# KRUGER PRODUCTS L.P.

## UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENT

## FOR THE 3-MONTH AND 6-MONTH PERIODS ENDED JUNE 25, 2017 AND JUNE 26, 2016

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

(tabular amounts are in thousands of Canadian dollars)

| | June 25, 2017<br>$ | December 31, 2016<br>$ |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash and cash equivalents | 28,286 | 36,511 |
| Trade and other receivables | 107,667 | 123,095 |
| Receivables from related parties (note 11) | 273 | 185 |
| Current portion of advances to partners (note 9) | 3,678 | 5,465 |
| Inventories | 187,199 | 179,543 |
| Income tax recoverable | 666 | 423 |
| Prepaid expenses | 11,679 | 7,286 |
| | 339,448 | 352,508 |
| **Non-current assets** | | |
| Property, plant and equipment (note 6) | 778,072 | 762,270 |
| Other long-term assets | 5,900 | 6,075 |
| Goodwill | 160,939 | 160,939 |
| Intangible assets | 14,781 | 15,270 |
| Deferred income taxes | 35,506 | 39,913 |
| **Total assets** | 1,334,646 | 1,336,975 |
| **Liabilities** | | |
| **Current liabilities** | | |
| Bank indebtedness (note 14) | 3,732 | 9,007 |
| Trade and other payables | 180,883 | 201,477 |
| Payables to related parties (note 11) | 3,756 | 3,606 |
| Income tax payable | 508 | 1,779 |
| Distributions payable (notes 9 and 11) | 10,259 | 10,148 |
| Current portion of provisions (note 8) | 1,487 | 1,885 |
| Current portion of long-term debt (note 13) | 8,754 | 8,859 |
| | 209,379 | 236,761 |
| **Non-current liabilities** | | |
| Long-term debt (note 13) | 441,249 | 415,379 |
| Provisions (note 8) | 6,878 | 6,487 |
| Pensions (note 7) | 107,411 | 92,646 |
| Post-retirement benefits (note 7) | 60,629 | 57,162 |
| **Liabilities to non-unitholders** | 825,546 | 808,435 |
| Current portion of Partnership units liability (note 9) | 8,611 | 8,611 |
| Long-term portion of Partnership units liability (note 9) | 133,745 | 137,296 |
| **Total Partnership units liability** | 142,356 | 145,907 |
| **Total liabilities** | 967,902 | 954,342 |
| **Equity** | | |
| Partnership units (note 9) | 346,334 | 336,576 |
| Deficit | (65,094) | (42,792) |
| Accumulated other comprehensive income | 85,504 | 88,849 |
| **Total equity** | 366,744 | 382,633 |
| **Total equity and liabilities** | 1,334,646 | 1,336,975 |

**Subsequent events (note 9)**

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

# Kruger Products L.P.
# Unaudited Condensed Consolidated Statement of Comprehensive Loss
### For the 3-month and 6-month periods ended June 25, 2017 and June 26, 2016

(tabular amounts are in thousands of Canadian dollars)

| | 3-month period ended June 25, 2017 $ | 3-month period ended June 26, 2016 $ | 6-month period ended June 25, 2017 $ | 6-month period ended June 26, 2016 $ |
|---|---|---|---|---|
| **Revenue (note 11)** | 314,388 | 295,757 | 603,659 | 575,447 |
| **Expenses** | | | | |
| Cost of sales (note 11) | 267,077 | 249,878 | 511,331 | 490,525 |
| Selling, general and administrative expenses (note 11) | 22,520 | 21,986 | 45,741 | 43,638 |
| Gain on sale of non-financial assets | (81) | - | (68) | - |
| Restructuring costs, net (note 8) | - | 393 | 11 | 393 |
| **Operating income** | 24,872 | 23,500 | 46,644 | 40,891 |
| Interest expense | 10,757 | 10,921 | 21,021 | 22,135 |
| Other (income) expense (note 5) | 2,018 | (291) | 3,963 | (1,120) |
| **Income before income taxes** | 12,097 | 12,870 | 21,660 | 19,876 |
| **Income taxes (note 10)** | 2,150 | 834 | 4,764 | 1,450 |
| **Net income for the period** | 9,947 | 12,036 | 16,896 | 18,426 |
| **Other comprehensive loss** | | | | |
| **Items that will not be reclassified to net income:** | | | | |
| Remeasurements of pensions | (12,656) | (27,120) | (15,223) | (43,889) |
| Remeasurements of post-retirement benefits | (2,317) | (1,755) | (3,201) | (1,634) |
| **Items that may be subsequently reclassified to net income:** | | | | |
| Available-for-sale investment | - | - | - | (290) |
| Cumulative translation adjustment | (2,580) | (6,846) | (3,345) | (20,827) |
| **Total other comprehensive loss for the period** | (17,553) | (35,721) | (21,769) | (66,640) |
| **Comprehensive loss for the period** | (7,606) | (23,685) | (4,873) | (48,214) |

