



KP TISSUE INC. AND KRUGER PRODUCTS L.P.

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

FOR THE 13-WEEK AND 26-WEEK PERIODS ENDED JUNE 29, 2014

DATED AUGUST 12, 2014

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The following Management's Discussion and Analysis (MD&A) for KP Tissue Inc. (KPT) and Kruger Products L.P. (KPLP) is intended to assist the readers in understanding the business environment, strategies, performance and risk factors relating to KPT and KPLP. It should be read in conjunction with the condensed financial statements of KPT for the 13-week and 26-week periods ended June 29, 2014 and June 30, 2013, and the condensed consolidated financial statements of KPLP for the 13-week periods ended June 29, 2014 (Q2 2014) and June 30, 2013 (Q2 2013), respectively, and the 26-week periods ended June 29, 2014 (YTD 2014) and June 30, 2013 (YTD 2013), respectively.

About KP Tissue Inc.

KPT was created to acquire, and its business is limited to holding, a limited partnership interest in KPLP. As of June 29, 2014 KPT held a 16.6% interest in KPLP, accounted for as an investment in an associate using the equity method of accounting. The following MD&A provides discussion and analysis related to KPT to the extent necessary to understand the equity method of accounting. However, most of the discussion and analysis relates to KPLP and to KPT's investment in KPLP.

CAUTIONARY FORWARD LOOKING STATEMENT

Certain statements in this MD&A about KPT's and KPLP's current and future plans, expectations and intentions, results, levels of activity, performance, goals or achievements or any other future events or developments constitute forward-looking statements. The words "may", "will", "would", "should", "could", "expects", "plans", "intends", "trends", "indications", "anticipates", "believes", "estimates", "predicts", "likely" or "potential" or the negative or other variations of these words or other comparable words or phrases, are intended to identify forward-looking statements. The forward-looking information is based on certain key expectations and assumptions made by KPT or KPLP, including continued growth of the U.S. private label market and demand for TAD products in the U.S., orders for the TAD machine's products, the demand and timing of distributions made by KPLP, and Kruger Inc.'s cash requirements. The financial outlook that KPLP Management provides on page 3 of this MD&A concerning the potential incremental EBITDA generated by the TAD Project (as defined below) may be considered forward-looking information and is based on additional key expectations and assumptions, including but not limited to (i) limited incremental overhead relating to the operation of the TAD machine and distribution and sale of products, (ii) the TAD machine operating at near full capacity and products being sold at prices consistent with current market prices, adjusted for inflation, (iii) a cost of pulp and energy based on recent prices, adjusted for inflation, and (iv) a foreign exchange rate between the Canadian and U.S. dollars approximating current levels. 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 (the Annual Information Form): Kruger Inc.'s influence over KPLP; KPLP's reliance on Kruger Inc.; consequences of an event of insolvency relating to Kruger Inc.; risks associated with the TAD Project; operational risks; Gatineau Plant land lease; significant increases in prices; reduction in supply of fibre; increased pricing pressure and intense competition; KPLP's inability to innovate effectively; adverse economic conditions; dependence on key retail trade customers; damage to the reputation of KPLP or KPLP's brands; KPLP's sales being less than anticipated; KPLP's failure to implement its business and operating strategies; KPLP's obligation to make regular capital expenditures; KPLP's entering into unsuccessful acquisitions; KPLP's dependence on key personnel; KPLP's inability to retain its existing customers or obtain new customers; KPLP's loss of key suppliers; KPLP's failure to adequately protect its intellectual property rights; KPLP's reliance on third party intellectual property licenses; adverse litigation and other claims affecting KPLP; material expenditures due to comprehensive environmental regulation affecting KPLP's cash flow; KPLP's pension obligations are significant and can be materially higher than predicted if KPLP Management's underlying assumptions are incorrect; labour disputes adversely affecting KPLP's cost structure and KPLP's ability to run its plants; exchange rate and U.S. competitors; KPLP's inability to service all of its indebtedness; exposure to potential consumer product liability, restrictive covenants; interest rate and refinancing risk; information technology and innovation; insurance; and internal controls.

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

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

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

OVERVIEW

Business Overview

Pursuant to its Articles, KPT's business is limited to (i) the investment in, holding of and disposition of limited partnership interests, units, shares or other securities of KPLP and its general partner, KPGP Inc. (KPGP) (or any successor entity of either KPLP or KPGP), (ii) the acquisition of, holding, operation and disposition of any assets, liabilities, operations or business of such entities, and (iii) all activities related, incidental or ancillary to any of the foregoing. As of the date of the MD&A and following the participation by the partners in the Dividend Reinvestment Plan (DRIP) on July 15, 2014, KPT held 16.6% of the KPLP Partnership Units (KPLP Units).

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

KPLP is headquartered in Mississauga, Ontario and has approximately 2,500 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).

Basis of Presentation

The condensed consolidated financial statements of KPLP presented for the 26-week periods ended June 29, 2014 and June 30, 2013 have been prepared in accordance with IFRS (International Financial Reporting Standards) for interim financial statements, including IAS 34, Interim Financial Reporting. The condensed financial statements of KPT for the 26-week periods ended June 29, 2014 and June 30, 2013 have also been prepared in accordance with IFRS for interim financial statements.

Accounting Periods

This MD&A, the condensed consolidated financial statements of KPLP and accompanying notes thereto include financial information for Q2 2014, Q2 2013, YTD 2014 and YTD 2013.

