



KP TISSUE INC. AND KRUGER PRODUCTS INC.

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

FOR THE FOURTH QUARTER AND FISCAL YEAR ENDED DECEMBER 31, 2024

DATED MARCH 5, 2025

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The following Management's Discussion and Analysis (MD&A) dated March 5, 2025 for KP Tissue Inc. (KPT) and Kruger Products Inc. (Kruger Products) is intended to assist the readers in understanding the business environment, strategies, performance and risk factors relating to KPT and Kruger Products. It should be read in conjunction with the financial statements of KPT for the years ended December 31, 2024 and December 31, 2023, respectively, and the consolidated financial statements of Kruger Products for the years ended December 31, 2024 (Fiscal 2024) and December 31, 2023 (Fiscal 2023), respectively.

About KP Tissue Inc.

KPT was created to acquire, and its business is limited to holding, an equity interest in Kruger Products, which is accounted for as an investment in an associate using the equity method of accounting. As of December 31, 2024, KPT held 12.6% of the Kruger Products Class B Common Shares (the Kruger Products Common Shares). The following MD&A provides discussion and analysis related to KPT to the extent necessary to understand the equity method of accounting. However, the majority of the discussion and analysis relates to Kruger Products and to KPT's investment in Kruger Products.

CAUTIONARY FORWARD LOOKING STATEMENT

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

Many factors could cause Kruger Products' actual results, level of activity, performance or achievements or future events or developments (which could in turn affect the economic benefits derived from KPT's economic interest in Kruger Products) to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, the following factors, which are discussed in greater detail in the "Risk Factors – Risks Related to Kruger Products' Business" section of the KPT Annual Information Form dated March 5, 2025 available on SEDAR+ at www.sedarplus.ca (the Annual Information Form): Kruger Inc.'s influence over Kruger Products; Kruger Products' reliance on Kruger Inc.; consequences of an event of insolvency relating to Kruger Inc.; risks associated with the ownership of the TAD Sherbrooke Project; risks associated with the operation of the TAD Sherbrooke Project; operational risks; significant increases in input costs; reduction in supply of fibre; increased pricing pressure and intense competition; Kruger Products' inability to innovate effectively; adverse economic conditions; dependence on key retail trade customers; damage to the reputation of Kruger Products or Kruger Products' brands; Kruger Products' sales being less than anticipated; Kruger Products' failure to implement its business and operating strategies; Kruger Products' obligation to make regular capital expenditures; Kruger Products entering into unsuccessful acquisitions; Kruger Products' dependence on key personnel; Kruger Products' inability to retain its existing customers or obtain new customers; Kruger Products' loss of key suppliers; Kruger Products' failure to adequately protect its intellectual property rights; Kruger Products' reliance on third party intellectual property licenses; adverse litigation and other claims affecting Kruger Products; material expenditures due to comprehensive environmental regulation affecting Kruger Products' cash flow; Kruger Products' pension obligations are significant and can be materially higher than predicted if Kruger Products Management's underlying assumptions are incorrect; labour disputes adversely affecting Kruger Products' cost structure and Kruger Products' ability to run its plants; exchange rate and U.S. competitors; Kruger Products' inability to service all of its indebtedness; exposure to potential consumer product liability; covenant compliance; interest rate and refinancing risk; information technology; cyber-security; insurance; internal controls; trade related; tax.

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

levels of activity, performance, or achievements. Moreover, KPT and Kruger Products do not assume responsibility for the accuracy and completeness of the forward-looking statements. KPT and/or Kruger Products' actual results, performance or achievements could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits that KPT and/or Kruger Products will derive therefrom.

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

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

OVERVIEW

Business Overview

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

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

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

As of the date of the MD&A and following the Reorganization and participation by Kruger Products' shareholders in the Kruger Products DRIP on January 15, 2025, KPT held 12.5% of the Kruger Products Common Shares. Refer to Business Highlights, Corporate Reorganization for additional details.

Basis of Presentation

The consolidated financial statements of Kruger Products presented for Fiscal 2024 and Fiscal 2023 and the financial statements of KPT presented for the years ended December 31, 2024 and 2023, respectively, have each been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards).

Accounting Periods

This MD&A includes financial information for the 3-month periods ended December 31, 2024 (Q4 2024) and December 31, 2023 (Q4 2023), respectively, and Fiscal 2024 and Fiscal 2023.

Non-GAAP Financial Measures

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

“Adjusted EBITDA” is calculated by Kruger Products as net income (loss) before (i) interest expense and other finance costs, (ii) income taxes, (iii) depreciation, (iv) amortization, (v) loss on sale of non-financial assets, (vi) loss (gain) on disposal of property, plant and equipment, (vii) foreign exchange loss (gain), (viii) costs related to restructuring activities and (ix) changes in amortized cost of Partnership units liability. We use “Adjusted EBITDA” to evaluate the performance of our business as it reflects its ongoing profitability. This MD&A contains a reconciliation of Adjusted EBITDA to net income (loss), the most comparable GAAP measure, on page 6.

Outlook

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

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

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

Factors Affecting the Results of Operations

Revenue

Kruger Products generates revenue on the sale of branded, private label and AFH tissue products in Canada and the United States. Revenue is reported on a net basis, after deducting rebates and allowances. Kruger Products’ 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.

Kruger Products has two reportable business segments: (i) consumer products sold through traditional retail channels such as grocery stores, mass merchandisers, club stores, drug stores and convenience stores (Consumer) and (ii) AFH. The Consumer segment includes sales of branded tissue products such as *Cashmere*, *Purex*, *Scotties*, *SpongeTowels*, *Bonterra* and *White Cloud*. AFH sells commercial tissue products primarily through distributors to businesses involved in property management, health care, food service, manufacturing and lodging, and to other public facilities. Certain management overhead costs not directly attributable to the business segments are reported as Corporate and other costs.

Kruger Products’ current sales focus includes all regions of Canada and the United States. Kruger Products 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, Kruger Products may enter into foreign exchange swaps and foreign exchange forwards.

