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, 2018

DATED MARCH 6, 2019

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The following Management's Discussion and Analysis (MD&A) dated March 6, 2019 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, 2018 and December 31, 2017, respectively, and the consolidated financial statements of KPLP for the years ended December 31, 2018 (Fiscal 2018) and December 31, 2017 (Fiscal 2017), 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 15.7% interest in KPLP (15.8% as of December 31, 2018). 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 TAD2 Project (as defined below), the anticipated benefits of the TAD2 Project and the expected dates for commencement of construction and production of the TAD2 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 8, 2019 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 TAD2 Project; operational risks; Gatineau Plant land lease; 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; and trade related.

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 TAD2 (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, primarily through its wholly-owned subsidiary TAD Canco Inc. and its subsidiaries. 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 North America. 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 264,000 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 K.T.G. (USA) Inc. (KTG) and 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, 2019, KPT held 15.7% of the KPLP Partnership Units (KPLP Units).

Basis of Presentation

The consolidated financial statements of KPLP presented for Fiscal 2018 and Fiscal 2017 and the Financial statements of KPT presented for the years ended December 31, 2018 and 2017, respectively, have each been prepared in accordance with IFRS (International Financial Reporting Standards).

Accounting Periods

This MD&A includes financial information for the 3-month periods ended December 31, 2018 (Q4 2018) and December 31, 2017 (Q4 2017), respectively, and Fiscal 2018 and Fiscal 2017. Q4 2018 consists of 92 days and Q4 2017 consists of 98 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, and (xi) one-time costs due to pension revaluations related to past service. 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 6.

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 (including the TAD2 Project, see Business Highlights, TAD2 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 three reportable business segments: (i) consumer products sold through traditional retail channels such as grocery stores, mass merchandisers, club stores, drug stores and convenience stores (Consumer), (ii) AFH, and (iii) Other. The Consumer segment includes sales of branded tissue products such as *Cashmere, Purex, Scotties, SpongeTowels, 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. The Other segment includes the sale of parent rolls to other tissue manufacturing companies as well as the sale of recycled fibre. KPLP's current sales focus includes all regions of Canada and the United States. KPLP is partially exposed to fluctuations in the U.S. dollar against the Canadian dollar, as sales made to U.S. customers are made in U.S. dollars. To manage this foreign exchange risk, KPLP has 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 our products, freight, and warehousing and handling costs. Input costs associated with the manufacturing of tissue paper are primarily variable. Fibre, labour, and energy costs are the largest components, representing 50% to 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 has more recently been affected by the competitive market situation at the time of the fluctuation. Periodically, KPLP has historically entered into fibre commodity swap contracts to reduce exposure to fluctuations in this key input cost, and may continue to do so going forward. These historically have not exceeded 15% of total fibre purchases. KPLP is exposed to fluctuations in the U.S. dollar against the Canadian dollar on production inputs, U.S. dollar denominated debt and other operating costs denominated in U.S. dollars. To manage this foreign exchange risk, KPLP has 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 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 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 2018 and Fiscal 2017. 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

TAD2 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 TAD paper machine along with related converting equipment and infrastructure (the TAD2 Project). The TAD2 Project is projected 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 is expected to begin in the spring of 2019 and production is expected to commence in early 2021.

Financing of the TAD2 Project

On November 19, 2018, KPLP announced that it had closed financing transactions to fund the TAD2 Project. The financings include the Project Facility, the KTG Facility, the IQ Debenture and the Nordea2 Credit Facility, as well as a $50 million factoring facility made available to KPLP under a receivables purchase agreement with The Bank of Nova Scotia. KPLP will use funds from the Nordea2 Credit Facility and the factoring facility as well as cash on hand to fund a $125 million equity investment in Kruger Products Sherbrooke Inc. (KPSI), the entity that will construct and operate the TAD2 Project, with half of such investment having occurred upon the closing of the financings and the remainder to be funded over the following two years. Funds from the KTG Facility were used to refinance existing indebtedness of TAD Canco Inc. incurred for the TAD1 project under a credit agreement with Caisse de dépôt et placement du Québec. The Project Facility and the KTG Facility are both non-recourse to KPLP. In connection with the financings, the Senior Credit Facility and the Nordea Credit Facility were amended to, amongst other things, amend certain covenants to increase the amount of permitted debt for borrowed money. See "Liquidity and Capital Resources - Indebtedness".

RESULTS OF OPERATIONS

Results of Operations of KPLP

				$ Change	
(C$ millions, unless otherwise noted)	**Fiscal 2018**	**Fiscal 2017**	**Fiscal 2016**	**Fiscal 2018 vs. Fiscal 2017**	**Fiscal 2017 vs. Fiscal 2016**
Statement of Operations Data:					
Revenue	1,370.4	1,280.0	1,227.9	90.4	52.1
Cost of sales	(1,233.4)	(1,098.1)	(1,031.6)	(135.3)	(66.5)
Selling, general and adminstrative expenses	(87.7)	(90.1)	(92.7)	2.4	2.6
Gain on sale of non-financial assets	0.2	0.1	2.9	0.1	(2.8)
Restructuring costs, net	-	0.2	(0.6)	(0.2)	0.8
Operating income	49.5	92.1	105.9	(42.6)	(13.8)
Interest expense	(48.1)	(42.0)	(44.0)	(6.1)	2.0
Other income (expense)	40.8	(22.0)	(22.8)	62.8	0.8
Income before income taxes	42.2	28.1	39.1	14.1	(11.0)
Income taxes:					
Combined income tax rate after manfacturing and processing credits	(11.2)	(7.3)	(10.2)	(3.9)	2.9
Income tax in partners' hands	15.8	4.9	7.5	10.9	(2.6)
Other	(1.4)	(10.4)	(0.9)	9.0	(9.5)
Income taxes	3.2	(12.8)	(3.6)	16.0	(9.2)
Net income	45.4	15.3	35.5	30.1	(20.2)