Financial Measures and Key Indicators

This MD&A uses certain non-IFRS financial measures and ratios which KPLP believes provide useful information to both KPLP Management and the readers of the condensed consolidated financial statements in measuring the financial performance and financial condition of KPLP. These measures do not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similarly titled measures presented by other companies. An example of such measures is EBITDA. EBITDA is not a measurement of operating performance computed in accordance with IFRS and should not be considered as a substitute for operating income, net income or cash flows from operating activities computed in accordance with IFRS. This MD&A contains a reconciliation of EBITDA to the most comparable IFRS measures on page 6.

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

“KTG EBITDA” is calculated as net income (loss) of KTG as reported in the financial statements of KTG before (i) interest expense, (ii) income taxes, (iii) depreciation, and (iv) amortization, as defined in the TAD Credit Facility (as described in the 2013 Annual MD&A).

“TAD Product EBITDA” represents the portion of KTG EBITDA generated by the sale of TAD products.

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 of TAD Product EBITDA annually for KPLP by 2017, being the year in which the TAD paper machine is expected to reach full production capacity. TAD Product EBITDA was \$7.8 million in Q2 2014. TAD Product EBITDA is expected to be in the \$20 to \$25 million range for fiscal 2014. The foregoing estimates of future incremental EBITDA may be considered forward-looking information and are based upon certain key assumptions, including (i) limited incremental overhead relating to the operation of the TAD machine and distribution and sale of products, (ii) the TAD machine operating at near full capacity and products being sold at market prices consistent with current market prices, adjusted for inflation, (iii) a cost of pulp and energy based on recent prices, adjusted for inflation, and (iv) a foreign exchange rate between the Canadian and U.S. dollars approximating current levels. The foregoing factors could cause TAD Product EBITDA to differ materially from the amount set forth in the foregoing estimate.

Factors Affecting the Results of Operations

Revenue

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

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

Cost of Sales

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

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

Selling, General and Administrative Expenses

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

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

Interest Expense

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

Income Taxes

KPLP is not a tax paying entity. The income (loss) from KPLP flowed to the partners, Kruger Inc., KPGP and KPT for the 13-week and 26-week periods ended June 29, 2014 and June 30, 2013. On January 4, 2010, Former KPLP acquired substantially all of the business, assets and liabilities of Kruger Products Limited. The reorganization of Kruger Products Limited to a limited partnership was undertaken to optimize the financial and tax structure of the operating entity of the

Tissue Business and its affiliates. The income taxes recorded in the condensed consolidated financial statements of KPLP relate to the income taxes for its incorporated subsidiaries in the U.S., Canada, Luxembourg and Mexico.

BUSINESS HIGHLIGHTS

TAD Project

In the autumn of 2011, KPLP, through KTG, commenced the construction of the TAD Project. The TAD Project was originally expected to cost up to U.S.\$322 million (including reserves for contingencies, interest during construction, working capital and start-up costs). On February 22, 2013, KPT announced that KPLP had successfully finished the construction phase of the TAD Project, on time and on budget. As of June 29, 2014, a total of U.S.\$311.7 million had been spent on the TAD Project, financed by a U.S.\$186.7 million investment by KPLP into KTG and a drawdown of U.S.\$125.0 million on the TAD Credit Facility. KPLP has invested into KTG, primarily to finance the TAD Project, U.S.\$70.0 million of the proceeds from the subscription by KPT for units of KPLP in the context of KPT's initial public offering in December 2012.

Eastern Warehousing Initiative

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

Corporate Restructuring Initiative

During Q1 2014, KPLP undertook a review of its corporate overhead costs and identified a number of cost reduction opportunities (Corporate Restructuring Initiative). KPLP expects to incur restructuring costs of approximately \$2.0 million, primarily related to severance, and reduce costs by approximately \$2.4 million annually as a result of this initiative. As of June 29, 2014, KPLP had incurred \$0.6 million of the costs associated with this initiative and recorded a provision for the remaining \$1.5 million.

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

Acquisition of Metro Paper

On June 3, 2014, the Partnership acquired the Canadian tissue converting assets of Metro Paper Industries Inc. (Metro Paper) for cash consideration of \$23.4 million. The assets acquired include converting equipment in Scarborough and Trenton, Ontario, inventory, the entire Metro Paper North American Away-From-Home (AFH) customer base, as well as facility operating leases. Metro Paper's revenues in 2013 were approximately \$65 million, split almost equally between the US and Canada, of which approximately \$15 million was sold to the Partnership. This acquisition will be part of the AFH segment and is expected to create synergies, increase production capacity and add complementary product lines to the Partnership's AFH business.

RESULTS OF OPERATIONS

Results of Operations of KPLP

(C\$ millions, unless otherwise noted)	Q2 2014	Q2 2013	YTD 2014	YTD 2013	\$ Change	
					Q2 2014 vs. Q2 2013	YTD 2014 vs. YTD 2013
Statement of Operations Data:						
Revenue	265.3	246.8	499.9	468.6	18.5	31.3
Cost of sales	(226.5)	(201.7)	(425.3)	(384.8)	(24.8)	(40.5)
Selling, general and administrative expenses	(19.9)	(22.4)	(40.4)	(43.2)	2.5	2.8
Recovery (impairment) of non-financial assets	-	1.8	-	1.8	(1.8)	(1.8)
Restructuring costs	0.1	-	(2.8)	-	0.1	(2.8)
Operating income	19.0	24.5	31.4	42.4	(5.5)	(11.0)
Interest expense	(11.4)	(11.0)	(22.3)	(20.9)	(0.4)	(1.4)
Other income (expense)	0.2	(1.6)	(4.8)	(2.7)	1.8	(2.1)
Income before income taxes	7.8	11.9	4.3	18.8	(4.1)	(14.5)
Income taxes:						
Combined income tax rate after manufacturing and processing credits	(0.2)	(3.1)	(1.1)	(4.9)	2.9	3.8
Income tax in partners' hands	2.0	5.4	2.2	8.7	(3.4)	(6.5)
Other	(1.5)	1.2	(0.5)	4.5	(2.7)	(5.0)
Income taxes	0.3	3.5	0.6	8.3	(3.2)	(7.7)
Net income	8.1	15.4	4.9	27.1	(7.3)	(22.2)

