



KP TISSUE INC. AND KRUGER PRODUCTS L.P.

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

FOR THE 13-WEEK PERIOD ENDED MARCH 27, 2016

DATED MAY 4, 2016

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The following Management's Discussion and Analysis (MD&A) dated May 4, 2016 for KP Tissue Inc. (KPT) and Kruger Products L.P. (KPLP) is intended to assist the readers in understanding the business environment, strategies, performance and risk factors relating to KPT and KPLP. It should be read in conjunction with the condensed financial statements of KPT for the 13-week periods ended March 27, 2016 and March 29, 2015, and the condensed consolidated financial statements of KPLP for the 13-week periods ended March 27, 2016 (Q1 2016) and March 29, 2015 (Q1 2015), respectively.

About KP Tissue Inc.

KPT was created to acquire, and its business is limited to holding, a limited partnership interest in KPLP, which is accounted for as an investment in an associate using the equity method of accounting. KPT currently holds a 16.2% interest in KPLP (16.3% as of March 27, 2016). The following MD&A provides discussion and analysis related to KPT to the extent necessary to understand the equity method of accounting. However, most of the discussion and analysis relates to KPLP and to KPT's investment in KPLP.

CAUTIONARY FORWARD LOOKING STATEMENT

Certain statements in this MD&A about KPT's and KPLP's current and future plans, expectations and intentions, results, levels of activity, performance, goals or achievements or any other future events or developments constitute forward-looking statements. The words "may", "will", "would", "should", "could", "expects", "plans", "intends", "trends", "indications", "anticipates", "believes", "estimates", "predicts", "likely" or "potential" or the negative or other variations of these words or other comparable words or phrases, are intended to identify forward-looking statements. The forward-looking information is based on certain key expectations and assumptions made by KPT or KPLP, including continued growth of the U.S. private label market and demand for TAD products in the U.S., orders for the TAD machine's products, the demand and timing of distributions made by KPLP, and Kruger Inc.'s cash requirements. The financial outlook that KPLP Management provides on page 3 of this MD&A concerning the potential incremental Adjusted EBITDA generated by the sale of TAD products is considered forward-looking information and is based on additional key expectations and assumptions, including but not limited to (i) limited incremental overhead relating to the operation of the TAD machine and distribution and sale of products, (ii) the TAD machine operating at near full capacity and products being sold at prices consistent with current market prices, adjusted for inflation, (iii) a cost of pulp and energy based on recent prices, adjusted for inflation, and (iv) a foreign exchange rate between the Canadian and U.S. dollars approximating current levels. Although KPT and KPLP believe that the expectations and assumptions on which such forward-looking information is based are reasonable, undue reliance should not be placed on the forward-looking information since no assurance can be given that such expectations and assumptions will prove to be correct.

Many factors could cause KPLP's actual results, level of activity, performance or achievements or future events or developments (which could in turn affect the economic benefits derived from KPT's economic interest in KPLP) to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, the following factors, which are discussed in greater detail in the "Risk Factors – Risks Related to KPLP's Business" section of the KPT Annual Information Form dated March 10, 2016 available on SEDAR at www.sedar.com (the Annual Information Form): Kruger Inc.'s influence over KPLP; KPLP's reliance on Kruger Inc.; consequences of an event of insolvency relating to Kruger Inc.; risks associated with the TAD Project; operational risks; Gatineau Plant land lease; significant increases in input costs; reduction in supply of fibre; increased pricing pressure and intense competition; KPLP's inability to innovate effectively; adverse economic conditions; dependence on key retail trade customers; damage to the reputation of KPLP or KPLP's brands; KPLP's sales being less than anticipated; KPLP's failure to implement its business and operating strategies; KPLP's obligation to make regular capital expenditures; KPLP's entering into unsuccessful acquisitions; KPLP's dependence on key personnel; KPLP's inability to retain its existing customers or obtain new customers; KPLP's loss of key suppliers; KPLP's failure to adequately protect its intellectual property rights; KPLP's reliance on third party intellectual property licenses; adverse litigation and other claims affecting KPLP; material expenditures due to comprehensive environmental regulation affecting KPLP's cash flow; KPLP's pension obligations are significant and can be materially higher than predicted if KPLP Management's underlying assumptions are incorrect; labour disputes adversely affecting KPLP's cost structure and KPLP's ability to run its plants; exchange rate and U.S. competitors; KPLP's inability to service all of its indebtedness; exposure to potential consumer product liability; covenant compliance; interest rate and refinancing risk; information technology and innovation; insurance; and internal controls.

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

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

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

OVERVIEW

Business Overview

KPLP is Canada's leading tissue products supplier by overall market share. It produces, distributes, markets and sells a wide range of products, including bathroom tissue, facial tissue, paper towels and napkins, for both the Consumer and the Away-From-Home (AFH) market (in each case, as defined below). While its principal focus is on the Canadian consumer-branded tissue products market, KPLP is also a leader in the Canadian AFH market and is expanding its business in the U.S. private label tissue market. The Consumer segment consists of well recognized brands such as *Cashmere*, *Purex*, *Scotties*, *SpongeTowels*, *White Cloud* and *White Swan*.

