KP TISSUE INC. AND KRUGER PRODUCTS L.P.

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

FOR THE FOURTH QUARTER AND FISCAL YEAR ENDED DECEMBER 31, 2017

DATED MARCH 7, 2018

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The following Management's Discussion and Analysis (MD&A) dated March 7, 2018 for KP Tissue Inc. (KPT) and Kruger Products L.P. (KPLP) is intended to assist the readers in understanding the business environment, strategies, performance and risk factors relating to KPT and KPLP. It should be read in conjunction with the financial statements of KPT for the years ended December 31, 2017 and December 31, 2016, respectively, and the consolidated financial statements of KPLP for the years ended December 31, 2017 (Fiscal 2017) and December 31, 2016 (Fiscal 2016), respectively.

About KP Tissue Inc.

KPT was created to acquire, and its business is limited to holding, a limited partnership interest in KPLP, which is accounted for as an investment in an associate using the equity method of accounting. KPT currently holds a 15.9% interest in KPLP (16.0% as of December 31, 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. 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, 2018 available on SEDAR at www.sedar.com (the Annual Information Form): Kruger Inc.'s influence over KPLP; KPLP's reliance on Kruger Inc.; consequences of an event of insolvency relating to Kruger Inc.; risks associated with the Memphis TAD Machine; 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 refinancing, 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, and SpongeTowels* in Canada and *White Cloud* in the U.S.

KPLP is headquartered in Mississauga, Ontario and has approximately 2,500 employees across North America. KPLP's Canadian manufacturing facilities, consisting of four tissue plants in Québec, two plants in Ontario, and one plant in British Columbia, have a combined annual tissue production capacity of approximately 268,000 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 Through-Air-Dried (TAD) tissue machine (Memphis TAD Machine) with an aggregate annual capacity of 55,000 metric tonnes.

Pursuant to its Articles, KPT's business is limited to (i) the investment in, holding of and disposition of limited partnership interests, units, shares or other securities of KPLP and its general partner, KPGP Inc. (KPGP) (or any successor entity of either KPLP or KPGP), (ii) the acquisition of, holding, operation and disposition of any assets, liabilities, operations or business of such entities, and (iii) all activities related, incidental or ancillary to any of the foregoing. As of the date of the MD&A and following the participation by the partners in the Dividend Reinvestment Plan (DRIP) on January 15, 2018, KPT held 15.9% of the KPLP Partnership Units (KPLP Units).

Basis of Presentation

The consolidated financial statements of KPLP presented for Fiscal 2017 and Fiscal 2016 have been prepared in accordance with IFRS (International Financial Reporting Standards). The financial statements of KPT for the years ended December 31, 2017 and December 31, 2016, have also been prepared in accordance with IFRS.

Accounting Periods

This MD&A, the consolidated financial statements of KPLP and accompanying notes thereto include financial information for the 3-month periods ended December 31, 2017 (Q4 2017) and December 31, 2016 (Q4 2016), respectively, and Fiscal 2017 and Fiscal 2016. The 3-month period ended December 31, 2017 consists of 98 days, and the 3-month period ended December 31, 2016 consists of 97 days.

Financial Measures and Key Indicators

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

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

Outlook

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

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's U.S. strategy also includes the expansion of the White Cloud brand to additional U.S. retailers.

Following a successful TAD1 project in Memphis, KPLP is studying the potential for the installation of a second TAD paper machine (TAD2) along with related converting equipment and infrastructure, and has investigated various sites in North America, performed engineering assessments and has initiated preliminary financing discussions for a TAD2 project. A decision to proceed with the project is subject to a number of factors, including identification of an acceptable site and availability of financing on satisfactory terms. The project as presently conceived would require approximately two years for construction and installation once a decision to proceed is made, followed by a ramp-up period for production and sales.

Factors Affecting the Results of Operations

Revenue

KPLP generates revenue on the sale of branded, private label and AFH tissue products in Canada and the U.S. Revenue is reported on a net basis, after deducting rebates and allowances. KPLP's revenue is impacted by advertising, discounts and promotions, merchandising, packaging, the availability of shelf and display space at retail customers, the timing of new product launches and line extensions and competitive pricing, all of which have a significant impact on consumer buying decisions. Continued growth of our revenue will depend substantially on the continued strength of our brands, retail support and our ability to effectively maintain sufficient product supply to meet customer demand.

KPLP has three reportable business segments: (i) consumer products sold through traditional retail channels such as grocery stores, mass merchandisers, club stores, drug stores and convenience stores (Consumer), (ii) AFH, and (iii) Other. The Consumer segment includes sales of branded tissue products such as *Cashmere, Purex, Scotties, SpongeTowels, and White Cloud.* AFH sells commercial tissue products primarily through distributors to businesses involved in property management, health care, food service, manufacturing and lodging, and to other public facilities. The Other segment includes the sale of parent rolls to other tissue manufacturing companies as well as the sale of recycled fibre. KPLP's current sales focus includes all regions of Canada and the United States. KPLP is partially exposed to fluctuations in the U.S. dollar against the Canadian dollar, as sales made to U.S. customers are made in U.S. dollars. To manage this foreign exchange risk, KPLP has entered into foreign exchange swaps and foreign exchange forwards and may continue to do so going forward.

Cost of Sales

Cost of sales includes fixed and variable costs to manufacture our products, freight, and warehousing and handling costs. Input costs associated with the manufacturing of tissue paper are primarily variable. Fibre, labour, and energy costs are the largest components, representing 50% to 70% of total cost of sales, depending on the type of fibre and paper making technology being used. Pulp is a world-wide easily accessible commodity. Though underlying pulp costs can fluctuate based on worldwide shifts in supply/demand, there has historically been an ability to pass along fluctuations to end customers and consumers. However, the ability to pass through the full amount of pulp cost increases has more recently been affected by the competitive market situation at the time of the fluctuation. Periodically, KPLP has entered into fibre commodity swap contracts to reduce exposure to fluctuations in this key input cost, and may continue to do so going forward. These historically have not exceeded 15% of total fibre purchases. KPLP is exposed to fluctuations in the U.S. dollar against the Canadian dollar on production inputs, U.S. dollar denominated debt and other operating costs denominated in U.S. dollars. To manage this foreign exchange risk, KPLP has entered into foreign exchange swaps and foreign exchange forwards and may continue to do so going forward. Fixed costs at the plants include plant maintenance, overhead, insurance, property taxes, information technology, as well as depreciation and amortization (substantially all depreciation and amortization is included in cost of sales)

Freight, warehousing and handling costs vary based on sales volume, the geographical mix of the product shipped, and the cost of fuel used by freight carriers. Freight costs can also be subject to fluctuations based on North American shifts in supply and demand. Freight rates and availability of transportation assets are currently being impacted by high demand and lack of supply.

Selling, General and Administrative Expenses

KPLP’s selling, general and administrative expenses include marketing and selling, general and administrative costs, which include a very small portion of the overall depreciation and amortization.

Selling costs include the costs related to sales and marketing activities, including advertising and promotion and market research, as well as selling expenses, commissions and other related costs. General and administrative expenses consist of costs related to operations, finance, information technology, product development, legal, human resources, executive administration and other corporate expenses. It also includes the foreign exchange gains and losses realized during the period.

Interest Expense

Interest expense is derived from the financing activities of KPLP. KPLP is a borrower under certain credit facilities, each of which is described under “Liquidity and Capital Resources” below. KPLP also records amortization related to deferred financing fees and interest costs related to pensions and post-retirement benefits in interest expense.

