



KP TISSUE INC. AND KRUGER PRODUCTS INC.

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

FOR THE 3-MONTH PERIOD ENDED MARCH 31, 2025

DATED MAY 14, 2025

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The following Management's Discussion and Analysis (MD&A) dated May 14, 2025 for KP Tissue Inc. (KPT) and Kruger Products Inc. (Kruger Products) is intended to assist the readers in understanding the business environment, strategies, performance and risk factors relating to KPT and Kruger Products. It should be read in conjunction with the unaudited condensed financial statements of KPT for the 3-month periods ended March 31, 2025 and March 31, 2024, respectively, and the unaudited condensed consolidated financial statements of Kruger Products for the 3-month periods ended March 31, 2025 (Q1 2025) and March 31, 2024 (Q1 2024) respectively.

About KP Tissue Inc.

KPT was created to acquire, and its business is limited to holding, an equity interest in Kruger Products, which is accounted for as an investment in an associate using the equity method of accounting. As of March 31, 2025, KPT held 12.5% of the Kruger Products Class B Common Shares (the Kruger Products Common Shares). 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 Kruger Products and to KPT's investment in Kruger Products.

CAUTIONARY FORWARD LOOKING STATEMENT

Certain statements in this MD&A about KPT's and Kruger Products' 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 Sherbrooke Expansion Project (as defined below), the anticipated benefits of the Sherbrooke Expansion Project; Kruger Products' expansion efforts in U.S. premium private label; and Kruger Products' future business strategy and the anticipated benefits of its 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 Kruger Products. Although KPT and Kruger Products 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 Kruger Products' 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 Kruger Products) 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 Kruger Products' Business" section of the KPT Annual Information Form dated March 5, 2025 available on SEDAR+ at www.sedarplus.ca (the Annual Information Form): Kruger Inc.'s influence over Kruger Products; Kruger Products' reliance on Kruger Inc.; consequences of an event of insolvency relating to Kruger Inc.; risks associated with the ownership of the TAD Sherbrooke Project; risks associated with the operation of the TAD Sherbrooke Project; operational risks; significant increases in input costs; reduction in supply of fibre; increased pricing pressure and intense competition; Kruger Products' inability to innovate effectively; adverse economic conditions; dependence on key retail trade customers; damage to the reputation of Kruger Products or Kruger Products' brands; Kruger Products' sales being less than anticipated; Kruger Products' failure to implement its business and operating strategies; Kruger Products' obligation to make regular capital expenditures; Kruger Products entering into unsuccessful acquisitions; Kruger Products' dependence on key personnel; Kruger Products' inability to retain its existing customers or obtain new customers; Kruger Products' loss of key suppliers; Kruger Products' failure to adequately protect its intellectual property rights; Kruger Products' reliance on third party intellectual property licenses; adverse litigation and other claims affecting Kruger Products; material expenditures due to comprehensive environmental regulation affecting Kruger Products' cash flow; Kruger Products' pension obligations are significant and can be materially higher than predicted if Kruger Products Management's underlying assumptions are incorrect; labour disputes adversely affecting Kruger Products' cost structure and Kruger Products' ability to run its plants; exchange rate and U.S. competitors; Kruger Products' 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; tax.

These factors are not intended to represent a complete list of the factors that could affect KPT and/or Kruger Products; 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 Kruger Products cannot guarantee future results,

levels of activity, performance, or achievements. Moreover, KPT and Kruger Products do not assume responsibility for the accuracy and completeness of the forward-looking statements. KPT and/or Kruger Products' 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 Kruger Products 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 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 Kruger Products 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

Kruger Products 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, Kruger Products 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*, *SpongeTowels* and *Bonterra* in Canada and *White Cloud* in the United States.

Kruger Products is headquartered in Mississauga, Ontario and has approximately 3,000 employees across Canada and the United States. Kruger Products' Canadian paper manufacturing facilities, consisting of five tissue plants in Québec and one plant in British Columbia, have a combined annual tissue production capacity of approximately 410,000 metric tonnes. In the U.S., Kruger Products operates a manufacturing facility in Memphis, Tennessee held in its wholly owned subsidiary K.T.G. (USA) Inc. (KTG), which currently has an aggregate production capacity of 85,000 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 Kruger Products, (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 Kruger Products' shareholders in the Kruger Products DRIP on April 15, 2025, KPT held 12.3% of the Kruger Products Common Shares.

Basis of Presentation

The unaudited condensed consolidated financial statements of Kruger Products presented for Q1 2025 and Q1 2024 and the unaudited condensed financial statements of KPT presented for the 3-month periods ended March 31, 2025 and March 31, 2024, respectively, have each been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards) for interim financial statements, including IAS 34, Interim Financial Reporting.