KPLP is headquartered in Mississauga, Ontario and has approximately 2,500 employees across North America. KPLP's Canadian manufacturing facilities, consisting of three tissue plants in Québec, two plants in Ontario, and one plant in British Columbia, have a combined annual tissue production capacity of approximately 246,000 metric tonnes.

KPLP's U.S. manufacturing facility held through K.T.G. (USA) Inc. (KTG) and located in Memphis, Tennessee consists of two paper machines with an aggregate annual capacity of 57,000 metric tonnes, and one adjacent 60,000 metric tonne state-of-the-art, Through-Air-Dried (TAD) tissue machine and related infrastructure (the TAD Project).

Pursuant to its Articles, KPT's business is limited to (i) the investment in, holding of and disposition of limited partnership interests, units, shares or other securities of KPLP and its general partner, KPGP Inc. (KPGP) (or any successor entity of either KPLP or KPGP), (ii) the acquisition of, holding, operation and disposition of any assets, liabilities, operations or business of such entities, and (iii) all activities related, incidental or ancillary to any of the foregoing. As of the date of the MD&A and following the participation by the partners in the Dividend Reinvestment Plan (DRIP) on April 15, 2016, KPT held 16.2% of the KPLP Partnership Units (KPLP Units).

Basis of Presentation

The condensed consolidated financial statements of KPLP presented for Q1 2016 and Q1 2015 have been prepared in accordance with IFRS (International Financial Reporting Standards) for interim financial statements, including IAS 34, Interim Financial Reporting. The condensed financial statements of KPT for the 13-week periods ended March 27, 2016 and March 29, 2015, have also been prepared in accordance with IFRS for interim financial statements.

Accounting Periods

This MD&A, the condensed consolidated financial statements of KPLP and accompanying notes thereto include financial information for Q1 2016 and Q1 2015.

Financial Measures and Key Indicators

This MD&A uses certain non-IFRS financial measures and ratios which KPLP believes provide useful information to both KPLP Management and the readers of the condensed consolidated financial statements in measuring the financial performance and financial condition of KPLP. These measures do not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similarly titled measures presented by other companies. An example of such measures is Adjusted EBITDA. Adjusted EBITDA is not a measurement of operating performance computed in accordance with IFRS and should not be considered as a substitute for operating income, net income or cash flows from operating activities computed in accordance with IFRS. This MD&A contains a reconciliation of Adjusted EBITDA to the most comparable IFRS measures on page 4.

“Adjusted EBITDA” is calculated by KPLP as net income (loss) before (i) interest expense, (ii) income taxes, (iii) depreciation, (iv) amortization, (v) impairment (recovery) of non-financial assets, (vi) loss (gain) on disposal of property, plant and equipment, (vii) unrealized foreign exchange loss (gain), (viii) costs related to restructuring activities, (ix) changes in the amortized cost of the Partnership units liability, and (x) one-time costs due to pension revaluations related to past service.

“TAD Product Adjusted EBITDA” represents the portion of KTG Adjusted EBITDA generated by the sale of TAD products.

Outlook

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

In the U.S., KPLP expects to continue to grow by leveraging its TAD product capabilities and focusing on the high-end private label business in the U.S. market. KPLP Management believes that the sale of TAD products has the potential to generate approximately \$60 million Adjusted EBITDA annually for KPLP by 2017, being the year in which the TAD paper machine is expected to reach full production capacity. TAD Product Adjusted EBITDA was \$45.3 million for Fiscal 2015 and \$10.5 million for Q1 2016. The foregoing estimate of future incremental Adjusted EBITDA is considered forward-looking information and is based upon certain key assumptions, including (i) limited incremental overhead relating to the operation of the TAD machine and distribution and sale of products, (ii) the TAD machine operating at near full capacity and products being sold at market prices consistent with current market prices, adjusted for inflation (iii) a cost of pulp and energy based on recent prices, adjusted for inflation, and (iv) a foreign exchange rate between the Canadian and U.S. dollars approximating current levels. The foregoing factors could cause TAD Product Adjusted EBITDA to differ materially from the amount set forth in the foregoing estimate.

