



KP TISSUE INC. AND KRUGER PRODUCTS INC.

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

FOR THE 3-MONTHS ENDED MARCH 31, 2023

DATED MAY 11, 2023

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The following Management's Discussion and Analysis (MD&A) dated May 11, 2023 for KP Tissue Inc. (KPT) and Kruger Products Inc. (Kruger Products) is intended to assist the readers in understanding the business environment, strategies, performance and risk factors relating to KPT and Kruger Products. It should be read in conjunction with the financial statements of KPT for the 3-month periods ended March 31, 2023 and March 31, 2022, respectively, and the consolidated financial statements of Kruger Products for the 3-month periods ended March 31, 2023 (Q1 2023) and March 31, 2022 (Q1 2022), respectively.

About KP Tissue Inc.

KPT was created to acquire, and its business is limited to holding, a limited partnership interest in Kruger Products, which is accounted for as an investment in an associate using the equity method of accounting. As of December 31, 2022, KPT held a 13.9% interest in Kruger Products. The following MD&A provides discussion and analysis related to KPT to the extent necessary to understand the equity method of accounting. However, the majority of the discussion and analysis relates to Kruger Products and to KPT's investment in Kruger Products.

On January 1, 2023, Kruger Products L.P. (KPLP) undertook a corporate reorganization (the Reorganization) pursuant to which KPLP sold and assigned to its wholly-owned subsidiary, Kruger Products, and Kruger Products purchased and assumed from KPLP, in exchange for common shares, all of the properties, operations, assets and liabilities of KPLP, and KPLP was subsequently dissolved and wound-up into its partners. As a result of the Reorganization, Kruger Products, as the successor corporate entity to KPLP, now operates the business previously operated by KPLP. Unless the context otherwise requires, references herein to "KPLP" are references to Kruger Products Inc. for the period following the Reorganization. KPT currently holds a 13.5% interest in Kruger Products. Refer to Business Highlights, Corporate Reorganization for additional details.

CAUTIONARY FORWARD LOOKING STATEMENT

Certain statements in this MD&A about KPT's and Kruger Products' current and future plans, expectations and intentions, results, levels of activity, performance, goals or achievements or any other future events or developments constitute forward-looking statements. Forward-looking statements in this MD&A include, but are not limited to, statements regarding the projected capacity of the Sherbrooke Expansion Project (as defined below), the anticipated benefits of the Sherbrooke Expansion Project and the expected cost and dates for commencement of production of the Sherbrooke Expansion Project; Kruger Products' expansion efforts in U.S. premium private label; and Kruger Products' future business strategy and the anticipated benefits of its business strategy. The words "may", "will", "would", "should", "could", "expects", "plans", "intends", "trends", "indications", "anticipates", "believes", "estimates", "predicts", "likely" or "potential" or the negative or other variations of these words or other comparable words or phrases, are intended to identify forward-looking statements. The forward-looking statements are based on certain key expectations and assumptions made by KPT or Kruger Products. Although KPT and Kruger Products believe that the expectations and assumptions on which such forward-looking information is based are reasonable, undue reliance should not be placed on the forward-looking statements since no assurance can be given that such expectations and assumptions will prove to be correct.

Many factors could cause Kruger Products' actual results, level of activity, performance or achievements or future events or developments (which could in turn affect the economic benefits derived from KPT's economic interest in Kruger Products) to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, the following factors, which are discussed in greater detail in the "Risk Factors – Risks Related to Kruger Products' Business" section of the KPT Annual Information Form dated March 9, 2023 available on SEDAR at www.sedar.com (the Annual Information Form): Kruger Inc.'s influence over Kruger Products; Kruger Products' reliance on Kruger Inc.; consequences of an event of insolvency relating to Kruger Inc.; risks associated with the TAD Sherbrooke Project; risks associated with the Sherbrooke Expansion Project; operational risks; significant increases in input costs; reduction in supply of fibre; increased pricing pressure and intense competition; Kruger Products' inability to innovate effectively; adverse economic conditions; dependence on key retail trade customers; damage to the reputation of Kruger Products or Kruger Products' brands; Kruger Products' sales being less than anticipated; Kruger Products' failure to implement its business and operating strategies; Kruger Products' obligation to make regular capital expenditures; Kruger Products entering into unsuccessful acquisitions; Kruger Products' dependence on key personnel; Kruger Products' inability to retain its existing customers or obtain new customers; Kruger Products' loss of key suppliers; Kruger Products' failure to adequately protect its intellectual property rights; Kruger Products' reliance on third party intellectual property licenses; adverse litigation and other claims affecting Kruger Products; material expenditures due to comprehensive environmental

regulation affecting Kruger Products' cash flow; Kruger Products' pension obligations are significant and can be materially higher than predicted if Kruger Products Management's underlying assumptions are incorrect; labour disputes adversely affecting Kruger Products' cost structure and Kruger Products' ability to run its plants; exchange rate and U.S. competitors; Kruger Products' inability to service all of its indebtedness; exposure to potential consumer product liability; covenant compliance; interest rate and refinancing risk; information technology; cyber-security; insurance; internal controls; trade related; and risk related to COVID-19.

These factors are not intended to represent a complete list of the factors that could affect KPT and/or Kruger Products; however, these factors should be considered carefully, and readers should not place undue reliance on forward-looking statements made herein or in the documents reproduced herein. KPT and Kruger Products cannot guarantee future results, levels of activity, performance, or achievements. Moreover, KPT and Kruger Products do not assume responsibility for the accuracy and completeness of the forward-looking statements. KPT and/or Kruger Products' actual results, performance or achievements could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits that KPT and/or Kruger Products will derive therefrom.

To the extent any forward-looking information in this MD&A constitutes future-oriented financial information or financial outlooks within the meaning of securities laws, such information is being provided to demonstrate the potential benefits and readers are cautioned that this information may not be appropriate for any other purpose. Future-oriented financial information and financial outlooks are, without limitation, based on the assumptions and subject to the risks set out above.

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

OVERVIEW

Business Overview

Kruger Products is Canada's leading tissue products supplier by overall dollar and volume market share. It produces, distributes, markets and sells a wide range of disposable tissue products, including bathroom tissue, facial tissue, paper towels and napkins, for both the Consumer and the Away-From-Home (AFH) markets (in each case, as defined below). While its principal focus is on the Canadian consumer-branded tissue products market, Kruger Products is also a leader in the Canadian AFH market and has a considerable presence in the U.S. private label tissue market. The Consumer segment consists of well recognized brands such as *Cashmere*, *Purex*, *Scotties*, *SpongeTowels* and *Bonterra* in Canada and *White Cloud* in the United States.

