



## 2013 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 16.7% AS AT DECEMBER 31, 2013 AND 16.6% AS AT MAY 9, 2014 <sup>(1)</sup>.

KPLP IS CANADA'S LEADING MANUFACTURER OF QUALITY TISSUE PRODUCTS FOR HOUSEHOLD, INDUSTRIAL AND COMMERCIAL USE. THE COMPANY 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. THE COMPANY HAS APPROXIMATELY 2,300 EMPLOYEES AND OPERATES FIVE FSC® COC-CERTIFIED PLANTS ACROSS NORTH AMERICA.

<sup>(1)</sup> KPT (the Corporation) holds a limited partnership interest in KPLP. Since KPT is a reporting issuer in all provinces and territories of Canada, it reports the financial and business information of KPLP.

©2013 KP Tissue ®Registered and ™trademarks of Kruger Products, L.P.  
 ®Registered trademark of Kimberly-Clark Worldwide, Inc. used under license.  
 ®Forest Stewardship Council and FSC logo—Forest Stewardship Council, A.C.

Forward looking information: For any information on statements in this Annual Report that are of a forward-looking nature, please consult the section on "Cautionary forward looking statement." on page 8 in the Management's discussion and analysis of results of operations and financial position.

# FIVE-YEAR FINANCIAL PERFORMANCE\*

(In millions of Canadian dollars)

For the years ended December 31	2013	2012	2011	2010	2009
Revenue	<b>955.3</b>	922.9	892.6	897.7	900.8
Operating income	<b>80.2</b>	67.8	49.0	81.2	100.7
Net income	<b>48.9</b>	41.4	28.6	65.0	68.2

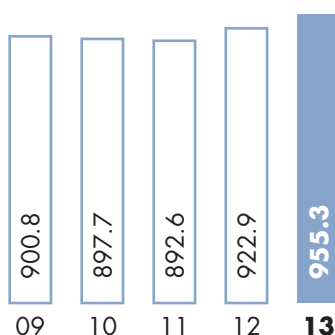
## OTHER FINANCIAL DATA

EBITDA	<b>116.2</b>	110.9	81.8	113.1	141.6
EBITDA margin	<b>12.2%</b>	12.0%	9.2%	12.6%	15.7%
Capital expenditures	<b>59.9</b>	184.8	109.4	27.9	44.1
Working capital	<b>128.5</b>	134.3	107.0	113.1	78.3
Long-term debt	<b>342.0</b>	323.9	251.7	179.7	186.9

\* All financial information herein presented are related to KPLP unless otherwise noted and have been prepared in accordance with IFRS except for 2009 which has been prepared in accordance with Canadian GAAP. For the year ended December 31, 2013, KPT reported equity income of \$1.1 million, a net loss of \$0.3 million and basic earnings (loss) per share of (\$0.03). For more information refer to the KPT Audited Financial Statements for the period ended December 31, 2013.

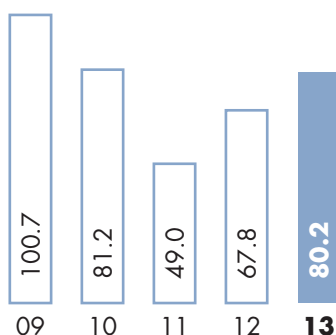
## REVENUE

(in millions of Canadian dollars)



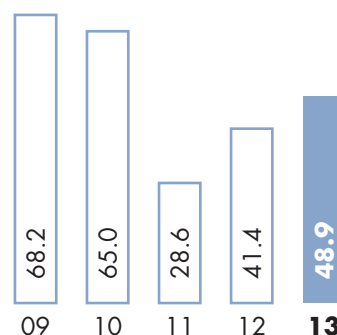
## OPERATING INCOME

(in millions of Canadian dollars)



## NET INCOME

(in millions of Canadian dollars)



## 2013 HIGHLIGHTS

- We completed the extensive construction phase of our TAD Project in the U.S. on time and under budget, and then successfully started up the manufacturing and sales of our TAD products.
- We strengthened our market share position and continued to be the leader in the Canadian tissue market.
- Revenue increased by 6.3% in the consumer business segment.
- We began to implement programs designed to offset the impact of higher pulp and energy costs.
- EBITDA reached \$116.2 million, an increase of 4.8% despite significantly higher commodity costs.



FISCAL 2013 WAS  
ANOTHER SOLID YEAR  
FOR KRUGER PRODUCTS  
AND AS WELL, KP TISSUE  
COMPLETED ITS FIRST  
FULL YEAR AS A PUBLIC  
COMPANY.

## TO OUR SHAREHOLDERS

Fiscal 2013 was another solid year for Kruger Products and as well, KP Tissue completed its first full year as a public company. Even though there were challenges, including significantly higher commodity and energy costs, we met our principal objectives for the year and implemented measures and strategic initiatives to position ourselves for even stronger performance in 2014.

Our achievements in 2013 included higher financial results; the successful completion of the construction phase of our Through Air Dried (TAD) Project and the start-up of our TAD production facility in Memphis, Tennessee; the further strengthening of our leadership position in the Canadian tissue market; and the development of significant market opportunities in the U.S. premium private label market segment.

### FINANCIAL HIGHLIGHTS

In fiscal 2013, KPLP achieved great results. Our revenues rose to \$955.3 million, a 3.5% increase over the \$922.9 million we recorded in 2012. Our EBITDA increase was 4.8%, from \$110.9 million in 2012 to \$116.2 million in 2013. We are particularly pleased to report that our TAD Project contributed positive EBITDA of \$4.1 million in the fourth quarter of the year. Finally, we realized net income of \$48.9 million in 2013, a significant 18.1% increase over the \$41.4 million we reported in 2012. Our cash balance at year-end was a healthy \$87.7 million with a net debt to EBITDA ratio of 2.3 times. Finally, we undertook a \$60 million CAPEX program in 2013, approximately two-thirds of which was committed to the TAD Project.

Our strong results were achieved even though higher pulp and energy costs put pressure on our margins and severe weather conditions at the end of the year had an impact on our revenues. The Company's results testify to the strength of our products and the expertise, capability and commitment of our people across North America.

### TAD PROJECT UPDATE

I am also very pleased to report that our TAD facility is fully operational and production is exceeding our expectations. The TAD Project was an enormous undertaking for us, and we brought it in on time and under budget.

Our TAD facility now provides us with a number of key competitive advantages, doubling our manufacturing capacity in the U.S., enabling us to produce a premium quality product, and providing us with a distinct cost advantage, as the process itself uses less fibre to produce a softer and bulkier product.

In the middle of the first quarter of 2013 we began marketing and shipping our TAD products. Now, a year later, we have more than 15 customers in Canada and the United States. In fact, our new Cashmere UltraLuxe TAD products were listed by all major Canadian retailers. With the capacity to produce an exceptional quality TAD product, we will also be able to make significant inroads into the premium private-label sector in the United States, a market we are targeting for robust organic growth.

On the financial side, aside from achieving positive TAD EBITDA in the second half of 2013, for 2014 we expect TAD EBITDA to be in the \$20-\$25 million range.

### **BUILDING ON OUR LEADING BRAND POSITION**

As has been the case for the past ten years, KPLP continues to maintain its momentum in the Canadian consumer brand market. We are far and away the country's leading tissue company, in both overall dollar terms and volume. In fact, we enjoy market share dominance in the bathroom tissue and facial tissue categories, and a #2 ranking in the paper towel category. To further strengthen our brand leadership, we are fully committed to focusing on and investing in sales and marketing excellence, delivering superior customer service, developing innovative new product lines and driving manufacturing efficiency.

Sales in Canada continue to provide the majority share of our revenues. In 2013, Canadian revenue increased by \$25.2 million, or 3.8%; in the U.S., our revenue increased by \$7.7 million, or 3.3%. As I indicated previously, we now have an excellent opportunity to grow our market share in the U.S., particularly in the private label market. We continue to believe that the TAD Project has the potential to generate EBITDA contribution of \$60 million by 2017.

### **ADDRESSING THE CHALLENGES AHEAD**

In the current year, we have a number of issues to address. All indications point to fluctuations in commodity prices, including pulp. In 2013, we implemented measures to partially mitigate pulp price increases; in 2014, we are closely monitoring these prices and will respond accordingly. Further, we expect to feel the impact of a weaker Canadian dollar, and we are watching closely the recent consolidations of Canadian retailers. Late in 2013, after a careful review of our operations, we consolidated all of our Eastern distribution activities in Laval, Quebec, a move from which we expect to realize greater operating efficiencies and generate annual savings of approximately \$1.6 million.

We have the brand equity and operational expertise to deal with the challenges we face, and are fully confident in our ability to not only maintain but also augment our leadership position in the Canadian tissue marketplace. The successful TAD project will also help us capitalize on significant market opportunities in the U.S.

Our balance sheet is very solid, as is our cash position. With the successful execution of the TAD Project, our focus goes back to high return projects. We expect to invest a total of approximately \$45 million in CAPEX over the coming year, \$15-\$20 million of which will be earmarked for growth projects. Our strong financial foundation also gives us the ability to continue to pursue potential M&A opportunities and expand production on both sides of the border.

With these key strategies in place, we look forward to another year of delivering substantial value to our customers and shareholders.

### **A WORD OF THANKS**

The successes we have achieved are truly a shared effort. We were pleased to be recognized as one of the Greater Toronto Area's Top Employers for the second consecutive year. I would like to take this opportunity to publicly thank our management teams and employees throughout North America for their hard work and their dedication to operational excellence and building on our leadership position. I also want to express my appreciation to our Board of Directors, whose counsel ensures that we remain focused on our core objectives. Finally, on behalf of the whole team at KPLP, I would like to express my gratitude to our customers, suppliers and shareholders for their continuing support. Together, we can look forward to even greater successes in the future.



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

## BRAND MARKET SEGMENTS

### CONSUMER SEGMENT

Our leadership position in the Canadian Consumer Tissue market is supported by continued innovation and investment in our brands. Our marketing initiatives and strategic partnerships are consistently singled out for their excellence and for delivering strong business results. 2013 was a banner year for us, with successes on all fronts. We were ranked the number one Canadian packaged goods supplier in an industry survey and also won many recognition awards.

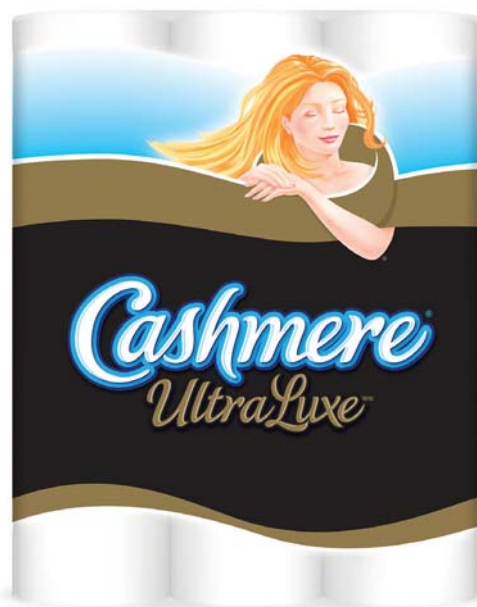
In the bathroom tissue market last year we were once again Canada's #1 bathroom tissue with dollar market share at 34.7%—nearly double the size of our nearest competitor. **Cashmere®** is the top-selling bathroom tissue brand in Canada and **Purex®** is the #1 brand in Western Canada.

To further reinforce our competitive advantage, in 2013 we successfully launched **Cashmere® UltraLuxe™** in all major Canadian retailers. This brand uses our state-of-the-art TAD technology to provide our softest and most luxurious bathroom tissue ever.

Our premium-quality **SpongeTowels®** achieved a record 23.6% dollar market share in 2013 while maintaining the tonnage #1 SKU in Canada and the #1 position in Quebec. We are also proud that SpongeTowels advertising efforts were recognized for their excellence by being awarded the prestigious Silver CASSIES, demonstrating strong performance metrics in the Sustained Success category.

In the facial tissue category, **Scotties®** reached an impressive 32.4% dollar share with over 100 million boxes of Scotties sold across Canada. Scotties Nature Inspired cubes were awarded Packaging Association silver awards in two categories, and Scotties was once again the title sponsor of the Canadian Women's Curling Championship, The Scotties Tournament of Hearts. KLP has been a supporter of this event for over 32 years, the longest sponsorship of Canadian amateur athletics.

Cashmere® bathroom tissue celebrated 10 years of our White Cashmere Collection as a fund and awareness raiser for the Canadian Breast Cancer Foundation. The bathroom tissue couture is crafted exclusively from our luxurious bathroom tissue.



# 2013 WAS A BANNER YEAR FOR SUCCESSSES ON ALL FRONTS.



#### AWAY FROM HOME (AFH)

The "Away From Home" division is a leader in the marketplace, focusing on premium towel and tissue products along with dispensing system solutions. These products are used in a variety of key market segments that range from property management, healthcare facilities, education, food service and many more. Our AFH team is committed to the core values within Performance In Every Fibre™ – ensuring product Quality, exceptional Service and comprehensive Business Optimization. In addition, the AFH team received the 2013 Supplier of the Year Award from three major distributor customers – Cardinal Health; and three years running from Adapt and Balpex.



#### THE U.S. MARKET

The U.S. represents an exciting growth opportunity for us. In this vast market, our products are sold to retailers under their private label or control brands.

In 2013, we launched a TAD bathroom tissue adding to the **White Cloud®** portfolio, which is sold exclusively at Walmart in the U.S.

We also expanded our presence in the U.S. by forging a unique partnership with the Children's Miracle Network hospitals (CMN) and Walmart to launch the White Cloud Facial Tissue Design Contest. Children in CMN hospitals submitted box designs for a chance to win a donation to their hospitals, which allowed us to give back to the community via donations to seven children's hospitals.

US, WITH

# SUSTAINABILITY

SUSTAINABILITY IS AN INTEGRAL PART OF OUR BUSINESS, AND WE TAKE OUR RESPONSIBILITIES TO THE ENVIRONMENT VERY SERIOUSLY. IN 2010, WE LAUNCHED SUSTAINABILITY 2015, A STRATEGIC INITIATIVE TO REDUCE OUR ENVIRONMENTAL IMPACT AND TO BENEFIT THE COMMUNITIES IN WHICH WE LIVE AND WORK.



To track our progress, we set nine ambitious targets based on metrics in key areas including fibre use, energy consumption, waste emissions, water use, greenhouse gas emissions, packaging materials and transport efficiency.

Since the launch of Sustainability 2015, we have made considerable progress. These are some of the most significant achievements:

- In 2011, we received Forest Stewardship Council® Chain of Custody Certification ensuring accountability from forest to product to shelf. We were the first Canadian tissue maker to achieve this certification.
- As of 2013, 100% of our fibre is third-party certified.
- We have reduced our packaging materials by 7.5%, while also increasing our use of recycled, recyclable and biodegradable packaging materials.
- The heat recovery system installed at our Gatineau, QC plant has reduced the plant's energy consumption by 10% and its greenhouse gas emissions by 13.1% annually. In March 2014 we installed a similar heat recovery system in our Crabtree, QC plant.
- Our award-winning biomass gasification system in the New Westminster, BC plant is reducing the facility's greenhouse gas emissions by more than 50%.
- We have improved cube optimization by 8.8%, reducing the number of trucks we utilize and the emissions they produce.
- In 2013, we launched a new Supplier Policy that supports a more sustainable supply chain.

We are also proud to report that in 2013 we were awarded the *Greening of the Supply Chain Award* from the Canadian Association of Importers and Exporters.

For more information on our Sustainability 2015 initiatives, we invite you to visit: [www.sustainability2015.ca](http://www.sustainability2015.ca).

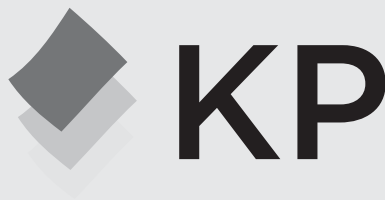
## COMMUNITY INVOLVEMENT

Making a positive impact in our communities is another of our enduring core values. We have been deeply committed to a number of philanthropic and community causes for much of our history.

Since 1982 we have been the title sponsor of the Scotties Tournament of Hearts, the Canadian Women's Curling Championship, and in 2013 we signed a multi-year agreement to become the official paper supplier of the Rogers Cup, Canada's international tennis championships.

We have also been involved with Ronald McDonald House Charities Canada since 1990, and with Friends We Care, an organization that sends children to Easter Seals Camps, since 2000. And we are very proud to be one of the top five national contributors to the Canadian Breast Cancer Foundation.

On a local scale, our employees across Canada are engaged in a variety of community and charitable activities, each of which responds to specific community needs. At the heart of all these engagements is the belief that, working together, we can improve the world we share.



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

**FOR THE FOURTH QUARTER AND FISCAL YEAR ENDED DECEMBER 31, 2013**

**DATED MARCH 18, 2014**

The following Management's Discussion and Analysis (MD&A) for KPTissue 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 year ended December 31, 2013 and the period ended December 31, 2012, and the consolidated financial statements of KPLP for the years ended December 31, 2013 (Fiscal 2013) and December 31, 2012 (Fiscal 2012), respectively.

## **ABOUT KP TISSUE INC.**

KPT was created to acquire, and its business is limited to holding, a limited partnership interest in KPLP. As of December 31, 2013 KPT held a 16.7% interest in KPLP, accounted for as an investment in an associate using the equity method of accounting. The following MD&A provides discussion and analysis related to KPT to the extent necessary to understand the equity method of accounting. However, most of the discussion and analysis relates to KPLP and to KPT's investment in KPLP.

