KP TISSUE INC. AND KRUGER PRODUCTS L.P.

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

FOR THE FOURTH QUARTER AND FISCAL YEAR ENDED DECEMBER 31, 2012

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The following Management's Discussion and Analysis (MD&A) for KP Tissue Inc. (KPT) and Kruger Products L.P. (KPLP) is intended to assist the readers in understanding the business environment, strategies, performance and risk factors relating to KPT and KPLP. It should be read in conjunction with the financial statements of KPT for the period ended December 31, 2012, and the consolidated financial statements of KPLP for the years ended December 31, 2012 (Fiscal 2012) and December 31, 2011 (Fiscal 2011), respectively.

About KP Tissue Inc.

KPT was created to acquire, and its business is limited to holding, a limited partnership interest in KPLP. As of December 31, 2012 KPT held a 15.7% interest in KPLP, accounted for as an investment in an associate using the equity method of accounting. On January 10, 2013, KPT completed the issuance of 750,000 common shares pursuant to the partial exercise of an over-allotment option (refer to "Business Overview", below) and used the proceeds to subscribe for 750,000 additional units of KPLP (KPLP Units) which, together with the KPLP Units that it already held, resulted in KPT having a 16.9% interest in KPLP. 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.

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, Kruger Inc.'s cash requirements and expected savings from the Business Rationalization Project. The financial outlook that KPLP Management provides on page 3 of this MD&A concerning the potential incremental EBITDA generated by the TAD Project (as defined below) by 2017 may be 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 and a selling price of finished products based on recent prices, adjusted for inflation, (iv) Canadian and United States currencies at parity, and (v) the timely completion of the TAD Project within budget. 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 final prospectus dated December 5, 2012 available on SEDAR at www.sedar.com (it is expected that the risk factors described in KPT's Annual Information Form for the year ended December 31, 2012 will be substantially the same): 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; actual results achieved may differ from financial outlook; operational risks; Gatineau Plant land lease; significant increases in prices of raw materials and services; 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, restrictive covenants; 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 of the TAD Project 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 Business Rationalization Project and the financial outlook that KPLP Management provides on page 3 of this MD&A concerning the potential incremental EBITDA generated by the TAD Project by 2017, 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

Pursuant to the Articles of KPT, 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, KPT held KPLP Units representing 16.9% of the KPLP Units.

KPLP is Canada's leading tissue products supplier by overall dollar and volume market share. It produces, distributes, markets and sells a wide range of disposable tissue products, including bathroom tissue, facial tissue, paper towels and napkins, for both the Consumer and the Away-From-Home (AFH) market. While its principal focus is on the Canadian consumer branded tissue products market, KPLP is also a leader in the Canadian AFH market and has a considerable presence in the U.S. private label tissue market.

KPLP is headquartered in Mississauga, Ontario and has approximately 2,300 employees across North America. KPLP's Canadian manufacturing facilities, consisting of three tissue plants in Québec 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 existing 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), construction on which was completed in the first quarter of 2013.

Basis of Presentation

On September 21, 2012, the assets of the tissue business now carried on by KPLP (the Tissue Business) were transferred to KPLP by a predecessor entity (Former KPLP). KPLP issued 43,014,300 units to Former KPLP and assumed the liabilities of the Tissue Business in exchange for all of the assets of the Tissue Business.

As KPLP continued the operations of the Tissue Business of Former KPLP, the reorganization has been accounted for in accordance with the continuity of interests method of accounting whereby the assets and liabilities of KPLP were recorded at the carrying values of the assets and liabilities of the Tissue Business immediately prior to the reorganization. The comparative balances and results of operations included in these consolidated financial statements are derived from the combined financial statements of the Tissue Business.

The consolidated financial statements of KPLP presented for Fiscal 2012 and Fiscal 2011 have been prepared in accordance with IFRS (International Financial Reporting Standards). The financial statements of KPT for the period ending December 31, 2012 have also been prepared in accordance with IFRS.

Accounting Periods

This MD&A, the consolidated financial statements of KPLP and accompanying notes thereto include financial information for Fiscal 2012 and Fiscal 2011.

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 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 EBITDA. 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 EBITDA to the most comparable IFRS measures.

"EBITDA" is calculated by KPLP as net income (loss) before (i) interest expense, (ii) income taxes, (iii) depreciation, (iv) amortization, (v) impairment of non-financial assets, (vi) loss (gain) on disposal of property, plant and equipment, (vii) unrealized foreign exchange loss (gain), and (viii) one-time costs related to the Business Rationalization Project.

"KTG EBITDA" is calculated as net income (loss) of KTG as reported in the separate financial statements of KTG before (i) interest expense, (ii) income taxes, (iii) depreciation, and (iv) amortization, as defined in the TAD Credit Facility (as defined below).

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, which continues to exhibit strong fundamentals despite a tempered recovery in economic conditions. 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 will seek to grow by leveraging its TAD capabilities and focusing on the high-end private label business. The TAD Project (see Business Highlights, TAD Project, section) is a key component to KPLP's strategy of growing its operations in the U.S. private label market. KPLP Management believes that the TAD Project has the potential to generate approximately U.S.$60 million of incremental EBITDA annually for KPLP by 2017, being the year in which the TAD paper machine is expected to reach full production capacity. The foregoing estimate of future incremental EBITDA may be 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 are sold at market prices consistent with current market prices, adjusted for inflation, (iii) a cost of pulp and energy and a selling price of finished products based on recent prices, adjusted for inflation, (iv) Canadian and U.S. currencies at parity, and (v) the timely completion of the TAD Project within budget. The foregoing factors could cause the actual contribution to EBITDA by the TAD Project by 2017 to differ materially from the amount set forth in the foregoing estimate. The TAD Project is currently on time and on budget. During Fiscal 2012, the direct and incremental expenses associated with the TAD Project were $3.6 million.

Factors Affecting the Results of Operations

Revenue

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

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

Cost of Sales

Cost of sales includes fixed and variable costs to manufacture our products, however, input costs associated with the manufacturing of tissue paper are primarily variable. Fibre, labour, and energy costs are the largest components, representing 50% to 70% of total cost of sales, depending on the type of fibre and paper making technology being used. Typically producers have been able to pass along commodity input cost increases (fibre and energy) to end customers and consumers within a six to nine month period following any such increase. For this reason KPLP Management believes that there is a correlation between pulp prices and end product pricing. Periodically, KPLP also enters into fibre commodity swap contracts, to reduce exposure to fluctuations in this key input cost. These typically do not exceed 15% of total fibre purchases. KPLP is exposed to fluctuations in the U.S. dollar against the Canadian dollar on production inputs, U.S. dollar denominated debt and other operating costs denominated in U.S. dollars. To manage this foreign exchange risk, KPLP has occasionally entered into foreign currency forward contracts and may continue to do so going forward. Fixed costs at the plants include plant maintenance, overhead, insurance, property taxes, information technology, as well as depreciation and amortization (substantially all depreciation and amortization is included in cost of sales).

Operating Expenses

KPLP's operating expenses include freight, warehousing and handling costs, as well as selling, general and administrative costs, which include a very small portion of the overall depreciation and amortization.

Freight, warehousing and handling costs vary based on sales volume, the geographical mix of the product shipped, and the cost of fuel used by freight carriers.

Selling costs include the costs related to sales and marketing activities, including advertising and promotion, as well as selling expenses, commissions and other related costs. General and administrative expenses consist of costs related to operations, finance, information technology, product development, legal, human resources, executive administration and other corporate expenses. It also includes the foreign exchange gains and losses realized during the period. KPLP expects to incur additional expenses associated with being a public company, such as additional accounting and legal expenses, costs for internal control compliance and investor relations, as well as salary and benefit expenses associated with additional employees.