(C\$ millions, unless otherwise noted)	Q2 2014	Q2 2013	YTD 2014	YTD 2013	\$ Change	
					Q2 2014 vs. Q2 2013	YTD 2014 vs. YTD 2013
Reconciliation of EBITDA to Net income:						
Net income	8.1	15.4	4.9	27.1	(7.3)	(22.2)
Income taxes	(0.3)	(3.5)	(0.6)	(8.3)	3.2	7.7
Interest expense	11.4	11.0	22.3	20.9	0.4	1.4
Loss (gain) on disposal of property, plant and equipment	0.3	-	0.3	(0.1)	0.3	0.4
Depreciation and amortization	9.5	9.0	18.5	16.5	0.5	2.0
Unrealized foreign exchange loss (gain)	(1.6)	1.6	0.1	2.5	(3.2)	(2.4)
Change in amortized cost of Partnership units liability	1.5	-	4.9	-	1.5	4.9
Recovery (impairment) of non-financial assets	-	(1.8)	-	(1.8)	1.8	1.8
Restructuring costs	0.1	-	2.8	-	0.1	2.8
EBITDA	29.0	31.7	53.2	56.8	(2.7)	(3.6)

Results of Operations Q2 2014 compared to Q2 2013

Revenue

Revenue was \$265.3 million in Q2 2014 compared to \$246.8 million in Q2 2013, an increase of \$18.5 million or 7.5%. The increase in revenue was primarily due to additional sales volume in the Consumer segment driven by TAD product promotional activities in the U.S. and the favourable impact of foreign exchange on U.S. dollar sales. Also the acquisition of

Metro Paper on June 3rd contributed to an increase in AFH segment revenue in Q2 2014. Revenue in Canada decreased \$10.1 million, or 5.5% primarily as a result of lower promotional activity compared to Q2 2013. Revenue in the U.S. increased \$30.0 million, or 53.2%, driven by promotional activities related to TAD products, favourable foreign exchange impacts and an overall change in sales mix as a result of the TAD Project. KTG revenue (sold primarily in the U.S. and including intercompany sales) was \$68.8 million in Q2 2014 compared to \$48.1 million in Q2 2013. Revenue increased in all segments (Consumer, AFH, Other) in Q2 2014 compared to Q2 2013.

Cost of Sales

Cost of sales was \$226.5 million in Q2 2014 compared to \$201.7 million in Q2 2013, an increase of \$24.8 million or 12.3%. As a percentage of revenue, cost of sales were 85.3% in Q2 2014 compared to 81.7% in Q2 2013. Cost of sales was impacted in Q2 2014 by higher commodity prices, particularly fibre and energy costs, compared to Q2 2013. Pulp market prices (NBSK) were U.S. \$1,030 per metric tonne as of June 29, 2014 and on average in Q2 2014, compared to U.S.\$937 per metric tonne on average in Q2 2013. Cost of sales was also negatively impacted by foreign exchange fluctuations in Q2 2014 compared to Q2 2013. Natural gas prices increased in Q2 2014 from lower levels during Q2 2013, as did depreciation expense as a result of the TAD Project. Freight expense increased as a result of higher sales volumes associated with promotional activities in the U.S. and warehousing expense increased due to an increase in inventory.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses were \$19.9 million in Q2 2014 compared to \$22.4 million in Q2 2013, a decrease of \$2.5 million or 11.2%. As a percentage of revenue, SG&A expenses were 7.5% in Q2 2014 compared to 9.1% in Q2 2013. The decrease was primarily related to reduced departmental spending and lower advertising and promotion expenses in Q2 2014 compared to Q2 2013.

EBITDA

EBITDA was \$29.0 million in Q2 2014 compared to \$31.7 million in Q2 2013, a decrease of \$2.7 million. The decrease was primarily due to lower margins as a result of higher cost of sales. KTG EBITDA was \$7.8 million in Q2 2014 compared to an EBITDA loss of \$1.0 million in Q2 2013, which included TAD Project start-up costs of \$2.4 million.

Recovery of Non-Financial Assets

A recovery of \$1.8 million was recognized in Q2 2013 related to the reversal of a previously recorded provision against certain lands.

Interest Expense

Interest expense was \$11.4 million in Q2 2014 compared to \$11.0 million in Q2 2013, an increase of \$0.4 million primarily due to foreign exchange fluctuations.

Other income (expense)

Other income was \$0.2 million in Q2 2014 compared to other expense of \$1.6 million in Q2 2013, a change of \$1.8 million. Other income in Q2 2014 was primarily due to an unrealized foreign exchange gain of \$1.6 million, partially offset by a change in the amortized cost of the Partnership unit liability of \$1.5 million. Other expense in Q2 2013 was due to an unrealized foreign exchange loss of \$1.6 million.

