



KP Tissue Inc.

CREATING A FUTURE FOR SUSTAINABLE GROWTH

2012

FIRST ANNUAL REPORT



KP Tissue Inc. (KPT) was created to acquire, and its business is limited to holding, a limited partnership interest in Kruger Products L.P. (KPLP). KPT held a minority interest in KPLP of 15.7% as at December 31, 2012 and 16.9% as at April 15, 2013 ⁽¹⁾.

KPLP is Canada's leading manufacturer of quality tissue products for household, industrial and commercial use. KPLP serves the Canadian consumer market with such well-known brands as Cashmere®, Purex®, SpongeTowels®, Scotties® and White Swan®. In the U.S., KPLP manufactures the White Cloud® brand, as well as many private label products. The Away-From-Home division manufactures and distributes high quality, cost-effective product solutions to a wide range of commercial and public entities. KPLP has approximately 2,300 employees and operates five FSC® CoC-certified plants across North America.



2012 HIGHLIGHTS

- The TAD (Through-Air-Dried) Project in Memphis, Tennessee progressed in 2012 as planned. The completion of the construction phase of the Project, including a state-of-the-art TAD tissue machine, was announced on February 22, 2013.
- We completed the Business Rationalization Project, primarily to cease the production of parent rolls for sale, resulting in annualized savings of approximately \$12 million.
- The U.S. private label business made solid progress. Our White Cloud® Ultra brand in the U.S., exclusive to Walmart, was ranked as the number one bathroom tissue by a leading consumer magazine.
- Our brands gained market share in Canada during 2012, helping us to maintain our market leadership position.



⁽¹⁾ KPT (the Corporation) holds a limited partnership interest in KPLP. Since KPT is a reporting issuer in all provinces and territories of Canada, and KPLP represents a significant asset of the Corporation, KPT provides to its shareholders the financial and business information of KPLP.



FOUR-YEAR FINANCIAL PERFORMANCE*

For the years ended December 31	2012	2011	2010	2009
(In millions of Canadian dollars)				
Revenue	922.9	892.6	897.7	900.8
Operating income	68.2	49.0	81.2	100.7
Net income	46.6	28.6	65.0	68.2
OTHER FINANCIAL DATA				
EBITDA	111.3	81.9	113.1	141.6
EBITDA margin	12.1%	9.2%	12.6%	15.7%
Capital expenditures	184.8	109.4	27.9	44.1
Working capital	137.7	104.3	113.1	78.3
Long-term debt	323.9	251.7	179.7	186.9

* All financial information herein presented are related to KPLP unless otherwise noted. For the period from October 1, 2012 to December 31, 2012, KP Tissue Inc. reported equity income of \$201 thousand, net income for the period of \$149 thousand and basic earnings of \$0.02 per share. For more information refer to the KP Tissue Inc. Audited Financial Statements for the period ended December 31, 2012.

REVENUE
+3%
OVER 2011

EDITDA
+36%
OVER 2011

NET INCOME
+63%
OVER 2011

Forward looking information: For any information on statements in this Annual Report that are of a forward-looking nature, please consult the section on "About KP Tissue Inc." on page 1 in the Management's Discussion and Analysis (MD&A) 2012.

LETTER TO OUR SHAREHOLDERS

I AM PLEASED TO HAVE THIS OPPORTUNITY TO REPORT ON KPLP'S ACTIVITIES IN 2012 AND TO PROVIDE SOME INSIGHT INTO OUR OBJECTIVES FOR 2013 AND BEYOND.

The past year was marked by a number of significant achievements and milestones. We built on our core strengths, increased our leadership position in the Canadian tissue marketplace, made key advances in the United States market, and greatly enhanced our manufacturing capacity, expertise and innovation by completing the construction of our new state-of-the-art production facility in Memphis, Tennessee. Finally, KPT's successful IPO in December raised approximately \$153 million.

FINANCIAL HIGHLIGHTS

By any measure, KPLP's financial performance in 2012 was very robust. Our revenues in 2012 reached \$922.9 million, an increase of 3.4% over the \$892.6 million we realized in 2011. Our EBITDA was \$111.3 million, which is the third best result in our history and a 35.9% improvement over the \$81.9 million we realized in 2011. Significantly, this result was achieved even though we incurred start-up costs related to our new TAD (Through-Air-Dried) facility in Memphis of approximately \$3.6 million. Our net income for 2012 was \$46.6 million, compared to \$28.6 million in fiscal 2011. At year-end, our cash balance was \$121.5 million.

BUILDING ON OUR LEADERSHIP POSITION

We are proud to be Canada's premier tissue company, and in 2012 KPLP maintained the #1 market share position in both the bathroom tissue and facial tissue categories, and a strong #2 position in the paper towel category. Indeed, through the year our brands increased their market share in Canada, where we currently realize the majority of our revenues.

In the U.S., organic growth will be driven by the increasing demand for our products in the premium private-label sector, which our TAD project is designed to directly address. We are very pleased that our White Cloud® brand was ranked #1 in the U.S. by a leading consumer magazine and that we exceeded \$230 million in U.S. sales during the year.

By 2017, our objective is to achieve an EBITDA contribution from the TAD project of approximately \$60 million. We are also working to broaden our customer base in the U.S. by adding other large North American retailers to our sales channels.

OPERATIONAL ACHIEVEMENTS

At the beginning of 2013 the construction phase of the TAD project at our Memphis facility was completed—on time and on budget—and we began shipping TAD products to our customers during the first quarter of 2013. The completion of this plant is a milestone for a number of reasons. First, it will eventually double our manufacturing capacity in this facility, which will serve both our U.S. and Canadian markets. Second, it provides us with an industry-leading, premium quality product. Third, it enables us to realize a significant cost advantage. TAD tissue products



are not only higher-grade, softer and bulkier, but they also use less fibre, which is a significant cost component in our industry. Finally, as I noted above, the ramp-up of this plant should allow us to accelerate our growth in the U.S. market and boost our EBITDA by approximately 50% within the next five years.

We have also successfully streamlined our distribution system and executed on our Business Rationalization Project, whereby we exited the business of producing parent rolls for sale, which was not a core business for us. This initiative, as well as other rationalization efforts designed to optimize our efficiency, should generate recurring annual savings of approximately \$12 million, of which more than half was realized in 2012.

POSITIONED FOR CONTINUING GROWTH

As the leading player in the Canadian tissue marketplace, KPLP has developed a culture within the Company that focuses on customer relationships and service, manufacturing and marketing excellence, and a product offering that is second-to-none for both its breadth and for its quality. These are the strengths that will continue to provide us with a competitive edge in Canada, and will facilitate our growth in the U.S. in both the private brand and private label sectors.

We are also committed to making the necessary ongoing investments in our asset base, which includes initiatives such as the TAD project, and to seek out prudent acquisition opportunities.

Maintaining and enhancing our strengths in the Canadian marketplace, implementing the strategies and seizing the opportunities that will drive growth in the U.S., maximizing our operational potential, and nurturing the talents of our people are the pillars upon which our future successes will be built.

In closing, I would like to express my gratitude to our management team and employees, whose commitment and hard work make us the leading industry force we are today. I would also like to thank our customers, suppliers and you, our shareholders, for your ongoing support. We look forward to profitable growth in the months and years ahead.



Mario Gosselin
Chief Executive Officer
KP Tissue Inc., and Kruger Products L.P.



AT THE BEGINNING OF 2013 THE CONSTRUCTION PHASE OF THE TAD PROJECT AT OUR MEMPHIS FACILITY WAS COMPLETED—ON TIME AND ON BUDGET—AND WE BEGAN SHIPPING TAD PRODUCTS TO OUR CUSTOMERS DURING THE FIRST QUARTER OF 2013.





WHITE CLOUD® BATHROOM TISSUE
TOP-RANKED
 BY A LEADING CONSUMER MAGAZINE
 IN THE U.S.*

* In terms of consumer value.



Nº 1

BATHROOM TISSUE
SINCE 2000

Nº 1

FACIAL TISSUE
SINCE 2005



Nº 2

PAPER TOWEL
SINCE 2004

LEADERS IN THE CONSUMER TISSUE MARKET

KPLP is Canada's market leader in the consumer tissue market. By dollar market share our bathroom tissue and facial tissues ranked #1, and our paper towels are a strong #2. In 2012, KPLP products comprised 41% of all branded tissue sales in Canada.

In the U.S., our White Cloud® bathroom tissue has been top-ranked by a leading consumer magazine. We have an exclusive relationship with Walmart to sell this brand through its stores, and Walmart positions White Cloud® as its private tissue brand.

Private label products are sold by retailers under their own unique brand names or on a "no brand name" basis. In Canada this market is relatively well developed, but in the U.S. it represents a significant growth opportunity.



AWAY-FROM-HOME MARKET

The Away-from-Home (AFH) tissue market consists of tissue products used outside the home in office buildings, restaurants, hospitals, schools and other public facilities. We estimate that this market represents approximately 30% of all tissue product consumption.

In Canada, KPLP enjoys an estimated 25% AFH market share. AFH products account for approximately 17% of our total KPLP sales in North America.

ENHANCING OUR MARKET LEADERSHIP

KPLP'S MARKET LEADERSHIP IS ROOTED IN OUR COMMITMENT TO BUILD EXCEPTIONAL CUSTOMER RELATIONSHIPS, OUR AGILITY IN ADDRESSING SHIFTS IN MARKET PREFERENCES AND CONSUMER DEMANDS, AND OUR ABILITY TO PROVIDE A COMPELLING RETAIL PROPOSITION THAT IS SUPPORTED BY SUPERIOR PRODUCT QUALITY AND INNOVATION.

We are proud to be Canada's leading tissue company. Our sales and marketing teams are working hard to find ways to maximize the retailers' paper category development. We are focused on delivering superior customer service. This is making a difference and is allowing us to benefit from a strong and consistent market presence. In fact, as reported by Nielsen, on a dollar basis we supply over 41% of the combined branded bathroom tissue, facial tissue and paper towels sold in Canada.

Our market leadership is supported by ongoing product and packaging innovation. We place a great deal of emphasis on marketing excellence, on cutting-edge advertising campaigns and on highly differentiated product positioning. We also stand out from our competitors with our Corporate Social Responsibility engagements, which are focused on sustainability efforts, support for the Canadian Breast Cancer Foundation, as well as other sponsorships, such as the Scotties® Tournament of Hearts® women's curling championship, with which we have been associated for over 30 years.

In the U.S. we have significant growth potential, particularly in the private label market. With our newly completed TAD manufacturing capacity in Memphis, Tennessee, we have the ability, once the facility is fully optimized, to produce 60,000 metric tonnes of the highest quality bathroom tissue. This product is in increasing demand by U.S. retailers for their premium private label products and is currently produced by only a few manufacturers.

Finally, we work as a team to ensure that we nurture and develop the longstanding customer relationships we enjoy with some of the preeminent retailers in North America. Our broad and geographically diverse sales, manufacturing, and distribution network brings us closer to these customers, and helps us respond quickly and efficiently to their evolving needs.

By keeping these priorities resolutely in focus, we have been able to successfully maintain and build upon our leadership position in a fiercely competitive market.



OUR NORTH AMERICAN REACH

363,000 TONNES
OF PRODUCTION CAPACITY
IN NORTH AMERICA

- ★ Head Office
- Manufacturing Plants

ONE OF KPLP'S SIGNIFICANT COMPETITIVE ADVANTAGES IS THE SCOPE AND CAPACITY OF OUR MANUFACTURING AND DISTRIBUTION NETWORK IN NORTH AMERICA. OUR MANUFACTURING FACILITIES ARE STRATEGICALLY LOCATED ACROSS THE CONTINENT IN A WAY THAT ALLOWS US TO EFFICIENTLY SERVE OUR MARKETS. WE ARE THE ONLY CANADIAN TISSUE COMPANY WITH A PLANT IN WESTERN CANADA. KPLP COVERS GEOGRAPHICALLY 90% OF HOUSEHOLDS IN CANADA AND 60% IN THE U.S.

Our geographic diversity puts us in proximity to both our customers and to our logistics providers. This makes it possible for us to be responsive to our customers' needs, to develop close relationships with our suppliers and to minimize our distribution costs.

Currently, our five manufacturing and distribution facilities—in New Westminster, British Columbia; Crabtree, Quebec; Sherbrooke, Quebec; Gatineau, Quebec; and Memphis, Tennessee—have a capacity of 363,000 tonnes. Over the past five years, we have been able to maintain over 94% capacity utilization in these facilities. The efficiency of this manufacturing infrastructure underpins our profitability.

To sustain our competitive strength in manufacturing, KPLP is engaged in an ongoing modernization program. A component of this program was the Business Rationalization Project which included exiting parent roll sales activities that were not core to our business and shutting down older high-cost, low-capacity assets. We are constantly upgrading our machinery and processes and seeking to maintain a skilled and lean workforce. For example, we

installed a biomass gasification system at our New Westminster, BC plant. The first of its kind in Canada, it gasifies wood waste for heat and energy and has the added benefit of reducing our greenhouse gas emissions by 50% per year. At our Gatineau, QC plant, we installed a state-of-the-art system that reuses energy to heat process water and the facility in the winter, reducing the plant's energy consumption by 11%.

By far the most ambitious initiative was the TAD project carried out in Memphis. The completion of the construction phase in February 2013, on time and on budget, eventually doubles our manufacturing capacity in the U.S. and enables us to produce a superior quality tissue product that helps us fortify our leadership position.

The real key to our success is a dedicated and loyal workforce. Many of our operators have been with the company for over 15 years. We have placed our employees' health and safety at the forefront of our actions. This has resulted in radically improved safety results in all of our plants.

COMBINING TECHNOLOGY AND INNOVATION

KPLP PRIDES ITSELF ON BEING IN THE RIGHT PLACE AT THE RIGHT TIME WITH THE RIGHT PRODUCTS. WE ARE INDUSTRY LEADERS IN OUR USE AND APPLICATION OF CONSUMER TISSUE MANUFACTURING, AND OUR ONGOING INNOVATION AND TECHNOLOGY INITIATIVES ENSURE THAT WE BUILD ON THIS LEADERSHIP POSITION.

The predominant technologies used to manufacture tissue paper products are WC (wet crepe), LDC (light dry crepe), SRC (single recrepe) and TAD (through-air-dried). The SRC and TAD technologies deliver the highest quality products.

In Canada, a considerable portion of our tissue is manufactured with SRC technology. This technology has the double advantage of enabling us to use lower-cost recycled fibre in our products, and at the same time produce products that are of higher quality in terms of softness and bulk. Combining optimum softness, which consumers clearly prefer, with maximum bulk, which is also preferred and helps to reduce our unit costs, is our overriding objective, and SRC technology helps us to realize this goal. In terms of competitive advantage, to our knowledge, we are currently the only tissue manufacturer with production facilities in Canada that is using SRC technology.

To further strengthen our technological leadership and fully capitalize on our considerable growth opportunities in the U.S., we have made a significant investment in a new TAD manufacturing facility in Memphis, Tennessee. What is important about TAD technology is that it produces tissue products that are of the highest quality in terms of softness and bulk, and which can be produced at a lower cost per case than competitive LDC products. Simply put, TAD technology enables the unsurpassed level of quality that consumers increasingly demand.

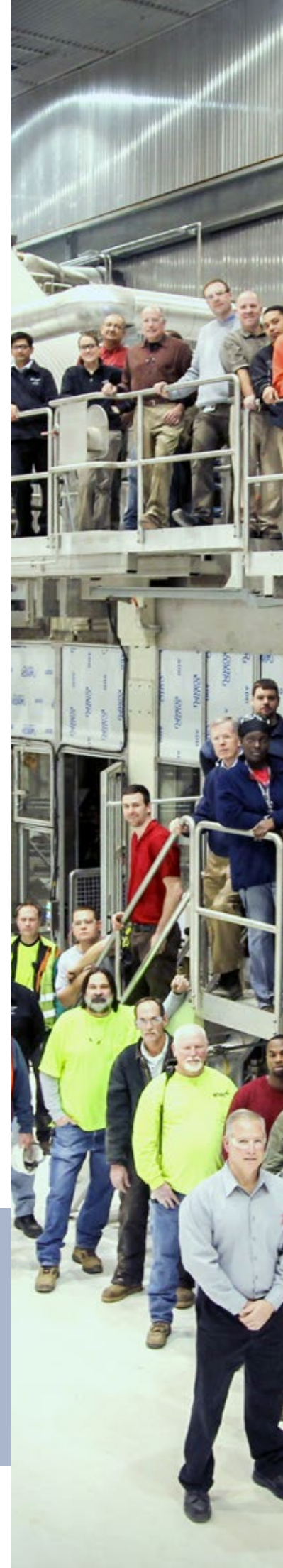
We began construction of the TAD facility in 2011 and initiated production in Q1 of this year. The new asset will produce 60,000 metric tonnes of tissue products per year when fully optimized.

