



KP Tissue Inc.



**2015**

ANNUAL REPORT



KP Tissue Inc.

KP Tissue Inc. (KPT) was created to acquire, and its business is limited to holding, a limited partnership interest in Kruger Products L.P. (KPLP). KPT held a minority interest in KPLP of 16.3% as at December 31, 2015 and 16.2% as at May 5, 2016<sup>(1)</sup>.

KPLP is Canada's leading manufacturer of quality tissue products for household, industrial and commercial use. KPLP serves the Canadian consumer market with such well-known brands as Cashmere®, Purex®, SpongeTowels®, Scotties® and White Swan®. In the U.S., KPLP manufactures the White Cloud® brand, as well as many private label products. The Away-From-Home division manufactures and distributes high-quality, cost-effective product solutions to a wide range of commercial and public entities. KPLP has approximately 2,500 employees across North America and operates five FSC® CoC- certified mills (FSC® C104904), four of which are located in Canada and one in the U.S. For more information visit [www.krugerproducts.ca](http://www.krugerproducts.ca).

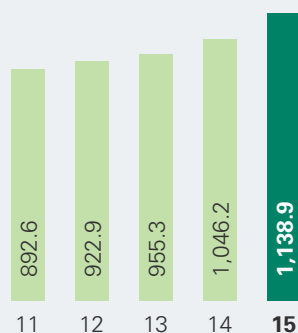
(1) KPT (the Corporation) holds a limited partnership interest in KPLP. Since KPT is a reporting issuer in all provinces and territories of Canada, it reports the financial and business information of KPLP.

©2016 KP Tissue ®Registered and ™trademarks of Kruger Products, L.P. ®'Registered trademark of Kimberly-Clark Worldwide, Inc. used under license. ®Forest Stewardship Council and FSC logo—Forest Stewardship Council, A.C.

Forward looking information: For any information on statements in this Annual Report that are of a forward-looking nature, please consult the section on "Cautionary forward looking statement." on page 1 in the Management's discussion and analysis of results of operations and financial position.

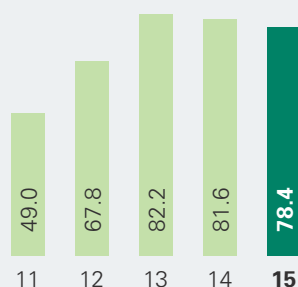
## REVENUE

(in millions of Canadian dollars)



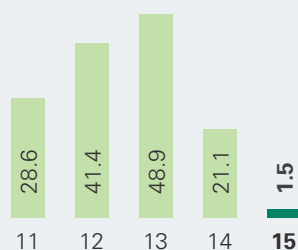
## OPERATING INCOME

(in millions of Canadian dollars)



## NET INCOME

(in millions of Canadian dollars)



# FIVE-YEAR FINANCIAL PERFORMANCE\*

(In millions of Canadian dollars)

For the years ended December 31	2015	2014	2013	2012	2011
Revenue	1,138.9	1,046.2	955.3	922.9	892.6
Operating income	78.4	81.6	82.2	67.8	49.0
Net income	1.5	21.1	48.9	41.4	28.6

## OTHER FINANCIAL DATA

Adjusted EBITDA	126.4	121.6	116.2	110.9	81.8
Adjusted EBITDA margin	11.1%	11.6%	12.2%	12.0%	9.2%
Capital expenditures	57.4	42.3	59.0	184.8	109.4
Working capital	123.9	122.4	128.5	134.3	107.0
Long-term debt	425.9	358.6	342.0	323.9	251.7

\* All financial information presented herein are related to KPLP unless otherwise noted and have been prepared in accordance with IFRS. For the year ended December 31, 2015, KPT reported an equity loss of \$5.5 million, a net loss of \$31.3 million and basic loss per share of (\$3.52). For more information refer to the KPT Audited Financial Statements for the period ended December 31, 2015. Adjusted EBITDA and Adjusted EBITDA margin are non-GAAP financial measures. Refer to the MD&A for the definition and reconciliation of Adjusted EBITDA.



## 2015 HIGHLIGHTS

- Revenue of \$1,138.9 million, up by 8.9% over 2014.
- Adjusted EBITDA increased 3.9% to \$126.4 million.
- TAD product Adjusted EBITDA contribution of \$45.3 million.
- At the year-end, cash and cash equivalents was \$25.5 million.
- Rated best CPG supplier by Canadian retailer customers in an annual survey.





## TO OUR SHAREHOLDERS

I am pleased to share with you a discussion of Kruger Products' results, challenges and achievements in fiscal 2015.

### FINANCIAL HIGHLIGHTS

During the year we again posted record sales results. Revenues rose to \$1.14 billion, representing an 8.9% increase over 2014. Additionally, our Adjusted EBITDA grew by 3.9% to \$126.4 million despite the significant impact of the weaker Canadian dollar on commodity input costs. This factor alone had a negative impact estimated at approximately \$11 million. Once again during 2015, we put in place various cost reduction initiatives to help mitigate the negative impact of the currency.

The TAD Product Adjusted EBITDA contribution was \$45.3 million, up from \$26.9 million in the previous year, and continues to exceed our expectations in terms of production level and quality.

For the full year, our CAPEX totaled \$57.4 million. Of this amount, a large portion was devoted to high return projects, with a particular emphasis on initiatives that will enhance profitability and manufacturing efficiencies.

In September 2015, we redeemed \$175 million of senior notes by increasing our existing credit facility to \$300 million. This initiative will result in interest expense savings of approximately \$8 million annually.

### TAD PRODUCTS

The improved Adjusted EBITDA contribution from TAD Products reflects increased volume, the favourable impact of the currency and our ongoing ramp-up in manufacturing efficiencies.

In the U.S., we market the White Cloud brand which is exclusive to Walmart. We are pleased to report that White Cloud bathroom tissue was ranked number one for the second time by a high-profile U.S. consumer magazine.

Leveraging our manufacturing capacity to take advantage of growth in the U.S. premium private label market represents a significant opportunity, and will remain the principal driver of our TAD products.

We expect the TAD products to generate a \$60 million Adjusted EBITDA contribution by Fiscal 2017.

### OUR BRAND LEADERSHIP

In 2015, despite a competitive and price sensitive environment in the Canadian consumer business, our brands once again achieved the greatest overall market share in terms of both volume and dollar value.

Our success in maintaining market leadership reflects a continuous obsession to offer optimal value to our customers. This relentless focus is being recognized. Kruger Products was named the number one consumer packaged goods (CPG) Company in Canada for the third year in a row by a major industry survey of retailers in Canada.



**DURING THE  
YEAR WE AGAIN  
POSTED RECORD  
SALES RESULTS.  
REVENUES ROSE  
TO \$1.14 BILLION,  
REPRESENTING  
AN 8.9% INCREASE  
OVER 2014.**

### OUR COMMITMENT TO COMMUNITY

Our Sustainability 2015 program has established targets that concentrate on decreasing fibre use, energy, waste, packaging materials and greenhouse gases. We have gone a long way towards meeting these targets, and I invite you to visit our program website at [www.sustainability2015.ca](http://www.sustainability2015.ca).

Supporting philanthropic and community causes is also a priority. We are proud of our continuing relationship with the Scotties Tournament of Hearts (the Canadian Women's Curling Championship) which we have sponsored for 35 years, and with the Canadian Breast Cancer Foundation. For the past 25 years we have also participated in the Ronald MacDonald House Charities, and for over 15 years we have been involved with Friends of We Care, an organization that sends children to Easter Seals Camps. Additionally, we participate in a number of local civic and charitable activities that make a lasting positive difference in their communities.

### BUILDING VALUE

In 2016, our priorities in relation to enhancing shareholder value are comprised of several ongoing and new initiatives.

In Canada, one of our key priorities is to maintain market leadership in our consumer brands business and we have been successful at doing that. With some consolidation at the retailer level and competitive pressures, the fact remains that this is a price sensitive environment.

However, to combat the rising cost pressures of the past few years, we announced a price increase to our Canadian retailers, which was effective at the end of April 2016. The benefits of the price increase will start to take effect in the second quarter of 2016 and will have a full impact on results in the third quarter of the year.

In the U.S., as mentioned above, we will continue to take advantage of growth in the premium private label market segment.

Starting in 2015, we expanded our CAPEX program to dedicate more funds to high-return projects. In 2016, CAPEX is expected to reach \$65 to \$85 million. The benefits of these projects on manufacturing cost reductions and capacity improvements will begin in Fiscal 2017.

Among these projects, we dedicated more CAPEX to the Away-From-Home (AFH) business. In the first quarter of Fiscal 2016, two new modern converting lines began production in our AFH business and we incurred higher operating costs due to the start-up and the continued implementation of our AFH growth plan. Our long-term goal remains to build a solid North American AFH footprint.

### A WORD OF THANKS

I want to take this opportunity to express gratitude to every member of the Kruger Products team. At the base of our success is the skill and dedication of our people. In the same spirit my thanks go out as well to our Board of Directors for their vision and advice, and to all our suppliers, customers and shareholders for their support and commitment.



Mario Gosselin  
Chief Executive Officer  
KP Tissue Inc., and Kruger Products L.P.



**KP TISSUE INC. AND KRUGER PRODUCTS L.P.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF RESULTS OF OPERATIONS AND FINANCIAL POSITION**

**FOR THE FOURTH QUARTER AND FISCAL YEAR ENDED DECEMBER 31, 2015**

**DATED MARCH 9, 2016**

## TABLE OF CONTENTS

Cautionary Forward Looking Statement .....	1
Overview .....	2
Business Highlights.....	5
Results of Operations .....	5
Segment Information .....	8
Liquidity and Capital Resources .....	10
Financial Instruments and Other Instruments .....	15
Transactions with Related Parties .....	17
Off Balance Sheet Arrangements and Contractual Obligations.....	17
Critical Accounting Estimates .....	17
Accounting Changes and Future Accounting Standards .....	19
Selected Annual Financial Information .....	20
Selected Quarterly Financial Information .....	20
Share Information .....	23
Risk Factors .....	23
Controls and Procedures.....	23
Additional Information .....	24

The following Management's Discussion and Analysis (MD&A) dated March 9, 2016 for KP Tissue Inc. (KPT) and Kruger Products L.P. (KPLP) is intended to assist the readers in understanding the business environment, strategies, performance and risk factors relating to KPT and KPLP. It should be read in conjunction with the financial statements of KPT for the years ended December 31, 2015 and December 31, 2014, and the consolidated financial statements of KPLP for the years ended December 31, 2015 (Fiscal 2015) and December 31, 2014 (Fiscal 2014), respectively.

#### **About KP Tissue Inc.**

KPT was created to acquire, and its business is limited to holding, a limited partnership interest in KPLP, which is accounted for as an investment in an associate using the equity method of accounting. KPT currently holds a 16.3% interest in KPLP (16.3% as of December 31, 2015). The following MD&A provides discussion and analysis related to KPT to the extent necessary to understand the equity method of accounting. However, most of the discussion and analysis relates to KPLP and to KPT's investment in KPLP.

#### **CAUTIONARY FORWARD LOOKING STATEMENT**

Certain statements in this MD&A about KPT's and KPLP's current and future plans, expectations and intentions, results, levels of activity, performance, goals or achievements or any other future events or developments constitute forward-looking statements. The words "may", "will", "would", "should", "could", "expects", "plans", "intends", "trends", "indications", "anticipates", "believes", "estimates", "predicts", "likely" or "potential" or the negative or other variations of these words or other comparable words or phrases, are intended to identify forward-looking statements. The forward-looking information is based on certain key expectations and assumptions made by KPT or KPLP, including continued growth of the U.S. private label market and demand for TAD products in the U.S., orders for the TAD machine's products, the demand and timing of distributions made by KPLP, and Kruger Inc.'s cash requirements. The financial outlook that KPLP Management provides on page 3 of this MD&A concerning the potential incremental Adjusted EBITDA generated by the sale of TAD products may be considered forward-looking information and is based on additional key expectations and assumptions, including but not limited to (i) limited incremental overhead relating to the operation of the TAD machine and distribution and sale of products, (ii) the TAD machine operating at near full capacity and products being sold at prices consistent with current market prices, adjusted for inflation, (iii) a cost of pulp and energy based on recent prices, adjusted for inflation, and (iv) a foreign exchange rate between the Canadian and U.S. dollars approximating current levels. Although KPT and KPLP believe that the expectations and assumptions on which such forward-looking information is based are reasonable, undue reliance should not be placed on the forward-looking information since no assurance can be given that such expectations and assumptions will prove to be correct.

Many factors could cause KPLP's actual results, level of activity, performance or achievements or future events or developments (which could in turn affect the economic benefits derived from KPT's economic interest in KPLP) to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, the following factors, which are discussed in greater detail in the "Risk Factors – Risks Related to KPLP's Business" section of the KPT Annual Information Form dated March 10, 2016 available on SEDAR at [www.sedar.com](http://www.sedar.com) (the Annual Information Form): Kruger Inc.'s influence over KPLP; KPLP's reliance on Kruger Inc.; consequences of an event of insolvency relating to Kruger Inc.; risks associated with the TAD Project; operational risks; Gatineau Plant land lease; significant increases in input costs; reduction in supply of fibre; increased pricing pressure and intense competition; KPLP's inability to innovate effectively; adverse economic conditions; dependence on key retail trade customers; damage to the reputation of KPLP or KPLP's brands; KPLP's sales being less than anticipated; KPLP's failure to implement its business and operating strategies; KPLP's obligation to make regular capital expenditures; KPLP's entering into unsuccessful acquisitions; KPLP's dependence on key personnel; KPLP's inability to retain its existing customers or obtain new customers; KPLP's loss of key suppliers; KPLP's failure to adequately protect its intellectual property rights; KPLP's reliance on third party intellectual property licenses; adverse litigation and other claims affecting KPLP; material expenditures due to comprehensive environmental regulation affecting KPLP's cash flow; KPLP's pension obligations are significant and can be materially higher than predicted if KPLP Management's underlying assumptions are incorrect; labour disputes adversely affecting KPLP's cost structure and KPLP's ability to run its plants; exchange rate and U.S. competitors; KPLP's inability to service all of its indebtedness; exposure to potential consumer product liability; covenant compliance; interest rate and refinancing risk; information technology and innovation; insurance; and internal controls.



These factors are not intended to represent a complete list of the factors that could affect KPT and/or KPLP; however, these factors should be considered carefully, and readers should not place undue reliance on forward-looking statements made herein or in the documents reproduced herein.

To the extent any forward-looking information in this MD&A constitutes future-oriented financial information or financial outlooks within the meaning of securities laws, such information is being provided to demonstrate the potential benefits and readers are cautioned that this information may not be appropriate for any other purpose. Future-oriented financial information and financial outlooks, including expected cost-savings related to the restructuring activities, and the financial outlook that KPLP Management provides on page 3 of this MD&A concerning the potential incremental TAD Product Adjusted EBITDA, are, without limitation, based on the assumptions and subject to the risks set out above.

