KP TISSUE INC. AND KRUGER PRODUCTS L.P.

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

FOR THE 3-MONTH PERIOD ENDED MARCH 26, 2017

DATED MAY 3, 2017

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The following Management's Discussion and Analysis (MD&A) dated May 3, 2017 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 March 26, 2017 and March 27, 2016, respectively, and the unaudited condensed consolidated financial statements of KPLP for the 3-month periods ended March 26, 2017 (Q1 2017) and March 27, 2016 (Q1 2016), respectively. The 3-month periods ended March 26, 2017 and March 27, 2016 consist of 85 days and 87 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 16.1% interest in KPLP (16.1% as of March 26, 2017). 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. The words "may", "will", "would", "should", "could", "expects", "plans", "intends", "trends", "indications", "anticipates", "believes", "estimates", "predicts", "likely" or "potential" or the negative or other variations of these words or other comparable words or phrases, are intended to identify forward-looking statements. The forward-looking information is based on certain key expectations and assumptions made by KPT or KPLP, including continued growth of the U.S. private label market and demand for TAD products in the U.S., orders for the TAD machine's products, the timing of the TAD paper machine reaching full production capacity, the demand and timing of distributions made by KPLP, and Kruger Inc.'s cash requirements. The financial outlook that KPLP Management provides on page 3 of this MD&A concerning the potential incremental Adjusted EBITDA generated by the sale of TAD products is considered forward-looking information and is based on additional key expectations and assumptions, including but not limited to (i) limited incremental overhead relating to the operation of the TAD machine and distribution and sale of products, (ii) the TAD machine operating at near full capacity and products being sold at prices consistent with current market prices, adjusted for inflation, (iii) a cost of pulp and energy based on recent prices, adjusted for inflation, and (iv) a foreign exchange rate between the Canadian and U.S. dollars approximating current levels. Although KPT and KPLP believe that the expectations and assumptions on which such forward-looking information is based are reasonable, undue reliance should not be placed on the forward-looking information since no assurance can be given that such expectations and assumptions will prove to be correct.

Many factors could cause KPLP's actual results, level of activity, performance or achievements or future events or developments (which could in turn affect the economic benefits derived from KPT's economic interest in KPLP) to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, the following factors, which are discussed in greater detail in the "Risk Factors – Risks Related to KPLP's Business" section of the KPT Annual Information Form dated March 9, 2017 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; operational risks; Gatineau Plant land lease; significant increases in input costs; reduction in supply of fibre; increased pricing pressure and intense competition; KPLP's inability to innovate effectively; adverse economic conditions; dependence on key retail trade customers; damage to the reputation of KPLP or KPLP's brands; KPLP's sales being less than anticipated; KPLP's failure to implement its business and operating strategies; KPLP's obligation to make regular capital expenditures; KPLP's entering into unsuccessful acquisitions; KPLP's dependence on key personnel; KPLP's inability to retain its existing customers or obtain new customers; KPLP's loss of key suppliers; KPLP's failure to adequately protect its intellectual property rights; KPLP's reliance on third party intellectual property licenses; adverse litigation and other claims affecting KPLP; material expenditures due to comprehensive environmental regulation affecting KPLP's cash flow; KPLP's pension obligations are significant and can be materially higher than predicted if KPLP Management's underlying assumptions are incorrect; labour disputes adversely affecting KPLP's cost structure and KPLP's ability to run its plants; exchange rate and U.S. competitors; KPLP's inability to service all of its indebtedness; exposure to potential consumer product liability; covenant compliance; interest rate and refinancing risk; information technology; cyber-security; insurance; internal controls; and trade related risk.