KPLP is constantly engaged in other innovative product development programs as well. We have led the way in a number of areas, including introducing bigger pack sizes, developing premium tissue products that employ double-nip embossing technology to enhance aesthetic appeal, and launching three-ply tissue products within the “ultra” segment in Canada and the U.S. Our efforts are driven by the desire to ensure we have a product offering that is distinct from our competitors’ and which best meets consumer and customer needs.

New TAD Paper Machine in Memphis, TN

NEW TAD FACILITY
60,000
METRIC TONNES

TISSUE PRODUCED ANNUALLY
WHEN THE ASSET IS
FULLY OPTIMIZED





OUR COMMITMENTS



TO SUSTAINABILITY

KPLP HAS EMBARKED UPON AN EXCITING, CHALLENGING AND REWARDING CORPORATE SUSTAINABILITY AND RESPONSIBILITY (CSR) INITIATIVE, SUSTAINABILITY 2015. THE OBJECTIVE OF THIS INITIATIVE IS TO BUILD ON OUR LEGACY OF STEWARDSHIP, TO FURTHER REDUCE OUR ENVIRONMENTAL FOOTPRINT AND TO BENEFIT OUR COMMUNITIES. AT THE CORE OF THIS INITIATIVE ARE NINE SPECIFIC TARGETS WE AIM TO ACHIEVE BY THE YEAR 2015.

Using 2009 metrics as a baseline, these targets are:

1. Manufacture our products using only 100% third-party-certified fibre, ensuring that the fibre comes only from sustainably harvested forests and/or recycled material containing a high percentage of post-consumer waste.
2. Receive Forest Stewardship Council® Chain of Custody Certification. This target was achieved in March 2011.
3. Reduce our packaging by 5% while also increasing our use of recycled, recyclable and biodegradable packaging materials.
4. Add to our more than 90 third-party-certified products and continue to be the leading manufacturer of such innovative tissue paper products.
5. Reduce our overall energy consumption by 15% by streamlining our manufacturing processes and implementing an array of energy reduction and efficiency initiatives.
6. Reduce our greenhouse gas emissions by 15% by reducing our consumption of traditional energy and increasing our use of alternative and renewable energy.
7. Increase our logistics efficiency by 15% through improved utilization and shipping efficiencies, while increasing our use of lower carbon-emitting modes of transportation such as rail.
8. Reduce our total water consumption by 15% without compromising our wastewater treatment standards, which already substantially exceed government requirements.
9. Reduce the amount of solid waste and manufacturing byproducts that we send to landfill by 20% through a systematic program of industrial-grade recycling, reuse and reduction initiatives.



TO OUR ENVIRONMENT

OUR OPERATIONS DEPEND UPON AN ABUNDANT AND SUSTAINABLE SUPPLY OF NATURAL RESOURCES. IN PRODUCING OUR TISSUE PRODUCTS, WE CONSUME SIGNIFICANT AMOUNTS OF WOOD FIBRE, WATER AND ENERGY. THEREFORE, WE HAVE A GENUINE STAKE IN ENSURING THAT THESE RESOURCES REMAIN HEALTHY AND PLENTIFUL.

In addition, we adhere to the environmental laws and regulations established by the various governments and regulatory authorities in Canada and the United States. Each of our plants utilizes a proprietary Environmental Management System (EMS) to ensure our operations meet these regulatory requirements and to identify new opportunities to enhance our sustainability efforts.

We further embrace our environmental stewardship through third-party programs. Since 2005 we have been supporters of Nature Canada, whose mission is to protect and conserve wildlife and habitats in Canada. In 2012 we announced our official partnership with Earth Day Canada, through which we aim to help inform Canadians about the impacts of their purchasing decisions on their families, communities and surrounding environment. We have also taken a number of other tangible actions to support our environmental commitment:

- We earned Forest Stewardship Council® Chain of Custody certification from the Rainforest Alliance. We are the first Canadian tissue manufacturer to achieve this certification, which provides an assurance of responsible product production and consumption from forest to product to shelf.
- We offer one of the largest portfolios of FSC®-certified and EcoLogo^M-certified tissue and paper products in North America.
- We have installed a \$12.2 million biomass gasification system at our New Westminster, BC facility. This award-winning innovation, the first in Canada and in the pulp and paper industry, reduces the facility's greenhouse gas emissions by 50% annually*.
- We have also installed a \$4.8 million heat recovery system at our Gatineau, QC facility. This award-winning project reuses energy to heat process water and the facility in the winter, reducing energy consumption by 11% annually*. The project has also reduced the facility's greenhouse gas emissions by nearly 15%*.

* Using 2009 as a baseline

TO OUR COMMUNITIES

ONE OF OUR CORE VALUES IS THE FIRM BELIEF THAT WE HAVE A RESPONSIBILITY TO MAINTAIN AND IMPROVE THE COMMUNITIES IN WHICH WE LIVE AND WORK.

Acting upon this commitment, we invest time, money, human capital and other resources in community activities and a host of philanthropic causes. For instance, since 1982, we have been the title sponsor of the *Canadian Women's Curling Championship*, the *Scotties® Tournament of Hearts®*. Our association with this national bonspiel represents the longest corporate sponsorship of amateur athletics in Canada.

We are also deeply concerned about issues revolving around the health of women and children. Since 1990 we have contributed to *Ronald MacDonald House Charities®*, and since 2000 we have been a member of Friends of We Care, which sends disabled children to *Easter Seals Camps*. In 2005 we began our association with the *Canadian Breast Cancer Foundation* and are proud to have become a Top 5 National contributor.

Finally, our employees actively participate in a wide variety of local philanthropic and community engagement activities. Ultimately, our goal through all of our CSR efforts is to help ensure responsible stewardship of our resources and improve the quality of the world we all share. We invite you to take a more detailed look at our initiatives at www.sustainability2015.ca.



**MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS
OF OPERATIONS – 2012**



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MANAGEMENT'S DISCUSSION

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

DATED MARCH 26, 2013

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

ABOUT KP TISSUE INC.

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

Certain statements in this MD&A about KPT's and KPLP's current and future plans, expectations and intentions, results, levels of activity, performance, goals or achievements or any other future events or developments constitute forward-looking statements. The words "may", "will", "would", "should", "could", "expects", "plans", "intends", "trends", "indications", "anticipates", "believes", "estimates", "predicts", "likely" or "potential" or the negative or other variations of these words or other comparable words or phrases, are intended to identify forward-looking statements. The forward-looking information is based on certain key expectations and assumptions made by KPT or KPLP, including continued growth of the U.S. private label market and demand for TAD products in the U.S., orders for the TAD machine's products, the demand and timing of distributions made by KPLP, Kruger Inc.'s cash requirements and expected savings from the Business Rationalization Project. The financial outlook that KPLP Management provides on page 3 of this MD&A concerning the potential incremental EBITDA generated by the TAD Project (as defined below) by 2017 may be considered forward-looking information and is based on additional key expectations and assumptions, including but not limited to (i) limited incremental overhead relating to the operation of the TAD machine and distribution and sale of products, (ii) the TAD machine operating at near full capacity and products being sold at prices consistent with current market prices, adjusted for inflation, (iii) a cost of pulp and energy and a selling price of finished products based on recent prices, adjusted for inflation, (iv) Canadian and United States currencies at parity, and (v) the timely completion of the TAD Project within budget. Although KPT and KPLP believe that the expectations and assumptions on which such forward-looking information is based are reasonable, undue reliance should not be placed on the forward-looking information since no assurance can be given that such expectations and assumptions will prove to be correct.

Many factors could cause KPLP's actual results, level of activity, performance or achievements or future events or developments (which could in turn affect the economic benefits derived from KPT's economic interest in KPLP) to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, the following factors, which are discussed in greater detail in the "Risk Factors – Risks Related to KPLP's Business" section of the KPT final prospectus dated December 5, 2012 available on SEDAR at www.sedar.com (it is expected that the risk factors described in KPT's Annual Information Form for the year ended December 31, 2012 will be substantially the same): Kruger Inc.'s influence over KPLP; KPLP's reliance on Kruger Inc.; consequences of an event of insolvency relating to Kruger Inc.; risks associated with the TAD Project; actual results achieved may differ from financial outlook; operational risks; Gatineau Plant land lease; significant increases in prices of raw materials and services; reduction in supply of fibre; increased pricing pressure and intense competition; KPLP's inability to innovate effectively; adverse economic conditions; dependence on key retail trade customers; damage to the reputation of KPLP or KPLP's brands; KPLP's sales being less than anticipated; KPLP's failure to implement its business and operating strategies; KPLP's obligation to make regular capital expenditures; KPLP's entering into unsuccessful acquisitions; KPLP's dependence on key personnel; KPLP's inability to retain its existing customers or obtain new customers; KPLP's loss of key suppliers; KPLP's failure to adequately protect its intellectual property rights; KPLP's reliance on third party intellectual property licenses; adverse litigation and other claims affecting KPLP; material expenditures due to comprehensive environmental regulation affecting KPLP's cash flow; KPLP's pension obligations are significant and can be materially higher than predicted if KPLP Management's underlying assumptions are incorrect; labour disputes adversely affecting KPLP's cost structure and KPLP's ability to run its plants; exchange rate and U.S. competitors; KPLP's inability to service all of its indebtedness; exposure to potential consumer product liability, restrictive covenants; interest rate and refinancing risk; information technology and innovation; insurance; and internal controls.

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

To the extent any forward-looking information in this MD&A constitutes future-oriented financial information or financial outlooks within the meaning of securities laws, such information is being provided to demonstrate the potential benefits of the TAD Project and readers are cautioned that this information may not be appropriate for any other purpose. Future-oriented financial information and financial outlooks, including expected cost-savings related to the Business Rationalization Project and the financial outlook that KPLP Management provides on page 3 of this MD&A concerning the potential incremental EBITDA generated by the TAD Project by 2017, are, without limitation, based on the assumptions and subject to the risks set out above.

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

OVERVIEW

BUSINESS OVERVIEW

Pursuant to the Articles of KPT, KPT's business is limited to (i) the investment in, holding of and disposition of limited partnership interests, units, shares or other securities of KPLP and its general partner, KPGP Inc. (KPGP) (or any successor entity of either KPLP or KPGP), (ii) the acquisition of, holding, operation and disposition of any assets, liabilities, operations or business of such entities, and (iii) all activities related, incidental or ancillary to any of the foregoing. As of the date of the MD&A, KPT held KPLP Units representing 16.9% of the KPLP Units.

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

KPLP is headquartered in Mississauga, Ontario and has approximately 2,300 employees across North America. KPLP's Canadian manufacturing facilities, consisting of three tissue plants in Québec and one plant in British Columbia, have a combined annual tissue production capacity of approximately 246,000 metric tonnes.

KPLP's U.S. manufacturing facility held through K.T.G. (USA) Inc. (KTG) and located in Memphis, Tennessee consists of two existing paper machines with an aggregate annual capacity of 57,000 metric tonnes, and one adjacent 60,000 metric tonne state-of-the-art, Through-Air-Dried (TAD) tissue machine and related infrastructure (the TAD Project), construction on which was completed in the first quarter of 2013.

BASIS OF PRESENTATION

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

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

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

ACCOUNTING PERIODS

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

FINANCIAL MEASURES AND KEY INDICATORS

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

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

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

OUTLOOK

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

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

FACTORS AFFECTING THE RESULTS OF OPERATIONS

Revenue

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

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

Cost of Sales

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

Operating Expenses

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

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

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

Interest Expense

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

Income Taxes

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

BUSINESS HIGHLIGHTS

TAD PROJECT

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

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

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

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

REORGANIZATION OF KPLP

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

BUSINESS RATIONALIZATION PROJECT

Following a comprehensive strategic and operational review, in September 2012 KPLP substantially completed restructuring initiatives in order to cease production of its parent rolls for sale, which was not strategic to KPLP's overall business. These restructuring initiatives resulted in the permanent idling of two paper machines, a groundwood pulp plant and certain converting equipment, all at KPLP's New Westminster plant, as well as the termination of certain employees at the head office and at other manufacturing facilities (the Business Rationalization Project). Finished product sales were not impacted, as there was capacity elsewhere in KPLP's manufacturing network to absorb this capacity. In connection with the restructuring initiatives at the New Westminster plant, KPLP Management expects parent roll revenue to decline by \$20.0 million, offset by lower costs of \$27.4 million, for net savings of \$7.4 million. KPLP Management also expects to save \$4.5 million through its other restructuring initiatives, for total full-year recurring cash savings of \$11.9 million. One-time costs and other charges related to the Business Rationalization Project of \$9.4 million (\$8.4 million of which relates to employee severance costs) were expensed during Fiscal 2012, of which more than half had been paid by the end of Fiscal 2012. KPLP also recorded \$4.6 million in impairment of non-financial assets in connection with the Business Rationalization Project.

INITIAL PUBLIC OFFERING

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

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

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

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

RESULTS OF OPERATIONS

RESULTS OF OPERATIONS OF KPLP

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

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

Results of Operations Fiscal 2012 compared to Fiscal 2011

Revenue

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

Cost of Sales

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

Operating Expenses

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

EBITDA

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

Interest Expense

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

Impairment of Non-Financial Assets and Restructuring Costs

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

Income Taxes

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

Net Income

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

RESULTS OF OPERATIONS OF KPT

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

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

SEGMENT INFORMATION

SEGMENT OPERATING PROFIT

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

SEGMENT RESULTS

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

Consumer Segment

Fiscal 2012 compared to Fiscal 2011

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

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

AFH Segment

Fiscal 2012 compared to Fiscal 2011

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

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

Other Segment

Fiscal 2012 compared to Fiscal 2011

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

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

LIQUIDITY AND CAPITAL RESOURCES

OVERVIEW

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

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

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

CASH FLOWS

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

Net Cash Flows from Operating Activities

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

Net Cash Flows used in Investing Activities

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

Net Cash Flows from Financing Activities

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

CAPITAL EXPENDITURES

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

CONTRACTUAL OBLIGATIONS

KPLP's contractual obligations consist of long-term debt (principal repayments and interest payments), operating leases for the rental of property, equipment and automobiles, and other long-term liabilities.

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

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

On December 13, 2012, in connection with the issuance of KPLP Units to KPT, the Limited Partnership Agreement amongst KPT, KPLP and Kruger Products 2010 (the Limited Partnership Agreement) was amended to require KPLP, subject to compliance with contractual obligations and applicable law, to make distributions to its partners in such amounts as would enable KPT to discharge its obligation to pay federal and provincial income taxes (the Tax Distribution). Each partner is entitled to its share of the Tax Distribution made in respect of any given year. In light of this obligation, KPLP has determined that it is appropriate to reclassify a portion of its equity as a liability to its partners as required under IFRS as the obligation meets the definition of a financial liability for accounting purposes. Accordingly, \$118,562 of equity has been reclassified as a liability in respect of this obligation. The reclassification is in respect of a previously disclosed obligation owed to the partners of KPLP. It does not change the rights of or obligations owed to the partners of KPLP, and does not result in any change to the financial statements of KPT.

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

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

INDEBTEDNESS

Senior Credit Agreement

General

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

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

Interest Rates and Fees

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

Prepayments and Repayments

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

Covenants

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

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

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

Events of Default

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

Security and Guarantees

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

Indenture

General

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

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

Guarantees

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

Redemption

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

Year	Percentage
2015	104
2016	102
2017 and thereafter	100

Change of Control

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

Covenants

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

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

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

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

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

Events of Default

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

Nordea Credit Agreement

General

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

Interest Rates and Fees

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

Prepayments and Repayments

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

Covenants

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

Events of Default

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

Security and Guarantees

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

TAD Credit Agreement

General

TAD Canco is a party to a credit agreement dated as of August 16, 2011 entered into between TAD Canco, as borrower, TAD Luxembourg and KTG, as guarantors, and Caisse de dépôt, as lender (as amended as of September 21, 2012, the "TAD Credit Agreement") pursuant to which a non revolving term loan facility for a maximum amount of U.S.\$211.1 million is made available to TAD Canco (the TAD Credit Facility). The TAD Credit Facility is to be used by TAD Canco to invest in TAD Luxembourg, which in turn lends such proceeds to KTG on substantially the same terms and conditions as the TAD Credit Facility to finance the TAD Project. Recourse under the TAD Credit Facility is limited to TAD Canco, TAD Luxembourg and KTG. The TAD Credit Facility matures on August 16, 2018.

Interest Rates and Fees

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

Prepayments and Repayments

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

Change of Ownership

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

Covenants

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

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

Events of Default

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

Security and Guarantees

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

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

CURRENCY RISK

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

As of December 31, 2012, KPLP had net liabilities denominated in U.S. dollars of \$46.0 million (December 31, 2011 – \$35.9 million). Assuming the Canadian dollar strengthened (weakened) by 5% against the U.S. dollar, with all other variables held constant, the result on net income before tax in Fiscal 2012 would have been an increase (decrease) of \$2.3 million (Fiscal 2011 – \$1.8 million). KPLP continuously monitors foreign exchange risk and to manage this foreign exchange risk occasionally enters into foreign currency forward contracts and may continue to do so going forward.