The forward-looking information contained herein is expressly qualified in its entirety by this cautionary statement. The forward-looking information contained herein is made as of the date of this MD&A and KPT and KPLP undertake no obligation to publicly update such forward-looking information to reflect new information, subsequent or otherwise, unless required by applicable securities laws.

## **OVERVIEW**

### **Business Overview**

KPLP is Canada's leading tissue products supplier by overall market share. It produces, distributes, markets and sells a wide range of products, including bathroom tissue, facial tissue, paper towels and napkins, for both the Consumer and the Away-From-Home (AFH) market (in each case, as defined below). While its principal focus is on the Canadian consumer-branded tissue products market, KPLP is also a leader in the Canadian AFH market and is expanding its business in the U.S. private label tissue market. The Consumer segment consists of well recognized brands such as *Cashmere*, *Purex*, *Scotties*, *SpongeTowels*, *White Cloud* and *White Swan*.

KPLP is headquartered in Mississauga, Ontario and has approximately 2,500 employees across North America. KPLP's Canadian manufacturing facilities, consisting of three tissue plants in Québec, two plants in Ontario, and one plant in British Columbia, have a combined annual tissue production capacity of approximately 246,000 metric tonnes.

KPLP's U.S. manufacturing facility held through K.T.G. (USA) Inc. (KTG) and located in Memphis, Tennessee consists of two paper machines with an aggregate annual capacity of 57,000 metric tonnes, and one adjacent 60,000 metric tonne state-of-the-art, Through-Air-Dried (TAD) tissue machine and related infrastructure (the TAD Project).

Pursuant to its Articles, KPT's business is limited to (i) the investment in, holding of and disposition of limited partnership interests, units, shares or other securities of KPLP and its general partner, KPGP Inc. (KPGP) (or any successor entity of either KPLP or KPGP), (ii) the acquisition of, holding, operation and disposition of any assets, liabilities, operations or business of such entities, and (iii) all activities related, incidental or ancillary to any of the foregoing. As of the date of the MD&A and following the participation by the partners in the Dividend Reinvestment Plan (DRIP) on January 15, 2016, KPT held 16.3% of the KPLP Partnership Units (KPLP Units).

### **Basis of Presentation**

The consolidated financial statements of KPLP presented for Fiscal 2015 and Fiscal 2014 have been prepared in accordance with IFRS (International Financial Reporting Standards). The financial statements of KPT for the years ended December 31, 2015 and December 31, 2014 have also been prepared in accordance with IFRS.

### **Accounting Periods**

This MD&A, the consolidated financial statements of KPLP and accompanying notes thereto include financial information for Q4 2015, Q4 2014, Fiscal 2015 and Fiscal 2014.

## **Financial Measures and Key Indicators**

This MD&A uses certain non-IFRS financial measures and ratios which KPLP believes provide useful information to both KPLP Management and the readers of the consolidated financial statements in measuring the financial performance and financial condition of KPLP. These measures do not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similarly titled measures presented by other companies. An example of such measures is Adjusted EBITDA. Adjusted EBITDA is not a measurement of operating performance computed in accordance with IFRS and should not be considered as a substitute for operating income, net income or cash flows from operating activities computed in accordance with IFRS. This MD&A contains a reconciliation of Adjusted EBITDA to the most comparable IFRS measures on page 5.

“Adjusted EBITDA” is calculated by KPLP as net income (loss) 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.

“KTG EBITDA” is calculated as net income (loss) of KTG as reported in the financial statements of KTG before (i) interest expense, (ii) income taxes, (iii) depreciation, and (iv) amortization, as defined in the TAD Credit Facility (as described in the 2015 Annual MD&A).

“TAD Product Adjusted EBITDA” represents the portion of KTG EBITDA generated by the sale of TAD products.

## **Outlook**

KPLP is committed to building great consumer brands and developing winning products for its retail and commercial customers. KPLP’s strategy is to maintain its leadership position in the Canadian market. Though the Canadian tissue market is expected to remain competitive, KPLP believes that its brands and products are well positioned for continued growth. KPLP will aim to sustain its consumer and AFH leadership position in the Canadian tissue industry by driving marketing and sales excellence, extending product lines, continuing to leverage product development and manufacturing technology to drive product superiority and cost savings, and emphasizing manufacturing quality and efficiency.

In the U.S., KPLP expects to continue to grow by leveraging its TAD product capabilities and focusing on the high-end private label business in the U.S. market. KPLP Management believes that the sale of TAD products has the potential to generate approximately \$60 million Adjusted EBITDA annually for KPLP by 2017, being the year in which the TAD paper machine is expected to reach full production capacity. TAD Product Adjusted EBITDA was \$13.2 million in Q4 2015 and \$45.3 million for Fiscal 2015. The foregoing estimates of future incremental Adjusted EBITDA may be considered forward-looking information and are based upon certain key assumptions, including (i) limited incremental overhead relating to the operation of the TAD machine and distribution and sale of products, (ii) the TAD machine operating at near full capacity and products being sold at market prices consistent with current market prices, adjusted for inflation (iii) a cost of pulp and energy based on recent prices, adjusted for inflation, and (iv) a foreign exchange rate between the Canadian and U.S. dollars approximating current levels. The foregoing factors could cause TAD Product Adjusted EBITDA to differ materially from the amount set forth in the foregoing estimate.

## **Factors Affecting the Results of Operations**

### ***Revenue***

KPLP generates revenue on the sale of branded, private label and AFH tissue products in Canada and the U.S. Revenue is reported on a net basis, after deducting rebates and allowances. KPLP’s revenue is impacted by advertising, discounts and promotions, merchandising, packaging, the availability of shelf and display space at retail customers, the timing of new product launches and line extensions and competitive pricing, all of which have a significant impact on consumer buying decisions. Continued growth of our revenue will depend substantially on the continued strength of our brands, retail support and our ability to effectively maintain sufficient product supply to meet customer demand.

KPLP has three reportable business segments: (i) consumer products sold through traditional retail channels such as grocery stores, mass merchandisers, club stores, drug stores and convenience stores (Consumer), (ii) AFH, and (iii) Other. The Consumer segment includes sales of branded tissue products such as *Cashmere*, *Purex*, *Scotties*, *SpongeTowels*, *White Cloud* and *White Swan*. AFH sells commercial tissue products primarily through distributors to businesses involved in property management, health care, food service, manufacturing and lodging, and to other public facilities. The Other segment includes the sale of parent rolls to other tissue manufacturing companies as well as the sale of recycled fibre. KPLP's current sales focus includes all regions of Canada and the United States. KPLP is partially exposed to fluctuations in the U.S. dollar against the Canadian dollar, as sales made to U.S. customers are made in U.S. dollars. To manage this foreign exchange risk, KPLP has occasionally entered into foreign currency forward contracts and may continue to do so going forward.

### ***Cost of Sales***

Cost of sales includes fixed and variable costs to manufacture our products, freight, and warehousing and handling costs. Input costs associated with the manufacturing of tissue paper are primarily variable. Fibre, labour, and energy costs are the largest components, representing 50% to 70% of total cost of sales, depending on the type of fibre and paper making technology being used. Typically producers have been able to pass along commodity input cost increases (fibre and energy) to end customers and consumers within a six to nine month period following any such increase. For this reason KPLP Management believes that there is a correlation between pulp prices and end product pricing. Periodically, KPLP has entered into fibre commodity swap contracts to reduce exposure to fluctuations in this key input cost, and may continue to do so going forward. These historically have not exceeded 15% of total fibre purchases. KPLP is exposed to fluctuations in the U.S. dollar against the Canadian dollar on production inputs, U.S. dollar denominated debt and other operating costs denominated in U.S. dollars. To manage this foreign exchange risk, KPLP has occasionally entered into foreign currency forward contracts and may continue to do so going forward. Fixed costs at the plants include plant maintenance, overhead, insurance, property taxes, information technology, as well as depreciation and amortization (substantially all depreciation and amortization is included in cost of sales).

Freight, warehousing and handling costs vary based on sales volume, the geographical mix of the product shipped, and the cost of fuel used by freight carriers.

### ***Selling, General and Administrative Expenses***

KPLP's selling, general and administrative expenses include marketing and selling, general and administrative costs, which include a very small portion of the overall depreciation and amortization.

Selling costs include the costs related to sales and marketing activities, including advertising and promotion and market research, as well as selling expenses, commissions and other related costs. General and administrative expenses consist of costs related to operations, finance, information technology, product development, legal, human resources, executive administration and other corporate expenses. It also includes the foreign exchange gains and losses realized during the period.

### ***Interest Expense***

Interest expense is derived from the financing activities of KPLP. KPLP is a borrower under certain credit facilities, each of which is described under "Liquidity and Capital Resources" below. KPLP also records amortization related to deferred financing fees and interest costs related to pensions and post-retirement benefits in interest expense.

### ***Other Income (Expense)***

Other income (expense) includes foreign exchange gains and losses, the change in the amortized cost of the Partnership unit liability, and other items deemed to be non-operational in nature.

## *Income Taxes*

KPLP is not a tax paying entity. The income (loss) from KPLP flowed to the partners, Kruger Inc., KPGP and KPT for Fiscal 2015 and Fiscal 2014. The income taxes recorded in the consolidated financial statements of KPLP relate to the income taxes for its incorporated subsidiaries in the U.S., Canada, Luxembourg and Mexico.

## **BUSINESS HIGHLIGHTS**

### **Amendment to Senior Credit Facility**

In response to rapidly changing market conditions, an amendment was obtained under the Senior Credit Facility to increase the Ratio of Funded Debt to EBITDA covenant for the entire 2016 fiscal year. This amendment is expected to allow for the impact of foreign exchange fluctuations and also provide additional flexibility to implement a significantly expanded 2016 capital spending program of approximately \$65 million to \$70 million, in line with the overall business strategy. KPLP's strategy includes a significant amount of capital spending which is being invested to reduce manufacturing costs, and provide growth to improve EBITDA performance, driven by relatively high return projects with 3 to 4 year paybacks.

## **RESULTS OF OPERATIONS**

### **Results of Operations of KPLP**

(C\$ millions, unless otherwise noted)	\$ Change				
	Fiscal 2015	Fiscal 2014	Fiscal 2013	Fiscal 2015 vs. Fiscal 2014	Fiscal 2014 vs. Fiscal 2013
Statement of Operations Data:					
Revenue	1,138.9	1,046.2	955.3	92.7	90.9
Cost of sales	(970.8)	(879.2)	(786.8)	(91.6)	(92.4)
Selling, general and administrative expenses	(88.0)	(82.6)	(86.7)	(5.4)	4.1
Gain on sale of non-financial assets	1.1	-	1.8	1.1	(1.8)
Restructuring costs	(2.8)	(2.8)	(1.4)	(0.0)	(1.4)
Operating income	78.4	81.6	82.2	(3.2)	(0.6)
Interest expense	(58.2)	(44.7)	(42.2)	(13.5)	(2.5)
Other expense	(11.3)	(17.6)	(2.0)	6.3	(15.6)
Income before income taxes	8.9	19.3	38.0	(10.4)	(18.7)
Income taxes:					
Combined income tax rate after manufacturing and processing credits	(2.3)	(5.0)	(9.9)	2.7	4.9
Income tax in partners' hands	0.7	6.2	15.1	(5.5)	(8.9)
Other	(5.8)	0.6	5.7	(6.4)	(5.1)
Income taxes	(7.4)	1.8	10.9	(9.2)	(9.1)
Net income	1.5	21.1	48.9	(19.6)	(27.8)

(C\$ millions, unless otherwise noted)	\$ Change				
	Fiscal 2015	Fiscal 2014	Fiscal 2013	Fiscal 2015 vs. Fiscal 2014	Fiscal 2014 vs. Fiscal 2013
<b>Reconciliation of Adjusted EBITDA</b>					
<b>to Net income:</b>					
Net income	1.5	21.1	48.9	(19.6)	(27.8)
Interest expense	58.2	44.7	42.2	13.5	2.5
Income taxes	7.4	(1.8)	(10.9)	9.2	9.1
Depreciation and amortization	42.5	37.6	34.1	4.9	3.5
Unrealized foreign exchange loss	6.9	3.5	3.0	3.4	0.5
Pension revaluation - past service cost	3.4	-	-	3.4	-
Change in amortized cost of Partnership units liability	4.0	13.8	(0.7)	(9.8)	14.5
Loss (gain) on sale of fixed assets	0.7	(0.1)	-	0.8	(0.1)
Gain on sale of non-financial assets	(1.1)	-	(1.8)	(1.1)	1.8
Restructuring costs	2.8	2.8	1.4	0.0	1.4
<b>Adjusted EBITDA</b>	<b>126.4</b>	<b>121.6</b>	<b>116.2</b>	<b>4.8</b>	<b>5.4</b>

### *Results of Operations Fiscal 2015 compared to Fiscal 2014*

#### *Revenue*

Revenue was \$1,138.9 million in Fiscal 2015 compared to \$1,046.2 million in Fiscal 2014, an increase of \$92.7 million or 8.9%. The increase in revenue was due to additional sales volume across all regions and in both the Consumer and AFH segments, including a significant increase in AFH segment revenue resulting from the acquisition of Metro Paper in June 2014. In the Consumer and AFH U.S. businesses, sales were favourably impacted by foreign exchange on U.S. dollar sales. From a geographic perspective, revenue in the U.S. increased \$72.4 million, or 22.9% including the positive effect of foreign exchange, revenue in Canada increased \$11.9 million, or 1.7%, including the impact of the Metro Paper acquisition and revenue in Mexico increased \$8.4 million, or 28.5%.

#### *Cost of Sales*

Cost of sales was \$970.8 million in Fiscal 2015 compared to \$879.2 million in Fiscal 2014, an increase of \$91.6 million or 10.4%. As a percentage of revenue, cost of sales was 85.2% for Fiscal 2015 compared to 84.0% for Fiscal 2014, primarily due to the negative impact of foreign exchange fluctuations (USD average 1.276 in Fiscal 2015 compared to 1.104 in Fiscal 2014), partially offset by the overall decline in commodity input costs, lower costs (in U.S. dollars) for pulp and natural gas in particular. Pulp market prices (NBSK) decreased while Eucalyptus (BEK) was up compared to the same period in 2014. NBSK market prices were U.S.\$972 per metric tonne on average in Fiscal 2015 compared to U.S.\$1,025 per metric tonne on average in Fiscal 2014. BEK market prices were U.S.\$890 per metric tonne on average in Fiscal 2015 compared to U.S.\$846 per metric tonne on average in Fiscal 2014. The pension revaluation for past service costs recorded in Q2 2014 negatively impacted cost of sales and warehousing costs increase due to higher inventory levels. Cost reduction initiatives partially offset the above increases in cost of sales.

