



Q2 2016 FINANCIAL RESULTS

August 10, 2016

FORWARD-LOOKING AND CAUTIONARY STATEMENTS



This Presentation on behalf of KP Tissue Inc. (the “Corporation” or “KPT”) does not constitute or form part of any offer for sale or solicitation of any offer to buy or subscribe for any securities nor shall it or any part of it form the basis of or be relied on in connection with, or act as any inducement to enter into, any contract or commitment whatsoever.

The information contained in this Presentation does not purport to be all-inclusive. This Presentation is being supplied to you solely for your information and may not be reproduced, further distributed or published in whole or in part by any other person. Neither this Presentation nor any copy of it may be taken or transmitted into or distributed any other jurisdiction which prohibits the same except in compliance with applicable securities laws. Any failure to comply with this restriction may constitute a violation of securities law.

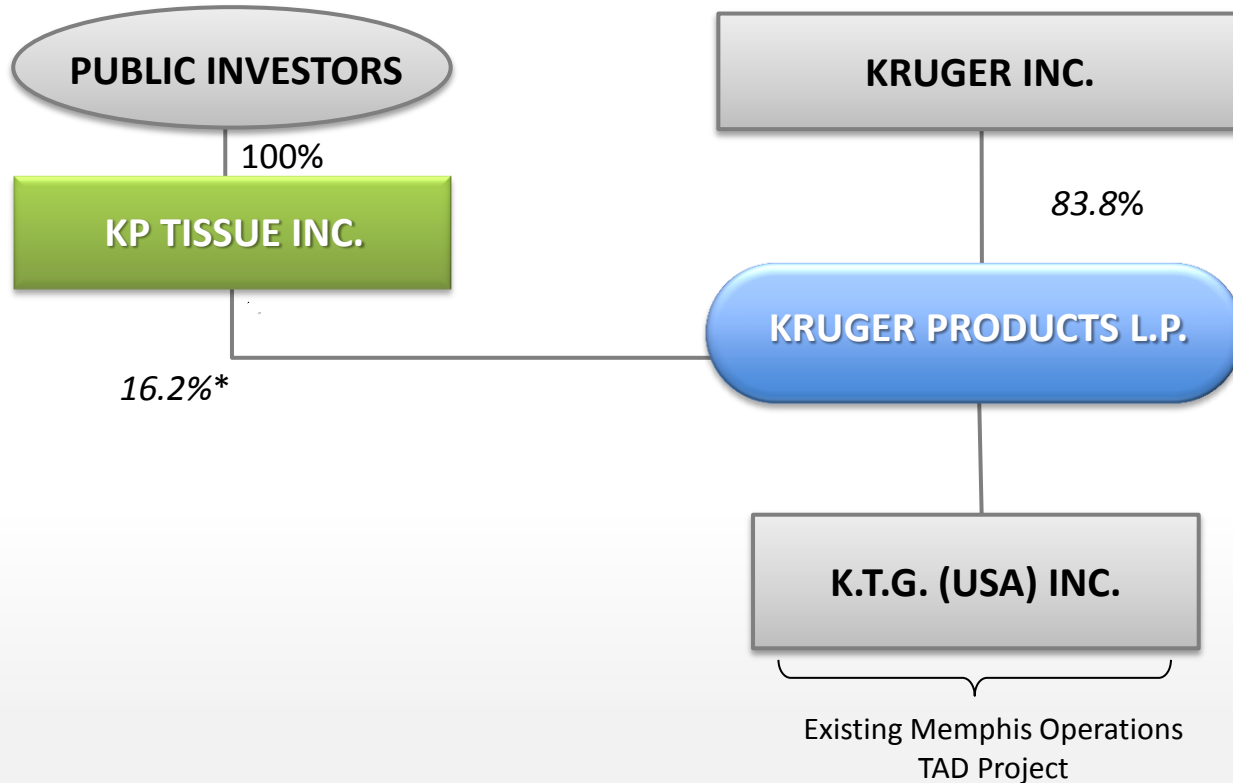
No representation or warranty, express or implied, is made or given by or on behalf of the Company or any of the directors, officers or employees of any such entities as to the accuracy, completeness or fairness of the information or opinions contained in this Presentation and no responsibility or liability is accepted by any person for such information or opinions. In furnishing this Presentation, the Company does not undertake or agree to any obligation to provide the attendees with access to any additional information or to update this Presentation or to correct any inaccuracies in, or omissions from, this Presentation that may become apparent. The information and opinions contained in this Presentation are provided as at the date of this Presentation. The contents of this Presentation are not to be construed as legal, financial or tax advice. Each person receiving this Presentation should contact his, her or its own legal adviser, independent financial adviser or tax adviser for legal, financial or tax advice.

