c) Nordea facility

On July 8, 2011, the Partnership entered into a credit agreement with Nordea Bank AB (the Nordea Facility), providing for a term loan in the principal amount of approximately U.S.$46.2 million, to be used for the financing of a TAD tissue machine in its subsidiary, KTG. The Nordea Facility has a term of seven years and bears interest at a fixed interest rate of approximately 3% per annum, comprised of a Swedish state reported interest rate, risk premium and administrative margin. The loan is secured by the assets of the Partnership ranking pari passu with the Senior Lenders of the Credit Agreement. The loan is repayable in 14 equal consecutive semi-annual instalments of principal together with interest commencing on June 30, 2013. As of December 31, 2015, U.S.$26.4 million was outstanding related to the facility (December 31, 2014 – U.S.$33.0 million). As of December 31, 2015 unamortized deferred financing fees were $0.5 million (December 31, 2014 - $0.8 million). On September 28, 2015, the Partnership entered into the third amended credit agreement (the “Nordea Credit Agreement”) related to its Nordea Facility, in connection with amendments to the Credit Facility. No significant changes were made to the Nordea Facility.

d) Quebec loan

The Quebec loan is related to an agreement with the Government of Quebec for financing related to the Crabtree converting line expansion. The loan is secured with the converting line assets and is non-interest bearing. The loan was valued on discounted future cash flows using a market rate of 6.0%. The Partnership had a moratorium on repayment of the principal for the initial 12 quarters, with repayment commencing on April 30, 2013. As of December 31, 2015, $1.1 million was outstanding related to the loan (December 31, 2014 - $2.2 million).

e) Caisse facility

On August 6, 2011, TAD Canco Inc. entered into a credit agreement with the Caisse de dépôt for a term loan facility (the Caisse Facility) for U.S.$211.1 million for the purposes of financing the expansion of KTG, including construction of a new TAD paper machine and expansion of the tissue plant. Under the terms of the Caisse Facility, draws were only permitted until February 15, 2014, at which time the Partnership had drawn U.S. $125.0 million.

The Caisse Facility is for a seven-year term, maturing on August 16, 2018. The Caisse Facility bears interest at a base rate of 8% per annum, with an applicable margin rate set each period based on KTG's net debt to EBITDA (as defined in the Caisse Facility) ratio and KTG's excess cash flows, as defined in the agreement. The applicable margin consists of (i) 5% per annum at any time prior to the TAD Project service commencement date and KTG Excess cash flow has become positive, and (ii) thereafter, if the net debt to KTG EBITDA (as defined in the Caisse Facility) ratio is (A) higher or equal to 2.5, the greater of interest calculated at 5% per annum and an amount equal to 30% of KTG excess cash flow (B) lower than 2.5 but not lower than 2.0, the greater of interest calculated at 5% per annum and an amount equal to 25% of KTG excess cash flow or (C) lower than 2.0, the greater of interest calculated at 4% per annum and an amount equal to 15% of KTG excess cash flow. The weighted average interest rate on the Caisse Facility was 14.79% for the year ended December 31, 2015 (2014 – 15.00%).

The Caisse Facility is secured by all assets of TAD Canco Inc., KTG and all equity interests of TAD Luxembourg S.A.R.L. The facility was drawn only after the base equity investment of U.S.$107.0 million by the Partnership had been contributed to TAD Canco Inc.

As of December 31, 2015, TAD Canco Inc. had received proceeds of U.S.$125.0 million from this facility (December 31, 2014 – U.S.$125.0 million).

TAD Canco Inc. does not need to comply with financial covenants within this credit agreement. In addition, the Caisse Facility has cross default provisions with certain debt agreements of the Partnership.

f) Ontario loan

On July 1, 2015, the Partnership entered into a conditional loan agreement with the Government of Ontario, for financing related to its Trenton expansion project. The Ontario loan is to be secured with assets acquired for the expansion. The agreement provides for a maximum loan amount of $10.0 million, with up to one-half the loan available as a grant. A portion of the loan interest is forgivable, subject to prescribed conditions. As of December 31, 2015, the Partnership had not drawn on the loan. Subsequent to the year-end, on February 22, 2016, the Partnership drew $2.0 million on the loan.

The Credit Agreement has cross default covenants with the Nordea Facility and the Caisse Facility.

The financing fees for the loans are amortized using the effective interest method over the expected life of the loans. The amortization amounts are included in interest expense.

