



KP TISSUE INC. AND KRUGER PRODUCTS L.P.

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

FOR THE 3-MONTHS ENDED MARCH 31, 2021

DATED MAY 6, 2021

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The following Management's Discussion and Analysis (MD&A) dated May 6, 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 March 31, 2021 and March 31, 2020, respectively, and the unaudited condensed consolidated financial statements of KPLP for the 3-month periods ended March 31, 2021 (Q1 2021) and March 31, 2020 (Q1 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 14.6% interest in KPLP (14.7% as of March 31, 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, including expected cost-savings related to the restructuring activities, refinancing, and the installation of TAD Sherbrooke (as defined below), are, without limitation, based on the assumptions and subject to the risks set out above.

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

OVERVIEW

Business Overview

KPLP is Canada's leading tissue products supplier by overall dollar and volume market share. It produces, distributes, markets and sells a wide range of disposable tissue products, including bathroom tissue, facial tissue, paper towels and napkins, for both the Consumer and the Away-From-Home (AFH) markets (in each case, as defined below). While its principal focus is on the Canadian consumer-branded tissue products market, KPLP is also a leader in the Canadian AFH market and has a considerable presence in the U.S. private label tissue market. 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 April 15, 2021, KPT held 14.6% of the KPLP Partnership Units (KPLP Units).

Basis of Presentation

The unaudited condensed consolidated financial statements of KPLP presented for Q1 2021 and Q1 2020 and the unaudited condensed financial statements of KPT presented for the 3-month periods ended March 31, 2021 and March 31, 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 periods ended March 31, 2021 (Q1 2021) and March 31, 2020 (Q1 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 quarter of 2021, we have experienced significant volume decreases in the Consumer Segment 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 has carried over into 2021. 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 March 31, 2021, a total of \$527.0 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\$159.2 million cash drawn on the US\$188 million term loan facility (December 31, 2020 – US\$144.9 million cash drawn);
- (ii) \$94.0 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 \$6.3 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 an 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.

The \$240 million project is expected to be financed 100% with debt. IQ has signed a letter of intent to invest \$165 million in the project as follows: (i) \$118 million, by way of a \$75 million convertible debenture and a \$43 million subordinated loan to Kruger Products SB Inc. (KPSB), a newly created wholly owned subsidiary of KPLP which will operate the LDC Machine and FT Line in the new facility, and (ii) \$47 million by way of a subordinated loan to KPSI, which operates the Sherbrooke TAD facility. The debenture and loans are expected to have a ten year term.

As part of the commitment of the IQ financing, KPLP will be required to make annual payments of \$5.8 million to Kruger Brompton L.P. (KBLP) over a 10 year period in exchange for access to shared infrastructure and services, the transfer of properties to complete the project and KBLP's facilitation of the capital and financing structure for the project. The remaining \$75 million required for the project is expected to be financed by a senior bank facility.

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.

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 intends to use the net proceeds from the offering to reduce the outstanding balance under the 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)	Q1 2021	Q1 2020	\$ Change Q1 2021 vs. Q1 2020
Statement of Operations Data:			
Revenue	310.4	375.1	(64.7)
Cost of sales	(263.3)	(314.5)	51.2
Selling, general and administrative expenses	(27.8)	(29.6)	1.8
Restructuring costs, net	(0.1)	(0.7)	0.6
Operating income	19.2	30.3	(11.1)
Interest expense	(12.9)	(10.6)	(2.3)
Other income (expense)	0.3	(11.4)	11.7
Income before income taxes	6.6	8.3	(1.7)
Income taxes:			
Combined income tax rate after manufacturing and processing credits	(1.7)	(2.2)	0.5
Income tax in partners' hands	2.3	2.1	0.2
Other	(0.4)	0.2	(0.6)
Income taxes	0.2	0.1	0.1
Net income	6.8	8.4	(1.6)