RESULTS OF OPERATIONS

Results of Operations of KPLP

(C\$ millions, unless otherwise noted)	Q1 2016	Q1 2015	\$ Change Q1 2016 vs. Q1 2015
Statement of Operations Data:			
Revenue	279.7	265.4	14.3
Cost of sales	(240.6)	(222.5)	(18.1)
Selling, general and administrative expenses	(21.7)	(21.6)	(0.1)
Restructuring costs	-	(1.1)	1.1
Operating income	17.4	20.2	(2.8)
Interest expense	(11.2)	(10.4)	(0.8)
Other income (expense)	0.8	(4.8)	5.6
Income before income taxes	7.0	5.0	2.0
Income taxes:			
Combined income tax rate after manufacturing and processing credits	(1.8)	(1.3)	(0.5)
Income tax in partners' hands	1.6	1.3	0.3
Other	(0.4)	(0.3)	(0.1)
Income taxes	(0.6)	(0.3)	(0.3)
Net income	6.4	4.7	1.7

(C\$ millions, unless otherwise noted)	Q1 2016	Q1 2015	\$ Change Q1 2016 vs. Q1 2015
Reconciliation of Adjusted EBITDA to Net income:			
Net income	6.4	4.7	1.7
Interest expense	11.2	10.4	0.8
Income taxes	0.6	0.3	0.3
Depreciation and amortization	10.4	9.9	0.5
Unrealized foreign exchange (gain) loss	(1.7)	3.3	(5.0)
Change in amortized cost of Partnership units liability	1.2	1.3	(0.1)
Loss on sale of fixed assets	-	0.1	(0.1)
Restructuring costs	-	1.1	(1.1)
Adjusted EBITDA	28.1	31.1	(3.0)

Results of Operations Q1 2016 compared to Q1 2015

Revenue

Revenue was \$279.7 million in Q1 2016 compared to \$265.4 million in Q1 2015, an increase of \$14.3 million or 5.4%. The increase in revenue was primarily due to favourable foreign exchange on U.S. dollar sales, at an average rate of 1.377 in Q1 2016 compared to 1.235 in Q1 2015. Also, revenue was favourably impacted by an increase in sales volume net of sales price/mix. From a geographic perspective, revenue in the U.S. increased \$8.3 million, or 8.9%, while revenue in Canada increased \$2.5 million, or 1.5%, and revenue in Mexico increased \$3.5 million or 41.0%.

Cost of Sales

Cost of sales were \$240.6 million in Q1 2016 compared to \$222.5 million in Q1 2015, an increase of \$18.1 million or 8.1%. As a percentage of revenue, cost of sales were 86.0% in Q1 2016 compared to 83.9% in Q1 2015, primarily due to

the negative impact of foreign exchange fluctuations (USD average 1.377 in Q1 2016 compared to 1.235 in Q1 2015), partially offset by a decline in pulp and natural gas prices. Pulp market prices (NBSK) decreased while Eucalyptus (BEK) was up compared to the same period in 2015. NBSK market prices were U.S.\$943 per metric tonne on average in Q1 2016 compared to U.S.\$995 per metric tonne on average in Q1 2015. BEK market prices were U.S.\$887 per metric tonne on average in Q1 2016 compared to U.S.\$860 per metric tonne on average in Q1 2015. Warehousing costs increased compared to Q1 2015 due to higher inventory levels.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses were \$21.7 million in Q1 2016 compared to \$21.6 million in Q1 2015, an increase of \$0.1 million or 0.5%. The increase was primarily due to slightly higher advertising and promotion expenses and the unfavourable impact of foreign exchange, partially offset by cost reduction initiatives. As a percentage of revenue, SG&A expenses were 7.8% in Q1 2016, lower compared to 8.1% in Q1 2015.

Adjusted EBITDA

Adjusted EBITDA was \$28.1 million in Q1 2016 compared to \$31.1 million in Q1 2015, a decrease of \$3.0 million or 9.6%. The net unfavourable impact of foreign exchange of \$2.0 million and higher warehousing costs were the primary drivers of the decrease in EBITDA, as all other factors combined were relatively neutral in Q1 2016 compared to Q1 2015.

Interest Expense

Interest expense was \$11.2 million in Q1 2016 compared to \$10.4 million in Q1 2015, an increase of \$0.8 million. The impact of foreign exchange on U.S. dollar interest expense was partially offset by lower interest as a result of the refinancing of the Senior Unsecured Notes.

Other Income (Expense)

Other income was \$0.8 million in Q1 2016 compared to other expense of \$4.8 million in Q1 2015. Other income in Q1 2016 was primarily related to an unrealized foreign exchange gain of \$1.7 million (Q1 2015 – loss of \$3.3 million), partially offset by the change in amortized cost of the Partnership units liability of \$1.2 million (Q1 2015 – \$1.3 million).

Income Taxes

An income tax expense of \$0.6 million was recorded in Q1 2016 compared to \$0.3 million in Q1 2015, a change of \$0.3 million. KPLP is not directly taxable on its Canadian business. The income tax expense resulted primarily from operating income related to the U.S. entities. Income tax in partner's hands was \$1.6 million in Q1 2016 compared to \$1.3 million in Q1 2015.