Accounting Periods

This MD&A includes financial information for the 3-month periods ended March 31, 2025 (Q1 2025) and March 31, 2024 (Q1 2024), respectively.

Non-GAAP Financial Measures

This MD&A refers to “Adjusted EBITDA”, a measure which does not have a standardized meaning prescribed by GAAP and therefore may not be comparable to similarly titled measures presented by other companies. Kruger Products believes that this measure provides useful information to management of Kruger Products and the readers of the financial information in measuring the financial performance and financial condition of Kruger Products.

“Adjusted EBITDA” is calculated by Kruger Products as net income (loss) before (i) interest expense and other finance costs, (ii) income taxes, (iii) depreciation, (iv) amortization, (v) loss 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 and (ix) changes in amortized cost of Partnership units liability. 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 (loss), the most comparable GAAP measure, on page 4.

Outlook

Kruger Products is committed to building its consumer brands and developing innovative products for its retail and commercial customers. Kruger Products’ strategy is to maintain its leadership position in the Canadian market. Though the Canadian tissue market is expected to remain competitive, Kruger Products believes that its brands and products are well positioned for continued growth. Kruger Products 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.

Kruger Products also expects to continue to grow by leveraging its Through Air Dry (TAD) product capabilities in Canada and the United States and focusing on the high-end private label business in the U.S. market. Kruger Products’ U.S. strategy also includes the expansion of the White Cloud brand to additional U.S. retailers.

Following the successful start-up of the manufacturing plant at Sherbrooke in 2024, Kruger Products is currently evaluating the construction of a new manufacturing facility that would contain a state-of-the-art TAD paper machine and three converting lines. The new plant is expected to support Kruger Products continued focus to grow revenue, protect market share, and offer high-quality tissue products to customers across North America. Refer to Business Highlights, Sherbrooke Expansion Project for additional details.

BUSINESS HIGHLIGHTS

Sherbrooke Expansion Project

In 2021, Kruger Products announced an investment totaling \$351.5 million to expand the Sherbrooke operations with a Light Dry Crepe (LDC) tissue machine and two new production lines as well as the construction of a new tissue manufacturing facility (the Sherbrooke Expansion Project) over the following three years. As a result of significant inflation across the supply chain and interest rate increases during construction, the cost of the project was forecasted to be \$377.5 million, excluding start-up expenses and working capital. The first stage of this project, a new bathroom tissue converting line, successfully started-up in February 2023. The second stage is comprised of the construction of a new tissue manufacturing facility that includes a new facial tissue converting line that started up in February 2024 and a LDC paper machine that started up in September 2024. The project will increase Kruger Products’ annual output by at least 60,000 metric tonnes at maturity. The project was completed on time and on budget.

The additional capacity will allow Kruger Products to expand its product offering and is expected to enable it to grow its market share across its different categories, including bathroom tissue, paper towels and facial tissue for household and away-from-home use under such brands as Cashmere®, SpongeTowels®, Scotties®, Purex® and Bonterra™ in Canada, and White Cloud® in the U.S.

RESULTS OF OPERATIONS

Results of Operations of Kruger Products

(C\$ millions, unless otherwise noted)			<u>\$ Change</u> <u>Q1 2025 vs.</u> <u>Q1 2024</u>
	<u>Q1 2025</u>	<u>Q1 2024</u>	
Statement of Operations Data:			
Revenue	546.1	479.4	66.7
Cost of sales	(451.0)	(394.0)	(57.0)
Selling, general and administrative expenses	(51.2)	(44.1)	(7.1)
Restructuring costs, net	-	(0.2)	0.2
Operating income	43.9	41.1	2.8
Interest expense and other finance costs	(20.9)	(16.3)	(4.6)
Other income (expense)	0.3	(8.5)	8.8
Income (loss) before income taxes	23.3	16.3	7.0
Income taxes:			
Income tax expense			
at statutory rate	(6.1)	(4.2)	(1.9)
Other	(0.3)	(2.0)	1.7
Income tax expense	(6.4)	(6.2)	(0.2)
Net income (loss) including non-controlling interest	16.9	10.1	6.8
Net income (loss) attributable to non-controlling interest	1.5	1.1	0.4
Net income (loss) attributable to Kruger Products	<u>15.4</u>	<u>9.0</u>	<u>6.4</u>

