



**KRUGER PRODUCTS L.P.**

**UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENT  
FOR THE 13-WEEK AND 39-WEEK PERIODS ENDED SEPTEMBER 25, 2016  
AND SEPTEMBER 27, 2015**

# Kruger Products L.P.

## Unaudited Condensed Consolidated Statement of Financial Position

(tabular amounts are in thousands of Canadian dollars)

	September 25, 2016 \$	December 31, 2015 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	19,524	25,455
Trade and other receivables	112,688	108,720
Receivables from related parties (note 12)	247	185
Current portion of advances to partners (note 10)	4,894	2,630
Inventories	184,290	184,985
Income tax recoverable	670	772
Prepaid expenses	10,577	8,429
	<u>332,890</u>	<u>331,176</u>
<b>Non-current assets</b>		
Advances to partners (note 10)	-	4,234
Property, plant & equipment (note 6)	744,101	737,708
Other long-term assets	6,260	8,107
Goodwill	160,939	160,939
Intangible assets	15,048	15,853
Deferred income taxes	38,416	39,411
	<u>1,297,654</u>	<u>1,297,428</u>
<b>Total assets</b>		
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade and other payables	189,379	180,329
Payables to related parties (note 12)	3,774	3,775
Distributions payable (notes 10 and 12)	10,087	9,871
Current portion of provisions (note 8)	2,209	3,096
Current portion of long-term debt (notes 9 and 14)	8,965	10,183
	<u>214,414</u>	<u>207,254</u>
<b>Non-current liabilities</b>		
Long-term debt (notes 9 and 14)	415,659	425,859
Other long-term liabilities	7	48
Provisions (note 8)	6,954	6,180
Pensions (note 7)	147,929	87,164
Post-retirement benefits (note 7)	62,617	57,346
	<u>847,580</u>	<u>783,851</u>
<b>Liabilities to non-unitholders</b>		
Current portion of Partnership units liability (note 10)	2,630	2,630
Long-term portion of Partnership units liability (note 10)	121,148	122,546
	<u>123,778</u>	<u>125,176</u>
<b>Total Partnership units liability</b>		
	<u>971,358</u>	<u>909,027</u>
<b>Total liabilities</b>		
<b>Equity</b>		
Partnership units (note 10)	331,727	318,012
Deficit	(88,088)	(29,416)
Accumulated other comprehensive income	82,657	99,805
	<u>326,296</u>	<u>388,401</u>
<b>Total equity</b>	<u>326,296</u>	<u>388,401</u>
<b>Total equity and liabilities</b>	<u>1,297,654</u>	<u>1,297,428</u>
<b>Subsequent events (note 10)</b>		

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

**Kruger Products L.P.**  
**Unaudited Condensed Consolidated Statement of Comprehensive Income (Loss)**  
For the 13-week and 39-week periods ended September 25, 2016 and September 27, 2015

(tabular amounts are in thousands of Canadian dollars)

	13-week period ended September 25, 2016 \$	13-week period ended September 27, 2015 \$	39-week period ended September 25, 2016 \$	39-week period ended September 27, 2015 \$
<b>Revenue (note 12)</b>	312,823	293,574	888,270	838,287
<b>Expenses</b>				
Cost of sales (note 12)	256,823	247,964	747,348	710,917
Selling, general and administrative expenses (note 12)	22,645	21,630	66,283	64,526
Recovery of non-financial assets (note 8)	(395)	(1,131)	(395)	(1,131)
Restructuring costs (note 8)	25	781	418	1,835
<b>Operating income</b>	33,725	24,330	74,616	62,140
Interest expense	11,192	25,254	33,327	48,069
Other (income) expense (note 5)	813	4,821	(307)	10,770
<b>Income (loss) before income taxes</b>	21,720	(5,745)	41,596	3,301
<b>Income taxes (note 11)</b>	162	121	1,612	1,282
<b>Net income (loss) for the period</b>	21,558	(5,866)	39,984	2,019
<b>Other comprehensive income (loss)</b>				
<b>Items that will not be reclassified to net income (loss):</b>				
Remeasurements of pensions	(20,097)	1,915	(63,986)	(4,123)
Remeasurements of post-retirement benefits	(2,885)	1,447	(4,519)	(702)
<b>Items that may be subsequently reclassified to net income (loss):</b>				
Available-for-sale investment	-	(277)	(290)	(306)
Cumulative translation adjustment	3,969	26,229	(16,858)	42,893
<b>Total other comprehensive income (loss) for the period</b>	(19,013)	29,314	(85,653)	37,762
<b>Comprehensive income (loss) for the period</b>	2,545	23,448	(45,669)	39,781

