



**KP TISSUE INC. AND KRUGER PRODUCTS L.P.**

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

**FOR THE 13-WEEK PERIOD ENDED MARCH 30, 2014**

**DATED MAY 8, 2014**

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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 periods ended March 30, 2014 and March 31, 2013, and the condensed consolidated financial statements of KPLP for the 13-week periods ended March 30, 2014 (Q1 2014) and March 31, 2013 (Q1 2013), 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 March 30, 2014 KPT held a 16.7% interest in KPLP, accounted for as an investment in an associate using the equity method of accounting. The following MD&A provides discussion and analysis related to KPT to the extent necessary to understand the equity method of accounting. However, most of the discussion and analysis relates to KPLP and to KPT's investment in KPLP.

#### **CAUTIONARY FORWARD LOOKING STATEMENT**

Certain statements in this MD&A about KPT's and KPLP's current and future plans, expectations and intentions, results, levels of activity, performance, goals or achievements or any other future events or developments constitute forward-looking statements. The words "may", "will", "would", "should", "could", "expects", "plans", "intends", "trends", "indications", "anticipates", "believes", "estimates", "predicts", "likely" or "potential" or the negative or other variations of these words or other comparable words or phrases, are intended to identify forward-looking statements. The forward-looking information is based on certain key expectations and assumptions made by KPT or KPLP, including continued growth of the U.S. private label market and demand for TAD products in the U.S., orders for the TAD machine's products, the demand and timing of distributions made by KPLP, and Kruger Inc.'s cash requirements. The financial outlook that KPLP Management provides on page 3 of this MD&A concerning the potential incremental EBITDA generated by the TAD Project (as defined below) 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, and (iii) a cost of pulp and energy and a selling price of finished products based on recent prices, adjusted for inflation. 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 19, 2014 available on SEDAR at [www.sedar.com](http://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 restructuring activities 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, 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 April 15, 2014, KPT held 16.6% 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

The condensed consolidated financial statements of KPLP presented for the 13-week periods ended March 30, 2014 and March 31, 2013 have been prepared in accordance with IFRS (International Financial Reporting Standards) for interim financial statements, including IAS 34, Interim Financial Reporting. The condensed financial statements of KPT for the 13-week periods ended March 30, 2014 and March 31, 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 the 13-week periods ended March 30, 2014 and March 31, 2013.

## 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), (viii) one-time costs related to restructuring activities, and (ix) change in amortized cost of Partnership units liability.

“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 2013 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 \$60 million EBITDA annually for KPLP by 2017, being the year in which the TAD paper machine is expected to reach full production capacity. The TAD Project generated \$3.5 million of EBITDA in Q1 2014. The TAD Project is expected to generate EBITDA in the \$20 to \$25 million range for fiscal 2014. The foregoing estimates of future incremental EBITDA may be considered forward-looking information and are based upon certain key assumptions, including (i) limited incremental overhead relating to the operation of the TAD machine and distribution and sale of products, (ii) the TAD machine operating at near full capacity and products being sold at market prices consistent with current market prices, adjusted for inflation, and (iii) a cost of pulp and energy and a selling price of finished products based on recent prices, adjusted for inflation. The foregoing factors could cause the actual contribution to EBITDA by the TAD Project 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, freight, and warehousing and handling costs. Input costs associated with the manufacturing of tissue paper are primarily variable. Fibre, labour, and energy costs are the largest components, representing 50% to 70% of total cost of sales, depending on the type of fibre and paper making technology being used. 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).