Kruger Products is headquartered in Mississauga, Ontario and has approximately 2,700 employees across Canada and the United States. Kruger Products' Canadian paper manufacturing facilities, consisting of four tissue plants in Québec and one plant in British Columbia, have a combined annual tissue production capacity of approximately 350,000 metric tonnes which, according to RISI data, represents approximately 44% of Canada's annual production capacity. In the U.S., Kruger Products operates a manufacturing facility in Memphis, Tennessee held in its wholly owned subsidiary K.T.G. (USA) Inc. (KTG), which currently has an aggregate production capacity of 85,000 metric tonnes.

Pursuant to its Articles, KPT's business is limited to (i) the investment in, holding of and disposition of limited partnership interests, units, shares or other securities of Kruger Products, (ii) the acquisition of, holding, operation and disposition of any assets, liabilities, operations or business of such entities, and (iii) all activities related, incidental or ancillary to any of the foregoing.

As of the date of the MD&A and following the Reorganization and participation by Kruger Products' shareholders in the Kruger Products DRIP on April 17, 2023, KPT held 13.5% of the Kruger Products class B common shares (the Kruger Products Common Shares). Refer to Business Highlights, Corporate Reorganization for additional details.

Basis of Presentation

The unaudited condensed consolidated financial statements of Kruger Products presented for Q1 2023 and Q1 2022 and the unaudited condensed financial statements of KPT presented for the 3-month periods ended March 31, 2023 and March 31, 2022, respectively, have each been prepared in accordance with IFRS (International Financial Reporting Standards) for interim financial statements, including IAS 34, Interim Financial Reporting.

Accounting Periods

This MD&A includes financial information for the 3-month periods ended March 31, 2023 (Q1 2023) and March 31, 2022 (Q1 2022), respectively.

Non-GAAP Financial Measures

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

“Adjusted EBITDA” is calculated by Kruger Products as net income (loss) before (i) interest expense and other finance costs, (ii) income taxes, (iii) depreciation, (iv) amortization, (v) impairment (gain on sale) of non-financial assets, (vi) loss (gain) on disposal of property, plant and equipment, (vii) foreign exchange loss (gain), (viii) costs related to restructuring activities, (ix) changes in amortized cost of Partnership units liability, (x) change in fair value of derivatives, (xi) consulting costs related to operational transformation initiatives, (xii) corporate development related costs and (xiii) loss (gain) on sale of shares. We use “Adjusted EBITDA” to evaluate the performance of our business as it reflects its ongoing profitability. This MD&A contains a reconciliation of Adjusted EBITDA to net income (loss), the most comparable GAAP measure, on page 5.

Outlook

Kruger Products is committed to building its consumer brands and developing innovative products for its retail and commercial customers. Kruger Products’ strategy is to maintain its leadership position in the Canadian market. Though the Canadian tissue market is expected to remain competitive, Kruger Products believes that its brands and products are well positioned for continued growth. Kruger Products will aim to sustain its consumer and AFH leadership position in the Canadian tissue industry by driving marketing and sales excellence, extending product lines, continuing to leverage product development and manufacturing technology to drive product superiority and cost savings, and emphasizing manufacturing quality and efficiency.

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

Refer to Business Highlights, Sherbrooke Expansion Project for additional details.

BUSINESS HIGHLIGHTS

Sherbrooke Expansion Project

In 2021, Kruger Products announced an investment totaling \$351.5 million to expand the Sherbrooke operations with a LDC tissue machine and two new production lines as well as the construction of a new tissue manufacturing facility (the Sherbrooke Expansion Project) over the next three years. The first stage of this project, a new bathroom tissue converting line, has been successfully started-up in February 2023. The second stage, the construction of a new tissue manufacturing facility, is well underway and includes a new facial tissue converting line expected to start-up in Q4 2023. The final stage of the project is the LDC paper machine, expected to start-up in Q4 2024 and at maturity increase Kruger Products’ annual

output by at least 60,000 metric tonnes. The cost of the project could be subject to change as a result of inflationary pressures across the supply chain. Management continues to monitor the project to minimize the overall impact.

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

Corporate Reorganization

On January 1, 2023, KPLP undertook a corporate reorganization (the Reorganization) pursuant to which KPLP, a limited partnership, was essentially replaced by a corporate entity without adversely affecting KPT. More specifically, KPLP sold and assigned to its wholly-owned subsidiary, Kruger Products, and Kruger Products purchased and assumed from KPLP, in exchange for common shares, all of the properties, operations, assets and liabilities of KPLP, and KPLP was subsequently dissolved and wound-up into its partners. As a result of the Reorganization, Kruger Products, as the successor corporate entity to KPLP, now operates the business previously operated by KPLP.

The interest that KPT previously held in KPLP is now held in Kruger Products, and, through a shareholders' agreement dated January 1, 2023 entered into with Kruger Inc. (the Shareholders' Agreement), KPT has substantially equivalent rights in respect of the operation of, and its investment in, Kruger Products, as it had in respect of KPLP. The Reorganization was undertaken to realize certain tax efficiencies for Kruger Products and to simplify Kruger Products' corporate structure and financial reporting. The Reorganization was approved by the independent directors of KPT.

The Shareholders' Agreement, and certain other agreements with Kruger Inc. that were amended and restated to reflect the Reorganization, are described in the Annual Information Form, and copies of those agreements are available on SEDAR at www.sedar.com.

Pursuant to the Shareholders' Agreement, the board of directors of Kruger Products shall determine the amount and date of any distribution by way of dividend. The holders of the issued and outstanding Kruger Products Common Shares are entitled to receive dividends if, as and when declared by the board of directors of Kruger Products.

Pursuant to the Shareholders' Agreement, Kruger Products adopted a dividend reinvestment plan (the Kruger Products DRIP), which permits shareholders that elect to participate in the Kruger Products DRIP to automatically reinvest all cash dividends in additional common shares at a price per common share equal to 100% of the five-day weighted average trading price of the common shares prior to the date of payment of the dividend.