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

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

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

OVERVIEW

Business Overview

KPLP is Canada's leading tissue products supplier by overall market share. It produces, distributes, markets and sells a wide range of products, including bathroom tissue, facial tissue, paper towels and napkins, for both the Consumer and the Away-From-Home (AFH) market (in each case, as defined below). In addition to leading the Canadian consumer-branded tissue products market, KPLP is also a leader in the Canadian AFH market and is increasing its business in the U.S. in the consumer private label tissue market and through the expansion of the White Cloud brand to additional U.S. retailers. The Consumer segment consists of well recognized brands such as *Cashmere, Purex, Scotties, SpongeTowels,* and *White Swan* 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 manufacturing facilities, consisting of three tissue plants in Québec, two plants in Ontario, and one plant in British Columbia, have a combined annual tissue production capacity of approximately 246,000 metric tonnes.

KPLP's U.S. manufacturing facility held through K.T.G. (USA) Inc. (KTG) and located in Memphis, Tennessee consists of two paper machines with an aggregate annual capacity of 57,000 metric tonnes, and one adjacent 55,000 metric tonne state-of-the-art, Through-Air-Dried (TAD) tissue machine (Memphis TAD Machine).

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 April 17, 2017, KPT held 16.1% of the KPLP Partnership Units (KPLP Units).

Basis of Presentation

The unaudited condensed consolidated financial statements of KPLP presented for Q1 2017 and Q1 2016 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 periods ended March 26, 2017 and March 27, 2016, 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 Q1 2017 and Q1 2016.

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, and (x) 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 4.

Outlook

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

In the U.S., KPLP expects to continue to grow by leveraging its TAD product capabilities and focusing on the high-end private label business in the U.S. market. Adjusted EBITDA attributable to the sale of TAD products was $49.0 million for the year ended December 31, 2016 and $15.7 million for Q1 2017. KPLP Management previously disclosed that the sale of TAD products was expected to generate approximately $60 million Adjusted EBITDA annually for KPLP in 2017 upon the Memphis TAD Machine reaching full production capacity (the “TAD Project”). With the sale of TAD products already generating $15.7 million Adjusted EBITDA in Q1 2017 (representing an annualized run rate in excess of $60 million Adjusted EBITDA), KPLP Management considers its expectations with respect to the TAD Project’s generation of Adjusted EBITDA to have been met.

BUSINESS HIGHLIGHTS

Paper Machine Project

On July 25, 2016, KPLP announced a paper machine investment of $55 million at its Crabtree, Québec plant. The project will increase the plant’s overall production by approximately 20,000 metric tonnes annually. To finance the acquisition, relocation and installation of the paper machine, KPLP entered into a credit facility for a maximum amount of $39.5 million from Investissement Québec. The paper machine is expected to be commissioned by the end of 2017, and will produce tissue products primarily for the AFH market.

RESULTS OF OPERATIONS

Results of Operations of KPLP

(C$ millions, unless otherwise noted)	Q1 2017	Q1 2016	$ Change Q1 2017 vs. Q1 2016
Statement of Operations Data:			
Revenue	289.3	279.7	9.6
Cost of sales	(244.3)	(240.6)	(3.7)
Selling, general and adminstrative expenses	(23.2)	(21.7)	(1.5)
Operating income	21.8	17.4	4.4
Interest expense	(10.3)	(11.2)	0.9
Other income (expense)	(1.9)	0.8	(2.7)
Income before income taxes	9.6	7.0	2.6
Income taxes:			
Combined income tax rate after manfacturing and processing credits	(2.5)	(1.8)	(0.7)
Income tax in partners' hands	0.7	1.6	(0.9)
Other	(0.9)	(0.4)	(0.5)
Income taxes	(2.7)	(0.6)	(2.1)
Net income	6.9	6.4	0.5

(C$ millions, unless otherwise noted)	Q1 2017	Q1 2016	$ Change Q1 2017 vs. Q1 2016
Reconciliation of Adjusted EBITDA to Net income:			
Net income	6.9	6.4	0.5
Interest expense	10.3	11.2	(0.9)
Income taxes	2.7	0.6	2.1
Depreciation and amortization	12.0	10.4	1.6
Foreign exchange gain	(0.6)	(1.7)	1.1
Change in amortized cost of Partnership units liability	2.5	1.2	1.3
Adjusted EBITDA	33.8	28.1	5.7

