



KP TISSUE INC. AND KRUGER PRODUCTS L.P.

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

FOR THE FOURTH QUARTER AND FISCAL YEAR ENDED DECEMBER 31, 2019

DATED MARCH 11, 2020

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The following Management's Discussion and Analysis (MD&A) dated March 11, 2020 for KP Tissue Inc. (KPT) and Kruger Products L.P. (KPLP) is intended to assist the readers in understanding the business environment, strategies, performance and risk factors relating to KPT and KPLP. It should be read in conjunction with the financial statements of KPT for the years ended December 31, 2019 and December 31, 2018, respectively, and the consolidated financial statements of KPLP for the years ended December 31, 2019 (Fiscal 2019) and December 31, 2018 (Fiscal 2018), respectively.

About KP Tissue Inc.

KPT was created to acquire, and its business is limited to holding, a limited partnership interest in KPLP, which is accounted for as an investment in an associate using the equity method of accounting. KPT currently holds a 15.0% interest in KPLP (15.2% as of December 31, 2019). The following MD&A provides discussion and analysis related to KPT to the extent necessary to understand the equity method of accounting. However, the majority 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. Forward-looking statements in this MD&A include, but are not limited to, statements regarding the projected capacity of the TAD Sherbrooke Project (as defined below), the anticipated benefits of the TAD Sherbrooke Project and the expected dates for commencement of construction and production of the TAD Sherbrooke Project; KPLP's expansion efforts in U.S. premium private label; and KPLP's future business strategy. 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 statements are based on certain key expectations and assumptions made by KPT or KPLP. 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 statements 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 13, 2020 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 Sherbrooke Project; operational risks; significant increases in input costs; 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; covenant compliance; interest rate and refinancing risk; information technology; cyber-security; insurance; internal controls; trade related; and COVID-19.

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. KPT and KPLP cannot guarantee future results, levels of activity, performance, or achievements. Moreover, KPT and KPLP do not assume responsibility for the accuracy and

completeness of the forward-looking statements. KPT and/or KPLP's actual results, performance or achievements could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits that KPT and/or KPLP will derive therefrom.

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 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, refinancing, and the installation of TAD Sherbrooke (as defined below), are, without limitation, based on the assumptions and subject to the risks set out above.

The forward-looking information contained herein is made as of the date of this MD&A and KPT and KPLP disclaim any intention or obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise, unless required by applicable law.

OVERVIEW

Business Overview

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) markets (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. The Consumer segment consists of well recognized brands such as *Cashmere*, *Purex*, *Scotties* and *SpongeTowels* in Canada and *White Cloud* in the U.S.

KPLP is headquartered in Mississauga, Ontario and has approximately 2,500 employees across Canada and the United States. KPLP's Canadian paper manufacturing facilities, consisting of three tissue plants in Québec and one plant in British Columbia, have a combined annual tissue production capacity of approximately 273,500 metric tonnes which, according to RISI data, represents approximately one-third of Canada's annual production capacity.

KPLP's U.S. manufacturing facility, held in its wholly owned subsidiary K.T.G. (USA) Inc. (KTG), located in Memphis, Tennessee consists of two paper machines with an aggregate annual capacity of 55,000 metric tonnes, and one adjacent Through-Air-Dried (TAD) tissue machine (Memphis TAD Machine) with an aggregate annual capacity of 55,000 metric tonnes.

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, 2020, KPT held 15.0% of the KPLP Partnership Units (KPLP Units).

Basis of Presentation

The consolidated financial statements of KPLP presented for Fiscal 2019 and Fiscal 2018 and the Financial statements of KPT presented for the years ended December 31, 2019 and 2018, respectively, have each been prepared in accordance with IFRS (International Financial Reporting Standards).

Lease Accounting

Effective January 1, 2019, KPLP adopted IFRS 16 Leases, the new accounting standard covering lease accounting, using the full retrospective approach. Under this approach all comparative period information has been restated to reflect the adoption of IFRS 16. The following tables provide the transition effect of the adoption of IFRS 16 on the income statement and segment reporting for Q4 2018 and Fiscal 2018:

| (C\$ millions, unless otherwise stated) | Q4 2018 | | | Fiscal 2018 | | |
|--|-------------|-------------------|-------------|-------------|-------------------|-------------|
| | Original | Transition effect | Restated | Original | Transition effect | Restated |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Statement of Operations Data: | | | | | | |
| Revenue | 359.3 | - | 359.3 | 1,370.4 | - | 1,370.4 |
| Cost of sales | (328.3) | 1.3 | (327.0) | (1,233.4) | 5.3 | (1,228.1) |
| Selling, general and administrative expenses | (24.1) | - | (24.1) | (87.7) | 0.1 | (87.6) |
| Gain on sale of non-financial assets | - | - | - | 0.2 | - | 0.2 |
| Operating income | 6.9 | 1.3 | 8.2 | 49.5 | 5.4 | 54.9 |
| Interest expense | (12.2) | (1.3) | (13.5) | (48.1) | (5.4) | (53.5) |
| Other income | 41.3 | - | 41.3 | 40.8 | - | 40.8 |
| Income before income taxes | 36.0 | - | 36.0 | 42.2 | - | 42.2 |
| Income taxes | 2.0 | - | 2.0 | 3.2 | - | 3.2 |
| Net income for the period | 38.0 | - | 38.0 | 45.4 | - | 45.4 |

| (C\$ millions, unless otherwise stated) | Q4 2018 | | | Fiscal 2018 | | |
|---|----------|-------------------|----------|-------------|-------------------|----------|
| | Original | Transition effect | Restated | Original | Transition effect | Restated |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Segment revenue | | | | | | |
| Consumer | 300.7 | - | 300.7 | 1,139.3 | - | 1,139.3 |
| AFH | 58.6 | - | 58.6 | 231.1 | - | 231.1 |
| Total segment revenue | 359.3 | - | 359.3 | 1,370.4 | - | 1,370.4 |
| Adjusted EBITDA | | | | | | |
| Consumer | 26.4 | 3.3 | 29.7 | 119.6 | 12.7 | 132.3 |
| AFH | (5.1) | 1.2 | (3.9) | (13.1) | 3.6 | (9.5) |
| Corporate and other costs | (1.0) | (0.3) | (1.3) | (4.2) | (0.3) | (4.5) |
| Total Adjusted EBITDA | 20.3 | 4.2 | 24.5 | 102.3 | 16.0 | 118.3 |

Reconciliation of Adjusted EBITDA to Net income:

| | | | | | | |
|---|-------------|----------|-------------|-------------|----------|-------------|
| Adjusted EBITDA | 20.3 | 4.2 | 24.5 | 102.3 | 16.0 | 118.3 |
| Less: | | | | | | |
| Interest expense | 12.2 | 1.3 | 13.5 | 48.1 | 5.4 | 53.5 |
| Depreciation and amortization | 13.3 | 2.9 | 16.2 | 52.4 | 10.6 | 63.0 |
| Foreign exchange loss | 1.3 | - | 1.3 | 1.5 | - | 1.5 |
| Change in amortized cost of Partnership units liability | (42.6) | - | (42.6) | (41.9) | - | (41.9) |
| Change in fair value of derivatives | (0.1) | - | (0.1) | (0.4) | - | (0.4) |
| Loss on sale of property, plant and equipment | 0.2 | - | 0.2 | 0.6 | - | 0.6 |
| Gain on sale of non-financial assets | - | - | - | (0.2) | - | (0.2) |
| Income before income taxes | 36.0 | - | 36.0 | 42.2 | - | 42.2 |
| Income taxes | (2.0) | - | (2.0) | (3.2) | - | (3.2) |
| Net income for the period | 38.0 | - | 38.0 | 45.4 | - | 45.4 |

Accounting Periods

This MD&A includes financial information for the 3-month periods ended December 31, 2019 (Q4 2019) and December 31, 2018 (Q4 2018), respectively, and Fiscal 2019 and Fiscal 2018. Q4 2019 and Q4 2018 each consists of 92 days.

Financial Measures and Key Indicators

This MD&A refers to “Adjusted EBITDA”, a measure which does not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similarly titled measures presented by other companies.

“Adjusted EBITDA” is calculated by KPLP as net income (loss) before (i) interest expense, (ii) income taxes, (iii) depreciation, (iv) amortization, (v) impairment (gain on sale) of non-financial assets, (vi) loss (gain) on disposal of property, plant and equipment, (vii) foreign exchange loss (gain), (viii) costs related to restructuring activities, (ix) changes in amortized cost of Partnership units liability, (x) change in fair value of derivatives, (xi) consulting costs related to operational transformation initiatives, (xii) corporate development related costs and (xiii) loss (gain) on sale of shares. We use “Adjusted EBITDA” to evaluate the performance of our business as it reflects its ongoing profitability. This MD&A contains a reconciliation of Adjusted EBITDA to net income, the most comparable IFRS measure, on page 7.

Outlook

KPLP is committed to building its consumer brands and developing innovative products for its retail and commercial customers. KPLP’s strategy is to maintain its leadership position in the Canadian market. 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.

KPLP also expects to continue to grow by leveraging its TAD product capabilities in Canada and the United States (refer to Business Highlights, TAD Sherbrooke Project) and focusing on the high-end private label business in the U.S. market. KPLP’s U.S. strategy also includes the expansion of the White Cloud brand to additional U.S. retailers.

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, the timing of new product launches and line extensions and competitive pricing, 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 two 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) and (ii) AFH. The Consumer segment includes sales of branded tissue products such as *Cashmere*, *Purex*, *Scotties*, *SpongeTowels*, and *White Cloud*. 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. Certain overhead costs of KPLP and timing adjustments for certain manufacturing costs included in inventory are not allocated to the Consumer and AFH segments, since those items are reviewed separately by management. Such items are reported as Corporate and other costs. KPLP previously included in the Other segment the revenue and profit or loss associated with the sales of parent rolls to other tissue manufacturing companies, primarily in the United States, and sales of recycled fibre, primarily to its parent company in Canada. These revenues and profits or losses are now included in Consumer or AFH as appropriate.

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 historically entered into foreign exchange swaps and foreign exchange forwards and may continue to do so going forward.

Cost of Sales

Cost of sales includes fixed and variable costs to manufacture KPLP's 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 80% of total cost of sales, depending on the type of fibre and paper making technology being used. Pulp is a world-wide commodity. Though underlying pulp costs can fluctuate based on worldwide shifts in supply/demand, there has historically been an ability to pass along fluctuations to end customers and consumers. However, the ability to pass through the full amount of pulp cost increases may be affected by the competitive market situation at the time of the fluctuation. KPLP has historically entered into fibre commodity contracts to reduce exposure to fluctuations in this key input cost, and may continue to do so going forward. KPLP has historically targeted commodity contracts to cover 85% 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 historically entered into foreign exchange swaps and foreign exchange forwards 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 and handling costs vary based on sales volume, the geographical mix of the product shipped, and the cost of fuel used by freight carriers. Freight costs can also be subject to fluctuations based on North American shifts in supply and demand. Freight rates and availability of transportation assets are currently being impacted by high demand and lack of supply.