INTEREST RATE RISK

KPLP's interest rate risk arises from its variable rate long-term debt. As of December 31, 2012, KPLP had variable rate debts of \$0.1 million (December 31, 2011 – \$48 million). These loans bear interest at Canadian prime rate, U.S. base rate, banker's acceptance rates or LIBOR plus the applicable margins. The applicable margin on the loans ranges between 0.75% and 3.50%.

A 1% increase (decrease) in the market rate of interest would have resulted in a decrease (increase) in net income before tax of nil in Fiscal 2012 (Fiscal 2011 – \$0.5 million).

From time to time, KPLP uses interest rate swaps to manage part of its exposure to movements in interest rates on its credit facilities. During Fiscal 2012, KPLP had an interest rate swap on its revolving credit facilities. Since the interest rate swap contract did not trade, the price of an identical instrument could not be observed. The fair value for the interest rate swap was derived using the notional amount of the interest rate swap multiplied by the observable inputs of time to maturity, interest rates and credit spreads. The interest rate swap contract was recorded at fair value at each reporting period with the change in fair value recognized in interest expense. The net position at the end of each reporting period was reflected as a long-term asset or liability in the combined statements of financial position.

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

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

CREDIT RISK

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. KPLP's financial instruments exposed to credit risk include cash and cash equivalents, trade and other receivables, interest rate swap and derivative commodity contracts. KPLP places its cash and cash equivalents interest rate swap and derivative commodity contracts with financial institutions of high creditworthiness.

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

LIQUIDITY RISK

The purpose of liquidity risk management is to maintain sufficient cash and cash equivalents and to ensure KPLP has sufficient authorized credit facilities as financing sources. KPLP had unused lines of credit available of \$162.5 million as of December 31, 2012 (December 31, 2011 – \$114.6 million). KPLP prepares projections to ensure it has sufficient funds to fulfill its obligations. Refinancing risks are minimized by ensuring the credit facility will not mature for two years. The ability to pay its obligations relies on KPLP collecting its trade receivables in a timely manner and by maintaining sufficient cash and cash equivalents in excess of anticipated needs. KPLP's trade and other payables of \$186.0 million as of December 31, 2012 (December 31, 2011 – \$151.7 million) are all due for payment within twelve months of the dates of the consolidated statements of financial position.

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

COMMODITY PRICE RISK

Commodity price risk is the risk that future cash flows associated with purchasing required raw materials will fluctuate due to changes in commodity prices. KPLP's main raw material is fibre, which changes price due to market conditions. KPLP mitigates its exposure to commodity price risk by passing increases in its supply costs onto its customers through incremental price increases. KPLP has also entered into two fibre commodity swap contracts to mitigate these cost fluctuations. KPLP entered into one contract on October 1, 2011 to fix the price of purchasing 12,000 tonnes of fibre at a price of U.S.\$915 per metric tonne until September 1, 2012. KPLP also entered into a second contract on January 13, 2012 for 12,000 tonnes at a price of U.S.\$890 per metric tonne until January 1, 2013. The commodity swap entered into does not trade and as result the price of an identical instrument cannot be observed. The fair value of the commodity swap was estimated using a model with the main inputs being the future prices of pulp and the discount rate. The estimated fair value of the fibre commodity swap contracts as of December 31, 2012 was \$0.04 million (December 31, 2011 – \$0.4 million).

TRANSACTIONS WITH RELATED PARTIES

Kruger provides certain management and support services to KPLP, including corporate management and administrative support; accounting and tax support; corporate financing support; corporate treasury support; benefits and human resources support; corporate legal and secretarial; corporate insurance; corporate procurement support; and corporate engineering support. Such services are provided pursuant to the Management Services Agreement. KPLP pays Kruger an annual management fee of \$9.4 million (which will be reduced to \$4 million upon the entering into of the Management Services Agreement).

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

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

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

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

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

OFF BALANCE SHEET ARRANGEMENTS

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

CRITICAL ACCOUNTING ESTIMATES

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

REVENUE RECOGNITION

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

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

EMPLOYEE FUTURE BENEFITS

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

PROPERTY, PLANT AND EQUIPMENT

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

TAD EXPANSION

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

ENVIRONMENTAL AND ASSET RETIREMENT OBLIGATIONS

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

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

PARTNERSHIP UNITS

On December 13, 2012, in connection with the issuance of KPLP Units to KPT, the Limited Partnership Agreement was amended to require KPLP, subject to compliance with contractual obligations and applicable law, to make distributions to its partners in such amounts as would enable KPT to discharge its obligation to pay federal and provincial income taxes (the Tax Distribution). Each partner is entitled to its share of the Tax Distribution made in respect of any given year. In light of this obligation, KPLP has determined that it is appropriate to reclassify a portion of its equity as a liability to its partners as required under IFRS as the obligation meets the definition of a financial liability for accounting purposes. Accordingly, \$118.6 million of equity has been reclassified as a liability in respect of this obligation. The reclassification is in respect of a previously disclosed obligation owed to the partners of KPLP. It does not change the rights of or obligations owed to the partners of KPLP, and does not result in any change to the financial statements of KPT. This amount reflects KPLP's estimate of the net present value of the financial liability arising from the obligation to make the Tax Distribution using estimates of tax payable by KPT and a discount rate and terminal growth rate of 8.7% and 0.41%, respectively. Projections of tax payable are based on additional assumptions including estimates of taxable income and tax rates. Taxable income can differ significantly from accounting income as a result of both timing and permanent tax differences based on enacted tax legislation and therefore changes in the partnership unit obligation are not necessarily indicative of a change in the expected future profitability of KPLP.

EQUITY METHOD OF ACCOUNTING

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

ESTIMATES OF FAIR VALUE AND IMPACT ON EQUITY INCOME

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

ACCOUNTING CHANGES AND FUTURE ACCOUNTING STANDARDS

ACCOUNTING STANDARDS IMPLEMENTED FOR THE YEAR ENDED DECEMBER 31, 2012

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

FUTURE ACCOUNTING STANDARDS

The following revised standards and amendments are effective for annual periods beginning on or after January 1, 2013, except as noted below, and with earlier application permitted. KPLP and KPT Management have not yet assessed the impact of these standards and amendments or determined whether it will early adopt them, except as noted below.

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

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

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

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

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

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

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

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

SELECTED ANNUAL FINANCIAL INFORMATION

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

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

SELECTED QUARTERLY FINANCIAL INFORMATION

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

QUARTERLY FINANCIAL INFORMATION

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

RESULTS OF OPERATIONS Q4 2012 COMPARED TO Q4 2011

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

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

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

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

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

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

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

SEGMENT INFORMATION Q4 2012 COMPARED TO Q4 2011

Consumer Segment

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

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

AFH Segment

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

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

Other Segment

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

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

SHARE INFORMATION

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

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

ADDITIONAL INFORMATION

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

March 26, 2013

INDEPENDENT AUDITOR'S REPORT

**To the Shareholders of
KP Tissue Inc.**

We have audited the accompanying financial statements of KP Tissue Inc. which comprise the statement of financial position as at December 31, 2012 and the statements of comprehensive income (loss), changes in equity and cash flows for the period from October 1, 2012 to December 31, 2012, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of KP Tissue Inc. as at December 31, 2012 and its financial performance and its cash flows for the period from October 1, 2012 to December 31, 2012 in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

**Chartered Accountants, Licensed Public Accountants
Mississauga, Ontario**

KP Tissue Inc.**Statement of Financial Position**

(tabular amounts are in thousands of Canadian dollars)

	December 31, 2012 \$
Assets	
Non-current assets	
Investment in associate (note 5)	140,774
Total Assets	140,774
Liabilities	
Non-current liabilities	
Deferred income taxes (note 6)	52
Total liabilities	52
Equity	
Common shares (note 7)	140,000
Retained earnings	627
Accumulated other comprehensive gain	95
Total equity	140,722
Total liabilities and equity	140,774

Subsequent events (note 8)

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

KP Tissue Inc.**Statement of Comprehensive Income****For the period from October 1, 2012 to December 31, 2012**

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

	2012 \$
Equity income (note 5)	201
Income before income taxes	201
Income taxes (note 6)	
Deferred	52
Net income for the period	149
Other comprehensive income	
Actuarial gains on pensions	341
Actuarial gains on post-retirement benefits	137
Cumulative translation adjustment	95
Total other comprehensive income for the period	573
Comprehensive income for the period	722
Basic earnings per share	0.02

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

KP Tissue Inc.**Statement of Changes in Equity****For the period from October 1, 2012 to December 31, 2012**

(tabular amounts are in thousands of Canadian dollars)

	Common shares \$	Retained earnings \$	Accumulated other comprehensive income \$	Total equity \$
As of October 1, 2012	-	-	-	-
Issuance of common shares (note 7)	140,000	-	-	140,000
Changes in actuarial gains on pensions	-	341	-	341
Changes in actuarial gains on post retirement benefits	-	137	-	137
Cumulative translation adjustment	-	-	95	95
Net income for the period	-	149	-	149
As of December 31, 2012	140,000	627	95	140,722

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

KP Tissue Inc.**Statement of Cash Flows****For the period from October 1, 2012 to December 31, 2012**

(tabular amounts are in thousands of Canadian dollars)

	2012 \$
Cash flows from (used in) operating activities	
Net income for the period	149
Items not affecting cash	
Equity income	(201)
Deferred income taxes	52
Net cash from (used in) operating activities	-
Cash flows used in investing activities	
Investment in associate (note 5)	(140,000)
Net cash used in investing activities	(140,000)
Cash flows from financing activities	
Issuance of common shares (note 7)	140,000
Net cash from financing activities	140,000
Increase (decrease) in cash and cash equivalents during the period	-
Cash and cash equivalents - Beginning of period	-
Cash and cash equivalents - End of period	-

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

(tabular amounts are in thousands of Canadian dollars)

1 GENERAL INFORMATION

KP Tissue Inc. (the Corporation) was incorporated by articles of incorporation under the Canadian Business Corporations Act on October 1, 2012. As of December 31, 2012, the Corporation held a 15.7% interest in Kruger Products L.P. (KPLP), whose principal business is to produce, distribute, market and sell a wide range of disposable tissue products, including bathroom tissue, facial tissue, paper towels and napkins for both the consumer and away-from-home markets in North America. The Corporation's headquarters are located in Mississauga, Ontario, Canada.

On January 10, 2013, the Corporation completed the issuance of 750,000 common shares pursuant to the partial exercise of an over-allotment option (refer to note 8 for additional details) and used the proceeds to subscribe for 750,000 additional units of KPLP which, together with the units of KPLP that it already held, resulted in the Corporation having a 16.9% interest in KPLP.

2 BASIS OF PRESENTATION

The financial statements have been prepared in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board. The financial statements have been prepared using the historical cost convention. The financial statements were approved by the board of directors on March 26, 2013.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these financial statements are as follows:

(a) Investments in associates

Associates are entities over which the Corporation has significant influence but not control. The Corporation accounts for its investment in associates using the equity method. Under the equity method, the investment is initially recognized at cost and the carrying amount is adjusted for the Corporation's share of profits or losses of associates recognized in the statement of income and its share of other comprehensive income (loss) of associates included in other comprehensive income.

Unrealized gains on transactions between the Corporation and an associate are eliminated to the extent of the Corporation's interest in the associate. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Dilution gains and losses arising from changes in interests in investments in associates are recognized in the statement of income.

The Corporation assesses at each year-end whether there is any objective evidence that its interests in investments in associates are impaired. If so, the carrying value of the Corporation's share of the underlying assets of associates is written down to its net recoverable amount (being the higher of fair value, less cost to sell and value in use) and the loss is charged to the statement of income in other gains and losses (net).

(b) Income tax

Income tax comprises current and deferred tax. Income tax is recognized in the statement of income except to the extent that it relates to items recognized directly in other comprehensive income or directly in equity, in which case the income tax is also recognized directly in other comprehensive income or equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

(tabular amounts are in thousands of Canadian dollars)

In general, deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax is not recognized if it arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except, in the case of subsidiaries, where the timing of the reversal of the temporary difference is controlled by the Corporation and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the deferred tax asset is realized or liability is settled. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized.

Deferred income tax assets and liabilities are presented as non-current.

(c) Share capital

Incremental costs directly attributable to the issuance of common shares are recognized as a deduction from equity.

(d) Earnings per share

Basic earnings per share (EPS) is calculated by dividing the net income (loss) for the period attributable to equity owners of the Corporation by the weighted average number of common shares outstanding during the period.

Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to options, warrants and similar instruments is computed using the treasury stock method. The Corporation does not currently have any potentially dilutive instruments.

(e) Accounting standards issued but not yet applied

The following revised standards and amendments are effective for annual periods beginning on or after January 1, 2013, except as noted below, with earlier application permitted. The Corporation has not yet assessed the impact of these standards and amendments or determined whether it will early adopt them.

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

- (ii) 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 Corporation does not expect that this standard will result in a material impact on the measurement of the financial statements.
- (iii) IFRS 13, Fair Value Measurement, is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures. The amendment is effective for annual periods beginning on or after January 1, 2013. The Corporation does not expect that this standard will result in a material impact to the financial statements.
- (iv) IAS 1, Presentation of Financial Statements, has been amended to require entities to separate items presented in other comprehensive income (OCI) into two groups, based on whether or not items may be recycled in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately. The amendment is effective for annual periods beginning on or after July 1, 2012, with earlier application permitted.
- (v) 2011 annual improvements - improvements and amendments to the following existing standards, basis of conclusions and guidance, effective for years beginning on or after January 1, 2013:
 - IAS 1, Presentation of Financial Statements, has been amended to include requirements for comparative financial information when an entity provides an opening statement of financial position.
 - IAS 32, Financial Instruments - Presentation, has been amended to clarify the treatment of income tax relating to distributions and transaction costs.
 - IAS 34, Interim Financial Reporting, has been amended to include disclosure requirements for segment assets and liabilities.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of these financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities in the financial statements and the disclosure of contingencies at the date of the statement of financial position, and the reported amounts of revenues and expenses during the reporting period. On a regular basis and with the information available, management reviews its estimates and judgments, including those related to fair value and the basis of accounting. Actual results could differ from those estimates. When adjustments become necessary, they are reported in earnings in the period in which they occur.

Equity method of accounting

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

Estimates of fair value and impact on equity income

The Corporation has used certain assumptions in determining the adjustments to the carrying amount of the assets and liabilities of the associate on its acquisition. These assumptions include the royalty rate, discount rate, weighted average cost of capital rate and replacement values for property plant and equipment. The assumptions were determined by looking at comparative companies in the same industry. The adjustments arising on the accounting for the investment in associate are disclosed in note 5. As disclosed in note 5, 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.

5 INVESTMENT IN ASSOCIATE

On December 13, 2012, the Corporation completed its initial public offering of 8,000,000 common shares. The proceeds of \$140 million received from the offering were used to acquire 8,000,000 partnership units of KPLP.

	December 31, 2012
	\$
Opening balance	-
Cost of investment in associate	140,000
Share of profit	201
Depreciation of fair value increments	-
Share of other comprehensive loss	573
Closing balance	140,774

The following summarizes financial information about the assets, liabilities, revenue and net income of KPLP, in which the Corporation holds a 15.7% interest. The financial information was derived from the consolidated financial statements of the KPLP for the year ended December 31, 2012. The amounts disclosed do not include adjustments made to the carrying amount of the assets and liabilities of the associate on its acquisition. As a result of the acquisition being completed on December 13, 2012, the Corporation has not finalized the fair values of the assets and liabilities acquired. The Corporation has engaged a third party to appraise the fair value of its property, plant and equipment and this engagement is not completed. Therefore, the adjustments made to the carrying amount of the assets and liabilities acquired are estimates, subject to change, and will be finalized within 12 months of the acquisition date.

	December 31, 2012
	\$
Assets	1,094,700
Liabilities to non-unitholders	730,113
Partnership units liability	118,562
Revenue	922,874
Net income	46,552

5 INVESTMENT IN ASSOCIATE (cont'd)

The Corporation's investment in KPLP has been accounted for using the equity basis of accounting. The Corporation holds 3 of 9 seats on the KPGP board of directors and therefore exercises significant influence over the Partnership's operations. The Corporation has recognized its share of the net income and other comprehensive income for the period from December 13, 2012 to December 31, 2012.

On December 13, 2012, in connection with the issuance of Partnership units to KPT, the Limited Partnership Agreement was amended to require KPLP, subject to compliance with contractual obligations and applicable law, to make distributions to its partners in such amounts as would enable KPT to discharge its obligation to pay federal and provincial income taxes (the Tax Distribution). Each partner is entitled to its share of the Tax Distribution made in respect of any given year.