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

The aggregate future principal repayments required on long-term debt are as follows:

	$
Less than 1 year	10,183
Between 1 and 5 years	436,304
More than 5 years	-
	446,487

Interest expense reflected on the consolidated statement of comprehensive income was as follows:

	2015	2014
	$	$
Interest expense on long-term debt	49,497	37,730
Interest accredited on provisions and other liabilities	251	254
Pension and post-retirement benefits, net	5,985	6,149
Embedded derivatives on debt	2,431	597
	58,164	44,730

15 Distributions and Partnership units liability

	Partnership units liability
	$
As of January 1, 2014	117,839
Change in amortized cost of Partnership units liability (note 6)	13,759
Tax Distributions	(3,475)
As of December 31, 2014	128,123
As of January 1, 2015	128,123
Change in amortized cost of Partnership units liability (note 6)	4,003
Tax Distributions	(6,950)
As of December 31, 2015	125,176

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:

				2015
	Partnership unit distributions	Unit price	Issuance of Partnership units	Gross proceeds
Distribution Payment Date	$	$	#	$
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
October 15, 2015	9,806	12.44	361,765	4,501
	38,907		1,215,833	17,630

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

	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
April 15, 2014	9,501	15.51	275,843	4,277
July 15, 2014	9,550	15.33	279,468	4,285
October 15, 2014	9,601	14.52	288,921	4,195
	38,107		1,096,710	16,945

On November 11, 2015, the Partnership declared a distribution of $9.9 million, which was paid on January 15, 2016. Pursuant to the DRIP, a portion of the distribution was reinvested by the partners and the Partnership issued 442,929 additional Partnership units at a price of $10.29 for the gross proceeds of $4.6 million. During the year ended December 31, 2015, a fair value adjustment of $0.8 million was recorded to reflect the market value of the Partnership units issued.

Subsequent to December 31, 2015, the Partnership declared a distribution of $10.0 million, payable on April 15, 2016.

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

	2015			
	Tax distibutions $	**Advances** $	**Partnership unit distibutions** $	**Total** $
Paid to Kruger Inc. (a)	2,903	5,722	16,252	24,877
Paid to KPGP	1	1	3	5
Paid to KPT (b)	571	1,141	5,217	6,929
Total paid	3,475	6,864	21,472	31,811

	2014			
	Tax distibutions $	**Advances** $	**Partnership unit distibutions** $	**Total** $
Paid to Kruger Inc. (a)	2,890	2,890	15,877	21,657
Paid to KPGP	1	-	3	4
Paid to KPT (b)	459	584	6,350	7,393
Total paid	3,350	3,474	22,230	29,054

(a) During the years ended December 31, 2015 and December 31, 2014, Partnership unit distributions were paid to Kruger Inc. net of the DRIP reinvestment. During the year ended December 31, 2015, Kruger Inc.'s DRIP reinvestment was $16.3 million (2014 - $15.9 million).

(b) As of April 15, 2015, Partnership unit distributions were paid to KPT net of the DRIP reinvestment. During the 39-week period ended December 31, 2015, KPT's DRIP reinvestment was $1.2 million.

Tax distributions

On February 28, 2015, the Partnership declared and paid a Tax Distribution of $6.9 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 year ended December 31, 2015, pursuant to the Tax Distribution as defined in the Partnership Agreement, the Partnership made advances to its partners of $6.8 million, of which $1.1 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 were partially offset against the Tax Distributions of $2.6 million paid by the Partnership on February 26, 2016. The excess advances over the Tax Distributions in the amount of $4.2 million are repayable by the partners to the Partnership by March 31, 2017.

16 Income taxes

The Partnership is not a tax paying entity for the years ended December 31, 2015 and December 31, 2014. The income (loss) from the Partnership flows to the partners, Kruger Inc., KPGP, and 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.

The consolidated income tax expense for the Partnership of $7.4 million for the year ended December 31, 2015 (2014 – recovery of $1.8 million) related to KP USA, KTG, TAD Luxembourg S.A.R.L and GTM.