Net Income

Net income was \$6.4 million in Q1 2016 compared to \$4.7 million in Q1 2015, an increase of \$1.7 million. The increase was primarily due to a change in unrealized foreign exchange (gain) loss of \$5.0 million in Q1 2016, and no restructuring costs compared to \$1.1 million in Q1 2015, partially offset by lower EBITDA of \$3.0 million, an increase in interest expense of \$0.8 million, higher depreciation expense of \$0.5 million, and an increase in the tax expense of \$0.3 million.

Results of Operations of KPT

(C\$ millions, unless otherwise noted)	13-week period ended March 27, 2016	13-week period ended March 29, 2015
Equity loss	(0.4)	(0.7)
Net loss for the period	(1.5)	(0.6)
Basic loss per share (dollars)	(0.16)	(0.07)

The selected financial information presented above is based on KPT's interest in KPLP for the 13-week periods ended March 27, 2016 and March 29, 2015. The equity loss includes KPT's share of income of KPLP of \$1.0 million for the 13-week period ended March 27, 2016 and \$0.8 million for the 13-week period ended March 29, 2015, reduced by depreciation expense of \$1.4 million for the 13-week period ended March 27, 2016 and the 13-week period ended March 29, 2015, respectively, related to adjustments to the carrying amount of the assets and liabilities of KPLP on its acquisition by KPT. Refer to note 5 in KPT's financial statements for additional information.

The current income tax expense of \$0.05 million for the 13-week period ended March 27, 2016 and \$0.4 million for the 13-week period ended March 29, 2015 was based on KPT's share of the taxable income of KPLP for the same periods. The deferred tax expense of \$0.9 million for the 13-week period ended March 27, 2016 and deferred tax recovery of \$0.3 million for the 13-week period ended March 29, 2015 were a result of changes in the temporary differences of KPLP's assets and liabilities since acquisition and the difference between the accounting and tax basis for KPT's investment in KPLP. Refer to note 6 in KPT's financial statements for additional information. On February 26, 2016, KPLP declared a Tax Distribution of \$2.6 million, of which \$0.4 million was used to partially settle the advance to KPT recorded during 2015, and \$2.2 million was used to partially settle the advances to Kruger Inc. and KPGP recorded during 2015. The excess advances over the Tax Distributions in the amount of \$4.2 million, of which \$0.7 million are repayable by KPT and \$3.5 million are repayable by Kruger Inc. and KPGP, are due to KPLP by March 31, 2017. KPT received an advance from KPLP of \$0.2 million during the 13-week period ended March 27, 2016 to pay the fiscal 2016 monthly tax instalments. The advance is non-interest bearing and non-recourse and is settled when the Tax Distribution is declared annually.

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

SEGMENT INFORMATION

Segment Adjusted EBITDA

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

Segment Results

(C\$ millions, unless otherwise noted)	Q1 2016	Q1 2015	Q1 2016 vs. Q1 2015	
			\$ Change	% Change
Segment Revenue				
Consumer	228.2	210.1	18.1	8.6%
AFH	49.0	48.6	0.4	0.8%
Other	2.5	6.7	(4.2)	-62.9%
Total segment revenue	<u>279.7</u>	<u>265.4</u>	<u>14.3</u>	<u>5.4%</u>
Segment Adjusted EBITDA				
Consumer	28.0	30.3	(2.3)	
AFH	(0.2)	1.0	(1.2)	
Other	0.3	(0.2)	0.5	
Total Segment Adjusted EBITDA	<u>28.1</u>	<u>31.1</u>	<u>(3.0)</u>	

Consumer Segment

Q1 2016 compared to Q1 2015

Consumer segment revenue was \$228.2 million in Q1 2016 compared to \$210.1 million in Q1 2015, an increase of \$18.1 million or 8.6%, due to additional sales across all geographic regions. The increase was primarily driven by the favourable impact of foreign exchange related to U.S. dollar sales, and higher sales volume net of sales price/mix.

Consumer Segment Adjusted EBITDA was \$28.0 million in Q1 2016 compared to \$30.3 million in Q1 2015, a decrease of \$2.3 million. This decrease was driven primarily by the net negative impact of foreign exchange and increased warehousing costs.

AFH Segment

Q1 2016 compared to Q1 2015

AFH segment revenue was \$49.0 million in Q1 2016 compared to \$48.6 million in Q1 2015, an increase of \$0.4 million or 0.8%, driven primarily by the positive impact of foreign exchange on U.S. sales. AFH segment revenue increased in the U.S. and declined slightly in Canada.

AFH Segment Adjusted EBITDA was a loss of \$0.2 million in Q1 2016 compared to income of \$1.0 million in Q1 2015, due primarily to the net unfavourable impact of foreign exchange, higher freight costs and also startup costs related to new production equipment.

Other Segment

Q1 2016 compared to Q1 2015

Other segment revenue was \$2.5 million in Q1 2016 compared to \$6.7 million in Q1 2015, a decrease of \$4.2 million due to lower parent sales in the quarter.