Pursuant to the Limited Partnership Agreement, if KPLP is unable to make a Tax Distribution in accordance with the above, it will, subject to applicable law and any contractual restrictions, advance sufficient funds to the Corporation in an amount equal to its share of such Tax Distribution by way of non-recourse, interest-free loans, repayable upon payment by KPLP from the required Tax Distribution.

Pursuant to the Limited Partnership Agreement, unitholders will be permitted to automatically reinvest cash distributions of KPLP (other than cash distributions which represent a Tax Distribution) in additional KPLP units at a price per KPLP unit equal to 97% of the 5-day weighted average trading price of the common shares prior to the declaration of the distribution (the KPLP DRIP). Pursuant to the Limited Partnership Agreement, the Corporation will only be permitted to participate in the KPLP DRIP to the extent required to accommodate participation by holders of common shares in the Corporation DRIP, such that the number of KPLP units issued to the Corporation from time to time pursuant to the KPLP DRIP is equivalent to the number of common shares issued from time to time pursuant to the Corporation DRIP.

6 INCOME TAX

Details of the provision for income taxes and the reconciliation of the combined federal and provincial statutory income tax rates to the effective tax rate on earnings were as follows:

	2012	
	\$	%
Statutory income tax	52	26

Components of the deferred income tax liability were as follows:

	2012
	\$
Long-term deferred tax liability	
Investment in associate	134
Net operating losses	(82)
	52

KP Tissue Inc.**Notes to Financial Statements (continued)****December 31, 2012**

(tabular amounts are in thousands of Canadian dollars)

The analysis of deferred tax liability was as follows:

	2012
	\$
Deferred tax liabilities to be realized greater than 12 months	134
Deferred tax asset to be realized within 12 months	(82)
	52

The movement in the deferred tax liability was as follows:

	2012
	\$
As of October 1, 2012	-
Charge to statement of income	(52)
As of December 31, 2012	(52)

The Corporation has \$0.3 million of net operating loss carry-forwards available as of December 31, 2012, which expire in 2032.

7 EQUITY

On October 1, 2012, the Corporation issued one common share for cash consideration of \$20. The Corporation is authorized to issue an unlimited number of common shares at no par value. The common shares are voting and entitled to dividends if, as and when declared by the board of directors.

On December 13, 2012, the Corporation completed an initial public offering of 8,000,000 common shares at a price of \$17.50 per share resulting in gross proceeds of \$140 million. The proceeds were used to subscribe for 8,000,000 units of KPLP, resulting in the Corporation having a 15.7% interest in KPLP. The remaining 84.3% interest in KPLP is held by Kruger Products 2010 L.P. and KPGP Inc. (together, Kruger), subsidiaries of Kruger Inc.

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

(tabular amounts are in thousands of Canadian dollars)

8 SUBSEQUENT EVENTS

Over-allotment option

On January 10, 2013, the Corporation announced that it had completed the issuance of 750,000 common shares at a price of \$17.50 per common share pursuant to the partial exercise of the over-allotment option granted to the syndicate of underwriters led by Scotia Capital Inc., as sole bookrunner, National Bank Financial Inc., RBC Dominion Securities Inc. and TD Securities Inc., and which also includes CIBC World Markets Inc., Desjardins Securities Inc., HSBC Securities (Canada) Inc. and Canaccord Genuity Corp. (together, the Underwriters).

The over-allotment option was granted by the Corporation to the Underwriters in connection with the Corporation's previously announced initial public offering of common shares which was completed on December 13, 2012.

The Corporation used the proceeds from the partial exercise of the over-allotment option to subscribe for 750,000 additional units of KPLP which, together with the units of KPLP that it already held, resulted in the Corporation having a 16.9% interest in KPLP. The remaining 83.1% interest in KPLP is held by Kruger Products 2010 L.P. and KPGP Inc., subsidiaries of Kruger Inc.

Dividend declaration

On March 26, 2013, the board of directors of the Corporation declared a dividend of \$0.217 per common share to be paid on April 15, 2013 to shareholders of record at the close of business on April 8, 2013. The dividend relates to the period from the initial public offering on December 13, 2012 to March 31, 2013.

Kruger Products L.P.
AUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND DECEMBER 31, 2011

March 26, 2013

INDEPENDENT AUDITOR'S REPORT

**To the Directors of
KPGP Inc.**

We have audited the accompanying consolidated financial statements of Kruger Products L.P. and its subsidiaries which comprise the consolidated statements of financial position as at December 31, 2012 and December 31, 2011 and the consolidated statements of comprehensive income (loss), changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Kruger Products L.P. and its subsidiaries as at December 31, 2012 and December 31, 2011 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without modifying our opinion, we draw attention to the fact that, as described in note 1 to the consolidated financial statements, the businesses included in the consolidated financial statements in the comparative year as well as up to the date of the reorganization on September 21, 2012 have not operated as a separate legal entity. The consolidated financial statements are, therefore, not necessarily indicative of results that would have occurred if the businesses had been a separate legal entity during the years presented or of future results of the business.

PricewaterhouseCoopers LLP

**Chartered Accountants, Licensed Public Accountants
Mississauga, Ontario**

Kruger Products L.P.**Consolidated Statements of Financial Position**

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

	December 31, 2012 \$	December 31, 2011 \$
Assets		
Current assets		
Cash and cash equivalents	121,489	31,797
Trade and other receivables (note 5)	94,308	88,948
Receivables from related parties (note 16)	668	730
Inventories (note 6)	116,873	139,728
Income tax recoverable (note 15)	2,872	447
Prepaid expenses	4,413	5,422
	340,623	267,072
Non-current assets		
Property, plant & equipment (note 7)	580,814	424,194
Other long-term assets (note 13)	6,236	10,959
Goodwill (note 8)	152,021	152,021
Intangible assets (note 8)	13,828	14,307
Deferred income taxes (note 15)	1,178	—
Total assets	1,094,700	868,553
Liabilities		
Current liabilities		
Trade and other payables (note 10)	186,309	151,746
Payables to related parties (note 16)	9,057	9,407
Current portion of provisions (note 11)	3,719	1,644
Current portion of long-term debt (note 13)	3,802	—
	202,887	162,797
Non-current liabilities		
Long-term debt (note 13)	323,885	251,748
Other long-term liabilities (note 12)	544	1,320
Provisions (note 11)	5,506	3,562
Pensions (note 9)	148,989	123,090
Post-retirement benefits (note 9)	48,302	46,497
Deferred income taxes (note 15)	—	1,618
Liabilities to non-unitholders	730,113	590,632
Partnership units (note 14)	118,562	—
Total liabilities	848,675	590,632
Equity		
Partnership units (note 14)	257,516	—
Equity	—	279,209
Accumulated deficit	(14,736)	—
Accumulated other comprehensive loss	3,245	(1,288)
Total equity	246,025	277,921
Total equity and liabilities	1,094,700	868,553

Reorganization (note 1)**Commitments and contingencies (note 17)****Subsequent events (note 14)**

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

Kruger Products L.P.**Consolidated Statements of Comprehensive Income (Loss)**

For the years ended December 31, 2012 and December 31, 2011

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

	2012 \$	2011 \$
Revenue (notes 16 and 24)	922,874	892,582
Expenses		
Cost of sales (notes 16 and 18)	645,826	658,453
Operating expenses (notes 16 and 18)	194,898	182,429
Impairment of non-financial assets (note 7)	4,608	2,662
Restructuring costs (note 11)	9,391	—
Operating income	68,151	49,038
Interest expense (note 13)	23,027	19,166
Income before income taxes	45,124	29,872
Income taxes (note 15)	(1,428)	1,253
Net income for the year	46,552	28,619
Other comprehensive income (loss)		
Actuarial losses on pensions	(44,496)	(56,782)
Actuarial losses on post-retirement benefits	(102)	(5,432)
Cumulative translation adjustment	(3,969)	2,461
Total other comprehensive loss for the year	(48,567)	(59,753)
Comprehensive loss for the year	(2,015)	(31,134)

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

Kruger Products L.P.**Consolidated Statements of Changes in Equity****For the years ended December 31, 2012 and December 31, 2011**

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

	Partnership units		Equity	Accumulated deficit	Accumulated other comprehensive income (loss)	Total equity
	#	\$	\$	\$	\$	\$
As of January 1, 2011	—	—	313,351	—	(3,749)	309,602
Transfer of assets from related parties	—	—	(547)	—	—	(547)
Change in actuarial losses on pension	—	—	(56,782)	—	—	(56,782)
Change in actuarial losses on post retirement benefits	—	—	(5,432)	—	—	(5,432)
Cumulative translation adjustment	—	—	—	—	2,461	2,461
Net income for the year	—	—	28,619	—	—	28,619
As of December 31, 2011	—	—	279,209	—	(1,288)	277,921
As of January 1, 2012	—	—	279,209	—	(1,288)	277,921
Transfer of assets from related parties	—	—	(2,209)	2,000	—	(209)
Distributions paid	—	—	—	(40,000)	—	(40,000)
Change in actuarial losses on pension	—	—	(56,171)	11,675	—	(44,496)
Change in actuarial losses on post retirement benefits	—	—	(4,795)	4,693	—	(102)
Cumulative translation adjustment	—	—	—	—	(3,969)	(3,969)
Net income for the year			39,656	6,896	—	46,552
Reorganization of Partnership (note 1)	43,014,300	247,188	(255,690)	—	8,502	—
Issuance of partnership units	8,000,000	128,890	—	—	—	128,890
Partnership units liability (note 14)	—	(118,562)	—	—	—	(118,562)
As of December 31, 2012	51,014,300	275,516	—	(14,736)	3,245	246,025

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

Kruger Products L.P.**Consolidated Statements of Cash Flows**

For the years ended December 31, 2012 and December 31, 2011

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

	2012 \$	2011 \$
Cash flows from operating activities		
Net income for the year	46,552	28,619
Items not affecting cash		
Depreciation	28,331	30,439
Amortization	530	413
Loss on sale of fixed assets	1,060	123
Unrealized foreign exchange gain	(777)	(811)
Interest expense	23,027	19,166
Pension and post retirement benefits	9,041	7,272
Provisions (note 11)	9,613	703
Deferred income taxes	(2,772)	648
Current income taxes	1,344	605
Impairment of non-financial assets (note 7)	4,608	2,662
Total items not affecting cash	74,005	61,220
Net change in non-cash working capital (note 25)	39,906	18,513
Contributions to pension and post-retirement benefit plans	(29,707)	(33,418)
Provisions paid	(7,245)	(2,083)
Income tax payments	(360)	(678)
Net cash from operating activities	123,151	72,173
Cash flows used in investing activities		
Purchase of property, plant & equipment	(17,652)	(22,994)
Purchases of through-air-dried (TAD) expansion	(161,155)	(84,124)
Purchases of software	(51)	(2,277)
Interest paid on TAD expansion	(6,125)	—
Proceeds on sale of property, plant and equipment	199	—
Net cash used in investing activities	(184,784)	(109,395)
Cash flows from financing activities		
Proceeds from credit facilities	145,957	209,566
Repayment of credit facilities	(65,000)	(132,483)
Transfer of assets to related parties	(209)	(547)
Payment of deferred financing fees	(26)	(16,611)
Interest paid on credit facilities	(17,720)	(12,584)
Proceeds from issuing partnership units, net	128,890	—
Distributions paid	(40,000)	—
Settlement of interest rate swap	(413)	—
Net cash from financing activities	151,479	47,341
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	(154)	193
Increase in cash and cash equivalents during the year	89,692	10,312
Cash and cash equivalents - Beginning of year	31,797	21,485
Cash and cash equivalents - End of year	121,489	31,797

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

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

1 GENERAL INFORMATION

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

REORGANIZATION

On September 21, 2012, the net assets of the tissue business, including those assets, liabilities and results of operations of Former KPLP that are attributable to the tissue business and all of the assets, liabilities and results of operations of West Tree Farms Limited, White Swan Tissue Company, Aztec Investments Inc., Kruger Products (USA) Inc. (KP USA), Grupo Tissue de Mexico S de RL de CV (GTM), K.T.G. (USA) Inc. (KTG), TAD Canco Inc. and TAD Luxembourg S.A.R.L (collectively the Tissue Business) were transferred to the Partnership. The Partnership issued 43,014,300 units to the former owners of the Tissue Business (Former KPLP) in exchange for all of the assets and liabilities of the Tissue Business.

As the Partnership 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 the Partnership were recorded at the carrying values of the assets and liabilities of the Tissue Business immediately prior to the reorganization. The comparative balances and results of operations included in these consolidated financial statements are derived from the combined financial statements of the Tissue Business. The combined financial statements of the Tissue Business were prepared on a combined carve-out basis from the books and records of Former KPLP and certain of its subsidiaries to represent the assets, liabilities and operating activities of the Tissue Business as if it had existed as a separate legal entity.

2 BASIS OF PRESENTATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. These consolidated financial statements were approved by the board of directors of KPGP Inc. on March 26, 2013.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these consolidated financial statements are as follows:

(a) Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, except for derivative financial instruments, which are measured at fair value through profit or loss.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Partnership's accounting policies. The areas involving a higher degree of judgment or complexity or areas where assumptions and estimates are significant are disclosed in note 4.

Kruger Products L.P.
Notes to Consolidated Financial Statements (continued)
December 31, 2012 and December 31, 2011

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

(b) Consolidation

Subsidiaries are all those entities over which the Partnership has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Partnership and de-consolidated from the date that control ceases. Intercompany transactions, balances and unrealized gains/losses on transactions between group companies are eliminated on consolidation.

The purchase method of accounting is used to account for the acquisition of subsidiaries that are not under common control. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Partnership's share of the identifiable net assets acquired is recorded as goodwill.

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer. The operating segments for the Partnership include Consumer, Away-From-Home and Other.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the consolidated financial statements of each entity of the Partnership are measured using the currency of the primary economic environment in which the entity operates (the functional currency). These consolidated financial statements are presented in Canadian dollars, which is the Partnership's functional currency.

The Partnership has determined that its foreign operations located in the United States (KTG and KP USA) and TAD Canco Inc. and TAD Luxembourg S.A.R.L. have a functional currency of U.S. dollars. Mexico (GTM) has a functional currency of the Mexican peso. Consequently, revenue and expenses of these foreign operations are recorded using the rate of exchange in effect at the dates of the transactions and the translation of assets and liabilities uses the rates of exchange in effect at the period-end date, with the resulting net unrealized gains and losses arising from the translation of these foreign operations included as part of the currency translation adjustment in other comprehensive income (loss).

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the rate of exchange in effect at the dates of the transactions. Foreign exchange gains and losses arising from translating monetary foreign currency balances are included in operating expenses.

(e) Cash and cash equivalents

The Partnership considers all highly liquid investments purchased three months or less from maturity to be cash equivalents.

(f) Trade receivables

Trade receivables are amounts due from customers from the sale of products or services rendered in the ordinary course of business. Trade receivables are classified as current assets if payment is due within one year or less. Trade receivables are recognized initially at fair value and subsequently measured at amortized cost, less provision for doubtful accounts.

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(g) Inventories

Inventories of raw materials and spare parts are valued at the lower of weighted average cost and net realizable value. Finished products and work-in-process are valued at the lower of standard cost and net realized value and include the cost of raw materials, direct labour and manufacturing overhead expenses. Net realizable value is the estimated selling prices less applicable selling expenses and costs to complete. If the carrying value exceeds the net realizable value, a write-down is recognized.

(h) Borrowing costs

Borrowing costs attributable to the acquisition, construction or production of qualifying assets are added to the cost of these assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognized as interest expense in the consolidated statements of comprehensive income (loss) in the period in which they are incurred.

(i) Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation, investment tax credits, government grants and accumulated impairment loss. Cost includes expenditures that are directly attributable to the acquisition of the asset and an estimate of the asset retirement obligation. The Partnership allocates the amount initially recognized to an item of property, plant and equipment to its segregated parts and depreciates each of these segregated parts separately. The Partnership also capitalizes costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of the asset. Subsequent costs are included in the asset's carrying value or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Partnership and the cost can be reliably measured. The carrying amount of a replaced asset is derecognized when replaced. Residual values, method of depreciation and useful lives of property, plant and equipment are reviewed annually and adjusted if appropriate.

Depreciation of property, plant and equipment is generally calculated using the straight-line method to allocate their cost less their residual values over their estimated useful lives as follows:

Buildings	20 to 40 years
Machinery and equipment	5 to 40 years

For certain major pieces of equipment, depreciation is calculated using the unit-of-production method. Assets under construction or development are depreciated from the date the asset is ready for productive use. Land is not depreciated.

Repairs and maintenance costs are charged to the consolidated statements of comprehensive income (loss) during the period in which they are incurred.

Gains and losses on disposals of property, plant and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included in cost of sales.