(C\$ millions, unless otherwise noted)	Q1 2021	Q1 2020	\$ Change Q1 2021 vs. Q1 2020
Reconciliation of Adjusted EBITDA to Net income:			
Net income	6.8	8.4	(1.6)
Interest expense	12.9	10.6	2.3
Income taxes	(0.2)	(0.1)	(0.1)
Depreciation and amortization	18.2	16.9	1.3
Foreign exchange (gain) loss	(3.7)	9.3	(13.0)
Change in amortized cost of Partnership units liability	3.4	2.5	0.9
Change in fair value of derivatives	-	(0.4)	0.4
Restructuring costs, net	0.1	0.7	(0.6)
Corporate development related costs	-	3.1	(3.1)
Adjusted EBITDA	37.5	51.0	(13.5)

Results of Operations Q1 2021 compared to Q1 2020

Revenue

Revenue was \$310.4 million in Q1 2021 compared to \$375.1 million in Q1 2020, a decrease of \$64.7 million or 17.3%. The decrease in revenue was primarily due to significant sales volume decreases in both Canada and the U.S. resulting from the following: high COVID-19 buying activity in the year ago quarter across all business segments; the de-stocking of tissue inventories by both retailers and consumers in the Consumer segment in Q1 2021; and the unfavourable impact of work-from-home and COVID-19 related restrictions on travel and large gatherings in the AFH segment in Q1 2021. Revenue was also unfavourably impacted by foreign exchange fluctuations on U.S. dollar sales (USD average 1.27 in Q1 2021 compared to 1.34 in Q1 2020). From a geographic perspective, revenue in Canada decreased \$35.5 million or 15.4%, while revenue in the U.S. decreased \$29.2 million, or 20.2%.

Cost of Sales

Cost of sales was \$263.3 million in Q1 2021 compared to \$314.5 million in Q1 2020, a decrease of \$51.2 million or 16.3%. 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 in Q1 2021 resulting from increased inventory levels. These decreases in manufacturing costs were partially offset by unfavourable pulp costs, higher outsourcing costs compared to Q1 2020, inflation, additional maintenance costs, in part due to ongoing precautions taken in our manufacturing facilities as a result of COVID-19 and start-up costs related to the TAD Sherbrooke Project. Freight costs decreased compared to Q1 2020 primarily due to lower volume, partially offset by increased freight rates resulting from complexity associated with shipping products in the current environment. Warehousing costs increased compared to Q1 2020 related primarily to higher inventories. As a percentage of revenue, cost of sales was 84.8% in Q1 2021 compared to 83.8% in Q1 2020.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses were \$27.8 million in Q1 2021 compared to \$29.6 million in Q1 2020, a decrease of \$1.8 million or 6.3%. The decrease was primarily due to lower advertising and promotion expenses, while foreign exchange losses offset a reduction in compensation related costs and lower bad debt expense compared to the year ago quarter. As a percentage of revenue, SG&A expenses were 8.9% in Q1 2021 compared to 7.9% in Q1 2020.

Adjusted EBITDA

Adjusted EBITDA was \$37.5 million in Q1 2021 compared to \$51.0 million in Q1 2020, a decrease of \$13.5 million or 26.5%. 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, slightly offset by lower SG&A expenses.

Interest Expense

Interest expense was \$12.9 million in Q1 2021 compared to \$10.6 million in Q1 2020, an increase of \$2.3 million. The increase was primarily due to higher debt levels primarily as a result of the TAD Sherbrooke Project.

Other Income (Expense)

Other income was \$0.3 million in Q1 2021 compared to other expense of \$11.4 million in Q1 2020. Other income in Q1 2021 was primarily related to a foreign exchange gain on USD denominated debt of \$3.7 million (Q1 2020 – loss of \$9.3 million), partially offset by an expense resulting from the change in amortized cost of Partnership units liability of \$3.4 million (Q1 2020 – \$2.5 million). Other income in Q1 2020 also included a gain resulting from a change in the fair value of derivatives of \$0.4 million.