The components of income taxes were as follows:

	2015	2014
	$	$
Current tax expense	2,106	2,038
Deferred tax expense (recovery)	5,333	(3,878)
	7,439	(1,840)

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

Details of the provision for income taxes and the reconciliation of the consolidated Canadian federal and provincial statutory income tax rates to the effective tax rate on earnings were as follows:

	2015		2014	
	$	%	$	%
Combined federal and provincial income tax rates after manufacturing and processing credits	2,331	26.1	5,018	26.1
Income taxed in partners' hands	(697)	(7.8)	(6,238)	(32.4)
Difference in statutory income tax rate of foreign operations	696	7.8	(526)	(2.7)
U.S. State tax credits not recognized	5,536	61.9	-	-
Investment tax credits	(253)	(2.8)	(118)	(0.7)
Permanent and other	(174)	(1.9)	24	0.1
	7,439	83.3	(1,840)	(9.6)

Components of the deferred income tax asset (liability) were as follows:

	December 31, 2015	December 31, 2014
	$	$
Property, plant and equipment	(60,006)	(35,999)
Net operating losses	67,421	45,860
Long term debt and deferred financing charges	8,978	6,068
Inventory and accrued liabilities	5,858	2,524
State tax credits	16,215	15,309
Other	945	1,112
	39,411	34,874

The analysis of the deferred tax assets and (liabilities) was as follows:

	December 31, 2015	December 31, 2014
	$	$
Deferred tax asset to be recovered within 12 months	5,858	2,640
Deferred tax asset to be recovered after 12 months	33,553	32,234
	39,411	34,874

In addition to the above, the Partnership has deferred tax assets of $23.1 million related to net operating loss carry-forwards and $5.5 million related to U.S. State tax credits which have not been recognized in the consolidated financial statements.

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

The Partnership had the following net operating loss carry-forwards available as of December 31, 2015:

	U.S. Federal		U.S. State		Canada	
	$	Expiry date	$	Expiry date	$	Expiry date
2003	3	2023	-	2018	-	
2004	5,556	2024	1,391	2019	-	
2005	29	2025	-	2020	-	
2006	6,135	2026	6,132	2021	-	
2009	1,688	2029	-	2025	-	
2011	662	2031	125	2026	1,273	2031
2012	2,930	2032	2,545	2027	11,792	2032
2013	61,775	2033	32,802	2028	24,356	2033
2014	67,946	2034	36,745	2029	25,593	2034
2015	35,649	2035	19,483	2030	26,839	2035
	182,373		99,223		89,853	

The Partnership had the following U.S. State tax credits available for carry-forward as of December 31, 2015:

	U.S. State	
	$	Expiry date
2002	71	2017
2003	54	2018
2004	50	2019
2005	65	2020
2006	10	2021
2007	141	2022
2008	147	2023
2009	57	2024
2010	109	2025
2011	188	2026
2012	3,993	2027
2013	13,792	2028
2014	1,300	2029
2015	1,774	2030
	21,751	

These credits are available to reduce future Tennessee excise tax and franchise tax otherwise payable by its subsidiary, KTG.

17 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 year ended December 31, 2015 were $0.2 million (2014 - $1.7 million). Sales of goods to subsidiaries of Kruger Inc. for the year ended December 31, 2015 was $0.2 million (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 year ended December 31, 2015 were $29.9 million (2014 - $28.1 million). Purchases of goods and services from subsidiaries of Kruger Inc. for the year ended December 31, 2015 were $10.2 million (2014 - $14.2 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 SG&A expenses in the consolidated statement of comprehensive income. During the year ended December 31, 2015, management fees of $4.2 million (2014 - $4.1 million) were paid to Kruger Inc. for management services provided to the Partnership.

Balances due to and from related parties were as follows:

	December 31, 2015 $	December 31, 2014 $
Receivables from Kruger Inc.	61	220
Receivables from subsidiaries of Kruger Inc.	16	28
Receivables from KPT	108	53
	185	301
Payables to Kruger Inc.	3,332	2,978
Payables to subsidiaries of Kruger Inc.	443	1,409
	3,775	4,387

The receivables from and payables to related parties are based on commercial terms agreed on between the parties, unsecured and non-interest bearing. There were no provisions related to the receivables from related parties as of December 31, 2015 and December 31, 2014. There were no loans outstanding with related parties as of December 31, 2015 and December 31, 2014.

