



KRUGER PRODUCTS L.P.

UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENT

**FOR THE 13-WEEK AND 26-WEEK PERIODS ENDED JUNE 26, 2016
AND JUNE 28, 2015**

Kruger Products L.P.

Unaudited Condensed Consolidated Statement of Financial Position

(tabular amounts are in thousands of Canadian dollars)

	June 26, 2016 \$	December 31, 2015 \$
Assets		
Current assets		
Cash and cash equivalents	10,104	25,455
Trade and other receivables	108,178	108,720
Receivables from related parties (note 11)	455	185
Current portion of advances to partners (note 9)	5,465	2,630
Inventories	183,925	184,985
Income tax recoverable	593	772
Prepaid expenses	9,752	8,429
	<u>318,472</u>	<u>331,176</u>
Non-current assets		
Advances to partners (note 9)	-	4,234
Property, plant & equipment (note 6)	729,693	737,708
Other long-term assets	6,839	8,107
Goodwill	160,939	160,939
Intangible assets	15,344	15,853
Deferred income taxes	37,906	39,411
	<u>1,269,193</u>	<u>1,297,428</u>
Total assets		
Liabilities		
Current liabilities		
Trade and other payables	188,026	180,329
Payables to related parties (note 11)	5,084	3,775
Distributions payable (notes 9 and 11)	10,016	9,871
Current portion of provisions (note 8)	2,471	3,096
Current portion of long-term debt (note 13)	9,148	10,183
	<u>214,745</u>	<u>207,254</u>
Non-current liabilities		
Long-term debt (note 13)	408,420	425,859
Other long-term liabilities	16	48
Provisions (note 8)	6,583	6,180
Pensions (note 7)	127,047	87,164
Post-retirement benefits (note 7)	59,405	57,346
	<u>816,216</u>	<u>783,851</u>
Liabilities to non-unitholders		
Current portion of Partnership units liability (note 9)	2,630	2,630
Long-term portion of Partnership units liability (note 9)	121,148	122,546
	<u>123,778</u>	<u>125,176</u>
Total Partnership units liability		
	<u>939,994</u>	<u>909,027</u>
Total liabilities		
Equity		
Partnership units (note 9)	327,021	318,012
Deficit	(76,510)	(29,416)
Accumulated other comprehensive income	78,688	99,805
	<u>329,199</u>	<u>388,401</u>
Total equity	<u>329,199</u>	<u>388,401</u>
Total equity and liabilities	<u>1,269,193</u>	<u>1,297,428</u>
Subsequent events (note 9)		

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

Kruger Products L.P.
Unaudited Condensed Consolidated Statement of Comprehensive Income (Loss)
For the 13-week and 26-week periods ended June 26, 2016 and June 28, 2015

(tabular amounts are in thousands of Canadian dollars)

	13-week period ended June 26, 2016 \$	13-week period ended June 28, 2015 \$	26-week period ended June 26, 2016 \$	26-week period ended June 28, 2015 \$
Revenue (note 11)	295,757	279,337	575,447	544,713
Expenses				
Cost of sales (note 11)	249,878	240,413	490,525	462,953
Selling, general and administrative expenses (note 11)	21,986	21,277	43,638	42,896
Restructuring costs (note 8)	393	-	393	1,054
Operating income	23,500	17,647	40,891	37,810
Interest expense	10,921	12,473	22,135	22,815
Other (income) expense (note 5)	(291)	1,167	(1,120)	5,949
Income before income taxes	12,870	4,007	19,876	9,046
Income taxes (note 10)	834	832	1,450	1,161
Net income for the period	12,036	3,175	18,426	7,885
Other comprehensive income (loss)				
Items that will not be reclassified to net income:				
Remeasurements of pensions	(27,120)	11,368	(43,889)	(6,038)
Remeasurements of post-retirement benefits	(1,755)	1,503	(1,634)	(2,149)
Items that may be subsequently reclassified to net income:				
Available-for-sale investment	-	222	(290)	(29)
Cumulative translation adjustment	(6,846)	(7,213)	(20,827)	16,664
Total other comprehensive income (loss) for the period	(35,721)	5,880	(66,640)	8,448
Comprehensive income (loss) for the period	(23,685)	9,055	(48,214)	16,333

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

Kruger Products L.P.