Other Income (Expense)

Other income (expense) includes foreign exchange gains and losses related to U.S. dollar denominated debt, the change in amortized cost of Partnership units liability, the change in fair value of derivatives and other items deemed to be non-operational in nature.

Income Taxes

KPLP is not a tax paying entity. The income (loss) from KPLP flowed to the partners, Kruger Inc., KPGP and KPT for Fiscal 2017 and Fiscal 2016. The income taxes recorded in the consolidated financial statements of KPLP relate to the income taxes for its incorporated subsidiaries in the U.S., Canada, Luxembourg and Mexico.

BUSINESS HIGHLIGHTS

Paper Machine Project

On July 25, 2016, KPLP announced a paper machine investment of $55 million at its Crabtree, Québec plant (PM8). 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 was commissioned and in production by the third quarter ended September 24, 2017, and is ramping-up to produce tissue products primarily for the AFH and Consumer markets.

RESULTS OF OPERATIONS

Results of Operations of KPLP

(C$ millions, unless otherwise noted)	Fiscal 2017	Fiscal 2016	Fiscal 2015	$ Change Fiscal 2017 vs. Fiscal 2016	$ Change Fiscal 2016 vs. Fiscal 2015
Statement of Operations Data:					
Revenue	1,280.0	1,227.9	1,138.9	52.1	89.0
Cost of sales	(1,098.1)	(1,031.6)	(970.8)	(66.5)	(60.8)
Selling, general and adminstrative expenses	(90.1)	(92.7)	(88.0)	2.6	(4.7)
Gain on sale of non-financial assets	0.1	2.9	1.1	(2.8)	1.8
Restructuring costs, net	0.2	(0.6)	(2.8)	0.8	2.2
Operating income	92.1	105.9	78.4	(13.8)	27.5
Interest expense	(42.0)	(44.0)	(58.2)	2.0	14.2
Other expense	(22.0)	(22.8)	(11.3)	0.8	(11.5)
Income before income taxes	28.1	39.1	8.9	(11.0)	30.2
Income taxes:					
Combined income tax rate after manfacturing and processing credits	(7.3)	(10.2)	(2.3)	2.9	(7.9)
Income tax in partners' hands	4.9	7.5	0.7	(2.6)	6.8
Other	(10.4)	(0.9)	(5.8)	(9.5)	4.9
Income taxes	(12.8)	(3.6)	(7.4)	(9.2)	3.8
Net income	15.3	35.5	1.5	(20.2)	34.0

(C$ millions, unless otherwise noted)	Fiscal 2017	Fiscal 2016	Fiscal 2015	$ Change Fiscal 2017 vs. Fiscal 2016	$ Change Fiscal 2016 vs. Fiscal 2015
Reconciliation of Adjusted EBITDA to Net income:					
Net income	15.3	35.5	1.5	(20.2)	34.0
Interest expense	42.0	44.0	58.2	(2.0)	(14.2)
Income taxes	12.8	3.6	7.4	9.2	(3.8)
Depreciation and amortization	52.4	48.5	42.6	3.9	5.9
Foreign exchange (gain) loss	(1.4)	(0.3)	6.9	(1.1)	(7.2)
Change in amortized cost of Partnership units liability	23.0	23.4	4.0	(0.4)	19.4
Change in fair value of derivatives	0.4	-	-	0.4	-
Loss on sale of fixed assets	-	0.1	0.7	(0.1)	(0.6)
Pension revaluation - past service cost	-	-	3.4	-	(3.4)
Gain on sale of non-financial assets	(0.1)	(2.9)	(1.1)	2.8	(1.8)
Restructuring costs, net	(0.2)	0.6	2.8	(0.8)	(2.2)
Adjusted EBITDA	144.2	152.5	126.4	(8.3)	26.1

Results of Operations Fiscal 2017 compared to Fiscal 2016

Revenue

Revenue was $1,280.0 million in Fiscal 2017 compared to $1,227.9 million in Fiscal 2016, an increase of $52.1 million or 4.2%. The increase in revenue was primarily due to increased sales volume. From a geographic perspective, revenue in Canada increased $28.1 million, or 3.8%, while revenue in the U.S increased $23.2 million, or 5.4%, and revenue in Mexico increased $0.8 million or 1.6%.

Cost of Sales

Cost of sales was $1,098.1 million in Fiscal 2017 compared to $1,031.6 million in Fiscal 2016, an increase of $66.5 million or 6.4%. Manufacturing costs increased primarily due to increased sales volume and also significantly higher commodity costs, particularly pulp and sorted office waste. These cost increases were partially offset by the benefits from cost reduction initiatives and capital projects. Freight and warehousing costs increased compared to Fiscal 2016 primarily due to higher carrier rates, increased sales volume and related inventory transfers. As a percentage of revenue, cost of sales were 85.8% in Fiscal 2017 compared to 84.0% in Fiscal 2016.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses were $90.1 million in Fiscal 2017 compared to $92.7 million in Fiscal 2016, a decrease of $2.6 million or 2.8%. The decrease was primarily due to lower bonus compensation and cost reduction initiatives. As a percentage of revenue, SG&A expenses were 7.0% in Fiscal 2017 compared to 7.5% in Fiscal 2016.

Adjusted EBITDA

Adjusted EBITDA was $144.2 million in Fiscal 2017 compared to $152.5 million in Fiscal 2016, a decrease of $8.3 million or 5.4%. The decrease was primarily due to higher fibre costs, and increased freight and warehousing costs. These were partially offset by increased sales volume, lower SG&A expenses, and the benefits from cost reduction initiatives and capital projects.

Gain on Sale of Non-Financial Assets

During Fiscal 2016, KPLP sold certain timber lands included in the New Westminster 2012 Business Rationalization Project for cash proceeds of $5.4 million. The sale resulted in a gain on non-financial assets of $2.9 million, which was recorded in Fiscal 2016.

Interest Expense

Interest expense was $42.0 million in Fiscal 2017 compared to $44.0 million in Fiscal 2016, a decrease of $2.0 million. The decrease was primarily due to lower U.S. interest expense.

Other Expense

Other expense was $22.0 million in Fiscal 2017 compared to $22.8 million in Fiscal 2016. Other expense in Fiscal 2017 was primarily related to the change in amortized cost of Partnership units liability of $23.0 million (Fiscal 2016 – $23.4 million), and the change in fair value of derivatives of $0.4 million (Fiscal 2016 – nil). This was partially offset by a foreign exchange gain of $1.4 million (Fiscal 2016 – $0.3 million).

Income Taxes

An income tax expense of $12.8 million was recorded in Fiscal 2017 compared to $3.6 million in Fiscal 2016, a change of $9.2 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 $4.9 million in Fiscal 2017 compared to $7.5 million in Fiscal 2016. The impact of U.S. tax reform on the consolidated financial statements for the year ended December 31, 2017 was an increase in deferred tax expense of $6.2 million on the consolidated statement of comprehensive income (loss) and a corresponding drawdown of the deferred income tax asset of $6.2 million on the consolidated statement of financial position. The impact on the consolidated financial statements was a result of a decrease in the U.S. federal tax rate from 35% to 21%, effective for taxation years beginning after December 31, 2017. Management has used the best information available to assess the implications of the U.S. tax reform for periods beginning January 1, 2018. However, as more guidance becomes available in respect of the implications of the U.S. tax reform, further adjustments may be required to the consolidated financial statements.