## **CAUTIONARY FORWARD LOOKING STATEMENT**

Certain statements in this MD&A about KPT's and KPLP's current and future plans, expectations and intentions, results, levels of activity, performance, goals or achievements or any other future events or developments constitute forward-looking statements. The words "may", "will", "would", "should", "could", "expects", "plans", "intends", "trends", "indications", "anticipates", "believes", "estimates", "predicts", "likely" or "potential" or the negative or other variations of these words or other comparable words or phrases, are intended to identify forward-looking statements. The forward-looking information is based on certain key expectations and assumptions made by KPT or KPLP, including continued growth of the U.S. private label market and demand for TAD products in the U.S., orders for the TAD machine's products, the demand and timing of distributions made by KPLP, and Kruger Inc.'s cash requirements. The financial outlook that KPLP Management provides on page 9 of this MD&A concerning the potential incremental EBITDA generated by the TAD Project (as defined below) may be considered forward-looking information and is based on additional key expectations and assumptions, including but not limited to (i) limited incremental overhead relating to the operation of the TAD machine and distribution and sale of products, (ii) the TAD machine operating at near full capacity and products being sold at prices consistent with current market prices, adjusted for inflation, and (iii) a cost of pulp and energy and a selling price of finished products based on recent prices, adjusted for inflation. Although KPT and KPLP believe that the expectations and assumptions on which such forward-looking information is based are reasonable, undue reliance should not be placed on the forward-looking information since no assurance can be given that such expectations and assumptions will prove to be correct.

Many factors could cause KPLP's actual results, level of activity, performance or achievements or future events or developments (which could in turn affect the economic benefits derived from KPT's economic interest in KPLP) to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, the following factors, which are discussed in greater detail in the "Risk Factors – Risks Related to KPLP's Business" section of the KPT Annual Information Form dated March 19, 2014 available on SEDAR at [www.sedar.com](http://www.sedar.com) (the Annual Information Form): Kruger Inc.'s influence over KPLP; KPLP's reliance on Kruger Inc.; consequences of an event of insolvency relating to Kruger Inc.; risks associated with the TAD Project; operational risks; Gatineau Plant land lease; significant increases in prices; reduction in supply of fibre; increased pricing pressure and intense competition; KPLP's inability to innovate effectively; adverse economic conditions; dependence on key retail trade customers; damage to the reputation of KPLP or KPLP's brands; KPLP's sales being less than anticipated; KPLP's failure to implement its business and operating strategies; KPLP's obligation to make regular capital expenditures; KPLP's entering into unsuccessful acquisitions; KPLP's dependence on key personnel; KPLP's inability to retain its existing customers or obtain new customers; KPLP's loss of key suppliers; KPLP's failure to adequately protect its intellectual property rights; KPLP's reliance on third party intellectual property licenses; adverse litigation and other claims affecting KPLP; material expenditures due to comprehensive environmental regulation affecting KPLP's cash flow; KPLP's pension obligations are significant and can be materially higher than predicted if KPLP Management's underlying assumptions are incorrect; labour disputes adversely affecting KPLP's cost structure and KPLP's ability to run its plants; exchange rate and U.S. competitors; KPLP's inability to service all of its indebtedness; exposure to potential consumer product liability, restrictive covenants; interest rate and refinancing risk; information technology and innovation; insurance; and internal controls.

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

To the extent any forward-looking information in this MD&A constitutes future-oriented financial information or financial outlooks within the meaning of securities laws, such information is being provided to demonstrate the potential benefits of the TAD Project and readers are cautioned that this information may not be appropriate for any other purpose. Future-oriented financial information and financial outlooks, including expected cost-savings related to the Business Rationalization Project and the financial outlook that KPLP Management provides on page 9 of this MD&A concerning the potential incremental EBITDA generated by the TAD Project, are, without limitation, based on the assumptions and subject to the risks set out above.

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

## **OVERVIEW**

### **BUSINESS OVERVIEW**

Pursuant to its Articles, KPT's business is limited to (i) the investment in, holding of and disposition of limited partnership interests, units, shares or other securities of KPLP and its general partner, KPGP Inc. (KPGP) (or any successor entity of either KPLP or KPGP), (ii) the acquisition of, holding, operation and disposition of any assets, liabilities, operations or business of such entities, and (iii) all activities related, incidental or ancillary to any of the foregoing. As of the date of the MD&A and following the participation by the partners in the Dividend Reinvestment Plan (DRIP) on January 15, 2014, KPT held 16.7% of the KPLP Partnership Units (KPLP Units).

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

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

KPLP's U.S. manufacturing facility held through K.T.G. (USA) Inc. (KTG) and located in Memphis, Tennessee consists of two existing paper machines with an aggregate annual capacity of 57,000 metric tonnes, and one adjacent 60,000 metric tonne state-of-the-art, Through-Air-Dried (TAD) tissue machine and related infrastructure (the TAD Project), construction of which was completed in Q1 2013.

### **BASIS OF PRESENTATION**

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

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

The consolidated financial statements of KPLP presented for Fiscal 2013 and Fiscal 2012 have been prepared in accordance with IFRS (International Financial Reporting Standards). The financial statements of KPT for the Fiscal 2013 and the period ended 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 2013 and Fiscal 2012.

## FINANCIAL MEASURES AND KEY INDICATORS

This MD&A uses certain non-IFRS financial measures and ratios which KPLP believes provide useful information to both KPLP Management and the readers of the consolidated financial statements in measuring the financial performance and financial condition of KPLP. These measures do not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similarly titled measures presented by other companies. An example of such measures is EBITDA. EBITDA is not a measurement of operating performance computed in accordance with IFRS and should not be considered as a substitute for operating income, net income or cash flows from operating activities computed in accordance with IFRS. This MD&A contains a reconciliation of EBITDA to the most comparable IFRS measures on page 13.

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

“KTG EBITDA” is calculated as net income (loss) of KTG as reported in the financial statements of KTG before (i) interest expense, (ii) income taxes, (iii) depreciation, and (iv) amortization, as defined in the TAD Credit Facility (as described 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. Though the Canadian tissue market is expected to remain competitive, KPLP believes that its brands and products are well positioned for continued growth. KPLP will aim to sustain its consumer and AFH leadership position in the Canadian tissue industry by driving marketing and sales excellence, extending product lines, continuing to leverage product development and manufacturing technology to drive product superiority and cost savings, and emphasizing manufacturing quality and efficiency.

In the U.S., KPLP will seek to grow by leveraging its TAD capabilities and focusing on the high-end private label business. The TAD Project (see Business Highlights, TAD Project) is a key component to KPLP's strategy of growing its operations in the U.S. private label market. KPLP Management believes that the TAD Project has the potential to generate approximately \$60 million EBITDA annually for KPLP by 2017, being the year in which the TAD paper machine is expected to reach full production capacity. The TAD Project generated \$1.1 million of EBITDA in Fiscal 2013, including \$4.2 million of one-time start-up costs. TAD Project EBITDA was \$4.1 million in Q4 2013. The TAD Project is expected to generate EBITDA in the \$20 to \$25 million range for fiscal 2014. The foregoing estimates of future incremental EBITDA may be considered forward-looking information and are based upon certain key assumptions, including (i) limited incremental overhead relating to the operation of the TAD machine and distribution and sale of products, (ii) the TAD machine operating at near full capacity and products are sold at market prices consistent with current market prices, adjusted for inflation, and (iii) a cost of pulp and energy and a selling price of finished products based on recent prices, adjusted for inflation. The foregoing factors could cause the actual contribution to EBITDA by the TAD Project to differ materially from the amount set forth in the foregoing estimate.

## FACTORS AFFECTING THE RESULTS OF OPERATIONS

### Revenue

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

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

### **Cost of Sales**

Cost of sales includes fixed and variable costs to manufacture our products. 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 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 incurred additional expenses in Fiscal 2013 associated with KPT being a public company, such as additional accounting and legal expenses, costs for internal control compliance and investor relations, as well as salary and benefit expenses associated with additional employees.

### **Interest Expense**

Interest expense is derived from the financing activities of KPLP. KPLP is a borrower under certain credit facilities (each of which are described under "Liquidity and Capital Resources", below). Interest costs related to the TAD Credit Facility (as defined below) recorded during the construction period (i.e. before start of operations) were capitalized, and allocated to property, plant and equipment and are being depreciated along with the assets. Depreciation of the capitalized interest commenced in Q1 2013 with the completion of the construction period. Refer to note 12, "Long-term debt" in the consolidated financial statements for Fiscal 2013 for additional information. KPLP also records amortization related to deferred financing fees and interest costs related to pensions and post-retirement benefits in interest expense.

### **Income Taxes**

KPLP is not a tax paying entity. The income (loss) from KPLP flowed to the partners, Kruger Inc. (formerly held by Kruger Products 2010 LP, which was amalgamated with Kruger Inc. during Fiscal 2013), KPGP and KPT for Fiscal 2013 and Fiscal 2012. On January 4, 2010, Former KPLP acquired substantially all of the business, assets and liabilities of Kruger Products Limited. The reorganization of Kruger Products Limited to a limited partnership was undertaken to optimize the financial and tax structure of the operating entity of the Tissue Business and its affiliates. The income taxes recorded in the 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 up to U.S.\$322 million (including reserves for contingencies, interest during construction, working capital and start-up costs). On February 22, 2013, KPT announced that KPLP had successfully finished the construction phase of the TAD Project, on time and on budget. As of December 31, 2013, a total of U.S.\$311.7 million had been spent on the TAD Project, financed by a U.S. \$186.7 million investment by KPLP into KTG and a drawdown of U.S.\$125.0 million on the TAD Credit Facility (as defined below). As of December 31, 2013, KPLP had invested into KTG, primarily to finance the TAD Project, U.S.\$70.0 million of the proceeds from the subscription by KPT for units of KPLP in the context of KPT's initial public offering in December 2012.

### EASTERN WAREHOUSING INITIATIVE

In November 2013, following a review of its distribution operations the Partnership undertook an initiative to consolidate distribution activities from its Gatineau warehouse to its distribution operations in Laval (Eastern Warehousing Initiative). The Partnership expects to incur restructuring costs of approximately \$2.9 million, \$1.4 million of which was incurred during Fiscal 2013, and reduce costs by approximately \$1.6 million annually as a result of this initiative.

## RESULTS OF OPERATIONS

### RESULTS OF OPERATIONS OF KPLP

(C\$ millions, unless otherwise noted)	Fiscal 2013	Fiscal 2012	Fiscal 2011 <sup>(a)</sup>	\$ Change	
				Fiscal 2013 vs. Fiscal 2012	Fiscal 2012 vs. Fiscal 2011
Statement of Operations Data:					
Revenue	955.3	922.9	892.6	32.4	30.3
Cost of sales	(675.7)	(646.1)	(658.5)	(29.6)	12.4
Operating expenses	(199.8)	(195.0)	(182.4)	(4.8)	(12.6)
Recovery (impairment) of non-financial assets	1.8	(4.6)	(2.7)	6.4	(1.9)
Restructuring costs	(1.4)	(9.4)	—	8.0	(9.4)
Operating income	80.2	67.8	49.0	12.4	18.8
Interest expense	(42.2)	(27.8)	(19.2)	(14.4)	(8.6)
Income before income taxes	38.0	40.0	29.8	(2.0)	10.2
Income taxes:					
Combined income tax rate after manufacturing and processing credits	(9.9)	(10.4)	(8.0)	0.5	(2.4)
Income tax in partners' hands	15.1	10.3	7.6	4.8	2.7
Other	5.7	1.5	(0.9)	4.2	2.4
Income taxes	10.9	1.4	(1.3)	9.5	2.7
Net Income	48.9	41.4	28.5	7.5	12.9

<sup>(a)</sup> Amounts have not been restated for changes in IAS 19.

				\$ Change	
(C\$ millions, unless otherwise noted)	Fiscal 2013	Fiscal 2012	Fiscal 2011	Fiscal 2013 vs. Fiscal 2012	Fiscal 2012 vs. Fiscal 2011
<b>Reconciliation of EBITDA to Net income:</b>					
<b>Net income</b>	<b>48.9</b>	41.4	28.5	7.5	12.9
Income taxes	<b>(10.9)</b>	(1.4)	1.3	(9.5)	(2.7)
Interest expense	<b>42.2</b>	27.8	19.2	14.4	8.6
Loss (gain) on disposal of property, plant and equipment	<b>—</b>	1.0	0.1	(1.0)	0.9
Depreciation and amortization	<b>34.1</b>	28.9	30.9	5.2	(2.0)
Unrealized foreign exchange loss	<b>3.0</b>	(0.8)	(0.9)	3.8	0.1
Change in amortized cost of Partnership units liability	<b>(0.7)</b>	—	—	(0.7)	—
Impairment (recovery) of non-financial assets	<b>(1.8)</b>	4.6	2.7	(6.4)	1.9
Restructuring costs	<b>1.4</b>	9.4	—	(8.0)	9.4
<b>EBITDA</b>	<b>116.2</b>	110.9	81.8	5.3	29.1

### **Results of Operations Fiscal 2013 compared to Fiscal 2012**

#### *Revenue*

Revenue was \$955.3 million in Fiscal 2013 compared to \$922.9 million in Fiscal 2012, an increase of \$32.4 million or 3.5%. The increase in revenue resulted primarily from higher sales volumes in Canada and new business related to the TAD Project. The positive impact of an increase in sales volume related to finished product sales was partially offset by lower parent roll sales as a result of the Business Rationalization Project (as defined below). Revenue in Canada increased \$25.2 million, or 3.8%. Revenue increased in the U.S. by \$7.7 million, or 3.3%, as a result of an increase in finished product sales, and approximately 3% related to the favourable impact of foreign exchange, partially offset by the decline in parent roll sales as a result of the Business Rationalization Project (as defined below). KTG revenue (sold primarily in the U.S. and including intercompany sales) was \$199.3 million in Fiscal 2013 compared to \$147.2 million in Fiscal 2012.

#### *Cost of Sales*

Cost of sales were \$675.7 million in Fiscal 2013 compared to \$646.1 million in Fiscal 2012, an increase of \$29.6 million or 4.6%. As a percentage of revenue, cost of sales were 70.7% in Fiscal 2013 compared to 70.0% in Fiscal 2012. Cost of sales were impacted in Fiscal 2013 as commodity prices, particularly fibre costs, continued to move upward. Pulp market prices (NBSK) finished the year at U.S. \$990 per metric tonne and were U.S.\$941 per metric tonne on average in Fiscal 2013 compared to U.S.\$872 per metric tonne on average in Fiscal 2012. Natural gas prices also increased in Fiscal 2013 from historically low levels during Fiscal 2012, depreciation expense was higher due to the TAD Project and cost of sales were unfavourably impacted by foreign exchange movements.

#### *Operating Expenses*

Operating expenses were \$199.8 million in Fiscal 2013 compared to \$195.0 million in Fiscal 2012, an increase of \$4.8 million or 2.5%. As a percentage of revenue, operating expenses were 20.9% in YTD 2013 compared to 21.1% in Fiscal 2012. The \$4.8 million increase was primarily related to additional freight expense as a result of higher sales volumes, as well as higher warehousing expenses due to increased inventory levels to support the TAD ramp-up. Operating expenses were also impacted by a foreign exchange loss in Fiscal 2013 compared to a gain in Fiscal 2012. The increase in operating expenses was partially offset by lower management fees paid to Kruger during Fiscal 2013.

### EBITDA

EBITDA was \$116.2 million in Fiscal 2013 compared to \$110.9 million in Fiscal 2012. The increase in revenue was offset somewhat by lower operating margins due to higher commodity costs and operating expenses. EBITDA in fiscal 2013 also benefited from \$5.5 million of the expected \$11.9 million savings from the Business Rationalization Project. KTG EBITDA was \$9.3 million in Fiscal 2013 compared to EBITDA of \$4.4 million in Fiscal 2012. KTG EBITDA in Fiscal 2013 included \$4.2 million of TAD Project start-up costs, compared to \$3.6 million of direct and incremental expenses without any corresponding revenue for the TAD Project in Fiscal 2012.

### Interest Expense

Interest expense was \$42.2 million in Fiscal 2013 compared to \$27.8 million in Fiscal 2012, an increase of \$14.4 million. The increase was primarily due to interest expense related to the TAD Project recorded in Fiscal 2013, which was capitalized during construction in Fiscal 2012, partially offset by lower interest expense related to lower debt levels on the Senior Credit Facility in Fiscal 2013 compared to Fiscal 2012.

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

In 2012, following a comprehensive strategic and operational review, KPLP substantially completed restructuring initiatives in order to cease production of its parent rolls for sale, which was not strategic to KPLP's overall business. These restructuring initiatives resulted in the permanent idling of two paper machines, a groundwood pulp plant and certain converting equipment, all at KPLP's New Westminster plant, as well as the termination of certain employees at the head office and at other manufacturing facilities (the Business Rationalization Project). As a result, certain related production assets were written down to reflect this change and an asset impairment charge of \$4.6 million was recorded in Fiscal 2012. One-time restructuring costs of \$9.4 million related to the Business Rationalization Project, primarily severance related, were also recorded in Fiscal 2012. The recovery in Fiscal 2013 was the result of a reversal of a previously recorded provision against certain lands included in the Business Rationalization Project of \$1.8 million, partially offset by a restructuring charge related to the Eastern Warehousing Initiative described above.

### Income Taxes

An income tax recovery of \$10.9 million was recorded in Fiscal 2013 compared to income tax recovery of \$1.4 million in Fiscal 2012, a change of \$9.5 million relating primarily to KTG in the U.S. As previously discussed, KPLP is not directly taxable on its Canadian business. The income tax recovery recorded in Fiscal 2013 related primarily to additional tax deductions and state tax credits in respect of the TAD Project, while the tax expense in Fiscal 2012 related primarily to taxable income in the U.S. Income tax in partner's hands was \$15.1 million in Fiscal 2013 compared to \$10.3 million in Fiscal 2012.

### Net Income

Net income was \$48.9 million in Fiscal 2013 compared to \$41.4 million in Fiscal 2012, an increase of \$7.5 million. The increase in net income was primarily due to the increase in EBITDA, the income tax recovery and the charge related to the Business Rationalization Project in Fiscal 2012 compared to the restructuring activities in Fiscal 2013 noted above, partially offset by an increase in interest expense and depreciation expense. KTG had a net loss of \$11.2 million in Fiscal 2013 compared to net income of \$0.8 million in Fiscal 2012, primarily due to interest expense and start-up costs related to the TAD Project.

