



KP TISSUE INC. AND KRUGER PRODUCTS L.P.

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

FOR THE 13-WEEK PERIOD AND 26-WEEK PERIOD ENDED JUNE 30, 2013

DATED AUGUST 13, 2013

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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 condensed financial statements of KPT for the 13-week and 26-week periods ended June 30, 2013, and the condensed consolidated financial statements of KPLP for the 13-week periods ended June 30, 2013 (Q2 2013) and June 24, 2012 (Q2 2012), the 26-week period ended June 30, 2013 (YTD 2013), and the 25-week period ended June 24, 2012 (YTD 2012), 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 June 30, 2013 KPT held a 16.9% interest in KPLP, accounted for as an investment in an associate using the equity method of accounting.

CAUTIONARY FORWARD LOOKING STATEMENT

Certain statements in this MD&A about KPT's and KPLP's current and future plans, expectations and intentions, results, levels of activity, performance, goals or achievements or any other future events or developments constitute forward-looking statements. The words "may", "will", "would", "should", "could", "expects", "plans", "intends", "trends", "indications", "anticipates", "believes", "estimates", "predicts", "likely" or "potential" or the negative or other variations of these words or other comparable words or phrases, are intended to identify forward-looking statements. The forward-looking information is based on certain key expectations and assumptions made by KPT or KPLP, including continued growth of the U.S. private label market and demand for TAD products in the U.S., orders for the TAD machine's products, the demand and timing of distributions made by KPLP, Kruger Inc.'s cash requirements and expected savings from the Business Rationalization Project (as described in the Management's Discussion and Analysis for KPT and KPLP for the year ended December 31, 2012 (the 2012 Annual MD&A). 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 Annual Information Form dated March 28, 2013 available on SEDAR at www.sedar.com (the Annual Information Form): Kruger Inc.'s influence over KPLP; KPLP's reliance on Kruger Inc.; consequences of an event of insolvency relating to Kruger Inc.; risks associated with the TAD Project; operational risks; Gatineau Plant land lease; significant increases in prices; 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 its Articles, KPT's business is limited to (i) the investment in, holding of and disposition of limited partnership interests, units, shares or other securities of KPLP and its general partner, KPGP Inc. (KPGP) (or any successor entity of either KPLP or KPGP), (ii) the acquisition of, holding, operation and disposition of any assets, liabilities, operations or business of such entities, and (iii) all activities related, incidental or ancillary to any of the foregoing. As of the date of the MD&A and following the participation by the partners in the Dividend Reinvestment Plan (DRIP) on July 15, 2013, KPT held 16.8% of the KPLP Partnership Units (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 (in each case, as defined below). While its principal focus is on the Canadian consumer-branded tissue products market, KPLP is also a leader in the Canadian AFH market and 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 of which was completed in Q1 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 condensed consolidated financial statements are derived from the combined financial statements of the Tissue Business.

The condensed consolidated financial statements of KPLP presented for Q2 2013, Q2 2012, YTD 2013 and YTD 2012 have been prepared in accordance with IFRS (International Financial Reporting Standards) for interim financial statements, including IAS 34, Interim Financial Reporting. The condensed financial statements of KPT for the 13-week and 26-week periods ended June 30, 2013 have also been prepared in accordance with IFRS for interim financial statements.

Accounting Periods

This MD&A, the condensed consolidated financial statements of KPLP and accompanying notes thereto include financial information for Q2 2013, Q2 2012, YTD 2013 and YTD 2012.

Financial Measures and Key Indicators

This MD&A uses certain non-IFRS financial measures and ratios which KPLP believes provide useful information to both KPLP Management and the readers of the condensed consolidated financial statements in measuring the financial performance and financial condition of KPLP. These measures do not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similarly titled measures presented by other companies. An example of such measures is 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 on page 6.

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

“KTG EBITDA” is calculated as net income (loss) of KTG as reported in the financial statements of KTG before (i) interest expense, (ii) income taxes, (iii) depreciation, and (iv) amortization, as defined in the TAD Credit Facility (as described in the 2012 Annual MD&A).

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. 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) 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 including the construction, start-up and production and sales ramp-up phases. 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.

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. 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 KPT 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. KPLP is a borrower under certain credit facilities, including the Senior Credit Facility (up to \$125 million, with a \$120 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), each of which is described in the 2012 Annual MD&A. Refer to “Liquidity and Capital Resources, Indebtedness” for an update related to the Senior Credit Facility. The TAD Credit Facility is related exclusively 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 available for use. With the completion of the construction period in Q1 2013, a portion of the interest costs incurred related to the TAD Credit Facility was expensed in Q1 2013 and have continued to be recorded in interest expense since that time. Refer to note 7, “Long-term debt” in the condensed consolidated financial statements for Q2 2013 for additional information. KPLP also records amortization related to deferred financing fees and 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 flowed to the partners, Kruger Products 2010 LP, KPGP and KPT for Q2 2013, Q2 2012, YTD 2013 and YTD 2012. 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 condensed 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 U.S.\$125 million. On February 22, 2013, KPT announced that KPLP had successfully finished the construction phase of the TAD Project, on time and on budget. As of June 30, 2013, a total of U.S.\$305.4 million had been spent on the TAD Project, financed by a U.S.\$186.4 million investment by KPLP into KTG and a drawdown of U.S.\$119.0 million on the TAD Credit Facility. As of June 30, 2013, KPLP has invested into KTG, primarily to finance the TAD Project, U.S.\$70 million of the proceeds from the subscription by KPT for units of KPLP in the context of KPT’s initial public offering in December 2012.

