



KP TISSUE INC. AND KRUGER PRODUCTS L.P.

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

FOR THE 3-MONTH AND 9-MONTH PERIODS ENDED SEPTEMBER 30, 2021

DATED NOVEMBER 11, 2021

TABLE OF CONTENTS

CAUTIONARY FORWARD LOOKING STATEMENT	1
OVERVIEW	2
BUSINESS HIGHLIGHTS.....	4
RESULTS OF OPERATIONS	5
SEGMENT INFORMATION.....	8
LIQUIDITY AND CAPITAL RESOURCES.....	10
FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS	19
TRANSACTIONS WITH RELATED PARTIES	21
OFF BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS	22
CRITICAL ACCOUNTING ESTIMATES	22
ACCOUNTING CHANGES AND FUTURE ACCOUNTING STANDARDS.....	24
SELECTED QUARTERLY FINANCIAL INFORMATION	25
SHARE INFORMATION.....	26
RISK FACTORS.....	26
CONTROLS AND PROCEDURES	27
ADDITIONAL INFORMATION	27

The following Management's Discussion and Analysis (MD&A) dated November 11, 2021 for KP Tissue Inc. (KPT) and Kruger Products L.P. (KPLP) is intended to assist the readers in understanding the business environment, strategies, performance and risk factors relating to KPT and KPLP. It should be read in conjunction with the unaudited condensed financial statements of KPT for the 3-month periods ended September 30, 2021 and September 30, 2020, respectively, and the 9-month periods ended September 30, 2021 and September 30, 2020, respectively, and the unaudited condensed consolidated financial statements of KPLP for the 3-month periods ended September 30, 2021 (Q3 2021) and September 30, 2020 (Q3 2020), respectively, and the 9-month periods ended September 30, 2021 (YTD 2021) and September 30, 2020 (YTD 2020), respectively.

About KP Tissue Inc.

KPT was created to acquire, and its business is limited to holding, a limited partnership interest in KPLP, which is accounted for as an investment in an associate using the equity method of accounting. KPT currently holds a 14.5% interest in KPLP (14.5% as of September 30, 2021). The following MD&A provides discussion and analysis related to KPT to the extent necessary to understand the equity method of accounting. However, the majority of the discussion and analysis relates to KPLP and to KPT's investment in KPLP.

CAUTIONARY FORWARD LOOKING STATEMENT

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

Many factors could cause KPLP's actual results, level of activity, performance or achievements or future events or developments (which could in turn affect the economic benefits derived from KPT's economic interest in KPLP) to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, the following factors, which are discussed in greater detail in the "Risk Factors – Risks Related to KPLP's Business" section of the KPT Annual Information Form dated March 11, 2021 available on SEDAR at www.sedar.com (the Annual Information Form), except for the risks associated with the Sherbrooke Expansion Project, which are discussed in greater detail in Risk Factors: 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 TAD Sherbrooke Project; operational risks; significant increases in input costs; reduction in supply of fibre; increased pricing pressure and intense competition; KPLP's inability to innovate effectively; adverse economic conditions; dependence on key retail trade customers; damage to the reputation of KPLP or KPLP's brands; KPLP's sales being less than anticipated; KPLP's failure to implement its business and operating strategies; KPLP's obligation to make regular capital expenditures; KPLP's entering into unsuccessful acquisitions; KPLP's dependence on key personnel; KPLP's inability to retain its existing customers or obtain new customers; KPLP's loss of key suppliers; KPLP's failure to adequately protect its intellectual property rights; KPLP's reliance on third party intellectual property licenses; adverse litigation and other claims affecting KPLP; material expenditures due to comprehensive environmental regulation affecting KPLP's cash flow; KPLP's pension obligations are significant and can be materially higher than predicted if KPLP Management's underlying assumptions are incorrect; labour disputes adversely affecting KPLP's cost structure and KPLP's ability to run its plants; exchange rate and U.S. competitors; KPLP's inability to service all of its indebtedness; exposure to potential consumer product liability; covenant compliance; interest rate and refinancing risk; information technology; cyber-security; insurance; internal controls; trade related; and risk related to COVID-19.

These factors are not intended to represent a complete list of the factors that could affect KPT and/or KPLP; however, these factors should be considered carefully, and readers should not place undue reliance on forward-looking statements

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

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

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

OVERVIEW

Business Overview

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

KPLP is headquartered in Mississauga, Ontario and has approximately 2,700 employees across Canada and the United States. KPLP's Canadian paper manufacturing facilities, consisting of four tissue plants in Québec (including the new Sherbrooke plant) and one plant in British Columbia, have a combined annual tissue production capacity of approximately 345,000 metric tonnes which, according to RISI data, represents approximately 38% of Canada's annual production capacity. The new Through-Air-Dried (TAD) paper machine was successfully started up at the end of January 2021. The project was completed on time and on budget. Refer to Business Highlights, TAD Sherbrooke Project for additional details. On February 26, 2021, KPLP announced a further investment of \$240 million to expand the Sherbrooke operation. Refer to Business Highlights, Sherbrooke Expansion Project for additional details.

KPLP's U.S. manufacturing facility, held in its wholly owned subsidiary K.T.G. (USA) Inc. (KTG), located in Memphis, Tennessee consists of two paper machines with an aggregate annual capacity of 55,000 metric tonnes, and one adjacent TAD tissue machine (Memphis TAD Machine) with an aggregate annual capacity of 55,000 metric tonnes.

Pursuant to its Articles, KPT's business is limited to (i) the investment in, holding of and disposition of limited partnership interests, units, shares or other securities of KPLP and its general partner, KPGP Inc. (KPGP) (or any successor entity of either KPLP or KPGP), (ii) the acquisition of, holding, operation and disposition of any assets, liabilities, operations or business of such entities, and (iii) all activities related, incidental or ancillary to any of the foregoing. As of the date of the MD&A and following participation by the partners in the Dividend Reinvestment Plan (DRIP) on October 15, 2021, KPT held 14.5% of the KPLP Partnership Units (KPLP Units).

Basis of Presentation

The unaudited condensed consolidated financial statements of KPLP presented for Q3 2021 and YTD 2021 and Q3 2020 and YTD 2020 and the unaudited condensed financial statements of KPT presented for the 3-month and 9-month periods ended September 30, 2021 and September 30, 2020, respectively, have each been prepared in accordance with IFRS (International Financial Reporting Standards) for interim financial statements, including IAS 34, Interim Financial Reporting.

Accounting Periods

This MD&A includes financial information for the 3-month and 9-month periods ended September 30, 2021 (Q3 2021 and YTD 2021) and September 30, 2020 (Q3 2020 and YTD 2020), respectively.

Financial Measures and Key Indicators

This MD&A refers to “Adjusted EBITDA”, a measure which does not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similarly titled measures presented by other companies.

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

Outlook

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

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

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

COVID-19

COVID-19 has resulted in local governments enacting emergency measures to combat the spread of the virus, with significant monetary and fiscal interventions designed to stabilize economic conditions. Our priorities during the COVID-19 pandemic continue to be to protect the health and safety of our employees, while increasing the availability of our products, which are essential to consumers each and every day.

During 2020, we experienced a significant increase in demand for our Consumer products while the AFH Segment experienced reduced demand due to work-from-home along with travel bans and other restrictions. In the first half of 2021, the Consumer Segment experienced volume decreases resulting primarily from retailers and consumers de-stocking due to their supply concerns subsiding. In the AFH Segment, weak demand due to 2020 market changes carried over into 2021, and in the third quarter began to improve as away-from-home activities re-opened. It is difficult to estimate the length and severity of the changed behaviours across our business segments or reliably quantify the impact this pandemic may have on KPLP in future periods.

Our ability to continue to operate without significant impacts on our business will depend on protecting our employees and reducing the risk of disruption in our supply chain. We have endeavoured to follow recommended actions of government and health authorities to protect our employees, with particular measures in place for those working in our plants and distribution facilities. We have also worked closely with local and national officials to keep our manufacturing facilities open due to the essential nature of our products.

BUSINESS HIGHLIGHTS

TAD Sherbrooke Project

On August 16, 2018, KPLP announced its plan for a capital investment of \$575 million in the Brompton area of Sherbrooke, Quebec, to build a new, state-of-the-art tissue plant featuring Canada's largest and most modern Through-Air-Dried (TAD) paper machine along with related converting equipment and infrastructure (the TAD Sherbrooke Project). The TAD Sherbrooke Project is forecasted to produce at maturity approximately 70,000 metric tonnes per annum of bathroom tissue and paper towels, which will enable KPLP to increase its offering of ultra-premium and innovative tissue projects under the *Cashmere*, *Sponge Towels*, *Purex*, and *White Cloud* brands and also enable expansion in the U.S. private label business. The new TAD paper machine successfully started up at the end of January 2021. The project was completed on time and on budget. As of September 30, 2021, a total of \$544.6 million had been spent on the TAD Sherbrooke Project, financed by a \$125 million equity investment by KPLP into Kruger Products Sherbrooke Inc. (KPSI), the entity that constructed and operates the project, a \$105 million convertible debenture issued to Investissement Quebec (IQ) and amounts drawn on the TAD Sherbrooke Project Facility, as follows:

- (i) US\$172.8 million cash drawn on the US\$188 million term loan facility (December 31, 2020 – US\$144.9 million cash drawn);
- (ii) \$102.0 million cash drawn on the \$111 million term loan facility (December 31, 2020 – \$85.5 million cash drawn); and
- (iii) \$2.0 million cash drawn and \$7.4 million letters of credit drawn on the \$12.5 million revolving loan facility (December 31, 2020 – \$9.0 million letters of credit drawn)

Sherbrooke Expansion Project

On February 26, 2021, KPLP announced a further investment of \$240 million to expand the Sherbrooke operation with a Light Dry Crepe (LDC) tissue machine and new production lines as well as the construction of a new tissue manufacturing facility (the Sherbrooke Expansion Project) over the next three years.

The additional capacity will allow KPLP 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® and Purex® in Canada, and White Cloud® in the U.S. As part of the \$240 million investment, KPLP plans to add a bathroom tissue converting line to the existing Sherbrooke TAD facility (the BT Line), as well as build a new facility that will house an LDC tissue machine (the LDC Machine) and a facial tissue converting line (the FT Line). At maturity, the LDC Machine is expected to increase KPLP's annual output by at least 30,000 metric tonnes. Construction of this new facility is anticipated to start in the summer of 2022 on a site adjacent to the Sherbrooke TAD facility. The BT Line and the FT Line are expected to be commissioned in 2022 and 2023 respectively, while the LDC Machine is expected to start up a year later, in 2024.