Income Taxes

An income tax recovery of \$0.2 million was recorded in Q1 2021 compared to \$0.1 million in Q1 2020. KPLP is not directly taxable on its Canadian business. Income tax in partner's hands was a recovery of \$2.3 million in Q1 2021 compared to \$2.1 million in Q1 2020.

Net Income

Net income was \$6.8 million in Q1 2021 compared to \$8.4 million in Q1 2020, a decrease of \$1.6 million. The decrease was primarily due to lower Adjusted EBITDA of \$13.5 million as discussed above, higher interest expense of \$2.3 million and higher depreciation expense of \$1.3 million, partially offset by an increase in other income of \$11.7 million, no consulting costs related to operational transformation initiatives in Q1 2021 compared to \$3.1 million in Q1 2020 and lower restructuring costs of \$0.6 million.

Results of Operations of KPT

(C\$ millions, unless otherwise noted)	3-month	3-month
	period ended	period ended
	March 31, 2021	March 31, 2020
Statement of Operations Data:		
Share of income	1.0	1.3
Depreciation of fair value increments	(1.3)	(1.4)
Equity loss	(0.3)	(0.1)
Dilution gain	-	0.2
Income (loss) before income taxes	(0.3)	0.1
Income taxes:		
Current tax expense	(0.6)	(0.7)
Deferred tax recovery	2.1	2.3
Income taxes	1.5	1.6
Net income	1.2	1.7
Basic earnings per share (dollars)	0.12	0.18

The financial information presented above is based on KPT's interest in KPLP for Q1 2021 and Q1 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 3-month period ended March 31, 2021, pursuant to the Tax Distribution as defined in the Partnership Agreement, KPLP made advances to its partners of \$2.2 million, of which \$0.3 million was used to pay the monthly tax instalment on behalf of KPT and the remaining was advanced to Kruger Inc. and KPGP. 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)	Q1 2021	Q1 2020	Q1 2021 vs Q1 2020	
			\$ Change	% Change
Segment Revenue				
Consumer	271.4	313.2	(41.8)	-13.3%
AFH	39.0	61.9	(22.9)	-37.0%
Total segment revenue	<u>310.4</u>	<u>375.1</u>	<u>(64.7)</u>	<u>-17.2%</u>
Adjusted EBITDA				
Consumer	44.1	54.3	(10.2)	
AFH	(4.8)	(1.0)	(3.8)	
Corporate and other costs	(1.8)	(2.3)	0.5	
Total Adjusted EBITDA	<u>37.5</u>	<u>51.0</u>	<u>(13.5)</u>	

Consumer Segment

Q1 2021 compared to Q1 2020

Consumer segment revenue was \$271.4 million in Q1 2021 compared to \$313.2 million in Q1 2020, a decrease of \$41.8 million or 13.3%. The decrease in revenue was primarily due to significant volume decreases in the Consumer business in Canada and the U.S. resulting primarily from the de-stocking of tissue inventories by both retailers and consumers in Q1 2021 compared to high COVID-19 buying activity in Q1 2020 and 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 \$44.1 million in Q1 2021 compared to \$54.3 million in Q1 2020, a decrease of \$10.2 million. Lower sales volume in both Canada and the U.S., unfavourable pulp costs and higher outsourcing activities compared to Q1 2020 were partially offset by higher absorption of overhead costs into inventory in Q1 2021 resulting from increased inventory levels and lower advertising and promotion expenses.

AFH Segment

Q1 2021 compared to Q1 2020

AFH segment revenue was \$39.0 million in Q1 2021 compared to \$61.9 million in Q1 2020, a decrease of \$22.9 million or 37.0%. The decrease was primarily due to significantly lower sales volumes resulting from the unfavourable impact of work-from-home and COVID-19 related restrictions on travel and large gatherings. AFH segment revenue decreased in both the U.S. and Canada.

AFH Segment Adjusted EBITDA was a loss of \$4.8 million in Q1 2021 compared to a loss of \$1.0 million in Q1 2020, a decrease of \$3.8 million. The decrease was primarily due to lower sales volume, partially offset by cost reduction activities.