## RESULTS OF OPERATIONS OF KPT

<b>(C\$ millions, unless otherwise noted)</b>	<b>Fiscal 2013</b>	December 13, 2012 to December 31, 2012
Equity income (loss)	<b>1.1</b>	(1.0)
Net loss for the period	<b>(0.3)</b>	(0.8)
<b>Basic loss per share (whole dollars)</b>	<b>(0.03)</b>	<b>(0.11)</b>

The selected financial information presented above is based on KPT's interest in KPLP for Fiscal 2013 and the period from December 13, 2012 to December 31, 2012. The equity income includes KPT's share of income of KPLP of \$8.2 million for the year ended December 31, 2013 and \$0.2 million for the period from December 13, 2012 to December 31, 2012, reduced by depreciation expense of \$7.1 million and \$1.2 million, respectively, related to adjustments to the carrying amount of the assets and liabilities of KPLP on its acquisition by KPT. Refer to note 5 in KPT's financial statements for additional information.

The current income tax expense of \$0.6 million for the year ended December 31, 2013 was based on KPT's share of the taxable income of KPLP for the same period. The deferred tax expense of \$1.4 million for the year ended December 31, 2013 was a result of changes in the temporary differences of KPLP's assets and liabilities since acquisition and the difference between the accounting and tax basis for KPT's investment in KPLP. Refer to note 6 in KPT's financial statements for additional information. On February 28, 2014, the Partnership paid a Tax Distribution of \$3.5 million of which \$0.6 million was used to pay the tax instalment on behalf of KPT and \$2.9 million was paid to Kruger Inc. and KPGP.

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

## SEGMENT INFORMATION

### SEGMENT OPERATING PROFIT

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

### SEGMENT RESULTS

	<b>Fiscal 2013</b>	Fiscal 2012	Fiscal 2011 <sup>(a)</sup>	Fiscal 2013 vs. Fiscal 2012		Fiscal 2012 vs. Fiscal 2011	
				Change \$	Change %	Change \$	Change %
<b>Segment Revenue</b>							
Consumer	<b>792.7</b>	745.6	705.3	47.1	6.3	40.3	5.7
AFH	<b>154.3</b>	156.6	151.3	(2.3)	(1.5)	5.3	3.5
Other	<b>8.3</b>	20.7	36.0	(12.4)	(59.9)	(15.3)	(42.5)
Total segment revenue	<b>955.3</b>	922.9	892.6	32.4	3.5	30.3	3.4
<b>Segment EBITDA</b>							
Consumer	<b>110.3</b>	113.7	87.6	(3.4)		26.0	
AFH	<b>6.6</b>	3.0	2.0	3.6		1.0	
Other	<b>(0.7)</b>	(5.8)	(7.7)	5.1		1.9	
Total segment EBITDA	<b>116.2</b>	110.9	81.9	5.3		28.9	

<sup>(a)</sup> Amounts have not been restated for changes in IAS 19.

### Consumer Segment

*Fiscal 2013 compared to Fiscal 2012*

Consumer segment revenue was \$792.7 million in Fiscal 2013 compared to \$745.6 million in Fiscal 2012, an increase of \$47.1 million or 6.3%. The increase in Consumer segment revenue resulted primarily from an increase in sales volume. Consumer segment revenue increased in both Canada and U.S. with Mexico slightly lower.

Consumer Segment EBITDA was \$110.3 million in Fiscal 2013 compared to \$113.7 million in Fiscal 2012, a decrease of \$3.4 million. The decrease was primarily due to lower margins resulting from increases in cost of sales (particularly pulp) and operating expenses.

### **AFH Segment**

*Fiscal 2013 compared to Fiscal 2012*

AFH segment revenue was \$154.3 million in Fiscal 2013 compared to \$156.6 million in Fiscal 2012, a decrease of \$2.3 million or 1.5% primarily as a result of a decrease in sales volume. AFH segment revenue increased slightly in the U.S. and declined in Canada.

AFH Segment EBITDA was \$6.6 million in Fiscal 2013 compared to \$3.1 million in Fiscal 2012, an increase of \$3.5 million. The increase was due to an improvement in margin due to changes in sales mix, lower costs as a result of the Business Rationalization Project, and lower recycled fibre costs.

### **Other Segment**

*Fiscal 2013 compared to Fiscal 2012*

Other segment revenue was \$8.3 million in Fiscal 2013 compared to \$20.7 million in Fiscal 2012, a decrease of \$12.4 million or 59.4%. The decrease was a result of the Business Rationalization Project.

Other Segment EBITDA was a loss of \$0.7 million in Fiscal 2013 compared to a loss of \$5.8 million in Fiscal 2012, an improvement of \$5.1 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 costs, working capital, capital expenditures and pension contributions (together, the Funding Requirements). To date, KPLP has met the Funding Requirements by using cash generated from operating activities and from borrowings under its various debt facilities. The registered defined benefit pension plans (RDBPP) sponsored by KPLP are currently in a solvency deficiency position, requiring KPLP to make funding contributions over the next ten years. KPLP Management believes that cash generated from operations, together with amounts available under the various debt facilities will be sufficient to meet its future funding requirements. However, KPLP's ability to fund future requirements and its ability to make scheduled payments of interest on its debt facilities and to satisfy any of its other present or future debt obligations will depend on its future operating performance, which will be affected by general economic, financial and other factors including factors beyond its control. KPLP Management reviews investment opportunities in the normal course of its business and may, if suitable opportunities arise, make selected investments to implement KPLP's business strategy. Historically, the funding for any such investments has come from cash flow from operations and/or additional debt.

As of December 31, 2013, KPLP was in compliance with all of its financial covenants under all of its outstanding credit facilities. As of December 31, 2013, no amount was drawn from the \$125 million committed amount under the Senior Credit Facility, with the exception of \$32.4 million of letters of credit outstanding.

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

## CASH FLOWS

(C\$ millions, unless otherwise noted)	Fiscal 2013	Fiscal 2012	Fiscal 2011	\$ Change	
				Fiscal 2013 vs. Fiscal 2012	Fiscal 2012 vs. Fiscal 2011
Net cash flows from operating activities	<b>55.5</b>	123.2	72.2	(67.7)	51.0
Net cash flows used in investing activities	<b>(59.9)</b>	(184.8)	(109.4)	124.9	(75.4)
Net cash flows from (used in) financing activities	<b>(30.4)</b>	151.5	47.3	(181.9)	104.2
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	<b>1.0</b>	(0.2)	0.2	1.2	(0.4)
Increase (decrease) in cash and cash equivalents	<b>(33.8)</b>	89.7	10.3	(123.5)	79.4
Beginning cash and cash equivalents	<b>121.5</b>	31.8	21.5	89.7	10.3
Ending cash and cash equivalents	<b>87.7</b>	121.5	31.8	(33.8)	89.7

### Net Cash Flows from Operating Activities

Net cash from operating activities was \$55.5 million in Fiscal 2013 compared to \$123.2 million in Fiscal 2012. Cash from operating activities in Fiscal 2013 was primarily driven by EBITDA of \$116.2 million, partially offset by higher funds required by working capital components due to expected inventory build-up (primarily related to the TAD Project), and funding of pension and post retirement plans higher than the related expense.

### Net Cash Flows used in Investing Activities

Net cash used in investing activities was \$59.9 million in Fiscal 2013 compared to \$184.8 million in Fiscal 2012. TAD Project capital expenditures (including capitalized interest) declined to \$40.0 million in Fiscal 2013 compared to \$167.2 million in Fiscal 2012 as a result of the end of the construction phase of the TAD Project in Q1 2013. Capital expenditures on existing plant sites were \$20.3 million in Fiscal 2013 compared to \$17.7 million in Fiscal 2012.

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

Financing activities in Fiscal 2013 resulted in a use of cash of \$30.4 million, whereas cash of \$151.5 million was generated in Fiscal 2012. Net cash used in financing activities in Fiscal 2013 was primarily due to interest paid of \$27.7 million and distributions paid of \$30.0 million, partially offset by net proceeds of \$25.2 million related to the issuance of partnership units in connection with the partial exercise of the overallotment option and participation by the partners in the DRIP, and net proceeds from credit facilities of \$2.2 million.

## CONTRACTUAL OBLIGATIONS

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

(C\$ millions unless otherwise stated)	Fiscal 2014	Fiscal 2015	Fiscal 2016	Fiscal 2017	Thereafter
<b>Contractual obligations:</b>					
Revolving credit facility, principal repayments	—	—	—	—	—
Senior unsecured notes, principal repayments	—	—	—	—	175.0
Nordea facilities, principal repayments	7.0	7.0	7.0	7.0	14.0
TAD Credit Facility, principal repayments	—	10.0	—	—	132.9
Loan payable, principal repayments	1.2	1.2	1.1	—	—
Interest expense	26.6	25.8	24.8	24.5	15.2
Operating leases	13.0	12.9	11.9	10.7	68.0
Service contracts	1.8	0.9	—	—	—
<b>Total contractual obligations</b>	<b>49.6</b>	<b>57.8</b>	<b>44.8</b>	<b>42.2</b>	<b>405.1</b>

KPLP's cash pension contribution for defined benefit pension arrangements in Fiscal 2013 was \$28.0 million, while its post-retirement benefits contribution was \$2.4 million. In addition, as of December 31, 2013, 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 Inc. (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, \$117,839 of equity has been recorded as a liability in respect of this obligation. The amount 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 Inc. 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 Inc. aggregate ownership interest is less than 20% in KPLP, KPT may require the exchange of all outstanding KPLP Units held by Kruger Inc. 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 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 fourth amended and restated credit agreement dated as of May 16, 2013 entered into between KPLP as borrower, 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 \$125 million with a \$120 million accordion feature (the Senior Credit Facility) is made available to KPLP. The maturity date of the Senior Credit Facility is July 22, 2016. The Senior Credit Facility is to be used by KPLP to finance general corporate purposes and the ongoing working capital requirements of the Restricted Credit Parties (as defined below) and to finance the cash portion of any permitted acquisition or investment by any such Restricted Credit Party (as defined below).

Under the Senior Credit Agreement, "Restricted Credit Parties" means KPLP, KPGP, Kruger Inc., 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 0.20% and 2.50% 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 0.24% and 0.50% 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 interest coverage ratio of 3.00 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.

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, 2013, the amount of the Restricted Payments Basket was approximately \$83.7 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 \$103.7 million available under the Indenture as of December 31, 2013 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 May 16, 2013 entered into between KPLP, as borrower, 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 June 30, 2013. 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 Agreement — 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 depot et placement du Quebec (Caisse), 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). Under the terms of the Caisse Facility, the Partnership could only make draws until February 15, 2014. As of that date, the Partnership had drawn U.S.\$125.0 million. 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 that distributions 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, and abandonment of the TAD Project.

#### *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, 2013, KPLP had net liabilities denominated in U.S. dollars of \$50.0 million (December 31, 2012 – \$46.0 million). Assuming the Canadian dollar strengthened (weakened) by 5% against the U.S. dollar, with all other variables held constant, the result on net income before tax in Fiscal 2013 would have been an increase (decrease) of \$2.5 million (Fiscal 2012 – \$2.3 million). KPLP continuously monitors foreign exchange risk and to manage this foreign exchange risk occasionally enters into foreign currency forward contracts and may continue to do so going forward.

## **INTEREST RATE RISK**

KPLP's interest rate risk arises from its variable rate debt related to the revolving credit facility. As of December 31, 2013, KPLP had variable rate debts of nil (December 31, 2012 – \$0.1 million) and accordingly KPLP's exposure to interest rate risk is not significant. This facility bears interest at Canadian prime rate, U.S. base rate, banker's acceptance rates or LIBOR plus the applicable margins. The applicable margin on the loans ranges between 0.20% and 2.50%.

From time to time, KPLP uses interest rate swaps to manage part of its exposure to movements in interest rates on its credit facilities. During Fiscal 2012, KPLP had an interest rate swap on its revolving credit facilities.

The interest rate swap was terminated during the third quarter of 2012. KPLP paid \$0.4 million to terminate the swap.

KPLP had no interest rate swaps or interest rate derivatives outstanding as of December 31, 2013 and 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, 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 \$87.7 million in cash and cash equivalents on hand as of December 31, 2013 (December 31, 2012 - \$121.5 million), and had unused lines of credit available of \$92.6 million as of December 31, 2013 (December 31, 2012 – \$162.5 million). KPLP prepares projections to ensure it has sufficient funds to fulfill its obligations. Refinancing risks are minimized by ensuring the credit facility will not mature for 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 \$188.5 million as of December 31, 2013 (December 31, 2012 – \$186.3 million) are all due for payment within twelve months of the dates of the consolidated statements of financial position.

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

## **COMMODITY PRICE RISK**

Commodity price risk is the risk that future cash flows associated with purchasing required raw materials will fluctuate due to changes in commodity prices. KPLP's main raw material is fibre, which changes price due to market conditions. KPLP mitigates its exposure to commodity price risk by passing increases in its supply costs onto its customers through incremental price increases. From time to time, KPLP enters into futures contracts to manage its commodity risk.

## **TRANSACTIONS WITH RELATED PARTIES**

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

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

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

Sales of goods and services to Kruger during Fiscal 2013 were \$7.7 million (Fiscal 2012 – \$4.3 million). Sales of goods to subsidiaries of Kruger during Fiscal 2013 were \$0.6 million (Fiscal 2012 – \$0.2 million).

Purchases of goods and services from Kruger during Fiscal 2013 were \$49.4 million (Fiscal 2012 - \$54.7 million). Purchases of goods and services from subsidiaries of Kruger during Fiscal 2013 were \$9.5 million (Fiscal 2012 - \$9.4 million). Goods are purchased from Kruger and related parties under normal commercial terms and conditions. These purchases of goods and services are included within cost of sales and operating expenses in the consolidated statements of comprehensive income (loss). During Fiscal 2013, management fees of \$4.0 million (Fiscal 2012 - \$9.2 million) were paid to Kruger Inc. for management services provided to KPLP.

## **OFF BALANCE SHEET ARRANGEMENTS**

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

## **CRITICAL ACCOUNTING ESTIMATES**

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

## **REVENUE RECOGNITION**

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

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

## **EMPLOYEE FUTURE BENEFITS**

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

## **PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment to be held and used is reviewed for impairment when events or circumstances indicate that their carrying value may not be recoverable. The recoverable amount is the higher of an asset's fair value, less costs to sell, and its value in use (being the present value of the expected future cash flows of the relevant asset or cash generating unit (CGU)). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

## **TAD EXPANSION**

The capitalized cost of the TAD Project includes interest expense, engineering costs and legal fees. KPLP has retained a third party to assist with the allocation of the costs between buildings and equipment. The third party report has been finalized and applied to the Fiscal 2013 financial results.

## **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 had retained a third party to assist with the estimate of the environmental remediation obligation. The provision at the reporting date represents KPLP's best estimate of the present value of the environmental and asset retirement obligation. The estimated undiscounted amount to settle this obligation is expected to be between \$10.6 million and \$13.7 million. KPLP used a discount rate of 4.25% to estimate the liability. As of December 31, 2013, a liability of \$5.3 million (December 31, 2012 - \$4.9 million) was recorded in provisions.

## **PARTNERSHIP UNITS**

On December 13, 2012, in connection with the issuance of KPLP Units to KPT, the Limited Partnership Agreement was amended to require KPLP, subject to compliance with contractual obligations and applicable law, to make distributions to its partners in such amounts as would enable KPT to discharge its obligation to pay federal and provincial income taxes (the Tax Distribution). Each partner is entitled to its share of the Tax Distribution made in respect of any given year. In light of this obligation, KPLP has determined that it is appropriate to reclassify a portion of its equity as a liability to its partners as required under IFRS as the obligation meets the definition of a financial liability for accounting purposes. Accordingly, \$118.6 million of equity was reclassified as a liability in respect of this obligation. The reclassification is in respect of a previously disclosed obligation owed to the partners of KPLP. The carrying value of the Partnership units liability was revalued to \$117.8 million as of December 31, 2013. The change in value of \$0.7 million has been included in operating expenses. It does not change the rights of or obligations owed to the partners of KPLP, and does not result in any change to the financial statements of KPT. This amount reflects KPLP's estimate of the net present value of the financial liability arising from the obligation to make the Tax Distribution using estimates of KPLP's taxable income and a discount rate and terminal growth rate of 11.50% and 0%, respectively. Projections of taxable income are based on additional assumptions including estimates of deductible amounts and tax rates. Taxable income can differ significantly from accounting income as a result of both timing and permanent tax differences based on enacted tax legislation and therefore changes in the partnership unit obligation are not necessarily indicative of a change in the expected future profitability of KPLP.

## **EQUITY METHOD OF ACCOUNTING**

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

## **ESTIMATES OF FAIR VALUE AND IMPACT ON EQUITY INCOME**

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

## **INCOME TAXES**

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

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

### **ACCOUNTING STANDARDS IMPLEMENTED FOR THE YEAR ENDED DECEMBER 31, 2013**

IFRS 7, Financial Instruments - Disclosures, has been amended to include additional disclosure requirements in the reporting of offsetting of financial instruments. The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement. The amendment was applied retrospectively. As the Partnership does not have any offsetting arrangements in place, the application of the amendments has had no material impact on the disclosures or on the amounts recognized in the consolidated financial statements.

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 previous IFRS, consolidation was 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 adoption of this amendment did not have a material 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 adoption of this standard did not have a material impact on 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 previous 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 adoption of this standard did not have a material impact on 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 amendments have been applied retrospectively, and hence the presentation of items of OCI has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

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 Partnership has recorded the interest portion of the defined benefit costs and the post-retirement benefit costs as interest expense.