Interest Expense

Interest expense is derived from the financing activities of KPLP. Several credit facilities (each of which are described under "Liquidity and Capital Resources", below) are used by KPLP, including the Senior Credit Facility (up to $195 million, with a $50 million accordion feature), the Senior Unsecured Notes ($175 million), the Nordea Credit Facility (up to U.S.$46.2 million) and the TAD Credit Facility (up to U.S.$211.1 million). The TAD Credit Facility is strictly related to the TAD Project. Interest costs related to the TAD Credit Facility recorded during the construction period (i.e. before start of operations) were capitalized, and allocated to property, plant and equipment and depreciated when the assets were put into use. With the completion of the construction period in the first quarter of 2013, interest costs incurred related to the TAD Credit Facility will in the future be recorded in interest expense. Refer to note 13, "Long-term debt" in the consolidated financial statements for Fiscal 2012 for additional information. KPLP has elected to record interest costs related to pensions and post-retirement benefits in interest expense.

Income Taxes

KPLP is not a tax paying entity. The income (loss) from KPLP flows to the partners, Kruger Products 2010 L.P. (Kruger Products 2010), KPGP and KPT for Fiscal 2012 and Fiscal 2011. On January 4, 2010, Former KPLP acquired substantially all of the business, assets and liabilities of Kruger Products Limited. The reorganization of Kruger Products Limited to a limited partnership was undertaken to optimize the financial and tax structure of the operating entity of the Tissue Business and its affiliates. The income taxes recorded in the consolidated financial statements of KPLP relate to the income taxes for its incorporated subsidiaries in the U.S., Canada, Luxembourg and Mexico.

BUSINESS HIGHLIGHTS

TAD Project

In the autumn of 2011, KPLP, through KTG, commenced the construction of the TAD Project.

The TAD Project is expected to cost approximately U.S.$322 million (including reserves for contingencies, interest during construction and start-up costs) and be financed through a combination of an investment by KPLP of up to U.S.$197 million and debt financing from the TAD Credit Facility (as defined below), of which KPLP expects to draw $125 million. As of December 31, 2012, a total of U.S.$245.0 million had been spent on the TAD Project, financed by a U.S.$126.0 million investment by KPLP into KTG and a drawdown of U.S.$119.0 million on the TAD Credit Facility. KPLP expects to invest up to U.S.$71 million of the proceeds from the Unit Subscription (as defined below) into KTG primarily to finance the TAD Project, of which U.S.$10 million had been invested as of December 31, 2012.

Direct and incremental expenses relating to the TAD Project were $3.6 million in Fiscal 2012.

On February 22, 2013, KPT announced that KPLP had successfully finished the construction phase of the TAD Project, on-time and on-budget.

Reorganization of KPLP

The tissue business of KPLP was previously carried on by a predecessor entity, Former KPLP. In addition to the tissue business, Former KPLP also carried on, through certain subsidiary businesses unrelated to the tissue business, the ownership and operation of electricity-generating wind farms. On September 21, 2012, pursuant to an asset transfer agreement between KPLP and Former KPLP all of the assets of the tissue business and related subsidiaries, but excluding the subsidiaries of Former KPLP carrying on the energy business, were transferred to KPLP, and all liabilities of Former KPLP (other than liabilities relating to the energy businesses) were assumed by KPLP, so that the tissue business would thereafter be carried on by a separate legal entity devoted exclusively to the tissue business.

Business Rationalization Project

Following a comprehensive strategic and operational review, in September 2012 KPLP substantially completed restructuring initiatives in order to cease production of its parent rolls for sale, which was not strategic to KPLP's overall business. These restructuring initiatives resulted in the permanent idling of two paper machines, a groundwood pulp plant and certain converting equipment, all at KPLP's New Westminster plant, as well as the termination of certain employees at the head office and at other manufacturing facilities (the Business Rationalization Project). Finished product sales were not impacted, as there was capacity elsewhere in KPLP's manufacturing network to absorb this capacity. In connection with the restructuring initiatives at the New Westminster plant, KPLP Management expects parent roll revenue to decline by $20.0

million, offset by lower costs of $27.4 million, for net savings of $7.4 million. KPLP Management also expects to save $4.5 million through its other restructuring initiatives, for total full-year recurring cash savings of $11.9 million. One-time costs and other charges related to the Business Rationalization Project of $9.4 million ($8.4 million of which relates to employee severance costs) were expensed during Fiscal 2012, of which more than half had been paid by the end of Fiscal 2012. KPLP also recorded $4.6 million in impairment of non-financial assets in connection with the Business Rationalization Project.

Initial Public Offering

On December 13, 2012, KPT completed an initial public offering of 8 million common shares (the Offering) for gross proceeds of $140 million. Immediately following the closing of the Offering, KPT used the gross proceeds of the Offering to pay the subscription price for 8 million KPLP Units (the Unit Subscription), resulting in KPT having a 15.7% limited partnership interest in KPLP.

KPLP used the proceeds from the Unit Subscription (i) to pay the fees, commissions and expenses of the Offering, including the Underwriters Commission, of $11.1 million in the aggregate, (ii) to fund up to $71 million investment in its wholly-owned subsidiary, KTG, which will be primarily used to fund the TAD Project (which would otherwise have been drawn down on the TAD Credit Facility), (iv) to fund the payment of a $40 million distribution to Kruger declared prior to the closing of the Offering, and (v) for general corporate purposes.

KPT granted the syndicate of underwriters (together, the Underwriters) an over-allotment option to cover over-allotments, if any, and for market stabilization purposes (the Over-Allotment Option). On January 10, 2013, KPT announced that it had completed the issuance of 750,000 common shares at a price of $17.50 per common share pursuant to the Over-Allotment Option granted to the Underwriters.

KPT used the proceeds from the Over-Allotment Option to subscribe for 750,000 additional KPLP Units which, together with KPLP Units that it already held, resulted in KPT having a 16.9% interest in KPLP. The remaining 83.1% interest in KPLP is held by Kruger Products 2010, a wholly-owned subsidiary of Kruger. KPLP will use the proceeds for general corporate purposes.

RESULTS OF OPERATIONS

Results of Operations of KPLP

(C$ millions, unless otherwise noted)	Fiscal 2012	Fiscal 2011	Fiscal 2010	$ Change Fiscal 2012 vs. Fiscal 2011	$ Change Fiscal 2011 vs. Fiscal 2010
Statement of Operations Data:					
Revenue	922.9	892.6	897.7	30.3	(5.1)
Cost of sales	(645.8)	(658.5)	(639.3)	12.7	(19.2)
Operating expenses	(194.9)	(182.4)	(177.2)	(12.5)	(5.2)
Restructuring costs	(9.4)	-	-	(9.4)	-
Impairment of non-financial assets	(4.6)	(2.7)	-	(1.9)	(2.7)
Operating income	68.2	49.0	81.2	19.2	(32.2)
Interest expense	(23.0)	(19.2)	(14.6)	(3.8)	(4.6)
Income before income taxes	45.2	29.9	66.6	15.4	(36.8)
Income taxes:					
Combined income tax rate after manfacturing and processing credits	(11.7)	(8.0)	(19.5)	(3.7)	11.5
Income taxed in partners' hands	11.6	7.6	17.2	4.0	(9.6)
Other	1.5	(0.9)	0.7	2.4	(1.6)
Income taxes	1.4	(1.3)	(1.6)	2.7	0.3
Net income	46.6	28.6	65.0	18.1	(36.5)

(C$ millions, unless otherwise noted)	Fiscal 2012	Fiscal 2011	Fiscal 2010	$ Change Fiscal 2012 vs. Fiscal 2011	Fiscal 2011 vs. Fiscal 2010
Reconciliation of EBITDA to Net income:					
Net income	46.6	28.6	65.0	18.0	(36.4)
Income taxes	(1.4)	1.3	1.6	(2.7)	(0.3)
Interest expense	23.0	19.2	14.6	3.8	4.6
Depreciation and amortization	28.8	30.9	32.7	(2.1)	(1.8)
Unrealized foreign exchange (gain) loss	(0.8)	(0.9)	(1.2)	0.1	0.3
One-time costs related to the Business Rationalization Project	9.4	-	-	9.4	-
Impairment of non-financial assets	4.6	2.7	-	1.9	2.7
Loss on sale of property, plant and equipment	1.1	0.1	0.4	1.0	(0.3)
EBITDA	111.3	81.9	113.1	29.4	(31.2)

Results of Operations Fiscal 2012 compared to Fiscal 2011

Revenue

Revenue was $922.9 million in Fiscal 2012 compared to $892.6 million in Fiscal 2011, an increase of $30.3 million or 3.4%. The increase in revenue resulted from the net positive impact of volume and mix changes of 1.9%, which resulted from the positive impact of volume and mix changes of 3.5% related finished product sales, partially offset by the negative impact of volume and mix changes of 1.6% due to lower parent roll sales related to the decision to cease production of parent rolls for sale. The increase in revenue also resulted from an increase in average selling prices of 1.5%. Revenue increased in Canada by $21.3 million, or 3.3%, in Fiscal 2012 compared to Fiscal 2011 due to increases in sales volumes and average selling prices, and also increased in Mexico. The increases were partially offset by a decline in U.S. revenue during the same period related to the decision to cease production of parent rolls for sale. KTG revenue (sold primarily in the U.S.) was $147.2 million in Fiscal 2012 compared to $126.8 million in Fiscal 2011. Consumer and AFH segment revenues increased in Fiscal 2012 compared to Fiscal 2011, partially offset by a decline in Other segment revenue.