Unaudited Condensed Consolidated Statement of Changes in Equity

For the 26-week periods ended June 26, 2016 and June 28, 2015

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

	Partnership units		Retained earnings (deficit)	Accumulated other comprehensive income	Total equity
	#	\$	\$	\$	\$
As of January 1, 2015	53,624,260	299,616	4,424	43,463	347,503
Distributions payable (note 9)	-	-	(9,750)	-	(9,750)
Distributions paid (note 9)	-	-	(9,699)	-	(9,699)
Fair value adjustment (note 9)	-	307	(176)	-	131
Change in actuarial loss on pension	-	-	(6,038)	-	(6,038)
Change in actuarial loss on post-retirement benefits	-	-	(2,149)	-	(2,149)
Change in available-for-sale investment	-	-	-	(29)	(29)
Cumulative translation adjustment	-	-	-	16,664	16,664
Net income for the period	-	-	7,885	-	7,885
Issuance of partnership units (note 9)	541,821	8,661	-	-	8,661
As of June 28, 2015	54,166,081	308,584	(15,503)	60,098	353,179
As of January 1, 2016	54,840,093	318,012	(29,416)	99,805	388,401
Distributions payable (note 9)	-	-	(10,016)	-	(10,016)
Distributions paid (note 9)	-	-	(9,951)	-	(9,951)
Fair value adjustment (note 9)	-	30	(30)	-	-
Change in actuarial loss on pension	-	-	(43,889)	-	(43,889)
Change in actuarial loss on post-retirement benefits	-	-	(1,634)	-	(1,634)
Change in available-for-sale investment	-	-	-	(290)	(290)
Cumulative translation adjustment	-	-	-	(20,827)	(20,827)
Net income for the period	-	-	18,426	-	18,426
Issuance of partnership units (note 9)	802,067	8,979	-	-	8,979
As of June 26, 2016	55,642,160	327,021	(76,510)	78,688	329,199

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

Kruger Products L.P.

Unaudited Condensed Consolidated Statement of Cash Flows

For the 26-week periods ended June 26, 2016 and June 28, 2015

(tabular amounts are in thousands of Canadian dollars)

	26-week period ended June 26, 2016 \$	26-week period ended June 28, 2015 \$
Cash flows from (used in) operating activities		
Net income for the period	18,426	7,885
Items not affecting cash		
Depreciation	21,768	18,978
Amortization	580	337
Loss (gain) on sale of fixed assets	(3)	139
Change in amortized cost of Partnership units liability (note 5)	1,234	3,162
Gain on sale of investment (note 5)	(324)	-
Unrealized foreign exchange (gain) loss (note 5)	(2,030)	2,352
Interest expense	22,135	22,815
Pension and post-retirement benefits	5,318	8,776
Provisions (note 8)	799	1,691
Income taxes	1,450	1,161
Total items not affecting cash	50,927	59,411
Net change in non-cash working capital (note 14)	(4,462)	(29,484)
Contributions to pension and post-retirement benefit plans	(11,305)	(7,402)
Provisions paid	(1,118)	(707)
Income tax payments	(1,373)	(1,006)
Net cash from operating activities	51,095	28,697
Cash flows from (used in) investing activities		
Purchases of property, plant & equipment	(38,701)	(17,654)
Proceeds on sale of investment (note 5)	1,439	-
Government assistance received	1,209	-
Purchases of software	(71)	(204)
Proceeds on sale of property, plant and equipment	4	282
Net cash used in investing activities	(36,120)	(17,576)
Cash flows from (used in) financing activities		
Proceeds from long-term debt	791	-
Repayment of long-term debt	(7,510)	(510)
Payment of deferred financing fees	(335)	-
Interest paid on long-term debt	(9,756)	(10,539)
Distributions and advances paid (note 9)	(12,077)	(17,522)
Proceeds from issuing Partnership units	-	195
Net cash used in financing activities	(28,887)	(28,376)
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	(1,439)	740
Decrease in cash and cash equivalents during the period	(15,351)	(16,515)
Cash and cash equivalents - Beginning of period	25,455	51,788
Cash and cash equivalents - End of period	10,104	35,273

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

Kruger Products L.P.

Notes to Unaudited Condensed Consolidated Financial Statements

For the 26-week periods ended June 26, 2016 and June 28, 2015

(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 condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) applicable to the preparation of interim financial statements, including International Accounting Standard (IAS) 34 - Interim Financial Reporting as issued by the International Accounting Standards Board (IASB), and with interpretations of the International Financial Reporting Committee which the Canadian Accounting Standards Board has approved for incorporation into Part 1 of the CPA Canada Handbook - Accounting. These condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements of the Partnership for the year ended December 31, 2015.