IAS 19 (Amended in 2011), Employee Benefits, amends certain accounting requirements for defined benefit plans and termination benefits. IAS 19 requires the net defined benefit liability (asset) to be recognized on the balance sheet without any deferral of actuarial gains and losses and past service costs as previously allowed. Past service costs are recognized in net income when incurred. Expected returns on plan assets are no longer included in post-employment benefits expense. Instead, post-employment benefits expense includes the net interest on the net defined benefit liability (asset) calculated using a discount rate based on market yields on high quality bonds. Remeasurements consisting of actuarial gains and losses, the actual return on plan assets (excluding the net interest component) and any change in the asset ceiling are recognized in other comprehensive income. The Partnership continues to immediately recognize in retained earnings (accumulated deficit) all pension adjustments recognized in other comprehensive income (loss). The Partnership also continues to recognize interest expense (income) on net post-employment benefits liabilities (assets) in expense (income) in the condensed consolidated statements of comprehensive income (loss).

The Partnership adopted these amendments retrospectively. The post-employment benefits finance expense and employee benefit expense for the comparable period have been adjusted to reflect the accounting changes for defined benefit plans.

## FUTURE ACCOUNTING STANDARDS

The following revised standards and amendments are effective for annual periods beginning on or after January 1, 2014, and with earlier application permitted. KPLP and KPT Management have not yet assessed the impact of these standards and amendments or determined whether it will early adopt them, except as noted below.

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

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

Amendments to IAS 32, Offsetting Financial Assets and Financial Liabilities, prescribe rules for the offsetting of financial assets and financial liabilities. It specifies that a financial asset and a financial liability should be offset and the net amount reported when, and only when an entity has a legally enforceable right to set off the amounts, and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously. The amendments require clarification on four main areas: the meaning of 'currently has a legally enforceable right of set-off', the application of simultaneous realization and settlement, the offsetting of collateral amounts, and the unit of account for applying the offsetting requirements. The amendment is effective for annual periods beginning on or after January 1, 2014.

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

IAS 36, Impairment of Assets, has been amended to remove the requirement to disclose the recoverable amount when a CGU contains goodwill or indefinite lived intangible assets but there has been no impairment; to require disclosure of the recoverable amount of an asset or CGU when an impairment loss has been recognized or reversed; and to require detailed disclosure of how the fair value less costs of disposal has been measured when an impairment loss has been recognized or reversed.

2012 annual improvements - improvements and amendments to the following existing standards, basis of conclusions and guidance, effective for years beginning on or after January 1, 2014:

- IFRS 2, Share-based payment, amends the definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition' (which were previously part of the definition of 'vesting condition').
- IFRS 3, Business Combinations (with consequential amendments to other standards), clarifies that contingent consideration that is classified as an asset or a liability shall be measured at fair value at each reporting date.

## SELECTED ANNUAL FINANCIAL INFORMATION

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

	December 31, 2013	December 31, 2012
<b>KPT Financial Information</b>		
Total assets	163.2	139.6
Total liabilities	5.2	—
<b>KPLP Financial Information</b>		
Total assets	1,161.5	1,095.3
Total liabilities	808.3	849.2

## SELECTED QUARTERLY FINANCIAL INFORMATION

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

### QUARTERLY FINANCIAL INFORMATION

	2013				2012 <sup>(a)</sup>			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	242.9	243.8	246.8	221.8	242.9	232.4	231.3	216.2
Net income for the period	7.6	14.2	15.4	11.7	5.4	20.0	15.6	0.4
<b>Reconciliation of Net income to EBITDA</b>								
Net income	7.6	14.2	15.4	11.7	5.4	20.0	15.6	0.4
Income taxes	(1.2)	(1.3)	(3.5)	(4.9)	(2.4)	0.5	0.3	0.2
Interest expense	9.9	11.4	11.0	9.9	8.2	6.4	7.1	6.1
Loss on disposal of property, plant and equipment	—	—	—	—	0.6	0.4	0.1	—
Depreciation and amortization	9.9	7.7	9.0	7.5	10.9	6.0	5.8	6.1
Unrealized foreign exchange (gain) loss	1.4	(0.9)	1.6	0.9	0.8	(2.0)	1.0	(0.6)
Gain on revaluation of Partnership units liability	(0.7)	—	—	—	—	—	—	—
Restructuring costs	1.4	—	—	—	0.8	—	(0.5)	9.1
Impairment (recovery) of non-financial assets	—	—	(1.8)	—	(1.3)	—	—	5.9
<b>EBITDA</b>	<b>28.3</b>	<b>31.1</b>	<b>31.7</b>	<b>25.1</b>	<b>23.0</b>	<b>31.3</b>	<b>29.4</b>	<b>27.2</b>

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

### RESULTS OF OPERATIONS Q4 2013 COMPARED TO Q4 2012

Revenue was \$242.9 million in Q4 2013, the same as in Q4 2012. The impact of 6 fewer days of sales in Q4 2013 compared to Q4 2012 was offset by new business related to the TAD Project in the U.S. and the favourable impact of foreign exchange on U.S. based sales. Revenue in Canada decreased \$4.7 million, or 2.6%, and increased in the U.S. by \$5.5 million, or 9.4%, with the effect of foreign exchange accounting for approximately 6% of the U.S. revenue increase. KTG revenue (sold primarily in the U.S. and including intercompany sales) was \$56.3 million in Q4 2013 compared to \$41.2 million in Q4 2012.

Cost of sales were \$173.1 million in Q4 2013 compared to \$172.4 million in Fiscal 2012, an increase of \$0.7 million or 0.4%. As a percentage of revenue, cost of sales were 71.2% in Q4 2013 compared to 71.0% in Fiscal 2012. Cost of sales were impacted in Q4 2013 as commodity prices, particularly fibre costs, continued to move upward. Pulp market prices (NBSK) were U.S.\$983 per metric tonne on average in Q4 2013 compared to U.S.\$863 per metric tonne on average in Q4 2012. Natural gas prices increased in Q4 2013 from historically low levels during Fiscal 2012 and there was also an unfavourable impact of foreign exchange movements. Cost of sales were also impacted by 6 fewer days of sales in Q4 2013 compared to Q4 2012.

Operating expenses were \$52.2 million in Q4 2013 compared to \$59.7 million in Q4 2012, a decrease of \$7.5 million or 12.5%. As a percentage of revenue, operating expenses were 21.5% in Q4 2013 compared to 24.6% in Q4 2012. The \$7.5 million decrease related to: the impact of 6 fewer days in Q4 2013 compared to Q4 2012; decreases in freight and selling expenses as a result of changes in sales mix; lower advertising and promotion expenses; a lower management fee in Q4 2013; and direct and incremental costs related to the TAD Project and reorganization costs incurred in Q4 2012 but not in Q4 2013.

EBITDA in Q4 2013 was \$28.3 million compared to \$23.0 million in Q4 2012, an increase of \$5.3 million, primarily due to a decrease in operating expenses. KTG EBITDA was \$7.2 million in Q4 2013 compared to a loss of \$0.6 million in Q4 2012. KTG EBITDA in Q4 2012 included \$1.8 million of direct and incremental expenses without any corresponding revenue for the TAD Project.

Interest expense was \$9.9 million in Q4 2013 compared to \$8.3 million in Q4 2012, an increase of \$1.6 million. The increase was primarily due to interest expense related to the TAD Project recorded in Q4 2013, whereas interest was capitalized during construction in Q4 2012, partially offset by the change in value of the embedded derivative related to the Senior Unsecured Notes.

An income tax credit of \$1.3 million was recorded in Q4 2013 compared to income tax credit of \$2.4 million in Q4 2012, a change of \$1.1 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 2013 and Q4 2012 related primarily to additional tax deductions in respect of the TAD project. Income tax in partners' hands was \$2.1 million in Q4 2013 compared to \$2.0 million in Q4 2012.

Net income was \$7.6 million in Q4 2013 compared to \$5.4 million in Q4 2012, an increase of \$2.2 million. The increase was primarily due to higher EBITDA, partially offset by higher interest expense and a lower deferred tax credit in Q4 2013 compared to Q4 2012. KTG had a net loss of \$1.2 million in Q4 2013 compared to a net loss of \$1.3 million in Q4 2012.

## **SEGMENT INFORMATION Q4 2013 COMPARED TO Q4 2012**

### ***Consumer Segment***

Consumer segment revenue was \$202.1 million in Q4 2013 compared to \$199.1 million in Q4 2012, an increase of \$3.0 million or 1.5%. The impact of a slight decrease in sales volume related to finished products in Canada was more than offset by new business related to the TAD Project and the favourable impact of foreign exchange on U.S. based sales. Consumer segment revenue increased in the U.S. and decreased in both Canada and Mexico.

Consumer Segment EBITDA was \$27.2 million in Q4 2013 compared to \$24.7 million in Q4 2012, an increase of \$2.5 million, primarily due to an increase in revenues, in particular relating to the TAD Project, and lower operating costs as discussed above.

### ***AFH Segment***

AFH segment revenue was \$38.7 million in Q4 2013 compared to \$41.7 million in Q4 2012, a decrease of \$3.0 million or 7.2%, primarily due to a decrease in sales volume. AFH segment revenue decreased in both Canada and the U.S.

AFH Segment EBITDA was \$1.3 million in Q4 2013 compared to a loss of \$1.7 million in Q4 2012, an increase of \$3.0 million. The increase in AFH Segment EBITDA was primarily due to improved sales mix, less promotional activity compared to Q4 2012 and reduced costs of recycled fibre.

### **Other Segment**

Other segment revenue was \$2.1 million in Q4 2013 compared to \$2.1 million in Q4 2012.

Other Segment EBITDA was a loss of \$0.2 million in Q4 2013 compared to income of \$0.2 million in Q4 2012.

## **SHARE INFORMATION**

KPT's authorized share capital consists of an unlimited number of Common Shares. As of March 18, 2014, there were 8,808,217 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 18, 2014 for Common Shares, it would hold approximately 83.3% of the issued and outstanding Common Shares. As of March 18, 2014, there were no potentially dilutive instruments outstanding.

Pursuant to the Limited Partnership Agreement, KPLP may issue an unlimited number of KPLP Units. As of March 18, 2014, there were 52,780,028 KPLP Units issued and outstanding.

## **RISK FACTORS**

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

## **CONTROLS AND PROCEDURES**

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

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

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

The Corporations will file certifications, signed by the Corporations' CEO and CFO, with the Canadian Securities Administrators (CSA) upon filing of the Corporations' Annual Information Form. In those filings, the Corporations' CEO and CFO will certify, as required by National Instrument 52-109, the appropriateness of the financial disclosure, the design and effectiveness of the Corporations' disclosure controls and procedures and the design and effectiveness of internal controls over financial reporting. The Corporations' CEO and CFO also certify the appropriateness of the financial disclosures in the Corporations' interim filings with securities regulators. In those interim filings, the Corporations' CEO and CFO also certify the design of the Corporations' disclosure controls and procedures and the design of internal controls over financial reporting.

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

***Management's Report on Disclosure Controls and Procedures***

Management, under the supervision of and with the participation of the Corporations' CEO and CFO, evaluated the effectiveness of the Corporations' disclosure controls and procedures (as defined under National Instrument 52-109) and concluded, as of December 31, 2013, that such disclosure controls and procedures were effective.

***Management's Report on Internal Controls over Financial Reporting***

Management, under the supervision of and with the participation of the Corporations' CEO and CFO, evaluated the effectiveness of the Corporations' internal controls over financial reporting (as defined under National Instrument 52-109). In making this evaluation, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commissions (COSO) in Internal Control - Integrated Framework (1992). Based on that evaluation, management and the CEO and CFO have concluded that, as of December 31, 2013, the Corporations' internal controls over financial reporting were effective. This evaluation took into consideration the Corporations' Corporate Disclosure Policy and the functioning of its Disclosure Policy Committee.

**ADDITIONAL INFORMATION**

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

**KP TISSUE INC.**  
**AUDITED FINANCIAL STATEMENTS**

For the year ended December 31, 2013 and the period ended December 31, 2012

---

March 18, 2014

## **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 statements of financial position as at December 31, 2013 and December 31, 2012 and the statements of comprehensive income (loss), changes in equity and cash flows for the year ended December 31, 2013 and 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 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 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, 2013 and December 31, 2012 and its financial performance and its cash flows for the year ended December 31, 2013 and the period from October 1, 2012 to December 31, 2012 in accordance with International Financial Reporting Standards.

*PricewaterhouseCoopers LLP*

**Chartered Professional Accountants, Licensed Public Accountants**

Toronto, Ontario

**KP TISSUE INC.****STATEMENTS OF FINANCIAL POSITION**

(tabular amounts are in thousands of Canadian dollars)

	December 31, 2013	December 31, 2012
	\$	\$
<b>Assets</b>		(note 5)
<b>Current assets</b>		
Distributions receivable	1,583	—
<b>Non-current assets</b>		
Deferred income taxes (note 6)	—	105
Investment in associate (note 5)	161,584	139,499
<b>Total Assets</b>	<b>163,167</b>	<b>139,604</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Dividend payable (note 7)	1,583	—
Income taxes payable	580	—
	<b>2,163</b>	—
<b>Non-current liabilities</b>		
Deferred income taxes (note 6)	3,033	—
<b>Total liabilities</b>	<b>5,196</b>	—
<b>Equity</b>		
Common shares (note 7)	9,068	140,000
Contributed surplus (note 7)	144,819	—
Retained earnings (deficit)	709	(583)
Accumulated other comprehensive income	3,375	187
<b>Total equity</b>	<b>157,971</b>	<b>139,604</b>
<b>Total liabilities and equity</b>	<b>163,167</b>	<b>139,604</b>

**Subsequent events (note 7)**

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

**Approved by the Board of Directors**

/s/ David Spraley

**Director**

/s/ Huw Thomas

**Director**

**KP TISSUE INC.****STATEMENTS OF COMPREHENSIVE INCOME (LOSS)****For the year ended December 31, 2013 and the period ended December 31, 2012**

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

	<b>2013</b>	Period from October 1, 2012 to December 31, 2012
	<b>\$</b>	<b>\$</b>
		(note 5)
<b>Equity income (loss) (note 5)</b>	<b>1,113</b>	(989)
<b>Gain on remeasurement of over allotment option (note 5)</b>	<b>375</b>	—
<b>Dilution gain (note 7)</b>	<b>240</b>	—
<b>Income (loss) before income taxes</b>	<b>1,728</b>	(989)
<b>Income taxes (note 6)</b>		
Current	<b>580</b>	—
Deferred	<b>1,433</b>	(148)
	<b>2,013</b>	(148)
<b>Net loss for the period</b>	<b>(285)</b>	(841)
<b>Other comprehensive income (loss)</b>		
<b>Items that will not be reclassified to net income:</b>		
Remeasurements of pensions (net of tax of \$1,215 and nil)	<b>8,130</b>	258
Remeasurements of post-retirement benefits (net of tax of \$13)	<b>88</b>	—
<b>Items that may be subsequently reclassified to net income:</b>		
Available-for-sale investment (net of tax of \$2)	<b>10</b>	—
Cumulative translation adjustment (net of tax of \$475 and \$43)	<b>3,178</b>	187
<b>Total other comprehensive income for the period</b>	<b>11,406</b>	445
<b>Comprehensive income (loss) for the period</b>	<b>11,121</b>	(396)
<b>Basic loss per share</b>	<b>(0.03)</b>	<b>(0.11)</b>
<b>Weighted average number of shares outstanding</b>	<b>8,752,830</b>	<b>8,000,001</b>

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

**KP TISSUE INC.****STATEMENTS OF CHANGES IN EQUITY****For the year ended December 31, 2013 and the period ended December 31, 2012**

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

	Common shares		Contributed surplus	Retained earnings (deficit)	Accumulated other comprehensive income	Total equity
	#	\$	\$	\$	\$	\$
<b>As of October 1, 2012</b>	—	—	—	—	—	—
Issuance of common shares (note 7)	8,000,001	140,000	—	—	—	140,000
Remeasurements of pensions	—	—	—	258	—	258
Remeasurements of post-retirement benefits	—	—	—	—	—	—
Cumulative translation adjustment	—	—	—	—	187	187
Net loss for the period	—	—	—	(841)	—	(841)
<b>As of December 31, 2012</b>	<b>8,000,001</b>	<b>140,000</b>	<b>—</b>	<b>(583)</b>	<b>187</b>	<b>139,604</b>
<b>As of January 1, 2013</b>	<b>8,000,001</b>	<b>140,000</b>	<b>—</b>	<b>(583)</b>	<b>187</b>	<b>139,604</b>
Issuance of common shares (note 7)	792,973	13,887	—	—	—	13,887
Dividends payable	—	—	—	(1,583)	—	(1,583)
Dividends paid	—	—	—	(5,058)	—	(5,058)
Reduction in legal stated capital (note 7)	—	(144,819)	144,819	—	—	—
Remeasurements of pensions	—	—	—	8,130	—	8,130
Remeasurements of post-retirement benefits	—	—	—	88	—	88
Available-for-sale investment	—	—	—	—	10	10
Cumulative translation adjustment	—	—	—	—	3,178	3,178
Net loss for the period	—	—	—	(285)	—	(285)
<b>As of December 31, 2013</b>	<b>8,792,974</b>	<b>9,068</b>	<b>144,819</b>	<b>709</b>	<b>3,375</b>	<b>157,971</b>

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

**KP TISSUE INC.****STATEMENTS OF CASH FLOWS****For the year ended December 31, 2013 and the period ended December 31, 2012**

(tabular amounts are in thousands of Canadian dollars)

	<b>2013</b>	Period from October 1, 2012 to December 31, 2012
	<b>\$</b>	<b>\$</b>
<b>Cash flows from (used in) operating activities</b>		
Net loss for the period	<b>(285)</b>	(841)
Items not affecting cash		
Equity income (loss)	<b>(1,113)</b>	989
Gain on remeasurement of over-allotment option	<b>(375)</b>	—
Dilution gain	<b>(240)</b>	—
Current income taxes	<b>580</b>	—
Deferred income taxes	<b>1,433</b>	(148)
<b>Net cash from (used in) operating activities</b>	<b>—</b>	—
<b>Cash flows used in investing activities</b>		
Investment in associate (note 5)	<b>(13,887)</b>	(140,000)
Distributions received	<b>5,058</b>	—
<b>Net cash used in investing activities</b>	<b>(8,829)</b>	(140,000)
<b>Cash flows from financing activities</b>		
Issuance of common shares (note 7)	<b>13,887</b>	140,000
Dividends paid	<b>(5,058)</b>	—
<b>Net cash from financing activities</b>	<b>8,829</b>	140,000
<b>Increase (decrease) in cash and cash equivalents     during the period</b>	<b>—</b>	—
<b>Cash and cash equivalents - Beginning of period</b>	<b>—</b>	—
<b>Cash and cash equivalents - End of period</b>	<b>—</b>	—

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

## **I GENERAL INFORMATION**

KP Tissue Inc. (KPT or the Corporation) was incorporated by articles of incorporation under the Canadian Business Corporations Act on October 1, 2012. As of December 31, 2013, the Corporation held a 16.7% (December 31, 2012 – 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.