RESULTS OF OPERATIONS

Results of Operations of KPLP

| (C\$ millions, unless otherwise noted) | \$ Change | | | | | |
|--|-------------|-------------|-------------|-------------|------------------------|--------------------------|
| | Q2 2013 | Q2 2012 | YTD 2013 | YTD 2012 | Q2 2013 vs. Q2 2012 | YTD 2013 vs. YTD 2012 |
| Statement of Operations Data: | | | | | | |
| Revenue | 246.8 | 231.3 | 468.6 | 447.6 | 15.5 | 21.0 |
| Cost of sales | (173.3) | (161.3) | (330.5) | (312.9) | (12.0) | (17.6) |
| Operating expenses | (52.4) | (47.5) | (100.2) | (90.6) | (4.9) | (9.6) |
| Recovery (impairment) of non-financial assets | 1.8 | - | 1.8 | (5.9) | 1.8 | 7.7 |
| Restructuring costs | - | 0.5 | - | (8.6) | (0.5) | 8.6 |
| Operating income | 22.9 | 23.0 | 39.7 | 29.6 | (0.1) | 10.1 |
| Interest expense | (11.0) | (7.1) | (20.9) | (13.2) | (3.9) | (7.7) |
| Income before income taxes | 11.9 | 15.9 | 18.8 | 16.4 | (4.0) | 2.4 |
| Income taxes: | | | | | | |
| Combined income tax rate after manufacturing and processing credits | (3.1) | (4.4) | (4.9) | (4.8) | 1.3 | (0.1) |
| Income tax in partners' hands | 5.4 | 4.4 | 8.7 | 4.2 | 1.0 | 4.5 |
| Other | 1.2 | (0.3) | 4.5 | 0.2 | 1.5 | 4.3 |
| Income taxes | 3.5 | (0.3) | 8.3 | (0.4) | 3.8 | 8.7 |
| Net income | 15.4 | 15.6 | 27.1 | 16.0 | (0.2) | 11.1 |

| (C\$ millions, unless otherwise noted) | \$ Change | | | | | |
|---|-------------|-------------|-------------|-------------|------------------------|--------------------------|
| | Q2 2013 | Q2 2012 | YTD 2013 | YTD 2012 | Q2 2013 vs. Q2 2012 | YTD 2013 vs. YTD 2012 |
| Reconciliation of EBITDA to Net income: | | | | | | |
| Net income | 15.4 | 15.6 | 27.1 | 16.0 | (0.2) | 11.1 |
| Income taxes | (3.5) | 0.3 | (8.3) | 0.4 | (3.8) | (8.7) |
| Interest expense | 11.0 | 7.1 | 20.9 | 13.2 | 3.9 | 7.7 |
| Loss (gain) on disposal of property, plant and equipment | - | 0.1 | (0.1) | 0.1 | (0.1) | (0.2) |
| Depreciation and amortization | 9.0 | 5.8 | 16.5 | 11.9 | 3.2 | 4.6 |
| Unrealized foreign exchange loss | 1.6 | 1.0 | 2.5 | 0.5 | 0.6 | 2.0 |
| Recovery (impairment) of non-financial assets | (1.8) | - | (1.8) | 5.9 | (1.8) | (7.7) |
| One-time costs related to the Business Rationalization Project | - | (0.5) | - | 8.6 | 0.5 | (8.6) |
| EBITDA | 31.7 | 29.4 | 56.8 | 56.6 | 2.3 | 0.2 |

Results of Operations Q2 2013 compared to Q2 2012

Revenue

Revenue was \$246.8 million in Q2 2013 compared to \$231.3 million in Q2 2012, an increase of \$15.5 million or 6.7%. The increase in revenue was primarily due to additional promotional activities in Q2 2013 resulting in higher sales volumes and new business related to the TAD Project. The positive impact of an increase in sales volume of 10.4% related to finished product sales was partially offset by lower parent roll sales as a result of the Business Rationalization Project. Revenue in Canada increased \$17.6 million, or 10.7%. Revenue in the U.S. decreased \$2.4 million, or 4.1%, as a result of the decline in parent roll sales, partially offset by an increase in finished product sales of 6.8% in Q2 2013 compared to Q2 2012. KTG

revenue (sold primarily in the U.S. and including intercompany sales) was \$48.1 million in Q2 2013 compared to \$34.8 million in Q2 2012. Consumer segment revenue increased in Q2 2013 compared to Q2 2012, partially offset by a slight decrease in AFH segment revenue and a decline in Other segment revenue as a result of the decline in parent roll sales.