(C\$ millions, unless otherwise noted)			<u>\$ Change</u> <u>Q1 2025 vs.</u> <u>Q1 2024</u>
	<u>Q1 2025</u>	<u>Q1 2024</u>	
Reconciliation of Adjusted EBITDA¹ to Net income (loss):			
Net income (loss) including non-controlling interest	16.9	10.1	6.8
Interest expense and other finance costs	20.9	16.3	4.6
Income tax expense	6.4	6.2	0.2
Depreciation and amortization	31.9	25.5	6.4
Foreign exchange loss (gain)	(0.3)	9.4	(9.7)
Change in amortized cost of Partnership unit liability	-	(0.9)	0.9
Loss on disposal of property, plant and equipment	-	0.3	(0.3)
Restructuring costs, net	-	0.2	(0.2)
Adjusted EBITDA¹	<u>75.8</u>	<u>67.1</u>	<u>8.7</u>

¹ Adjusted EBITDA is a non-GAAP financial measure. Refer to the *Non-GAAP Financial Measures* section of this MD&A for more information on these measures.

Results of Operations Q1 2025 compared to Q1 2024

Revenue

Revenue was \$546.1 million in Q1 2025 compared to \$479.4 million in Q1 2024, an increase of \$66.7 million or 13.9%. The increase in revenue was primarily due to higher sales volume in the Consumer segment and favourable selling prices across both segments. Revenue was also favourably impacted by foreign exchange fluctuations on U.S. dollar sales (USD average 1.44 in Q1 2025 compared to 1.35 in Q1 2024). From a geographic perspective, revenue in Canada increased \$20.4 million or 7.6%, while revenue in the U.S. increased \$46.3 million, or 21.7%.

Cost of Sales

Cost of sales was \$451.0 million in Q1 2025 compared to \$394.0 million in Q1 2024, an increase of \$57.0 million or 14.5%. The increase in cost of sales was primarily due to higher sales volume and pulp prices along with the unfavourable impact of foreign exchange fluctuations on U.S. dollar costs, partially offset by lower manufacturing overhead costs due primarily to overhead cost absorption resulting from higher inventory levels in the quarter. Freight costs were higher compared to Q1 2024, including the impact of tariffs, while warehousing costs increased as a result of handling costs related to higher sales volume. As a percentage of revenue, cost of sales was 82.6% in Q1 2025 compared to 82.2% in Q1 2024.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses were \$51.2 million in Q1 2025 compared to \$44.1 million in Q1 2024, an increase of \$7.1 million or 16.1%. The increase was primarily due to additional investment in advertising and promotion and IT, along with additional headcount costs to support growth, resulting in lower consulting costs, and higher selling expense related to sales volume, partially offset by lower operational and corporate initiatives compared to the year ago quarter and lower bad debt expenses. As a percentage of revenue, SG&A expenses were 9.4% in Q1 2025 compared to 9.2% in Q1 2024.

Adjusted EBITDA

Adjusted EBITDA¹ was \$75.8 million in Q1 2025 compared to \$67.1 million in Q1 2024, an increase of \$8.7 million or 12.9%. The increase was primarily due to higher sales volumes and selling prices along with lower manufacturing overhead costs as a result of overhead cost absorption, partially offset by higher pulp prices and freight costs as described above, and warehousing and SG&A expenses.

Interest Expense and Other Finance Costs

Interest expense and other finance costs were \$20.9 million in Q1 2025 compared to \$16.3 million in Q1 2024, an increase of \$4.6 million. The increase was primarily due to interest expense related to financing of the Sherbrooke Expansion Project and higher interest expense related to leases.

Foreign Exchange Gain (Loss)

Foreign exchange gain was \$0.3 million in Q1 2025 compared to a loss of \$9.4 million in Q1 2024 due to the favourable impact of foreign exchange fluctuations on USD denominated debt. The foreign exchange gains and losses were recorded in Other expense (income) in the consolidated statements of income (loss).

Income Taxes

An income tax expense of \$6.4 million was recorded in Q1 2025 compared to \$6.2 million in Q1 2024. The income tax expense in Q1 2025 and Q1 2024 resulted from taxable income in Kruger Product's incorporated operating entities in the U.S. and Canada, the significant majority of which represents deferred income tax expense.

¹ Adjusted EBITDA is a non-GAAP financial measure. Refer to the *Non-GAAP Financial Measures* section of this MD&A for more information on these measures.

Net Income Attributable to Kruger Products

Net income was \$15.4 million in Q1 2025 compared to \$9.0 million in Q1 2024, an increase of \$6.4 million. The increase was primarily due to a higher foreign exchange gain of \$9.7 and higher Adjusted EBITDA¹ of \$8.7 million, partially offset by higher depreciation expense of \$6.4 million, higher interest expense and other finance costs of \$4.6 million and no change in the amortized cost of Partnership units liability compared to \$0.9 million in the year ago quarter.