## **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 (IASB), and with interpretations of the International Financial Reporting Committee which the Canadian Accounting Standards Board has approved for incorporation into Part I of the CPA Canada Handbook - Accounting. The financial statements have been prepared using the historical cost convention. The financial statements were approved by the board of directors on March 18, 2014.

## **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.

### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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 implemented for the year ended December 31, 2013*

(i) 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 adoption of this standard did not have a material impact on the financial statements.

(ii) 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 adoption of this standard did not have a material impact on the financial statements.

(iii) 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 amendments have been applied retrospectively, and hence the presentation of items of OCI has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

(f) *Accounting standards issued but not yet applied*

The following revised standards and amendments are effective for annual periods beginning on or after January 1, 2014, except as noted below, with earlier application permitted. The Corporation 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.

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

- (ii) Amendments to IAS 32, Offsetting Financial Assets and Financial Liabilities, prescribe rules for the offsetting of financial assets and financial liabilities. It specifies that a financial asset and a financial liability should be offset and the net amount reported when, and only when an entity has a legally enforceable right to set off the amounts, and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously. The amendments require clarification on four main areas: the meaning of 'currently has a legally enforceable right of set-off', the application of simultaneous realization and settlement, the offsetting of collateral amounts, and the unit of account for applying the offsetting requirements. The amendment is effective for annual periods beginning on or after January 1, 2014.

- (iii) 2012 annual improvements - improvements and amendments to the following existing standards, basis of conclusions and guidance, effective for years beginning on or after January 1, 2014:

- IFRS 3, Business Combinations (with consequential amendments to other standards), clarifies that contingent consideration that is classified as an asset or a liability shall be measured at fair value at each reporting date.

## 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.

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (cont'd)

### *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*

For purposes of equity accounting, the Corporation is required to base its accounting on the fair values of the assets and liabilities of KPLP at the date on which the Corporation acquired its ownership interest. The Corporation has used certain assumptions in determining the adjustments to the carrying amount of the underlying 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.

### *Income taxes*

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

## 5 INVESTMENT IN ASSOCIATE

IFRS 3 requires that changes in the determination of fair values estimates during the allocation period be applied retrospectively to the date of acquisition. In addition, KPLP adopted IAS 19, Employee Benefits which resulted in a retroactive restatement of KPLP's net income and comprehensive loss for the year ended December 31, 2012. Accordingly, the December 31, 2012 financial statements have been restated to reflect the following adjustments related to the Corporation's accounting for the acquisition of KPLP and KPLP's adoption of IAS 19.

	As reported December 31, 2012 \$	Adjustments	Restated December 31, 2012 \$
Share of profit (loss)	201	(1,190)	(989)
Income taxes - deferred	52	(200)	(148)
Share of other comprehensive income	573	(128)	445
Investment in associate	140,774	(1,275)	139,499
Deferred income taxes	(52)	157	105

On January 10, 2013, the underwriters exercised their over-allotment option and the Corporation issued an additional 750,000 common shares. The proceeds of \$13.1 million received from the issuance were used to acquire 750,000 additional partnership units of KPLP. As a result of the remeasurement of the over-allotment option entitling the Corporation to acquire additional partnership units of KPLP, a gain of \$0.4 million was recorded during the year ended December 31, 2013.

**KP TISSUE INC.****NOTES TO FINANCIAL STATEMENTS (CONTINUED)****December 31, 2013 and December 31, 2012**

(tabular amounts are in thousands of Canadian dollars)

On April 15, 2013, July 15, 2013, and October 15, 2013, in connection with the Corporation's DRIP, the portion of the distributions received by the shareholders were used to acquire an additional 42,973 units of KPLP for proceeds of \$0.8 million (note 7).

Changes in the carrying amount of the investment were as follows:

	<b>December 31, 2013</b>	December 31, 2012
	\$	\$
Opening balance	<b>139,499</b>	—
Investment in associate	<b>13,887</b>	140,000
Share of profit	<b>8,220</b>	167
Depreciation of fair value increments	<b>(7,107)</b>	(1,156)
Share of other comprehensive income	<b>13,111</b>	488
Gain on exercise of overallotment option	<b>375</b>	—
Dilution gain	<b>240</b>	—
Dividends	<b>(6,641)</b>	—
Closing balance	<b>161,584</b>	139,499

The equity income was comprised of the following components:

	<b>2013</b>	<b>2012</b>
	\$	\$
Share of profit	<b>8,220</b>	167
Depreciation of fair value increments	<b>(7,107)</b>	(1,156)
	<b>1,113</b>	(989)

The following summarizes financial information about the assets, liabilities, revenue and net income of KPLP, in which the Corporation holds a 16.7% interest as of December 31, 2013 (December 31, 2012 – 15.7%). The financial information was derived from the financial statements of KPLP for the year ended December 31, 2013. The assets and liabilities disclosed include the fair value adjustments made to the carrying amount of the assets and liabilities of the associate on its acquisition.

	<b>December 31, 2013</b>		
	<b>KPLP basis of accounting</b>	<b>FV increment</b>	<b>KPT basis of accounting</b>
	\$	\$	\$
Current assets	<b>340,804</b>	—	<b>340,804</b>
Non-current assets	<b>820,732</b>	<b>621,512</b>	<b>1,442,244</b>
Liabilities to non-unitholders	<b>690,411</b>	<b>13,677</b>	<b>704,088</b>
Partnership units liability	<b>117,839</b>	—	<b>117,839</b>
Net assets	<b>353,286</b>		
<b>Year ended</b>			
<b>December 31, 2013</b>			
	\$		
Revenue	<b>955,346</b>		
Net income	<b>48,928</b>		
Other comprehensive income	<b>72,642</b>		
Total comprehensive income	<b>121,570</b>		

## 5 INVESTMENT IN ASSOCIATE (cont'd)

December 31, 2012

	KPLP basis of accounting \$	FV increment (net of amortization) \$	KPT basis of accounting \$
Current assets	337,751	8,518	346,269
Non-current assets	757,520	656,508	1,414,028
Liabilities to non-unitholders	730,684	13,456	744,140
Partnership units liability	118,562	—	118,562
Net Assets	246,025		

Year ended  
December 31, 2012  
\$

Revenue	922,874
Net income	41,398
Other comprehensive loss	(43,413)
Total comprehensive loss	(2,015)

The following shows the reconciliation of KPT's portion of KPLP equity to the investment recorded in KPT:

	December 31, 2013	December 31, 2012
KPLP consolidated equity	<b>353,286</b>	246,025
Add back: Inception value of Partnership units liability	<b>118,562</b>	118,562
Equity pertaining to Kruger Inc. and KPGP	<b>(314,767)</b>	(235,177)
Equity pertaining to KPT	<b>157,081</b>	129,410
Investment in associate recorded in KPT	<b>161,584</b>	139,499
Reconciling difference	<b>(4,503)</b>	(10,089)
Reconciling items:		
Equity issuance costs since inception	<b>(11,110)</b>	(11,110)
Depreciation of FV increments	<b>8,263</b>	1,156
Currency translation adjustment in fair value increments	<b>(1,041)</b>	(135)
Gain on exercise of overallotment option	<b>(375)</b>	—
Dilution gain	<b>(240)</b>	—
	<b>—</b>	—

With respect to KPT's investment in KPLP, KPT does not have any guarantees, or contractual obligations for KPLP's borrowing arrangements.

(tabular amounts are in thousands of Canadian dollars)

## 6 INCOME TAXES

The Corporation is required to pay income tax on its share of the taxable income of KPLP. The Corporation has not recognized at the date of acquisition the deferred tax assets and liabilities related to the differences between the accounting and tax basis of KPLP's assets and liabilities. Accordingly, the Corporation is tracking the temporary differences that were subject to the initial recognition exemption and recognizes newly created temporary differences as they arise.

Details of the provision for income taxes were as follows:

	Year ended December 31, 2013	Period from October 1, 2012 to December 31, 2012
	\$	\$
Income tax at statutory rate of 26%	449	(257)
Permanent differences and other	97	68
Gain on the remeasurement of overallotment option and dilution gain	(160)	—
Taxed in hands of subsidiaries	397	—
Realization of previously unrecognized tax attributes	1,333	—
Change in basis of investment in associate	(103)	41
	<b>2,013</b>	<b>(148)</b>

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

	December 31, 2013	December 31, 2012
	\$	\$
Deferred tax liability (asset)		
Investment in associate	1,577	(23)
Net operating losses	—	(82)
Deferred finance fees	(37)	—
Property, plant and equipment	1,516	—
Other	(23)	—
	<b>3,033</b>	<b>(105)</b>

The analysis of deferred tax liability (asset) was as follows:

	December 31, 2013	December 31, 2012
	\$	\$
Deferred tax liabilities to be realized		
greater than 12 months	3,033	(23)
Deferred tax asset to be realized within 12 months	—	(82)
	<b>3,033</b>	<b>(105)</b>

## 6 INCOME TAXES

The movement in the deferred tax liability (asset) was as follows:

	Year ended December 31, 2013	Period from October 1, 2012 to December 31, 2012
	\$	\$
Opening balance	(105)	—
Charge to net income	1,433	(148)
Charge to other comprehensive income		
- remeasurements of cumulative translation adjustment	475	43
Charge to other comprehensive income		
- remeasurements of post-retirement benefits	13	—
Charge to other comprehensive income		
- remeasurements of pensions	1,215	—
Charge to other comprehensive income		
- mark-to-market on Available-for-sale investment	2	—
	<b>3,033</b>	<b>(105)</b>

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). On February 28, 2014, KPT received a Tax Distribution of \$0.6 million from KPLP for purposes of settling its obligation for federal and provincial taxes.

## 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 Inc. (formerly held by Kruger Products 2010LP, (KP2010LP), which was amalgamated with Kruger Inc. in October 2013) and KPGP Inc. (together, Kruger), subsidiaries of Kruger Inc.

On January 10, 2013, the underwriters exercised their rights under the over-allotment option and the Corporation issued 750,000 common shares at a price of \$17.50 per share resulting in gross proceeds of \$13.1 million. The proceeds were used to subscribe for 750,000 additional units of KPLP. Together with the units of KPLP that the Corporation already holds, it resulted in the Corporation having a 16.9% interest in KPLP.

Pursuant to the Exchange Agreement, the Corporation has granted Kruger Inc. (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.

On April 15, 2013, the Corporation paid a dividend of \$0.217 per common share to shareholders. Pursuant to the Corporation's Dividend Reinvestment Plan (DRIP), a portion of the dividend was reinvested by the shareholders, resulting in the Corporation issuing 23,874 common shares at a price of \$18.58. The proceeds were used to acquire additional units of KPLP. As a result of the DRIP and Kruger's reinvestment of its distribution from KPLP in units of KPLP, a dilution gain of \$0.1 million was recorded in the year ended December 31, 2013.

On June 26, 2013, the shareholders of KP Tissue Inc. approved a resolution reducing the legal stated capital to \$8.8 million.

On July 15, 2013, the Corporation paid a dividend of \$0.18 per common share to shareholders. Pursuant to the Corporation's DRIP, a portion of the dividend was reinvested by the shareholders, resulting in the Corporation issuing 8,932 common shares at a price of \$16.76. The proceeds were used to acquire additional units of KPLP. As a result of the DRIP and Kruger's reinvestment of its distribution from KPLP in units of KPLP, a dilution gain of \$0.1 million was recorded in the year ended December 31, 2013.

On October 15, 2013, the Corporation paid a dividend of \$0.18 per common share to shareholders. Pursuant to the Corporation's DRIP, a portion of the dividend was reinvested by the shareholders, resulting in the Corporation issuing 10,167 common shares at a price of \$16.53. The proceeds were used to acquire additional units of KPLP. As a result of the DRIP and Kruger's reinvestment of its distribution from KPLP in units of KPLP, a dilution gain of \$0.1 million was recorded in the year ended December 31, 2013.

On November 13, 2013, the Corporation declared a dividend of \$0.18 per common share and paid on January 15, 2014. The dividend was declared in connection with the declaration of a corresponding quarterly distribution by KPLP in which KP Tissue holds a limited partnership interest. Pursuant to the Corporation's DRIP, a portion of the dividend was reinvested by the shareholders, resulting in the Corporation issuing 15,244 common shares at a price of \$16.59. The proceeds were used to acquire additional units of KPLP.

Subsequent to December 31, 2013, the Corporation declared a dividend of \$0.18 per common share, payable on April 15, 2014.

**KRUGER PRODUCTS L.P.**  
**AUDITED CONSOLIDATED FINANCIAL STATEMENTS**

---

For the year ended December 31, 2013 and December 31, 2012

March 18, 2014

## **INDEPENDENT AUDITOR'S REPORT**

### **To the Shareholders of Kruger Products L.P.**

We have audited the accompanying consolidated financial statements of Kruger Products L.P. and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2013 and December 31, 2012 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 audits 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, 2013 and December 31, 2012 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

*PricewaterhouseCoopers LLP*

**Chartered Professional Accountants, Licensed Public Accountants**

Toronto, Ontario

**KRUGER PRODUCTS L.P.**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

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

	December 31, 2013	December 31, 2012
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	87,674	121,489
Trade and other receivables (note 5)	94,789	94,308
Receivables from related parties (note 15)	1,429	668
Inventories (note 6)	151,505	116,873
Current portion of income tax recoverable (note 14)	630	—
Prepaid expenses	4,777	4,413
	<b>340,804</b>	<b>337,751</b>
<b>Non-current assets</b>		
Property, plant & equipment (note 7)	616,687	580,814
Other long-term assets (note 12)	10,268	6,236
Income tax recoverable (note 14)	14,132	3,443
Goodwill (note 8)	152,021	152,021
Intangible assets (note 8)	13,483	13,828
Deferred income taxes (note 14)	14,141	1,178
<b>Total assets</b>	<b>1,161,536</b>	<b>1,095,271</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade and other payables (note 10)	188,470	186,309
Payables to related parties (note 15)	5,134	9,057
Distributions payable (notes 13 and 15)	9,455	—
Current portion of income tax payable (note 14)	—	571
Current portion of provisions (note 11)	999	3,719
Current portion of long-term debt (note 12)	8,276	3,802
	<b>212,334</b>	<b>203,458</b>
<b>Non-current liabilities</b>		
Long-term debt (note 12)	342,013	323,885
Other long-term liabilities	323	544
Provisions (note 11)	6,615	5,506
Pensions (note 9)	80,380	148,989
Post-retirement benefits (note 9)	48,746	48,302
<b>Liabilities to non-unitholders</b>	<b>690,411</b>	<b>730,684</b>
Current portion of Partnership units liability (note 13)	3,475	—
Long-term portion of Partnership units liability (note 13)	114,364	118,562
<b>Total Partnership units liability</b>	<b>117,839</b>	<b>118,562</b>
<b>Total liabilities</b>	<b>808,250</b>	<b>849,246</b>
<b>Equity</b>		
Partnership units (note 13)	282,672	257,516
Retained earnings (deficit)	50,945	(14,736)
Accumulated other comprehensive income	19,669	3,245
<b>Total equity</b>	<b>353,286</b>	<b>246,025</b>
<b>Total equity and liabilities</b>	<b>1,161,536</b>	<b>1,095,271</b>

**Reorganization (note 1)**  
**Commitments and contingencies (note 16)**  
**Subsequent events (notes 9 and 13)**

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

**Approved by the Board of Directors**

/s/ David Spraley

**Director**

/s/ Huw Thomas

**Director**

**KRUGER PRODUCTS L.P.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
**For the years ended December 31, 2013 and December 31, 2012**

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

	2013 \$	2012 \$
<b>Revenue (notes 15 and 23)</b>	<b>955,346</b>	922,874
<b>Expenses</b>		
Cost of sales (notes 15 and 17)	<b>675,730</b>	646,089
Operating expenses (notes 15 and 17)	<b>199,794</b>	194,987
Impairment (recovery) of non-financial assets (note 7)	<b>(1,789)</b>	4,608
Restructuring costs (note 11)	<b>1,372</b>	9,391
<b>Operating income</b>	<b>80,239</b>	67,799
Interest expense (note 12)	<b>42,251</b>	27,829
<b>Income before income taxes</b>	<b>37,988</b>	39,970
Income taxes (note 14)	<b>(10,940)</b>	(1,428)
<b>Net income for the year</b>	<b>48,928</b>	41,398
<b>Other comprehensive income (loss)</b>		
<b>Items that will not be reclassified to net income:</b>		
Remeasurement of pensions	<b>55,619</b>	(39,342)
Remeasurement of post-retirement benefits	<b>599</b>	(102)
<b>Items that may be subsequently reclassified to net income:</b>		
Available-for-sale investment	<b>69</b>	—
Cumulative translation adjustment	<b>16,355</b>	(3,969)
<b>Total other comprehensive income (loss) for the year</b>	<b>72,642</b>	(43,413)
<b>Comprehensive income (loss) for the year</b>	<b>121,570</b>	(2,015)

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, 2013 and December 31, 2012**