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, General and Administrative Expenses***

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

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

### ***Interest Expense***

Interest expense is derived from the financing activities of KPLP. KPLP is a borrower under certain credit facilities (each of which are described under "Liquidity and Capital Resources", in the 2013 Annual MD&A). Interest costs related to the TAD Credit Facility (as defined in the 2013 Annual MD&A) recorded during the construction period (i.e. before start of operations) were capitalized, and allocated to property, plant and equipment and are being depreciated along with the assets. Depreciation of the capitalized interest commenced in Q1 2013 with the completion of the construction period. Refer to note

12, "Long-term debt" in the consolidated financial statements for Fiscal 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 Inc., KPGP and KPT for the 13-week periods ended March 30, 2014 and March 31, 2013. 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 was originally expected to cost up to U.S.\$322 million (including reserves for contingencies, interest during construction, working capital and start-up costs). 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 March 30, 2014, a total of U.S.\$311.7 million had been spent on the TAD Project, financed by a U.S.\$186.7 million investment by KPLP into KTG and a drawdown of U.S.\$125.0 million on the TAD Credit Facility. As of March 30, 2014, KPLP had invested into KTG, primarily to finance the TAD Project, U.S.\$70.0 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.

### **Eastern Warehousing Initiative**

In November 2013, following a review of its distribution operations KPLP undertook an initiative to consolidate distribution activities from its Gatineau warehouse to its distribution operations in Laval (Eastern Warehousing Initiative). KPLP has completed this initiative and incurred restructuring costs of \$2.2 million as of March 30, 2014. This initiative is expected to reduce costs by \$1.6 million annually, beginning in Q2 2014.

### **Corporate Restructuring Initiative**

During Q1 2014, KPLP undertook a review of its corporate overhead costs and identified a number of cost reduction opportunities (Corporate Restructuring Initiative). KPLP expects to incur restructuring costs of approximately \$2.0 million, primarily related to severance, and reduce costs by approximately \$2.4 million annually as a result of this initiative. As of March 30, 2014, KPLP had incurred \$0.5 million of the costs associated with this initiative and recorded a provision for the remaining \$1.5 million.

Together with the Eastern Warehousing initiative discussed above, KPLP expects annualized savings of \$4.0 million.

## RESULTS OF OPERATIONS

### Results of Operations of KPLP

(C\$ millions, unless otherwise noted)	Q1 2014	Q1 2013	<u>\$ Change</u> Q1 2014 vs. Q1 2013
<b>Statement of Operations Data:</b>			
Revenue	234.6	221.8	12.8
Cost of sales	(198.9)	(183.2)	(15.7)
Selling, general and administrative expenses	(20.5)	(20.8)	0.3
Restructuring costs	(2.8)	-	(2.8)
<b>Operating income</b>	<b>12.4</b>	<b>17.8</b>	<b>(5.4)</b>
Interest expense	(10.9)	(9.9)	(1.0)
Other income (expense)	(5.0)	(1.1)	(3.9)
<b>Income (loss) before income taxes</b>	<b>(3.5)</b>	<b>6.8</b>	<b>(10.3)</b>
Income taxes:			-
Combined income tax rate after manufacturing and processing credits	(0.9)	(1.8)	0.9
Income tax in partners' hands	0.2	3.3	(3.1)
Other	0.5	3.4	(2.9)
Income taxes	0.3	4.9	(4.6)
<b>Net income (loss)</b>	<b>(3.2)</b>	<b>11.7</b>	<b>(14.9)</b>

(C\$ millions, unless otherwise noted)	Q1 2014	Q1 2013	<u>\$ Change</u> Q1 2014 vs. Q1 2013
<b>Reconciliation of EBITDA to Net income (loss):</b>			
<b>Net income (loss)</b>	(3.2)	11.7	(14.9)
Income taxes	(0.3)	(4.9)	4.6
Interest expense	10.9	9.9	1.0
Depreciation and amortization	9.0	7.5	1.5
Unrealized foreign exchange loss	1.7	0.9	0.8
Change in amortized cost of Partnership unit liability	3.3	-	3.3
Restructuring costs	2.8	-	2.8
<b>EBITDA</b>	<b>24.2</b>	<b>25.1</b>	<b>(0.9)</b>