Shutdown of Certain Memphis Plant Production Assets

On November 14, 2022, Kruger Products announced that certain older and inefficient production assets would be shut down at its plant in Memphis, Tennessee in January 2023. The plant, operated by Kruger Products' subsidiary KTG, announced the shutdown of production assets including a LDC paper machine and six converting lines. The shutdown of these assets was determined to be in the best interests of operating efficiencies and profitability of the Memphis plant, and high quality facial tissue and premium TAD products will continue to be produced at the plant. Total restructuring costs were \$3.7 million, of which \$2.6 million was recorded in the consolidated statement of comprehensive income in fiscal 2022, with the remaining \$1.1 million recorded in Q1 2023. Following the shutdown, the Memphis manufacturing facility consists of one TAD paper machine (the Memphis TAD Machine) with an aggregate annual capacity of 55,000 metric tonnes and one adjacent Light Dry Crepe (LDC) paper machine with an aggregate annual capacity of 30,000 metric tonnes.

RESULTS OF OPERATIONS

Results of Operations of Kruger Products

(C\$ millions, unless otherwise noted)	Q1 2023	Q1 2022	\$ Change Q1 2023 vs. Q1 2022
Statement of Operations Data:			
Revenue	451.0	398.7	52.3
Cost of sales	(389.0)	(363.8)	(25.2)
Selling, general and administrative expenses	(36.3)	(28.9)	(7.4)
Restructuring costs, net	(1.1)	(0.5)	(0.6)
Operating income	24.6	5.5	19.1
Interest expense and other finance costs	(16.5)	(17.5)	1.0
Other income	0.4	4.3	(3.9)
Income (loss) before income taxes	8.5	(7.7)	16.2
Income taxes:			
Income tax (expense) recovery at statutory rate	(2.4)	2.0	(4.4)
Income tax in partners' hands	-	(0.5)	0.5
Other	(56.2)	7.6	(63.8)
Income taxes	(58.6)	9.1	(67.7)
Net income (loss) including non-controlling interest	(50.1)	1.4	(51.5)
Net loss attributable to non-controlling interest	(0.8)	-	(0.8)
Net income (loss) attributable to Kruger Products	(49.3)	1.4	(50.7)

(C\$ millions, unless otherwise noted)	Q1 2023	Q1 2022	\$ Change Q1 2023 vs. Q1 2022
Reconciliation of Adjusted EBITDA to Net income (loss):			
Net income (loss) including non-controlling interest	(50.1)	1.4	(51.5)
Interest expense and other finance costs	16.5	17.5	(1.0)
Income taxes	58.6	(9.1)	67.7
Depreciation and amortization	24.3	23.1	1.2
Foreign exchange gain	(0.4)	(4.3)	3.9
Restructuring costs, net	1.1	0.5	0.6
Adjusted EBITDA	50.0	29.1	20.9

Results of Operations Q1 2023 compared to Q1 2022

Revenue

Revenue was \$451.0 million in Q1 2023 compared to \$398.7 million in Q1 2022, an increase of \$52.3 million or 13.1%. The increase in revenue was primarily due to the favourable impact of selling price increases implemented across all segments and regions during 2022, along with favourable sales mix and higher sales volume in the AFH business, partially offset by lower sales volume in the Consumer segment. Revenue was also favourably impacted by foreign exchange fluctuations on U.S. dollar sales (USD average 1.35 in Q1 2023 compared to 1.27 in Q1 2022). From a geographic perspective, revenue in Canada increased \$17.9 million or 7.4%, while revenue in the U.S. increased \$34.4 million, or 22.1%.

Cost of Sales

Cost of sales was \$389.0 million in Q1 2023 compared to \$363.8 million in Q1 2022, an increase of \$25.2 million or 6.9%. While the significant inflation experienced during 2022 appears to be moderating on a sequential basis, manufacturing costs increased year-over-year, despite the favourable impact of lower sales volumes and reductions in Memphis plant costs, primarily due to significantly higher pulp and other input costs compared to Q1 2022 along with the unfavourable impact of foreign exchange fluctuations on U.S. dollar costs. Warehousing costs increased as a result of additional logistics network costs while freight rates declined compared to historically high rates in Q1 2022. As a percentage of revenue, cost of sales was 86.3% in Q1 2023 compared to 91.3% in Q1 2022.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses were \$36.3 million in Q1 2023 compared to \$28.9 million in Q1 2022, an increase of \$7.4 million or 25.7%. The increase was primarily due to higher personnel costs. As a percentage of revenue, SG&A expenses were 8.0% in Q1 2023 compared to 7.2% in Q1 2022.

Adjusted EBITDA

Adjusted EBITDA¹ was \$50.0 million in Q1 2023 compared to \$29.1 million in Q1 2022, an increase of \$20.9 million or 71.9%. The increase was primarily due to a combination of factors: selling price increases in 2022, favourable sales mix, Memphis plant manufacturing cost recovery and lower freight rates, which were partially offset by higher pulp prices and other input cost inflation compared to Q1 2022, lower sales volume and higher warehousing and SG&A expenses, along with the unfavourable impact of foreign exchange fluctuations.

Interest Expense and Other Finance Costs

Interest expense and other finance costs were \$16.5 million in Q1 2023 compared to \$17.5 million in Q1 2022, a decrease of \$1.0 million. The decrease was primarily due to the Q1 2022 loss on extinguishment of debt under IFRS related to the refinancing of the CAD\$107 million term loan in KPSI that did not repeat in Q1 2023 and lower pension interest expense, partially offset by higher debt levels and higher interest rates on variable rate debt.

Other Income

Other income was \$0.4 million in Q1 2023 compared to \$4.3 million in Q1 2022. Other income in Q1 2023 was related to a foreign exchange gain on USD denominated debt of \$0.4 million (Q1 2022 – \$4.3 million).

Income Taxes

An income tax expense of \$58.6 million was recorded in Q1 2023 compared to an income tax recovery of \$9.1 million in Q1 2022. Kruger Products Inc. is now directly taxable on its Canadian business as a result of the Reorganization on January 1, 2023 and was operating as limited partnership during Q1 2022 and was not directly taxable on its Canadian business. The income tax expense in Q1 2023 was primarily due to a deferred tax expense of \$58.4 million, which related primarily to the recognition of the deferred tax liability resulting from all temporary differences between the tax value and carrying value of Kruger Product's assets and liabilities transferred in the Reorganization on January 1st. Income tax in partner's hands was an expense of \$0.5 million in Q1 2022.