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

	Partnership units		Equity	Retained earnings (deficit)	Accumulated other comprehensive income (loss)	Total equity
	#	\$	\$	\$	\$	\$
<b>As of January 1, 2012</b>	—	—	279,209	—	(1,288)	<b>277,921</b>
Transfer of assets from related parties	—	—	(2,209)	2,000	—	<b>(209)</b>
Distributions paid	—	—	—	(40,000)	—	<b>(40,000)</b>
Change in actuarial losses on pension	—	—	(52,512)	13,170	—	<b>(39,342)</b>
Change in actuarial losses on post retirement benefits	—	—	(4,795)	4,693	—	<b>(102)</b>
Cumulative translation adjustment	—	—	—	—	(3,969)	<b>(3,969)</b>
Net income for the year	—	—	35,997	5,401	—	<b>41,398</b>
Reorganization of Partnership (note 1)	43,014,300	247,188	(255,690)	—	8 502	—
Issuance of partnership units (note 13)	8,000,000	128,890	—	—	—	<b>128,890</b>
Partnership units liability (note 13)	—	(118,562)	—	—	—	<b>(118,562)</b>
<b>As of December 31, 2012</b>	<b>51,014,300</b>	<b>257,516</b>	<b>—</b>	<b>(14,736)</b>	<b>3,245</b>	<b>246,025</b>
<b>As of January 1, 2013</b>	51,014,300	257,516	—	(14,736)	3,245	<b>246,025</b>
Distributions payable (note 13)	—	—	—	(9,455)	—	<b>(9,455)</b>
Distributions paid (note 13)	—	—	—	(30,010)	—	<b>(30,010)</b>
Change in actuarial gains on pension	—	—	—	55,619	—	<b>55,619</b>
Change in actuarial gains on post retirement benefits	—	—	—	599	—	<b>599</b>
Change in available-for-sale investment	—	—	—	—	69	<b>69</b>
Cumulative translation adjustment	—	—	—	—	16,355	<b>16,355</b>
Net income for the year	—	—	—	48,928	—	<b>48,928</b>
Issuance of partnership units (note 13)	1,513,250	25,156	—	—	—	<b>25,156</b>
<b>As of December 31, 2013</b>	<b>52,527,550</b>	<b>282,672</b>	<b>—</b>	<b>50,945</b>	<b>19,669</b>	<b>353,286</b>

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, 2013 and December 31, 2012**

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

	2013 \$	2012 \$
<b>Cash flows from operating activities</b>		
Net income for the year	48,928	41,398
Items not affecting cash		
Depreciation	33,561	28,331
Amortization	581	530
Loss (gain) on sale of fixed assets	(5)	1,060
Change in amortized cost of Partnership units liability (note 13)	(723)	—
Unrealized foreign exchange (gain) loss	2,992	(777)
Interest expense	42,251	27,829
Pension and post retirement benefits	9,959	9,393
Provisions (note 11)	800	9,613
Income taxes	(10,940)	(1,428)
Impairment (recovery) of non-financial assets (note 7)	(1,789)	4,608
Total items not affecting cash	76,687	79,159
Net change in non-cash working capital (note 24)	(34,271)	39,906
Contributions to pension and post-retirement benefit plans	(30,369)	(29,707)
Provisions paid	(2,841)	(7,245)
Income tax payments	(2,675)	(360)
<b>Net cash from operating activities</b>	<b>55,459</b>	<b>123,151</b>
<b>Cash flows used in investing activities</b>		
Purchase of property, plant & equipment	(20,265)	(17,652)
Purchases of through-air-dried (TAD) expansion	(39,631)	(161,155)
Interest paid on credit facilities related to TAD	—	(6,125)
Available-for-sale investment	(836)	—
Government grants received	1,078	—
Purchases of software	(236)	(51)
Proceeds on sale of property, plant and equipment	5	199
<b>Net cash used in investing activities</b>	<b>(59,885)</b>	<b>(184,784)</b>
<b>Cash flows from (used in) financing activities</b>		
Proceeds from credit facilities	10,813	145,957
Repayment of credit facilities	(7,999)	(65,000)
Payment of deferred financing fees	(641)	(26)
Transfer of assets to related parties	—	(209)
Interest paid on credit facilities	(27,676)	(17,720)
Settlement of interest rate swap	—	(413)
Distributions paid	(30,010)	(40,000)
Equity issuance costs	(1,206)	(11,110)
Proceeds from issuing partnership units	26,362	140,000
<b>Net cash from (used in) financing activities</b>	<b>(30,357)</b>	<b>151,479</b>
<b>Effect of exchange rate changes on cash and cash equivalents held in foreign currency</b>	<b>968</b>	<b>(154)</b>
<b>Increase (decrease) in cash and cash equivalents during the year</b>	<b>(33,815)</b>	<b>89,692</b>
<b>Cash and cash equivalents - Beginning of year</b>	<b>121,489</b>	<b>31,797</b>
<b>Cash and cash equivalents - End of year</b>	<b>87,674</b>	<b>121,489</b>

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

## **I GENERAL INFORMATION**

Kruger Products L.P. (KPLP or the Partnership) is a limited partnership registered in the Province of Quebec, Canada whose partners are Kruger Inc., KPGP Inc. and KP Tissue Inc. 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 were 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 (IASB), and with interpretations of the International Financial Reporting Committee which the Canadian Accounting Standards Board has approved for incorporation into Part I of the CPA Canada Handbook - Accounting. These consolidated financial statements were approved by the board of directors of KPGP Inc. on March 18, 2014.

## **3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

(a) *Basis of measurement*

The consolidated financial statements have been prepared under the historical cost convention, except for available-for-sale investment and 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.

### **3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

*(b) Consolidation*

Subsidiaries are all those entities over which the Partnership has the power over the investee, is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect these returns through its power over the investee. 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.

**KRUGER PRODUCTS L.P.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2013 and December 31, 2012**

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

(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.

(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 operating expenses.

### **3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

(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.

**KRUGER PRODUCTS L.P.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2013 and December 31, 2012**

---

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

(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*

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.

### **3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

(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.

**KRUGER PRODUCTS L.P.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2013 and December 31, 2012**

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

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.

### **3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

- (ii) *Financial assets and liabilities at fair value through other comprehensive income or loss:* A financial asset or liability is classified in this category if acquired for the purpose of holding the investment for a long-term period. The financial instruments classified in this category would include the available-for-sale investment.

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 available-for-sale investment are presented in the other comprehensive income (loss) in the period in which they arise. Financial assets and liabilities at fair value through other comprehensive income 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.

- (iii) *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.

- (iv) *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.

**KRUGER PRODUCTS L.P.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2013 and December 31, 2012**

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

(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. There are no interest rate swap contracts outstanding as of December 31, 2013 and December 31, 2012.

(x) *Embedded derivatives*

The senior unsecured notes include an early repayment option. 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, 2013*

- (i) IFRS 7, Financial Instruments - Disclosures, has been amended to include additional disclosure requirements in the reporting of offsetting of financial instruments. The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amendments have been applied retrospectively. As the Partnership does not have any offsetting arrangements in place as of December 31, 2013 and December 31, 2012, the application of the amendments has had no material impact on the disclosures or on the amounts recognized in the consolidated financial statements.

- (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 previous IFRS, consolidation was required when an entity had the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaced SIC-12, Consolidation - Special Purpose Entities, and parts of IAS 27, Consolidated and Separate Financial Statements. The adoption of this amendment did not have a material 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 adoption of this standard did not have a material impact on the consolidated financial statements.

### **3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

- (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 previous IFRS, guidance on measuring and disclosing fair value was dispersed among the specific standards requiring fair value measurements and did not always reflect a clear measurement basis or consistent disclosures. The adoption of this standard did not have a material impact on 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 are required to show the amount of tax related to the two groups separately. The amendments have been applied retrospectively, and hence the presentation of items of OCI has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.
- (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 Partnership has recorded the interest portion of the defined benefit costs and the post-retirement benefit costs as interest expense.

IAS 19 (Amended in 2011), Employee Benefits, amends certain accounting requirements for defined benefit plans and termination benefits. IAS 19 requires the net defined benefit liability (asset) to be recognized on the balance sheet without any deferral of actuarial gains and losses and past service costs as previously allowed. Past service costs are recognized in net income when incurred. Expected returns on plan assets are no longer included in post-employment benefits expense. Instead, post-employment benefits expense includes the net interest on the net defined benefit liability (asset) calculated using a discount rate based on market yields on high quality bonds. Remeasurements consisting of actuarial gains and losses, the actual return on plan assets (excluding the net interest component) and any change in the asset ceiling are recognized in other comprehensive income. The Partnership continues to immediately recognize in retained earnings (accumulated deficit) all pension adjustments recognized in other comprehensive income (loss). The Partnership also continues to recognize interest expense (income) on net post-employment benefits liabilities (assets) in expense (income) in the condensed consolidated statements of comprehensive income (loss).

The Partnership adopted these amendments retrospectively. The post-employment benefits finance expense and employee benefit expense for the comparable period have been adjusted to reflect the accounting changes for defined benefit plans. The amendments did not have an impact on the opening consolidated statement of financial position as of January 1, 2012 and accordingly the opening consolidated statement of financial position has not been presented. The adjustments for each financial statement line item affected are presented in the tables below.

**KRUGER PRODUCTS L.P.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2013 and December 31, 2012**

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

Adjustments to the condensed consolidated statement of comprehensive income (loss):

	2012
Net income before accounting change	46,552
Increase in:	
Cost of sales	(263)
Operating expenses	(89)
Interest expense	(4,802)
Decrease in net income	(5,154)
Net income after accounting change	41,398

	2012
Comprehensive loss before accounting change	(2,015)
Decrease in net income	(5,154)
Decrease in other comprehensive loss for remeasurements of pensions	5,154
Change to comprehensive loss	—
Comprehensive loss after accounting change	(2,015)

(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, 2014, 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.

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

### **3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

- (ii) Amendments to IAS 32, Offsetting Financial Assets and Financial Liabilities, prescribe rules for the offsetting of financial assets and financial liabilities. It specifies that a financial asset and a financial liability should be offset and the net amount reported when, and only when an entity has a legally enforceable right to set off the amounts, and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously. The amendments require clarification on four main areas: the meaning of 'currently has a legally enforceable right of set-off', the application of simultaneous realization and settlement, the offsetting of collateral amounts, and the unit of account for applying the offsetting requirements. The amendment is effective for annual periods beginning on or after January 1, 2014.
- (iii) IAS 39, Financial Instruments – Recognition and Measurement, has been amended to provide relief from discontinuing hedge accounting when novation of a hedging instrument to a central counterparty meets specified criteria.
- (iv) IAS 36, Impairment of Assets, has been amended to remove the requirement to disclose the recoverable amount when a cash generating unit (CGU) contains goodwill or indefinite lived intangible assets but there has been no impairment; to require disclosure of the recoverable amount of an asset or CGU when an impairment loss has been recognized or reversed; and to require detailed disclosure of how the fair value less costs of disposal has been measured when an impairment loss has been recognized or reversed.
- (v) 2012 annual improvements - improvements and amendments to the following existing standards, basis of conclusions and guidance, effective for years beginning on or after January 1, 2014:
  - IFRS 2, Share-based payment, amends the definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition' (which were previously part of the definition of 'vesting condition').
  - IFRS 3, Business Combinations (with consequential amendments to other standards), clarifies that contingent consideration that is classified as an asset or a liability shall be measured at fair value at each reporting date.

### **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, income taxes 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.

**KRUGER PRODUCTS L.P.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2013 and December 31, 2012**

---

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

*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 with the estimate of the environmental remediation obligation and the costs to demolish the buildings. 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.

On February 13, 2014, the Canadian Institute of Actuaries (CIA) released their final report on Canadian Pensioner Mortality. These tables have changed from the draft tables issued by the CIA in July 2013, which were the tables used for the estimate of the pension obligation as of December 31, 2013. Management has not yet assessed the impact of the revised mortality tables on the Partnership's pension obligation. Such impact could be significant.

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 KPTissue 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 as of December 31, 2012. The reassessment performed as of December 31, 2013 resulted in a decrease in the liability to \$117.8 million. The change in carrying value of \$0.7 million has been included in operating expenses. 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 11.50% and 0% (December 31, 2012 – 10.60% and 0%), 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.

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

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

### *TAD expansion*

The capitalized cost of TAD expansion includes soft costs, which include interest expense, engineering costs and legal fees. The Partnership retained a third party to assist with the allocation of the costs between buildings and equipment. The third party report resulted in the reallocation of costs between buildings and equipment of \$22.0 million. The reallocation resulted in additional depreciation of \$0.4 million recorded in the fourth quarter of 2013.

### *Income taxes*

The Partnership computes its income taxes in each jurisdiction in which its subsidiaries operate. Estimation of income taxes includes evaluating the recoverability of the deferred tax assets and the income taxes recoverable based on an assessment of the ability to use the underlying tax deductions and credits against future taxable income. To the extent estimates differ from the final tax return, earnings would be affected in a subsequent period.

## 5 TRADE AND OTHER RECEIVABLES

	December 31, 2013	December 31, 2012
	\$	\$
Trade receivables	<b>90,782</b>	90,374
Other receivables	<b>4,345</b>	3,785
Employee loans	<b>15</b>	261
Less: Allowance for doubtful accounts	<b>(353)</b>	(112)
Trade and other receivables	<b>94,789</b>	94,308

## 6 INVENTORIES

	December 31, 2013	December 31, 2012
	\$	\$
Finished products	<b>74,476</b>	52,452
Work-in-process	<b>27,881</b>	21,494
Raw materials and supplies	<b>24,872</b>	20,503
Spare parts	<b>24,276</b>	22,424
	<b>151,505</b>	116,873

Total inventories recognized as cost of sales during the year ended December 31, 2013 were \$675.7 million (December 31, 2012 - \$646.1 million). The Partnership wrote-off inventories during the year ended December 31, 2013 totalling \$0.1 million (December 31, 2012 - \$0.8 million), primarily related to obsolete packaging. Inventory provisions as of December 31, 2013 were \$4.9 million (December 31, 2012 - \$4.7 million).

**KRUGER PRODUCTS L.P.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2013 and December 31, 2012**

(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 \$
<b>As of January 1, 2012</b>					
Cost	40,366	112,400	581,091	113,276	847,133
Accumulated depreciation and impairments	—	(57,009)	(365,930)	—	(422,939)
<b>Net book value</b>					
<b>as of January 1, 2012</b>	40,366	55,391	215,161	113,276	424,194
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)	(887)	—	(1,259)
Depreciation	—	(4,008)	(21,836)	—	(25,844)
Impairments	(1,789)	—	(2,819)	—	(4,608)
Exchange difference	(23)	29	(428)	(3,530)	(3,952)
<b>As of December 31, 2012</b>	38,637	72,160	266,661	203,356	580,814
<b>As of December 31, 2012</b>					
Cost	40,426	132,448	634,410	203,356	1,010,640
Accumulated depreciation and impairment	(1,789)	(60,288)	(367,749)	—	(429,826)
<b>Net book value</b>					
<b>as of December 31, 2012</b>	38,637	72,160	266,661	203,356	580,814
Additions	—	1	4	59,509	59,514
Capitalized interest	—	—	—	507	507
Government grants and investment tax credits	—	—	(12,382)	—	(12,382)
Transfers	63	30,742	226,560	(257,365)	—
Depreciation	—	(4,352)	(30,086)	—	(34,438)
Recovery	1,789	—	—	—	1,789
Exchange differences	75	3,250	11,358	6,200	20,883
<b>As of December 31, 2013</b>	<b>40,564</b>	<b>101,801</b>	<b>462,115</b>	<b>12,207</b>	<b>616,687</b>
<b>As of December 31, 2013</b>					
Cost	<b>40,564</b>	<b>166,719</b>	<b>854,566</b>	<b>12,207</b>	<b>1,074,056</b>
Accumulated depreciation and impairment	—	<b>(64,918)</b>	<b>(392,451)</b>	—	<b>(457,369)</b>
<b>Net book value</b>					
<b>as of December 31, 2013</b>	<b>40,564</b>	<b>101,801</b>	<b>462,115</b>	<b>12,207</b>	<b>616,687</b>

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

## 7 PROPERTY, PLANT AND EQUIPMENT (cont'd)

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, 2013, an adjustment was recorded related to the estimated fair value of the timber lands resulting in the reversal of a portion of the write-down of \$1.8 million.

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 \$
<b>As of January 1, 2012</b>			
Cost	11,825	3,203	15,028
Accumulated amortization	—	(721)	(721)
<b>Net book value</b>			
<b>as of January 1, 2012</b>	11,825	2,482	14,307
Additions	—	51	51
Amortization	—	(530)	(530)
<b>Net book value</b>			
<b>as of December 31, 2012</b>	11,825	2,003	13,828
<b>As of January 1, 2013</b>			
Cost	11,825	3,254	15,079
Accumulated amortization	—	(1,251)	(1,251)
<b>Net book value</b>			
<b>as of January 1, 2013</b>	11,825	2,003	13,828
Additions	—	236	236
Amortization	—	(581)	(581)
<b>Net book value</b>			
<b>as of December 31, 2013</b>	11,825	1,658	13,483
<b>As of December 31, 2013</b>			
Cost	11,825	3,490	15,315
Accumulated amortization	—	(1,832)	(1,832)
<b>Net book value</b>			
<b>as of December 31, 2013</b>	11,825	1,658	13,483

The carrying value of goodwill as of December 31, 2013 was \$152,021 (December 31, 2012 - \$152,021).

**KRUGER PRODUCTS L.P.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2013 and December 31, 2012**

---

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

*Impairment tests*

The Partnership performed its annual impairment tests for goodwill and indefinite lived trademarks as of December 31, 2013 and December 31, 2012 and no impairments were recognized.

Goodwill is allocated to Canada (CGU).

The recoverable amount of the CGU is determined based on value in use. The estimates of value in use were based on the present value of the forecasted future cash flows expected to be derived from Canada CGU. Based on the sensitivity analysis, no reasonable change in assumptions would result in an impairment.

## **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 five registered defined benefit pension plans with a final average salary component, four of which are registered in the province of Quebec and one of which is registered in the province of Ontario. The pension obligation, net of plan assets for these five plans of \$58.9 million as of December 31, 2013 (December 31, 2012 - \$125.5 million) is included in pensions on the consolidated statements of financial position.