(C$ millions, unless otherwise noted)	Fiscal 2018	Fiscal 2017	Fiscal 2016	$ Change Fiscal 2018 vs. Fiscal 2017	$ Change Fiscal 2017 vs. Fiscal 2016
Reconciliation of Adjusted EBITDA to Net income:					
Net income	45.4	15.3	35.5	30.1	(20.2)
Interest expense	48.1	42.0	44.0	6.1	(2.0)
Income taxes	(3.2)	12.8	3.6	(16.0)	9.2
Depreciation and amortization	52.4	52.4	48.5	-	3.9
Foreign exchange (gain) loss	1.5	(1.4)	(0.3)	2.9	(1.1)
Change in amortized cost of Partnership units liability	(41.9)	23.0	23.4	(64.9)	(0.4)
Change in fair value of derivatives	(0.4)	0.4	-	(0.8)	0.4
Loss on sale of property, plant and equipment	0.6	-	0.1	0.6	(0.1)
Gain on sale of non-financial assets	(0.2)	(0.1)	(2.9)	(0.1)	2.8
Restructuring costs, net	-	(0.2)	0.6	0.2	(0.8)
Adjusted EBITDA	102.3	144.2	152.5	(41.9)	(8.3)

Results of Operations Fiscal 2018 compared to Fiscal 2017

Revenue

Revenue was $1,370.4 million in Fiscal 2018 compared to $1,280.0 million in Fiscal 2017, an increase of $90.4 million or 7.1%. The increase in revenue was primarily due to the favourable impact of increased sales volume, and the Consumer Canada price increases implemented in Q4 2017 and Q4 2018, partially offset by the unfavourable foreign exchange fluctuations on U.S. sales (USD average 1.29 in Fiscal 2018 compared to 1.30 in Fiscal 2017). From a geographic perspective, revenue in Mexico increased $34.9 million, or 66.4%, while revenue in Canada increased $29.0 million or 3.7% and revenue in the U.S. increased $26.5 million, or 5.9%.

Cost of Sales

Cost of sales was $1,233.4 million in Fiscal 2018 compared to $1,098.1 million in Fiscal 2017, an increase of $135.3 million or 12.3%. Manufacturing costs increased primarily due to increased sales volume, significantly higher pulp costs, higher costs for sorted office paper, the cost of outsourced manufacturing and increased pension expense. These cost increases were partially offset by the favourable impact of foreign exchange fluctuations on USD denominated costs (USD average 1.29 in Fiscal 2018 compared to 1.30 in Fiscal 2017). The benefits from cost reduction initiatives and capital projects partially offset other manufacturing cost inflation. Freight costs increased primarily due to increased sales volume and higher carrier rates. As a percentage of revenue, cost of sales were 90.0% in Fiscal 2018 compared to 85.8% in Fiscal 2017.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses were $87.7 million in Fiscal 2018 compared to $90.1 million in Fiscal 2017, a decrease of $2.4 million or 2.7%. The decrease was primarily due to lower advertising and promotion expenses partially offset by slightly higher general and administrative expenses. As a percentage of revenue, SG&A expenses were 6.4% in Fiscal 2018 compared to 7.0% in Fiscal 2017.

Adjusted EBITDA

Adjusted EBITDA was $102.3 million in Fiscal 2018 compared to $144.2 million in Fiscal 2017, a decrease of $41.9 million or 29.1%. The decrease was primarily due to significantly higher fibre and freight costs, the cost of outsourced manufacturing and the unfavourable impact of sales mix, partially offset by increased sales volume, the Consumer Canada price increases, and a decrease in advertising and promotion expenses.

Gain on Sale of Non-Financial Assets

During Fiscal 2018, KPLP sold certain timber lands for cash proceeds of $0.3 million. The sale resulted in a gain on non-financial assets of $0.2 million.

Interest Expense

Interest expense was $48.1 million in Fiscal 2018 compared to $42.0 million in Fiscal 2017, an increase of $6.1 million. The increase was primarily due to higher debt levels and an increase in pension interest, partially offset by the favourable impact of foreign exchange and the refinancing of KTG.

Other Income (Expense)

Other income was $40.8 million in Fiscal 2018 compared to other expense of $22.0 million in Fiscal 2017. Other income in Fiscal 2018 was primarily related to a gain resulting from the change in amortized cost of Partnership units liability of $41.9 million (Fiscal 2017 – loss of $23.0 million) and a foreign exchange loss of $1.5 million (Fiscal 2017 – gain of $1.4 million) and. This was partially offset in Fiscal 2018 by the gain resulting from the change in fair value of derivatives of $0.4 million (Fiscal 2017 – loss of $0.4 million).

Income Taxes

An income tax recovery of $3.2 million was recorded in Fiscal 2018 compared to income tax expense of $12.8 million in Fiscal 2017. KPLP is not directly taxable on its Canadian business. The income tax recovery resulted primarily from an operating loss related to the U.S. entities, which was partially offset by a write-down of U.S. state tax credits of $1.2 million. Income tax in partner’s hands was $15.8 million in Fiscal 2018 compared to $4.9 million in Fiscal 2017.

Net Income

Net income was $45.4 million in Fiscal 2018 compared to $15.3 million in Fiscal 2017, an increase of $30.1 million. The increase was primarily due to an increase in the change in amortized cost of Partnership units liability of $64.9 million and a decrease in income taxes of $16.0 million. These items were partially offset by lower Adjusted EBITDA of $41.9 million as discussed above, an increase in interest expense of $6.0 million, and a change in foreign exchange gain (loss) of $2.9 million.