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

# Kruger Products L.P.

## Unaudited Condensed Consolidated Statement of Changes in Equity

For the 39-week periods ended September 25, 2016 and September 27, 2015

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

	Partnership units		Retained earnings (deficit)	Accumulated other comprehensive income	Total equity
	#	\$	\$	\$	\$
<b>As of January 1, 2015</b>	53,624,260	299,616	4,424	43,463	347,503
Distributions payable (note 10)	-	-	(9,806)	-	(9,806)
Distributions paid (note 10)	-	-	(19,449)	-	(19,449)
Fair value adjustment (note 10)	-	491	(360)	-	131
Change in actuarial loss on pension	-	-	(4,123)	-	(4,123)
Change in actuarial loss on post-retirement benefits	-	-	(702)	-	(702)
Change in available-for-sale investment	-	-	-	(306)	(306)
Cumulative translation adjustment	-	-	-	42,893	42,893
Net income for the period	-	-	2,019	-	2,019
Issuance of partnership units (note 10)	854,068	13,129	-	-	13,129
<b>As of September 27, 2015</b>	<b>54,478,328</b>	<b>313,236</b>	<b>(27,997)</b>	<b>86,050</b>	<b>371,289</b>
<b>As of January 1, 2016</b>	54,840,093	318,012	(29,416)	99,805	388,401
Distributions payable (note 10)	-	-	(10,087)	-	(10,087)
Distributions paid (note 10)	-	-	(19,967)	-	(19,967)
Fair value adjustment (note 10)	-	97	(97)	-	-
Change in actuarial loss on pension	-	-	(63,986)	-	(63,986)
Change in actuarial loss on post-retirement benefits	-	-	(4,519)	-	(4,519)
Change in available-for-sale investment	-	-	-	(290)	(290)
Cumulative translation adjustment	-	-	-	(16,858)	(16,858)
Net income for the period	-	-	39,984	-	39,984
Issuance of partnership units (note 10)	1,196,864	13,618	-	-	13,618
<b>As of September 25, 2016</b>	<b>56,036,957</b>	<b>331,727</b>	<b>(88,088)</b>	<b>82,657</b>	<b>326,296</b>

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

# Kruger Products L.P.

## Unaudited Condensed Consolidated Statement of Cash Flows

For the 39-week periods ended September 25, 2016 and September 27, 2015

(tabular amounts are in thousands of Canadian dollars)