Certain statements in this presentation about the Corporation and Kruger Products L.P. (“KPLP”) as it relates to their 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 the Corporation or KPLP, including the continued growth of the U.S. private label market and the continued growth in sales of TAD products in the U.S., orders for the TAD machine’s products, the amount and timing of distributions made by KPLP, and Kruger Inc.’s (“Kruger”) cash requirements. The financial outlook that KPLP Management provides concerning the potential incremental Adjusted EBITDA generated by 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 and a selling price of finished products based on recent prices, adjusted for inflation and (iv) a foreign exchange rate between the Canadian and U.S. dollars approximating current levels. The financial outlook provided in respect of Adjusted EBITDA for Q3 2016 may be considered forward-looking information and is based on additional key expectations and assumptions, including but not limited to (i) sales volumes consistent with management’s expectations, (ii) a cost of pulp and energy based on recent prices, and (iii) a foreign exchange rate between the Canadian and U.S. dollars approximating current levels. The purpose of the outlook is to provide the reader with an indication of management’s expectations, at the date of this conference call, regarding KPLP’s future financial performance. Readers are cautioned that this information may not be appropriate for other purposes. Although the Corporation 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.

Unless otherwise stated, references in this presentation to market shares or KPT’s market leadership are based on Nielsen dollar market share data and management estimates.

**The following presentation is to review Kruger Products L.P.
Q2 2016 financial results**

CORPORATE STRUCTURE



Kruger Products L.P. is the operating company
KP Tissue Inc. is the publicly traded entity

** As of August 10, 2016 (16.2% as of June 26, 2016)*

Q2 2016 HIGHLIGHTS



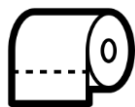
- Q2 2016 revenue of \$295.8 million, up 5.9% over Q2 2015, driven primarily by U.S. Consumer sales and increased Canadian selling prices impacting end of quarter
- Adjusted EBITDA¹ of \$35.9 million compared to \$30.2 million last year primarily due to higher sales and our cost reduction program
- Weaker Canadian dollar translated into approximately \$1 million of net negative impact on Adjusted EBITDA in Q2 (USD average 1.29 in Q2 2016 compared to 1.23 in Q2 2015)
- Adjusted EBITDA from TAD products² of \$12.0 million, up from \$11.2 million in Q2 2015

¹ Non-GAAP measure – see MD&A for the definition and reconciliation of the most comparable GAAP measure

² Represents Adjusted EBITDA attributable to the sale of KTG's TAD products



CANADA'S LEADING TISSUE COMPANY



Bathroom Tissue

Facial Tissue

Paper Towel



Kruger
Products

#1
36.7%

#1
32.0%

#2
23.7%



21.2%

19.6%

9.1%



9.9%

1.1%

32.4%



Kimberly-Clark

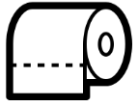
4.8%

18.2%

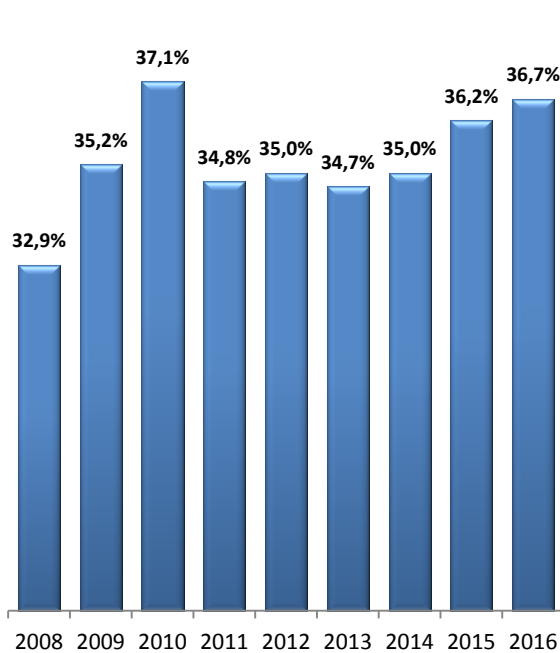
2.9%

Source: Nielsen; dollar market share for the 52-week period ended June 25, 2016.