Cost of Sales

Cost of sales was \$173.3 million in Q2 2013 compared to \$161.3 million in Q2 2012, an increase of \$12.0 million or 7.4%. As a percentage of revenue, cost of sales were 70.2% in Q2 2013 compared to 69.7% in Q2 2012. Cost of sales was impacted in Q2 2013 as commodity prices, particularly fibre costs, continued to move upward during the quarter. Pulp market prices (NBSK) were U.S. \$950 per metric tonne as of June 30, 2013, and U.S.\$937 per metric tonne on average in Q2 2013 compared to U.S.\$900 per metric tonne on average in Q2 2012. Natural gas prices also increased in Q2 2013 from historically low levels during Q2 2012.

Operating Expenses

Operating expenses were \$52.4 million in Q2 2013 compared to \$47.5 million in Q2 2012, an increase of \$4.9 million or 10.1%. As a percentage of revenue, operating expenses were 21.2% in Q2 2013 compared to 20.5% in Q2 2012. The increase was primarily related to increases in freight, warehousing and selling expenses as a result of higher sales volumes, increased advertising and promotion expenses and public company costs paid on behalf of KPT.

EBITDA

EBITDA was \$31.7 million in Q2 2013 compared to \$29.4 million in Q2 2012, an increase of \$2.3 million. The increase, as discussed above, was primarily due to an increase in revenue, partially offset by higher cost of sales and operating expenses. KTG had an EBITDA loss of \$1.0 million in Q2 2013 compared to EBITDA of \$2.2 million in Q2 2012. KTG EBITDA included \$2.4 million of TAD Project start-up costs in Q2 2013, compared to \$0.9 million in Q2 2012.

Interest Expense

Interest expense was \$11.0 million in Q2 2013 compared to \$7.1 million in Q2 2012, an increase of \$3.9 million. The increase was primarily due to interest expense related to the TAD Project recorded in Q2 2013, which was capitalized during construction in Q2 2012, partially offset by lower interest expense related to the Senior Credit facility due to lower debt levels in Q2 2013 compared to Q2 2012.

Impairment (Recovery) of Non-Financial Assets and Restructuring Costs

A recovery of \$1.8 million was recognized in Q2 2013 compared to recovery of \$0.5 million in Q2 2012. The recovery in Q2 2013 was the result of a reversal of a previously recorded provision against certain lands included in the Business Rationalization Project described below.

Income Taxes

An income tax recovery of \$3.5 million was recorded in Q2 2013 compared to income tax expense of \$0.3 million in Q2 2012, a change of \$3.8 million relating primarily to KTG in the U.S. As previously discussed, KPLP is not directly taxable on its Canadian business. A deferred tax recovery recorded in Q2 2013 related primarily to additional tax deductions and state tax credits in respect of the TAD Project, while the tax expense in Q2 2012 related primarily to taxable income in the U.S. Income tax in partner's hands was \$5.4 million in Q2 2013 compared to \$4.4 million in Q2 2012.

Net Income

Net income was \$15.4 million in Q2 2013 compared to \$15.6 million in Q2 2012, a decrease of \$0.2 million. The decrease in net income was primarily due to an increase in interest expense and depreciation expense, almost offset by the deferred tax recovery, an increase in EBITDA and the income related to the provision reversal noted above. KTG had a net loss of \$5.5 million in Q2 2013 compared to net income of \$0.8 million in Q2 2012.

Results of Operations YTD 2013 compared to YTD 2012

Revenue

Revenue was \$468.6 million in YTD 2013 compared to \$447.6 million in YTD 2012, an increase of \$21.0 million or 4.7%. The increase in revenue resulted primarily from an additional 5 days of sales in YTD 2013 compared to YTD 2012, additional promotional activities in Q2 2013 resulting in higher sales volumes and new business related to the TAD Project. The positive impact of an increase in sales volume of 7.7% related to finished product sales was partially offset by lower parent roll sales as a result of the Business Rationalization Project. Revenue in Canada increased \$20.3 million, or 6.3%. Revenue was flat in the U.S. as a result of an increase in finished product sales of 10.9% in YTD 2013 compared to YTD 2012, offset by the decline in parent roll sales. KTG revenue (sold primarily in the U.S. and including intercompany sales) was \$89.8 million in YTD 2013 compared to \$68.0 million in YTD 2012. Consumer and AFH segment revenues increased in YTD 2013 compared to YTD 2012, partially offset by a decline in Other segment revenue as a result of the Business Rationalization Project.