Refer to Liquidity and Capital Resources, Indebtedness for details regarding the KPSB IQ Debenture, the IQ Facial Tissue Loan, the IQ Bathroom Tissue Loan and the KPSB Senior Credit Facility entered into in connection with the financing of the Sherbrooke Expansion Project. Refer to Transactions with Related Parties for details regarding the KPLP Contribution Undertaking Agreement entered into by KPLP in connection with the Sherbrooke Expansion Project.

Senior Unsecured Notes due April 9, 2029

On April 8, 2021, KPLP issued \$135 million aggregate principal amount of 5.375% senior unsecured notes due April 9, 2029 (the 2029 Notes) by way of private placement in Canada in accordance with applicable Canadian prospectus and registration exemptions. The 2029 Notes were issued pursuant to a trust indenture entered into as of April 8, 2021 between KPLP, the Guarantors and Computershare Trust Company of Canada (the 2029 Indenture). Interest on the 2029 Notes accrues at 5.375% per year and is payable semi-annually on April 9 and October 9 of each year. KPLP used the net proceeds from the offering to reduce the outstanding balance under the KPLP Senior Credit Facility and for general corporate purposes. Refer to Liquidity and Capital Resources, Indebtedness for additional details.

RESULTS OF OPERATIONS

Results of Operations of KPLP

(C\$ millions, unless otherwise noted)	Q3 2021	Q3 2020	YTD 2021	YTD 2020	\$ Change	\$ Change
					Q3 2021 vs. Q3 2020	YTD 2021 vs. YTD 2020
Statement of Operations Data:						
Revenue	391.4	369.1	1,041.1	1,131.0	22.3	(89.9)
Cost of sales	(345.6)	(307.7)	(903.9)	(932.2)	(37.9)	28.3
Selling, general and administrative expenses	(29.0)	(31.2)	(86.4)	(91.4)	2.2	5.0
Restructuring costs, net	(0.2)	(0.1)	(0.2)	(1.3)	(0.1)	1.1
Operating income	16.6	30.1	50.6	106.1	(13.5)	(55.5)
Interest expense	(18.7)	(9.8)	(47.9)	(31.7)	(8.9)	(16.2)
Other expense	(11.8)	(2.5)	(10.8)	(10.6)	(9.3)	(0.2)
Income (loss) before income taxes	(13.9)	17.8	(8.1)	63.8	(31.7)	(71.9)
Income taxes:						
Combined income tax rate after manufacturing and processing credits	3.6	(4.7)	2.1	(16.7)	8.3	18.8
Income tax in partners' hands	3.1	2.9	5.7	10.7	0.2	(5.0)
Other	(2.1)	2.5	-	(2.1)	(4.6)	2.1
Income taxes	4.6	0.7	7.8	(8.1)	3.9	15.9
Net income (los)	(9.3)	18.5	(0.3)	55.7	(27.8)	(56.0)

(C\$ millions, unless otherwise noted)	Q3 2021	Q3 2020	YTD 2021	YTD 2020	\$ Change	\$ Change
					Q3 2021 vs. Q3 2020	YTD 2021 vs. YTD 2020
Reconciliation of Adjusted EBITDA to Net income (loss):						
Net income (loss)	(9.3)	18.5	(0.3)	55.7	(27.8)	(56.0)
Interest expense	18.7	9.8	47.9	31.7	8.9	16.2
Income taxes	(4.6)	(0.7)	(7.8)	8.1	(3.9)	(15.9)
Depreciation and amortization	23.5	15.9	63.9	49.6	7.6	14.3
Foreign exchange (gain) loss	8.3	(3.4)	0.5	0.1	11.7	0.4
Change in amortized cost of Partnership units liability	3.5	5.8	10.3	10.9	(2.3)	(0.6)
Change in fair value of derivatives	-	-	-	(0.4)	-	0.4
Loss on sale of property, plant and equipment	-	-	0.3	0.1	-	0.2
Restructuring costs, net	0.2	0.1	0.2	1.3	0.1	(1.1)
Consulting costs related to operational transformation initiatives	-	-	-	4.3	-	(4.3)
Corporate development related costs	-	0.2	0.1	0.2	(0.2)	(0.1)
Adjusted EBITDA	40.3	46.2	115.1	161.6	(5.9)	(46.5)

Results of Operations Q3 2021 compared to Q3 2020

Revenue

Revenue was \$391.4 million in Q3 2021 compared to \$369.1 million in Q3 2020, an increase of \$22.3 million or 6.0%. The increase in revenue was due to several factors: a selling price increase in Consumer Canada, slightly higher sales volume in the Consumer segment compared to the year ago quarter, and an increase in sales volume in the AFH segment resulting from the beginning of Covid-19 related demand recovery. Revenue was unfavourably impacted by foreign exchange fluctuations on U.S. dollar sales (USD average 1.26 in Q3 2021 compared to 1.33 in Q3 2020). From a geographic perspective, revenue in Canada increased \$10.3 million or 4.6% and revenue in the U.S. increased \$12.0 million, or 8.3%.

Cost of Sales

Cost of sales was \$345.6 million in Q3 2021 compared to \$307.7 million in Q3 2020, an increase of \$37.9 million or 12.3%. Manufacturing costs increased primarily due to higher sales volumes net of overhead absorption, increased pulp costs, labour shortages in Memphis manufacturing, higher depreciation expense and inflation. These increases were partially offset by the favourable impact of more in-house production in AFH and favourable foreign exchange fluctuations on U.S. dollar costs. Freight costs increased compared to Q3 2020 primarily due to higher volume and increased freight rates. Warehousing costs increased compared to Q3 2020 related primarily to higher inventories throughout the quarter. As a percentage of revenue, cost of sales was 88.3% in Q3 2021 compared to 83.4% in Q3 2020.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses were \$29.0 million in Q3 2021 compared to \$31.2 million in Q3 2020, a decrease of \$2.2 million or 7.1%. The decrease was primarily due to a reduction in compensation related costs compared to the year ago quarter, the release of a Covid-19 related AFH accounts receivable provision recorded during 2020 and foreign exchange gains compared to Q3 2020, partially offset by higher marketing expenses. As a percentage of revenue, SG&A expenses were 7.4% in Q3 2021 compared to 8.5% in Q3 2020.

Adjusted EBITDA

Adjusted EBITDA was \$40.3 million in Q3 2021 compared to \$46.2 million in Q3 2020, a decrease of \$5.9 million or 12.8%. The decrease was primarily due to the unfavourable impact of sales mix, higher pulp prices, inflation, and higher freight rates and warehousing costs, partially offset by more in-house paper production for AFH, the net favourable impact of foreign exchange fluctuations and lower SG&A expenses.

Interest Expense

Interest expense was \$18.7 million in Q3 2021 compared to \$9.8 million in Q3 2020, an increase of \$8.9 million. The increase was primarily due to higher debt levels mainly as a result of the TAD Sherbrooke Project.

Other Expense

Other expense was \$11.8 million in Q3 2021 compared to \$2.5 million in Q3 2020. Other expense in Q3 2021 was primarily related to a foreign exchange loss on USD denominated debt of \$8.3 million (Q3 2020 – gain of \$3.4 million), and by an expense resulting from the change in amortized cost of Partnership units liability of \$3.5 million (Q3 2020 – \$5.8 million).

Income Taxes

An income tax recovery of \$4.6 million was recorded in Q3 2021 compared to an income tax recovery of \$0.7 million in Q3 2020. KPLP is not directly taxable on its Canadian business. The income tax recovery resulted from taxable losses in KPLP's incorporated operating entities in the U.S. and Canada. Income tax in partner's hands was a recovery of \$3.1 million in Q3 2021 compared to a recovery of \$2.9 million in Q3 2020.

Net Income (Loss)

Net loss was \$9.3 million in Q3 2021 compared to net income of \$18.5 million in Q3 2020, a decrease of \$27.8 million. The decrease was primarily due to lower Adjusted EBITDA of \$5.9 million as discussed above, higher other expense of \$9.3 million, higher interest expense of \$8.9 million and higher depreciation expense of \$7.6 million, partially offset by a higher income tax recovery of \$3.9 million.

Results of Operations YTD 2021 compared to YTD 2020

Revenue

Revenue was \$1,041.1 million in YTD 2021 compared to \$1,131.0 million in YTD 2020, a decrease of \$89.9 million or 7.9%. The decrease in revenue was primarily due to significant sales volume decreases in both Canada and the U.S. resulting from the following: the comparison to high COVID-19 buying activity during the first half of 2020; the de-stocking of tissue inventories by both retailers and consumers in the Consumer segment during the first half of 2021; and the unfavourable impact of work-from-home and COVID-19 related restrictions on travel and large gatherings in the AFH segment that continued through the first half of 2021. Revenue was also unfavourably impacted by foreign exchange fluctuations on U.S. dollar sales (USD average 1.25 in YTD 2021 compared to 1.35 in YTD 2020). The decrease in revenue was partially offset by the Consumer selling price increase in Canada in Q3. From a geographic perspective, revenue in Canada decreased \$24.3 million or 3.6%, while revenue in the U.S. decreased \$65.6 million, or 14.3%.

Cost of Sales

Cost of sales was \$903.9 million in YTD 2021 compared to \$932.2 million in YTD 2020, a decrease of \$28.3 million or 3.0%. Manufacturing costs decreased primarily due to significantly lower sales volumes, the favourable impact of foreign exchange fluctuations on U.S. dollar costs and the higher absorption of overhead costs into inventory resulting from increased inventory levels. These decreases in manufacturing costs were partially offset by increased pulp costs and other inflation, additional mill fixed overhead costs and start-up costs related to the TAD Sherbrooke Project. Freight costs increased compared to YTD 2020 due to higher freight rates associated with shipping products in the current environment, partially offset by lower volume. Warehousing costs increased compared to YTD 2020 related primarily to higher inventories throughout the year. As a percentage of revenue, cost of sales was 86.8% in YTD 2021 compared to 82.4% in YTD 2020.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses were \$86.4 million in YTD 2021 compared to \$91.4 million in YTD 2020, a decrease of \$5.0 million or 5.5%. The decrease was primarily due to a reduction in compensation related costs, the release of a Covid-19 related AFH accounts receivable provision recorded during 2020 and lower commission selling expenses, partially offset by foreign exchange losses compared to YTD 2020 and higher advertising expenses. As a percentage of revenue, SG&A expenses were 8.3% in YTD 2021 compared to 8.1% in YTD 2020.

Adjusted EBITDA

Adjusted EBITDA was \$115.1 million in YTD 2021 compared to \$161.6 million in YTD 2020, a decrease of \$46.5 million or 28.8%. The decrease was primarily due to the impact of lower sales volumes net of overhead absorption, along with the unfavourable impact of higher pulp prices and higher freight rates and warehousing costs, partially offset by the favourable impact of foreign exchange fluctuations, a selling price increase in Consumer Canada and lower SG&A expenses.