Kruger Products L.P.**Notes to Consolidated Financial Statements (continued)****December 31, 2012 and December 31, 2011**

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

(j) Goodwill

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures and represents the excess of the consideration transferred over the Partnership's interest in fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree. Goodwill is carried at cost less accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units (CGUs), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each CGU or group of CGUs to which the goodwill is allocated represents the lowest level within the Partnership at which the goodwill is monitored for internal management purposes.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU is compared to the recoverable amount, which is the higher of the value in use and the fair value less costs to sell. Any goodwill impairment is recognized immediately as an expense and is not subsequently reversed.

(k) Intangible assets

(i) Trademarks

Separately acquired trademarks have indefinite useful lives and are carried at cost. The trademarks have indefinite useful lives as the trademarks can be renewed infinitely without substantial cost. Management believes the trademarks are very well established in the marketplace and will continue to provide benefits indefinitely into the future.

(ii) Software and licences

Costs to purchase non-integral software and licences are capitalized and included as part of intangible assets on the consolidated statements of financial position. Costs associated with maintaining software programs are recognized as an expense as incurred.

Software and licence costs recognized as assets are amortized over their estimated useful lives, which represent management's view of the expected period over which the Partnership will receive benefits from the software and licences. The useful life of software and licences is five years.

(l) Impairment of non-financial assets

The carrying values of non-financial assets with finite lives, such as property, plant and equipment and intangible assets with finite useful lives are assessed for impairment whenever events or changes in circumstances indicate their carrying amounts may not be recoverable. Non-financial assets that are not amortized are subject to an annual impairment test. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use (which is 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 (CGUs). Non-financial assets other than goodwill that have suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(m) Related party transactions

Related party transactions that are in the normal course of operations and have commercial substance are made under competitive terms and conditions or in accordance with the agreements with the related party.

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(n) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statements of comprehensive income (loss) on a straight-line basis over the period of the lease.

(o) Provisions

Provisions include environmental and asset retirement obligations, long-term incentives and restructuring. A provision is recognized when the Partnership has a legal or constructive obligation as a result of a past event and it is probable that settlement of the obligation will require a financial payment or cause a financial loss and a reliable estimate can be made of the amount of the obligation.

If some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recorded in the consolidated statements of financial position as a separate asset, but only if it is virtually certain that the reimbursement will be received.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

(p) Government grants and investment tax credits

Government grants and investment tax credits are accounted for using the cost reduction method, whereby such amounts are deducted from the expenditures or assets to which they relate when there is reasonable assurance that the grant or credit will be received and where the Partnership will comply with the conditions attached to the assistance.

(q) Revenue recognition

The Partnership recognizes revenue when it is probable that the economic benefits will flow to the Partnership, the significant risks and benefits of ownership are transferred (based on shipping terms), the price is fixed or determinable and collection of the resulting receivable is reasonably assured.

Revenue is measured based on the price specified in the sales contract and is net of discounts, rebates and allowances. Reductions to revenue for expected and actual payments to customers for rebates and allowances are based on actual expenses incurred during the period, on estimates of what is due to customers for estimated credits earned during the period and any adjustments for credits based on actual activity.

(r) Cost of sales and operating expenses

Cost of sales includes cost of finished goods sold and inventory write-downs. Freight, warehousing and handling, selling, and general and administrative expenses are included in operating expenses.

Kruger Products L.P.**Notes to Consolidated Financial Statements (continued)****December 31, 2012 and December 31, 2011**

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

(s) Pensions and post-retirement benefits

The Partnership accrues its obligation under employee benefit plans and the related costs, net of plan assets. The Partnership has the following policies:

- The costs of pensions under defined benefit plans and post-retirement benefits are actuarially determined using the projected unit credit method and management's best estimate of expected plan investment performance for funded plans, salary escalation, retirement ages of employees and expected health-care costs. Actuarial valuations for defined benefit plans and post-retirement benefits are completed annually. The discount rate applied in arriving at the present value of the pension liability represents the yield on high quality corporate bonds denominated in the currency in which the benefits are to be paid and having terms to maturity approximating the terms of the related pension liability.
- Pension assets are valued at fair value.
- Past-service costs from plan amendments are recognized immediately to the extent the benefits are vested in net income and are otherwise amortized on a straight-line basis over the average period until the benefits become vested.
- The actuarial gains or losses are recognized in full in the period in which they occur in other comprehensive income (loss) without recycling to the income statement in subsequent periods. Amounts recognized in other comprehensive income (loss) are recognized immediately in accumulated retained earnings (deficit).
- The pension expense is split into two components: (i) current service costs and past-service costs have been recognized in cost of sales and operating expenses; and (ii) the interest cost on the benefit obligation offset by the expected return on plan assets is recorded within interest expense on the consolidated statements of comprehensive income (loss).
- The Partnership also participates in a multi-employer pension plan and defined contribution pension plans. The costs of the multi-employer pension plan and defined contribution pension plans are charged to expense as the contributions become payable.

(t) Income taxes

The tax expense for the year comprises current and deferred tax. Tax is recognized in net income, except to the extent that it relates to items recognized in other comprehensive income (loss) or directly in equity. In this case, the tax is also recognized in other comprehensive income (loss) or directly in equity, respectively.

The Partnership is not a tax paying entity. The income (loss) from the Partnership flows to the partners, Kruger Inc., KPGP Inc. and KP Tissue Inc. Accordingly no provision for income taxes has been made for the Partnership's income (loss). The U.S. entities, KP USA and KTG are subject to tax on the basis of the tax laws enacted in the U.S. where the entities operate and generate taxable income. The remaining entities, TAD Canco Inc., GTM and TAD Luxembourg S.A.R.L., are subject to tax on the basis of the laws enacted in Canada, Mexico and Luxembourg, respectively.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. The Partnership establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Current tax is the expected tax payable on the taxable income for the year at closing tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill, or from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the consolidated statements of financial position dates and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. Deferred income tax assets and liabilities are presented as non-current.

(u) Financial instruments

Financial assets and liabilities are recognized when the Partnership becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Partnership has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expired.

Financial assets and liabilities are offset and the net amount is reported in the consolidated statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, the Partnership classifies its financial instruments in the following categories:

- (i) *Financial assets and liabilities at fair value through profit or loss:* A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term. Derivatives are also included in this category unless they are designated as hedges. The financial instruments classified in this category include the embedded derivatives, the interest rate swap and commodity swap contracts.

Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the consolidated statements of comprehensive income (loss) in operating expenses. Gains and losses arising from changes in fair value of the embedded derivatives and the interest rate swap are presented in the consolidated statements of comprehensive income (loss) within interest expense in the period in which they arise. Gains and losses arising from changes in fair value on the commodity swap contracts are recognized in cost of sales in the period in which they arise. Financial assets and liabilities at fair value through profit or loss are classified as current, except for the portion expected to be realized or paid beyond 12 months of the dates of the consolidated statements of financial position, which are classified as non-current.

Kruger Products L.P.**Notes to Consolidated Financial Statements (continued)****December 31, 2012 and December 31, 2011**

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

(ii) *Loans and receivables*: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables include cash and cash equivalents, receivables from related parties and trade and other receivables. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment. Loans and receivables are classified as current, except for the portion expected to be realized beyond 12 months of the dates of the consolidated statements of financial position, which are classified as non-current.

(iii) *Financial liabilities at amortized cost*: Financial liabilities at amortized cost include trade and other payables, payables to related parties, long-term debt and the Partnership units liability. Payables are initially recognized at the amount required to be paid less, when material, a discount to reduce the payables to fair value. Subsequently, trade and other payables are measured at amortized cost using the effective interest method. Long-term debt is recognized initially at fair value, net of any transaction costs incurred and subsequently at amortized cost using the effective interest method. The Partnership units liability is recognized initially at fair value and subsequently at amortized cost. Amortized cost is estimated based on the expected tax distributions to be paid as required by the partnership agreement using a discount rate that reflects current market assessments of the time value of money and the rates specific to the obligation, and a terminal value as the obligation will continue indefinitely.

Financial liabilities are classified as current liabilities if payment is due within 12 months. Otherwise, they are presented as non-current liabilities.

(v) *Fair value hierarchy*

The Partnership categorizes its financial assets and liabilities measured at fair value into one of three different levels depending on the inputs used in the measurement.

- Level 1 - fair value based on unadjusted quoted prices for identical assets and liabilities in active markets that are accessible at the measurement date;
- Level 2 - valuations determined using directly or indirectly observable inputs other than quoted prices included within Level 1. Derivative instruments in this category are valued using models or other industry standard valuation techniques derived from observable market inputs; and
- Level 3 - valuations based on inputs that are less observable, unavailable or where the observable data does not support a significant portion of the instrument's fair value.

(w) *Interest rate swap*

From time to time, the Partnership uses interest rate swap contracts to manage part of its exposure to movements in interest rates on its long-term debt. The interest rate swap agreements involve the periodic exchange of payments without the exchange of the notional principal amount upon which the payments are based and are recorded as an adjustment to interest expense on the loan. The related amounts payable to or receivables from counterparties are included as an adjustment to accrued interest and are settled on a net basis. Interest to be paid or received under such a swap contract is recognized over the life of the contract as an adjustment to interest expense. Interest rate swap contracts are 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 is recorded in other long-term assets or other long-term liabilities in the consolidated statements of financial position.

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(x) Embedded derivatives

The senior unsecured notes include an early repayment option and an option to redeem a portion of the principal amount outstanding with proceeds from an equity offering. The Partnership has determined that the early repayment option is an embedded derivative that is not closely related to the senior unsecured notes. Accordingly, the embedded derivative has been bifurcated from the senior unsecured notes. The embedded derivative is recorded at its fair value with changes in fair value included in interest expense in the consolidated statements of comprehensive income (loss).

(y) Accounting standards implemented for the year ended December 31, 2012

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

(z) Accounting standards issued but not yet applied

The following revised standards and amendments are effective for annual periods beginning on or after January 1, 2013, except as noted below, with earlier application permitted. The Partnership continues to assess the impact of these standards and amendments and has not yet determined whether it will early adopt them.

- (i) IFRS 9, Financial Instruments, was issued in November 2009 and addresses the classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39, Financial Instruments - Recognition and Measurement, for debt instruments with a new mixed measurement model having only two categories: amortized cost; and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely. Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income. The amendment is effective for annual periods beginning on or after January 1, 2015.
- (ii) IFRS 10, Consolidated Financial Statements, requires an entity to consolidate an investee when it has power over the investee, is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12, Consolidation - Special Purpose Entities, and parts of IAS 27, Consolidated and Separate Financial Statements. The amendment is effective for annual periods beginning on or after January 1, 2013 and it is not expected to have a significant impact on the consolidated financial statements.
- (iii) 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 Partnership does not expect that this standard will result in a material impact to the consolidated financial statements.

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

- (iv) IFRS 13, Fair Value Measurement, is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures. The amendment is effective for annual periods beginning on or after January 1, 2013. The Partnership does not expect that this standard will result in a material impact to the consolidated financial statements.
- (v) IAS 1, Presentation of Financial Statements, has been amended to require entities to separate items presented in other comprehensive income (OCI) into two groups, based on whether or not items may be recycled in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately. The amendment is effective for annual periods beginning on or after July 1, 2012, with earlier application permitted. The Partnership does not expect that this standard will result in a material impact to the consolidated financial statements.
- (vi) IAS 19, Employee Benefits, has been amended to make significant changes to the recognition and measurement of defined benefit pension expense and termination benefits and to enhance the disclosure of all employee benefits. A number of other amendments have been made to recognition, measurement and classification including redefining short-term and other long-term benefits, guidance on the treatment of taxes related to benefit plans, guidance on risk/cost sharing features and expanded disclosures. The amendment is effective for annual periods beginning on or after January 1, 2013. The Partnership has recorded the interest portion of the defined benefit costs and the post-retirement benefit costs as interest expense. The Partnership continues to evaluate the impact of this standard on its consolidated financial statements.
- (vii) 2011 annual improvements - improvements and amendments to the following existing standards, basis of conclusions and guidance, effective for years beginning on or after January 1, 2013:
 - IAS 1, Presentation of Financial Statements, has been amended to include requirements for comparative financial information when an entity provides an opening statement of financial position.
 - IAS 32, Financial Instruments - Presentation, has been amended to clarify the treatment of income tax relating to distributions and transaction costs.
 - IAS 34, Interim Financial Reporting, has been amended to include disclosure requirements for segment assets and liabilities.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of these consolidated financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities in the consolidated financial statements and the disclosure of contingencies at the dates of the consolidated statements of financial position, and the reported amounts of revenues and expenses during the reporting period. On a regular basis and with the information available, management reviews its estimates, including those related to environmental and asset retirement obligations, pensions and post-retirement obligations, the Partnership units liability and the accounting for the TAD expansion. Actual results could differ from those estimates. When adjustments become necessary, they are reported in earnings in the period in which they occur. The following are the estimates and judgments applied by management that most significantly affect the Partnership's consolidated financial statements.

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (cont'd)

Environmental and asset retirement obligations

The Partnership 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. The Partnership assesses its provision for environmental and asset retirement obligations annually or more frequently if events or changes in circumstances would require adjustments to the significant estimates and assumptions. Significant estimates and assumptions are made in determining the provision for asset retirement obligations, as there are numerous factors that will affect the ultimate amount payable. These factors include estimates of the extent and costs of restoration activities, technological changes, regulatory changes, cost increases as compared to the inflation rates and changes in the discount rate. In addition, estimates of environmental remediation costs are based on a number of assumptions that are inherently difficult to determine and no assurance can be given that the actual costs will not differ from the estimates based on environmental test results, changes in laws, regulations or enforcement policies or other factors. These uncertainties may result in future actual expenditures differing from the amounts currently provided. Management has retained a third party to assist in with the estimate of the environmental remediation obligation, however the third party report is not yet available. The provision at the reporting date represents the Partnership's best estimate of the present value of the environmental and asset retirement obligation.

Pensions and post-retirement benefit obligations

The present value of the pension and post-retirement obligations is dependent on actuarial calculations, which include a number of assumptions. These assumptions include the discount rate, which is used to calculate the present value of the estimated future cash outflows that will be required to meet the pension obligations. In determining the discount rate to use, the Partnership considers market yields of high quality corporate bonds denominated in Canadian dollars that have terms to maturity approximating the terms of the pension liability.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in note 9.

Partnership units

On December 13, 2012, in connection with the issuance of Partnership units to KP Tissue Inc. (KPT), the Limited Partnership Agreement was amended to require KPLP, subject to compliance with contractual obligations and applicable law, to make distributions to its partners in such amounts as would enable KPT to discharge its obligation to pay federal and provincial income taxes (the Tax Distribution). Each partner is entitled to its share of the Tax Distribution made in respect of any given year. KPLP has determined that it is appropriate to reclassify a portion of its equity as a liability as required under IFRS as the obligation meets the definition of a financial liability for accounting purposes. Accordingly, \$118.6 million of equity has been reclassified as a liability in respect of this obligation. This reflects KPLP's estimate of the net present value of the financial liability arising from the obligation to make the Tax Distribution using estimates of tax payable by KPT and a discount rate and terminal growth rate of 8.7% and 0.41%, respectively. Projections of tax payable are based on additional assumptions including estimates of taxable income and tax rates. Taxable income can differ significantly from accounting income as a result of both timing and permanent tax differences based on enacted tax legislation and therefore changes in the partnership unit obligation are not necessarily indicative of a change in the expected future profitability of KPLP.

Kruger Products L.P.**Notes to Consolidated Financial Statements (continued)****December 31, 2012 and December 31, 2011**

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

TAD expansion

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

5 TRADE AND OTHER RECEIVABLES

	December 31, 2012	December 31, 2011
	\$	\$
Trade receivables	90,374	86,862
Other receivables	3,785	1,877
Employee loans	261	400
Less: Allowance for doubtful accounts	(112)	(191)
Trade and other receivables	94,308	88,948

6 INVENTORIES

	December 31, 2012	December 31, 2011
	\$	\$
Finished products	52,452	60,913
Work-in-process	21,494	28,404
Raw materials and supplies	20,503	31,575
Spare parts	22,424	18,836
	116,873	139,728

Total inventories recognized as cost of sales during the year ended December 31, 2012 were \$643.7 million (December 31, 2011 - \$658.5 million). The Partnership wrote-off inventories during the year ended December 31, 2012 totalling \$0.8 million (December 31, 2011 - \$1.1 million), primarily related to obsolete packaging. Inventory provisions as of December 31, 2012 were \$1.1 million (December 31, 2011 - \$1.8 million).