Results of Operations of KPT

(C\$ millions, unless otherwise noted)	3-month period ended March 31, 2025	3-month period ended March 31, 2024
Statement of Operations Data:		
Share of income	1.9	1.1
Depreciation of fair value increments	(0.3)	(0.3)
Equity income	1.6	0.8
Dilution gain	0.1	0.3
Income before income taxes	1.7	1.1
Income taxes:		
Current tax recovery	-	-
Deferred tax expense	-	-
Net income	1.7	1.1
Basic earnings per share (dollars)	0.17	0.11

The financial information presented above is based on KPT's interest in Kruger Products for Q1 2025 and Q1 2024. The share of income (loss) relates to KPT's share of income (loss) of Kruger Products. Refer to Results of Operations of Kruger Products above for an explanation of the results. The depreciation of fair value increments relates to adjustments to the carrying amount of certain assets of Kruger Products on its acquisition by KPT. Refer to note 5 in KPT's financial statements for additional details.

SEGMENT INFORMATION

Segment Operating Income

Segment operating income is the earnings (loss) for each such segment before (i) interest expense and other finance costs, (ii) income taxes, (iii) depreciation, (iv) amortization, (v) loss 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 and (ix) changes in amortized cost of Partnership units liability. “Consumer Segment Adjusted EBITDA¹” and “AFH Segment Adjusted EBITDA¹” means in each case the Segment operating income for the referring respective segment of Kruger Products.

Segment Results

(C\$ millions, unless otherwise noted)	Q1 2025	Q1 2024	Q1 2025 vs Q1 2024	
			\$ Change	% Change
Segment Revenue				
Consumer	465.2	404.3	60.9	15.1%
AFH	80.9	75.1	5.8	7.7%
Total segment revenue	546.1	479.4	66.7	13.9%
Adjusted EBITDA¹				
Consumer	76.1	62.6	13.5	
AFH	2.8	7.8	(5.0)	
Corporate and other costs	(3.1)	(3.3)	0.2	
Total Adjusted EBITDA ¹	75.8	67.1	8.7	

¹ Adjusted EBITDA is a non-GAAP financial measure. Refer to the *Non-GAAP Financial Measures* section of this MD&A for more information on these measures.

Consumer Segment

Q1 2025 compared to Q1 2024

Consumer segment revenue was \$465.2 million in Q1 2025 compared to \$404.3 million in Q1 2024, an increase of \$60.9 million or 15.1%. The increase in revenue was due to higher sales volume in both the U.S. and Canada along with higher selling prices across the segment. Revenue was also favourably impacted by foreign exchange fluctuations on U.S. dollar sales. Consumer segment revenue increased in both Canada and the U.S.

Consumer Segment Adjusted EBITDA¹ was \$76.1 million in Q1 2025 compared to \$62.6 million in Q1 2024, an increase of \$13.5 million. The increase was primarily due to higher sales volumes and selling prices along with lower manufacturing overhead costs, partially offset by higher pulp prices along with higher freight rates, warehousing expenses and SG&A expenses.

AFH Segment

Q1 2025 compared to Q1 2024

AFH segment revenue was \$80.9 million in Q1 2025 compared to \$75.1 million in Q1 2024, an increase of \$5.8 million or 7.7%. The increase was primarily due to slightly higher sales volume along with higher selling prices and the favourable impact of foreign exchange fluctuations on U.S. dollar sales. AFH segment revenue increased in both the U.S. and Canada.

AFH Segment Adjusted EBITDA¹ was \$2.8 million in Q1 2025 compared to \$7.8 million in Q1 2024, a decrease of \$5.0 million. The decrease was primarily due to higher pulp prices, outsourcing activity and manufacturing overhead costs, along with higher freight rates, warehousing expenses and SG&A expenses.

Corporate and Other Costs

Corporate and other costs include certain management overhead costs not directly attributable to the business segments.

Q1 2025 compared to Q1 2024

Corporate and other costs were \$3.1 million in Q1 2025 compared to \$3.3 million in Q1 2024, a decrease of \$0.2 million. The costs in each period related primarily to management fees

LIQUIDITY AND CAPITAL RESOURCES

Overview

Kruger Products' principal uses of funds are for operating costs, working capital, capital expenditures, pension contributions and dividends (together, the Funding Requirements). To date, Kruger Products has met the Funding Requirements by using cash generated from operating activities and the Dividend Reinvestment Plan and borrowings under its various debt facilities. Kruger Products is required to make funding contributions to the sponsored, registered defined benefit pension plans (RDBPP) over the next ten years. Kruger Products 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, Kruger Products' 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. Kruger Products Management reviews investment opportunities in the normal course of its business and may, if suitable opportunities arise, make selected investments to implement Kruger Products' business strategy. Historically, the funding for any such investments has come from cash flows from operations and/or additional debt.