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

# Kruger Products L.P.
# Unaudited Condensed Consolidated Statement of Changes in Equity
### For the 6-month periods ended June 25, 2017 and June 26, 2016

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

| | Partnership units | | Deficit | Accumulated other comprehensive income | Total equity |
|---|---|---|---|---|---|
| | # | $ | $ | $ | $ |
| **As of January 1, 2016** | 54,840,093 | 318,012 | (29,416) | 99,805 | 388,401 |
| Distributions payable (note 9) | - | - | (10,016) | - | (10,016) |
| Distributions paid (note 9) | - | - | (9,951) | - | (9,951) |
| Fair value adjustment (note 9) | - | 30 | (30) | - | - |
| Change in actuarial loss on pension | - | - | (43,889) | - | (43,889) |
| Change in actuarial loss on post-retirement benefits | - | - | (1,634) | - | (1,634) |
| Change in available-for-sale investment | - | - | - | (290) | (290) |
| Cumulative translation adjustment | - | - | - | (20,827) | (20,827) |
| Net income for the period | - | - | 18,426 | - | 18,426 |
| Issuance of partnership units (note 9) | 802,067 | 8,979 | - | - | 8,979 |
| **As of June 26, 2016** | 55,642,160 | 327,021 | (76,510) | 78,688 | 329,199 |
| | | | | | |
| **As of January 1, 2017** | 56,376,788 | 336,576 | (42,792) | 88,849 | 382,633 |
| Distributions payable (note 9) | - | - | (10,259) | - | (10,259) |
| Distributions paid (note 9) | - | - | (10,203) | - | (10,203) |
| Fair value adjustment (note 9) | - | 312 | (312) | - | - |
| Change in actuarial loss on pension | - | - | (15,223) | - | (15,223) |
| Change in actuarial loss on post-retirement benefits | - | - | (3,201) | - | (3,201) |
| Cumulative translation adjustment | - | - | - | (3,345) | (3,345) |
| Net income for the period | - | - | 16,896 | - | 16,896 |
| Issuance of partnership units (note 9) | 618,379 | 9,446 | - | - | 9,446 |
| **As of June 25, 2017** | 56,995,167 | 346,334 | (65,094) | 85,504 | 366,744 |

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

# Kruger Products L.P.
# Unaudited Condensed Consolidated Statement of Cash Flows
**For the 6-month periods ended June 25, 2017 and June 26, 2016**

(tabular amounts are in thousands of Canadian dollars)

| | 6-month period ended June 25, 2017 $ | 6-month period ended June 26, 2016 $ |
|---|---|---|
| **Cash flows from (used in) operating activities** | | |
| Net income for the period | 16,896 | 18,426 |
| Items not affecting cash | | |
| Depreciation | 24,064 | 21,768 |
| Amortization | 489 | 580 |
| Gain on sale of property, plant and equipment | (2) | (3) |
| Change in amortized cost of Partnership units liability (note 5) | 5,060 | 1,234 |
| Gain on sale of investment (note 5) | - | (324) |
| Foreign exchange gain (note 5) | (1,097) | (2,030) |
| Interest expense | 21,021 | 22,135 |
| Pension and post-retirement benefits | 5,026 | 5,318 |
| Provisions (note 8) | 338 | 799 |
| Income taxes | 4,764 | 1,450 |
| Gain on sale of non-financial assets | (68) | - |
| Total items not affecting cash | 59,595 | 50,927 |
| Net change in non-cash working capital (note 15) | (31,089) | (4,462) |
| Contributions to pension and post-retirement benefit plans | (7,671) | (11,305) |
| Provisions paid | (450) | (1,118) |
| Income tax payments | (3,054) | (1,373) |
| **Net cash from operating activities** | 34,227 | 51,095 |
| **Cash flows from (used in) investing activities** | | |
| Purchases of property, plant and equipment | (38,245) | (38,701) |
| Capitalized interest paid | (381) | - |
| Proceeds on sale of investment (note 5) | - | 1,439 |
| Government assistance received | 2,949 | 1,209 |
| Purchases of software | - | (71) |
| Proceeds on sale of property, plant and equipment | 1,170 | 4 |
| **Net cash used in investing activities** | (34,507) | (36,120) |
| **Cash flows from (used in) financing activities** | | |
| Proceeds from long-term debt | 26,770 | 791 |
| Repayment of long-term debt | (501) | (7,510) |
| Payment of deferred financing fees | (12) | (335) |
| Interest paid on long-term debt | (11,111) | (9,756) |
| Distributions and advances paid, net (note 9) | (17,729) | (12,077) |
| **Net cash used in financing activities** | (2,583) | (28,887) |
| **Effect of exchange rate changes on cash and cash equivalents held in foreign currency** | (87) | (1,439) |
| **Decrease in cash and cash equivalents during the period** | (2,950) | (15,351) |
| **Cash and cash equivalents - Beginning of period (note 14)** | 27,504 | 25,455 |
| **Cash and cash equivalents - End of period (note 14)** | 24,554 | 10,104 |

