KP TISSUE INC. AND KRUGER PRODUCTS L.P.

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

FOR THE 3-MONTH AND 9-MONTH PERIODS ENDED SEPTEMBER 30, 2018

DATED NOVEMBER 7, 2018

KP Tissue Inc. and Kruger Products L.P.
#200 – 1900 Minnesota Court, Mississauga, Ontario L5N 5R5
www.kptissueinc.com

TABLE OF CONTENTS

The following Management's Discussion and Analysis (MD&A) dated November 7, 2018 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 unaudited condensed financial statements of KPT for the 3-month periods ended September 30, 2018 and September 24, 2017, respectively, and the 9-month periods ended September 30, 2018, and September 24, 2017, respectively, and the unaudited condensed consolidated financial statements of KPLP for the 3-month periods ended September 30, 2018 (Q3 2018) and September 24, 2017 (Q3 2017), respectively, and the 9-month periods ended September 30, 2018 (YTD 2018) and September 24, 2017 (YTD 2017) respectively. The 3-month periods ended September 30, 2018 and September 24, 2017 each consist of 91 days and the 9-month periods ended September 30, 2018 and September 24, 2017 consist of 273 days and 267 days, 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 15.8% interest in KPLP (15.9% as of September 30, 2018). The following MD&A provides discussion and analysis related to KPT to the extent necessary to understand the equity method of accounting. However, the majority 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. Forward-looking statements in this MD&A include, but are not limited to, items such as: the potential installation of TAD2 (as defined below); KPLP's expansion efforts in U.S. premium private label; and KPLP's future business strategy. 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 statements are based on certain key expectations and assumptions made by KPT or KPLP. 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 statements 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 9, 2018 available on SEDAR at 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 Memphis TAD Machine (as defined below); 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; and risks relating to information technology, cyber-security, insurance, internal controls, and trade.

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. KPT and KPLP cannot guarantee future results, levels of activity, performance, or achievements. Moreover, KPT and KPLP do not assume responsibility for the accuracy and completeness of the forward-looking statements. KPT and/or KPLP's actual results, performance or achievements could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits that KPT and/or KPLP will derive therefrom.

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, refinancing, and the potential installation of TAD2 (as defined below), are, without limitation, based on the assumptions and subject to the risks set out above.

The forward-looking statements contained herein are made as of the date of this MD&A and KPT and KPLP disclaim any intention or obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise, unless required by applicable law. The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement.

OVERVIEW

Business Overview

KPLP is Canada's leading tissue products supplier by overall dollar and volume market share. It produces, distributes, markets and sells a wide range of disposable tissue products, including bathroom tissue, facial tissue, paper towels and napkins, for both the Consumer and the Away-From-Home (AFH) markets (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 has a considerable presence in the U.S. private label tissue market, primarily through its wholly-owned subsidiary TAD Canco Inc. and its subsidiaries. The Consumer segment consists of well recognized brands such as *Cashmere, Purex, Scotties and SpongeTowels* in Canada and *White Cloud* in the U.S.

KPLP is headquartered in Mississauga, Ontario and has approximately 2,500 employees across North America. KPLP's Canadian paper manufacturing facilities, consisting of three tissue plants in Québec and one plant in British Columbia, have a combined annual tissue production capacity of approximately 268,000 metric tonnes which, according to RISI data, represents approximately one-third of Canada's annual production capacity.

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 Through-Air-Dried (TAD) tissue machine (Memphis TAD Machine) with an aggregate annual capacity of 55,000 metric tonnes.

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 October 15, 2018, KPT held 15.8% of the KPLP Partnership Units (KPLP Units).

Basis of Presentation

The unaudited condensed consolidated financial statements of KPLP presented for Q3 2018 and Q3 2017 have been prepared in accordance with IFRS (International Financial Reporting Standards) for interim financial statements, including IAS 34, Interim Financial Reporting. The unaudited condensed financial statements of KPT for the 3-month and 9-month periods ended September 30, 2018 and September 24, 2017, have also been prepared in accordance with IFRS for interim financial statements.

Accounting Periods

This MD&A, the unaudited condensed consolidated financial statements of KPLP and accompanying notes thereto include financial information for Q3 2018, Q3 2017, YTD 2018 and YTD 2017.

Financial Measures and Key Indicators

This MD&A refers to "Adjusted EBITDA", a measure which does not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similarly titled measures presented by other companies.

"Adjusted EBITDA" is calculated by KPLP as net income (loss) before (i) interest expense, (ii) income taxes, (iii) depreciation, (iv) amortization, (v) impairment (gain on sale) of non-financial assets, (vi) loss (gain) on disposal of property, plant and equipment, (vii) foreign exchange loss (gain), (viii) costs related to restructuring activities, (ix) changes in amortized cost of Partnership units liability, (x) change in fair value of derivatives, and (xi) one-time costs due to pension revaluations related to past service. We use "Adjusted EBITDA" to evaluate the performance of our business as it reflects its ongoing profitability. This MD&A contains a reconciliation of Adjusted EBITDA to net income, the most comparable IFRS measure, on page 5.

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.

KPLP expects to continue to grow by leveraging its TAD product capabilities (including the TAD2 Project, see Business Highlights, TAD2 Project) and focusing on the high-end private label business in the U.S. market. KPLP's U.S. strategy also includes the expansion of the White Cloud brand to additional U.S. retailers.

BUSINESS HIGHLIGHTS

TAD2 Project

On August 16, 2018, KPLP announced its plan for a capital investment of $575 million in the Brompton area of Sherbrooke, Quebec, to build a new, state-of-the art tissue plant featuring Canada's largest and most modern TAD paper machine (TAD2) along with related converting equipment and infrastructure (the TAD2 Project). The TAD2 Project is projected to produce at maturity approximately 70,000 metric tonnes per annum of bathroom tissue and paper towels which will enable KPLP to increase its offering of ultra-premium and innovative tissue products under the Cashmere, Sponge Towels and Purex brands. Construction of the TAD2 Project is anticipated to begin in early 2019 and commence production in early 2021.

The TAD2 Project is expected to be financed with 40% equity and 60% debt in a newly-created, wholly-owned subsidiary of KPLP, Kruger Products Sherbrooke Inc. (KPSI), which will construct and operate the TAD2 Project. KPLP believes that negotiations and documentation are close to being finalized for long-term construction financing of KPSI for the anticipated $345 million debt portion. The $230 million equity portion of the financing is expected to be funded by the Government of Quebec through Investissement Quebec (IQ), which has agreed to invest $105 million by way of subscription to a convertible debenture, and by KPLP, which intends to acquire an equity interest in KPSI for the remaining $125 million of the equity component.