Net Income

Net income was $15.3 million in Fiscal 2017 compared to $35.5 million in Fiscal 2016, a decrease of $20.2 million. The decrease was primarily due to an increase in tax expense of $9.2 million, lower Adjusted EBITDA of $8.3 million, higher depreciation expense of $3.9 million, a decrease in the gain on sale of non-financial assets of $2.8 million and the change in fair value of derivatives of $0.4 million,. These items were partially offset by a decrease in interest expense of $2.0 million, a change in the foreign exchange gain of $1.1 million, a decrease in restructuring costs of $0.8 million and a decrease in the change in amortized cost of Partnership units liability of $0.4 million.

Results of Operations of KPT

(C$ millions, unless otherwise noted)	Fiscal 2017	Fiscal 2016
Statement of Operations Data:		
Share of income	2.5	5.8
Depreciation of fair value increments	(5.9)	(5.9)
Equity loss	(3.4)	(0.1)
Dilution gain	0.2	0.2
Income (loss) before income taxes	(3.2)	0.1
Income taxes:		
Current tax expense	(0.3)	(1.4)
Deferred tax expense	(1.9)	(0.4)
Income taxes	(2.2)	(1.8)
Net loss	(5.4)	(1.7)
Basic loss per share (dollars)	**(0.59)**	**(0.19)**

The financial information presented above is based on KPT's interest in KPLP for Fiscal 2017 and Fiscal 2016. The share of income relates to KPT's share of income of KPLP. Refer to Results of Operations of KPLP above for an explanation of the results. The depreciation of fair value increments relates to adjustments to the carrying amount of certain assets of KPLP on its acquisition by KPT. Refer to note 5 in KPT's financial statements for additional information.

The current income tax expense is based on KPT's share of the taxable income 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, KPLP 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 $1.0 million during Fiscal 2017 to pay the Fiscal 2017 monthly tax instalments. The advances are non-interest bearing and non-recourse and were partially offset against the Tax Distributions of $1.9 million paid by the Partnership on February 28, 2018. The excess advances over the Tax Distributions in the amount of $4.5 million are repayable by the partners to the Partnership by March 31, 2019.

Otherwise, the discussion and analysis provided above for the results of operations of KPLP applies on a proportionate basis to KPT's results of operations.

SEGMENT INFORMATION

Segment Operating Income

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

Segment Results

(C$ millions,				Fiscal 2017 vs Fiscal 2016		Fiscal 2016 vs Fiscal 2015	
unless otherwise noted)	Fiscal 2017	Fiscal 2016	Fiscal 2015	$ Change	% Change	$ Change	% Change
Segment Revenue							
Consumer	1,040.4	986.8	898.0	53.6	5.4%	88.8	9.9%
AFH	233.3	227.1	220.3	6.2	2.7%	6.8	3.1%
Other	6.3	14.0	20.6	(7.7)	-55.0%	(6.6)	-32.0%
Total segment revenue	1,280.0	1,227.9	1,138.9	52.1	4.2%	89.0	7.8%
Segment Adjusted EBITDA							
Consumer	138.2	146.4	122.5	(8.2)		23.9	
AFH	6.2	5.2	5.4	1.0		(0.2)	
Other	(0.2)	0.9	(1.5)	(1.1)		2.4	
Total Segment Adjusted EBITDA	144.2	152.5	126.4	(8.3)		26.1	

Consumer Segment

Fiscal 2017 compared to Fiscal 2016

Consumer segment revenue was $1040.4 million in Fiscal 2017 compared to $986.8 million in Fiscal 2016, an increase of $53.6 million or 5.4%, due primarily to increased sales volume in the U.S. and Canada.

Consumer Segment Adjusted EBITDA was $138.2 million in Fiscal 2017 compared to $146.4 million in Fiscal 2016, a decrease of $8.2 million. The decrease was primarily due to higher commodity costs, particularly pulp and sorted office waste, and higher freight costs, partially offset by increased sales volume and lower SG&A expenses.

AFH Segment

Fiscal 2017 compared to Fiscal 2016

AFH segment revenue was $233.3 million in Fiscal 2017 compared to $227.1 million in Fiscal 2016, an increase of $6.2 million or 2.7%, due primarily to increased sales volume. AFH segment revenue increased in Canada, and decreased in the U.S.

AFH Segment Adjusted EBITDA was $6.2 million in Fiscal 2017 compared to $5.2 million in Fiscal 2016, an increase of $1.0 million. This increase was due primarily to increased sales volume, improved manufacturing efficiency, and the benefit from capital projects, partially offset by higher fibre costs.

Other Segment

Fiscal 2017 compared to Fiscal 2016

Other segment revenue was $6.3 million in Fiscal 2017 compared to $14.0 million in Fiscal 2016, a decrease of $7.7 million due to lower parent roll sales.

Other Segment Adjusted EBITDA was a loss of $0.2 million in Fiscal 2017 compared to EBITDA income of $0.9 million in Fiscal 2016, a decrease of $1.1 million primarily due to lower parent roll sales, and start-up costs related to the PM8 project in Crabtree.

LIQUIDITY AND CAPITAL RESOURCES

Overview

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

As of December 31, 2017, the Caisse Facility, which matures on August 16, 2018, has been classified as short-term debt, resulting in a working capital deficit. Management fully expects to refinance all or part of the indebtedness prior to the maturity date and is currently exploring various refinancing alternatives.

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

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

Typically, approximately $25 million of the annual capital expenditures are related to maintenance projects and the remaining expenditures are focused on growth projects aimed at reducing costs or increasing production capacity. Regular growth projects focused on performance improvement generally have a 3 to 4 year payback. Capital expenditures were $69.8 million in Fiscal 2017. Approximately half of the capital expenditures in Fiscal 2017 relate to PM8.

As of December 31, 2017, KPLP was in compliance with all of its financial covenants under all of its outstanding credit facilities. As of December 31, 2017, KPLP had drawn $191.1 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 $83.0 million available from the credit line, subject to covenant limitations. As of December 31, 2017, KPLP had total liquidity of $53.3 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)	Fiscal 2017	Fiscal 2016	Fiscal 2015	$ Change Fiscal 2017 vs. Fiscal 2016	$ Change Fiscal 2016 vs. Fiscal 2015
Net cash flows from operating activities	99.2	142.1	84.0	(42.9)	58.1
Net cash flows used in investing activities	(63.9)	(73.0)	(56.6)	9.1	(16.4)
Net cash flows used in financing activities	(61.9)	(66.0)	(56.8)	4.1	(9.2)
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	(1.1)	(1.1)	3.1	-	(4.2)
Increase (decrease) in cash and cash equivalents	(27.7)	2.0	(26.3)	(29.7)	28.3
Beginning cash and cash equivalents, net	27.5	25.5	51.8	2.0	(26.3)
Ending cash and cash equivalents, net	(0.2)	27.5	25.5	(27.7)	2.0
Bank indebtedness	9.0	9.0	-	-	9.0
Ending cash and cash equivalents	8.8	36.5	25.5	(27.7)	11.0

Net Cash Flows from Operating Activities

Net cash from operating activities was $99.2 million in Fiscal 2017 compared to $142.1 million in Fiscal 2016. Cash from operating activities in Fiscal 2017 was primarily driven by Adjusted EBITDA of $144.2 million, partially offset by cash outflow required for working capital of $35.2 million in Fiscal 2017 compared to cash inflow of $1.4 million in Fiscal 2016, funding of pension and post-retirement benefit plans and income tax payments.

Net Cash Flows used in Investing Activities

Net cash used in investing activities was $63.9 million in Fiscal 2017 compared to $73.0 million in Fiscal 2016. Cash used in investing activities related primarily to capital expenditures (including purchases of software and capitalized interest) of $69.8 million in Fiscal 2017 compared to $82.2 million in Fiscal 2016. In addition, government assistance of $4.6 million was received in Fiscal 2017 compared to $2.4 million in Fiscal 2016.