#### *Selling, General and Administrative Expenses*

Selling, general and administrative expenses (SG&A) expenses were \$88.0 million in Fiscal 2015 compared to \$82.6 million in Fiscal 2014, an increase of \$5.4 million or 6.5%. The increase was primarily due to higher advertising and promotion expenses, higher selling expenses as a result of increased sales volume, and the unfavourable impact of foreign exchange. A loss on disposal of fixed assets was incurred in Fiscal 2015 compared to a gain on disposal in Fiscal 2014. As a percentage of revenue, SG&A expenses were 7.7% in Fiscal 2015 compared to 7.9% in Fiscal 2014 as the impact of cost reduction initiatives offset the factors above.

#### *Adjusted EBITDA*

Adjusted EBITDA was \$126.4 million in Fiscal 2015 compared to \$121.6 million in Fiscal 2014, an increase of \$4.8 million or 3.9%. The increase was due to higher sales volumes in both the Consumer and AFH segments, lower costs (in



U.S. dollars) for pulp and natural gas and cost reduction initiatives, which were partially offset by higher SG&A from increased sales and the net negative impact of foreign exchange. The Adjusted EBITDA margin decreased to 11.1% in Fiscal 2015 from 11.6% in Fiscal 2014.

#### *Gain on Sale of Non-Financial Assets and Restructuring Costs*

In response to on-going 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 (2015 Cost Reduction Initiative). Included in this initiative are severance costs of approximately \$3.0 million, which is expected to reduce costs by approximately \$4.0 million annually. 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.

As of December 31, 2015, KPLP had incurred \$1.4 million of the costs associated with the 2014 Corporate Restructuring Initiative and recorded a provision for the remaining \$0.7 million. This initiative is expected to reduce costs by approximately \$2.4 million annually and cost savings related to this initiative were fully implemented at the end of Q1 2015.

A gain on sale of non-financial assets of \$1.1 million was recorded during Fiscal 2015 related to the sale of certain lands included in the New Westminster 2012 Business Rationalization Project.

The net of all restructuring expense recorded in Fiscal 2015 was \$2.8 million compared to \$2.8 million in Fiscal 2014.

#### *Interest Expense*

Interest expense was \$58.2 million in Fiscal 2015 compared to \$44.7 million in Fiscal 2014, an increase of \$13.5 million. The increase was primarily due to costs incurred as a result of exercising the early repayment related to the Senior Unsecured Notes, and the impact of foreign exchange on U.S. dollar interest expense.

#### *Other Expense*

Other expense was \$11.3 million in Fiscal 2015 compared to \$17.6 million in Fiscal 2014, a decrease of \$6.3 million. Other expense in Fiscal 2015 was primarily related to an unrealized foreign exchange loss of \$6.9 million (Fiscal 2014 – \$3.5 million) and a change in the amortized cost of the Partnership units liability of \$4.0 million (Fiscal 2014 – \$13.8 million).

#### *Income Taxes*

An income tax expense of \$7.4 million was recorded in Fiscal 2015 compared to an income tax recovery of \$1.8 million in Fiscal 2014, a change of \$9.2 million, including a \$5.5 million reversal of previously recognized deferred tax assets, relating primarily to KTG in the U.S. As previously discussed, KPLP is not directly taxable on its Canadian business. The income tax expense in Fiscal 2015 resulted primarily from operating income related to the U.S. entities and the income tax recovery in Fiscal 2014 related primarily to additional tax deductions and state tax credits in respect of the TAD Project. Income tax in partner's hands was \$0.7 million in Fiscal 2015 compared to \$6.2 million in Fiscal 2014.

#### *Net Income*

Net income was \$1.5 million in Fiscal 2015 compared to \$21.1 million in Fiscal 2014, a decrease of \$19.6 million. The decrease was primarily due to an increase in interest expense of \$13.5 million, a change in the tax expense of \$9.2 million, the Q2 pension revaluation related to past service costs of \$3.4 million, an increase in the unrealized foreign exchange loss of \$3.4 million, and higher depreciation expense of \$4.9 million. These increases were partially offset by higher Adjusted EBITDA of \$4.8 million.

## Results of Operations of KPT

(C\$ millions, unless otherwise noted)	Fiscal 2015	Fiscal 2014
Equity loss	(5.5)	(2.4)
Net loss for the year	(31.3)	(2.5)
<b>Basic loss per share (dollars)</b>	<b>(3.52)</b>	<b>(0.29)</b>

The selected financial information presented above is based on KPT's interest in KPLP for Fiscal 2015 and Fiscal 2014. The equity loss includes KPT's share of income of KPLP of \$0.2 million for Fiscal 2015 and \$3.5 million for Fiscal 2014, reduced by depreciation expense of \$5.7 million and \$5.9 million, respectively, related to adjustments to the carrying amount of the assets and liabilities of KPLP on its acquisition by KPT. Refer to note 5 in KPT's financial statements for additional information.

The current income tax expense of \$0.4 million for Fiscal 2015 and \$1.1 million for Fiscal 2014 was based on KPT's share of the taxable income of KPLP for the same periods. The deferred tax recoveries of \$2.5 million for Fiscal 2015 and \$0.9 million for Fiscal 2014 were a result of changes in the temporary differences of KPLP's assets and liabilities since acquisition and the difference between the accounting and tax basis for KPT's investment in KPLP. Refer to note 6 in KPT's financial statements for additional information. 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.

Due to market value declines in KPT's publicly traded common shares since the initial offer price, KPT performed an impairment test at December 31, 2015 for its Investment in associate. The test resulted in an impairment of \$28 million, which was recorded in KPT's statement of comprehensive income (loss) during the year ended December 31, 2015. The recoverable amount of the Investment in associate was determined based on management's best estimate of the fair value less costs of disposal. The estimate of fair value was based on the net present value of future cash flows expected to be derived from KPLP, using a discount rate and terminal growth rate of 9.50% and 2.0%, respectively. A 0.5% increase/decrease in the discount rate would have resulted in an increase/decrease in the impairment of \$12.0 million and \$14.0 million, respectively. A 1.0% increase/decrease in the terminal growth rate would have resulted in a decrease/increase in the impairment of \$15.0 million and \$11.0 million, respectively.

Otherwise, the discussion and analysis provided above for the results of operations of KPLP applies on a proportionate basis to KPT's results of operations.

## SEGMENT INFORMATION

### Segment Operating Profit

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 (Segment Adjusted EBITDA). "AFH Segment Adjusted EBITDA", "Consumer Segment Adjusted EBITDA" and "Other Segment Adjusted EBITDA" means in each case the segment operating profit for the referring reportable segment of KPLP.

## Segment Results

(C\$ millions, unless otherwise noted)				Fiscal 2015 vs. Fiscal 2014		Fiscal 2014 vs. Fiscal 2013	
	Fiscal 2015	Fiscal 2014	Fiscal 2013	\$ Change	% Change	\$ Change	% Change
Segment Revenue							
Consumer	898.0	842.6	792.7	55.4	6.6%	49.9	6.3%
AFH	220.3	184.3	154.3	36.0	19.5%	30.0	19.4%
Other	20.6	19.3	8.3	1.3	6.7%	11.0	132.5%
Total segment revenue	1,138.9	1,046.2	955.3	92.7	8.9%	90.9	9.5%
Segment Adjusted EBITDA							
Consumer	122.5	123.6	110.3	(1.1)		13.3	
AFH	5.4	1.7	6.6	3.7		(4.9)	
Other	(1.5)	(3.7)	(0.7)	2.2		(3.0)	
Total segment Adjusted EBITDA	126.4	121.6	116.2	4.8		5.4	

### *Consumer Segment*

#### *Fiscal 2015 compared to Fiscal 2014*

Consumer segment revenue was \$898.0 million in Fiscal 2015 compared to \$842.6 million in Fiscal 2014, an increase of \$55.4 million or 6.6%. The increase resulted from additional sales volumes across all regions, as well as the favourable impact of foreign exchange related to U.S. dollar sales.

Consumer Segment Adjusted EBITDA was \$122.5 million in Fiscal 2015 compared to \$123.6 million in Fiscal 2014, a decrease of \$1.1 million. The higher contribution from increased sales along with lower costs (in U.S. dollars) for pulp and natural gas, was more than offset by the net negative impact of foreign exchange and increased SG&A and warehousing costs.

### *AFH Segment*

#### *Fiscal 2015 compared to Fiscal 2014*

AFH segment revenue was \$220.3 million in Fiscal 2015 compared to \$184.3 million in Fiscal 2014, an increase of \$36.0 million or 19.5%, driven primarily by incremental sales related to the Metro Paper acquisition and improved base business sales, along with the positive impact of foreign exchange on U.S. sales. AFH segment revenue increased in both the U.S. and Canada.

AFH Segment Adjusted EBITDA was \$5.4 million in Fiscal 2015 compared to \$1.7 million in Fiscal 2014, an increase of \$3.7 million. The increase in AFH Segment EBITDA was due to improved volume in the base business along with cost reduction initiatives and due to the Metro Paper acquisition, all of which more than offset the net unfavourable impact of foreign exchange.

### *Other Segment*

#### *Fiscal 2015 compared to Fiscal 2014*

Other segment revenue was \$20.6 million in Fiscal 2015 compared to \$19.3 million in Fiscal 2014, an increase of \$1.3 million primarily due to the sale of parent rolls.

Other Segment Adjusted EBITDA was a loss of \$1.5 million in Fiscal 2015 compared to a loss of \$3.7 million in Fiscal 2014, an increase of \$2.2 million primarily due to the favourable impact of product mix and pricing, and foreign exchange related to the sale of parent rolls.

## LIQUIDITY AND CAPITAL RESOURCES

### Overview

KPLP's principal uses of funds are for operating costs, working capital, capital expenditures and pension contributions (together, the Funding Requirements). To date, KPLP has met the Funding Requirements by using cash generated from operating activities and from borrowings under its various debt facilities. The registered defined benefit pension plans (RDBPP) sponsored by KPLP are currently in a solvency deficiency position, requiring KPLP to make funding contributions over the next ten years. KPLP Management believes that cash generated from operations, together with amounts available under the various debt facilities will be sufficient to meet its future funding requirements. However, KPLP's ability to fund future requirements and its ability to make scheduled payments of interest on its debt facilities and to satisfy any of its other present or future debt obligations will depend on its future operating performance, which will be affected by general economic, financial and other factors including factors beyond its control. KPLP Management reviews investment opportunities in the normal course of its business and may, if suitable opportunities arise, make selected investments to implement KPLP's business strategy. Historically, the funding for any such investments has come from cash flow from operations and/or additional debt.

KPLP targets approximately \$40 million to \$45 million of capital expenditures each fiscal year. Approximately \$20 million of the expenditures are related to maintenance projects and the remainder is focused on growth projects aimed at reducing costs or increasing production capacity. Growth projects generally have a 3 to 4 year payback.

As of December 31, 2015, KPLP was in compliance with all of its financial covenants under all of its outstanding credit facilities. As of December 31, 2015, KPLP had drawn \$206.0 million from the \$300.0 million committed amount under the Senior Credit Facility entered into on September 28, 2015. KPLP had \$24.0 million of letters of credit outstanding, resulting in \$70.0 million available from the credit line, subject to covenant limitations.

The tissue industry is generally characterized by high sales volume and rapid turnover of inventories and accounts receivable. In general, accounts receivable and inventories are readily convertible into cash. Investment in working capital may be affected by fluctuations in the prices of pulp and other supply costs, vendor terms and timing of collection of accounts receivable.

### Cash Flows

(C\$ millions, unless otherwise stated)	Fiscal 2015	Fiscal 2014	Fiscal 2013	\$ Change	
				Fiscal 2015 vs. Fiscal 2014	Fiscal 2014 vs. Fiscal 2013
Net cash flows from operating activities	84.0	92.9	55.5	(8.9)	37.4
Net cash flows used in investing activities	(56.6)	(65.3)	(59.9)	8.7	(5.4)
Net cash flows used in financing activities	(56.8)	(65.0)	(30.4)	8.2	(34.6)
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	3.1	1.5	1.0	1.6	0.5
Decrease in cash and cash equivalents	(26.3)	(35.9)	(33.8)	9.6	(2.1)
Beginning cash and cash equivalents	51.8	87.7	121.5	(35.9)	(33.8)
Ending cash and cash equivalents	25.5	51.8	87.7	(26.3)	(35.9)

### *Net Cash Flows from Operating Activities*

Net cash from operating activities was \$84.0 million in Fiscal 2015 compared to \$92.9 million in Fiscal 2014. Cash from operating activities in YTD 2015 was primarily driven by Adjusted EBITDA of \$126.4 million, partially offset primarily by higher funds required for working capital and funding of pension and post-retirement benefit plans.

### *Net Cash Flows used in Investing Activities*

Net cash used in investing activities was \$56.6 million in Fiscal 2015 compared to \$65.3 million in Fiscal 2014. Cash used in investing activities related primarily to capital expenditures of \$57.4 million in Fiscal 2015 compared to \$42.3

million in Fiscal 2014. The acquisition of Metro Paper in June 2014 for \$23.4 million resulted in additional cash used in investing activities in Fiscal 2014.

### ***Net Cash Flows used in Financing Activities***

Net cash used in financing activities was \$56.8 million in Fiscal 2015 compared to \$65.0 million in Fiscal 2014. Net cash used in financing activities in Fiscal 2015 was primarily due to distributions and advances paid of \$31.6 million (net of DRIP proceeds), interest paid of \$45.0 million, partially offset by net proceeds from credit facilities of \$21.1 million.

### **Contractual Obligations**

(C\$ millions, unless otherwise stated)	<u>Fiscal 2016</u>	<u>Fiscal 2017</u>	<u>Fiscal 2018</u>	<u>Fiscal 2019</u>	<u>Thereafter</u>
<b>Contractual obligations:</b>					
Revolving credit facility, principal repayments	-	-	-	-	206.0
Nordea facilities, principal repayments	9.1	9.1	9.1	9.1	-
TAD Credit Facility, principal repayments	-	1.0	201.9	-	-
Loan payable, principal repayments	1.1	-	-	-	-
Interest expense	33.1	32.2	23.5	6.1	5.9
Operating leases	13.8	12.4	11.9	11.4	50.7
Service contracts	2.5	1.4	0.4	0.1	-
<b>Total contractual obligations</b>	<u>59.6</u>	<u>56.1</u>	<u>246.8</u>	<u>26.7</u>	<u>262.6</u>

KPLP's cash pension contribution for defined benefit pension arrangements in Fiscal 2015 was \$20.6 million, while its post-retirement benefits contribution was \$2.5 million. In addition, as of December 31, 2015, KPLP had \$23.6 million of letters of credit related to pensions outstanding. Pension and post-retirement contributions for fiscal 2016 are expected to be \$15.9 million.