Corporate and Other Costs

Q1 2021 compared to Q1 2020

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 includes only certain management overhead costs not directly attributable to the business segments.

Corporate and other costs were \$1.8 million in Q1 2021 compared to costs of \$2.3 million in Q1 2020, a decrease of \$0.5 million.

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 March 31, 2021, KPLP was in compliance with all of its financial covenants under all of its outstanding credit facilities. As of March 31, 2021, KPLP had drawn \$80.0 million from the \$250 million committed amount under the Senior Credit Facility and had \$19.1 million of letters of credit outstanding, resulting in \$150.9 million available from the Senior Credit Facility, subject to covenant limitations. As of March 31, 2021, KPLP had drawn \$2.0 million on the US\$10 million and \$12.5 million committed amounts under the revolving loans of the TAD Sherbrooke Project Facility and had \$6.3 million of letters of credit outstanding, resulting in \$16.7 million available from the revolving loans, subject to covenant limitations. As of March 31, 2021, KPLP had total liquidity of \$202.8 million (December 31, 2020 - \$333.0 million) representing cash and cash equivalents and availability under the Senior Credit Facility and the revolving loans of the TAD Sherbrooke Project Facility within the covenant limitations. In addition, \$22.4 million (December 31, 2020 - \$32.3 million) of cash and cash equivalents were held by KPSI and committed to the TAD Sherbrooke Project.

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

As it pertains to capital expenditures, approximately \$25.0 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 \$54.7 million in Q1 2021, including \$51.1 million related to the TAD Sherbrooke Project (including interest capitalized during construction). The TAD Sherbrooke Project also had \$25.2 million of accrued and unpaid capital spending as of March 31, 2021. Capital expenditures are expected to be approximately \$160 million to \$180 million in fiscal 2021, including the remaining TAD Sherbrooke Project expenditures of approximately \$115 million.

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)	Q1 2021	Q1 2020	\$ Change
			Q1 2021 vs. Q1 2020
Net cash flows from (used in) operating activities	(84.5)	26.8	(111.3)
Net cash flows used in investing activities	(54.7)	(70.9)	16.2
Net cash flows from financing activities	68.5	91.4	(22.9)
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	(0.4)	4.2	(4.6)
Increase (decrease) in cash and cash equivalents	(71.1)	51.5	(122.6)
Beginning cash and cash equivalents, net	128.7	93.1	35.6
Ending cash and cash equivalents, net	57.6	144.6	(87.0)

Net Cash Flows from (used in) Operating Activities

Net cash used in operating activities was \$84.5 million in Q1 2021 compared to net cash from operating activities of \$26.8 million in Q1 2020. Cash used in operating activities in Q1 2021 was primarily driven by Adjusted EBITDA of \$37.5 million (Q1 2020 – \$51.0 million), partially offset by an increase in working capital of \$122.5 million (Q1 2020 – increase of \$21.5 million) and funding of pension and post-retirement benefit plans of \$3.8 million (Q1 2020 – \$4.1 million).

Net Cash Flows used in Investing Activities

Net cash used in investing activities was \$54.7 million in Q1 2021 compared to \$70.9 million in Q1 2020. Cash used in investing activities related to capital expenditures of \$54.7 million (including \$51.1 million for the TAD Sherbrooke Project and \$3.6 million for the existing business) in Q1 2021 compared to \$71.9 million (including \$66.8 million for the TAD Sherbrooke Project and \$5.1 million for the existing business) in Q1 2020. This was partially offset by the final proceeds due on sale of shares of Grupo Tissue de Mexico S de RL de CV (GTM) of \$1.0 million in Q1 2020.