Net Income (Loss) attributable to Kruger Products

Net loss was \$49.3 million in Q1 2023 compared net income of \$1.4 million in Q1 2022, a decrease of \$50.7 million. The decrease was primarily due to an income tax expense of \$58.6 million in Q1 2023 compared to an income tax recovery of \$9.1 million in Q1 2022 as discussed above, lower foreign exchange gains of \$3.9 million, higher depreciation expense of \$1.2 million and higher restructuring costs of \$0.6 million, partially offset by higher Adjusted EBITDA of \$20.9 million as discussed above, lower interest expense and other finance costs of \$1.0 million and a gain from non-controlling interest

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

of \$0.8 million resulting from the parent company, Kruger Inc., assuming the monthly redemption payments under the KPSI IQ Debenture in Q1 2023.

Results of Operations of KPT

(C\$ millions, unless otherwise noted)	3-month period ended March 31, 2023	3-month period ended March 31, 2022
Statement of Operations Data:		
Share of income (loss)	(6.8)	0.2
Depreciation of fair value increments	(0.3)	(1.3)
Equity loss	(7.1)	(1.1)
Dilution gain	0.3	0.1
Loss before income taxes	(6.8)	(1.0)
Income taxes:		
Deferred tax recovery (expense)	(3.9)	2.0
Income taxes	(3.9)	2.0
Net income (loss)	(10.7)	1.0
Basic earnings (loss) per share (dollars)	(1.07)	0.10

The financial information presented above is based on KPT's interest in Kruger Products for Q1 2023 and Q1 2022. The share of income (loss) relates to KPT's share of income (loss) of Kruger Products. Refer to Results of Operations of Kruger Products above for an explanation of the results. The depreciation of fair value increments relates to adjustments to the carrying amount of certain assets of Kruger Products on its acquisition by KPT. Refer to note 4 in KPT's financial statements for additional details.

The deferred tax recovery (expense) is a result of changes in the temporary differences of Kruger Products' assets and liabilities since acquisition and the difference between the accounting and tax basis for KPT's investment in Kruger Products. Refer to note 5 in KPT's financial statements for additional details.

There was no Tax Distribution declared on February 28, 2023 and the Tax Distribution is not required in future periods as a result of the Reorganization. Refer to Business Highlights, Corporate Reorganization for additional details.

SEGMENT INFORMATION

Segment Operating Income

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

Segment Results

(C\$ millions, unless otherwise noted)	Q1 2023	Q1 2022	Q1 2023 vs Q1 2022	
			\$ Change	% Change
Segment Revenue				
Consumer	376.5	342.8	33.7	9.8%
AFH	74.5	55.9	18.6	33.2%
Total segment revenue	451.0	398.7	52.3	13.1%
Adjusted EBITDA				
Consumer	51.3	35.4	15.9	
AFH	0.9	(3.2)	4.1	
Corporate and other costs	(2.2)	(3.1)	0.9	
Total Adjusted EBITDA	50.0	29.1	20.9	

Consumer Segment

Q1 2023 compared to Q1 2022

Consumer segment revenue was \$376.5 million in Q1 2023 compared to \$342.8 million in Q1 2022, an increase of \$33.7 million or 9.8%. The increase in revenue was due to selling price increases implemented in Canada and the U.S. during 2022, favourable sales mix, and the favourable impact of foreign exchange fluctuations on U.S. dollar sales, partially offset by a decrease in sales volume related to lower consumer demand in the quarter, particularly in the U.S. Consumer segment revenue increased in both Canada and the U.S.

Consumer Segment Adjusted EBITDA was \$51.3 million in Q1 2023 compared to \$35.4 million in Q1 2022, an increase of \$15.9 million. The increase in Adjusted EBITDA was primarily due to the selling price increases, favourable sales mix, Memphis plant manufacturing cost recovery and lower freight rates, partially offset by higher cost of sales as described above in Results of Operations for Q1 2023 along with lower sales volume and higher SG&A expenses.

AFH Segment

Q1 2023 compared to Q1 2022

AFH segment revenue was \$74.5 million in Q1 2023 compared to \$55.9 million in Q1 2022, an increase of \$18.6 million or 33.2%. The increase was primarily due to significantly higher sales volumes in both the U.S. and Canada, selling price increases implemented during 2022 and the favourable impact of foreign exchange fluctuations on U.S. dollar sales. AFH segment revenue increased in both the U.S. and Canada.

AFH Segment Adjusted EBITDA was \$0.9 million in Q1 2023 compared to a loss of \$3.2 million in Q1 2022, an improvement of \$4.1 million. The improvement was primarily due to the favourable impact of sales as described above and lower freight rates, partially offset by increased pulp costs and other inflation compared to Q1 2022 and higher warehousing and SG&A costs.

Corporate and Other Costs

Q1 2023 compared to Q1 2022

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

Corporate and other costs were \$2.2 million in Q1 2023 compared to \$3.1 million in Q1 2022, a decrease of \$0.9 million resulting primarily from foreign exchange gains related to working capital.

LIQUIDITY AND CAPITAL RESOURCES

Overview

Kruger Products' principal uses of funds are for operating costs, working capital, capital expenditures, pension contributions and dividends (together, the Funding Requirements). To date, Kruger Products has met the Funding Requirements by using cash generated from operating activities and the Dividend Reinvestment Plan and borrowings under its various debt facilities. Kruger Products is required to make funding contributions to the sponsored, registered defined benefit pension plans (RDBPP) over the next ten years. Kruger Products Management believes that cash generated from operations and the Dividend Reinvestment Plan, together with amounts available under the various debt facilities will be sufficient to meet its future Funding Requirements. However, Kruger Products' ability to meet future Funding Requirements and its ability to make scheduled payments of interest and principal on its debt facilities and to satisfy any of its other present or future debt obligations will depend on its future operating performance, which will be affected by general economic, financial, and other factors including factors beyond its control. Kruger Products Management reviews investment opportunities in the normal course of its business and may, if suitable opportunities arise, make selected investments to implement Kruger Products' business strategy. Historically, the funding for any such investments has come from cash flows from operations and/or additional debt.