Selling, General and Administrative Expenses

KPLP's selling, general and administrative expenses include marketing, 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 including selling expenses, commissions and other related costs. Marketing costs include the costs related to marketing activities including advertising and promotion and market research. General and administrative expenses consist of costs related to operations oversight, 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 is described under "Liquidity and Capital Resources" below. KPLP also records amortization related to deferred financing fees, interest expense on lease liabilities and interest costs related to pensions and post-retirement benefits in interest expense.

Other Income (Expense)

Other income (expense) includes foreign exchange gains and losses related to U.S. dollar denominated debt, the change in amortized cost of Partnership units liability, the change in fair value of derivatives, gains and losses on the sale of shares and other items deemed to be non-operational in nature.

Income Taxes

KPLP is not a tax paying entity. The income (loss) from KPLP flowed to the partners, Kruger Inc., KPGP and KPT for Fiscal 2019 and Fiscal 2018. 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 Sherbrooke Project

On August 16, 2018, KPLP announced its plan for a capital investment of \$575 million in the Brompton area of Sherbrooke, Quebec, to build a new, state-of-the-art tissue plant featuring Canada's largest and most modern Through-Air-Dried (TAD) paper machine along with related converting equipment and infrastructure (the TAD Sherbrooke Project). The TAD Sherbrooke Project is forecasted to produce at maturity approximately 70,000 metric tonnes per annum of bathroom tissue and paper towels, which will enable KPLP to increase its offering of ultra-premium and innovative tissue projects under the Cashmere, Sponge Towels and Purex brands and also enable expansion in the U.S. private label business. Construction of the new site has commenced and production is expected to start in early 2021.

As of December 31, 2019, a total of \$225.4 million had been spent on the TAD Sherbrooke Project, including financing related costs. To date, the project has been financed by a \$72.5 million equity investment by KPLP into Kruger Products Sherbrooke Inc. (KPSI), the entity that will construct and operate the project, a \$105 million convertible debenture issued to Investissement Quebec (IQ) and amounts drawn on the TAD Sherbrooke Project Facility, as follows:

- (i) US\$10.3 million on the US\$188 million term loan facility (December 31, 2018 – nil);
- (ii) \$6.1 million on the \$111 million term loan facility (December 31, 2018 – nil); and
- (iii) \$7.0 million on the \$12.5 million revolving loan facility (December 31, 2018 – nil)

The project continues to be on-time and on-budget.

RESULTS OF OPERATIONS

Results of Operations of KPLP

| (C\$ millions, unless otherwise noted) | Fiscal 2019 | Restated Fiscal 2018 | Fiscal 2017 | \$ Change | |
|--|-------------|-------------------------|-------------|--------------------------------|--------------------------------|
| | | | | Fiscal 2019 vs. Fiscal 2018 | Fiscal 2018 vs. Fiscal 2017 |
| Statement of Operations Data: | | | | | |
| Revenue | 1,434.1 | 1,370.4 | 1,280.0 | 63.7 | 90.4 |
| Cost of sales | (1,257.0) | (1,228.1) | (1,098.1) | (28.9) | (130.0) |
| Selling, general and administrative expenses | (99.6) | (87.6) | (90.1) | (12.0) | 2.5 |
| Gain on sale of non-financial assets | - | 0.2 | 0.1 | (0.2) | 0.1 |
| Restructuring costs, net | (1.9) | - | 0.2 | (1.9) | (0.2) |
| Operating income | 75.6 | 54.9 | 92.1 | 20.7 | (37.2) |
| Interest expense | (45.1) | (53.5) | (42.0) | 8.4 | (11.5) |
| Other income (expense) | (25.9) | 40.8 | (22.0) | (66.7) | 62.8 |
| Income before income taxes | 4.6 | 42.2 | 28.1 | (37.6) | 14.1 |
| Income taxes: | | | | | |
| Combined income tax rate after manufacturing and processing credits | (1.2) | (11.2) | (7.3) | 10.0 | (3.9) |
| Income tax in partners' hands | 2.4 | 15.8 | 4.9 | (13.4) | 10.9 |
| Other | (3.7) | (1.4) | (10.4) | (2.3) | 9.0 |
| Income taxes | (2.5) | 3.2 | (12.8) | (5.7) | 16.0 |
| Net income | 2.1 | 45.4 | 15.3 | (43.3) | 30.1 |

| (C\$ millions, unless otherwise noted) | Fiscal 2019 | Restated Fiscal 2018 | Fiscal 2017 | \$ Change | |
|---|--------------|-------------------------|--------------|--------------------------------|--------------------------------|
| | | | | Fiscal 2018 vs. Fiscal 2017 | Fiscal 2018 vs. Fiscal 2017 |
| Reconciliation of Adjusted EBITDA | | | | | |
| to Net income: | | | | | |
| Net income | 2.1 | 45.4 | 15.3 | (43.3) | 30.1 |
| Interest expense | 45.1 | 53.5 | 42.0 | (8.4) | 11.5 |
| Income taxes | 2.5 | (3.2) | 12.8 | 5.7 | (16.0) |
| Depreciation and amortization | 60.6 | 63.0 | 52.4 | (2.4) | 10.6 |
| Foreign exchange (gain) loss | (2.0) | 1.5 | (1.4) | (3.5) | 2.9 |
| Change in amortized cost of Partnership units liability | 27.0 | (41.9) | 23.0 | 68.9 | (64.9) |
| Change in fair value of derivatives | 0.4 | (0.4) | 0.4 | 0.8 | (0.8) |
| Loss on sale of property, plant and equipment | - | 0.6 | - | (0.6) | 0.6 |
| Loss on sale of shares | 0.6 | - | - | 0.6 | - |
| Gain on sale of non-financial assets | - | (0.2) | (0.1) | 0.2 | (0.1) |
| Restructuring costs, net | 1.9 | - | (0.2) | 1.9 | 0.2 |
| Consulting costs related to | | | | | |
| operational transformation initiatives | 6.0 | - | - | 6.0 | - |
| Corporate development related costs | 0.8 | - | - | 0.8 | - |
| Adjusted EBITDA | 145.0 | 118.3 | 144.2 | 26.7 | (25.9) |

Results of Operations Fiscal 2019 compared to Fiscal 2018

Revenue

Revenue was \$1,434.1 million in Fiscal 2019 compared to \$1,370.4 million in Fiscal 2018, an increase of \$63.7 million or 4.6%. The increase in revenue was primarily due to price increases across all business segments, volume increases in Canada and the U.S. and the benefit of foreign exchange fluctuations on U.S. sales (USD average 1.33 in Fiscal 2019 compared to 1.29 in Fiscal 2018), partially offset by lower sales volume in Mexico. The shares in GTM were sold at the end of the third quarter, and therefore KPLP no longer recorded Mexico sales revenue beginning in Q4 2019. As a result, Fiscal 2019 revenue in Mexico decreased \$10.5 million, or 12.1%. From a geographic perspective, revenue in the U.S. increased \$36.9 million, or 7.7%, while revenue in Canada increased \$37.3 million or 4.6%.

Cost of Sales

Cost of sales was \$1,257.0 million in Fiscal 2019 compared to \$1,228.1 million in Fiscal 2018, an increase of \$28.9 million or 2.3%. Manufacturing costs increased due to several factors: the unfavourable impact of foreign exchange fluctuations on USD denominated costs (USD average 1.33 in Fiscal 2019 compared to 1.29 in Fiscal 2018); the cost of outsourced manufacturing resulting from capacity related challenges and increased costs due to production inefficiencies in AFH; additional maintenance costs and inflation. These cost increases were partially offset by favourable pulp costs in the second half of 2019. Freight costs decreased primarily due to lower carrier rates in Fiscal 2019 compared to Fiscal 2018 and no Q4 sales volume in Mexico, partially offset by the unfavourable impact of foreign exchange fluctuations. Warehousing costs increased related primarily to additional warehousing space required to manage the logistics network. As a percentage of revenue, cost of sales were 87.6% in Fiscal 2019 compared to 89.6% in Fiscal 2018.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses were \$99.6 million in Fiscal 2019 compared to \$87.6 million in Fiscal 2018, an increase of \$12.0 million or 13.7%. The increase was primarily due to increased compensation related costs compared to Fiscal 2018, higher advertising and promotion expenses, corporate development costs and the unfavourable impact of foreign exchange fluctuations on USD costs. As a percentage of revenue, SG&A expenses were 6.9% in Fiscal 2019 compared to 6.4% in Fiscal 2018.

Adjusted EBITDA

Adjusted EBITDA was \$145.0 million in Fiscal 2019 compared to \$118.3 million in Fiscal 2018, an increase of \$26.7 million or 22.6%. The increase was primarily due to price increases across all business segments and favourable sales mix, the favourable impact of lower pulp prices in the second half of 2019 and the favourable impact of operational transformation initiatives, partially offset by the cost of outsourced manufacturing, higher maintenance and SG&A costs and the unfavourable impact of foreign exchange fluctuations.

Interest Expense

Interest expense was \$45.1 million in Fiscal 2019 compared to \$53.5 million in Fiscal 2018, a decrease of \$8.4 million. The decrease was primarily due to lower interest rates related to the refinancing of KTG, partially offset by the unfavourable impact of foreign exchange and higher debt levels during the first half of 2019 (excluding debt related to the TAD Sherbrooke Project).

Other Income (Expense)

Other expense was \$25.9 million in Fiscal 2019 compared to other income of \$40.8 million in Fiscal 2018. Other expense in Fiscal 2019 was primarily related to a loss resulting from the change in amortized cost of Partnership units liability of \$27.0 million (Fiscal 2018 – gain of \$41.9 million) (refer to Critical Accounting Estimates – Partnership Units Liability for additional information), a loss on sale of shares of \$0.6 million and a loss on change in fair value of derivatives of \$0.4 million (Fiscal 2018 – gain of \$0.4 million), partially offset by a foreign exchange gain of \$2.0 million (Fiscal 2018 – loss of \$1.5 million).

Income Taxes

An income tax expense of \$2.5 million was recorded in Fiscal 2019 compared to income tax recovery of \$3.2 million in Fiscal 2018. KPLP is not directly taxable on its Canadian business. The income tax expense in Fiscal 2019 resulted primarily from operating income related to the U.S. entities and the income tax recovery in Fiscal 2018 resulted primarily from an operating loss related to the U.S. entities. Income tax in partner's hands was a recovery of \$2.4 million in Fiscal 2019 compared to \$15.8 million in Fiscal 2018.