	39-week period ended September 25, 2016 \$	39-week period ended September 27, 2015 \$
<b>Cash flows from (used in) operating activities</b>		
Net income for the period	39,984	2,019
Items not affecting cash		
Depreciation	33,775	29,454
Amortization	876	563
Loss (gain) on sale of fixed assets	(3)	284
Change in amortized cost of Partnership units liability (note 5)	1,234	5,013
Gain on sale of investment (note 5)	(324)	-
Unrealized foreign exchange (gain) loss (note 5)	(1,217)	5,328
Interest expense	33,327	48,069
Pension and post-retirement benefits	7,805	11,461
Provisions (note 8)	1,191	2,805
Income taxes	1,612	1,282
Recovery of non-financial assets (note 8)	(395)	(1,131)
Total items not affecting cash	77,881	103,128
Net change in non-cash working capital (note 15)	(10,471)	(20,158)
Contributions to pension and post-retirement benefit plans	(13,918)	(11,531)
Provisions paid	(1,452)	(978)
Income tax payments	(1,887)	(1,550)
<b>Net cash from operating activities</b>	<b>90,137</b>	<b>70,930</b>
<b>Cash flows from (used in) investing activities</b>		
Purchases of property, plant & equipment	(58,666)	(33,149)
Proceeds on sale of investment (note 5)	1,439	-
Government assistance received	1,209	-
Purchases of software	(71)	(1,960)
Proceeds on sale of property, plant and equipment	539	736
<b>Net cash used in investing activities</b>	<b>(55,550)</b>	<b>(34,373)</b>
<b>Cash flows from (used in) financing activities</b>		
Proceeds from long-term debt (note 9)	4,995	-
Repayment of long-term debt	(8,106)	(4,880)
Payment of deferred financing fees	(711)	(140)
Interest paid on long-term debt	(18,294)	(22,375)
Distributions and advances paid, net (note 10)	(16,883)	(24,655)
Proceeds from issuing Partnership units	-	195
<b>Net cash used in financing activities</b>	<b>(38,999)</b>	<b>(51,855)</b>
<b>Effect of exchange rate changes on cash and cash equivalents held in foreign currency</b>	<b>(1,519)</b>	<b>2,057</b>
<b>Decrease in cash and cash equivalents during the period</b>	<b>(5,931)</b>	<b>(13,241)</b>
<b>Cash and cash equivalents - Beginning of period</b>	<b>25,455</b>	<b>51,788</b>
<b>Cash and cash equivalents - End of period</b>	<b>19,524</b>	<b>38,547</b>

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

# Kruger Products L.P.

## Notes to Unaudited Condensed Consolidated Financial Statements

For the 39-week periods ended September 25, 2016 and September 27, 2015

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

### 1 General information

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

### 2 Basis of presentation

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

These condensed consolidated financial statements were approved by the board of directors of KPGP on November 2, 2016.

### 3 Summary of significant accounting policies

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

- (i) IAS 19, Employee Benefits. The IASB issued an amendment to clarify, when determining the discount rate for post-employment benefit obligations, it is the currency that the liabilities are denominated in that is important, and not the country where they arise. The amended standard had no impact on these unaudited condensed consolidated financial statements.
- (ii) IAS 34, Interim Financial Reporting. The IASB issued an amendment to clarify what is meant by "information disclosed elsewhere in the interim financial report". IAS 34 prescribes the minimum content for an interim financial report, and the principles for recognition and measurement in complete and condensed financial statements for an interim period. The amended standard had no impact on these unaudited condensed consolidated financial statements.

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

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

# Kruger Products L.P.

## Notes to Unaudited Condensed Consolidated Financial Statements

For the 39-week periods ended September 25, 2016 and September 27, 2015

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

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

#### 4 Critical accounting estimates and judgments

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

#### 5 Other (income) expense

	13-week period ended September 25, 2016 \$	13-week period ended September 27, 2015 \$	39-week period ended September 25, 2016 \$	39-week period ended September 27, 2015 \$
Unrealized foreign exchange (gain) loss	813	2,976	(1,217)	5,328
Change in amortized cost of Partnership units liability	-	1,851	1,234	5,013
Miscellaneous (income) expense	-	(6)	(324)	429
	<u>813</u>	<u>4,821</u>	<u>(307)</u>	<u>10,770</u>

During the 39-week period ended September 25, 2016, the available-for-sale investment was sold for proceeds of \$1.4 million. The sale resulted in a gain of \$0.3 million, which was reclassified from Accumulated other comprehensive income to Other (income) expense during the 39-week period ended September 25, 2016.

