



DRIVING GROWTH

IN A SUSTAINABLE MANNER

2021 ANNUAL REPORT





KP Tissue Inc.

2,700

EMPLOYEES

9

PRODUCTION
FACILITIES

14

PAPER MACHINES

80

CONVERTING LINES

KP TISSUE INC. (KPT) was created to acquire, and its business is limited to holding, a limited partnership interest in Kruger Products L.P. (KPLP). KPT held a minority interest in KPLP of 14.5% as at December 31, 2021 and of 14.3% as at May 11, 2022⁽¹⁾.

KPLP is Canada's leading manufacturer of quality tissue products for household, industrial and commercial use. KPLP serves the Canadian consumer market with such well-known brands as **Cashmere®**, **Bonterra™**, **Purex®**, **SpongeTowels®**, **Scotties®** and **White Swan®**. In the U.S., KPLP manufactures the **White Cloud®** brand, as well as many private label products. The Away-From-Home division manufactures and distributes high-quality, cost-effective product solutions to a wide range of commercial and public entities. KPLP has approximately 2,700 employees and operates nine FSC® COC-certified (FSC® C-104904) production facilities in North America.

⁽¹⁾ KPT (the Corporation) holds a limited partnership interest in KPLP. KPT is a reporting issuer in all provinces and territories of Canada, and is required under Canadian Securities laws to report certain financial and business information of KPLP.

© 2022 KP Tissue ®Registered and ™trademarks of Kruger Products, L.P. ®Registered trademark of Kimberly-Clark Worldwide, Inc. used under license. ®Forest Stewardship Council and FSC logo—Forest Stewardship Council, A.C.

Forward looking information: For any information on statements in this Annual Report that are of a forward-looking nature, please consult the section on "Cautionary Forward Looking statement" on page 1 in the Management's discussion and analysis of results of operations and financial position.

CORPORATE HIGHLIGHTS FISCAL 2021

REVENUE OF \$1.5 BILLION, DOWN 3.4% OVER 2020

ADJUSTED EBITDA⁽¹⁾ DECREASED BY 22.4% TO \$153.4 MILLION

Adjusted EBITDA declined year-over-year mainly due to the impact of lower sales volume compared to the Covid-19 impact in 2020, along with negative inflationary effects.

TRADEMARKS

The successful launch of SpongeTowels UltraPRO garnered three Best New Innovation Awards by consumers in Year 1 and was a key contributor to share gains in the paper towel category.

INNOVATION

Brand equity was enhanced with the recent introduction of Bonterra, a purpose-built solution for environmentally conscious consumers. Purex and Cashmere UltraLuxe TAD products were upgraded to deliver our softest and most luxurious bathroom tissue ever.

⁽¹⁾ Adjusted EBITDA and Adjusted EBITDA margin are non-GAAP financial measures. These measures do not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similarly titled measures presented by other companies. Refer to the MD&A for the definition and reconciliation of Adjusted EBITDA.

2021 REVENUE

BY SEGMENT

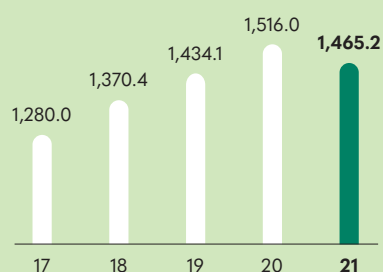


BY GEOGRAPHY

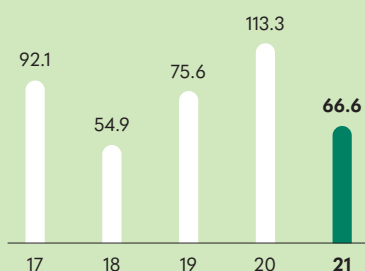


REVENUE*⁽¹⁾

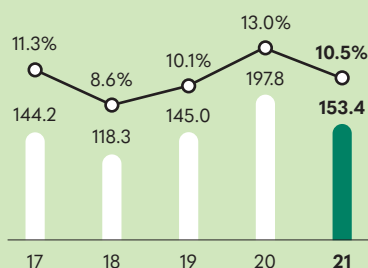
(in millions of Canadian dollars)

**OPERATING INCOME**

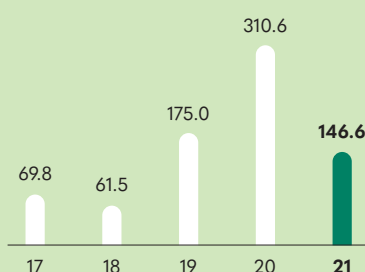
(in millions of Canadian dollars)

**ADJUSTED EBITDA⁽³⁾,
ADJUSTED EBITDA MARGIN⁽³⁾**

(in millions of Canadian dollars, %)

**CAPITAL EXPENDITURES**

(in millions of Canadian dollars)



FIVE-YEAR FINANCIAL PERFORMANCE⁽¹⁾

(In millions of Canadian dollars)

For the years ended December 31	2021	2020	2019	2018 ⁽²⁾	2017
Net income	42.0	27.3	2.1	45.4	15.3
Working capital	146.4	53.7	97.3	219.3	(79.5)
Long-term debt	920.3	744.0	586.1	564.0	225.4
Net debt/LTM adjusted EBITDA ⁽³⁾	5.3x	3.2x	3.4x	4.0x	2.9x

⁽¹⁾ All financial information presented herein are related to KPLP unless otherwise noted and have been prepared in accordance with IFRS. For the year ended December 31, 2021, KPT reported an equity gain of \$0.8 million, a net income of \$1.2 million and basic earnings per share of \$0.13. For more information refer to the KPT Audited Financial Statements for the period ended December 31, 2021.

⁽²⁾ Effective January 1, 2019, KPLP adopted IFRS 16 Leases, the new accounting standard covering lease accounting, using the full retrospective approach. Fiscal 2018 has been restated to reflect the adoption of IFRS 16.

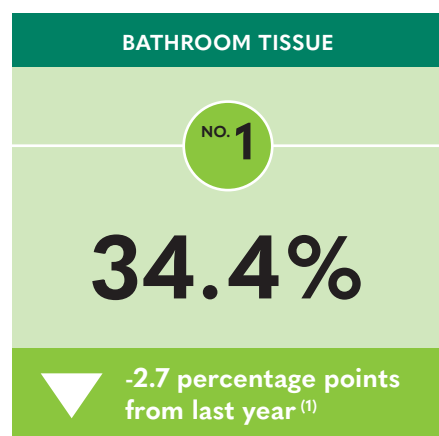
⁽³⁾ Adjusted EBITDA and Adjusted EBITDA margin are non-GAAP financial measures. These measures do not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similarly titled measures presented by other companies. Refer to the MD&A for the definition and reconciliation of Adjusted EBITDA.

* Including Mexico business divested in September 2019.

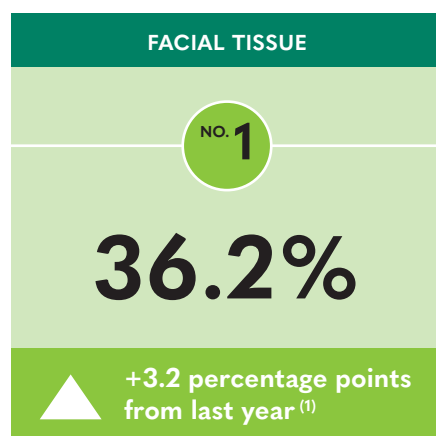


DRIVING GROWTH IN A SUSTAINABLE MANNER

Market-driven innovation, combined with a strong brand equity and effective go-to market strategy, has delivered sustained share gains over the years.



Our Cashmere and Purex brands are leaders in the bathroom tissue market with a combined market share of 34.4%.



With a market share of 36.2%, Scotties is the clear number one with many Canadian consumers who consider the brand to be synonymous with facial tissue.



In the paper towel category, SpongeTowels delivered appreciable market share gains with 24.1% up from 22.2% the previous year.

⁽¹⁾ Source: Nielsen; dollar market share for the 52-week period ended March 23, 2022 and March 27 2021.



MESSAGE TO SHAREHOLDERS

Dino Bianco
Chief Executive Officer

2021 OVERVIEW

I am pleased with our overall performance in fiscal 2021 despite volatile market conditions and unprecedented headwinds. The first half of 2021 was marked by industry-wide destocking challenges due to the COVID-19 pandemic, while supply-chain issues and inflationary pressure affected our Consumer and Away-from-Home segments in the latter part of the year. We did regain sales momentum in the second half of 2021 and closed the fourth quarter on a high note with double-digit revenue growth and improved profitability.

Altogether, we delivered revenue of \$1.5 billion in 2021, while adjusted EBITDA* amounted to \$153.4 million. Adjusted EBITDA* declined year-over-year mainly due to lower sales volume, along with the negative impact of soaring pulp prices, freight rates and warehousing costs. Considering the challenging environment, I believe our financial performance stacked up favourably within our industry in 2021.

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ALTOGETHER, WE DELIVERED REVENUE OF \$1.5 BILLION IN 2021, WHILE ADJUSTED EBITDA* AMOUNTED TO \$153.4 MILLION.

INFLATIONARY PRESSURE

High inflationary pressure was a major story in the latter part of 2021 and I anticipate it will remain a recurring issue in 2022. NBSK and BEK average prices increased 25.0% and 37.0%, respectively, in 2021. Based on industry forecasts for 2022, NBSK and BEK prices are expected to remain at elevated levels with continued volatility.

Inflationary pressure, however, has not been limited to rising pulp prices as we are witnessing spiraling costs on a long list of items including freight, natural gas, packaging, chemicals and labour. Consequently, we are weighing additional options to balance escalating expenses with pricing and cost management initiatives in 2022.

TRADEMARKS AND INNOVATION

Against this backdrop, we continued to build the equity of our current brands and innovations through incremental marketing investments in 2021. The successful launch of SpongeTowels UltraPRO™ garnered three Best New Innovation Awards by consumers in Year 1 and was a key contributor to share gains in the paper towel category.

Early in 2022, we introduced a new brand, Bonterra™, to offer consumers a more environmentally friendly option with a bundle of features including plastic-free, paper packaging; high-quality, FSC-certified recycled fiber; carbon-neutral production; and partnerships with 4Ocean and One Tree Planted. We will support this new product family with a compelling, 360-degree marketing plan.

We also recently upgraded Cashmere and Purex UltraLuxe to offer our softest and most luxurious bathroom tissue ever. Consumer research confirmed this new-and-improved bathroom tissue, based on our proprietary TAD technology, is our best product in terms of softness, thickness, strength and absorbency. This latest product upgrade will allow us to increase share in the growing ultra-premium market segment.

Shifting to E-commerce, sales increased more than 80% in 2021, albeit from a small revenue base. As a CPG company, we fully recognize this trend among a younger demographic group and are making essential investments to capture supplemental market share. Once again, innovation will be a key in taking advantage of this growing revenue stream.

MARKET SHARE PERFORMANCE

Market-driven innovation, combined with a strong brand equity and effective go-to market strategy, has delivered sustained share gains for us over the years. Our Cashmere and Purex brands continued to be uncontested leaders in the bathroom tissue category in Canada with a combined share of 34.6% in 2021, according to third-party data from Nielsen.

During the past year, our share in bathroom tissue slipped, off a high-bar level in 2020, because it had been driven by better product availability compared to some competitors during the pandemic. Our current share reflects a more normalized environment.

Turning to facial tissue, we achieved significant growth during the past year, reporting a 35.7% share or an increase of 4.2 points. This increase, which has consolidated our No. 1 position, can be attributed to strong marketing and support from key customers.