Kruger Products L.P.**Notes to Consolidated Financial Statements (continued)****December 31, 2012 and December 31, 2011**

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

7 PROPERTY, PLANT AND EQUIPMENT

	Land \$	Buildings \$	Machinery and equipment \$	Assets under construction or development \$	Total \$
As of January 1, 2011					
Cost	40,343	108,790	570,161	23,585	742,879
Accumulated depreciation and impairment	—	(52,738)	(341,392)	—	(394,130)
Net book value as of January 1, 2011	40,343	56,052	228,769	23,585	348,749
Period from January 1, 2011 to December 31, 2011					
Additions	—	—	—	108,265	108,265
Transfers	(1)	3,488	15,766	(19,253)	—
Government grants and investment tax credits	—	—	(1,147)	—	(1,147)
Disposals	—	—	(123)	—	(123)
Depreciation	—	(4,214)	(26,225)	—	(30,439)
Impairments	—	—	(2,662)	—	(2,662)
Exchange differences	24	65	783	679	1,551
As of December 31, 2011	40,366	55,391	215,161	113,276	424,194
As of December 31, 2011					
Cost	40,366	112,400	581,091	113,276	847,133
Accumulated depreciation and impairments	—	(57,009)	(365,930)	—	(422,939)
Net book value as of December 31, 2011	40,366	55,391	215,161	113,276	424,194
Period from January 1, 2012 to December 31, 2012					
Additions	—	—	—	189,875	189,875
Capitalized interest	—	—	—	7,642	7,642
Transfers	83	21,120	80,714	(101,917)	—
Government grants and investment tax credits	—	—	(3,244)	(1,990)	(5,234)
Disposals	—	(372)	(886)	—	(1,259)
Depreciation	—	(4,008)	(21,836)	—	(25,844)
Impairments	(1,789)	—	(2,819)	—	(4,608)
Exchange differences	(23)	29	(428)	(3,530)	(3,952)
As of December 31, 2012	38,637	72,160	266,661	203,356	580,814
As of December 31, 2012					
Cost	40,426	132,448	634,410	203,356	1,010,640
Accumulated depreciation and impairment	(1,789)	(60,288)	(367,749)	—	(429,826)
Net book value as of December 31, 2012	38,637	72,160	266,661	203,356	580,814

Kruger Products L.P.**Notes to Consolidated Financial Statements (continued)****December 31, 2012 and December 31, 2011**

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

As a result of the decision to cease production of parent rolls for sale, certain production assets and the timber lands became redundant and, accordingly, were written down to their estimated fair value of \$1.2 million. An impairment charge of \$4.6 million was recorded during the year ended December 31, 2012. During the year ended December 31, 2011, the Partnership recorded an impairment charge of \$2.7 million related to machinery and equipment. As a result of a decision to abandon a dryer that was damaged in the production process, the dryer was written down to its estimated fair value of \$nil.

During the year ended December 31, 2012, the Partnership revised its estimates of the useful lives of all of its machinery and equipment from 3 to 25 years to 5 to 40 years. The change in estimate resulted in a decrease in annual depreciation expense of \$6.8 million.

8 GOODWILL AND INTANGIBLE ASSETS

	Trademarks \$	Software \$	Total \$
As of January 1, 2011			
Cost	11,825	926	12,751
Accumulated amortization	—	(308)	(308)
Net book value as of January 1, 2011	11,825	618	12,443
Period from January 1, 2011 to December 31, 2011			
Additions	—	2,277	2,277
Amortization	—	(413)	(413)
Net book value as of December 31, 2011	11,825	2,482	14,307
As of December 31, 2011			
Cost	11,825	3,203	15,028
Accumulated amortization	—	(721)	(721)
Net book value as of December 31, 2011	11,825	2,482	14,307
Period from January 1, 2012 to December 31, 2012			
Additions	—	51	51
Amortization	—	(530)	(530)
Net book value as of December 31, 2012	11,825	2,003	13,828
As of December 31, 2012			
Cost	11,825	3,254	15,079
Accumulated amortization	—	(1,251)	(1,251)
Net book value as of December 31, 2012	11,825	2,003	13,828

The cost of goodwill as of December 31, 2012 was \$152,021 (December 31, 2011 - \$152,021).

Impairment tests

The Partnership performed its annual impairment tests for goodwill and trademarks as of December 31, 2012 and December 31, 2011 and no impairments were recognized.

8 GOODWILL AND INTANGIBLE ASSETS (cont'd)

Goodwill is allocated to Canada (CGU).

The recoverable amount of the CGU is determined based on fair value less costs to sell. The estimates of fair value less costs to sell were based on a comparable company earnings multiple applied to the earnings of the Partnership.

9 PENSIONS AND POST-RETIREMENT BENEFITS

The Partnership sponsors a number of defined benefit and defined contribution pension plans, with participation available to substantially all of its employees. Length of service and individual earnings determine the pension and post-retirement benefits for all members of the Partnership plans. The Partnership has a Supplementary Retirement Plan (SRP) for designated employees. The accrued benefit liability related to the SRP as of December 31, 2012 was \$15.9 million (December 31, 2011 - \$14.9 million) and is supported by irrevocable letters of credit in the amount of \$26.8 million (December 31, 2011 - \$26.7 million).

The Partnership also sponsors a Term Annuity Arrangement for the Western Manufacturing Division, which provides hourly employees with a bridging supplement commencing at age 61 and payable up to but not including age 65. The Term Annuity Arrangement is unfunded and the pension obligation of \$7.6 million as of December 31, 2012 (December 31, 2011 - \$8.2 million) is included in pensions on the consolidated statements of financial position.

The Partnership's hourly employees at the Western Manufacturing Division are members of an industry multi-employer pension plan to which the Partnership contributes monies. During the year ended December 31, 2012, the Partnership contributed and expensed \$3.1 million (December 31, 2011 - \$3.5 million) related to this defined benefit plan. Sufficient information regarding the Partnership's share of the defined benefit obligation is not available and accordingly the Partnership accounts for the multi-employer plan as a defined contribution plan.

KTG sponsors a defined contribution plan that covers substantially all of its employees. During the year ended December 31, 2012, the Partnership recorded \$0.5 million (2011 - \$0.3 million) related to this plan.

On January 1, 2011, a new defined contribution plan was created by the Partnership, which covers substantially all of its salaried employees. During the year ended December 31, 2012, the Partnership recorded \$2.3 million (December 31, 2011 - \$2.0 million) related to this plan.

The Partnership provides certain health and other similar benefits for qualifying retirees (other benefit plans). These plans are not funded.

The measurement date of the employee future benefit plans is December 31 of each year.

The cumulative actuarial losses recognized in equity as of December 31, 2012 and December 31, 2011 were as follows:

	December 31, 2012	December 31, 2011
	\$	\$
Pensions	129,359	84,863
Post-retirement benefits	12,108	12,006
Total	141,467	96,869

Kruger Products L.P.**Notes to Consolidated Financial Statements (continued)****December 31, 2012 and December 31, 2011**

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

Information about the Partnership's defined benefit pension plans and other benefits plans was as follows:

	Pensions		Other benefit plans	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
	\$	\$	\$	\$
Change in defined benefit obligation:				
As of January 1	509,903	452,026	46,497	40,110
Amortization of past service costs	—	—	125	—
Current service cost	7,481	6,232	1,435	1,165
Interest costs	25,351	24,825	2,385	2,099
Employee contributions	3,755	3,736	—	—
Benefits paid	(28,234)	(23,978)	(2,242)	(2,184)
Actuarial losses	49,967	47,062	102	5,432
As of December 31	568,223	509,903	48,302	46,622
Change in plan assets at fair value:				
As of January 1	386,813	360,924	—	—
Expected return on plan assets	23,964	24,617	—	—
Actuarial gains (losses)	5,471	(9,720)	—	—
Employer contributions	27,465	31,234	2,242	2,184
Employee contributions	3,755	3,736	—	—
Benefits paid	(28,234)	(23,978)	(2,242)	(2,184)
As of December 31	419,234	386,813	—	—
Accrued benefit liability				
Funded status - deficit	148,989	123,090	48,302	46,622
Unamortized past-service costs	—	—	—	125
	148,989	123,090	48,302	46,497

The defined benefit plan assets consisted of:

	December 31, 2012	December 31, 2011
	%	%
Equity securities	59.7	56.0
Debt securities	36.7	38.0
Other	3.6	6.0
Total	100.0	100.0

9 PENSIONS AND POST-RETIREMENT BENEFITS (cont'd)

The following were the significant assumptions for the defined benefit pension plans and other benefit plans as of December 31:

	Pensions		Other benefit plans	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
	%	%	%	%
Assumptions				
Expected rate of				
return on plan assets	6.25	6.25	—	—
Discount rate - accrued				
benefit obligation	4.25	5.00	4.25	5.00
Rate of compensation				
increases	3.25 - 4.00	3.25 - 4.00	3.25 - 4.00	3.25 - 4.25

For measurement purposes, the trend factor for all health-care expenses, excluding medication, was assumed to be 3.5% for the first year, with an annual 0.025% reduction for 20 years and 3.0% thereafter. The trend factor for medication was assumed to be 7.0% the first year, with an annual 0.2% reduction for 20 years, and 3.0% thereafter.

The effect of a 1% change in the assumed medical cost trend rate was as follows:

	December 31, 2012		December 31, 2011	
	Increase	Decrease	Increase	Decrease
	\$	%	\$	\$
Increase (decrease) in total of				
services and interest cost for				
the year	519	450	402	352

	December 31, 2012	
	Increase	Decrease
	\$	\$
Increase (decrease) in		
benefit obligations	3,808	3,421

Except for the discount rate, the assumptions are management's best estimate. The discount rate is based on the yield of high quality Canadian corporate fixed income investments with cash flows that match expected benefit payments.

The expected return on plan assets is determined based on the expected long-term return on each class of assets.

Expected fees payable by the plan are deducted from the expected rate of return of plan assets.

Kruger Products L.P.**Notes to Consolidated Financial Statements (continued)****December 31, 2012 and December 31, 2011**

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

The effect of a 1% reduction in the discount rate and a 1% increase in the rate of compensation were:

	Increase in pension obligation	
	December 31, 2012	December 31, 2011
	\$	\$
Discount rate	86,731	73,837
Rate of compensation	12,142	12,186

	Increase in pension expense	
	December 31, 2012	December 31, 2011
	\$	\$
Discount rate	2,592	1,866
Rate of compensation	480	286

Expected contributions to the defined benefit pension plans for the year ending December 31, 2013 are \$26.2 million.

The defined benefit pension plan expense for the year ended December 31, 2012 included the following components:

	Defined pension plans		Other benefit plans	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
	\$	\$	\$	\$
Net plan expense				
Current service cost	7,481	6,232	1,435	1,165
Interest costs	25,351	24,825	2,385	2,099
Expected return on plan assets	(23,964)	(24,617)	—	—
Amortization of past-service costs	—	—	125	(125)
	8,868	6,440	3,945	3,139

10 TRADE AND OTHER PAYABLES

	December 31, 2012	December 31, 2011
	\$	\$
Trade payables	55,835	43,354
Accrued expenses	75,091	69,035
Merchandising accruals	55,339	38,972
Commodity swap contract	44	385
	186,309	151,746

Kruger Products L.P.**Notes to Consolidated Financial Statements (continued)****December 31, 2012 and December 31, 2011**

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

11 PROVISIONS

	Environmental and asset retirement obligations \$ (a)	Long-term incentives \$ (b)	Restructuring \$ (c)	Total \$
Provisions as of January 1, 2011	3,012	3,363	—	6,375
Current	—	1,996	—	1,996
Non-current	3,012	1,367	—	4,379
Provisions as of January 1, 2011	3,012	3,363	—	6,375
Additional provisions	—	703	—	703
Paid during the year	—	(2,083)	—	(2,083)
Interest accretion	211	—	—	211
Provisions as of December 31, 2011	3,223	1,983	—	5,206
Current	—	1,644	—	1,644
Non-current	3,223	339	—	3,562
Provisions as of January 1, 2012	3,223	1,983	—	5,206
Additional provisions	1,425	1,150	8,463	11,038
Paid during the year	—	(2,015)	(5,230)	(7,245)
Interest accretion	226	—	—	226
Provisions as of December 31, 2012	4,874	1,118	3,233	9,225
Current	—	486	3,233	3,719
Non-current	4,874	632	—	5,506

a) Environmental and asset retirement obligations

The Partnership has made a provision for the potential obligation under a land lease at one of its plant locations to demolish the building and restore the land at the end of the lease to its original condition. The current lease ends in 2028 but can be renewed for another term. The estimated undiscounted amount to settle this obligation would be between \$9.5 million and \$12.2 million. The liability is estimated using a discounted cash flow with a discount rate of 7.0%.

b) Long-term incentives

Long-term incentives include the Executive Long-Term Incentive Plan for the Partnership. The plan is based on earnings before interest, taxes, depreciation and amortization (EBITDA) and return on capital employed and is paid in the third year following the year it is earned. The compensation expense is recognized over the same period.

Kruger Products L.P.**Notes to Consolidated Financial Statements (continued)****December 31, 2012 and December 31, 2011**

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

c) Restructuring

On March 7, 2012, the Partnership announced its intention to cease production of parent rolls for sale at its New Westminster plant. This portion of the plant was closed on August 31, 2012 and it is expected that the Partnership will incur costs of approximately \$7.4 million to close the related facilities. As a result of closing a portion of the plant, certain production assets and timber lands with a carrying value of \$5.8 million were written down to their estimated fair value of \$1.2 million. In addition, there will be other restructuring costs of approximately \$2.0 million at other locations.

The restructuring charges at the New Westminster plant and other locations resulted in an increase in provisions of approximately \$8.5 million. The provisions are based on management's best estimate of the severance and other costs to be incurred and are subject to change based on finalization of the severance packages and the employee's acceptance. In addition, a provision of \$0.9 million was recognized to write down certain spare parts and supplies inventory.

12 OTHER LONG-TERM LIABILITIES

	December 31, 2012	December 31, 2011
	\$	\$
Deferred liability on fair revaluation of interest free loan ^(a)	544	610
Interest rate swap ^(b)	—	710
	544	1,320

a) Deferred liability on fair revaluation of interest free loan

The Partnership has a non-interest bearing loan with repayments starting in 2013 (note 13). The difference between the stated value of the loan and the fair value at the date of inception was recorded as a deferred liability. The deferred liability has been amortized using the effective interest method and recognized as interest expense.

b) Interest rate swap

The Partnership entered into an interest rate swap agreement on September 24, 2010 to fix the interest rate on \$20.0 million of the aggregate principal amount of the Canadian revolving facility at 2.105%. On September 18, 2012, the interest rate swap contract was terminated at a cost of \$0.4 million.

13 LONG-TERM DEBT

	Maturity	December 31, 2012	December 31, 2011
		\$	\$
Revolving credit facilities ^(a)	2014	76	46,446
8% Senior unsecured notes ^(b)	2019	171,288	170,623
2.87% Nordea facility ^(c)	2020	39,879	31,759
Loan payable ^(d)	2017	3,923	2,920
Caisse facility ^(e)	2018	112,521	—
		327,687	251,748
Less: Current portion of long-term debt		3,802	—
		323,885	251,748

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

13 LONG-TERM DEBT (cont'd)

a) Revolving credit facilities

On December 18, 2009, the Partnership entered into a credit facility (the Former Credit Agreement) consisting of a Canadian revolving facility of \$280 million and a U.S. revolving facility of \$20 million.

On July 8, 2011, the Former Credit Agreement was amended and restated to remove the U.S. dollar facility, extend the maturity date of the Canadian dollar facility and to reflect that KTG was no longer a borrower. The amended and restated credit agreement (the Syndicated Credit Agreement) increased the revolving credit facility to \$325 million, which could be increased by \$50 million at the discretion of the lenders, and had a threeyear maturity date of July 22, 2014. The Syndicated Credit Agreement also included a swingline facility of up to \$10 million. The borrowings under the Syndicated Credit Agreement bear interest at a base rate of banker's acceptance rate, prime rate, U.S. base rate or LIBOR, plus a margin varying between 0.75% and 3.50% depending on the Partnership's ratio of Funded Debt to EBITDA, as defined in the Syndicated Credit Agreement and depending on the type of advance. Standby fees are also payable on the available portion of the Syndicated Credit Agreement at a rate varying between 0.25% to 0.6875% depending on the Partnership's ratio of Funded Debt to EBITDA, as defined in the Syndicated Credit Agreement. The Syndicated Credit Agreement is guaranteed by KP USA, GTM and any new subsidiaries acquired by the Partnership (the Restricted Subsidiaries). The Partnership and the Restricted Subsidiaries provide first ranking security interests and hypothecs over their current and future tangible assets to secure the obligations under the Syndicated Credit Agreement including a pledge of 100% of the stock or ownership interest in all subsidiaries owned by the Partnership and the Restricted Subsidiaries. Effective August 17, 2011, the revolving availability under the Syndicated Credit Agreement was reduced from \$325.0 million to \$195.0 million. On September 21, 2012 the Partnership amended the Syndicated Credit Facility to provide for the reorganization of the Partnership (note 1). As of December 31, 2012, the Partnership had \$162.5 million available on this facility (December 31, 2011 - \$114.6 million). As of December 31, 2012 deferred financing fees were \$nil (December 31, 2011 - \$1.5 million). The weighted average interest rate for the year ended December 31, 2012 was 4.65% (December 31, 2011 - 4.04%).

b) Senior unsecured notes

On August 9, 2011, the Partnership issued \$175 million in an aggregate principal amount of 8.0% senior unsecured notes due August 9, 2018 (the Notes) through a private placement. As of December 31, 2012 deferred financing fees were \$3.7 million (December 31, 2011 - \$4.4 million). The Partnership pays interest on the Notes in equal instalments on February 9 and August 9 of each year, commencing February 9, 2012. The Partnership may, at its option, redeem all or part of the Notes at any time prior to August 9, 2015 at an applicable redemption premium and on or after August 9, 2015 at fixed redemption prices plus, in each case, accrued and unpaid interest, if any, to the applicable redemption date. In addition, prior to August 9, 2014, the Partnership may, at its option, redeem up to 35% of the Notes with the net proceeds of certain equity offerings by the Partnership or cash contributions to its common equity capital at a redemption price equal to 108% of the principal of the Notes to be redeemed, plus accrued and unpaid interest, if any, to the applicable redemption date. If the Partnership undergoes a change in control, it will be required to offer to purchase the Notes.