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 amount is in respect of a previously disclosed obligation owed to the partners of KPLP. It does not change the rights of or obligations owed to the partners of KPLP, and does not result in any change to the financial statements of KPT.

Pursuant to the Exchange Agreement, KPT has granted Kruger Inc. the right to exchange KPLP Units it holds from time to time for common shares of KPT (Common Shares) issued by KPT on the basis of one KPLP Unit for one Common Share, subject to adjustment upon the occurrence of certain events that would result in the indirect economic interest in KPLP represented by a Common Share diverging from the direct economic interest in KPLP represented by a KPLP Unit, including splits or consolidations of the common shares without a corresponding split or consolidation of the KPLP Units, issuances or repurchases of Common Shares without corresponding issuances or repurchases of KPLP Units, acquisition of assets by KPT other than KPLP Units or incurrence of liabilities other than ordinary course liabilities, or special distributions by KPT, certain other securities, debt or assets to all shareholders. If at any time the Kruger Inc. aggregate ownership interest is less than 20% in KPLP, KPT may require the exchange of all outstanding KPLP Units held by Kruger Inc. or its affiliates in return for Common Shares on the basis of one KPLP Unit for one Common Share subject to adjustment as set forth above.

Pursuant to the Administration Agreement, KPLP, as administrator (the Administrator) has full power and authority to administer, subject to the general supervision and any specific instructions of the KPT Board, all of the ongoing operations and affairs of KPT in order for KPT to carry on its activities as a public company. The Administrator shall directly bear and pay for all KPT's normal operating expenses incurred in connection with the ordinary course operation of a company that is a reporting issuer. The Administrator may also advance funds to KPT in an amount equal to pay for any



expenses of KPT that are outside of such ordinary course expenses, by way of non-recourse, interest-free loans, repayable upon payment by the Administrator of distributions to KPT. As KPT's agent, the Administrator will also bear and pay all outlays and expenses to third parties incurred by the Administrator in the administration of the affairs of KPT and the performance by the Administrator of its duties under the Administration Agreement.

## **Indebtedness**

### ***Senior Credit Agreement***

#### *General*

KPLP is a party to a fifth amended and restated credit agreement dated as of September 28, 2015 entered into by KPLP, as borrower, the lenders party thereto and National Bank of Canada, as administrative agent (the Senior Credit Agreement) pursuant to which a senior secured revolving credit facility in a maximum amount of \$300 million with a \$150 million accordion feature (the Senior Credit Facility) is made available to KPLP. The maturity date of the Senior Credit Facility is September 25, 2020. The Senior Credit Facility is to be used by KPLP to finance general corporate purposes and the ongoing working capital requirements of the Restricted Credit Parties (as defined below) redeeming the Senior Unsecured Notes and to finance the cash portion of any permitted acquisition or investment by any such Restricted Credit Party as defined below).

Under the Senior Credit Agreement, "Restricted Credit Parties" means KPLP, KPGP, Kruger Products Real Estate Holdings Inc., Grupo Tissue De Mexico S de RL de CV, Kruger Products (USA) Inc., Kruger Products AFH G.P. Inc. and Kruger Products AFH L.P. and their respective subsidiaries involved in the tissue business but excluding the Unrestricted Credit Parties (which include TAD Canco, TAD Luxembourg and KTG) and the Non-Material Credit Parties (as such terms are defined in the Senior Credit Agreement).

Subsequent to the year-end, on March 8, 2016, KPLP obtained an amendment to provide for an increase in the maximum ratio of funded debt to EBITDA to be complied with by KPLP during the year ended December 31, 2016.

#### *Interest Rates and Fees*

Borrowings under the Senior Credit Facility bear interest at a base rate of Canadian prime rate, U.S. base rate, LIBOR, Bankers' Acceptance Stamping Fees or LC Fees (as defined in the Senior Credit Agreement), plus a margin varying between 0.20% and 2.375% depending on the Restricted Credit Parties' ratio of funded debt to EBITDA (as defined in the Senior Credit Agreement) and the type of advance. Stand-By Fees are also payable on the available portion of the Senior Credit Facility at a rate varying between 0.24% and 0.475% depending on the Restricted Credit Parties' ratio of funded debt to EBITDA (as defined in the Senior Credit Agreement).

Subsequent to the year-end, on March 8, 2016, KPLP 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. The amendment also provides for Stand-By Fees payable on the available portion of the Senior Credit Facility during the year ended December 31, 2016 at a rate varying between 0.24% and 0.575% depending on the Restricted Credit Parties' ratio of funded debt to EBITDA.

#### *Prepayments and Repayments*

KPLP may voluntarily cancel or reduce the Senior Credit Facility, in whole or in part, subject to minimum amounts and notice periods, with customary restrictions on prepayment of Banker's Acceptances, Libor Loans and liabilities under Letters of Credit (in each case, as defined in the Senior Credit Agreement).

#### *Covenants*

The Senior Credit Agreement contains customary affirmative covenants, including, but not limited to, delivery of financial and other information to the administrative agent, delivery of notice to the administrative agent upon the

occurrence of certain material events, preservation of existence and authorizations, maintenance of insurance, compliance with laws, payment of taxes and other claims, limitation of transactions with affiliates and maintenance of security.

The Senior Credit Agreement requires the Restricted Credit Parties to comply with certain financial covenants, including, but not limited to, the maintenance of (i) a ratio of funded debt to EBITDA not greater than 3.50 to 1.00, and (ii) an interest coverage ratio of at least 3.00 to 1.00. The financial covenants are calculated on an Adjusted Consolidated Basis (as defined in the Senior Credit Agreement) such that the Unrestricted Credit Parties are accounted for as investments but not consolidated. As such, indebtedness under the TAD Credit Facility and KTG EBITDA are not included in such calculations.

The Senior Credit Agreement contains customary negative covenants of KPLP, including, but not limited to, (i) restrictions on the ability of KPLP and the Restricted Credit Parties to, subject to certain exceptions, grant liens, incur indebtedness, merge or consolidate, amend, restate or otherwise modify the Limited Partnership Agreement, make investments and loans, grant guarantees, make acquisitions, declare, set apart and pay distributions (which does not apply to the Tax Distribution (as defined below) to KPT), reduce capital, sell or otherwise dispose of assets, incur capital expenditures or materially change their business, and (ii) restrictions on the indebtedness of TAD Canco, TAD Luxembourg and KTG and the amendment of the TAD financing documents.

Subsequent to the year-end, on March 8, 2016, KPLP obtained an amendment to provide for an increase in the maximum ratio of funded debt to EBITDA to be complied with by KPLP during the year ended December 31, 2016. The amendment requires the maintenance of a ratio of funded debt to EBITDA not greater than (i) 4.25 to 1.00 from January 1, 2016 to June 26, 2016, (ii) 4.00 to 1.00 from June 27, 2016 to September 25, 2016, (iii) 3.75 to 1.00 from September 26, 2016 to December 31, 2016; and (iv) 3.50 to 1.00 thereafter.

#### *Events of Default*

The Senior Credit Agreement contains customary events of default, including, but not limited to, non-payment, misrepresentation, breach of covenants, cross-default and cross-acceleration to other debt above a certain threshold, cross defaults to the Nordea Credit Facility (as defined below) and the TAD Credit Facility (as defined below), insolvency, change of control of KPLP or Kruger and enforcement proceedings.

#### *Security and Guarantees*

The Senior Credit Facility is guaranteed by each Restricted Credit Party. KPLP and each Restricted Credit Party granted first ranking security interests and hypothecs over their current and future tangible and intangible assets (subject to permitted liens) to secure the obligations under the Senior Credit Facility, including a pledge of all capital stock or ownership interest in all subsidiaries owned by KPLP and the Restricted Credit Parties. The guarantees and security are granted on a pari passu basis in favour of the lenders and the administrative agent under the Senior Credit Agreement and the lenders and the administrative agent under the Nordea Credit Agreement (as defined below).

#### *Nordea Credit Agreement*

##### *General*

KPLP is a party to a third amended and restated credit agreement dated as of September 28, 2015 entered into by KPLP, as borrower, the lender party thereto and Nordea Bank A.B. (publ), as administrative agent (the Nordea Credit Agreement) pursuant to which a senior secured non-revolving loan facility in a maximum amount of U.S. \$46.2 million (the Nordea Credit Facility) is made available to KPLP. The Nordea Credit Facility was used to pay up to 85% of the equity investment of KPLP in the TAD Project and the fees of the Swedish Export Credits Guarantee Board (EKN) in connection with its guarantee of the Nordea Credit Facility. The Nordea Credit Facility matures on December 30, 2019.

##### *Interest Rates and Fees*

Borrowings under the Nordea Credit Facility bear interest at a fixed interest rate of approximately 3% per annum, comprised of a Swedish state reported interest rate, risk premium and administrative margin.

### *Prepayments and Repayments*

The Nordea Credit Facility is repayable in 14 equal consecutive semi-annual installments of principal together with interest commencing on June 30, 2013. Prepayments are allowed subject to a make-whole payment on account of interest losses.

### *Covenants*

The covenants, financial covenants and negative covenants provided by KPLP under the Senior Credit Agreement are incorporated and made part of the Nordea Credit Agreement. See “Senior Credit Agreement — Covenants” above. The Nordea Credit Agreement contains restrictions on amendments to the Senior Credit Agreement and related security and other documents.

### *Events of Default*

The Nordea Credit Agreement contains customary events of default such as non-payment, misrepresentation and breach of covenants and also provides for a cross-default to the Senior Credit Agreement and a default related to the termination or loss of the EKN guarantee.

### *Security and Guarantees*

The Nordea Credit Agreement provides for *pari passu* security and guarantees on the assets and undertaking of KPLP and each Restricted Credit Party, the relationship between the lender and administrative agent under the Nordea Credit Agreement and the administrative agent and the lenders under the Senior Credit Agreement being governed by a collateral agency and security sharing agreement.

## ***TAD Credit Agreement***

### *General*

TAD Canco is a party to a credit agreement dated as of August 16, 2011 entered into between TAD Canco, as borrower, TAD Luxembourg and KTG, as guarantors, and Caisse de dépôt et placement du Québec (Caisse), as lender (as amended as of September 21, 2012, the TAD Credit Agreement) pursuant to which a non revolving term loan facility for a maximum amount of U.S.\$211.1 million was made available to TAD Canco (the TAD Credit Facility). Under the terms of the Caisse Facility, the Partnership could only make draws until February 15, 2014. As of that date, the Partnership had drawn U.S.\$125.0 million. The TAD Credit Facility is to be used by TAD Canco to invest in TAD Luxembourg, which in turn lends such proceeds to KTG on substantially the same terms and conditions as the TAD Credit Facility to finance the TAD Project. Recourse under the TAD Credit Facility is limited to TAD Canco, TAD Luxembourg and KTG. The TAD Credit Facility matures on August 16, 2018.

### *Interest Rates and Fees*

Borrowings under the TAD Credit Facility will bear interest at a base rate of 8% per annum plus an applicable margin determined as follows: 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 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. Under the TAD Credit Facility, “Excess Cash Flow” is defined as, with respect to KTG, the EBITDA minus, without duplication, cash income tax, cash interest payments, positive change in working capital (or plus negative change in working capital, as the case may be) and capital expenditures, in each case, for the last completed four fiscal quarters of KTG.

### *Prepayments and Repayments*

TAD Canco is required to make annual mandatory KTG Excess Cash Flow prepayments starting from the TAD Project service commencement date in an amount equal to a percentage of the KTG Excess Cash Flow determined based on the KTG Net Debt to EBITDA Ratio (as defined in the TAD Credit Agreement). TAD Canco may, once a year, within specific periods and upon notice to Caisse de dépôt, voluntarily prepay up to 10% of the principal balance of the outstanding advances under the TAD Credit Facility, subject to a 2% penalty and provided that, amongst other things, no such optional prepayment may be effected if it would result in the aggregate outstanding principal amount of advances under the TAD Credit Facility falling below \$125 million.

### *Change of Ownership*

Upon the occurrence of a change of ownership, direct or indirect, of any equity securities of TAD Canco, TAD Luxembourg or KTG, or in the power to exercise any rights with respect to such equity securities, Caisse de dépôt will have the option, exercisable at its sole discretion, to require the repayment by TAD Canco, in whole or in part, of the amounts due under the TAD Credit Facility, together with a penalty of 1% of the principal balance of the repaid loans.

### *Covenants*

The TAD Credit Agreement contains customary affirmative covenants, including, but not limited to, delivery of financial and other information to Caisse de dépôt, delivery of notice to Caisse de dépôt upon the occurrence of certain material events, preservation of existence and authorizations, maintenance of insurance, compliance with laws, payment of taxes and other claims, performance of material project agreements, limitations on use of project revenues, maintenance of security, and granting of further assurances.

The TAD Credit Agreement contains customary negative covenants, including, but not limited to, restrictions on the ability of TAD Canco, TAD Luxembourg and KTG, subject to certain exceptions, to grant liens, incur indebtedness, engage in businesses other than those specifically permitted, make investments and loans, merge or consolidate, enter into transactions with affiliates, grant guarantees, reduce capital, sell or otherwise dispose of assets, incur capital expenditures, or amend or assign material project agreements. Distributions by TAD Canco are also subject to specific conditions including that distributions must be made from KTG Excess Cash Flow.

### *Events of Default*

Events of default under the TAD Credit Agreement include, but are not limited to, non-payment, misrepresentation, breach of covenants, termination or default under a material project agreements, cross-default to KPLP, TAD Canco, TAD Luxembourg or KTG other indebtedness above certain thresholds, insolvency, enforcement proceedings, and abandonment of the TAD Project.

### *Security and Guarantees*

The TAD Credit Facility is guaranteed by TAD Luxembourg and KTG. TAD Canco granted first ranking security on all present and future movable and immovable property of TAD Canco, including its equity securities in TAD Luxembourg. KTG granted first ranking security on all present and future movable and immovable property of KTG, including, the Memphis Plant, the TAD machine and all of KTG's rights under the material agreements to which it is party. TAD Luxembourg granted security on all equity securities held in KTG and all rights under material agreements. Blocked account agreements were also entered into in favour of Caisse de dépôt.

## **FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS**

### **Currency Risk**

Currency risk is the risk that KPLP's earnings may fluctuate due to changes in Canadian to U.S. dollar exchange rates, as the financial results are reported in Canadian dollars. KPLP sells certain of its products in U.S. dollars at prevailing U.S. dollar prices. The currency exposure is more than offset by U.S. dollar expenses and the U.S. dollar denominated debt. KPLP at different times during the year can be a net buyer or net seller of U.S. dollars.