The financing structure for the TAD2 Project is anticipated to be non-dilutive to KPT shareholders. KPLP plans to finance its equity investment in KPSI with long-term senior secured fixed debt for approximately $63 million, and the remainder by establishing an accounts receivable factoring program and from cash. Upon closing of the construction financing, KPLP intends to fund half of the $125 million of equity into KPSI, with the remainder to be funded over the following two years. The various debt financings, whether at the KPLP or KPSI level, are expected to close prior to yearend 2018. The weighted average cost of capital for the entire $575 million of TAD2 financing is anticipated to be in the 5-7% range. In addition, the existing KTG debt is expected to be refinanced with an 18 year term loan concurrently with the closing of the TAD2 financing, with an anticipated fixed interest cost in the 6-8% range, which is significantly less than the approximate 14-15% cost under the current KTG debt incurred for the TAD1 Project.

The IQ convertible debenture will carry a 3% capitalized fixed interest rate for a term of ten years, and will be required to be redeemed on a monthly basis by KPLP commencing 36 months from the date of issuance. In the event of a failure of either KPLP or Kruger Inc. to make a monthly redemption in accordance with the terms of the debenture, IQ will have a conversion right in respect of the portion of the balance of the debenture that is not paid on terms of conversion that would provide IQ with a 48% equity interest in KPSI if the entirety of the debenture were to be converted.

RESULTS OF OPERATIONS

Results of Operations of KPLP

(C$ millions, unless otherwise noted)	Q3 2018	Q3 2017	YTD 2018	YTD 2017	$ Change Q3 2018 vs. Q3 2017	$ Change YTD 2018 vs. YTD 2017
Statement of Operations Data:						
Revenue	348.4	336.3	1,010.9	939.9	12.1	71.0
Cost of sales	(312.6)	(290.8)	(904.9)	(802.1)	(21.8)	(102.8)
Selling, general and adminstrative expenses	(20.5)	(20.7)	(63.5)	(66.4)	0.2	2.9
Gain on sale of non-financial assets	-	-	0.2	0.1	-	0.1
Restructuring costs, net	-	0.2	-	0.2	(0.2)	(0.2)
Operating income	15.3	25.0	42.7	71.7	(9.7)	(29.0)
Interest expense	(12.1)	(10.5)	(35.9)	(31.5)	(1.6)	(4.4)
Other income (expense)	0.4	2.1	(0.6)	(1.9)	(1.7)	1.3
Income before income taxes	3.6	16.6	6.2	38.3	(13.0)	(32.1)
Income taxes:						
Combined income tax rate after manfacturing and processing credits	(0.9)	(4.3)	(1.6)	(10.1)	3.4	8.5
Income tax in partners' hands	1.7	4.2	4.2	6.9	(2.5)	(2.7)
Other	(0.2)	-	(1.4)	(1.8)	(0.2)	0.4
Income taxes	0.6	(0.1)	1.2	(5.0)	0.7	6.2
Net income	4.2	16.5	7.4	33.3	(12.3)	(25.9)

(C$ millions, unless otherwise noted)	Q3 2018	Q3 2017	YTD 2018	YTD 2017	$ Change Q3 2018 vs. Q3 2017	$ Change YTD 2018 vs. YTD 2017
Reconciliation of Adjusted EBITDA to Net income:						
Net income	4.2	16.5	7.4	33.3	(12.3)	(25.9)
Interest expense	12.1	10.5	35.9	31.5	1.6	4.4
Income taxes	(0.6)	0.1	(1.2)	5.0	(0.7)	(6.2)
Depreciation and amortization	13.0	14.6	39.1	39.2	(1.6)	(0.1)
Foreign exchange (gain) loss	(0.5)	(1.2)	0.2	(2.3)	0.7	2.5
Change in amortized cost of Partnership units liability	-	(0.9)	0.7	4.2	0.9	(3.5)
Change in fair value of derivatives	0.1	-	(0.3)	-	0.1	(0.3)
Loss on sale of property, plant and equipment	-	-	0.4	-	-	0.4
Gain on sale of non-financial assets	-	-	(0.2)	(0.1)	-	(0.1)
Restructuring costs, net	-	(0.2)	-	(0.2)	0.2	0.2
Adjusted EBITDA	28.3	39.4	82.0	110.6	(11.1)	(28.6)

Results of Operations Q3 2018 compared to Q3 2017

Revenue

Revenue was $348.4 million in Q3 2018 compared to $336.3 million in Q3 2017, an increase of $12.1 million or 3.6%. The increase in revenue was primarily due to the following factors: the favourable impact of increased sales volume in the U.S. and Mexico, partially offset by a decrease in sales volume in Canada; the Consumer selling price increase implemented in Canada in Q4 2017; and the favourable impact of foreign exchange fluctuations on U.S. sales (USD average 1.31 in Q3 2018 compared to 1.26 in Q3 2017). From a geographic perspective, revenue in Mexico increased $9.8 million, or 70.6%, while revenue in the U.S. increased $6.5 million, or 5.8%, and revenue in Canada decreased $4.2 million, or 2.0%.

Cost of Sales

Cost of sales was $312.6 million in Q3 2018 compared to $290.8 million in Q3 2017, an increase of $21.8 million or 7.5%. Manufacturing costs increased primarily due to significantly higher costs for pulp and sorted office waste, increased sales volume and the unfavourable impact of foreign exchange fluctuations on USD denominated costs (USD average 1.31 in Q3 2018 compared to 1.26 in Q3 2017). The benefits from cost reduction initiatives and capital projects offset other manufacturing cost inflation. Freight costs increased primarily due to higher carrier rates and increased sales volume. As a percentage of revenue, cost of sales were 89.7% in Q3 2018 compared to 86.5% in Q3 2017.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses were $20.5 million in Q3 2018 compared to $20.7 million in Q3 2017, a decrease of $0.2 million or 1.0%. As a percentage of revenue, SG&A expenses were 5.9% in Q3 2018 compared to 6.2% in Q3 2017.

Adjusted EBITDA

Adjusted EBITDA was $28.3 million in Q3 2018 compared to $39.4 million in Q3 2017, a decrease of $11.1 million or 28.2%. The decrease was primarily due to significantly higher fibre and freight costs, unfavourable sales mix and the net unfavourable impact of foreign exchange fluctuations, partially offset by the Q4 2017 Canada Consumer selling price increase.

Interest Expense

Interest expense was $12.1 million in Q3 2018 compared to $10.5 million in Q3 2017, an increase of $1.6 million. The increase was primarily due to higher debt levels, an increase in interest rates, and the unfavourable impact of foreign exchange.