Results of Operations Q1 2017 compared to Q1 2016

Revenue

Revenue was $289.3 million in Q1 2017 compared to $279.7 million in Q1 2016, an increase of $9.6 million or 3.4%. The increase in revenue was primarily due to the favourable impact of increased sales volume and prior year's selling price increase in Canada, partially offset by the unfavourable impact of foreign exchange fluctuations (USD average 1.32 in Q1 2017 compared to 1.38 in Q1 2016). From a geographic perspective, revenue in Canada increased $10.1 million, or 6.2%, while revenue in the U.S. increased $0.9 million, or 0.8%, and revenue in Mexico decreased $1.4 million or 11.4%.

Cost of Sales

Cost of sales was $244.3 million in Q1 2017 compared to $240.6 million in Q1 2016, an increase of $3.7 million or 1.5%. Manufacturing costs increased primarily due to higher sales volume, an increase in natural gas prices, and an increase in pulp and sorted office waste prices, partially offset by the positive impact of foreign exchange fluctuations (USD average 1.32 in Q1 2017 compared to 1.38 in Q1 2016), cost reduction initiatives and the impact of capital projects on costs year-over-year. Freight and warehousing costs increased compared to Q1 2016 primarily due to higher sales volume and inventory movement. Softwood Kraft (NBSK) market prices were U.S. $1,033 per metric tonne on average in Q1 2017 compared to U.S. $943 per metric tonne on average in Q1 2016. Eucalyptus (BEK) market prices were U.S. $690 per metric tonne on average in Q1 2017 compared to U.S. $760 per metric tonne on average in Q1 2016. As a percentage of revenue, cost of sales were 84.4% in Q1 2017 compared to 86.0% in Q1 2016.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses were $23.2 million in Q1 2017 compared to $21.7 million in Q1 2016, an increase of $1.5 million or 6.9%. The increase was primarily due to higher advertising and promotion expenses and also higher selling expenses as a result of increased sales volume, partially offset by the favourable impact of foreign exchange. As a percentage of revenue, SG&A expenses were 8.0% in Q1 2017 compared to 7.8% in Q1 2016.

Adjusted EBITDA

Adjusted EBITDA was $33.8 million in Q1 2017 compared to $28.1 million in Q1 2016, an increase of $5.7 million or 20.3%. The increase was primarily due to higher sales volume, improved selling prices in Canada, the net positive impact of foreign exchange and the positive impact of cost reduction initiatives and capital projects. These were partially offset by higher commodity costs and SG&A costs.

Interest Expense

Interest expense was $10.3 million in Q1 2017 compared to $11.2 million in Q1 2016, a decrease of $0.9 million. The decrease was primarily due to lower U.S. interest expense and the positive impact of foreign exchange, partially offset by higher Canadian debt levels.

Other Income (Expense)

Other expense was $1.9 million in Q1 2017 compared to other income of $0.8 million in Q1 2016. Other expense in Q1 2017 was primarily related to the change in amortized cost of Partnership units liability of $2.5 million (Q1 2016 – $1.2 million), partially offset by a foreign exchange gain of $0.6 million (Q1 2016 – $1.7 million).

Income Taxes

An income tax expense of $2.7 million was recorded in Q1 2017 compared to $0.6 million in Q1 2016, a change of $2.1 million. KPLP is not directly taxable on its Canadian business. The income tax expense resulted primarily from operating income related to the U.S. entities. Income tax expense in partner’s hands was $0.7 million in Q1 2017 compared to $1.6 million in Q1 2016.