As of March 31, 2023, Kruger Products was in compliance with all of its financial covenants under all of its outstanding credit facilities. As of March 31, 2023, Kruger Products had drawn \$109.8 million from the \$200 million committed amount under the Kruger Products Senior Credit Facility and had \$15.1 million of letters of credit outstanding, resulting in \$75.1 million available from the Kruger Products Senior Credit Facility, subject to covenant limitations. As of March 31, 2023, Kruger Products had two revolving loans available under the TAD Sherbrooke Project Facility, each of which were fully utilized. The US\$10 million (\$13.5 million) revolving loan was fully drawn and the \$12.5 million revolving loan had draws of \$3.6 million and outstanding letters of credit of \$8.9 million, resulting in the revolving loan being fully utilized. As of March 31, 2023, Kruger Products had total liquidity of \$101.3 million (December 31, 2022 - \$133.4 million) representing cash and cash equivalents and availability under the Kruger Products Senior Credit Facility within the covenant limitations. In addition, \$10.7 million (December 31, 2022 - \$29.7 million) of cash and cash equivalents were held by Kruger Products for the Sherbrooke Expansion project.

As it pertains to capital expenditures, approximately \$25 million annually relates to maintenance projects and the remaining expenditures are focused on strategic and growth projects aimed at reducing costs and offsetting annual inflation or increasing production capacity. Regular growth projects focused on performance improvement generally have a 3 to 4 year payback. Capital expenditures were \$34.6 million in Q1 2023, including \$31.8 million related to the Sherbrooke Expansion Project (including interest capitalized during construction) and government assistance received of \$1.3 million. Capital expenditures are expected to be approximately \$200 million to \$230 million in fiscal 2023, including the Sherbrooke Expansion Project.

The tissue industry is generally characterized by high sales volume and rapid turnover of inventories and accounts receivable. In general, accounts receivable and inventories are readily convertible into cash. Investment in working capital may be affected by fluctuations in the prices of pulp and other supply costs, vendor terms and timing of collection of accounts receivable. Kruger Products participates in a factoring program to assist in managing working capital. Under the program, Kruger Products derecognizes certain receivables upon sale.

Cash Flows

(C\$ millions, unless otherwise stated)	Q1 2023	Q1 2022	<u>\$ Change</u>
			Q1 2023 vs. Q1 2022
Net cash flows used in operating activities	(2.9)	(19.2)	16.3
Net cash flows used in investing activities	(34.6)	(16.3)	(18.3)
Net cash flows from (used in) financing activities	3.1	(2.7)	5.8
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	-	(0.3)	0.3
Decrease in cash and cash equivalents	(34.4)	(38.5)	4.1
Beginning cash and cash equivalents, net	71.3	148.5	(77.2)
Ending cash and cash equivalents, net	36.9	110.0	(73.1)

Net Cash Flows used in Operating Activities

Net cash used in operating activities was \$2.9 million in Q1 2023 compared to \$19.2 million in Q1 2022. Cash used in operating activities in Q1 2023 was primarily driven by an increase in working capital of \$51.4 million (Q1 2022 – \$46.5 million), pension and post-retirement benefit contributions above expense of \$0.6 million (Q1 2022 - \$0.5 million) and provisions paid of \$0.7 million (Q1 2022 - \$0.2 million), partially offset by Adjusted EBITDA of \$50.0 million (Q1 2022 - \$29.1 million).

Net Cash Flows used in Investing Activities

Net cash used in investing activities was \$34.6 million in Q1 2023 compared to \$16.3 million in Q1 2022. Cash used in investing activities related to capital expenditures of \$34.6 million (including \$31.8 million for the Sherbrooke Expansion Project) in Q1 2023 compared to \$16.3 million (including \$5.3 million for the TAD Sherbrooke Project and \$6.0 million for the Sherbrooke Expansion Project) in Q1 2022.

Net Cash Flows from (used in) Financing Activities

Net cash from financing activities was \$3.1 million in Q1 2023 compared to net cash used in financing activities of \$2.7 million in Q1 2022. Net cash from financing activities in Q1 2023 was primarily due to proceeds from debt net of repayments of \$26.8 million (Q1 2022 – \$23.4 million), partially offset by interest paid of \$13.7 million (Q1 2022 – \$8.9 million), lease payments of \$6.8 million (Q1 2022 – \$7.0 million), net dividends paid of \$1.7 million (Q1 2022 net distributions – \$7.0 million), deferred financing fees paid of \$0.2 million (Q1 2022 – \$2.1 million) and the change in Restricted cash of \$1.2 million (Q1 2021 – \$1.1 million).

Contractual Obligations

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

As of March 31, 2023, Kruger Products had \$108.0 million (December 31, 2022 – \$121.7 million) of commitments related to the Sherbrooke Expansion Project.

Kruger Products' cash pension contribution for defined benefit pension arrangements in Q1 2023 was \$2.0 million, while its post-retirement benefits contribution was \$0.5 million. In addition, as of March 31, 2023, Kruger Products had \$13.1 million of letters of credit related to pensions outstanding. Pension contributions for fiscal 2023 are expected to be \$10.4 million and post-retirement contributions for fiscal 2023 are expected to be \$2.4 million.

As a result of the Reorganization, the Partnership unit liability was extinguished as the Limited Partnership Agreement was dissolved and the corresponding requirement to make the Tax Distribution was eliminated. The outstanding liability of

\$133.6 million as of January 1, 2023 was reclassified to Equity in the Unaudited Condensed Consolidated Statements of Financial Position. Refer to Business Highlights, Corporate Reorganization for additional details.

The Exchange Agreement was amended and restated on January 1, 2023 to reflect the Reorganization. Pursuant to the Exchange Agreement, KPT has granted Kruger Inc. the right to exchange Kruger Products common shares it holds from time to time for common shares of KPT (the KPT Common Shares) issued by KPT on the basis of one Kruger Products common share for one KPT Common Share, subject to adjustment upon the occurrence of certain events that would result in the indirect economic interest in Kruger Products represented by a KPT Common Share diverging from the direct economic interest in Kruger Products represented by a Kruger Products common share, including splits or consolidations of the KPT Common Shares without a corresponding split or consolidation of the Kruger Products common shares, issuances or repurchases of the KPT Common Shares without corresponding issuances or repurchases of Kruger Products common shares, acquisition of assets by KPT other than Kruger Products common shares or incurrence of liabilities other than ordinary course liabilities, or special distributions by KPT, certain other securities, debt or assets to all shareholders. If at any time the Kruger Inc. aggregate ownership interest is less than 20% in Kruger Products, KPT may require the exchange of all outstanding Kruger Products common shares held by Kruger Inc. or its affiliates in return for KPT Common Shares on the basis of one Kruger Products common share for one KPT Common Share subject to adjustment as set forth above. As of March 31, 2023, no Kruger Products common shares had been exchanged for KPT Common Shares.