Results of Operations of KPT

(C$ millions, unless otherwise noted)	**Fiscal 2018**	**Fiscal 2017**
Statement of Operations Data:		
Share of income	7.2	2.5
Depreciation of fair value increments	(5.8)	(5.9)
Equity income (loss)	1.4	(3.4)
Dilution gain	0.2	0.2
Income (loss) before income taxes	1.6	(3.2)
Income taxes:		
Current tax (expense) recovery	(0.1)	(0.3)
Deferred tax (expense) recovery	(1.7)	(1.9)
Income taxes	(1.8)	(2.2)
Net loss	(0.2)	(5.4)
Basic loss per share (dollars)	**(0.02)**	**(0.59)**

The financial information presented above is based on KPT's interest in KPLP for Fiscal 2018 and Fiscal 2017. 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, KPLP would typically declare a Tax Distribution on February 28, 2019, related to taxes owing resulting from the taxable income of KPT for Fiscal 2018. However, 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. 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, and (xi) one-time costs due to pension revaluations related to past service. "Consumer Segment Adjusted EBITDA", "AFH Segment Adjusted EBITDA", and "Other Segment Adjusted EBITDA" means in each case the Segment operating income for the referring respective segment of KPLP.

Segment Results

(C$ millions,				Fiscal 2018 vs Fiscal 2017		Fiscal 2017 vs Fiscal 2016	
unless otherwise noted)	Fiscal 2018	Fiscal 2017	Fiscal 2016	$ Change	% Change	$ Change	% Change
Segment Revenue							
Consumer	1,124.5	1,040.4	986.8	84.1	8.1%	53.6	5.4%
AFH	231.1	233.3	227.1	(2.2)	-0.9%	6.2	2.7%
Other	14.8	6.3	14.0	8.5	134.9%	(7.7)	-55.0%
Total segment revenue	1,370.4	1,280.0	1,227.9	90.4	7.1%	52.1	4.2%
Segment Adjusted EBITDA							
Consumer	119.6	138.2	146.4	(18.6)		(8.2)	
AFH	(12.8)	6.2	5.2	(19.0)		1.0	
Other	(4.5)	(0.2)	0.9	(4.3)		(1.1)	
Total Segment Adjusted EBITDA	102.3	144.2	152.5	(41.9)		(8.3)	

Consumer Segment

Fiscal 2018 compared to Fiscal 2017

Consumer segment revenue was $1,124.5 million in Fiscal 2018 compared to $1,040.4 million in Fiscal 2017, an increase of $84.1 million or 8.1%. The increase in revenue was primarily due to the favourable impact of increased sales volume and the Consumer Canada price increases implemented in Q4 2017 and Q4 2018, partially offset by unfavourable foreign exchange fluctuations on U.S. sales (USD average 1.29 in Fiscal 2018 compared to 1.30 in Fiscal 2017). Consumer segment revenue increased in Canada, the U.S. and Mexico.

Consumer Segment Adjusted EBITDA was $119.6 million in Fiscal 2018 compared to $138.2 million in Fiscal 2017, a decrease of $18.6 million. The decrease was primarily due to significantly higher fibre and freight costs, the cost of outsourced manufacturing and the unfavourable impact of sales mix, partially offset by higher volume, the Consumer Canada price increases, and a decrease in advertising and promotion expenses.

AFH Segment

Fiscal 2018 compared to Fiscal 2017

AFH segment revenue was $231.1 million in Fiscal 2018 compared to $233.3 million in Fiscal 2017, a decrease of $2.2 million or 0.9%. The decrease was primarily due to lower sales volume and the unfavourable impact of foreign exchange fluctuations on U.S. sales (USD average 1.29 in Fiscal 2018 compared to 1.30 in Fiscal 2017). AFH segment revenue decreased in Canada and the U.S.

AFH Segment Adjusted EBITDA was a loss of $12.8 million in Fiscal 2018 compared to income of $6.2 million in Fiscal 2017, a decrease of $19.0 million. This decrease was primarily due to significantly higher fibre costs, outsourced paper costs, lower sales volume, and increased freight and warehousing costs.

Other Segment

Fiscal 2018 compared to Fiscal 2017

Other segment revenue was $14.8 million in Fiscal 2018 compared to $6.3 million in Fiscal 2017, an increase of $8.5 million. The increase in revenue was due to increased parent roll sales.

Other Segment Adjusted EBITDA was a loss of $4.5 million in Fiscal 2018 compared to a loss of $0.2 million in Fiscal 2017, a decrease of $4.3 million primarily due to the cost of parent rolls due to fibre cost increases and an increase in corporate costs.

LIQUIDITY AND CAPITAL RESOURCES

Overview

KPLP's principal uses of funds are for operating costs, working capital, capital expenditures and pension contributions (together, the Funding Requirements). To date, KPLP has met the Funding Requirements by using cash generated from operating activities and from borrowings under its various debt facilities. The registered defined benefit pension plans (RDBPP) sponsored by KPLP are currently in a solvency deficiency position, requiring KPLP to make funding contributions over the next ten years. KPLP Management believes that cash generated from operations, together with amounts available under the various debt facilities will be sufficient to meet its future funding requirements. However, KPLP's ability to fund future requirements and its ability to make scheduled payments of interest 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.

As a result of issuing the Senior Unsecured Notes and entering into the sixth amended and restated credit agreement (the Senior Credit Agreement), KPLP increased its borrowing capacity by $25.0 million. Refer to the Indebtedness section below for details regarding new debt facilities, or amendments to existing debt facilities, entered into by KPLP for the year ended December 31, 2018.

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. As of December 31, 2018, the gross amount of eligible trade receivables sold to the Bank of Nova Scotia was $141.9 million. KPLP sold 95% of these trade receivables, net of a dilution factor, for $87.1 million. As of December 31, 2018, the trade receivables sold and uncollected amounted to $30.9 million (December 31, 2017 – nil).

As of December 31, 2018, KPLP was in compliance with all of its financial covenants under all of its outstanding credit facilities. As of December 31, 2018, KPLP had drawn $110.2 million from the $200.0 million committed amount under the Senior Credit Facility, and had $21.3 million of letters of credit outstanding, resulting in $68.5 million available from the credit line, subject to covenant limitations. As of December 31, 2018, KPLP had total liquidity of $178.7 million (December 31, 2017 - $53.3 million) representing cash and cash equivalents and availability under the credit line within the covenant limitations. Total liquidity of $178.7 million includes $129.1 million of cash and cash equivalents held by KPSI and committed to the TAD2 Project.