Interest Expense

Interest expense was \$47.9 million in YTD 2021 compared to \$31.7 million in YTD 2020, an increase of \$16.2 million. The increase was primarily due to higher debt levels mainly as a result of the TAD Sherbrooke Project.

Other Expense

Other expense was \$10.8 million in YTD 2021 compared to \$10.6 million in YTD 2020. Other expense in YTD 2021 was primarily related to a foreign exchange loss on USD denominated debt of \$0.5 million (YTD 2020 – loss of \$0.1 million) and an expense resulting from the change in amortized cost of Partnership units liability of \$10.3 million (YTD 2020 – \$10.9 million). Other expense in YTD 2020 also included a gain on change in fair value of derivatives of \$0.4 million.

Income Taxes

An income tax recovery of \$7.8 million was recorded in YTD 2021 compared to an income tax expense of \$8.1 million in YTD 2020. KPLP is not directly taxable on its Canadian business. The income tax recovery in YTD 2021 resulted from

taxable losses in KPLP's incorporated operating entities in the U.S. and Canada, compared to taxable income in YTD 2020. Income tax in partner's hands was a recovery of \$5.7 million in YTD 2021 compared to a recovery of \$10.7 million in YTD 2020.

Net Income (Loss)

Net loss was \$0.3 million in YTD 2021 compared to net income of \$55.7 million in YTD 2020, a decrease of \$56.0 million. The decrease was primarily due to lower Adjusted EBITDA of \$46.5 million as discussed above, higher interest expense of \$16.2 million, higher depreciation expense of \$14.3 million, partially offset by lower income taxes of \$15.9 million, no consulting costs related to operational transformation initiatives in YTD 2021 compared to \$4.3 million in YTD 2020 and lower restructuring costs of \$1.1 million.

Results of Operations of KPT

(C\$ millions, unless otherwise noted)	3-month period ended September 30, 2021	3-month period ended September 30, 2020	9-month period ended September 30, 2021	9-month period ended September 30, 2020
Statement of Operations Data:				
Share of income (loss)	(1.4)	2.7	-	8.3
Depreciation of fair value increments	(1.3)	(1.3)	(4.0)	(4.1)
Equity income (loss)	(2.7)	1.4	(4.0)	4.2
Dilution gain	0.1	-	0.2	0.5
Income (loss) before income taxes	(2.6)	1.4	(3.8)	4.7
Income taxes:				
Current tax expense	(0.7)	(0.6)	(1.4)	(2.3)
Deferred tax (expense) recovery	1.1	-	3.0	(0.1)
Income taxes	0.4	(0.6)	1.6	(2.4)
Net income (loss)	(2.2)	0.8	(2.2)	2.3
Basic earnings (loss) per share (dollars)	(0.23)	0.08	(0.23)	0.24

The financial information presented above is based on KPT's interest in KPLP for Q3 2021 and YTD 2021 and Q3 2020 and YTD 2020. The share of income relates to KPT's share of income of KPLP. Refer to Results of Operations of KPLP above for an explanation of the results. The depreciation of fair value increments relates to adjustments to the carrying amount of certain assets of KPLP on its acquisition by KPT. Refer to note 4 in KPT's financial statements for additional details.

The current income tax expense is based on KPT's share of the taxable income of KPLP for the same periods. The deferred tax recovery is a result of changes in the temporary differences of KPLP's assets and liabilities since acquisition and the difference between the accounting and tax basis for KPT's investment in KPLP. Refer to note 5 in KPT's financial statements for additional details.

On February 26, 2021, pursuant to the Tax Distribution as defined in the Partnership Agreement, KPLP declared a Tax Distribution of \$17.5 million, of which the advances of \$5.6 million were offset and the remaining \$11.9 million was paid on February 26, 2021. During the 9-month period ended September 30, 2021, pursuant to the Tax Distribution as defined in the Partnership Agreement, KPLP made advances to its partners of \$9.9 million, of which \$1.5 million was used to pay the monthly tax instalment on behalf of KPT and the remaining was advanced to Kruger Inc. and KPGP. The advances are non-interest bearing and non-recourse in nature and are settled when the Tax Distribution is declared annually.

SEGMENT INFORMATION

Segment Operating Income

Segment operating income is the earnings (loss) for each such segment before (i) interest expense, (ii) income taxes, (iii) depreciation, (iv) amortization, (v) impairment (gain on sale) of non-financial assets, (vi) loss (gain) on disposal of

property, plant and equipment, (vii) foreign exchange loss (gain), (viii) costs related to restructuring activities, (ix) changes in amortized cost of Partnership units liability, (x) change in fair value of derivatives, (xi) consulting costs related to operational transformation initiatives, (xii) corporate development related costs and (xiii) loss (gain) on sale of shares. “Consumer Segment Adjusted EBITDA” and “AFH Segment Adjusted EBITDA” means in each case the Segment operating income for the referring respective segment of KPLP.

Segment Results

(C\$ millions, unless otherwise noted)	Q3 2021	Q3 2020	YTD 2021	YTD 2020	Q3 2021 vs Q3 2020		YTD 2021 vs YTD 2020	
					\$ Change	% Change	\$ Change	% Change
Segment Revenue								
Consumer	332.4	319.9	896.1	971.4	12.5	3.9%	(75.3)	-7.7%
AFH	59.0	49.2	145.0	159.6	9.8	19.9%	(14.6)	-9.2%
Total segment revenue	391.4	369.1	1,041.1	1,131.0	22.3	6.0%	(89.9)	-7.9%
Adjusted EBITDA								
Consumer	39.1	55.3	123.6	179.1	(16.2)		(55.5)	
AFH	2.2	(3.5)	(3.2)	(6.6)	5.7		3.4	
Corporate and other costs	(1.0)	(5.6)	(5.3)	(10.9)	4.6		5.6	
Total Adjusted EBITDA	40.3	46.2	115.1	161.6	(5.9)		(46.5)	

Consumer Segment

Q3 2021 compared to Q3 2020

Consumer segment revenue was \$332.4 million in Q3 2021 compared to \$319.9 million in Q3 2020, an increase of \$12.5 million or 3.9%. The increase in revenue was due to a selling price increase in Canada and slightly higher sales volume compared to Q3 2020, partially offset by the unfavourable impact of foreign exchange fluctuations on U.S. dollar sales. Consumer segment revenue increased in Canada and the U.S.

Consumer Segment Adjusted EBITDA was \$39.1 million in Q3 2021 compared to \$55.3 million in Q3 2020, a decrease of \$16.2 million. Increased pulp costs, higher freight and warehousing expenses and higher marketing expenses were partially offset by higher revenue and the net favourable impact of foreign exchange fluctuations.

YTD 2021 compared to YTD 2020

Consumer segment revenue was \$896.1 million in YTD 2021 compared to \$971.4 million in YTD 2020, a decrease of \$75.3 million or 7.7%. The decrease in revenue was primarily due to significant volume decreases in the Consumer business resulting primarily from the de-stocking of tissue inventories by both retailers and consumers during the first half of 2021 compared to high COVID-19 buying activity in the first half of 2020, and also the unfavourable impact of foreign exchange fluctuations on U.S. dollar sales. Consumer segment revenue decreased in both Canada and the U.S.

Consumer Segment Adjusted EBITDA was \$123.6 million in YTD 2021 compared to \$179.1 million in YTD 2020, a decrease of \$55.5 million. The decrease resulted primarily from lower sales volume, increased pulp costs, higher freight and warehousing expenses and higher advertising expenses. These decreases were partially offset by higher absorption of overhead costs into inventory resulting from increased inventory levels compared to the end of 2020, the favourable impact of foreign exchange fluctuations and lower SG&A expenses.

AFH Segment

Q3 2021 compared to Q3 2020

AFH segment revenue was \$59.0 million in Q3 2021 compared to \$49.2 million in Q3 2020, an increase of \$9.8 million or 19.9%. The increase was primarily due to higher sales volumes in the third quarter as recoveries began compared to

Covid-19 reduced demand in Q3 2020, partially offset by the unfavourable impact of foreign exchange fluctuations on U.S. dollar sales. AFH segment revenue increased in both the U.S. and Canada.

AFH Segment Adjusted EBITDA was \$2.2 million in Q3 2021 compared to an EBITDA loss of \$3.5 million in Q3 2020, an improvement of \$5.7 million. The improvement was primarily due to higher sales volumes, lower outsourcing costs compared to Q3 2020 and cost reduction activities, along with the release of a Covid-19 related accounts receivable provision of \$1.3 million recorded in 2020, partially offset by increased pulp costs.

YTD 2021 compared to YTD 2020

AFH segment revenue was \$145.0 million in YTD 2021 compared to \$159.6 million in YTD 2020, a decrease of \$14.6 million or 9.2%. The decrease was primarily due to lower sales volumes resulting from the unfavourable impact of work-from-home and COVID-19 related restrictions on travel and large gatherings that continued into the first half of 2021, and the unfavourable impact of foreign exchange fluctuations on U.S. dollar sales. AFH segment revenue decreased in both Canada and the U.S.

AFH Segment Adjusted EBITDA was a loss of \$3.2 million in YTD 2021 compared to a loss of \$6.6 million in YTD 2020, an improvement of \$3.4 million. The improvement was primarily due to lower SG&A expenses including the release of the Covid-19 related accounts receivable provision, partially offset by lower sales volumes in the first half of the year.

Corporate and Other Costs

Beginning in Q1 2021, timing adjustments for certain manufacturing costs included in inventory that were previously included in Corporate and other costs are now allocated to the Consumer and AFH segments. Corporate and other costs now include only certain management overhead costs not directly attributable to the business segments, including gains and losses related to U.S. dollar denominated cash and working capital balances.

Q3 2021 compared to Q3 2020

Corporate and other costs were \$1.0 million in Q3 2021 compared to costs of \$5.6 million in Q3 2020, a decrease of \$4.6 million primarily related to TAD Sherbrooke start-up costs reported in the Other segment in 2020.

YTD 2021 compared to YTD 2020

Corporate and other costs were \$5.3 million in YTD 2021 compared to costs of \$10.9 million in YTD 2020, a decrease of \$5.6 million, primarily related to TAD Sherbrooke start-up costs reported in the Other segment in 2020.

LIQUIDITY AND CAPITAL RESOURCES

Overview

KPLP's principal uses of funds are for operating costs, working capital, capital expenditures, pension contributions and Tax and Partnership Unit distributions (together, the Funding Requirements). To date, KPLP has met the Funding Requirements by using cash generated from operating activities and the Dividend Reinvestment Plan and borrowings under its various debt facilities. The registered defined benefit pension plans (RDBPP) sponsored by KPLP are currently in a solvency deficiency position, requiring KPLP to make funding contributions over the next ten years. KPLP Management believes that cash generated from operations and the Dividend Reinvestment Plan, together with amounts available under the various debt facilities will be sufficient to meet its future Funding Requirements. However, KPLP's 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. KPLP Management reviews investment opportunities in the normal course of its business and may, if suitable opportunities arise, make selected investments to implement KPLP's business strategy. Historically, the funding for any such investments has come from cash flows from operations and/or additional debt.