### *Results of Operations Q1 2014 compared to Q1 2013*

#### *Revenue*

Revenue was \$234.6 million in Q1 2014 compared to \$221.8 million in Q1 2013, an increase of \$12.8 million or 5.8%. The increase in revenue was primarily due to additional sales volume in the Consumer segment, which included new business related to the TAD Project and the favourable impact of foreign exchange. Revenue in Canada increased \$3.6 million, or 2.3%. Revenue in the U.S. increased \$9.6 million, or 16.8%, driven by favourable foreign exchange impacts and a change in sales mix as a result of the TAD Project. KTG revenue (sold primarily in the U.S. and including intercompany sales) was \$55.2 million in Q1 2014 compared to \$41.7 million in Q1 2013. Consumer segment revenue increased in Q1 2014 compared to Q1 2013, partially offset by a decrease in AFH segment revenue.



### *Cost of Sales*

Cost of sales was \$198.9 million in Q1 2014 compared to \$183.2 million in Q1 2013, an increase of \$15.7 million or 8.6%. As a percentage of revenue, cost of sales were 84.8% in Q1 2014 compared to 82.6% in Q1 2013. Cost of sales was impacted in Q1 2014 as commodity prices, particularly fibre costs, were higher than in Q1 2013. Pulp market prices (NBSK) were U.S. \$1,030 per metric tonne as of March 30, 2014, and U.S.\$1,017 per metric tonne on average in Q1 2014 compared to U.S.\$897 per metric tonne on average in Q1 2013. Natural gas prices increased in Q1 2014 from significantly lower levels during Q1 2013, as did depreciation expense as a result of the TAD Project. Freight expense increased as a result of higher sales volumes and warehousing expense increased as a result of the increase in inventory.

### *Selling, General and Administrative Expenses*

Selling, general and administrative expenses were \$20.5 million in Q1 2014 compared to \$20.8 million in Q1 2013, a decrease of \$0.3 million or 1.2%. As a percentage of revenue, operating expenses were 8.7% in Q1 2014 compared to 9.4% in Q1 2013. The decrease was primarily related to a slight decrease in advertising and promotion expenses in Q1 2014 compared to Q1 2013.

### *EBITDA*

EBITDA was \$24.2 million in Q1 2014 compared to \$25.1 million in Q1 2013, a decrease of \$0.9 million. The decrease was primarily due to lower margins as a result of higher cost of sales. KTG had EBITDA of \$5.7 million in Q1 2014 compared to an EBITDA loss of \$0.4 million in Q1 2013. There were no TAD Project start-up costs in EBITDA for Q1 2014, compared to \$1.8 million in Q1 2013.

### *Interest Expense*

Interest expense was \$10.9 million in Q1 2014 compared to \$9.9 million in Q1 2013, an increase of \$1.0 million, primarily due to the recognition of interest in Q1 2014 related to the TAD Project that was capitalized for a portion of Q1 2013.

### *Restructuring Costs*

Restructuring costs of \$2.8 million related to the Eastern Warehousing Initiative and Corporate Restructuring Initiative of \$0.8 million and \$2.0 million, respectively. Refer to the Business Highlights section for additional details.

### *Income Taxes*

An income tax recovery of \$0.3 million was recorded in Q1 2014 compared to income tax recovery of \$4.9 million in Q1 2013, a change of \$4.6 million relating primarily to KTG in the U.S. As previously discussed, KPLP is not directly taxable on its Canadian business. The income tax recoveries recorded in both Q1 2014 and Q1 2013 related primarily to additional tax deductions and state tax credits in respect of the TAD Project. Income tax in partner's hands was \$0.2 million in Q1 2014 compared to \$3.3 million in Q1 2013.