BRAND LEADERSHIP POSITION



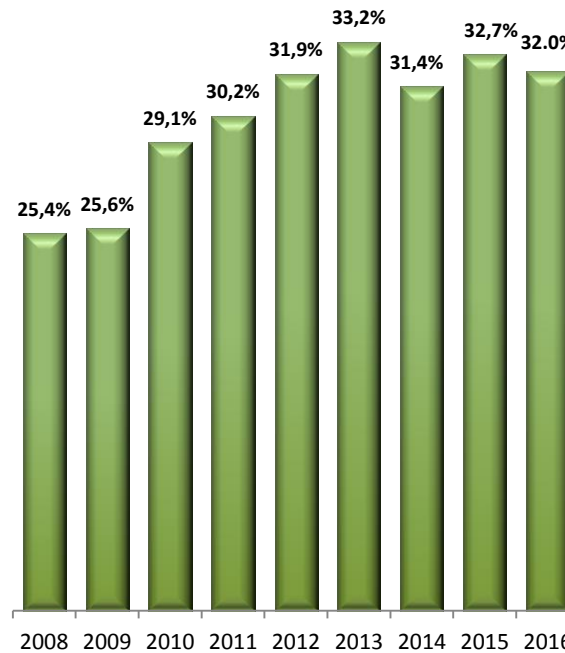
#1 Bathroom Tissue



Ended June 25, 2016



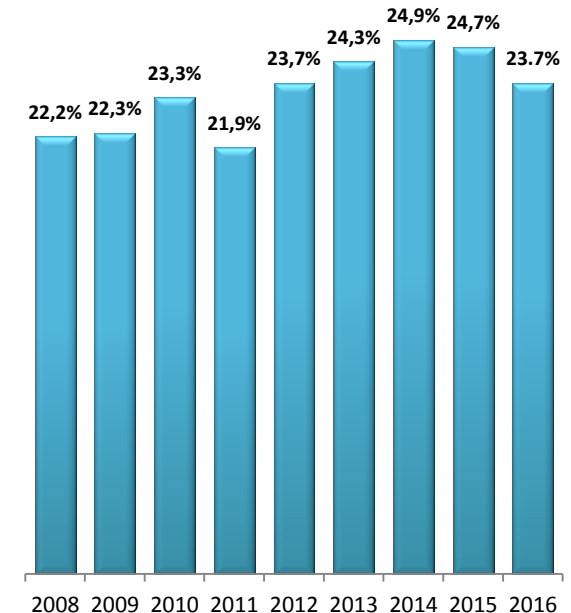
#1 Facial Tissue



Ended June 25, 2016



#2 Paper Towel



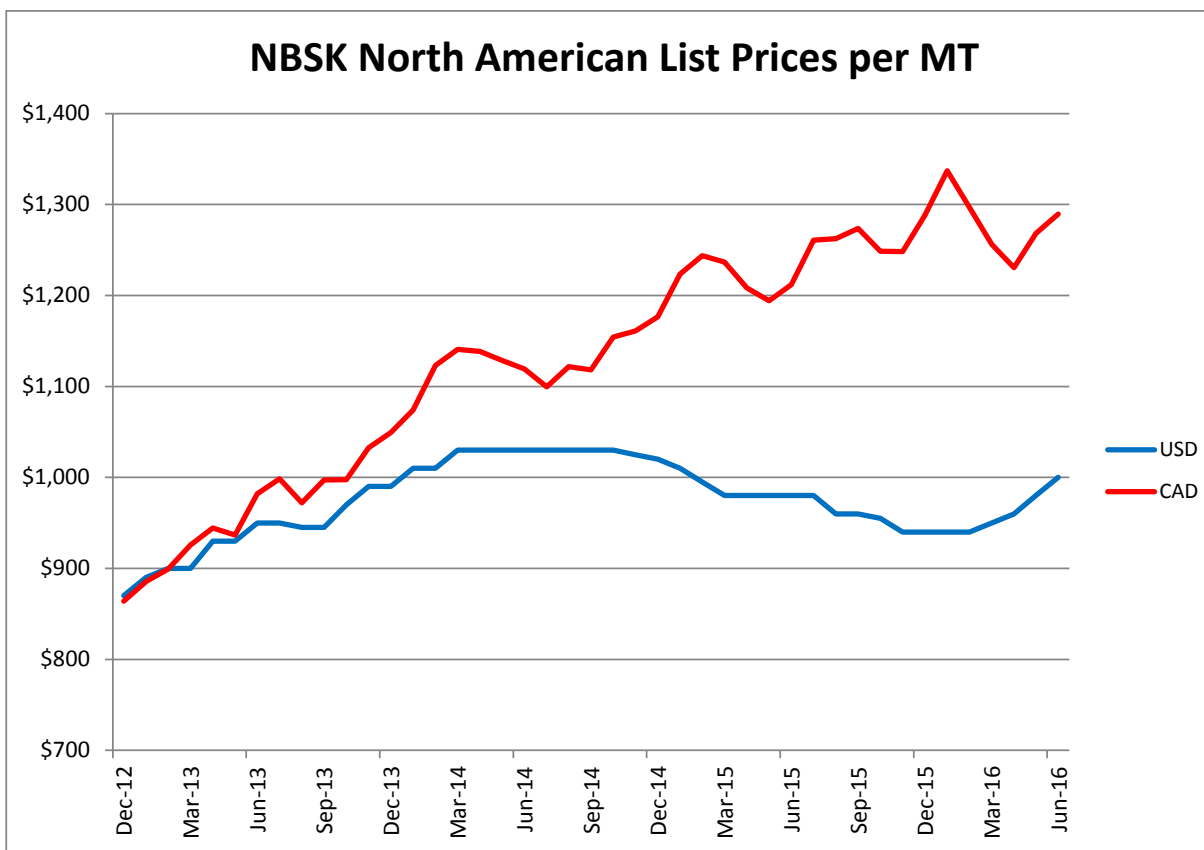
Ended June 25, 2016

Source: Nielsen Canadian dollar market share for 52-week period data.

PULP INPUT PRICES



- Q2 pulp prices rose sequentially compared to Q1 2016 in both USD and CAD and also year-over-year in CAD.
- Based on industry information, management expects pulp prices in USD to remain relatively stable in the near term. The continuing weak and volatile CAD will further create fluctuations in pulp input costs during 2016.



(USD average 1.29 in Q2 2016 compared to 1.23 in Q2 2015)

QUARTERLY FINANCIAL SUMMARY



<i>(C\$ millions, unless otherwise noted)</i>	Q2 2016	Q1 2016	Q2 2015	% Change	
				Y/Y	Q/Q
Revenue	295.8	279.7	279.3	5.9%	5.8%
Cost of Sales	249.9	240.6	240.4		
Gross Profit	45.9	39.1	38.9	18.0%	17.4%
<i>Gross Margin</i>	15.5%	14.0%	13.9%		
Adjusted EBITDA	35.9	28.1	30.2	18.9%	27.8%
<i>Adjusted EBITDA Margin</i>	12.1%	10.0%	10.8%		
Operating Income (EBIT)	23.5	17.4	17.6		
<i>EBIT Margin</i>	7.9%	6.2%	6.3%		
Net Income (Loss)	12.0	6.4	3.2		
<i>Net Income Margin</i>	4.1%	2.3%	1.1%		