Net Cash Flows used in Financing Activities

Net cash used in financing activities was $61.9 million in Fiscal 2017 compared to cash used of $66.0 million in Fiscal 2016. Net cash used in financing activities in Fiscal 2017 was primarily due to interest paid of $33.1 million, distributions and advances paid of $31.5 million (net of DRIP proceeds) and repayment of long-term debt of $26.0 million. This was partially offset by proceeds from long-term debt of $28.8 million.

Contractual Obligations

(C$ millions, unless otherwise stated)	Fiscal 2018	Fiscal 2019	Fiscal 2020	Fiscal 2021	Thereafter
Contractual obligations:					
Senior Credit Facility, principal repayments	-	-	182.0	-	-
Nordea Credit Facility, principal repayments	8.3	8.3	-	-	-
TAD Credit Facility, principal repayments [(a)]	183.9	-	-	-	-
Ontario Loan, principal repayments	-	-	-	-	3.0
Quebec PM Loan, principal repayments	0.9	4.9	4.9	4.9	22.2
Interest expense	22.4	7.5	7.2	7.1	1.6
Operating leases	14.6	13.6	11.2	8.5	40.7
Service contracts	6.0	4.9	3.6	0.6	-
Total contractual obligations	236.1	39.2	208.9	21.1	67.5

(a) KPLP expects to refinance the facility at maturity.

KPLP's cash pension contribution for defined benefit pension arrangements in Fiscal 2017 was $12.1 million, while its post-retirement benefits contribution was $3.0 million. In addition, as of December 31, 2017, KPLP had $25.5 million of letters of credit related to pensions outstanding. Pension and post-retirement contributions for fiscal 2018 are expected to be $16.2 million.

KPLP has committed to incurring the costs associated with the installation of underground hydro lines to supply the Gatineau Plant, which will be capitalized and amortized over their estimated life. The installation is expected to be complete during the year ended December 31, 2018.

As of December 31, 2017, KPLP had foreign exchange swaps outstanding of $31.5 million (December 31, 2016 – nil) and foreign exchange forwards of $19.0 million (December 31, 2016 – nil), with settlement dates ranging from January 3, 2018 to January 31, 2018.

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. As of December 31, 2017, $160.3 million was recorded as a liability in respect of this obligation (December 31, 2016 - $145.9 million). The amount is in respect of a previously disclosed obligation owed to the partners of KPLP. It does not change the rights of or obligations owed to the partners of KPLP, and does not result in any change to the financial statements of KPT.

Pursuant to the Exchange Agreement, KPT has granted Kruger Inc. the right to exchange KPLP Units it holds from time to time for common shares of KPT (Common Shares) issued by KPT on the basis of one KPLP Unit for one Common Share, subject to adjustment upon the occurrence of certain events that would result in the indirect economic interest in KPLP represented by a Common Share diverging from the direct economic interest in KPLP represented by a KPLP Unit, including splits or consolidations of the common shares without a corresponding split or consolidation of the KPLP Units, issuances or repurchases of Common Shares without corresponding issuances or repurchases of KPLP Units, acquisition of assets by KPT other than KPLP Units or incurrence of liabilities other than ordinary course liabilities, or special distributions by KPT, certain other securities, debt or assets to all shareholders. If at any time the Kruger Inc. aggregate ownership interest is less than 20% in KPLP, KPT may require the exchange of all outstanding KPLP Units held by Kruger Inc. or its affiliates in return for Common Shares on the basis of one KPLP Unit for one Common Share subject to adjustment as set forth above.

Pursuant to the Administration Agreement, KPLP, as administrator (the Administrator) has full power and authority to administer, subject to the general supervision and any specific instructions of the KPT Board, all of the ongoing operations and affairs of KPT in order for KPT to carry on its activities as a public company. The Administrator shall directly bear and pay for all KPT's normal operating expenses incurred in connection with the ordinary course operation of a company that is a reporting issuer. The Administrator may also advance funds to KPT in an amount equal to pay for any expenses of KPT that are outside of such ordinary course expenses, by way of non-recourse, interest-free loans, repayable upon payment by the Administrator of distributions to KPT. As KPT's agent, the Administrator will also bear and pay all outlays and expenses to third parties incurred by the Administrator in the administration of the affairs of KPT and the performance by the Administrator of its duties under the Administration Agreement.

Indebtedness

Senior Credit Agreement

General

KPLP is a party to a fifth amended and restated credit agreement dated as of September 28, 2015 entered into by KPLP, as borrower, the lenders party thereto and National Bank of Canada, as administrative agent as amended by a consent letter dated as of March 8, 2016 and by a first Supplemental Credit Agreement dated as of August 9, 2016 (the Senior Credit Agreement) pursuant to which a senior secured revolving credit facility in a maximum amount of $300 million with a $150 million accordion feature (the Senior Credit Facility) is made available to KPLP. The maturity date of the Senior Credit Facility is September 25, 2020. The Senior Credit Facility is to be used by KPLP to finance general corporate purposes and the ongoing working capital requirements of the Restricted Credit Parties (as defined below) redeeming the Senior Unsecured Notes and to finance the cash portion of any permitted acquisition or investment by any such Restricted Credit Party (as defined below).

Under the Senior Credit Agreement, "Restricted Credit Parties" means KPLP, KPGP, Kruger Products Real Estate Holdings Inc., Grupo Tissue De Mexico S de RL de CV, Kruger Products (USA) Inc., Kruger Products AFH G.P. Inc. and Kruger Products AFH L.P. and their respective subsidiaries involved in the tissue business but excluding the Unrestricted Credit Parties (which include TAD Canco Inc., TAD Luxembourg S.A.R.L and KTG) and the Non-Material Credit Parties (as such terms are defined in the Senior Credit Agreement).

Interest Rates and Fees

Borrowings under the Senior Credit Facility bear interest at a base rate of Prime Rate, U.S. Base Rate, LIBOR, Bankers' Acceptance Stamping Fees or LC Fees (as defined in the Senior Credit Agreement), plus a margin varying between 0.20% and 2.375% depending on the Restricted Credit Parties' ratio of funded debt to EBITDA (as defined in the Senior Credit Agreement) and the type of advance. Stand-By Fees are also payable on the available portion of the Senior Credit Facility at a rate varying between 0.24% and 0.475% depending on the Restricted Credit Parties' ratio of funded debt to EBITDA (as defined in the Senior Credit Agreement).

Prepayments and Repayments

KPLP may voluntarily cancel or reduce the Senior Credit Facility, in whole or in part, subject to minimum amounts and notice periods, with customary restrictions on prepayment of Banker's Acceptances, Libor Loans and liabilities under Letters of Credit (in each case, as defined in the Senior Credit Agreement).

Covenants

The Senior Credit Agreement contains customary affirmative covenants, including, but not limited to, delivery of financial and other information to the administrative agent, delivery of notice to the administrative agent upon the occurrence of certain material events, preservation of existence and authorizations, maintenance of insurance, compliance with laws, payment of taxes and other claims, limitation of transactions with affiliates and maintenance of security.

The Senior Credit Agreement requires the Restricted Credit Parties to comply with certain financial covenants, including, but not limited to, the maintenance of (i) a ratio of funded debt to EBITDA not greater than 3.50 to 1.00, and (ii) an interest coverage ratio of at least 3.00 to 1.00. The financial covenants are calculated on an Adjusted Consolidated Basis (as defined in the Senior Credit Agreement) such that the Unrestricted Credit Parties are accounted for as investments but not consolidated. As such, indebtedness under the Caisse Facility and KTG's EBITDA are not included in such calculations.