Other Income

Other income was $0.4 million in Q3 2018 compared to other income of $2.1 million in Q3 2017. Other income in Q3 2018 was primarily related to a foreign exchange gain of $0.5 million (Q3 2017 – gain of $1.2 million). This was partially offset by the change in fair value of derivatives of $0.1 million (Q3 2017 – nil). The change in amortized cost of Partnership units liability in Q3 2018 was nil (Q3 2017 – gain of $0.9 million).

Income Taxes

An income tax recovery of $0.6 million was recorded in Q3 2018 compared to income tax expense of $0.1 million in Q3 2017. KPLP is not directly taxable on its Canadian business. The income tax recovery resulted primarily from an operating loss related to the U.S. entities. Income tax expense in partner's hands was $1.7 million in Q3 2018 compared to $4.2 million in Q3 2017. Management has used the best information available to assess the implications of the U.S. tax reform for periods beginning on or after January 1, 2018. However, as more guidance becomes available in respect of the implications of the U.S. tax reform, further adjustments may be required to the unaudited condensed consolidated financial statements.

Net Income

Net income was $4.2 million in Q3 2018 compared to $16.5 million in Q3 2017, a decrease of $12.3 million. The decrease was primarily due to lower Adjusted EBITDA of $11.1 million as discussed above, an increase in interest expense of $1.6 million, an increase in the change in amortized cost of partnership units liability of $0.9 million and a change in foreign exchange gain (loss) of $0.7. These items were partially offset by lower depreciation expense of $1.6 million and a decrease in income taxes of $0.7 million.

Results of Operations YTD 2018 compared toYTD 2017

Revenue

Revenue was $1,010.9 million in YTD 2018 compared to $939.9 million in YTD 2017, an increase of $71.0 million or 7.6%. The increase in revenue was primarily due to the Consumer selling price increase implemented in Canada in Q4 2017, and the favourable impact of increased sales volume, partially offset by the unfavourable impact of foreign exchange fluctuations on U.S. sales (USD average 1.29 in YTD 2018 compared to 1.31 in YTD 2017). From a geographic perspective, revenue in Mexico increased $27.0 million, or 74.2%, while revenue in Canada increased $25.1 million or 4.4% and revenue in the U.S. increased $18.9 million, or 5.7%.

Cost of Sales

Cost of sales was $904.9 million in YTD 2018 compared to $802.1 million in YTD 2017, an increase of $102.8 million or 12.8%. Manufacturing costs increased primarily due to increased sales volume, significantly higher pulp costs, higher costs for sorted office waste and increased pension expense. These cost increases were partially offset by the favourable impact of foreign exchange fluctuations on USD denominated costs (USD average 1.29 in YTD 2018 compared to 1.31 in YTD 2017). The benefits from cost reduction initiatives and capital projects partially offset other manufacturing cost inflation. Freight costs increased primarily due to increased sales volume and higher carrier rates. As a percentage of revenue, cost of sales were 89.5% in YTD 2018 compared to 85.3% in YTD 2017.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses were $63.5 million in YTD 2018 compared to $66.4 million in YTD 2017, a decrease of $2.9 million or 4.4%. The decrease was primarily due to lower advertising and promotion expenses and reduced general and administrative expenses. As a percentage of revenue, SG&A expenses were 6.3% in YTD 2018 compared to 7.1% in YTD 2017.

Adjusted EBITDA

Adjusted EBITDA was $82.0 million in YTD 2018 compared to $110.6 million in YTD 2017, a decrease of $28.6 million or 25.9%. The decrease was primarily due to significantly higher fibre and freight costs. These were partially offset by the Canada Consumer selling price increase and increased sales volume.

Gain on Sale of Non-Financial Assets

During YTD 2018 KPLP sold certain timber lands for cash proceeds of $0.3 million. The sale resulted in a gain on non-financial assets of $0.2 million, which was recorded in YTD 2018.

Interest Expense

Interest expense was $35.9 million in YTD 2018 compared to $31.5 million in YTD 2017, an increase of $4.4 million. The increase was primarily due to higher debt levels, an increase in interest rates and an increase in pension interest, partially offset by the favourable impact of foreign exchange.

Other Expense

Other expense was $0.6 million in YTD 2018 compared to $1.9 million in YTD 2017. Other expense in YTD 2018 was primarily related to the change in amortized cost of Partnership units liability of $0.7 million (YTD 2017 - $4.2 million) and a foreign exchange loss of $0.2 million (YTD 2017 – gain of $2.3 million). This was partially offset by the change in fair value of derivatives of $0.3 million (YTD 2017 – nil).

Income Taxes

An income tax recovery of $1.2 million was recorded in YTD 2018 compared to income tax expense of $5.0 million in YTD 2017. KPLP is not directly taxable on its Canadian business. The income tax recovery resulted primarily from an operating loss related to the U.S. entities. This was partially offset by a writedown of U.S. state tax credits of $1.1 million. Income tax expense in partner's hands was $4.2 million in YTD 2018 compared to income tax expense in partner's hands of $6.9 million in YTD 2017. Management has used the best information available to assess the implications of the U.S. tax reform for periods beginning on or after January 1, 2018. However, as more guidance becomes available in respect of the implications of the U.S. tax reform, further adjustments may be required to the unaudited condensed consolidated financial statements.

Net Income

Net income was $7.4 million in YTD 2018 compared to $33.3 million in YTD 2017, a decrease of $25.9 million. The decrease was primarily due to lower Adjusted EBITDA of $28.6 million as discussed above, an increase in interest expense of $4.4 million, a change in foreign exchange gain (loss) of $2.5 million and the loss on sale of property, plant and equipment of $0.4 million. These items were partially offset by a decrease in income taxes of $6.2 million and a decrease in the change in amortized cost of Partnership units liability of $3.5 million.

Results of Operations of KPT

(C$ millions, unless otherwise noted)	3-month period ended September 30, 2018	3-month period ended September 24, 2017	9-month period ended September 30, 2018	9-month period ended September 24, 2017
Statement of Operations Data:				
Share of income	0.7	2.6	1.2	5.4
Depreciation of fair value increments	(1.4)	(1.4)	(4.4)	(4.4)
Equity income (loss)	(0.7)	1.2	(3.2)	1.0
Dilution gain	-	-	0.2	0.1
Income (loss) before income taxes	(0.7)	1.2	(3.0)	1.1
Income taxes:				
Current tax (expense) recovery	(0.1)	0.2	(0.2)	(0.1)
Deferred tax (expense) recovery	-	(1.5)	0.2	(2.2)
Income taxes	(0.1)	(1.3)	-	(2.3)
Net loss	(0.8)	(0.1)	(3.0)	(1.2)
Basic loss per share (dollars)	**(0.09)**	**(0.01)**	**(0.32)**	**(0.13)**

The financial information presented above is based on KPT's interest in KPLP for the 3-month and 9-month periods ended September 30, 2018 and September 24, 2017, respectively. The share of income relates to KPT's share of income of KPLP. Refer to Results of Operations of KPLP above for an explanation of the results. The depreciation of fair value increments relates to adjustments to the carrying amount of certain assets of KPLP on its acquisition by KPT. Refer to note 5 in KPT's financial statements for additional information.