These condensed consolidated financial statements were approved by the board of directors of KPGP on August 9, 2016.

3 Summary of significant accounting policies

The significant accounting policies that have been used in the preparation of these condensed consolidated financial statements are described in the annual consolidated financial statements of the Partnership for the year ended December 31, 2015 and have been applied to all periods presented except the following accounting policies, which were adopted effective January 1, 2016:

- (i) IAS 19, Employee Benefits. The IASB 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 amended standard had no impact on these unaudited condensed consolidated financial statements.
- (ii) IAS 34, Interim Financial Reporting. The IASB issued an amendment to clarify what is meant by "information disclosed elsewhere in the interim financial report". IAS 34 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. The adoption of this standard had no significant impact on these unaudited condensed consolidated financial statements.

The impact of new standards, amendments to standards and interpretations that have been issued but not yet effective for financial periods beginning on or after January 1, 2017 and have not been early adopted have been discussed in the annual financial statements for the year ended December 31, 2015, except for the following:

- (i) IAS 12, Income Taxes – Deferred Tax. The IASB issued an amendment to clarify the requirements for recognising deferred tax assets on unrealised losses. The amendment clarifies the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. Certain other aspects of accounting for deferred tax assets are also clarified. The amendment is effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. Management is evaluating the amended standard and has not yet determined the impact on its unaudited condensed consolidated financial statements.

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Notes to Unaudited Condensed Consolidated Financial Statements

For the 26-week periods ended June 26, 2016 and June 28, 2015

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

- (ii) IFRS 2, Share-based Payments. The IASB issued an amendment to address (i) certain issues related to the accounting for cash settled awards, and (ii) the accounting for equity settled awards that include a “net settlement” feature in respect of employee withholding taxes. The amendment is effective for annual periods beginning on or after January 1, 2018. Management is evaluating the amended standard and has not yet determined the impact on its unaudited condensed consolidated financial statements.
- (iii) IFRS 15, Revenue from Contracts with Customers. The IASB issued an amendment to clarify the guidance on identifying performance obligations, licences of intellectual property and principal versus agent, and to provide additional practical expedients on transition. The amendment is effective for annual periods beginning on or after January 1, 2018. Management is evaluating the amended standard and has not yet determined the impact on its unaudited condensed consolidated financial statements

4 Critical accounting estimates and judgments

The preparation of these unaudited condensed consolidated financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities in the unaudited condensed consolidated financial statements and the disclosure of contingencies at the dates of the unaudited condensed consolidated statement of financial position, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The estimates and judgements applied by management that most significantly affect the unaudited condensed consolidated financial statements are the same as the ones that applied to the audited consolidated financial statements for the year ended December 31, 2015.

5 Other (income) expense

	13-week period ended June 26, 2016 \$	13-week period ended June 28, 2015 \$	26-week period ended June 26, 2016 \$	26-week period ended June 28, 2015 \$
Unrealized foreign exchange (gain) loss	(291)	(946)	(2,030)	2,352
Change in amortized cost of				
Partnership units liability	-	1,850	1,234	3,162
Miscellaneous (income) expense	-	263	(324)	435
	<u>(291)</u>	<u>1,167</u>	<u>(1,120)</u>	<u>5,949</u>

During the 26-week period ended June 26, 2016, the available-for-sale investment was sold for proceeds of \$1.4 million. The sale resulted in a gain of \$0.3 million, which was recycled from Accumulated other comprehensive income to Other (income) expense during the 26-week period ended June 26, 2016.

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Notes to Unaudited Condensed Consolidated Financial Statements

For the 26-week periods ended June 26, 2016 and June 28, 2015

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

6 Property, plant and equipment

	Land \$	Buildings \$	Machinery and equipment \$	Assets under construction or development \$	Total \$
As of January 1, 2016					
Cost	40,612	187,572	1,019,346	35,635	1,283,165
Accumulated depreciation and impairments	-	(76,554)	(468,903)	-	(545,457)
Net book value as of January 1, 2016	40,612	111,018	550,443	35,635	737,708
Additions	-	-	-	38,868	38,868
Disposals	-	-	(1)	-	(1)
Government assistance	-	-	(1,502)	-	(1,502)
Transfers	-	178	28,290	(28,468)	-
Depreciation	-	(2,423)	(17,817)	-	(20,240)
Exchange differences	(96)	(3,789)	(20,861)	(394)	(25,140)
As of June 26, 2016	40,516	104,984	538,552	45,641	729,693
As of June 26, 2016					
Cost	40,516	183,045	1,018,133	45,641	1,287,335
Accumulated depreciation and impairment	-	(78,061)	(479,581)	-	(557,642)
Net book value as of June 26, 2016	40,516	104,984	538,552	45,641	729,693