Cost of Sales

Cost of sales was \$330.5 million in YTD 2013 compared to \$312.9 million in YTD 2012, an increase of \$17.6 million or 5.6%. As a percentage of revenue, cost of sales were 70.5% in YTD 2013 compared to 69.9% in YTD 2012. Cost of sales was impacted in YTD 2013 as commodity prices, particularly fibre costs, continued to move upward during the period. Pulp market prices (NBSK) were U.S.\$917 per metric tonne on average in YTD 2013 compared to U.S.\$885 per metric tonne on average in YTD 2012. Natural gas prices also increased in YTD 2013 from historically low levels during YTD 2012.

Operating Expenses

Operating expenses were \$100.2 million in YTD 2013 compared to \$90.6 million in YTD 2012, an increase of \$9.6 million or 10.6%. As a percentage of revenue, operating expenses were 21.4% in YTD 2013 compared to 20.2% in YTD 2012. The increase was primarily related to increases in freight, warehousing and selling expenses as a result of higher sales volumes, increased advertising and promotion expenses and public company costs paid on behalf of KPT. Operating expenses were also impacted by foreign exchange losses in YTD 2013 compared to YTD 2012.

EBITDA

EBITDA was \$56.8 million in YTD 2013 compared to \$56.6 million in YTD 2012, an increase of \$0.2 million. The increase, as discussed above, was primarily due to an increase in revenue, almost entirely offset by higher cost of sales and operating expenses. KTG had an EBITDA loss of \$1.4 million in YTD 2013 compared to EBITDA of \$3.3 million in YTD 2012. KTG EBITDA included \$4.2 million of TAD Project start-up costs in YTD 2013, compared to \$1.7 million in YTD 2012.

Interest Expense

Interest expense was \$20.9 million in YTD 2013 compared to \$13.2 million in YTD 2012, an increase of \$7.7 million. The increase was primarily due to interest expense related to the TAD Project recorded in Q2 2013, which was capitalized during construction in YTD 2012, partially offset by lower interest expense related to the Senior Credit Facility in YTD 2013 compared to YTD 2012.

Impairment (Recovery) of Non-Financial Assets and Restructuring Costs

A recovery of \$1.8 million was recognized in YTD 2013 compared to expense of \$14.5 million in YTD 2012. In Q1 2012, following a comprehensive strategic and operational review, 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 \$5.9 million was recorded in Q1 2012. One-time restructuring costs of \$8.6 million related to the Business Rationalization Project, primarily severance related, were also

recorded in Q1 2012. The recovery in YTD 2013 was the result of a reversal of a previously recorded provision against certain lands included in the Business Rationalization Project.

Income Taxes

An income tax recovery of \$8.3 million was recorded in YTD 2013 compared to income tax expense of \$0.4 million in YTD 2012, a change of \$8.7 million relating primarily to KTG in the U.S. As previously discussed, KPLP is not directly taxable on its Canadian business. A deferred tax recovery recorded in YTD 2013 related primarily to additional tax deductions and state tax credits in respect of the TAD Project, while the tax expense in YTD 2012 related primarily to taxable income in the U.S. Income tax in partner's hands was \$8.7 million in YTD 2013 compared to \$4.2 million in YTD 2012.

Net Income

Net income was \$27.1 million in YTD 2013 compared to \$16.0 million in YTD 2012, an increase of \$11.1 million. The increase in net income was primarily due to the deferred tax recovery and the charge related to the Business Rationalization Project in YTD 2012 compared to the provision reversal in YTD 2013 noted above, partially offset by an increase in interest expense and depreciation expense. KTG had a net loss of \$7.4 million in YTD 2013 compared to net income of \$0.4 million in YTD 2012.

Results of Operations of KPT

| (C\$ millions, unless otherwise noted) | 13-week period period ended June 30, 2013 | 26-week period period ended June 30, 2013 |
|--|--|--|
| Equity income | 1.2 | 0.5 |
| Net income (loss) for the period | 0.6 | (0.1) |
| Basic earnings (loss) per share (whole dollars) | 0.07 | (0.01) |

The selected financial information presented above is based on KPT's interest in KPLP for the 13-week and 26-week periods ended June 30, 2013. The equity income for the 13-week and 26-week periods ended June 30, 2013 includes KPT's share of income of KPLP of \$2.6 million and \$4.6 million, respectively, reduced by depreciation expense of \$1.4 million and \$4.1 million, respectively, related to adjustments to the carrying amount of the assets and liabilities of KPLP on its acquisition by KPT. Refer to note 5 in KPT's condensed financial statements for additional information.

The current income tax expense of \$0.3 million for the 13-week period ended June 30, 2013 and \$0.6 million for the 26-week period ended June 30, 2013 was based on KPT's share of the taxable income of KPLP for the same periods. The deferred tax expense of \$0.4 million for the 13-week period ended June 30, 2013 and \$0.5 million for the 26-week period ended June 30, 2013 was a result of changes in the temporary differences of KPLP's assets and liabilities since acquisition and the difference between the accounting and tax basis for KPT's investment in KPLP. Refer to note 6 in KPT's condensed financial statements for additional information.