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

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

### 1 General information

Kruger Products L.P. (KPLP or the Partnership) is a limited partnership registered in the Province of Quebec, Canada whose partners are Kruger Inc. (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 unaudited 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 unaudited condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements of the Partnership for the year ended December 31, 2016.

The 3-month period ended June 25, 2017 represents the 91 day period from March 27 to June 25, 2017 and the 3-month period ended June 26, 2016 represents the 91 day period from March 28 to June 26, 2016. The 6-month period ended June 25, 2017 represents the 176 day period from January 1 to June 25, 2017 and the 6-month period ended June 26, 2016 represents the 178 day period from January 1 to June 26, 2016.

These unaudited condensed consolidated financial statements were approved by the board of directors of KPGP on August 8, 2017.

### 3 Summary of significant accounting policies

The significant accounting policies that have been used in the preparation of these unaudited condensed consolidated financial statements are described in the annual consolidated financial statements of the Partnership for the year ended December 31, 2016 and have been applied to all periods presented except the following accounting policies, which were adopted effective January 1, 2017.

(i) IAS 7, Statement of Cash Flows. In January 2016, the IASB issued an amendment to require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Other than the aforementioned additional disclosures, which will be included in the annual consolidated financial statements, the application of the amendments to IAS 7 did not result in any changes to the presentation of the unaudited condensed consolidated statement of cash flows.

(ii) IAS 12, Income Taxes – Deferred Tax. In February 2016, the IASB issued an amendment to clarify the requirements for recognizing deferred tax assets on unrealized 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 adoption of this standard had no impact on the unaudited condensed consolidated financial statements.

(iii) In December 2016, the IASB issued an amendment clarifying the scope of IFRS 12, Disclosure of Interests in Other Entities. The amendment clarified that the disclosures requirement of IFRS 12 are applicable to interest in entities classified as held for sale, except for summarized financial information. The adoption of this standard had no impact on the unaudited condensed consolidated financial statements.

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

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, 2018 and have not been early adopted have been discussed in the annual consolidated financial statements for the year ended December 31, 2016, except for the following:

(i) IFRS 15, Revenue from Contracts with Customers, was issued by the IASB in May 2014. The standard specifies how and when to recognize revenue as well as requiring entities to provide users of financial statements with some informative, relevant disclosures. The standard supersedes IAS 18, Revenue, IAS 11, Construction Contracts, and a number of revenue-related interpretations. Application of the standard is mandatory for all IFRS reporters and it applies to nearly all contracts with customers: the main exceptions being leases, financial instruments and insurance contracts. In September 2015, the IASB issued an amendment to defer the mandatory effective date to interim periods beginning on or after January 1, 2018, with early adoption permitted. In April 2016, 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 expects to adopt IFRS 15 using the modified retrospective approach.

Management is evaluating the estimated impact of the new standard on the consolidated financial statements. Additional details are expected to be disclosed before the adoption of IFRS 15.

(ii) IFRS 9, Financial Instruments. In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments, bringing together the classification and measurement, impairment and hedge accounting phases of the IASB’s project to replace IAS 39 Financial Instruments: Recognition and Measurement. The mandatory effective date of IFRS 9 would be annual periods beginning on or after January 1, 2018, with early adoption permitted.

Management is evaluating the estimated impact of the new standard on the consolidated financial statements. Additional details are expected to be disclosed before the adoption of IFRS 9.