Other Segment Adjusted EBITDA was \$0.3 million in Q1 2016 compared to a loss of \$0.2 million in Q1 2015, an increase of \$0.5 million primarily due to foreign exchange related to the sale of parent rolls.

LIQUIDITY AND CAPITAL RESOURCES

Overview

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

KPLP targets approximately \$40 million to \$45 million of capital expenditures each fiscal year. Approximately \$20 million of the expenditures are related to maintenance projects and the remainder is focused on growth projects aimed at reducing costs or increasing production capacity. Growth projects generally have a 3 to 4 year payback. In 2016, plans are to increase the level of capital expenditures to approximately \$65 to \$85 million.

As of March 27, 2016, KPLP was in compliance with all of its financial covenants under all of its outstanding credit facilities. As of March 27, 2016, KPLP had drawn \$201.0 million from the \$300.0 million committed amount under the Senior Credit Facility entered into on September 28, 2015. KPLP had \$26.0 million of letters of credit outstanding, resulting in \$73.0 million available from the credit line, subject to covenant limitations. As of March 27, 2016, KPLP had total liquidity of \$58.5 million (December 31, 2015 - \$36.4 million) representing cash and cash equivalents and availability under the credit line within the covenant limitations.

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

Cash Flows

(C\$ millions, unless otherwise stated)	Q1 2016	Q1 2015	\$ Change
			Q1 2016 vs. Q1 2015
Net cash flows from operating activities	6.7	6.2	0.5
Net cash flows used in investing activities	(13.6)	(9.4)	(4.2)
Net cash flows used in financing activities	(14.3)	(17.6)	3.3
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	(0.3)	1.0	(1.3)
Decrease in cash and cash equivalents	(21.5)	(19.8)	(1.7)
Beginning cash and cash equivalents	25.5	51.8	(26.3)
Ending cash and cash equivalents	4.0	32.0	(28.0)

Net Cash Flows from Operating Activities

Net cash from operating activities was \$6.7 million in Q1 2016 compared to \$6.2 million in Q1 2015. Cash from operating activities in Q1 2016 was primarily driven by Adjusted EBITDA of \$28.1 million, partially offset primarily by higher funds required for working capital and funding of pension and post-retirement benefit plans.

Net Cash Flows used in Investing Activities

Net cash used in investing activities was \$13.6 million in Q1 2016 compared to \$9.4 million in Q1 2015. Cash used in investing activities related primarily to capital expenditures of \$16.3 million in Q1 2016 compared to \$9.6 million in Q1 2015. The increase was due primarily to the expanded 2016 capital expenditure program, as described above.

Net Cash Flows used in Financing Activities

Net cash used in financing activities was \$14.3 million in Q1 2016 compared to \$17.6 million in Q1 2015. Net cash used in financing activities in Q1 2016 was primarily due to the net repayment of credit facilities of \$6.4 million, distributions and advances paid of \$6.5 million (net of DRIP proceeds), and interest paid of \$0.9 million.

Contractual Obligations

KPLP's contractual obligations consist of long-term debt (principal repayments and interest payments), operating leases for the rental of property, equipment and automobiles, partnership units liability and other long-term liabilities. There have been no significant changes to the contractual obligations from those disclosed in the 2015 Annual MD&A.

KPLP's cash pension contribution for defined benefit pension arrangements in Q1 2016 was \$5.0 million, while its post-retirement benefits contribution was \$0.8 million. In addition, as of March 27, 2016, KPLP had \$25.6 million of letters of credit related to pensions outstanding. Pension and post-retirement contributions for the year ended December 31, 2016 are expected to be \$15.9 million.

Indebtedness

For additional details related to KPLP's indebtedness, refer to the 2015 Annual MD&A available on SEDAR at www.sedar.com.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

Currency Risk

Currency risk is the risk that KPLP's earnings may fluctuate due to changes in Canadian to U.S. dollar exchange rates, as the financial results are reported in Canadian dollars. KPLP sells certain of its products in U.S. dollars at prevailing U.S. dollar prices. The currency exposure is more than offset by U.S. dollar expenses and the U.S. dollar denominated debt. KPLP at different times during the year can be a net buyer or net seller of U.S. dollars.

As of March 27, 2016, KPLP had net liabilities denominated in U.S. dollars of \$42.9 million (December 31, 2015 – \$45.7 million). Assuming the Canadian dollar strengthened (weakened) by 5% against the U.S. dollar, with all other variables held constant, the result on net income before tax in Q1 2016 would have been an increase (decrease) of \$2.1 million (Q1 2015 – \$2.3 million). KPLP continuously monitors foreign exchange risk and to manage this foreign exchange risk occasionally enters into foreign currency forward contracts and may continue to do so going forward. KPLP had no foreign currency forward contracts outstanding as of March 27, 2016.

