KRUGER PRODUCTS L.P.

UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENT

FOR THE 13-WEEK AND 26-WEEK PERIODS ENDED JUNE 28, 2015 AND JUNE 29, 2014

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

(tabular amounts are in thousands of Canadian dollars)

	June 28, 2015 $	December 31, 2014 $
Assets		
Current assets		
Cash and cash equivalents	35,273	51,788
Trade and other receivables	105,819	107,092
Receivables from related parties (note 11)	221	301
Advances to partners (note 9)	3,162	3,474
Inventories	161,961	150,328
Current portion of income tax recoverable	1,151	1,302
Prepaid expenses and other current assets	11,395	7,351
	318,982	321,636
Non-current assets		
Property, plant & equipment (note 6)	672,950	652,762
Other long-term assets	7,780	7,738
Income tax recoverable	16,252	15,309
Goodwill	160,939	160,939
Intangible assets	13,919	14,052
Deferred income taxes	20,808	19,565
Total assets	1,211,630	1,192,001
Liabilities		
Current liabilities		
Trade and other payables	158,899	173,228
Payables to related parties (note 11)	3,637	4,387
Distributions payable (notes 9 and 11)	9,750	9,781
Current portion of provisions (note 8)	3,602	2,967
Current portion of long-term debt	9,351	8,879
	185,239	199,242
Non-current liabilities		
Long-term debt	377,314	358,646
Other long-term liabilities	94	156
Provisions (note 8)	6,913	6,441
Pensions (note 7)	108,382	98,533
Post-retirement benefits (note 7)	56,173	53,357
Liabilities to non-unitholders	734,115	716,375
Current portion of Partnership units liability (note 9)	6,949	6,949
Long-term portion of Partnership units liability (note 9)	117,387	121,174
Total Partnership units liability	124,336	128,123
Total liabilities	858,451	844,498
Equity		
Partnership units (note 9)	308,584	299,616
Retained earnings (deficit)	(15,503)	4,424
Accumulated other comprehensive income	60,098	43,463
Total equity	353,179	347,503
Total equity and liabilities	1,211,630	1,192,001

Subsequent events (note 9)

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

Kruger Products L.P.
Unaudited Condensed Consolidated Statement of Comprehensive Income (Loss)
For the 13-week and 26-week periods ended June 28, 2015 and June 29, 2014

(tabular amounts are in thousands of Canadian dollars)

	13-week period ended June 28, 2015 $	13-week period ended June 29, 2014 $	26-week period ended June 28, 2015 $	26-week period ended June 29, 2014 $
Revenue (note 11)	279,337	265,284	544,713	499,892
Expenses				
Cost of sales (note 11)	240,413	226,352	462,953	425,223
Selling, general and administrative expenses (note 11)	21,277	19,882	42,896	40,408
Restructuring costs (note 8)	-	51	1,054	2,835
Operating income	17,647	18,999	37,810	31,426
Interest expense	12,473	11,393	22,815	22,301
Other (income) expense (note 5)	1,167	(158)	5,949	4,870
Income before income taxes	4,007	7,764	9,046	4,255
Income taxes (note 10)	832	(355)	1,161	(641)
Net income for the period	3,175	8,119	7,885	4,896
Other comprehensive income (loss)				
Items that will not be reclassified to net income:				
Remeasurements of pensions	11,368	(30,593)	(6,038)	(29,512)
Remeasurements of post-retirement benefits	1,503	(2,646)	(2,149)	(3,493)
Items that may be subsequently reclassified to net income:				
Available-for-sale investment	222	(113)	(29)	(138)
Cumulative translation adjustment	(7,213)	(10,027)	16,664	779
Total other comprehensive income (loss) for the period	5,880	(43,379)	8,448	(32,364)
Comprehensive income (loss) for the period	9,055	(35,260)	16,333	(27,468)

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 28, 2015 and June 29, 2014

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

	Partnership units		Retained earnings (deficit)	Accumulated other comprehensive income (loss)	Total equity
	#	$	$	$	$
As of January 1, 2014	52,527,550	282,672	50,945	19,669	353,286
Distributions payable (note 9)	-	-	(9,550)	-	(9,550)
Distributions paid (note 9)	-	-	(9,500)	-	(9,500)
Change in actuarial loss on pension	-	-	(29,512)	-	(29,512)
Change in actuarial loss on post retirement benefits	-	-	(3,493)	-	(3,493)
Change in available-for-sale investment	-	-	-	(138)	(138)
Cumulative translation adjustment	-	-	-	779	779
Net income for the period	-	-	4,896	-	4,896
Issuance of partnership units (note 9)	528,321	8,465	-	-	8,465
As of June 29, 2014	53,055,871	291,137	3,786	20,310	315,233
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)
Change in 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