KPLP is required to operate within certain quarterly financial covenants. To allow for greater operating flexibility and the impact of continuing high pulp prices and foreign exchange fluctuations, KPLP is currently engaged in discussions to obtain an amendment under the Senior Credit Facility to increase the Ratio of Total Net Funded Debt to EBITDA and Senior Secured Net Funded Debt to EBITDA covenants during fiscal 2019. In the event KPLP is not able to obtain the amendment it is seeking, management believes it would be in a position to adjust cash inflows and outflows to manage within the existing covenants.

Typically, approximately $25 million of the annual capital expenditures are related to maintenance projects and the remaining expenditures are focused on growth projects aimed at reducing costs, including 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 $61.5 million in Fiscal 2018, including $26.8 million related to the TAD2 Project. Capital expenditures are expected to be approximately $280 million to $310 million in fiscal 2019, including the TAD2 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.

Cash Flows

				$ Change	
(C$ millions, unless otherwise stated)	**Fiscal 2018**	**Fiscal 2017**	**Fiscal 2016**	**Fiscal 2018 vs. Fiscal 2017**	**Fiscal 2017 vs. Fiscal 2016**
Net cash flows from operating activities	124.3	99.2	142.1	25.1	(42.9)
Net cash flows used in investing activities	(41.9)	(63.9)	(73.0)	22.0	9.1
Net cash flows from (used in) financing activities	85.5	(61.9)	(66.0)	147.4	4.1
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	2.2	(1.1)	(1.1)	3.3	-
Increase (decrease) in cash and cash equivalents	170.1	(27.7)	2.0	197.8	(29.7)
Beginning cash and cash equivalents, net	(0.2)	27.5	25.5	(27.7)	2.0
Ending cash and cash equivalents, net	169.9	(0.2)	27.5	170.1	(27.7)
Bank indebtedness	-	9.0	9.0	(9.0)	-
Ending cash and cash equivalents	169.9	8.8	36.5	161.1	(27.7)

Net Cash Flows from Operating Activities

Net cash from operating activities was $124.3 million in Fiscal 2018 compared to $99.2 million in Fiscal 2017. Cash from operating activities in Fiscal 2018 was primarily driven by Adjusted EBITDA of $102.3 million and cash inflow for working capital of $27.0 million, partially offset primarily by funding of pension and post-retirement benefit plans of $15.2 million and income tax payments of $2.5 million.

Net Cash Flows used in Investing Activities

Net cash used in investing activities was $41.9 million in Fiscal 2018 compared to $63.9 million in Fiscal 2017. Cash used in investing activities related primarily to capital expenditures (including capitalized interest) of $61.5 million in Fiscal 2018 compared to $69.8 million in Fiscal 2017. In addition, government assistance of $19.2 million primarily related to the IQ Debenture was received in Fiscal 2018 compared to $4.6 million in Fiscal 2017.

Net Cash Flows from (used in) Financing Activities

Net cash from financing activities was $85.5 million in Fiscal 2018 compared to cash used in financing activities of $61.9 million in Fiscal 2017. Net cash from financing activities in Fiscal 2018 was primarily due to proceeds from the IQ Convertible Debenture of $87.6 million (net of government grant accounting), the Senior Credit Facility of $50.2 million and the Nordea2 Credit facility of $24.7 million, partially offset by debt repayments related to the Nordea Credit Facility of $8.9 million and Quebec PM8 Loan of $2.8 million, In addition, cash was used for interest paid of $34.4 million, distributions and advances paid of $19.5 million (net of DRIP proceeds) and a payment of deferred financing fees of $18.5 million.

Proceeds from the Senior Unsecured Notes of $125.0 million were used to reduce the outstanding balance under the Senior Credit Facility. KPLP paid $3.0 million for underwriter's fees and related expenses.

Proceeds from the KTG Facility of U.S. $147.0 million were used to repay the outstanding balance under the Caisse Agreement.

Contractual Obligations

(C$ millions, unless otherwise stated)	**Fiscal 2019**	**Fiscal 2020**	**Fiscal 2021**	**Fiscal 2022**	**Fiscal 2023**	**Thereafter**
Contractual obligations:						
Senior Credit Facility, principal repayments	-	-	-	-	-	150.0
Senior Unsecured Notes, principal repayments	-	-	-	-	-	125.0
AgCredit - KTG Facility TLA	-	-	-	4.6	4.6	191.4
IQ Convertible Debenture	-	-	1.4	16.4	16.4	80.8
Quebec PM Loan, principal repayments	4.9	4.9	4.9	4.9	4.9	13.6
Nordea2 Credit Facility, principal repayments	-	-	1.7	3.4	3.4	20.2
Nordea Credit Facility, principal repayments	9.0	-	-	-	-	-
Ontario Loan, principal repayments	-	-	-	1.0	1.0	3.0
Interest expense	37.5	39.4	37.9	37.3	35.9	150.1
Operating lease	20.3	17.4	12.0	10.7	9.1	22.2
Service contracts	5.5	3.6	0.6	-	-	-
Total contractual obligations	77.2	65.3	58.5	78.3	75.3	756.3

KPLP's cash pension contribution for defined benefit pension arrangements in Fiscal 2018 was $12.4 million, while its post-retirement benefits contribution was $2.8 million. In addition, as of December 31, 2018, KPLP had $20.9 million of letters of credit related to pensions outstanding. Pension and post-retirement contributions for Fiscal 2019 are expected to be $17.0 million.

As of December 31, 2018, KPLP had foreign exchange swaps outstanding of nil (December 31, 2017 – $31.5 million) and foreign exchange forwards outstanding of nil (December 31, 2017 – $19.0 million).