As of March 31, 2025, Kruger Products was in compliance with all of its financial covenants under all of its outstanding credit facilities. As of March 31, 2025, Kruger Products had drawn \$15.0 million from the \$230 million committed amount under the Kruger Products Senior Credit Facility and had \$9.6 million of letters of credit outstanding, resulting in \$205.4 million available from the Kruger Products Senior Credit Facility, subject to covenant limitations. As of March 31, 2025, Kruger Products had two revolving loans available under the TAD Sherbrooke Project Facility. The US\$10 million (\$14.4 million) revolving loan (KTG) had US\$5.0 million (\$7.2 million) in draws and the \$12.5 million revolving loan (KPSI) had no draws and outstanding letters of credit of \$5.7 million, resulting in \$14.0 million available from the revolving loans. As of March 31, 2025, KPSB had drawn \$2.9 million from the \$5 million committed amount under the KPSB Revolving Facility and had \$2.1 million of letters of credit outstanding, resulting in the KPSB Revolving Facility being fully drawn. As of March 31, 2025, Kruger Products had total liquidity of \$356.8 million (December 31, 2024 - \$344.6 million) representing cash and cash equivalents and availability under the Kruger Products Senior Credit Facility, the revolving loans available under the TAD Sherbrooke Project Facility and the KPSB Revolving Facility within the covenant limitations. In addition, \$4.4 million (December 31, 2024 - \$16.6 million) of cash and cash equivalents were held by Kruger Products for the Sherbrooke Expansion project.

As it pertains to capital expenditures, approximately \$25 million annually relates to maintenance projects and the remaining expenditures are focused on strategic and 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 \$17.5 million in Q1 2025, including \$15.4 million related to the Sherbrooke Expansion Project (including interest capitalized during construction). Capital expenditures are expected to be approximately \$80 million to \$100 million in Fiscal 2025, including the Sherbrooke Expansion Project.

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

Cash Flows

(C\$ millions, unless otherwise noted)			\$ Change
	Q1 2025	Q1 2024	Q1 2025 vs. Q1 2024
Net cash flows (used in) from operating activities	56.0	(16.0)	72.0
Net cash flows used in investing activities	(14.3)	(50.1)	35.8
Net cash flows from (used in) financing activities	(19.3)	46.2	(65.5)
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	(0.1)	1.3	(1.4)
Increase (decrease) in cash and cash equivalents	22.3	(18.6)	40.9
Beginning cash and cash equivalents, net	119.5	135.7	(16.2)
Ending cash and cash equivalents, net	141.8	117.1	24.7

Net Cash Flows from Operating Activities

Net cash from operating activities was \$56.0 million in Q1 2025 compared to net cash used in operating activities of \$16.0 million in Q1 2024. Cash from operating activities in Q1 2025 was primarily driven by Adjusted EBITDA¹ of \$75.8 million (Q1 2024 - \$67.1 million) and net income tax recoveries of \$0.7 million (Q1 2024 – net income tax payments of \$0.3 million), partially offset by higher working capital of \$25.1 million (Q1 2024 – higher by \$86.1 million) and pension and post-retirement benefit contributions of \$1.0 million (Q1 2024 - \$1.2 million contributions).

Net Cash Flows used in Investing Activities

Net cash used in investing activities was \$14.3 million in Q1 2025 compared to \$50.1 million in Q1 2024. Cash used in investing activities related to capital expenditures of \$17.5 million (including \$15.4 million for the Sherbrooke Expansion Project) in Q1 2025 compared to \$50.1 million (including \$46.0 million for the Sherbrooke Expansion Project) in Q1 2024, partially offset by government assistance received of \$3.2 million in Q1 2025.

Net Cash Flows from (used in) Financing Activities

Net cash used in financing activities was \$19.3 million in Q1 2025 compared to net cash from financing activities of \$46.2 million in Q1 2024. Net cash used in financing activities in Q1 2025 was primarily due to the interest paid of \$12.4 million (Q1 2024 - \$8.9 million), lease payments of \$9.0 million (Q1 2024 - \$8.7 million), net dividends paid of \$8.0 million (Q1 2024 - \$1.8 million), change in Restricted cash of \$2.0 million (Q1 2024 - \$1.4 million), partially offset by proceeds from debt net of repayments of \$12.2 million (Q1 2024 – \$67.7 million).

Contractual Obligations

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

As of March 31, 2025, Kruger Products had \$2.6 million (December 31, 2024 – \$2.7 million) of commitments related to the Sherbrooke Expansion Project.