The senior unsecured notes include an early repayment option and an option to redeem a portion of the principal amount outstanding with proceeds from an equity offering. The Partnership has determined that the early repayment option is an embedded derivative that is not closely related to the senior unsecured notes. Accordingly, the embedded derivative has been bifurcated from the senior unsecured notes. The embedded derivative is recorded at its fair value with changes in fair value included in interest expense in the consolidated statements of comprehensive income (loss). During the year ended December 31, 2012, management revised its assumptions with respect to the valuation of the embedded derivative. An asset of \$1.7 million has been recognized as of December 31, 2012 to record the embedded derivative at its fair value.

Kruger Products L.P.**Notes to Consolidated Financial Statements (continued)****December 31, 2012 and December 31, 2011**

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

The Notes are senior unsecured obligations of the Partnership. The Notes rank senior in right of payment to all existing and future subordinated indebtedness of the Partnership and equal in right of payment to all indebtedness of the Partnership that is not subordinated in right of payment to the Notes other than any indebtedness of the Partnership, including the Syndicated Credit Agreement and the Nordea Facility, to the extent of the assets securing such indebtedness. The Notes are unconditionally guaranteed, jointly and severally, by the Partnership's Restricted Subsidiaries.

c) Nordea facilities

On July 8, 2011, the Partnership entered into a credit agreement with Nordea Bank AB (the Nordea Facility), providing for a term loan in the principal amount of approximately U.S.\$46.2 million, to be used for the financing of a through-air-dried (TAD) tissue machine in its subsidiary, KTG. The Nordea Facility has a term of seven years and bears interest at a fixed interest rate of approximately 3% per annum, comprised of a Swedish state reported interest rate, risk premium and administrative margin. The loan is secured by the assets of the Partnership ranking pari passu with the Senior Lenders of the Syndicated Credit Agreement. The loan is repayable in 14 equal consecutive semi-annual instalments of principal together with interest commencing on the later of six months following the commissioning date of the TAD machine and June 30, 2013. As of December 31, 2012, U.S.\$41.7 million had been drawn on the facility (December 31, 2011 – U.S.\$33.2 million) resulting in a remaining borrowing capacity of U.S.\$4.5 million (December 31, 2011 – U.S.\$13 million). As of December 31, 2012 deferred financing fees were \$1.6 million (December 31, 2011 - \$2.0 million).

d) Loans payable

The loans payable are made up of two separate agreements with the Government of Quebec. The first loan payable is unsecured, non-interest bearing and is repayable in 12 quarterly installments of \$0.9 million beginning on May 31, 2008. The Partnership is subject to certain restrictions and covenants under the loan agreement. The loan was valued based on discounted future cash flows using a market interest rate of 6.0%. During February 2011, the loan was repaid in full. In 2009, the Partnership entered into a second agreement for financing related to its Crabtree converting line expansion with the same financial party. The loan payable is secured with the converting line assets and is non-interest bearing. The loan was valued on discounted future cash flows using a market rate of 6.0%. The Partnership has a moratorium on repayment of the principal for the initial 12 quarters, then the balance of the loan is repayable equally over 16 quarters. The Partnership has drawn \$4.5 million from this facility as of December 31, 2012.

e) Caisse facility

On August 6, 2011, TAD Canco Inc. entered into a credit agreement with the Caisse de dépôt for a term loan facility (the Caisse Facility) for US\$211.1 million for the purposes of financing the expansion of KTG, including construction of a new TAD paper machine and expansion of the tissue plant.

The Caisse Facility is for a seven-year term, maturing on August 16, 2018. The Caisse Facility bears interest at a base rate of 8% per annum, with an applicable margin rate set each period based on KTG's net debt to EBITDA ratio and KTG's excess cash flows, as defined in the agreement. The applicable margin consists of (i) 5% per annum at any time prior to the TAD Project service commencement date and KTG Excess cash flow has become positive, and (ii) thereafter, if the net debt to KTG EBITDA ratio is (A) higher or equal to 2.5, the greater of interest calculated at 5% per annum and an amount equal to 30% of KTG excess cash flow (B) lower than 2.5 but not lower than 2.0, the greater of interest calculated at 5% per annum and an amount equal to 25% of KTG excess cash flow or (C) lower than 2.0, the greater of interest calculated at 4% per annum and an amount equal to 15% of KTG excess cash flow.

The Caisse Facility is secured by all assets of TAD Canco Inc., KTG and all equity interests of TAD Luxembourg S.A.R.L. The facility was drawn on after the base equity investment of \$107 million by the Partnership had been contributed to TAD Canco Inc.

Kruger Products L.P.**Notes to Consolidated Financial Statements (continued)****December 31, 2012 and December 31, 2011**

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

13 LONG-TERM DEBT (cont'd)

As of December 31, 2012, TAD Canco Inc. had received proceeds of \$118.4 million from this facility (December 31, 2011 - \$nil).

TAD Canco Inc. does not need to comply with financial covenants within this credit agreement. In addition, the Caisse Facility has cross default provisions with certain debt agreements of the Partnership.

The Syndicated Credit Agreement has cross default covenants with the Notes, the Nordea Facility and the Caisse Facility.

The financing fees for the loans are amortized using the effective interest method over the expected life of the loans. The amortization amounts are included in interest expense.

The aggregate future principal repayments required on long-term debt are as follows:

	\$
Less than 1 year	3,802
Between 1 and 5 years	30,533
More than 5 years	308,217
	342,552

Interest expense reflected on the consolidated statements of comprehensive income (loss) were as follows:

	December 31, 2012	December 31, 2011
	\$	\$
Interest expense on long-term debt (excluding the Caisse facility)	20,658	15,807
Interest accredited on provisions and other liabilities	44	43
Pension and post-retirement benefits - net	3,772	2,307
Changes in fair value of interest rate swap	(297)	1,009
Embedded derivatives on debt	(1,728)	-
Caisse facility interest expense	578	-
Interest expense	23,027	19,166

14 PARTNERSHIP UNITS

	Partnership units equity \$	Partnership units liability \$
As of January 1, 2012	-	-
Reorganization of Partnership	247,188	-
Issuance of partnership units (note 1)	128,890	-
Reclassify partnership units liability	(118,562)	118,562
As of December 31, 2012	257,516	118,562

On September 21, 2012, the net assets of Former KPLP were transferred to the Partnership. As a result of the reorganization, the Partnership issued the following units: (i) 43,000,000 partnership units issued to Kruger Products 2010 L.P. (KP2010LP) in partial consideration for the transfer of all of the assets of the tissue business; (ii) 9,989 partnership units issued to KP2010LP at a price of \$1 per unit; (iii) 4,300 partnership units issued to KPGP Inc. (KPGP) at a price of \$1 per unit; (iv) 10 partnership units issued to Kruger Inc. at a price of \$1 per unit on May 8, 2012, which were subsequently transferred to KP2010LP; and (v) 1 partnership unit issued to KPGP at a price of \$1 per unit on May 8, 2012 (see note 1).

Kruger Products L.P.**Notes to Consolidated Financial Statements (continued)****December 31, 2012 and December 31, 2011**

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

On December 13, 2012, 8,000,000 Partnership units were issued to KPT at a unit price of \$17.50, resulting in KPT having a 15.7% interest in the Partnership. Costs incurred of \$11.1 million in respect of the issuance were netted against the gross proceeds of \$140 million.

On December 13, 2012, in connection with the issuance of Partnership units to KPT, the Partnership agreement was amended to require the Partnership to declare a distribution in such an amount that 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. Since the Tax Distribution is a contractual obligation to deliver cash it meets the definition of a financial liability for accounting purposes. Accordingly, the net present value of \$118.6 million has been reclassified from Partnership units to Partnership units liability in the consolidated financial statement of financial position as of December 13, 2012, being the portion of the carrying value of the Partnership units related to the Tax Distribution. The Partnership units liability is classified as a financial liability at amortized cost for accounting purposes.

As contemplated in the prospectus filed by KPT, a distribution of \$40 million was declared and paid to Kruger on December 13, 2012 from the proceeds received from the issuance of the Partnership units to KPT.

On January 10, 2013, KPT completed the issuance of 750,000 common shares pursuant to the partial exercise of the over-allotment option granted to the syndicate of underwriters at a unit price of \$17.50. The proceeds received were used to acquire 750,000 Partnership units, resulting in KPT increasing its interest in the Partnership to 16.9%.

On March 26, 2013, the board of directors of KPGP declared a distribution of \$0.217 per partnership unit to be paid on April 15, 2013. The distribution relates to the period from December 13, 2012 to March 31, 2013.

15 INCOME TAXES

The Partnership is not a tax paying entity for the years ended December 31, 2012 and December 31, 2011. The taxable income (loss) from the Partnership flows to the partners, Kruger Inc., KPGP and KPT. However, the Partnership's subsidiaries KP USA, KTG, TAD Canco Inc., GTM and TAD Luxembourg S.A.R.L are corporate entities and, therefore, subject to tax.

The consolidated income tax recovery for the Partnership of \$1.4 million for the year ended December 31, 2012 (December 31, 2011 – expenses of \$1.3 million) related to KP USA, KTG, TAD Canco Inc. and GTM.

Details of the provision for income taxes and the reconciliation of the consolidated Canadian federal and provincial statutory income tax rates to the effective tax rate on earnings were as follows:

	December 31, 2012		December 31, 2011	
	\$	%	\$	%
Combined federal and provincial income tax rates after manufacturing and processing credits	11,687	25.9	8,036	26.9
Income taxed in partners' hands	(11,568)	(25.6)	(7,570)	(25.3)
Other	(1,547)	(3.5)	787	2.6
	(1,428)	(3.2)	1,253	4.2

Kruger Products L.P.**Notes to Consolidated Financial Statements (continued)****December 31, 2012 and December 31, 2011**

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

15 INCOME TAXES (cont'd)

Components of the deferred income tax (asset) liability were as follows:

	December 31, 2012	December 31, 2011
	\$	\$
Property, plant and equipment	4,504	6,126
Net operating losses	(4,425)	(3,742)
Other	(1,257)	(766)
	(1,178)	1,618

The analysis of the deferred tax assets and liabilities is as follows:

	December 31, 2012	December 31, 2011
	\$	\$
Deferred tax (asset) liability to be recovered within 12 months	(402)	(342)
Deferred tax (asset) liability to be recovered after 12 months	(776)	1,960
	(1,178)	1,618

The Partnership's U.S. subsidiary, KTG, had the following net operating loss carry-forwards available as of December 31, 2012:

U.S. federal net operating loss carry-forwards:

	Losses	Expiry date
	\$	
2004	3,999	2024
2005	21	2025
2006	4,410	2026
2009	1,213	2029
2011	521	2031
2012	1,769	2032
	11,933	

State net operating loss carry-forwards:

	Losses	Expiry date
	\$	
2004	1,000	2019
2006	4,408	2021
2011	90	2026
2012	3,098	2027
	8,596	

16 RELATED PARTY TRANSACTIONS

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

Kruger Products L.P.**Notes to Consolidated Financial Statements (continued)****December 31, 2012 and December 31, 2011**

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

In addition, there were related party transactions related to distributions and dividends in connection with the corporate reorganization.

Sales of goods and services to Kruger Inc. for the year ended December 31, 2012 were \$4.3 million (December 31, 2011 - \$4.5 million). Sales of goods to subsidiaries of Kruger Inc. for the year ended December 31, 2012 were \$0.2 million (December 31, 2011 - \$0.7 million). Goods are sold based on the price lists in force and terms that would be available to third parties. Services are delivered at the terms outlined in the agreements between the related parties.

Purchases of goods and services from Kruger Inc. for the year ended December 31, 2012 were \$54.7 million (December 31, 2011 - \$60.0 million). Purchases of goods and services from subsidiaries of Kruger Inc. for the year ended December 31, 2012 were \$9.4 million (December 31, 2011 - \$6.7 million). Goods are purchased from Kruger Inc. and related parties under normal commercial terms and conditions. These purchases of goods and services are included within cost of sales and operating expenses in the consolidated statements of comprehensive income (loss). During the year ended December 31, 2012, management fees of \$9.2 million (December 31, 2011 - \$9.3 million) and intercompany salary of \$2.2 million (December 31, 2011 - \$2.2 million) were paid to Kruger Inc. for management services provided to the Partnership.

a) Balances due to and from related parties

	December 31, 2012	December 31, 2011
	\$	\$
Receivables from Kruger Inc.	668	730
Payables to Kruger Inc.	9,053	8,383
Payables to subsidiaries of Kruger Inc.	4	1,024
	9,057	9,407

The receivables from and payables to related parties are due two months after the date of sale or purchase. The receivables and payables are unsecured in nature and non-interest bearing. There were no provisions related to the receivables from related parties as of December 31, 2012 and December 31, 2011. There were no loans outstanding with related parties as of December 31, 2012.

b) Employee loans

As of December 31, 2012, employee loans outstanding were \$0.3 million (December 31, 2011 - \$0.4 million). These employee loans were recorded in trade and other receivables.

17 COMMITMENTS AND CONTINGENCIES

Non-cancellable operating lease commitments related to land, buildings, IT services, vehicles and other machinery and equipment are payable as follows:

	December 31, 2012	December 31, 2011
	\$	\$
Less than 1 year	12,304	9,726
Between 1 and 5 years	41,806	25,886
More than 5 years	72,382	38,395
	126,492	74,007

Operating lease expense recognized in the consolidated statements of comprehensive income (loss) during the year ended December 31, 2012 was \$10.4 million (December 31, 2011 - \$8.9 million).

17 COMMITMENTS AND CONTINGENCIES (cont'd)

As of December 31, 2012, the Partnership was committed to \$30 million of spending related to the TAD project.

For over 20 years, the Partnership has operated the Gatineau Plant under a shared service arrangement for the supply of steam, water and effluent treatment. In August of 2007, the current supplier of the shared services closed its plant and informed the Partnership it planned to terminate the shared services agreement. The Partnership took over the operation of the services using the supplier's facilities in accordance with the shared services agreement during the dispute period. On October 15, 2012, the Partnership and its General Partner, KPGP Inc., entered into a settlement agreement with the supplier whereby KPGP has acquired the shared services facility for nominal consideration. The Partnership has committed to incurring the costs associated with the installation of underground hydro lines to supply the Gatineau Plant, which will be capitalized and amortized over their estimated life. Accordingly, no gain or loss has been recognized in respect of this dispute with the supplier.

From time to time, the Partnership is involved in various litigation matters arising in the ordinary course of its business. The Partnership has no reason to believe the disposition of any such current matter could reasonably be expected to have a material adverse impact on the Partnership's financial position, results of operations or its ability to carry on any of its business activities.

As of December 31, 2012, the Partnership had irrevocable letters of credit outstanding of \$32.4 million (December 31, 2011 - \$32.5 million), which include letters of credit for the pension plans disclosed in note 9.

18 EXPENSES BY NATURE

	December 31, 2012	December 31, 2011
	\$	\$
Materials and production costs	319,770	328,053
Wages and other employee benefit expenses	182,621	182,147
Maintenance materials and labour	60,762	55,728
Freight and distribution	103,445	101,728
Marketing, selling and administrative expenses	88,757	79,388
Depreciation and amortization	28,861	30,852
Energy costs	56,508	62,986
Total expenses by nature	840,724	840,882

Classified in the consolidated statements of comprehensive income (loss) are:

	December 31, 2012	December 31, 2011
	\$	\$
Cost of sales	645,826	658,453
Operating expenses	194,898	182,429
	840,724	840,882

19 SEGMENT INFORMATION

Reportable segments

Management has determined the operating segments based on the reports reviewed by the Chief Executive Officer. The Partnership operates in three industry segments: Consumer, Away-From-Home (AFH) and Other.

a) Consumer

This segment operates using the Partnership's manufacturing facilities in Canada (New Westminster, British Columbia; Crabtree, Quebec; Sherbrooke, Quebec; Gatineau, Quebec) and in the United States (Memphis, Tennessee).

