KRUGER PRODUCTS L.P.

UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENT

FOR THE 3-MONTH AND 9-MONTH PERIODS ENDED SEPTEMBER 24, 2017 AND SEPTEMBER 25, 2016

Kruger Products L.P
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Kruger Products L.P.
Unaudited Condensed Consolidated Statement of Financial Position

(tabular amounts are in thousands of Canadian dollars)

	September 24, 2017 $	December 31, 2016 $
Assets		
Current assets		
Cash and cash equivalents	26,997	36,511
Trade and other receivables	126,591	123,095
Receivables from related parties (note 11)	69	185
Advances to partners (note 9)	6,417	5,465
Inventories	174,003	179,543
Income tax recoverable	293	423
Prepaid expenses	10,503	7,286
	344,873	352,508
Non-current assets		
Property, plant and equipment (note 6)	748,458	762,270
Other long-term assets	6,150	6,075
Goodwill	160,939	160,939
Intangible assets	14,955	15,270
Deferred income taxes	33,359	39,913
Total assets	1,308,734	1,336,975
Liabilities		
Current liabilities		
Bank indebtedness (note 14)	-	9,007
Trade and other payables	196,459	201,477
Payables to related parties (note 11)	5,089	3,606
Income tax payable	592	1,779
Distributions payable (notes 9 and 11)	10,324	10,148
Current portion of provisions (note 8)	757	1,885
Current portion of long-term debt (note 13)	186,695	8,859
	399,916	236,761
Non-current liabilities		
Long-term debt (note 13)	238,487	415,379
Provisions (note 8)	6,969	6,487
Pensions (note 7)	112,671	92,646
Post-retirement benefits (note 7)	57,881	57,162
Liabilities to non-unitholders	815,924	808,435
Current portion of Partnership units liability (note 9)	5,571	8,611
Long-term portion of Partnership units liability (note 9)	135,903	137,296
Total Partnership units liability	141,474	145,907
Total liabilities	957,398	954,342
Equity		
Partnership units (note 9)	351,381	336,576
Deficit	(61,775)	(42,792)
Accumulated other comprehensive income	61,730	88,849
Total equity	351,336	382,633
Total equity and liabilities	1,308,734	1,336,975
Subsequent events (note 9)		

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Kruger Products L.P.
Unaudited Condensed Consolidated Statement of Comprehensive Income (Loss)
For the 3-month and 9-month periods ended September 24, 2017 and September 25, 2016

(tabular amounts are in thousands of Canadian dollars)

	3-month period ended September 24, 2017 $	3-month period ended September 25, 2016 $	9-month period ended September 24, 2017 $	9-month period ended September 25, 2016 $
Revenue (note 11)	336,284	312,823	939,943	888,270
Expenses				
Cost of sales (note 11)	290,777	256,823	802,108	747,348
Selling, general and administrative expenses (note 11)	20,726	22,645	66,467	66,283
Gain on sale of non-financial assets	(12)	(395)	(80)	(395)
Restructuring costs, net (note 8)	(245)	25	(234)	418
Operating income	25,038	33,725	71,682	74,616
Interest expense	10,533	11,192	31,554	33,327
Other (income) expense (note 5)	(2,103)	813	1,860	(307)
Income before income taxes	16,608	21,720	38,268	41,596
Income taxes (note 10)	158	162	4,922	1,612
Net income for the period	16,450	21,558	33,346	39,984
Other comprehensive loss				
Items that will not be reclassified to net income:				
Remeasurements of pensions	(5,424)	(20,097)	(20,647)	(63,986)
Remeasurements of post-retirement benefits	2,929	(2,885)	(272)	(4,519)
Items that may be subsequently reclassified to net income:				
Available-for-sale investment	-	-	-	(290)
Cumulative translation adjustment	(23,774)	3,969	(27,119)	(16,858)
Total other comprehensive loss for the period	(26,269)	(19,013)	(48,038)	(85,653)
Comprehensive income (loss) for the period	(9,819)	2,545	(14,692)	(45,669)

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Kruger Products L.P.
Unaudited Condensed Consolidated Statement of Changes in Equity
For the 9-month periods ended September 24, 2017 and September 25, 2016

(tabular amounts are in thousands of Canadian dollars, except unit amounts)