KPLP holds interest rate swaps, contracted to fix the interest rate on a notional amount of $100.0 million at December 31, 2018 (December 31, 2017 – nil). 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, 2018, $116.5 million was recorded as a liability in respect of this obligation (December 31, 2017 - $160.3 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.

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 (the Senior Credit Agreement) pursuant to which a senior secured revolving credit facility in a maximum amount of $200 million (reduced from $300 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 April 24, 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., Grupo Tissue De Mexico S de RL de CV, 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 2.875% 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 0.575% 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, including, but not limited to, the maintenance of (i) a ratio of total net funded debt to EBITDA not greater than 4.25 to 1.00, (ii) a ratio of senior secured net funded debt to EBITDA not greater than 3.00 to 1.00, and (iii) an interest coverage ratio of at least 3.00 to 1.00. The financial covenants are calculated on an Adjusted Consolidated Basis (as defined in the Senior Credit Agreement) such that the Unrestricted Credit Parties are accounted for as investments but not consolidated. As such, indebtedness under the AgCredit Agreement and the Unrestricted Subsidiaries' EBITDA are not included in such calculations.

The Senior Credit Agreement contains customary negative covenants of KPLP, including, but not limited to, (i) restrictions on the ability of KPLP and the Restricted Credit Parties to, subject to certain exceptions, grant liens, incur indebtedness, merge or consolidate, amend, restate or otherwise modify the Limited Partnership Agreement, make investments and loans, grant guarantees, make acquisitions, declare, set apart and pay distributions (which does not apply to the Tax Distribution (as defined below) to KPT), reduce capital, sell or otherwise dispose of assets, incur capital expenditures or materially change their business, 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 Facility (as defined below) and the Caisse Facility (as defined below), insolvency, change of control of KPLP or Kruger and enforcement proceedings.

Security and Guarantees

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

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 $125.0 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

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:

Year	Percentage
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, TAD 1 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 pursuant to which the following credit facilities were made available: (i) a U.S. $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) a $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 U.S. $10 million and $12.5 million for five years with floating interest rates and a renewal option (the facility detailed in items (i) to (iii), collectively the TAD2 Project Facility, and (iv) a U.S. $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 TAD2 Project Facility is to partially finance the TAD2 Project. The purpose of the KTG Facility is to repay existing indebtedness of KTG and TAD Canco Inc.

Guarantees

The TAD2 Project Facility and KTG Facility are each guaranteed by each of the borrowers and guarantors. All borrowers and guarantors (as those 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 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 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 TAD2 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.

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 Investissement Québec 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 Investissement Quebec 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 Investissement Quebec, 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.

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 U.S. $48.8 million (the Nordea2 Credit Facility) was made available to KPLP. The Nordea2 Credit Facility is to be used to partially finance the TAD2 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 Nordea 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.

Nordea Credit Agreement

General

KPLP is 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 U.S. $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 matures on December 30, 2019.

Interest Rates and Fees

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

Prepayments and Repayments

The Nordea Credit Facility is repayable in 14 equal consecutive semi-annual installments of principal together with interest commencing on June 28, 2013. Prepayments are allowed subject to a make-whole payment on account of interest losses.

Covenants

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

Events of Default

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

Security and Guarantees

The Nordea Credit Agreement provides for pari passu security and guarantees on the assets and undertaking of KPLP and each Restricted Credit Party, the relationship between the lender and administrative agent under the Nordea Credit Agreement, 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.

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.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

Currency Risk

Currency risk is the risk that KPLP's earnings may fluctuate due to changes in Canadian to U.S. dollar exchange rates, as the financial results are reported in Canadian dollars. KPLP sells certain of its products in U.S. dollars at prevailing U.S. dollar prices. 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, 2018, KPLP had net liabilities denominated in U.S. dollars of $16.0 million (December 31, 2017 – $23.2 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 2018 would have been an increase (decrease) of $0.8 million (Fiscal 2017 – $1.2 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, 2018, KPLP had foreign exchange swaps outstanding of nil (December 31, 2017 – $31.5 million) and foreign exchange forwards outstanding of nil (December 31, 2017 – $19.0 million).

Interest Rate Risk

KPLP's interest rate risk arises from its variable rate debt related to the revolving credit facility. As of December 31, 2018, KPLP had variable rate debts of $109.0 million (December 31, 2017 – $181.1 million). This 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 2.875%.

A 100 basis point increase (decrease) in the market rate of interest would result in a decrease (increase) in net income before tax of $1.1 million.

From time to time, KPLP uses interest rate swaps to manage part of its exposure to movements in interest rates on its credit facilities. KPLP holds interest rate swaps, contracted to fix the interest rate on a notional amount of $100.0 million at December 31, 2018 (December 31, 2017 – nil). The interest rate swaps will mature in the first quarter of 2020.

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, 2018 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.

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, 2018, KPLP had drawn $110.2 million from the $200.0 million committed amount under the Senior Credit Facility entered into on April 24, 2018, maturing in April 2023. KPLP had $21.3 million of letters of credit outstanding, resulting in $68.5 million available from the credit line, subject to covenant limitations. As of December 31, 2018, KPLP had total liquidity of $178.7 million (December 31, 2017 - $53.3 million) representing cash and cash equivalents and availability under the credit line within the covenant limitations. . Total liquidity of $178.7 million includes $129.1 million of cash and cash equivalents held by KPSI and committed to the TAD2 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 $238.9 million as of December 31, 2018 (December 31, 2017 –$190.7 million) are all due for payment within twelve months of the dates of the consolidated statements of financial position.

KPLP is required to operate within certain quarterly financial covenants. To allow for greater operating flexibility and the impact of continuing high pulp prices and foreign exchange fluctuations, KPLP is currently engaged in discussions to obtain an amendment under the Senior Credit Facility to increase the Ratio of Total Net Funded Debt to EBITDA and Senior Secured Net Funded Debt to EBITDA covenants during fiscal 2019. In the event KPLP is not able to obtain the amendment it is seeking, management believes it would be in a position to adjust cash inflows and outflows to manage within the existing covenants.