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

SEGMENT INFORMATION

Segment Operating Profit

Segment operating profit is the earnings (loss) for each such segment before (i) interest expense, (ii) income taxes, (iii) depreciation, (iv) amortization, (v) impairment (recovery) of non-financial assets, (vi) loss (gain) on disposal of property, plant and equipment, (vii) unrealized foreign exchange loss (gain), and (viii) one-time costs related to restructuring activities (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

| | Q2 2013 | Q2 2012 | YTD 2013 | YTD 2012 | Q2 2013 vs. Q2 2012 | | YTD 2013 vs. YTD 2012 | |
|------------------------|---------|---------|----------|----------|---------------------|----------|-----------------------|----------|
| | | | | | \$ Change | % Change | \$ Change | % Change |
| Segment Revenue | | | | | | | | |
| Consumer | 205.4 | 182.8 | 389.8 | 359.2 | 22.6 | 12.4% | 30.6 | 8.5% |
| AFH | 40.0 | 41.1 | 75.3 | 74.5 | (1.1) | -2.7% | 0.8 | 1.1% |
| Other | 1.4 | 7.4 | 3.5 | 13.9 | (6.0) | -81.1% | (10.4) | -74.8% |
| Total segment revenue | 246.8 | 231.3 | 468.6 | 447.6 | 15.5 | 6.7% | 21.0 | 4.7% |
| Segment EBITDA | | | | | | | | |
| Consumer | 29.1 | 30.0 | 53.0 | 58.0 | (0.9) | | (5.0) | |
| AFH | 2.7 | 3.2 | 4.1 | 5.1 | (0.5) | | (1.0) | |
| Other | (0.1) | (3.8) | (0.3) | (6.5) | 3.7 | | 6.2 | |
| Total segment EBITDA | 31.7 | 29.4 | 56.8 | 56.6 | 2.3 | | 0.2 | |

Consumer Segment

Q2 2013 compared to Q2 2012

Consumer segment revenue was \$205.4 million in Q2 2013 compared to \$182.8 million in Q2 2012, an increase of \$22.6 million or 12.4%. The increase in Consumer segment revenue resulted from an increase in sales volume of 12.1% primarily due to additional promotional activities in Q2 2013 compared to Q2 2012 and new business related to the TAD Project. Consumer segment revenue increased across all regions: Canada, the U.S. and Mexico.

Consumer Segment EBITDA was \$29.1 million in Q2 2013 compared to \$30.0 million in Q2 2012, a decrease of \$0.9 million. The decrease in Consumer segment EBITDA was primarily due to increases in cost of sales and operating expenses as discussed above in relation to the overall results, almost entirely offset by an increase in revenue.

YTD 2013 compared to YTD 2012

Consumer segment revenue was \$389.8 million in YTD 2013 compared to \$359.2 million in YTD 2012, an increase of \$30.6 million or 8.5%. The increase in Consumer segment revenue resulted from an increase in sales volume of 8.8% primarily due to an additional 5 days of sales in YTD 2013 compared to YTD 2012, additional promotional activities in YTD 2013 compared to YTD 2012 and new business related to the TAD Project. Consumer segment revenue increased across all regions: Canada, the U.S. and Mexico.

Consumer Segment EBITDA was \$53.0 million in YTD 2013 compared to \$58.0 million in YTD 2012, a decrease of \$5.0 million. The decrease in Consumer segment EBITDA was primarily due to increases in cost of sales and operating expenses as discussed above in relation to the overall results, partially offset by an increase in revenue.

AFH Segment

Q2 2013 compared to Q2 2012

AFH segment revenue was \$40.0 million in Q2 2013 compared to \$41.1 million in Q2 2012, a decrease of \$1.1 million or 2.7%. The decrease in AFH segment revenue resulted primarily from a decrease in sales volume of 2.6%. AFH segment revenue decreased in Canada in Q2 2013 compared to Q2 2012, partially offset by an increase in the U.S. during the same period.

AFH Segment EBITDA was \$2.7 million in Q2 2013 compared to \$3.2 million in Q2 2012, a decrease of \$0.5 million. The decrease in AFH Segment EBITDA was primarily due to increases in cost of sales and operating expenses as discussed above in relation to the overall results and a decrease in revenue.

YTD 2013 compared to YTD 2012

AFH segment revenue was \$75.3 million in YTD 2013 compared to \$74.5 million in YTD 2012, an increase of \$0.8 million or 1.1%. The increase in AFH segment revenue resulted from an increase in sales volume of 0.6% due to 5 additional days of sales in YTD 2013 compared to YTD 2012 and the positive impact of price/mix of 0.5%. AFH segment revenue increased in the U.S. in YTD 2013 compared to YTD 2012 and was essentially flat in Canada during the same period.