The current income tax expense (recovery) is based on KPT's share of the taxable income (loss) of KPLP for the same periods. The deferred tax expense (recovery) is 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.

Pursuant to the Tax Distribution as defined in the Partnership Agreement, on February 28, 2018, KPLP declared a Tax Distribution of $1.9 million, of which $0.3 million was used to partially settle the advance to KPT recorded during the year ended December 31, 2017. The excess advances over the Tax Distributions in the amount of $0.7 million are repayable by KPT and due to KPLP by March 31, 2019. KPT received an advance from KPLP of $0.3 million during the 9-month period ended September 30, 2018 to pay for fiscal 2018 monthly tax instalments. The advances are non-interest bearing and non-recourse in nature and will be settled when the Tax Distribution is declared annually.

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 Income

Segment operating income is the earnings (loss) for each such segment before (i) interest expense, (ii) income taxes, (iii) depreciation, (iv) amortization, (v) impairment (gain on sale) of non-financial assets, (vi) loss (gain) on disposal of property, plant and equipment, (vii) foreign exchange loss (gain), (viii) costs related to restructuring activities, (ix) changes in amortized cost of Partnership units liability, (x) change in fair value of derivatives, and (xi) one-time costs due to pension revaluations related to past service. "Consumer Segment Adjusted EBITDA", "AFH Segment Adjusted EBITDA", and "Other Segment Adjusted EBITDA" means in each case the Segment operating income for the referring respective segment of KPLP.

Segment Results

(C$ millions, unless otherwise noted)	Q3 2018	Q3 2017	YTD 2018	YTD 2017	Q3 2018 vs. Q3 2017 $ Change	Q3 2018 vs. Q3 2017 % Change	YTD 2018 vs. YTD 2017 $ Change	YTD 2018 vs. YTD 2017 % Change
Segment Revenue								
Consumer	287.1	272.9	832.3	764.0	14.2	5.2%	68.3	8.9%
AFH	59.4	62.5	172.5	171.0	(3.1)	-5.0%	1.5	0.9%
Other	1.9	0.9	6.1	4.9	1.0	111.1%	1.2	24.5%
Total segment revenue	348.4	336.3	1,010.9	939.9	12.1	3.6%	71.0	7.6%
Segment Adjusted EBITDA								
Consumer	35.3	38.1	97.4	106.0	(2.8)		(8.6)	
AFH	(4.8)	1.8	(8.3)	4.8	(6.6)		(13.1)	
Other	(2.2)	(0.5)	(7.1)	(0.2)	(1.7)		(6.9)	
Total Segment Adjusted EBITDA	28.3	39.4	82.0	110.6	(11.1)		(28.6)	

Consumer Segment

Q3 2018 compared to Q3 2017

Consumer segment revenue was $287.1 million in Q3 2018 compared to $272.9 million in Q3 2017, an increase of $14.2 million or 5.2%. The increase in revenue was primarily due to the following factors: the consumer selling price increase implemented in Canada in Q4 2017; increased sales volume in Mexico and the U.S., partially offset by a decrease in sales volume in Canada; and the favourable impact impact of foreign exchange fluctuations on U.S. sales (USD average 1.31 in Q3 2018 compared to 1.26 in Q3 2017). Consumer segment revenue increased in Mexico and the U.S. and decreased in Canada.

Consumer Segment Adjusted EBITDA was $35.3 million in Q3 2018 compared to $38.1 million in Q3 2017, a decrease of $2.8 million. The decrease was primarily due to significantly higher fibre and freight costs and unfavourable sales mix, partially offset by higher revenue. The benefits from cost reduction initiatives in manufacturing and SG&A offset other cost inflation.

YTD 2018 compared to YTD 2017

Consumer segment revenue was $832.3 million in YTD 2018 compared to $764.0 million in YTD 2017, an increase of $68.3 million or 8.9%. The increase in revenue was primarily due to the favourable impact of increased sales volume and the consumer selling price increase implemented in Canada in Q4 2017, partially offset by the unfavourable impact of foreign exchange fluctuations on U.S. sales (USD average 1.29 in YTD 2018 compared to 1.31 in YTD 2017). Consumer segment revenue increased in Mexico, Canada and the U.S.

Consumer Segment Adjusted EBITDA was $97.4 million in YTD 2018 compared to $106.0 million in YTD 2017, a decrease of $8.6 million. The decrease was primarily due to significantly higher fibre and freight costs, partially offset by higher revenue.

AFH Segment

Q3 2018 compared to Q3 2017

AFH segment revenue was $59.4 million in Q3 2018 compared to $62.5 million in Q3 2017, a decrease of $3.1 million or 5.0%. The decrease in revenue was primarily due to decreased sales volume, partially offset by the favourable impact of foreign exchange fluctuations on U.S. sales (USD average 1.31 in Q3 2018 compared to 1.26 in Q3 2017). AFH segment revenue decreased primarily in Canada.

AFH Segment Adjusted EBITDA was a loss of $4.8 million in Q3 2018 compared to income of $1.8 million in Q3 2017, a decrease of $6.6 million. This decrease was primarily due to significantly higher fibre, freight and warehousing costs, and lower revenue.

YTD 2018 compared to YTD 2017

AFH segment revenue was $172.5 million in YTD 2018 compared to $171.0 million in YTD 2017, an increase of $1.5 million or 0.9%. The unfavourable impact of foreign exchange fluctuations on U.S. sales (USD average 1.29 in YTD 2018 compared to 1.31 in YTD 2017) was partially offset by favourable sales mix. AFH segment revenue increased slightly in Canada and decreased slightly in the U.S.

AFH Segment Adjusted EBITDA was a loss of $8.3 million in YTD 2018 compared to income of $4.8 million in YTD 2017, a decrease of $13.1 million. This decrease was primarily due to significantly higher fibre costs and also increased freight and warehousing costs.

Other Segment

Q3 2018 compared to Q3 2017

Other segment revenue was $1.9 million in Q3 2018 compared to $0.9 million in Q3 2017, an increase of $1.0 million. The increase in revenue was primarily due to an increase in parent roll sales.