Net Cash Flows from Financing Activities

Net cash from financing activities was \$68.5 million in Q1 2021 compared to \$91.4 million in Q1 2020. Net cash from financing activities in Q1 2021 was primarily due to net proceeds from debt of \$103.0 million (Q1 2020 – \$104.3 million), partially offset by distributions and advances paid (net of DRIP proceeds) of \$20.5 million (Q1 2020 – \$6.5 million) primarily driven by a larger Tax Distribution compared to Q1 2020, interest paid of \$7.0 million (Q1 2020 – \$1.9 million) and lease payments of \$6.6 million (Q1 2020 – \$4.5 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 March 31, 2021, KPLP had \$15.0 million (December 31, 2020 – \$23.5 million) commitments related to the TAD Sherbrooke Project.

KPLP's cash pension contribution for defined benefit pension arrangements in Q1 2021 was \$3.2 million, while its post-retirement benefits contribution was \$0.6 million. In addition, as of March 31, 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

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 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., K.T.G. (USA) Inc. (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., 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.

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 March 31, 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. However, the risk and uncertainties associated with the COVID-19 pandemic have increased that risk, which is being closely managed.

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 March 31, 2021, KPLP had net liabilities denominated in U.S. dollars of \$256.3 million (March 31, 2020 – \$27.4 million). Assuming the Canadian dollar strengthened (weakened) by 5% against the U.S. dollar, with all other variables held constant, the result on net income before tax in Q1 2021 would have been an increase (decrease) of \$12.8 million (Q1 2020 – \$1.4 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 March 31, 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 March 31, 2021, KPLP had drawn \$80.0 million from the \$250 million committed amount under the Senior Credit Facility entered into on April 24, 2018, as amended by a first supplemental credit agreement dated November 19, 2018 and a second supplemental credit agreement dated September 19, 2019, maturing in September 2023. The financial covenants were amended by a consent letter dated as of May 27, 2020. KPLP had \$19.1 million of letters of credit outstanding, resulting in \$150.9 million available from the Senior Credit Facility, subject to covenant limitations. As of March 31, 2021, KPLP had drawn \$2.0 million on the US\$10 million and \$12.5 million committed amounts under the revolving loans of the TAD Sherbrooke Project Facility, entered into on November 19, 2018, as amended by the first amendment to the credit agreement executed as of April 20, 2020, dated and effective as of March 23, 2020, maturing in December 31, 2023. KPLP had \$6.3 million of letters of credit outstanding, resulting in \$16.7 million available from the revolving loans, subject to covenant limitations. As of March 31, 2021, KPLP had total liquidity of \$202.8 million (December 31, 2020 - \$333.0 million) representing cash and cash equivalents and availability under the Senior Credit Facility and the revolving loans of the TAD Sherbrooke Project Facility within the covenant limitations. In addition, \$22.4 million (December 31, 2020 - \$32.3 million) of cash and cash equivalents were held by KPSI and committed to the TAD Sherbrooke 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 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 \$243.4 million as of March 31, 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 Senior Credit Facility and certain credit facilities made available as part of the TAD Sherbrooke Project Facility. As of March 31, 2021, KPLP had variable rate debts of \$172.9 million (December 31, 2020 – \$92.3 million). The 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 loans 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.

A 100 basis point increase (decrease) in the market rate of interest would result in a decrease (increase) in net income before tax of \$1.7 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 March 31, 2021 and March 31, 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 Q1 2021, management fees of \$1.9 million (Q1 2020 - \$1.8 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 to Kruger Inc. during Q1 2021 were \$0.05 million (Q1 2020 – \$0.02 million). Sales of goods to subsidiaries of Kruger Inc. during Q1 2021 were \$0.2 million (Q1 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 Q1 2021 were \$2.1 million (Q1 2020 - \$2.3 million). Purchases of goods and services from subsidiaries of Kruger Inc. during Q1 2021 were \$11.8 million (Q1 2020 - \$15.9 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.

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. Contractual obligations including these right-of-use leases are described in the “Contractual Obligations” subsection under the “Liquidity and Capital Resources” section of this MD&A.