In the paper towel category, the launch and ongoing traction of SpongeTowels UltraPRO™ allowed us to post solid share gains. Since the beginning of 2020, our share has improved by 2.2 points to reach 24.0%. We have strengthened our hold on second place through innovation and the introduction of new products, and we plan to make further investments to support Ultra Pro in the second year after its launch.

AWAY-FROM-HOME

In the Away-from-Home segment, the market recovery accelerated in the second half of 2021, especially in the U.S. which eased public health measures faster than in Canada. We estimate that AFH volume remained approximately 5% lower in the fourth quarter of 2021 compared to pre-pandemic levels in the same quarter of 2019.

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On the profitability side, Adjusted EBITDA* for AFH fluctuated between positive and negative levels on a quarterly basis, reflecting local restrictions related to the pandemic and internal decisions to in-source or outsource paper. Adjusted EBITDA* for this segment was negative in 2021, but it should improve as we scale up this business post-pandemic.

NETWORK MODERNIZATION

In terms of network modernization, Year 1 of TAD Sherbrooke proved to be a major success with a ramp-up curve well above our expectations. We also announced the Sherbrooke expansion project early in 2021 and followed up with an incremental investment at the end of the year to double production capacity to over 60,000 metric tonnes by 2024. The project's total value of approximately \$350 million will effectively create a tissue hub in Eastern Canada, leveraging TAD and conventional technologies.

Moving onto our network in Memphis, we expect the new facial tissue line will be up and running early in the third quarter of 2022. We are investing approximately \$28 million in this new facial tissue line that will allow us to produce both TAD and LDC products. This new line will provide future growth opportunities in the U.S.

Labour challenges, however, have affected productivity at our Memphis operations. We have deployed a turnaround team to improve efficiency with a focus on critical asset performance and labour challenges. I am confident we will begin seeing improvements in the second half of 2022 in Memphis. In the meantime, we're leveraging other plants within our network, including our new Sherbrooke facility, to offset any production shortfall.

OPERATIONAL EXCELLENCE

In tandem with network modernization efforts, we rolled out OpEx initiatives to improve operational excellence across all sites in 2021. We concentrated on increasing the depth of knowledge, training and culture around our OpEx program. Looking ahead to 2022, our focus will be on asset reliability and waste reduction.

In 2021, we also launched a \$25 million artificial intelligence (AI) project in Sherbrooke, including a \$6.7 million contribution from both levels of government in Canada. The project consists of creating and implementing a digital twin of the entire plant's supply chain. The virtual model of the supply chain leverages real-time data, augmented by predictive and prescriptive AI capabilities, to improve the plant's overall performance and help serve customers more efficiently.

Based on the initial success of our AI project in Sherbrooke, we plan to move ahead with implementations at our other facilities over time. Our focus on operational excellence, including our OpEx program and AI investments, should help us improve manufacturing and supply chain performance for the future.

SUSTAINABILITY

Last year, we introduced "Reimagine 2030," an ambitious 10-year sustainable development plan based on making transformative growth and sustainable innovation complementary goals. Our strategy focuses on sustainability pillars for the company – products, planet, people and communities – and a broadened set of material issues covering our most significant environmental and social impacts.

Our commitment to sustainability was fully demonstrated with the recent launch of the Bonterra family of bathroom tissue, facial tissue and paper towels. With Bonterra, the consumer has a choice at the shelf for a better planet and we're tracking better against our sustainability goals. It's a classic win-win situation.

LOOKING AHEAD

Looking ahead to 2022, we are seeing customer behaviour and sales increasingly return to pre-pandemic levels in both our Consumer and Away-from-Home segments. However, significant cost inflation across the supply chain is projected to continue affecting our results in the near-term. For the full year, we intend to leverage our ongoing investments, innovations and share gains to drive revenue growth, while pricing the business and managing costs to offset inflation.

WRAP-UP

In closing, I would like to extend heartfelt thanks to all our employees for their dedication and efforts in what proved to be another challenging year; I am looking forward to seeing them in person as the pandemic recedes in 2022. I would also like to thank consumers and customers alike for their loyalty to our brand. In addition, I want to express my gratitude to our Board of Directors for its judicious counsel throughout the past year. Finally, many thanks to our shareholders for supporting our long-term growth strategy to create sustained value for all our stakeholders.



Dino Bianco
Chief Executive Officer
KP Tissue Inc. and Kruger Products L.P.

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OUR NETWORK

Kruger Products boasts the largest combined capacity for the production of facial tissue, bathroom tissue, paper towels and napkins in Canada, accounting for approximately 350,000 metric tonnes or 44%⁽¹⁾ of the country's annual production.

In North America, the Company operates nine FSC® COC-certified (FSC® C-104904) production facilities with a total annual production capacity of approximately 460,000 metric tonnes. Given inflationary pressure, the proximity of our Canadian and U.S. plants to customers and logistics providers leaves us with a marked competitive advantage.



1 PAPERMAKING & CONVERTING NEW WESTMINSTER, BC

Produce more than
67,000 MT
of tissue products every year

5 PAPERMAKING & CONVERTING TAD SHERBROOKE, QC

Production capacity to reach
70,000 MT
of tissue products every year once fully operational

2 PAPERMAKING & CONVERTING GATINEAU, QC*

Produce more than
97,000 MT
of tissue products every year

6 CORPORATE HEADQUARTER MISSISSAUGA, ON

7 CONVERTING SCARBOROUGH, ON

8 CONVERTING TRENTON, ON

3 DEINKING, PULPING, PAPERMAKING & CONVERTING CRABTREE, QC

Produce more than
92,000 MT
of tissue products every year

9 PAPERMAKING & CONVERTING MEMPHIS, TENNESSEE

Produce more than
110,000 MT
of tissue products every year

4 PAPERMAKING LENNOXVILLE (SHERBROOKE), ON

Produce more than
24,000 MT
of tissue products every year

⁽¹⁾ Based on RISI data.

* The Laurier facility (papermaking) and the Richelieu facility (converting)



NETWORK MODERNIZATION

Network modernization is mission-critical for consolidating our leadership position in the marketplace. In tandem with modernization efforts, a \$25-million artificial intelligence (AI) project was launched at Sherbrooke in 2021. The project consists of creating a digital twin of the entire plant's supply chain to better serve customers with real-time data on hand. Based on the success of the initial AI project, additional implementations at other facilities are planned over time.

1

SHERBROOKE, QC

Year 1 of TAD Sherbrooke proved to be a major success story with a ramp-up curve well above expectations for bathroom tissue and paper towels.

The Sherbrooke expansion project was announced early into 2021, followed by an incremental investment at year-end to double production capacity to 60,000 metric tonnes by 2024.

The project's total value of approximately \$350 million will create a flexible tissue hub in Canada, leveraging both TAD and conventional technologies.

2

MEMPHIS, TN

The sell-in to customers has been strong for a new facial tissue line in Memphis, but the start-up has been delayed until the third quarter of 2022 due to global supply-chain issues. More than \$28 million has been committed to this new facial tissue line, which will provide future growth opportunities in the U.S.

Following manufacturing challenges in 2021, staff availability has improved. Maintenance investments on assets were also increased, which should trigger productivity gains in the second half of 2022. Other plants within the network are being leveraged to offset any production shortfall.

SUSTAINABILITY HAS A NEW NAME



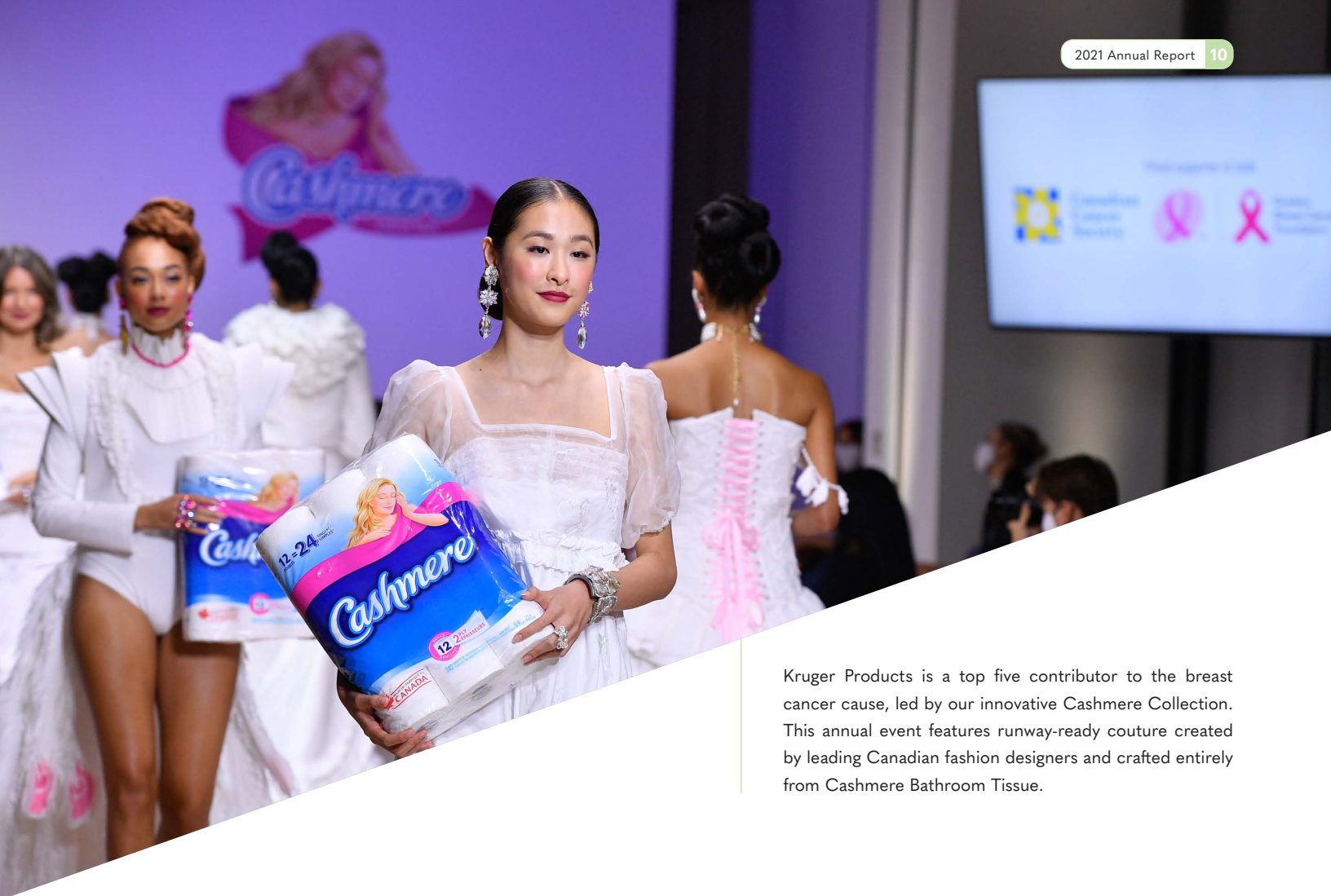
Our commitment to sustainability was fully demonstrated with the recent launch of the Bonterra product family. Bonterra provides consumers with a compelling solution for all their facial tissue, bathroom tissue and paper towel needs.

Key features include plastic-free paper packaging, high-quality FSC®-certified recycled fiber, carbon-neutral production, partnerships with 4Ocean and One Tree planted, and a made-in-Canada product.