AFH Segment EBITDA was \$4.1 million in YTD 2013 compared to \$5.1 million in YTD 2012, a decrease of \$1.0 million. The decrease in AFH Segment EBITDA was primarily due to increases in cost of sales and operating expenses as discussed above in relation to the overall results, partially offset by an increase in revenue.

Other Segment

Q2 2013 compared to Q2 2012

Other segment revenue was \$1.4 million in Q2 2013 compared to \$7.4 million in Q2 2012, a decrease of \$6.0 million or 81.1%. The decrease was a result of the Business Rationalization Project.

Other Segment EBITDA was a loss of \$0.1 million in Q2 2013 compared to a loss of \$3.8 million in Q2 2012, an improvement of \$3.7 million. The improvement in EBITDA was primarily a result of the Business Rationalization Project.

YTD 2013 compared to YTD 2012

Other segment revenue was \$3.5 million in YTD 2013 compared to \$13.9 million in YTD 2012, a decrease of \$10.4 million or 74.8%. The decrease was a result of the Business Rationalization Project.

Other Segment EBITDA was a loss of \$0.3 million in YTD 2013 compared to a loss of \$6.5 million in YTD 2012, an improvement of \$6.2 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 June 30, 2013, KPLP was in compliance with all of its financial covenants under all of its outstanding credit facilities. As of June 30, 2013, no amount was drawn from the \$125 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) | YTD 2013 | YTD 2012 |
|--|-----------------|-----------------|
| Net cash flows from (used in) operating activities | (0.1) | 37.5 |
| Net cash flows used in investing activities | (36.4) | (81.3) |
| Net cash flows from (used in) financing activities | (7.4) | 27.6 |
| Effect of exchange rate changes on cash and cash equivalents | 0.8 | 0.1 |
| Increase (decrease) in cash and cash equivalents | (43.1) | (16.1) |
| Beginning cash and cash equivalents | 121.5 | 31.8 |
| Ending cash and cash equivalents | 78.4 | 15.7 |

Net Cash Flows from (used in) Operating Activities

Net cash used in operating activities was \$0.1 million in YTD 2013 compared to cash from operations of \$37.5 million in YTD 2012. Cash used in operating activities in YTD 2013 was primarily driven by EBITDA of \$56.6 million, offset by higher working capital due to more normalized inventory levels and a decline in accounts payable due to timing, and funding of pension and post retirement plans over the related expense.

Net Cash Flows used in Investing Activities

Net cash used in investing activities was \$36.4 million in YTD 2013 compared to \$81.3 million in YTD 2012. TAD Project capital expenditures declined to \$28.8 million (including capitalized interest paid) in YTD 2013 compared to \$70.4 million in YTD 2012 as a result of the end of the construction phase of the TAD Project in Q1 2013. Capital expenditures on existing plant sites decreased to \$7.6 million in YTD 2013 compared to \$10.9 million in YTD 2012.

Net Cash Flows from Financing Activities

Financing activities in YTD 2013 resulted in a use of cash of \$7.4 million, whereas cash of \$27.6 million was generated in YTD 2012. Net cash used in financing activities in YTD 2013 was primarily due to interest paid of \$14.0 million and distributions paid of \$11.2 million, partially offset by proceeds of \$17.4 million related to the issuance of partnership units in connection with the partial exercise of the overallotment option and participation by the partners in the DRIP, and net proceeds from credit facilities of \$0.8 million.

Contractual Obligations

KPLP's contractual obligations consist of long-term debt (principal repayments and interest payments), operating leases for the rental of property, equipment and automobiles, partnership units liability and other long-term liabilities. There have been no significant changes to the contractual obligations from those disclosed in the 2012 Annual MD&A.

KPLP's cash pension contribution for defined benefit pension arrangements during the year ended December 31, 2013 is expected to be \$26.2 million, while its post-retirement benefits contribution is expected to be \$2.6 million. In addition, as of June 30, 2013, KPLP had \$32.4 million of letters of credit related to pensions outstanding.

Indebtedness

As of May 16, 2013, KPLP entered into a Fourth Amended and Restated Credit Agreement with the lenders named therein and National Bank of Canada, as Administrative Agent (the NBC Credit Agreement) and a Second Amended and Restated Credit Agreement with the lender named therein and Nordea Bank AB (publ), as Administrative Agent in order to, amongst other things, extend the maturity date of the NBC Credit Agreement to July 22, 2016, reduce the principal amount of the credit facility pursuant to the NBC Credit Agreement (now in a maximum amount of \$125 million with a \$120 million accordion feature), amend certain financial covenants and negative covenants in a manner that is favourable to KPLP and reduce the applicable margin and fees.