### *Net Income (Loss)*

Net loss was \$3.2 million in Q1 2014 compared to net income of \$11.7 million in Q1 2013, a decrease of \$14.9 million. The decrease was primarily due to non-operational charges related to the restructuring of \$2.8 million and the change in the amortized cost of the partnership unit liability of \$3.3 million and a decrease in the deferred tax recovery of \$4.6 million, as well as, the decrease in EBITDA of \$0.9 million, and increases in interest expense of \$1.0 million and depreciation expense of \$1.5 million. KTG had a net loss of \$2.8 million in Q1 2014, compared to \$1.9 million in Q1 2013.

## Results of Operations of KPT

(C\$ millions, unless otherwise noted)	13-week period ended March 30, 2014	13-week period ended March 31, 2013
Equity income	(2.1)	(0.7)
Net income for the period	(1.7)	(0.7)
<b>Basic earnings per share (whole dollars)</b>	<b>(0.19)</b>	<b>(0.08)</b>

The selected financial information presented above is based on KPT's interest in KPLP for the 13-week periods ended March 30, 2014 and March 31, 2013. The equity income for the 13-week periods ended March 30, 2014 and March 31, 2013 includes KPT's share of income of KPLP of \$0.5 million and \$2.0 million, respectively, reduced by depreciation expense of \$1.5 million and \$2.7 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 recovery of \$0.03 million for the 13-week period ended March 30, 2014 and expense of \$0.2 million for the 13-week period ended March 31, 2013 was based on KPT's share of the taxable income (loss) of KPLP for the same periods. The deferred tax recovery of \$0.3 million for the 13-week period ended March 30, 2014 and deferred tax expense of \$0.1 million for the 13-week period ended March 31, 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), (viii) one-time costs related to restructuring activities, and (ix) change in amortized cost of the Partnership unit liability (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

	Q1 2014	Q1 2013	Q1 2014 vs. Q1 2013	
			\$ Change	% Change
<b>Segment Revenue</b>				
Consumer	198.4	184.4	14.0	8%
AFH	33.5	35.3	(1.8)	-5%
Other	2.7	2.1	0.6	29%
Total segment revenue	<u>234.6</u>	<u>221.8</u>	<u>12.8</u>	<u>6%</u>
<b>Segment EBITDA</b>				
Consumer	24.9	23.9	1.0	
AFH	(0.5)	1.5	(2.0)	
Other	(0.2)	(0.3)	0.1	
Total segment EBITDA	<u>24.2</u>	<u>25.1</u>	<u>(0.9)</u>	

### ***Consumer Segment***

#### *Q1 2014 compared to Q1 2013*

Consumer segment revenue was \$198.4 million in Q1 2014 compared to \$184.4 million in Q1 2013, an increase of \$14.0 million or 7.6%. The increase resulted from higher sales volumes in Canada and the U.S., which included new business related to the TAD Project, and the favourable impact of foreign exchange related to U.S. dollar sales.

Consumer Segment EBITDA was \$24.9 million in Q1 2014, compared to \$23.9 million in Q1 2013, an increase of \$1.0 million. The increase resulted from higher revenues related to the TAD Project, partially offset by higher commodity costs, particularly fibre and natural gas, and increased freight and warehousing costs.

### ***AFH Segment***

#### *Q1 2014 compared to Q1 2013*

AFH segment revenue was \$33.5 million in Q1 2014 compared to \$35.3 million in Q1 2013, a decrease of \$1.8 million or 5.1%. The decrease resulted primarily from a decrease in sales volume. AFH segment revenue decreased in Canada in Q1 2014 compared to Q1 2013, while remaining essentially flat in the U.S. during the same period.

AFH Segment EBITDA was a loss of \$0.5 million in Q1 2014 compared to EBITDA earnings of \$1.5 million in Q1 2013, a decrease of \$2.0 million. The decrease was primarily due to lower sales volumes and lower margins resulting from an increase in cost of sales.

### ***Other Segment***

#### *Q1 2014 compared to Q1 2013*

Other segment revenue was \$2.7 million in Q1 2014 compared to \$2.1 million in Q1 2013, an increase of \$0.6 million.