Income Taxes

An income tax recovery of \$0.3 million was recorded in Q2 2014 compared to an income tax recovery of \$3.5 million in Q2 2013, a change of \$3.2 million related primarily to KTG in the U.S. As previously discussed, KPLP is not directly taxable on its Canadian business. The income tax recoveries recorded in both Q2 2014 and Q2 2013 related primarily to additional tax deductions and state tax credits in respect of the TAD Project. Income tax in partner's hands was \$2.0 million in Q2 2014 compared to \$5.4 million in Q2 2013.

Net Income

Net income was \$8.1 million in Q2 2014 compared to \$15.4 million in Q2 2013, a decrease of \$7.3 million. The decrease was primarily due to a decrease in the deferred tax recovery of \$3.2 million, the decrease in EBITDA of \$2.7 million and a change in the amortized cost of the Partnership unit liability of \$1.5 million. KTG had a net loss of \$1.3 million in Q2 2014, compared to a net loss of \$5.5 million in Q2 2013.

Results of Operations YTD 2014 compared to YTD 2013

Revenue

Revenue was \$499.9 million in YTD 2014 compared to \$468.6 million in YTD 2013, an increase of \$31.3 million or 6.7%. The increase in revenue was primarily due to additional sales volume in the Consumer segment driven by new U.S. business related to the TAD Project, and the favourable impact of foreign exchange on U.S. dollar sales. Revenue in the U.S. increased \$39.6 million, or 34.9%. Revenue in Canada decreased \$6.5 million, or 1.9% primarily as a result of lower sales volumes. KTG revenue (sold primarily in the U.S. and including intercompany sales) was \$124.0 million in YTD 2014 compared to \$89.8 million in YTD 2013. Consumer and AFH segment revenues increased in YTD 2014 compared to YTD 2013.

Cost of Sales

Cost of sales was \$425.3 million in YTD 2014 compared to \$384.8 million in YTD 2013, an increase of \$40.5 million or 10.5%. As a percentage of revenue, cost of sales was 85.1% in YTD 2014 compared to 82.1% in YTD 2013. Cost of sales was impacted in YTD 2014 as commodity prices, particularly fibre costs, continued to move upward during the period. Pulp market prices (NBSK) were U.S.\$1,023 per metric tonne on average in YTD 2014 compared to U.S.\$917 per metric tonne on average in YTD 2013. Cost of sales was also negatively impacted by foreign exchange fluctuations in YTD 2014 compared to YTD 2013. Natural gas prices also increased in YTD 2014 from significantly low levels during YTD 2013, as did depreciation expense as a result of the TAD Project. Freight expense increased as a result of higher sales volumes associated primarily with new TAD business in the U.S. and warehousing expense increased as a result of an increase in inventory.

Selling, General and Administrative Expenses

SG&A expenses were \$40.4 million in YTD 2014 compared to \$43.2 million in YTD 2013, a decrease of \$2.8 million or 6.4%. As a percentage of revenue, SG&A expenses were 8.1% in YTD 2014 compared to 9.2% in YTD 2013. The decrease was primarily related to a reduction in departmental spending and lower advertising and promotion expenses in YTD 2014 compared to YTD 2013.

EBITDA

EBITDA was \$53.2 million in YTD 2014 compared to \$56.8 million in YTD 2013, a decrease of \$3.6 million. The decrease, as discussed above, was primarily due to lower margins as a result of higher cost of sales. KTG had EBITDA of \$13.4 million in YTD 2014 compared to an EBITDA loss of \$1.4 million in YTD 2013, which included TAD Project start-up costs of \$4.2 million.

Recovery of Non-Financial Assets and Restructuring Costs

Restructuring costs of \$2.8 million were recorded in YTD 2014 related to the Eastern Warehousing Initiative and Corporate Restructuring Initiative of \$0.8 million and \$2.0 million, respectively. Refer to the Business Highlights section for additional details.

A recovery of \$1.8 million was recognized in YTD 2013 related to the reversal of a previously recorded provision against certain lands.

Interest Expense

Interest expense was \$22.3 million in YTD 2014 compared to \$20.9 million in YTD 2013, an increase of \$1.4 million. The increase was primarily due to interest expense related to the TAD Project recorded in YTD 2014, which was capitalized for a portion of YTD 2013.

Other expense

Other expense was \$4.9 million in YTD 2014 compared to \$2.7 million in Q2 2013, an increase of \$2.2 million. Other expense in Q2 2014 was primarily due to a change in the amortized cost of the Partnership unit liability of \$4.9 million. Other expense in YTD 2013 was primarily due to an unrealized foreign exchange loss of \$2.5 million.

Income Taxes

An income tax recovery of \$0.6 million was recorded in YTD 2014 compared to income tax recovery of \$8.3 million in YTD 2013, a change of \$7.7 million relating primarily to KTG in the U.S. As previously discussed, KPLP is not directly taxable on its Canadian business. The income tax recoveries recorded in both YTD 2014 and YTD 2013 related primarily to additional tax deductions and state tax credits in respect of the TAD Project. Income tax in partner's hands was \$2.2 million in YTD 2014 compared to \$8.7 million in YTD 2013.

Net Income

Net income was \$4.9 million in YTD 2014 compared to \$27.1 million in YTD 2013, a decrease of \$22.2 million. The decrease was primarily due to non-operational charges related to restructuring and impairment totaling \$4.6 million, the change in the amortized cost of the Partnership unit liability of \$4.9 million and a decrease in the deferred tax recovery of \$7.7 million, as well as, the decrease in EBITDA of \$3.6 million, and increases in interest expense of \$1.4 million and depreciation expense of \$2.0 million. KTG had a net loss of \$4.1 million in YTD 2014 compared to net loss of \$7.4 million in YTD 2013.