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, 2018.

TRANSACTIONS WITH RELATED PARTIES

Kruger provides certain management and support services to KPLP, including corporate management and administrative support; accounting and tax support; corporate financing support; corporate treasury support; benefits and human resources support; corporate legal and secretarial, corporate insurance; corporate procurement support; and corporate engineering support. Such services are provided pursuant to a Management Services Agreement. During Fiscal 2018, management fees of $4.3 million (Fiscal 2017 - $4.3 million) were paid to Kruger Inc. for management services provided to KPLP.

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

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

Sales of goods to Kruger during Fiscal 2018 were $0.5 million (Fiscal 2017 – $1.0 million). Sales of goods to subsidiaries of Kruger during Fiscal 2018 were $0.2 million (Fiscal 2017 – $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 during Fiscal 2018 were $7.3 million (Fiscal 2017 - $7.3 million). Purchases of goods and services from subsidiaries of Kruger during Fiscal 2018 were $34.5 million (Fiscal 2017 - $39.3 million). Goods are purchased from Kruger and related parties under normal commercial terms and conditions. These purchases of goods and services are included within cost of sales and SG&A expenses.

OFF BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS

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

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

Partnership Units

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, 2018, $116.5 million was recorded as a liability in respect of this obligation (December 31, 2017 - $160.3 million). As of December 31, 2018, the valuation utilized a discount rate and terminal growth rate of 10.75% and 2.0% (December 31, 2017 – 11.75% 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 $7.7 million and $8.8 million, respectively. The discount rate reflects the risks associated with the business, which operates primarily in Canada.

The Partnership units liability was adjusted during Fiscal 2018 to reflect the current year advances of $1.7 million made to the partners required to allow KPT to make tax installment payments. The gain of $41.9 million recorded during Fiscal 2018 (Fiscal 2017 – loss of $23.0 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, 2018. The change in the discount rate resulted in an increase in the liability of $14.6 million, while the changes in other assumptions resulted in a decrease to the liability of $56.5 million. The decrease resulted primarily from the current level of pulp and freight prices and the unfavourable foreign exchange fluctuations.

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, 2018. KPLP is executing a new marketing plan in support of the indefinite lived trademarks. Recoverable amounts are determined based on management's best estimate of value in use. The estimates of value in use are based on the present value of forecasted future cash flows. Additional assumptions include estimates of the discount rate, forecasted Adjusted EBITDA, growth rates, 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. KPT performed an impairment test as of December 31, 2018, as the continuing high pulp prices and unfavourable foreign exchange fluctuations represented changes in circumstances to indicate that the assets may be impaired. The impairment test indicated there was no impairment as of December 31, 2018.

Income Taxes

The Partnership computes its income taxes in each jurisdiction in which its subsidiaries operate. Estimation of income taxes includes evaluating the recoverability of the deferred tax assets 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, 2018, the Partnership reassessed its ability to utilize the U.S. state tax credits. As a result of this reassessment, a reversal of $1.2 million of the U.S. state tax credits was recorded during Fiscal 2018 (Fiscal 2017 –$2.8 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.

ACCOUNTING CHANGES AND FUTURE ACCOUNTING STANDARDS

Accounting Standards Implemented for the Year Ended December 31, 2018

(i) IFRS 15, Revenue from Contracts with Customers, specifies how and when to recognize revenue as well as requiring entities to provide users of financial statements with some informative, relevant disclosures. KPLP adopted the standard on January 1, 2018 using the modified retrospective approach. The adoption of this standard had no significant impact on the unaudited condensed consolidated financial statements. The application of IFRS 15 resulted in a change in the revenue recognition related to dispensers and related revenue. KPLP recognized a transitional adjustment of $6.3 million, to reduce the balance related to the dispensers recorded in Other long term assets at December 31, 2017, in the deficit on the date of initial application, January 1, 2018. KPT's portion of KPLP's transitional adjustment was $0.7 million net of tax and was recognized in KPT's deficit on January 1, 2018.

(ii) IFRS 9, Financial Instruments. In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments, bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. The adoption of this standard had no significant impact on the consolidated financial statements.

(iii) IFRS 2, Share-based Payments. In June 2016, the IASB issued an amendment to address (i) certain issues related to the accounting for cash settled awards, and (ii) the accounting for equity settled awards that include a "net settlement" feature in respect of employee withholding taxes. The adoption of this standard had no impact on the consolidated financial statements.

(iv) IFRIC 22, Foreign Currency Transactions and Advance Consideration. In November 2016, the IFRS Interpretation Committee issued an interpretation on how to determine the date of the transaction when applying the standard on foreign currency transactions, IAS 21. The interpretation applies where an entity either pays or receives consideration in advance for foreign currency-denominated contracts. The adoption of this standard had no significant impact on the consolidated financial statements.

(v) IAS 40, Investment Property. In December 2016, the IASB issued an amendment to clarify when assets are transferred to, or from, investment properties. The amendment clarified that to transfer to, or from, investment properties there must be a change in use. This change must be supported by evidence. A change in intention, in isolation, is not enough to support a transfer. The adoption of this standard had no impact on the consolidated financial statements.

Future Accounting Standards

The following revised standards and amendments are effective for annual periods beginning on or after January 1, 2019, 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) IFRS 16, Leases. In January 2016, the IASB issued IFRS 16, Leases which replaces the current guidance in IAS 17, Leases. IFRS 16 requires lessees to recognize a right-of-use asset and a lease liability reflecting future lease payments for virtually all lease contracts. IFRS 16 must be applied to an entity's first annual IFRS financial statements for periods beginning on or after January 1, 2019, with early adoption permitted. Management has performed an assessment of IFRS 16 adoption and expects a significant impact on the consolidated financial statements.