This environmentally focused brand, supported by a 360-degree marketing plan, has benefited from a strong distribution across the entire customer base. With Bonterra, consumers now have a viable choice at the shelf for building a better planet.

- Available since March 2022
- Bath Tissue, Facial Tissue & Paper Towel products
- Offers consumers a sustainably focused line of products with unique features:
 - Plastic-free paper packaging
 - High quality FSC® certified recycled fiber
 - Carbon neutral production
 - Partnerships with 4Ocean and One Tree Planted





Kruger Products is a top five contributor to the breast cancer cause, led by our innovative Cashmere Collection. This annual event features runway-ready couture created by leading Canadian fashion designers and crafted entirely from Cashmere Bathroom Tissue.

GROWING TOGETHER

Leading with our values, we embrace our communities through longstanding philanthropic commitments that span healthcare, athletics, environment and local charitable organizations.

We give back on a corporate level to several well-established partnerships, and we also team-up with our employees to support causes that are important to them and their neighbours. Between our Head Office and our manufacturing facilities, our employees create significant positive change.

The Kruger Big Assist program was developed to help get kids back on the ice. Working with minor hockey associations across the country, we have donated over \$400,000 to support families in need since 2021.

**WE'RE DONATING
\$200,000
TO HELP HOCKEY FAMILIES IN NEED.**

We are providing financial assistance to help families with registration fees.



In its 41st year, the Scotties Tournament of Hearts holds the longest-standing sponsorship of amateur women's sports in Canada inspiring the next generation of young women and girls to explore the great game.



A collaborative effort with other community organizations, Vaccibus funding covered most of the operating costs and assisted with vaccination efforts in the Outaouais, Québec region targeting isolated communities requiring additional support.



All our Kruger Products locations act as positive stewards and ambassadors in our communities. Together, we support more than 45 local organizations that are addressing the needs of our communities including local United Way, Le BRAS Outaouais and Fraserside Community Services Society.



AWARDS

We strive to lead by example and continuously seek to elevate our status as a model corporate citizen. An important priority to us, it is driven by and for our employees, customers, suppliers, the community, the environment and our shareholders. Indeed, we share with our employees the honours and awards that recognize and celebrate their hard work and commitment.



Canada's Best Managed Companies
for 4th consecutive year,
Gold Member



Forbes Canada's Best Employers
for 5th consecutive year



Corporate Knights' Best 50
Corporate Citizens in Canada for
4th consecutive year



Women In Governance,
Bronze Level Parity Certification



Greater Toronto Area
Top Employer for
9th consecutive year



Canadian Federation of
Independent Grocers, Top 10
in Grocery, Best Paper Product,
Sponge Towels Ultra Pro



REIMAGINE 2030

THE NEXT 10 YEARS

With a full year of Reimagine 2030 completed, we are even more motivated to continue our pursuit to leave this planet healthier than when we found it, demonstrating that it is possible to grow while simultaneously reducing our environmental footprint.

We actively seek out opportunities to achieve our targets. Packaging is an area we have been focused because we know we can make important changes. We are proud to be the first Canadian tissue manufacturer to join Canada's Plastic Pact (CPP), and work alongside other industry and government leaders to move towards a circular plastics economy.

In 2021, we made our first step towards a future roll-out of Artificial Intelligence (AI) across our operations with the integration of a digital twin of the supply chain for our Sherbrooke, QC plant. Using real-time data augmented with AI capabilities, the system optimizes the plant's activities, from raw materials procurement to customer deliveries, helping to lower GHG emissions, improve energy efficiency and reduce waste.

Our people are our greatest strength, and we take great pride in providing a workplace that enables them to thrive and be their best selves. During 2021, we continued to find new ways to connect with employees and strengthen our corporate culture while working remotely.

Community support has always been central to who we are at Kruger Products. We believe that we are interconnected and depend on each other to make our world a positive place. We are proud to be part of a new community development project with Zibi in Gatineau, QC. Our plant will provide energy recovered from effluents to help heat the tenants and residents of the 34-acre waterfront city, making it the National Capital region's first zero-carbon-emission community and the first in North America to use post-industrial effluent heat in a master-planned community.

For more information on sustainability, please visit our website at www.krugerproducts.ca/sustainability

2021 PROGRESS REPORT

REIMAGINE
2030
TRANSFORMATIVE GROWTH
SUSTAINABLE INNOVATION

We've come a long way since the launch of our first formal sustainability program in 2010. We've made considerable progress and are proud of our team's innovation and determination. Reimagine 2030 includes four pillars: Planet Positive, Products Empower, Employee Impact and Community Embrace.

We are actively working to improve our impact, strengthen our communities and support our employees every day. Together we learn, we dream, we share, and we create. And central to every decision we make is our mission – *making everyday life more comfortable*.

PROGRESS REPORT 2021

100%	THIRD-PARTY CERTIFIED FIBRE
15%	REDUCTION IN SCOPE 1+2 GHG EMISSIONS ⁽¹⁾
41%	REDUCTION OF WATER CONSUMPTION ⁽¹⁾
5%	REDUCTION IN VIRGIN PLASTICS PACKAGING IN BRANDED PRODUCTS ⁽³⁾
63%	IMPROVEMENT IN EMPLOYEE HEALTH & SAFETY ⁽²⁾

250+	THIRD-PARTY CERTIFIED PRODUCTS
1 st	CANADIAN TISSUE MANUFACTURER TO EARN FSC® CERTIFICATION (2011)
1 st	BIOMASS GASIFICATION SYSTEM IN CANADIAN PULP AND PAPER INDUSTRY
1 st	ISO50001 ENERGY MANAGEMENT CERTIFICATION FROM THE BUREAU DE NORMALISATION DU QUEBEC

⁽¹⁾ Intensity-based versus 2009 Benchmark

⁽²⁾ OSHA Total incidence Rate since 2015 Benchmark

⁽³⁾ Intensity-based versus 2020 Benchmark



KP TISSUE INC. AND KRUGER PRODUCTS L.P.

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

FOR THE FOURTH QUARTER AND FISCAL YEAR ENDED DECEMBER 31, 2021

DATED MARCH 9, 2022

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The following Management's Discussion and Analysis (MD&A) dated March 9, 2022 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 financial statements of KPT for the years ended December 31, 2021 and December 31, 2020, respectively, and the consolidated financial statements of KPLP for the years ended December 31, 2021 (Fiscal 2021) and December 31, 2020 (Fiscal 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 14.4% interest in KPLP (14.5% as of December 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 9, 2022 available on SEDAR at www.sedar.com (the Annual Information Form): 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; risks associated with the Sherbrooke Expansion Project; operational risks; significant increases in input costs; reduction in supply of fibre; increased pricing pressure and intense competition; 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 refinancing and the Sherbrooke Expansion Project (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*, *SpongeTowels* and *Bonterra* 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 350,000 metric tonnes which, according to RISI data, represents approximately 44% 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. On November 1, 2021, KPLP executed the final draws on the TAD Sherbrooke Project Facility. Refer to Business Highlights, TAD Sherbrooke Project for additional details. On February 26, 2021, KPLP announced an investment of \$240 million to expand the Sherbrooke operation. On December 17, 2021, KPLP announced an additional investment of \$111.5 million in the Sherbrooke Expansion Project, for a total investment of \$351.5 million. 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 LDC paper machines with an aggregate annual capacity of 55,000 metric tonnes, and one adjacent TAD paper 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 January 17, 2022, KPT held 14.4% of the KPLP Partnership Units (KPLP Units).

Basis of Presentation

The consolidated financial statements of KPLP presented for Fiscal 2021 and Fiscal 2020 and the financial statements of KPT presented for the years ended December 31, 2021 and 2020, respectively, have each been prepared in accordance with IFRS (International Financial Reporting Standards).

Accounting Periods

This MD&A includes financial information for the 3-month periods ended December 31, 2021 (Q4 2021) and December 31, 2020 (Q4 2020), respectively, and Fiscal 2021 and Fiscal 2020.

Non-GAAP Financial Measures

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

“Adjusted EBITDA” is calculated by KPLP as net income (loss) before (i) interest expense and other finance costs, (ii) income taxes, (iii) depreciation, (iv) amortization, (v) impairment (gain on sale) of non-financial assets, (vi) loss (gain) on disposal of property, plant and equipment, (vii) foreign exchange loss (gain), (viii) costs related to restructuring activities, (ix) changes in amortized cost of Partnership units liability, (x) change in fair value of derivatives, (xi) consulting costs related to operational transformation initiatives, (xii) corporate development related costs and (xiii) loss (gain) on sale of shares. We use “Adjusted EBITDA” to evaluate the performance of our business as it reflects its ongoing profitability. This MD&A contains a reconciliation of Adjusted EBITDA to net income, the most comparable GAAP measure, on page 7.

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 second half began to improve as away-from-home activities re-opened. It is difficult to estimate the length and potential severity of the changed behaviours across our business segments or reliably quantify the impact this pandemic could 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.

Factors Affecting the Results of Operations

Revenue

KPLP generates revenue on the sale of branded, private label and AFH tissue products in Canada and the United States. Revenue is reported on a net basis, after deducting rebates and allowances. KPLP's revenue is impacted by advertising, discounts and promotions, merchandising, packaging, the availability of shelf and display space at retail customers, the timing of new product launches and line extensions and competitive pricing, all of which have a significant impact on consumer buying decisions. Continued growth of our revenue will depend substantially on the continued strength of our brands, retail support and our ability to effectively maintain sufficient product supply to meet customer demand.

KPLP has two reportable business segments: (i) consumer products sold through traditional retail channels such as grocery stores, mass merchandisers, club stores, drug stores and convenience stores (Consumer) and (ii) AFH. The Consumer segment includes sales of branded tissue products such as *Cashmere*, *Purex*, *Scotties*, *SpongeTowels*, *Bonterra* and *White Cloud*. AFH sells commercial tissue products primarily through distributors to businesses involved in property management, health care, food service, manufacturing and lodging, and to other public facilities. Certain overhead costs of KPLP, foreign exchange gains and losses related to non-debt foreign denominated items and start-up costs related to the TAD Sherbrooke Project are reported as Corporate and other costs.

KPLP's current sales focus includes all regions of Canada and the United States. KPLP is partially exposed to fluctuations in the U.S. dollar against the Canadian dollar, as sales made to U.S. customers are made in U.S. dollars. To manage this foreign exchange risk, KPLP may enter into foreign exchange swaps and foreign exchange forwards.

Cost of Sales

Cost of sales includes fixed and variable costs to manufacture KPLP's products, freight, and warehousing and handling costs. Input costs associated with the manufacturing of tissue paper are primarily variable. Fiber, labour, and energy costs are the largest components, representing 50% to 80% of total cost of sales, depending on the type of fibre and paper making technology being used. Pulp is a world-wide commodity. Though underlying pulp costs can fluctuate based on worldwide shifts in supply/demand, there has historically been an ability to pass along fluctuations to end customers and consumers. However, the ability to pass through the full amount of pulp cost increases may be affected by the competitive market situation at the time of the fluctuation. KPLP has historically entered into fibre commodity contracts to reduce exposure to fluctuations in this key input cost, and may continue to do so going forward. KPLP has historically targeted commodity contracts to cover 85% of total fibre purchases. KPLP is exposed to fluctuations in the U.S. dollar against the Canadian dollar on production inputs, U.S. dollar denominated debt and other operating costs denominated in U.S. dollars. To manage this foreign exchange risk, KPLP may enter into foreign exchange swaps and foreign exchange forwards. Fixed costs at the plants include plant maintenance, overhead, insurance, property taxes, information technology, as well as depreciation and amortization (substantially all depreciation and amortization is included in Cost of sales).