Net Income

Net income was $6.9 million in Q1 2017 compared to $6.4 million in Q1 2016, an increase of $0.5 million. The increase was primarily due to higher Adjusted EBITDA of $5.7 million and a decrease in interest expense of $0.9 million. These items were partially offset by an increase in tax expense of $2.1 million, higher depreciation expense of $1.6 million, an increase in the change in amortized cost of Partnership units liability of $1.3 million, and a change in the foreign exchange gain of $1.1 million.

Results of Operations of KPT

(C$ millions, unless otherwise noted)	3-month period ended March 26, 2017	3-month period ended March 27, 2016
Statement of Operations Data:		
Share of income	1.1	1.0
Depreciation of fair value increments	(1.5)	(1.4)
Equity loss	(0.4)	(0.4)
Dilution gain (loss)	0.1	(0.2)
Loss before income taxes	(0.3)	(0.6)
Income taxes:		
Current tax expense	0.1	-
Deferred tax expense	0.2	0.9
Income taxes	0.3	0.9
Net loss	(0.6)	(1.5)
Basic loss per share (dollars)	**(0.06)**	**(0.16)**

The financial information presented above is based on KPT's interest in KPLP for the 3-month periods ended March 26, 2017 and March 27, 2016. The share of income (loss) 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 is based on KPT's share of the taxable income (loss) of KPLP for the same periods. The deferred tax expense 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, 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. KPT received an advance from KPLP of $0.4 million during the 3-month period ended March 26, 2017 to pay the fiscal 2017 monthly tax instalments. The advance is non-interest bearing and non-recourse in nature and is 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, 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.

Segment Results

(C$ millions, unless otherwise noted)	Q1 2017	Q1 2016	Q1 2017 vs. Q1 2016 $ Change	% Change
Segment Revenue				
Consumer	238.9	228.1	10.8	4.7%
AFH	48.7	49.1	(0.4)	-0.8%
Other	1.7	2.5	(0.8)	-32.0%
Total segment revenue	289.3	279.7	9.6	3.4%
Segment Adjusted EBITDA				
Consumer	33.0	27.8	5.2	
AFH	0.7	-	0.7	
Other	0.1	0.3	(0.2)	
Total Segment Adjusted EBITDA	33.8	28.1	5.7	

Consumer Segment

Q1 2017 compared to Q1 2016

Consumer segment revenue was $238.9 million in Q1 2017 compared to $228.1 million in Q1 2016, an increase of $10.8 million or 4.7%, due primarily to higher sales volume in Canada and the U.S., and the favourable impact of prior year's selling price increase in Canada. These were partially offset by the unfavourable impact of foreign exchange related to U.S. dollar sales (USD average 1.32 in Q1 2017 compared to 1.38 in Q1 2016).

Consumer Segment Adjusted EBITDA was $33.0 million in Q1 2017 compared to $27.8 million in Q1 2016, an increase of $5.2 million. The increase was primarily due to higher sales volume, improved pricing, the net positive impact of foreign exchange, and the impact of cost reduction initiatives and capital projects. These were partially offset by higher commodity costs and SG&A costs.

AFH Segment

Q1 2017 compared to Q1 2016

AFH segment revenue was $48.7 million in Q1 2017 compared to $49.1 million in Q1 2016, a decrease of $0.4 million or 0.8%, driven primarily by mix of products sold, and the unfavourable impact of foreign exchange on U.S. sales (USD average 1.32 in Q1 2017 compared to 1.38 in Q1 2016). AFH segment revenue increased in Canada, and decreased in the U.S.

AFH Segment Adjusted EBITDA was $0.7 million in Q1 2017 compared to nil in Q1 2016, an increase of $0.7 million. This increase was due primarily to the net favourable impact of foreign exchange and the positive impact of capital projects and manufacturing efficiency improvements, which more than offset the impact of decreased revenue and higher warehousing and commodity costs.

Other Segment

Q1 2017 compared to Q1 2016

Other segment revenue was $1.7 million in Q1 2017 compared to $2.5 million in Q1 2016, a decrease of $0.8 million due to lower parent roll sales.