As of December 31, 2015, KPLP had 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 result on net income before tax in Fiscal 2015 would have been an increase (decrease) of \$2.3 million (Fiscal 2014 – \$2.1 million). KPLP continuously monitors foreign exchange risk and to manage this foreign exchange risk occasionally enters into foreign currency forward contracts and may continue to do so going forward. KPLP had no foreign currency forward contracts outstanding as of December 31, 2015.

### **Interest Rate Risk**

KPLP's interest rate risk arises from its variable rate debt related to the revolving credit facility. As of December 31, 2015, KPLP had variable rate debts of \$204.7 million (December 31, 2014 – nil). This facility bears interest at a base rate of Canadian prime rate, U.S. base rate, banker's acceptance rates or LIBOR plus the applicable margins. The applicable margin on the loans ranges between 0.20% and 2.375%. Subsequent to the year-end, on March 8, 2016, KPLP 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. Refer to the Liquidity and Capital Resources section for additional information.

A 100 basis point increase (decrease) in the market rate of interest would result in a decrease (increase) in net income before tax of \$2.0 million.

From time to time, KPLP uses interest rate swaps to manage part of its exposure to movements in interest rates on its credit facilities. KPLP had no interest rate swaps or interest rate derivatives outstanding as of December 31, 2015.

### **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. KPLP's financial instruments exposed to credit risk as of December 31, 2015 included cash and cash equivalents, trade and other receivables, mortgage receivable, receivables from related parties and advances to partners. KPLP places its cash and cash equivalents with financial institutions of high creditworthiness.

KPLP 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. KPLP routinely assesses the financial strength of its customers and mitigates against identified exposure primarily by lowering credit limits with high risk accounts. KPLP's customers are well established companies and accordingly, KPLP has experienced limited financial loss with respect to credit risk. As a result, KPLP believes that its exposure to credit risk is limited.

### **Liquidity Risk**

The purpose of liquidity risk management is to maintain sufficient cash and cash equivalents and to ensure KPLP has sufficient authorized credit facilities as financing sources. KPLP has a credit facility of \$300 million maturing in September 2020. As of December 31, 2015, KPLP had credit available of \$70.0 million (December 31, 2014 – \$95.4 million). KPLP prepares projections to ensure it has sufficient funds to fulfill its obligations. The ability to pay its obligations relies on KPLP collecting its trade receivables in a timely manner and by maintaining sufficient cash and cash equivalents in excess of anticipated needs. KPLP's trade and other payables of \$180.3 million as of December 31, 2015 (December 31, 2014 – \$173.2 million) are all due for payment within twelve months of the dates of the consolidated statements of financial position.

KPLP believes its cash flows generated from operations combined with its available cash and credit facilities provide sufficient funding to meet its obligations.

Subsequent to the year-end, on March 8, 2016, KPLP obtained an amendment to provide for an increase in the maximum ratio of funded debt to EBITDA to be complied with by KPLP during the year ended December 31, 2016. Refer to the Liquidity and Capital Resources section for additional information.



## **Commodity Price Risk**

Commodity price risk is the risk that future cash flows associated with purchasing required raw materials will fluctuate due to changes in commodity prices. KPLP's main raw material is fibre, which changes price due to market conditions. Historically, the industry has generally been able to mitigate its exposure to commodity price risk by passing increases in its supply costs onto its customers through incremental price increases, depending on the supply and demand balance. From time to time, KPLP enters into futures contracts to manage its commodity risk. No such contracts were outstanding as of December 31, 2015.

## **TRANSACTIONS WITH RELATED PARTIES**

Kruger provides certain management and support services to KPLP, including corporate management and administrative support; accounting and tax support; corporate financing support; corporate treasury support; benefits and human resources support; corporate legal and secretarial, corporate insurance; corporate procurement support; and corporate engineering support. Such services are provided pursuant to a Management Services Agreement. KPLP pays Kruger an annual management fee of \$4.2 million (2014 - \$4.1 million).

KPLP also leases warehouses located in Laval, Québec and Vancouver, British Columbia from an entity of which an affiliate of Kruger is a 50% owner.

KPLP purchases certain supplies and services from Kruger and its affiliates, including fibre and small quantities of pulp and packaging. These transactions generally take place on arm's-length terms. KPLP also has the ability to procure these goods and services from third party suppliers.

Sales of goods to Kruger during Fiscal 2015 were \$0.2 million (Fiscal 2014 – \$1.7 million). Sales of goods to subsidiaries of Kruger during Fiscal 2015 were \$0.2 million (Fiscal 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 during Fiscal 2015 were \$29.9 million (Fiscal 2014 - \$28.1 million). Purchases of goods and services from subsidiaries of Kruger during Fiscal 2015 were \$10.2 million (Fiscal 2014 - \$14.2 million). Goods are purchased from Kruger 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 statements of comprehensive income. During Fiscal 2015, management fees of \$4.2 million (Fiscal 2014 - \$4.1 million) were paid to Kruger Inc. for management services provided to KPLP.

## **OFF BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS**

KPLP has entered into operating lease commitments related to land, buildings, IT services, vehicles and other machines and equipment. Contractual obligations including these operating leases are described in the "Contractual Obligations" subsection under the "Liquidity and Capital Resources" section of this MD&A.

## **CRITICAL ACCOUNTING ESTIMATES**

The preparation of the consolidated financial statements is in accordance with IFRS, which requires KPLP Management to make estimates and assumptions that affect the reported amounts and disclosures made in the KPLP and KPT financial statements and accompanying notes. KPLP Management continually evaluates the estimates and assumptions it uses. These estimates and assumptions are based on KPLP Management's historical experience, best knowledge of current events and conditions and activities that KPLP and KPT may undertake in the future. Actual results could differ materially from these estimates. The estimates and assumptions described in this section depend upon subjective or complex judgment that may be uncertain and changes in these estimates and assumptions could materially impact the financial statements.

## **Pension and Post-Retirement Benefit Obligations**

The cost and accrued benefit plan obligations of KPLP's pension plans, consisting of the RDBPP, supplementary retirement arrangements and the Annuity Arrangement and other benefit plans are accrued based on actuarial valuations that are dependent on assumptions determined by KPLP Management. These assumptions include the discount rate, the expected long-term rate of return on plan assets, the expected growth rate of health care costs, the rate of compensation increase, and retirement ages and mortality rates. These assumptions are reviewed quarterly by KPLP Management and KPLP's actuaries. The discount rate (based on market rates), the expected long-term rate of return on plan assets, and the expected growth rate in health care costs represent the three most significant assumptions.

## **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. The liability is 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.

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 Partnership units liability was adjusted during Fiscal 2015 to reflect the current year advances made to the partners required to allow KPT to make tax installment payments. The increase in amortized cost of \$4.0 million has been included in Other expense during Fiscal 2015, and also 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 0.0%), respectively. The change in the discount rate resulted in a decrease in liability of \$3.0 million.

## **Equity Method of Accounting**

The equity method of accounting is being applied by KPT as it relates to its investment in KPLP. The conclusion to account for an investment using the equity method, particularly when the percentage of ownership is below 20%, is based on an assessment of several facts and circumstances and ultimately requires significant judgment in reaching a conclusion. Management has reviewed the agreements and made an assessment of the rights of KPT. Based on KPT having three of nine seats on the board of directors of KPGP, management has concluded that KPT has the ability to exercise significant influence over KPLP.

## **Impairment tests**

KPLP performs an annual impairment test for goodwill and indefinite lived trademarks. Due to market value declines in KPT's publicly traded common shares since the initial offer price, KPT performed an impairment test at December 31, 2015 for its Investment in associate. The test resulted in an impairment of \$28 million, which was recorded in KPT's statement of comprehensive income (loss) during the year ended December 31, 2015. The recoverable amount of the Investment in associate was determined based on management's best estimate of the fair value less costs of disposal. The estimate of fair value was based on the net present value of future cash flows expected to be derived from KPLP, using a discount rate and terminal growth rate of 9.50% and 2.0%, respectively. A 0.5% increase/decrease in the discount rate would have resulted in an increase/decrease in the impairment of \$12.0 million and \$14.0 million, respectively. A 1.0% increase/decrease in the terminal growth rate would have resulted in a decrease/increase in the

impairment of \$15.0 million and \$11.0 million, respectively. Refer to the Results of Operations of KPT section for additional information.

## **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.

KPT has not recognized at the date of acquisition the deferred tax assets and liabilities related to the differences between the accounting and tax basis of KPLP's assets and liabilities. Accordingly, KPT is tracking temporary differences that are subject to the initial recognition exemption and recognizes newly created temporary differences as they arise. The determination of the temporary differences that are subject to the initial recognition exemption requires significant judgment.

## **ACCOUNTING CHANGES AND FUTURE ACCOUNTING STANDARDS**

### **Accounting Standards Implemented for the Year Ended December 31, 2015**

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.

### **Future Accounting Standards**

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

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.

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.

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.

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.

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.

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.

### SELECTED ANNUAL FINANCIAL INFORMATION

The following table provides selected financial information for KPT and KPLP:

(C\$ millions, unless otherwise stated)	December 31, 2015	December 31, 2014
<b>KPT Financial Information</b>		
Total assets	129.1	155.3
Total liabilities	3.9	4.7
<b>KPLP Financial Information</b>		
Total assets	1,297.4	1,192.0
Total liabilities	909.0	844.5

### SELECTED QUARTERLY FINANCIAL INFORMATION

The following table summarizes quarterly financial results for KPLP for the last eight quarters.

#### Quarterly Financial Information

(C\$ millions, unless otherwise stated)	2015				2014			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	300.6	293.6	279.3	265.4	278.6	267.6	265.3	234.6
Net income (loss) for the period	(0.5)	(5.9)	3.2	4.7	0.1	16.1	8.1	(3.2)
<b>Reconciliation of Net income to Adjusted EBITDA</b>								
<b>Net income (loss)</b>	(0.5)	(5.9)	3.2	4.7	0.1	16.1	8.1	(3.2)
Interest expense	10.0	25.3	12.5	10.4	9.8	12.6	11.4	10.9
Income taxes	6.2	0.1	0.8	0.3	0.3	(1.5)	(0.3)	(0.3)
Depreciation and amortization	12.6	10.7	9.3	9.9	10.6	8.5	9.5	9.0
Unrealized foreign exchange (gain) loss	1.5	3.0	(0.9)	3.3	1.6	1.8	(1.6)	1.7
Pension revaluation - past service cost	-	-	3.4	-	-	-	-	-
Change in amortized cost of								
Partnership units liability	(1.0)	1.8	1.9	1.3	7.9	1.1	1.5	3.3
Loss on sale of fixed assets	0.5	0.1	-	0.1	0.1	(0.6)	0.3	-
Gain on sale of non-financial assets	-	(1.1)	-	-	-	-	-	-
Restructuring costs	0.9	0.8	-	1.1	-	-	0.1	2.8
<b>Adjusted EBITDA</b>	<b>30.3</b>	<b>34.8</b>	<b>30.2</b>	<b>31.1</b>	<b>30.4</b>	<b>38.0</b>	<b>29.0</b>	<b>24.2</b>

## ***Results of Operations Q4 2015 compared to Q4 2014***

### ***Revenue***

Revenue was \$300.6 million in Q4 2015 compared to \$278.6 million in Q4 2014, an increase of \$22.0 million or 7.9%. The increase in revenue was due primarily to additional sales volume in the Consumer business in the U.S. and also organic growth in the AFH business. Sales were also favourably impacted by foreign exchange on U.S. dollar sales, at an average rate of 1.333 in Q4 2015 compared to 1.134 in Q4 2014. From a geographic perspective, revenue in the U.S. increased \$17.5 million, or 20.3%. Revenue in Canada increased \$0.9 million, or 0.5%.

### ***Cost of Sales***

Cost of sales were \$259.9 million in Q4 2015 compared to \$234.0 million in Q4 2014, an increase of \$25.9 million or 11.1%. As a percentage of revenue, cost of sales were 86.5% in Q4 2015 compared to 84.0% in Q4 2014, primarily due to the negative impact of foreign exchange fluctuations (USD average 1.333 in Q4 2015 compared to 1.134 in Q4 2014), slightly offset by a decline in natural gas prices. Pulp market prices (NBSK) decreased while Eucalyptus (BEK) was up compared to the same period in 2014. NBSK market prices were U.S.\$945 per metric tonne on average in Q4 2015 compared to U.S.\$1,025 per metric tonne on average in Q4 2014. BEK market prices were U.S.\$908 per metric tonne on average in Q4 2015 compared to U.S.\$837 per metric tonne on average in Q4 2014. Freight costs increased due to higher sales volume and warehousing costs were higher compared to Q4 2014 due to high inventory levels. Cost reduction initiatives partially offset the above increases in cost of sales.

### ***Selling, General and Administrative Expenses***

Selling, general and administrative (SG&A) expenses were \$23.5 million in Q4 2015 compared to \$24.5 million in Q4 2014, a decrease of \$1.0 million or 4.1%. The decrease was primarily due to lower advertising and promotion expenses and the benefit of cost reduction initiatives, partially offset by higher selling expenses as a result of increased sales volume and the unfavourable impact of foreign exchange. As a percentage of revenue, SG&A expenses were 7.8% in Q4 2015 compared to 8.8% Q4 2014.

### ***Adjusted EBITDA***

Adjusted EBITDA was \$30.3 million in Q4 2015 compared to \$30.4 million in Q4 2014, a decrease of \$0.1 million or 0.3%. The net unfavourable impact of foreign exchange and higher warehousing costs were almost offset by the positive impact of higher sales volumes and lower SG&A in Q4 2015 compared to Q4 2014.

### ***Gain on Sale of Non-Financial Assets and Restructuring Costs***

An additional charge of \$0.9 million was recorded in Q4 2015 related to the 2015 Cost Reduction Initiative. See above in Fiscal 2015 section for additional details regarding this initiative.

### ***Interest Expense***

Interest expense was \$10.0 million in Q4 2015 compared to \$9.8 million in Q4 2014, an increase of \$0.2 million. The impact of foreign exchange on U.S. dollar interest expense was partially offset by lower interest as a result of the refinancing of the Senior Unsecured Notes.

### ***Other Expense***

Other expense was \$0.6 million in Q4 2015 compared to \$10.0 million in Q4 2014. Other expense in Q4 2015 was primarily related to an unrealized foreign exchange loss of \$1.5 million (Q4 2014 – \$1.6 million), partially offset by the amortized cost of the Partnership units liability of \$1.0 million income (Q4 2014 – \$7.9 million expense).

### *Income Taxes*

An income tax expense of \$6.2 million was recorded in Q4 2015 compared to \$0.3 million in Q4 2014, a change of \$5.9 million, including a \$5.5 million reversal of previously recognized deferred tax assets, relating primarily to KTG in the U.S. As previously discussed, KPLP is not directly taxable on its Canadian business. The income tax expense resulted primarily from operating income related to the U.S. entities. Income tax in partner's hands was an expense of \$0.7 million in Q4 2015 compared to a recovery of \$0.5 million in Q4 2014.