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 28, 2015 and June 29, 2014

(tabular amounts are in thousands of Canadian dollars)

	26-week period ended June 28, 2015 $	26-week period ended June 29, 2014 $
Cash flows from (used in) operating activities		
Net income for the period	7,885	4,896
Items not affecting cash		
Depreciation	18,978	18,194
Amortization	337	331
Loss on sale of fixed assets	139	298
Change in amortized cost of Partnership units liability (note 5)	3,162	4,864
Unrealized foreign exchange loss (note 5)	2,352	83
Interest expense	22,815	22,301
Pension and post retirement benefits	8,776	5,004
Provisions (note 8)	1,691	2,421
Income taxes	1,161	(641)
Total items not affecting cash	59,411	52,855
Net change in non-cash working capital (note 14)	(29,484)	(17,268)
Contributions to pension and post-retirement benefit plans	(7,402)	(16,216)
Provisions paid	(707)	(837)
Income tax payments	(1,006)	(886)
Net cash from operating activities	28,697	22,544
Cash flows from (used in) investing activities		
Purchases of property, plant & equipment	(17,654)	(19,578)
Purchases of software	(204)	(768)
Proceeds on sale of property, plant and equipment	282	1
Acquisition of business	-	(23,360)
Net cash used in investing activities	(17,576)	(43,705)
Cash flows from (used in) financing activities		
Repayment of credit facilities	(510)	(510)
Interest paid on credit facilities	(10,539)	(10,397)
Distributions and advances paid (note 9)	(17,522)	(15,804)
Proceeds from issuing partnership units	195	574
Net cash used in financing activities	(28,376)	(26,137)
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	740	108
Decrease in cash and cash equivalents during the period	(16,515)	(47,190)
Cash and cash equivalents - Beginning of period	51,788	87,674
Cash and cash equivalents - End of period	35,273	40,484

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

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

1 General information

Kruger Products L.P. (KPLP or the Partnership) is a limited partnership registered in the Province of Quebec, Canada whose partners are Kruger Inc., KPGP Inc. (KPGP), and KP Tissue Inc. (KPT). The Partnership manufactures, sells and distributes tissue products for household, industrial and commercial use. The Partnership has plants in New Westminster, British Columbia; Crabtree, Quebec; Sherbrooke, Quebec; Gatineau, Quebec; Scarborough and Trenton, Ontario and Memphis, Tennessee. The Partnership's headquarters are located in Mississauga, Ontario, Canada.

2 Basis of presentation

These condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) applicable to the preparation of interim financial statements including International Accounting Standard 34, Interim Financial Reporting as issued by the International Accounting Standards Board (IASB), and with interpretations of the International Financial Reporting Committee which the Canadian Accounting Standards Board has approved for incorporation into Part 1 of the CPA Canada Handbook - Accounting. These condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements of the Partnership for the year ended December 31, 2014. The Partnership reclassified certain prior year amounts in the condensed consolidated financial statements to conform to current year presentation.

These condensed consolidated financial statements were approved by the board of directors of KPGP on August 11, 2015.

3 Summary of significant accounting policies

The significant accounting policies that have been used in the preparation of these condensed consolidated financial statements are described in the annual consolidated financial statements of the Partnership for the year ended December 31, 2014 and have been applied to all periods presented except the following accounting policies, which were adopted effective January 1, 2015:

(i) IAS 19, Employee Benefits. The IASB has issued an amendment to clarify the application of IAS 19, to plans that require employees or third parties to contribute towards the cost of benefits. The adoption of this standard had no significant impact on these condensed consolidated financial statements.

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

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

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

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4 Critical accounting estimates and judgments

The preparation of these unaudited condensed interim consolidated financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities in the unaudited condensed interim consolidated financial statements and the disclosure of contingencies at the dates of the unaudited condensed interim consolidated statements of financial position, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The estimates and judgments applied by management that most significantly affect the unaudited condensed interim consolidated financial statements are the same as the ones that applied to the audited consolidated financial statements for the year ended December 31, 2014.