7 Pensions and post-retirement benefits

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

Assumptions	Pensions		Post-retirement benefit plans	
	June 26, 2016 %	December 31, 2015 %	June 26, 2016 %	December 31, 2015 %
Discount rate - accrued benefit obligation	3.53	3.90	3.53	3.90
Rate of compensation increases	3.25 - 4.00	3.25 - 4.00		

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Notes to Unaudited Condensed Consolidated Financial Statements

For the 26-week periods ended June 26, 2016 and June 28, 2015

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

The net benefit pension plan expense included the following components:

	Pensions		Post-retirement benefit plans	
	13-week period ended June 26, 2016	13-week period ended June 28, 2015	13-week period ended June 26, 2016	13-week period ended June 28, 2015
	\$	\$	\$	\$
Net benefit plan expense				
Current service cost	2,252	2,264	407	416
Interest cost	5,256	6,117	458	517
Expected return on plan assets	(4,495)	(5,081)	-	-
Past service cost ^(a)	-	3,352	-	64
	<u>3,013</u>	<u>6,652</u>	<u>865</u>	<u>997</u>

	Pensions		Post-retirement benefit plans	
	26-week period ended June 26, 2016	26-week period ended June 28, 2015	26-week period ended June 26, 2016	26-week period ended June 28, 2015
	\$	\$	\$	\$
Net benefit plan expense				
Current service cost	4,504	4,528	814	832
Interest cost	10,489	12,235	915	1,033
Expected return on plan assets	(8,998)	(10,164)	-	-
Past service cost ^(a)	-	3,352	-	64
	<u>5,995</u>	<u>9,951</u>	<u>1,729</u>	<u>1,929</u>

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

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Notes to Unaudited Condensed Consolidated Financial Statements

For the 26-week periods ended June 26, 2016 and June 28, 2015

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

8 Provisions

	Environmental and asset retirement obligations	Long-term incentives	Restructuring	Total
	\$	\$	\$	\$
	(a)	(b)	(c)	
Provisions as of January 1, 2016	5,862	773	2,641	9,276
Current	-	455	2,641	3,096
Non-current	5,862	318	-	6,180
Provisions as of January 1, 2016	5,862	773	2,641	9,276
Additional provisions	-	406	393	799
Paid during the period	-	-	(1,118)	(1,118)
Interest accretion	97	-	-	97
Provisions as of June 26, 2016	5,959	1,179	1,916	9,054
Current	-	555	1,916	2,471
Non-current	5,959	624	-	6,583

(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, 2015 – 3.385%).

(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 26-week period ended June 26, 2016, \$0.2 million of restructuring charges at the New Westminster plant and other locations were released (26-week period ended June 28, 2015 - \$0.2 million released). As of June 26, 2016, there was a remaining provision of \$0.02 million.

During the first quarter of 2014, the Partnership undertook a review of corporate overhead costs and identified a number of cost reduction opportunities. As of June 26, 2016, the Partnership had incurred \$1.4 million of the costs associated with this initiative and recorded a provision for the remaining \$0.7 million.

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. During the 26-week period ended June 26, 2016, \$0.6 million of restructuring charges were recorded (26-week period ended June 28, 2015 -

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

\$1.3 million). As of June 26, 2016, the Partnership had incurred \$2.4 million of the costs associated with this initiative and recorded a provision for the remaining \$1.2 million.