Freight and handling costs vary based on sales volume, the geographical mix of the product shipped, and the cost of fuel used by freight carriers. Freight costs can also be subject to fluctuations based on North American shifts in supply and demand. Freight rates and availability of transportation assets are currently being impacted by high demand and lack of supply.

Selling, General and Administrative Expenses

KPLP's selling, general and administrative expenses include marketing, selling, general and administrative costs, which include a very small portion of the overall depreciation and amortization.

Selling costs include the costs related to sales including selling expenses, commissions and other related costs. Marketing costs include the costs related to marketing activities including advertising and promotion and market research. General and administrative expenses consist of costs related to operations oversight, logistics and customer service, finance, information technology, product development, legal, human resources, executive administration and other corporate expenses. It also includes foreign exchange gains and losses realized during the period.

Interest Expense and Other Finance Costs

Interest expense and other finance costs are derived from the financing activities of KPLP. KPLP is a borrower under certain credit facilities, each of which is described under “Liquidity and Capital Resources” below. KPLP also records amortization related to deferred financing fees, interest expense on lease liabilities and interest costs related to pensions and post-retirement benefits in interest expense and other finance costs.

Other Income (Expense)

Other income (expense) includes foreign exchange gains and losses related to U.S. dollar denominated debt, the change in amortized cost of Partnership units liability, the change in fair value of derivatives, gains and losses on the sale of shares and other items deemed to be non-operational in nature.

Income Taxes

KPLP is not a tax paying entity. The income (loss) from KPLP flowed to the partners, Kruger Inc., KPGP and KPT for Fiscal 2021 and Fiscal 2020. The income taxes recorded in the consolidated financial statements of KPLP relate to the income taxes for its incorporated subsidiaries in the U.S., Canada, Luxembourg and Mexico.

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.

Construction of the new Sherbrooke plant has been completed with production commencing on the converting lines in Q3 and Q4 2020. 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 December 31, 2021, a total of \$551.6 million had been spent on the TAD Sherbrooke Project. For details on the financing of the project, which included a \$125 million equity investment by KPLP into Kruger Products Sherbrooke Inc. (KPSI), refer to Liquidity and Capital Resources, Indebtedness, AgCredit Agreement related to the TAD Sherbrooke Project Facility, as well as the Nordea2 Credit Agreement and the KPSI IQ Debenture.

Sherbrooke Expansion Project

On February 26, 2021, KPLP announced an investment of \$240 million to expand the Sherbrooke operations with a Light Dry Crepe (LDC) tissue machine and two new production lines as well as the construction of a new tissue manufacturing facility (the Sherbrooke Expansion Project) over the next three years. On December 17, 2021, KPLP announced an additional investment of \$111.5 million in the Sherbrooke Expansion Project, for a total investment of \$351.5 million. The additional investment will double the size and production of the LDC Machine. At maturity, the LDC Machine is expected to increase KPLP’s annual output by at least 60,000 metric tonnes.

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®*, *Purex®* and *Bonterra™* in Canada, and *White Cloud®* in the U.S. Construction of this new facility is anticipated to start in the summer of 2022 on a site adjacent to the Sherbrooke TAD facility, with converting production line commissioning in late 2022 and in 2023, and the LDC Machine start-up planned 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.

Citizens Credit Agreement

On October 29, 2021, KTG entered into a loan agreement with Citizens Asset Finance, a Division of Citizens Bank, N.A. as lender pursuant to which a secured non-revolving loan in a maximum amount of US\$21.8 million was made available to KTG. The purpose of the loan is to finance all costs associated with the implementation of a facial tissue converting line (the KTG FT Line) at the Memphis facility. 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 loan has a seven year term from the date of initial loan disbursement. Refer to Liquidity and Capital Resources, Indebtedness, Citizens Credit Agreement for additional details.

RESULTS OF OPERATIONS

Results of Operations of KPLP

(C\$ millions, unless otherwise noted)	\$ Change				
	Fiscal 2021	Fiscal 2020	Fiscal 2019	Fiscal 2021 vs. Fiscal 2020	Fiscal 2020 vs. Fiscal 2019
Statement of Operations Data:					
Revenue	1,465.2	1,516.0	1,434.1	(50.8)	81.9
Cost of sales	(1,279.9)	(1,264.4)	(1,257.0)	(15.5)	(7.4)
Selling, general and administrative expenses	(118.1)	(128.1)	(99.6)	10.0	(28.5)
Impairment charge	-	(8.9)	-	8.9	(8.9)
Restructuring costs, net	(0.6)	(1.3)	(1.9)	0.7	0.6
Operating income	66.6	113.3	75.6	(46.7)	37.7
Interest expense and other finance costs	(70.7)	(41.0)	(45.1)	(29.7)	4.1
Other expense	(4.9)	(36.3)	(25.9)	31.4	(10.4)
Income (loss) before income taxes	(9.0)	36.0	4.6	(45.0)	31.4
Income taxes:					
Combined income tax rate after					
manufacturing and processing credits	2.3	(9.4)	(1.2)	11.7	(8.2)
Income tax in partners' hands	11.1	3.8	2.4	7.3	1.4
Other	37.6	(3.1)	(3.7)	40.7	0.6
Income taxes	51.0	(8.7)	(2.5)	59.7	(6.2)
Net income	42.0	27.3	2.1	14.7	25.2

(C\$ millions, unless otherwise noted)	\$ Change				
	Fiscal 2021	Fiscal 2020	Fiscal 2019	Fiscal 2021 vs. Fiscal 2020	Fiscal 2020 vs. Fiscal 2019
Reconciliation of Adjusted EBITDA					
to Net income:					
Net income	42.0	27.3	2.1	14.7	25.2
Interest expense and other finance costs	70.7	41.0	45.1	29.7	(4.1)
Income taxes	(51.0)	8.7	2.5	(59.7)	6.2
Depreciation and amortization	85.7	68.8	60.6	16.9	8.2
Foreign exchange gain	(0.8)	(10.3)	(2.0)	9.5	(8.3)
Change in amortized cost of Partnership units liability	5.3	47.0	27.0	(41.7)	20.0
Change in fair value of derivatives	-	(0.4)	0.4	0.4	(0.8)
Other expense	0.4	-	-	0.4	-
Loss on sale of property, plant and equipment	0.4	0.9	-	(0.5)	0.9
Loss on sale of shares	-	-	0.6	-	(0.6)
Impairment charge	-	8.9	-	(8.9)	8.9
Restructuring costs, net	0.6	1.3	1.9	(0.7)	(0.6)
Consulting costs related to					
operational transformation initiatives	-	4.3	6.0	(4.3)	(1.7)
Corporate development related costs	0.1	0.3	0.8	(0.2)	(0.5)
Adjusted EBITDA	153.4	197.8	145.0	(44.4)	52.8

Results of Operations Fiscal 2021 compared to Fiscal 2020

Revenue

Revenue was \$1,465.2 million in Fiscal 2021 compared to \$1,516.0 million in Fiscal 2020, a decrease of \$50.8 million or 3.4%. The decrease in revenue was primarily due to a significant sales volume decrease in Canada 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 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 Fiscal 2021 compared to 1.34 in Fiscal 2020). The decrease in revenue was partially offset by a Consumer selling price increase in Canada in the second half of 2021 along with an AFH selling price increase. From a geographic perspective, revenue in Canada decreased \$23.2 million or 2.5% and revenue in the U.S. decreased \$27.6 million, or 4.6%.

Cost of Sales

Cost of sales was \$1,279.9 million in Fiscal 2021 compared to \$1,264.4 million in Fiscal 2020, an increase of \$15.5 million or 1.2%. Manufacturing costs were negatively impacted by higher pulp costs and other commodity inflation, additional mill fixed overhead costs due to the start-up of the TAD Sherbrooke site, and the unfavourable impact of labour shortages in Memphis manufacturing, along with higher depreciation expense. These cost increases were offset by lower sales volumes, the favourable impact of foreign exchange fluctuations on U.S. dollar costs, absorption of overhead costs into inventory resulting from increased inventory levels, and the favourable impact of more in-house production in AFH. Freight costs increased compared to Fiscal 2020 due to higher freight rates associated with the current shipping environment, partially offset by lower volume. Warehousing costs increased compared to Fiscal 2020 related primarily to higher inventories throughout the year. As a percentage of revenue, cost of sales was 87.4% in Fiscal 2021 compared to 83.4% in Fiscal 2020.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses were \$118.1 million in Fiscal 2021 compared to \$128.1 million in Fiscal 2020, a decrease of \$10.0 million or 7.8%. The decrease was primarily due to a reduction in compensation related costs, the release of a COVID-19 related AFH accounts receivable provision of \$1.3 million recorded during 2020, and lower commission selling expenses, partially offset by foreign exchange losses compared to Fiscal 2020 and slightly higher advertising expenses. As a percentage of revenue, SG&A expenses were 8.1% in Fiscal 2021 compared to 8.4% in Fiscal 2020.

Adjusted EBITDA

Adjusted EBITDA¹ was \$153.4 million in Fiscal 2021 compared to \$197.8 million in Fiscal 2020, a decrease of \$44.4 million or 22.4%. 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 a selling price increase in Consumer Canada, lower SG&A expenses, and the favourable impact of foreign exchange fluctuations.

Impairment Charges

There were no impairment charges in 2021, compared to \$8.9 million in Fiscal 2020 resulting from the impairment of goodwill associated with the AFH business segment. Refer to Critical Accounting Estimates – Impairment Tests for additional details.

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

Interest Expense and Other Finance Costs

Interest expense and other finance costs were \$70.7 million in Fiscal 2021 compared to \$41.0 million in Fiscal 2020, an increase of \$29.7 million. The increase was primarily due to higher debt levels as a result of the TAD Sherbrooke Project and a loss on extinguishment of debt of \$5.4 million under IFRS related to the refinancing of the AgCredit US\$147 million term loan.

Other Expense

Other expense was \$4.9 million in Fiscal 2021 compared to \$36.3 million in Fiscal 2020. Other expense in Fiscal 2021 was primarily related to an expense resulting from the change in amortized cost of Partnership units liability of \$5.3 million (Fiscal 2020 – \$47.0 million), partially offset by a foreign exchange gain on USD denominated debt of \$0.8 million (Fiscal 2020 – \$10.3 million).

Income Taxes

An income tax recovery of \$51.0 million was recorded in Fiscal 2021 compared to an expense of \$8.7 million in Fiscal 2020. KPLP is not directly taxable on its Canadian business. The income tax recovery resulted from the recording of an income tax asset of \$40.0 million as KPLP was able to record the benefit from non-operating losses related to a subsidiary and also from operating losses related to the U.S. entities. Income tax in partner's hands was a recovery of \$11.1 million in Fiscal 2021 compared to \$3.8 million in Fiscal 2020.

Net Income

Net income was \$42.0 million in Fiscal 2021 compared to \$27.3 million in Fiscal 2020, an increase of \$14.7 million. The increase was primarily due to higher income tax recovery of \$59.7 million, lower other expense of \$31.4 million and an impairment charge of \$8.9 million in Fiscal 2020, partially offset by lower Adjusted EBITDA of \$44.4 million as discussed above, higher interest expense and other finance costs of \$29.7 million and higher depreciation and amortization of \$16.9 million.