Cost of Sales

Cost of sales includes fixed and variable costs to manufacture Kruger Products' 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 and demand, there has historically been an ability to pass along fluctuations to end customers and consumers. However, the ability to pass through the full amount of pulp cost increases may be affected by the competitive market situation at the time of the fluctuation. Kruger Products has historically entered into fibre commodity contracts to reduce exposure to fluctuations in this key input cost and may continue to do so going forward. Kruger Products has historically targeted commodity contracts to cover almost all total fibre purchases. Kruger Products 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, Kruger Products may enter into foreign exchange swaps and foreign exchange forwards. 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 the availability of transportation assets have been favourably impacted as supply constraints and inflation have moderated.

Selling, General and Administrative Expenses

Kruger Products' 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, logistics and customer service, finance, information technology, product development, legal, human resources, executive administration and other corporate expenses. It also includes foreign exchange gains and losses realized during the period.

Interest Expense and Other Finance Costs

Interest expense and other finance costs are derived from the financing activities of Kruger Products. Kruger Products is a borrower under certain credit facilities. Kruger Products also records amortization related to deferred financing fees, interest expense on lease liabilities and interest costs related to pensions and post-retirement benefits in interest expense and other finance costs.

Other Income (Expense)

Other income (expense) includes foreign exchange gains and losses related to U.S. dollar denominated debt and other items deemed to be non-operational in nature.

Income Taxes

As a result of the Reorganization (refer to Business Highlights, Corporate Reorganization for additional details), Kruger Products' tax status changed from a limited partnership to a corporation. Kruger Products is, as of January 1, 2023 therefore, a tax paying entity and recognizes income tax provisions directly. The income taxes recorded in the consolidated financial statements of Kruger Products for Fiscal 2024 relate to the income taxes for its incorporated subsidiaries in the U.S. and Canada.

BUSINESS HIGHLIGHTS

Sherbrooke Expansion Project

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

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.

RESULTS OF OPERATIONS

Results of Operations of Kruger Products

(C\$ millions, unless otherwise noted)	\$ Change				
				Fiscal 2024 vs.	Fiscal 2023 vs.
	Fiscal 2024	Fiscal 2023	Fiscal 2022	Fiscal 2023	Fiscal 2022
Statement of Operations Data:					
Revenue	2,049.9	1,873.0	1,681.4	176.9	191.6
Cost of sales	(1,721.7)	(1,571.6)	(1,547.3)	(150.1)	(24.3)
Selling, general and administrative expenses	(178.2)	(167.2)	(124.6)	(11.0)	(42.6)
Restructuring costs, net	(0.2)	(1.6)	(4.6)	1.4	3.0
Operating income	149.8	132.6	4.9	17.2	127.7
Interest expense and other finance costs	(72.5)	(70.3)	(74.5)	(2.2)	4.2
Other income (expense)	(31.9)	9.4	(3.4)	(41.3)	12.8
Income (loss) before income taxes	45.4	71.7	(73.0)	(26.3)	144.7
Income taxes:					
Income tax expense					
at statutory rate	(11.8)	(18.6)	19.0	6.8	(37.6)
Income tax in partners' hands	-	-	1.2	-	(1.2)
Other	(7.6)	(54.8)	(4.1)	47.2	(50.7)
Income tax expense	(19.4)	(73.4)	16.1	54.0	(89.5)
Net income (loss) including non-controlling interest	26.0	(1.7)	(56.9)	27.7	55.2
Net income (loss) attributable to non-controlling interest	2.2	3.6	-	(1.4)	3.6
Net income (loss) attributable to Kruger Products	23.8	(5.3)	(56.9)	29.1	51.6

(C\$ millions, unless otherwise noted)	\$ Change				
				Fiscal 2024 vs.	Fiscal 2023 vs.
	Fiscal 2024	Fiscal 2023	Fiscal 2022	Fiscal 2023	Fiscal 2022
Reconciliation of Adjusted EBITDA¹ to Net income (loss):					
Net income (loss) including non-controlling interest	26.0	(1.7)	(56.9)	27.7	55.2
Interest expense and other finance costs	72.5	70.3	74.5	2.2	(4.2)
Income tax expense	19.4	73.4	(16.1)	(54.0)	89.5
Depreciation and amortization	114.2	101.4	102.9	12.8	(1.5)
Foreign exchange loss (gain)	32.8	(9.4)	28.9	42.2	(38.3)
Change in amortized cost of Partnership unit liability	(0.9)	-	(25.6)	(0.9)	25.6
Loss on sale of non-financial assets	-	-	0.1	-	(0.1)
Loss on disposal of property, plant and equipment	0.6	3.0	0.1	(2.4)	2.9
Restructuring costs, net	0.2	1.6	4.6	(1.4)	(3.0)
Consulting costs related to operational transformation initiatives	-	-	3.5	-	(3.5)
Adjusted EBITDA¹	264.8	238.6	116.0	26.2	122.6

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

Results of Operations Fiscal 2024 compared to Fiscal 2023

Revenue

Revenue was \$2,049.9 million in Fiscal 2024 compared to \$1,873.0 million in Fiscal 2023, an increase of \$176.9 million or 9.4%. The increase in revenue was primarily due to higher sales volume and selling prices across both segments. Revenue was also favourably impacted by foreign exchange fluctuations on U.S. dollar sales (USD average 1.37 in Fiscal 2024 compared to 1.35 in Fiscal 2023). From a geographic perspective, revenue in Canada increased \$50.4 million or 4.7%, while revenue in the U.S. increased \$126.5 million, or 15.7%.