The Senior Credit Agreement contains customary negative covenants of KPLP, including, but not limited to, (i) restrictions on the ability of KPLP and the Restricted Credit Parties to, subject to certain exceptions, grant liens, incur indebtedness, merge or consolidate, amend, restate or otherwise modify the Limited Partnership Agreement, make investments and loans, grant guarantees, make acquisitions, declare, set apart and pay distributions (which does not apply to the Tax Distribution (as defined below) to KPT), reduce capital, sell or otherwise dispose of assets, incur capital expenditures or materially change their business, and (ii) restrictions on the indebtedness of TAD Canco Inc., TAD Luxembourg S.A.R.L and KTG and the amendment of the TAD financing documents.

Events of Default

The Senior Credit Agreement contains customary events of default, including, but not limited to, non-payment, misrepresentation, breach of covenants, cross-default and cross-acceleration to other debt above a certain threshold, cross defaults to the Nordea Credit Facility (as defined below) and the Caisse Facility (as defined below), insolvency, change of control of KPLP or Kruger and enforcement proceedings.

Security and Guarantees

The Senior Credit Facility is guaranteed by each Restricted Credit Party. KPLP and each Restricted Credit Party granted first ranking security interests and hypothecs over their current and future tangible and intangible assets (subject to permitted liens) to secure the obligations under the Senior Credit Facility, including a pledge of all capital stock or ownership interest in all subsidiaries owned by KPLP and the Restricted Credit Parties. The guarantees and security are granted on a pari passu basis in favour of the lenders and the administrative agent under the Senior Credit Agreement and the lenders and the administrative agent under the Nordea Credit Agreement (as defined below).

Nordea Credit Agreement

General

KPLP is a party to a third amended and restated credit agreement dated as of September 28, 2015 entered into by KPLP, as borrower, the lender party thereto and Nordea Bank A.B. (publ), as administrative agent (the Nordea Credit Agreement) pursuant to which a senior secured non-revolving loan facility in a maximum amount of U.S. $46.2 million (the Nordea Credit Facility) was made available to KPLP. The Nordea Credit Facility was used to pay up to 85% of the equity investment of KPLP in the Memphis TAD Machine and the fees of the Swedish Export Credits Guarantee Board (EKN) in connection with its guarantee of the Nordea Credit Facility. The Nordea Credit Facility matures on December 30, 2019.

Interest Rates and Fees

Borrowings under the Nordea Credit Facility bear interest at a fixed interest rate of approximately 3% per annum, comprised of a Swedish state reported interest rate, risk premium and administrative margin.

Prepayments and Repayments

The Nordea Credit Facility is repayable in 14 equal consecutive semi-annual installments of principal together with interest commencing on June 28, 2013. Prepayments are allowed subject to a make-whole payment on account of interest losses.

Covenants

The covenants, financial covenants and negative covenants provided by KPLP under the Senior Credit Agreement are incorporated and made part of the Nordea Credit Agreement. See “Senior Credit Agreement — Covenants” above. The Nordea Credit Agreement contains restrictions on amendments to the Senior Credit Agreement and related security and other documents.

Events of Default

The Nordea Credit Agreement contains customary events of default such as non-payment, misrepresentation and breach of covenants and also provides for a cross-default to the Senior Credit Agreement and a default related to the termination or loss of the EKN guarantee.

Security and Guarantees

The Nordea Credit Agreement provides for pari passu security and guarantees on the assets and undertaking of KPLP and each Restricted Credit Party, the relationship between the lender and administrative agent under the Nordea Credit Agreement and the administrative agent and the lenders under the Senior Credit Agreement being governed by a collateral agency and security sharing agreement.

TAD Credit Agreement

General

TAD Canco is a party to a credit agreement dated as of August 16, 2011 entered into between TAD Canco, as borrower, TAD Luxembourg and KTG, as guarantors, and Caisse de dépôt et placement du Quebec (Caisse), as lender (as amended as of September 21, 2012, the TAD Credit Agreement) pursuant to which a non revolving term loan facility for a maximum amount of U.S.$211.1 million was made available to TAD Canco (the Caisse Facility). Under the terms of the Caisse Facility, KPLP could only make draws until February 15, 2014. As of that date, KPLP had drawn U.S.$125.0 million. The Caisse Facility was used by TAD Canco to invest in TAD Luxembourg, which in turn lends such proceeds to KTG on substantially the same terms and conditions as the Caisse Facility to finance the Memphis TAD Machine. Recourse under the Caisse Facility is limited to TAD Canco, TAD Luxembourg and KTG. The Caisse Facility matures on August 16, 2018.

As of December 31, 2017, the Caisse Facility, which matures on August 16, 2018, has been classified as short-term debt, resulting in a working capital deficit. Management fully expects to refinance all or part of the indebtedness prior to the maturity date and is currently exploring various refinancing alternatives.

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

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

Interest Rates and Fees

Borrowings under the Caisse Facility will bear interest at a base rate of 8% per annum plus an applicable margin determined as follows: of (i) 5% per annum at any time prior to the Memphis TAD Machine service commencement date and KTG Excess Cash Flow has become positive, and (ii) thereafter, if the net debt to KTG EBITDA ratio is (A) higher or equal to 2.5, the greater of interest calculated at 5% per annum and an amount equal to 30% of KTG Excess Cash Flow (B) lower than 2.5 but not lower than 2.0, the greater of interest calculated at 5% per annum and an amount equal to 25% of KTG Excess Cash Flow or (C) lower than 2.0, the greater of interest calculated at 4% per annum and an amount equal to 15% of KTG Excess Cash Flow. Under the Caisse Facility, “Excess Cash Flow” is defined as, with respect to KTG, the EBITDA minus, without duplication, cash income tax, cash interest payments, positive change in working capital (or plus negative change in working capital, as the case may be) and capital expenditures, in each case, for the last completed four fiscal quarters of KTG.

Prepayments and Repayments

TAD Canco is required to make annual mandatory KTG Excess Cash Flow prepayments starting from the Memphis TAD Machine service commencement date in an amount equal to a percentage of the KTG Excess Cash Flow determined based on the KTG Net Debt to EBITDA Ratio (as defined in the TAD Credit Agreement). TAD Canco may, once a year, within specific periods and upon notice to Caisse, voluntarily prepay up to 10% of the principal balance of the outstanding advances under the Caisse Facility, subject to a 2% penalty and provided that, amongst other things, no such optional prepayment may be effected if it would result in the aggregate outstanding principal amount of advances under the Caisse Facility falling below U.S.$125 million.

Change of Ownership

Upon the occurrence of a change of ownership, direct or indirect, of any equity securities of TAD Canco, TAD Luxembourg or KTG, or in the power to exercise any rights with respect to such equity securities, Caisse will have the option, exercisable at its sole discretion, to require the repayment by TAD Canco, in whole or in part, of the amounts due under the Caisse Facility, together with a penalty of 1% of the principal balance of the repaid loans.

Covenants

The TAD Credit Agreement contains customary affirmative covenants, including, but not limited to, delivery of financial and other information to Caisse, delivery of notice to Caisse upon the occurrence of certain material events, preservation of existence and authorizations, maintenance of insurance, compliance with laws, payment of taxes and other claims, performance of material project agreements, limitations on use of project revenues, maintenance of security, and granting of further assurances.