Net Income

Net income was \$2.1 million in Fiscal 2019 compared to \$45.4 million in Fiscal 2018, a decrease of \$43.3 million. The decrease was primarily due to a change in other expense of \$66.7 million, consulting costs related to operational transformation initiatives of \$6.0 million, higher income tax expense of \$5.7 million, restructuring costs of \$1.9 million, and corporate development costs of \$0.8 million, partially offset by higher Adjusted EBITDA of \$26.7 million as discussed above, a decrease in interest expense of \$8.4 million and lower depreciation expense of \$2.4 million.

Results of Operations of KPT

| (C\$ millions, unless otherwise noted) | Fiscal 2019 | Fiscal 2018 |
|--|----------------|----------------|
| Statement of Operations Data: | | |
| Share of income | 0.3 | 7.2 |
| Depreciation of fair value increments | (5.7) | (5.8) |
| Equity income (loss) | (5.4) | 1.4 |
| Dilution gain | 0.6 | 0.2 |
| Income (loss) before income taxes | (4.8) | 1.6 |
| Income taxes: | | |
| Current tax expense | (1.0) | (0.1) |
| Deferred tax expense | (0.7) | (1.7) |
| Income taxes | (1.7) | (1.8) |
| Net loss | (6.5) | (0.2) |
| Basic loss per share (dollars) | (0.39) | (0.02) |

The financial information presented above is based on KPT's interest in KPLP for Fiscal 2019 and Fiscal 2018. The share of income relates to KPT's share of income of KPLP. Refer to Results of Operations of KPLP above for an explanation of the results. The depreciation of fair value increments relates to adjustments to the carrying amount of certain assets of KPLP on its acquisition by KPT. Refer to note 5 in KPT's financial statements for additional information.

The current income tax expense (recovery) is based on KPT's share of the taxable income (loss) of KPLP for the same periods. The deferred tax expense (recovery) is 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.

Pursuant to the Tax Distribution as defined in the Partnership Agreement, on February 28, 2020, KPLP declared a Tax Distribution of \$5.1 million, of which \$0.1 million was used to settle the outstanding advance to KPT as of December 31, 2019.

KPT incurred a loss for tax purposes for Fiscal 2018 and as a result no Tax Distribution was declared on February 28, 2019. The excess advances over the Tax Distribution in the amount of \$1.7 million, of which \$0.3 million was used to pay the monthly tax instalment on behalf of KPT and the remaining was advanced to Kruger Inc. and KPGP, are repayable by the partners and due to KPLP on or before March 31, 2020. Kruger Inc. and KPGP repaid the advances during Fiscal 2019 and the KPT advance was repaid in connection with the 2020 Tax Distribution as described above.

The advances are non-interest bearing and non-recourse in nature and will be settled when the Tax Distribution is declared annually.

SEGMENT INFORMATION

Segment Operating Income

Segment operating income is the earnings (loss) for each such segment before (i) interest expense, (ii) income taxes, (iii) depreciation, (iv) amortization, (v) impairment (gain on sale) of non-financial assets, (vi) loss (gain) on disposal of property, plant and equipment, (vii) foreign exchange loss (gain), (viii) costs related to restructuring activities, (ix) changes in amortized cost of Partnership units liability, (x) change in fair value of derivatives, (xi) consulting costs related to operational transformation initiatives, (xii) corporate development related costs and (xiii) loss (gain) on sale of shares. "Consumer Segment Adjusted EBITDA" and "AFH Segment Adjusted EBITDA" means in each case the Segment operating income for the referring respective segment of KPLP.

Segment Results

| (C\$ millions, unless otherwise noted) | Restated | | | Fiscal 2019 vs Fiscal 2018 | | Fiscal 2018 vs Fiscal 2017 | |
|---|-------------|-------------|-------------|----------------------------|----------|----------------------------|----------|
| | Fiscal 2019 | Fiscal 2018 | Fiscal 2017 | \$ Change | % Change | \$ Change | % Change |
| Segment Revenue | | | | | | | |
| Consumer | 1,186.5 | 1,139.3 | 1,046.7 | 47.2 | 4.1% | 92.6 | 8.8% |
| AFH | 247.6 | 231.1 | 233.3 | 16.5 | 7.1% | (2.2) | -0.9% |
| Total segment revenue | 1,434.1 | 1,370.4 | 1,280.0 | 63.7 | 4.6% | 90.4 | 7.1% |
| Adjusted EBITDA | | | | | | | |
| Consumer | 158.9 | 132.2 | 138.2 | 26.7 | | (6.0) | |
| AFH | (12.7) | (9.4) | 6.2 | (3.3) | | (15.6) | |
| Corporate and other costs | (1.2) | (4.5) | (0.2) | 3.3 | | (4.3) | |
| Total Adjusted EBITDA | 145.0 | 118.3 | 144.2 | 26.7 | | (25.9) | |

Consumer Segment

Fiscal 2019 compared to Fiscal 2018

Consumer segment revenue was \$1,186.5 million in Fiscal 2019 compared to \$1,139.3 million in Fiscal 2018, an increase of \$47.2 million or 4.1%. The increase in revenue was primarily due to price increases in Canada and the U.S., increased sales volume in Canada and favourable foreign exchange fluctuations on U.S. sales (USD average 1.33 in Fiscal 2019 compared to 1.29 in Fiscal 2018). Consumer segment revenue increased in the U.S. and Canada and decreased in Mexico. The shares in GTM were sold at the end of the third quarter, and as a result KPLP no longer recorded gross revenue related to Mexico beginning in Q4 2019.

Consumer Segment Adjusted EBITDA was \$158.9 million in Fiscal 2019 compared to \$132.3 million in Fiscal 2018, an increase of \$26.6 million. Higher sales volume in Canada, price increases in Canada and the U.S., favourable pulp costs in the second half of 2019 and lower freight costs were partially offset by additional maintenance costs, and higher warehousing, advertising and promotion and G&A expenses.

AFH Segment

Fiscal 2019 compared to Fiscal 2018

AFH segment revenue was \$247.6 million in Fiscal 2019 compared to \$231.1 million in Fiscal 2018, an increase of \$16.5 million or 7.1%. The increase was primarily due to selling price increases, higher sales volume, and the favourable impact of foreign exchange fluctuations on U.S. sales (USD average 1.33 in Fiscal 2019 compared to 1.29 in Fiscal 2018). AFH segment revenue increased in the U.S. and Canada.

AFH Segment Adjusted EBITDA was a loss of \$12.7 million in Fiscal 2019 compared to a loss of \$9.5 million in Fiscal 2018, a decrease of \$3.2 million. The decrease was primarily due to higher outsourced paper and freight costs resulting from production inefficiencies and higher warehousing and SG&A costs, partially offset by the benefit from price increases, higher sales volume and lower fibre costs. The AFH segment results have improved throughout 2019 as operational issues have been addressed. AFH Segment Adjusted EBITDA improved to a loss of \$3.1 million in the second half of 2019 compared to \$9.6 million in the first half of the year.

Corporate and Other Costs

Fiscal 2019 compared to Fiscal 2018

Corporate and other costs previously included revenue and profit (loss) associated with the sales of parent rolls and recycled fibre, which were considered an "Other" segment. Any associated profit (loss) is now included in Consumer or AFH segments as appropriate. Corporate and other costs currently includes certain overhead costs and timing adjustments for certain manufacturing costs included in inventory not allocated to the Consumer and AFH segments.

Corporate and other costs were \$1.2 million in Fiscal 2019 compared to \$4.5 million in Fiscal 2018, a decrease of \$3.3 million, as the timing adjustments in inventory partially offset the overhead costs.

LIQUIDITY AND CAPITAL RESOURCES

Overview

KPLP's principal uses of funds are for operating costs, working capital, capital expenditures, pension contributions and Tax and Partnership Unit distributions (together, the Funding Requirements). To date, KPLP has met the Funding Requirements by using cash generated from operating activities and the Dividend Reinvestment Plan and 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 and the Dividend Reinvestment Plan, together with amounts available under the various debt facilities will be sufficient to meet its future Funding Requirements. However, KPLP's ability to meet future Funding Requirements and its ability to make scheduled payments of interest and principal 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.

On September 19, 2019, KPLP entered into a second supplemental credit agreement to the sixth amended and restated credit agreement (the Senior Credit Agreement) related to its revolving credit facility (the Senior Credit Facility). The maturity date of the Senior Credit Facility was also amended to September 19, 2023.

The Senior Credit Facility was increased to \$250.0 million from \$200.0 million, which increased the total borrowing capacity by \$50.0 million. The Senior Credit Agreement requires the Restricted Credit Parties to comply with certain financial covenants. 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, the Unrestricted Subsidiaries' EBITDA are not included in such calculations. Pursuant to the second supplemental credit agreement dated September 19, 2019, KPLP is no longer required to maintain the Ratio of Total Net Funded Debt to EBITDA and the requirement for the Ratio of Senior Secured Net Funded Debt to EBITDA has been updated.

KPLP shall maintain on an adjusted consolidated basis and quarterly financial basis:

Ratio of Senior Secured Net Funded Debt to EBITDA not greater than:

- i) 3.00 to 1.00 until December 31, 2018, inclusively;
- ii) 3.25 to 1.00 from January 1, 2019 to March 31, 2019;
- iii) 3.75 to 1.00 from April 1, 2019 to September 30, 2019;
- iv) 3.50 to 1.00 from October 1, 2019 to June 30, 2020;
- v) 3.25 to 1.00 from July 1, 2020 to September 30, 2020; and
- vi) 3.00 to 1.00 thereafter;

Interest Coverage Ratio of at least 3.00 to 1.00.

In connection with the amendments above, Kruger Inc. has agreed to increase its participation in the dividend reinvestment plan (DRIP) from 75% to 100% until December 31, 2020, which will reduce the net distribution.

As of December 31, 2019, KPLP was in compliance with all of its financial covenants under all of its outstanding credit facilities. As of December 31, 2019, KPLP had drawn \$90.0 million from the \$250.0 million committed amount under the Senior Credit Facility, and had \$20.0 million of letters of credit outstanding, resulting in \$140.0 million available from the credit line, subject to covenant limitations. As of December 31, 2019, KPLP had total liquidity of \$233.2 million (December 31, 2018 - \$178.7 million) representing cash and cash equivalents and availability under the credit line within the covenant limitations. Total liquidity of \$233.2 million includes \$16.4 million of cash and cash equivalents held by KPSI and committed to the TAD Sherbrooke Project.