Results of Operations of KPT

(C\$ millions, unless otherwise noted)	13-week	13-week	26-week	26-week
	period ended	period ended	period ended	period ended
	June 29, 2014	June 30, 2013	June 29, 2014	June 30, 2013
Equity income (loss)	(0.1)	1.2	(2.2)	0.5
Net income (loss) for the period	(0.3)	0.6	(2.0)	(0.1)
Basic earnings (loss) per share (whole dollars)	(0.03)	0.07	(0.22)	(0.01)

The selected financial information presented above is based on KPT's interest in KPLP for the 13-week and 26-week periods ended June 29, 2014 and June 30, 2013. The equity income (loss) includes KPT's share of profit of KPLP of \$1.4 million and \$2.6 million for the 13-week periods ended June 29, 2014 and June 30, 2013, respectively, and \$0.8 million and \$4.6 million for the 26-week periods ended June 29, 2014 and June 30, 2013, respectively. The share of profit was reduced by depreciation expense of \$1.4 million and \$1.4 million for the 13-week periods ended June 29, 2014 and June 30, 2013, respectively, and \$3.0 million and \$4.1 million for the 26-week periods ended June 29, 2014 and June 30, 2013, respectively, related to adjustments to the carrying amount of the assets and liabilities of KPLP on its acquisition by KPT. Refer to note 5 in KPT's condensed financial statements for additional information.

The current income tax expense of \$0.1 million and \$0.4 million for the 13-week periods ended June 29, 2014 and June 30, 2013, respectively, and \$0.1 million and \$0.6 million for the 26-week periods ended June 29, 2014 and June 30, 2013, respectively was based on KPT's share of the taxable income (loss) of KPLP for the same periods. The deferred tax expense (recovery) of \$0.1 million and \$0.4 million for the 13-week periods ended June 29, 2014 and June 30, 2013, respectively, and \$(0.2) million and \$0.5 million for the 26-week periods ended June 29, 2014 and June 30, 2013, respectively was a result of changes in the temporary differences of KPLP's assets and liabilities since acquisition and the difference between the

accounting and tax basis for KPT's investment in KPLP. Refer to note 6 in KPT's condensed financial statements for additional information.

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

SEGMENT INFORMATION

Segment Operating Profit

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

Segment Results

	Q2 2014	Q2 2013	YTD 2014	YTD 2013	Q2 2014 vs. Q2 2013		YTD 2014 vs. YTD 2013	
					\$ Change	% Change	\$ Change	% Change
Segment Revenue								
Consumer	216.9	205.4	415.3	389.8	11.5	5.6%	25.5	6.5%
AFH	44.3	40.0	77.7	75.3	4.3	10.8%	2.4	3.2%
Other	4.1	1.4	6.9	3.5	2.7	192.9%	3.4	97.1%
Total segment revenue	<u>265.3</u>	<u>246.8</u>	<u>499.9</u>	<u>468.6</u>	<u>18.5</u>	<u>7.5%</u>	<u>31.3</u>	<u>6.7%</u>
Segment EBITDA								
Consumer	29.5	29.1	54.5	53.0	0.4		1.5	
AFH	0.1	2.7	(0.4)	4.1	(2.6)		(4.5)	
Other	(0.6)	(0.1)	(0.9)	(0.3)	(0.5)		(0.6)	
Total segment EBITDA	<u>29.0</u>	<u>31.7</u>	<u>53.2</u>	<u>56.8</u>	<u>(2.7)</u>		<u>(3.6)</u>	

Consumer Segment

Q2 2014 compared to Q2 2013

Consumer segment revenue was \$216.9 million in Q2 2014 compared to \$205.4 million in Q2 2013, an increase of \$11.5 million or 5.6%. The increase resulted from higher sales volumes in the U.S. primarily due to TAD product promotional activities and the favourable impact of foreign exchange related to U.S. dollar sales. The increase in the U.S. was partially offset by a decrease in Canada primarily due to a lower level of promotional activity compared to Q2 2013.

Consumer Segment EBITDA was \$29.5 million in Q2 2014 compared to \$29.1 million in Q2 2013, an increase of \$0.4 million. The increase in revenue was essentially offset primarily by higher commodity costs, particularly fibre and natural gas, and also increased freight and warehousing costs.

YTD 2014 compared to YTD 2013

Consumer segment revenue was \$415.3 million in YTD 2014 compared to \$389.8 million in YTD 2013, an increase of \$25.5 million or 6.5%. The increase resulted from higher sales volumes in the U.S. primarily due to TAD product sales and the favourable impact of foreign exchange related to U.S. dollar sales. The increase in the U.S. was partially offset by a decrease in Canada due to lower sales volumes.

Consumer Segment EBITDA was \$54.5 million in YTD 2014 compared to \$53.0 million in YTD 2013, an increase of \$1.5 million. The increase in Consumer segment EBITDA was primarily due to the increase in revenue, partially offset by

higher commodity costs, particularly fibre and natural gas, and increased freight and warehousing costs as discussed above in the overall results.

AFH Segment

Q2 2014 compared to Q2 2013

AFH segment revenue was \$44.3 million in Q2 2014 compared to \$40.0 million in Q2 2013, an increase of \$4.3 million or 10.8%. The increase resulted from increases in sales volume in Canada and the U.S. in Q2 2014 compared to Q2 2013, driven by June sales related to the Metro Paper acquisition.

AFH Segment EBITDA was \$0.1 million in Q2 2014 compared to \$2.7 million in Q2 2013, a decrease of \$2.6 million. The decrease was primarily due to lower margins resulting from an increase in cost of sales, including fibre, energy and freight costs.