The Partnership had declared distributions to its related parties as follows:

	December 31, 2015 $	December 31, 2014 $
Distribution payable to Kruger Inc.	8,257	8,179
Distribution payable to KPGP	1	1
Distribution payable to KPT	1,613	1,601
Total distribution payable	9,871	9,781

18 Commitments and contingencies

Non-cancellable operating lease commitments related to land, buildings, IT services, vehicles and other machinery and equipment were as follows:

	December 31, 2015	December 31, 2014
	$	$
Less than 1 year	13,849	14,802
Between 1 and 5 years	44,711	47,728
More than 5 years	41,658	52,254
	100,218	114,784

Operating lease expense recognized in the consolidated statement of comprehensive income during the year ended December 31, 2015 was $15.1 million (2014 - $13.8 million).

As of December 31, 2015, the Partnership had commitments under service contracts of $2.5 million for 2016, $1.4 million for 2017, and $0.5 million for 2018 and beyond.

The Partnership has committed to incurring the costs associated with the installation of underground hydro lines to supply the Gatineau Plant, which will be capitalized and amortized over their estimated life.

From time to time, the Partnership is involved in various litigation matters arising in the ordinary course of its business. The Partnership has no reason to believe the disposition of any such current matter could reasonably be expected to have a material adverse impact on the Partnership's financial position, results of operations or its ability to carry on any of its business activities.

As of December 31, 2015, the Partnership had irrevocable letters of credit outstanding of $24.0 million (December 31, 2014 - $29.6 million), which included letters of credit for the pension plans disclosed in note 11.

19 Expenses by nature

	2015	2014
	$	$
Materials and production costs	410,100	351,383
Salaries, wages and other employee benefit expenses	285,521	274,356
Maintenance materials	46,045	40,256
Energy costs	80,238	77,869
Depreciation and amortization	42,524	37,698
Freight and warehousing	136,894	127,376
Marketing, selling and administrative expenses	57,415	52,826
	1,058,737	961,764

Classified in the consolidated statement of comprehensive income were:

	2015 $	2014 $
Cost of sales	970,759	879,139
SG&A expenses	87,978	82,625
	1,058,737	961,764

20 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, 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.

Adjusted EBITDA 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.

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

				2015
	Consumer	**AFH**	**Other**	**Total**
	$	$	$	$
Revenue from external customers	897,959	220,320	20,591	1,138,870
Adjusted EBITDA	122,483	5,407	(1,505)	126,385
Depreciation and amortization				42,524
Interest expense				58,164
Change in amortized cost of Partnership units liability				4,003
Loss on sale of fixed assets				734
Gain on sale of non-financial assets				(1,119)
Restructuring costs				2,824
Pension revaluation - past service cost				3,416
Unrealized foreign exchange loss				6,906
Income before income taxes				8,933
Income taxes				7,439
Net income				1,494

				2014
	Consumer	**AFH**	**Other**	**Total**
	$	$	$	$
Revenue from external customers	842,635	184,263	19,270	1,046,168
Adjusted EBITDA	123,606	1,687	(3,657)	121,636
Depreciation and amortization				37,698
Interest expense				44,730
Change in amortized cost of Partnership units liability				13,759
Gain on sale of fixed assets				(135)
Restructuring costs				2,835
Unrealized foreign exchange loss				3,522
Income before income taxes				19,227
Income taxes				(1,840)
Net income				21,067

Geographic segments

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

				2015
	Canada	**US**	**Mexico**	**Total**
	$	$	$	$
Revenue	711,881	389,154	37,835	1,138,870
Property, plant and equipment	320,090	417,618	-	737,708
Goodwill	160,939	-	-	160,939
Intangible assets	15,853	-	-	15,853

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

				2014
	Canada	**US**	**Mexico**	**Total**
	$	$	$	$
Revenue	699,996	316,738	29,434	1,046,168
Property, plant and equipment	299,127	353,635	-	652,762
Goodwill	160,939	-	-	160,939
Intangible assets	14,052	-	-	14,052

21 Compensation of key management

	2015	**2014**
	$	$
Compensation awarded to key management included:		
Salaries and other short-term employee benefits	6,601	5,431
Post-employment benefits	549	374
Other long-term benefits	1,366	51
	8,516	5,856

Key management includes the Partnership's senior executives.

22 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.