5 Other (income) expense

	13-week period ended June 28, 2015 $	13-week period ended June 29, 2014 $	26-week period ended June 28, 2015 $	26-week period ended June 29, 2014 $
Unrealized foreign exchange (gain) loss	(946)	(1,596)	2,352	83
Change in amortized cost of Partnership units liability	1,850	1,514	3,162	4,864
Miscellaneous (income) expense	263	(76)	435	(77)
	1,167	(158)	5,949	4,870

6 Property, plant and equipment

	Land $	Buildings $	Machinery and equipment $	Assets under construction or development $	Total $
As of January 1, 2015					
Cost	40,678	174,340	918,867	13,058	1,146,943
Accumulated depreciation and impairments	-	(70,124)	(424,057)	-	(494,181)
Net book value as of January 1, 2015	40,678	104,216	494,810	13,058	652,762
Additions	-	-	-	18,076	18,076
Disposals	-	-	(421)	-	(421)
Transfers	-	500	13,716	(14,216)	-
Depreciation	-	(2,396)	(16,933)	-	(19,329)
Exchange differences	81	3,278	18,189	314	21,862
As of June 28, 2015	40,759	105,598	509,361	17,232	672,950
As of June 28, 2015					
Cost	40,759	178,542	952,147	17,232	1,188,680
Accumulated depreciation and impairment	-	(72,944)	(442,786)	-	(515,730)
Net book value as of June 28, 2015	40,759	105,598	509,361	17,232	672,950

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

7 Pensions and post-retirement benefits

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

	Pensions		Post-retirement benefit plans	
	June 28, 2015	December 31, 2014	June 28, 2015	December 31, 2014
	%	%	%	%
Assumptions				
Discount rate - accrued benefit obligation	3.70	4.00	3.70	4.00
Rate of compensation increases	3.25 - 4.00	3.25 - 4.00		

The net benefit pension plan expense included the following components:

	Pensions		Post-retirement benefit plans	
	13-week period ended June 28, 2015	13-week period ended June 29, 2014	13-week period ended June 28, 2015	13-week period ended June 29, 2014
	$	$	$	$
Net benefit plan expense				
Current service cost	2,264	1,946	416	362
Interest cost	6,117	6,402	517	544
Expected return on plan assets	(5,081)	(5,470)	-	-
Past service cost [(a)]	3,352	-	64	-
	6,652	2,878	997	906

	Pensions		Post-retirement benefit plans	
	26-week period ended June 28, 2015	26-week period ended June 29, 2014	26-week period ended June 28, 2015	26-week period ended June 29, 2014
	$	$	$	$
Net benefit plan expense				
Current service cost	4,528	4,280	832	724
Interest cost	12,235	12,845	1,033	1,088
Expected return on plan assets	(10,164)	(10,959)	-	-
Past service cost [(a)]	3,352	-	64	-
	9,951	6,166	1,929	1,812

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

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8 Provisions

	Environmental and asset retirement obligations $ (a)	Long-term incentives $ (b)	Restructuring $ (c)	Total $
Provisions as of January 1, 2015	5,898	2,186	1,324	9,408
Current	-	1,643	1,324	2,967
Non-current	5,898	543	-	6,441
Provisions as of January 1, 2015	5,898	2,186	1,324	9,408
Additional provisions	-	637	1,054	1,691
Paid during the period	-	(39)	(668)	(707)
Interest accretion	123	-	-	123
Provisions as of June 28, 2015	6,021	2,784	1,710	10,515
Current	-	1,892	1,710	3,602
Non-current	6,021	892	-	6,913

a) Environmental and asset retirement obligations

The Partnership has made a provision for the potential obligation under a land lease at one of its plant locations to demolish the building and restore the land at the end of the lease to its original condition. The current lease ends in 2028 but can be renewed for another term at the Partnership's option. The estimated undiscounted amount to settle this obligation would be between $10.6 million and $13.7 million. The liability is estimated using a discounted cash flow with a discount rate of 4.25%.

b) Long-term incentives

Long-term incentives include the Executive Long-Term Incentive Plan for the Partnership. The plan is based on the earnings before interest, tax, depreciation and amortization (EBITDA) return on capital employed and is paid in the third year following the year it is earned. The compensation expense is recognized over the same period.

c) Restructuring

The restructuring charges at the New Westminster plant and other locations resulted in an increase in provisions of approximately $8.6 million during the year ended December 31, 2012. During the 26-week period ended June 28, 2015, $0.2 million of restructuring charges at the New Westminister plant and other locations were released (26-week period ended June 29, 2014 – nil). As of June 28, 2015, there was a remaining provision of $0.2 million.