As of September 30, 2021, KPLP was in compliance with all of its financial covenants under all of its outstanding credit facilities. As of September 30, 2021, KPLP had no cash draws on the \$200 million committed amount under the KPLP

Senior Credit Facility and had \$19.1 million of letters of credit outstanding, resulting in \$180.9 million available from the KPLP Senior Credit Facility, subject to covenant limitations. As of September 30, 2021, KPLP had drawn \$2.0 million on the US\$10 million (\$12.7 million) and \$12.5 million committed amounts under the revolving loans of the TAD Sherbrooke Project Facility and had \$7.4 million of letters of credit outstanding, resulting in \$15.8 million available from the revolving loans, subject to covenant limitations. As of September 30, 2021, KPSB had not drawn on the \$10 million committed amount under the KPSB Revolving Facility, resulting in \$10 million available from the KPSB Revolving Facility, subject to covenant limitations. As of September 30, 2021, KPLP had total liquidity of \$273.6 million (December 31, 2020 - \$333.0 million) representing cash and cash equivalents and availability under the KPLP Senior Credit Facility, the revolving loans of the TAD Sherbrooke Project Facility and the KPSB Revolving Facility within the covenant limitations. In addition, \$25.5 million (December 31, 2020 - \$32.3 million) of cash and cash equivalents were held by KPSI and available for the TAD Sherbrooke Project and \$24.8 million (December 31, 2020 – nil) of cash and cash equivalents were held by KPSB and available for the Sherbrooke Expansion Project.

In conjunction with the issuance of the 2029 Notes on April 8, 2021, capacity under the KPLP Senior Credit Facility was reduced from \$250 million to \$200 million.

As it pertains to capital expenditures, approximately \$25 million annually relate to maintenance projects and the remaining expenditures are focused on growth projects aimed at reducing costs and offsetting annual inflation or increasing production capacity. Regular growth projects focused on performance improvement generally have a 3 to 4 year payback. Capital expenditures were \$109.1 million in YTD 2021, including \$88.9 million related to the TAD Sherbrooke Project (including interest capitalized during construction). The TAD Sherbrooke Project also had \$5.5 million of accrued and unpaid capital spending as of September 30, 2021. Capital expenditures are expected to be approximately \$140 million to \$150 million in fiscal 2021, including TAD Sherbrooke Project expenditures of approximately \$100 million in fiscal 2021.

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

Cash Flows

(C\$ millions, unless otherwise stated)	YTD 2021	YTD 2020	\$ Change
			YTD 2021 vs. YTD 2020
Net cash flows from (used in) operating activities	(9.6)	184.5	(194.1)
Net cash flows used in investing activities	(109.1)	(214.6)	105.5
Net cash flows from financing activities	109.3	53.9	55.4
Effect of exchange rate changes on cash, cash equivalents and restricted cash held in foreign currency	(0.7)	0.6	(1.3)
Increase (decrease) in cash, cash equivalents and restricted cash	(10.1)	24.4	(34.5)
Beginning cash, cash equivalents and restricted cash, net	128.7	93.1	35.6
Ending cash, cash equivalents and restricted cash, net	118.6	117.5	1.1

Net Cash Flows from (used in) Operating Activities

Net cash used in operating activities was \$9.6 million in YTD 2021 compared to net cash from operating activities of \$184.5 million in YTD 2020. Cash used in operating activities in YTD 2021 was primarily driven by Adjusted EBITDA of \$115.1 million (YTD 2020 – \$161.6 million), partially offset by an increase in working capital of \$120.7 million (YTD 2020 – decrease of \$27.1 million) and funding of pension and post-retirement benefit plans of \$11.5 million (YTD 2020 – \$11.8 million).

Net Cash Flows used in Investing Activities

Net cash used in investing activities was \$109.1 million in YTD 2021 compared to \$214.6 million in YTD 2020. Cash used in investing activities related to capital expenditures of \$109.1 million (including \$88.9 million for the TAD Sherbrooke Project and \$20.2 million for the existing business) in YTD 2021 compared to \$215.7 million (including \$201.3 million for the TAD Sherbrooke Project and \$14.4 million for the existing business) in YTD 2020.

Net Cash Flows from Financing Activities

Net cash from financing activities was \$109.3 million in YTD 2021 compared to \$53.9 million in YTD 2020. Net cash from financing activities in YTD 2021 was primarily due to net proceeds from debt of \$203.4 million (YTD 2020 –\$109.1 million), partially offset by distributions and advances paid (net of DRIP proceeds) of \$41.4 million (YTD 2020 –\$18.4 million) primarily driven by a larger Tax Distribution compared to YTD 2020, interest paid of \$24.8 million (YTD 2020 – \$21.8 million), lease payments of \$19.0 million (YTD 2020 – \$14.5 million) and deferred financing fees paid of \$8.9 million (YTD 2020 - \$0.5 million).

Contractual Obligations

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

As of September 30, 2021, KPLP had \$10.4 million (December 31, 2020 – \$23.5 million) of commitments related to the TAD Sherbrooke Project.

KPLP's cash pension contribution for defined benefit pension arrangements in YTD 2021 was \$9.6 million, while its post-retirement benefits contribution was \$1.9 million. In addition, as of September 30, 2021, KPLP had \$18.7 million of letters of credit related to pensions outstanding. Pension contributions for fiscal 2021 are expected to be \$13.5 million and post-retirement contributions for fiscal 2021 are expected to be \$2.5 million.

Indebtedness

Trust Indenture - Senior Unsecured Notes due April 9, 2029

General

On April 8, 2021, KPLP issued \$135 million aggregate principal amount of 5.375% senior unsecured notes due April 9, 2029 (the Senior Unsecured Notes due April 9, 2029 or the 2029 Notes) by way of private placement in Canada in accordance with applicable Canadian prospectus and registration exemptions. The 2029 Notes were issued pursuant to a trust indenture entered into as of April 8, 2021 between KPLP, the Guarantors and Computershare Trust Company of Canada (the 2029 Indenture). Interest on the 2029 Notes accrues at 5.375% per year and is payable semi-annually on April 9 and October 9 of each year.

Under the 2029 Notes, "Restricted Subsidiaries" means any subsidiary of KPLP that is not an Unrestricted Subsidiary as defined in the 2029 Indenture (which Unrestricted Subsidiaries include TAD Canco Inc., TAD Luxembourg S.A.R.L., KTG, Kruger Products Sherbrooke Inc. (KPSI), KP TAD Holdco Inc., TAD2 GP ULC, TAD2 US LP, TAD1 Canco I Inc., TAD1 GP ULC, TAD1 US LP, TAD1 Canco II Inc., 1061021 Delaware Inc., 8528365 Canada Inc., Kruger Products SB Inc. (KPSB) and Non-Material Subsidiaries as defined in the 2029 Indenture).

The 2029 Notes are senior unsecured obligations of KPLP. The 2029 Notes rank senior in right of payment to all existing and future subordinated indebtedness of KPLP and equal in right of payment to all indebtedness of KPLP that is not subordinated in right of payment to the 2029 Notes other than any indebtedness that ranks senior to the 2029 Notes by operation of law. The 2029 Notes will be effectively subordinated to all existing and future secured indebtedness of the issuer, to the extent of the assets securing such indebtedness.

Guarantees

The 2029 Notes are unconditionally guaranteed, jointly and severally, by all existing and future Restricted Subsidiaries (the Guarantors). The guarantees are senior unsecured obligations of each of the Guarantors and will rank senior in right of payment to all existing and future subordinated indebtedness of the Guarantors and equal in right of payment to all indebtedness of such Guarantor that is not subordinated in right of payment to their guarantee, other than indebtedness that ranks senior to the guarantees by operation of law.

Redemption

At any time prior to April 9, 2024, KPLP may redeem up to 40.0% of the aggregate principal amount of the 2029 Notes at a redemption price of 105.375% of the principal amount of the 2029 Notes to be redeemed, plus accrued and unpaid interest to the date of redemption, with the net proceeds received by KPLP from certain equity offerings after the issue date.

At any time prior to April 9, 2024, KPLP may redeem the 2029 Notes, at a redemption price equal to the greater of (a) the Applicable Premium (as defined in the 2029 Indenture) and (b) 101% of the aggregate principal amount of the 2029 Notes redeemed, plus, in each case, accrued and unpaid interest, if any, to the applicable redemption date.

On or after April 9, 2024, KPLP may redeem all or part of the 2029 Notes at the following redemption prices, plus accrued and unpaid interest to the applicable redemption date, if redeemed during the 12-month period commencing April 9 of the year set forth below:

<u>Year</u>	<u>Percentage</u>
2024	102.688%
2025	101.344%
2026 and thereafter	100.000%

Change of Control

Upon the occurrence of a Change of Control of KPLP (as defined in the 2029 Indenture), KPLP will be required to offer to repurchase all or any part of each holder's 2029 Notes for a payment in cash equal to 101% of the aggregate principal amount of 2029 Notes repurchased, plus accrued and unpaid interest thereon to the purchase date.

Covenants

The 2029 Indenture contains certain restrictive covenants of KPLP, including, but not limited to, limitations on making certain restricted payments by KPLP or its Restricted Subsidiaries, restrictions on incurring certain indebtedness by KPLP or its Restricted Subsidiaries, restrictions on incurring certain liens by KPLP or its Restricted Subsidiaries, certain restrictions on transactions with affiliates, limitations on engaging in any line of business other than the businesses in which KPLP and the Restricted Subsidiaries were engaged on the date of issuance of the 2029 Notes, and any business reasonably related, incidental, complementary or ancillary thereto, limitations on creating any contractual restrictions on the ability of KPLP or its Restricted Subsidiaries to take certain actions, such as the payment of dividends or making of distributions, restrictions on consolidating, amalgamating or merging into any other person and restrictions on selling, transferring, assigning, leasing, conveying or otherwise disposing of all or substantially all of the property of KPLP and the Restricted Subsidiaries taken as a whole.

Events of Default

The 2029 Indenture contains customary events of default such as non-payment, liquidation of assets, change of control, non-payment or acceleration of any indebtedness in an aggregate amount exceeding \$25 million, insolvency and enforcement proceedings.