As it pertains to capital expenditures, approximately \$25 million annually relate to maintenance projects and the remaining expenditures are focused on growth projects aimed at reducing costs and offsetting annual inflation, or increasing production capacity. Regular growth projects focused on performance improvement generally have a 3 to 4 year payback. Capital expenditures were \$175.0 million in Fiscal 2019, including \$143.1 million related to the TAD Sherbrooke Project (including interest capitalized during construction). The TAD Sherbrooke Project also had \$43.0 million of accrued and unpaid capital spending as of December 31, 2019. Capital expenditures are expected to be approximately \$365.0 million to \$400.0 million in fiscal 2020, primarily driven by the TAD Sherbrooke Project expenditures of \$340.0 million to \$360.0 million.

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. KPLP participates in a factoring program to assist in managing working capital. Under the program, KPLP derecognizes certain receivables upon sale.

Cash Flows

| (C\$ millions, unless otherwise stated) | \$ Change | | | | |
|--|-------------|-------------|-------------|-----------------|-----------------|
| | Restated | | | Fiscal 2019 vs. | Fiscal 2018 vs. |
| | Fiscal 2019 | Fiscal 2018 | Fiscal 2017 | Fiscal 2018 | Fiscal 2017 |
| Net cash flows from operating activities | 133.6 | 140.3 | 99.2 | (6.7) | 41.1 |
| Net cash flows used in investing activities | (168.9) | (41.9) | (63.9) | (127.0) | 22.0 |
| Net cash flows from (used in) financing activities | (39.6) | 69.5 | (61.9) | (109.1) | 131.4 |
| Effect of exchange rate changes on cash and cash equivalents held in foreign currency | (1.9) | 2.2 | (1.1) | (4.1) | 3.3 |
| Increase (decrease) in cash and cash equivalents | (76.8) | 170.1 | (27.7) | (246.9) | 197.8 |
| Beginning cash and cash equivalents, net | 169.9 | (0.2) | 27.5 | 170.1 | (27.7) |
| Ending cash and cash equivalents, net | 93.1 | 169.9 | (0.2) | (76.8) | 170.1 |
| Bank indebtedness | - | - | 9.0 | - | (9.0) |
| Ending cash and cash equivalents | 93.1 | 169.9 | 8.8 | (76.8) | 161.1 |

Net Cash Flows from Operating Activities

Net cash from operating activities was \$133.6 million in Fiscal 2019 compared to \$140.3 million in Fiscal 2018. Cash from operating activities in Fiscal 2019 was primarily driven by Adjusted EBITDA of \$145.0 million (Fiscal 2018 – \$118.3 million) and a decrease in working capital of \$1.5 million (Fiscal 2018 – decrease of \$27.0 million), partially offset by funding of pension and post-retirement benefit plans of \$15.5 million (Fiscal 2018 – \$15.2 million), income tax payments of \$2.7 million (Fiscal 2018 – \$2.5 million) and provisions paid of \$1.0 million (Fiscal 2018 – \$0.2 million).

Net Cash Flows used in Investing Activities

Net cash used in investing activities was \$168.9 million in Fiscal 2019 compared to \$41.9 million in Fiscal 2018. Cash used in investing activities related to capital expenditures of \$175.0 million (including \$143.1 million for the TAD Sherbrooke Project and \$31.9 million for the existing business) in Fiscal 2019 compared to \$61.5 million (including \$26.8 million for the TAD Sherbrooke Project and \$34.7 million for the existing business) in Fiscal 2018, excluding government assistance of \$19.2 million. This was partially offset by proceeds on sale of shares of \$5.7 million in Fiscal 2019.

Net Cash Flows from (used in) Financing Activities

Net cash used in financing activities was \$39.6 million in Fiscal 2019 compared to cash from financing activities of \$69.5 million in Fiscal 2018. Net cash used in financing activities in Fiscal 2019 was primarily due to interest paid of \$29.5 million (Fiscal 2018 – \$34.4 million), lease payments of \$17.0 million (Fiscal 2018 – \$16.0 million), and distributions and advances paid (net of DRIP proceeds) of \$10.2 million (Fiscal 2018 – \$19.5 million) and payment of deferred

financing fees of \$1.4 million (Fiscal 2018 –\$18.5 million), partially offset by net proceeds from debt of \$18.6 million (Fiscal 2018 –\$157.9 million).

Contractual Obligations

| (C\$ millions, unless otherwise stated) | Fiscal 2020 | Fiscal 2021 | Fiscal 2022 | Fiscal 2023 | Fiscal 2024 | Thereafter | Total |
|---|-------------|-------------|-------------|--------------|-------------|--------------|--------------|
| Contractual obligations: | | | | | | | |
| Senior Credit Facility, principal repayments | - | - | - | 90.0 | - | - | 90.0 |
| Senior Unsecured Notes, principal repayments | - | - | - | - | - | 125.0 | 125.0 |
| AgCredit - KTG Facility TLA | - | - | 4.4 | 4.4 | 4.4 | 177.7 | 190.9 |
| AgCredit - TAD Sherbrooke Project Facility TLB | - | - | - | - | - | 13.4 | 13.4 |
| AgCredit - TAD Sherbrooke Project Facility TLC | - | - | 1.2 | 1.5 | 1.7 | 1.7 | 6.1 |
| AgCredit - TAD Sherbrooke Project Facility Cdn Revolver | 7.0 | - | - | - | - | - | 7.0 |
| IQ Convertible Debenture | - | 1.3 | 15.0 | 15.0 | 15.0 | 58.7 | 105.0 |
| Quebec PM Loan, principal repayments | 4.9 | 4.9 | 4.9 | 4.9 | 4.9 | 4.2 | 28.7 |
| Nordea2 Credit Facility, principal repayments | - | 3.2 | 6.4 | 6.4 | 6.4 | 31.9 | 54.3 |
| Ontario Loan, principal repayments | - | - | 1.0 | 1.0 | 1.0 | 2.0 | 5.0 |
| Interest expense | 31.1 | 31.2 | 33.2 | 30.2 | 24.8 | 105.6 | 256.1 |
| Service contracts | 8.1 | 3.1 | 2.4 | 0.1 | - | - | 13.7 |
| Total contractual obligations | 51.1 | 43.7 | 68.5 | 153.5 | 58.2 | 520.2 | 895.2 |

KPLP's contractual obligations consist of long-term debt (principal repayments and interest payments), right-of-use leases for the rental of property, equipment and motor vehicles, partnership units liability and pensions.

As of December 31, 2019, KPLP had \$151.1 million (December 31, 2018 – \$52.8 million) commitments related to the TAD Sherbrooke Project.

KPLP's cash pension contribution for defined benefit pension arrangements in Fiscal 2019 was \$12.7 million, while its post-retirement benefits contribution was \$2.8 million. In addition, as of December 31, 2019, KPLP had \$19.5 million of letters of credit related to pensions outstanding. Pension and post-retirement contributions for fiscal 2020 are expected to be \$16.2 million.

KPLP concluded a new land lease for its Gatineau tissue plant that commences in March 2028 and permits KPLP to secure the site until March 2053.

As of December 31, 2019, KPLP had foreign exchange swaps outstanding of nil (December 31, 2018 – nil) and foreign exchange forwards outstanding of \$23.7 million (December 31, 2018 – nil).

KPLP holds interest rate swaps, contracted to fix the interest rate on a notional amount of \$100.0 million at December 31, 2019 (December 31, 2018 – \$100.0 million). The interest rate swaps will mature in the first quarter of 2020.

On December 13, 2012, in connection with the issuance of Partnership units to KPT, the Limited Partnership Agreement was amended to require KPLP, subject to compliance with contractual obligations and applicable law, to make distributions to its partners in such amounts as would enable KPT to discharge its obligation to pay federal and provincial income taxes (the Tax Distribution). Each partner is entitled to its share of the Tax Distribution made in respect of any given year. KPLP determined that it was appropriate to reclassify a portion of its equity to Partnership units liability, since the Tax Distribution represents a contractual obligation to deliver cash and, as such, meets the definition of a financial liability for accounting purposes under IFRS. As of December 31, 2019, \$143.5 million was recorded as a liability in respect of this obligation (December 31, 2018 - \$116.5 million). 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. As of December 31, 2019 no KPLP Units had been exchanged for Common Shares.

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 sixth amended and restated credit agreement dated as of April 24, 2018 entered into by KPLP, as borrower, the lenders party thereto and National Bank of Canada, as administrative agent, as amended by a first supplemental credit agreement dated November 19, 2018 and a second supplemental credit agreement dated September 19, 2019 (the Senior Credit Agreement) pursuant to which a senior secured revolving credit facility in a maximum amount of \$250 million (increased from \$200 million) with a \$75 million accordion feature (the Senior Credit Facility) is made available to KPLP. The maturity date of the Senior Credit Facility is September 19, 2023. 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 any investment by any such Restricted Credit Party (as defined below).

The Senior Credit Agreement is guaranteed by each Restricted Credit Party. Under the Senior Credit Agreement, "Restricted Credit Parties" means KPLP, KPGP, Kruger Products Real Estate Holdings Inc., Kruger Products (USA) Inc., Kruger Products AFH G.P. Inc. and Kruger Products AFH L.P. and their respective subsidiaries involved in the tissue business but excluding the Unrestricted Credit Parties (which include TAD Canco Inc., TAD Luxembourg S.A.R.L., KTG, KPSI, KP TAD Holdco Inc., TAD2 GP ULC, TAD2 US LP, TAD1 Canco I Inc., TAD1 GP ULC, TAD1 US LP and TAD1 Canco II Inc.) and the Non-Material Credit Parties (as such terms are defined in the Senior Credit Agreement). All Restricted Credit Parties granted first ranking security interests and hypothecs over all of their assets, present and future, movable and immovable, corporeal and incorporeal, to secure the obligations under the Senior Credit Agreement including a pledge of 100% of the stock or ownership interest in all credit parties owned by KPLP and the Restricted Credit Parties.

Interest Rates and Fees

Borrowings under the Senior Credit Facility bear interest at a base rate of Canadian Prime Rate, U.S. Base Rate, LIBOR, Banker's Acceptance Stamping Fees or LC Fees, plus a margin varying between 0.20% and 3.50% depending on the Ratio of Total Net 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 0.70% depending on the Restricted Credit Parties' Ratio of Total Net 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 period, 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. 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 AgCredit Agreement, IQ Debenture and the Unrestricted Subsidiaries' EBITDA are not included in such calculations. Pursuant to the second supplemental credit agreement dated September 19, 2019, KPLP is no longer required to maintain the Ratio of Total Net Funded Debt to EBITDA and the requirement for the Ratio of Senior Secured Net Funded Debt to EBITDA has been updated.