During the first quarter of 2014, the Partnership undertook a review of corporate overhead costs and identified a number of cost reduction opportunities. The Partnership expects to incur restructuring costs of approximately $2.0 million, primarily related to severance. As of June 28, 2015, the Partnership had incurred $1.3 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.

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

In response to market cost pressures, in the first quarter of 2015, senior management undertook a comprehensive review of its cost structure and identified a number of cost reduction opportunities. Included in this initiative are restructuring costs of approximately $1.3 million, related to severance. As of June 28, 2015, KPLP had incurred $0.5 million of the costs associated with this initiative and recorded a provision for the remaining $0.8 million.

9 Distributions and Partnership units liability

	Partnership units liability $
As of January 1, 2015	128,123
Issuance of Partnership units	-
Change in amortized cost of Partnership units liability (note 5)	3,162
Tax Distributions paid	(6,949)
As of June 28, 2015	124,336

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:

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

	26-week period ended June 29, 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	9,500	15.51	275,843	4,277
	18,955		528,321	8,465

On May 7, 2015, the Partnership declared a distribution of $9.7 million, which was paid on July 15, 2015. Pursuant to the DRIP, a portion of the distribution was reinvested by the partners and the Partnership issued 312,247 additional Partnership units at a price of $14.31 for the gross proceeds of $4.5 million. During the 26-week period ended June 28, 2015, a fair value adjustment of $0.3 million was recorded to reflect the market value of the Partnership units issued.

Subsequent to June 28, 2015, the Partnership declared a distribution of $9.8 million, payable on October 15, 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 28, 2015			
	Tax distibutions	Advances	Partnership unit distibutions	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

	26-week period ended June 29, 2014			
	Tax distibutions	Advances	Partnership unit distibutions	Total
	$	$	$	$
Paid to Kruger Inc. [(a)]	2,890	1,156	7,894	11,940
Paid to KPGP	1	-	2	3
Paid to KPT [(b)]	459	234	3,168	3,861
Total paid	3,350	1,390	11,064	15,804

a) During the 26-week periods ended June 28, 2015 and June 29, 2014, Partnership unit distributions were paid to Kruger Inc. net of the DRIP reinvestment. During the 26-week period ended June 28, 2015, Kruger Inc.'s DRIP reinvestment was $8.1 million (26-week period ended June 29, 2014 - $7.9 million).

b) As of April 15, 2015, Partnership unit distributions were paid to KPT net of the DRIP reinvestment. During the 13-week period ended June 28, 2015, KPT's DRIP reinvestment was $0.4 million.

Tax distributions

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

During the 26-week period ended June 28, 2015, pursuant to the Tax Distribution as defined in the Partnership Agreement, the Partnership made advances to its partners of $3.2 million, of which $0.5 million was used to pay the monthly tax instalment on behalf of KPT and the remaining was advanced to Kruger Inc. and KPGP. The advances are non-interest bearing and non-recourse and will be settled when the Tax distribution is declared annually.

10 Income taxes

The Partnership is not a tax paying entity for the 26-week period ended June 28, 2015 and June 29, 2014. The income (loss) from the Partnership flows to the partners, Kruger Inc., KPGP, and KPT. However, the Partnership's subsidiaries Kruger Products (USA) Inc. (KP USA), K.T.G. (USA) Inc. (KTG), TAD Canco Inc. Inc., Grupo Tissue de

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

Mexico S de RL de CV (GTM) and TAD Luxembourg S.A.R.L. are corporate entities and, therefore, are subject to tax.

Income tax expense (recovery) was recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated weighted average annual income tax rate for the 26-week period ended June 28, 2015 was 12.8% (26-week period ended June 29, 2014 – (15.1)%). The tax recovery recorded in the 26-week period ended June 28, 2015 did not include a benefit of an investment tax credit (26-week period ended June 29, 2014 - $0.07 million).