	Partnership units		Deficit	Accumulated other comprehensive income	Total equity
	#	$	$	$	$
As of January 1, 2016	54,840,093	318,012	(29,416)	99,805	388,401
Distributions payable (note 9)	-	-	(10,087)	-	(10,087)
Distributions paid (note 9)	-	-	(19,967)	-	(19,967)
Fair value adjustment (note 9)	-	97	(97)	-	-
Change in actuarial loss on pension	-	-	(63,986)	-	(63,986)
Change in actuarial loss on post-retirement benefits	-	-	(4,519)	-	(4,519)
Change in available-for-sale investment	-	-	-	(290)	(290)
Cumulative translation adjustment	-	-	-	(16,858)	(16,858)
Net income for the period	-	-	39,984	-	39,984
Issuance of partnership units (note 9)	1,196,864	13,618	-	-	13,618
As of September 25, 2016	56,036,957	331,727	(88,088)	82,657	326,296
As of January 1, 2017	56,376,788	336,576	(42,792)	88,849	382,633
Distributions payable (note 9)	-	-	(10,324)	-	(10,324)
Distributions paid (note 9)	-	-	(20,462)	-	(20,462)
Fair value adjustment (note 9)	-	624	(624)	-	-
Change in actuarial loss on pension	-	-	(20,647)	-	(20,647)
Change in actuarial loss on post-retirement benefits	-	-	(272)	-	(272)
Cumulative translation adjustment	-	-	-	(27,119)	(27,119)
Net income for the period	-	-	33,346	-	33,346
Issuance of partnership units (note 9)	976,266	14,181	-	-	14,181
As of September 24, 2017	57,353,054	351,381	(61,775)	61,730	351,336

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Kruger Products L.P.
Unaudited Condensed Consolidated Statement of Cash Flows
For the 9-month periods ended September 24, 2017 and September 25, 2016

(tabular amounts are in thousands of Canadian dollars)

	9-month period ended September 24, 2017 $	9-month period ended September 25, 2016 $
Cash flows from (used in) operating activities		
Net income for the period	33,346	39,984
Items not affecting cash		
Depreciation	38,414	33,775
Amortization	775	876
Gain on sale of property, plant and equipment	(2)	(3)
Change in amortized cost of Partnership units liability (note 5)	4,178	1,234
Gain on sale of investment (note 5)	-	(324)
Foreign exchange gain (note 5)	(2,318)	(1,217)
Interest expense	31,554	33,327
Pension and post-retirement benefits (note 7)	7,539	7,805
Provisions (note 8)	211	1,191
Income taxes	4,922	1,612
Gain on sale of non-financial assets (note 6)	(80)	(395)
Total items not affecting cash	85,193	77,881
Net change in non-cash working capital (note 15)	(25,959)	(10,471)
Contributions to pension and post-retirement benefit plans	(11,406)	(13,918)
Provisions paid	(1,015)	(1,452)
Income tax payments	(3,169)	(1,887)
Net cash from operating activities	76,990	90,137
Cash flows from (used in) investing activities		
Purchases of property, plant and equipment	(50,278)	(58,666)
Capitalized interest paid	(497)	-
Proceeds on sale of investment (note 5)	-	1,439
Government assistance received	3,872	1,209
Purchases of software	(460)	(71)
Proceeds on sale of property, plant and equipment	1,184	539
Net cash used in investing activities	(46,179)	(55,550)
Cash flows from (used in) financing activities		
Proceeds from long-term debt	20,877	4,995
Repayment of long-term debt	(5,250)	(8,106)
Payment of deferred financing fees	(12)	(711)
Interest paid on long-term debt	(18,930)	(18,294)
Distributions and advances paid, net (note 9)	(25,992)	(16,883)
Net cash used in financing activities	(29,307)	(38,999)
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	(2,011)	(1,519)
Decrease in cash and cash equivalents during the period	(507)	(5,931)
Cash and cash equivalents - Beginning of period (note 14)	27,504	25,455
Cash and cash equivalents - End of period (note 14)	26,997	19,524

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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1 General information

Kruger Products L.P. (KPLP or the Partnership) is a limited partnership registered in the Province of Quebec, Canada whose partners are Kruger Inc. (ultimate parent), KPGP Inc. (KPGP), and KP Tissue Inc. (KPT). The Partnership manufactures, sells and distributes tissue products for household, industrial and commercial use. The Partnership has plants in New Westminster, British Columbia; Crabtree, Quebec; Sherbrooke, Quebec; Gatineau, Quebec; Scarborough and Trenton, Ontario and Memphis, Tennessee. The Partnership's headquarters are located in Mississauga, Ontario, Canada.