Other Segment Adjusted EBITDA was $0.1 million in Q1 2017 compared to $0.3 million in Q1 2016, a decrease of $0.2 million primarily due to unfavourable sales mix related to the sale of parent rolls.

LIQUIDITY AND CAPITAL RESOURCES

Overview

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

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. Growth projects generally have a 3 to 4 year payback. In 2016, the level of capital expenditures increased to $82.0 million (including purchases of software). Approximately half of the incremental spend was related to the 2016 portion of the $55 million investment in the paper machine project in Crabtree, Quebec, and the remainder was related to other projects also aimed at reducing costs or increasing production capacity. Capital expenditures were $12.7 million in Q1 2017, and are expected to be approximately $75 million to $85 million in fiscal 2017.

As of March 26, 2017, KPLP was in compliance with all of its financial covenants under all of its outstanding credit facilities. As of March 26, 2017, KPLP had drawn $217.0 million from the $300.0 million committed amount under the Senior Credit Facility, and had $25.9 million of letters of credit outstanding, resulting in $57.1 million available from the credit line, subject to covenant limitations. As of March 26, 2017, KPLP had total liquidity of $88.6 million (December 31, 2016 - $103.5 million) representing cash and cash equivalents and availability under the credit line within the covenant limitations.

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

Cash Flows

(C$ millions, unless otherwise stated)	Q1 2017	Q1 2016	$ Change Q1 2017 vs. Q1 2016
Net cash flows from operating activities	2.1	6.7	(4.6)
Net cash flows used in investing activities	(11.0)	(13.6)	2.6
Net cash flows from (used in) financing activities	16.3	(14.3)	30.6
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	(0.1)	(0.3)	0.2
Increase (decrease) in cash and cash equivalents	7.3	(21.5)	28.8
Beginning cash and cash equivalents	27.5	25.5	2.0
Ending cash and cash equivalents	34.8	4.0	30.8

Net Cash Flows from Operating Activities

Net cash from operating activities was $2.1 million in Q1 2017 compared to $6.7 million in Q1 2016. Cash from operating activities in Q1 2017 was primarily driven by Adjusted EBITDA of $33.8 million, partially offset primarily by higher funds required for working capital and funding of pension and post-retirement benefit plans.

Net Cash Flows used in Investing Activities

Net cash used in investing activities was $11.0 million in Q1 2017 compared to $13.6 million in Q1 2016. Cash used in investing activities related primarily to capital expenditures of $12.7 million in Q1 2017 compared to $16.3 million in Q1 2016 (including purchases of software).

Net Cash Flows from (used in) Financing Activities

Net cash from financing activities was $16.3 million in Q1 2017 compared to cash used of $14.3 million in Q1 2016. Net cash from financing activities in Q1 2017 was primarily due to proceeds from long-term debt of $28.0 million, partially offset by distributions and advances paid of $9.0 million (net of DRIP proceeds), and interest paid of $2.6 million.

Contractual Obligations

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. There have been no significant changes to the contractual obligations from those disclosed in the 2016 Annual MD&A.

KPLP’s cash pension contribution for defined benefit pension arrangements in Q1 2017 was $3.1 million, while its post-retirement benefits contribution was $0.6 million. In addition, as of March 26, 2017, KPLP had $25.5 million of letters of credit related to pensions outstanding. Pension and post-retirement contributions for the year ended December 31, 2017 are expected to be $16.4 million.

Indebtedness

For additional details related to KPLP’s indebtedness, refer to the 2016 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 expenses and the U.S. dollar denominated debt. KPLP at different times during the year can be a net buyer or net seller of U.S. dollars.

As of March 26, 2017, KPLP had net liabilities denominated in U.S. dollars of $30.0 million (December 31, 2016 – $33.0 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 Q1 2017 would have been an increase (decrease) of $1.5 million (Q1 2016 – $2.1 million). KPLP continuously monitors foreign exchange risk and to manage this foreign exchange risk occasionally enters into foreign currency forward contracts and may continue to do so going forward. KPLP had no foreign currency forward contracts outstanding as of March 26, 2017.