Cost of Sales

Cost of sales was \$1,721.7 million in Fiscal 2024 compared to \$1,571.6 million in Fiscal 2023, an increase of \$150.1 million or 9.6%. The increase in cost of sales was primarily due to higher sales volume and higher manufacturing overhead costs due primarily to start-up costs related to the Sherbrooke Expansion Project, partially offset by lower pulp prices compared to the year ago. In addition, Fiscal 2024 cost of sales was impacted by the labour disruption that also led to additional outsourcing activity compared to Fiscal 2023. Warehousing costs also increased as a result of handling costs related to higher sales volume and logistics network costs. As a percentage of revenue, cost of sales was 84.0% in Fiscal 2024 compared to 83.9% in Fiscal 2023.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses were \$178.2 million in Fiscal 2024 compared to \$167.2 million in Fiscal 2023, an increase of \$11.0 million or 6.6%. The increase was primarily due to additional investment in advertising and promotion, consulting and legal costs to support operational and corporate initiatives, higher selling expense to support additional sales volume and higher IT spend, partially offset by foreign exchange gains in Fiscal 2024 compared to losses in Fiscal 2023 and higher losses on the sale of fixed assets in Fiscal 2023. As a percentage of revenue, SG&A expenses were 8.7% in Fiscal 2024 compared to 8.9% in Fiscal 2023.

Adjusted EBITDA

Adjusted EBITDA¹ was \$264.8 million in Fiscal 2024 compared to \$238.6 million in Fiscal 2023, an increase of \$26.2 million or 11.0%. The increase was primarily due to higher sales volumes, selling prices and favourable sales mix along with lower pulp prices, partially offset by higher manufacturing costs as described above and higher warehousing costs and SG&A expenses.

Interest Expense and Other Finance Costs

Interest expense and other finance costs were \$72.5 million in Fiscal 2024 compared to \$70.3 million in Fiscal 2023, an increase of \$2.2 million. The increase was primarily due to interest expense related to the Sherbrooke Expansion Project along with higher interest expense related to pensions and leases, partially offset by higher interest income and lower utilization of the Kruger Products Senior Credit Facility.

Foreign Exchange Loss (Gain)

Foreign exchange loss was \$31.9 million in Fiscal 2024 compared to a gain of \$9.4 million in Fiscal 2023 due to the unfavourable impact of foreign exchange fluctuations on USD denominated debt. The foreign exchange gains and losses were recorded in Other expense (income) in the consolidated statements of income (loss).

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.

Income Taxes

An income tax expense of \$19.4 million was recorded in Fiscal 2024 compared to \$73.4 million in Fiscal 2023. The income tax expense in Fiscal 2024 resulted from taxable income in Kruger Product's incorporated operating entities in the U.S. and Canada, the majority of which represents deferred income tax expense. The income tax expense in Fiscal 2023 was primarily due to a deferred tax expense of \$70.8 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 1, 2023.

Net Income (Loss) attributable to Kruger Products

Net income was \$23.8 million in Fiscal 2024 compared to a net loss of \$5.3 million in Fiscal 2023, an improvement in net income of \$29.1 million. The improvement was primarily due to higher Adjusted EBITDA¹ of \$26.2 million, lower income tax expense of \$54.0 million, lower losses on the sale of fixed assets of \$2.4 million, lower restructuring costs of \$1.4 million and a lower loss from non-controlling interest of \$1.4 million, partially offset by higher foreign exchange losses of \$42.2 million, higher depreciation expense of \$12.8 million and higher interest expense and other finance costs of \$2.2 million.

Results of Operations of KPT

(C\$ millions, unless otherwise noted)

Statement of Operations Data:

	Fiscal 2024	Fiscal 2023
Share of income (loss)	3.0	(0.7)
Depreciation of fair value increments	(1.1)	(1.2)
Equity income (loss)	1.9	(1.9)
Dilution gain	0.6	1.1
Income (loss) before income taxes	2.5	(0.8)
Income taxes:		
Current tax recovery	(0.1)	(0.2)
Deferred tax expense	-	(3.9)
Income taxes	(0.1)	(4.1)
Net income (loss)	2.4	(4.9)
Basic earnings (loss) per share (dollars)	0.24	(0.50)

The financial information presented above is based on KPT's interest in Kruger Products for Fiscal 2024 and Fiscal 2023. The share of income (loss) relates to KPT's share of income (loss) of Kruger Products. Refer to Results of Operations of Kruger Products above for an explanation of the results. The depreciation of fair value increments relates to adjustments to the carrying amount of certain assets of Kruger Products on its acquisition by KPT. Refer to note 5 in KPT's financial statements for additional details.

The deferred tax expense in Fiscal 2023 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 6 in KPT's financial statements for additional details.

SEGMENT INFORMATION

Segment Operating Income

Segment operating income is the earnings (loss) for each such segment before (i) interest expense and other finance costs, (ii) income taxes, (iii) depreciation, (iv) amortization, (v) loss on sale of non-financial assets, (vi) loss (gain) on disposal of property, plant and equipment, (vii) foreign exchange loss (gain), (viii) costs related to restructuring activities and (ix) changes in amortized cost of Partnership units liability. “Consumer Segment Adjusted EBITDA¹” and “AFH Segment Adjusted EBITDA¹” means in each case the Segment operating income for the referring respective segment of Kruger Products.

Segment Results

(C\$ millions, unless otherwise noted)	Fiscal 2024	Fiscal 2023	Fiscal 2022	Fiscal 2024 vs Fiscal 2023		Fiscal 2023 vs Fiscal 2022	
				\$ Change	% Change	\$ Change	% Change
Segment Revenue							
Consumer	1,708.1	1,551.2	1,394.1	156.9	10.1%	157.1	11.3%
AFH	341.8	321.8	287.3	20.0	6.2%	34.5	12.0%
Total segment revenue	2,049.9	1,873.0	1,681.4	176.9	8.6%	191.6	11.4%
Adjusted EBITDA¹							
Consumer	249.3	230.3	117.4	19.0		112.9	
AFH	28.6	20.8	7.4	7.8		13.4	
Corporate and other costs	(13.1)	(12.5)	(8.8)	(0.6)		(3.7)	
Total Adjusted EBITDA ¹	264.8	238.6	116.0	26.2		122.6	

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

Consumer Segment

Fiscal 2024 compared to Fiscal 2023

Consumer segment revenue was \$1,708.1 million in Fiscal 2024 compared to \$1,551.2 million in Fiscal 2023, an increase of \$156.9 million or 10.1%. The increase in revenue was due to higher sales volume in the U.S., and higher selling prices across the Consumer segment. Revenue was also favourably impacted by foreign exchange fluctuations on U.S. dollar sales. Consumer segment revenue increased in both Canada and the U.S.