YTD 2014 compared to YTD 2013

AFH segment revenue was \$77.7 million in YTD 2014 compared to \$75.3 million in YTD 2013, an increase of \$2.4 million or 3.2%, driven by June sales related to the Metro Paper acquisition. AFH segment revenue increased in the U.S. and was slightly lower in Canada.

AFH Segment EBITDA was a loss of \$0.4 million in YTD 2014 compared to earnings of \$4.1 million in YTD 2013, a decrease of \$4.5 million. The decrease in AFH Segment EBITDA was primarily due to lower sales in Canada (excluding the June Metro Paper acquisition) and increases in cost of sales as discussed above in relation to the Q2 2014 results.

Other Segment

Q2 2014 compared to Q2 2013

Other segment revenue was \$4.1 million in Q2 2014 compared to \$1.4 million in Q2 2013, an increase of \$2.7 million, primarily due to the sale of parent rolls.

Other Segment EBITDA was a loss of \$0.7 million in Q2 2014 compared to a loss of \$0.1 million in Q2 2013.

YTD 2014 compared to YTD 2013

Other segment revenue was \$6.9 million in YTD 2014 compared to \$3.5 million in YTD 2013, an increase of \$3.4 million, primarily due to the sale of parent rolls.

Other Segment EBITDA was a loss of \$0.9 million in YTD 2014 compared to a loss of \$0.3 million in YTD 2013, a decrease of \$0.6 million.

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 June 29, 2014, KPLP was in compliance with all of its financial covenants under all of its outstanding credit facilities. As of June 29, 2014, no amount was drawn from the \$125 million committed amount under the Senior Credit Facility, with the exception of \$29.6 million of letters of credit outstanding.

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

Cash Flows

(C\$ millions unless otherwise stated)	YTD 2014	YTD 2013	\$ Change YTD 2014 vs. YTD 2013
Net cash flows from (used in) operating activities	22.5	(0.1)	22.6
Net cash flows used in investing activities	(43.7)	(36.4)	(7.3)
Net cash flows used in financing activities	(26.1)	(7.4)	(18.7)
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	0.1	0.8	(0.7)
Increase (decrease) in cash and cash equivalents	(47.2)	(43.1)	(4.1)
Beginning cash and cash equivalents	87.7	121.5	(33.8)
Ending cash and cash equivalents	40.5	78.4	(37.9)

Net Cash Flows from (used in) Operating Activities

Net cash from operating activities was \$22.5 million in YTD 2014 compared to \$0.1 million used in operating activities in YTD 2013. Cash from operating activities in YTD 2014 was primarily driven by EBITDA of \$53.2 million, partially offset by higher funds required by working capital components primarily due to an increase in accounts receivable as a result of higher sales, a decline in accounts payable due to timing, and funding of pension and post retirement plans.

Net Cash Flows used in Investing Activities

Net cash used in investing activities was \$43.7 million in YTD 2014 compared to \$36.4 million in YTD 2013, primarily due to the acquisition of Metro Paper for cash consideration of \$23.4 million. TAD Project capital expenditures declined to \$6.2 million in YTD 2014 compared to \$28.8 million in YTD 2013 as a result of the end of the spending phase of the TAD Project. Other capital expenditures, primarily on Canadian plant sites, were \$14.1 million in YTD 2014 compared to \$7.6 million in YTD 2013.

Net Cash Flows from (used in) Financing Activities

Net cash used in financing activities was \$26.1 million in YTD 2014 compared to \$7.4 million in YTD 2013. Net cash used in financing activities in YTD 2014 was primarily due to interest paid of \$10.4 million and distributions paid of \$23.7 million, partially offset by net proceeds of \$8.5 million related to the issuance of partnership units in connection with the participation by the partners in the DRIP.

Contractual Obligations

KPLP's contractual obligations consist of long-term debt (principal repayments and interest payments), operating leases for the rental of property, equipment and automobiles, partnership units liability and other long-term liabilities. There have been no significant changes to the contractual obligations from those disclosed in the 2013 Annual MD&A, with the

exception of additional operating leases assumed in the Metro Paper acquisition. The Partnership assumed leases primarily related to facilities in Scarborough and Trenton, Ontario with annual obligations of \$1.2 million.

KPLP's cash pension contribution for defined benefit pension arrangements during the year ended December 31, 2014 is expected to be \$29.9 million, while its post-retirement benefits contribution is expected to be \$2.7 million. In addition, as of June 29, 2014, KPLP had \$29.2 million of letters of credit related to pensions outstanding.

Indebtedness

For additional details related to KPLP's indebtedness, refer to the 2013 Annual MD&A available on SEDAR at www.sedar.com.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

Currency Risk

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

As of June 29, 2014, KPLP had net liabilities denominated in U.S. dollars of \$41.8 million (December 31, 2013 – \$50.0 million). Assuming the Canadian dollar strengthened (weakened) by 5% against the U.S. dollar, with all other variables held constant, the result on net income before tax in Q2 2014 would have been an increase (decrease) of \$2.1 million (Q2 2013 – \$1.6 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 June 29, 2014, KPLP had variable rate debts of nil (December 31, 2013 – nil) and accordingly KPLP's exposure to interest rate risk is not significant. This facility bears interest at Canadian prime rate, U.S. base rate, banker's acceptance rates or LIBOR plus the applicable margins. The applicable margin on the loans ranges between 0.20% and 2.50%.

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

KPLP had no interest rate swaps or interest rate derivatives outstanding as of June 29, 2014.