# Kruger Products L.P.

## Notes to Unaudited Condensed Consolidated Financial Statements

For the 39-week periods ended September 25, 2016 and September 27, 2015

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

### 6 Property, plant and equipment

	Land \$	Buildings \$	Machinery and equipment \$	Assets under construction or development \$	Total \$
<b>As of January 1, 2016</b>					
Cost	40,612	187,572	1,019,346	35,635	1,283,165
Accumulated depreciation and impairments	-	(76,554)	(468,903)	-	(545,457)
<b>Net book value as of January 1, 2016</b>	40,612	111,018	550,443	35,635	737,708
Additions	-	-	-	58,888	58,888
Disposals	(140)	-	(1)	-	(141)
Government assistance	-	-	(1,502)	-	(1,502)
Transfers	-	265	50,700	(50,965)	-
Depreciation	-	(3,645)	(27,292)	-	(30,937)
Exchange differences	(76)	(3,026)	(16,466)	(347)	(19,915)
<b>As of September 25, 2016</b>	40,396	104,612	555,882	43,211	744,101
<b>As of September 25, 2016</b>					
Cost	40,396	184,041	1,046,397	43,211	1,314,045
Accumulated depreciation and impairment	-	(79,429)	(490,515)	-	(569,944)
<b>Net book value as of September 25, 2016</b>	40,396	104,612	555,882	43,211	744,101

During the 13-week and 39-weeks periods ended September 25, 2016, the Partnership sold certain timber lands for cash proceeds of \$0.5 million. The sale resulted in a recovery of non-financial assets of \$0.4 million, which was recorded in the consolidated statement of comprehensive income (loss) during the 13-week and 39-week periods ended September 25, 2016.

### 7 Pensions and post-retirement benefits

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

	Pensions		Post-retirement benefit plans	
	September 25, 2016 %	December 31, 2015 %	September 25, 2016 %	December 31, 2015 %
Assumptions				
Discount rate - accrued benefit obligation	3.20	3.90	3.20	3.90
Rate of compensation increases	3.25 - 4.00	3.25 - 4.00		



# Kruger Products L.P.

## Notes to Unaudited Condensed Consolidated Financial Statements

For the 39-week periods ended September 25, 2016 and September 27, 2015

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

The net benefit pension plan expense included the following components:

	Pensions		Post-retirement benefit plans	
	13-week period ended September 25, 2016 \$	13-week period ended September 27, 2015 \$	13-week period ended September 25, 2016 \$	13-week period ended September 27, 2015 \$
<b>Net benefit plan expense</b>				
Current service cost	2,081	2,266	406	419
Interest cost	5,227	6,099	457	514
Expected return on plan assets	(4,446)	(5,059)	-	-
	<u>2,862</u>	<u>3,306</u>	<u>863</u>	<u>933</u>

	Pensions		Post-retirement benefit plans	
	39-week period ended September 25, 2016 \$	39-week period ended September 27, 2015 \$	39-week period ended September 25, 2016 \$	39-week period ended September 27, 2015 \$
<b>Net benefit plan expense</b>				
Current service cost	6,585	6,794	1,220	1,251
Interest cost	15,716	18,334	1,372	1,547
Expected return on plan assets	(13,444)	(15,223)	-	-
Past service cost <sup>(a)</sup>	-	3,352	-	64
	<u>8,857</u>	<u>13,257</u>	<u>2,592</u>	<u>2,862</u>

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

# Kruger Products L.P.

## Notes to Unaudited Condensed Consolidated Financial Statements

For the 39-week periods ended September 25, 2016 and September 27, 2015

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

### 8 Provisions

	<b>Environmental and asset retirement obligations</b>	<b>Long-term incentives</b>	<b>Restructuring</b>	<b>Total</b>
	\$	\$	\$	\$
	(a)	(b)	(c)	
<b>Provisions as of January 1, 2016</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
<b>Provisions as of January 1, 2016</b>	5,862	773	2,641	9,276
Additional provisions	-	773	418	1,191
Paid during the period	-	-	(1,452)	(1,452)
Interest accretion	148	-	-	148
<b>Provisions as of September 25, 2016</b>	6,010	1,546	1,607	9,163
<b>Current</b>	-	602	1,607	2,209
<b>Non-current</b>	6,010	944	-	6,954

(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 an extension is currently being negotiated. The estimated undiscounted amount to settle this obligation would be between \$10.6 million and \$13.7 million. The liability is estimated using a discounted cash flow with a discount rate of 3.385% (December 31, 2015 – 3.385%).