Consumer Segment Adjusted EBITDA¹ was \$249.3 million in Fiscal 2024 compared to \$230.3 million in Fiscal 2023, an increase of \$19.0 million. The increase in Adjusted EBITDA¹ was primarily due to higher sales volumes, selling prices and favourable sales mix along with lower pulp prices, partially offset by higher manufacturing overhead costs as described above and higher warehousing and SG&A expenses.

AFH Segment

Fiscal 2024 compared to Fiscal 2023

AFH segment revenue was \$341.8 million in Fiscal 2024 compared to \$321.8 million in Fiscal 2023, an increase of \$20.0 million or 6.2%, primarily due to higher selling prices. AFH segment revenue increased in both the U.S. and Canada.

AFH Segment Adjusted EBITDA¹ was \$28.6 million in Fiscal 2024 compared to \$20.8 million in Fiscal 2023, an increase of \$7.8 million. The increase was primarily due to higher selling prices along with lower fibre costs and warehousing expense, partially offset by additional outsourcing activity compared to Fiscal 2023.

Corporate and Other Costs

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

Fiscal 2024 compared to Fiscal 2023

Corporate and other costs were \$13.1 million in Fiscal 2024 compared to \$12.5 million in Fiscal 2023, an increase of \$0.6 million.

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.

On March 22, 2024, Kruger Products entered into the ninth amended and restated credit agreement to increase the Kruger Products Senior Credit Facility to \$325.0 million from \$200.0 million. On December 30, 2024, the credit limit was reduced to \$230.0 million.

As of December 31, 2024, Kruger Products was in compliance with all of its financial covenants under all of its outstanding credit facilities. As of December 31, 2024, Kruger Products had made no draws from the \$230 million committed amount under the Kruger Products Senior Credit Facility and had \$9.6 million of letters of credit outstanding, resulting in \$220.4 million available from the Kruger Products Senior Credit Facility, subject to covenant limitations. As of December 31, 2024, Kruger Products had two revolving loans available under the TAD Sherbrooke Project Facility. The US\$10 million (\$14.4 million) revolving loan (KTG) had no draws and the \$12.5 million revolving loan (KPSI) had no draws and outstanding letters of credit of \$5.7 million, resulting in \$21.2 million available from the revolving loans. As of December 31, 2024, KPSB had drawn \$2.9 million from the \$5 million committed amount under the KPSB Revolving Facility and had \$2.1 million of letters of credit outstanding, resulting in \$0.0 million available from the KPSB Revolving Facility, subject to covenant limitations. As of December 31, 2024, Kruger Products had total liquidity of \$344.6 million (December 31, 2023 - \$326.7 million) representing cash and cash equivalents and availability under the Kruger Products Senior Credit Facility, the revolving loans available under the TAD Sherbrooke Project Facility and the KPSB Revolving Facility within the covenant limitations. In addition, \$16.6 million (December 31, 2023 - \$14.9 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

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.

year payback. Capital expenditures were \$185.5 million in Fiscal 2024, including \$137.4 million related to the Sherbrooke Expansion Project (including interest capitalized during construction). Capital expenditures are expected to be approximately \$80 million to \$100 million in Fiscal 2025, including the Sherbrooke Expansion Project.

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

Cash Flows

(C\$ millions, unless otherwise noted)	Fiscal 2024	Fiscal 2023	Fiscal 2022	\$ Change	
				Fiscal 2024 vs. Fiscal 2023	Fiscal 2023 vs. Fiscal 2022
Net cash flows from operating activities	212.1	344.3	38.7	(132.2)	305.6
Net cash flows used in investing activities	(185.5)	(182.8)	(115.6)	(2.7)	(67.2)
Net cash flows used in financing activities	(46.9)	(95.9)	(2.5)	49.0	(93.4)
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	4.0	(1.2)	2.2	5.2	(3.4)
Increase (decrease) in cash and cash equivalents	(16.3)	64.4	(77.2)	(80.7)	141.6
Beginning cash and cash equivalents, net	135.7	71.3	148.5	64.4	(77.2)
Ending cash and cash equivalents, net	119.4	135.7	71.3	(16.3)	64.4

Net Cash Flows from Operating Activities

Net cash from operating activities was \$212.1 million in Fiscal 2024 compared to \$344.3 million in Fiscal 2023. Cash from operating activities in Fiscal 2024 was primarily driven by Adjusted EBITDA¹ of \$264.8 million (Fiscal 2023 - \$238.6 million), partially offset by an increase in working capital of \$58.6 million (Fiscal 2023 – decrease of \$110.2 million), pension and post-retirement benefit contributions below expense of \$7.8 million (Fiscal 2023 - \$0.1 million above expense), net income tax payments of \$3.8 million (Fiscal 2023 - \$1.8 million), and provisions paid of \$3.7 million (Fiscal 2023 - \$4.3 million).

Net Cash Flows used in Investing Activities

Net cash used in investing activities was \$185.5 million in Fiscal 2024 compared to \$182.8 million in Fiscal 2023. Cash used in investing activities related primarily to capital expenditures of \$185.5 million (including \$137.4 million for the Sherbrooke Expansion Project) in Fiscal 2024 compared to \$185.4 million (including \$148.4 million for the Sherbrooke Expansion Project) in Fiscal 2023.