Results of Operations of KPT

	Fiscal	Fiscal
(C\$ millions, unless otherwise noted)	2021	2020
Statement of Operations Data:		
Share of income	6.1	4.1
Depreciation of fair value increments	(5.3)	(5.5)
Equity gain (loss)	0.8	(1.4)
Dilution gain	0.3	0.6
Income (loss) before income taxes	1.1	(0.8)
Income taxes:		
Current tax expense	(2.1)	(2.6)
Deferred tax recovery	2.2	1.4
Income taxes	0.1	(1.2)
Net income (loss)	1.2	(2.0)
Basic earnings (loss) per share (dollars)	0.13	(0.20)

The financial information presented above is based on KPT's interest in KPLP for Fiscal 2021 and Fiscal 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 (loss) of KPLP for the same periods. The deferred tax expense 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.

Pursuant to the Tax Distribution as defined in the Partnership Agreement, on February 26, 2021, KPLP declared a Tax Distribution of \$17.5 million, of which \$5.6 million was used to settle the outstanding advance to KPT as of December 31, 2020.

During Fiscal 2021, pursuant to the Tax Distribution as defined in the Partnership Agreement, KPLP made advances to its partners of \$13.8 million, of which \$2.0 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 were partially offset against the Tax Distribution of \$14.1 million declared and paid by KPLP on February 28, 2022.

SEGMENT INFORMATION

Segment Operating Income

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

Segment Results

(C\$ millions, unless otherwise noted)	Fiscal 2021	Fiscal 2020	Fiscal 2019	Fiscal 2021 vs Fiscal 2020		Fiscal 2020 vs Fiscal 2019	
				\$ Change	% Change	\$ Change	% Change
Segment Revenue							
Consumer	1,260.1	1,304.6	1,186.5	(44.5)	-3.4%	118.1	10.0%
AFH	205.1	211.4	247.6	(6.3)	-3.0%	(36.2)	-14.6%
Total segment revenue	1,465.2	1,516.0	1,434.1	(50.8)	-3.4%	81.9	5.7%
Adjusted EBITDA							
Consumer	167.3	223.4	158.9	(56.1)		64.5	
AFH	(4.9)	(9.0)	(12.7)	4.1		3.7	
Corporate and other costs	(9.0)	(16.6)	(1.2)	7.6		(15.4)	
Total Adjusted EBITDA	153.4	197.8	145.0	(44.4)		52.8	

Consumer Segment

Fiscal 2021 compared to Fiscal 2020

Consumer segment revenue was \$1,260.1 million in Fiscal 2021 compared to \$1,304.6 million in Fiscal 2020, a decrease of \$44.5 million or 3.4%. 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 the unfavourable impact of foreign exchange fluctuations on U.S. dollar sales, partially offset by the Consumer selling price increase in Canada in the second half of 2021. Consumer segment revenue decreased in both Canada and the U.S.

Consumer Segment Adjusted EBITDA was \$167.3 million in Fiscal 2021 compared to \$223.4 million in Fiscal 2020, a decrease of \$56.1 million. The decrease resulted primarily from lower sales volume net of favourable overhead absorption,

increased pulp costs and other commodity inflation, the unfavourable impact of labour shortages in Memphis manufacturing, and higher freight and warehousing expenses. These decreases were partially offset by the favourable impact of foreign exchange fluctuations and lower SG&A expenses.

AFH Segment

Fiscal 2021 compared to Fiscal 2020

AFH segment revenue was \$205.1 million in Fiscal 2021 compared to \$211.4 million in Fiscal 2020, a decrease of \$6.3 million or 3.0%. The decrease was primarily due to the unfavourable impact of foreign exchange fluctuations on U.S. dollar sales and lower sales volumes resulting from COVID-19 related restrictions that continued throughout the majority of Fiscal 2021 in Canada, partially offset by a selling price increase. AFH segment revenue increased slightly in the U.S. and decreased in Canada.

AFH Segment Adjusted EBITDA was a loss of \$4.9 million in Fiscal 2021 compared to a loss of \$9.0 million in Fiscal 2020, an improvement of \$4.1 million. The improvement was primarily due to the favourable impact of a selling price increase, more in-house production and lower SG&A expenses, including the release of the COVID-19 related accounts receivable provision recorded in Fiscal 2020, partially offset by lower sales volumes in Canada and increased pulp costs.

Corporate and Other Costs

Fiscal 2021 compared to Fiscal 2020

Corporate and other costs include certain overhead costs, foreign exchange gains and losses related to non-debt foreign denominated items and start-up costs related to the TAD Sherbrooke Project.

Corporate and other costs were a loss of \$9.0 million in Fiscal 2021 compared to a loss of \$16.6 million in Fiscal 2020, a decrease of \$7.6 million, primarily related to TAD Sherbrooke start-up costs reported in the Other segment in Fiscal 2020 and a decrease in certain overhead costs allocated to Corporate in Fiscal 2021.

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 December 31, 2021, KPLP was in compliance with all of its financial covenants under all of its outstanding credit facilities. As of December 31, 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 December 31, 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 \$7.3 million of letters of credit outstanding, resulting in \$15.9 million available from the revolving loans, subject to covenant limitations. As of December 31, 2021, KPSB had not drawn on the \$5 million committed amount under the KPSB Revolving Facility, resulting in \$5 million available from the KPSB Revolving Facility, subject to covenant

limitations. As of December 31, 2021, KPLP had total liquidity of \$263.8 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, \$86.5 million (December 31, 2020 - \$32.3 million) of cash and cash equivalents were held by KPLP for the TAD Sherbrooke and Sherbrooke Expansion projects.

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 relates to maintenance projects and the remaining expenditures are focused on strategic and growth projects aimed at reducing costs and offsetting annual inflation or increasing production capacity. Regular growth projects focused on performance improvement generally have a 3 to 4 year payback. Capital expenditures were \$146.6 million in Fiscal 2021, of which \$98.0 million related to the TAD Sherbrooke Project. The TAD Sherbrooke Project also had \$6.9 million of accrued and unpaid capital spending as of December 31, 2021. Capital expenditures are expected to be approximately \$190 million to \$210 million in Fiscal 2022 including the Sherbrooke Expansion Project.

The tissue industry is generally characterized by high sales volume and rapid turnover of inventories and accounts receivable. In general, accounts receivable and inventories are readily convertible into cash. Investment in working capital may be affected by fluctuations in the prices of pulp and other supply costs, vendor terms and timing of collection of accounts receivable. 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)	Fiscal 2021	Fiscal 2020	Fiscal 2019	\$ Change	
				Fiscal 2021 vs. Fiscal 2020	Fiscal 2020 vs. Fiscal 2019
Net cash flows from operating activities	81.4	253.5	133.6	(172.1)	119.9
Net cash flows used in investing activities	(145.7)	(313.7)	(168.9)	168.0	(144.8)
Net cash flows from (used in) financing activities	87.4	98.1	(39.6)	(10.7)	137.7
Effect of exchange rate changes on cash, cash equivalents and restricted cash held in foreign currency	(0.8)	(2.3)	(1.9)	1.5	(0.4)
Increase (decrease) in cash, cash equivalents and restricted cash	22.3	35.6	(76.8)	(13.3)	112.4
Beginning cash, cash equivalents and restricted cash, net	128.7	93.1	169.9	35.6	(76.8)
Ending cash, cash equivalents and restricted cash, net	151.0	128.7	93.1	22.3	35.6

Net Cash Flows from Operating Activities

Net cash from operating activities was \$81.4 million in Fiscal 2021 compared to \$253.5 million in Fiscal 2020. Cash from operating activities in Fiscal 2021 was primarily driven by Adjusted EBITDA of \$153.4 million (Fiscal 2020 – \$197.8 million), partially offset by an increase in working capital of \$66.8 million (Fiscal 2020 – \$60.3 million), provisions paid of \$4.3 million (Fiscal 2020 – \$2.2 million) and income tax payments of \$2.6 million (Fiscal 2020 – \$1.7 million).

Net Cash Flows used in Investing Activities

Net cash used in investing activities was \$145.7 million in Fiscal 2021 compared to \$313.7 million in Fiscal 2020. Cash used in investing activities related to capital expenditures of \$146.6 million (including \$98.0 million for the TAD Sherbrooke Project and \$48.6 million for all other sites) in Fiscal 2021 compared to \$310.6 million (including \$274.0 million for the TAD Sherbrooke Project and \$36.6 million for the other sites) in Fiscal 2020. This was partially offset by government assistance received of \$0.9 million in Fiscal 2021 compared to nil in Fiscal 2020.

Net Cash Flows from (used in) Financing Activities

Net cash from financing activities was \$87.4 million in Fiscal 2021 compared to \$98.1 million in Fiscal 2020. Net cash from financing activities in Fiscal 2021 was primarily due to proceeds from debt net of repayments of \$215.3 million (Fiscal 2020 –\$170.0 million), partially offset by distributions and advances paid (net of DRIP proceeds) of \$51.8 million (Fiscal 2020 –\$26.4 million) primarily driven by a larger Tax Distribution compared to YTD 2020, interest paid of \$42.0 million (Fiscal 2020 –\$25.7 million), lease payments of \$24.6 million (Fiscal 2020 –\$19.3 million) and deferred financing fees paid of \$9.5 million (Fiscal 2020 – \$0.5 million).

Contractual Obligations

(C\$ millions, unless otherwise stated)	Fiscal 2022	Fiscal 2023	Fiscal 2024	Fiscal 2025	Fiscal 2026	Thereafter	Total
Contractual obligations:							
Senior Unsecured Notes due April 24, 2025, principal repayments	-	-	-	125.0	-	-	125.0
Senior Unsecured Notes due April 9, 2029, principal repayments	-	-	-	-	-	135.0	135.0
AgCredit - KTG Facility TLA, principal repayments	3.2	4.2	4.2	4.2	12.0	158.6	186.4
AgCredit - TAD Sherbrooke Project Facility TLB, principal repayments	-	-	-	-	13.4	215.5	228.9
AgCredit - TAD Sherbrooke Project Facility TLC, principal repayments	16.0	24.5	28.8	37.3	-	-	106.6
AgCredit - TAD Sherbrooke Project Facility Revolver, principal repayments	-	2.0	-	-	-	-	2.0
KPSI IQ Debenture, principal repayments	16.7	16.7	16.7	16.7	16.7	21.5	105.0
Nordea2 Credit Facility, principal repayments	7.3	7.3	7.3	7.3	7.3	21.6	58.1
KPSB IQ Debenture, principal repayments	-	-	-	-	-	27.0	27.0
Quebec PM Loan, principal repayments	4.9	4.9	4.9	3.3	-	-	18.0
Ontario Loan, principal repayments	0.5	0.5	0.5	0.5	0.4	-	2.4
Interest payments	44.7	43.3	41.7	35.8	28.2	121.3	315.0
Right-of-use lease payments	30.2	21.0	17.1	9.4	7.4	62.3	147.4
KPLP Contribution Undertaking Agreement, Contributions	-	5.7	5.8	5.8	5.8	34.8	57.9
Service contract payments	10.6	5.6	5.1	0.1	-	-	21.4
Total contractual obligations	134.1	135.7	132.1	245.4	91.2	797.6	1,536.1

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 December 31, 2021, KPLP had \$9.4 million (December 31, 2020 – \$23.5 million) of commitments related to the TAD Sherbrooke Project.

As of December 31, 2021, KPLP had \$20.6 million (December 31, 2020 – nil) of commitments related to the Sherbrooke Expansion Project.