As at December 31, 2018, KPLP had non-cancellable operating lease commitments of $91.7 million. Of these commitments, approximately $0.3 million relate to low value leases, which will be recognized on a straight-line basis as expense in the consolidated statement of comprehensive income (loss).

KPLP expects to recognize, on January 1, 2019, a right-of-use asset of approximately $94 million to $100 million and a lease liability of approximately $115 million to $120 million for the remaining lease commitments (after adjustments for prepayments and accrued lease payments recognized as at December 31, 2018). Overall net assets are expected to decrease by approximately $20 million.

KPLP does not expect a significant impact on consolidated net income or cash flow for 2018 as a result of adopting the new standard. Adjusted EBITDA is expected to increase by approximately $15 million to $18 million, as the operating lease payments were included in Adjusted EBITDA in prior reporting periods, while the amortization of the right-of-use assets and interest on the lease liabilities are excluded from this measure in future reporting periods.

Management has configured data systems and information technology to accommodate the requirements of IFRS 16 adoption. Internal controls over financial reporting and business processes impacted by the new standard have been modified and implemented accordingly. The implications on financing and compensation arrangements have also been evaluated and no significant impact is expected. Estimates noted above are subject to change as management completes its review and testing of the implementation of the new standared and systems. Management has elected to adopt IFRS 16 using the full retrospective approach, and has elected not to implement the practical expedients available under the standard.

(ii) 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 would be annual periods beginning on or after January 1, 2019, with early adoption permitted. Management is evaluating the amended standard and has not yet determined the 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 would be annual periods beginning on or after January 1, 2019, with early adoption permitted. The amended standard will not have an impact on the consolidated financial statements.

(iv) IAS 1 and IAS 8, Definition of Material. In October 2018, the IASB issued proposed amendments to clarify and align the definition of the term "material" and provides guidance to help improve consistency in the application of that concept whenever it is used. The amendments form a part of the IASB's Disclosure Initiative, which explores how financial statement disclosures can be improved. The mandatory effective date of IAS 1 and IAS 8 would be annual periods beginning on or after January 1, 2020, with early adoption permitted. Management is evaluating the standard and has not yet determined the impact on the consolidated financial statements.

(v) IFRS 3, Definition of a Business. In October 2018, the IASB issued an amendment aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The mandatory effective date of IFRS 3 would be annual periods beginning on or after January 1, 2020, with early adoption permitted. Management is evaluating the standard and has not yet determined the 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)	December 31, 2018	December 31, 2017
KPT Financial Information		
Total assets	105.3	101.2
Total liabilities	6.6	4.2
KPLP Financial Information		
Total assets	1,504.9	1,299.8
Total liabilities	1,114.4	976.2

SELECTED QUARTERLY FINANCIAL INFORMATION

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

	2018				2017			
(C$ millions, unless otherwise stated)	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Number of days in the period	92	91	91	91	98	91	91	85
Revenue	359.5	348.4	338.8	323.7	340.0	336.3	314.4	289.3
Net income (loss) for the period	38.0	4.2	1.6	1.6	(18.0)	16.5	9.9	6.9
Reconciliation of Net income (loss) to Adjusted EBITDA								
Net income (loss)	38.0	4.2	1.6	1.6	(18.0)	16.5	9.9	6.9
Interest expense	12.2	12.1	12.5	11.3	10.4	10.5	10.8	10.3
Income taxes	(2.0)	(0.6)	0.5	(1.1)	7.8	0.1	2.2	2.7
Depreciation and amortization	13.4	13.0	12.9	13.1	13.3	14.6	12.5	12.0
Foreign exchange (gain) loss	1.3	(0.5)	0.9	(0.2)	0.9	(1.2)	(0.5)	(0.6)
Change in amortized cost of Partnership units liability	(42.6)	-	(2.0)	2.7	18.9	(0.9)	2.5	2.5
Change in fair value of derivatives	(0.2)	0.1	0.3	(0.6)	0.4	-	-	-
Loss on sale of property, plant and equipment	0.2	-	-	0.4	-	-	-	-
Gain on sale of non-financial assets	-	-	-	(0.2)	-	-	(0.1)	-
Restructuring costs, net	-	-	-	-	-	(0.2)	-	-
Adjusted EBITDA	20.3	28.3	26.7	27.0	33.7	39.4	37.3	33.8

Results of Operations Q4 2018 compared to Q4 2017

Revenue

Revenue was $359.5 million in Q4 2018 compared to $340.0 million in Q4 2017, an increase of $19.5 million or 5.7%. The increase in revenue was primarily due to the Consumer Canada selling price increase implemented in Q4 2018, the favourable impact of foreign exchange fluctuations on U.S. sales (USD average 1.32 in Q4 2018 compared to 1.27 in Q4 2017), and increased sales volume in Mexico, partially offset by 6 fewer days of sales in Q4 2018 compared to Q4 2017. From a geographic perspective, revenue increased in Mexico by $8.0 million, or 48.9%, increased in the U.S. by $7.6 million, or 6.3%, and increased in Canada by $3.9 million, or 1.9%.

Cost of Sales

Cost of sales was $328.5 million in Q4 2018 compared to $296.0 million in Q4 2017, an increase of $32.5 million or 11.0%. Manufacturing costs increased primarily due to higher pulp costs, increased sales volume, the cost of outsourced manufacturing, and the unfavourable impact of foreign exchange fluctuations on USD denominated costs (USD average 1.32 in Q4 2018 compared to 1.27 in Q4 2017). The benefits from cost reduction initiatives and capital projects partially offset other manufacturing cost inflation. Freight costs increased primarily due to higher carrier rates and increased sales volume. As a percentage of revenue, cost of sales were 91.4% in Q4 2018 compared to 87.1% in Q4 2017.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses were $24.2 million in Q4 2018 compared to $23.7 million in Q4 2017, an increase of $0.5 million or 2.1%. As a percentage of revenue, SG&A expenses were 6.7% in Q4 2018 compared to 7.0% in Q4 2017.