KPSB IQ Debenture

General

On May 21, 2021, KPSB entered into an agreement to issue a 10-year convertible debenture in favour of Investissement Québec (IQ) in the maximum principal amount of \$75 million (the KPSB IQ Debenture). The purpose of the KPSB IQ Debenture is to partially finance the implementation of a light dry crepe tissue machine (the LDC Machine) in a new facility adjacent to the Sherbrooke TAD facility, as part of the Sherbrooke Expansion Project. The KPSB IQ Debenture matures ten years from the earlier of (i) the date on which commercial operation of the LDC Machine begins (the LDC Machine Commissioning Date) or (ii) September 1, 2024.

Interest Rates and Fees

Borrowings under the KPSB IQ Debenture bear interest at a fixed capitalized interest rate of 2.0% per annum (the Fixed Rate), calculated monthly, starting on the disbursement date of each payment in respect of the amount disbursed. In the event KPLP is in default (the KPLP Default) under the KPLP Contribution Undertaking Agreement (refer to Transactions with Related Parties for additional details), the Fixed Rate would increase from the date of the KPLP Default (the KPLP Default Date) to 6.0% per annum (the Fixed Default Rate), until the KPLP Default is remedied to IQ's satisfaction within twelve months of the KPLP Default Date, failing which the Fixed Default Rate would continue to apply permanently. Interest is capitalized to the loan principal from the date of the first loan disbursement until the LDC Machine Commissioning Date. As of the LDC Machine Commissioning Date, interest will cease to be capitalized and is due and payable monthly.

Redemption

The KPSB IQ Debenture is redeemable on a monthly basis commencing 24 months from the earlier of: (i) the LDC Machine Commissioning Date or (ii) September 1, 2024, which payments KPSB undertakes to cause KPLP to make, failing which IQ will have a conversion right on terms of conversion that would provide IQ with a 100% equity interest in KPSB if the entirety of the debenture was so converted.

Pursuant to a repayment agreement entered into by KPLP, KPSB and IQ on May 21, 2021 (the Repayment Agreement), KPLP will make required monthly redemption payments to IQ. As consideration of such payment, KPLP will receive shares of KPSB of a class reserved exclusively for IQ and which must include pari passu rights with the common shares held by the Partnership. Pursuant to the Repayment Agreement, after KPLP makes all of the redemption payments, it will hold a 100% equity interest in KPSB. KPSB may redeem, or cause to be redeemed, early the KPSB IQ Debenture, in whole or in part, at any time and without penalty.

KPLP's redemption payments to IQ will be funded by rate discounts attributable to KPLP, KPSB and KPSI for their plants under the rate discounts program applicable to consumers billed at rate "L", as administered by the Ministère des Finances du Québec (Rate Discounts). The Rate Discounts are held by KPLP in a designated bank account to be used only for the purpose of funding KPLP's redemption payments to IQ (the Dedicated Account). KPLP has granted a first movable hypothec on the Dedicated Account in favour of IQ. KPLP and IQ have entered into an account control agreement with respect to this hypothec and the Dedicated Account.

Covenants

The KPSB IQ Debenture contains covenants including, but not limited to, the delivery of financial statements and other information.

Events of Default

The KPSB IQ Debenture contains customary events of default such as failure to convert, misrepresentation and breach of covenants.

Guarantees

KPLP has guaranteed, jointly and severally, to a maximum of \$90 million: (i) KPSI's IQ Bathroom Tissue Loan, (ii) KPSB's IQ Facial Tissue Loan and (iii) the KPSB IQ Debenture.

IQ Bathroom Tissue Credit Agreement

General

KPSI is party to a loan agreement dated as of May 21, 2021 entered into by KPSI, as borrower, and IQ as lender (the IQ Bathroom Tissue Credit Agreement) pursuant to which a secured non-revolving subordinated loan in a maximum amount of \$47 million (the IQ Bathroom Tissue Loan) is made available to KPSI. The purpose of the IQ Bathroom Tissue Loan is to finance the implementation of a bathroom tissue converting line (the BT Line) in the existing Sherbrooke TAD facility, as part of the Sherbrooke Expansion Project. The IQ Bathroom Tissue Loan matures ten years from the earlier of (i) the date on which commercial operation of the BT Line begins (the BT Line Commissioning Date) or (ii) November 1, 2022.

Interest Rates and Fees

Borrowings under the IQ Bathroom Tissue Loan bear interest at a fixed interest rate of 2.0% per annum (the Fixed Rate), calculated monthly, starting on the disbursement date of each payment in respect of the amount disbursed. In the event KPLP is in default (the KPLP Default) under the KPLP Contribution Undertaking Agreement (refer to Transactions with Related Parties for additional details), the Fixed Rate would increase from the date of the KPLP Default (the KPLP Default Date) to 6.0% per annum (the Fixed Default Rate), until the KPLP Default is remedied to IQ's satisfaction within twelve months of the KPLP Default Date, failing which the Fixed Default Rate would continue to apply permanently. Interest is capitalized to the loan principal from the date of the first loan disbursement until the BT Line Commissioning Date. As of the BT Line Commissioning Date, interest will cease to be capitalized and is due and payable monthly.

Prepayments and Repayments

The IQ Bathroom Tissue Loan has a moratorium on repayment of the principal, ending no later than 36 months from November 1, 2022, after which the principal is to be repaid in 84 equal monthly consecutive payments. KPSI may prepay all or part of the IQ Bathroom Tissue Loan at any time and without penalty.

Covenants

The IQ Bathroom Tissue Credit Agreement contains covenants including, but not limited to, delivery of financial and other information to IQ, the preservation of existence, maintenance of insurance and maintenance of operations. The IQ Bathroom Tissue Credit Agreement also contains restrictions on the disposition of assets, incurrence of indebtedness and granting of liens, change of control and changes in the Sherbrooke Expansion Project.

Events of Default

The IQ Bathroom Tissue Credit Agreement contains customary events of default such as non-performance, non-payment, misrepresentation, breach of covenants, cross-default to any other agreement entered into with IQ or any of KPSI's senior lenders, insolvency and enforcement proceedings.

Security and Guarantees

KPLP has guaranteed, jointly and severally, to a maximum of \$90 million: (i) KPSI's IQ Bathroom Tissue Loan, (ii) KPSB's IQ Facial Tissue Loan and (iii) the KPSB IQ Debenture.

The IQ Bathroom Tissue Loan is secured by the BT Line. The security is second ranking immediately after the security granted in favour of KPSI's senior lenders.

IQ Facial Tissue Credit Agreement

General

KPSB is party to a loan agreement dated as of May 21, 2021 entered into by KPSB, as borrower, and IQ as lender (the IQ Facial Tissue Credit Agreement) pursuant to which a secured non-revolving subordinated loan in a maximum amount of \$43 million (the IQ Facial Tissue Loan) is made available to KPSB. The purpose of the IQ Facial Tissue Loan is to finance the implementation a facial tissue converting line (the FT Line) in a new facility adjacent to the Sherbrooke TAD facility, as part of the Sherbrooke Expansion Project. The IQ Facial Tissue Loan matures ten years from the earlier of (i) the date on which commercial operation of the FT Line begins (the FT Line Commissioning Date) or (ii) July 1, 2023.

Interest Rates and Fees

Borrowings under the IQ Facial Tissue Loan bear interest at a fixed interest rate of 2.0% per annum (the Fixed Rate), calculated monthly, starting on the disbursement date of each payment in respect of the amount disbursed. In the event KPLP is in default (the KPLP Default) under the KPLP Contribution Undertaking Agreement (refer to Transactions with Related Parties for additional details), the Fixed Rate would increase from the date of the KPLP Default (the KPLP Default Date) to 6.0% per annum (the Fixed Default Rate), until the KPLP Default is remedied to IQ's satisfaction within twelve months of the KPLP Default Date, failing which the Fixed Default Rate would continue to apply permanently. Interest is capitalized to the loan principal from the date of the first loan disbursement until the FT Line Commissioning Date. As of the FT Line Commissioning Date, interest will cease to be capitalized and is due and payable monthly.

Prepayments and Repayments

The IQ Facial Tissue Loan has a moratorium on repayment of the principal, ending no later than 24 months from July 1, 2023, after which the principal is to be repaid in 96 equal monthly consecutive payments. KPSB may prepay all or part of the IQ Facial Tissue Loan at any time and without penalty.

Covenants

The IQ Facial Tissue Credit Agreement contains covenants including, but not limited to, delivery of financial and other information to IQ, the preservation of existence, maintenance of insurance and maintenance of operations. The IQ Facial Tissue Credit Agreement also contains restrictions on the disposition of assets, incurrence of indebtedness and granting of liens, change of control and changes in the Sherbrooke Expansion Project.

Events of Default

The IQ Facial Tissue Credit Agreement contains customary events of default such as non-performance, non-payment, misrepresentation, breach of covenants, cross-default to any other agreements entered into with IQ or any of KPSB's senior lenders, insolvency and enforcement proceedings.

Security and Guarantees

KPLP has guaranteed, jointly and severally, to a maximum of \$90 million: (i) KPSB's IQ Bathroom Tissue Loan, (ii) KPSB's IQ Facial Tissue Loan and (iii) the KPSB IQ Debenture.

The IQ Facial Tissue Loan is secured by the FT Line. The security is second ranking immediately after the security granted in favour of KPSB's senior lenders.

KPSB Senior Credit Agreement

General

KPSB is a party to a credit agreement dated as of May 21, 2021 entered into by KPSB, as borrower, the lenders party thereto and National Bank of Canada, as administrative agent (the KPSB Senior Credit Agreement). Pursuant to the KPSB Senior Credit Agreement, a \$70 million construction loan repayable by May 21, 2028 (the KPSB Construction Facility) and

a revolving loan of \$10 million with a maturity date of May 21, 2026 with the option to extend the maturity date on an annual basis by one additional year (the KPSB Revolving Facility) were made available as part of the KPSB Senior Credit Facility.

The purpose of the KPSB Construction Facility is to partially finance the implementation of the LDC Machine in a new facility adjacent to the Sherbrooke TAD facility, as part of the Sherbrooke Expansion Project, subject to KPSB having first used the full amount of the KPSB IQ Debenture. The purpose of the KPSB Revolving Facility is to finance general corporate purposes and the ongoing working capital requirements of KPSB.

Interest Rates and Fees

Borrowings under the KPSB Construction Facility bear interest at a base rate of Canadian Prime Rate, U.S. Base Rate, LIBOR, Banker's Acceptance Stamping Fees or LC Fees, plus a margin varying between 0.15% and 3.25% depending on the Total Leverage Ratio (as defined in the KPSB Senior Credit Agreement) and the type of advance. Borrowings under the KPSB Revolving Facility bear interest at a base rate of Canadian Prime Rate or U.S. Base Rate, depending on the type of advance. Stand-by fees are also payable on the available portion of the KPSB Senior Credit Facility at a rate varying between 0.50% and 0.75% depending on the Total Leverage Ratio (as defined in the KPSB Senior Credit Agreement).