The Consumer segment includes sales of branded tissue products such as Cashmere™, Purex™, White Swan™, Scotties™, Sponge Towels™ and White Cloud™ and private label tissue products.

b) AFH

This segment operates using the Partnership's manufacturing facilities in Canada (New Westminster, British Columbia; Crabtree, Quebec; Sherbrooke, Quebec; and Gatineau, Quebec).

The AFH business sells tissue products primarily through distributors to businesses involved in property management, health care, food service, manufacturing and lodging and also to public facilities.

c) Other

This segment includes sales of parent rolls by the Partnership to other tissue manufacturing companies primarily in the United States and also in Canada. It also includes sales of recycled fibre, primarily to its parent company. This segment operates using the Partnership's manufacturing facilities in Canada (New Westminster, British Columbia; and Crabtree, Quebec).

Segment operating profit is reviewed by the Chief Executive Officer, who has been identified as the chief operating decision maker based on earnings before interest, income taxes, depreciation, amortization, impairment of non-financial assets and unrealized foreign exchange gains or losses. The Partnership's assets, operations and employees are located primarily in Canada and in the United States. The same long-term assets of the Partnership are used for the Consumer, AFH and Other segments. Accordingly, assets cannot be allocated to these segments.

				2012
	Consumer	AFH	Other	Total
	\$	\$	\$	\$
Revenue from external customers	745,548	156,632	20,694	922,874
Segment operating profit (loss)	114,003	3,073	(5,782)	111,294
Depreciation and amortization				28,861
Interest expense				23,027
Impairment of non-financial assets				4,608
Loss on disposal of property, plant and equipment				1,060
Restructuring costs				9,391
Unrealized foreign exchange gain				(777)
Income before income taxes				45,124
Income taxes				(1,428)
Net income for the year				46,552

Kruger Products L.P.**Notes to Consolidated Financial Statements (continued)****December 31, 2012 and December 31, 2011**

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

19 SEGMENT INFORMATION (cont'd)

				2011
	Consumer \$	AFH \$	Other \$	Total \$
Revenue from external customers	705,287	151,268	36,027	892,582
Segment operating profit (loss)	87,581	1,985	(7,702)	81,864
Depreciation and amortization				30,852
Interest expense				19,166
Impairment of non-financial assets				2,662
Loss on disposal of property, plant and equipment				123
Unrealized foreign exchange gain				(811)
Income before income taxes				29,872
Income taxes				1,253
Net income for the year				28,619

Geographic segments

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

				2012
	Canada \$	US \$	Mexico \$	Total \$
Revenue	662,952	231,532	28,390	922,874
Property, plant and equipment	294,022	286,792	–	580,814
Goodwill	152,021	–	–	152,021
Intangible assets	13,828	–	–	13,828

				2011
	Canada \$	US \$	Mexico \$	Total \$
Revenue	641,669	233,045	17,868	892,582
Property, plant and equipment	299,696	124,498	–	424,194
Goodwill	152,021	–	–	152,021
Intangible assets	14,307	–	–	14,307

20 COMPENSATION OF KEY MANAGEMENT

	2012 \$	2011 \$
Compensation awarded to key management included		
Short-term employee benefits	4,687	5,735
Post-employment benefits	347	296
Other long-term benefits	1,501	652
	6,535	6,683

Key management includes the Partnership's senior executives.

Kruger Products L.P.**Notes to Consolidated Financial Statements (continued)****December 31, 2012 and December 31, 2011**

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

21 FINANCIAL INSTRUMENTS*Classification of financial instruments*

Financial instruments are classified into one of the following categories: fair value through profit and loss, held-to-maturity, available-for-sale, loans and receivables and financial liabilities. As of December 31, 2012, the classification of the financial instruments, as well as their carrying amounts and fair values, were as follows:

	Classification	Measurement	Carrying amount \$	Fair Value \$
Cash and cash equivalents	loans and receivables	amortized cost	121,489	121,489
Trade and other receivables	loans and receivables	amortized cost	94,308	94,308
Receivables from related parties	loans and receivables	amortized cost	668	668
Embedded derivative	fair value through profit or loss	fair value	1,728	1,728
Commodity swap	fair value through profit or loss	fair value	(44)	(44)
Trade and other payables	financial liabilities	amortized cost	(186,265)	(186,265)
Payables to related parties	financial liabilities	amortized cost	(9,057)	(9,057)
Long-term debt	financial liabilities	amortized cost	(327,687)	(356,008)
Partnership unit liability	financial liabilities	amortized cost	(118,562)	(118,562)

The following table details the fair value hierarchy of financial instruments carried at fair value by level as of December 31, 2012:

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Commodity swap	-	(44)	-	(44)
Embedded derivative	-	1,728	-	1,728

As of December 31, 2011, the classification of the financial instruments, as well as their carrying amounts and fair values, were as shown in the table below:

	Classification	Measurement	Carrying amount \$	Fair Value \$
Cash and cash equivalents	loans and receivables	amortized cost	31,797	31,797
Trade receivables	loans and receivables	amortized cost	88,948	88,948
Receivables from related parties	loans and receivables	amortized cost	730	730
Interest rate swap	fair value through profit or loss	fair value	(710)	(710)
Commodity swap	fair value through profit or loss	fair value	(385)	(385)
Trade and other payables	financial liabilities	amortized cost	(151,361)	(151,361)
Payables to related parties	financial liabilities	amortized cost	(9,407)	(9,407)
Long-term debt	financial liabilities	amortized cost	(251,748)	(259,574)

Kruger Products L.P.
Notes to Consolidated Financial Statements (continued)
December 31, 2012 and December 31, 2011

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

21 FINANCIAL INSTRUMENTS (cont'd)

The following table details the fair value hierarchy of financial instruments carried at fair value by level as of December 31, 2011:

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Interest rate swap	—	(710)	—	(710)
Commodity swap	—	(385)	—	(385)

Fair value

Cash and cash equivalents, trade and other receivables, receivables from related parties, trade and other payables and payables to related parties are short-term financial instruments whose fair value approximates the carrying amount, given they will mature in the near future. As of December 31, 2012, the fair value of the revolving credit facilities was \$0.1 million, which was based on the current principal amount outstanding as the interest rate floats. As of December 31, 2012, the fair value of the senior notes was \$189 million based on the trading value of the debt on the over-the-counter market. The fair values of the Nordea Facility and the Caisse Facility were \$41.5 million and \$121.5 million, respectively, which approximates the current principal amount outstanding as the interest rate approximates current market interest rates. As of December 31, 2012, the fair value of the loans payable was \$3.9 million.

Since the interest rate swap contract does not trade, the price of an identical instrument cannot be observed. The swap curve is an interest rate curve that is observable and therefore the interest rate swap may be classified as a Level 2 instrument. 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 with changes in fair values recorded in interest expense.

The commodity swap does not trade and the price of an identifiable instrument cannot be observed. The fair value of the commodity swap was estimated using a model with the main inputs being the future prices of pulp and the discount rate.

Management has estimated the fair value of the embedded derivative using a probability-weighted interest rate pricing method. The valuation methodology used is categorized as a Level 2 methodology.

Fair value of the Partnership units liability

The Partnership units liability is classified as a financial liability at amortized cost. Management has estimated the fair value of the Partnership units liability using discounted cash flow model. Significant assumptions include the income tax obligation, discount rate and an industry capitalization rate (see note 4).

Objectives and policies relating to financial risk management

The Partnership's activities result in exposure to a variety of financial risks, including risks related to commodity price, credit, currency, liquidity and interest rate risks.

Commodity price risk

The Partnership entered into a commodity swap contract on January 18, 2012 (December 31, 2011 - October 1, 2011) to fix the purchase price of 12,000 tons of fibre (December 31, 2011 - 12,000 tons) at U.S.\$890 per metric ton (December 31, 2011 - \$890 per metric ton) until January 31, 2013 (December 31, 2011 - September 1, 2012). The fair value of the commodity swap contract as of December 31, 2012 was \$44,000 (December 31, 2011 - \$0.4 million) and has been included in trade and other payables in the consolidated statements of financial position.

Kruger Products L.P.**Notes to Consolidated Financial Statements (continued)****December 31, 2012 and December 31, 2011**

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

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. The Partnership's financial instruments exposed to credit risk include cash and cash equivalents, trade and other receivables, interest rate swap and derivative commodity contracts. The Partnership places its cash and cash equivalents, interest rate swap and commodity swap with financial institutions of high creditworthiness.

The Partnership 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. The Partnership routinely assesses the financial strength of its customers and mitigates against identified exposure primarily by lowering credit limits with high risk accounts. The customers of the Partnership are well established companies and accordingly, the Partnership has experienced limited financial loss with respect to credit risk. As a result, the Partnership believes its exposure to credit risk is limited.

	December 31, 2012	December 31, 2011
	\$	\$
Trade receivables	90,374	86,862
Less: Allowance for doubtful accounts	(112)	(191)
Total trade receivables - net	90,262	86,671
Trade receivables - net		
0 to 60 days	89,250	84,558
61 to 90 days	790	983
Over 90 days	222	1,130
	90,262	86,671

Currency risk

Currency risk is the risk the Partnership's earnings may fluctuate due to changes in Canadian to U.S. dollar exchange rates.

The Partnership 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, the Partnership is a net buyer or seller of U.S. dollars.

As of December 31, 2012, the Partnership has net liabilities denominated in U.S. dollars of \$46.0 million (December 31, 2011 - \$35.9 million). Assuming the Canadian dollar strengthened (weakened) by 5% against the U.S. dollar, with all other variables held constant, the hypothetical result on income before income taxes for the year ended December 31, 2012 would have been an increase/decrease of \$2.3 million (December 31, 2011 - \$1.8 million).

Liquidity risk

The purpose of liquidity risk management is to maintain sufficient cash and cash equivalents and to ensure the Partnership has sufficient authorized credit facilities to finance operations. The Partnership had unused lines of credit available of \$162.5 million as of December 31, 2012 (December 31, 2011 - \$114.6 million). The Caisse and Nordea Facility also have credit available of \$96.1 million as of December 31, 2012 to finance the expansion of KTG, including construction of the TAD paper machine and expansion of the tissue plant. The Partnership 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 the Partnership collecting its trade receivables in a timely manner and by maintaining sufficient cash and cash equivalents in excess of anticipated needs. The Partnership's trade and other payables of \$186.0 million (December 31, 2011 - \$151.7 million) are all due for payment within 12 months of the dates of the consolidated statements of financial position.

21 FINANCIAL INSTRUMENTS (cont'd)

The Partnership's contractual obligations in respect of its financial instruments comprise the following:

	December 31, 2012		
	Less than 1 year	1 to 5 years	Greater than 5 years
	\$	\$	\$
Long-term debt ^(a)	32,423	143,347	323,106
Trade and other payables	186,309	—	—
Payables to related parties	9,057	—	—

^(a) Long-term debt includes principal repayments and an estimate of interest based on current interest rates.

	December 31, 2011		
	Less than 1 year	1 to 5 years	Greater than 5 years
	\$	\$	\$
Long-term debt ^(b)	16,853	130,876	209,633
Interest rate swap contract	203	522	—
Trade and other payables	151,746	—	—
Payables to related parties	9,407	—	—

^(b) Long-term debt includes principal repayments and an estimate of interest based on current interest rates.

Interest rate risk

As of December 31, 2012, the Partnership has variable rate debts of \$0.1 million (December 31, 2011 - \$48 million). These loans bear interest at the Canadian prime rate, U.S. base rate, banker's acceptance or LIBOR plus the applicable margins. The applicable margin on the loans ranges between 0.75% and 3.50%.

A 1% increase/decrease in the market rate of interest would result in a decrease/increase in income before income taxes of \$nil for the year ended December 31, 2012 (December 31, 2011 - \$0.5 million).

The Partnership used an interest rate swap contract to manage part of its exposure to movements in interest rates on its revolving credit facilities until September 18, 2012 when the interest rate swap was settled. The fair value of the outstanding interest rate swap as of December 31, 2011 was \$ 0.7 million. An increase or decrease of 100 basis points in the interest rate as at December 31, 2011 would have increased or decreased the fair value of the interest rate swap by \$0.4 million.

22 CAPITAL MANAGEMENT

The Partnership's policy is to maintain a sufficient capital base in order to maintain a strong consolidated statement of financial position and otherwise meet financial tests for the credit facilities.

Capital comprises net debt (long-term debt, less cash and cash equivalents) and equity (including the Partnership units classified as a liability). The Partnership monitors externally imposed debt covenants as established pursuant to its credit facility agreements. The requirements include a quarterly net funded debt to capitalization ratio, debt to EBITDA ratio, EBITDA to fixed charge coverage ratio and working capital ratio. The covenants were agreed to with the lenders upon the creation of the credit facilities. The Partnership was in compliance with its debt covenants as of December 31, 2012 and December 31, 2011.

23 ENVIRONMENTAL COSTS

The Partnership is subject to extensive regulation by various federal and provincial agencies concerning compliance with environmental control statutes and regulations. These regulations impose limitations on the discharge of materials into the environment and require the Partnership to operate in compliance with the conditions of permits and other governmental authorizations. Future environmental expenditures will depend on the emergence of new regulations and technological developments. At present, the Partnership believes it is in compliance with all existing environmental statutes and regulations.

24 ECONOMIC DEPENDENCE

The Partnership manufactures, distributes and sells a wide range of disposable tissue paper and related products primarily in Canada and the U.S. The Partnership has three major customers, which represent 39.4% (December 31, 2011 – 37.7%) of total revenues, and of these customers, one represents 18.8% (December 31, 2011 – 15.7%) of the total revenues and another represents 10.9% (December 31, 2011 – 12.4%). The Partnership's concentration of credit risk primarily arises from exposure to these three customers and amounts to approximately 41.5% of the trade receivables as of December 31, 2012 (December 31, 2011 – 40.0%). These customers are included in the consumer segment.

25 NON-CASH WORKING CAPITAL

The change in non-cash working capital on the consolidated statements of cash flows comprises the following:

	December 31, 2012	December 31, 2011
	\$	\$
Decrease (increase) in trade receivables	(3,346)	7,529
Decrease in receivables from related parties	62	2,608
Decrease (increase) in inventories	19,842	(2,406)
Decrease in prepaid expenses	970	1,769
Decrease (increase) in income taxes	(643)	–
Increase in trade and other payables	23,371	5,539
Increase (Decrease) in payables to related parties	(350)	3,474
	39,906	18,513

KPT AND KPLP MANAGEMENT TEAM



Mario Gosselin
Chief Executive Officer



Mark Holbrook
Chief Financial Officer



Wendy Kelley
General Counsel and
Corporate Secretary

KPLP MANAGEMENT TEAM



Dan Clarahan
Corporate
Vice President
U.S. Business
Expansion



Marc Fitzgerald
Corporate
Vice President
Strategic Business
Development



Gordon Goss
Corporate
Vice President
Consumer Business
U.S. and Mexico



Rob Latter
Corporate
Vice President
AFH and Strategic
Business Planning



Michel Manseau
Corporate
Vice President
Consumer Sales
Canada



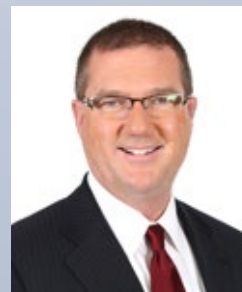
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Glenn Taylor
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Frank van Biesen
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Stock Symbol: KPT

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BOARD OF DIRECTORS

The Board of Directors of KP Tissue Inc. consists of four members. In keeping with best practices of corporate governance, three directors (and all board committee members) are independent of management. They also represent an exceptionally strong base of experience in consumer products, business management, accounting and capital markets.

Huw Thomas (Independent Chairman) ⁽¹⁾ ⁽²⁾
Michel Letellier (Independent Director) ⁽¹⁾ ⁽²⁾
Susan J. McArthur (Independent Director) ⁽¹⁾ ⁽²⁾
David Spraley (Non-Independent Director)

⁽¹⁾ Audit Committee Member

⁽²⁾ Nominating Committee Member

For complete information about Board Members and Corporate Governance, please visit www.kptissueinc.com

ANNUAL MEETING OF SHAREHOLDERS

St Andrew's Club and
Conference Centre
Main Ballroom
150 King Street West, 27th Floor
Toronto, Ontario M5H 1J9
June 26, 2013 at 2:00 p.m. (EST).

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