Other Segment Adjusted EBITDA was a loss of $2.2 million in Q3 2018 compared to a loss of $0.5 million in Q3 2017, a decrease of $1.7 million primarily due to the unfavourable impact of pulp and freight costs related to the sale of parent rolls and an increase in corporate costs.

YTD 2018 compared to YTD 2017

Other segment revenue was $6.1 million in YTD 2018 compared to $4.9 million in YTD 2017, an increase of $1.2 million. The increase in revenue was primarily due to an increase in parent roll sales.

Other Segment Adjusted EBITDA was a loss of $7.1 million in YTD 2018 compared to a loss of $0.2 million in YTD 2017, a decrease of $6.9 million primarily due to the unfavourable impact of pulp and freight costs related to the sale of parent rolls and an increase in corporate costs.

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 and principal 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.

As of September 30, 2018, the Caisse Facility, which was to mature on August 16, 2018, has been classified as short-term debt, resulting in a working capital deficit. The Partnership has received an extension to December 31, 2018 to repay the Caisse Facility under the same terms and conditions. Management expects to refinance the indebtedness prior to December 31, 2018. Subject to refinancing being obtained, the Partnership believes its cash flows generated from operations combined with its available cash and credit facilities provide sufficient funding to meet its obligations.

There can be no assurance that refinancing can be obtained. Refer to the "Risk Factors" section of the 2017 Annual Information Form dated March 9, 2018 available on SEDAR at www.sedar.com.

On April 24, 2018, KPLP issued Senior Unsecured Notes, (refer to page 12 of this MD&A), which increased KPLP's total borrowing capacity by $25 million, for net proceeds of approximately $122 million after deducting fees payable to the underwriters and related expenses. KPLP used the net proceeds of the offering to reduce the outstanding balance under the Senior Credit Facility.

On April 24, 2018, KPLP entered into the sixth amended and restated credit agreement (the Senior Credit Agreement) related to its revolving credit facilities (the Senior Credit Facility). The Senior Credit Facility was reduced to $200.0 million from $300.0 million.

As of September 30, 2018, KPLP was in compliance with all of its financial covenants under all of its outstanding credit facilities. As of September 30, 2018, KPLP had drawn $129.1 million from the $200.0 million committed amount under the Senior Credit Facility, and had $21.3 million of letters of credit outstanding, resulting in $49.6 million available from the credit line, subject to covenant limitations. As of September 30, 2018, KPLP had total liquidity of $63.6 million (December 31, 2017 - $53.3 million) representing cash and cash equivalents and availability under the credit line within the covenant limitations.

Typically, approximately $25 million of the annual capital expenditures are related to maintenance projects and the remaining expenditures are focused on growth projects aimed at reducing costs or increasing production capacity. Regular growth projects focused on performance improvement generally have a 3 to 4 year payback. Capital expenditures were $36.9 million in YTD 2018, and are expected to be approximately $70 million to $80 million in fiscal 2018, including capital expenditures on the TAD2 Project.

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)	**YTD 2018**	**YTD 2017**	**$ Change YTD 2018 vs. YTD 2017**
Net cash flows from operating activities	42.9	77.0	(34.1)
Net cash flows used in investing activities	(35.4)	(46.2)	10.8
Net cash flows from (used in) financing activities	19.3	(29.3)	48.6
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	0.3	(2.0)	2.3
Increase (decrease) in cash and cash equivalents	27.1	(0.5)	27.6
Beginning cash and cash equivalents	(0.2)	27.5	(27.7)
Ending cash and cash equivalents	26.9	27.0	(0.1)

Net Cash Flows from Operating Activities

Net cash from operating activities was $42.9 million in YTD 2018 compared to $77.0 million in YTD 2017. Cash from operating activities in YTD 2018 was primarily driven by Adjusted EBITDA of $82.0 million, partially offset primarily by cash outflow required for working capital of $34.6 million and funding of pension and post-retirement benefit plans of $12.3 million.

Net Cash Flows used in Investing Activities

Net cash used in investing activities was $35.4 million in YTD 2018 compared to $46.2 million in YTD 2017. Cash used in investing activities related primarily to capital expenditures (including capitalized interest in YTD 2017) of $36.9

million in YTD 2018 compared to $51.2 million in YTD 2017. In addition, government assistance of $1.2 million was received in YTD 2018 compared to $3.9 million in YTD 2017.

Net Cash Flows from (used in) Financing Activities

Net cash from financing activities was $19.3 million in YTD 2018 compared to cash used in financing activities of $29.3 million in YTD 2017. Net cash from financing activities in YTD 2018 was primarily due to proceeds from the Senior Credit Facility of $69.1 million. This was partially offset by interest paid of $25.7 million, distributions and advances paid of $18.4 million (net of DRIP proceeds) and repayment of long-term debt of $5.5 million.

Proceeds from the Senior Unsecured Notes were $125.0 million, which were used to reduce the outstanding balance under the Senior Credit Facility. KPLP paid $3.0 million for underwriters fees and related expenses.

Contractual Obligations

(C$ millions, unless otherwise stated)	Remainder Fiscal 2018	Fiscal 2019	Fiscal 2020	Fiscal 2021	Fiscal 2022	Thereafter
Contractual obligations:						
Senior Unsecured Notes, principal repayments	-	-	-	-	-	125.0
Senior Credit Facility, principal repayments	-	-	-	-	-	129.1
Nordea Credit Facility, principal repayments	4.3	8.5	-	-	-	-
TAD Credit Facility, principal repayments [(a)]	189.8	-	-	-	-	-
Ontario Loan, principal repayments	-	-	-	-	1.0	2.0
Quebec PM Loan, principal repayments	1.2	4.9	4.9	4.9	4.9	18.5
Interest expense	25.2	18.0	17.5	17.5	17.2	28.2
Operating lease	3.8	14.8	12.5	9.7	8.6	29.8
Service contracts	1.8	5.5	3.6	0.6	-	-
Total contractual obligations	226.1	51.7	38.5	32.7	31.7	332.6

(a) KPLP expects to refinance the facility prior to December 31, 2018.

KPLP's contractual obligations consist of long-term debt (principal repayments and interest payments), operating leases for the rental of property, equipment and automobiles, partnership units liability and pensions. Significant changes to the contractual obligations from those disclosed in the 2017 Annual MD&A are described in the Indebtedness section below.

KPLP's cash pension contribution for defined benefit pension arrangements in YTD 2018 was $10.2 million, while its post-retirement benefits contribution was $2.1 million. In addition, as of September 30, 2018, KPLP had $20.9 million of letters of credit related to pensions outstanding. Pension and post-retirement contributions for the year ended December 31, 2018 are expected to be $16.2 million.