(iii) 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 significant impact on the consolidated statement of income and Adjusted EBITDA, as IFRS 16 replaces operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. Significant changes to systems and processes are expected to be required, in order to collect the new data requirements.

Management is evaluating the potential implications on data systems, internal controls over financial reporting, information technology, business processes, and 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 transition approach, practical expedients elected and estimated quantitative impact on the consolidated financial statements, are expected to be disclosed before the adoption of IFRS 16.

(iv) IFRIC 23, Uncertainty over income tax treatments. In June 2017, the IFRS Interpretation Committee issued an interpretation which clarifies how the recognition and measurement requirements of IAS 12 ‘Income taxes', are applied where there is uncertainty over income tax treatments. The interpretation is effective for annual periods beginning on or after January 1, 2019. Management is evaluating the amended standard and has not yet determined the impact on the consolidated financial statements.

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

## 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 statements of financial position, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The estimates and 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, 2016.

## 5 Other (income) expense

| | 3-month period ended June 25, 2017 $ | 3-month period ended June 26, 2016 $ | 6-month period ended June 25, 2017 $ | 6-month period ended June 26, 2016 $ |
|---|---|---|---|---|
| Foreign exchange gain | (513) | (291) | (1,097) | (2,030) |
| Change in amortized cost of Partnership units liability | 2,531 | - | 5,060 | 1,234 |
| Miscellaneous income | - | - | - | (324) |
| | 2,018 | (291) | 3,963 | (1,120) |

During the 6-month period ended June 26, 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 during the 6-month period ended June 26, 2016.

(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 |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| **As of January 1, 2017** | | | | | |
| Cost | 38,130 | 185,150 | 1,085,265 | 36,977 | 1,345,522 |
| Accumulated depreciation and impairments | - | (80,840) | (502,412) | - | (583,252) |
| **Net book value as of January 1, 2017** | 38,130 | 104,310 | 582,853 | 36,977 | 762,270 |
| Additions | - | - | 62 | 44,483 | 44,545 |
| Capitalized interest | - | - | - | 413 | 413 |
| Disposals | (59) | - | (41) | - | (100) |
| Government assistance | - | - | (2,386) | (563) | (2,949) |
| Transfers | - | 661 | 18,671 | (19,332) | - |
| Depreciation | - | (2,341) | (19,042) | - | (21,383) |
| Exchange differences | (18) | (697) | (4,003) | (6) | (4,724) |
| **As of June 25, 2017** | 38,053 | 101,933 | 576,114 | 61,972 | 778,072 |
| **As of June 25, 2017** | | | | | |
| Cost | 38,053 | 184,965 | 1,095,369 | 61,972 | 1,380,359 |
| Accumulated depreciation and impairment | - | (83,032) | (519,255) | - | (602,287) |
| **Net book value as of June 25, 2017** | 38,053 | 101,933 | 576,114 | 61,972 | 778,072 |

## 7 Pensions and post-retirement benefits

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

| | Pensions | | Post-retirement benefit plans | |
|---|---|---|---|---|
| | June 25, 2017 | December 31, 2016 | June 25, 2017 | December 31, 2016 |
| | % | % | % | % |
| Assumptions | | | | |
| Discount rate - accrued benefit obligation | 3.40 | 3.77 | 3.40 | 3.77 |
| Rate of compensation increases | 3.25 - 4.00 | 3.25 - 4.00 | | |

(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 | |
|---|---|---|---|---|
| | 3-month period ended June 25, 2017 $ | 3-month period ended June 26, 2016 $ | 3-month period ended June 25, 2017 $ | 3-month period ended June 26, 2016 $ |
| **Net benefit plan expense** | | | | |
| Current service cost | 1,955 | 2,131 | 433 | 407 |
| Interest cost | 5,130 | 5,256 | 444 | 458 |
| Expected return on plan assets | (4,347) | (4,495) | - | - |
| Administrative cost | 125 | 121 | - | - |
| | 2,863 | 3,013 | 877 | 865 |

| | Pensions | | Post-retirement benefit plans | |
|---|---|---|---|---|
| | 6-month period ended June 25, 2017 $ | 6-month period ended June 26, 2016 $ | 6-month period ended June 25, 2017 $ | 6-month period ended June 26, 2016 $ |
| **Net benefit plan expense** | | | | |
| Current service cost | 3,911 | 4,261 | 866 | 814 |
| Interest cost | 10,257 | 10,489 | 888 | 915 |
| Expected return on plan assets | (8,692) | (8,998) | - | - |
| Administrative cost | 249 | 243 | - | - |
| | 5,725 | 5,995 | 1,754 | 1,729 |