2 Basis of presentation

These unaudited condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) applicable to the preparation of interim financial statements, including International Accounting Standard (IAS) 34 - Interim Financial Reporting as issued by the International Accounting Standards Board (IASB), and with interpretations of the International Financial Reporting Committee which the Canadian Accounting Standards Board has approved for incorporation into Part 1 of the CPA Canada Handbook - Accounting. These unaudited condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements of the Partnership for the year ended December 31, 2016.

The 3-month period ended September 24, 2017 represents the 91 day period from June 26 to September 24, 2017 and the 3-month period ended September 25, 2016 represents the 91 day period from June 27 to September 25, 2016. The 9-month period ended September 24, 2017 represents the 267 day period from January 1 to September 24, 2017 and the 9-month period ended September 25, 2016 represents the 269 day period from January 1 to September 25, 2016.

These unaudited condensed consolidated financial statements were approved by the board of directors of KPGP on November 7, 2017.

3 Summary of significant accounting policies

The significant accounting policies that have been used in the preparation of these unaudited condensed consolidated financial statements are described in the annual consolidated financial statements of the Partnership for the year ended December 31, 2016 and have been applied to all periods presented except the following accounting policies, which were adopted effective January 1, 2017.

(i) IAS 7, Statement of Cash Flows. In January 2016, the IASB issued an amendment to require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Other than the aforementioned additional disclosures, which will be included in the annual consolidated financial statements, the application of the amendments to IAS 7 did not result in any changes to the presentation of the unaudited condensed consolidated statement of cash flows.

(ii) IAS 12, Income Taxes – Deferred Tax. In February 2016, the IASB issued an amendment to clarify the requirements for recognizing deferred tax assets on unrealized losses. The amendment clarifies the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. Certain other aspects of accounting for deferred tax assets are also clarified. The adoption of this standard had no impact on the unaudited condensed consolidated financial statements.

(iii) In December 2016, the IASB issued an amendment clarifying the scope of IFRS 12, Disclosure of Interests in Other Entities. The amendment clarified that the disclosures requirement of IFRS 12 are applicable to interest in entities classified as held for sale, except for summarized financial information. The adoption of this standard had no impact on the unaudited condensed consolidated financial statements.

The impact of new standards, amendments to standards and interpretations that have been issued but not yet effective for financial periods beginning on or after January 1, 2018 and have not been early adopted have been discussed in the annual consolidated financial statements for the year ended December 31, 2016, except for the following:

(i) 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 a preliminary 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 Other long term assets. Management expects to adopt IFRS 15 using the modified retrospective approach. A transitional adjustment to reduce the balance related to the dispensers currently recorded in Other long term assets is expected to be recognized in retained earnings (deficit) on the date of initial application, January 1, 2018, and is expected to be approximately $6 million.

(ii) IFRS 9, Financial Instruments. In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments, bringing together the classification and measurement, impairment and hedge accounting phases of the IASB’s project to replace IAS 39 Financial Instruments: Recognition and Measurement. The mandatory effective date of IFRS 9 would be annual periods beginning on or after January 1, 2018, with early adoption permitted. Management is evaluating the estimated impact of the new standard on the consolidated financial statements. Additional details are expected to be disclosed in the annual consolidated financial statements.

(iii) 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 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

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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.

(iv) 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 is evaluating the amended standard and has not yet determined the impact on the consolidated financial statements.

4 Critical accounting estimates and judgments

The preparation of these unaudited condensed consolidated financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities in the unaudited condensed consolidated financial statements and the disclosure of contingencies at the dates of the unaudited condensed consolidated statements of financial position, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The estimates and judgement applied by management that most significantly affect the unaudited condensed consolidated financial statements are the same as the ones that applied to the audited consolidated financial statements for the year ended December 31, 2016.

5 Other (income) expense

	3-month period ended September 24, 2017 $	3-month period ended September 25, 2016 $	9-month period ended September 24, 2017 $	9-month period ended September 25, 2016 $
Foreign exchange (gain) loss	(1,221)	813	(2,318)	(1,217)
Change in amortized cost of Partnership units liability	(882)	-	4,178	1,234
Miscellaneous income	-	-	-	(324)
	(2,103)	813	1,860	(307)

During the 9-month period ended September 25, 2016, an available-for-sale investment was sold for proceeds of $1.4 million. The sale resulted in a gain of $0.3 million, which was reclassified from Accumulated other comprehensive income to Other (income) expense.