Interest Rate Risk

KPLP's interest rate risk arises from its variable rate debt related to the revolving credit facility. As of March 27, 2016, KPLP had variable rate debts of \$197.5 million (December 31, 2015 – \$204.7 million). This facility bore interest at a base rate of Canadian prime rate, U.S. base rate, banker's acceptance rates or LIBOR plus the applicable margins. The applicable margin on the loans ranges between 0.20% and 2.375%. On March 8, 2016, KPLP obtained an amendment which provides for the borrowings under the Credit Facility to bear interest during the year ended December 31, 2016 at a base rate of Canadian prime rate, U.S. base rate, banker's acceptance rates or LIBOR, plus a margin varying between 0.20% and 2.875% depending on the ratio of funded debt to EBITDA and the type of advance. Refer to the 2015 Annual MD&A for additional information.

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

From time to time, KPLP uses interest rate swaps to manage part of its exposure to movements in interest rates on its credit facilities. KPLP had no interest rate swaps or interest rate derivatives outstanding as of March 27, 2016.

Credit Risk

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. KPLP's financial instruments exposed to credit risk as of March 27, 2016 included cash and cash equivalents, trade and other receivables, mortgage receivable, receivables from related parties and advances to partners. KPLP places its cash and cash equivalents with financial institutions of high creditworthiness.

KPLP sells its products to a variety of customers under certain credit terms and therefore is exposed to credit risks. Normal trade receivables are due in 30 days from the invoice date and amounts in excess of 90 days past the invoice date are considered delinquent. KPLP routinely assesses the financial strength of its customers and mitigates against identified exposure primarily by lowering credit limits with high risk accounts. KPLP's customers are well established companies and accordingly, KPLP has experienced limited financial loss with respect to credit risk. As a result, KPLP believes that its exposure to credit risk is limited.

Liquidity Risk

The purpose of liquidity risk management is to maintain sufficient cash and cash equivalents and to ensure KPLP has sufficient authorized credit facilities to maintain liquidity and meet its future obligations as they come due. KPLP has a credit facility of \$300 million maturing in September 2020 and \$26.0 million of letters of credit outstanding as of March 27, 2016, resulting in \$73.0 million available from the credit line, subject to covenant limitations. As of March 27, 2016, KPLP had total liquidity of \$58.5 million (December 31, 2015 - \$36.4 million) representing cash and cash equivalents and availability under the credit line within the covenant limitations. KPLP prepares projections to ensure it has sufficient funds to fulfill its obligations. The ability to pay its obligations relies on KPLP collecting its trade receivables in a timely manner and by maintaining sufficient cash and cash equivalents in excess of anticipated needs. KPLP's trade and other payables of \$185.9 million as of March 27, 2016 (December 31, 2015 - \$180.3 million) are all due for payment within twelve months of the dates of the consolidated statements of financial position.

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

Commodity Price Risk

Commodity price risk is the risk that future cash flows associated with purchasing required raw materials will fluctuate due to changes in commodity prices. KPLP's main raw material is fibre, which changes price due to market conditions. Historically, the industry has generally been able to mitigate its exposure to commodity price risk by passing increases in its supply costs onto its customers through incremental price increases, depending on the supply and demand balance. From time to time, KPLP enters into futures contracts to manage its commodity risk. No such contracts were outstanding as of March 27, 2016.

TRANSACTIONS WITH RELATED PARTIES

Kruger provides certain management and support services to KPLP, including corporate management and administrative support; accounting and tax support; corporate financing support; corporate treasury support; benefits and human resources support; corporate legal and secretarial, corporate insurance; corporate procurement support; and corporate engineering support. Such services are provided pursuant to a Management Services Agreement. KPLP pays Kruger an annual management fee of \$4.2 million (2015 - \$4.2 million).

KPLP also leases warehouses located in Laval, Québec and Vancouver, British Columbia from an entity of which an affiliate of Kruger is a 50% owner.

KPLP purchases certain supplies and services from Kruger and its affiliates, including fibre and small quantities of pulp and packaging. These transactions generally take place on arm's-length terms. KPLP also has the ability to procure these goods and services from third party suppliers.

Sales of goods to Kruger during Q1 2016 were \$0.3 million (Q1 2015 - \$0.05 million). Goods are sold based on the price lists in force and terms that would be available to third parties. Services are delivered at the terms outlined in the agreements between the related parties.

Purchases of goods and services from Kruger during Q1 2016 were \$7.9 million (Q1 2015 - \$6.6 million). Purchases of goods and services from subsidiaries of Kruger during Q1 2016 were \$2.3 million (Q1 2015 - \$2.8 million). Goods are purchased from Kruger and related parties under normal commercial terms and conditions. These purchases of goods and services are included within cost of sales and SG&A expenses in the condensed consolidated statements of comprehensive income. During Q1 2016, management fees of \$1.1 million (Q1 2015 - \$1.0 million) were paid to Kruger Inc. for management services provided to KPLP.