Cost of Sales

Cost of sales was $645.8 million in Fiscal 2012 compared to $658.5 million in Fiscal 2011, a decrease of $12.7 million or 1.9%. As a percentage of revenue, cost of sales were 70.0% in Fiscal 2012 compared to 73.8% in Fiscal 2011. Normal cost inflation and an increase in plant maintenance expenses in Fiscal 2012 compared to Fiscal 2011 were more than offset by decreases in commodity prices, particularly fibre costs. Pulp market prices (NBSK) were U.S.$872 per metric tonne on average in Fiscal 2012 compared to U.S.$977 per metric tonne on average in Fiscal 2011. Natural gas prices were also at historically low levels during Fiscal 2012. Cost of sales also included TAD Project direct and incremental expenses of $1.0 million in Fiscal 2012 compared to $0.5 million in Fiscal 2011.

Operating Expenses

Operating expenses were $194.9 million in Fiscal 2012 compared to $182.4 million in Fiscal 2011, an increase of $12.5 million or 6.8%. As a percentage of revenue, operating expenses were 21.1% in Fiscal 2012 compared to 20.4% in Fiscal 2011. The increase was primarily related to increases in freight, warehousing and selling and expenses as a result of higher sales volumes, increased advertising and promotion expenses, start-up costs related to the TAD Project and corporate costs associated with the transition to a public entity of $3.8 million. Operating expenses were also unfavourably impacted by changes in foreign exchange rates in Fiscal 2012 compared to favourable foreign exchange impacts in Fiscal 2011. TAD Project direct and incremental expenses included in operating expenses were $2.6 million in Fiscal 2012 compared to $0.6 million in Fiscal 2011.

EBITDA

EBITDA in Fiscal 2012 was $111.3 million compared to $81.9 million in Fiscal 2011, an increase of $29.4 million. The increase, as discussed above, was primarily due to an increase in revenue and lower cost of sales, partially offset by an increase in operating expenses. KTG EBITDA was $4.4 million in Fiscal 2012 compared to $6.1 million in Fiscal 2011. KTG EBITDA in Fiscal 2012 included $3.6 million of direct and incremental expenses for the TAD Project, compared to $1.1 million in Fiscal 2011, without any corresponding revenue in either period.

Interest Expense

Interest expense was $23.0 million in Fiscal 2012 compared to $19.2 million in Fiscal 2011, an increase of $3.8 million. The increase was due to both a higher average debt level and higher average interest rates. The higher debt level resulted from an increase in the Nordea Credit Facility (as defined below) to partially fund the KPLP investment in the TAD Project, as well as the Senior Unsecured Notes (as defined below) issued in August of Fiscal 2011. The higher average interest rates resulted primarily from the interest rate on the Senior Unsecured Notes compared to interest rates related to the Senior Credit Facility (as defined below) in Fiscal 2011.

Impairment of Non-Financial Assets and Restructuring Costs

Following a comprehensive strategic and operational review, in September 2012, KPLP substantially completed restructuring initiatives in order to cease production of its parent rolls for sale, which was not strategic to KPLP's overall business. These restructuring initiatives resulted in the permanent idling of two paper machines, a groundwood pulp plant and certain converting equipment, all at KPLP's New Westminster plant, as well as the termination of certain employees at the head office and at other manufacturing facilities (the Business Rationalization Project). As a result, certain related production assets were written down to reflect this change and an asset impairment charge of $4.6 million was recorded during Fiscal 2012. One-time restructuring costs of $9.4 million related to the Business Rationalization Project, primarily severance related, were also recorded during Fiscal 2012.

Income Taxes

An income tax recoverable of $1.4 million was recorded in Fiscal 2012 compared to income tax expense of $1.3 million in Fiscal 2011, a change of $2.7 million relating to KPLP subsidiaries in the U.S. and Mexico. As previously discussed, KPLP is not directly taxable on its Canadian business. A deferred tax credit recorded in Fiscal 2012 related primarily to additional tax deductions in respect of the TAD project, while the tax expense in Fiscal 2011 related primarily to taxable income in the U.S. Income tax in partner's hands was $11.5 million in Fiscal 2012 compared to $7.6 million in Fiscal 2011.

Net Income

Net income was $46.6 million in Fiscal 2012 compared to $28.6 million in Fiscal 2011, an increase of $18.0 million due to an increase in EBITDA and the deferred tax credit, partially offset by an increase in interest expense and charges related to the Business Rationalization Project. KTG had a net loss of $0.8 million in Fiscal 2012 compared to net income of $0.5 million in Fiscal 2011. The KTG net loss in Fiscal 2012 included $3.6 million of direct and incremental expenses for the TAD Project, compared to $1.1 million in Fiscal 2011, without any corresponding revenue in either period.

Results of Operations of KPT

(C$ millions, unless otherwise noted)	December 13, 2012 to December 31, 2012
Equity income	0.2
Net income	0.1
Basic earnings per share (whole dollars)	**0.02**

The selected financial information presented above is based on KPT's interest in KPLP of 15.7% for the period from December 13, 2012 to December 31, 2012. KPT's net income has not been adjusted for depreciation and amortization related to fair value increments related to the carrying amount of the assets and liabilities of KPLP on its acquisition by KPT. Refer to note 5 in KPT's annual financial statements for additional information. Income taxes represent the amount taxable in KPT. 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. KPT acquired its interest in KPLP on December 13, 2012.

SEGMENT INFORMATION

Segment Operating Profit

Segment operating profit is reviewed by the chief operating decision maker based on the earnings (loss) for each such segment before (i) interest expense, (ii) income taxes, (iii) depreciation, (iv) amortization, (v) impairment of non-financial assets, (vi) loss (gain) on disposal of property, plant and equipment, (vii) unrealized foreign exchange loss (gain), and (viii) one-time costs related to the Business Rationalization Project (Segment EBITDA). "AFH Segment EBITDA", "Consumer Segment EBITDA" and "Other Segment EBITDA" means in each case the segment operating profit for the referring reportable segment of KPLP.

Segment Results

				Fiscal 2012 vs. Fiscal 2011		Fiscal 2011 vs. Fiscal 2010	
	Fiscal 2012	Fiscal 2011	Fiscal 2010	$ Change	% Change	$ Change	% Change
Segment Revenue							
Consumer	745.6	705.3	712.9	40.3	5.7%	(7.6)	-1.1%
AFH	156.6	151.3	154.4	5.3	3.5%	(3.1)	-2.0%
Other	20.7	36.0	30.4	(15.3)	-42.5%	5.6	18.4%
Total segment revenue	922.9	892.6	897.7	30.3	3.4%	(5.1)	-0.6%
Segment EBITDA							
Consumer	114.0	87.6	116.5	26.4		(28.9)	
AFH	3.1	2.0	4.1	1.1		(2.1)	
Other	(5.8)	(7.7)	(7.4)	1.9		(0.3)	
Total segment EBITDA	111.3	81.9	113.2	29.4		(31.3)	

Consumer Segment

Fiscal 2012 compared to Fiscal 2011

Consumer segment revenue was $745.6 million in Fiscal 2012 compared to $705.3 million in Fiscal 2011, an increase of $40.3 million or 5.7%. The increase in Consumer segment revenue resulted from the positive impact of volume and mix changes of 4.1% and an increase in average selling price of 1.6%. Consumer segment revenue increased across all regions: Canada, the U.S. and Mexico.