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6 Property, plant and equipment

	Land	Buildings	Machinery and equipment	Assets under construction or development	Total
	$	$	$	$	$
As of January 1, 2017					
Cost	38,130	185,150	1,085,265	36,977	1,345,522
Accumulated depreciation and impairments	-	(80,840)	(502,412)	-	(583,252)
Net book value as of January 1, 2017	38,130	104,310	582,853	36,977	762,270
Additions	-	-	63	55,387	55,450
Capitalized interest	-	-	533	-	533
Disposals	(61)	-	(41)	-	(102)
Government assistance	-	-	(3,872)	-	(3,872)
Transfers	-	960	79,938	(80,898)	-
Depreciation	-	(3,525)	(29,668)	-	(33,193)
Exchange differences	(126)	(4,857)	(27,612)	(33)	(32,628)
As of September 24, 2017	37,943	96,888	602,194	11,433	748,458
As of September 24, 2017					
Cost	37,943	180,168	1,122,780	11,433	1,352,324
Accumulated depreciation and impairment	-	(83,280)	(520,586)	-	(603,866)
Net book value as of September 24, 2017	37,943	96,888	602,194	11,433	748,458

During the 3-month and 9-month periods ended September 25, 2016, the Partnership sold certain timber lands for cash proceeds of $0.5 million. The sale resulted in a recovery of non-financial assets of $0.4 million, which was recorded in the consolidated statement of comprehensive income (loss).

7 Pensions and post-retirement benefits

The following were the significant assumptions for the defined benefit pension plans and other benefit plans:

	Pensions		Post-retirement benefit plans	
	September 24, 2017	December 31, 2016	September 24, 2017	December 31, 2016
	%	%	%	%
Assumptions				
Discount rate - accrued benefit obligation	3.62	3.77	3.62	3.77
Rate of compensation increases	3.25 - 4.00	3.25 - 4.00		

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The net benefit pension plan expense included the following components:

	Pensions		**Post-retirement benefit plans**	
	3-month period ended September 24, 2017 $	**3-month period ended September 25, 2016 $**	**3-month period ended September 24, 2017 $**	**3-month period ended September 25, 2016 $**
Net benefit plan expense				
Current service cost	1,955	2,131	433	406
Interest cost	5,126	5,227	444	457
Expected return on plan assets	(4,331)	(4,446)	-	-
Administrative cost	125	122	-	-
Past service cost [(a)]	-	(172)	-	-
	2,875	2,862	877	863

	Pensions		**Post-retirement benefit plans**	
	9-month period ended September 24, 2017 $	**9-month period ended September 25, 2016 $**	**9-month period ended September 24, 2017 $**	**9-month period ended September 25, 2016 $**
Net benefit plan expense				
Current service cost	5,866	6,392	1,299	1,220
Interest cost	15,383	15,716	1,332	1,372
Expected return on plan assets	(13,023)	(13,444)	-	-
Administrative cost	374	365	-	-
Past service cost [(a)]	-	(172)	-	-
	8,600	8,857	2,631	2,592

(a) Recognition of past service cost relating to contract amendments.

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8 Provisions

	Environmental and asset retirement obligations $ (a)	Long-term incentives $ (b)	Restructuring $ (c)	Total $
Provisions as of January 1, 2017	5,887	1,047	1,438	8,372
Current	-	447	1,438	1,885
Non-current	5,887	600	-	6,487
Provisions as of January 1, 2017	5,887	1,047	1,438	8,372
Additional provisions	-	445	(234)	211
Paid during the period	-	-	(1,015)	(1,015)
Interest accretion	158	-	-	158
Provisions as of September 24, 2017	6,045	1,492	189	7,726
Current	-	568	189	757
Non-current	6,045	924	-	6,969

(a) Environmental and asset retirement obligations

The Partnership has made a provision for the potential obligation under a land lease at one of its plant locations to demolish the building and restore the land at the end of the lease to its original condition. The current lease ends in 2028 but an extension is currently being negotiated. The estimated undiscounted amount to settle this obligation would be between $9.0 million and $11.7 million. The liability is estimated using a discounted cash flow with a discount rate of 3.635% (December 31, 2016 – 3.635%).