Interest Rate Risk

KPLP's interest rate risk arises from its variable rate debt related to the revolving credit facility. As of March 26, 2017, KPLP had variable rate debts of $215.8 million (December 31, 2016 – $196.7 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 2.375%.

A 100 basis point increase (decrease) in the market rate of interest would result in a decrease (increase) in net income before tax of $2.2 million.

From time to time, KPLP uses interest rate swaps to manage part of its exposure to movements in interest rates on its credit facilities. KPLP had no interest rate swaps or interest rate derivatives outstanding as of March 26, 2017.

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 March 26, 2017 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 in 30 days from the invoice date and amounts in excess of 90 days past the invoice date are considered delinquent. KPLP routinely assesses the financial strength of its customers and mitigates against identified exposure primarily by lowering credit limits with high risk accounts. KPLP's customers are well established companies and accordingly, KPLP has experienced limited financial loss with respect to credit risk. As a result, KPLP believes that its exposure to credit risk is limited.

Liquidity Risk

The purpose of liquidity risk management is to maintain sufficient cash and cash equivalents and to ensure KPLP has sufficient authorized credit facilities to maintain liquidity and meet its future obligations as they come due. As of March 26, 2017, KPLP had drawn $217.0 million from the $300.0 million committed amount under the Senior Credit Facility entered into on September 28, 2015, maturing in September 2020. KPLP had $25.9 million of letters of credit outstanding, resulting in $57.1 million available from the credit line, subject to covenant limitations. As of March 26, 2017, KPLP had total liquidity of $88.6 million (December 31, 2016 - $103.5 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 $183.4 million as of March 26, 2017 (December 31, 2016 –$201.5 million) are all due for payment within twelve months of the dates of the consolidated statements of financial position.

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

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's main raw material is fibre, which changes price due to market conditions. Historically, the industry has generally been able to mitigate its exposure to commodity price risk by passing increases in its supply costs onto its customers through incremental price increases, depending on the supply and demand balance. From time to time, KPLP enters into futures contracts to manage its commodity risk. No such contracts were outstanding as of March 26, 2017.

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 (2016 - $4.2 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 Q1 2017 were $0.1 million (Q1 2016 – $0.3 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 during Q1 2017 were $9.1 million (Q1 2016 - $7.9 million). Purchases of goods and services from subsidiaries of Kruger during Q1 2017 were $1.9 million (Q1 2016 - $2.3 million). Goods are purchased from Kruger and related parties under normal commercial terms and conditions. These purchases of goods and services are included within cost of sales and SG&A expenses in the condensed consolidated statements of comprehensive income. During Q1 2017, management fees of $1.1 million (Q1 2016 - $1.1 million) were paid to Kruger Inc. for management services provided to KPLP.

OFF BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS

KPLP has entered into operating lease commitments related to land, buildings, IT services, vehicles and other machines and equipment. Contractual obligations including these operating leases are described in the "Contractual Obligations" subsection under the "Liquidity and Capital Resources" section of this MD&A and the 2016 MD&A available on SEDAR at www.sedar.com.

There have been no significant changes in contractual obligations during Q1 2017. Please refer to the 2016 Annual MD&A for further details.

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 March 26, 2017, $139.8 million was recorded as a liability in respect of this obligation (December 31, 2016 - $145.9 million). The Partnership units liability was adjusted during Q1 2017 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 $2.5 million recorded during Q1 2017 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 March 26, 2017, 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 US State tax credits. To the extent estimates differ from the final tax return, earnings would be affected in a subsequent period. There has been no change in the assessment related to the recoverability of the deferred tax assets since December 31, 2016.

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 3-month Period Ended March 26, 2017

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.

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.

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.