The components of income taxes were as follows:

	13-week period ended June 28, 2015 $	13-week period ended June 29, 2014 $	26-week period ended June 28, 2015 $	26-week period ended June 29, 2014 $
Current tax expense	335	519	1,215	1,241
Deferred tax expense (credit)	497	(874)	(54)	(1,882)
	832	(355)	1,161	(641)

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 28, 2015 were $0.06 million (26-week period ended June 29, 2014 - $1.4 million). Sales of goods to subsidiaries of Kruger Inc. for the 26-week period ended June 28, 2015 was $0.2 million (26-week period ended June 29, 2014 - $0.1 million). Goods are sold based on the price lists in force and terms that would be available to third parties. Services are delivered at the terms outlined in the agreements between the related parties.

Purchases of goods and services from Kruger Inc. for the 26-week period ended June 28, 2015 were $13.2 million (26-week period ended June 29, 2014 - $14.2 million). Purchases of goods and services from subsidiaries of Kruger Inc. for the 26-week period ended June 28, 2015 were $4.7 million (26-week period ended June 29, 2014 - $8.4 million). Goods are purchased from Kruger Inc. and related parties under normal commercial terms and conditions. These purchases of goods and services are included within cost of sales and selling, general and administrative expenses in the condensed consolidated statement of comprehensive income (loss). During the 26-week period ended June 28, 2015, management fees of $2.1 million (26-week period ended June 29, 2014 - $2.0 million) were paid to Kruger Inc. for management services provided to the Partnership.

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

Balances due to and from related parties were as follows:

	June 28, 2015 $	December 31, 2014 $
Receivables from Kruger Inc.	29	220
Receivables from subsidiaries of Kruger Inc.	192	28
Receivables from KPT	-	53
	221	301
Payables to Kruger Inc.	3,228	2,978
Payables to subsidiaries of Kruger Inc.	379	1,409
Payables to KPT	30	-
	3,637	4,387

The receivables from and payables to related parties are due based on commercial terms agreed on between the parties, unsecured in nature and non-interest bearing. There were no provisions related to the receivables from related parties as of June 28, 2015 and December 31, 2014. There were no loans outstanding with related parties as of June 28, 2015 and December 31, 2014.

As of June 28, 2015, the Partnership had declared distributions to its related parties as follows:

	June 28, 2015 $	December 31, 2014 $
Distribution payable to Kruger Inc.	8,147	8,179
Distribution payable to KPGP	1	1
Distribution payable to KPT	1,602	1,601
Total distribution payable	9,750	9,781

12 Segment information

Reportable segments

Management has determined the operating segments based on the reports reviewed by the Chief Executive Officer who is considered to be the Chief Operating Decision Maker. The Partnership operates in three industry segments: Consumer, Away-From-Home (AFH) and Other.

a) Consumer
This segment operates using the Partnership's manufacturing facilities in Canada (New Westminster, British Columbia; Crabtree, Quebec; Sherbrooke, Quebec; Gatineau, Quebec) and in the United States (Memphis, Tennessee). The Consumer segment includes sales of branded tissue products such as Cashmere™, Purex™, White Swan™, Scotties™, Sponge Towels™ and White Cloud™ and private label tissue products.

b) AFH
This segment operates using the Partnership's manufacturing facilities in Canada. The AFH business sells tissue products primarily through distributors to businesses involved in property management, health care, food service, manufacturing and lodging and also to public facilities.

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

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

Segment operating profit is the earnings (loss) for each such segment before (i) interest expense, (ii) income taxes, (iii) depreciation, (iv) amortization, (v) impairment (recovery) of non-financial assets, (vi) loss (gain) on disposal of property, plant and equipment, (vii) unrealized foreign exchange loss (gain), (viii) one-time costs related to restructuring activities, (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 28, 2015			
	Consumer	**AFH**	**Other**	**Total**
	$	**$**	**$**	**$**
Revenue from external customers	217,045	57,438	4,854	279,337
Segment operating profit (loss)	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 for the period				3,175

	13-week period ended June 29, 2014			
	Consumer	**AFH**	**Other**	**Total**
	$	**$**	**$**	**$**
Revenue from external customers	216,900	44,264	4,120	265,284
Segment operating profit (loss)	29,541	137	(680)	28,998
Depreciation and amortization				9,574
Interest expense				11,393
Change in amortized cost of Partnership units liability				1,514
Loss on sale of fixed assets				298
Restructuring costs				51
Unrealized foreign exchange gain				(1,596)
Income before income taxes				7,764
Income taxes				(355)
Net income for the period				8,119