(b) Long-term incentives

Long-term incentives include the Executive Long-Term Incentive Plan (LTIP) for the Partnership. The LTIP uses performance share units and results are based primarily on Adjusted EBITDA return on capital employed using a three year average, along with other components. The LTIP is paid in cash in May of the year following the three year period it is earned. The compensation expense is recognized over the same three year period.

(c) Restructuring

During the first quarter of 2014, the Partnership undertook a review of corporate overhead costs and identified a number of cost reduction opportunities. As of September 24, 2017, all remaining obligations had been settled and the initiative is complete.

In response to market cost pressures, in the first half of 2015, senior management undertook a comprehensive review of its cost structure and identified a number of cost reduction opportunities. As of September 24, 2017, there was a remaining provision of $0.2 million.

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9 Distributions and Partnership units liability

	Partnership units liability $
As of January 1, 2017	145,907
Change in amortized cost of Partnership units liability (note 5)	4,178
Tax Distributions	(8,611)
As of September 24, 2017	141,474

The Partnership unit distributions paid, the portion of the distribution reinvested by the partners, the additional Partnership units issued at the unit price, and the gross proceeds were as follows:

	9-month period ended September 24, 2017			
Distribution Payment Date	Partnership unit distributions $	Unit price $	Issuance of Partnership units #	Gross proceeds $
January 16, 2017	10,148	15.25	309,196	4,715
April 17, 2017	10,203	15.30	309,183	4,731
July 17, 2017	10,259	13.23	357,887	4,735
	30,610		976,266	14,181

	9-month period ended September 25, 2016			
Distribution Payment Date	Partnership unit distributions $	Unit price $	Issuance of Partnership units #	Gross proceeds $
January 15, 2016	9,871	10.29	442,929	4,558
April 15, 2016	9,951	12.31	359,138	4,421
July 15, 2016	10,016	11.75	394,797	4,639
	29,838		1,196,864	13,618

On October 16, 2017, the Partnership paid a distribution of $10.3 million to partners. Pursuant to the Partnership's Distribution Reinvestment Plan (DRIP), a portion of the distribution was reinvested by the partners, resulting in the Partnership issuing 321,985 Partnership units at a price of $14.81. During the 9-month period ended September 24, 2017, a fair value adjustment of $0.6 million was recorded to reflect the market value of the Partnership units issued.

Subsequent to September 24, 2017, the Partnership declared a distribution of $10.4 million, payable on January 15, 2018.

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The Partnership paid Partnership unit distributions, Tax Distributions and advances to its related parties as follows:

	9-month period ended September 24, 2017			
	Tax Distributions $	Advances paid $	Partnership unit distibutions $	Total $
Paid to Kruger Inc. [(a)]	2,665	5,377	12,840	20,882
Paid to KPGP	-	-	3	3
Paid to KPT [(b)]	481	1,040	3,586	5,107
Total paid	3,146	6,417	16,429	25,992

	9-month period ended September 25, 2016			
	Advances received $	Advances paid $	Partnership unit distibutions $	Total $
Paid to Kruger Inc. [(a)]	-	1,029	12,489	13,518
Paid to KPGP	-	-	3	3
Paid to (received from) KPT [(b)]	(571)	205	3,728	3,362
Total paid (received)	(571)	1,234	16,220	16,883

(a) During the 9-month periods ended September 24, 2017 and September 25, 2016, Partnership unit distributions were paid to Kruger Inc. net of the DRIP reinvestment. During the 9-month period ended September 24, 2017, Kruger Inc.'s DRIP reinvestment was $12.8 million (9-month period ended September 25, 2016 - $12.5 million).

(b) During the 9-month periods ended September 24, 2017 and September 25, 2016, Partnership unit distributions were paid to KPT net of the DRIP reinvestment. During the 9-month period ended September 24, 2017, KPT's DRIP reinvestment was $1.3 million (9-month period ended September 25, 2016 – $1.1 million).

Tax Distributions

On February 28, 2017, the Partnership declared a Tax Distribution of $8.6 million, of which $1.4 million was used to settle the advances to KPT and pay the final tax instalment on behalf of KPT. The remaining $7.2 million was used to settle Kruger Inc.'s and KPGP's respective advances, with the balance paid to Kruger Inc. and KPGP.

