



Kruger Products to invest \$575 million to build a new tissue plant

August 16, 2018

Company to implement a state-of-the-art paper machine in Québec

Sherbrooke, Québec, August 16, 2018 – KP Tissue Inc. (“KPT”) (TSX: KPT) and Kruger Products L.P. (“Kruger Products” or “KPLP”) today announced its plan for a capital investment of \$575 million in the Brompton area of Sherbrooke, Québec, to build a new, state-of-the-art tissue plant featuring Canada’s largest and most modern through-air-dry (TAD) machine. The project will create more than 180 new jobs in the region. The announcement of this major project, supported by the Government of Québec, was made in the presence of **Dominique Anglade**, Quebec Deputy Premier, Minister of Economy, Science and Innovation and Minister of Québec’s Digital Strategy, **Luc Fortin**, Québec Minister of Families and Minister Responsible for the Estrie Region, and **Guy Hardy**, MNA for Saint-François, as well as Dino Bianco, Chief Executive Officer, Kruger Products L.P., and **Joseph Kruger II**, Chairman and Chief Executive Officer, Kruger Inc.

The new plant, which will be adjacent to an existing facility of the Kruger Group, will produce at maturity approximately 70,000 metric tonnes per annum of bathroom tissue and paper towels which will enable Kruger Products to increase its offering of ultra premium and innovative tissue products under the Cashmere®, SpongeTowels® and Purex® brands.

The project is supported by the Government of Québec through *Investissement Québec* (“IQ”), which has agreed to invest \$105 million by way of a convertible debenture. The remaining financing for the project is currently being finalized.

“This project is on an unprecedented scale for Kruger Products and will give us the additional capacity to continue to grow our business into the future. This new facility combined with our Memphis TAD location will allow us to rebalance our ultra premium tissue capacity to better serve our customers across North America. The Brompton site will also be part of a critical manufacturing hub in the region, working with our other locations in Crabtree, Gatineau and Sherbrooke to produce great quality tissue products for our company” said Dino Bianco, Chief Executive Officer, Kruger Products.”

State-of-the-art Technology

Through-air-dry (TAD) technology is the world’s most advanced ultra premium tissue products manufacturing technology. It uses less fibre to obtain a plusher, stronger, exceptionally soft and more absorbent product.

While Kruger Products has been operating a TAD machine at its Memphis, Tennessee plant since 2013, its TAD 2 machine will be the first of its kind in Québec.

Significant Construction Project

Construction of the project is expected to begin in early 2019, and the plant is slated to commence production in early 2021. The project will generate major benefits, including over \$250 million in direct expenses in Québec and one million person-hours for the construction of the new plant.

Anticipated Capital Structure for the Project

The project is expected to be financed with 40% equity and 60% debt in a newly-created, wholly-owned indirect subsidiary of KPLP (“TAD2Canco”). The equity is expected to be funded by the IQ investment of \$105 million by way of subscription to a convertible debenture, and Kruger Products expects to obtain financing for the remaining equity. Long-term construction financing for the debt portion is currently being finalized. The IQ convertible debenture will carry a 3% capitalized fixed interest rate for a term of 10 years, and will be required to be redeemed on a monthly basis by KPLP commencing 36 months from the date of issuance. In the event of a failure to make a monthly redemption in accordance with the terms of the debenture, IQ will have a conversion right in respect of the portion of the balance of the debenture that is not paid on terms of conversion that would provide IQ with a 48.6% equity interest in TAD2Canco if the entirety of the debenture were to be converted.

Forward-Looking Statements

Certain statements in this press release about KPLP’s current and future plans, expectations and intentions, results, levels of activity, performance, goals or achievements or any other future events or developments constitute forward-looking statements. Forward-looking statements in this press release include, but are not limited to, items such as: the undertaking of the project; the timing of commencement and commissioning of the project; the capacity of the TAD machine, the creation of new jobs; the financing structure for the project; and KPLP’s future business strategy. The words “may”, “will”, “would”, “should”, “could”, “expects”, “plans”, “intends”, “trends”, “indications”, “anticipates”, “believes”, “estimates”, “predicts”, “likely” or “potential” or the negative or other variations of these words or other comparable words or phrases, are intended to identify forward-looking statements. The forward-looking statements are based on certain key expectations and assumptions made by KPLP, including, but not limited to, expectations and assumptions concerning the satisfaction of conditions to Investissement Québec’s underwriting of the debenture and KPLP’s ability to secure sources for the remaining construction debt financing on acceptable terms. Although KPLP believes that the expectations and assumptions on which such forward-looking information is based are reasonable, undue reliance should not be placed on the forward-looking statements since no assurance can be given that such expectations and assumptions will prove to be correct.

Many factors could cause KPLP’s actual results, level of activity, performance or achievements or future events or developments 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 .../3 Press Release | page 3 the KPT Annual Information Form dated March 9, 2018 available on SEDAR at www.sedar.com: 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; and risks relating to information technology, cyber-security, insurance, internal controls, and trade.

Readers should not place undue reliance on forward-looking statements made herein. 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 press release, and KPLP undertakes no obligation to publicly update such forward-looking information to reflect new information, subsequent or otherwise, unless required by applicable securities laws.

About KP Tissue Inc.

KPT was created to acquire, and its business is limited to holding, a limited partnership interest in KPLP. KPT currently holds a 15.9% interest in KPLP. For more information visit www.kptissueinc.com.

About Kruger Products L.P.

Kruger Products L.P. is Canada's leading manufacturer of quality tissue products for household, industrial and commercial use. KPLP serves the Canadian consumer market with such well-known brands as Cashmere[®], Purex[®], SpongeTowels[®] and Scotties[®]. In the U.S., KPLP manufactures the White Cloud[®] brand, as well as many private label products. The Away-From-Home division manufactures and distributes high-quality, cost-effective product solutions to a wide range of commercial and public entities. KPLP has approximately 2,500 employees and operates eight FSC[®] (FSC[®] C104904) certified plants in North America. For more information, visit www.krugerproducts.ca.

About Kruger Inc.

Kruger Inc., the parent company of Kruger Products L.P., is a third-generation family company headquartered in Montréal since 1904, the year it was established. Kruger Inc. is a major producer of tissue products; 100% recycled containerboard products; corrugated packaging; publication papers; specialty papers; renewable energy; cellulosic biomaterials; and wines and spirits. The Company is also a leader in paper and paperboard recycling in North America. Kruger Inc. has facilities in Québec, Ontario, British Columbia, and Newfoundland and Labrador, as well as in Tennessee, Maine, New York, Virginia and Rhode Island in the United States. (www.kruger.com).

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