(b) Long-term incentives

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

(c) Restructuring

During the first quarter of 2014, the Partnership undertook a review of corporate overhead costs and identified a number of cost reduction opportunities. As of September 25, 2016, the Partnership had incurred \$1.4 million of the costs associated with this initiative and recorded a provision for the remaining \$0.7 million.

In response to market cost pressures, in the first half of 2015, senior management undertook a comprehensive review of its cost structure and identified a number of cost reduction opportunities. During the 39-week period ended September 25, 2016, \$0.6 million of restructuring charges were recorded (39-week period ended September 27, 2015 - \$2.0 million). As of September 25, 2016, the Partnership had incurred \$2.6 million of the costs associated with this initiative and recorded a provision for the remaining \$0.9 million.

# Kruger Products L.P.

## Notes to Unaudited Condensed Consolidated Financial Statements

For the 39-week periods ended September 25, 2016 and September 27, 2015

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

### 9 Long-term debt

Quebec paper machine loan

On August 9, 2016, the Partnership entered into an agreement with Investissement Quebec, for financing related to the acquisition, relocation and installation of a new paper machine to be located at our Crabtree facility. The Quebec paper machine loan (Quebec PM Loan) is secured by the acquired paper machine and the portion of the property on which the paper machine will be installed. The security is second ranking immediately after the security granted in favour of the Credit Facility. The agreement provides for a maximum loan amount of \$39.5 million. Borrowings under the Quebec PM Loan bear interest at a fixed interest rate of 2.5% per annum for a period of seven years from the date of the first loan disbursement. The interest rate thereafter increases to a fixed rate of 3.5% per annum until the eighth anniversary of the first loan disbursement, a fixed rate of 4.5% per annum until the ninth anniversary of the first loan disbursement, and a fixed rate of 5.5% per annum thereafter. The loan has a moratorium on repayment of the principal for the initial 24 months following the date of the first loan disbursement, after which the principal is to be repaid in 96 monthly consecutive payments. As of September 25, 2016, \$4.2 million had been drawn and was outstanding.

### 10 Distributions and Partnership units liability

	<b>Partnership units liability</b>
	\$
As of January 1, 2016	125,176
Change in amortized cost of Partnership units liability (note 5)	1,234
Tax Distributions	(2,632)
As of September 25, 2016	<u>123,778</u>

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

<b>Distribution Payment Date</b>	<b>39-week period ended September 25, 2016</b>			
	<b>Partnership unit distributions</b>	<b>Unit price</b>	<b>Issuance of Partnership units</b>	<b>Gross proceeds</b>
	\$	\$	#	\$
January 15, 2016	9,871	10.29	442,929	4,558
April 15, 2016	9,951	12.31	359,138	4,421
July 15, 2016	10,016	11.75	394,797	4,639
	<u>29,838</u>		<u>1,196,864</u>	<u>13,618</u>

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

# Kruger Products L.P.

## Notes to Unaudited Condensed Consolidated Financial Statements

For the 39-week periods ended September 25, 2016 and September 27, 2015

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

On October 17, 2016, the Partnership paid a distribution of \$10.1 million to partners. Pursuant to the Partnership's Distribution Reinvestment Plan (DRIP), a portion of the distribution was reinvested by the partners, resulting in the Partnership issuing 339,831 Partnership units at a price of \$13.77. During the 39-week period ended September 25, 2016, a fair value adjustment of \$0.1 million was recorded to reflect the market value of the Partnership units issued.

Subsequent to September 25, 2016, the Partnership declared a distribution of \$10.1 million, payable on January 16, 2017.