CRITICAL ACCOUNTING ESTIMATES

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

Pension and Post-Retirement Benefit Obligations

The cost and accrued benefit plan obligations of KPLP’s pension plans, consisting of the RDBPP, supplementary retirement arrangements and the Annuity Arrangement and other benefit plans are accrued based on actuarial valuations that are dependent on assumptions determined by KPLP Management. These assumptions include the discount rate, the expected growth rate of health care costs, the rate of compensation increase, 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 March 31, 2021, \$171.3 million was recorded as a liability in respect of this obligation (December 31, 2020 - \$185.4 million). The Partnership units liability was adjusted during Q1 2021 to reflect the Tax Distribution required to meet

KPT's taxes payable. The change in amortized cost of Partnership units liability of \$3.4 million recorded during Q1 2021 (Q1 2020 - \$2.5 million) has been included in Other income (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 3-month period ended March 31, 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 Q1 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 March 31, 2021 and that during Q1 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. Although KPLP believes that its exposure to credit risk and liquidity risk is generally limited, the risks and uncertainties associated with the COVID-19 pandemic have increased the credit risk and liquidity risk associated with trade receivables and such risks are being closely managed. There was a slight decrease in the provision for expected credit losses to \$1.3 million as of March 31, 2021 (December 31, 2020 - \$1.5 million).

ACCOUNTING CHANGES AND FUTURE ACCOUNTING STANDARDS

Accounting Standards Implemented for the Period Ended March 31, 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.

SELECTED QUARTERLY FINANCIAL INFORMATION

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

(C\$ millions, unless otherwise stated)	<u>March 31, 2021</u>	<u>December 31, 2020</u>
KPT Financial Information		
Total assets	81.6	71.3
Total liabilities	3.5	5.0
KPLP Financial Information		
Total assets	1,938.6	1,951.3
Total liabilities	1,550.3	1,662.9

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

(C\$ millions, unless otherwise stated)	2021	2020				2019			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Number of days in the period	90	92	91	91	91	92	92	91	90
Revenue	310.4	385.0	369.1	386.8	375.1	348.1	369.4	365.7	351.0
Net income (loss) for the period	6.8	(28.5)	18.5	28.9	8.4	(6.1)	10.5	0.9	(3.2)
Reconciliation of Net income (loss) to Adjusted EBITDA									
Net income (loss)	6.8	(28.5)	18.5	28.9	8.4	(6.1)	10.5	0.9	(3.2)
Interest expense	12.9	9.3	9.8	11.3	10.6	10.9	11.4	11.4	11.3
Income taxes	(0.2)	0.7	(0.7)	8.8	(0.1)	0.8	0.7	1.1	(0.2)
Depreciation and amortization	18.2	19.0	15.9	17.0	16.9	16.0	15.1	15.1	14.8
Foreign exchange (gain) loss	(3.7)	(10.4)	(3.4)	(5.8)	9.3	(0.8)	0.5	(1.0)	(0.7)
Change in amortized cost of									
Partnership units liability	3.4	36.2	5.8	2.5	2.5	22.3	1.5	1.5	1.5
Change in fair value of derivatives	-	-	-	-	(0.4)	0.4	(0.3)	0.3	-
Loss on sale of property, plant and equipment	-	0.9	-	-	-	-	-	-	-
Loss on sale of shares	-	-	-	-	-	-	0.6	-	-
Impairment charge	-	8.9	-	-	-	-	-	-	-
Restructuring costs, net	0.1	-	0.1	0.5	0.7	0.1	1.6	0.2	0.1
Consulting costs related to									
operational transformation initiatives	-	-	-	1.2	3.1	2.4	2.3	1.3	-
Corporate development related costs	-	0.1	0.2	-	-	-	0.1	0.7	-
Adjusted EBITDA	37.5	36.2	46.2	64.4	51.0	46.0	44.0	31.5	23.6

SHARE INFORMATION

KPT's authorized share capital consists of an unlimited number of Common Shares. As of May 6, 2021, there were 9,823,738 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 May 6, 2021 for Common Shares, it would hold approximately 85.4% of the issued and outstanding Common Shares. As of May 6, 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 May 6, 2021, there were 67,253,290 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 Q1 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.