



KP TISSUE INC. AND KRUGER PRODUCTS L.P.

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

FOR THE 13-WEEK AND 39-WEEK PERIODS ENDED SEPTEMBER 25, 2016

DATED NOVEMBER 2, 2016

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The following Management's Discussion and Analysis (MD&A) dated November 2, 2016 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 13-week periods ended September 25, 2016 and September 27, 2015, respectively and the 39-week periods ended September 25, 2016 and September 27, 2015, respectively, and the unaudited condensed consolidated financial statements of KPLP for the 13-week periods ended September 25, 2016 (Q3 2016) and September 27, 2015 (Q3 2015), respectively, and the 39-week periods ended September 25, 2016 (YTD 2016) and September 27, 2015 (YTD 2015), 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 (16.2% as of September 25, 2016). The following MD&A provides discussion and analysis related to KPT to the extent necessary to understand the equity method of accounting. However, most 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 KTG's 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 10, 2016 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 TAD Project; 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 and innovation; insurance; and internal controls.

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 KTG's 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). While its principal focus is on the Canadian consumer-branded tissue products market, KPLP is also a leader in the Canadian AFH market and is expanding its business in the U.S. private label tissue market. The Consumer segment consists of well recognized brands such as *Cashmere*, *Purex*, *Scotties*, *SpongeTowels*, *White Cloud* and *White Swan*.

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 60,000 metric tonne state-of-the-art, Through-Air-Dried (TAD) tissue machine and related infrastructure (the TAD Project).

Pursuant to its Articles, KPT's business is limited to (i) the investment in, holding of and disposition of limited partnership interests, units, shares or other securities of KPLP and its general partner, KPGP Inc. (KPGP) (or any successor entity of either KPLP or KPGP), (ii) the acquisition of, holding, operation and disposition of any assets, liabilities, operations or business of such entities, and (iii) all activities related, incidental or ancillary to any of the foregoing. As of the date of the MD&A and following the participation by the partners in the Dividend Reinvestment Plan (DRIP) on October 17, 2016, KPT held 16.1% of the KPLP Partnership Units (KPLP Units).

Basis of Presentation

The unaudited condensed consolidated financial statements of KPLP presented for Q3 2016, Q3 2015, YTD 2016 and YTD 2015 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 13-week and 39-week periods ended September 25, 2016 and September 27, 2015, respectively, have also been prepared in accordance with IFRS for interim financial statements.

Accounting Periods

This MD&A, the unaudited condensed consolidated financial statements of KPLP and accompanying notes thereto include financial information for Q3 2016, Q3 2015, YTD 2016 and YTD 2015.

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 (recovery) of non-financial assets, (vi) loss (gain) on disposal of property, plant and equipment, (vii) unrealized foreign exchange loss (gain), (viii) costs related to restructuring activities, (ix) changes in amortized cost of the 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. KPLP Management believes that the sale of TAD products has the potential to generate approximately \$60 million Adjusted EBITDA annually for KPLP by 2017, being the year in which the TAD paper machine is expected to reach full production capacity. Adjusted EBITDA attributable to the sale of KTG’s TAD products was \$12.7 million in Q3 2016 and \$35.2 million for YTD 2016. The foregoing estimate of future incremental Adjusted EBITDA is considered forward-looking information and is based upon certain key assumptions, including (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 market 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. The foregoing factors could cause Adjusted EBITDA to differ materially from the amount set forth in the foregoing estimate.

RESULTS OF OPERATIONS

Results of Operations of KPLP

(C\$ millions, unless otherwise noted)	Q3 2016	Q3 2015	YTD 2016	YTD 2015	\$ Change	
					Q3 2016 vs. Q3 2015	YTD 2016 vs. YTD 2015
Statement of Operations Data:						
Revenue	312.8	293.6	888.3	838.3	19.2	50.0
Cost of sales	(256.8)	(248.0)	(747.4)	(710.9)	(8.8)	(36.5)
Selling, general and administrative expenses	(22.7)	(21.6)	(66.3)	(64.5)	(1.1)	(1.8)
Recovery of non-financial assets	0.4	1.1	0.4	1.1	(0.7)	(0.7)
Restructuring costs	(0.0)	(0.8)	(0.4)	(1.8)	0.8	1.4
Operating income	33.7	24.3	74.6	62.2	9.4	12.4
Interest expense	(11.2)	(25.3)	(33.3)	(48.1)	14.1	14.8
Other income (expense)	(0.8)	(4.8)	0.3	(10.8)	4.0	11.1
Income (loss) before income taxes	21.7	(5.8)	41.6	3.3	27.5	38.3
Income taxes:						
Combined income tax rate after manufacturing and processing credits	(5.5)	1.5	(10.8)	(0.8)	(7.0)	(10.0)
Income tax in partners' hands	5.1	(2.0)	9.6	-	7.1	9.6
Other	0.3	0.4	(0.4)	(0.5)	(0.1)	0.1
Income taxes	(0.1)	(0.1)	(1.6)	(1.3)	(0.0)	(0.3)
Net income (loss)	21.6	(5.9)	40.0	2.0	27.5	38.0