The TAD Credit Agreement contains customary negative covenants, including, but not limited to, restrictions on the ability of TAD Canco, TAD Luxembourg and KTG, subject to certain exceptions, to grant liens, incur indebtedness, engage in businesses other than those specifically permitted, make investments and loans, merge or consolidate, enter into transactions with affiliates, grant guarantees, reduce capital, sell or otherwise dispose of assets, incur capital expenditures, or amend or assign material project agreements. Distributions by TAD Canco are also subject to specific conditions including that distributions must be made from KTG Excess Cash Flow.

Events of Default

Events of default under the TAD Credit Agreement include, but are not limited to, non-payment, misrepresentation, breach of covenants, termination or default under a material project agreements, cross-default to KPLP, TAD Canco, TAD Luxembourg or KTG other indebtedness above certain thresholds, insolvency, enforcement proceedings, and abandonment of the Memphis TAD Machine.

Security and Guarantees

The Caisse Facility is guaranteed by TAD Luxembourg and KTG. TAD Canco granted first ranking security on all present and future movable and immovable property of TAD Canco, including its equity securities in TAD Luxembourg. KTG granted first ranking security on all present and future movable and immovable property of KTG, including, the Memphis Plant, the TAD machine and all of KTG’s rights under the material agreements to which it is party. TAD Luxembourg granted security on all equity securities held in KTG and all rights under material agreements. Blocked account agreements were also entered into in favour of Caisse.

Ontario Loan Agreement

General

KPLP is a party to a conditional loan agreement dated as of July 1, 2015 entered into by KPLP, as borrower, and the Government of Ontario as lender (the Ontario Loan Agreement) pursuant to which a secured non-revolving loan in a maximum amount of $10.0 million (the Ontario Loan) is made available to KPLP. The Ontario Loan is being used to partially finance the expansion project at the Trenton facility. The Ontario Loan Agreement matures ten years after the first loan disbursement, which occurred on February 24, 2016.

Interest Rates and Fees

Borrowings under the Ontario Loan bear interest, up to a maximum rate of 4.4% per annum for a period of ten years from the date of the first loan disbursement. A portion of the loan interest is forgivable, subject to prescribed conditions.

Prepayments and Repayments

The Ontario Loan has a moratorium on repayment of the principal for the initial five years following the date of the first loan disbursement, after which the principal is to be repaid in five equal annual payments. A portion of the loan principal is forgivable, subject to prescribed conditions, up to a maximum forgivable portion of $5.0 million.

Covenants

The Ontario Loan Agreement contains covenants including, but not limited to, delivery of financial and other information to the Government of Ontario, the preservation of existence, maintenance of insurance, compliance with laws, payment of taxes, completion of project and limitations on project procurement. The Ontario Loan Agreement also contains restrictions on the disposition of assets and changing the nature of the business and an undertaking to comply with the negative covenants in the Senior Credit Agreement.

Events of Default

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

Security and Guarantees

The Ontario Loan is secured by the assets acquired for the expansion project at the Trenton facility.

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 Québec 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 paper machine to be installed at the Crabtree facility (PM Project). 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. Monthly interest payments commence the month following the first loan disbursement.

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. The monthly repayments are reduced, in the reverse order of maturity, by repayments to Investissement Quebec corresponding to KPLP’s receipt of Government of Quebec electricity tariff rebates.

Covenants

The Quebec PM Loan Agreement contains covenants including, but not limited to, delivery of financial and other information to Investissement Quebec, the preservation of existence, maintenance of insurance and maintenance of operations. The Quebec PM Loan Agreement also contains restrictions on the disposition of assets, incurrence of indebtedness and granting of liens, change of control and changes in the PM Project.

Events of Default

The Quebec PM Loan Agreement contains customary events of default such as non-performance, non-payment, misrepresentation and breach of covenants.

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.

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 December 31, 2017, KPLP had net liabilities denominated in U.S. dollars of $23.2 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 Fiscal 2017 would have been an increase (decrease) of approximately $1.2 million (Fiscal 2016 – $1.7 million).

KPLP uses derivative financial instruments to manage foreign currency risk. Foreign exchange swaps and foreign exchange forwards are used to manage U.S. dollar borrowings. As of December 31, 2017, KPLP had foreign exchange swaps outstanding of $31.5 million (December 31, 2016 – nil) and foreign exchange forwards outstanding of $19.0 million (December 31, 2016 – nil), with settlement dates ranging from January 3, 2018 to January 31, 2018. 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 Fiscal 2017 would have been a (decrease) increase of approximately $2.4 million (Fiscal 2016 – nil).

Interest Rate Risk

KPLP's interest rate risk arises from its variable rate debt related to the revolving credit facility. As of December 31, 2017, KPLP had variable rate debts of $181.1 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 $1.8 million (Fiscal 2016 - $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 December 31, 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 December 31, 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 December 31, 2017, KPLP had drawn $191.1 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 $83.0 million available from the credit line, subject to covenant limitations. As of December 31, 2017, KPLP had total liquidity of $53.3 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 $190.7 million as of December 31, 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.

As of December 31, 2017, the Caisse Facility, which matures on August 16, 2018, has been classified as short-term debt, resulting in a working capital deficit. Management fully expects to refinance all or part of the indebtedness prior to the maturity date and is currently exploring various refinancing alternatives.

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

Subject to refinancing being obtained, 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 is subject to commodity price fluctuations since KPLP's main raw material is fibre, which changes price due to market conditions, and therefore can result in periodic earnings volatility in the short term. Historically, the industry has generally been able to mitigate its exposure to commodity price risk over the medium term by passing increases in its supply costs onto its customers through incremental price increases, depending on the supply and demand balance. The ability to eventually pass through the full amount of pulp cost increases can be impacted by the competitive market situation. From time to time, KPLP enters into futures contracts to manage its commodity risk. No such contracts were outstanding as of December 31, 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 Fiscal 2017 were $1.1 million (Fiscal 2016 – $0.9 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 Fiscal 2017 were $36.2 million (Fiscal 2016 - $33.1 million). Purchases of goods and services from subsidiaries of Kruger during Fiscal 2017 were $10.5 million (Fiscal 2016 - $8.3

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. During Fiscal 2017, management fees of $4.3 million (Fiscal 2016 - $4.2 million) were paid to Kruger Inc. for management services provided to KPLP.

OFF BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS

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

CRITICAL ACCOUNTING ESTIMATES

The preparation of the 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. An increase/decrease in the discount rate by 0.5% would result in a decrease/increase in the Partnership units liability of approximately $8.1 million and $9.0 million, respectively. The discount rate reflects the risks associated with the business, which operates primarily in Canada.

As of December 31, 2017, $160.3 million was recorded as a liability in respect of this obligation (December 31, 2016 - $145.9 million). The Partnership units liability was adjusted during Fiscal 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 $23.0 million recorded during Fiscal 2017 has been included in Other expense, and also includes an increase of $21.1 million for the reassessment performed as of December 31, 2017. The reassessment reflects KPLP's estimate of the net present value of the financial liability arising from the obligation to make the Tax Distribution using estimates of tax payable by KPT and a discount rate and terminal growth rate of 11.75% and 2.0% (December 31, 2016 – 11.50% and 2.0%), respectively. The change in the discount rate resulted in a decrease in liability of $4.4 million.

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 December 31, 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 U.S. 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, 2017, KPLP reassessed its ability to utilize the U.S. state tax credits. As a result of the reassessment, a reversal of $2.8 million of the U.S. state tax credits was recorded in the consolidated statement of comprehensive income (loss). The impact of U.S. tax reform on the consolidated financial statements for the year ended December 31, 2017 was an increase in deferred tax expense of $6.2 million on the consolidated statement of comprehensive income (loss) and a corresponding drawdown of the deferred income tax asset of $6.2 million on the consolidated statement of financial position. The impact on the consolidated financial statements was a result of a decrease in the U.S. federal tax rate from 35% to 21%, effective for taxation years beginning after December 31, 2017. Management has used the best information available to assess the implications of the U.S. tax reform for periods beginning January 1, 2018. However, as more guidance becomes available in respect of the implications of the U.S. tax reform, further adjustments may be required to the consolidated financial statements.

