

KP TISSUE INC.
MATERIAL CHANGE REPORT
FORM 51-102F3

Item 1. Name and Address of Company

KP Tissue Inc. (“**KPT**”)
1900 Minnesota Court, Suite 200
Mississauga, Ontario L5N 5R5

Item 2. Date of Material Change

The material change described in this report occurred on November 19, 2018.

Item 3. News Release

A news release regarding the material change described below was filed on SEDAR and disseminated via the facilities of a recognized news service on November 19, 2018.

Item 4. Summary of Material Change

On November 19, 2018, KPT announced that Kruger Products L.P. (“**KPLP**”) and certain of its subsidiaries have closed financing transactions (the “**Financings**”) to fund the previously announced TAD2 Project of \$575 million in the Brompton area of Sherbrooke, Quebec, to build a new, state-of-the-art tissue plant featuring Canada’s largest and most modern TAD paper machine along with related converting equipment and infrastructure. Furthermore, the existing debt related to the Memphis TAD1 Project was also refinanced with more favourable terms and conditions.

Item 5.1 Full Description of Material Change

On November 19, 2018, KPT announced that Kruger Products L.P. (“**KPLP**”) and certain of its subsidiaries have closed financing transactions to fund the previously announced TAD2 Project of \$575 million in the Brompton area of Sherbrooke, Quebec, to build a new, state-of-the-art tissue plant featuring Canada’s largest and most modern TAD paper machine along with related converting equipment and infrastructure. Furthermore, the existing debt related to the Memphis TAD1 Project was also refinanced with more favourable terms and conditions.

The Financings include credit facilities in aggregate amounts of US\$198 million and \$123.5 million (the “**Project Facility**”) and US\$147 million (the “**KTG Facility**”) made available to certain subsidiaries of KPLP under a credit agreement with American AgCredit FLCA, as administrative agent, and National Bank of Canada, as Canadian administrative agent; the issuance of a \$105 million convertible debenture by Kruger Products Sherbrooke Inc. (“**KPSI**”), the entity that will construct and operate the TAD2 Project, to Investissement Québec (“**IQ**”); a senior secured credit facility (the “**Nordea 2 Facility**”) in an amount of US\$48.8 million made available to KPLP under a credit agreement with Nordea Bank Abp, filial i Sverige, as original lender and administrative agent; and a \$50 million factoring facility (the “**Factoring Facility**”) made available to

KPLP under a receivables purchase agreement with The Bank of Nova Scotia. The package of TAD2 Project financing for the entire \$575 million investment is expected to have a weighted average cost of capital in the 5-7% range.

KPLP will use funds from the Nordea 2 Facility and the Factoring Facility as well as cash on hand to fund a \$125 million equity investment in KPSI, with half of such investment having occurred upon the closing of the Financings and the remainder to be funded over the following two years. Funds from the KTG Facility have been used to refinance existing indebtedness of TAD Canco Inc. incurred for the TAD1 project under a credit agreement with Caisse de dépôt et placement du Québec. The Project Facility and the KTG Facility are both non-recourse to KPLP.

In connection with the Financings, the Sixth Amended and Restated Credit Agreement between KPLP and National Bank of Canada, acting as administrative agent, and the Fourth Amended and Restated Credit Agreement with Nordea Bank Abp, filial i Sverige, acting as administrative agent, have been amended to, amongst other things, amend certain covenants to increase the amount of permitted debt for borrowed money.

Project Facility

- US\$188 million term loan repayable by December 31, 2036;
 - Quarterly principal instalment payments commencing March 31, 2026;
 - Fixed interest rate based on farm credit system cost of funds plus applicable margin set at time of each tranche draw;
- •\$111 million term loan repayable by December 31, 2025;
 - Quarterly principal instalment payments commencing March 31, 2022;
 - Floating interest rate based on CDOR plus applicable margin;
- Revolving loans of US\$10 million and \$12.5 million for five years with floating interest rates and a renewal option.

KTG Facility

- US\$147 million term loan repayable by December 31, 2036;
- Quarterly principal instalment payments commencing March 31, 2022;
- 7.3% maximum fixed interest rate;
- Loan repayable after a three-year lock-out period.