Prepayments and Repayments

The KPSB Construction Facility is available for multiple draws on a non-revolving basis, until the achievement of Term Conversion, which occurs on the earlier of (i) substantial completion of the LDC Machine installation (the LDC Machine Substantial Completion Date) or (ii) December 31, 2025 (the Final Acceptance Date). After the achievement of Term Conversion, the principal is to be repaid in quarterly instalments equal to 1.875% of the aggregate principal amount of the outstanding KPSB Construction Facility, annual Excess Cash Flow Sweeps (as defined in the KPSB Senior Credit Agreement) and repayments by an amount equal to the receipt of insurance proceeds by KPSB and any subsidiaries of KPSB, proceeds from the issue of capital stock by KPSB and proceeds from the sale or disposition of tangible and intangible assets of KPSB and any subsidiaries of KPSB. KPSB may at any time voluntarily repay the outstanding KPSB Construction Facility, in whole or in part, without premiums or penalty.

At any time during the six-month period prior to April 30, 2025 (the Scheduled Substantial Completion Date), KPSB may request to reduce the undrawn amount of the KPSB Construction Facility and increase the KPSB Revolving Facility by the same amount. The Scheduled Substantial Completion Date may be extended if it is determined that the LDC Machine Substantial Completion Date is not expected to occur by the Scheduled Substantial Completion Date.

Covenants

The KPSB Senior Credit Agreement contains customary affirmative covenants, including, but not limited to, delivery of financial and other information to the administrative agent, delivery of notice to the administrative agent upon the occurrence of certain material events, preservation of existence and authorizations, maintenance of insurance, compliance with laws, payment of taxes and other claims, limitation of transactions with affiliates and maintenance of security.

The KPSB Senior Credit Agreement requires KPSB to comply with certain financial covenants. At all times, starting on the first day of the fourth fiscal quarter following the quarter during which Term Conversion is achieved, KPSB shall maintain on a quarterly financial basis:

Senior Leverage Ratio not greater than:

- (i) 4.75x up to and including the end of the 7th fiscal quarter;
- (ii) 3.75x from the 8th fiscal quarter up to and including the 11th fiscal quarter; and
- (iii) 3.25x from the 12th fiscal quarter and thereafter

Total Leverage Ratio not greater than:

- (i) 7.00x up to and including the end of the 7th fiscal quarter;
- (ii) 5.25x from the 8th fiscal quarter up to and including the 11th fiscal quarter; and
- (iii) 4.50x from the 12th fiscal quarter and thereafter

Fixed Charge Coverage Ratio not less than:

- (i) 1.10x up to and including the end of the 7th fiscal quarter; and
- (ii) 1.25x from the 8th fiscal quarter and thereafter

The KPSB Senior Credit Agreement contains customary negative covenants of KPSB, including, but not limited to, restrictions on the ability of KPSB to, subject to certain exceptions, grant liens, incur indebtedness, merge or consolidate, make investments and loans, grant guarantees, pay management fees, make acquisitions, declare, set apart and pay distributions, reduce capital, sell or otherwise dispose of assets, incur capital expenditures or materially change their business.

Events of Default

The KPSB Senior Credit Agreement contains customary events of default, including, but not limited to, non-payment, misrepresentation, breach of covenants, cross-default and cross-acceleration to other debt above a certain threshold, cross defaults to the KPSB IQ Debenture, the IQ Facial Tissue Credit Agreement and the KPLP Senior Credit Agreement, insolvency, change of control of KPSB or KPLP and enforcement proceedings.

Security and Guarantees

To secure the obligations under the KPSB Senior Credit Facility, KPSB shall (i) grant first ranking liens (subject to permitted liens) on all its current and future tangible and intangible assets, including a pledge of all capital stock or ownership interest in all subsidiaries, and liens on the LDC Machine and the FT Line, in favour of the administrative agent under the KPSB Senior Credit Agreement, (ii) cause every wholly-owned subsidiary of KPSB to solidarily guarantee the obligations under the KPSB Senior Credit Facility (Future Guarantors) and grant first ranking liens (subject to permitted liens) on all of its current and future tangible and intangible assets, including a pledge of all capital stock or ownership interest in all subsidiaries, in favour of the administrative agent under the KPSB Senior Credit Agreement (there are no Future Guarantors as of September 30, 2021) and (iii) cause KPLP to pledge on a limited recourse basis all of its capital stock in KPSB.

AgCredit Agreement

On March 19, 2021, KPLP entered into the Second Amendment to the AgCredit Agreement, to allow for IQ's expected investment in the Sherbrooke Expansion Project and to provide for other capital investment financing requirements.

Subsequent to September 30, 2021, on November 1, 2021, KPLP drew US\$7.7 million on the US\$188 million term loan facility and \$4.6 million on the \$111 million term loan facility, representing the final draws on the TAD Sherbrooke Project Facility in connection with the financing of the TAD Sherbrooke Project.

KPLP Senior Credit Agreement

On May 21, 2021, KPLP entered into the seventh amended and restated credit agreement (the KPLP Senior Credit Agreement) related to its revolving credit facility (the KPLP Senior Credit Facility), to amend negative covenants and other provisions of the KPLP Senior Credit Agreement to allow for implementation of the Sherbrooke Expansion Project. In conjunction with the issuance of the 2029 Notes on April 8, 2021, capacity under the KPLP Senior Credit Facility was reduced from \$250 million to \$200 million. The borrowings under the KPLP Senior Credit Facility bear interest at a base rate of Canadian prime rate, U.S. base rate, banker's acceptance rates, LIBOR or the applicable benchmark replacement rate, plus a margin varying between 0.20% and 3.50% depending on the ratio of total net funded debt to EBITDA (as defined in the KPLP Senior Credit Agreement) and the type of advance. The KPLP Senior Credit Agreement is for a five year period, maturing on May 21, 2026. The KPLP Senior Credit Agreement provides for certain restrictive undertakings and covenants to be complied with by the Partnership.

The KPLP Senior Credit Agreement is guaranteed by KPLP, KPGP, Kruger Products Real Estate Holdings Inc., Kruger Products (USA) Inc., Kruger Products AFH G.P. Inc. and Kruger Products AFH L.P. and their respective subsidiaries (the Restricted Subsidiaries). KPLP and the Restricted Subsidiaries provide first ranking security interests and hypothecs over their current and future tangible assets to secure the obligations under the KPLP Senior Credit Agreement including a pledge of 100% of the stock or ownership interest in all subsidiaries owned by KPLP and the Restricted Subsidiaries.

Nordea2 Credit Agreement

On May 21, 2021, KPLP entered into an amended credit agreement (the Nordea2 Credit Agreement) related to its Nordea2 Credit Facility, in connection with amendments to the KPLP Senior Credit Facility. No significant changes were made to the Nordea2 Credit Facility.

Citizens Credit Agreement

Subsequent to September 30, 2021, on October 29, 2021, KTG entered into an agreement with Citizens Bank, N.A. (the Citizens Credit Agreement) to finance all costs associated with the implementation of a facial tissue converting line (the KTG FT Line) at the Memphis facility (the Citizens Loan). The Citizens Loan is not to exceed the lesser of (i) US\$21.8 million or (ii) 100% of the fair market value of the KTG FT Line. The loan is to be available as one single draw following the implementation of the KTG FT Line, which is expected to occur in 2022. The Citizens Loan has a seven year term.

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. KPLP's financial instruments exposed to credit risk as of September 30, 2021 included cash and cash equivalents, trade and other receivables, and receivables from related parties. KPLP places its cash and cash equivalents with financial institutions of high creditworthiness.

KPLP sells its products to a variety of customers under certain credit terms and therefore is exposed to credit risks. Normal trade receivables are due within 30 days from the invoice date and amounts in excess of 90 days past the invoice date are considered delinquent. KPLP routinely assesses the financial strength of its customers and mitigates against identified exposure primarily by lowering credit limits with high risk accounts. KPLP's customers are well established companies and accordingly, KPLP has experienced limited financial loss with respect to credit risk. As a result, KPLP believes that its exposure to credit risk is limited. As away-from-home activities re-opened, demand in the AFH Segment began to improve in the third quarter. KPLP determined that its exposure to credit risk associated with its trade receivables was reduced and released a Covid-19 related AFH accounts receivable provision of \$1.3 million recorded in 2020. Management will continue to assess the expected credit losses associated with its trade receivables.

On November 16, 2018, KPLP entered into a factoring arrangement with the Bank of Nova Scotia, pursuant to a Receivables Purchase Agreement, as amended by an amendment agreement dated November 12, 2020. As a result, KPLP sells to the Bank of Nova Scotia eligible trade receivables owing by certain key customers with a facility limit of \$50 million. Eligible trade receivables are sold on a non-recourse basis. KPLP receives 95% of customer invoices sold net of a dilution factor. The dilution factor is an estimate of rebates accrued for each customer in respect of the customer invoice. KPLP is restricted from selling or pledging these trade receivables. The factoring arrangement bears interest at a floating interest rate based on CDOR plus applicable margin. KPLP was committed to a two year term, renewable for additional one year periods. On November 12, 2020, the term was renewed for an additional one year period, maturing November 15, 2021. As eligible trade receivables are sold, KPLP removes the factored receivables from the consolidated statement of financial position, recognizes the proceeds received as consideration for the transfer and records a loss on factoring, which is included in Interest expense in the consolidated statement of comprehensive income (loss). Cash flows from the factoring arrangement are presented as operating activities in the consolidated statement of cash flows.

Currency Risk

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

As of September 30, 2021, KPLP had net liabilities denominated in U.S. dollars of \$258.3 million (September 30, 2020 – \$187.6 million). Assuming the Canadian dollar strengthened (weakened) by 5% against the U.S. dollar, with all other

variables held constant, the result on net loss before tax in Q3 2021 would have been an increase (decrease) of \$12.9 million (Q3 2020 – \$9.4 million).

From time to time, KPLP uses derivative financial instruments to manage foreign currency risk. Foreign exchange swaps and foreign exchange forwards are used to manage U.S. dollar borrowings. As of September 30, 2021, KPLP had no foreign exchange swaps and no foreign exchange forwards outstanding.