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

	<b>39-week period ended September 25, 2016</b>			
	<b>Advances received</b>	<b>Advances paid</b>	<b>Partnership unit distributions</b>	<b>Total</b>
	\$	\$	\$	\$
Paid to Kruger Inc. <sup>(a)</sup>	-	1,029	12,489	13,518
Paid to KPGP	-	-	3	3
Paid to (received from) KPT <sup>(b)</sup>	(571)	205	3,728	3,362
Total paid (received)	<u>(571)</u>	<u>1,234</u>	<u>16,220</u>	<u>16,883</u>

  

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

(a) During the 39-week periods ended September 25, 2016 and September 27, 2015, Partnership unit distributions were paid to Kruger Inc. net of the DRIP reinvestment. During the 39-week period ended September 25, 2016, Kruger Inc.'s DRIP reinvestment was \$12.5 million (39-week period ended September 27, 2015 - \$12.2 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 September 25, 2016, KPT's DRIP reinvestment was \$1.1 million (39-week period ended September 27, 2015 - \$0.8 million).

### *Tax Distributions*

On February 26, 2016, KPLP declared a Tax Distribution of \$2.6 million, of which \$0.4 million was used to partially settle the advance to KPT recorded during the year ended December 31, 2015, and \$2.2 million was used to partially settle the advances to Kruger Inc. and KPGP recorded during the year ended December 31, 2015. On February 26, 2016, the excess advances over the Tax Distributions were \$4.2 million (KPT - \$0.7 million; Kruger Inc. and KPGP - \$3.5 million). During the 39-week period ended September 25, 2016, KPLP received a payment from KPT of \$0.6

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million towards these excess advances. As of September 25, 2016, the excess advances of \$3.6 million (KPT - \$0.1 million; Kruger Inc. and KPGP - \$3.5 million) are due to KPLP no later than March 31, 2017.

During the 39-week period ended September 25, 2016, pursuant to the Tax Distribution as defined in the Partnership Agreement, the Partnership made advances to its partners of \$1.2 million, of which \$0.2 million was used to pay the monthly tax instalment on behalf of KPT and the remaining was advanced to Kruger Inc. and KPGP. The advances are non-interest bearing and non-recourse and will be settled when the Tax Distribution is declared annually.

### 11 Income taxes

The Partnership is not a tax paying entity for the 39-week periods ended September 25, 2016 and September 27, 2015. The income (loss) from the Partnership flows to the partners, Kruger Inc., KPGP, and KPT. However, the Partnership's subsidiaries Kruger Products (USA) Inc., K.T.G. (USA) Inc., TAD Canco Inc., Grupo Tissue de Mexico S de RL de CV and TAD Luxembourg S.A.R.L. are corporate entities and, therefore, are subject to tax.

Income tax expense (recovery) was recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated weighted average annual income tax rate for the 39-week period ended September 25, 2016 was 3.9% (39-week period ended September 27, 2015 – 38.8%).

The components of income taxes were as follows:

	13-week period ended September 25, 2016 \$	13-week period ended September 27, 2015 \$	39-week period ended September 25, 2016 \$	39-week period ended September 27, 2015 \$
Current tax expense	241	320	1,583	1,535
Deferred tax expense (recovery)	(79)	(199)	29	(253)
	162	121	1,612	1,282

### 12 Related party transactions

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

Sales of goods to Kruger Inc. for the 39-week period ended September 25, 2016 were \$0.6 million (39-week period ended September 27, 2015 - \$0.1 million). Sales of goods to subsidiaries of Kruger Inc. for the 39-week period ended September 25, 2016 were nil (39-week period ended September 27, 2015 - \$0.2 million). Goods are sold based on the price lists in force and terms that would be available to third parties. Services are delivered at the terms outlined in the agreements between the related parties.