KPLP shall maintain on an Adjusted Consolidated Basis and quarterly financial basis:

Ratio of Senior Secured Net Funded Debt to EBITDA not greater than:

- (i) 3.00 to 1.00 until December 31, 2018, inclusively;
- (ii) 3.25 to 1.00 from January 1, 2019 to March 31, 2019;
- (iii) 3.75 to 1.00 from April 1, 2019 to September 30, 2019;
- (iv) 3.50 to 1.00 from October 1, 2019 to June 30, 2020;
- (v) 3.25 to 1.00 from July 1, 2020 to September 30, 2020; and
- (vi) 3.00 to 1.00 thereafter;

Interest Coverage Ratio of at least 3.00 to 1.00.

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, and (ii) restrictions on the indebtedness of TAD Canco Inc., TAD Luxembourg S.A.R.L and KTG and the amendment of the TAD financing documents.

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 Agreement and the Nordea2 Credit Agreement (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 and the Nordea2 Credit Agreement (as defined below).

Senior Unsecured Notes Indenture

General

On April 24, 2018, KPLP issued \$125 million aggregate principal amount of 6.0% senior unsecured notes due April 24, 2025 (the Notes) by way of private placement in Canada in accordance with applicable Canadian prospectus and registration exemptions. The Notes were issued pursuant to a trust indenture entered into as of April 24, 2018 between KPLP, the Guarantors and Computershare Trust Company of Canada (the Indenture). Interest on the Notes accrues at 6.0% per year and is payable semi-annually on April 24 and October 24 of each year.

Under the Notes, “Restricted Subsidiaries” means any subsidiary of KPLP that is not an Unrestricted Subsidiary as defined in the Indenture (which Unrestricted Subsidiaries include TAD Canco, TAD Luxembourg, KTG and Non-Material Subsidiaries as defined in the Indenture).

The Notes are senior unsecured obligations of KPLP. The Notes rank senior in right of payment to all existing and future subordinated indebtedness of KPLP and equal in right of payment to all indebtedness of KPLP that is not subordinated in right of payment to the Notes other than any indebtedness that ranks senior to the Notes by operation of law. The Notes will be effectively subordinated to all existing and future secured indebtedness of the issuer, to the extent of the assets securing such indebtedness.

Proceeds from the offering were \$125 million, which were used to reduce the outstanding balance under the Senior Credit Facility and to pay transaction costs associated with the offering.

Guarantees

The Notes are unconditionally guaranteed, jointly and severally, by all existing and future Restricted Subsidiaries (the Guarantors). The guarantees are senior unsecured obligations of each of the Guarantors and will rank senior in right of payment to all existing and future subordinated indebtedness of the Guarantors and equal in right of payment to all indebtedness of such Guarantor that is not subordinated in right of payment to their guarantee, other than indebtedness that ranks senior to the guarantees by operation of law.

Redemption

At any time prior to April 24, 2021, KPLP may redeem up to 35.0% of the aggregate principal amount of the Notes at a redemption price of 106% of the principal amount of the Notes to be redeemed, plus accrued and unpaid interest to the date of redemption, with the net proceeds received by KPLP from certain equity offerings after the issue date.

At any time prior to April 24, 2021, KPLP may redeem the Notes, at a redemption price equal to the greater of (a) the Applicable Premium (as defined in the Indenture) and (b) 101% of the aggregate principal amount of the Notes redeemed, plus, in each case, accrued and unpaid interest, if any, to the applicable redemption date.

On or after April 24, 2021, KPLP may redeem all or part of the Notes at the following redemption prices, plus accrued and unpaid interest to the applicable redemption date, if redeemed during the 12-month period commencing April 24 of the year set forth below:

| <u>Year</u> | <u>Percentage</u> |
|---------------------|-------------------|
| 2021 | 104.5% |
| 2022 | 103.0% |
| 2023 | 101.5% |
| 2024 and thereafter | 100.0% |

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 holder's Notes for a payment in cash equal to 101% of the aggregate principal amount of Notes repurchased, plus accrued and unpaid interest thereon to the purchase date.

Covenants

The Indenture contains certain restrictive covenants of KPLP, including, but not limited to, limitations on making certain restricted payments by KPLP or its Restricted Subsidiaries, restrictions on incurring certain indebtedness by KPLP or its Restricted Subsidiaries, restrictions on incurring certain liens by KPLP or its Restricted Subsidiaries, certain restrictions on transactions with affiliates, 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 Notes, and any business reasonably related, incidental, complementary or ancillary thereto, limitations on creating any contractual restrictions on the ability of KPLP or its Restricted Subsidiaries to take certain actions, such as the payment of dividends or making of distributions, restrictions on consolidating, amalgamating or merging into any other person and 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.

Events of Default

The Indenture contains customary events of default such as non-payment, liquidation of assets, change of control, non-payment or acceleration of any indebtedness in an aggregate amount exceeding \$25 million, insolvency and enforcement proceedings.

AgCredit Agreement

General

Subsidiaries of KPLP are party to a credit agreement dated as of November 19, 2018 entered into by, among others, KTG, TAD1 US LP, TAD2 US LP and KPSI, as borrowers, each guarantor from time to time party thereto, as guarantors, each lender from time to time party thereto, as lenders, American AgCredit, FLCA, as administrative agent and National Bank of Canada, as Canadian administrative agent (AgCredit Agreement) pursuant to which the following credit facilities were made available: (i) US\$188 million term loan facility repayable by December 31, 2036 by quarterly principal instalment payments commencing on March 31, 2026 and bearing interest at a fixed rate based on the farm credit system cost of funds plus an applicable margin set at the time of each tranche draw, (ii) \$111 million term loan repayable by December 31, 2025 by quarterly principal instalment payments commencing on March 31, 2022 and bearing interest at a floating interest rate based on CDOR plus an applicable margin, (iii) revolving loans of US\$10 million and \$12.5 million with a maturity date of December 31, 2023 with floating interest rates and a renewal option (the facility detailed in items (i) to (iii), collectively the TAD Sherbrooke Project Facility), and (iv) US\$147 million term loan repayable by December 31, 2036 by quarterly principal instalment payments commencing on March 31, 2022 and bearing interest at a 7.3% maximum fixed interest rate and repayable after a three-year lock-out period (the KTG Facility).

The purpose of the TAD Sherbrooke Project Facility is to partially finance the TAD Sherbrooke Project. The purpose of the KTG Facility is to repay existing indebtedness of KTG and TAD Canco Inc.

Guarantees

The TAD Sherbrooke Project Facility and KTG Facility are each guaranteed by each of the borrowers and guarantors. All borrowers and guarantors (as such terms are defined in the AgCredit Agreement) granted first ranking security interests over all of their assets, present and future, movable and immovable, corporeal and incorporeal, to secure the obligations under the AgCredit Agreement. The TAD Sherbrooke Project Facility and the KTG Facility are both non-recourse to KPLP.

Redemption

The borrowers may voluntarily cancel or reduce the revolving loans, in whole or in part, without premiums or penalty. The borrowers shall have the right at any time to voluntarily prepay the entire amount or any amount outstanding of the term loans subject to minimum amounts and notice period. Prepayment shall be accompanied by the payment of all accrued and unpaid interest with respect to fixed rate advances. If all or any portion of the outstanding balance of a term loan is prepaid prepayment premiums may apply.

Covenants

The AgCredit Agreement requires the borrowers to comply with certain financial covenants. The financial covenants are calculated on a Combined Basis (as defined in the AgCredit Agreement).

The AgCredit 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.

Events of Default

The AgCredit Agreement contains customary events of default such as non-payment, misrepresentation, breach of covenants and change of control.

IQ Debenture

General

On November 19, 2018, KPSI issued a 10-year convertible debenture in favour of IQ in the principal amount of \$105 million (the IQ Debenture). The IQ Debenture is being used to partially finance the TAD Sherbrooke Project.

Interest Rates and Fees

Borrowings under the IQ Debenture bear interest at a fixed capitalized interest rate of 3%.

Redemption

The IQ Debenture is redeemable on a monthly basis commencing 36 months from the date of issuance, which payments KPSI undertakes to cause KPLP or Kruger Inc. to make, failing which IQ will have a conversion right on terms of conversion that would provide IQ with a 48% equity interest in KPSI if the entirety of the debenture was so converted.

Pursuant to a repayment agreement (the Repayment Agreement) between Kruger Inc., KPLP, KPSI, and IQ, KPLP has at its discretion, a priority right to make any required monthly redemption payment to IQ. The party that makes the redemption payment will receive common shares of KPSI as consideration of such payment. Pursuant to the Repayment Agreement, if Kruger Inc. makes all of the redemption payments, it will hold approximately 48% of KPSI.

Covenants

The IQ Debenture contains covenants including, but not limited to, the delivery of financial statements and other information.

Events of Default

The IQ Debenture contains customary events of default such as failure to convert, misrepresentation and breach of covenants.

Nordea2 Credit Agreement

General

KPLP is party to a credit agreement dated as of November 2, 2018 entered into by KPLP, as borrower, the lender party thereto and Nordea Bank Abp Filial I Sverige, as administrative agent, as amended by an amendment letter dated November 19, 2018 (the Nordea2 Credit Agreement) pursuant to which a senior secured non-revolving loan facility in a maximum amount of US\$48.8 million (the Nordea2 Credit Facility) was made available to KPLP. The Nordea2 Credit Facility is to be used to partially finance the TAD Sherbrooke Project and the fees of the Swedish Export Credits Guarantee Board (EKN) in connection with its guarantee of the Nordea2 Credit Facility. The Nordea2 Credit Facility matures on August 31, 2029.

Interest Rates and Fees

Borrowings under the Nordea2 Credit Facility bear interest at a fixed interest rate of 3.74% per annum, comprised of a Swedish state reported interest rate, risk premium and administrative margin.

Prepayments and Repayments

The Nordea2 Credit Facility is repayable in 17 equal consecutive semi-annual installments of principal together with interest commencing at the latest on August 28, 2021. 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 Nordea2 Credit Agreement. See “Senior Credit Agreement — Covenants” above. The Nordea2 Credit Agreement contains restrictions on amendments to the Senior Credit Agreement and related security and other documents.

Events of Default

The Nordea2 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 Nordea2 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 Nordea2 Credit Agreement, the Nordea2 Credit Agreement and the administrative agent and the lenders under the Senior Credit Agreement being governed by a collateral agency and security sharing agreement.