(C\$ millions, unless otherwise noted)	Q3 2016	Q3 2015	YTD 2016	YTD 2015	\$ Change	
					Q3 2016 vs. Q3 2015	YTD 2016 vs. YTD 2015
Reconciliation of Adjusted EBITDA to Net income (loss):						
Net income (loss)	21.6	(5.9)	40.0	2.0	27.5	38.0
Interest expense	11.2	25.3	33.3	48.1	(14.1)	(14.8)
Income taxes	0.1	0.1	1.6	1.3	0.0	0.3
Depreciation and amortization	12.4	10.7	34.7	30.0	1.7	4.7
Unrealized foreign exchange (gain) loss	0.8	3.0	(1.2)	5.3	(2.2)	(6.5)
Change in amortized cost						
of Partnership units liability	-	1.8	1.2	5.0	(1.8)	(3.8)
Loss on sale of fixed assets	-	0.1	-	0.3	(0.1)	(0.3)
Pension revaluation - past service cost	-	-	-	3.4	-	(3.4)
Recovery of non-financial assets	(0.4)	(1.1)	(0.4)	(1.1)	0.7	0.7
Restructuring costs	-	0.8	0.4	1.8	(0.8)	(1.4)
Adjusted EBITDA	45.7	34.8	109.6	96.1	10.9	13.5

Results of Operations Q3 2016 compared to Q3 2015

Revenue

Revenue was \$312.8 million in Q3 2016 compared to \$293.6 million in Q3 2015, an increase of \$19.2 million or 6.5%. The increase in revenue was due to the favourable impact of increased sales volume, and a selling price increase in Canada. The impact of foreign exchange on U.S. dollar sales was not significant in Q3 2016 compared to Q3 2015. From a geographic perspective all regions were up, as revenue in the U.S. increased \$7.3 million, or 7.2%, revenue in Canada increased by \$7.8 million, or 4.3%, and revenue in Mexico increased \$4.1 million or 48.3%.

Cost of Sales

Cost of sales was \$256.8 million in Q3 2016 compared to \$248.0 million in Q3 2015, an increase of \$8.8 million or 3.5%. Manufacturing costs increased primarily due to higher sales volumes, partially offset by cost reduction initiatives, improved manufacturing efficiencies, the effect of previous capital projects on costs year-over-year, and there was a net decrease in pulp prices. Also, warehousing costs increased compared to Q3 2015 due to higher inventory levels and freight expense increased primarily due to higher sales volumes. The impact of foreign exchange fluctuations was not significant in Q3 2016 compared to Q3 2015. Pulp market prices for Softwood Kraft (NBSK) were up, while Eucalyptus (BEK) decreased compared to the same period in 2015. Applicable NBSK market prices in cost of sales were U.S.\$993 per metric tonne on average in Q3 2016 compared to U.S.\$980 per metric tonne on average in Q3 2015. Applicable BEK market prices in cost of sales were U.S.\$682 per metric tonne on average in Q3 2016 compared to U.S.\$795 per metric tonne on average in Q3 2015. As a percentage of revenue, cost of sales were 82.1% in Q3 2016 compared to 84.5% in Q3 2015.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses were \$22.7 million in Q3 2016 compared to \$21.6 million in Q3 2015, an increase of \$1.1 million or 5.1%. The increase was primarily due to higher selling expenses as a result of increased sales volume, and slightly higher advertising and promotion expenses. As a percentage of revenue, SG&A expenses were 7.3% in Q3 2016, slightly lower compared to 7.4% in Q3 2015.

Adjusted EBITDA

Adjusted EBITDA was \$45.7 million in Q3 2016 compared to \$34.8 million in Q3 2015, an increase of \$10.9 million or 31.3%. The increase was due to higher sales volume and better margins from improved pricing, lower overall costs, and improved mix of products sold.

Interest Expense

Interest expense was \$11.2 million in Q3 2016 compared to \$25.3 million in Q3 2015, a decrease of \$14.1 million. The decrease was primarily due to the Q3 2015 refinancing of the Senior Unsecured Notes, which included the premium to be paid at redemption, de-recognition of the embedded derivative related to the early repayment option and the write-off of the related deferred financing fees. The impact of foreign exchange on U.S. dollar interest expense was not significant.