Consumer Segment EBITDA was $114.0 million in Fiscal 2012 compared to $87.6 million in Fiscal 2011, an increase of $26.4 million. The increase in Consumer segment EBITDA was primarily due to an increase in revenue and lower cost of sales as a result of the explanations discussed above in the overall results.

AFH Segment

Fiscal 2012 compared to Fiscal 2011

AFH segment revenue was $156.6 million in Fiscal 2012 compared to $151.3 million in Fiscal 2011, an increase of $5.3 million or 3.5%. The increase in AFH segment revenue resulted from an increase in volumes of 2.1% and an increase in average selling price of 1.4%. The increase in volume was primarily due to the shifting of Q4 2011 sales into Q1 2012. Historically, AFH customers were able to achieve certain volume rebates in the fourth quarter of each year, which generally resulted in increased fourth quarter revenue and lower first quarter revenue. In 2011, KPLP restructured some of these rebate agreements to reduce the cyclical impact on the AFH business. AFH segment revenue increased in Canada in Fiscal 2012 compared to Fiscal 2011, while remaining essentially flat in the U.S. during the same period.

AFH Segment EBITDA was $3.1 million in Fiscal 2012 compared to $2.0 million in Fiscal 2011, an increase of $1.1 million. The increase in AFH Segment EBITDA was primarily due to an increase in revenue and lower cost of sales as a result of the explanations discussed above in the overall results.

Other Segment

Fiscal 2012 compared to Fiscal 2011

Other segment revenue was $20.7 million in Fiscal 2012 compared to $36.0 million in Fiscal 2011, a decrease of $15.3 million or 42.5%. The decrease was a result of the decision to cease production of parent rolls for sale during Fiscal 2012 related to the Business Rationalization Project.

Other Segment EBITDA was a loss of $5.8 million in Fiscal 2012 compared to a loss of $7.7 million in Fiscal 2011, an increase of $1.9 million. The improvement in EBITDA was primarily a result of the Business Rationalization Project.

LIQUIDITY AND CAPITAL RESOURCES

Overview

KPLP's principal uses of funds are for operating expenses, working capital, capital expenditures and pension contributions (together, the Funding Requirements). To date, it 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.

As of December 31, 2012, KPLP was in compliance with all of its financial covenants under all of its outstanding credit facilities. As of December 31, 2012, $0.1 million was drawn from the $195 million committed amount under the Senior Credit Facility, with the exception of $32.4 million of letters of credit outstanding.

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

Cash Flows

(C$ millions unless otherwise stated)	Fiscal 2012	Fiscal 2011	Fiscal 2010	$ Change Fiscal 2012 vs. Fiscal 2011	$ Change Fiscal 2011 vs. Fiscal 2010
Net cash flows from operating activities	123.2	72.2	81.4	51.0	(9.2)
Net cash flows used in investing activities	(184.8)	(109.4)	(27.8)	(75.4)	(81.6)
Net cash flows from (used in) financing activities	151.5	47.3	(77.7)	104.2	125.0
Effect of exchange rate changes on cash and cash equivalents	(0.2)	0.2	(0.3)	(0.4)	0.5
Increase (decrease) in cash and cash equivalents	89.7	10.3	(24.4)	79.4	34.7
Beginning cash and cash equivalents	31.8	21.5	45.9	10.3	(24.4)
Ending cash and cash equivalents	121.5	31.8	21.5	89.7	10.3

Net Cash Flows from Operating Activities

Net cash from operating activities in Fiscal 2012 was $123.2 million compared to $72.2 million in Fiscal 2011, an increase of $51.0 million. The increase in net cash from operating activities was driven by an increase in EBITDA of $29.4 million and an increase in the net change in working capital of $21.4 million as a result of management initiatives to reduce inventories and increases in trade and other payables, net of receivables, both of which related to greater sales volumes.

Net Cash Flows used in Investing Activities

Net cash used in investing activities was $184.8 million in Fiscal 2012 compared to $109.4 million in Fiscal 2011, an increase of $75.4 million. The increase was primarily due to the investment in the TAD Project, which increased to $167.3 million (including capitalized interest paid) in Fiscal 2012 compared to $84.1 million in Fiscal 2011. Capital expenditures on existing plant sites and software decreased to $17.7 million in Fiscal 2012 compared to $25.3 million in Fiscal 2011.

Net Cash Flows from Financing Activities

Net cash from financing activities was $151.5 million in Fiscal 2012 compared to $47.3 million in Fiscal 2011, an increase of $104.2 million. Net cash from financing activities in Fiscal 2012 was primarily due to draws of $118.4 million on the TAD Credit Facility and $9.0 million on the Nordea Credit Facility, both to finance the TAD Project, as well as, $128.9 million related to the issuance of partnership units in connection with KPT's initial public offering, partially offset by repayments of debt of $65.0 million related to the Senior Credit Facility and interest paid of $17.7 million, as well as a distribution of $40 million to Kruger Products 2010 paid at the time of the initial public offering.

Capital Expenditures

KPLP incurred capital expenditures of $185.0 million in Fiscal 2012, of which $167.3 million related to expenditures on the TAD Project, compared to $109.4 million in Fiscal 2011, of which $84.1 million related to the TAD Project. Capital expenditures not related to the TAD Project were $17.7 million in Fiscal 2012, compared to $25.3 million in Fiscal 2011 and related primarily to routine asset maintenance and converting capacity upgrades at the Crabtree plant and Gatineau Plant sites.

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, and other long-term liabilities.

(C$ millions, unless otherwise stated)	Fiscal 2013	Fiscal 2014	Fiscal 2015	Fiscal 2016	Thereafter
Contractual obligations:					
Revolving credit facility, principal repayments	-	-	-	-	-
Senior unsecured notes, principal repayments	-	-	-	-	175.0
Nordea facilities, principal repayments	5.8	5.8	5.8	5.8	17.5
TAD Credit Facility, principal repayments	-	-	-	29.7	89.6
Loan payable, principal repayments	0.7	0.9	0.9	0.9	0.2
Interest expense	25.1	25.4	39.5	29.0	42.4
Operating leases	10.8	9.9	9.9	9.8	82.3
Service contracts	1.5	1.4	1.7	-	-
Total contractual obligations	43.9	43.4	57.8	75.2	407.0

KPLP's cash pension contribution for defined benefit pension arrangements in Fiscal 2012 was $27.5 million, while its post-retirement benefits contribution was $2.2 million. In addition, as of December 31, 2012, KPLP had $32.4 million of LC's outstanding.

On December 13, 2012, in connection with the issuance of KPLP Units to KPT, the Limited Partnership Agreement amongst KPT, KPLP and Kruger Products 2010 (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. In light of this obligation, KPLP has determined that it is appropriate to reclassify a portion of its equity as a liability to its partners as required under IFRS as the obligation meets the definition of a financial liability for accounting purposes. Accordingly, $118,562 of equity has been reclassified as a liability in respect of this obligation. The reclassification is in respect of a previously disclosed obligation owed to the partners of KPLP. It does not change the rights of or obligations owed to the partners of KPLP, and does not result in any change to the financial statements of KPT.

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

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

Indebtedness

Senior Credit Agreement

General

KPLP is a party to a third amended and restated credit agreement dated as of September 10, 2012 entered into between KPLP and Kruger Products 2010, as borrowers, the lenders party thereto and National Bank of Canada, as administrative agent (the Senior Credit Agreement) pursuant to which a senior secured revolving credit facility in a maximum amount of $195 million with a $50 million accordion feature (the Senior Credit Facility) is made available to KPLP. The maturity date of the Senior Credit Facility is July 22, 2014. The Senior Credit Facility is to be used by KPLP to finance the general corporate purposes and the ongoing working capital requirements of the Restricted Credit Parties and financing the cash portion of any permitted acquisition or investment by any such Restricted Credit Party.

Under the Senior Credit Agreement, "Restricted Credit Parties" means KPLP, KPGP, Kruger Products 2010, 8031754 Canada Inc. and their respective subsidiaries involved in the tissue business but excluding the Unrestricted Credit Parties (which include TAD Canco Inc. ("TAD Canco"), TAD Luxembourg S.a.r.l. ("TAD Luxembourg") and KTG) and the Non-Material Credit Parties (as such terms are defined in the Senior Credit Agreement).