As of September 30, 2018, KPLP had foreign exchange swaps outstanding of nil (December 31, 2017 – $31.5 million) and foreign exchange forwards outstanding of $10.4 million (December 31, 2017 – $19.0 million).

KPLP holds interest rate swaps, contracted to fix the interest rate on a notional amount of $100.0 million at September 30, 2018 (December 31, 2017 – nil). The interest rate swaps will mature in the first quarter of 2020.

Indebtedness

Senior Unsecured Notes

General

On April 24, 2018, KPLP issued $125 million of 6.0% senior unsecured notes due April 24, 2025 (the Senior Unsecured Notes) by way of private placement in Canada in accordance with applicable Canadian prospectus and registration exemptions. The Senior Unsecured Notes were issued pursuant to the trust indenture (the Indenture). Interest on the Senior Unsecured Notes accrues at 6.0% per year and is payable semi-annually on April 24 and October 24 of each year, commencing October 24, 2018.

Under the Senior Unsecured Notes, “Restricted Subsidiaries” means any subsidiary of KPLP that is not an Unrestricted Subsidiary as defined in the Indenture (which include TAD Canco, TAD Luxembourg, KTG and Non-Material Subsidiaries as defined in the Indenture).

The Senior Unsecured Notes are senior unsecured obligations of KPLP. The Senior Unsecured Notes rank senior in right of payment to all existing and future subordinated indebtedness of KPLP and equal in right of payment to all indebtedness of KPLP that is not subordinated in right of payment to the Senior Unsecured Notes other than any indebtedness of KPLP, including the Senior Credit Facility, Nordea Credit Facility, Ontario Loan and the Quebec PM loan, to the extent of the assets securing such indebtedness.

Proceeds from the offering were $125.0 million, which were used to reduce the outstanding balance under the Senior Credit Facility. KPLP paid $3.0 million for underwriters fees and related expenses.

Guarantees

The Senior Unsecured Notes are unconditionally guaranteed, jointly and severally, by the Restricted Subsidiaries.

Redemption

KPLP may redeem all or part of the Senior Unsecured Notes at any time prior to April 24, 2021 at (i) the Applicable Premium (as defined in the Indenture), and (ii) 101% of the aggregate principal amount of the Senior Unsecured Notes redeemed, plus accrued and unpaid interest to the redemption date.

On or after April 24, 2021, KPLP may redeem all or part of the Senior Unsecured Notes at the following redemption prices, plus accrued and unpaid interest if redeemed during the 12-month period commencing April 24 of the year set forth below:

Year	Percentage
2021	104.5%
2022	103.0%
2023	101.5%
2024 and thereafter	100.0%

KPLP has determined that the early repayment option is an embedded derivative that is not closely related to the Senior Unsecured Notes. Accordingly, the embedded derivative has been bifurcated from the Senior Unsecured Notes for financial reporting purposes. The embedded derivative is recorded at its fair value with changes in fair value included in interest expense in the unaudited condensed consolidated statement of comprehensive income (loss). An asset of $0.01 million has been recorded in Other long-term assets in the unaudited condensed consolidated statement of financial position as of September 30, 2018 to record the embedded derivative at its fair value.

Change of Control

Upon the occurrence of a Change of Control of KPLP (as defined in the Indenture), KPLP will be required to offer to repurchase all or any part of each holders Senior Unsecured Notes for a payment in cash equal to 101% of the aggregate principal amount of Senior Unsecured Notes repurchased, plus accrued and unpaid interest thereon to the purchase date.

Covenants

The Indenture contains negative covenants of KPLP and the Restricted Subsidiaries, 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, 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 any existing financing documents related thereto.

Pursuant to the Indenture, KPLP is permitted certain incurrences of indebtedness (Permitted Indebtedness, as defined in the Indenture) and KPLP covenants not to make certain restricted payments (Restricted Payments, as defined in the Indenture).

Events of Default

The Indenture contains customary events of default, including without limitation, 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, insolvency, change of control of KPLP or Kruger Inc. and enforcement proceedings.

Senior Credit Facility

General

On April 24, 2018, KPLP entered into the sixth amended and restated credit agreement (the Senior Credit Agreement) related to its revolving credit facility (the Senior Credit Facility). The Senior Credit Facility was reduced to $200.0 million from $300.0 million. The borrowings under the Senior 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 2.875% depending on the ratio of total net funded debt to EBITDA (as defined in the Senior Credit Agreement) and the type of advance. The Senior Credit Agreement is for a five year period and will mature on April 24, 2023. The Senior Credit Agreement provides for certain restrictive undertakings and covenants to be complied with by KPLP.

The Senior Credit Agreement is guaranteed by each Restricted Credit Party. Under the Senior Credit Agreement, "Restricted Credit Parties" means KPLP, KPGP, Kruger Products Real Estate Holding 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 Inc. TAD Luxembourg S.A.R.L. and KTG) and the Non-Material Credit Parties (as such terms are defined in the Senior Credit Agreement). "Restricted Credit Party" refers to any one thereof. KPLP and the Restricted Credit Parties provide first ranking security interests and hypothecs over their current and future tangible assets to secure the obligations under the Senior Credit Agreement including a pledge of 100% of the stock or ownership interest in all credit parties owned by KPLP and the Restricted Credit Parties.

Covenants

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 total net funded debt to EBITDA not greater than 4.25 to 1.00, (ii) a ratio of senior secured net funded debt to EBITDA not greater than 3.00 to 1.00, and (iii) 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 Caisse Facility and KTG's EBITDA are not included in such calculations.

Nordea Credit Facility

On April 24, 2018, KPLP entered into the fourth amended and restated credit agreement (the Nordea Credit Agreement) related to its Nordea Credit Facility, in connection with amendments to the Senior Credit Facility. No significant changes were made to the Nordea Credit Facility.

Caisse Facility

As of September 30, 2018, the Caisse Facility, which was to mature on August 16, 2018, has been classified as short-term debt, resulting in a working capital deficit. The Partnership has received an extension to December 31, 2018 to repay the Caisse Facility under the same terms and conditions. Management expects to refinance the indebtedness prior to December 31, 2018. Subject to refinancing being obtained, the Partnership believes its cash flows generated from operations combined with its available cash and credit facilities provide sufficient funding to meet its obligations.

There can be no assurance that refinancing can be obtained. Refer to the “Risk Factors” section of the 2017 Annual Information Form dated March 9, 2018 available on SEDAR at www.sedar.com.