KPLP's cash pension contribution for defined benefit pension arrangements in Fiscal 2021 was \$13.2 million, while its post-retirement benefits contribution was \$2.3 million. In addition, as of December 31, 2021, KPLP had \$18.7 million of letters of credit related to pensions outstanding. Pension contributions for fiscal 2022 are expected to be \$14.1 million and post-retirement contributions for fiscal 2022 are expected to be \$2.4 million.

KPLP concluded a new land lease for its Gatineau tissue plant that commences in March 2028 and permits KPLP to secure the site until March 2053.

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. As of December 31, 2021, \$173.2 million was recorded as a liability in respect of this obligation (December 31, 2020 - \$185.4 million). The amount is in respect of a previously disclosed obligation owed to the

partners of KPLP. It does not change the rights of or obligations owed to the partners of KPLP, and does not result in any change to the financial statements of KPT.

Pursuant to the Exchange Agreement, KPT has granted Kruger Inc. the right to exchange KPLP Units it holds from time to time for common shares of KPT (Common Shares) issued by KPT on the basis of one KPLP Unit for one Common Share, subject to adjustment upon the occurrence of certain events that would result in the indirect economic interest in KPLP represented by a Common Share diverging from the direct economic interest in KPLP represented by a KPLP Unit, including splits or consolidations of the common shares without a corresponding split or consolidation of the KPLP Units, issuances or repurchases of Common Shares without corresponding issuances or repurchases of KPLP Units, acquisition of assets by KPT other than KPLP Units or incurrence of liabilities other than ordinary course liabilities, or special distributions by KPT, certain other securities, debt or assets to all shareholders. If at any time the Kruger Inc. aggregate ownership interest is less than 20% in KPLP, KPT may require the exchange of all outstanding KPLP Units held by Kruger Inc. or its affiliates in return for Common Shares on the basis of one KPLP Unit for one Common Share subject to adjustment as set forth above. As of December 31, 2021, no KPLP Units had been exchanged for Common Shares.

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

Indebtedness

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 (refer to Trust Indenture – Senior Unsecured Notes due April 9, 2029 below), capacity under the KPLP Senior Credit Facility was reduced from \$250 million to \$200 million. The KPLP Senior Credit Agreement is for a five year period, maturing on May 21, 2026. The KPLP Senior Credit Facility is used by KPLP to finance general corporate purposes and the ongoing working capital requirements of the Restricted Credit Parties (as defined below), and to finance the cash portion of any permitted acquisition or any permitted investment by the Restricted Credit Parties (as defined below).

Under the KPLP Senior Credit Agreement, "Restricted Credit Parties" means KPLP, KPGP, Kruger Products Real Estate Holdings Inc., KP USA, Kruger Products AFH G.P. Inc, Kruger Products AFH L.P. and 13571998 Canada Inc. and their respective subsidiaries involved in the tissue business but excluding the Unrestricted Credit Parties (which include KPSB, TAD Canco Inc., TAD Luxembourg S.A.R.L., KTG, KPSI, KP TAD Holdco Inc., TAD2 GP ULC, TAD2 US LP, TAD1 Canco I Inc., TAD1 GP ULC, TAD1 US LP and TAD1 Canco II Inc.) and the Non-Material Credit Parties (as such terms are defined in the KPLP Senior Credit Agreement).

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. Stand-by fees are also payable on the available portion of the KPLP Senior Credit Facility at a rate varying between 0.24% and 0.70% depending on the Ratio of Total Net Funded Debt to EBITDA (as defined in the KPLP Senior Credit Agreement).

KPLP may voluntarily cancel or reduce the KPLP Senior Credit Facility, in whole or in part, subject to minimum amounts and notice period, with restrictions on prepayment of banker's acceptances, LIBOR Loans (as defined in the KPLP Senior Credit Agreement) and liabilities under letters of credit.

The KPLP Senior Credit Agreement requires the Restricted Credit Parties to comply with certain financial covenants. The financial covenants are calculated on an Adjusted Consolidated Basis (as defined in the KPLP Senior Credit Agreement) such that the Unrestricted Credit Parties are accounted for as investments but not consolidated. As such, indebtedness under the AgCredit Agreement, the KPSI IQ Debenture, the KPSB IQ Debenture, the IQ Bathroom Tissue Credit Agreement, the IQ Facial Tissue Credit Agreement, the KPSB Senior Credit Agreement, the Citizens Credit Agreement and the Unrestricted Credit Parties' EBITDA are not included in such calculations.

KPLP shall maintain on an Adjusted Consolidated Basis and quarterly financial basis:

Ratio of Senior Secured Net Funded Debt to EBITDA (as defined in the KPLP Senior Credit Agreement) not greater than 3.00 to 1.00.

Interest Coverage Ratio (as defined in the KPLP Senior Credit Agreement) of at least 3.00 to 1.00.

The KPLP Senior Credit Agreement is guaranteed by the Restricted Credit Parties. The Restricted Credit Parties provide first ranking security interests and hypothecs over their current and future tangible and intangible assets (subject to permitted liens) 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 the Restricted Credit Parties. The guarantees and security are granted on a pari passu basis in favour of the lenders and the administrative agent under the KPLP Senior Credit Agreement and the lenders and the administrative agent under the Nordea2 Credit Agreement (as defined below).

Trust Indenture – Senior Unsecured Notes due April 24, 2025

On April 24, 2018, KPLP issued \$125 million aggregate principal amount of 6.0% senior unsecured notes due April 24, 2025 (the Senior Unsecured Notes due April 24, 2025 or the 2025 Notes) by way of private placement in Canada in accordance with applicable Canadian prospectus and registration exemptions. The 2025 Notes were issued pursuant to a trust indenture entered into as of April 24, 2018 between KPLP, the Guarantors and Computershare Trust Company of Canada (the 2025 Indenture). Interest on the 2025 Notes accrues at 6.0% per year and is payable semi-annually on April 24 and October 24 of each year.

Under the 2025 Notes, "Restricted Subsidiaries" means any subsidiary of KPLP that is not an Unrestricted Subsidiary as defined in the 2025 Indenture (which Unrestricted Subsidiaries include TAD Canco Inc., TAD Luxembourg S.A.R.L., KTG, 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 the Non-Material Subsidiaries as defined in the 2025 Indenture).

The 2025 Notes are senior unsecured obligations of KPLP. The 2025 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 2025 Notes other than any indebtedness that ranks senior to the 2025 Notes by operation of law. The 2025 Notes will be effectively subordinated to all existing and future secured indebtedness of the issuer, to the extent of the assets securing such indebtedness.

The 2025 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.

On or after April 24, 2021, KPLP may redeem all or part of the 2025 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 24 of the year set forth below:

Year	Percentage
2021	104.5%
2022	103.0%
2023	101.5%
2024 and thereafter	100.0%

Upon the occurrence of a Change of Control of KPLP (as defined in the 2025 Indenture), KPLP will be required to offer to repurchase all or any part of each holder's 2025 Notes for a payment in cash equal to 101% of the aggregate principal amount of the 2025 Notes repurchased, plus accrued and unpaid interest thereon to the purchase date.

The 2025 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 2025 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.

Trust Indenture – 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 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, 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 KPLP, to the extent of the assets securing such indebtedness.

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.

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%

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 the 2029 Notes repurchased, plus accrued and unpaid interest thereon to the purchase date.

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.

AgCredit Agreement

Subsidiaries of KPLP are party to a credit agreement dated as of November 19, 2018 entered into by, among others, KTG, TAD1 US LP, TAD2 US LP and KPSI, as borrowers, each guarantor from time to time party thereto, as guarantors, each lender from time to time party thereto, as lenders, American AgCredit, FLCA, as administrative agent and National Bank of Canada, as Canadian administrative agent, as amended by the first amendment to the credit agreement executed as of April 20, 2020, dated and effective as of March 23, 2020, the second amendment to the credit agreement dated March 19, 2021 and the third amendment to the credit agreement dated November 19, 2021 (the AgCredit Agreement). Pursuant to the AgCredit Agreement, the following credit facilities were made available: (i) US\$188 million term loan facility repayable by March 31, 2037 related to amounts drawn on or after March 23, 2020 by quarterly principal instalment payments commencing on June 30, 2026 related to amounts drawn on or after March 23, 2020 and bearing interest at a fixed rate based on the farm credit system cost of funds plus an applicable margin set at the time of each tranche draw, (ii) \$111 million term loan repayable by December 31, 2025 by quarterly principal instalment payments commencing on June 30, 2022 and bearing interest at a floating interest rate based on CDOR or the Canadian prime rate plus an applicable margin, (iii) revolving loans of US\$10 million and \$12.5 million with a maturity date of December 31, 2023 with floating interest rates based on U.S. base rate, Canadian prime rate or CDOR plus an applicable margin and a renewal option (the facility detailed in items (i) to (iii), collectively the TAD Sherbrooke Project Facility and (iv) US\$147 million term loan repayable by December 31, 2036 by quarterly principal instalment payments commencing on June 30, 2022 and bearing interest at a 4.82% fixed interest rate effective November 19, 2021 (repriced from a 7.3% fixed interest rate) and repayable after a three-year lock-out period (the KTG Facility).

The purpose of the TAD Sherbrooke Project Facility was to partially finance the TAD Sherbrooke Project. On November 1, 2021, the borrowers executed the final draws on the TAD Sherbrooke Project Facility, in connection with the financing of the TAD Sherbrooke Project. The purpose of the KTG Facility was to repay existing indebtedness of KTG and TAD Canco Inc.

As of December 31, 2021, the following amounts were drawn on the TAD Sherbrooke Project Facility:

- i. US\$180.5 million cash drawn on the US\$188 million term loan facility (December 31, 2020 – US\$144.9 million cash drawn);
- ii. \$106.6 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 \$7.3 million letters of credit drawn on the \$12.5 million revolving loan facility (December 31, 2020 – \$9.0 million letters of credit drawn)

The TAD Sherbrooke Project Facility and KTG Facility are each guaranteed by the borrowers and guarantors. The borrowers and guarantors (as such terms are defined in the AgCredit Agreement) granted first ranking security interests over all of their assets, present and future, movable and immovable, corporeal and incorporeal, to secure the obligations under the AgCredit Agreement. The TAD Sherbrooke Project Facility and the KTG Facility are both non-recourse to KPLP.

The borrowers may voluntarily cancel or reduce the revolving loans, in whole or in part, without premiums or penalty. The borrowers shall have the right at any time to voluntarily prepay the entire amount or any amount outstanding of the term loans subject to minimum amounts and notice period. Prepayment shall be accompanied by the payment of all accrued and unpaid interest with respect to fixed rate advances. If all or any portion of the outstanding balance of a term loan is prepaid, prepayment premiums may apply.

The AgCredit Agreement requires the borrowers to comply with certain financial covenants. The financial covenants are calculated on a Combined Basis (as defined in the AgCredit Agreement).

On a Combined Basis and quarterly financial basis, the borrowers shall not:

Permit the Combined Leverage Ratio (as defined in the AgCredit Agreement) as of the end of any fiscal quarter of the borrowers to exceed 60%;

Permit the Combined Fixed Charge Coverage Ratio (as defined in the AgCredit Agreement) as of the end of any fiscal quarter of the borrowers, beginning with the fiscal quarter ending September 30, 2022, to be less than:

- (i) 1.10 to 1.00 with respect to the fiscal quarter ending September 30, 2022 through and including the fiscal quarter ending September 30, 2023; and
- (ii) 1.25 to 1.00 with respect to the fiscal quarter ending December 31, 2023 and each fiscal quarter thereafter.