OFF BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS

KPLP has entered into operating lease commitments related to land, buildings, IT services, vehicles and other machines and equipment. Contractual obligations including these operating leases are described in the "Contractual

Obligations” subsection under the “Liquidity and Capital Resources” section of this MD&A and the 2015 MD&A available on SEDAR at www.sedar.com.

There have been no significant changes in contractual obligations during Q1 2016. Please refer to the 2015 Annual MD&A for further details.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the condensed consolidated financial statements is in accordance with IFRS, which requires KPLP Management to make estimates and assumptions that affect the reported amounts and disclosures made in the KPLP and KPT financial statements and accompanying notes. KPLP Management continually evaluates the estimates and assumptions it uses. These estimates and assumptions are based on KPLP Management’s historical experience, best knowledge of current events and conditions and activities that KPLP and KPT may undertake in the future. Actual results could differ materially from these estimates. The estimates and assumptions described in this section depend upon subjective or complex judgment that may be uncertain and changes in these estimates and assumptions could materially impact the financial statements.

Pension and Post-Retirement Benefit Obligations

The cost and accrued benefit plan obligations of KPLP’s pension plans, consisting of the RDBPP, supplementary retirement arrangements and the Annuity Arrangement and other benefit plans are accrued based on actuarial valuations that are dependent on assumptions determined by KPLP Management. These assumptions include the discount rate, the expected long-term rate of return on plan assets, the expected growth rate of health care costs, the rate of compensation increase, and retirement ages and mortality rates. These assumptions are reviewed quarterly by KPLP Management and KPLP’s actuaries. The discount rate (based on market rates), and the expected growth rate in health care costs represent the most significant assumptions.

Partnership Units

On December 13, 2012, in connection with the issuance of Partnership units to KPT, the Limited Partnership Agreement was amended to require KPLP, subject to compliance with contractual obligations and applicable law, to make distributions to its partners in such amounts as would enable KPT to discharge its obligation to pay federal and provincial income taxes (the Tax Distribution). Each partner is entitled to its share of the Tax Distribution made in respect of any given year. KPLP determined that it was appropriate to reclassify a portion of its equity to Partnership units liability, since the Tax Distribution represents a contractual obligation to deliver cash and, as such, meets the definition of a financial liability for accounting purposes under IFRS. The liability is based on management’s best estimate of expected future Tax Distributions. Projections of tax payable are based on additional assumptions including estimates of taxable income and tax rates. Taxable income can differ significantly from accounting income as a result of both timing and permanent tax differences based on enacted tax legislation and therefore changes in the Partnership units obligation are not necessarily indicative of a change in the expected future profitability of KPLP.

As of March 27, 2016, \$123.8 million was recorded as a liability in respect of this obligation (December 31, 2015 - \$125.2 million). The Partnership units liability was adjusted during Q1 2016 to reflect the current year advances made to the partners required to allow KPT to make tax installment payments. The increase in amortized cost of \$1.2 million recorded during Q1 2016 has been included in Other income (expense).

Equity Method of Accounting

The equity method of accounting is being applied by KPT as it relates to its investment in KPLP. The conclusion to account for an investment using the equity method, particularly when the percentage of ownership is below 20%, is based on an assessment of several facts and circumstances and ultimately requires significant judgment in reaching a conclusion. Management has reviewed the agreements and made an assessment of the rights of KPT. Based on KPT having three of nine seats on the board of directors of KPGP, management has concluded that KPT has the ability to exercise significant influence over KPLP.

Impairment tests

KPLP performs an annual impairment test for goodwill and indefinite lived trademarks. Due to market value declines in KPT's publicly traded common shares since the initial offer price, KPT performed an impairment test at December 31, 2015 for its Investment in associate. The test resulted in an impairment of \$28 million, which was recorded in KPT's statement of comprehensive income (loss) during the year ended December 31, 2015. The recoverable amount of the Investment in associate was determined based on management's best estimate of the fair value less costs of disposal. The estimate of fair value was based on the net present value of future cash flows expected to be derived from KPLP, using a discount rate and terminal growth rate of 9.50% and 2.0%, respectively. Refer to the 2015 Annual MD&A for further details.

Income taxes

The Partnership computes its income taxes in each jurisdiction in which its subsidiaries operate. Estimation of income taxes includes evaluating the recoverability of the deferred tax assets and the income taxes recoverable based on an assessment of the ability to use the underlying tax deductions and credits against future taxable income. The assessment requires an estimate of future taxable income compared to the net operating loss carry forwards and US State tax credits. To the extent estimates differ from the final tax return, earnings would be affected in a subsequent period. During the year ended December 31, 2015, the Partnership reassessed its ability to utilize the US State tax credits. As a result of this reassessment, a reversal of \$5.5 million of the US State tax credits was recorded in the consolidated statement of comprehensive income.