### *Net Income*

A net loss of \$0.5 million was incurred in Q4 2015 compared to net income of \$0.1 million in Q4 2014, a decrease of \$0.6 million. The decrease was primarily due to a change in the tax expense of \$5.9 million, higher depreciation expense of \$2.0 million, higher restructuring costs of \$0.9 million and an increase in interest expense of \$0.2 million, partially offset by the change in amortized cost of the Partnership unit liability of \$8.9 million.

### *Segment Information Q4 2015 compared to Q4 2014*

(C\$ millions, unless otherwise noted)	Q4 2015 vs. Q4 2014			
	Q4 2015	Q4 2014	\$ Change	% Change
<b>Segment Revenue</b>				
Consumer	240.6	217.8	22.8	10.5%
AFH	54.8	53.9	0.9	1.7%
Other	5.2	6.9	(1.7)	-24.6%
Total segment revenue	300.6	278.6	22.0	7.9%
<b>Segment Adjusted EBITDA</b>				
Consumer	30.8	31.4	(0.6)	
AFH	0.6	0.3	0.3	
Other	(1.1)	(1.3)	0.2	
Total segment Adjusted EBITDA	30.3	30.4	(0.1)	

### *Consumer Segment*

Consumer segment revenue was \$240.6 million in Q4 2015 compared to \$217.8 million in Q4 2014, an increase of \$22.8 million or 10.5%, due to additional sales across all regions. The increase was primarily driven by higher U.S. sales volume and the favourable impact of foreign exchange related to U.S. dollar sales.

Consumer Segment EBITDA was \$30.8 million in Q4 2015 compared to \$31.4 million in Q4 2014, a decrease of \$0.6 million. The positive impact of improved sales volumes was more than offset by the net negative impact of foreign exchange and increased warehousing costs.

### *AFH Segment*

AFH segment revenue was \$54.8 million in Q4 2015 compared to \$53.9 million in Q4 2014, an increase of \$0.9 million or 1.7%, driven primarily by organic growth in the base business, along with the positive impact of foreign exchange on U.S. sales. AFH segment revenue increased in both the U.S. and Canada.

AFH Segment EBITDA was \$0.6 million in Q4 2015 compared to \$0.3 million in Q4 2014, as the above sales increases were partially offset by the net unfavourable impact of foreign exchange.

### *Other Segment*

Other segment revenue was \$5.2 million in Q4 2015 compared to \$6.9 million in Q4 2014, a decrease of \$1.7 million.



Other Segment EBITDA was a loss of \$1.1 million in Q4 2015 compared to a loss of \$1.3 million in Q4 2014, an increase of \$0.2 million primarily due to foreign exchange related to the sale of parent rolls.

## **SHARE INFORMATION**

KPT's authorized share capital consists of an unlimited number of Common Shares. As of March 9, 2016, there were 9,000,260 Common Shares issued and outstanding. Pursuant to the Exchange Agreement, Kruger Inc. has the right to exchange KPLP Units it holds from time to time for Common Shares on the basis of one KPLP Unit for one Common Share, subject to adjustment as set out in the Exchange Agreement. If Kruger were to exchange all KPLP Units held by it as of March 9, 2016 for Common Shares, it would hold approximately 83.7% of the issued and outstanding Common Shares. As of March 9, 2016, there were no potentially dilutive instruments outstanding.

Pursuant to the Limited Partnership Agreement, KPLP may issue an unlimited number of KPLP Units. As of March 9, 2016, there were 55,283,022 KPLP Units issued and outstanding.

## **RISK FACTORS**

For a detailed description of risk factors associated with KPT and KPLP, refer to the "Risk Factors" section of the Annual Information Form. KPLP Management is not aware of any significant changes to the risk factors associated with KPT and KPLP from those disclosed at that time.

## **CONTROLS AND PROCEDURES**

### ***Disclosure Controls and Procedures and Internal Control over Financial Reporting***

Disclosure controls and procedures within KPT and KPLP (collectively, the Corporations) have been designed to provide reasonable assurance that all relevant information is identified to its Chief Executive Officer (CEO), its Chief Financial Officer (CFO) and its Disclosure Policy Committee to ensure appropriate and timely decisions are made regarding public disclosure.

Internal controls over financial reporting have been designed by management, under the supervision of, and with the participation of the Corporations' CEO and CFO, to provide reasonable assurance regarding the reliability of the Corporations' financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The Corporations will file certifications, signed by the Corporations' CEO and CFO, with the Canadian Securities Administrators (CSA) upon filing of the Corporations' Annual Information Form. In those filings, the Corporations' CEO and CFO will certify, as required by National Instrument 52-109, the appropriateness of the financial disclosure, the design and effectiveness of the Corporations' disclosure controls and procedures and the design and effectiveness of internal controls over financial reporting. The Corporations' CEO and CFO also certify the appropriateness of the financial disclosures in the Corporations' interim filings with securities regulators. In those interim filings, the Corporations' CEO and CFO also certify the design of the Corporations' disclosure controls and procedures and the design of internal controls over financial reporting.

The Corporations' Audit Committee reviewed this MD&A and the audited consolidated financial statements, and the Corporations' Board of Directors approved these documents prior to their release.

### ***Management's Report on Disclosure Controls and Procedures***

Management, under the supervision of and with the participation of the Corporations' CEO and CFO, evaluated the effectiveness of the Corporations' disclosure controls and procedures (as defined under National Instrument 52-109) and concluded, as of December 31, 2015, that such disclosure controls and procedures were effective.

### ***Management's Report on Internal Controls over Financial Reporting***

Management, under the supervision of and with the participation of the Corporations' CEO and CFO, evaluated the effectiveness of the Corporations' internal controls over financial reporting (as defined under National Instrument 52-109). In making this evaluation, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commissions (COSO) in Internal Control - Integrated Framework (2013). Based on that evaluation, management and the CEO and CFO have concluded that, as of December 31, 2015, the Corporations' internal controls over financial reporting were effective. This evaluation took into consideration the Corporations' Corporate Disclosure Policy and the functioning of its Disclosure Policy Committee.

### **ADDITIONAL INFORMATION**

Additional information relating to KPT and KPLP, including the Annual Information Form, is available on SEDAR at [www.sedar.com](http://www.sedar.com).



**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](http://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
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
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
	<u>331,176</u>	<u>321,636</u>
<b>Non-current assets</b>		
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
	<u>1,297,428</u>	<u>1,192,001</u>
<b>Total assets</b>		
<b>Liabilities</b>		
<b>Current liabilities</b>		
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
	<u>207,254</u>	<u>199,242</u>
<b>Non-current liabilities</b>		
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
	<u>783,851</u>	<u>716,375</u>
<b>Liabilities to non-unitholders</b>		
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
	<u>125,176</u>	<u>128,123</u>
<b>Total Partnership units liability</b>		
	<u>909,027</u>	<u>844,498</u>
<b>Total liabilities</b>		
<b>Equity</b>		
Partnership units (note 15)	318,012	299,616
Retained earnings (deficit)	(29,416)	4,424
Accumulated other comprehensive income	99,805	43,463
	<u>388,401</u>	<u>347,503</u>
<b>Total equity</b>		
	<u>1,297,428</u>	<u>1,192,001</u>
<b>Total equity and liabilities</b>		
	<u>1,297,428</u>	<u>1,192,001</u>
<b>Commitments and contingencies (note 18)</b>		
<b>Subsequent events (notes 14, 15 and 22)</b>		

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)

	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
<b>Revenue (notes 17 and 25)</b>	1,138,870	1,046,168
<b>Expenses</b>		
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
<b>Operating income</b>	78,428	81,569
Interest expense (note 14)	58,164	44,730
Other expense (note 6)	11,331	17,612
<b>Income before income taxes</b>	8,933	19,227
<b>Income taxes (note 16)</b>	7,439	(1,840)
<b>Net income for the year</b>	1,494	21,067
<b>Other comprehensive income (loss)</b>		
<b>Items that will not be reclassified to net income:</b>		
Remeasurements of pensions	7,094	(25,689)
Remeasurements of post-retirement benefits	(2,667)	(3,466)
<b>Items that may be subsequently reclassified to net income:</b>		
Available-for-sale investment	207	15
Cumulative translation adjustment	56,135	23,779
<b>Total other comprehensive income (loss) for the year</b>	60,769	(5,361)
<b>Comprehensive income for the year</b>	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)

	<b>Partnership units</b>		<b>Retained earnings (deficit)</b>	<b>Accumulated other comprehensive income</b>	<b>Total equity</b>
	<b>#</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>As of January 1, 2014</b>	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
<b>As of December 31, 2014</b>	<b>53,624,260</b>	<b>299,616</b>	<b>4,424</b>	<b>43,463</b>	<b>347,503</b>
<b>As of January 1, 2015</b>	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
<b>As of December 31, 2015</b>	<b>54,840,093</b>	<b>318,012</b>	<b>(29,416)</b>	<b>99,805</b>	<b>388,401</b>

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)

	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
<b>Cash flows from (used in) operating activities</b>		
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)
<b>Net cash from operating activities</b>	<b>84,036</b>	<b>92,905</b>
<b>Cash flows from (used in) investing activities</b>		
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)
<b>Net cash used in investing activities</b>	<b>(56,647)</b>	<b>(65,311)</b>
<b>Cash flows from (used in) financing activities</b>		
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
<b>Net cash used in financing activities</b>	<b>(56,838)</b>	<b>(64,950)</b>
<b>Effect of exchange rate changes on cash and cash equivalents held in foreign currency</b>	<b>3,116</b>	<b>1,470</b>
<b>Decrease in cash and cash equivalents during the year</b>	<b>(26,333)</b>	<b>(35,886)</b>
<b>Cash and cash equivalents - Beginning of year</b>	<b>51,788</b>	<b>87,674</b>
<b>Cash and cash equivalents - End of year</b>	<b>25,455</b>	<b>51,788</b>

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



# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2015 and December 31, 2014

---

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

### 1 General information

Kruger Products L.P. (KPLP or the Partnership) is a limited partnership registered in the Province of Quebec, Canada whose partners are Kruger Inc. (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

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2015 and December 31, 2014

---

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

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.

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2015 and December 31, 2014

---

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

(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.

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2015 and December 31, 2014

---

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

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.

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2015 and December 31, 2014

---

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

*(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.

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2015 and December 31, 2014

---

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

- 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.

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2015 and December 31, 2014

---

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

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

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2015 and December 31, 2014

---

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

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.



# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2015 and December 31, 2014

---

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

(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.

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2015 and December 31, 2014

---

(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.

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2015 and December 31, 2014

(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:

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

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2015 and December 31, 2014

(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
	<u>11,331</u>	<u>17,612</u>

### 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)
	<u>108,720</u>	<u>107,092</u>

### 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
	<u>184,985</u>	<u>150,328</u>

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).

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2015 and December 31, 2014

(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 \$
<b>As of January 1, 2014</b>					
Cost	40,564	166,719	854,566	12,207	1,074,056
Accumulated depreciation and impairment	-	(64,918)	(392,451)	-	(457,369)
<b>Net book value as of January 1, 2014</b>	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
<b>As of December 31, 2014</b>	40,678	104,216	494,810	13,058	652,762
<b>As of December 31, 2014</b>					
Cost	40,678	174,340	918,867	13,058	1,146,943
Accumulated depreciation and impairment	-	(70,124)	(424,057)	-	(494,181)
<b>Net book value as of December 31, 2014</b>	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
<b>As of December 31, 2015</b>	40,612	111,018	550,443	35,635	737,708
<b>As of December 31, 2015</b>					
Cost	40,612	187,572	1,019,346	35,635	1,283,165
Accumulated depreciation and impairment	-	(76,554)	(468,903)	-	(545,457)
<b>Net book value as of December 31, 2015</b>	40,612	111,018	550,443	35,635	737,708

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2015 and December 31, 2014

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

### 10 Goodwill and intangible assets

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

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

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2015 and December 31, 2014

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

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:

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

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2015 and December 31, 2014

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

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

	<b>Pensions</b>		<b>Post-retirement benefit plans</b>	
	<b>December 31, 2015</b>	<b>December 31, 2014</b>	<b>December 31, 2015</b>	<b>December 31, 2014</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Change in defined benefit obligation:</b>				
<b>As of January 1</b>	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)
<b>As of December 31</b>	<b>641,972</b>	<b>622,187</b>	<b>57,346</b>	<b>53,357</b>
<b>Change in plan assets at fair value:</b>				
<b>As of January 1</b>	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)
<b>As of December 31</b>	<b>554,808</b>	<b>523,654</b>	<b>-</b>	<b>-</b>
<b>Accrued benefit liability</b>				
Funded status - deficit	87,164	98,533	57,346	53,357



# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2015 and December 31, 2014

(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.

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2015 and December 31, 2014

(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
	\$	\$	\$	\$
<b>Net benefit plan expense</b>				
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 <sup>(a)</sup>	3,352	-	64	-
	<u>16,336</u>	<u>12,402</u>	<u>3,795</u>	<u>3,621</u>

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

**Kruger Products L.P.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and December 31, 2014**

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

The following amounts are recognized in other comprehensive income:

	<b>Pensions</b>		<b>Post-retirement benefit plans</b>	
	<b>December 31, 2015</b>	<b>December 31, 2014</b>	<b>December 31, 2015</b>	<b>December 31, 2014</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
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	-	-
	<u>7,094</u>	<u>(25,689)</u>	<u>(2,667)</u>	<u>(3,466)</u>

**12 Trade and other payables**

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

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2015 and December 31, 2014

(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)	
<b>Provisions as of</b>				
<b>January 1, 2014</b>	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
<b>Provisions as of</b>				
<b>December 31, 2014</b>	5,898	2,186	1,324	9,408
<b>Current</b>	-	1,643	1,324	2,967
<b>Non-current</b>	5,898	543	-	6,441
<b>Provisions as of</b>				
<b>January 1, 2015</b>	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
<b>Provisions as of</b>				
<b>December 31, 2015</b>	5,862	773	2,641	9,276
<b>Current</b>	-	455	2,641	3,096
<b>Non-current</b>	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 Westminster 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

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2015 and December 31, 2014

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

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

		December 31, 2015	December 31, 2014
	Maturity	\$	\$
Revolving credit facility <sup>(a)</sup>	2020	204,681	-
8% Senior unsecured notes <sup>(b)</sup>	-	-	172,594
2.87% Nordea facility <sup>(c)</sup>	2019	35,980	37,428
Quebec loan <sup>(d)</sup>	2016	1,051	2,167
Caisse facility <sup>(e)</sup>	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.

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2015 and December 31, 2014

---

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

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.

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2015 and December 31, 2014

---

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

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.