Interest Rates and Fees

Borrowings under the Senior Credit Facility bear interest at a base rate of Prime Rate, U.S. Base Rate, LIBOR, Bankers' Acceptance Stamping Fees or LC Fees (as defined in the Senior Credit Agreement), plus a margin varying between 0.75% and 3.50% depending on the Restricted Credit Parties' ratio of funded debt to EBITDA (as defined in the Senior Credit Agreement) and the type of advance. Stand-By Fees are also payable on the available portion of the Senior Credit Facility at a rate varying between 0.25% and 0.6875% depending on the Restricted Credit Parties' ratio of funded debt to EBITDA (as defined in the Senior Credit Agreement).

Prepayments and Repayments

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

Covenants

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

The Senior Credit Agreement requires the Restricted Credit Parties to comply with certain financial covenants, including, but not limited to, the maintenance of (i) a ratio of funded debt to EBITDA not greater than 3.50 to 1.00, (ii) a ratio of funded debt to capitalization not greater than 60%, and (iii) a minimum fixed charge coverage ratio of 2.00 to 1.00. The financial covenants are calculated on an Adjusted Consolidated Basis (as defined in the Senior Credit Agreement) such that the Unrestricted Credit Parties are accounted for as investments but not consolidated. As such, indebtedness under the TAD Credit Facility and KTG's EBITDA are not included in such calculations.

The Senior Credit Agreement contains customary negative covenants of KPLP, including, but not limited to, (i) restrictions on the ability of KPLP and the Restricted Credit Parties to, subject to certain exceptions, grant liens, incur indebtedness, merge or consolidate, amend, restate or otherwise modify the Limited Partnership Agreement, make investments and loans, grant guarantees, make acquisitions, declare, set apart and pay distributions (which does not apply to the Tax Distribution (as defined below) to KPT), reduce capital, sell or otherwise dispose of assets, incur capital expenditures or materially change their business, (ii) restrictions on the indebtedness of TAD Canco, TAD Luxembourg and KTG and the amendment of the TAD financing documents, and (iii) restrictions on the repayment of the Senior Unsecured Notes (except for repayments made within three months of the Offering Closing Date and funded exclusively from the net proceeds of the Offering).

Events of Default

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

Security and Guarantees

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

Indenture

General

On August 9, 2011, KPLP issued $175 million of 8.0% senior unsecured notes due August 9, 2018 (the Senior Unsecured Notes) by way of private placement in Canada in accordance with applicable Canadian prospectus and registration exemptions. The Senior Unsecured Notes were issued pursuant to the Indenture. Interest on the Senior Unsecured Notes accrues at 8.0% per year and is payable semi-annually on February 9 and August 9 of each year. The Senior Unsecured Notes mature on August 9, 2018.

Under the Senior Unsecured Notes, "Restricted Subsidiaries" means any subsidiary of KPLP that is not an Unrestricted Subsidiary (as defined in the Indenture and which include TAD Canco, TAD Luxembourg, KTG and non material subsidiaries).

Guarantees

The Senior Unsecured Notes are unconditionally guaranteed, jointly and severally, by the Restricted Credit Parties.

Redemption

KPLP may, at any time prior to August 9, 2014, redeem up to an aggregate of 35% of the aggregate principal amount of the Senior Unsecured Notes at a redemption price of 108% of the principal amount thereof, plus accrued and unpaid interest with the net proceeds received by KPLP from one or more equity offerings or cash contributions to its common equity capital, subject to certain conditions. In addition, KPLP may redeem all or part of the Senior Unsecured Notes at any time prior to August 9, 2015 at a make-whole price which is equal to the greater of (i) the Canada Yield Price (as defined in the Indenture), and (ii) 101% of the aggregate principal amount of Senior Unsecured Notes redeemed, plus accrued and unpaid interest to the redemption date. On or after August 9, 2015, KPLP may redeem all or part of the Senior Unsecured Notes at the following redemption prices, plus accrued and unpaid interest if redeemed during the 12-month period commencing August 9 of the year set forth below:

Year	Percentage
2015	104%
2016	102%
2017 and thereafter	100%

Change of Control

Upon the occurrence of a Change of Control of KPLP (as defined in the Indenture), KPLP will be required to offer to repurchase all or any part of each holders Senior Unsecured Notes for a payment in cash equal to 101% of the aggregate principal amount of Senior Unsecured Notes repurchased, plus accrued and unpaid interest thereon to the purchase date.

Covenants

The Indenture contains negative covenants of KPLP and the Restricted Subsidiaries, including, but not limited to, (i) limitations on making certain restricted payments (as described further below), (ii) restrictions on incurring certain indebtedness (as described further below), (iii) limitations on creating any contractual restrictions on the ability of Restricted Subsidiaries of KPLP to take certain actions, such as the payment of dividends or making of distributions, (iv) restrictions on KPLP and its Restricted Subsidiaries on incurring liens, (v) restrictions on transactions with affiliates, (vi) limitations on engaging in any line of business other than the businesses in which KPLP and the Restricted Subsidiaries were engaged on the date of issuance of the Senior Unsecured Notes, and any business reasonably related, incidental, complementary or ancillary thereto, (vii) restrictions on consolidating, amalgamating or merging into any other person, and (viii) restrictions on selling, transferring, assigning, leasing, conveying or otherwise disposing of all or substantially all of the property of KPLP and the Restricted Subsidiaries taken as a whole.

Pursuant to the Indenture, KPLP covenants not to make certain Restricted Payments (as defined below) unless at the time of, and after giving effect to, such Restricted Payment: (a) no default or event of default under the Indenture has occurred or would occur as a result thereof; (b) KPLP could incur at least $1 of additional indebtedness pursuant to the restrictions on incurring indebtedness set out in the Indenture (as described further below); and (c) such Restricted Payment, together with all Restricted Payments made by KPLP and its Restricted Subsidiaries from the date of issuance of the Senior Unsecured Notes, is less than an amount (the “Restricted Payments Basket”) equal to the sum of (A) 50% of Consolidated Net Income of KPLP (as defined in the Indenture) from May 1, 2011 to the end of KPLP’s most recently completed fiscal quarter (or, if Consolidated Net Income is a deficit, minus 100% of the deficit); plus (B) 100% of the aggregate net cash proceeds received by KPLP since the date of issuance of the Senior Unsecured Notes as a contribution to its common equity capital, or from the issue or sale of equity interests of KPLP; plus (C) any proceeds from the sale of investments made after the issue date of the Senior Unsecured Notes, plus (D) the fair market value of any investments in unrestricted subsidiaries that are redesignated as Restricted Subsidiaries, plus (E) any dividends or distributions received from an unrestricted subsidiary after the date of issue of the Senior Unsecured Notes to the extent not already included in Consolidated Net Income of KPLP.

As defined under the Indenture, “Restricted Payments” include, among other things, (i) the declaration or payment of dividends by KPLP or any Restricted Subsidiary, other than a dividend or distribution paid in partnership interests or share capital, and (ii) any payment of principal on any subordinated indebtedness prior to the stated maturity of such indebtedness. The Restricted Payments covenant is subject to a number of exclusions as set out in the Indenture, including (i) Restricted Payments made after the issue date of the Senior Unsecured Notes in an aggregate principal amount not to exceed $20 million, and (ii) the payment or declaration of distributions by KPLP to a parent entity of KPLP. Distributions made to KPT are Restricted Payments under the Indenture.

As of December 31, 2012, the amount of the Restricted Payments Basket was approximately $119.8 million, and, factoring that no Restricted Payments have been made in reliance on the $20.0 million exclusion from the definition of Restricted Payments referred to above, there was a total basket of approximately $139.8 million available under the Indenture as of December 31, 2012 for the making of Restricted Payments.

Pursuant to the Indenture, KPLP and its Restricted Subsidiaries may not incur any indebtedness (excluding trade debt and accounts payable incurred in the ordinary course of business and due within 12 months) unless immediately thereafter and giving effect thereto (a) the Consolidated Coverage Ratio, being the ratio of Adjusted EBITDA to Consolidated Interest Expense (as such terms are defined and subject to certain adjustments set out in the Indenture), would be at least 2:0 to 1:0; and (b) no default or event of default has occurred and its continuing under the Indenture. The restrictions on incurring indebtedness are subject to a number of exclusions set out in the Indenture.