Net Cash Flows from (used in) Financing Activities

Net cash used in financing activities was \$46.9 million in Fiscal 2024 compared to \$95.9 million in Fiscal 2023. Net cash used in financing activities in Fiscal 2024 was primarily due to interest paid of \$54.7 million (Fiscal 2023 – \$49.4 million), lease payments of \$36.2 million (Fiscal 2023 – \$30.8 million), the change in Restricted cash of \$35.9 million (Fiscal 2023 - \$5.3 million), net dividends paid of \$25.4 million (Fiscal 2023 – \$7.0 million), payment to related party of \$5.8 million (Fiscal 2023 – \$5.7 million), and deferred financing fees paid of \$4.5 million (Fiscal 2023 - \$0.9 million), partially offset by proceeds from debt net of repayments of \$115.5 million (Fiscal 2023 – \$3.2 million).

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

Contractual Obligations

(C\$ millions, unless otherwise stated)	Fiscal 2025	Fiscal 2026	Fiscal 2027	Fiscal 2028	Thereafter	Total
Contractual obligations:						
Senior Unsecured Notes due April 9, 2029, principal repayments	-	-	-	-	135.0	135.0
Senior Unsecured Notes due November 1, 2031, principal repayments	-	-	-	-	135.0	135.0
AgCredit Term A Credit Facility, principal repayments	4.8	13.6	14.3	15.0	150.5	198.2
AgCredit Term B Credit Facility, principal repayments	-	15.2	19.3	20.2	205.0	259.7
AgCredit Term D Credit Facility, principal repayments	17.0	31.7	11.8	12.5	44.8	117.8
KPSI IQ Debenture, principal repayments	16.7	16.7	16.7	14.7	-	64.8
KPSB IQ Debenture, principal repayments	-	2.5	9.9	9.9	52.7	75.0
Nordea2 Credit Facility, principal repayments	8.2	8.2	8.2	8.2	8.2	41.0
IQ Bathroom Tissue Loan, principal repayments	1.1	6.8	6.8	6.8	25.2	46.8
KPSB Senior Credit Facility, principal repayments	3.0	11.9	13.8	18.0	111.6	158.2
IQ Facial Tissue Loan, principal repayments	2.8	5.6	5.6	5.6	23.6	43.0
Quebec PM Loan, principal repayments	-	-	0.7	1.0	2.6	4.3
Ontario Loan, principal repayments	0.5	0.5	-	-	-	1.0
KPSB Revolver, principal repayments	-	2.9	-	-	-	2.9
Interest payments	61.1	58.7	55.3	49.1	129.1	353.3
Right-of-use lease payments	35.7	38.5	41.9	38.6	94.5	249.3
Contribution Undertaking Agreement, Contributions	5.8	5.8	5.8	5.8	23.2	46.4
Service contract payments	17.1	4.6	3.1	2.3	32.2	59.3
Total contractual obligations	173.8	223.2	213.2	207.7	1,173.2	1,991.0

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

As of December 31, 2024, Kruger Products had \$2.7 million (December 31, 2023 – \$50.1 million) of commitments related to the Sherbrooke Expansion Project.

Kruger Products' cash pension contribution for defined benefit pension arrangements in Fiscal 2024 was \$2.3 million, while its post-retirement benefits contribution was \$2.2 million. In addition, as of December 31, 2024, Kruger Products had \$7.7 million of letters of credit related to pensions outstanding. Pension contributions for Fiscal 2025 are expected to be \$2.7 million and post-retirement contributions for Fiscal 2025 are expected to be \$2.2 million.

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 December 31, 2024, 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 of 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

Kruger Products Senior Credit Agreement

On March 22, 2024, Kruger Products entered into the ninth amended and restated credit agreement to increase the Kruger Products Senior Credit Facility to \$325.0 million from \$200.0 million. On December 30, 2024, the credit limit was reduced to \$230.0 million.

Senior Unsecured Notes

On November 1, 2024, Kruger Products issued \$135 million in an aggregate principal amount of 6.625% Senior Unsecured Notes (the "Notes") due November 1, 2031 through a private placement (the "Offering"). Interest on the Notes is payable semi-annually in arrears on May 1 and November 1 of each year, commencing on May 1, 2025.

On November 12, 2024, Kruger Products used the net proceeds of the Offering to fully redeem KPI's outstanding 6.00% Senior Unsecured Notes due April 24, 2025.

AgCredit Agreement

During Fiscal 2024, US\$25.7 million was deposited in the KPSI Dedicated Account, of which US\$5.1 million was used to prepay the Term D Credit Facility.

On June 26, 2024, the borrowers entered into the seventh amendment to the AgCredit Agreement for the implementation of interest rate benchmark transition, including the replacement of CDOR loans with CORRA loans.

KPSI IQ Debenture

Pursuant to the KPSI Repayment Agreement, Kruger Products waived its priority right to make the first three monthly redemption payments in 2024 and the twelve payments in 2023 under the KPSI IQ Debenture and Kruger Inc. notified Investissement Quebec (IQ) that it would instead make the monthly redemption payments. As consideration, Kruger Inc. received non-voting common shares of Kruger Products Sherbrooke Inc. (KPSI) with a value of \$4.8 million during the 3-month period ended March 31, 2024 (December 31, 2023 - \$19.4 million). The next nine monthly redemption payments were made by Kruger Products during the 9-month period ended December 31, 2024, in exchange for voting common shares of KPSI with a value of \$14.1 million. As a result, Kruger Inc. held a 13.2% non-controlling interest directly in KPSI as of December 31, 2024. Also as of December 31, 2024, a non-controlling interest of \$30.6 million was recorded in the consolidated statement of financial position. The consolidated statement of income (loss) and comprehensive income (loss) for the year ended December 31, 2024 includes a loss of \$2.8 million directly attributable to Kruger Inc's share of income in KPSI. The two monthly redemption payments subsequent to December 31, 2024 were made by Kruger Products.

IQ Gatineau Loan Agreement

On March 5, 2024, Kruger Products announced an investment of \$14.5 million to increase its facial tissue production capacity in Gatineau, Quebec, including commissioning a new facial tissue converting line in November 2023. IQ has agreed to invest \$7.3 million in the project by way of a ten year term loan (IQ Gatineau Loan).

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 December 31, 2024, included cash and cash equivalents, restricted cash, trade and other receivables and receivables from related parties. Kruger Products places its cash and cash equivalents and restricted cash with financial institutions of high creditworthiness.