Future Accounting Standards

In addition to the new and amended standards not yet effective, as disclosed in the 2016 MD&A, the following revised standards and amendments are effective for annual periods beginning on or after January 1, 2018, and with earlier application permitted. KPLP and KPT Management have not yet assessed the impact of these standards and amendments or determined whether it will early adopt them, except as noted below.

IFRS 15, Revenue from Contracts with Customers, 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 are 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, with early adoption permitted. Management is evaluating the standard, and corresponding amendments, and has not yet determined the impact on the consolidated financial statements.

IFRS 9, Financial Instruments. In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments, bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. The mandatory effective date of IFRS 9 would be annual periods beginning on or after January 1, 2018, with early adoption permitted. Management is evaluating the standard and has not yet determined the impact on the consolidated financial statements.

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 lease liability reflecting future lease payments and a right of use asset for virtually all lease contracts. IFRS 16 must be applied to an entity's first annual IFRS financial statements for periods beginning on or after January 1, 2019, with early adoption permitted. Management is evaluating the standard and has not yet determined the impact on the consolidated financial statements.

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 amendment is effective for annual periods beginning on or after January 1, 2018. Management is evaluating the amended standard and has not yet determined the impact on the consolidated financial statements.

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 amendment is effective for annual periods beginning on or after January 1, 2018. Management is evaluating the amended standard and has not yet determined the impact on the consolidated financial statements.

SELECTED QUARTERLY FINANCIAL INFORMATION

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

(C$ millions, unless otherwise stated)	March 26, 2017	December 31, 2016
KPT Financial Information		
Total assets	115.7	119.4
Total liabilities	2.9	4.3
KPLP Financial Information		
Total assets	1,332.6	1,337.0
Total liabilities	952.7	954.3

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

Quarterly Financial Information

	2017	2016				2015		
(C$ millions, unless otherwise stated)	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Number of days in the period	85	97	91	91	87	95	91	91
Revenue	289.3	339.6	312.8	295.8	279.7	300.6	293.6	279.3
Net income (loss) for the period	6.9	(4.5)	21.6	12.0	6.4	(0.5)	(5.9)	3.2
Reconciliation of Net income to Adjusted EBITDA								
Net income (loss)	6.9	(4.5)	21.6	12.0	6.4	(0.5)	(5.9)	3.2
Interest expense	10.3	10.7	11.2	10.9	11.2	10.0	25.3	12.5
Income taxes	2.7	2.0	0.1	0.9	0.6	6.2	0.1	0.8
Depreciation and amortization	12.0	13.8	12.3	12.0	10.4	12.6	10.7	9.3
Foreign exchange (gain) loss	(0.6)	0.9	0.8	(0.3)	(1.7)	1.5	3.0	(0.9)
Change in amortized cost of Partnership units liability	2.5	22.2	-	-	1.2	(1.0)	1.8	1.9
Loss on sale of fixed assets	-	0.1	-	-	-	0.5	0.1	-
Pension revaluation - past service cost	-	-	-	-	-	-	-	3.4
Gain on sale of non-financial assets	-	(2.5)	(0.4)	-	-	-	(1.1)	-
Restructuring costs	-	0.2	-	0.4	-	0.9	0.8	-
Adjusted EBITDA	33.8	42.9	45.6	35.9	28.1	30.3	34.8	30.2

SHARE INFORMATION

KPT's authorized share capital consists of an unlimited number of Common Shares. As of May 3, 2017, there were 9,151,179 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 May 3, 2017 for Common Shares, it would hold approximately 83.9% of the issued and outstanding Common Shares. As of May 3, 2017, there were no potentially dilutive instruments outstanding.

Pursuant to the Limited Partnership Agreement, KPLP may issue an unlimited number of KPLP Units. As of May 3, 2017, there were 56,995,167 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 2016 Annual Information Form dated March 9, 2017. 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' 2016 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' Q1 2017 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 Q1 2017 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.