For additional details related to KPLP’s indebtedness, refer to the 2017 Annual MD&A available on SEDAR at www.sedar.com.

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 costs and expenses and the U.S. dollar denominated debt. KPLP is generally a net buyer of U.S. dollars.

As of September 30, 2018, KPLP had net liabilities denominated in U.S. dollars of $14.3 million (December 31, 2017 – $23.2 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 Q3 2018 would have been an increase (decrease) of $0.7 million (Q3 2017 – $1.2 million).

From time to time, KPLP uses derivative financial instruments to manage foreign currency risk. Foreign exchange swaps and foreign exchange forwards are used to manage U.S. dollar borrowings. As of September 30, 2018, KPLP had foreign exchange swaps outstanding of nil (December 31, 2017 – $31.5 million) and foreign exchange forwards outstanding of $10.4 million (December 31, 2017 – $19.0 million).

Interest Rate Risk

KPLP’s interest rate risk arises from its variable rate debt related to the revolving credit facility. As of September 30, 2018, KPLP had variable rate debts of $127.8 million (December 31, 2017 – $181.1 million). 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 2.875%.

A 100 basis point increase (decrease) in the market rate of interest would result in a decrease (increase) in net income before tax of $1.3 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 holds interest rate swaps, contracted to fix the interest rate on a notional amount of $100.0 million at September 30, 2018 (December 31, 2017 – nil). The interest rate swaps will mature in the first quarter of 2020.

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 September 30, 2018 included cash and cash equivalents, trade and other receivables, 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 within 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 to maintain liquidity and meet its future obligations as they come due. As of September 30, 2018, KPLP had drawn $129.1 million from the $200.0 million committed amount under the Senior Credit Facility entered into on April 24, 2018, maturing in April 2023. KPLP had $21.3 million of letters of credit outstanding, resulting in $49.6 million available from the credit line, subject to covenant limitations. As of September 30, 2018, KPLP had total liquidity of $63.6 million (December 31, 2017 - $53.3 million) representing cash and cash equivalents and availability under the credit line within the covenant limitations. 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 $195.8 million as of September 30, 2018 (December 31, 2017 –$190.7 million) are all due for payment within twelve months of the dates of the consolidated statements of financial position.

As of September 30, 2018, the Caisse Facility, which was to mature on August 16, 2018, has been classified as short-term debt, resulting in a working capital deficit. The Partnership has received an extension to December 31, 2018 to repay the Caisse Facility under the same terms and conditions. Management expects to refinance the indebtedness prior to December 31, 2018. Subject to refinancing being obtained, the Partnership believes its cash flows generated from operations combined with its available cash and credit facilities provide sufficient funding to meet its obligations.

There can be no assurance that refinancing can be obtained. Refer to the "Risk Factors" section of the 2017 Annual Information Form dated March 9, 2018 available on SEDAR at www.sedar.com.

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, which can be affected by foreign exchange and other trade related risks. KPLP is subject to commodity price fluctuations since KPLP's main raw material is fibre, which changes price due to market conditions, and therefore can result in periodic earnings volatility in the short term. Historically, the industry has generally been able to mitigate its exposure to commodity price risk over the medium term by passing increases in its supply costs onto its customers through incremental price increases, depending on the supply and demand balance. The ability to eventually pass through the full amount of pulp cost increases can be impacted by the competitive market situation. There can be no assurance that the historical ability to pass through increases in costs will continue to occur in the future. From time to time, KPLP enters into futures contracts to manage its commodity risk. No such contracts were outstanding as of September 30, 2018.

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 $4.3 million (2017 - $4.3 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 YTD 2018 were $0.4 million (YTD 2017 – $0.6 million). Sales of goods to subsidiaries of Kruger during YTD 2018 were $0.09 million (YTD 2017 – nil). Goods are sold based on the price lists in force and terms that would be available to third parties.

Purchases of goods and services from Kruger during YTD 2018 were $5.4 million (YTD 2017 - $5.5 million). Purchases of goods and services from subsidiaries of Kruger during YTD 2018 were $25.9 million (YTD 2017 - $29.0 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. During YTD 2018, management fees of $3.3 million (YTD 2017 - $3.2 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 and the 2017 MD&A available on SEDAR at www.sedar.com.

Significant changes to the contractual obligations from those disclosed in the 2017 Annual MD&A are described in the Indebtedness section of this MD&A, on page 12.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the unaudited condensed 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 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), and the expected growth rate in health care costs represent the 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.

As of September 30, 2018, $159.1 million was recorded as a liability in respect of this obligation (December 31, 2017 - $160.3 million). The Partnership units liability was adjusted during YTD 2018 to reflect the current year advances made to the partners required to allow KPT to make tax installment payments. The change in amortized cost of Partnership units liability of $0.7 million recorded during YTD 2018 (YTD 2017 - $4.2 million) has been included in Other income (expense).

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. KPT is required to perform an impairment test on its investment in KPLP if there is objective evidence that the investment may be impaired. Under IFRS, KPT and KPLP did not perform an impairment test at September 30, 2018, as there were no events or changes in circumstances to indicate that the assets may be impaired.

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 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 U.S. State tax credits. To the extent estimates differ from the final tax return, earnings would be affected in a subsequent period. During YTD 2018, the Partnership reassessed its ability to utilize the U.S. state tax credits. As a result of this reassessment, a reversal of $1.1 million of the U.S. state tax credits was recorded during YTD 2018 (YTD 2017 – nil).

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. KPT has not recognized the deferred tax asset related to its Investment in KPLP.

ACCOUNTING CHANGES AND FUTURE ACCOUNTING STANDARDS

Accounting Standards Implemented for the 9-month Period Ended September 30, 2018

Refer to the unaudited condensed consolidated financial statements of KPLP for the 9-month periods ended September 30, 2018 and September 24, 2017 for a description of the significant accounting policies adopted effective January 1, 2018.

(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. KPLP adopted the standard on January 1, 2018 using the modified retrospective approach. The adoption of this standard had no significant impact on the unaudited condensed consolidated financial statements. The application of IFRS 15 resulted in a change in the revenue recognition related to dispensers and related revenue. KPLP recognized a transitional adjustment of $6.3 million, to reduce the balance related to the dispensers recorded in Other long term assets at December 31, 2017, in the deficit on the date of initial application, January 1, 2018. KPT's portion of KPLP's transitional adjustment was $0.7 million net of tax and was recognized in KPT's deficit on January 1, 2018.

(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 adoption of this standard had no significant impact on the unaudited condensed consolidated financial statements.

(iii) IFRS 2, Share-based Payments. In June 2016, 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 adoption of this standard had no impact on the unaudited condensed consolidated financial statements.