Other Income (Expense)

Other expense was \$0.8 million in Q3 2016 compared to \$4.8 million in Q3 2015. Other expense in Q3 2016 related entirely to an unrealized foreign exchange loss of \$0.8 million (Q3 2015 – loss of \$3.0 million). The change in the amortized cost of the Partnership units liability in Q3 2016 was nil (Q3 2015 – \$1.8 million).

Income Taxes

Income tax expense was \$0.1 million in Q3 2016 compared to \$0.1 million in Q3 2015. 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 \$5.1 million in Q3 2016 compared to an income tax recovery in partner's hands of \$2.0 million in Q3 2015.

Net Income

Net income was \$21.6 million in Q3 2016 compared to a net loss of \$5.9 million in Q3 2015, an increase of \$27.5 million. The increase was primarily due to higher Adjusted EBITDA of \$10.9 million, a decrease in interest expense of \$14.1 million, a decrease in the unrealized foreign exchange loss of \$2.2 million, amortized cost of the Partnership units liability of nil compared to \$1.8 million in Q3 2015, and restructuring costs of \$0.8 million in Q3 2015. These items were partially offset by an increase in depreciation expense of \$1.7 million, and a decrease in the recovery of non-financial assets of \$0.7 million.

Results of Operations YTD 2016 compared to YTD 2015

Revenue

Revenue was \$888.3 million in YTD 2016 compared to \$838.3 million in YTD 2015, an increase of \$50.0 million or 6.0%. The increase in revenue was primarily due to the favourable impact of increased sales volume and the favourable foreign exchange on U.S. dollar sales, at an average rate of 1.32 in YTD 2016 compared to 1.26 in YTD 2015. All regions improved from a geographic perspective, as revenue in the U.S. increased \$28.1 million, or 9.8%, while revenue in Canada increased \$9.5 million, or 1.8%, and revenue in Mexico increased \$12.4 million or 49.2%.

Cost of Sales

Cost of sales was \$747.4 million in YTD 2016 compared to \$710.9 million in YTD 2015, an increase of \$36.5 million or 5.1%. Manufacturing costs increased primarily due to higher sales volumes and the negative impact of foreign exchange fluctuations (USD average 1.32 in YTD 2016 compared to 1.26 in YTD 2015), partially offset by a decline in pulp and natural gas prices, cost reduction initiatives, improved manufacturing efficiencies and the effect of previous capital projects on costs year-over-year. Also, warehousing costs increased compared to YTD 2015 due to higher inventory levels and freight expense increased primarily due to higher sales volumes. Pulp market prices for Softwood Kraft (NBSK) decreased compared to the same period in 2015. Applicable NBSK market prices in cost of sales were U.S.\$961 per metric tonne on average in YTD 2016 compared to U.S.\$994 per metric tonne on average in YTD 2015. Applicable Eucalyptus (BEK) market prices in cost of sales were U.S.\$736 per metric tonne on average in YTD 2016 compared to U.S.\$766 per metric tonne on average in YTD 2015. As a percentage of revenue, cost of sales were 84.1% in YTD 2016 compared to 84.8% in YTD 2015.

Selling, General and Administrative Expenses

SG&A expenses were \$66.3 million in YTD 2016 compared to \$64.5 million in YTD 2015, an increase of \$1.8 million or 2.8%. The increase was primarily due to higher selling expenses as a result of increased sales volume and the unfavourable impact of foreign exchange. As a percentage of revenue, SG&A expenses were 7.5% in YTD 2016, lower compared to 7.7% in YTD 2015.

Adjusted EBITDA

Adjusted EBITDA was \$109.6 million in YTD 2016 compared to \$96.1 million in YTD 2015, an increase of \$13.5 million or 14.0%. The increase was primarily due to higher revenue and lower cost of sales with improved mix of products sold, partially offset by slightly higher SG&A costs and the net negative impact of foreign exchange.

Interest Expense

Interest expense was \$33.3 million in YTD 2016 compared to \$48.1 million in YTD 2015, a decrease of \$14.8 million. The decrease was primarily due to the Q3 2015 refinancing of the Senior Unsecured Notes, which included the premium to be paid at redemption, de-recognition of the embedded derivative related to the early repayment option and the write-off of the related deferred financing fees. The decreases were partially offset by the negative impact of foreign exchange on U.S. dollar interest expense in YTD 2016 compared to YTD 2015 and higher debt levels.