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

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

Currency Risk

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

As of December 31, 2024, Kruger Products had net liabilities denominated in U.S. dollars of \$371.7 million (December 31, 2023 - \$402.3 million). Assuming the Canadian dollar strengthened (weakened) by 5% against the U.S. dollar, with all other variables held constant, the hypothetical result on income before income taxes for the year ended December 31, 2024 would have been an increase/decrease of \$18.6 million (2023 - \$20.1 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 Company had unused lines of credit available of \$241.7 million as of December 31, 2024 (December 31, 2023 - \$205.9 million). The Company prepares projections to ensure it has sufficient funds to fulfill its obligations. The Company monitors the covenants on its credit facilities in the normal course of business. As of December 31, 2024, the Company was in compliance with all of its financial covenants under all of its outstanding credit facilities. Refinancing risks are minimized by ensuring the Company's lines of credit will not mature for at least two years.

The Company is subject to financial covenants on certain facilities. Compliance with these covenants is a key factor in managing liquidity risk and is dependent on the Company's continued achievement of financial plans. In the event of a breach, lenders have the right to accelerate repayment of outstanding balances. Management monitors its compliance with financial covenants to ensure that appropriate measures are implemented on a timely basis to manage this risk, including the possible impact of ongoing tariffs.

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 \$346.3 million as of December 31, 2024 (December 31, 2023 - \$386.6 million) are all due for payment within twelve months of the dates of the consolidated statements of financial position.

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

Interest Rate Risk

Kruger Products' interest rate risk arises from its variable rate debt related to the Kruger Products Senior Credit Facility, certain credit facilities made available as part of the TAD Sherbrooke Project Facility and the KPSB Senior Credit Facility which bear interest at floating interest rates plus an applicable margin as determined by specific financial ratios in accordance with its credit agreements. As of December 31, 2024, Kruger Products had variable rate debts excluding deferred financing fees of \$161.1 million (December 31, 2023 - \$35.8 million). A 100 basis point increase (decrease) in the market rate of interest would result in an increase (decrease) in net income before tax of \$1.6 million on an annual basis.

Commodity Price Risk

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

TRANSACTIONS WITH RELATED PARTIES

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

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

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

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

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

(C\$ millions, unless otherwise noted)	<u>Fiscal 2024</u>	<u>Fiscal 2023</u>
Sales of goods to Kruger Inc.	0.2	0.1
Sale of goods to subsidiaries of Kruger Inc	4.2	4.3
Purchases of goods from Kruger Inc.	0.4	0.5
Purchases of goods and services from subsidiaries of Kruger Inc.	62.8	42.9
Management fees to Kruger Inc.	10.6	8.3

During Fiscal 2024, in connection with the contribution undertaking agreement, Kruger Products made its annual payment of \$5.8 million to Kruger Brompton L.P., a subsidiary of Kruger Inc. Also, during Fiscal 2024, the increase in Fiscal 2024 in the obligation due to passage of time was \$2.1 million and was recognized as Interest expense and other finance costs in the consolidated statement of income (loss).

OFF BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS

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

CRITICAL ACCOUNTING ESTIMATES

The preparation of the consolidated financial statements is in accordance with IFRS Accounting Standards, 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 KPGP, KPT Management has concluded that KPT has the ability to exercise significant influence over Kruger Products.

Impairment Tests

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units (CGUs), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each CGU or group of CGUs to which the goodwill is allocated represents the lowest level within Kruger Products at which the goodwill is monitored for internal management purposes. The carrying value of the CGU is compared to the recoverable amount, which is the higher of the value in use and the fair value less costs to sell. Additional assumptions include estimates of the discount rate, growth rates and selling price to customer. Any goodwill impairment is recognized immediately as an expense and is not subsequently reversed. Management completed the annual impairment test for goodwill related to the Consumer Canada CGU, utilizing future forecasts, and concluded that the recoverable amount exceeded the carrying amount as of December 31, 2024, and no impairment was recorded.

Impairment reviews for indefinite lived trademarks are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. For the purpose of impairment testing, recoverable amounts related to indefinite lived trademarks are determined based on management's best estimate using a relief from royalty model. The estimates of relief from royalty are based on the royalties that would have to be paid based on market royalty rates and projected sales volumes. Additional assumptions include estimates of the discount rate, growth rates, selling price to customer and foreign exchange rates. Management completed the annual impairment test for indefinite lived trademarks and concluded that current and projected sales volumes support the recoverable amount of the indefinite lived trademarks as of December 31, 2024, and no impairment was recorded.

The carrying values of non-financial assets with finite lives, such as property, plant and equipment and intangible assets with finite useful lives are assessed for impairment whenever events or changes in circumstances indicate their carrying amounts may not be recoverable. Where indicators of impairment are identified, an impairment test is performed to determine the recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use (which is the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Non-financial assets other than goodwill that have suffered an impairment are reviewed for possible reversal of the impairment at each reporting date. As of December 31, 2024, there were no indicators of impairment and as a result no need to perform impairment testing.

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. Management concluded the future forecasts that support the investment value had not changed significantly and therefore there was no indication of impairment.

Income Taxes

Estimation of income taxes includes evaluating the recoverability of the deferred tax assets and the income taxes recoverable 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. During Fiscal 2024, Kruger Products assessed the ability to utilize its U.S. State tax credits, net operating loss carry-forwards and additional Quebec net operating loss carry-forwards.

Leases

The application of IFRS Accounting Standards 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 Accounting Standards 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 Standard Implemented effective January 1, 2024

- (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 IAS 1, 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 was for annual periods beginning on or after

January 1, 2024. The amended standard resulted in additional disclosures in the 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) IAS 12, Global Implementation of Pillar Two. In June 2024, the principal components of Canada's Pillar Two global minimum tax rules were enacted into law. The rules are generally effective as of January 1, 2024, and are intended to ensure that multinational enterprises pay a minimum of 15% tax in each jurisdiction in which they operate. In May 2023, the IASB issued amendments to IAS 12 Income Taxes to provide temporary relief from accounting and disclosure for deferred taxes arising from the implementation of Pillar Two rules. Kruger Products retrospectively adopted this amendment during the year ended December 31, 2023 and has applied the exception to recognizing and disclosing information regarding Pillar Two deferred income tax assets and liabilities.