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2015 and December 31, 2014

(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	-
	<u>446,487</u>

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
	<u>58,164</u>	<u>44,730</u>

### 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	<u>(3,475)</u>
As of December 31, 2014	<u>128,123</u>
As of January 1, 2015	128,123
Change in amortized cost of Partnership units liability (note 6)	4,003
Tax Distributions	<u>(6,950)</u>
As of December 31, 2015	<u>125,176</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:

			2015	
	Partnership unit distributions \$	Unit price \$	Issuance of Partnership units #	Gross proceeds \$
<u>Distribution Payment Date</u>				
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
	<u>38,907</u>		<u>1,215,833</u>	<u>17,630</u>



# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2015 and December 31, 2014

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

<b>Distribution Payment Date</b>	<b>Partnership unit distributions</b>	<b>Unit price</b>	<b>Issuance of Partnership units</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>	<b>#</b>	<b>Gross proceeds</b>
				<b>\$</b>
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
	<u>38,107</u>		<u>1,096,710</u>	<u>16,945</u>

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:

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

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

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2015 and December 31, 2014

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

- (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)
	<u>7,439</u>	<u>(1,840)</u>

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2015 and December 31, 2014

(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
	<u>7,439</u>	<u>83.3</u>	<u>(1,840)</u>	<u>(9.6)</u>

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
	<u>39,411</u>	<u>34,874</u>

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
	<u>39,411</u>	<u>34,874</u>

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.

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2015 and December 31, 2014

(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
	<u>182,373</u>		<u>99,223</u>		<u>89,853</u>	

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
	<u>21,751</u>	

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.

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2015 and December 31, 2014

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

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:

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

	<b>December 31, 2015</b>	<b>December 31, 2014</b>
	<b>\$</b>	<b>\$</b>
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	<u>9,871</u>	<u>9,781</u>

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2015 and December 31, 2014

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

### 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
	<u>100,218</u>	<u>114,784</u>

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
	<u>1,058,737</u>	<u>961,764</u>

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2015 and December 31, 2014

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

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
	<u>1,058,737</u>	<u>961,764</u>

## 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.

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2015 and December 31, 2014

(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



# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2015 and December 31, 2014

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

	<b>Canada</b>	<b>US</b>	<b>Mexico</b>	<b>2014 Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
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

	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
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
	<b>8,516</b>	<b>5,856</b>

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:

	<b>Classification</b>	<b>Measurement</b>	<b>Carrying amount</b>	<b>Fair Value</b>
			<b>\$</b>	<b>\$</b>
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)

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2015 and December 31, 2014

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

The following table details the fair value hierarchy of financial instruments carried at fair value by level as of December 31, 2015:

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
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:

	<b>Classification</b>	<b>Measurement</b>	<b>Carrying amount</b>	<b>Fair Value</b>
			<b>\$</b>	<b>\$</b>
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:

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
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

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

### December 31, 2015 and December 31, 2014

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

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.

	<b>December 31, 2015</b>	<b>December 31, 2014</b>
	<b>\$</b>	<b>\$</b>
Trade receivables	100,869	102,555
Less: Allowance for doubtful accounts	(856)	(672)
Total trade receivables, net	<u>100,013</u>	<u>101,883</u>
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)
	<u>100,013</u>	<u>101,883</u>

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.

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2015 and December 31, 2014

(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:

	<b>December 31, 2015</b>		
	<b>Less than 1 year</b>	<b>1 to 5 years</b>	<b>Greater than 5 years</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Long-term debt <sup>(a)</sup>	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.

	<b>December 31, 2014</b>		
	<b>Less than 1 year</b>	<b>1 to 5 years</b>	<b>Greater than 5 years</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Long-term debt <sup>(a)</sup>	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.

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2015 and December 31, 2014

---

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

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.

**Kruger Products L.P.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and December 31, 2014**

(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:

	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
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)
	<u>(24,540)</u>	<u>(12,454)</u>



**KP TISSUE INC.**

**AUDITED FINANCIAL STATEMENT**

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

March 10, 2016

## **Independent Auditor's Report**

### **To the Shareholders of KP Tissue Inc.**

We have audited the accompanying financial statements of KP Tissue Inc., which comprise the statements of financial position as at December 31, 2015 and December 31, 2014 and the statements of comprehensive income (loss), changes in shareholders' 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 financial statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements present fairly, in all material respects, the financial position of KP Tissue Inc. as at December 31, 2015 and December 31, 2014 and its financial performance and its 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



# KP Tissue Inc.

## Statement of Financial Position

(tabular amounts are in thousands of Canadian dollars)

	December 31, 2015	December 31, 2014
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Distributions receivable	1,613	1,601
Income taxes recoverable	828	-
	<u>2,441</u>	<u>1,601</u>
<b>Non-current assets</b>		
Investment in associate (note 5)	126,643	153,732
<b>Total Assets</b>	<u><u>129,084</u></u>	<u><u>155,333</u></u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Dividend payable (note 7)	1,613	1,601
Payable to Partnership	108	53
Current portion of advances from Partnership (note 6)	432	584
Income taxes payable	-	495
	<u>2,153</u>	<u>2,733</u>
<b>Non-current liabilities</b>		
Advances from Partnership (note 6)	709	-
Deferred income taxes (note 6)	1,007	2,005
<b>Total liabilities</b>	<u>3,869</u>	<u>4,738</u>
<b>Equity</b>		
Common shares (note 7)	11,577	10,138
Contributed surplus	144,819	144,819
Deficit	(49,291)	(12,220)
Accumulated other comprehensive income	18,110	7,858
<b>Total equity</b>	<u>125,215</u>	<u>150,595</u>
<b>Total liabilities and equity</b>	<u><u>129,084</u></u>	<u><u>155,333</u></u>
<b>Subsequent events (note 7)</b>		

Approved by the Board of Directors

/s/ James Hardy \_\_\_\_\_  
Director

/s/ David Spraley \_\_\_\_\_  
Director

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

**KP Tissue Inc.**  
**Statement of Comprehensive Income (Loss)**  
For the years ended December 31, 2015 and December 31, 2014

(tabular amounts are in thousands of Canadian dollars, except share and per share amounts)

	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
<b>Equity loss (note 5)</b>	(5,480)	(2,379)
<b>Dilution gain (note 7)</b>	70	102
<b>Impairment in investment in associate (note 5)</b>	(28,000)	-
<b>Loss before income taxes</b>	(33,410)	(2,277)
<b>Income taxes (note 6)</b>	(2,066)	241
<b>Net loss for the year</b>	(31,344)	(2,518)
<b>Other comprehensive income</b>		
<b>net of tax expense (recovery) (note 8)</b>		
<b>Items that will not be reclassified to net loss:</b>		
Remeasurements of pensions	1,013	(3,692)
Remeasurements of post-retirement benefits	(267)	(351)
<b>Items that may be subsequently reclassified to net loss:</b>		
Available-for-sale investment	29	2
Cumulative translation adjustment	10,223	4,481
<b>Total other comprehensive income for the year</b>	10,998	440
<b>Comprehensive loss for the year</b>	(20,346)	(2,078)
<b>Basic loss per share</b>	(3.52)	(0.29)
<b>Weighted average number of shares outstanding</b>	8,910,948	8,834,508

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

# KP Tissue Inc.

## Statement of Changes in Equity

For the years ended December 31, 2015 and December 31, 2014

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

	<b>Common shares</b>		<b>Contributed surplus</b>	<b>Retained earnings (deficit)</b>	<b>Accumulated other comprehensive income</b>	<b>Total equity</b>
	<b>#</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>As of January 1, 2014</b>	8,792,974	9,068	144,819	709	3,375	157,971
Issuance of common shares (note 7)	69,005	1,070	-	-	-	1,070
Dividends payable	-	-	-	(1,601)	-	(1,601)
Dividends paid	-	-	-	(4,767)	-	(4,767)
Remeasurements of pensions	-	-	-	(3,692)	-	(3,692)
Remeasurements of post-retirement benefits	-	-	-	(351)	-	(351)
Available-for-sale investment	-	-	-	-	2	2
Cumulative translation adjustment	-	-	-	-	4,481	4,481
Net loss for the year	-	-	-	(2,518)	-	(2,518)
<b>As of December 31, 2014</b>	<b>8,861,979</b>	<b>10,138</b>	<b>144,819</b>	<b>(12,220)</b>	<b>7,858</b>	<b>150,595</b>
<b>As of January 1, 2015</b>	8,861,979	10,138	144,819	(12,220)	7,858	150,595
Issuance of common shares (note 7)	96,610	1,379	-	-	-	1,379
Dividends payable	-	-	-	(1,613)	-	(1,613)
Dividends paid	-	-	-	(4,806)	-	(4,806)
Fair value adjustment (note 7)	-	60	-	(54)	-	6
Remeasurements of pensions	-	-	-	1,013	-	1,013
Remeasurements of post-retirement benefits	-	-	-	(267)	-	(267)
Available-for-sale investment	-	-	-	-	29	29
Cumulative translation adjustment	-	-	-	-	10,223	10,223
Net loss for the year	-	-	-	(31,344)	-	(31,344)
<b>As of December 31, 2015</b>	<b>8,958,589</b>	<b>11,577</b>	<b>144,819</b>	<b>(49,291)</b>	<b>18,110</b>	<b>125,215</b>

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

# KP Tissue Inc.

## Statement of Cash Flows

For the years ended December 31, 2015 and December 31, 2014

(tabular amounts are in thousands of Canadian dollars)

	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
<b>Cash flows from (used in) operating activities</b>		
Net loss for the year	(31,344)	(2,518)
Items not affecting cash		
Equity loss	5,480	2,379
Dilution gain	(70)	(102)
Impairment in investment in associate	28,000	-
Income taxes	(2,066)	241
Total items not affecting cash	31,344	2,518
Tax payments	(1,712)	(1,043)
Tax distribution received	571	459
Advances received	1,141	584
<b>Net cash from (used in) operating activities</b>	<b>-</b>	<b>-</b>
<b>Cash flows from (used in) investing activities</b>		
Investment in associate (note 5)	(195)	(1,070)
Partnership unit distributions received	5,217	6,350
<b>Net cash from investing activities</b>	<b>5,022</b>	<b>5,280</b>
<b>Cash flows from (used in) financing activities</b>		
Issuance of common shares (note 7)	195	1,070
Dividends paid	(5,217)	(6,350)
<b>Net cash used in financing activities</b>	<b>(5,022)</b>	<b>(5,280)</b>
<b>Increase (decrease) in cash and cash equivalents during the year</b>	<b>-</b>	<b>-</b>
<b>Cash and cash equivalents - Beginning of year</b>	<b>-</b>	<b>-</b>
<b>Cash and cash equivalents - End of year</b>	<b>-</b>	<b>-</b>

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

# KP Tissue Inc.

## Notes to Financial Statements

### December 31, 2015 and December 31, 2014

---

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

#### 1 General information

KP Tissue Inc. (KPT or the Corporation) was incorporated by articles of incorporation under the Canadian Business Corporations Act on October 1, 2012. As of December 31, 2015, the Corporation held a 16.3% (December 31, 2014 – 16.5%), interest in Kruger Products L.P. (KPLP or the Partnership), whose principal business is to produce, distribute, market and sell a wide range of disposable tissue products, including bathroom tissue, facial tissue, paper towels and napkins for both the consumer and away-from-home markets in North America. The Corporation's headquarters are located in Mississauga, Ontario, Canada.

#### 2 Basis of presentation

The financial statements have been prepared in accordance with International Financial Reporting Standards, 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. The financial statements have been prepared using the historical cost convention. The financial statements were approved by the board of directors on March 9, 2016.

#### 3 Summary of significant accounting policies

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

##### *(a) Investments in associates*

Associates are entities over which the Corporation has significant influence but not control. The Corporation accounts for its investment in associates using the equity method. Under the equity method, the investment is initially recognized at cost and the carrying amount is adjusted for the Corporation's share of profits or losses of associates recognized in the statement of income and its share of other comprehensive income (loss) of associates included in other comprehensive income.

Unrealized gains on transactions between the Corporation and an associate are eliminated to the extent of the Corporation's interest in the associate. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Dilution gains and losses arising from changes in interests in investments in associates are recognized in the statement of income.

The Corporation assesses at each year-end whether there is any objective evidence that its interests in investments in associates are impaired. If so, the carrying value of the Corporation's share of the underlying assets of associates is written down to its net recoverable amount (being the higher of fair value, less cost to sell and value in use) and the loss is charged to the statement of income in other gains and losses (net).

##### *(b) Income tax*

Income tax comprises current and deferred tax. Income tax is recognized in the statement of income except to the extent that it relates to items recognized directly in other comprehensive income or directly in equity, in which case the income tax is also recognized directly in other comprehensive income or equity, respectively.

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

In general, deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax is not recognized if it arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction

**KP Tissue Inc.**  
**Notes to Financial Statements**  
**December 31, 2015 and December 31, 2014**

---

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

other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except, in the case of subsidiaries, where the timing of the reversal of the temporary difference is controlled by the Corporation and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the statement of financial position date and are expected to apply when the deferred tax asset is realized or liability is settled. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized.

Deferred income tax assets and liabilities are presented as non-current.

*(c) Share capital*

Incremental costs directly attributable to the issuance of common shares are recognized as a deduction from equity.

*(d) Earnings per share*

Basic earnings per share (EPS) is calculated by dividing the net income (loss) for the period attributable to equity owners of the Corporation by the weighted average number of common shares outstanding during the period.

Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to options, warrants and similar instruments is computed using the treasury stock method. The Corporation does not currently have any potentially dilutive instruments.

*(e) 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 Corporation continues to assess the impact of these standards and amendments and has not yet determined whether it will early adopt them.

- (i) 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 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 financial statements.
- (iii) 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 financial statements.

**KP Tissue Inc.**  
**Notes to Financial Statements**  
**December 31, 2015 and December 31, 2014**

---

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

**4 Critical accounting estimates and judgments**

The preparation of these financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities in the financial statements and the disclosure of contingencies at the date of the statement 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 and judgments, including those related to fair value and the basis of accounting. Actual results could differ from those estimates. When adjustments become necessary, they are reported in earnings in the period in which they occur.

*Equity method of accounting*

The equity method of accounting is being applied by the Corporation as it relates to its investment in KPLP. The conclusion to account for an investment using the equity method, particularly when the percentage of ownership is below 20%, is based on an assessment of several facts and circumstances and ultimately requires significant judgment in reaching a conclusion. Management has reviewed the agreements and made an assessment of the rights of the Corporation. Based on the Corporation having three of nine seats on the board of directors of KPGP Inc. (KPGP), management has concluded that the Corporation has the ability to exercise significant influence over KPLP.

*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.