Other Income (Expense)

Other income was \$0.3 million in YTD 2016 compared to other expense of \$10.8 million in YTD 2015. Other income in YTD 2016 was primarily related to an unrealized foreign exchange gain of \$1.2 million (YTD 2015 – loss of \$5.3 million), partially offset by the change in amortized cost of the Partnership units liability of \$1.2 million (YTD 2015 – \$5.0 million).

Income Taxes

An income tax expense of \$1.6 million was recorded in YTD 2016 compared to \$1.3 million in YTD 2015, a change of \$0.3 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 \$9.6 million in YTD 2016 compared to nil in YTD 2015.

Net Income

Net income was \$40.0 million in YTD 2016 compared to \$2.0 million in YTD 2015, an increase of \$38.0 million. The increase was primarily due to higher Adjusted EBITDA of \$13.5 million, a decrease in interest expense of \$14.8 million, a change in the unrealized foreign exchange gain/loss of \$6.5 million, a decrease in the amortized cost of the Partnership units liability of \$3.8 million, no pension revaluation related to past service costs in YTD 2016 compared to \$3.4 million in YTD 2015, a decrease in restructuring costs of \$1.4 million, and no loss on sale of fixed assets in YTD 2016 compared to \$0.3 million in YTD 2015. These items were partially offset by higher depreciation expense of \$4.7 million, a decrease in the recovery of non-financial assets of \$0.7 million, and an increase in the tax expense of \$0.3 million.

Results of Operations of KPT

(C\$ millions, unless otherwise noted)	13-week period ended September 25, 2016	13-week period ended September 27, 2015	39-week period ended September 25, 2016	39-week period ended September 27, 2015
Statement of Operations Data:				
Share of income (loss)	3.5	(1.0)	6.5	0.3
Depreciation of fair value increments	(1.5)	(1.4)	(4.4)	(4.2)
Equity income (loss)	2.0	(2.4)	2.1	(3.9)
Dilution gain	0.1	-	0.1	0.1
Income (loss) before income taxes	2.1	(2.4)	2.2	(3.8)
Income taxes:				
Current tax expense	(1.0)	(0.3)	(1.3)	(0.9)
Deferred tax expense (recovery)	(0.3)	0.7	(2.2)	1.1
Income taxes	(1.3)	0.4	(3.5)	0.2
Net income (loss)	0.8	(2.0)	(1.3)	(3.6)
Basic earnings (loss) per share (dollars)	0.08	(0.22)	(0.15)	(0.40)

The financial information presented above is based on KPT's interest in KPLP for the 13-week and 39-week periods ended September 25, 2016 and September 27, 2015. 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.

On February 26, 2016, KPLP declared a Tax Distribution of \$2.6 million, of which \$0.4 million was used to partially settle the advance to KPT recorded during 2015, and \$2.2 million was used to partially settle the advances to Kruger Inc. and KPGP recorded during 2015. The result was excess advances over the Tax Distributions of \$4.2 million, of which \$0.7 million were repayable by KPT and \$3.5 million were repayable by Kruger Inc. and KPGP. During the 39-week period ended September 25, 2016, KPLP received a payment from KPT of \$0.6 million towards these excess advances. As of September 25, 2016, there were excess advances of \$3.6 million, of which \$0.1 million were repayable by KPT and \$3.5 million were repayable by Kruger Inc. and KPGP, and come due to KPLP no later than March 31, 2017.

KPT received an advance from KPLP of \$0.2 million during the 39-week period ended September 25, 2016 to pay the fiscal 2016 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 (recovery) of non-financial assets, (vi) loss (gain) on disposal of property, plant and equipment, (vii) unrealized foreign exchange loss (gain), (viii) costs related to restructuring activities, (ix) changes in the amortized cost of the Partnership units liability, and (x) one-time costs due to pension revaluations related to past service. "AFH Segment Adjusted EBITDA", "Consumer Segment Adjusted EBITDA" and "Other Segment Adjusted EBITDA" means in each case the Segment operating income for the referring reportable segment of KPLP.