Purchases of goods and services from Kruger Inc. for the 39-week period ended September 25, 2016 were \$24.5 million (39-week period ended September 27, 2015 - \$22.5 million). Purchases of goods and services from subsidiaries of Kruger Inc. for the 39-week period ended September 25, 2016 were \$6.2 million (39-week period ended September 27, 2015 - \$8.0 million). Goods are purchased from Kruger Inc. and related parties under normal commercial terms and conditions. These purchases of goods and services are included within cost of sales and selling, general and administrative expenses in the condensed consolidated statement of comprehensive income (loss). During the 39-week period ended September 25, 2016, management fees of \$3.2 million (39-week period ended September 27, 2015 - \$3.1 million) were paid to Kruger Inc. for management services provided to the Partnership.

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Balances due to and from related parties were as follows:

	September 25, 2016	December 31, 2015
	\$	\$
Receivables from Kruger Inc.	10	61
Receivables from subsidiaries of Kruger Inc.	15	16
Receivables from KPT	222	108
	<u>247</u>	<u>185</u>
Payables to Kruger Inc.	3,438	3,332
Payables to subsidiaries of Kruger Inc.	336	443
	<u>3,774</u>	<u>3,775</u>

The receivables from and payables to related parties are based on commercial terms agreed on between the parties, unsecured and non-interest bearing. There were no provisions related to the receivables from related parties as of September 25, 2016 and December 31, 2015. There were no loans outstanding with related parties as of September 25, 2016 and December 31, 2015.

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

	September 25, 2016	December 31, 2015
	\$	\$
Distribution payable to Kruger Inc.	8,455	8,257
Distribution payable to KPGP	1	1
Distribution payable to KPT	1,631	1,613
Total distribution payable	<u>10,087</u>	<u>9,871</u>

### 13 Segment information

#### Reportable segments

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

(a) Consumer

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

(b) AFH

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

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For the 39-week periods ended September 25, 2016 and September 27, 2015

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(c) Other

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

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

	<b>13-week period ended September 25, 2016</b>			
	<b>Consumer</b>	<b>AFH</b>	<b>Other</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Revenue from external customers	248,792	59,411	4,620	312,823
Adjusted EBITDA	43,832	1,500	326	45,658
Depreciation and amortization				12,303
Interest expense				11,192
Recovery of non-financial assets				(395)
Restructuring costs				25
Unrealized foreign exchange loss				813
Income before income taxes				21,720
Income taxes				162
Net income				<u>21,558</u>

	<b>13-week period ended September 27, 2015</b>			
	<b>Consumer</b>	<b>AFH</b>	<b>Other</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Revenue from external customers	230,181	59,524	3,869	293,574
Adjusted EBITDA	32,338	1,763	732	34,833
Depreciation and amortization				10,702
Interest expense				25,254
Change in amortized cost of Partnership units liability				1,851
Loss on sale of fixed assets				145
Recovery of non-financial assets				(1,131)
Restructuring costs				781
Unrealized foreign exchange loss				2,976
Loss before income taxes				(5,745)
Income taxes				121
Net loss				<u>(5,866)</u>

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For the 39-week periods ended September 25, 2016 and September 27, 2015

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	39-week period ended September 25, 2016			
	Consumer	AFH	Other	Total
	\$	\$	\$	\$
Revenue from external customers	709,338	167,513	11,419	888,270
Adjusted EBITDA	105,898	2,765	948	109,611
Depreciation and amortization				34,651
Interest expense				33,327
Change in amortized cost of Partnership units liability				1,234
Gain on sale of fixed assets				(3)
Recovery of non-financial assets				(395)
Restructuring costs				418
Unrealized foreign exchange gain				(1,217)
Income before income taxes				41,596
Income taxes				1,612
Net income				39,984

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



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### Geographic segments

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

	13-week period ended September 25, 2016	13-week period ended September 27, 2015	39-week period ended September 25, 2016	39-week period ended September 27, 2015
<b>Revenue</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Canada	191,019	183,167	536,878	527,369
US	109,281	101,965	313,860	285,770
Mexico	12,523	8,442	37,532	25,148
	<u>312,823</u>	<u>293,574</u>	<u>888,270</u>	<u>838,287</u>