Debenture

- \$105 million principal amount 10-year convertible debenture issued by KPSI to IQ;

- 3% fixed capitalized interest rate;
- Redeemed on a monthly basis commencing 36 months from the date of issuance (which payments KPSI undertakes to cause KPLP or Kruger Inc. to make), failing which IQ will have a conversion right on terms of conversion that would provide IQ with a 48% equity interest in KPSI if the entirety of the debenture were so converted;
- Pursuant to a repayment agreement (the “**Repayment Agreement**”) between Kruger Inc., KPLP, KPSI and IQ, KPLP has, at its discretion, a priority right to make any required monthly redemption payment to IQ. The party which makes the redemption payment will receive common shares of KPSI as consideration for such payment. Pursuant to the Repayment Agreement, if Kruger Inc. makes all of the redemption payments, it will hold approximately 48% of KPSI.

Nordea 2 Facility

- US\$48.8 million senior secured term loan facility in KPLP;
- Semi-annual principal instalment payments starting at the latest on August 28, 2021;
- All outstanding amounts will be payable on August 31, 2029;
- 3.74% fixed interest rate.

Factoring Facility

- Sale of all eligible accounts receivable owing by certain key customers of KPLP to The Bank of Nova Scotia up to a facility limit of \$50 million;
- Committed two year term, renewable for additional one-year periods.
- Floating interest rate based on CDOR plus applicable margin;

Item 5.2 Disclosure for Restructuring Transactions

Not applicable.

Item 6. Reliance on Subsection 7.1(2) of National Instrument 51-102

Not applicable.

Item 7. Omitted Information

Not applicable.

Item 8. Executive Officer

François Paroyan
General Counsel and Corporate Secretary
Tel.: 905.812.6936

Item 9. Date of Report

November 29, 2018.

Forward-Looking Statements

Certain statements in this material change report about KPT's and KPLP's current and future plans, expectations and intentions, results, levels of activity, performance, goals or achievements or any other future events or developments constitute forward-looking statements. Forward-looking statements in this material change report include, but are not limited to, items such as: the potential construction of the TAD2 Project and its cost, the use of proceeds from the Financing and the cost of capital under the Financings. The words "may", "will", "would", "should", "could", "expects", "plans", "intends", "trends", "indications", "anticipates", "believes", "estimates", "predicts", "likely" or "potential" or the negative or other variations of these words or other comparable words or phrases, are intended to identify forward-looking statements. The forward-looking statements are based on certain key expectations and assumptions made by KPT or KPLP, including expectations and assumptions concerning the on-time and on-budget construction of TAD2. Although KPT and KPLP believe that the expectations and assumptions on which such forward-looking information is based are reasonable, undue reliance should not be placed on the forward-looking statements since no assurance can be given that such expectations and assumptions will prove to be correct. Many factors could cause KPLP's actual results, level of activity, performance or achievements or future events or developments (which could in turn affect the economic benefits derived from the corporation's economic interest in KPLP) to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, the following factors, which are discussed in greater detail in the "Risk Factors – Risks Related to KPLP's Business" section of the KPT Annual Information Form dated March 9, 2018 available on SEDAR at www.sedar.com: Kruger Inc.'s influence over KPLP; KPLP's reliance on Kruger Inc.; consequences of an event of insolvency relating to Kruger Inc.; risks associated with the Memphis TAD machine; operational risks; Gatineau Plant land lease; significant increases in input costs; reduction in supply of fibre; increased pricing pressure and intense competition; KPLP's inability to innovate effectively; adverse economic conditions; dependence on key retail trade customers; damage to the reputation of KPLP or KPLP's brands; KPLP's sales being less than anticipated; KPLP's failure to implement its business and operating strategies; KPLP's obligation to make regular capital expenditures; KPLP's entering into unsuccessful acquisitions; KPLP's dependence on key personnel; KPLP's inability to retain its existing customers or obtain new customers; KPLP's loss of key suppliers; KPLP's failure to adequately protect its intellectual property rights; KPLP's reliance on third party intellectual property licenses; adverse litigation and other claims affecting KPLP; material expenditures due to comprehensive environmental regulation affecting KPLP's cash flow; KPLP's pension obligations are significant and can be materially higher than predicted if KPLP Management's underlying assumptions are incorrect; labour disputes adversely affecting KPLP's cost structure and KPLP's ability to run its plants; exchange rate and U.S. competitors; KPLP's inability to service all of its indebtedness; exposure to potential consumer product liability; covenant compliance; interest rate and refinancing risk; and risks relating to information technology, cybersecurity, insurance, internal controls, and trade. Readers should not place undue reliance on forward-looking statements made herein. The forward-looking information contained herein is

expressly qualified in its entirety by this cautionary statement. The forward-looking information contained herein is made as of the date of this material change report and KPT undertakes no obligation to publicly update such forward-looking information to reflect new information, subsequent or otherwise, unless required by applicable securities laws.