Segment Results

(C\$ millions, unless otherwise noted)	Q3 2016	Q3 2015	YTD 2016	YTD 2015	Q3 2016 vs. Q3 2015		YTD 2016 vs. YTD 2015	
					\$ Change	% Change	\$ Change	% Change
Segment Revenue								
Consumer	248.8	230.2	709.4	657.4	18.6	8.1%	52.0	7.9%
AFH	59.4	59.5	167.5	165.5	(0.1)	-0.2%	2.0	1.2%
Other	4.6	3.9	11.4	15.4	0.7	17.9%	(4.0)	-26.0%
Total segment revenue	<u>312.8</u>	<u>293.6</u>	<u>888.3</u>	<u>838.3</u>	<u>19.2</u>	<u>6.5%</u>	<u>50.0</u>	<u>6.0%</u>
Segment Adjusted EBITDA								
Consumer	43.9	32.3	105.9	91.7	11.6		14.2	
AFH	1.5	1.8	2.8	4.8	(0.3)		(2.0)	
Other	0.3	0.7	0.9	(0.4)	(0.4)		1.3	
Total segment Adjusted EBITDA	<u>45.7</u>	<u>34.8</u>	<u>109.6</u>	<u>96.1</u>	<u>10.9</u>		<u>13.5</u>	

Consumer Segment

Q3 2016 compared to Q3 2015

Consumer segment revenue was \$248.8 million in Q3 2016 compared to \$230.2 million in Q3 2015, an increase of \$18.6 million or 8.1%, due to higher sales volumes across all geographic regions, and a selling price increase in Canada. The impact of foreign exchange related to U.S. dollar sales was not significant in Q3 2016 compared to Q3 2015.

Consumer Segment Adjusted EBITDA was \$43.9 million in Q3 2016 compared to \$32.3 million in Q3 2015, an increase of \$11.6 million. This increase was driven primarily by higher sales volume and better margins due to improved pricing, lower overall costs, and improved mix of products sold.

YTD 2016 compared to YTD 2015

Consumer segment revenue was \$709.4 million in YTD 2016 compared to \$657.4 million in YTD 2015, an increase of \$52.0 million or 7.9%, due to higher sales across all geographic regions, a selling price increase in Canada, and the favourable impact of foreign exchange related to U.S. dollar sales.

Consumer Segment Adjusted EBITDA was \$105.9 million in YTD 2016 compared to \$91.7 million in YTD 2015, an increase of \$14.2 million. The increase was primarily due to higher revenue and lower cost of sales with improved mix of products sold, partially offset by slightly higher SG&A costs and the net negative impact of foreign exchange.

AFH Segment

Q3 2016 compared to Q3 2015

AFH segment revenue was \$59.4 million in Q3 2016 compared to \$59.5 million in Q3 2015, a decrease of \$0.1 million or 0.2%. The impact of foreign exchange related to U.S. dollar sales was not significant in Q3 2016 compared to Q3 2015.

AFH Segment Adjusted EBITDA was \$1.5 million in Q3 2016 compared to \$1.8 million in Q3 2015, a decrease of \$0.3 million, due primarily to startup costs related to new production equipment and moving to a central warehousing facility.

YTD 2016 compared to YTD 2015

AFH segment revenue was \$167.5 million in YTD 2016 compared to \$165.5 million in YTD 2015, an increase of \$2.0 million or 1.2%, driven primarily by the positive impact of foreign exchange on U.S. sales. AFH segment revenue increased slightly in the U.S.

AFH Segment Adjusted EBITDA was \$2.8 million in YTD 2016 compared to \$4.8 million in YTD 2015, a decrease of \$2.0 million, due primarily to the net unfavourable impact of foreign exchange, higher freight costs and also startup costs related to new production equipment and moving to a central warehousing facility.

Other Segment

Q3 2016 compared to Q3 2015

Other segment revenue was \$4.6 million in Q3 2016 compared to \$3.9 million in Q3 2015, an increase of \$0.7 million due to higher parent roll sales in the quarter.

Other Segment Adjusted EBITDA was \$0.3 million in Q3 2016 compared to \$0.7 million in Q3 2015, a decrease of \$0.4 million primarily due to unfavourable sales mix related to the sale of parent rolls. The impact of foreign exchange was not significant in Q3 2016 compared to Q3 2015.

YTD 2016 compared to YTD 2015

Other segment revenue was \$11.4 million in YTD 2016 compared to \$15.4 million in YTD 2015, a decrease of \$4.0 million due to lower parent roll sales.

Other Segment Adjusted EBITDA was \$0.9 million in YTD 2016 compared to a loss of \$0.4 million in YTD 2015, an increase of \$1.3 million primarily due to favourable 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.

KPLP targets approximately \$40 million to \$45 million of capital expenditures each fiscal year. Typically, approximately \$25 million of the expenditures are related to maintenance projects and the remainder is focused on growth projects aimed at reducing costs or increasing production capacity. Growth projects generally have a 3 to 4 year payback. In 2016, plans are to increase the level of capital expenditures to approximately \$80 to \$90 million. Approximately half of the incremental spend is related to the 2016 portion of the \$55 million investment for the recently announced paper machine project in Crabtree, Quebec, and the remainder is related to other projects also aimed at reducing costs or increasing production capacity.