KPSI IQ Debenture

On November 19, 2018, KPSI issued a 10-year convertible debenture in favour of IQ in the principal amount of \$105 million (the KPSI IQ Debenture). The KPSI IQ Debenture was used to partially finance the TAD Sherbrooke Project.

Borrowings under the KPSI IQ Debenture bear interest at a fixed capitalized interest rate of 3.0% per annum, calculated monthly.

The KPSI IQ Debenture is redeemable on a monthly basis commencing 36 months from the date of issuance, which payments KPSI undertakes to cause KPLP or Kruger Inc. to make, failing which IQ will have a conversion right on terms of conversion that would provide IQ with a 50% equity interest in KPSI if the entirety of the debenture was so converted.

Pursuant to a repayment agreement (the KPSI Repayment Agreement) between Kruger Inc., KPLP, KPSI and IQ, KPLP has at its discretion, a priority right to make any required monthly redemption payment to IQ. The party that makes the redemption payment will receive common shares of KPSI as consideration of such payment. Pursuant to the KPSI Repayment Agreement, if Kruger Inc. makes all of the redemption payments, it will hold approximately 50% of KPSI.

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

Nordea2 Credit Agreement

KPLP is party to a credit agreement dated as of November 2, 2018 entered into by KPLP, as borrower, the lender party thereto and Nordea Bank Abp Filial I Sverige, as administrative agent, as amended by an amendment letter dated November 19, 2018, an amendment letter dated September 19, 2019, an amendment letter dated May 21, 2021 and a request for consent dated November 1, 2021 and accepted by the administrative agent on December 16, 2021 (the Nordea2 Credit Agreement) pursuant to which a senior secured non-revolving loan facility in a maximum amount of US\$48.8 million (the Nordea2 Credit Facility) was made available to KPLP. The Nordea2 Credit Facility was used to partially finance the TAD Sherbrooke Project and the fees of the Swedish Export Credits Guarantee Board (EKN) in connection with its guarantee of the Nordea2 Credit Facility. The Nordea2 Credit Facility matures on August 31, 2029.

Borrowings under the Nordea2 Credit Facility bear interest at a fixed interest rate of 3.74% per annum, comprised of a Swedish state reported interest rate, risk premium and administrative margin.

The Nordea2 Credit Facility is repayable in 17 equal consecutive semi-annual installments of principal together with interest commencing on August 28, 2021. Prepayments are allowed subject to a make-whole payment on account of interest losses.

The covenants, financial covenants and negative covenants provided by KPLP under the KPLP Senior Credit Agreement are incorporated and made part of the Nordea2 Credit Agreement. Refer to KPLP Senior Credit Agreement — Covenants above. The Nordea2 Credit Agreement contains restrictions on amendments to the KPLP Senior Credit Agreement and related security and other documents.

The Nordea2 Credit Agreement provides for pari passu security and guarantees on the assets and undertaking of KPLP and each Restricted Credit Party, the relationship between the lender and administrative agent under the Nordea2 Credit Agreement and the administrative agent and the lenders under the KPLP Senior Credit Agreement being governed by a collateral agency and security sharing agreement.

KPSB IQ Debenture

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.

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), 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. KPSB may redeem or cause to be redeemed, the KPSB IQ Debenture, in whole or in part, at any time and without penalty.

The KPSB IQ Debenture is redeemable on a monthly basis (proportionately based on the number of months remaining until maturity) commencing 24 months following 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, and to the extent such amounts cannot be realized from the Dedicated Account (as defined below), 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, KPLP agreed to make the required monthly redemption payments to IQ. KPLP's redemption payments to IQ will effectively be funded by rate

discounts on electricity usage 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 (the 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 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.

Quebec PM Loan Agreement

KPLP is a party to a loan agreement dated as of August 9, 2016 entered into by KPLP, as borrower, and Investissement Québec (IQ) as lender (the Quebec PM Loan Agreement) pursuant to which a secured non-revolving loan in a maximum amount of \$39.5 million (the Quebec PM Loan) is made available to KPLP. The Quebec PM Loan is being used to partially finance the acquisition and relocation of a paper machine to be installed at the Crabtree facility (the PM Project). The Quebec PM Loan Agreement matures ten years after the first loan disbursement, which occurred on September 6, 2016.

Borrowings under the Quebec PM Loan bear interest at a fixed interest rate of 2.5% per annum for a period of seven years from the date of the first loan disbursement. The interest rate thereafter increases to a fixed rate of 3.5% per annum until the eighth anniversary of the first loan disbursement, a fixed rate of 4.5% per annum until the ninth anniversary of the first loan disbursement, and a fixed rate of 5.5% per annum thereafter. Monthly interest payments commence the month following the first loan disbursement.

The Quebec PM Loan had a moratorium on repayment of the principal for the initial 24 months following the date of the first loan disbursement, after which the principal is to be repaid in 96 monthly consecutive payments. The monthly repayments are reduced, in the reverse order of maturity, by repayments to IQ corresponding to KPLP’s receipt of Government of Quebec electricity tariff rebates.

The Quebec PM Loan is secured by the acquired paper machine and the portion of the property on which the paper machine is installed. The security is second ranking immediately after the security granted in favour of the KPLP Senior Credit Facility.

Ontario Loan Agreement

KPLP is a party to a conditional loan agreement dated as of July 1, 2015 entered into by KPLP, as borrower, and the Government of Ontario as lender (the Ontario Loan Agreement) pursuant to which a secured non-revolving loan in a maximum amount of \$10 million (the Ontario Loan) is made available to KPLP. The Ontario Loan is being used to partially finance the expansion project at the Trenton facility. The Ontario Loan Agreement matures ten years after the first loan disbursement, which occurred on February 24, 2016.

Borrowings under the Ontario Loan bear interest at a fixed interest rate of 2.4% per annum for a period of five years from March 1, 2021. Annual interest payments commence February 28, 2022.

The Ontario Loan had a moratorium on repayment of the principal for the initial five years following the date of the first loan disbursement. Principal is to be repaid in five equal annual payments together with interest commencing February 28, 2022. A portion of the loan principal was forgivable, subject to prescribed conditions, up to a maximum forgivable portion of \$5 million. As of December 31, 2020, loan principal of \$4.4 million was forgiven.

The Ontario Loan is secured by the assets acquired for the expansion project at the Trenton facility.

IQ Bathroom Tissue Credit Agreement

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 the 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.

No amounts have been drawn on the IQ Bathroom Tissue Loan as of December 31, 2021.

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), 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.

The IQ Bathroom Tissue Loan has a moratorium on repayment of the principal, ending no later than 36 months from the earlier of (i) the BT Line Commissioning Date or (ii) 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.

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

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.

No amounts have been drawn on the IQ Facial Tissue Loan as of December 31, 2021.

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), 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.

The IQ Facial Tissue Loan has a moratorium on repayment of the principal, ending no later than 24 months from the earlier of (i) the FT Line Commissioning Date or (ii) 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.

KPLP has guaranteed, on a solidary basis with the debtor, 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 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

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 as amended by a first supplemental credit agreement dated December 17, 2021 (the KPSB Senior Credit Agreement). Pursuant to the KPSB Senior Credit Agreement, credit facilities were made available to KPSB consisting of (a) a \$150 million construction loan (of which \$75 million was reserved on May 21, 2021 and made fully available on December 17, 2021 concurrently with the execution of the first supplemental credit agreement to the KPSB Senior Credit Agreement to finance increased investment in the Sherbrooke Expansion Project) with a seven year term maturing on May 21, 2028 (the KPSB Construction Facility) and (b) a revolving loan of \$5 million (reduced from \$10 million on December 17, 2021 concurrently with the first supplemental credit agreement to the KPSB Senior Credit Agreement) 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 and, collectively with the KPSB Construction Facility, the KPSB Senior Credit Facilities).

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, the ongoing working capital requirements of KPSB and to finance the implementation of the LDC Machine in a new facility adjacent to the Sherbrooke TAD facility, as part of the Sherbrooke Expansion Project.

No amounts have been drawn on the KPSB Senior Credit Facilities as of December 31, 2021.

Borrowings under the KPSB Construction Facility bear interest at a base rate of Canadian prime rate, US base rate, LIBOR or the applicable benchmark replacement rate, or banker's acceptance stamping fees (plus a margin varying between 1.50% 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 US base rate or letter of credit fees, depending on the type of advance. Stand-by fees are also payable on the available portion of the KPSB Senior Credit Facilities at a rate varying between 0.50% and 0.75% depending on the Total Leverage Ratio (as defined in the KPSB Senior Credit Agreement).

The KPSB Construction Facility is available for multiple draws on a non-revolving basis, until the achievement of Term Conversion (as defined in the KPSB Senior Credit Agreement), which occurs on the earlier of (i) substantial completion of the LDC Machine installation or (ii) December 31, 2025, and subject to satisfaction of certain conditions set out in the KPSB Senior Credit Agreement. 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, plus once-annual prepayments in the amount equal to 50% of KPSB's annual Excess Cash Flow (as defined in the KPSB Senior Credit Agreement) calculated and paid within 120 days at the end of each fiscal year of KPSB.

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

To secure the obligations under the KPSB Senior Credit Facilities, 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 Facilities (the 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 December 31, 2021) and (iii) cause KPLP to pledge on a limited recourse basis all of its capital stock in KPSB.

Citizens Credit Agreement

KTG is a party to a loan agreement dated as of October 29, 2021 entered into by KTG, as borrower, and Citizens Asset Finance, a Division of Citizens Bank, N.A. as lender (the Citizens Credit Agreement) pursuant to which a secured non-revolving loan in a maximum amount of US\$21.8 million (the Citizens Loan) was made available to KTG. The purpose of the Citizens Loan is to finance all costs associated with the implementation of the KTG FT Line at the Memphis facility. The Citizens 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 from the date of initial loan disbursement.

No amounts have been drawn on the Citizens Loan as of December 31, 2021.

Borrowings under the Citizens Loan bear interest at a fixed interest rate of 2.34% per annum for a period of seven years from the date of loan disbursement. The interest rate is subject to adjustment at the time of loan disbursement, with a minimum fixed interest rate of 2.25%.

The Citizens Loan is repayable based on a mortgage-style amortization over the loan term in equal consecutive monthly installments of principal together with interest, plus a final balloon payment equal to all principal outstanding on the last payment date. After the first twelve months, KTG shall have the right to voluntarily prepay the loan in full subject to a notice period. If all or any portion of the outstanding loan balance is prepaid, prepayment premiums may apply.

The Citizens Credit Agreement requires KTG to comply with certain financial covenants on a KTG standalone basis.

KTG shall maintain on a standalone and quarterly financial basis:

Leverage Ratio (as defined in the Citizens Credit Agreement) not greater than 50%.

Fixed Charge Coverage Ratio (as defined in the Citizens Credit Agreement) of at least:

- (i) 1.10 to 1.00 from fiscal quarter ending September 30, 2022 to fiscal quarter ending September 30, 2023;
and
- (ii) 1.25 to 1.00 from fiscal quarter ending December 31, 2023 and thereafter

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 December 31, 2021 included cash, cash equivalents and restricted cash, trade and other receivables and receivables from related parties. KPLP places its cash, cash equivalents and restricted cash 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 second half. 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 a first amendment agreement dated November 12, 2020 and a second amendment agreement dated November 8, 2021. 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 8, 2021, the term was renewed for an additional one year period, maturing November 15, 2022. 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 and other finance costs in the consolidated statement of comprehensive income (loss). Cash flows from the factoring arrangement are presented as operating activities in the consolidated statement of cash flows. During Fiscal 2021, the factored receivables sold to the Bank of Nova Scotia were \$608.1 million (Fiscal 2020 - \$672.9 million). KPLP sold 95% of these trade receivables, net of a dilution factor, for \$607.3 million (Fiscal 2020 - \$671.9 million). As of December 31, 2021, the trade receivables sold were \$33.5 million (December 31, 2020 - \$38.9 million).