Liquidity Risk

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

As of September 30, 2021, KPLP had no cash draws on the \$200 million committed amount under the KPLP Senior Credit Facility entered into on May 21, 2021, maturing in September 2023. KPLP had \$19.1 million of letters of credit outstanding, resulting in \$180.9 million available from the KPLP Senior Credit Facility, subject to covenant limitations. As of September 30, 2021, KPLP had drawn \$2.0 million on the US\$10 million (\$12.7 million) and \$12.5 million committed amounts under the revolving loans of the TAD Sherbrooke Project Facility and had \$7.4 million of letters of credit outstanding, resulting in \$15.8 million available from the revolving loans, subject to covenant limitations. As of September 30, 2021, KPSB had not drawn on the \$10 million committed amount under the KPSB Revolving Facility, resulting in \$10 million available from the KPSB Revolving Facility, subject to covenant limitations. As of September 30, 2021, KPLP had total liquidity of \$273.6 million (December 31, 2020 - \$333.0 million) representing cash and cash equivalents and availability under the KPLP Senior Credit Facility, the revolving loans of the TAD Sherbrooke Project Facility and the KPSB Revolving Facility within the covenant limitations. In addition, \$25.5 million (December 31, 2020 - \$32.3 million) of cash and cash equivalents were held by KPSI and available for the TAD Sherbrooke Project and \$24.8 million (December 31, 2020 – nil) of cash and cash equivalents were held by KPSB and available for the Sherbrooke Expansion Project. KPLP prepares projections to ensure it has sufficient funds to fulfill its obligations.

In conjunction with the issuance of the 2029 Notes on April 8, 2021, capacity under the KPLP Senior Credit Facility was reduced from \$250 million to \$200 million.

The ability to pay its obligations relies on KPLP collecting its trade receivables in a timely manner and by maintaining sufficient cash and cash equivalents in excess of anticipated needs. The risks and uncertainties associated with the COVID-19 pandemic have increased the credit risk associated with trade receivables and such risk is being closely managed. KPLP's trade and other payables of \$231.9 million as of September 30, 2021 (December 31, 2020 –\$332.1 million) are all due for payment within twelve months of the dates of the consolidated statements of financial position.

Interest Rate Risk

KPLP's interest rate risk arises from its variable rate debt related to the KPLP Senior Credit Facility, certain credit facilities made available as part of the TAD Sherbrooke Project Facility and the KPSB Senior Credit Facility. As of September 30, 2021, KPLP had variable rate debts of \$101.8 million (December 31, 2020 – \$92.3 million). The KPLP Senior Credit Facility bears interest at a base rate of Canadian prime rate, U.S. base rate, banker's acceptance rates or LIBOR plus the applicable margins. The applicable margin on the KPLP Senior Credit Facility ranges between 0.20% and 3.50%. The \$111 million term loan made available as part of the TAD Sherbrooke Project Facility bears interest at a floating interest rate based on CDOR plus an applicable margin. The revolving loans of US\$10 million and \$12.5 million made available as part of the TAD Sherbrooke Project Facility also bear interest at floating interest rates. The KPSB Senior Credit Facility bears interest at a base rate of Canadian prime rate, U.S. base rate, banker's acceptance rates or LIBOR plus the applicable margins. The applicable margin on the KPSB Senior Credit Facility ranges between 0.15% and 3.25%.

A 100 basis point increase (decrease) in the market rate of interest would result in a decrease (increase) in net loss before tax of \$1.0 million.

From time to time, KPLP uses interest rate swaps to manage part of its exposure to movements in interest rates on its credit facilities.

Commodity Price Risk

Commodity price risk is the risk that future cash flows associated with purchasing required raw materials will fluctuate due to changes in commodity prices, which can be affected by foreign exchange and other trade related risks. KPLP is subject to commodity price fluctuations since KPLP's main raw material is fibre, which changes price due to market conditions, and therefore can result in periodic earnings volatility in the short term. Historically, the industry has generally been able to mitigate its exposure to commodity price risk over the medium term by passing increases in its supply costs onto its customers through incremental price increases, depending on the supply and demand balance. The ability to eventually pass through the full amount of pulp cost increases can be impacted by the competitive market situation. There can be no assurance that the historical ability to pass through increases in costs will continue to occur in the future. From time to time, KPLP enters into futures contracts to manage its commodity risk. No such contracts were outstanding as of September 30, 2021 and September 30, 2020.

TRANSACTIONS WITH RELATED PARTIES

KPLP 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 KPLP, 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 KPLP procurement; project development and management services (including in connection with the TAD Sherbrooke Project), corporate development support, environmental support and corporate engineering support services. The annual management fee paid by KPLP to Kruger under this agreement will be \$7.4 million which amount will be adjusted for inflation annually.

During YTD 2021, management fees of \$5.6 million (YTD 2020 - \$5.5 million) were paid to Kruger Inc. for management services provided to KPLP.

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

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

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

Sales of goods and services to Kruger Inc. during YTD 2021 were \$1.2 million (YTD 2020 – \$0.2 million). Sales of goods and services to subsidiaries of Kruger Inc. during YTD 2021 were \$1.5 million (YTD 2020 – nil). Goods are sold based on the price lists in force and terms that would be available to third parties.

Purchases of goods and services from Kruger Inc. during YTD 2021 were \$6.2 million (YTD 2020 - \$7.3 million). Purchases of goods and services from subsidiaries of Kruger Inc. during YTD 2021 were \$40.4 million (YTD 2020 - \$42.3 million). Goods are purchased from Kruger Inc. and related parties under normal commercial terms and conditions. These purchases of goods and services are included within cost of sales and SG&A expenses.

As part of the commitment of the IQ financing for the Sherbrooke Expansion Project, KPLP entered into a contribution undertaking agreement with a subsidiary of KPLP's majority partner, Kruger Brompton L.P. (KBLP), dated as of May 21, 2021 (the KPLP Contribution Undertaking Agreement) pursuant to which KPLP will be required to make payments to KBLP in an aggregate amount of \$58 million over a period of ten years (the Contribution). The Contribution will be payable by KPLP in ten annual equal and consecutive payments of \$5.8 million each, the first payment being payable by KPLP on May 21, 2023 and subsequent payments being payable by KPLP on May 21 of each year thereafter until May 21, 2032. Notwithstanding the foregoing, the first payment of the Contribution will be reduced by \$0.1 million, which is equal to the purchase price paid by KPSB to KBLP for the sale of immovable property under the deed of sale dated May 21, 2021. KPLP has agreed to pay the Contribution in exchange for access to shared infrastructure and services, the transfer of properties to complete the Sherbrooke Expansion Project and KBLP's facilitation of the capital and financing structure for the Sherbrooke

Expansion Project. The increase in the obligation due to passage of time is recognized as Interest expense (YTD 2021 - \$0.8 million).

OFF BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS

KPLP 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, which requires KPLP Management to make estimates and assumptions that affect the reported amounts and disclosures made in the KPLP and KPT financial statements and accompanying notes. KPLP Management continually evaluates the estimates and assumptions it uses. These estimates and assumptions are based on KPLP Management's historical experience, best knowledge of current events and conditions and activities that KPLP and KPT may undertake in the future. Actual results could differ materially from these estimates. The estimates and assumptions described in this section depend upon subjective or complex judgment that may be uncertain and changes in these estimates and assumptions could materially impact the financial statements.

Pension and Post-Retirement Benefit Obligations

The cost and accrued benefit plan obligations of KPLP's pension plans, consisting of the RDBPP, supplementary retirement arrangements and the Annuity Arrangement and other benefit plans are accrued based on actuarial valuations that are dependent on assumptions determined by KPLP Management. These assumptions include the discount rate, the expected growth rate of health care costs, the rate of compensation increase, retirement ages and mortality rates. These assumptions are reviewed quarterly by KPLP Management and KPLP's actuaries. The discount rate (based on market rates) and the expected growth rate in health care costs represent the most significant assumptions.

Partnership Units Liability

On December 13, 2012, in connection with the issuance of Partnership units to KPT, the Limited Partnership Agreement was amended to require KPLP, subject to compliance with contractual obligations and applicable law, to make distributions to its partners in such amounts as would enable KPT to discharge its obligation to pay federal and provincial income taxes (the Tax Distribution). Each partner is entitled to its share of the Tax Distribution made in respect of any given year. KPLP determined that it was appropriate to reclassify a portion of its equity to Partnership units liability, since the Tax Distribution represents a contractual obligation to deliver cash and, as such, meets the definition of a financial liability for accounting purposes under IFRS.

The liability is based on KPLP Management's best estimate of the net present value of expected future Tax Distributions, which are made on a pro rata basis based on taxes payable by KPT, which results from KPT's taxable income from its partnership interest in KPLP. KPLP updates the net present value of the liability annually and records any resulting change in Other income (expense). The net present value of the liability is based on a number of assumptions including estimates of taxable income and tax rates, as well as discount rates, growth rates, forecasted Adjusted EBITDA, future commodity prices and foreign exchange rates. Taxable income can differ significantly from accounting income as a result of both timing and permanent tax differences based on enacted tax legislation and therefore changes in the Partnership units obligation are not necessarily indicative of a change in the expected future profitability of KPLP.

As of September 30, 2021, \$178.2 million was recorded as a liability in respect of this obligation (December 31, 2020 - \$185.4 million). The Partnership units liability was adjusted during YTD 2021 to reflect the Tax Distribution required to meet KPT's taxes payable. The change in amortized cost of Partnership units liability of \$10.3 million recorded during YTD 2021 (YTD 2020 - \$10.9 million) has been included in Other expense, reflecting KPLP's best estimate of the quarterly portion of the full year Tax Distribution.

KPLP considered whether the current market conditions resulting from the COVID-19 pandemic required a reassessment of the Partnership units liability and concluded that there had been no substantial change to the financial forecast used in the last assessment.

Equity Method of Accounting

The equity method of accounting is being applied by KPT as it relates to its investment in KPLP. The conclusion to account for an investment using the equity method, particularly when the percentage of ownership is below 20%, is based on an assessment of several facts and circumstances and ultimately requires significant judgment in reaching a conclusion. Management has reviewed the agreements and made an assessment of the rights of KPT. Based on KPT having 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 KPLP.

KPLP considered whether the current market conditions resulting from the COVID-19 pandemic created an indicator of impairment in the KPT investment. KPLP concluded the future forecasts that support the investment value had not changed significantly and therefore there was no indication of impairment for the 9-month period ended September 30, 2021.

Impairment Tests

KPLP performs annual impairment tests for goodwill, as it relates to each of the Consumer Canada and AFH CGU's, and indefinite lived trademarks. KPT is required to perform an impairment test on its investment in KPLP if there is objective evidence that the investment may be impaired. Under IFRS, KPLP and KPT considered whether the events and changes in circumstances resulting from the COVID-19 pandemic indicated that the assets may be impaired and concluded that because the financial forecasts used to support the impairment tests had not changed significantly, there was no indication of impairment.

Income Taxes

KPLP computes its income taxes in each jurisdiction in which its subsidiaries operate. Estimation of income taxes includes evaluating the recoverability of the deferred tax assets based on an assessment of the ability to use the underlying tax deductions and credits against future taxable income. The assessment requires an estimate of future taxable income compared to the net operating loss carry forwards and U.S. State tax credits. To the extent estimates differ from the final tax return, earnings would be affected in a subsequent period.