As of September 25, 2016, KPLP was in compliance with all of its financial covenants under all of its outstanding credit facilities. As of September 25, 2016, KPLP had drawn \$203.0 million from the \$300.0 million committed amount under the Senior Credit Facility entered into on September 28, 2015. KPLP had \$26.0 million of letters of credit outstanding, resulting in \$71.0 million available from the credit line, subject to covenant limitations. As of September 25, 2016, KPLP had total liquidity of \$90.6 million (December 31, 2015 - \$36.4 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)	YTD 2016	YTD 2015	\$ Change YTD 2016 vs. YTD 2015
Net cash flows from operating activities	90.1	70.9	19.2
Net cash flows used in investing activities	(55.6)	(34.4)	(21.2)
Net cash flows used in financing activities	(39.0)	(51.9)	12.9
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	(1.5)	2.1	(3.6)
Decrease in cash and cash equivalents	(6.0)	(13.3)	7.3
Beginning cash and cash equivalents	25.5	51.8	(26.3)
Ending cash and cash equivalents	19.5	38.5	(19.0)

Net Cash Flows from Operating Activities

Net cash from operating activities was \$90.1 million in YTD 2016 compared to \$70.9 million in YTD 2015. Cash from operating activities in YTD 2016 was primarily driven by Adjusted EBITDA of \$109.6 million, partially offset primarily by 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 \$55.6 million in YTD 2016 compared to \$34.4 million in YTD 2015. Cash used in investing activities related primarily to capital expenditures of \$58.7 million in YTD 2016 (before \$1.2 million government assistance received) compared to \$35.1 million in YTD 2015. The increase was due primarily to the expanded 2016 capital expenditure program, as described above.

Net Cash Flows used in Financing Activities

Net cash used in financing activities was \$39.0 million in YTD 2016 compared to \$51.9 million in YTD 2015. Net cash used in financing activities in YTD 2016 was primarily due to the net repayment of credit facilities of \$3.1 million, distributions and advances paid of \$16.9 million (net of DRIP proceeds), and interest paid of \$18.3 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 other long-term liabilities. There have been no significant changes to the contractual obligations from those disclosed in the 2015 Annual MD&A.

KPLP's cash pension and post-retirement contributions for the year ended December 31, 2016 are expected to be approximately \$15.9 million. In addition, as of September 25, 2016, KPLP had \$25.6 million of letters of credit related to pensions outstanding.

Indebtedness

Quebec PM Loan Agreement

General

KPLP is a party to a loan agreement dated as of August 9, 2016 entered into by KPLP, as borrower, and Investissement Quebec as lender (the Quebec PM Loan Agreement) pursuant to which a secured non-revolving loan in a maximum amount of \$39.5 million (the Quebec PM Loan) is made available to KPLP. The Quebec PM Loan is being used to partially finance the acquisition and relocation of a new paper machine to be installed at our Crabtree facility. The Quebec PM Loan Agreement matures ten years after the first loan disbursement, which occurred on September 6, 2016.

Interest Rates and Fees

Borrowings under the Quebec PM Loan bear interest at a fixed interest rate of 2.5% per annum for a period of seven years from the date of the first loan disbursement. The interest rate thereafter increases to a fixed rate of 3.5% per annum until the eighth anniversary of the first loan disbursement, a fixed rate of 4.5% per annum until the ninth anniversary of the first loan disbursement, and a fixed rate of 5.5% per annum thereafter.

Prepayments and Repayments

The Quebec PM Loan has a moratorium on repayment of the principal for the initial 24 months following the date of the first loan disbursement, after which the principal is to be repaid in 96 monthly consecutive payments. Monthly interest payments commence the month following the first loan disbursement.

Covenants

The Quebec PM Loan Agreement contains covenants including, but not limited to, delivery of financial and other information to Investissement Quebec, and the preservation of representations and warranties in the Quebec PM Loan Agreement.

Events of Default

The Quebec PM Loan Agreement contains customary events of default such as non-performance, non-payment, misrepresentation and breach of covenants and also provides for a cross-default to the Senior Credit Agreement.

Security and Guarantees

The Quebec PM Loan is secured by the acquired paper machine and the portion of the property on which the paper machine will be installed. The security is second ranking immediately after the security granted in favour of the Senior Credit Facility.

For additional details related to KPLP's indebtedness, refer to the 2015 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 September 25, 2016, KPLP had net liabilities denominated in U.S. dollars of \$33.5 million (December 31, 2015 – \$45.7 million). Assuming the Canadian dollar strengthened (weakened) by 5% against the U.S. dollar, with all other variables held constant, the result on net income before tax in Q3 2016 would have been an increase (decrease) of \$1.7 million (Q3 2015 – \$2.5 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 September 25, 2016.