Kruger Products' cash pension contribution for defined benefit pension arrangements in Q1 2025 was \$0.5 million, while its post-retirement benefits contribution was \$0.5 million. In addition, as of March 31, 2025, Kruger Products had \$7.7 million of letters of credit related to pensions outstanding. Pension contributions for Fiscal 2025 are expected to be \$2.6 million and post-retirement contributions for Fiscal 2025 are expected to be \$2.2 million.

¹ Adjusted EBITDA is a non-GAAP financial measure. Refer to the *Non-GAAP Financial Measures* section of this MD&A for more information on these measures.

Pursuant to the Exchange Agreement, KPT has granted Kruger Inc. the right to exchange Kruger Products common shares it holds from time to time for common shares of KPT (the KPT Common Shares) issued by KPT on the basis of one Kruger Products common share for one KPT Common Share, subject to adjustment upon the occurrence of certain events that would result in the indirect economic interest in Kruger Products represented by a KPT Common Share diverging from the direct economic interest in Kruger Products represented by a Kruger Products Common Share, including splits or consolidations of the KPT Common Shares without a corresponding split or consolidation of the Kruger Products Common Shares, issuances or repurchases of the KPT Common Shares without corresponding issuances or repurchases of Kruger Products Common Shares, acquisition of assets by KPT other than Kruger Products Common Shares 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 Kruger Products, KPT may require the exchange of all outstanding Kruger Products Common Shares held by Kruger Inc. or its affiliates in return for KPT Common Shares on the basis of one Kruger Products Common Share for one KPT Common Share subject to adjustment as set forth above. As of March 31, 2025, no Kruger Products Common Shares had been exchanged for KPT Common Shares.

Pursuant to the Administration Agreement, Kruger Products, 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

AgCredit Agreement

Subsequent to March 31, 2025, on April 30, 2025, US\$28.7 million was deposited in the KPSI Dedicated Account, of which US\$10.0 million was used to prepay the Term D Credit Facility.

KPSI IQ Debenture

Pursuant to the KPSI Repayment Agreement, the Company made redemption payments in exchange for voting common shares of KPSI with a value of \$4.6 million for 3-month period ended March 31, 2025. As of March 31, 2025, Kruger Inc. held a 12.9% non-controlling interest directly in KPSI. As a result, a non-controlling interest of \$31.4 million was recorded in the unaudited condensed consolidated statement of financial position. The unaudited condensed consolidated statement of income and comprehensive income for the 3-month period ended March 31, 2025 includes a loss of \$1.5 million directly attributable to Kruger Inc's share of income in KPSI. The two monthly redemption payments subsequent to March 31, 2025 were made by the Company.

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. Kruger Products' financial instruments exposed to credit risk as of March 31, 2025, included cash and cash equivalents, restricted cash, trade and other receivables and receivables from related parties. Kruger Products places its cash and cash equivalents and restricted cash with financial institutions of high creditworthiness.

Kruger Products 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. Kruger Products routinely assesses the financial strength of its customers and mitigates against identified exposure primarily by lowering credit limits with high-risk accounts. Kruger Products' customers

are well established companies and accordingly, Kruger Products has experienced limited financial loss with respect to credit risk. As a result, Kruger Products believes that its exposure to credit risk is limited.

Kruger Products is party to a factoring arrangement, whereby Kruger Products sells to the Bank of Nova Scotia, on a non-recourse basis, eligible trade receivables owing by certain key customers with a facility limit of \$50 million. The factoring arrangement bears interest at a floating interest rate based on CDOR plus applicable margin. Either party may terminate the arrangement at any time subject to a notice period. Kruger Products receives 95% of customer invoices sold, net of a dilution factor.

Currency Risk

Currency risk is the risk that Kruger Products' earnings may fluctuate due to changes in Canadian to U.S. dollar exchange rates, as the financial results are reported in Canadian dollars. Kruger Products 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.

As of March 31, 2025, Kruger Products had net liabilities denominated in U.S. dollars of \$396.3 million (March 31, 2024 – \$410.6 million). Assuming the Canadian dollar strengthened (weakened) by 5% against the U.S. dollar, with all other variables held constant, the hypothetical result on net income before tax in Q1 2025 would have been an increase (decrease) of \$19.8 million (Q1 2024 – \$20.5 million).

Liquidity Risk

The purpose of liquidity risk management is to maintain sufficient cash and cash equivalents and to ensure Kruger Products has sufficient authorized credit facilities to maintain liquidity and meet its future obligations as they come due.