KPLP considered whether the events and changes in circumstances resulting from the COVID-19 pandemic impacted its ability to utilize the U.S. state tax credits and concluded that because the financial forecasts used to support the assessment tests had not changed significantly, there was no need to perform a reassessment.

KPT has not recognized at the date of acquisition the deferred tax assets and liabilities related to the differences between the accounting and tax basis of KPLP's assets and liabilities. Accordingly, KPT is tracking temporary differences that are subject to the initial recognition exemption and recognizes newly created temporary differences as they arise. The determination of the temporary differences that are subject to the initial recognition exemption requires significant judgment. KPT has not recognized the deferred tax asset related to its investment in KPLP.

Leases

A number of critical judgements are required in the application of IFRS 16. These judgements include 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.

Key estimates in the application of IFRS 16 include estimating the lease term, determining the appropriate rate to discount lease payments, and assessing whether a right-of-use asset is impaired.

COVID-19

During YTD 2021, KPLP considered the impact of COVID-19 on its critical accounting estimates and judgments, including its assessment of the assumptions and estimates made in its valuation of the Partnership units liability and pension liability, the assumptions utilized in its assessment of the recoverability of deferred tax assets, the assessment of triggering events with respect to its impairment analysis for property, plant and equipment and the impact on credit risk and liquidity risk.

While management has concluded that there was no material change in the assumptions relevant to the valuation of the Partnership units liability or recoverability of deferred tax assets as of September 30, 2021 and that during YTD 2021, no triggering event had occurred requiring an impairment test to be performed with respect to non-current assets, the length and severity of the COVID-19 pandemic could result in future material changes to those assumptions or future impairment charges. As away-from-home activities re-opened, demand in the AFH Segment began to improve in the third quarter. KPLP determined that its exposure to credit risk and liquidity risk associated with its trade receivables was reduced and released a Covid-19 related AFH accounts receivable provision of \$1.3 million recorded in 2020. Management will continue to assess the expected credit losses associated with its trade receivables.

ACCOUNTING CHANGES AND FUTURE ACCOUNTING STANDARDS

Accounting Standards Implemented for the Period Ended September 30, 2021

- (i) IFRS 9/IAS 39, IFRS 7, IFRS 4 and IFRS 16, Interest Rate Benchmark Reform (Phase 2). In August 2020, the IASB issued amendments that address issues arising from the implementation of interest rate benchmark reform, including the replacement of one benchmark with an alternative one. The mandatory effective date was for annual periods beginning on or after January 1, 2021. The amended standards had no material impact on the unaudited condensed consolidated financial statements.
- (ii) IFRS 16, COVID-19-Related Rent Concessions. In May 2020, the IASB issued an amendment to provide lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification for any reduction in lease payments originally due on or before June 30, 2021. In March 2021, the IASB issued an amendment to extend the practical expedient to any reduction in lease payments originally due on or before June 30, 2022. The mandatory effective date was for annual periods beginning on or after April 1, 2021, with early adoption permitted. The amended standard had no impact on the unaudited condensed consolidated financial statements.

Future Accounting Standards

The following revised standards and amendments are effective for annual periods beginning on or after January 1, 2022, and with earlier application permitted. KPLP and KPT Management are in the process of assessing the impact of these standards and amendments, and have determined that the standards and amendments will not be early adopted.

- (i) 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. The mandatory effective date would be annual periods beginning on or after January 1, 2023, with early adoption permitted. The amended standard is not expected to have an impact on the unaudited condensed consolidated financial statements.
- (ii) IFRS 3, Reference to Conceptual Framework. In May 2020, the IASB issued an amendment to IFRS 3 to (i) clarify references to the 2018 Conceptual Framework in order to determine what constitutes an asset or liability in a business combination, (ii) add an exception for certain liabilities and contingent liabilities to refer to IAS 37 or IFRIC 21 and (iii) clarify that an acquirer should not recognize contingent assets at the acquisition date. The mandatory effective date would be annual periods beginning on or after January 1, 2022, with early adoption permitted. The amended standard is not expected to have an impact on the unaudited condensed consolidated financial statements.

- (iii) IAS 37, Onerous Contracts – Cost of Fulfilling a Contract. In May 2020, the IASB issued an amendment to IAS 37 to clarify which costs to include in estimating the cost of fulfilling a contract for the purpose of assessing whether that contract is onerous. The mandatory effective date would be annual periods beginning on or after January 1, 2022, with early adoption permitted. The amended standard is not expected to have an impact on the unaudited condensed consolidated financial statements.
- (iv) IAS 16, Proceeds before Intended Use. In May 2020, the IASB issued an amendment to IAS 16 to clarify the accounting for the net proceeds from selling any items produced while bringing an item of property, plant and equipment into use. The mandatory effective date would be annual periods beginning on or after January 1, 2022, with early adoption permitted. The amended standard is not expected to have a material impact on the unaudited condensed consolidated financial statements.
- (v) IAS 1, Disclosure of Accounting Policies. In February 2021, the IASB issued amendments to IAS 1 to provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The mandatory effective date would be annual periods beginning on or after January 1, 2023, with early adoption permitted. The amended standard is not expected to have an impact on the unaudited condensed consolidated financial statements.
- (vi) IAS 8, Accounting Policies, Changes to Accounting Estimates and Errors. In February 2021, the IASB issued amendments to IAS 8 to introduce a new definition of accounting estimates to clarify the distinction between changes in accounting policies and changes in accounting estimates and the correction of errors. The mandatory effective date would be annual periods beginning on or after January 1, 2023, with early adoption permitted. The amended standard is not expected to have an impact on the unaudited condensed consolidated financial statements.
- (vii) IAS 12, Deferred Tax related to Assets and Liabilities arising from a Single Transaction. In May 2021, the IASB issued amendments to IAS 12 that require an entity to recognize deferred tax on certain transactions such as leases and decommissioning obligations that give rise to equal amounts of taxable and deductible temporary differences on initial recognition. The mandatory effective date would be annual periods beginning on or after January 1, 2023, with early adoption permitted. The amended standard is not expected to have an impact on the unaudited condensed consolidated financial statements.

SELECTED QUARTERLY FINANCIAL INFORMATION

The following table provides selected financial information for KPT and KPLP:

(C\$ millions, unless otherwise stated)	September 30, 2021	December 31, 2020
KPT Financial Information		
Total assets	81.9	71.3
Total liabilities	4.3	5.0
KPLP Financial Information		
Total assets	2,065.8	1,951.3
Total liabilities	1,653.0	1,662.9

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

(C\$ millions, unless otherwise stated)	2021			2020				2019
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Number of days in the period	92	91	90	92	92	91	91	92
Revenue	391.4	339.3	310.4	385.0	369.1	386.8	375.1	348.1
Net income (loss) for the period	(9.3)	2.2	6.8	(28.5)	18.5	28.9	8.4	(6.1)
Reconciliation of Net income (loss) to Adjusted EBITDA								
Net income (loss)	(9.3)	2.2	6.8	(28.5)	18.5	28.9	8.4	(6.1)
Interest expense	18.7	16.3	12.9	9.3	9.8	11.3	10.6	10.9
Income taxes	(4.6)	(3.0)	(0.2)	0.7	(0.7)	8.8	(0.1)	0.8
Depreciation and amortization	23.5	22.2	18.2	19.0	15.9	17.0	16.9	16.0
Foreign exchange (gain) loss	8.3	(4.1)	(3.7)	(10.4)	(3.4)	(5.8)	9.3	(0.8)
Change in amortized cost of								
Partnership units liability	3.5	3.4	3.4	36.2	5.8	2.5	2.5	22.3
Change in fair value of derivatives	-	-	-	-	-	-	(0.4)	0.4
Loss on sale of property, plant and equipment	-	0.3	-	0.9	-	-	-	-
Impairment charge	-	-	-	8.9	-	-	-	-
Restructuring costs, net	0.2	(0.1)	0.1	-	0.1	0.5	0.7	0.1
Consulting costs related to								
operational transformation initiatives	-	-	-	-	-	1.2	3.1	2.4
Corporate development related costs	-	0.1	-	0.1	0.2	-	-	-
Adjusted EBITDA	40.3	37.3	37.5	36.2	46.2	64.4	51.0	46.0

SHARE INFORMATION

KPT's authorized share capital consists of an unlimited number of Common Shares. As of November 11, 2021, there were 9,895,419 Common Shares issued and outstanding. Pursuant to the Exchange Agreement, Kruger Inc. has the right to exchange KPLP Units it holds from time to time for Common Shares on the basis of one KPLP Unit for one Common Share, subject to adjustment as set out in the Exchange Agreement. If Kruger Inc. were to exchange all KPLP Units held by it as of November 11, 2021 for Common Shares, it would hold approximately 85.5% of the issued and outstanding Common Shares. As of November 11, 2021, there were no potentially dilutive instruments outstanding.

Pursuant to the Limited Partnership Agreement, KPLP may issue an unlimited number of KPLP Units. As of November 11, 2021, there were 68,333,895 KPLP Units issued and outstanding.

RISK FACTORS

For a detailed description of risk factors associated with KPT and KPLP, refer to the "Risk Factors" section of the 2020 Annual Information Form dated March 11, 2021 available on SEDAR at www.sedar.com. KPLP Management is not aware of any significant changes to the risk factors associated with KPT and KPLP from those disclosed at that time, except for the following:

Risks Associated with the Sherbrooke Expansion Project

KPLP may be unable to complete the Sherbrooke Expansion Project on time and on budget, and it may never achieve its projected capacity. Risks related to the Sherbrooke Expansion Project include, among others:

- despite the fact that key agreements related to the construction of the project will contain caps on cost and liquidated damages in case of delays, there is no assurance that the Sherbrooke Expansion Project will be completed within the contemplated timeframe or in accordance with anticipated costs or that recourse against the suppliers under such agreements, if available, will be sufficient to cover damages suffered by KPLP or its subsidiaries;

- there is no assurance that the start-up of the machine or converting lines will occur as anticipated, which could, among other things, result in lower levels of production or cost overruns associated with the start-up;
- the profitability of the Sherbrooke Expansion Project depends on, among other things, KPLP's ability to sell forecasted volume at prices that are at or near current prices. There is no guarantee that KPLP will receive orders to meet expected volumes from the Sherbrooke Expansion Project at profitable pricing.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures and Internal Control over Financial Reporting

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

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

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

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

Changes in Internal Controls over Financial Reporting

There have been no changes to the Corporations' internal controls over financial reporting during Q3 2021 that have materially affected, or are reasonably expected to materially affect, its internal controls over financial reporting.

ADDITIONAL INFORMATION

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