As of December 31, 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	25,455	25,455
Trade and other receivables	loans and receivables	amortized cost	108,720	108,720
Receivables from related parties	loans and receivables	amortized cost	185	185
Advances to partners	loans and receivables	amortized cost	6,864	6,864
Mortgage receivable	loans and receivables	amortized cost	1,000	1,000
Available-for-sale investment	fair value through other comprehensive income or loss	fair value	1,405	1,405
Trade and other payables	financial liabilities	amortized cost	(180,329)	(180,329)
Payables to related parties	financial liabilities	amortized cost	(3,775)	(3,775)
Distributions payable	financial liabilities	amortized cost	(9,871)	(9,871)
Long-term debt	financial liabilities	amortized cost	(436,042)	(446,488)
Partnership units liability	financial liabilities	amortized cost	(125,176)	(125,176)

(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, 2015:

	Level 1 $	Level 2 $	Level 3 $	Total $
Mortgage receivable	-	-	1,000	1,000
Available-for-sale investment	1,405	-	-	1,405
Long-term debt	-	(446,488)	-	(446,488)
Partnership units liability	-	-	(125,176)	(125,176)

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)

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
Long-term debt	-	(393,318)	-	(393,318)
Partnership units liability	-	-	(128,123)	(128,123)

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 December 31, 2015, the fair value of the Notes was nil (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 Credit Facility, the Nordea Facility and the Caisse Facility were $206.0 million, $36.5 million and $202.9 million (December 31, 2014 – nil, $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 December 31, 2015, the fair value of the loan payable was $1.1 million (December 31, 2014 - $2.2 million).

As of December 31, 2014 management estimated the fair value of the embedded derivative using a probability-weighted interest rate pricing method. The valuation methodology used was 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 December 31, 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 (note 4).

Objectives and policies relating to financial risk management

The Partnership's activities result in exposure to a variety of financial risks, including risks related to credit, currency, liquidity and interest rate risks.

Credit risk

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Partnership's financial instruments exposed to credit risk include cash and cash equivalents, trade and other receivables, receivables from related parties, advances to partners and mortgage receivable. The Partnership places its cash and cash equivalents with financial institutions of high creditworthiness.

The Partnership sells its products to a variety of customers under certain credit terms and therefore is exposed to credit risks. Normal trade receivables are due in 30 days from the invoice date and amounts in excess of 90 days past the invoice date are considered delinquent. The Partnership routinely assesses the financial strength of its customers and mitigates against identified exposure primarily by lowering credit limits with high risk accounts. The customers of the Partnership are well established companies and accordingly, the Partnership has experienced limited financial loss with respect to credit risk. As a result, the Partnership believes its exposure to credit risk is limited.

	December 31, 2015	December 31, 2014
	$	$
Trade receivables	100,869	102,555
Less: Allowance for doubtful accounts	(856)	(672)
Total trade receivables, net	100,013	101,883
Trade receivables, net		
0 to 60 days	97,489	100,724
61 to 90 days	2,469	1,066
Over 90 days	911	765
Less: Allowance for doubtful accounts	(856)	(672)
	100,013	101,883

In accordance with the Partnership agreement, advances made to the partners are settled when the Partnership declares the Tax Distribution. Accordingly, the exposure to credit risk in respect of the advances to the partners is limited.

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

Currency risk

Currency risk is the risk the Partnership's earnings may fluctuate due to changes in Canadian to U.S. dollar exchange rates.

The Partnership sells certain of its products in U.S. dollars at prevailing U.S. dollar prices. A majority of the currency exposure is naturally offset by U.S. dollar expenses and the U.S. dollar denominated debt.

As of December 31, 2015, the Partnership has net liabilities denominated in U.S. dollars of $45.7 million (December 31, 2014 - $42.2 million). Assuming the Canadian dollar strengthened (weakened) by 5% against the U.S. dollar, with all other variables held constant, the hypothetical result on income before income taxes for the year ended December 31, 2015 would have been an increase/decrease of $2.3 million (2014 - $2.1 million).

Liquidity risk

The purpose of liquidity risk management is to maintain sufficient cash and cash equivalents and to ensure the Partnership has sufficient authorized credit facilities to finance operations. The Partnership had unused lines of credit available of $70.0 million as of December 31, 2015 (December 31, 2014 - $95.4 million). The Partnership prepares projections to ensure it has sufficient funds to fulfill its obligations. The Partnership monitors the covenants on its credit facilities in the normal course of business. Refinancing risks are minimized by ensuring the credit facility will not mature for two years. Subsequent to the year-end, on March 8, 2016, the Partnership obtained an amendment to provide for an increase in the maximum ratio of funded debt to EBITDA to be complied with by the Partnership during the year ended December 31, 2016. Additional information is disclosed in note 14. The ability to pay its obligations relies on the Partnership collecting its trade receivables in a timely manner and by maintaining sufficient cash and cash equivalents in excess of anticipated needs. The Partnership's trade and other payables of $180.3 million (December 31, 2014 - $173.2 million) are all due for payment within 12 months of the dates of the consolidated statement of financial position.