Other Segment EBITDA was a loss of \$0.2 million in Q1 2014 compared to a loss of \$0.3 million in Q1 2013.

## **LIQUIDITY AND CAPITAL RESOURCES**

### **Overview**

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

As of March 30, 2014, KPLP was in compliance with all of its financial covenants under all of its outstanding credit facilities. As of March 30, 2014, no amount was drawn from the \$125 million committed amount under the Senior Credit Facility, with the exception of \$30.3 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)	Q1 2014	Q1 2013	\$ Change Q1 2014 vs. Q1 2013
Net cash flows used in operating activities	(9.5)	(16.2)	6.7
Net cash flows used in investing activities	(10.4)	(22.7)	12.3
Net cash flows from (used in) financing activities	(16.0)	9.6	(25.6)
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	0.9	0.2	0.7
Increase (decrease) in cash and cash equivalents	(35.0)	(29.1)	(5.9)
Beginning cash and cash equivalents	87.7	121.5	(33.8)
Ending cash and cash equivalents	52.7	92.4	(39.7)

### *Net Cash Flows used in Operating Activities*

Net cash used in operating activities was \$9.5 million in Q1 2014 compared to \$16.2 million in Q1 2013. Cash used in operating activities in Q1 2014 was primarily driven by EBITDA of \$24.2 million, more than offset by higher funds required by working capital components due to an increase in accounts receivable due to timing of payments, an increase in inventory, a decline in accounts payable primarily due to timing, and funding of pension and post retirement plans.

### *Net Cash Flows used in Investing Activities*

Net cash used in investing activities was \$10.4 million in Q1 2014 compared to \$22.7 million in Q1 2013. TAD Project capital expenditures (including capitalized interest) declined to \$6.2 million in Q1 2014 compared to \$19.7 million in Q1 2013 as a result of the end of the construction phase of the TAD Project in Q1 2013. Capital expenditures on existing plant sites were \$4.1 million in Q1 2014 compared to \$3.0 million in Q1 2013.

### *Net Cash Flows from (used in) Financing Activities*

Financing activities in Q1 2014 resulted in a use of cash of \$16.0 million, whereas cash of \$9.6 million was generated in Q1 2013. Net cash used in financing activities in Q1 2014 was primarily due to interest paid of \$7.2 million and distributions paid of \$12.8 million, partially offset by net proceeds of \$4.2 million related to the issuance of partnership units in connection with the participation by the partners in the DRIP.

## 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 2013 Annual MD&A.

KPLP's cash pension contribution for defined benefit pension arrangements during the year ended December 31, 2014 is expected to be \$29.9 million, while its post-retirement benefits contribution is expected to be \$2.7 million. In addition, as of March 30, 2014, KPLP had \$30.3 million of letters of credit related to pensions outstanding.

## Indebtedness

For additional details related to KPLP's indebtedness, refer to the 2013 Annual MD&A available on SEDAR at [www.sedar.com](http://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 March 30, 2014, KPLP had net liabilities denominated in U.S. dollars of \$45.8 million (December 31, 2013 – \$50.0 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 Q1 2014 would have been an increase (decrease) of \$2.3 million (Q1 2013 – \$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 debt related to the revolving credit facility. As of March 30, 2014, KPLP had variable rate debts of nil (December 31, 2013 – nil) and accordingly KPLP's exposure to interest rate risk is not significant. This facility bears 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%.

From time to time, KPLP uses interest rate swaps to manage part of its exposure to movements in interest rates on its credit facilities.

KPLP has no interest rate swaps or interest rate derivatives outstanding as of March 30, 2014.

### Credit Risk

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. KPLP's financial instruments exposed to credit risk as of March 30, 2014 included cash and cash equivalents and trade and other receivables. KPLP places its cash and cash equivalents with financial institutions of high creditworthiness.