QUARTERLY SEGMENTED RESULTS



(C\$ millions, unless otherwise noted)	Q2 2016	Q1 2016	Q2 2015	% Change	
				Y/Y	Q/Q
Segmented Revenue					
Consumer	232.4	228.2	217.0	7.1%	1.8%
AFH	59.1	49.0	57.4	3.0%	20.6%
Other	4.3	2.5	4.9		
Total segment revenue	295.8	279.7	279.3	5.9%	5.8%
Segment Adjusted EBITDA					
Consumer	34.1	28.0	29.1	17.2%	21.8%
AFH	1.4	(0.2)	2.1	(33.3)%	800.0%
Other	0.4	0.3	(1.0)		
Total segment Adjusted EBITDA	35.9	28.1	30.2	18.9%	27.8%
Segment Adjusted EBITDA Margin					
Consumer	14.7%	12.3%	13.4%		
AFH	2.4%	(0.4)%	3.7%		
Other					
Total segment Adjusted EBITDA Margin	12.1%	10.0%	10.8%		

Q2 2016 REVENUE COMPARED TO Q2 2015



- Q2 2016 revenue increased by \$16.5 million or 5.9% over Q2 2015 primarily due to the following factors:
 - Consumer segment revenue increased \$15.4 million or 7.1% driven by sales growth in the U.S. and Mexico, as well as the favourable impact of F/X and a selling price increase in Canada
 - AFH segment revenue increased by \$1.7 million or 3.0%, due primarily to the benefits of F/X

From a geographic perspective:

- Revenue in the U.S. increased by \$12.5 million or 13.8%, due primarily to higher sales volume in the Consumer segment, combined with the benefits of F/X
- Revenue decreased in Canada by \$0.8 million or 0.5%

Q2 2016 ADJUSTED EBITDA COMPARED TO Q2 2015



- Q2 2016 Adjusted EBITDA increased by \$5.7 million compared to Q2 2015 due to the following factors:
 - Higher sales in both the Consumer and AFH segments
 - Lower costs (in U.S. dollars) for pulp and natural gas
 - Higher warehousing and SG&A costs
 - Net negative F/X impact of approximately \$1 million
 - Temporary increase in AFH operating costs
 - Cost reduction initiatives
- Gross margin increased (15.5% in Q2 2016 versus 13.9% in Q2 2015) primarily due to the above mentioned factors excluding SG&A

Q2 2016 REVENUE COMPARED TO Q1 2016



- Q2 2016 revenue increased by \$16.1 million or 5.8% over Q1 2016, primarily due to 4 more sales days in Q2 2016 (impact of 4.6%) and the following factors:
 - AFH segment revenue increased by \$10.1 million or 20.6%, reflecting seasonally higher sales volumes in Q2 2016 despite the unfavourable impact of F/X on U.S. sales
 - Consumer segment revenue increased by \$4.2 million or 1.8% due to higher sales volumes despite the unfavourable impact of F/X on U.S. sales

From a geographic perspective:

- Revenue increased in Canada by \$14.1 million or 8.5% across both segments
- Revenue increased in the U.S. by \$1.2 million or 1.2%

Q2 2016 ADJUSTED EBITDA COMPARED TO Q1 2016



- Q2 2016 Adjusted EBITDA increased by \$7.8 million over Q1 2016 due to the combination of the following factors:
 - Higher sales volumes in both segments
 - Favourable net F/X variation of approximately \$1.2 million
 - Impact of Canadian retailer price increase late in second quarter
- Gross margin increased (15.5% in Q2 2016 versus 14.0% in Q1 2016) primarily due to the above mentioned factors

BALANCE SHEET



(C\$ millions, unless otherwise noted)

	Q2 2016	Q1 2016
Cash & cash equivalents	10.1	4.0
Current portion of long-term debt	9.1	9.6
Long-term debt	408.4	411.8
Net Debt	407.5	417.5
LTM EBITDA	129.0	123.4
Net Debt/LTM EBITDA	3.2	3.4

CAPEX



- Q2 2016 CAPEX of \$22.5 million, up from \$8.2 million in Q2 2015
- Year-to-date CAPEX of \$38.7 million
- 2016 focus on high return CAPEX projects – total estimated at approximately \$80-\$95 million (from prior range of \$65-\$85 million)