Credit Risk

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. KPLP's financial instruments exposed to credit risk as of June 29, 2014 included cash and cash equivalents and trade and other receivables. KPLP places its cash and cash equivalents with financial institutions of high creditworthiness.

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

Liquidity Risk

The purpose of liquidity risk management is to maintain sufficient cash and cash equivalents and to ensure KPLP has sufficient authorized credit facilities as financing sources. KPLP had unused lines of credit available of \$95.6 million as of June 29, 2014 (December 31, 2013 – \$87.7 million). KPLP prepares projections to ensure it has sufficient funds to fulfill its obligations. Refinancing risks are minimized by ensuring the credit facility will not mature for two years. The ability to pay its obligations relies on KPLP collecting its trade receivables in a timely manner and by maintaining sufficient cash and cash equivalents in excess of anticipated needs. KPLP's trade and other payables of \$169.8 million as of June 29, 2014 (December 31, 2013 – \$188.5 million) are all due for payment within twelve months of the dates of the consolidated statements of financial position.

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

Commodity Price Risk

Commodity price risk is the risk that future cash flows associated with purchasing required raw materials will fluctuate due to changes in commodity prices. KPLP's main raw material is fibre, which changes price due to market conditions. KPLP mitigates its exposure to commodity price risk by passing increases in its supply costs onto its customers through incremental price increases. From time to time, KPLP enters into futures contracts from time to time to manage its commodity risk. No contracts were outstanding as of June 29, 2014.

TRANSACTIONS WITH RELATED PARTIES

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

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

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

Sales of goods to Kruger during YTD 2014 were \$1.4 million (YTD 2013 – \$2.1 million). Sales of goods to subsidiaries of Kruger during YTD 2014 were \$0.1 million (YTD 2013 – \$0.5 million).

Purchases of goods and services from Kruger during YTD 2014 were \$14.2 million (YTD 2013 - \$14.0 million). Purchases of goods and services from subsidiaries of Kruger during YTD 2014 were \$8.4 million (YTD 2013 - \$4.3 million). Goods are purchased from Kruger and related parties under normal commercial terms and conditions. These purchases of goods and services are included within cost of sales and operating expenses in the condensed consolidated statements of comprehensive income (loss). During YTD 2014, management fees of \$2.0 million (YTD 2013 - \$2.0 million) were paid to Kruger Inc. for management services provided to KPLP.

OFF BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS

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

There have been no significant changes in contractual obligations during Q2 2014, with the exception of the contracts assumed in connection with the acquisition of Metro Paper as discussed in the “Contractual Obligations” subsection under the “Liquidity and Capital Resources” section of this MD&A. Please refer to the 2013 Annual MD&A for further details.

CRITICAL ACCOUNTING ESTIMATES

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

Revenue Recognition

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

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

Employee Future Benefits

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

Property, Plant and Equipment

Property, plant and equipment to be held and used is reviewed for impairment when events or circumstances indicate that their carrying value may not be recoverable. The recoverable amount is the higher of an asset’s fair value, less costs to sell, and its value in use (being the present value of the expected future cash flows of the relevant asset or cash generating unit (CGU)). An impairment loss is recognized for the amount by which the asset’s carrying amount exceeds its recoverable amount. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. There were no indicators of impairment identified in Q2 2014.

Environmental and Asset Retirement Obligations

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

KPLP has made a provision for the estimated fair value of its potential obligation under a land lease to demolish the buildings at one of its plant locations and restore the land at the end of the lease to its original condition (including any environmental remediation). The current lease ends in 2028, but this lease could also be renewed for another term. KPLP assesses its provision for environmental and asset retirement obligations annually or more frequently if events or changes in circumstances would require adjustments to the significant estimates and assumptions. Significant estimates and assumptions

are made in determining the provision for asset retirement obligations, as there are numerous factors that will affect the ultimate amount payable. These factors include estimates of the extent and costs of restoration activities, technological changes, regulatory changes, cost increases as compared to the inflation rates and changes in the discount rate. In addition, estimates of environmental remediation costs are based on a number of assumptions that are inherently difficult to determine and no assurance can be given that the actual costs will not differ from the estimates based on environmental test results, changes in laws, regulations or enforcement policies or other factors. These uncertainties may result in future actual expenditures differing from the amounts currently provided. Management retained a third party to assist with the estimate of the environmental remediation obligation. The provision at the reporting date represents KPLP's best estimate of the present value of the environmental and asset retirement obligation. The estimated undiscounted amount to settle this obligation is expected to be between \$10.6 million and \$13.7 million. KPLP used a discount rate of 4.25% to estimate the liability. As of June 29, 2014, a liability of \$5.8 million (December 31, 2013 - \$5.3 million) was recorded in provisions.

Partnership Units

On December 13, 2012, in connection with the issuance of KPLP Units to KPT, the Limited Partnership Agreement was amended to require KPLP, subject to compliance with contractual obligations and applicable law, to make distributions to its partners in such amounts as would enable KPT to discharge its obligation to pay federal and provincial income taxes (the Tax Distribution). Each partner is entitled to its share of the Tax Distribution made in respect of any given year. In light of this obligation, KPLP has determined that it is appropriate to reclassify a portion of its equity as a liability to its partners as required under IFRS as the obligation meets the definition of a financial liability for accounting purposes. Accordingly, \$118.6 million of equity was reclassified as a liability in respect of this obligation. The reclassification is in respect of a previously disclosed obligation owed to the partners of KPLP. The carrying value of the Partnership units liability was revalued to \$119.2 million as of June 29, 2014. The change in value of \$4.9 million has been included in other expenses. It does not change the rights of or obligations owed to the partners of KPLP, and does not result in any change to the financial statements of KPT. This amount reflects KPLP's estimate of the net present value of the financial liability arising from the obligation to make the Tax Distribution using estimates of KPLP's taxable income and a discount rate and terminal growth rate of 11.50% and 0%, respectively. Projections of taxable income are based on additional assumptions including estimates of deductible amounts and tax rates. Taxable income can differ significantly from accounting income as a result of both timing and permanent tax differences based on enacted tax legislation and therefore changes in the partnership unit obligation are not necessarily indicative of a change in the expected future profitability of KPLP.