For additional details related to KPLP's indebtedness, refer to the 2012 Annual MD&A available on SEDAR at www.sedar.com.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

Currency Risk

Currency risk is the risk that KPLP's earnings may fluctuate due to changes in Canadian to U.S. dollar exchange rates, as the financial results are reported in Canadian dollars. KPLP sells certain of its products in U.S. dollars at prevailing U.S. dollar prices. 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 June 30, 2013, KPLP had net liabilities denominated in U.S. dollars of \$31.7 million (December 31, 2012 – \$46.0 million). Assuming the Canadian dollar strengthened (weakened) by 5% against the U.S. dollar, with all other variables held constant, the result on net income before tax in Q2 2013 would have been an increase (decrease) of \$1.6 million (Q2 2012 – \$1.9 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 June 30, 2013, KPLP had variable rate debts of nil (December 31, 2012 – \$0.1 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 0.20% and 2.50%.

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 Q2 2013 (Q2 2012 – \$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 paid \$0.4 million to terminate the swap.

KPLP has no interest rate swaps or interest rate derivatives outstanding as of June 30, 2013.

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 \$92.6 million as of June 30, 2013 (December 31, 2012 – \$162.5 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 three 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 \$166.6 million as of June 30, 2013 (December 31, 2012 – \$186.3 million) are all due for payment within twelve months of the dates of the consolidated statements of financial position.

KPLP believes its cash flows generated from operations combined with its available 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. From time to time, KPLP enters into futures contracts to manage its commodity risk.

TRANSACTIONS WITH RELATED PARTIES

Kruger provides certain management and support services to KPLP, including corporate management and administrative support; accounting and tax support; corporate financing support; corporate treasury support; benefits and human resources support; corporate legal and secretarial; corporate insurance; corporate procurement support; and corporate engineering support. Such services are provided pursuant to a Management Services Agreement. KPLP pays Kruger an annual management fee of \$4.0 million.

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

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

Sales of goods to Kruger during YTD 2013 were \$2.7 million (YTD 2012 – \$1.8 million). Sales of goods to subsidiaries of Kruger during YTD 2013 were \$0.5 million (YTD 2012 – nil).

Purchases of goods and services from Kruger during YTD 2013 were \$32.5 million (YTD 2012 - \$28.2 million). Purchases of goods and services from subsidiaries of Kruger during YTD 2013 were \$4.3 million (YTD 2012 - \$7.7 million). Goods are purchased from Kruger and related parties under normal commercial terms and conditions. These purchases of goods and services are included within cost of sales in the condensed consolidated statements of comprehensive income (loss). During YTD 2013, management fees of \$2.0 million (YTD 2012 - \$4.7 million) were paid to Kruger Inc. for management services provided to KPLP.

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 and the 2012 Annual MD&A available on SEDAR at www.sedar.com.

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 quarterly 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 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.

TAD Expansion

The capitalized cost of the TAD Project includes 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. For the time being, 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 with the estimate of the environmental remediation obligation. Management has received a preliminary report from the third party and is in the process of reviewing the report. 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 \$10.6 million and \$13.7 million. KPLP used a discount rate of 4.25% to estimate the liability. As of June 30, 2013, a liability of \$5.5 million (December 31, 2012 - \$4.9 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, \$118.6 million of equity was 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 KPLP's taxable income and a discount rate and terminal growth rate of 8.7% and 0.41%, respectively. Projections of taxable income are based on additional assumptions including estimates of deductible amounts 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 facts 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, 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 (KPLP) 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 26-Week Period Ended June 30, 2013

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. IFRS 10 replaced 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. The adoption of this standard had no significant impact on the condensed 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. The adoption of this amendment will have an impact on certain of KPT's annual disclosure requirements.

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. The amendment was effective for annual periods beginning on or after January 1, 2013. The adoption of this standard did not require any adjustments to the valuation techniques used by KPLP to measure fair value and did not result in any measurement adjustments as of January 1, 2013.

IAS 19, Employee Benefits, amends certain accounting requirements for defined benefit plans and termination benefits. IAS 19 (Revised 2011) requires the net defined benefit liability (asset) to be recognized on the balance sheet without any deferral of actuarial gains and losses and past service costs as previously allowed. Past service costs are recognized in net income when incurred. Expected returns on plan assets are no longer included in post-employment benefits' expense. Instead, post-employment benefits' expense includes the net interest on the net defined benefit liability (asset) calculated using a discount rate based on market yields on high quality bonds. Remeasurements consisting of actuarial gains and losses, the actual return on plan assets (excluding the net interest component) and any change in the asset ceiling are recognized in other comprehensive income. KPLP continues to immediately recognize in accumulated deficit all pension adjustments recognized in other comprehensive income. KPLP also continues to recognize interest expense (income) on net post-employment benefits liabilities (assets) in interest expense in the condensed consolidated financial statements. KPLP adopted these amendments retrospectively. The post-employment benefits' finance expense and employee benefit expense for the comparable period have been adjusted to reflect the accounting changes for defined benefit plans. Refer to note 3 in the condensed consolidated financial statements for additional information.