Interest Rate Risk

KPLP's interest rate risk arises from its variable rate debt related to the revolving credit facility. As of September 25, 2016, KPLP had variable rate debts of \$201.6 million (December 31, 2015 – \$204.7 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%. On March 8, 2016, KPLP obtained an amendment which provides for the borrowings under the Credit Facility to bear interest until December 31, 2016 at a base rate of Canadian prime rate, U.S. base rate, banker's acceptance rates or LIBOR, plus a margin varying between 0.20% and 2.875% depending on the ratio of funded debt to EBITDA and the type of advance. Refer to the 2015 Annual MD&A for additional information.

A 100 basis point increase (decrease) in the market rate of interest would result in a decrease (increase) in net income before tax of \$2.0 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 September 25, 2016.

Credit Risk

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. KPLP's financial instruments exposed to credit risk as of September 25, 2016 included cash and cash equivalents, trade and other receivables, mortgage receivable, 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 September 25, 2016, KPLP had drawn \$203.0 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 \$26.0 million of letters of credit outstanding, resulting in \$71.0 million available from the credit line, subject to covenant limitations. As of September 25, 2016, KPLP had total liquidity of \$90.6 million (December 31, 2015 - \$36.4 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 \$189.4 million as of September 25, 2016 (December 31, 2015 - \$180.3 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. 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 September 25, 2016.

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 \$4.2 million (2015 - \$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 YTD 2016 were \$0.6 million (YTD 2015 - \$0.1 million). Sales of goods to subsidiaries of Kruger during YTD 2016 were nil (YTD 2015 - \$0.2 million). Goods are sold based on the price lists in force and terms that would be available to third parties. Services are delivered at the terms outlined in the agreements between the related parties.

Purchases of goods and services from Kruger during YTD 2016 were \$24.5 million (YTD 2015 - \$22.5 million). Purchases of goods and services from subsidiaries of Kruger during YTD 2016 were \$6.2 million (YTD 2015 - \$8.0 million). Goods are purchased from Kruger and related parties under normal commercial terms and conditions. These purchases of goods and services are included within cost of sales and SG&A expenses in the unaudited condensed consolidated statements of comprehensive income. During YTD 2016, management fees of \$3.2 million (YTD 2015 - \$3.1 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 2015 MD&A available on SEDAR at www.sedar.com.

There have been no significant changes in contractual obligations during YTD 2016. Please refer to the 2015 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 September 25, 2016, \$123.8 million was recorded as a liability in respect of this obligation (December 31, 2015 - \$125.2 million). The Partnership units liability was adjusted during YTD 2016 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 of \$1.2 million recorded during YTD 2016 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. Due to market value declines in KPT's publicly traded common shares since the initial offer price, KPT performed an impairment test at December 31, 2015 for its Investment in associate. The test resulted in an impairment of \$28 million, which was recorded in KPT's statement of comprehensive income (loss) during the year ended December 31, 2015. The recoverable amount of the Investment in associate was determined based on management's best estimate of the fair value less costs of disposal. The estimate of fair value was based on the net present value of future cash flows expected to be derived from KPLP, using a discount rate and terminal growth rate of 9.50% and 2.0%, respectively. Refer to the 2015 Annual MD&A for further details.

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. During the year ended December 31, 2015, the Partnership reassessed its ability to utilize the US State tax credits. As a result of this reassessment, a reversal of \$5.5 million of the US State tax credits was recorded in the consolidated statement of comprehensive income.

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.

ACCOUNTING CHANGES AND FUTURE ACCOUNTING STANDARDS

Accounting Standards Implemented for the 39-week Period Ended September 25, 2016

IAS 19, Employee Benefits. The IASB issued an amendment to clarify, when determining the discount rate for post-employment benefit obligations, it is the currency that the liabilities are denominated in that is important, and not the country where they arise. The amended standard had no impact on the unaudited condensed consolidated financial statements.

IAS 34, Interim Financial Reporting. The IASB issued an amendment to clarify what is meant by "information disclosed elsewhere in the interim financial report". IAS 34 prescribes the minimum content for an interim financial report, and the principles for recognition and measurement in complete and condensed financial statements for an interim period. The adoption of this standard had no significant impact on the unaudited condensed consolidated financial statements.

Future Accounting Standards

In addition to the new and amended standards not effective, as disclosed in the 2015 MD&A, the following revised standards and amendments are effective for annual periods beginning on or after January 1, 2017, 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.