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 26-Week Period Ended June 29, 2014

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

IAS 39, Financial Instruments – Recognition and Measurement, has been amended to provide relief from discontinuing hedge accounting when novation of a hedging instrument to a central counterparty meets specified criteria. The adoption of this standard had no significant impact on these condensed consolidated financial statements.

IAS 36, Impairment of Assets, has been amended to remove the requirement to disclose the recoverable amount when a CGU contains goodwill or indefinite lived intangible assets but there has been no impairment; to require disclosure of the recoverable amount of an asset or CGU when an impairment loss has been recognized or reversed; and to require detailed disclosure of how the fair value less costs of disposal has been measured when an impairment loss has been recognized or reversed. The adoption of this standard had no significant impact on these condensed consolidated financial statements.

Future Accounting Standards

The following revised standards and amendments are effective for annual periods beginning on or after January 1, 2015, and with earlier application permitted. KPLP and KPT Management have not yet assessed the impact of these standards and amendments or determined whether it will early adopt them, except as noted below.

IFRS 9, Financial Instruments. In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments, bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. The mandatory effective date of IFRS 9 would be annual periods beginning on or after January 1, 2018, with early adoption permitted. Management is evaluating the standard and has not yet determined the impact on its consolidated financial statements.

IFRS 15, Revenue from Contracts with Customers, was issued in May 2014 and applies to all contracts with customers. IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers: (i) identify the contract with the customer, (ii) identify the performance obligation in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contracts, and (v) recognize revenue when, or as the entity satisfies a performance obligation. IFRS 15 must be applied in the first annual financial statements for periods beginning on or after January 1, 2017. Application of the standard is mandatory and the standard is available for early adoption.

SELECTED QUARTERLY FINANCIAL INFORMATION

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

	<u>June 29, 2014</u>	<u>December 31, 2013</u>
KPT Financial Information		
Total assets	152.7	163.2
Total liabilities	3.8	5.2
KPLP Financial Information		
Total assets	1,145.8	1,161.5
Total liabilities	830.6	808.3

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

Quarterly Financial Information

	2014		2013				2012 ^(a)	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenue	265.3	234.6	242.9	243.8	246.8	221.8	242.9	232.4
Net income for the period	8.1	(3.2)	7.6	14.2	15.4	11.7	5.4	20.0
Reconciliation of Net income to EBITDA								
Net income	8.1	(3.2)	7.6	14.2	15.4	11.7	5.4	20.0
Income taxes	(0.3)	(0.3)	(1.2)	(1.3)	(3.5)	(4.9)	(2.4)	0.5
Interest expense	11.4	10.9	9.9	11.4	11.0	9.9	8.2	6.4
Loss on disposal of property, plant and equipment	0.3	-	-	-	-	-	0.6	0.4
Depreciation and amortization	9.5	9.0	9.9	7.7	9.0	7.5	10.9	6.0
Unrealized foreign exchange (gain) loss	(1.6)	1.7	1.4	(0.9)	1.6	0.9	0.8	(2.0)
Change in amortized cost of Partnership units liability	1.5	3.3	(0.7)	-	-	-	-	-
Recovery of non-financial assets	-	-	-	-	(1.8)	-	(1.3)	-
Restructuring costs	0.1	2.8	1.4	-	-	-	0.8	-
EBITDA	29.0	24.2	28.3	31.1	31.7	25.1	23.0	31.3

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

SHARE INFORMATION

KPT's authorized share capital consists of an unlimited number of Common Shares. As of August 12, 2014, there were 8,848,773 Common Shares issued and outstanding. Pursuant to the Exchange Agreement, Kruger Inc. has the right to exchange KPLP Units it holds from time to time for Common Shares on the basis of one KPLP Unit for one Common Share, subject to adjustment as set out in the Exchange Agreement. If Kruger Inc. were to exchange all KPLP Units held by it as of August 12 2014 for Common Shares, it would hold approximately 83.4% of the issued and outstanding Common Shares. As of August 12, 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 August 12, 2014, there were 53,335,339 KPLP Units issued and outstanding.

RISK FACTORS

For a detailed description of risk factors associated with KPT and KPLP, refer to the "Risk Factors" section of the 2013 Annual Information Form. KPLP Management is not aware of any significant changes to the risk factors associated with KPT and KPLP from those disclosed at that time.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures and Internal Control over Financial Reporting

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

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

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

In the Corporations' Q2 2014 filings, the Corporations' CEO and CFO certified, as required by National Instrument 52-109, the appropriateness of the financial disclosure, the design of the Corporations' disclosure controls and procedures and the design of internal controls over financial reporting.

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

Changes in Internal Controls over Financial Reporting

There have been no changes to the Corporations' internal controls over financial reporting during Q2 2014 that have materially affected, or are reasonably expected to materially affect, its internal controls over financial reporting.

ADDITIONAL INFORMATION

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