## 8 Provisions

| | Environmental and asset retirement obligations $ (a) | Long-term incentives $ (b) | Restructuring $ (c) | Total $ |
|---|---|---|---|---|
| **Provisions as of January 1, 2017** | 5,887 | 1,047 | 1,438 | 8,372 |
| **Current** | - | 447 | 1,438 | 1,885 |
| **Non-current** | 5,887 | 600 | - | 6,487 |
| | | | | |
| **Provisions as of January 1, 2017** | 5,887 | 1,047 | 1,438 | 8,372 |
| Additional provisions | - | 327 | 11 | 338 |
| Paid during the period | - | - | (450) | (450) |
| Interest accretion | 105 | - | - | 105 |
| **Provisions as of June 25, 2017** | 5,992 | 1,374 | 999 | 8,365 |
| **Current** | - | 488 | 999 | 1,487 |
| **Non-current** | 5,992 | 886 | - | 6,878 |

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

(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 $9.0 million and $11.7 million. The liability is estimated using a discounted cash flow with a discount rate of 3.635% (December 31, 2016 – 3.635%).

(b) Long-term incentives

Long-term incentives include the Executive Long-Term Incentive Plan (LTIP) for the Partnership. The LTIP uses performance share units and results are based primarily on Adjusted EBITDA return on capital employed using a three year average, along with other components. The LTIP is paid in cash in May of the year following the three year period it is earned. The compensation expense is recognized over the same three year 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 June 25, 2017, there was a remaining provision of $0.6 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. As of June 25, 2017, there was a remaining provision of $0.4 million.

## 9 Distributions and Partnership units liability

| | Partnership units liability<br>$ |
|---|---|
| As of January 1, 2017 | 145,907 |
| Change in amortized cost of Partnership units liability (note 5) | 5,060 |
| Tax Distributions | (8,611) |
| As of June 25, 2017 | 142,356 |

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:

| | 6-month period ended June 25, 2017 | | | |
|---|---|---|---|---|
| **Distribution Payment Date** | **Partnership unit distributions<br>$** | **Unit price<br>$** | **Issuance of Partnership units<br>#** | **Gross proceeds<br>$** |
| January 16, 2017 | 10,148 | 15.25 | 309,196 | 4,715 |
| April 17, 2017 | 10,203 | 15.30 | 309,183 | 4,731 |
| | 20,351 | | 618,379 | 9,446 |

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

| | 6-month period ended June 26, 2016 | | | |
|---|---|---|---|---|
| **Distribution Payment Date** | **Partnership unit distributions** $ | **Unit price** $ | **Issuance of Partnership units** # | **Gross proceeds** $ |
| January 15, 2016 | 9,871 | 10.29 | 442,929 | 4,558 |
| April 15, 2016 | 9,951 | 12.31 | 359,138 | 4,421 |
| | 19,822 | | 802,067 | 8,979 |

On July 17, 2017, the Partnership paid a distribution of $10.3 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 357,887 Partnership units at a price of $13.23. During the 6-month period ended June 25, 2017, a fair value adjustment of $0.3 million was recorded to reflect the market value of the Partnership units issued.

Subsequent to June 25, 2017, the Partnership declared a distribution of $10.3 million, payable on October 16, 2017.

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

| | 6-month period ended June 25, 2017 | | | |
|---|---|---|---|---|
| | **Tax Distributions** $ | **Advances** $ | **Partnership unit distibutions** $ | **Total** $ |
| Paid to Kruger Inc. [(a)] | 2,665 | 3,082 | 8,535 | 14,282 |
| Paid to KPGP | - | - | 2 | 2 |
| Paid to KPT [(b)] | 481 | 596 | 2,368 | 3,445 |
| Total paid | 3,146 | 3,678 | 10,905 | 17,729 |

| | 6-month period ended June 26, 2016 | | |
|---|---|---|---|
| | **Advances** $ | **Partnership unit distibutions** $ | **Total** $ |
| Paid to Kruger Inc. [(a)] | 1,029 | 8,293 | 9,322 |
| Paid to KPGP | - | 2 | 2 |
| Paid to KPT [(b)] | 205 | 2,548 | 2,753 |
| Total paid | 1,234 | 10,843 | 12,077 |

(a) During the 6-month periods ended June 25, 2017 and June 26, 2016, Partnership unit distributions were paid to Kruger Inc. net of the DRIP reinvestment. During the 6-month period ended June 25, 2017, Kruger Inc.'s DRIP reinvestment was $8.5 million (6-month period ended June 26, 2016 - $8.3 million).