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

	26-week period ended June 28, 2015			
	Consumer	AFH	Other	Total
	$	$	$	$
Revenue from external customers	427,195	105,997	11,521	544,713
Segment operating profit (loss)	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 for the period				7,885

	26-week period ended June 29, 2014			
	Consumer	AFH	Other	Total
	$	$	$	$
Revenue from external customers	415,278	77,746	6,868	499,892
Segment operating profit (loss)	54,490	(387)	(942)	53,161
Depreciation and amortization				18,525
Interest expense				22,301
Change in amortized cost of Partnership units liability				4,864
Loss on sale of fixed assets				298
Restructuring costs				2,835
Unrealized foreign exchange loss				83
Income before income taxes				4,255
Income taxes				(641)
Net income for the period				4,896

Geographic segments

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

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

				Revenue
Revenue	13-week period ended June 28, 2015 $	13-week period ended June 29, 2014 $	26-week period ended June 28, 2015 $	26-week period ended June 29, 2014 $
Canada	180,809	172,981	344,202	334,141
US	90,427	86,310	183,805	153,068
Mexico	8,101	5,993	16,706	12,683
	279,337	265,284	544,713	499,892

				June 28, 2015
	Canada $	US $	Mexico $	Total $
Property, plant and equipment	301,433	371,517	-	672,950
Goodwill	160,939	-	-	160,939
Intangible assets	13,919	-	-	13,919

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

13 Financial instruments

Classification of financial instruments

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

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

As of June 28, 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	35,273	35,273
Trade and other receivables	loans and receivables	amortized cost	105,819	105,819
Receivables from related parties	loans and receivables	amortized cost	221	221
Advances to partners	loans and receivables	amortized cost	3,162	3,162
Embedded derivative	fair value through profit or loss	fair value	4,050	4,050
Available-for-sale investment	fair value through other comprehensive income or loss	fair value	1,169	1,169
Trade and other payables	financial liabilities	amortized cost	(158,899)	(158,899)
Payables to related parties	financial liabilities	amortized cost	(3,637)	(3,637)
Distributions payable	financial liabilities	amortized cost	(9,750)	(9,750)
Long-term debt	financial liabilities	amortized cost	(386,665)	(407,479)
Partnership units liability	financial liabilities	amortized cost	(124,336)	(124,336)

The following table details the fair value hierarchy of financial instruments carried at fair value by level as of June 28, 2015:

	Level 1 $	Level 2 $	Level 3 $	Total $
Embedded derivative	-	4,050	-	4,050
Available-for-sale investment	1,169	-	-	1,169

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

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

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

The following table details the fair value hierarchy of financial instruments carried at fair value by level as of December 31, 2014:

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

Fair value

Cash and cash equivalents, trade and other receivables, receivables from related parties, advances to partners, trade and other payables, payables to related parties and 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 28, 2015, the fair value of the senior notes was $189.0 million (December 31, 2014 - $189.0 million) based on the trading value of the debt on the over-the-counter market. The fair values of the Nordea Facility and the Caisse Facility were $40.6 million and $176.2 million (December 31, 2014 - $38.2 million and $163.9 million), respectively, which approximates the current principal amount outstanding as the interest rate approximates current market interest rates. As of June 28, 2015, the fair value of the loans payable was $1.7 million (December 31, 2014 - $2.2 million).

Management has estimated the fair value of the embedded derivative using a probability-weighted interest rate pricing method. The valuation methodology used is categorized as a Level 2 methodology.

The fair value of the available-for-sale investment is based on quoted market price in the active market. Unrealized losses were not significant as of June 28, 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.

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 28, 2015	26-week period ended June 29, 2014
	$	$
Decrease (increase) in trade and other receivables	3,478	(6,775)
Decrease in receivables from related parties	80	1,104
Decrease (increase) in inventories	(9,490)	2,668
Increase in prepaid expenses and other current assets	(2,386)	(4,491)
Increase in other long-term assets	(71)	(102)
Decrease (increase) in income taxes	13	(323)
Decrease in trade and other payables	(20,358)	(13,415)
Increase (decrease) in payables to related parties	(750)	4,066
	(29,484)	(17,268)