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

### Liquidity Risk

The purpose of liquidity risk management is to maintain sufficient cash and cash equivalents and to ensure KPLP has sufficient authorized credit facilities as financing sources. KPLP had unused lines of credit available of \$94.7 million as of March 30, 2014 (December 31, 2013 – \$87.7 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 \$169.4 million as of March 30, 2014 (December 31, 2013 – \$188.5 million) are all due for payment within twelve months of the dates of the consolidated statements of financial position.

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

## **Commodity Price Risk**

Commodity price risk is the risk that future cash flows associated with purchasing required raw materials will fluctuate due to changes in commodity prices. KPLP's main raw material is fibre, which changes price due to market conditions. 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 Q1 2014 were \$1.0 million (Q1 2013 – \$1.1 million). Sales of goods to subsidiaries of Kruger during Q1 2014 were \$0.1 million (Q1 2013 – \$0.4 million).

Purchases of goods and services from Kruger during Q1 2014 were \$7.0 million (Q1 2013 - \$7.1 million). Purchases of goods and services from subsidiaries of Kruger during Q1 2014 were \$4.6 million (Q1 2013 - \$2.5 million). Goods are purchased from Kruger and related parties under normal commercial terms and conditions. These purchases of goods and services are included within cost of sales and operating expenses in the condensed consolidated statements of comprehensive income (loss). During Q1 2014, management fees of \$1.0 million (Q1 2013 - \$1.0 million) were paid to Kruger Inc. for management services provided to KPLP.

## **OFF BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS**

KPLP has entered into operating lease commitments related to land, buildings, IT services, vehicles and other machines and equipment. Contractual obligations including these operating leases are described in the "Contractual Obligations" subsection under the "Liquidity and Capital Resources" section of this MD&A and the 2013 Annual MD&A available on SEDAR at [www.sedar.com](http://www.sedar.com).

There have been no significant changes in contractual obligations during Q1 2014. Please refer to the 2013 Annual MD&A for further details.

## **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 circumstances 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 cash generating unit (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. There were no indicators of impairment identified in Q1 2014.

## **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 retained a third party to assist with the estimate of the environmental remediation obligation. 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 March 30, 2014, a liability of \$5.7 million (December 31, 2013 - \$5.3 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. The carrying value of the Partnership units liability was revalued to \$117.8 million as of March 30, 2014. The change in value of \$3.3 million has been included in other expenses. 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 11.50% and 0%, 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.

## **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.

## **Income taxes**

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

## **ACCOUNTING CHANGES AND FUTURE ACCOUNTING STANDARDS**

### **Accounting Standards Implemented for the 13-Week Period Ended March 30, 2014**

Amendments to IAS 32, Offsetting Financial Assets and Financial Liabilities, prescribe rules for the offsetting of financial assets and financial liabilities. It specifies that a financial asset and a financial liability should be offset and the net amount reported when, and only when an entity has a legally enforceable right to set off the amounts, and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously. The amendments require clarification on four main areas: the meaning of 'currently has a legally enforceable right of set-off', the application of simultaneous realization and settlement, the offsetting of collateral amounts, and the unit of account for applying the offsetting requirements. The adoption of this amendment had no significant impact on these condensed consolidated financial statements.

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. The adoption of this standard had no significant impact on these condensed consolidated financial statements.

IAS 36, Impairment of Assets, has been amended to remove the requirement to disclose the recoverable amount when a 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. The adoption of this standard had no significant impact on these condensed consolidated financial statements.



## Future Accounting Standards

The following revised standards and amendments are effective for annual periods beginning on or after January 1, 2015, 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.

IFRS 9 was amended in November 2013 to (i) include guidance on hedge accounting, (ii) allow entities to early adopt the requirement to recognize changes in fair value attributable to changes in an entity's own credit risk from financial liabilities designated under the fair value option in other comprehensive income without having to adopt the remainder of IFRS 9, and (iii) remove the previous mandatory effective date of January 1, 2015, although the standard is available for early adoption.