The Partnership has a Supplementary Retirement Plan (SRP) for designated employees. The accrued benefit liability, net of plan assets related to the SRP as of December 31, 2013 was \$14.0 million (December 31, 2012 - \$15.9 million) and is supported by irrevocable letters of credit in the amount of \$24.6 million (December 31, 2012 - \$26.8 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 \$7.5 million as of December 31, 2013 (December 31, 2012 - \$7.6 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, 2013, the Partnership contributed and expensed \$2.4 million (December 31, 2012 - \$3.1 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.

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

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

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, 2013, the Partnership recorded \$2.3 million (December 31, 2012 - \$2.3 million) related to this plan.

KTG sponsors a defined contribution plan that covers substantially all of its employees. During the year ended December 31, 2013, the Partnership recorded \$0.6 million (December 31, 2012 - \$0.5 million) related to this plan.

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

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

By their design, the defined benefit pension plans and the post-retirement benefits plan exposes the Partnership to the typical risks faced by such plans such as investment performance (pension plans only), changes to the discount rate used to value the obligations, longevity of plan members and future inflation. Pension and benefit risk is managed by regular monitoring of the plans, applicable regulations and other factors that could impact the expenses and cash flows of the Partnership. As of December 31, 2012, the aggregate solvency deficit of the defined benefit plans was \$176.6 million. The next required revaluation will be completed in the first half of fiscal 2014. The funding obligations are dependent on a number of factors, including the assumptions used in the most recent actuarial valuation. Actual contributions that are determined on the basis of future valuation reports may vary significantly from the predictions.

The cumulative actuarial losses recognized in retained earnings (deficit) as of December 31, 2013 and December 31, 2012 were as follows:

	<b>December 31, 2013</b>	December 31, 2012
	<b>\$</b>	<b>\$</b>
Pensions	<b>68,586</b>	124,205
Post-retirement benefits	<b>11,509</b>	12,108
Total	<b>80,095</b>	136,313

**KRUGER PRODUCTS L.P.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2013 and December 31, 2012**

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

Information about the Partnership's defined benefit pension plans and post-retirement benefit plans was as follows:

	Pensions		Post-retirement benefit plans	
	<b>December 31,</b>	December 31,	<b>December 31,</b>	December 31,
	<b>2013</b>	2012	<b>2013</b>	2012
	\$	\$	\$	\$
<b>Change in defined benefit obligation:</b>				
<b>As of January 1</b>	<b>568,223</b>	509,903	<b>48,302</b>	46,497
Gain on curtailment	(124)	—	—	—
Current service cost	8,158	7,481	1,395	1,560
Interest costs	23,969	25,351	2,061	2,385
Employee contributions	3,815	3,755	—	—
Benefits paid	(32,430)	(28,234)	(2,413)	(2,242)
Remeasurements:				
Gains from				
changes in experience	(4,981)	(9,758)	—	(4,160)
Losses/(Gains) from				
changes in economic assumptions	(23,646)	59,725	(2,099)	4,262
Losses from				
changes in demographic assumptions	18,150	—	1,500	—
<b>As of December 31</b>	<b>561,134</b>	568,223	<b>48,746</b>	48,302
<b>Change in plan assets at fair value:</b>				
<b>As of January 1</b>	<b>419,234</b>	386,813	—	—
Expected return				
on plan assets	17,567	19,162	—	—
Remeasurements:				
Gains on plan assets	45,142	10,625	—	—
Administrative costs	(530)	(352)	—	—
Employer contributions	27,956	27,465	2,413	2,242
Employee contributions	3,815	3,755	—	—
Benefits paid	(32,430)	(28,234)	(2,413)	(2,242)
<b>As of December 31</b>	<b>480,754</b>	419,234	—	—
<b>Accrued benefit liability</b>				
Funded status - deficit	<b>80,380</b>	148,989	<b>48,746</b>	48,302

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

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

Plan assets, which are funding the Partnership's defined benefit plans, are comprised as follows:

	<b>December 31, 2013</b>	December 31, 2012
	<b>%</b>	<b>%</b>
Fixed income	<b>38.0</b>	42.0
Public equities	<b>33.0</b>	29.0
Alternative assets	<b>29.0</b>	29.0
Total	<b>100.0</b>	100.0
Quoted on an active market	<b>70.0</b>	70.0
Unquoted	<b>30.0</b>	30.0
	<b>100.0</b>	100.0

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

	Pensions		Post-retirement benefit plans	
	<b>December 31, 2013</b>	December 31, 2012	<b>December 31, 2013</b>	December 31, 2012
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Assumptions				
Discount rate - accrued benefit obligation	<b>4.60</b>	4.25	<b>4.60</b>	4.25
Rate of compensation increases	<b>3.25 - 4.00</b>	3.25 - 4.00	<b>3.25 - 4.00</b>	3.25 - 4.00

On February 13, 2014, the Canadian Institute of Actuaries (CIA) released their final report on Canadian Pensioner Mortality. These tables have changed from the draft tables issued by the CIA in July 2013, which were the tables used for the estimate of the pension obligation as of December 31, 2013.

IAS 19 requires the annual expense for the funded benefit to include net interest expense, calculated by applying the discount rate to the net defined benefit liability. This replaces the finance charge and expected return on plan assets. The Partnership adopted the amendment retrospectively (refer to note 3).

### Post-retirement benefit plans:

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 sensitivity analysis presented was performed by changing each assumption individually. If an actual change were to occur, it is likely that some of these assumptions would correlate, which would create a combined impact.

**KRUGER PRODUCTS L.P.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2013 and December 31, 2012**

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

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

	<b>December 31, 2013</b>		<b>December 31, 2012</b>	
	<b>1% increase</b>	<b>1% decrease</b>	<b>1% increase</b>	<b>1% decrease</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Increase (decrease) in:				
current service cost and				
interest cost for the year	<b>352</b>	<b>(321)</b>	519	(450)
post-retirement benefit				
obligations	<b>4,112</b>	<b>(3,698)</b>	3,808	(3,421)

The effect of a 1% change in the assumed discount rate was as follows:

	<b>December 31, 2013</b>	
	<b>1% increase</b>	<b>1% decrease</b>
	<b>\$</b>	<b>\$</b>
Increase (decrease) in:		
current service cost and		
interest cost for the year	<b>(508)</b>	<b>639</b>
post-retirement benefit		
obligations	<b>(5,549)</b>	<b>6,819</b>

The effect of a one-year change in the assumed mortality rate was as follows:

	<b>December 31, 2013</b>	
	<b>One-year increase</b>	<b>One-year decrease</b>
	<b>\$</b>	<b>\$</b>
Increase (decrease) in:		
current service cost and		
interest cost for the year	<b>52</b>	<b>(53)</b>
post-retirement benefit		
obligations	<b>985</b>	<b>(994)</b>

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

**Pensions:**

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

**KRUGER PRODUCTS L.P.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2013 and December 31, 2012**

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

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

The effect of a 1% reduction in the discount rate, a 1% increase in the rate of compensation and one-year change in mortality rate were:

	Discount rate		Rate of compensation		Life expectancy
	<b>December 31, 2013</b>	December 31, 2012	<b>December 31, 2013</b>	December 31, 2012	<b>December 31, 2013</b>
	\$	\$	\$	\$	\$
Increase in pension expense	<b>3,055</b>	2,592	<b>417</b>	480	<b>196</b>
Increase in pension obligation	<b>82,100</b>	86,731	<b>8,890</b>	12,142	<b>11,024</b>

Contributions to the defined benefit pension plans for the year ending December 31, 2014 are expected to be \$29.9 million.

The defined benefit pension plan and post-retirement benefit plan expense for the year ended December 31, 2013 included the following components:

	Defined pension plans		Post-retirement benefit plans	
	<b>December 31, 2013</b>	December 31, 2012	<b>December 31, 2013</b>	December 31, 2012
	\$	\$	\$	\$
<b>Net plan expense</b>				
Current service cost	<b>8,158</b>	7,481	<b>1,395</b>	1,560
Interest costs	<b>23,969</b>	25,351	<b>2,061</b>	2,385
Expected return on plan assets	<b>(17,567)</b>	(19,162)	—	—
Administrative costs	<b>530</b>	352	—	—
Gain on curtailment	<b>(124)</b>	—	—	—
	<b>14,966</b>	14,022	<b>3,456</b>	3,945

The following amounts are recognized in other comprehensive income (loss):

	Defined pension plans		Post-retirement benefit plans	
	<b>December 31, 2013</b>	December 31, 2012	<b>December 31, 2013</b>	December 31, 2012
	\$	\$	\$	\$
Gains from changes in experience	<b>4,981</b>	9,758	—	4,160
(Losses)/Gains from changes in economic assumptions	<b>23,646</b>	(59,725)	<b>2,099</b>	(4,262)
Losses from changes in demographic assumptions	<b>(18,150)</b>	—	<b>(1,500)</b>	—
Gains on plan assets	<b>45,142</b>	10,625	—	—
	<b>55,619</b>	(39,342)	<b>599</b>	(102)

**KRUGER PRODUCTS L.P.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2013 and December 31, 2012**

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

## 10 TRADE AND OTHER PAYABLES

	<b>December 31, 2013</b>	December 31, 2012
	<b>\$</b>	<b>\$</b>
Trade payables	<b>61,536</b>	55,835
Accrued expenses	<b>69,896</b>	75,091
Merchandising accruals	<b>57,038</b>	55,339
Commodity swap contract	<b>—</b>	44
	<b>188,470</b>	186,309

## 11 PROVISIONS

	Environmental and asset retirement obligations \$ (a)	Long-term incentives \$ (b)	Restructuring \$ (c)	Total \$
<b>Provisions as of</b>				
<b>January 1, 2012</b>	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
<b>Provisions as</b>				
<b>of December 31, 2012</b>	4,874	1,118	3,233	9,225
<b>Current</b>	—	486	3,233	3,719
<b>Non-current</b>	4,874	632	—	5,506
<b>Provisions as</b>				
<b>of January 1, 2013</b>	<b>4,874</b>	<b>1,118</b>	<b>3,233</b>	<b>9,225</b>
Additional provisions	<b>213</b>	<b>800</b>	<b>—</b>	<b>1,013</b>
Paid during the year	<b>—</b>	<b>(607)</b>	<b>(2,234)</b>	<b>(2,841)</b>
Interest accretion	<b>217</b>	<b>—</b>	<b>—</b>	<b>217</b>
<b>Provisions as</b>				
<b>of December 31, 2013</b>	<b>5,304</b>	<b>1,311</b>	<b>999</b>	<b>7,614</b>
<b>Current</b>	<b>—</b>	<b>—</b>	<b>999</b>	<b>999</b>
<b>Non-current</b>	<b>5,304</b>	<b>1,311</b>	<b>—</b>	<b>6,615</b>

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 \$10.6 million and \$13.7 million. The liability is estimated using a discounted cash flow with a discount rate of 4.25%.

Management has retained third parties to assist with updating the estimate of the environmental remediation and asset retirement obligations. Based on the updated information obtained from a third party, an additional provision of \$0.2 million was recorded during the year ended December 31, 2013 (December 31, 2012 - \$1.4 million).

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

## **11 PROVISIONS (cont'd)**

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.

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 was expected that the Partnership would incur costs of approximately \$6.6 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 \$5.9 million were written down to their estimated fair value of \$1.2 million (note 4). In addition, there were 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 \$8.6 million during fiscal 2012. 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 November 2013, the Partnership undertook an initiative to consolidate distribution activities from its Gatineau warehouse to its distribution operations in Laval. The Partnership incurred restructuring costs of \$1.4 million in the year ended December 31, 2013.

## **12 LONG-TERM DEBT**

	Maturity	<b>December 31, 2013</b>	December 31, 2012
		\$	\$
Revolving credit facilities <sup>(a)</sup>	2016	—	76
8% Senior unsecured notes <sup>(b)</sup>	2018	<b>171,926</b>	171,288
2.87% Nordea facility <sup>(c)</sup>	2019	<b>40,904</b>	39,879
Loan payable <sup>(d)</sup>	2017	<b>3,225</b>	3,923
Caisse facility <sup>(e)</sup>	2018	<b>134,234</b>	112,521
		<b>350,289</b>	327,687
Less: Current portion of long-term debt		<b>8,276</b>	3,802
		<b>342,013</b>	323,885

a) Revolving credit facilities

On May 16, 2013, the Partnership entered into the fourth amended and restated credit agreement (the Credit Agreement) related to its revolving credit facilities. The Credit Facility was reduced from CDN\$195.0 million to CDN\$125.0 million. The borrowings under the Credit Facility will bear interest at a base rate of Prime Rate, U.S. Base Rate and Libor, plus a margin varying between 0.20% and 2.50% depending on the Partnership's rate of funded debt to EBITDA and the type of advance. The Credit Agreement is for a three year period and will mature July 22, 2016. The Credit Agreement provides for certain restrictive undertakings and covenants to be complied with by the Partnership. The transaction costs of \$0.6 million have been deferred and classified as other long-term assets during the year ended December 31, 2013.

**KRUGER PRODUCTS L.P.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2013 and December 31, 2012**

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

The 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 Credit Agreement including a pledge of 100% of the stock or ownership interest in all subsidiaries owned by the Partnership and the Restricted Subsidiaries.

As of December 31, 2013, the Partnership had \$92.6 million (net of letters of credit of \$32.4 million) available on this facility (December 31, 2012 - \$162.5 million). The weighted average interest rate for the year ended December 31, 2012 was 4.65%.

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, 2013, unamortized deferred financing fees were \$3.1 million (December 31, 2012 - \$3.7 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 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 Notes. Accordingly, the embedded derivative has been bifurcated from the 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, 2013, management revised its assumptions with respect to the valuation of the embedded derivative. An asset of \$3.0 million has been recognized as of December 31, 2013 (December 31, 2012 - \$1.7 million) to record the embedded derivative at its fair value.

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 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 Credit Agreement. The loan is repayable in 14 equal consecutive semi-annual instalments of principal together with interest commencing on June 30, 2013. The Partnership fully utilized the Nordea Facility by making a final draw of U.S.\$4.5 million during the first quarter of 2013. As of December 31, 2013, U.S.\$46.2 million had been drawn on the facility (December 31, 2012 - U.S.\$41.7 million) resulting in a remaining borrowing capacity of nil (December 31, 2012 - U.S.\$4.5 million). As of December 31, 2013 unamortized deferred financing fees were \$1.2 million (December 31, 2012 - \$1.6 million).

## **12 LONG-TERM DEBT (cont'd)**

On May 16, 2013, the Partnership entered into the amended credit agreement (the "Credit Agreement") related to its Nordea Facility. No significant changes were made to the Nordea Facility.

d) **Loan payable**

The loan payable is related to an agreement with the Government of Quebec for financing related to its Crabtree converting line expansion. 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 \$3.5 million from this facility as of December 31, 2013 (December 31, 2012 - \$4.5 million).

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 U.S.\$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. Under the terms of the Caisse Facility, the Partnership could only make draws until February 15, 2014. As of that date, the Partnership had drawn U.S. \$125.0 million.

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 weighted average interest rate on the Caisse Facility was 15.44% for the year-ended December 31, 2013 (December 31, 2012 – 15.08%).

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 U.S.\$107.0 million by the Partnership had been contributed to TAD Canco Inc.

As of December 31, 2013, TAD Canco Inc. had received proceeds of U.S.\$125.0 million from this facility (December 31, 2012 – U.S.\$117.4 million).

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 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.

**KRUGER PRODUCTS L.P.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2013 and December 31, 2012**

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

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

	\$
Less than 1 year	8,276
Between 1 and 5 years	348,358
More than 5 years	7,018
	<b>363,652</b>

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

	December 31, 2013 \$	December 31, 2012 \$
Interest expense on long-term debt (excluding the Caisse facility)	<b>17,163</b>	20,658
Interest accredited on provisions and other liabilities	<b>217</b>	44
Pension and post-retirement benefits - net	<b>8,463</b>	8,574
Changes in fair value of interest rate swap	<b>—</b>	(297)
Embedded derivatives on debt	<b>(1,300)</b>	(1,728)
Caisse facility interest expense	<b>17,708</b>	578
Interest expense	<b>42,251</b>	27,829

### 13 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	—
Reclassification of Partnership units liability	(118,562)	118,562
As of December 31, 2012	257,516	118,562
As of January 1, 2013	<b>257,516</b>	<b>118,562</b>
Issuance of Partnership units	<b>25,156</b>	—
Change in amortized cost of Partnership units liability	<b>—</b>	<b>(723)</b>
As of December 31, 2013	<b>282,672</b>	<b>117,839</b>

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 Inc. (formerly held by Kruger Products 2010 L.P. (KP2010LP), which was amalgamated with Kruger Inc. in October 2013) in partial consideration for the transfer of all of the assets of the tissue business; (ii) 9,989 partnership units issued to Kruger Inc. 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).

### **13 PARTNERSHIP UNITS (cont'd)**

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 was 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. The value of the Partnership units liability was \$117.8 million as of December 31, 2013. The change in amortized cost of \$0.7 million has been included in operating expenses.

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, the Partnership issued 750,000 additional partnership units at a price of \$17.50 per unit to KPTissue Inc. (KPT) in connection with the partial exercise of the over-allotment option. Costs incurred of \$0.9 million in respect of the issuance were netted against the gross proceeds of \$13.1 million.

On April 15, 2013, the Partnership paid a distribution of \$11.2 million. Pursuant to the Distribution Reinvestment Plan (DRIP), a portion of the distribution was reinvested by the partners and the Partnership issued 275,035 additional partnership units at a price of \$18.58 for the gross proceeds of \$5.1 million.

On July 15, 2013, the Partnership paid a quarterly distribution of \$9.4 million. Pursuant to the DRIP, a portion of the distribution was reinvested by the partners and the Partnership issued 241,241 additional partnership units at a price of \$16.76 for the gross proceeds of \$4.0 million.

On October 15, 2013, the Partnership paid a distribution of \$9.4 million. Pursuant to the DRIP, a portion of the distribution was reinvested by the partners and the Partnership issued 246,974 additional partnership units at a price of \$16.53 for the gross proceeds of \$4.0 million.