Events of Default

The Indenture contains customary events of default, including without limitation, non-payment, insolvency, cross-default to other debt above a certain threshold and breach of covenants.

Nordea Credit Agreement

General

KPLP is a party to an amended and restated credit agreement dated as of September 10, 2012 entered into between KPLP and Kruger Products 2010, as borrowers, the lender party thereto and Nordea Bank A.B. (publ), as administrative agent, as amended by a first amending agreement dated as of February 28, 2013 (the Nordea Credit Agreement) pursuant to which a senior secured non-revolving loan facility in a maximum amount of U.S.$46.2 million (the "Nordea Credit Facility") is made available to KPLP. The Nordea Credit Facility is to be used to pay up to 85% of the equity investment of KPLP in the TAD Project and the fees of EKN in connection with its guarantee of the Nordea Credit Facility. The Nordea Credit Facility matures on December 30, 2019.

Interest Rates and Fees

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

Prepayments and Repayments

The Nordea Credit Facility is repayable in 14 equal consecutive semi-annual installments of principal together with interest commencing on the six-month anniversary of the starting point of credit, which is the earlier of the commissioning date of the TAD machine and December 30, 2012. Prepayments are allowed subject to a make-whole payment on account of interest losses.

Covenants

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

Events of Default

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

Security and Guarantees

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

TAD Credit Agreement

General

TAD Canco is a party to a credit agreement dated as of August 16, 2011 entered into between TAD Canco, as borrower, TAD Luxembourg and KTG, as guarantors, and Caisse de dépôt, as lender (as amended as of September 21, 2012, the "TAD Credit Agreement") pursuant to which a non revolving term loan facility for a maximum amount of U.S.$211.1 million is made available to TAD Canco (the TAD Credit Facility). The TAD Credit Facility is to be used by TAD Canco to invest in

TAD Luxembourg, which in turn lends such proceeds to KTG on substantially the same terms and conditions as the TAD Credit Facility to finance the TAD Project. Recourse under the TAD Credit Facility is limited to TAD Canco, TAD Luxembourg and KTG. The TAD Credit Facility matures on August 16, 2018.

Interest Rates and Fees

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

Prepayments and Repayments

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

Change of Ownership

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

Covenants

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

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

Events of Default

Events of default under the TAD Credit Agreement include, but are not limited to, non-payment, misrepresentation, breach of covenants, termination or default under a material project agreements, cross-default to KPLP, TAD Canco, TAD Luxembourg or KTG other indebtedness above certain thresholds, insolvency, enforcement proceedings, abandonment of the TAD Project or failure to reach the TAD Project service commencement date before August 16, 2013.

Security and Guarantees

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

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. A majority of the currency exposure is naturally offset by U.S. dollar expenses and the U.S. dollar denominated debt. As a result, KPLP at different times during the year can be a net buyer or net seller of U.S. dollars.

As of December 31, 2012, KPLP had net liabilities denominated in U.S. dollars of $46.0 million (December 31, 2011 – $35.9 million). Assuming the Canadian dollar strengthened (weakened) by 5% against the U.S. dollar, with all other variables held constant, the result on net income before tax in Fiscal 2012 would have been an increase (decrease) of $2.3 million (Fiscal 2011 – $1.8 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.

Interest Rate Risk

KPLP's interest rate risk arises from its variable rate long-term debt. As of December 31, 2012, KPLP had variable rate debts of $0.1 million (December 31, 2011 – $48 million). These loans bear interest at 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 0.75% and 3.50%.

A 1% increase (decrease) in the market rate of interest would have resulted in a decrease (increase) in net income before tax of nil in Fiscal 2012 (Fiscal 2011 – $0.5 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. During Fiscal 2012, KPLP had an interest rate swap on its revolving credit facilities. Since the interest rate swap contract did not trade, the price of an identical instrument could not be observed. The fair value for the interest rate swap was derived using the notional amount of the interest rate swap multiplied by the observable inputs of time to maturity, interest rates and credit spreads. The interest rate swap contract was recorded at fair value at each reporting period with the change in fair value recognized in interest expense. The net position at the end of each reporting period was reflected as a long-term asset or liability in the combined statements of financial position.

The interest rate swap was terminated during the third quarter of 2012. KPLP recorded an expense of $0.4 million to terminate the swap. The fair value of the outstanding interest rate swap as of December 31, 2011 was a liability of $0.7 million. An increase (decrease) of 100 basis points in the interest rate as of December 31, 2011 would have increased (decreased) the fair value of the interest rate swap by $0.4 million, respectively.

KPLP has no other interest rate swaps or interest rate derivatives outstanding as of December 31, 2012.

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 include cash and cash equivalents, trade and other receivables, interest rate swap and derivative commodity contracts. KPLP places its cash and cash equivalents interest rate swap and derivative commodity contracts 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 as financing sources. KPLP had unused lines of credit available of $162.5 million as of December 31, 2012 (December 31, 2011 – $114.6 million). KPLP prepares projections to ensure it has sufficient funds to fulfill its obligations. Refinancing risks are minimized by ensuring the credit facility will not mature for two years. 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 $186.0 million as of December 31, 2012 (December 31, 2011 –$151.7 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 combined 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. KPLP mitigates its exposure to commodity price risk by passing increases in its supply costs onto its customers through incremental price increases. KPLP has also entered into two fibre commodity swap contracts to mitigate these cost fluctuations. KPLP entered into one contract on October 1, 2011 to fix the price of purchasing 12,000 tonnes of fibre at a price of U.S.$915 per metric tonne until September 1, 2012. KPLP also entered into a second contract on January 13, 2012 for 12,000 tonnes at a price of U.S.$890 per metric tonne until January 1, 2013. The commodity swap entered into does not trade and as result the price of an identical instrument cannot be observed. The fair value of the commodity swap was estimated using a model with the main inputs being the future prices of pulp and the discount rate. The estimated fair value of the fibre commodity swap contracts as of December 31, 2012 was $0.04 million (December 31, 2011 – $0.4 million).

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 the Management Services Agreement. KPLP pays Kruger an annual management fee of $9.4 million (which will be reduced to $4 million upon the entering into of the Management Services Agreement).

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

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

Sales of goods to Kruger during Fiscal 2012 were $4.3 million (Fiscal 2011 – $4.5 million). Sales of goods to subsidiaries of Kruger during Fiscal 2012 were $0.2 million (Fiscal 2011 – $0.7 million).

Purchases of goods and services from Kruger and its affiliates, including management and support services, during Fiscal 2012 were $54.7 million (Fiscal 2011 – $60.0 million).

Fees for management and support services paid to Kruger during Fiscal 2012 were $9.2 million (Fiscal 2011 – $9.2 million).

OFF BALANCE SHEET ARRANGEMENTS

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

CRITICAL ACCOUNTING ESTIMATES

The preparation of the consolidated financial statements is in accordance with IFRS, which requires KPLP Management to make estimates and assumptions that affect the reported amounts and disclosures made in the 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 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.

Revenue Recognition

KPLP's revenues are derived principally from direct sales to retailers and wholesalers/distributors. KPLP's standard arrangement for its customers includes a valid purchase order. Revenue is recognized from the sale of products when products are shipped or at the point in time the products reach their destination, depending on the shipping terms.

Revenue is reported net of cash discounts, trade allowances and rebates, which are offered to customers in the normal course of business. These sales deductions are provided for based on customer agreements, estimates, and historical experience. Changes in estimates are recorded in the period in which the change is known.

Employee Future Benefits

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 annually by KPLP Management and KPLP's actuaries. The discount rate (based on market rates), the expected long-term rate of return on plan assets, and the expected growth rate in health care costs represent the three most significant assumptions.