The ability to pay its obligations relies on Kruger Products collecting its trade receivables in a timely manner and by maintaining sufficient cash and cash equivalents in excess of anticipated needs. Kruger Products' trade and other payables of \$320.1 million as of March 31, 2025 (December 31, 2024 – \$346.3 million) are all due for payment within twelve months of the dates of the consolidated statements of financial position.

Refer to Liquidity and Capital Resources, Overview for additional details.

Interest Rate Risk

Kruger Products' interest rate risk arises from its variable rate debt related to the Kruger Products Senior Credit Facility, certain credit facilities made available as part of the TAD Sherbrooke Project Facility and the KPSB Senior Credit Facility which bear interest at floating interest rates plus an applicable margin as determined by specific financial ratios in accordance with its credit agreements. As of March 31, 2025, Kruger Products had variable rate debts excluding deferred financing fees of \$181.0 million (December 31, 2024 - \$161.1 million). A 100 basis point increase (decrease) in the market rate of interest would result in an increase (decrease) in net income before tax of \$1.8 million on an annual basis.

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. Kruger Products is subject to commodity price fluctuations since Kruger Products' 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 and other commodity 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.

TRANSACTIONS WITH RELATED PARTIES

Kruger Products 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 Kruger Products, 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 Kruger Products procurement; project development and management services, corporate development support, environmental support and corporate engineering support services.

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

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

Kruger Products 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. Kruger Products also has the ability to procure these goods and services from third party suppliers.

Goods are sold to Kruger Inc. and subsidiaries of Kruger Inc. based on the price lists in force and terms that would be available to third parties.

(C\$ millions, unless otherwise noted)

	<u>Q1 2025</u>	<u>Q1 2024</u>
Sales of goods to Kruger Inc.	0.1	0.1
Sale of goods to subsidiaries of Kruger Inc.	0.4	1.0
Purchases of goods from Kruger Inc.	0.4	0.2
Purchases of goods and services from subsidiaries of Kruger Inc.	21.7	14.9
Management fees to Kruger Inc.	2.7	2.7

In connection with the contribution undertaking agreement, the increase in Q1 2025 in Kruger Products' obligation to Kruger Brompton L.P., a subsidiary of Kruger Inc., due to passage of time was \$0.5 million and was recognized as Interest expense and other finance costs in the unaudited condensed consolidated statement of income (loss).

OFF BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS

Kruger Products has entered into right-of-use lease commitments related to land, buildings, IT services, vehicles and other machines and equipment. Refer to Liquidity and Capital Resources, Contractual Obligations for additional details on contractual obligations including these right-of-use leases.

CRITICAL ACCOUNTING ESTIMATES

The preparation of these unaudited condensed consolidated financial statements in conformity with IFRS Accounting Standards requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities in the unaudited condensed consolidated financial statements and the disclosure of contingencies at the dates of the unaudited condensed consolidated statements of financial position, and the reported amounts of revenues and expenses during the reporting period. On a regular basis and with the information available, management reviews its estimates. Actual results could differ from those estimates. When adjustments become necessary, they are reported in earnings in the period in which they occur. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and the future periods if the revision affects both current and future periods. The estimates and judgement applied by management that most significantly affect the unaudited condensed consolidated financial statements are the same as the ones that applied to the audited consolidated financial statements of the Company for the year ended December 31, 2024.

ACCOUNTING CHANGES AND FUTURE ACCOUNTING STANDARDS

Summary of material accounting policies

The material accounting policies used in the preparation of the unaudited condensed financial statements of Kruger Products and KPT for the 3-month periods ended March 31, 2025 and March 31, 2024 were disclosed in the annual audited financial statements of Kruger Products and KPT for the year ended December 31, 2024 and have been applied to all periods presented.

Accounting standard implemented effective January 1, 2025

- (i) IFRS 8, Operating Segments. In July 2024, IFRIC published an agenda decision that addresses which items listed in IFRS 8 must be disclosed even when they are not separately reviewed by the chief operation decision maker. The agenda decision also provides guidance on how to identify the additional material items that IFRS 8 requires to be disclosed. Following this agenda decision, for each reportable segment, the Company modified the segment presentation in note 9 to provide qualitative disclosure on the material items included in net income.