During the 9-month period ended September 24, 2017, pursuant to the Tax Distribution as defined in the Partnership Agreement, the Partnership made advances to its partners of $6.4 million, of which $1.0 million was used to pay the monthly tax instalment on behalf of KPT and the remaining was advanced to Kruger Inc. and KPGP. The advances are non-interest bearing and non-recourse in nature and will be settled when the Tax Distribution is declared annually.

10 Income taxes

The Partnership is not a tax paying entity for the 9-month periods ended September 24, 2017 and September 25, 2016. The income from the Partnership flows to the partners, Kruger Inc., KPGP, and KPT. However, the Partnership's subsidiaries Kruger Products (USA) Inc., K.T.G. (USA) Inc., TAD Canco Inc., Grupo Tissue de Mexico S de RL de CV and TAD Luxembourg S.A.R.L. are corporate entities and, therefore, are subject to tax.

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Income tax expense (recovery) was recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated weighted average annual income tax rate for the 9-month period ended September 24, 2017 was 12.9% (9-month period ended September 25, 2016 – 3.9%).

The components of income taxes were as follows:

	3-month period ended September 24, 2017 $	3-month period ended September 25, 2016 $	9-month period ended September 24, 2017 $	9-month period ended September 25, 2016 $
Current tax expense	563	241	1,883	1,583
Deferred tax expense (recovery)	(405)	(79)	3,039	29
	158	162	4,922	1,612

11 Related party transactions

The Partnership makes sales to and acquires goods and services from Kruger Inc. and its subsidiary companies (related parties) in the normal course of business. These transactions are measured at the exchange amount, which is the amount agreed on by the related parties, and are non-interest bearing.

Sales of goods to Kruger Inc. for the 9-month period ended September 24, 2017 were $0.6 million (9-month period ended September 25, 2016 - $0.6 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 Inc. for the 9-month period ended September 24, 2017 were $27.3 million (9-month period ended September 25, 2016 - $24.5 million). Purchases of goods and services from subsidiaries of Kruger Inc. for the 9-month period ended September 24, 2017 were $7.2 million (9-month period ended September 25, 2016 - $6.2 million). Goods are purchased from Kruger Inc. and related parties under normal commercial terms and conditions. These purchases of goods and services are included within cost of sales and selling, general and administrative expenses in the unaudited condensed consolidated statement of comprehensive income (loss). During the 9-month period ended September 24, 2017, management fees of $3.2 million (9-month period ended September 25, 2016 - $3.2 million) were paid to Kruger Inc. for management services provided to the Partnership.

Balances due to and from related parties were as follows:

	September 24, 2017 $	December 31, 2016 $
Receivables from Kruger Inc.	17	171
Receivables from subsidiaries of Kruger Inc.	-	14
Receivables from KPT	52	-
	69	185
Payables to Kruger Inc.	3,722	2,646
Payables to subsidiaries of Kruger Inc.	1,367	534
Payables to KPT	-	426
	5,089	3,606

(tabular amounts are in thousands of Canadian dollars, except unit amounts)

The receivables from and payables to related parties are based on commercial terms agreed on between the parties, unsecured and non-interest bearing. There were no provisions related to the receivables from related parties as of September 24, 2017 and December 31, 2016. There were no loans outstanding with related parties as of September 24, 2017 and December 31, 2016.

The Partnership had declared distributions which are payable to its related parties as follows:

	September 24, 2017 $	December 31, 2016 $
Distribution payable to Kruger Inc.	8,670	8,511
Distribution payable to KPGP	1	1
Distribution payable to KPT	1,653	1,636
Total distribution payable	10,324	10,148

12 Segment information

Reportable segments

Management has determined the operating segments based on the reports reviewed by the Chief Executive Officer who is considered to be the Chief Operating Decision Maker. The Partnership operates in three industry segments: Consumer, Away From Home (AFH) and Other.

(a) Consumer
This segment operates using the Partnership's manufacturing facilities in Canada (New Westminster, British Columbia; Crabtree, Quebec; Sherbrooke, Quebec; Gatineau, Quebec) and in the United States (Memphis, Tennessee). The Consumer segment includes sales of branded tissue products such as Cashmere™, Purex™, White Swan™, Scotties™, Sponge Towels™ and White Cloud™ and private label tissue products.

(b) AFH
This segment operates using the Partnership's manufacturing facilities in Canada. The AFH business sells tissue products primarily through distributors to businesses involved in property management, health care, food service, manufacturing and lodging and also to public facilities.