Property, Plant and Equipment

Property, plant and equipment to be held and used is reviewed for impairment annually and when events or circumstance indicate that their carrying value may not be recoverable. The recoverable amount is the higher of an asset's fair value, less costs to sell, and its value in use (being the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. As a result of the decision to cease production of parent rolls for sale at the New Westminster plant, certain production assets and the timberlands have become redundant and accordingly, those assets were written down to the estimated fair value of $1.2 million and an impairment of $4.6 million was recorded during Fiscal 2012. During Fiscal 2011, KPLP recorded property, plant and equipment impairment charges of $2.7 million primarily related to the decision to abandon a dryer that was damaged in the production process.

TAD Expansion

The capitalized cost of the TAD Project includes soft costs, which include interest expense, engineering costs and legal fees. KPLP has retained a third party to assist with the allocation of the costs between buildings and equipment, however the third party report is not yet available as a result of the recent completion of the construction phase of the project. KPLP has estimated the allocation of the additions between buildings and equipment. The estimates are subject to change when KPLP receives the final report.

Environmental and Asset Retirement Obligations

The environmental and asset retirement obligations are recognized in the period in which they are incurred if a reasonable estimate of fair value can be made. The estimate is added to the carrying amount of the associated asset and amortized over the estimated remaining useful life of the corresponding asset. The liability accretes due to the increase in the fair value resulting from the passage of time and the accretion is charged to operating expenses for the period.

KPLP has made a provision for the estimated fair value of its potential obligation under a land lease to demolish the buildings at one of its plant locations and restore the land at the end of the lease to its original condition (including any environmental remediation). The current lease ends in 2028, but this lease could also be renewed for another term. KPLP assesses its provision for environmental and asset retirement obligations annually or more frequently if events or changes in circumstances would require adjustments to the significant estimates and assumptions. Significant estimates and assumptions are made in determining the provision for asset retirement obligations, as there are numerous factors that will affect the ultimate amount payable. These factors include estimates of the extent and costs of restoration activities, technological changes, regulatory changes, cost increases as compared to the inflation rates and changes in the discount rate. In addition, estimates of environmental remediation costs are based on a number of assumptions that are inherently difficult to determine and no assurance can be given that the actual costs will not differ from the estimates based on environmental test results, changes in laws, regulations or enforcement policies or other factors. These uncertainties may result in future actual expenditures differing from the amounts currently provided. Management has retained a third party to assist in with the estimate of the environmental remediation obligation, however the third party report is not yet available. The provision at the reporting date represents KPLP's best estimate of the present value of the environmental and asset retirement obligation. The estimated undiscounted amount to settle this obligation is expected to be between $9.5 million and $12.2 million. KPLP used a discount rate of 7.0% to estimate the liability. As of December 31, 2012, a liability of $3.5 million (Fiscal 2011 - $3.2 million) was recorded in provisions.

Partnership Units

On December 13, 2012, in connection with the issuance of KPLP 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. In light of this obligation, KPLP has determined that it is appropriate to reclassify a portion of its equity as a liability to its partners as required under IFRS as the obligation meets the definition of a financial liability for accounting purposes. Accordingly, $118,562 of equity has been reclassified as a liability in respect of this obligation. The reclassification is in respect of a previously disclosed obligation owed to the partners of KPLP. It does not change the rights of or obligations owed to the partners of KPLP, and does not result in any change to the financial statements of KPT. This amount reflects KPLP's estimate of the net present value of the financial liability arising from the obligation to make the Tax Distribution using estimates of tax payable by KPT and a discount rate and terminal growth rate of 8.7% and 0.41%, respectively. 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 unit obligation are not necessarily indicative of a change in the expected future profitability of KPLP.

Equity Method of Accounting

The equity method of accounting is being applied by KPT as it relates to its investment in KPLP. The decision 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 fact and circumstances and ultimately requires 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 Inc., management has concluded that KPT has the ability to exercise significant influence over KPLP.

Estimates of Fair Value and Impact on Equity Income

KPT has used certain assumptions in determining the adjustments to the carrying amount of the assets and liabilities of the associate on its acquisition. These assumptions include the royalty rate, discount rate, weighted average cost of capital rate and replacement values for property plant and equipment. The assumptions were determined by looking at comparative companies in the same industry. The adjustments arising on the accounting for the investment in associate are disclosed in note 5 in the financial statements of KPT. As disclosed, the evaluation of the fair value of the assets acquired and liabilities assumed is not complete. Accordingly, these amounts are subject to change and the change could be significant.

ACCOUNTING CHANGES AND FUTURE ACCOUNTING STANDARDS

Accounting Standards Implemented for the Year Ended December 31, 2012

IFRS 7, Financial Instruments - Disclosures, has been amended to include additional disclosure requirements in the reporting of transfer transactions and risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitization of financial assets. The amendment was adopted by KPLP effective January 1, 2012. The adoption of this standard did not have a material impact on the consolidated financial statements.

Future Accounting Standards

The following revised standards and amendments are effective for annual periods beginning on or after January 1, 2013, except as noted below, 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.

IFRS 9, Financial Instruments, was issued in November 2009 and addresses the classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39, Financial Instruments - Recognition and Measurement, for debt instruments with a new mixed measurement model having only two categories: amortized cost; and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely. Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income. The amendment is effective for annual periods beginning on or after January 1, 2015.

IFRS 10, Consolidated Financial Statements, requires an entity to consolidate an investee when it has power over the investee, is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12, Consolidation - Special Purpose Entities, and parts of IAS 27, Consolidated and Separate Financial Statements. The amendment is effective for annual periods beginning on or after January 1, 2013 and it is not expected to have a significant impact on the consolidated financial statements.

IFRS 12, Disclosure of Interests in Other Entities, establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosures that address the nature of, and risks associated with, an entity's interests in other entities. The amendment is effective for annual periods beginning on or after January 1, 2013. KPLP does not expect that this standard will result in a material impact to the consolidated financial statements.

IFRS 13, Fair Value Measurement, is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures. The amendment is effective for annual periods beginning on or after January 1, 2013. KPLP does not expect that this standard will result in a material impact to the consolidated financial statements.

IAS 1, Presentation of Financial Statements, has been amended to require entities to separate items presented in other comprehensive income (OCI) into two groups, based on whether or not items may be recycled in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately. The amendment is effective for annual periods beginning on or after July 1, 2012, with earlier application permitted. KPLP does not expect that this standard will result in a material impact to the consolidated financial statements.

IAS 19, Employee Benefits, has been amended to make significant changes to the recognition and measurement of defined benefit pension expense and termination benefits and to enhance the disclosure of all employee benefits. A number of other amendments have been made to recognition, measurement and classification including redefining short-term and other long-term benefits, guidance on the treatment of taxes related to benefit plans, guidance on risk/cost sharing features and expanded disclosures. The amendment is effective for annual periods beginning on or after January 1, 2013. KPLP has recorded the interest portion of the defined benefit costs and the post-retirement benefit costs as interest expense. KPLP continues to evaluate the impact of this standard on its consolidated financial statements.

2011 annual improvements - improvements and amendments to the following existing standards, basis of conclusions and guidance, effective for years beginning on or after January 1, 2013:

- IAS 1, Presentation of Financial Statements, has been amended to include requirement for comparative financial information when an entity provides an opening statement of financial position.
- IAS 32, Financial Instruments – Presentation, has been amended to clarify the treatment of income tax relating to distributions and transaction costs.
- IAS 34, Interim Financial Reporting, has been amended to include disclosure requirements for segment assets and liabilities.

SELECTED ANNUAL FINANCIAL INFORMATION

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

	2012	2011	2010
KPT Financial Information			
Total assets	140.8	N/A	N/A
Total liabilities	0.1	N/A	N/A
KPLP Financial Information			
Total assets	1,094.7	868.6	779.3
Total liabilities	848.7	590.6	469.7

SELECTED QUARTERLY FINANCIAL INFORMATION

The selected quarterly financial information presented below was derived from KPLP's unaudited consolidated financial statements and related notes thereto for the quarters ended December 31, 2012 and 2011. The selected financial data for Q1 2012 and Q1 2011 has not been previously reported.