The Administration Agreement was amended and restated on January 1, 2023 to reflect the Reorganization. Pursuant to the Administration Agreement, Kruger Products, as administrator (the Administrator) has full power and authority to administer, subject to the general supervision and any specific instructions of the KPT Board, all of the ongoing operations and affairs of KPT in order for KPT to carry on its activities as a public company. The Administrator shall directly bear and pay for all KPT's normal operating expenses incurred in connection with the ordinary course operation of a company that is a reporting issuer. The Administrator may also advance funds to KPT in an amount equal to pay for any expenses of KPT that are outside of such ordinary course expenses, by way of non-recourse, interest-free loans, repayable upon payment by the Administrator of distributions to KPT. As KPT's agent, the Administrator will also bear and pay all outlays and expenses to third parties incurred by the Administrator in the administration of the affairs of KPT and the performance by the Administrator of its duties under the Administration Agreement.

Indebtedness

Agreement Amendments

Certain of Kruger Products' debt agreements were amended effective as of January 1, 2023 in connection with the Reorganization, to stipulate that Kruger Products assumed the obligations and liabilities of KPLP as principal debtor, and KPLP was released and discharged from its obligations and liabilities under the respective debt agreements.

Kruger Products Senior Credit Agreement

Effective as of January 1, 2023, in connection with the Reorganization, Restricted Credit Parties under the Kruger Products Senior Credit Agreement means Kruger Products, Kruger Products Real Estate Holdings Inc., Kruger Products (USA) Inc., Kruger Products AFH G.P. Inc., Kruger Products AFH L.P. and their respective subsidiaries involved in the tissue business but excluding the Unrestricted Credit Parties (which include Kruger Products SB Inc., KTG., K.T.G. US Holdco Inc., 8528365 Canada Inc., KPSI, Kruger Sherbrooke Water Treatment Inc., Community Benefit Partners LLC, 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 Kruger Products Senior Credit Agreement).

KPSI IQ Debenture

Pursuant to a repayment agreement, as amended effective as of January 1, 2023 to reflect the Reorganization, Kruger Products waived its priority right to make the first three monthly redemption payments under the KPSI IQ Debenture during Q1 2023. Accordingly, Kruger Inc. notified Investissement Québec (IQ) that it would make the first three monthly redemption payments of \$4.9 million under the KPSI IQ Debenture during Q1 2023, resulting in Kruger Inc. holding a 3.3% non-controlling interest directly in Kruger Products Sherbrooke Inc. (KPSI), a subsidiary of Kruger Products, as of March 31, 2023. As a result, a gain of \$0.8 million directly attributable to Kruger Inc.'s share of loss in KPSI was recognized as

Net loss attributable to non-controlling interest in the Q1 2023 unaudited condensed consolidated statement of comprehensive income (loss).

Subsequent to March 31, 2023, on April 1, 2023 and May 3, 2023, respectively, Kruger Products waived its priority right to make the corresponding monthly redemption payments under the KPSI IQ Debenture. Also on April 1, 2023 and May 3, 2023, respectively, Kruger Inc. notified IQ that it would make the corresponding monthly redemption payments under the KPSI IQ Debenture.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

Credit Risk

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Kruger Products' financial instruments exposed to credit risk as of March 31, 2023 included cash and cash equivalents, restricted cash, trade and other receivables and receivables from related parties. Kruger Products places its cash and cash equivalents and restricted cash with financial institutions of high creditworthiness.

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

On November 16, 2018, Kruger Products entered into a factoring arrangement with the Bank of Nova Scotia, pursuant to a Receivables Purchase Agreement, as amended by a first amendment agreement dated November 12, 2020, a second amendment agreement dated November 8, 2021, a third amendment agreement dated November 8, 2022 and a fourth amended and restated agreement dated December 15, 2022. As a result, Kruger Products 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. Kruger Products 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. Kruger Products 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. Pursuant to the fourth amendment, the Receivables Purchase Agreement was renewed on a non-committed basis going forward, whereby either party may terminate the Receivables Purchase Agreement at any time subject to a notice period. As eligible trade receivables are sold, Kruger Products 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 and other finance costs 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.

Currency Risk

Currency risk is the risk that Kruger Products' earnings may fluctuate due to changes in Canadian to U.S. dollar exchange rates, as the financial results are reported in Canadian dollars. Kruger Products sells certain of its products in U.S. dollars at prevailing U.S. dollar prices. The currency exposure is more than offset by U.S. dollar costs and expenses and the U.S. dollar denominated debt. Kruger Products is generally a net buyer of U.S. dollars.

As of March 31, 2023, Kruger Products had net liabilities denominated in U.S. dollars of \$430.4 million (March 31, 2022 – \$384.0 million). Assuming the Canadian dollar strengthened (weakened) by 5% against the U.S. dollar, with all other variables held constant, the hypothetical result on net income before tax in Q1 2023 would have been an increase (decrease) of \$21.5 million (Q1 2022 – \$19.2 million).

Liquidity Risk

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

The ability to pay its obligations relies on Kruger Products collecting its trade receivables in a timely manner and by maintaining sufficient cash and cash equivalents in excess of anticipated needs. Kruger Products' trade and other payables of \$254.8 million as of March 31, 2023 (December 31, 2022 – \$279.4 million) are all due for payment within twelve months of the dates of the consolidated statements of financial position.

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

Interest Rate Risk

Kruger Products' interest rate risk arises from its variable rate debt related to the Kruger Products Senior Credit Facility, certain credit facilities made available as part of the TAD Sherbrooke Project Facility and the KPSB Senior Credit Facility. As of March 31, 2023, Kruger Products had variable rate debts of \$126.3 million (December 31, 2022 – \$106.9 million). The Kruger Products Senior Credit Facility bears interest at a base rate of Canadian prime rate, U.S. base rate, banker's acceptance rates, SOFR (as defined in the Kruger Products Senior Credit Agreement) or the applicable benchmark replacement rate, plus an applicable margin varying between 0.20% and 3.50%. The revolving loans of US\$10 million and \$12.5 million made available as part of the TAD Sherbrooke Project Facility bear interest at floating interest rates based on U.S. base rate, Canadian prime rate or CDOR (or the applicable replacement rate) plus an applicable margin. The KPSB Senior Credit Facility bears interest at a base rate of Canadian prime rate, U.S. base rate, LIBOR or the applicable benchmark replacement rate, banker's acceptance rates, plus a margin varying between 1.50% and 3.25%.

A 100 basis point increase (decrease) in the market rate of interest would result in a decrease (increase) in net income before tax of \$1.3 million for Q1 2023.