Quebec PM Loan Agreement

General

KPLP is a party to a loan agreement dated as of August 9, 2016 entered into by KPLP, as borrower, and IQ as lender (the Quebec PM Loan Agreement) pursuant to which a secured non-revolving loan in a maximum amount of \$39.5 million (the Quebec PM Loan) is made available to KPLP. The Quebec PM Loan is being used to partially finance the acquisition and relocation of a paper machine to be installed at the Crabtree facility (PM Project). The Quebec PM Loan Agreement matures ten years after the first loan disbursement, which occurred on September 6, 2016.

Interest Rates and Fees

Borrowings under the Quebec PM Loan bear interest at a fixed interest rate of 2.5% per annum for a period of seven years from the date of the first loan disbursement. The interest rate thereafter increases to a fixed rate of 3.5% per annum until the eighth anniversary of the first loan disbursement, a fixed rate of 4.5% per annum until the ninth anniversary of the first loan disbursement, and a fixed rate of 5.5% per annum thereafter. Monthly interest payments commence the month following the first loan disbursement.

Prepayments and Repayments

The Quebec PM Loan has a moratorium on repayment of the principal for the initial 24 months following the date of the first loan disbursement, after which the principal is to be repaid in 96 monthly consecutive payments. The monthly repayments are reduced, in the reverse order of maturity, by repayments to IQ corresponding to KPLP's receipt of Government of Quebec electricity tariff rebates.

Covenants

The Quebec PM Loan Agreement contains covenants including, but not limited to, delivery of financial and other information to IQ, the preservation of existence, maintenance of insurance and maintenance of operations. The Quebec PM Loan Agreement also contains restrictions on the disposition of assets, incurrence of indebtedness and granting of liens, change of control and changes in the PM Project.

Events of Default

The Quebec PM Loan Agreement contains customary events of default such as non-performance, non-payment, misrepresentation, breach of covenants, cross-default to the Nordea Credit Facility (as defined below) and the Senior Credit Facility, insolvency and enforcement proceedings.

Security and Guarantees

The Quebec PM Loan is secured by the acquired paper machine and the portion of the property on which the paper machine is installed. The security is second ranking immediately after the security granted in favour of the Senior Credit Facility.

Ontario Loan Agreement

General

KPLP is a party to a conditional loan agreement dated as of July 1, 2015 entered into by KPLP, as borrower, and the Government of Ontario as lender (the Ontario Loan Agreement) pursuant to which a secured non-revolving loan in a maximum amount of \$10.0 million (the Ontario Loan) is made available to KPLP. The Ontario Loan is being used to partially finance the expansion project at the Trenton facility. The Ontario Loan Agreement matures ten years after the first loan disbursement, which occurred on February 24, 2016.

Interest Rates and Fees

Borrowings under the Ontario Loan bear interest, up to a maximum rate of 4.4% per annum for a period of ten years from the date of the first loan disbursement. A portion of the loan interest is forgivable, subject to prescribed conditions.

Prepayments and Repayments

The Ontario Loan has a moratorium on repayment of the principal for the initial five years following the date of the first loan disbursement, after which the principal is to be repaid in five equal annual payments. A portion of the loan principal is forgivable, subject to prescribed conditions, up to a maximum forgivable portion of \$5.0 million.

Covenants

The Ontario Loan Agreement contains covenants including, but not limited to, delivery of financial and other information to the Government of Ontario, the preservation of existence, maintenance of insurance, compliance with laws, payment of taxes, completion of project and limitations on project procurement. The Ontario Loan Agreement also contains restrictions on the disposition of assets and changing the nature of the business and an undertaking to comply with the negative covenants in the Senior Credit Agreement.

Events of Default

The Ontario Loan Agreement contains customary events of default such as non-performance, non-payment, misrepresentation, breach of covenants and abandonment of the project and also provides for a cross-default to the Senior Credit Agreement.

Security and Guarantees

The Ontario Loan is secured by the assets acquired for the expansion project at the Trenton facility.

Nordea Credit Agreement

General

KPLP was a party to a fourth amended and restated credit agreement (the Nordea Credit Agreement) dated as of April 24, 2018 entered into by KPLP, as borrower, the lender party thereto and Nordea Bank Abp Filial I Sverige (as successor of Nordea Bank A.B. (publ)), as administrative agent, as amended by an amendment letter dated November 19, 2018 (the Nordea Credit Agreement) pursuant to which a senior secured non-revolving loan facility in a maximum amount of US\$46.2 million (the Nordea Credit Facility) was made available to KPLP. The Nordea Credit Facility was used to pay up to 85% of the equity investment of KPLP in the Memphis TAD Machine and the fees of the Swedish Export Credits Guarantee Board (EKN) in connection with its guarantee of the Nordea Credit Facility. The Nordea Credit Facility matured on December 30, 2019.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

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 December 31, 2019 included cash and cash equivalents, trade and other receivables, receivables from related parties and advances to partners. 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 within 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.

On November 16, 2018, KPLP entered into a factoring arrangement with the Bank of Nova Scotia, pursuant to a Receivables Purchase Agreement. As a result, KPLP sells to the Bank of Nova Scotia eligible trade receivables owing by certain key customers with a facility limit of \$50 million. Eligible trade receivables are sold on a non-recourse basis. KPLP receives 95% of customer invoices sold net of a dilution factor. The dilution factor is an estimate of rebates accrued for each customer in respect of the customer invoice. KPLP is restricted from selling or pledging these trade receivables. The factoring arrangement bears interest at a floating interest rate based on CDOR plus applicable margin. KPLP is committed to a two year term, renewable for additional one year periods. As eligible trade receivables are sold, KPLP removes the factored receivables from the consolidated statement of financial position, recognizes the proceeds received as consideration for the transfer and records a loss on factoring, which is included in interest expense in the consolidated

statement of comprehensive income (loss). Cash flows from the factoring arrangement are presented as operating activities in the consolidated statement of cash flows. During the year ended December 31, 2019, the gross amount of eligible trade receivables sold to the Bank of Nova Scotia was \$774.4 million (2018 - \$141.9 million). KPLP sold 95% of these trade receivables, net of a dilution factor, for \$508.6 million (2018 - \$87.1 million). As of December 31, 2019, the trade receivables sold and uncollected amounted to \$31.4 million (December 31, 2018 - \$30.9 million).

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. The currency exposure is more than offset by U.S. dollar costs and expenses and the U.S. dollar denominated debt. KPLP is generally a net buyer of U.S. dollars.

As of December 31, 2019, KPLP had net liabilities denominated in U.S. dollars of \$58.8 million (December 31, 2018 - \$43.9 million). Assuming the Canadian dollar strengthened (weakened) by 5% against the U.S. dollar, with all other variables held constant, the result on net income before tax in Fiscal 2019 would have been an increase (decrease) of \$2.9 million (Fiscal 2018 - \$2.2 million).

From time to time, KPLP uses derivative financial instruments to manage foreign currency risk. Foreign exchange swaps and foreign exchange forwards are used to manage U.S. dollar borrowings. As of December 31, 2019, KPLP had foreign exchange swaps outstanding of nil (December 31, 2018 - nil) and foreign exchange forwards outstanding of \$23.7 million (December 31, 2018 - nil).

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 to maintain liquidity and meet its future obligations as they come due.

As of December 31, 2019, KPLP had drawn \$90.0 million from the \$250 million committed amount under the Senior Credit Facility entered into on April 24, 2018, as amended by a first supplemental credit agreement dated November 19, 2018 and a second supplemental credit agreement dated September 19, 2019, maturing in September 2023. KPLP had \$20.0 million of letters of credit outstanding, resulting in \$140.0 million available from the credit line, subject to covenant limitations. As of December 31, 2019, KPLP had total liquidity of \$233.2 million (December 31, 2018 - \$178.7 million) representing cash and cash equivalents and availability under the credit line within the covenant limitations. Total liquidity of \$233.2 million includes \$16.4 million of cash and cash equivalents held by KPSI and committed to the TAD Sherbrooke Project. KPLP prepares projections to ensure it has sufficient funds to fulfill its obligations.

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 \$242.4 million as of December 31, 2019 (December 31, 2018 - \$238.9 million) are all due for payment within twelve months of the dates of the consolidated statements of financial position.

Interest Rate Risk

KPLP's interest rate risk arises from its variable rate debt related to the Senior Credit Facility and certain credit facilities made available as part of the TAD Sherbrooke Project Facility. As of December 31, 2019, KPLP had variable rate debts of \$99.4 million (December 31, 2018 - \$109.0 million related to the Senior Credit Facility). The Senior Credit Facility bears interest at a base rate of 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 3.50%. The \$111 million term loan made available as part of the TAD Sherbrooke Project Facility bears interest at a floating interest rate based on CDOR plus an applicable margin. The revolving loans of US\$10 million and \$12.5 million made available as part of the TAD Sherbrooke Project Facility also bear interest at floating interest rates.

A 100 basis point increase (decrease) in the market rate of interest would result in a decrease (increase) in net income before tax of \$1.0 million for the year ended December 31, 2019.

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 holds interest rate swaps, contracted to fix the interest rate on a notional amount of \$100.0 million at December 31, 2019 (December 31, 2018 – \$100.0 million). The interest rate swaps will mature in the first quarter of 2020.

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, which can be affected by foreign exchange and other trade related risks. KPLP is subject to commodity price fluctuations since KPLP's main raw material is fibre, which changes price due to market conditions, and therefore can result in periodic earnings volatility in the short term. Historically, the industry has generally been able to mitigate its exposure to commodity price risk over the medium term by passing increases in its supply costs onto its customers through incremental price increases, depending on the supply and demand balance. The ability to eventually pass through the full amount of pulp cost increases can be impacted by the competitive market situation. There can be no assurance that the historical ability to pass through increases in costs will continue to occur in the future. From time to time, KPLP enters into futures contracts to manage its commodity risk. No such contracts were outstanding as of December 31, 2019 and December 31, 2018.

TRANSACTIONS WITH RELATED PARTIES

KPLP and Kruger are parties to a Third Amended and Restated Management Services Agreement dated as of November 15, 2019 with effect as of January 1, 2020 (the "Management Services Agreement") pursuant to which Kruger provides certain management and support services to KPLP, including corporate management support and administrative support services; accounting and tax support; corporate financing and treasury support; benefits and human resources support services; corporate insurance; corporate procurement services complementary to KPLP procurement; project development and management services (including in connection with the TAD Sherbrooke Project), corporate development support, environmental support and corporate engineering support services. The annual management fee paid by KPLP to Kruger under this agreement will be \$7,350,000 which amount will be adjusted for inflation annually.

During Fiscal 2019, management fees of \$4.4 million (Fiscal 2018 - \$4.3 million) were paid to Kruger Inc. for management services provided to KPLP.