9 Distributions and Partnership units liability

	Partnership units liability
	\$
As of January 1, 2016	125,176
Change in amortized cost of Partnership units liability (note 5)	1,234
Tax Distributions	(2,632)
As of June 26, 2016	<u>123,778</u>

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

Distribution Payment Date	26-week period ended June 26, 2016			
	Partnership unit distributions	Unit price	Issuance of Partnership units	Gross proceeds
	\$	\$	#	\$
January 15, 2016	9,871	10.29	442,929	4,558
April 15, 2016	9,951	12.31	359,138	4,421
	<u>19,822</u>		<u>802,067</u>	<u>8,979</u>

Distribution Payment Date	26-week period ended June 28, 2015			
	Partnership unit distributions	Unit price	Issuance of Partnership units	Gross proceeds
	\$	\$	#	\$
January 15, 2015	9,652	16.46	256,590	4,223
April 15, 2015	9,699	15.56	285,231	4,438
	<u>19,351</u>		<u>541,821</u>	<u>8,661</u>

On July 15, 2016, the Partnership paid a distribution of \$10.0 million to partners. Pursuant to the Partnership's Distribution Reinvestment Plan (DRIP), a portion of the distribution was reinvested by the partners, resulting in the Partnership issuing 394,797 Partnership units at a price of \$11.75. During the 26-week period ended June 26, 2016, a fair value adjustment of \$0.03 million was recorded to reflect the market value of the Partnership units issued.

Subsequent to June 26, 2016, the Partnership declared a distribution of \$10.1 million, payable on October 17, 2016.

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Notes to Unaudited Condensed Consolidated Financial Statements

For the 26-week periods ended June 26, 2016 and June 28, 2015

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

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

	26-week period ended June 26, 2016		
	Advances	Partnership unit distributions	Total
	\$	\$	\$
Paid to Kruger Inc. ^(a)	1,029	8,293	9,322
Paid to KPGP	-	2	2
Paid to KPT ^(b)	205	2,548	2,753
Total paid	1,234	10,843	12,077

	26-week period ended June 28, 2015			
	Tax Distributions	Advances	Partnership unit distributions	Total
	\$	\$	\$	\$
Paid to Kruger Inc. ^(a)	2,903	2,636	8,079	13,618
Paid to KPGP	1	-	2	3
Paid to KPT ^(b)	571	526	2,804	3,901
Total paid	3,475	3,162	10,885	17,522

- (a) During the 26-week periods ended June 26, 2016 and June 28, 2015, Partnership unit distributions were paid to Kruger Inc. net of the DRIP reinvestment. During the 26-week period ended June 26, 2016, Kruger Inc.'s DRIP reinvestment was \$8.3 million (26-week period ended June 28, 2015 - \$8.1 million).
- (b) As of April 15, 2015, Partnership unit distributions were paid to KPT net of the DRIP reinvestment. During the 26-week period ended June 26, 2016, KPT's DRIP reinvestment was \$0.7 million (26-week period ended June 28, 2015 - \$0.4 million).

Tax Distributions

On February 26, 2016, KPLP declared a Tax Distribution of \$2.6 million, of which \$0.4 million was used to partially settle the advance to KPT recorded during the year ended December 31, 2015, and \$2.2 million was used to partially settle the advances to Kruger Inc. and KPGP recorded during the year ended December 31, 2015. The excess of advances over Tax Distributions in the amount of \$4.2 million (KPT - \$0.7 million; Kruger Inc. and KPGP - \$3.5 million), are repayable to KPLP no later than March 31, 2017.

During the 26-week period ended June 26, 2016, pursuant to the Tax Distribution as defined in the Partnership Agreement, the Partnership made advances to its partners of \$1.2 million, of which \$0.2 million was used to pay the monthly tax instalment on behalf of KPT and the remaining was advanced to Kruger Inc. and KPGP. The advances are non-interest bearing and non-recourse and will be settled when the Tax Distribution is declared annually.

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Notes to Unaudited Condensed Consolidated Financial Statements

For the 26-week periods ended June 26, 2016 and June 28, 2015

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

10 Income taxes

The Partnership is not a tax paying entity for the 26-week periods ended June 26, 2016 and June 28, 2015. The income (loss) from the Partnership flows to the partners, Kruger Inc., KPGP, and KPT. However, the Partnership's subsidiaries Kruger Products (USA) Inc., K.T.G. (USA) Inc., TAD Canco Inc., Grupo Tissue de Mexico S de RL de CV and TAD Luxembourg S.A.R.L. are corporate entities and, therefore, are subject to tax.

Income tax expense (recovery) was recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated weighted average annual income tax rate for the 26-week period ended June 26, 2016 was 7.3% (26-week period ended June 28, 2015 – 12.8%).