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 Year Ended December 31, 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, the application of the amendments to IAS 7 did not result in any changes to the presentation of the 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 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 consolidated financial statements.

Future Accounting Standards

The following revised standards and amendments are effective for annual periods beginning on or after January 1, 2018, with earlier application permitted where indicated. KPLP and KPT Management continue to assess the impact of these standards and amendments and have not yet 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 being leases, financial instruments and insurance contracts. In September 2015, the IASB issued an amendment to defer the mandatory effective date to interim periods beginning on or after January 1, 2018, with early adoption permitted. In April 2016, the IASB issued an amendment to clarify the guidance on identifying performance obligations, licences of intellectual property and principal versus agent, and to provide additional practical expedients on transition. The amendment is effective for annual periods beginning on or after January 1, 2018.

Management has performed an assessment of IFRS 15 adoption and does not expect a significant impact on the consolidated financial statements. It is expected that the application of IFRS 15 will result in a change in the revenue recognition related to dispensers and related revenue. Management will adopt IFRS 15 using the modified retrospective approach. A transitional adjustment of $6.3 million to reduce the balance related to the dispensers currently recorded in Other long term assets will be recognized in retained earnings (deficit) on the date of initial application, January 1, 2018.

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 has performed a preliminary assessment of IFRS 9 adoption and does not expect a significant 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 right-of-use asset and a lease liability reflecting future lease payments for virtually all lease contracts. IFRS 16 must be applied to an entity’s first annual IFRS financial statements for periods beginning on or after January 1, 2019, with early adoption permitted. Management can elect to adopt IFRS 16 using either the full retrospective approach or the modified retrospective approach.

Management has performed a preliminary assessment of IFRS 16 adoption and expects a significant impact on the consolidated financial statements. The right-of-use asset and lease liability are expected to be material to the consolidated statement of financial position. There is expected to be a change in presentation on the consolidated statement of comprehensive income (loss) and a significant impact on Adjusted EBITDA. IFRS 16 replaces operating lease expense (recorded in Cost of sales and Selling, general and administrative expenses) with a depreciation charge for right-of-use assets and interest expense on lease liabilities. The amount related to the depreciation charge and interest expense will differ from the previous operating lease expense. Both the depreciation charge and interest expense are excluded from the calculation of Adjusted EBITDA, while the operating lease expense was previously included in the calculation. Changes to systems and processes are expected to be required, in order to collect the new data requirements.

Management is evaluating the potential implications on data systems, internal controls over financial reporting, information technology, business processes, and financing and compensation arrangements. Management is also evaluating the transition approach it will apply and whether it will use the optional exemptions or practical expedients under the standard. Additional details, including the transition approach, practical expedients elected and estimated quantitative impact on the consolidated financial statements are expected to be disclosed before the adoption of IFRS 16.

IFRIC 23, Uncertainty over income tax treatments. In June 2017, the IFRS Interpretation Committee issued an interpretation which clarifies how the recognition and measurement requirements of IAS 12 Income taxes, are applied where there is uncertainty over income tax treatments. The interpretation is effective for annual periods beginning on or after January 1, 2019. Management has performed a preliminary assessment of IFRIC 23 adoption and does not expect a significant impact on the consolidated financial statements.

SELECTED ANNUAL FINANCIAL INFORMATION

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

(C$ millions, unless otherwise stated)	December 31, 2017	December 31, 2016
KPT Financial Information		
Total assets	101.2	119.4
Total liabilities	4.2	4.3
KPLP Financial Information		
Total assets	1,299.8	1,337.0
Total liabilities	976.2	954.3

SELECTED QUARTERLY FINANCIAL INFORMATION

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

	2017				2016			
(C$ millions, unless otherwise stated)	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Number of days in the period	98	91	91	85	97	91	91	87
Revenue	340.0	336.3	314.4	289.3	339.6	312.8	295.8	279.7
Net income (loss) for the period	(18.0)	16.5	9.9	6.9	(4.5)	21.6	12.0	6.4
Reconciliation of Net income (loss) to Adjusted EBITDA								
Net income (loss)	(18.0)	16.5	9.9	6.9	(4.5)	21.6	12.0	6.4
Interest expense	10.4	10.5	10.8	10.3	10.7	11.2	10.9	11.2
Income taxes	7.8	0.1	2.2	2.7	2.0	0.1	0.9	0.6
Depreciation and amortization	13.3	14.6	12.5	12.0	13.8	12.3	12.0	10.4
Foreign exchange (gain) loss	0.9	(1.2)	(0.5)	(0.6)	0.9	0.8	(0.3)	(1.7)
Change in amortized cost of Partnership units liability	18.9	(0.9)	2.5	2.5	22.2	-	-	1.2
Change in fair value of derivatives	0.4	-	-	-	-	-	-	-
Loss on sale of fixed assets	-	-	-	-	0.1	-	-	-
Gain on sale of non-financial assets	-	-	(0.1)	-	(2.5)	(0.4)	-	-
Restructuring costs, net	-	(0.2)	-	-	0.2	-	0.4	-
Adjusted EBITDA	33.7	39.4	37.3	33.8	42.9	45.6	35.9	28.1

Results of Operations Q4 2017 compared to Q4 2016

Revenue

Revenue was $340.0 million in Q4 2017 compared to $339.6 million in Q4 2016, an increase of $0.4 million or 0.1%, due primarily to a Consumer selling price increase implemented in Canada in Q4 2017, partially offset by lower consumer sales volume in Canada and the unfavourable impact of foreign exchange fluctuations on U.S. sales (USD average 1.27 in Q4 2017 compared to 1.33 in Q4 2016). From a geographic perspective, revenue in Mexico increased $2.1 million or 14.4%, and revenue in the U.S. increased $1.9 million, or 1.7%, while revenue in Canada decreased $3.6 million, or 1.7%.

Cost of Sales

Cost of sales was $296.0 million in Q4 2017 compared to $284.2 million in Q4 2016, an increase of $11.8 million or 4.2%. Manufacturing costs increased primarily due to significantly higher pulp costs. These cost increases were partially offset by the favourable impact of foreign exchange fluctuations on USD denominated costs (USD average 1.27 in Q4 2017 compared to 1.33 in Q4 2016), the benefits from cost reduction initiatives and capital projects. Freight costs increased primarily due to higher carrier rates. As a percentage of revenue, cost of sales were 87.1% in Q4 2017 compared to 83.7% in Q4 2016.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses were $23.7 million in Q4 2017 compared to $26.4 million in Q4 2016, a decrease of $2.7 million or 10.2%. The decrease was primarily due to due to lower bonus compensation and cost reduction initiatives. As a percentage of revenue, SG&A expenses were 7.0% in Q4 2017 compared to 7.8% in Q4 2016.

Adjusted EBITDA

Adjusted EBITDA was $33.7 million in Q4 2017 compared to $42.9 million in Q4 2016, a decrease of $9.2 million or 21.4%. The decrease was primarily due to higher pulp costs and increased freight costs. These were partially offset by lower SG&A expenses, cost reduction initiatives and capital projects.

Gain on Sale of Non-Financial Assets

A gain of $2.5 million was recorded in Q4 2016 related to the New Westminster 2012 Business Rationalization Project. See above in Fiscal 2017 section for additional details regarding this initiative.