Accounting Standard Issued but not yet Implemented

- (ii) IFRS 18, Presentation and Disclosure in Financial Statements. In April 2024, the IASB issued IFRS 18 to achieve comparability of the financial performance of similar entities. The standard, which replaces IAS 1, impacts the presentation of primary financial statements and notes, mainly the income statement where companies will be required to present separate categories of income and expense for operating, investing, and financing activities with prescribed subtotals for each new category. IFRS 18 will require management-defined performance measures to be explained and included in a separate note within the consolidated financial statements. The mandatory effective date would be for annual reporting periods beginning on or after January 1, 2027, including interim financial statements, and requires retrospective application. The Company is currently assessing the impact of the new standard.
- (iii) Amendments to IFRS 9 and IFRS 7 - Amendments to the Classification and Measurement of Financial Instruments. On May 30, 2024, the IASB issued amendments to IFRS Accounting Standards 9 and IFRS Accounting Standards 7 aimed at improving the classification and measurement of financial instruments. The recent amendments simplify financial reporting by allowing earlier recognition of liabilities settled via electronic payments, clarifying the assessment of cash flows for basic lending arrangements, and refining definitions for non-recourse features and linked instruments. The amendments also introduce more detailed disclosure requirements for fair value changes in equity instruments and mandate reporting of terms that could affect cash flow timings or amounts. The amendment will be effective from January 1, 2026 and entities must apply these amendments retrospectively, with earlier adoption permitted. The Company is currently assessing the impact of the amendments.

SELECTED QUARTERLY FINANCIAL INFORMATION

The following table provides selected financial information for KPT and Kruger Products:

(C\$ millions, unless otherwise noted)	March 31, 2025	December 31, 2024
KPT Financial Information		
Total assets	70.8	71.3
Total liabilities	1.8	1.8
Kruger Products Financial Information		
Total assets	2,607.4	2,597.3
Total liabilities	1,940.2	1,935.1

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

(C\$ millions, unless otherwise noted)	2025	2024				2023		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Number of days in the period	90	92	92	91	91	92	92	91
Revenue	546.1	539.6	521.1	509.8	479.4	482.3	473.4	466.3
Net income (loss) including non-controlling interest	16.9	(15.4)	19.6	11.7	10.1	18.6	14.8	15.0
Reconciliation of Net income (loss) to Adjusted EBITDA¹								
Net income (loss) including non-controlling interest	16.9	(15.4)	19.6	11.7	10.1	18.6	14.8	15.0
Interest expense and other finance costs	20.9	21.4	18.0	16.9	16.3	18.5	16.7	18.6
Income tax expense	6.4	4.5	5.0	3.6	6.2	2.6	7.1	5.1
Depreciation and amortization	31.9	31.2	28.4	29.2	25.5	27.8	25.3	24.0
Foreign exchange loss (gain)	(0.3)	24.7	(5.3)	3.9	9.4	(8.5)	8.4	(8.9)
Change in amortized cost of Partnership units liability	-	-	-	-	(0.9)	-	-	-
Loss on sale of property, plant and equipment	-	0.4	-	-	0.3	1.9	-	1.1
Restructuring costs, net	-	-	-	-	0.2	0.3	0.1	0.1
Adjusted EBITDA¹	75.8	66.8	65.7	65.3	67.1	61.2	72.4	55.0

¹ Adjusted EBITDA is a non-GAAP financial measure. Refer to the *Non-GAAP Financial Measures* section of this MD&A for more information on these measures.

SHARE INFORMATION

KPT's authorized share capital consists of an unlimited number of KPT Common Shares. As of May 14, 2025, there were 10,000,916 KPT Common Shares issued and outstanding. Pursuant to the Exchange Agreement, Kruger Inc. has the right to exchange Kruger Products Common Shares it holds from time to time for KPT Common Shares on the basis of one Kruger Products Common Share for one KPT Common Share, subject to adjustment as set out in the Exchange Agreement. If Kruger Inc. were to exchange all Kruger Products Common Shares held by it as of May 14, 2025 for KPT Common Shares, it would hold approximately 87.7% of the issued and outstanding KPT Common Shares. As of May 14, 2025, there were no potentially dilutive instruments outstanding.

Pursuant to the Shareholders' Agreement, Kruger Products is authorized to issue an unlimited number of common shares and an unlimited number of Kruger Products Common Shares. As of May 14, 2025, there were 81,084,730 Kruger Products Common Shares issued and outstanding.

RISK FACTORS

For a detailed description of risk factors associated with KPT and Kruger Products, refer to the "Risk Factors" section of the 2024 Annual Information Form dated March 5, 2025 available on SEDAR+ at www.sedarplus.ca. Kruger Products Management is not aware of any significant changes to the risk factors associated with KPT and Kruger Products 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 Kruger Products (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 Accounting Standards.

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 unaudited condensed financial statements and notes of KPT and the unaudited condensed consolidated financial statements and notes of Kruger Products, 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 Q1 2025 that have materially affected, or are reasonably expected to materially affect, its internal controls over financial reporting.

ADDITIONAL INFORMATION

Additional information relating to KPT and Kruger Products, including the Annual Information Form, is available on SEDAR+ at www.sedarplus.ca.