The components of income taxes were as follows:

	13-week period ended June 26, 2016	13-week period ended June 28, 2015	26-week period ended June 26, 2016	26-week period ended June 28, 2015
	\$	\$	\$	\$
Current tax expense	468	335	1,342	1,215
Deferred tax expense (recovery)	366	497	108	(54)
	<u>834</u>	<u>832</u>	<u>1,450</u>	<u>1,161</u>

11 Related party transactions

The Partnership makes sales to and acquires goods and services from Kruger Inc. and its subsidiary companies (related parties) in the normal course of business. These transactions are measured at the exchange amount, which is the amount agreed on by the related parties, and are non-interest bearing.

Sales of goods to Kruger Inc. for the 26-week period ended June 26, 2016 were \$0.4 million (26-week period ended June 28, 2015 - \$0.06 million). Sales of goods to subsidiaries of Kruger Inc. for the 26-week period ended June 26, 2016 were nil (26-week period ended June 28, 2015 - \$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 26-week period ended June 26, 2016 were \$16.2 million (26-week period ended June 28, 2015 - \$13.2 million). Purchases of goods and services from subsidiaries of Kruger Inc. for the 26-week period ended June 26, 2016 were \$4.3 million (26-week period ended June 28, 2015 - \$4.7 million). Goods are purchased from Kruger Inc. and related parties under normal commercial terms and conditions. These purchases of goods and services are included within cost of sales and SG&A expenses in the condensed consolidated statement of comprehensive income (loss). During the 26-week period ended June 26, 2016, management fees of \$2.1 million (26-week period ended June 28, 2015 - \$2.1 million) were paid to Kruger Inc. for management services provided to the Partnership.

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Balances due to and from related parties were as follows:

	June 26, 2016	December 31, 2015
	\$	\$
Receivables from Kruger Inc.	230	61
Receivables from subsidiaries of Kruger Inc.	18	16
Receivables from KPT	207	108
	<u>455</u>	<u>185</u>
Payables to Kruger Inc.	4,376	3,332
Payables to subsidiaries of Kruger Inc.	708	443
	<u>5,084</u>	<u>3,775</u>

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 June 26, 2016 and December 31, 2015. There were no loans outstanding with related parties as of June 26, 2016 and December 31, 2015.

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

	June 26, 2016	December 31, 2015
	\$	\$
Distribution payable to Kruger Inc.	8,391	8,257
Distribution payable to KPGP	1	1
Distribution payable to KPT	1,624	1,613
Total distribution payable	<u>10,016</u>	<u>9,871</u>

12 Segment information

Reportable segments

Management has determined the operating segments based on the reports reviewed by the Chief Executive Officer who is considered to be the Chief Operating Decision Maker. The Partnership operates in three industry segments: Consumer, 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.

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

(c) Other

This segment includes sales of parent rolls by the Partnership to other tissue manufacturing companies primarily in the United States and also in Canada. It also includes sales of recycled fibre primarily to its parent company. This segment operates using the Partnership's manufacturing facilities in Canada.

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.

	13-week period ended June 26, 2016			
	Consumer	AFH	Other	Total
	\$	\$	\$	\$
Revenue from external customers	232,395	59,051	4,311	295,757
Adjusted EBITDA	34,063	1,431	372	35,866
Depreciation and amortization				11,977
Interest expense				10,921
Gain on sale of fixed assets				(4)
Restructuring costs				393
Unrealized foreign exchange gain				(291)
Income before income taxes				12,870
Income taxes				834
Net income				12,036

	13-week period ended June 28, 2015			
	Consumer	AFH	Other	Total
	\$	\$	\$	\$
Revenue from external customers	217,045	57,438	4,854	279,337
Adjusted EBITDA	29,122	2,055	(995)	30,182
Depreciation and amortization				9,408
Interest expense				12,473
Change in amortized cost of Partnership units liability				1,850
Gain on sale of fixed assets				(26)
Pension revaluation - past service cost				3,416
Unrealized foreign exchange gain				(946)
Income before income taxes				4,007
Income taxes				832
Net income				3,175

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	26-week period ended June 26, 2016			
	Consumer	AFH	Other	Total
	\$	\$	\$	\$
Revenue from external customers	460,546	108,102	6,799	575,447
Adjusted EBITDA	62,066	1,265	622	63,953
Depreciation and amortization				22,348
Interest expense				22,135
Change in amortized cost of Partnership units liability				1,234
Gain on sale of fixed assets				(3)
Restructuring costs				393
Unrealized foreign exchange gain				(2,030)
Income before income taxes				19,876
Income taxes				1,450
Net income				18,426