Interest Expense

Interest expense was $10.4 million in Q4 2017 compared to $10.7 million in Q4 2016, a decrease of $0.3 million. The decrease was primarily due to lower U.S. interest expense and the favourable impact of foreign exchange.

Other Expense

Other expense was $20.2 million in Q4 2017 compared to $23.1 million in Q4 2016. Other expense in Q4 2017 was primarily related to the change in the amortized cost of the Partnership units liability in Q4 2017 of $18.9 million (Q4 2016 - $22.2 million), a foreign exchange loss of $0.9 million (Q4 2016 – $0.9 million) and the change in fair value of derivatives of $0.4 million (Q4 2016 – nil).

Income Taxes

An income tax expense of $7.8 million was recorded in Q4 2017 compared to $2.0 million in Q4 2016. 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 recovery in partner’s hands was $2.0 million in Q4 2017 compared to $2.1 million in Q4 2016. The impact of U.S. tax reform on the consolidated financial statements for the year ended December 31, 2017 was an increase in deferred tax expense of $6.2 million on the consolidated statement of comprehensive income (loss) and a corresponding drawdown of the deferred income tax asset of $6.2 million on the consolidated statement of financial position. The impact on the consolidated financial statements was a result of a decrease in the U.S. federal tax rate from 35% to 21%, effective for taxation years beginning after December 31, 2017. Management has used the best information available to assess the implications of the U.S. tax reform for periods beginning January 1, 2018. However, as more guidance becomes available in respect of the implications of the U.S. tax reform, further adjustments may be required to the consolidated financial statements.

Net Loss

Net loss was $18.0 million in Q4 2017 compared to $4.5 million in Q4 2016, an increase in the net loss of $13.5 million. The increase in the net loss was primarily due to lower Adjusted EBITDA of $9.2 million, an increase in tax expense of $5.8 million, a decrease in the gain on sale of non-financial assets of $2.5 million and a change in fair value of derivatives of $0.4 million in Q4 2017. These items were partially offset by a decrease in the change in amortized cost of Partnership units liability of $3.3 million and lower depreciation expense of $0.5 million.

Segment Information Q4 2017 compared to Q4 2016

(C$ millions, unless otherwise noted)	Q4 2017	Q4 2016	Q4 2017 vs. Q4 2016 $ Change	Q4 2017 vs. Q4 2016 % Change
Segment Revenue				
Consumer	276.4	278.0	(1.6)	-0.6%
AFH	62.2	59.5	2.7	4.5%
Other	1.4	2.1	(0.7)	-33.3%
Total segment revenue	340.0	339.6	0.4	0.1%
Segment Adjusted EBITDA				
Consumer	32.2	41.9	(9.7)	
AFH	1.4	1.0	0.4	
Other	0.1	-	0.1	
Total segment Adjusted EBITDA	33.7	42.9	(9.2)	

Consumer Segment

Q4 2017 compared to Q4 2016

Consumer segment revenue was $276.4 million in Q4 2017 compared to $278.0 million in Q4 2016, a decrease of $1.6 million or 0.6%, due primarily to lower consumer sales volume in Canada and the unfavourable impact of foreign exchange fluctuations on U.S. sales (USD average 1.27 in Q4 2017 compared to 1.33 in Q4 2016), partially offset by the selling price increase implemented in Canada in Q4 2017. Consumer segment revenue decreased in Canada and increased in the U.S.

Consumer Segment Adjusted EBITDA was $32.2 million in Q4 2017 compared to $41.9 million in Q4 2016, a decrease of $9.7 million. The decrease was primarily due to significantly higher pulp costs and also increased freight costs, partially offset by lower SG&A expenses.

AFH Segment

Q4 2017 compared to Q4 2016

AFH segment revenue was $62.2 million in Q4 2017 compared to $59.5 million in Q4 2016, an increase of $2.7 million or 4.5%, due primarily to increased sales volume and favourable sales mix, which was partially offset by the unfavourable impact of foreign exchange fluctuations on U.S. sales (USD average 1.27 in Q4 2017 compared to 1.33 in Q4 2016). AFH segment revenue increased in Canada and decreased in the U.S.

AFH Segment Adjusted EBITDA was $1.4 million in Q4 2017 compared to $1.0 million in Q4 2016, an increase of $0.4 million. This increase was due primarily to increased revenue, partially offset by higher fibre and warehousing costs.

Other Segment

Q4 2017 compared to Q4 2016

Other segment revenue was $1.4 million in Q4 2017 compared to $2.1 million in Q4 2016, a decrease of $0.7 million due to lower parent roll sales in the quarter.

Other Segment Adjusted EBITDA was $0.1 million in Q4 2017 compared to nil in Q4 2016, an increase of $0.1 million primarily due to favourable sales mix related to the sale of parent rolls.

SHARE INFORMATION

KPT's authorized share capital consists of an unlimited number of Common Shares. As of March 7, 2018, there were 9,251,035 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 March 7, 2018 for Common Shares, it would hold approximately 84.1% of the issued and outstanding Common Shares. As of March 7, 2018, there were no potentially dilutive instruments outstanding.

Pursuant to the Limited Partnership Agreement, KPLP may issue an unlimited number of KPLP Units. As of March 7, 2018, there were 58,036,213 KPLP Units issued and outstanding.

RISK FACTORS

For a detailed description of risk factors associated with KPT and KPLP, refer to the "Risk Factors" section of the 2017 Annual Information Form dated March 9, 2018 available on SEDAR at www.sedar.com. KPLP Management is not aware of any significant changes to the risk factors associated with KPT and KPLP from those disclosed at that time.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures and Internal Control over Financial Reporting

Disclosure controls and procedures within KPT and KPLP (collectively, the Corporations) have been designed to provide reasonable assurance that all relevant information is identified to its Chief Executive Officer (CEO), its Chief Financial Officer (CFO) and its Disclosure Policy Committee to ensure appropriate and timely decisions are made regarding public disclosure.

Internal controls over financial reporting have been designed by management, under the supervision of, and with the participation of the Corporations' CEO and CFO, to provide reasonable assurance regarding the reliability of the Corporations' financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The Corporations will file certifications, signed by the Corporations' CEO and CFO, with the Canadian Securities Administrators (CSA) upon filing of the Corporations' Annual Information Form. In those filings, the Corporations' CEO and CFO will certify, 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. The Corporations' CEO and CFO also certify the appropriateness of the financial disclosures in the Corporations' interim filings with securities regulators. In those interim filings, the Corporations' CEO and CFO also certify 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 financial statements and notes of KPT and the consolidated financial statements and notes of KPLP, and the Corporations' Boards of Directors approved these documents prior to their release.

Management's Report on Disclosure Controls and Procedures

Management, under the supervision of and with the participation of the Corporations' CEO and CFO, evaluated the effectiveness of the Corporations' disclosure controls and procedures (as defined under National Instrument 52-109) and concluded, as of December 31, 2017, that such disclosure controls and procedures were effective.

Management's Report on Internal Controls over Financial Reporting

Management, under the supervision of and with the participation of the Corporations' CEO and CFO, evaluated the effectiveness of the Corporations' internal controls over financial reporting (as defined under National Instrument 52-109). In making this evaluation, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commissions (COSO) in Internal Control - Integrated Framework (2013). Based on that evaluation, management and the CEO and CFO have concluded that, as of December 31, 2017, the Corporations' internal controls over financial reporting were effective. This evaluation took into consideration the Corporations' Corporate Disclosure Policy and the functioning of its Disclosure Policy Committee.

ADDITIONAL INFORMATION

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