Commodity Price Risk

Commodity price risk is the risk that future cash flows associated with purchasing required raw materials will fluctuate due to changes in commodity prices, which can be affected by foreign exchange and other trade related risks. Kruger Products is subject to commodity price fluctuations since Kruger Products' main raw material is fibre, which changes price due to market conditions, and therefore can result in periodic earnings volatility in the short term. Historically, the industry has generally been able to mitigate its exposure to commodity price risk over the medium term by passing increases in its supply costs onto its customers through incremental price increases, depending on the supply and demand balance. The ability to eventually pass through the full amount of pulp and other commodity cost increases can be impacted by the competitive market situation. There can be no assurance that the historical ability to pass through increases in costs will continue to occur in the future. From time to time, Kruger Products enters into futures contracts to manage its commodity risk. No such contracts were outstanding as of March 31, 2023 and March 31, 2022.

TRANSACTIONS WITH RELATED PARTIES

Kruger Products and Kruger are parties to a Third Amended and Restated Management Services Agreement dated as of November 15, 2019 with effect as of January 1, 2020 (the Management Services Agreement) pursuant to which Kruger provides certain management and support services to Kruger Products, including corporate management support and administrative support services; accounting and tax support; corporate financing and treasury support; benefits and human resources support services; corporate insurance; corporate procurement services complementary to Kruger Products procurement; project development and management services, corporate development support, environmental support and corporate engineering support services.

During Q1 2023, management fees of \$2.1 million (Q1 2022 – \$2.4 million) were paid to Kruger Inc. for management services provided to Kruger Products.

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

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

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

Sales of goods to Kruger Inc. during Q1 2023 were \$0.02 million (Q1 2022 – \$0.1 million). Sales of goods to subsidiaries of Kruger Inc. during Q1 2023 were \$1.1 million (Q1 2022 – \$1.3 million). Goods are sold based on the price lists in force and terms that would be available to third parties.

Purchases of goods and services from Kruger Inc. during Q1 2023 were \$2.1 million (Q1 2022 - \$2.4 million). Purchases of goods and services from subsidiaries of Kruger Inc. during Q1 2023 were \$11.4 million (Q1 2022 - \$17.9 million).

As of March 31, 2023, obligations of \$5.7 million and \$39.7 million were recorded in the unaudited condensed consolidated statement of financial position as Current and Long-term payable to related party, respectively (December 31, 2022 - \$5.8 million and \$39.0 million). During Q1 2023, the increase in the obligation due to passage of time was \$0.6 million and was recognized as Interest expense and other finance costs in the unaudited condensed consolidated statement of comprehensive income (loss).

OFF BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS

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

CRITICAL ACCOUNTING ESTIMATES

The preparation of the unaudited condensed consolidated financial statements is in accordance with IFRS, which requires Kruger Products Management to make estimates and assumptions that affect the reported amounts and disclosures made in the Kruger Products and KPT financial statements and accompanying notes. Kruger Products Management continually evaluates the estimates and assumptions it uses. These estimates and assumptions are based on Kruger Products Management's historical experience, best knowledge of current events and conditions and activities that Kruger Products 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 Kruger Products' 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 Kruger Products Management. These assumptions include the discount rate, the expected growth rate of health care costs, the rate of compensation increase, retirement ages and mortality rates. These assumptions are reviewed quarterly by Kruger Products Management and Kruger Products' actuaries. The discount rate (based on market rates) and the expected growth rate in health care costs represent the most significant assumptions.

Equity Method of Accounting

The equity method of accounting is being applied by KPT as it relates to its investment in Kruger Products. 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

four of ten seats on the board of directors of Kruger Products, KPT Management has concluded that KPT has the ability to exercise significant influence over Kruger Products.

Impairment Tests

Kruger Products performs annual impairment tests for goodwill, as it relates to the Consumer Canada CGU and indefinite lived trademarks. KPT is required to perform an impairment test on its investment in Kruger Products if there is objective evidence that the investment may be impaired. Under IFRS, KPT and Kruger Products did not perform an impairment test as of March 31, 2023, as there were no events or changes in circumstances to indicate that the assets may be impaired.

Income Taxes

Kruger Products 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. Management exercises judgment to determine the extent to which realization of future taxable benefits is probable, considering factors such as the number of years to include in the forecast period and the history of taxable profits.

As a result of the Reorganization, Kruger Products has recognized certain tax assets and liabilities as well as current and deferred income tax expense, as it has an obligation to pay income taxes. Refer to Business Highlights, Corporate Reorganization for additional details.

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 Kruger Products' 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 Kruger Products.

Leases

The application of IFRS 16 requires a number of critical judgements, including identifying whether a contract (or part of a contract) includes a lease, determining whether it is reasonably certain that an extension or termination option will be exercised, determining whether variable payments are in-substance fixed, establishing whether there are multiple leases in an arrangement, and determining the stand-alone selling price of lease and non-lease components. The application of IFRS 16 also involves a number of key estimates, including estimating the lease term, determining the appropriate rate to discount lease payments, and assessing whether a Right-of-use asset is impaired.

ACCOUNTING CHANGES AND FUTURE ACCOUNTING STANDARDS

Accounting Standards Implemented effective January 1, 2023

In addition to the significant accounting policies disclosed and used in fiscal 2022, the following existing accounting policy became relevant for Q1 2023:

SIC-25, Income taxes – Change in Tax Status of an Entity

A change in the tax status of an entity does not give rise to increases or decreases in amounts recognized outside profit or loss. The current and deferred tax consequences of a change in tax status shall be included in profit or loss for the period, unless those consequences relate to transactions and events that result, in the same or a different period, in a direct credit or charge to the recognized amount of Equity or in amounts recognized in Other comprehensive income (OCI). Those tax consequences that relate to changes in the recognized amount of Equity, in the same or a different period (not included in profit or loss), shall be charged or credited directly to Equity.

Those tax consequences that relate to amounts recognized in OCI shall be recognized in OCI. As a result of the Reorganization, Kruger Products changed its tax status from a limited partnership to a corporation. Kruger Products is, therefore, a tax paying entity and will recognize income tax provisions directly.