Quarterly Financial Information

	2012				2011			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	242.9	232.4	231.3	216.2	241.1	222.9	220.0	208.5
Net income for the period	6.9	21.2	16.8	1.7	5.8	9.7	5.7	7.5
Reconciliation of Net income to EBITDA								
Net income	6.9	21.2	16.8	1.7	5.8	9.7	5.7	7.5
Income taxes	(2.4)	0.5	0.3	0.2	0.4	(0.1)	0.6	0.3
Interest expense	6.6	5.3	6.1	5.1	7.0	6.5	2.5	3.1
Depreciation and amortization	10.9	6.0	5.8	6.1	8.8	7.4	7.5	7.2
Unrealized foreign exchange (gain) loss	0.8	(2.0)	1.0	(0.6)	(0.5)	-	(0.3)	-
One-time costs related to the Business Rationalization Project	0.8	-	(0.5)	9.1	-	-	-	-
Impairment of non-financial assets	(1.3)	-	-	5.9	2.7	-	-	-
Loss on sale of property, plant and equipment	0.6	0.4	0.1	(0.1)	0.1	-	-	-
EBITDA	22.9	31.4	29.6	27.4	24.3	23.5	16.0	18.1

Results of Operations Q4 2012 compared to Q4 2011

Revenue was $242.9 million in Q4 2012 compared to $241.1 million in Q4 2011, an increase of $1.8 million or 0.8%. The increase in revenue resulted from the net positive impact of volume and mix changes of 3.5%, which resulted from the positive impact of volume and mix changes of 7.1% related finished product sales, partially offset by the negative impact of volume and mix changes of 3.6% due to lower parent roll sales related to the decision to cease production of parent rolls for sale. The positive impact related to volume and mix changes was partially offset by a decrease in average selling prices of 2.7%, primarily related to the decline in pulp prices throughout 2012. Revenue increased in Canada by $6.0 million, or 3.5%, in Q4 2012 compared to Q4 2011 due to increases in sales volumes partially offset by declines in average selling prices, and also increased in Mexico. The increases were partially offset by a decline in U.S. revenue during the same period related to the decision to cease production of parent rolls for sale. KTG revenue was $41.2 million in Q4 2012 compared to $35.5 million in Q4 2011. Consumer segment revenue increased in Q4 2012 compared to Q4 2011, while AFH segment revenue and Other segment revenue declined.

Cost of sales were $172.5 million in Q4 2012 compared to $175.9 million in Q4 2011, a decrease of $3.4 million or 1.9%. As a percentage of revenue, cost of sales were 71.0% in Q4 2012 compared to 73.0% in Q4 2011. Higher plant maintenance expenses in Q4 2012 compared to Q4 2011 were more than offset by a decrease in commodity prices, particularly fibre costs. Pulp market prices (NBSK) were U.S.$863 per metric tonne on average in Q4 2012 compared to U.S.$920 per metric tonne on average in Q4 2011. Natural gas prices also remained at historically low levels during Q4 2012. TAD Project direct and incremental expenses of $0.3 million were included in cost of sales in Q4 2012 compared to $0.5 million in Q4 2011.

Operating expenses were $59.8 million in Q4 2012 compared to $49.3 million in Q4 2011, an increase of $10.5 million or 21.3%. As a percentage of revenue, operating expenses were 24.6% in Q4 2012 compared to 20.5% in Q4 2011. The increase was primarily related to increases in freight, warehousing and selling expenses as a result of increased sales, increased advertising and promotion expenses, start-up costs related to the TAD Project and corporate costs associated with the transition to a public entity. Operating expenses were also unfavourably impacted by changes in foreign exchange rates in Q4 2012 compared to Q4 2011. TAD Project direct and incremental expenses of $1.5 million were included in operating expenses in Q4 2012 compared to $0.6 million in Q4 2011.

EBITDA in Q4 2012 was $22.9 million compared to $24.3 million in Q4 2011, a decrease of $1.4 million. The decrease was primarily due to an increase in operating expenses, almost entirely offset by an increase in revenue and lower cost of sales. KTG EBITDA was a loss of $0.6 million in Q4 2012 compared to a loss of $0.2 million in Q4 2011. KTG EBITDA in Q4 2012 included $1.8 million of direct and incremental expenses for the TAD Project compared to $1.1 million in Q4 2011, without any corresponding revenue in either period.

Interest expense was $6.6 million in Q4 2012 compared to $7.0 million in Q4 2011, a decrease of $0.4 million. The decrease was primarily due to lower debt levels related to the Senior Credit Facility and lower amortization of deferred financing fees in Q4 2012 compared to Q4 2011.

An income tax credit of $2.4 million was recorded in Q4 2012 compared to income tax expense of $0.4 million in Q4 2011, a change of $2.8 million relating to KPLP subsidiaries in the U.S. and Mexico. As previously discussed, KPLP is not directly taxable on its Canadian business. The income tax credit in Q4 2012 related primarily to additional tax deductions in respect of the TAD project, while the tax expense in Q4 2011 related primarily to taxable income in the U.S. Income taxed in partners' hands was $2.0 million in Q4 2012 compared to $1.4 million in Q4 2011.

Net income was $6.9 million in Q4 2012 compared to $5.8 million in Q4 2011, an increase of $1.1 million. The increase was primarily due to a deferred tax credit recorded in Q4 2012. KTG net loss was $1.3 million in Q4 2012 compared to a loss of $0.9 million in Q4 2011. KTG net loss in Q4 2012 included $1.8 million of direct and incremental expenses for the TAD Project compared to $1.1 million in Q4 2011, without any corresponding revenue in either period.

Segment Information Q4 2012 compared to Q4 2011

Consumer Segment

Consumer segment revenue was $199.1 million in Q4 2012 compared to $187.5 million in Q4 2011, an increase of $11.6 million or 6.2%. The increase in Consumer segment revenue resulted from the positive impact of volume and mix changes of 10.5%, partially offset by a decline in average selling prices of 3.4%. The decline in average selling price was primarily related to the decline in pulp prices throughout 2012. Consumer segment revenue increased across all regions: Canada, the U.S. and Mexico.

Consumer Segment EBITDA was $24.5 million in Q4 2012 compared to $25.8 million in Q4 2011, a decrease of $1.3 million. The decrease was primarily due to an increase in revenues and lower input costs as discussed above, more than offset by higher plant maintenance costs and operating expenses in Q4 2012 compared to Q4 2011.

AFH Segment

AFH segment revenue was $41.7 million in Q4 2012 compared to $42.4 million in Q4 2011, a decrease of $0.7 million or 1.6%. The decrease was due to a slight increase in volume, more than offset by a slight decrease in average selling prices. AFH segment revenue was flat in Canada in Q4 2012 compared to Q4 2011, and declined in the U.S. during the same period.

AFH Segment EBITDA was a loss of $1.8 million in Q4 2012 compared to income of $0.1 million in Q4 2011, a decrease of $1.9 million. The decrease in AFH Segment EBITDA was primarily due to increases in plant maintenance costs and operating expenses and lower average selling prices, partially offset by lower input costs, particularly fibre and energy costs.

Other Segment

Other segment revenue was $2.1 million in Q4 2012 compared to $11.1 million in Q4 2011, a decrease of $9.0 million or 81.2%. The decrease was a result of the decision to cease production of parent rolls for sale related to the Business Rationalization Project.

Other Segment EBITDA was $0.2 million in Q4 2012 compared to a loss of $1.7 million in Q4 2011. The increase was primarily due to the impacts of the Business Rationalization Project.

SHARE INFORMATION

KPT's authorized share capital consists of an unlimited number of Common Shares. As of March 20, 2013, there were 8,750,001 Common Shares issued and outstanding. Pursuant to the Exchange Agreement, Kruger has the right to exchange KPLP Units it holds from time to time for Common Shares on the basis of one KPLP Unit for one Common Share, subject to adjustment as set out in the Exchange Agreement. If Kruger were to exchange all KPLP Units held by it as of March 20, 2013 for Common Shares, it would hold approximately 83.1% of the issued and outstanding Common Shares. As of March 20, 2013, there were no potentially dilutive instruments outstanding, other than the Exchange Agreement.

Pursuant to the Limited Partnership Agreement, KPLP may issue an unlimited number of KPLP Units. As of March 20, 2013, there were 51,764,300 KPLP Units issued and outstanding.

ADDITIONAL INFORMATION

Additional information relating to KPT and KPLP, including continuous disclosure documents of KPT, is available on SEDAR at www.sedar.com.