## SELECTED QUARTERLY FINANCIAL INFORMATION

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

	<u>March 30, 2014</u>	<u>December 31, 2013</u>
<b>KPT Financial Information</b>		
Total assets	161.9	163.2
Total liabilities	3.4	5.2
<b>KPLP Financial Information</b>		
Total assets	1,156.6	1,161.5
Total Liabilities	800.8	808.3

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

	2014	2013				2012 <sup>(a)</sup>		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenue	234.6	242.9	243.8	246.8	221.8	242.9	232.4	231.3
Net income (loss) for the period	(3.2)	7.6	14.2	15.4	11.7	5.4	20.0	15.6
<b>Reconciliation of Net income to EBITDA</b>								
<b>Net income (loss)</b>	(3.2)	7.6	14.2	15.4	11.7	5.4	20.0	15.6
Income taxes	(0.3)	(1.2)	(1.3)	(3.5)	(4.9)	(2.4)	0.5	0.3
Interest expense	10.9	9.9	11.4	11.0	9.9	8.2	6.4	7.1
Loss on disposal of property, plant and equipment	-	-	-	-	-	0.6	0.4	0.1
Depreciation and amortization	9.0	9.9	7.7	9.0	7.5	10.9	6.0	5.8
Unrealized foreign exchange (gain) loss	1.7	1.4	(0.9)	1.6	0.9	0.8	(2.0)	1.0
Change in amortized cost of Partnership units liability	3.3	(0.7)	-	-	-	-	-	-
Restructuring costs	2.8	1.4	-	-	-	0.8	-	(0.5)
Impairment (recovery) of non-financial assets	-	-	-	(1.8)	-	(1.3)	-	-
<b>EBITDA</b>	24.2	28.3	31.1	31.7	25.1	23.0	31.3	29.4

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

### SHARE INFORMATION

KPT's authorized share capital consists of an unlimited number of Common Shares. As of May 8, 2014, there were 8,828,929 Common Shares issued and outstanding. Pursuant to the Exchange Agreement, Kruger Inc. 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 Inc. were to exchange all KPLP Units held by it as of May 8, 2014 for Common Shares, it would hold approximately 83.4% of the issued and outstanding Common Shares. As of May 8, 2014, there were no potentially dilutive instruments outstanding.

Pursuant to the Limited Partnership Agreement, KPLP may issue an unlimited number of KPLP Units. As of May 8, 2014, there were 53,055,871 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 2013 Annual Information Form. KPLP Management is not aware of any significant changes to the risk factors associated with KPT and KPLP from those disclosed at that time.

### CONTROLS AND PROCEDURES

#### *Disclosure Controls and Procedures and Internal Control over Financial Reporting*

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

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

In the Corporations' 2013 filings, the Corporations' CEO and CFO certified, as required by National Instrument 52-109, the appropriateness of the financial disclosure, the design and effectiveness of the Corporations' disclosure controls and procedures and the design and effectiveness of internal controls over financial reporting.

In the Corporations' Q1 2014 filings, the Corporations' CEO and CFO certified, as required by National Instrument 52-109, the appropriateness of the financial disclosure, the design of the Corporations' disclosure controls and procedures and the design of internal controls over financial reporting.

The Corporations' Audit Committee reviewed this MD&A and the interim unaudited condensed consolidated financial statements and notes, and the Corporations' Board of Directors approved these documents prior to their release.

***Changes in Internal Controls over Financial Reporting***

There have been no changes to the Corporations' internal controls over financial reporting during Q1 2014 that have materially affected, or are reasonably expected to materially affect, its internal controls over financial reporting.

**ADDITIONAL INFORMATION**

Additional information relating to KPT and KPLP, including the Annual Information Form, is available on SEDAR at [www.sedar.com](http://www.sedar.com).