The following revised standards and amendments are effective for annual periods beginning on or after January 1, 2023:

- (i) IAS 1, Disclosure of Accounting Policies. In February 2021, the IASB issued amendments to IAS 1 to provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The mandatory effective date was for annual periods beginning on or after January 1, 2023. The amended standard had no impact on the unaudited condensed consolidated financial statements.
- (ii) IAS 8, Accounting Policies, Changes to Accounting Estimates and Errors. In February 2021, the IASB issued amendments to IAS 8 to introduce a new definition of accounting estimates to clarify the distinction between changes in accounting policies and changes in accounting estimates and the correction of errors. The mandatory effective date was for annual periods beginning on or after January 1, 2023. The amended standard had no impact on the unaudited condensed consolidated financial statements.
- (iii) IAS 12, Deferred Tax related to Assets and Liabilities arising from a Single Transaction. In May 2021, the IASB issued amendments to IAS 12 that require an entity to recognize deferred tax on certain transactions such as leases and decommissioning obligations that give rise to equal amounts of taxable and deductible temporary differences on initial recognition. The mandatory effective date was for annual periods beginning on or after January 1, 2023. The amended standard had no impact on the unaudited condensed consolidated financial statements.

Future Accounting Standards

The following revised standards and amendments are effective for annual periods beginning on or after January 1, 2024, and with earlier application permitted. Kruger Products and KPT Management are in the process of assessing the impact of these standards and amendments and have determined that the standards and amendments will not be early adopted:

- (i) IAS 1, Classification of Liabilities as Current or Non-current. In January 2020, the IASB issued an amendment to IAS 1 to clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. In October 2022, the IASB issued an amendment to IAS1, Non-current Liabilities with Covenants, to clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. The 2022 amendments also introduce additional disclosure requirements to improve the information an entity provides when its right to defer settlement of a liability is subject to compliance with covenants within twelve months after the reporting period. The 2022 amendments changed the effective date of the 2020 amendments. The mandatory effective date would be annual periods beginning on or after January 1, 2024, with early adoption permitted. The amended standard is expected to result in additional disclosures in the unaudited condensed consolidated financial statements for non-current liabilities arising from loan arrangements that are subject to covenants to be complied with within twelve months after the reporting period.
- (ii) IFRS 16, Lease Liability in a Sale and Leaseback. In September 2022, the IASB issued amendments to IFRS 16 to clarify how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. The mandatory effective date would be annual periods beginning on or after January 1, 2024, with early adoption permitted. The amended standard is not expected to have an impact on the unaudited condensed consolidated financial statements.

SELECTED QUARTERLY FINANCIAL INFORMATION

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

(C\$ millions, unless otherwise stated)	<u>March 31, 2023</u>	<u>December 31, 2022</u>
KPT Financial Information		
Total assets	72.3	81.7
Total liabilities	2.0	7.7
Kruger Products Financial Information		
Total assets	2,196.7	2,256.8
Total liabilities	1,622.5	1,763.6

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

(C\$ millions, unless otherwise stated)	2023	2022				2021		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Number of days in the period	90	92	92	91	90	92	92	91
Revenue	451.0	458.1	427.0	397.5	398.7	424.1	391.4	339.3
Net income (loss) including non-controlling interest	(50.1)	16.0	(38.8)	(35.5)	1.4	42.3	(9.3)	2.2
Reconciliation of Net income (loss) to								
Adjusted EBITDA								
Net income (loss) including non-controlling interest	(50.1)	16.0	(38.8)	(35.5)	1.4	42.3	(9.3)	2.2
Interest expense and other finance costs	16.5	20.7	18.9	17.4	17.5	22.8	18.7	16.3
Income taxes	58.6	1.8	(3.9)	(4.9)	(9.1)	(43.2)	(4.6)	(3.0)
Depreciation and amortization	24.3	33.0	24.9	21.9	23.1	21.8	23.5	22.2
Foreign exchange (gain) loss	(0.4)	(5.3)	26.0	12.5	(4.3)	(1.3)	8.3	(4.1)
Change in amortized cost of								
Partnership units liability	-	(25.6)	-	-	-	(5.0)	3.5	3.4
Other expense	-	0.1	-	-	-	0.4	-	-
Loss on sale of property, plant and equipment	-	0.1	-	-	-	0.1	-	0.3
Restructuring costs, net	1.1	3.6	0.1	0.4	0.5	0.4	0.2	(0.1)
Consulting costs related to								
operational transformation initiatives	-	-	3.5	-	-	-	-	-
Corporate development related costs	-	-	-	-	-	-	-	0.1
Adjusted EBITDA	50.0	44.4	30.7	11.8	29.1	38.3	40.3	37.3

SHARE INFORMATION

KPT's authorized share capital consists of an unlimited number of KPT Common Shares. As of May 11, 2023, there were 9,953,658 KPT Common Shares issued and outstanding. Pursuant to the Exchange Agreement, Kruger Inc. has the right to exchange Kruger Products common shares it holds from time to time for KPT Common Shares on the basis of one Kruger Products common share for one KPT Common Share, subject to adjustment as set out in the Exchange Agreement. Pursuant to the Asset Purchase Agreement dated as of January 1, 2023, KPLP transferred its rights under the Exchange Agreement to Kruger Products, in connection with the Reorganization (refer to Business Highlights, Corporate Reorganization for additional details). Accordingly, if Kruger Inc. were to exchange all Kruger Products Common Shares held by it as of May 11, 2023 for KPT Common Shares, it would hold approximately 86.5% of the issued and outstanding KPT Common Shares. As of May 11, 2023, there were no potentially dilutive instruments outstanding.

Pursuant to the Shareholders' Agreement, Kruger Products is authorized to issue an unlimited number of common shares and an unlimited number of Kruger Products Common Shares. As of May 11, 2023, there were 73,674,628 Kruger Products Common Shares issued and outstanding.

RISK FACTORS

For a detailed description of risk factors associated with KPT and Kruger Products, refer to the "Risk Factors" section of the 2022 Annual Information Form dated March 9, 2023 available on SEDAR at www.sedar.com. Kruger Products Management is not aware of any significant changes to the risk factors associated with KPT and Kruger Products from those disclosed at that time.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures and Internal Control over Financial Reporting

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

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

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

The Corporations' Audit Committees reviewed this MD&A and the unaudited condensed financial statements and notes of KPT and the unaudited condensed consolidated financial statements and notes of Kruger Products, and the Corporations' Boards of Directors approved these documents prior to their release.

Changes in Internal Controls over Financial Reporting

There have been no changes to the Corporations' internal controls over financial reporting during Q1 2023 that have materially affected, or are reasonably expected to materially affect, its internal controls over financial reporting.

ADDITIONAL INFORMATION

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