On November 13, 2013, the Partnership declared a distribution of \$9.5 million, which was paid on January 15, 2014. Pursuant to the DRIP, a portion of the distribution was reinvested by the partners and the Partnership issued 252,478 additional partnership units at a price of \$16.59 for the gross proceeds of \$4.2 million.

On February 28, 2014, the Partnership paid a Tax Distribution of \$3.5 million of which \$0.6 million was used to pay the tax instalment on behalf of KPT and \$2.9 million was paid to Kruger Inc. and KPGP.

Subsequent to December 31, 2013, the Partnership declared a distribution of \$9.5 million, payable on April 15, 2014.

**KRUGER PRODUCTS L.P.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2013 and December 31, 2012**

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

## 14 INCOME TAXES

The Partnership is not a tax paying entity for the years ended December 31, 2013 and December 31, 2012. 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 \$10.9 million for the year ended December 31, 2013 (December 31, 2012 – recovery of \$1.4 million) related to KP USA, KTG, TAD Canco Inc. and GTM.

The major components of income taxes recognized in the consolidated statement of comprehensive income (loss) were as follows:

	<b>December 31, 2013</b>	December 31, 2012
	<b>\$</b>	<b>\$</b>
Current income tax expense	<b>1,507</b>	1,344
Deferred income tax expense	<b>(12,447)</b>	(2,772)
	<b>(10,940)</b>	(1,428)

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:

	<b>December 31, 2013</b>		December 31, 2012	
	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>
Combined federal and provincial income tax rates after manufacturing and processing credits	<b>9,914</b>	<b>26.1</b>	10,352	25.9
Income taxed in partners' hands	<b>(15,145)</b>	<b>(39.9)</b>	(10,233)	(25.6)
Difference in statutory income tax rate of foreign operations	<b>(2,078)</b>	<b>(5.5)</b>	(133)	(0.3)
Investment tax credits	<b>(3,611)</b>	<b>(9.5)</b>	(953)	(2.4)
Permanent and other	<b>(20)</b>	<b>—</b>	(461)	(1.2)
	<b>(10,940)</b>	<b>(28.8)</b>	(1,428)	(3.6)

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

	<b>December 31, 2013</b>	December 31, 2012
	<b>\$</b>	<b>\$</b>
Property, plant and equipment	<b>13,319</b>	4,504
Net operating losses	<b>(23,229)</b>	(4,425)
Other	<b>(4,231)</b>	(1,257)
	<b>(14,141)</b>	(1,178)

**KRUGER PRODUCTS L.P.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2013 and December 31, 2012**

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

## 14 INCOME TAXES (cont'd)

The analysis of the deferred tax (assets) and liabilities was as follows:

	<b>December 31, 2013</b>	December 31, 2012
	\$	\$
Deferred tax (asset) liability to be recovered within 12 months	<b>(387)</b>	(402)
Deferred tax (asset) liability to be recovered after 12 months	<b>(13,754)</b>	(776)
	<b>(14,141)</b>	(1,178)

The Partnership had the following net operating loss carry-forwards available as of December 31, 2013:

	U.S. Federal	Expiry date	U.S. State	Expiry date	Canada	Expiry date
	\$		\$		\$	
2003	5	2023	—	2018	—	
2004	4,270	2024	1,069	2019	—	
2005	22	2025	—	2020	—	
2006	4,714	2026	4,712	2021	—	
2009	1,297	2029	—	2025	—	
2011	558	2031	96	2026	926	2031
2012	1,891	2032	1,677	2027	8,580	2032
2013	51,048	2033	27,845	2028	18,720	2033
	<b>63,805</b>		<b>35,399</b>		<b>28,226</b>	

The Partnership had the following U.S. State tax credits available for carry-forward as of December 31, 2013:

	U.S. State	Expiry date
	\$	
2011	318	2026
2012	3,411	2027
2013	11,228	2028
	<b>14,957</b>	

These credits are available to reduce future Tennessee excise tax and franchise tax otherwise payable by its subsidiary, KTG.

## 15 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.

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

**KRUGER PRODUCTS L.P.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2013 and December 31, 2012**

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

Sales of goods and services to Kruger Inc. for the year ended December 31, 2013 were \$5.9 million (December 31, 2012 - \$4.3 million). Sales of goods to subsidiaries of Kruger Inc. for the year ended December 31, 2013 were \$0.6 million (December 31, 2012 - \$0.2 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, 2013 were \$49.4 million (December 31, 2012 - \$54.7 million). Purchases of goods and services from subsidiaries of Kruger Inc. for the year ended December 31, 2013 were \$9.5 million (December 31, 2012 - \$9.4 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, 2013, management fees of \$4.0 million (December 31, 2012 - \$9.2 million) were paid to Kruger Inc. for management services provided to the Partnership.

Balances due to and from related parties are as follows:

	<b>December 31, 2013</b>	December 31, 2012
	\$	\$
Receivables from Kruger Inc.	<b>1,255</b>	458
Receivables from subsidiaries of Kruger Inc.	<b>174</b>	210
	<b>1,429</b>	668
Payables to Kruger Inc.	<b>3,472</b>	9,053
Payables to subsidiaries of Kruger Inc.	<b>1,662</b>	4
	<b>5,134</b>	9,057

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, 2013 and December 31, 2012. There were no loans outstanding with related parties as of December 31, 2013.

As of December 31, 2013, the Partnership had declared distributions to its related parties as follows:

	<b>December 31, 2013</b>
	\$
Distribution payable to Kruger Inc.	<b>7,871</b>
Distribution payable to KPGP	<b>1</b>
Distribution payable to KPT	<b>1,583</b>
Total distribution payable	<b>9,455</b>

During the year ended December 31, 2013, the Partnership paid distributions to its related parties as follows:

	<b>December 31, 2013</b>
	\$
Distribution paid to Kruger Inc.	<b>24,949</b>
Distribution paid to KPGP	<b>3</b>
Distribution paid to KPT	<b>5,058</b>
Total distributions paid	<b>30,010</b>

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

## 16 COMMITMENTS AND CONTINGENCIES

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

	<b>December 31, 2013</b>	December 31, 2012
	\$	\$
Less than 1 year	<b>13,040</b>	15,401
Between 1 and 5 years	<b>46,017</b>	54,194
More than 5 years	<b>57,444</b>	75,479
	<b>116,501</b>	145,074

Operating lease expense recognized in the consolidated statements of comprehensive income (loss) during the year ended December 31, 2013 was \$12.3 million (December 31, 2012 - \$10.4 million).

As of December 31, 2013, the Partnership had commitments under service contracts of \$1.8 million for 2014 and \$0.9 million for 2015.

As of December 31, 2013, the Partnership had no commitments (December 31, 2012 - \$30.0 million) related to the TAD project.

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.

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, 2013, the Partnership had irrevocable letters of credit outstanding of \$32.4 million (December 31, 2012 - \$32.4 million), which included letters of credit for the pension plans disclosed in note 9.

## 17 EXPENSES BY NATURE

	<b>December 31, 2013</b>	December 31, 2012
	\$	\$
Materials and production costs	<b>277,879</b>	239,957
Wages and other employee benefit expenses	<b>214,054</b>	233,553
Maintenance materials and labour	<b>86,954</b>	85,159
Energy costs	<b>62,701</b>	60,284
Depreciation and amortization	<b>34,142</b>	28,861
Freight and distribution	<b>111,095</b>	103,445
Marketing, selling and administrative expenses	<b>88,699</b>	89,817
<b>Total expenses by nature</b>	<b>875,524</b>	841,076

**KRUGER PRODUCTS L.P.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2013 and December 31, 2012**

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

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

	<b>December 31, 2013</b>	December 31, 2012
	<b>\$</b>	<b>\$</b>
Cost of sales	<b>675,730</b>	646,089
Operating expenses	<b>199,794</b>	194,987
	<b>875,524</b>	841,076

## **18 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. 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.

Segment operating profit is based on earnings before interest, income taxes, depreciation, amortization, impairment of non-financial assets, restructuring costs, gains or losses on sales of fixed assets and unrealized foreign exchange gains or losses. The Partnership's assets, operations and employees are located primarily in Canada and the United States. The same long-term assets of the Partnership are used for the Consumer, AFH and Other segments. Accordingly, assets cannot be allocated to these segments.

**KRUGER PRODUCTS L.P.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2013 and December 31, 2012**

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

**18 SEGMENT INFORMATION (cont'd)**

	<b>2013</b>			
	<b>Consumer</b>	<b>AFH</b>	<b>Other</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Revenue from external customers	<b>792,670</b>	<b>154,304</b>	<b>8,372</b>	<b>955,346</b>
Segment operating profit (loss)	<b>110,342</b>	<b>6,608</b>	<b>(722)</b>	<b>116,228</b>
Depreciation and amortization				<b>34,142</b>
Interest expense				<b>42,251</b>
Impairment (recovery) of non-financial assets				<b>(1,789)</b>
Gain on disposal of property, plant and equipment				<b>(5)</b>
Change in amortized cost of Partnership units liability				<b>(723)</b>
Restructuring costs				<b>1,372</b>
Unrealized foreign exchange loss				<b>2,992</b>
Income before income taxes				<b>37,988</b>
Income taxes				<b>(10,940)</b>
Net income for the year				<b>48,928</b>

	<b>2012</b>			
	<b>Consumer</b>	<b>AFH</b>	<b>Other</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Revenue from external customers	745,548	156,632	20,694	922,874
Segment operating profit (loss)	113,716	3,008	(5,782)	110,942
Depreciation and amortization				28,861
Interest expense				27,829
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				39,970
Income taxes				(1,428)
Net income for the year				41,398

**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.

	<b>2013</b>			
	<b>Canada</b>	<b>US</b>	<b>Mexico</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Revenue	<b>688,173</b>	<b>239,225</b>	<b>27,948</b>	<b>955,346</b>
Property, plant and equipment	<b>292,561</b>	<b>324,126</b>	—	<b>616,687</b>
Goodwill	<b>152,021</b>	—	—	<b>152,021</b>
Intangible assets	<b>13,483</b>	—	—	<b>13,483</b>

				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

## 19 COMPENSATION OF KEY MANAGEMENT

	2013	2012
	\$	\$
Compensation awarded to key management included		
Short-term employee benefits	5,749	4,687
Post-employment benefits	350	347
Other long-term benefits	469	1,501
	6,568	6,535

Key management includes the Partnership's senior executives.

## 20 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, 2013, 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	87,674	87,674
Trade and other receivables	loans and receivables	amortized cost	94,789	94,789
Receivables from related parties	loans and receivables	amortized cost	1,429	1,429
Embedded derivative	fair value through profit or loss	fair value	3,028	3,028
Available-for-sale investment	fair value through other comprehensive income or loss	fair value	836	836
Trade and other payables	financial liabilities	amortized cost	(188,470)	(188,470)
Payables to related parties	financial liabilities	amortized cost	(5,134)	(5,134)
Distribution payable	financial liabilities	amortized cost	(9,455)	(9,455)
Long-term debt	financial liabilities	amortized cost	(350,289)	(377,295)
Partnership unit liability	financial liabilities	amortized cost	(117,839)	(117,839)

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

## 20 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, 2013:

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Embedded derivative	—	3,028	—	3,028
Available-for-sale investment	836	—	—	836

As of December 31, 2012, the classification of the financial instruments, as well as their carrying amounts and fair values, was as follows:

	Classification	Carrying Measurement	Fair amount \$	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

### Fair value

Cash and cash equivalents, trade and other receivables, receivables from related parties, trade and other payables, payables to related parties and distributions payable are short-term financial instruments whose fair value approximates the carrying amount, given they will mature in the near future. As of December 31, 2013, the fair value of the revolving credit facilities was nil (December 31, 2012 - \$0.1 million), which was based on the current principal amount outstanding as the interest rate floats. As of December 31, 2013, the fair value of the senior notes was \$189.0 million (December 31, 2012 - \$189.0 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 \$42.1 million and \$143.0 million (December 31, 2012 - \$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, 2013, the fair value of the loans payable was \$3.2 million (December 31, 2012 - \$3.9 million).

The commodity swap did not trade and the price of an identifiable instrument could not 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.

**KRUGER PRODUCTS L.P.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2013 and December 31, 2012**

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

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.

The fair value of the Available-for-sale investment is based on quoted market price in the active market. Unrealized gains were not significant as of December 31, 2013 and have been recorded in other comprehensive income until realized. The valuation methodology used is categorized as a Level 1 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.

*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, and derivative commodity contracts. The Partnership places its cash and cash equivalents, 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.

	<b>December 31, 2013</b>	December 31, 2012
	<b>\$</b>	<b>\$</b>
Trade receivables	<b>90,782</b>	90,374
Less: Allowance for doubtful accounts	<b>(353)</b>	(112)
Total trade receivables - net	<b>90,429</b>	90,262
Trade receivables - net		
0 to 60 days	<b>90,132</b>	89,250
61 to 90 days	<b>299</b>	790
Over 90 days	<b>351</b>	334
Less: Allowance for doubtful accounts	<b>(353)</b>	(112)
	<b>90,429</b>	90,262

*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.

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

## 20 FINANCIAL INSTRUMENTS (cont'd)

As of December 31, 2013, the Partnership has net liabilities denominated in U.S. dollars of \$50.0 million (December 31, 2012 - \$46.0 million). Assuming the Canadian dollar strengthened (weakened) by 5% against the U.S. dollar, with all other variables held constant, the hypothetical result on income before income taxes for the year ended December 31, 2013 would have been an increase/decrease of \$2.5 million (December 31, 2012 - \$2.3 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 \$92.6 million as of December 31, 2013 (December 31, 2012 - \$162.5 million). 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 \$188.5 million (December 31, 2012 - \$186.3 million) are all due for payment within 12 months of the dates of the consolidated statements of financial position.

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

	<b>December 31, 2013</b>		
	<b>Less than 1 year</b>	<b>1 to 5 years</b>	<b>Greater than 5 years</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Partnership units liability	<b>3,475</b>	<b>35,895</b>	<b>87,895</b>
Long-term debt <sup>(a)</sup>	<b>34,899</b>	<b>438,579</b>	<b>7,170</b>
Trade and other payables	<b>188,470</b>		
Payables to related parties	<b>5,134</b>		

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

	<b>December 31, 2012</b>		
	<b>Less than 1 year</b>	<b>1 to 5 years</b>	<b>Greater than 5 years</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Partnership units liability	—	39,255	78,615
Long-term debt <sup>(a)</sup>	32,423	143,347	323,106
Trade and other payables	186,309		
Payables to related parties	9,057		

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

### *Interest rate risk*

As of December 31, 2013, the Partnership had variable rate debts of nil (December 31, 2012 - \$0.1 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 0.20% and 2.50%.

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, 2013 (December 31, 2012 - nil).

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.

## 21 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.

## 22 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.

## 23 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. As of December 31, 2013, the Partnership had three major customers, which represented 41.4% (December 31, 2012 – 39.4%) of total revenues, and of these customers, one represented 19.0% (December 31, 2012 – 18.8%) of the total revenues and another represented 11.8% (December 31, 2012 – 10.9%). The Partnership's concentration of credit risk primarily arises from exposure to these three customers and amounted to approximately 31.8% of the trade receivables as of December 31, 2013 (December 31, 2012 – 41.5%). These customers are included in the consumer segment.

## 24 NON-CASH WORKING CAPITAL

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

	<b>December 31, 2013</b>	December 31, 2012
	<b>\$</b>	<b>\$</b>
Decrease (increase) in trade receivables	<b>2,951</b>	(3,346)
Decrease (increase) in receivables from related parties	<b>(78)</b>	62
Decrease (increase) in inventories	<b>(32,039)</b>	19,842
Decrease (increase) in prepaid expenses	<b>(320)</b>	970
Increase in other assets	<b>(1,183)</b>	—
Decrease (increase) in income taxes	<b>39</b>	(643)
Increase in trade and other payables	<b>282</b>	23,371
Decrease in payables to related parties	<b>(3,923)</b>	(350)
	<b>(34,271)</b>	39,906



# SHAREHOLDER INFORMATION

## CORPORATE ADDRESS

1900 Minnesota Court  
Suite 200  
Mississauga, Ontario L5N 5R5  
Telephone: 905-812-6900  
Fax: 905-812-6910  
[www.kptissueinc.com](http://www.kptissueinc.com)

## INVESTOR RELATIONS

Mike Baldesarra  
Director of Investor Relations  
Telephone: 905-812-6900  
[ir@kptissueinc.com](mailto:ir@kptissueinc.com)

## TRANSFER AGENT AND REGISTRAR

TMX Equity Transfer Services  
The Exchange Tower  
800 Victoria Square  
Montreal, Quebec H4Z 1A9  
Telephone: 514 395-5964  
Fax: 514 787-6690  
[www.tmxequitytransferservices.com](http://www.tmxequitytransferservices.com)

## STOCK EXCHANGE LISTING

Toronto Stock Exchange  
Stock Symbol: KPT

## AUDITORS

PricewaterhouseCoopers LLP  
PwC Tower  
18 York Street  
Suite 2600  
Toronto, Ontario M5J 0B2

## BOARD OF DIRECTORS

The Board of Directors of KPT 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.

Susan J. McArthur (Chair Person and Independent Director) <sup>(1)</sup> <sup>(2)</sup>  
Michel Letellier (Independent Director) <sup>(1)</sup> <sup>(2)</sup>  
David Spraley (Non-Independent Director)

<sup>(1)</sup> Audit Committee Member

<sup>(2)</sup> Nominating Committee Member

James Hardy (Independent Director) has been nominated and when elected at the AGM on June 19, 2014, will become a member of the audit committee and nominating committee.

For complete information about Board Members and Corporate Governance, please visit [www.kptissueinc.com](http://www.kptissueinc.com)

## ANNUAL MEETING OF SHAREHOLDERS

The King Gallery  
One King West  
1 King Street West  
Toronto, Ontario M5H 1A1  
June 19, 2014 at 2:00 p.m. (EST).

## DESIGNED AND WRITTEN BY

MaisonBrisson Communications





White  
Cloud

Sponge Towels

Scotties

Purex

White  
Swan