(b) During the 6-month periods ended June 25, 2017 and June 26, 2016, Partnership unit distributions were paid to KPT net of the DRIP reinvestment. During the 6-month period ended June 25, 2017, KPT's DRIP reinvestment was $0.9 million (6-month period ended June 26, 2016 – $0.7 million).

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

*Tax Distributions*

On February 28, 2017, the Partnership declared a Tax Distribution of $8.6 million, of which $1.4 million was used to settle the advances to KPT and pay the final tax instalment on behalf of KPT. The remaining $7.2 million was used to settle Kruger Inc.'s and KPGP's respective advances, with the balance paid to Kruger Inc. and KPGP.

During the 6-month period ended June 25, 2017, pursuant to the Tax Distribution as defined in the Partnership Agreement, the Partnership made advances to its partners of $3.7 million, of which $0.6 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 in nature and will be settled when the Tax Distribution is declared annually.

## 10 Income taxes

The Partnership is not a tax paying entity for the 6-month periods ended June 25, 2017 and June 26, 2016. The income 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 6-month period ended June 25, 2017 was 22.0% (6-month period ended June 26, 2016 – 7.3%).

The components of income taxes were as follows:

| | 3-month period ended June 25, 2017 $ | 3-month period ended June 26, 2016 $ | 6-month period ended June 25, 2017 $ | 6-month period ended June 26, 2016 $ |
|---|---|---|---|---|
| Current tax expense | 735 | 468 | 1,320 | 1,342 |
| Deferred tax expense | 1,415 | 366 | 3,444 | 108 |
| | 2,150 | 834 | 4,764 | 1,450 |

## 11 Related party transactions

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

Sales of goods to Kruger Inc. for the 6-month period ended June 25, 2017 were $0.7 million (6-month period ended June 26, 2016 - $0.4 million). 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 Inc. for the 6-month period ended June 25, 2017 were $17.9 million (6-month period ended June 26, 2016 - $16.2 million). Purchases of goods and services from subsidiaries of Kruger Inc. for the 6-month period ended June 25, 2017 were $4.1 million (6-month period ended June 26, 2016 - $4.3 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 unaudited condensed consolidated statement of comprehensive income (loss). During the 6-month period ended June 25, 2017, management fees of $2.1 million (6-month period ended June 26, 2016 - $2.1 million) were paid to Kruger Inc. for management services provided to the Partnership.

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

Balances due to and from related parties were as follows:

| | June 25, 2017 $ | December 31, 2016 $ |
|---|---|---|
| Receivables from Kruger Inc. | 2 | 171 |
| Receivables from subsidiaries of Kruger Inc. | - | 14 |
| Receivables from KPT | 271 | - |
| | 273 | 185 |

| | June 25, 2017 $ | December 31, 2016 $ |
|---|---|---|
| Payables to Kruger Inc. | 3,025 | 2,646 |
| Payables to subsidiaries of Kruger Inc. | 731 | 534 |
| Payables to KPT | - | 426 |
| | 3,756 | 3,606 |

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 June 25, 2017 and December 31, 2016. There were no loans outstanding with related parties as of June 25, 2017 and December 31, 2016.

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

| | June 25, 2017 $ | December 31, 2016 $ |
|---|---|---|
| Distribution payable to Kruger Inc. | 8,611 | 8,511 |
| Distribution payable to KPGP | 1 | 1 |
| Distribution payable to KPT | 1,647 | 1,636 |
| Total distribution payable | 10,259 | 10,148 |

## 12 Segment information

**Reportable segments**

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

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

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

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

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

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, and (x) 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 reportable segment of KPLP.

The Partnership's assets, operations and employees are located primarily in Canada and the United States. The same long-term assets of the Partnership are used for the Consumer, AFH and Other segments. Accordingly, assets cannot be allocated to these segments.