Future Accounting Standards

The following revised standards and amendments are effective for annual periods beginning on or after January 1, 2014, 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 (loss).

IAS 39, Financial Instruments – Recognition and Measurement, has been amended to provide relief from discontinuing hedge accounting when novation of a hedging instrument to a central counterparty meets specified criteria.

IAS 36, Impairment of Assets, has been amended to remove the requirement to disclose the recoverable amount when a cash generating unit (CGU) contains goodwill or indefinite lived intangible assets but there has been no impairment; to require disclosure of the recoverable amount of an asset or CGU when an impairment loss has been recognized or reversed;

and to require detailed disclosure of how the fair value less costs of disposal has been measured when an impairment loss has been recognized or reversed.

IAS 32, Financial Instruments – Presentation, has been amended to clarify that the right of set-off must be available today – that is, it is not contingent on a future event. It also must be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendments also clarify that gross settlement mechanisms (such as through a clearing house) with features that both (i) eliminate credit and liquidity risk and (ii) process receivables and payable in a single settlement process, are effectively equivalent to net settlement; they would therefore satisfy the IAS 32 criterion in these instances. Master netting agreements where the legal right of offset is only enforceable on the occurrence of some future event, such as default of the counterparty, continue not to meet the offsetting requirements.

SELECTED QUARTERLY FINANCIAL INFORMATION

The following table summarizes quarterly financial results for KPLP for the last eight quarters. Financial data for all periods presented is in C\$ millions.

Quarterly Financial Information

| | 2013 | | 2012 ^(a) | | | | 2011 | |
|---|-------------|-------------|---------------------|-------------|-------------|-------------|-------------|-------------|
| | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 |
| Revenue | 246.8 | 221.8 | 242.9 | 232.4 | 231.3 | 216.2 | 241.1 | 222.9 |
| Net income for the period | 15.4 | 11.7 | 5.4 | 20.0 | 15.6 | 0.4 | 5.8 | 9.7 |
| Reconciliation of Net income to EBITDA | | | | | | | | |
| Net income | 15.4 | 11.7 | 5.4 | 20.0 | 15.6 | 0.4 | 5.8 | 9.7 |
| Income taxes | (3.5) | (4.9) | (2.4) | 0.5 | 0.3 | 0.2 | 0.4 | (0.1) |
| Interest expense | 11.0 | 9.9 | 8.3 | 6.4 | 7.1 | 6.1 | 7.0 | 6.5 |
| Depreciation and amortization | 9.0 | 7.5 | 10.9 | 6.0 | 5.8 | 6.1 | 8.8 | 7.4 |
| Unrealized foreign exchange (gain) loss | 1.6 | 0.9 | 0.8 | (2.0) | 1.0 | (0.6) | (0.5) | - |
| One-time costs related to the Business Rationalization Project | - | - | 0.8 | - | (0.5) | 9.1 | - | - |
| Impairment of non-financial assets | (1.8) | - | (1.3) | - | - | 5.9 | 2.7 | - |
| Loss on sale of fixed assets | - | - | 0.6 | 0.4 | 0.1 | - | 0.1 | - |
| EBITDA | 31.7 | 25.1 | 23.1 | 31.3 | 29.4 | 27.2 | 24.3 | 23.5 |

(a) Financial results have been adjusted for the retrospective application of IAS 19, Employee Benefits as discussed above.

SHARE INFORMATION

KPT's authorized share capital consists of an unlimited number of Common Shares. As of August 9, 2013, there were 8,782,806 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 August 9, 2013 for Common Shares, it would hold approximately 83.2% of the issued and outstanding Common Shares. As of August 9, 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 August 9, 2013, there were 52,280,576 KPLP Units issued and outstanding.

RISK FACTORS

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

ESTABLISHMENT AND MAINTENANCE OF DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

The Chief Executive Officer and Chief Financial Officer of KPT and KPLP have designed, or caused to be designed, under their supervision, as of June 30, 2013:

- Disclosure controls and procedures (DC&P) to provide reasonable assurance that: (i) material information relating to KPT and KPLP is accumulated and communicated by others to the Chief Executive Officer and Chief Financial Officer, in a timely manner, particularly during the period in which the interim and annual filings are being prepared; and (ii) the information required to be disclosed by KPT and KPLP in their annual filings, interim filings or other reports filed or submitted by it under applicable securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
- Internal control over financial reporting (ICFR) to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS applicable to KPT and KPLP.

In accordance with *Regulation 52-109 – Certification of Disclosure in Issuers’ Annual and Interim Filings*, the Chief Executive Officer and Chief Financial Officer have certified that there were no material weaknesses relating to the DC&P and ICFR for Q2 2013.

ADDITIONAL INFORMATION

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