Accounting Standard Issued but not yet Implemented

- (iii) IFRS 18, Presentation and Disclosure in Financial Statements. In April 2024, the IASB issued IFRS 18 to achieve comparability of the financial performance of similar entities. The standard, which replaces IAS 1, impacts the presentation of primary financial statements and notes, mainly the income statement where companies will be required to present separate categories of income and expense for operating, investing, and financing activities with prescribed subtotals for each new category. IFRS 18 will require management-defined performance measures to be explained and included in a separate note within the consolidated financial statements. The mandatory effective date would be for annual reporting periods beginning on or after January 1, 2027, including interim financial statements, and requires retrospective application. Kruger Products is currently assessing the impact of the new standard.
- (iv) Amendments to IFRS 9 and IFRS 7 - Amendments to the Classification and Measurement of Financial Instruments. On May 30, 2024, the IASB issued amendments to IFRS Accounting Standards 9 and IFRS Accounting Standards 7 aimed at improving the classification and measurement of financial instruments. The recent amendments simplify financial reporting by allowing earlier recognition of liabilities settled via electronic payments, clarifying the assessment of cash flows for basic lending arrangements, and refining definitions for non-recourse features and linked instruments. The amendments also introduce more detailed disclosure requirements for fair value changes in equity instruments and mandate reporting of terms that could affect cash flow timings or amounts. The amendment will be effective from January 1, 2026 and entities must apply these amendments retrospectively, with earlier adoption permitted. Kruger Products is currently assessing the impact of the amendments.
- (v) IFRS 8, Operating Segments. In July 2024, IFRIC published an agenda decision that addresses which items listed in IFRS 8 must be disclosed even when they are not separately reviewed by the chief operation decision maker. The agenda decision also provides guidance on how to identify the additional material items that IFRS 8 requires to be disclosed. The Company is currently assessing the impact of these new updates.

SELECTED ANNUAL FINANCIAL INFORMATION

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

(C\$ millions, unless otherwise noted)	December 31, 2024	December 31, 2023
KPT Financial Information		
Total assets	71.3	70.6
Total liabilities	1.8	2.3
Kruger Products Financial Information		
Total assets	2,597.3	2,325.6
Total liabilities	1,935.1	1,712.0

SELECTED QUARTERLY FINANCIAL INFORMATION

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

(C\$ millions, unless otherwise noted)	2024				2023			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Number of days in the period	92	92	91	91	92	92	91	90
Revenue	539.6	521.1	509.8	479.4	482.3	473.4	466.3	451.0
Net income (loss) including non-controlling interest	(15.4)	19.6	11.7	10.1	18.6	14.8	15.0	(50.1)
Reconciliation of Net income (loss) to Adjusted EBITDA¹								
Net income (loss) including non-controlling interest	(15.4)	19.6	11.7	10.1	18.6	14.8	15.0	(50.1)
Interest expense and other finance costs	21.4	18.0	16.9	16.3	18.5	16.7	18.6	16.5
Income tax expense	4.5	5.0	3.6	6.2	2.6	7.1	5.1	58.6
Depreciation and amortization	31.2	28.4	29.2	25.5	27.8	25.3	24.0	24.3
Foreign exchange loss (gain)	24.7	(5.3)	3.9	9.4	(8.5)	8.4	(8.9)	(0.4)
Change in amortized cost of Partnership units liability	-	-	-	(0.9)	-	-	-	-
Loss on sale of property, plant and equipment	0.4	-	-	0.3	1.9	-	1.1	-
Restructuring costs, net	-	-	-	0.2	0.3	0.1	0.1	1.1
Adjusted EBITDA¹	66.8	65.7	65.3	67.1	61.2	72.4	55.0	50.0

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

Results of Operations Q4 2024 compared to Q4 2023

Revenue

Revenue was \$539.6 million in Q4 2024 compared to \$482.3 million in Q4 2023, an increase of \$57.3 million or 11.9%. The increase in revenue was primarily due to higher sales volume, primarily in the U.S., and the favourable impact of the previously announced Consumer selling price increase in Canada. Revenue was also favourably impacted by foreign exchange fluctuations on U.S. dollar sales (USD average 1.40 in Q4 2024 compared to 1.36 in Q4 2023). From a geographic perspective, revenue in Canada increased \$16.5 million or 6.0%, while revenue in the U.S. increased \$40.8 million, or 19.7%.

Cost of Sales

Cost of sales was \$459.3 million in Q4 2024 compared to \$400.5 million in Q4 2023, an increase of \$58.8 million or 14.7%. The increase in cost of sales was primarily due to higher sales volume and pulp prices, additional outsourcing activity compared to Q4 2023, higher manufacturing overhead spend and the unfavourable impact of foreign exchange fluctuations on U.S. dollar costs, partially offset by the favourable impact of overhead cost absorption resulting from higher inventory levels in the quarter. Freight rates were higher compared to Q4 2023, while warehousing costs increased as a result of handling costs. As a percentage of revenue, cost of sales was 85.1% in Q4 2024 compared to 83.0% in Q4 2023.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses were \$45.1 million in Q4 2024 compared to \$50.3 million in Q4 2023, a decrease of \$5.2 million or 10.4%. The decrease was primarily due to lower advertising spend in the quarter, foreign exchange gains in Q4 2024 compared to losses in Q4 2023 and higher losses on the sale of fixed assets in Q4 2023, partially offset by consulting and legal costs to support operational and corporate initiatives. As a percentage of revenue, SG&A expenses were 8.4% in Q4 2024 compared to 10.4% in Q4 2023.