Kruger Inc. is also providing certain management and support services related to the TAD Sherbrooke Project including project management services, and engineering, construction, accounting and corporate finance support services.

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 Inc. 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 Inc. during Fiscal 2019 were \$0.1 million (Fiscal 2018 – \$0.5 million). Sales of goods to subsidiaries of Kruger Inc. during Fiscal 2019 were \$0.2 million (Fiscal 2018 – \$0.2 million). Goods are sold based on the price lists in force and terms that would be available to third parties.

Purchases of goods and services from Kruger Inc. during Fiscal 2019 were \$5.8 million (Fiscal 2018 - \$7.3 million). Purchases of goods and services from subsidiaries of Kruger Inc. during Fiscal 2019 were \$42.8 million (Fiscal 2018 - \$34.5 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 SG&A expenses.

OFF BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS

KPLP has entered into right-of-use lease commitments related to land, buildings, IT services, vehicles and other machines and equipment. Contractual obligations including these right-of-use 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 KPLP and KPT 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 and KPT 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.

Pension and Post-Retirement Benefit Obligations

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 growth rate of health care costs, the rate of compensation increase, retirement ages and mortality rates. These assumptions are reviewed quarterly by KPLP Management and KPLP's actuaries. The discount rate (based on market rates) and the expected growth rate in health care costs represent the most significant assumptions.

Partnership Units Liability

On December 13, 2012, in connection with the issuance of Partnership units to KPT, the Limited Partnership Agreement was amended to require KPLP, subject to compliance with contractual obligations and applicable law, to make distributions to its partners in such amounts as would enable KPT to discharge its obligation to pay federal and provincial income taxes (the Tax Distribution). Each partner is entitled to its share of the Tax Distribution made in respect of any given year. KPLP determined that it was appropriate to reclassify a portion of its equity to Partnership units liability, since the Tax Distribution represents a contractual obligation to deliver cash and, as such, meets the definition of a financial liability for accounting purposes under IFRS.

The liability is based on management's best estimate of the net present value of expected future Tax Distributions, which are made on a pro rata basis based on taxes payable by KPT, which results from KPT's taxable income from its partnership interest in KPLP. KPLP updates the net present value of the liability annually and records any resulting change in other income (expense). The net present value of the liability is based on a number of assumptions including estimates of taxable income and tax rates, as well as discount rates, growth rates, forecasted Adjusted EBITDA, future commodity prices and foreign exchange 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 units obligation are not necessarily indicative of a change in the expected future profitability of KPLP.

As of December 31, 2019, \$143.5 million was recorded as a liability in respect of this obligation (December 31, 2018 - \$116.5 million). As of December 31, 2019, the valuation utilized a discount rate and terminal growth rate of 9.75% and 2.0% (December 31, 2018 - 10.75% and 2.0%), respectively. An increase/decrease in the discount rate by 0.5% would result in a decrease/increase in the Partnership units liability of approximately \$9.1 million and \$10.4 million, respectively. The discount rate reflects the risks associated with the business, which operates primarily in Canada.

The loss of \$27.0 million recorded during the year ended December 31, 2019 (2018 - gain of \$41.9 million) related to the change in amortized cost of Partnership units liability represents the adjustment made as a result of the reassessment performed as of December 31, 2019. The change in the discount rate resulted in an increase in the liability of \$17.1 million, while the changes in other assumptions resulted in an increase to the liability of \$9.9 million.

Equity Method of Accounting

The equity method of accounting is being applied by KPT 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 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.

Impairment Tests

KPLP performs annual impairment tests for goodwill and indefinite lived trademarks. The impairment tests indicated there was no impairment as of December 31, 2019.

KPLP is in the process of assessing various marketing plans in support of the indefinite lived trademarks. Recoverable amounts are determined based on management's best estimate using a relief from royalty model. The estimates of relief from royalty are based on the royalties that would have to be paid based on market royalty rates and projected sales volumes. Additional assumptions include estimates of the discount rate, growth rates, selling price to customer and foreign exchange rates.

KPT is required to perform an impairment test on its investment in KPLP if there is objective evidence that the investment may be impaired. Under IFRS, KPT did not perform an impairment test at December 31, 2019, as there were no events or changes in circumstances to indicate that the asset may be impaired.

Income Taxes

KPLP 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 based on an assessment of the ability to use the underlying tax deductions and credits against future taxable income. The assessment requires an estimate of future taxable income compared to the net operating loss carry forwards and U.S. State tax credits. To the extent estimates differ from the final tax return, earnings would be affected in a subsequent period. During the year ended December 31, 2019, KPLP reassessed its ability to utilize the U.S. state tax credits. As a result of this reassessment, a reversal of \$5.1 million of the U.S. state tax credits was recorded during Fiscal 2019 (Fiscal 2018 -\$1.2 million).

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. KPT has not recognized the deferred tax asset related to its investment in KPLP.

Leases

A number of critical judgements are required in the application of IFRS 16. These judgements include identifying whether a contract (or part of a contract) includes a lease, determining whether it is reasonably certain that an extension or termination option will be exercised, determining whether variable payments are in-substance fixed, establishing whether there are multiple leases in an arrangement, and determining the stand-alone selling price of lease and non-lease components.

Key estimates in the application of IFRS 16 include estimating the lease term, determining the appropriate rate to discount lease payments, and assessing whether a right-of-use asset is impaired.

ACCOUNTING CHANGES AND FUTURE ACCOUNTING STANDARDS

Accounting Standards Implemented effective January 1, 2019

- (i) IAS 19, Employee Benefits. In February 2018, the IASB issued an amendment in connection with defined benefit plans and accounting for plan amendments, settlements or curtailments. The mandatory effective date was for annual periods beginning on or after January 1, 2019. The amended standard had no impact on the consolidated financial statements.
- (ii) IAS 23, Borrowing Costs. In December 2017, the IASB issued Annual Improvements to IFRS Standards 2015-

2017 Cycle, which includes an amendment to IAS 23, Borrowing Costs. The amendment clarifies borrowing costs eligible for capitalization. The mandatory effective date was for annual periods beginning on or after January 1, 2019. The amended standard had no impact on the consolidated financial statements.

- (iii) IAS 28, Interests in Associates and Joint Ventures. In February 2018, the IASB issued an amendment to clarify that an entity applies IFRS 9, including its impairment requirements, to long term interests in an associate or joint venture to which the equity method is not applied. The mandatory effective date was for annual periods beginning on or after January 1, 2019. The amended standard had no impact on the consolidated financial statements.
- (iv) Effective January 1, 2019, KPLP adopted IFRS 16 Leases, using the full retrospective approach. Under this approach all comparative period information has been restated to reflect the adoption of IFRS 16. An opening statement of financial position at the beginning of the earliest comparative period, January 1, 2018, is presented, as is a restated statement of financial position at December 31, 2018. Impacts on the consolidated statement of financial position, the consolidated statement of comprehensive income (loss) and the consolidated statement of cash flows are disclosed in note 29 in the consolidated financial statements.

IFRS 16 establishes principles on how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all major leases. IFRS 16 superseded the current lease recognition guidance, including IAS 17 Leases and the related interpretations, when it became effective.

The primary changes to lease accounting as a result of adopting IFRS 16 include the following:

- The definition of a lease has changed under the new standard. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Previously, KPLP determined at contract inception whether an arrangement is or contains a lease under IFRIC 4;
- Under IFRS 16, the lessee recognizes a right-of-use asset and a lease liability upon lease commencement for leases with a lease term of greater than one year. The right-of-use asset is initially measured at the amount of the lease liability plus any initial direct costs incurred by the lessee. Subsequent measurement is determined based on the nature of the underlying asset. The lease liability is initially measured at the present value of the lease payments payable over the lease term and discounted at the implied lease rate. If the implied lease rate cannot be readily determined, the lessee uses its incremental borrowing rate. Subsequent re-measurement is required under specific circumstances.

Previously, KPLP classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to KPLP;

- IFRS 16 provides detailed guidance on determining the lease term when KPLP has an option to extend the lease; and
- The new standard includes extensive disclosure requirements that differ from previous requirements.

At the inception of the lease, KPLP records the right-of-use asset based on the corresponding lease liability over the term of the lease. Right-of-use assets of \$94.2 million and lease obligations of \$115.1 million were recorded as of January 1, 2019, adjusted for \$2.8 million of lease payments made at or before January 1, 2019, with a \$23.7 million net impact on the deficit. When measuring lease liabilities, KPLP discounted lease payments using its incremental borrowing rate at the lease commencement date.

In applying IFRS 16 upon initial adoption, KPLP has used the following practical expedients permitted by the standard:

- KPLP adopted the recognition exemptions permitted for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are recognized as an expense on a straight-line basis over the lease term;
- KPLP has applied the practical expedient whereby KPLP is not required to reassess which transactions are leases on the date of initial application, as previously assessed under IAS 17 and IFRIC 4. KPLP applied the definition of a lease under IFRS 16 to contracts entered into or changed on or after January 1, 2019;
- KPLP has applied the practical expedient whereby certain classes of underlying assets are not required to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components within the contract as a single lease component.

The application of IFRS 16 Leases requires significant judgements and certain key estimations to be made as disclosed in note 4 in the consolidated financial statements.

Future Accounting Standards

The following revised standards and amendments are effective for annual periods beginning on or after January 1, 2020, and with earlier application permitted. KPLP and KPT Management are in the process of assessing the impact of these standards and amendments, and have determined that the standards and amendments will not be early adopted.

- (i) IAS 1 and IAS 8, Definition of Material. In October 2018, the IASB issued amendments to the definition of material in IAS 1 and IAS 8 and provide guidance to improve consistency in the application of the concept whenever it is used. The mandatory effective date would be annual periods beginning on or after January 1, 2020, with early adoption permitted. The amended standards are not expected to have an impact on the consolidated financial statements
- (ii) IFRS 3, Definition of a Business. In October 2018, the IASB issued an amendment that revises the definition of a business. The amendment aims to resolve the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The mandatory effective date would be annual periods beginning on or after January 1, 2020, with early adoption permitted. The amended standard is not expected to have an impact on the consolidated financial statements.
- (iii) IFRS 9/IAS 39 and IFRS 7, Interest Rate Benchmark Reform (Phase 1). In September 2019, the IASB issued amendments that provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by IBOR reform and require certain related disclosures. The mandatory effective date would be annual periods beginning on or after January 1, 2020, with early adoption permitted. The amended standards are not expected to have an impact on the consolidated financial statements.