	26-week period ended June 28, 2015			
	Consumer	AFH	Other	Total
	\$	\$	\$	\$
Revenue from external customers	427,195	105,997	11,521	544,713
Adjusted EBITDA	59,419	3,023	(1,143)	61,299
Depreciation and amortization				19,315
Interest expense				22,815
Change in amortized cost of Partnership units liability				3,162
Loss on sale of fixed assets				139
Restructuring costs				1,054
Pension revaluation - past service cost				3,416
Unrealized foreign exchange loss				2,352
Income before income taxes				9,046
Income taxes				1,161
Net income				7,885

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

Geographic segments

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

	13-week period ended June 26, 2016	13-week period ended June 28, 2015	26-week period ended June 26, 2016	26-week period ended June 28, 2015
Revenue	\$	\$	\$	\$
Canada	179,974	180,809	345,859	344,202
US	102,906	90,427	204,579	183,805
Mexico	12,877	8,101	25,009	16,706
	<u>295,757</u>	<u>279,337</u>	<u>575,447</u>	<u>544,713</u>

	June 26, 2016			
	Canada	US	Mexico	Total
	\$	\$	\$	\$
Property, plant and equipment	336,389	393,304	-	729,693
Goodwill	160,939	-	-	160,939
Intangible assets	15,344	-	-	15,344

	December 31, 2015			
	Canada	US	Mexico	Total
	\$	\$	\$	\$
Property, plant and equipment	320,090	417,618	-	737,708
Goodwill	160,939	-	-	160,939
Intangible assets	15,853	-	-	15,853

13 Financial instruments

Classification of financial instruments

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

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For the 26-week periods ended June 26, 2016 and June 28, 2015

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

As of June 26, 2016, 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	10,104	10,104
Trade and other receivables	loans and receivables	amortized cost	108,178	108,178
Receivables from related parties	loans and receivables	amortized cost	455	455
Advances to partners	loans and receivables	amortized cost	5,465	5,465
Mortgage receivable	loans and receivables	amortized cost	1,000	1,000
Trade and other payables	financial liabilities	amortized cost	(188,026)	(188,026)
Payables to related parties	financial liabilities	amortized cost	(5,084)	(5,084)
Distributions payable	financial liabilities	amortized cost	(10,016)	(10,016)
Long-term debt	financial liabilities	amortized cost	(417,568)	(425,261)
Partnership units liability	financial liabilities	amortized cost	(123,778)	(123,778)

The following table details the fair value hierarchy of financial instruments carried at fair value by level as of June 26, 2016:

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Mortgage receivable	-	-	1,000	1,000
Long-term debt	-	(425,261)	-	(425,261)
Partnership units liability	-	-	(123,778)	(123,778)

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)

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Notes to Unaudited Condensed Consolidated Financial Statements

For the 26-week periods ended June 26, 2016 and June 28, 2015

(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)

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 June 26, 2016, the fair values of the Credit Facility, the Nordea Facility and the Caisse Facility were \$199.0 million, \$34.3 million and \$190.6 million (December 31, 2015 – \$206.0 million, \$36.5 million and \$202.9 million), respectively, which approximates the current principal amount outstanding as the interest rate approximates current market interest rates. As of June 26, 2016, the fair values of the Quebec loan and the Ontario loan were \$0.6 million and \$0.8 million (December 31, 2015 - \$1.1 million and nil), respectively.

The fair value of the available-for-sale investment was based on quoted market price in the active market. The valuation methodology used was 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 a discounted cash flow model. Significant assumptions include the income tax obligation, discount rate and an industry capitalization rate and are discussed in the consolidated financial statements for the year ended December 31, 2015. There were no significant changes in the assumptions during the 26-week period ended June 26, 2016.

14 Non-cash working capital

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

	26-week period ended June 26, 2016	26-week period ended June 28, 2015
	\$	\$
Decrease (increase) in trade and other receivables	(4,832)	3,478
Decrease in receivables from related parties	24	80
Increase in inventories	(4,214)	(9,490)
Increase in prepaid expenses	(1,297)	(2,386)
Increase in other long-term assets	(137)	(71)
Decrease (increase) in income taxes	(849)	13
Increase (decrease) in trade and other payables	5,534	(20,358)
Increase (decrease) in payables to related parties	1,309	(750)
	<u>(4,462)</u>	<u>(29,484)</u>