	<b>September 25, 2016</b>			
	<b>Canada</b>	<b>US</b>	<b>Mexico</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Property, plant and equipment	343,933	400,168	-	744,101
Goodwill	160,939	-	-	160,939
Intangible assets	15,048	-	-	15,048

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

## 14 Financial instruments

### *Classification of financial instruments*

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

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## Notes to Unaudited Condensed Consolidated Financial Statements

For the 39-week periods ended September 25, 2016 and September 27, 2015

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

As of September 25, 2016, 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>
Cash and cash equivalents	loans and receivables	amortized cost	19,524	19,524
Trade and other receivables	loans and receivables	amortized cost	112,688	112,688
Receivables from related parties	loans and receivables	amortized cost	247	247
Advances to partners	loans and receivables	amortized cost	4,894	4,894
Mortgage receivable	loans and receivables	amortized cost	1,000	1,000
Trade and other payables	financial liabilities	amortized cost	(189,379)	(189,379)
Payables to related parties	financial liabilities	amortized cost	(3,774)	(3,774)
Distributions payable	financial liabilities	amortized cost	(10,087)	(10,087)
Long-term debt	financial liabilities	amortized cost	(424,624)	(431,810)
Partnership units liability	financial liabilities	amortized cost	(123,778)	(123,778)

The following table details the fair value hierarchy of financial instruments by level as of September 25, 2016:

	<b>Level 1 \$</b>	<b>Level 2 \$</b>	<b>Level 3 \$</b>	<b>Total \$</b>
Mortgage receivable	-	-	1,000	1,000
Long-term debt	-	(431,810)	-	(431,810)
Partnership units liability	-	-	(123,778)	(123,778)

As of December 31, 2015, the classification of the financial instruments, as well as their carrying amounts and fair values, was as follows:

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

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## Notes to Unaudited Condensed Consolidated Financial Statements

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

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

### *Fair value*

Cash and cash equivalents, trade and other receivables, receivables from related parties, advances to partners, trade and other payables, payables to related parties and distributions payable are short-term financial instruments whose fair value approximates the carrying amount, given they will mature in the near future. As of September 25, 2016, the fair values of the Credit Facility, the Nordea Facility and the Caisse Facility were \$203.0 million, \$30.4 million and \$193.1 million (December 31, 2015 – \$206.0 million, \$36.5 million and \$202.9 million), respectively, which approximates the current principal amount outstanding as the interest rate approximates current market interest rates. As of September 25, 2016, the fair values of the Quebec PM Loan, Quebec loan and the Ontario loan were \$4.2 million, \$0.3 million and \$0.8 million (December 31, 2015 – nil, \$1.1 million and nil), respectively.

The fair value of the available-for-sale investment was based on quoted market price in the active market. The valuation methodology used was categorized as a Level 1 methodology.

### *Fair value of the Partnership units liability*

The Partnership units liability is classified as a financial liability at amortized cost. Management has estimated the fair value of the Partnership units liability using a discounted cash flow model. Significant assumptions include the income tax obligation, discount rate and an industry capitalization rate and are discussed in the consolidated financial statements for the year ended December 31, 2015. There were no significant changes in the assumptions during the 39-week period ended September 25, 2016.

## 15 Non-cash working capital

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

	39-week period ended September 25, 2016	39-week period ended September 27, 2015
	\$	\$
Increase in trade and other receivables	(8,297)	(4,294)
Decrease in receivables from related parties	230	252
Increase in inventories	(5,414)	(19,428)
Increase in prepaid expenses	(2,342)	(2,739)
Increase in other long-term assets	(58)	(318)
Increase in income taxes	(657)	(1,267)
Increase in trade and other payables	6,068	7,734
Decrease in payables to related parties	(1)	(98)
	<u>(10,471)</u>	<u>(20,158)</u>