SELECTED ANNUAL FINANCIAL INFORMATION

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

| (C\$ millions, unless otherwise stated) | Restated | |
|---|-------------------|-------------------|
| | December 31, 2019 | December 31, 2018 |
| KPT Financial Information | | |
| Total assets | 83.0 | 101.6 |
| Total liabilities | 5.9 | 5.6 |
| KPLP Financial Information | | |
| Total assets | 1,623.6 | 1,596.3 |
| Total liabilities | 1,318.8 | 1,229.5 |

SELECTED QUARTERLY FINANCIAL INFORMATION

The following table summarizes quarterly financial results for KPLP for the last eight quarters:

| (C\$ millions, unless otherwise stated) | 2019 | | | | 2018 (Restated) | | | |
|---|-------|-------|-------|-------|-----------------|-------|-------|-------|
| | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| Number of days in the period | 92 | 92 | 91 | 90 | 92 | 91 | 91 | 91 |
| Revenue | 348.1 | 369.4 | 365.7 | 351.0 | 359.3 | 348.6 | 338.8 | 323.7 |
| Net income (loss) for the period | (6.1) | 10.5 | 0.9 | (3.2) | 38.0 | 4.2 | 1.6 | 1.6 |
| Reconciliation of Net income (loss) to Adjusted EBITDA | | | | | | | | |
| Net income (loss) | (6.1) | 10.5 | 0.9 | (3.2) | 38.0 | 4.2 | 1.6 | 1.6 |
| Interest expense | 10.9 | 11.4 | 11.4 | 11.3 | 13.5 | 13.5 | 13.8 | 12.7 |
| Income taxes | 0.8 | 0.7 | 1.1 | (0.2) | (2.0) | (0.5) | 0.4 | (1.1) |
| Depreciation and amortization | 16.0 | 15.1 | 15.1 | 14.8 | 16.2 | 15.8 | 15.6 | 15.4 |
| Foreign exchange (gain) loss | (0.8) | 0.5 | (1.0) | (0.7) | 1.3 | (0.5) | 0.9 | (0.2) |
| Change in amortized cost of | | | | | | | | |
| Partnership units liability | 22.3 | 1.5 | 1.5 | 1.5 | (42.6) | - | (2.0) | 2.7 |
| Change in fair value of derivatives | 0.4 | (0.3) | 0.3 | - | (0.1) | - | 0.3 | (0.6) |
| Loss on sale of property, plant and equipment | - | - | - | - | 0.2 | - | - | 0.4 |
| Loss on sale of shares | - | 0.6 | - | - | - | - | - | - |
| Gain on sale of non-financial assets | - | - | - | - | - | - | - | (0.2) |
| Restructuring costs, net | 0.1 | 1.6 | 0.2 | 0.1 | - | - | - | - |
| Consulting costs related to | | | | | | | | |
| operational transformation initiatives | 2.4 | 2.3 | 1.3 | - | - | - | - | - |
| Corporate development related costs | - | 0.1 | 0.7 | - | - | - | - | - |
| Adjusted EBITDA | 46.0 | 44.0 | 31.5 | 23.6 | 24.5 | 32.5 | 30.6 | 30.7 |

The quarterly information for 2018 above has been retrospectively restated for the adoption of IFRS 16, Leases.

Results of Operations Q4 2019 compared to Q4 2018

Revenue

Revenue was \$348.1 million in Q4 2019 compared to \$359.3 million in Q4 2018, a decrease of \$11.2 million or 3.1%. The decrease in revenue was primarily the result of no Mexico sales volume recorded in Q4 2019, partially offset by the benefit of previous price increases and higher volume. From a geographic perspective, revenue in Canada increased \$15.4 million or 7.4%, while revenue in the U.S. decreased \$2.3 million, or 1.8%. Revenue in Mexico decreased \$24.3 million

compared to the year ago quarter. The shares in GTM were sold at the end of the third quarter, and as a result KPLP no longer recorded Mexico sales revenue beginning in Q4 2019.

Cost of Sales

Cost of sales was \$294.1 million in Q4 2019 compared to \$327.0 million in Q4 2018, a decrease of \$32.9 million or 10.1%. Manufacturing costs decreased primarily due to lower Mexico volume driven by the sale of GTM shares and lower pulp costs compared to Q4 2018. These decreases were partially offset by the cost of outsourced manufacturing due to production inefficiencies in AFH, additional maintenance costs and inflation. Warehousing costs increased related primarily to additional warehousing space required to manage the logistics network. As a percentage of revenue, cost of sales were 84.5% in Q4 2019 compared to 91.0% in Q4 2018.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses were \$26.4 million in Q4 2019 compared to \$24.1 million in Q4 2018, an increase of \$2.3 million or 9.5%. The increase was primarily due to increased compensation related costs compared to Q4 2018 and higher advertising and promotion expenses. As a percentage of revenue, SG&A expenses were 7.6% in Q4 2019 compared to 6.7% in Q4 2018.

Adjusted EBITDA

Adjusted EBITDA was \$46.0 million in Q4 2019 compared to \$24.5 million in Q4 2018, an increase of \$21.5 million or 87.5%. The higher Adjusted EBITDA resulted primarily from lower pulp costs, the benefit of previous price increases across all business segments and favourable sales mix along with the benefit from operational transformation initiatives, partially offset by the cost of outsourced manufacturing and maintenance costs, and higher SG&A costs.

Interest Expense

Interest expense was \$10.9 million in Q4 2019 compared to \$13.5 million in Q4 2018, a decrease of \$2.6 million. The decrease was primarily due to lower interest rates related to the refinancing of KTG.

Other Income (Expense)

Other expense was \$21.9 million in Q4 2019 compared to other income of \$41.3 million in Q4 2018. Other expense in Q4 2019 was primarily related to the loss on the change in amortized cost of Partnership units liability of \$22.4 million (Q4 2018 – gain of \$42.6 million) (refer to Critical Accounting Estimates – Partnership Units Liability for additional information) and expense related to a change in the fair value of derivatives of \$0.4 million (Q4 2018 – gain of \$0.1 million), partially offset by a foreign exchange gain of \$0.8 million (Q4 2018 – loss of \$1.3 million). Refer to Transactions with Related Parties – Partnership Units Liability for an explanation of the change in amortized cost of Partnership units liability.

Income Taxes

An income tax expense of \$0.8 million was recorded in Q4 2019 compared to income tax recovery of \$2.0 million in Q4 2018. KPLP is not directly taxable on its Canadian business. The income tax expense in Q4 2019 resulted primarily from operating income related to the U.S. entities and the income tax recovery in Q4 2018 resulted primarily from an operating loss related to the U.S. entities. Income tax in partner's hands was an expense of \$0.1 million in Q4 2019 compared to \$11.6 million in Q4 2018.

Net Income (Loss)

Net loss was \$6.1 million in Q4 2019 compared to net income of \$38.0 million in Q4 2018, a decrease of \$44.1 million. The decrease was primarily due to a change in other expense of \$63.2 million, higher income tax expense of \$2.8 million and consulting costs related to operational transformation initiatives of \$2.4 million, partially offset by higher Adjusted EBITDA of \$21.5 million as discussed above, and a decrease in interest expense of \$2.6 million.

Segment Information Q4 2019 compared to Q4 2018

| (C\$ millions, unless otherwise noted) | Q4 2019 | Restated Q4 2018 | Q4 2019 vs. Q4 2018 | |
|---|---------|---------------------|---------------------|----------|
| | | | \$ Change | % Change |
| Segment Revenue | | | | |
| Consumer | 285.6 | 300.7 | (15.1) | -5.0% |
| AFH | 62.5 | 58.6 | 3.9 | 6.7% |
| Total segment revenue | 348.1 | 359.3 | (11.2) | -3.1% |
| Adjusted EBITDA | | | | |
| Consumer | 47.4 | 29.7 | 17.7 | |
| AFH | (1.1) | (3.9) | 2.8 | |
| Corporate and other costs | (0.3) | (1.3) | 1.0 | |
| Total Adjusted EBITDA | 46.0 | 24.5 | 21.5 | |

Consumer Segment

Q4 2019 compared to Q4 2018

Consumer segment revenue was \$285.6 million in Q4 2019 compared to \$300.7 million in Q4 2018, a decrease of \$15.1 million or 5.0%. The decrease in revenue was primarily due to lower Mexico volume resulting from the sale of GTM shares in Q3 2019, partially offset by higher sales volume in Canada and price increases in the U.S. and Canada. Consumer segment revenue increased in Canada and decreased slightly in the U.S. as a result of lower sales volume compared to Q4 2018.

Consumer Segment Adjusted EBITDA was \$47.4 million in Q4 2019 compared to \$29.7 million in Q4 2018, an increase of \$17.7 million. The increase was primarily due to lower fibre costs, favourable sales mix and the price increases, partially offset by higher SG&A expenses.

AFH Segment

Q4 2019 compared to Q4 2018

AFH segment revenue was \$62.5 million in Q4 2019 compared to \$58.6 million in Q4 2018, an increase of \$3.9 million or 6.7%. The increase was primarily due to selling price increases and higher sales volume. AFH segment revenue increased in both the U.S. and Canada.

AFH Segment Adjusted EBITDA was a loss of \$1.1 million in Q4 2019 compared to loss of \$3.9 million in Q4 2018, an improvement of \$2.8 million. The improvement was primarily due to lower fibre costs, the benefit from price increases and higher sales volume, partially offset by higher outsourced paper and freight costs resulting from production inefficiencies, and higher warehousing and SG&A costs.

Corporate and Other Costs

Q4 2019 compared to Q4 2018

Corporate and other costs previously included revenue and profit (loss) associated with the sales of parent rolls and recycled fibre, which were considered an "Other" segment. Any associated profit (loss) is now included in Consumer or AFH segments as appropriate. Corporate and other costs currently includes certain overhead costs and timing adjustments for certain manufacturing costs included in inventory not allocated to the Consumer and AFH segments.

Corporate and other costs were \$0.3 million in Q4 2019 compared to \$1.3 million in Q4 2018, a decrease of \$1.0 million, as the timing adjustments in inventory partially offset the overhead costs.

SHARE INFORMATION

KPT's authorized share capital consists of an unlimited number of Common Shares. As of March 11, 2020, there were 9,660,698 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 March 11, 2020 for Common Shares, it would hold approximately 85.0% of the issued and outstanding Common Shares. As of March 11, 2020, 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 11, 2020, there were 64,309,315 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 2019 Annual Information Form dated March 13, 2020 available on SEDAR at www.sedar.com. 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 Corporations' 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 Committees reviewed this MD&A and the financial statements and notes of KPT and the consolidated financial statements and notes of KPLP, and the Corporations' Boards 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 Fiscal 2019 that have materially affected, or are reasonably expected to materially affect, its internal controls over financial reporting.

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, 2019, 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 (2013). Based on that evaluation, management and the CEO and CFO have concluded that, as of December 31, 2019, 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.