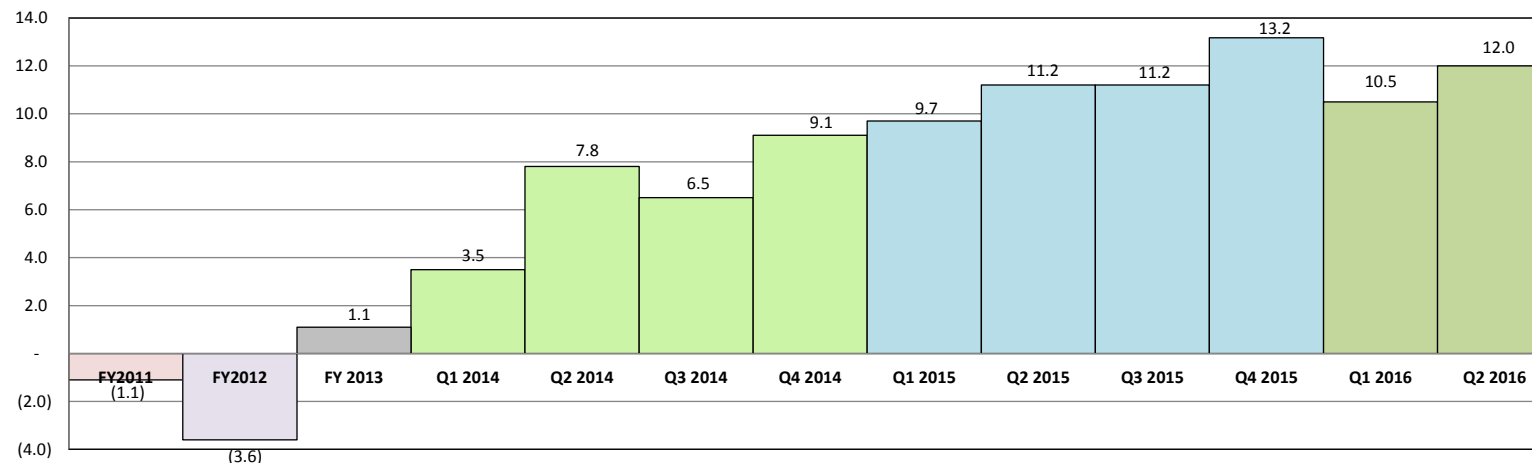
CAPEX COMPONENTS	Fiscal 2016
Capacity/Growth	48%
Cost reduction	27%
Maintenance	25%
Total	100%

- Cost reduction and Capacity/Growth projects generally have 3 to 4 year paybacks

TAD PRODUCT UPDATE



ADJUSTED EBITDA from TAD products
(In millions of Cdn. dollars)



- Trend in Adjusted EBITDA from TAD products was \$26.9 million in 2014 and \$45.3 million in 2015
- Q2 2016 Adjusted EBITDA from TAD products of \$12.0 million, up from \$11.2 million in Q2 2015
- YTD 2016 Adjusted EBITDA from TAD products of \$22.5 million, up from \$20.9 million in YTD 2015
- Adjusted EBITDA from TAD products for Q3 2016 expected to be higher than Q2 2016, primarily due to sales from new customers
- Our outlook for Fiscal 2017 Adjusted EBITDA remains at \$60 million for TAD products

CONCLUSION



- Maintain market share leadership in Canadian consumer segment in the context of a competitive and price sensitive environment
- Price increases to Canadian retailers had positive impact late in the second quarter and will take full effect in the third quarter. The price increases will partially offset the rise of raw material prices in Canadian dollars over the past few years
- Cost reduction program is delivering according to plan
- Leverage TAD product manufacturing capacity to take advantage of growth opportunities in the U.S. premium private label market
- AFH segment – complete new production line projects to improve manufacturing costs with anticipated benefits starting in Fiscal 2017

CONCLUSION



- Crabtree new paper machine primarily dedicated to AFH with CAPEX of \$55 million. Expected benefits starting in Fiscal 2018
- CAPEX in Fiscal 2016 dedicated to improve profitability and manufacturing efficiencies, both in the Consumer and AFH segments – estimated at \$80-\$95 million. Benefits on Adjusted EBITDA will start in Fiscal 2017
- Adjusted EBITDA for Q3 2016 expected to be slightly higher than Q2 2016, primarily related to the impact of price increases to our Canadian retailers



FOR MORE INFORMATION:

WWW.KPTISSUEINC.COM

WWW.KRUGERPRODUCTS.CA