Adjusted EBITDA

Adjusted EBITDA was $20.3 million in Q4 2018 compared to $33.7 million in Q4 2017, a decrease of $13.4 million. The decrease was primarily due to significantly higher fibre and freight costs, 6 fewer days of sales in Q4 2018 compared to Q4 2017, the cost of outsourced manufacturing, unfavourable sales mix and the net unfavourable impact of foreign exchange fluctuations, partially offset by the Q4 2018 Consumer Canada selling price increase. The benefits from cost reduction initiatives in manufacturing partially offset other cost inflation.

Interest Expense

Interest expense was $12.1 million in Q4 2018 compared to $10.4 million in Q4 2017, an increase of $1.7 million. The increase was primarily due to higher debt levels, an increase in interest rates, and the unfavourable impact of foreign exchange.

Other Income (Expense)

Other income was $41.5 million in Q4 2018 compared to other expense of $20.2 million in Q4 2017. Other income in Q4 2018 was primarily related to the gain resulting from the change in amortized cost of Partnership units liability in Q4 2018 of $42.6 million (Q4 2017 – loss of $18.9 million) and the gain resulting from the change in fair value of derivatives of $0.2 million (Q4 2017 – loss of $0.4 million), partially offset by a foreign exchange loss of $1.3 million (Q4 2017 –$0.9 million).

Income Taxes

An income tax recovery of $2.0 million was recorded in Q4 2018 compared to income tax expense of $7.8 million in Q4 2017. KPLP is not directly taxable on its Canadian business. The income tax recovery resulted primarily from an operating loss related to the U.S. entities. Income tax expense in partner’s hands was $11.6 million in Q4 2018 compared to income tax recovery in partner’s hands of $2.0 million in Q4 2017.

Net Income (Loss)

Net income was $38.0 million in Q4 2018 compared to a net loss of $18.0 million in Q4 2017, an increase of $56.0 million. The increase was primarily due to an increase in the change in amortized cost of partnership units liability of $61.5 million and a change in income taxes of $9.8 million. These items were partially offset by lower Adjusted EBITDA of $13.4 million and an increase in interest expense of $1.8 million.

Segment Information Q4 2018 compared to Q4 2017

(C$ millions, unless otherwise noted)	**Q4 2018**	**Q4 2017**	**Q4 2018 vs. Q4 2017**	
			$ Change	**% Change**
Segment Revenue				
Consumer	295.8	276.4	19.4	7.0%
AFH	58.6	62.2	(3.6)	-5.8%
Other	5.1	1.4	3.7	264.3%
Total segment revenue	359.5	340.0	19.5	5.7%
Segment Adjusted EBITDA				
Consumer	26.4	32.2	(5.8)	
AFH	(4.8)	1.4	(6.2)	
Other	(1.3)	0.1	(1.4)	
Total segment Adjusted EBITDA	20.3	33.7	(13.4)	

Consumer Segment

Q4 2018 compared to Q4 2017

Consumer segment revenue was $295.8 million in Q4 2018 compared to $276.4 million in Q4 2017, an increase of $19.4 million or 7.0%. The increase in revenue was primarily due to the Consumer Canada selling price increase implemented in Q4 2018, increased sales volume in Mexico and the U.S., and the favourable impact impact of foreign exchange fluctuations on U.S. sales (USD average 1.32 in Q4 2018 compared to 1.27 in Q4 2017), partially offset by 6 fewer days of sales in Q4 2018 compared to Q4 2017. Consumer segment revenue increased in all geographic regions.

Consumer Segment Adjusted EBITDA was $26.4 million in Q4 2018 compared to $32.2 million in Q4 2017, a decrease of $5.8 million. The decrease was primarily due to significantly higher fibre and freight costs, 6 fewer days of sales in Q4 2018 compared to Q4 2017, the cost of outsourced manufacturing, and unfavourable sales mix, partially offset by the Q4 2018 Consumer Canada selling price increase.

AFH Segment

Q4 2018 compared to Q4 2017

AFH segment revenue was $58.6 million in Q4 2018 compared to $62.2 million in Q4 2017, a decrease of $3.6 million or 5.8%. The decrease in revenue was primarily due to 6 fewer days of sales in Q4 2018 compared to Q4 2017, partially offset by the favourable impact of foreign exchange fluctuations on U.S. sales (USD average 1.32 in Q4 2018 compared to 1.27 in Q4 2017). AFH segment revenue decreased primarily in Canada.

AFH Segment Adjusted EBITDA was a loss of $4.8 million in Q4 2018 compared to income of $1.4 million in Q4 2017, a decrease of $6.2 million. This decrease was primarily due to 6 fewer days of sales in Q4 2018 compared to Q4 2017 and significantly higher fibre costs, outsourced paper costs, and increased freight and warehousing costs.

Other Segment

Q4 2018 compared to Q4 2017

Other segment revenue was $5.1 million in Q4 2018 compared to $1.4 million in Q4 2017, an increase of $3.7 million. The increase in revenue was primarily due to higher parent roll sales.

Other Segment Adjusted EBITDA was a loss of $1.3 million in Q4 2018 compared to income of $0.1 million in Q4 2017, a decrease of $1.4 million primarily due to higher pulp costs and an increase in corporate costs.

SHARE INFORMATION

KPT's authorized share capital consists of an unlimited number of Common Shares. As of March 6, 2019, there were 9,474,515 Common Shares issued and outstanding. Pursuant to the Exchange Agreement, Kruger has the right to exchange KPLP Units it holds from time to time for Common Shares on the basis of one KPLP Unit for one Common Share, subject to adjustment as set out in the Exchange Agreement. If Kruger were to exchange all KPLP Units held by it as of March 6, 2019 for Common Shares, it would hold approximately 84.3% of the issued and outstanding Common Shares. As of March 6, 2019, 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 6, 2019, there were 60,446,672 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 2018 Annual Information Form dated March 8, 2019 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.

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, 2018, 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, 2018, 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.