| | 3-month period ended June 25, 2017 | | | |
|---|---|---|---|---|
| | Consumer<br>$ | AFH<br>$ | Other<br>$ | Total<br>$ |
| Revenue from external customers | 252,152 | 59,919 | 2,317 | 314,388 |
| Segment Adjusted EBITDA | 34,902 | 2,333 | 121 | 37,356 |
| Depreciation and amortization | | | | 12,565 |
| Interest expense | | | | 10,757 |
| Change in amortized cost of Partnership units liability | | | | 2,531 |
| Gain on sale of non-financial assets | | | | (81) |
| Foreign exchange gain | | | | (513) |
| Income before income taxes | | | | 12,097 |
| Income taxes | | | | 2,150 |
| Net income | | | | 9,947 |

| | 3-month period ended June 26, 2016 | | | |
|---|---|---|---|---|
| | Consumer<br>$ | AFH<br>$ | Other<br>$ | Total<br>$ |
| Revenue from external customers | 231,924 | 59,051 | 4,782 | 295,757 |
| Segment Adjusted EBITDA | 33,719 | 1,775 | 372 | 35,866 |
| Depreciation and amortization | | | | 11,977 |
| Interest expense | | | | 10,921 |
| Gain on sale of property, plant and equipment | | | | (4) |
| Restructuring costs | | | | 393 |
| Foreign exchange gain | | | | (291) |
| Income before income taxes | | | | 12,870 |
| Income taxes | | | | 834 |
| Net income | | | | 12,036 |

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

| | 6-month period ended June 25, 2017 | | | |
|---|---|---|---|---|
| | Consumer | AFH | Other | Total |
| | $ | $ | $ | $ |
| Revenue from external customers | 491,079 | 108,593 | 3,987 | 603,659 |
| Segment Adjusted EBITDA | 67,874 | 2,988 | 276 | 71,138 |
| Depreciation and amortization | | | | 24,553 |
| Interest expense | | | | 21,021 |
| Change in amortized cost of Partnership units liability | | | | 5,060 |
| Gain on sale of property, plant and equipment | | | | (2) |
| Gain on sale of non-financial assets | | | | (68) |
| Restructuring costs | | | | 11 |
| Foreign exchange gain | | | | (1,097) |
| Income before income taxes | | | | 21,660 |
| Income taxes | | | | 4,764 |
| Net income | | | | 16,896 |

| | 6-month period ended June 26, 2016 | | | |
|---|---|---|---|---|
| | Consumer | AFH | Other | Total |
| | $ | $ | $ | $ |
| Revenue from external customers | 460,076 | 108,102 | 7,269 | 575,447 |
| Segment Adjusted EBITDA | 61,526 | 1,805 | 622 | 63,953 |
| Depreciation and amortization | | | | 22,348 |
| Interest expense | | | | 22,135 |
| Change in amortized cost of Partnership units liability | | | | 1,234 |
| Gain on sale of property, plant and equipment | | | | (3) |
| Restructuring costs | | | | 393 |
| Foreign exchange gain | | | | (2,030) |
| Income before income taxes | | | | 19,876 |
| Income taxes | | | | 1,450 |
| Net income | | | | 18,426 |

### 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.

| Revenue | 3-month period ended June 25, 2017 $ | 3-month period ended June 26, 2016 $ | 6-month period ended June 25, 2017 $ | 6-month period ended June 26, 2016 $ |
|---|---|---|---|---|
| Canada | 187,783 | 180,263 | 361,660 | 344,035 |
| US | 114,904 | 102,617 | 219,553 | 206,403 |
| Mexico | 11,701 | 12,877 | 22,446 | 25,009 |
| | 314,388 | 295,757 | 603,659 | 575,447 |

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

| | | | | June 25, 2017 |
|---|---|---|---|---|
| | Canada | US | Mexico | Total |
| | $ | $ | $ | $ |
| Property, plant and equipment | 387,451 | 390,559 | 62 | 778,072 |
| Goodwill | 160,939 | - | - | 160,939 |
| Intangible assets | 14,781 | - | - | 14,781 |

| | | | | December 31, 2016 |
|---|---|---|---|---|
| | Canada | US | Mexico | Total |
| | $ | $ | $ | $ |
| Property, plant and equipment | 357,689 | 404,581 | - | 762,270 |
| Goodwill | 160,939 | - | - | 160,939 |
| Intangible assets | 15,270 | - | - | 15,270 |

## 13 Financial instruments

*Classification of financial instruments*

As of June 25, 2017, the classification of the financial instruments, as well as their carrying amounts and fair values, was as follows:

| | Classification | Measurement | Carrying amount $ | Fair Value $ |
|---|---|---|---|---|
| Cash and cash equivalents | loans and receivables | amortized cost | 28,286 | 28,286 |
| Trade and other receivables | loans and receivables | amortized cost | 107,667 | 107,667 |
| Receivables from related parties | loans and receivables | amortized cost | 273 | 273 |
| Advances to partners | loans and receivables | amortized cost | 3,678 | 3,678 |
| Bank indebtedness | financial liabilities | amortized cost | (3,732) | (3,732) |
| Trade and other payables | financial liabilities | amortized cost | (180,883) | (180,883) |
| Payables to related parties | financial liabilities | amortized cost | (3,756) | (3,756) |
| Distributions payable | financial liabilities | amortized cost | (10,259) | (10,259) |
| Long-term debt | financial liabilities | amortized cost | (450,003) | (454,817) |
| Partnership units liability | financial liabilities | amortized cost | (142,356) | (142,356) |