KPT has not recognized at the date of acquisition the deferred tax assets and liabilities related to the differences between the accounting and tax basis of KPLP's assets and liabilities. Accordingly, KPT is tracking temporary differences that are subject to the initial recognition exemption and recognizes newly created temporary differences as they arise. The determination of the temporary differences that are subject to the initial recognition exemption requires significant judgment.

ACCOUNTING CHANGES AND FUTURE ACCOUNTING STANDARDS

Accounting Standards Implemented for the 13-week Period Ended March 27, 2016

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

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

Future Accounting Standards

In addition to the new and amended standards not effective, as disclosed in the 2015 MD&A, the following revised standards and amendments are effective for annual periods beginning on or after January 1, 2017, and with earlier application permitted. KPLP and KPT Management have not yet assessed the impact of these standards and amendments or determined whether it will early adopt them, except as noted below.

IAS 12, Income Taxes – Deferred Tax. The IASB issued an amendment to clarify the requirements for recognizing deferred tax assets on unrealised losses. The amendment clarifies the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. Certain other aspects of accounting for deferred tax assets are also clarified. The amendment is effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. Management is evaluating the standard and has not yet determined the impact on its condensed consolidated financial statements.

SELECTED QUARTERLY FINANCIAL INFORMATION

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

(C\$ millions, unless otherwise stated)	March 27, 2016	December 31, 2015
KPT Financial Information		
Total assets	121.4	129.1
Total liabilities	3.8	3.9
KPLP Financial Information		
Total assets	1,277.2	1,297.4
Total liabilities	918.7	909.0

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

Quarterly Financial Information

(C\$ millions, unless otherwise stated)	2016	2015				2014		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Number of days in the period	87	95	91	91	88	94	91	91
Revenue	279.7	300.6	293.6	279.3	265.4	278.6	267.6	265.3
Net income (loss) for the period	6.4	(0.5)	(5.9)	3.2	4.7	0.1	16.1	8.1
Reconciliation of Net income to Adjusted EBITDA								
Net income (loss)	6.4	(0.5)	(5.9)	3.2	4.7	0.1	16.1	8.1
Interest expense	11.2	10.0	25.3	12.5	10.4	9.8	12.6	11.4
Income taxes	0.6	6.2	0.1	0.8	0.3	0.3	(1.5)	(0.3)
Depreciation and amortization	10.4	12.6	10.7	9.3	9.9	10.6	8.5	9.5
Unrealized foreign exchange (gain) loss	(1.7)	1.5	3.0	(0.9)	3.3	1.6	1.8	(1.6)
Pension revaluation - past service cost	-	-	-	3.4	-	-	-	-
Change in amortized cost of								
Partnership units liability	1.2	(1.0)	1.8	1.9	1.3	7.9	1.1	1.5
Loss (gain) on sale of fixed assets	-	0.5	0.1	-	0.1	0.1	(0.6)	0.3
Gain on sale of non-financial assets	-	-	(1.1)	-	-	-	-	-
Restructuring costs	-	0.9	0.8	-	1.1	-	-	0.1
Adjusted EBITDA	28.1	30.3	34.8	30.2	31.1	30.4	38.0	29.0

SHARE INFORMATION

KPT's authorized share capital consists of an unlimited number of Common Shares. As of May 4, 2016, there were 9,021,051 Common Shares issued and outstanding. Pursuant to the Exchange Agreement, Kruger has the right to exchange KPLP Units it holds from time to time for Common Shares on the basis of one KPLP Unit for one Common Share, subject to adjustment as set out in the Exchange Agreement. If Kruger were to exchange all KPLP Units held by it as of May 4, 2016 for Common Shares, it would hold approximately 83.8% of the issued and outstanding Common Shares. As of May 4, 2016, there were no potentially dilutive instruments outstanding.

Pursuant to the Limited Partnership Agreement, KPLP may issue an unlimited number of KPLP Units. As of May 4, 2016, there were 55,642,160 KPLP Units issued and outstanding.

RISK FACTORS

For a detailed description of risk factors associated with KPT and KPLP, refer to the “Risk Factors” section of the 2015 Annual Information Form. KPLP Management is not aware of any significant changes to the risk factors associated with KPT and KPLP from those disclosed at that time.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures and Internal Control over Financial Reporting

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

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

In the Corporations’ 2015 filings, the Corporations’ CEO and CFO certified, as required by National Instrument 52-109, the appropriateness of the financial disclosure, the design and effectiveness of the Corporations’ disclosure controls and procedures and the design and effectiveness of internal controls over financial reporting.

In the Corporations’ Q1 2016 filings, the Corporations’ CEO and CFO certified, as required by National Instrument 52-109, the appropriateness of the financial disclosure, the design of the Corporations’ disclosure controls and procedures and the design of internal controls over financial reporting.

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

Changes in Internal Controls over Financial Reporting

There have been no changes to the Corporations’ internal controls over financial reporting during Q1 2016 that have materially affected, or are reasonably expected to materially affect, its internal controls over financial reporting.

ADDITIONAL INFORMATION

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