Adjusted EBITDA

Adjusted EBITDA¹ was \$66.8 million in Q4 2024 compared to \$61.2 million in Q4 2023, an increase of \$5.6 million or 9.2%. The increase was primarily due to higher sales volume and selling prices, the favourable impact of overhead cost absorption and lower SG&A expenses, partially offset by additional outsourcing activity, higher manufacturing overhead spend and higher freight and warehousing costs.

Interest Expense and Other Finance Costs

Interest expense and other finance costs were \$21.4 million in Q4 2024 compared to \$18.5 million in Q4 2023, an increase of \$2.9 million. The increase was primarily due to interest expense related to the Sherbrooke Expansion Project along with higher interest expense related to pensions and leases, partially offset by higher interest income.

Foreign Exchange Gain (Loss)

Foreign exchange loss was \$24.7 million in Q4 2024 compared to a gain of \$8.5 million in Q4 2023 related to foreign exchange fluctuations on USD denominated debt. The foreign exchange gains and losses were recorded in Other expense (income) in the consolidated statements of income (loss).

Income Taxes

An income tax expense of \$4.5 million was recorded in Q4 2024 compared to \$2.6 million in Q4 2023. The income tax expense in Q4 2024 and Q4 2023 resulted from taxable income in Kruger Product's incorporated operating entities in the U.S. and Canada, the majority of which represents deferred income tax expense.

Net Income (Loss) attributable to Kruger Products

Net loss was \$13.7 million in Q4 2024 compared to net income of \$16.5 million in Q4 2023, a decrease of \$30.2 million. The decrease was primarily due to a higher foreign exchange loss of \$33.2 million, higher depreciation expense of \$3.3 million and higher interest expense and other finance costs of \$2.9 million, partially offset by higher Adjusted EBITDA¹ of \$5.6 million, higher income from non-controlling interest of \$3.1 million, lower income tax expense of \$2.2 million and lower losses on the sale of fixed assets of \$1.5 million.

Segment Information Q4 2024 compared to Q4 2023

(C\$ millions, unless otherwise noted)	Q4 2024	Q4 2023	Q4 2024 vs Q4 2023	
			\$ Change	% Change
Segment Revenue				
Consumer	452.7	400.9	51.8	12.9%
AFH	86.9	81.4	5.5	6.8%
Total segment revenue	539.6	482.3	57.3	11.9%
Adjusted EBITDA¹				
Consumer	64.0	59.8	4.2	
AFH	4.6	5.7	(1.1)	
Corporate and other costs	(1.8)	(4.3)	2.5	
Total Adjusted EBITDA ¹	66.8	61.2	5.6	

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

Consumer Segment

Q4 2024 compared to Q4 2023

Consumer segment revenue was \$452.7 million in Q4 2024 compared to \$400.9 million in Q4 2023, an increase of \$51.8 million or 12.9%. The increase in revenue was due to higher sales volume, primarily in the U.S., and the favourable impact of the previously announced Consumer selling price increase in Canada. Revenue was also favourably impacted by foreign exchange fluctuations on U.S. dollar sales. Consumer segment revenue increased in both Canada and the U.S.

Consumer Segment Adjusted EBITDA¹ was \$64.0 million in Q4 2024 compared to \$59.8 million in Q4 2023, an increase of \$4.2 million. The increase was primarily due to higher sales volume and a price increase, partially offset by higher pulp prices and higher manufacturing overhead spend along with higher freight rates, warehousing expenses and SG&A expenses.

AFH Segment

Q4 2024 compared to Q4 2023

AFH segment revenue was \$86.9 million in Q4 2024 compared to \$81.4 million in Q4 2023, an increase of \$5.5 million or 6.8%, primarily due to higher selling prices. AFH segment revenue increased in both the U.S. and Canada.

AFH Segment Adjusted EBITDA¹ was \$4.6 million in Q4 2024 compared to \$5.7 million in Q4 2023, a decrease of \$1.1 million. The decrease was primarily due to additional outsourcing activity compared to Q4 2023 and higher pulp prices, partially offset by higher selling prices and lower manufacturing overhead expenses.

Corporate and Other Costs

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

Q4 2024 compared to Q4 2023

Corporate and other costs were \$1.8 million in Q4 2024 compared to \$4.3 million in Q4 2023, a decrease of \$2.5 million resulting primarily from higher foreign exchange gains related to working capital compared to the year ago quarter and higher start-up costs related to the Sherbrooke Expansion Project in Q4 2023.

SHARE INFORMATION

KPT's authorized share capital consists of an unlimited number of KPT Common Shares. As of January 15, 2025, there were 9,994,203 KPT Common Shares issued and outstanding. Pursuant to the Exchange Agreement, Kruger Inc. has the right to exchange Kruger Products Common Shares it holds from time to time for KPT Common Shares on the basis of one Kruger Products Common Share for one KPT Common Share, subject to adjustment as set out in the Exchange Agreement. If Kruger Inc. were to exchange all Kruger Products Common Shares held by it as of January 15, 2025 for KPT Common Shares, it would hold approximately 87.5% of the issued and outstanding KPT Common Shares. As of January 15, 2025, there were no potentially dilutive instruments outstanding.

Pursuant to the Shareholders' Agreement, Kruger Products is authorized to issue an unlimited number of common shares and an unlimited number of Kruger Products Common Shares. As of January 15, 2025, there were 80,273,344 Kruger Products Common Shares issued and outstanding.

RISK FACTORS

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

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures and Internal Control over Financial Reporting

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

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

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

The Corporations' Audit Committees reviewed this MD&A and the financial statements and notes of KPT and the 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 Q4 2024 that have materially affected, or are reasonably expected to materially affect, its internal controls over financial reporting.

Management's Report on Disclosure Controls and Procedures

Management, under the supervision of and with the participation of the Corporations' CEO and CFO, evaluated the effectiveness of the Corporations' disclosure controls and procedures (as defined under National Instrument 52-109) and concluded, as of December 31, 2024, 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, 2024, 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 Kruger Products, including the Annual Information Form, is available on SEDAR+ at www.sedarplus.ca.