*Impairment test*

Due to market value declines in the Corporation's publicly traded common shares since the initial offer price, the Corporation performed an impairment test at December 31, 2015 for its Investment in associate. The test resulted in an impairment of \$28 million, which was recorded in the statement of comprehensive income (loss) during the year ended December 31, 2015. Additional information is disclosed in note 5.

*Income taxes*

The Corporation has not recognized at the date of acquisition the deferred tax assets and liabilities related to the differences between the accounting and tax basis of KPLP's assets and liabilities. Accordingly, the Corporation is tracking temporary differences that are subject to the initial recognition exemption and recognizes newly created temporary differences as they arise. The determination of the temporary differences that are subject to the initial recognition exemption requires significant judgment.

**KP Tissue Inc.**  
**Notes to Financial Statements**  
**December 31, 2015 and December 31, 2014**

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

**5 Investment in associate**

Changes in the carrying amount of the investment were as follows:

	<b>December 31, 2015</b>	<b>December 31, 2014</b>
	<b>\$</b>	<b>\$</b>
Opening balance	153,732	161,584
Investment in associate	1,379	1,070
Share of income	245	3,500
Depreciation of fair value increments	(5,725)	(5,879)
Share of other comprehensive income	12,510	307
Dilution gain	70	102
Impairment in investment in associate	(28,000)	-
Tax Distribution	(1,155)	(584)
Partnership unit distributions	(6,413)	(6,368)
Closing balance	<u>126,643</u>	<u>153,732</u>

The equity loss was comprised of the following components:

	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Share of income	245	3,500
Depreciation of fair value increments	(5,725)	(5,879)
	<u>(5,480)</u>	<u>(2,379)</u>

The following summarizes financial information about the assets, liabilities, revenue and net income of KPLP, in which the Corporation holds a 16.3% interest (December 31, 2014 – 16.5%). The financial information was derived from the consolidated financial statements of KPLP for the year ended December 31, 2015. The assets and liabilities disclosed include the fair value adjustments made to the carrying amount of the assets and liabilities of the associate on its acquisition.

	<b>KPLP basis of</b>		<b>December 31, 2015</b>
	<b>accounting</b>	<b>FV increment</b>	<b>KPT basis of</b>
	<b>\$</b>	<b>\$</b>	<b>accounting</b>
			<b>\$</b>
Current assets	331,176	-	331,176
Non-current assets	966,252	551,520	1,517,772
Liabilities to non-unitholders	783,851	-	783,851
Partnership units liability	125,176	-	125,176
Net assets	388,401		
	<b>Year ended</b>		
	<b>December 31, 2015</b>		
	<b>\$</b>		
Revenue	1,138,870		
Net income	1,494		
Other comprehensive income	60,769		
Total comprehensive income	62,263		



**KP Tissue Inc.**  
**Notes to Financial Statements**  
**December 31, 2015 and December 31, 2014**

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

	<b>December 31, 2014</b>		
	<b>KPLP basis of accounting</b>	<b>FV increment</b>	<b>KPT basis of accounting</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Current assets	321,636	-	321,636
Non-current assets	870,365	586,516	1,456,881
Liabilities to non-unitholders	716,375	8,800	725,175
Partnership units liability	128,123	-	128,123
Net assets	347,503		
	<b>Year ended December 31, 2014</b>		
	<b>\$</b>		
Revenue	1,046,168		
Net income	21,067		
Other comprehensive loss	(5,361)		
Total comprehensive income	15,706		

The following shows the reconciliation of KPT's portion of KPLP equity to the investment recorded in KPT:

	<b>December 31, 2015</b>	<b>December 31, 2014</b>
	<b>\$</b>	<b>\$</b>
KPLP consolidated equity	388,401	347,503
Add back: Inception value of Partnership units liability	118,562	118,562
Less: Equity pertaining to Kruger Inc. and KPGP	(347,386)	(311,673)
Equity pertaining to KPT	159,577	154,392
Investment in associate recorded in KPT	126,643	153,732
Reconciling difference	32,934	660
Reconciling items since inception:		
Equity issuance costs	(11,110)	(11,110)
Depreciation of FV increments	19,867	14,142
Currency translation adjustment in fair value increments	(4,775)	(2,239)
Tax distribution	1,739	584
Gain on exercise of overallotment option	(375)	(375)
Dilution gain	(412)	(342)
Impairment in investment in associate	28,000	-
	<b>-</b>	<b>-</b>

With respect to KPT's investment in KPLP, the liability of KPT for the debts, liabilities and other obligations of KPLP is limited to KPT's capital contribution to KPLP.

On January 15, 2015, April 15, 2015, July 15, 2015, and October 15, 2015, in connection with the Corporation's Distribution Reinvestment Plan (DRIP), the portion of the distributions received by the shareholders were used to acquire an additional 96,610 units of KPLP for proceeds of \$1.4 million (note 7).

*Impairment test*

Due to market value declines in the Corporation's publicly traded common shares since the initial offer price, the Corporation performed an impairment test at December 31, 2015 for its Investment in associate. The test resulted in

**KP Tissue Inc.**  
**Notes to Financial Statements**  
**December 31, 2015 and December 31, 2014**

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

an impairment of \$28 million, which was recorded in the statement of comprehensive income (loss) during the year ended December 31, 2015. The recoverable amount of the Investment in associate was determined based on management's best estimate of the fair value less costs of disposal. The estimate of fair value was based on the net present value of future cash flows expected to be derived from KPLP, using a discount rate and terminal growth rate of 9.50% and 2.0%, respectively. A 0.5% increase/decrease in the discount rate would have resulted in an increase/decrease in the impairment of \$12.0 million and \$14.0 million, respectively. A 1.0% increase/decrease in the terminal growth rate would have resulted in a decrease/increase in the impairment of \$15.0 million and \$11.0 million, respectively.

**6 Income taxes**

The Corporation is required to pay income tax on its share of the taxable income of KPLP. The Corporation has not recognized at the date of acquisition the deferred tax assets and liabilities related to the differences between the accounting and tax basis of KPLP's assets and liabilities. Accordingly, the Corporation is tracking the temporary differences that were subject to the initial recognition exemption and recognizes newly created temporary differences as they arise.

The major components of income taxes recognized in the statement of comprehensive income (loss) were as follows:

	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Current tax expense	444	1,136
Deferred tax credit	(2,510)	(895)
	<u>(2,066)</u>	<u>241</u>

Details of the provision for income taxes were as follows:

	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Income tax at statutory rate of 26%	(8,686)	(592)
Permanent differences and other	153	110
Dilution gain	(18)	(26)
Impairment in investment in associate	7,280	-
Taxed in hands of subsidiaries	50	121
Realization of previously unrecognized tax attributes	1,533	1,493
Change in basis of investment in associate	(2,378)	(865)
	<u>(2,066)</u>	<u>241</u>

Components of the deferred income tax liability were as follows:

	<b>December 31, 2015</b>	<b>December 31, 2014</b>
	<b>\$</b>	<b>\$</b>
Deferred tax liability		
Investment in associate	-	751
Pensions	(432)	(267)
Deferred finance fees	(55)	(36)
Property, plant and equipment	2,664	2,226
Other	(1,170)	(669)
	<u>1,007</u>	<u>2,005</u>

**KP Tissue Inc.**  
**Notes to Financial Statements**  
**December 31, 2015 and December 31, 2014**

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

The analysis of the deferred tax liability was as follows:

	<b>December 31, 2015</b>	<b>December 31, 2014</b>
	<b>\$</b>	<b>\$</b>
Deferred tax liabilities to be realized greater than 12 months	1,007	2,005
	<u>1,007</u>	<u>2,005</u>

In addition to the above, the Corporation has a deferred tax asset of \$2.2 million related to the Investment in associate which has not been recognized in the financial statements.

The movement in the deferred tax liability was as follows:

	<b>December 31, 2015</b>	<b>December 31, 2014</b>
	<b>\$</b>	<b>\$</b>
Opening balance	2,005	3,033
Charge to net loss	(2,510)	(895)
Charge to other comprehensive income		
- remeasurements of cumulative translation adjustment	1,528	669
Charge to other comprehensive income		
- remeasurements of post-retirement benefits	(171)	(225)
Charge to other comprehensive income		
- remeasurements of pensions	151	(577)
Charge to other comprehensive income		
- mark-to-market on Available-for-sale investment	4	-
	<u>1,007</u>	<u>2,005</u>

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.

On February 28, 2015, KPT received a tax distribution of \$1.2 million from KPLP for purposes of settling its obligation for federal and provincial taxes, for fiscal 2014.

During the year ended December 31, 2015, pursuant to the Tax Distribution as defined in the Partnership Agreement, KPT received an advance from KPLP of \$1.1 million to pay the monthly tax instalments. The advance is non-interest bearing and non-recourse and was partially offset against KPT's portion of the Tax Distribution of \$0.4 million, paid by KPLP on February 26, 2016. The excess advance over KPT's portion of the Tax Distribution in the amount of \$0.7 million is repayable by KPT to KPLP by March 31, 2017.

## **7 Dividends**

On January 15, 2015, the Corporation paid a dividend of \$0.18 per common share to shareholders. Pursuant to the Corporation's DRIP, a portion of the dividend was reinvested by the shareholders, resulting in the Corporation issuing 11,863 common shares (January 15, 2014 – 15,244) at a price of \$16.46. The proceeds were used to acquire additional units of KPLP.

**KP Tissue Inc.**  
**Notes to Financial Statements**  
**December 31, 2015 and December 31, 2014**

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

On April 15, 2015, the Corporation paid a dividend of \$0.18 per common share to shareholders. Pursuant to the Corporation's DRIP, a portion of the dividend was reinvested by the shareholders, resulting in the Corporation issuing 24,933 common shares (April 15, 2014 – 20,712) at a price of \$15.56.

On July 15, 2015, the Corporation paid a dividend of \$0.18 per common share to shareholders. Pursuant to the Corporation's DRIP, a portion of the dividend was reinvested by the shareholders, resulting in the Corporation issuing 27,575 common shares (July 15, 2014 – 19,844) at a price of \$14.31.

On October 15, 2015, the Corporation paid a dividend of \$0.18 per common share to shareholders. Pursuant to the Corporation's DRIP, a portion of the dividend was reinvested by the shareholders, resulting in the Corporation issuing 32,239 common shares (October 15, 2014 – 13,205) at a price of \$12.44.

On January 15, 2016, the Corporation paid a dividend of \$0.18 per common share to shareholders. Pursuant to the Corporation's DRIP, a portion of the dividend was reinvested by the shareholders, resulting in the Corporation issuing 41,671 common shares at a price of \$10.29.

Subsequent to December 31, 2015, the Corporation declared a dividend of \$0.18 per common share to shareholders, payable on April 15, 2016.

As of April 15, 2015, the 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.

As a result of the DRIP and Kruger's reinvestment of its distribution from KPLP in units of KPLP, a dilution gain of \$0.07 million was recorded during the year ended December 31, 2015 (2014 - \$0.1 million).

**8 Income tax recovery (expense) on other comprehensive income**

Income tax recovery (expense) on other comprehensive income was as follows:

	<b>2015</b>	<b>2014</b>
	<u>\$</u>	<u>\$</u>
<b>Items that will not be reclassified to net loss:</b>		
Remeasurements of pensions	1,164	(4,269)
Income tax recovery (expense)	<u>(151)</u>	<u>577</u>
Net of income tax recovery (expense)	<u><u>1,013</u></u>	<u><u>(3,692)</u></u>
 Remeasurements of post-retirement benefits	 (438)	 (576)
Income tax recovery	<u>171</u>	<u>225</u>
Net of income tax recovery	<u><u>(267)</u></u>	<u><u>(351)</u></u>
 <b>Items that may be subsequently reclassified to net loss:</b>		
Available-for-sale investment	33	2
Income tax expense	<u>(4)</u>	<u>-</u>
Net of income tax expense	<u><u>29</u></u>	<u><u>2</u></u>
 Cumulative translation adjustment	 11,751	 5,150
Income tax expense	<u>(1,528)</u>	<u>(669)</u>
Net of income tax expense	<u><u>10,223</u></u>	<u><u>4,481</u></u>

**KP Tissue Inc.**  
**Notes to Financial Statements**  
**December 31, 2015 and December 31, 2014**

---

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

**9 Economic dependence**

The Corporation is economically dependent upon the Partnership.

# SHAREHOLDER INFORMATION

## CORPORATE ADDRESS

1900 Minnesota Court  
Suite 200  
Mississauga, Ontario L5N 5R5  
Telephone: 905-812-6900  
Fax: 905-812-6910  
[www.kptissueinc.com](http://www.kptissueinc.com)

## INVESTOR RELATIONS

Mike Baldesarra  
Director of Investor Relations  
Telephone: 905-812-6900  
[ir@kptissueinc.com](mailto:ir@kptissueinc.com)

## TRANSFER AGENT AND REGISTRAR

TMX Equity Transfer Services  
The Exchange Tower  
800 Victoria Square  
Montreal, Quebec H4Z 1A9  
Telephone: 514 395-5964  
Fax: 514 787-6690  
[www.tmxequitytransferservices.com](http://www.tmxequitytransferservices.com)

## STOCK EXCHANGE LISTING

Toronto Stock Exchange  
Stock Symbol: KPT

## AUDITORS

PricewaterhouseCoopers LLP  
PwC Tower  
18 York Street  
Suite 2600  
Toronto, Ontario M5J 0B2

## BOARD OF DIRECTORS

The Board of Directors of KPT consists of four members. In keeping with best practices of corporate governance, three directors (and all board committee members) are independent of management. They also represent an exceptionally strong base of experience in consumer products, business management, accounting and capital markets.

Susan J. McArthur (Chairperson and Independent Director) <sup>(1) (3) (4)</sup>

James Hardy (Independent Director) <sup>(1) (3) (4) (5)</sup>

Michel Letellier (Independent Director) <sup>(1) (2) (3)</sup>

David Spraley (Director) <sup>(2)</sup>

<sup>(1)</sup> Member of the Corporation Audit Committee and the KPGP Audit Committee.

<sup>(2)</sup> Member of the KPGP Compensation Committee.

<sup>(3)</sup> Member of the Corporation Nominating Committee.

<sup>(4)</sup> Member of the KPGP Governance Committee.

<sup>(5)</sup> Chair of the Corporation Audit Committee and the KPGP Audit Committee.

For complete information about Board Members and Corporate Governance, please visit [www.kptissueinc.com](http://www.kptissueinc.com)

## ANNUAL MEETING OF SHAREHOLDERS

Gallery Room  
TMX Broadcast Center  
130 King Street West  
Toronto, Ontario M5H 1A1  
June 14, 2016 at 2:00 p.m. (EST).

## DESIGNED AND WRITTEN BY

MaisonBrison Communications



Helping shape a future  
without breast cancer.  
10 years of proud support.



Proud Supporter of  
Canadian  
Breast Cancer  
Foundation