IAS 12, Income Taxes – Deferred Tax. The IASB issued an amendment to clarify the requirements for recognising deferred tax assets on unrealised losses. The amendment clarifies the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. Certain other aspects of accounting for deferred tax assets are also clarified. The amendment is effective for annual periods beginning on or after January 1, 2017, with early

adoption permitted. Management is evaluating the amended standard and has not yet determined the impact on its unaudited condensed consolidated financial statements.

IFRS 2, Share-based Payments. The IASB issued an amendment to address (i) certain issues related to the accounting for cash settled awards, and (ii) the accounting for equity settled awards that include a “net settlement” feature in respect of employee withholding taxes. The amendment is effective for annual periods beginning on or after January 1, 2018. Management is evaluating the amended standard and has not yet determined the impact on its unaudited condensed consolidated financial statements.

IFRS 15, Revenue from Contracts with Customers. The IASB issued an amendment to clarify the guidance on identifying performance obligations, licences of intellectual property and principal versus agent, and to provide additional practical expedients on transition. The amendment is effective for annual periods beginning on or after January 1, 2018. Management is evaluating the amended standard and has not yet determined the impact on its unaudited condensed consolidated financial statements

SELECTED QUARTERLY FINANCIAL INFORMATION

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

(C\$ millions, unless otherwise stated)	September 25, 2016	December 31, 2015
KPT Financial Information		
Total assets	111.2	129.1
Total liabilities	4.0	3.9
KPLP Financial Information		
Total assets	1,297.7	1,297.4
Total liabilities	971.4	909.0

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

Quarterly Financial Information

(C\$ millions, unless otherwise stated)	2016			2015				2014
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Number of days in the period	91	91	87	95	91	91	88	94
Revenue	312.8	295.8	279.7	300.6	293.6	279.3	265.4	278.6
Net income (loss) for the period	21.6	12.0	6.4	(0.5)	(5.9)	3.2	4.7	0.1
Reconciliation of Net income to Adjusted EBITDA								
Net income (loss)	21.6	12.0	6.4	(0.5)	(5.9)	3.2	4.7	0.1
Interest expense	11.2	10.9	11.2	10.0	25.3	12.5	10.4	9.8
Income taxes	0.1	0.9	0.6	6.2	0.1	0.8	0.3	0.3
Depreciation and amortization	12.4	12.0	10.4	12.6	10.7	9.3	9.9	10.6
Unrealized foreign exchange (gain) loss	0.8	(0.3)	(1.7)	1.5	3.0	(0.9)	3.3	1.6
Change in amortized cost of								
Partnership units liability	-	-	1.2	(1.0)	1.8	1.9	1.3	7.9
Loss on sale of fixed assets	-	-	-	0.5	0.1	-	0.1	0.1
Pension revaluation - past service cost	-	-	-	-	-	3.4	-	-
Recovery of non-financial assets	(0.4)	-	-	-	(1.1)	-	-	-
Restructuring costs	-	0.4	-	0.9	0.8	-	1.1	-
Adjusted EBITDA	45.7	35.9	28.1	30.3	34.8	30.2	31.1	30.4

SHARE INFORMATION

KPT's authorized share capital consists of an unlimited number of Common Shares. As of November 2, 2016, there were 9,091,598 Common Shares issued and outstanding. Pursuant to the Exchange Agreement, Kruger has the right to exchange KPLP Units it holds from time to time for Common Shares on the basis of one KPLP Unit for one Common Share, subject to adjustment as set out in the Exchange Agreement. If Kruger were to exchange all KPLP Units held by it as of November 2, 2016 for Common Shares, it would hold approximately 83.9% of the issued and outstanding Common Shares. As of November 2, 2016, there were no potentially dilutive instruments outstanding.

Pursuant to the Limited Partnership Agreement, KPLP may issue an unlimited number of KPLP Units. As of November 2, 2016, there were 56,376,788 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 2015 Annual Information Form. 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' 2015 filings, the Corporations' CEO and CFO certified, as required by National Instrument 52-109, the appropriateness of the financial disclosure, the design and effectiveness of the Corporations' disclosure controls and procedures and the design and effectiveness of internal controls over financial reporting.

In the Corporations' Q3 2016 filings, the Corporations' CEO and CFO certified, as required by National Instrument 52-109, the appropriateness of the financial disclosure, the design of the Corporations' disclosure controls and procedures and the design of internal controls over financial reporting.

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

Changes in Internal Controls over Financial Reporting

There have been no changes to the Corporations' internal controls over financial reporting during Q3 2016 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.