The following table details the fair value hierarchy of financial instruments by level as of June 25, 2017:

| | Level 1 $ | Level 2 $ | Level 3 $ | Total $ |
|---|---|---|---|---|
| Long-term debt | - | (454,817) | - | (454,817) |
| Partnership units liability | - | - | (142,356) | (142,356) |

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

As of December 31, 2016, the classification of the financial instruments, as well as their carrying amounts and fair values, was as follows:

| | Classification | Measurement | Carrying amount $ | Fair Value $ |
|---|---|---|---|---|
| Cash and cash equivalents | loans and receivables | amortized cost | 36,511 | 36,511 |
| Trade and other receivables | loans and receivables | amortized cost | 123,095 | 123,095 |
| Receivables from related parties | loans and receivables | amortized cost | 185 | 185 |
| Advances to partners | loans and receivables | amortized cost | 5,465 | 5,465 |
| Mortgage receivable | loans and receivables | amortized cost | 1,000 | 1,000 |
| Bank indebtedness | financial liabilities | amortized cost | (9,007) | (9,007) |
| Trade and other payables | financial liabilities | amortized cost | (201,477) | (201,477) |
| Payables to related parties | financial liabilities | amortized cost | (3,606) | (3,606) |
| Distributions payable | financial liabilities | amortized cost | (10,148) | (10,148) |
| Long-term debt | financial liabilities | amortized cost | (424,238) | (431,041) |
| Partnership units liability | financial liabilities | amortized cost | (145,907) | (145,907) |

The following table details the fair value hierarchy of financial instruments by level as of December 31, 2016:

| | Level 1 $ | Level 2 $ | Level 3 $ | Total $ |
|---|---|---|---|---|
| Mortgage receivable | - | - | 1,000 | 1,000 |
| Long-term debt | - | (431,041) | - | (431,041) |
| Partnership units liability | - | - | (145,907) | (145,907) |

*Fair value*

Cash and cash equivalents, trade and other receivables, receivables from related parties, advances to partners, mortgage receivable, bank indebtedness, trade and other payables, payables to related parties and distributions payable are short-term financial instruments whose fair value approximates the carrying amount, given they will mature in the near future. As of June 25, 2017, the fair values of the Credit Facility, the Nordea Facility and the Caisse Facility were $214.0 million, $26.3 million and $194.5 million (December 31, 2016 – $198.0 million, $26.6 million and $196.8 million), respectively, which approximates the current principal amount outstanding as the interest rate approximates current market interest rates. As of June 25, 2017, the fair values of the Quebec PM Loan and the Ontario Loan were $17.6 million and $2.4 million (December 31, 2016 – $8.8 million and $0.8 million), respectively, which are recorded on discounted future cash flows using a market rate of 4.4%, net of the government grant recorded on the below-market rate of interest.

*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. There were no significant changes in the assumptions during the 6-month period ended June 25, 2017.

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

## 14 Cash and cash equivalents

| | June 25, 2017<br>$ | December 31, 2016<br>$ |
|---|---|---|
| Cash and cash equivalents | 28,286 | 36,511 |
| Bank indebtedness | (3,732) | (9,007) |
| Cash and cash equivalents in the consolidated statement of cash flows | 24,554 | 27,504 |

## 15 Non-cash working capital

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

| | 6-month period ended June 25, 2017<br>$ | 6-month period ended June 26, 2016<br>$ |
|---|---|---|
| Decrease (increase) in trade and other receivables | 14,761 | (4,832) |
| Decrease (Increase) in receivables from related parties | (88) | 24 |
| Increase in inventories | (11,126) | (4,214) |
| Increase in prepaid expenses | (3,683) | (1,297) |
| Decrease (increase) in other long-term assets | 175 | (137) |
| Decrease (increase) in income taxes | 805 | (849) |
| Increase (decrease) in trade and other payables | (32,083) | 5,534 |
| Increase in payables to related parties | 150 | 1,309 |
| | (31,089) | (4,462) |