(c) Other
This segment includes sales of parent rolls by the Partnership to other tissue manufacturing companies primarily in the United States and also in Canada and sales of recycled fibre primarily to its parent company. It also includes start-up costs related to capital projects.

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

The Partnership's assets, operations and employees are located primarily in Canada and the United States. The same long-term assets of the Partnership are used for the Consumer, AFH and Other segments. Accordingly, assets cannot be allocated to these segments.

(tabular amounts are in thousands of Canadian dollars, except unit amounts)

	3-month period ended September 24, 2017			
	Consumer	AFH	Other	Total
	$	$	$	$
Revenue from external customers	272,917	62,497	870	336,284
Segment Adjusted EBITDA	38,077	1,852	(512)	39,417
Depreciation and amortization				14,636
Interest expense				10,533
Change in amortized cost of Partnership units liability				(882)
Gain on sale of non-financial assets				(12)
Restructuring costs, net				(245)
Foreign exchange gain				(1,221)
Income before income taxes				16,608
Income taxes				158
Net income				16,450

	3-month period ended September 25, 2016			
	Consumer	AFH	Other	Total
	$	$	$	$
Revenue from external customers	248,792	59,411	4,620	312,823
Segment Adjusted EBITDA	42,907	2,425	326	45,658
Depreciation and amortization				12,303
Interest expense				11,192
Gain on sale of non-financial assets				(395)
Restructuring costs, net				25
Foreign exchange loss				813
Income before income taxes				21,720
Income taxes				162
Net income				21,558

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	9-month period ended September 24, 2017			
	Consumer	AFH	Other	Total
	$	$	$	$
Revenue from external customers	763,996	171,090	4,857	939,943
Segment Adjusted EBITDA	105,951	4,840	(236)	110,555
Depreciation and amortization				39,189
Interest expense				31,554
Change in amortized cost of Partnership units liability				4,178
Gain on sale of property, plant and equipment				(2)
Gain on sale of non-financial assets				(80)
Restructuring costs, net				(234)
Foreign exchange gain				(2,318)
Income before income taxes				38,268
Income taxes				4,922
Net income				33,346

(tabular amounts are in thousands of Canadian dollars, except unit amounts)

	9-month period ended September 25, 2016			
	Consumer	AFH	Other	Total
	$	$	$	$
Revenue from external customers	708,868	167,513	11,889	888,270
Segment Adjusted EBITDA	104,433	4,230	948	109,611
Depreciation and amortization				34,651
Interest expense				33,327
Change in amortized cost of Partnership units liability				1,234
Gain on sale of property, plant and equipment				(3)
Gain on sale of non-financial assets				(395)
Restructuring costs, net				418
Foreign exchange gain				(1,217)
Income before income taxes				41,596
Income taxes				1,612
Net income				39,984

Geographic segments

The Partnership operates in Canada, the United States and Mexico. Revenue and assets were allocated to geographic segment based on the location of the customer and long-term assets, respectively.

Revenue	3-month period ended September 24, 2017 $	3-month period ended September 25, 2016 $	9-month period ended September 24, 2017 $	9-month period ended September 25, 2016 $
Canada	209,289	195,186	570,949	539,221
US	113,157	105,114	332,710	311,517
Mexico	13,838	12,523	36,284	37,532
	336,284	312,823	939,943	888,270

	September 24, 2017			
	Canada	US	Mexico	Total
	$	$	$	$
Property, plant and equipment	389,797	358,609	52	748,458
Goodwill	160,939	-	-	160,939
Intangible assets	14,955	-	-	14,955

	December 31, 2016			
	Canada	US	Mexico	Total
	$	$	$	$
Property, plant and equipment	357,689	404,581	-	762,270
Goodwill	160,939	-	-	160,939
Intangible assets	15,270	-	-	15,270

(tabular amounts are in thousands of Canadian dollars, except unit amounts)

13 Financial instruments

Classification of financial instruments

As of September 24, 2017, the classification of the financial instruments, as well as their carrying amounts and fair values, was as follows:

	Classification	Measurement	Carrying amount $	Fair Value $
Cash and cash equivalents	loans and receivables	amortized cost	26,997	26,997
Trade and other receivables	loans and receivables	amortized cost	126,591	126,591
Receivables from related parties	loans and receivables	amortized cost	69	69
Advances to partners	loans and receivables	amortized cost	6,417	6,417
Trade and other payables	financial liabilities	amortized cost	(196,459)	(196,459)
Payables to related parties	financial liabilities	amortized cost	(5,089)	(5,089)
Distributions payable	financial liabilities	amortized cost	(10,324)	(10,324)
Long-term debt	financial liabilities	amortized cost	(425,182)	(428,799)
Partnership units liability	financial liabilities	amortized cost	(141,474)	(141,474)

The following table details the fair value hierarchy of financial instruments by level as of September 24, 2017:

	Level 1 $	Level 2 $	Level 3 $	Total $
Long-term debt	-	(428,799)	-	(428,799)
Partnership units liability	-	-	(141,474)	(141,474)

As of December 31, 2016, the classification of the financial instruments, as well as their carrying amounts and fair values, was as follows:

	Classification	Measurement	Carrying amount $	Fair Value $
Cash and cash equivalents	loans and receivables	amortized cost	36,511	36,511
Trade and other receivables	loans and receivables	amortized cost	123,095	123,095
Receivables from related parties	loans and receivables	amortized cost	185	185
Advances to partners	loans and receivables	amortized cost	5,465	5,465
Mortgage receivable	loans and receivables	amortized cost	1,000	1,000
Bank indebtedness	financial liabilities	amortized cost	(9,007)	(9,007)
Trade and other payables	financial liabilities	amortized cost	(201,477)	(201,477)
Payables to related parties	financial liabilities	amortized cost	(3,606)	(3,606)
Distributions payable	financial liabilities	amortized cost	(10,148)	(10,148)
Long-term debt	financial liabilities	amortized cost	(424,238)	(431,041)
Partnership units liability	financial liabilities	amortized cost	(145,907)	(145,907)

(tabular amounts are in thousands of Canadian dollars, except unit amounts)

The following table details the fair value hierarchy of financial instruments by level as of December 31, 2016:

	Level 1	Level 2	Level 3	Total
	$	$	$	$
Mortgage receivable	-	-	1,000	1,000
Long-term debt	-	(431,041)	-	(431,041)
Partnership units liability	-	-	(145,907)	(145,907)

Fair value

Cash and cash equivalents, trade and other receivables, receivables from related parties, advances to partners, mortgage receivable, bank indebtedness, trade and other payables, payables to related parties and distributions payable are short-term financial instruments whose fair value approximates the carrying amount, given they will mature in the near future. As of September 24, 2017, the fair values of the Credit Facility, the Nordea Facility and the Caisse Facility were $199.0 million, $20.3 million and $180.6 million (December 31, 2016 – $198.0 million, $26.6 million and $196.8 million), respectively, which approximates the current principal amount outstanding as the interest rate approximates current market interest rates. As of September 24, 2017, the fair values of the Quebec PM Loan and the Ontario Loan were $26.4 million and $2.5 million (December 31, 2016 – $8.8 million and $0.8 million), respectively, which are recorded on discounted future cash flows using a market rate of 4.4%, net of the government grant recorded on the below-market rate of interest.

Fair value of the Partnership units liability

The Partnership units liability is classified as a financial liability at amortized cost. Management has estimated the fair value of the Partnership units liability using a discounted cash flow model. Significant assumptions include the income tax obligation, discount rate and an industry capitalization rate. There were no significant changes in the assumptions during the 9-month period ended September 24, 2017.

14 Cash and cash equivalents

	September 24, 2017	December 31, 2016
	$	$
Cash and cash equivalents	26,997	36,511
Bank indebtedness	-	(9,007)
Cash and cash equivalents in the consolidated statement of cash flows	26,997	27,504

(tabular amounts are in thousands of Canadian dollars, except unit amounts)

15 Non-cash working capital

The change in non-cash working capital on the unaudited condensed consolidated statement of cash flows comprised the following:

	9-month period ended September 24, 2017 $	9-month period ended September 25, 2016 $
Increase in trade and other receivables	(12,212)	(8,297)
Decrease in receivables from related parties	116	230
Increase in inventories	(4,907)	(5,414)
Increase in prepaid expenses	(2,890)	(2,342)
Increase in other long-term assets	(75)	(58)
Decrease (increase) in income taxes	849	(657)
Increase (decrease) in trade and other payables	(8,323)	6,068
Increase (decrease) in payables to related parties	1,483	(1)
	(25,959)	(10,471)