The Partnership's contractual obligations in respect of its financial instruments comprise the following:

			December 31, 2015
	Less than 1 year	**1 to 5 years**	**Greater than 5 years**
	$	**$**	**$**
Long-term debt [(a)]	43,306	503,945	-
Trade and other payables	180,329		
Payables to related parties	3,775		
Distributions payable	9,871		

(a) Long-term debt includes principal repayments and an estimate of interest based on current interest rates.

			December 31, 2014
	Less than 1 year	**1 to 5 years**	**Greater than 5 years**
	$	**$**	**$**
Long-term debt [(a)]	35,143	436,112	-
Trade and other payables	173,228		
Payables to related parties	4,387		
Distributions payable	9,781		

(a) Long-term debt includes principal repayments and an estimate of interest based on current interest rates.

The above table excludes the Partnership units liability. Payments on the Partnership units liability are made upon the declaration of the Tax Distribution, which for 2015 was $2.6 million (2014 - $6.9 million). The Partnership units liability is estimated based on expected future Tax Distributions and is an obligation that will continue into perpetuity (note 4).

Interest rate risk

As of December 31, 2015, the Partnership had variable rate debts of $204.7 million (December 31, 2014 - nil). These loans bear interest at a base rate of Canadian prime rate, U.S. base rate, banker's acceptance rates or LIBOR, plus a margin varying between 0.20% and 2.375%. A 1% increase/decrease in the market rate of interest would result in a decrease/increase in income before income taxes of $2.0 million for the year ended December 31, 2015 (2014 - nil). Subsequent to the year-end, on March 8, 2016, the Partnership obtained an amendment which provides for the borrowings under the Credit Facility to bear interest during the year ended December 31, 2016 at a base rate of Canadian prime rate, U.S. base rate, banker's acceptance rates or LIBOR, plus a margin varying between 0.20% and 2.875% depending on the ratio of funded debt to EBITDA and the type of advance. Additional information is disclosed in note 14.

23 Capital management

The Partnership's policy is to maintain a sufficient capital base in order to maintain a strong consolidated statement of financial position and otherwise meet financial tests for the credit facilities.

Capital comprises net debt (long-term debt, less cash and cash equivalents) and equity (including the Partnership units classified as a liability). The Partnership monitors externally imposed debt covenants as established pursuant to its credit facility agreements. The requirements include a quarterly debt to Adjusted EBITDA ratio, Adjusted EBITDA to fixed charge coverage ratio and working capital ratio (as defined in the Credit Agreement).

24 Environmental costs

The Partnership is subject to extensive regulation by various federal and provincial agencies concerning compliance with environmental control statutes and regulations. These regulations impose limitations on the discharge of materials into the environment and require the Partnership to operate in compliance with the conditions of permits and other governmental authorizations. Future environmental expenditures will depend on the emergence of new regulations and technological developments.

25 Economic dependence

The Partnership manufactures, distributes and sells a wide range of disposable tissue paper and related products primarily in Canada and the U.S. As of December 31, 2015, the Partnership had three major customers, which represented 38.1% (2014 – 42.2%) of total revenues, and of these customers, one represented 20.7% (2014 – 18.5%) of the total revenues and another represented 9.0% (2014 – 13.0%). The Partnership's concentration of credit risk primarily arises from exposure to these three customers and amounted to approximately 44.7% of the trade receivables as of December 31, 2015 (December 31, 2014 – 50.4%). These customers are included in the consumer segment.

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

26 Non-cash working capital

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

	2015	**2014**
	$	**$**
Decrease (increase) in trade and other receivables	8,181	(9,173)
Decrease in receivables from related parties	116	1,173
Decrease (increase) in inventories	(29,006)	8,736
Increase in prepaid expenses and other current assets	(2,311)	(84)
Increase in other long-term assets	(324)	(206)
Increase in income taxes	(1,976)	(39)
Increase (decrease) in trade and other payables	1,392	(12,114)
Decrease in payables to related parties	(612)	(747)
	(24,540)	(12,454)