(iv) IFRIC 22, Foreign Currency Transactions and Advance Consideration. In November 2016, the IFRS Interpretation Committee issued an interpretation on how to determine the date of the transaction when applying the standard on foreign currency transactions, IAS 21. The interpretation applies where an entity either pays or receives consideration in advance for foreign currency-denominated contracts. The adoption of this standard had no significant impact on the unaudited condensed consolidated financial statements.

(v) IAS 40, Investment Property. In December 2016, the IASB issued an amendment to clarify when assets are transferred to, or from, investment properties. The amendment clarified that to transfer to, or from, investment properties there must be a change in use. This change must be supported by evidence. A change in intention, in isolation, is not enough to support a transfer. The adoption of this standard had no impact on the unaudited condensed consolidated financial statements.

Future Accounting Standards

In addition to the new and amended standards not yet effective, as disclosed in the 2017 MD&A, the following revised standards and amendments are effective for annual periods beginning on or after January 1, 2019, and with earlier application permitted. KPLP and KPT Management are in the process of assessing the impact of these standards and amendments, and have determined that the standards and amendments will not be early adopted.

(i) IFRS 16, Leases. In January 2016, the IASB issued IFRS 16, Leases which replaces the current guidance in IAS 17, Leases. IFRS 16 requires lessees to recognize a right-of-use asset and a lease liability reflecting future lease payments 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 can elect to adopt IFRS 16 using either the full retrospective approach or the modified retrospective approach.

Management has performed a preliminary assessment of IFRS 16 adoption and expects a significant impact on the consolidated financial statements. The right-of-use asset and lease liability are expected to be material to the consolidated statement of financial position. There is expected to be a change in presentation on the consolidated statement of comprehensive income (loss) and an increase in Adjusted EBITDA, while there is not expected to be any material impact on net income or cash flow.

Management is in the process of configuring data systems and information technology to accommodate the requirements of IFRS 16 adoption. Internal controls over financial reporting and business processes impacted by the new standard are in the process of being modified and implemented accordingly. Management continues to evaluate the potential implications on financing and compensation arrangements. Management is also evaluating the transition approach it will apply and whether it will use the optional exemptions or practical expedients under the standard. Additional details, including the practical expedients elected and estimated quantitative impact on the consolidated financial statements are expected to be disclosed in the consolidated financial statements for the year ended December 31, 2018.

(ii) IAS 19, Employee Benefits. In February 2018, the IASB issued an amendment in connection with defined benefit plans and accounting for plan amendments, settlements or curtailments. The mandatory effective date would be annual periods beginning on or after January 1, 2019, with early adoption permitted. Management is evaluating the amended standard and has not yet determined the impact on the unaudited condensed consolidated financial statements.

(iii) IAS 28, Interests in Associates and Joint Ventures. In February 2018, the IASB issued an amendment to clarify that an entity applies IFRS 9, including its impairment requirements, to long term interests in an associate or joint venture to which the equity method is not applied. The mandatory effective date would be annual periods beginning on or after January 1, 2019, with early adoption permitted. The amended standard will not have an impact on the unaudited condensed consolidated financial statements.

SELECTED QUARTERLY FINANCIAL INFORMATION

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

(C$ millions, unless otherwise stated)	September 30, 2018	December 31, 2017
KPT Financial Information		
Total assets	101.3	101.2
Total liabilities	5.2	4.2
KPLP Financial Information		
Total assets	1,366.1	1,299.8
Total liabilities	1,012.1	976.2

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

	2018			2017				2016
(C$ millions, unless otherwise stated)	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**
Number of days in the period	91	91	91	98	91	91	85	97
Revenue	348.4	338.8	323.7	340.0	336.3	314.4	289.3	339.6
Net income (loss) for the period	4.2	1.6	1.6	(18.0)	16.5	9.9	6.9	(4.5)
Reconciliation of Net income (loss) to Adjusted EBITDA								
Net income (loss)	4.2	1.6	1.6	(18.0)	16.5	9.9	6.9	(4.5)
Interest expense	12.1	12.5	11.3	10.4	10.5	10.8	10.3	10.7
Income taxes	(0.6)	0.5	(1.1)	7.8	0.1	2.2	2.7	2.0
Depreciation and amortization	13.0	12.9	13.1	13.3	14.6	12.5	12.0	13.8
Foreign exchange (gain) loss	(0.5)	0.9	(0.2)	0.9	(1.2)	(0.5)	(0.6)	0.9
Change in amortized cost of Partnership units liability	-	(2.0)	2.7	18.9	(0.9)	2.5	2.5	22.2
Change in fair value of derivatives	0.1	0.3	(0.6)	0.4	-	-	-	-
Loss on sale of property, plant and equipment	-	-	0.4	-	-	-	-	0.1
Gain on sale of non-financial assets	-	-	(0.2)	-	-	(0.1)	-	(2.5)
Restructuring costs, net	-	-	-	-	(0.2)	-	-	0.2
Adjusted EBITDA	28.3	26.7	27.0	33.7	39.4	37.3	33.8	42.9

SHARE INFORMATION

KPT's authorized share capital consists of an unlimited number of Common Shares. As of November 7, 2018, there were 9,409,207 Common Shares issued and outstanding. Pursuant to the Exchange Agreement, Kruger 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 November 7, 2018 for Common Shares, it would hold approximately 84.2% of the issued and outstanding Common Shares. As of November 7, 2018, there were no potentially dilutive instruments outstanding.

Pursuant to the Limited Partnership Agreement, KPLP may issue an unlimited number of KPLP Units. As of November 7, 2018, there were 59,571,399 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 2017 Annual Information Form dated March 9, 2018 available on SEDAR at www.sedar.com. 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.

In the Corporations' 2017 filings, the Corporations' CEO and CFO certified, 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.

In the Corporations' Q3 2018 filings, the Corporations' CEO and CFO certified, as required by National Instrument 52-109, the appropriateness of the financial disclosure, the design of the Corporations' disclosure controls and procedures and the design of internal controls over financial reporting.

The Corporations' Audit Committees reviewed this MD&A and the unaudited condensed financial statements and notes of KPT and the unaudited condensed consolidated financial statements and notes of KPLP, and the Corporations' Boards of Directors approved these documents prior to their release.

Changes in Internal Controls over Financial Reporting

There have been no changes to the Corporations' internal controls over financial reporting during Q3 2018 that have materially affected, or are reasonably expected to materially affect, its internal controls over financial reporting.

ADDITIONAL INFORMATION

Additional information relating to KPT and KPLP, including the Annual Information Form, is available on SEDAR at www.sedar.com.