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 December 31, 2021, KPLP had net liabilities denominated in U.S. dollars of \$254.9 million (December 31, 2020 – \$222.7 million). Assuming the Canadian dollar strengthened (weakened) by 5% against the U.S. dollar, with all other variables held constant, the hypothetical result on net income before tax in Fiscal 2021 would have been an increase (decrease) of \$12.7 million (Fiscal 2020 – \$11.1 million).

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 December 31, 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 December 31, 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 \$7.3 million of letters of credit outstanding, resulting in \$15.9 million available from the revolving loans, subject to covenant limitations. As of December 31, 2021, KPSB had not drawn on the \$5 million committed amount under the KPSB Revolving Facility, resulting in \$5 million available from the KPSB Revolving Facility, subject to covenant limitations. As of December 31, 2021, KPLP had total liquidity of \$263.8 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, \$86.5 million (December 31, 2020 - \$32.3 million) of cash and cash equivalents were held by KPLP for the TAD Sherbrooke and Sherbrooke Expansion projects.

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 \$258.6 million as of December 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 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 December 31, 2021, KPLP had variable rate debts of \$106.7 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, LIBOR or the applicable benchmark replacement rate, plus an applicable margin ranging 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 or the Canadian prime rate plus an applicable margin ranging between 1.35% and 3.25%. The revolving loans of US\$10 million and \$12.5 million made available as part of the TAD Sherbrooke Project Facility bear interest at a floating interest rate of U.S. base rate, Canadian prime rate or CDOR plus an applicable margin ranging between 1.35% and 3.25%. The KPSB Senior Credit Facility bears 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 an applicable margin ranging between 1.50% and 3.25%.

A 100 basis point increase (decrease) in the market rate of interest would result in a decrease (increase) in net income before tax of \$1.1 million for Fiscal 2021.

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 December 31, 2021 and December 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, corporate development support, environmental support and corporate engineering support services.

During Fiscal 2021, management fees of \$7.4 million (Fiscal 2020 - \$7.4 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 and the Sherbrooke Expansion 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 Fiscal 2021 were \$1.3 million (Fiscal 2020 – \$0.2 million). Sales of goods to subsidiaries of Kruger Inc. during Fiscal 2021 were \$4.1 million (Fiscal 2020 – \$0.1 million). Goods are sold based on the price lists in force and terms that would be available to third parties.

Purchases of goods and services from Kruger Inc. during Fiscal 2021 were \$7.5 million (Fiscal 2020 - \$9.4 million). Purchases of goods and services from subsidiaries of Kruger Inc. during Fiscal 2021 were \$52.5 million (Fiscal 2020 - \$53.8 million). 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 Kruger Brompton L.P. (KBLP), a subsidiary of Kruger Inc., 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 and other finance costs (Fiscal 2021 - \$1.5 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 December 31, 2021, \$173.2 million was recorded as a liability in respect of this obligation (December 31, 2020 - \$185.4 million). As of December 31, 2021, the valuation utilized a discount rate and terminal growth rate of 8.75% and 2.0% (December 31, 2020 - 9.0% and 2.0%), respectively. An increase/decrease in the discount rate by 0.5% would result in a decrease/increase in the Partnership units liability of approximately \$15.3 million and \$17.9 million, respectively. The discount rate reflects the risks associated with the business, which operates primarily in Canada.

The loss of \$5.3 million recorded during Fiscal 2021 (Fiscal 2020 - loss of \$47.0 million) related to the change in amortized cost of Partnership units liability represents the adjustments made to estimate the current year Tax Distribution and the results of the reassessment performed as of December 31, 2021. The Partnership units liability decreased by \$12.2 million due to the change in the discount rate causing an increase of \$7.9 million, the 2021 Tax Distribution of \$14.1 million less the final 2020 Tax Distribution of \$17.5 million and the changes in other assumptions causing a decrease of \$16.7 million.

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 Fiscal 2021.

Impairment Tests

KPLP performs annual impairment tests for goodwill, as it relates to the Consumer Canada CGU and indefinite lived trademarks.

Management completed the annual impairment test for goodwill related to the Consumer Canada CGU, utilizing future forecasts, including consideration of the impact of COVID-19, and concluded that the recoverable amount exceeded the

carrying amount as of December 31, 2021 and no impairment was recorded. As of December 31, 2021, the carrying value of the Canada Consumer CGU's goodwill was \$152.0 million.

In Fiscal 2020, management completed the annual impairment test for goodwill related to the AFH CGU. Recent historical losses and expected near-term future losses and uncertainties associated with the pandemic triggered a decline in the value of the AFH CGU's goodwill, resulting in an impairment charge of \$8.9 million in Fiscal 2020. As of December 31, 2021, the carrying value of the AFH CGU's goodwill was nil.

KPLP completed the annual impairment test for indefinite lived trademarks, including consideration of the impact of COVID-19. Recoverable amounts related to indefinite lived trademarks are determined based on management's best estimate using a relief from royalty model. The estimates of relief from royalty are based on the royalties that would have to be paid based on market royalty rates and projected sales volumes. Additional assumptions include estimates of the discount rate, growth rates, selling price to customer and foreign exchange rates. Management has concluded that current and projected sales volumes and profitability support the recoverable amount of the indefinite lived trademarks. As of December 31, 2021, the value of indefinite lived trademarks was \$16.0 million.

KPT is required to perform an impairment test on its investment in KPLP if there is objective evidence that the investment may be impaired. Management considered the impact of COVID-19 on KPT's assessment of triggering events with respect to its impairment analysis for its investment in KPLP. Management concluded the future forecasts that support the investment value had not changed significantly and therefore 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. During Fiscal 2021, KPLP reassessed its ability to utilize the U.S. State tax credits and its ability to utilize net operating loss carry forwards. KPLP recognized loss carry forwards previously unrecognized and recorded an additional \$40.3 million deferred tax asset for Fiscal 2021.

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 Fiscal 2021, KPLP considered the impact of COVID-19 on KPLP's 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 December 31, 2021 and that during Fiscal 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 second half. 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 effective January 1, 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. KPLP has certain borrowings which are subject to the replacement of one interest rate benchmark with an alternative one (refer to Liquidity and Capital Resources, Indebtedness). As of December 31, 2021, these borrowings have not yet transitioned to an alternative interest rate benchmark. The amended standard had no impact on the consolidated financial statements as of December 31, 2021 and is not expected to have a material impact on the consolidated financial statements at the time of transition.
- (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 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. Management is evaluating the amended standard and has not yet determined the impact on the 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 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 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 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 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 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 consolidated financial statements.

SELECTED ANNUAL FINANCIAL INFORMATION

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

(C\$ millions, unless otherwise stated)	December 31, 2021	December 31, 2020
KPT Financial Information		
Total assets	80.7	71.3
Total liabilities	4.8	5.0
KPLP Financial Information		
Total assets	2,122.3	1,951.3
Total liabilities	1,706.2	1,662.9

SELECTED QUARTERLY FINANCIAL INFORMATION

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

(C\$ millions, unless otherwise stated)	2021				2020			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Number of days in the period	92	92	91	90	92	92	91	91
Revenue	424.1	391.4	339.3	310.4	385.0	369.1	386.8	375.1
Net income (loss) for the period	42.3	(9.3)	2.2	6.8	(28.5)	18.5	28.9	8.4
Reconciliation of Net income (loss) to Adjusted EBITDA								
Net income (loss)	42.3	(9.3)	2.2	6.8	(28.5)	18.5	28.9	8.4
Interest expense and other finance costs	22.8	18.7	16.3	12.9	9.3	9.8	11.3	10.6
Income taxes	(43.2)	(4.6)	(3.0)	(0.2)	0.7	(0.7)	8.8	(0.1)
Depreciation and amortization	21.8	23.5	22.2	18.2	19.0	15.9	17.0	16.9
Foreign exchange (gain) loss	(1.3)	8.3	(4.1)	(3.7)	(10.4)	(3.4)	(5.8)	9.3
Change in amortized cost of								
Partnership units liability	(5.0)	3.5	3.4	3.4	36.2	5.8	2.5	2.5
Change in fair value of derivatives	-	-	-	-	-	-	-	(0.4)
Other expense	0.4	-	-	-	-	-	-	-
Loss on sale of property, plant and equipment	0.1	-	0.3	-	0.9	-	-	-
Impairment charge	-	-	-	-	8.9	-	-	-
Restructuring costs, net	0.4	0.2	(0.1)	0.1	-	0.1	0.5	0.7
Consulting costs related to								
operational transformation initiatives	-	-	-	-	-	-	1.2	3.1
Corporate development related costs	-	-	0.1	-	0.1	0.2	-	-
Adjusted EBITDA	38.3	40.3	37.3	37.5	36.2	46.2	64.4	51.0

Results of Operations Q4 2021 compared to Q4 2020

Revenue

Revenue was \$424.1 million in Q4 2021 compared to \$385.0 million in Q4 2020, an increase of \$39.1 million or 10.2%. The increase in revenue was due to several factors: a selling price increase in Consumer Canada and higher sales volume in both the Consumer and AFH segments compared to the year ago quarter. Revenue was unfavourably impacted by foreign exchange fluctuations on U.S. dollar sales (USD average 1.26 in Q4 2021 compared to 1.30 in Q4 2020). From a geographic perspective, revenue in Canada increased \$1.1 million or 0.4%, while revenue in the U.S. increased \$38.0 million, or 27.0%.

Cost of Sales

Cost of sales was \$376.0 million in Q4 2021 compared to \$332.2 million in Q4 2020, an increase of \$43.8 million or 13.2%. Manufacturing costs increased primarily due to higher sales volumes, increased pulp costs, and the unfavourable impact of labour shortages in Memphis manufacturing, along with higher depreciation expense, overhead absorption resulting from reduced inventory levels during the quarter, 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 Q4 2020 primarily due to increased freight rates and also higher sales volumes. Warehousing costs increased related primarily to higher inventories during Q4 2021 compared to Q4 2020. As a percentage of revenue, cost of sales was 88.7% in Q4 2021 compared to 86.3% in Q4 2020.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses were \$31.7 million in Q4 2021 compared to \$36.7 million in Q4 2020, a decrease of \$5.0 million or 13.6%. The decrease was primarily due to lower advertising and promotion expenses, a

lower foreign exchange loss in Q4 2021 compared to the year ago quarter and lower Information Technology spending in the fourth quarter. As a percentage of revenue, SG&A expenses were 7.5% in Q4 2021 compared to 9.5% in Q4 2020.

Adjusted EBITDA

Adjusted EBITDA² was \$38.3 million in Q4 2021 compared to \$36.2 million in Q4 2020, an increase of \$2.1 million or 5.8%. The increase was primarily due to higher sales volume and the Consumer selling price increase in Canada, lower SG&A expenses, and the net favourable impact of foreign exchange fluctuations, partially offset by the unfavourable impact of sales mix, higher pulp prices and other inflation, labour shortages in Memphis manufacturing and higher freight rates and warehousing costs.

Impairment Charges

Impairment charges were \$8.9 million in Q4 2020, resulting from the impairment of goodwill associated with the AFH business segment. Refer to Critical Accounting Estimates – Impairment Tests for additional details.

Interest Expense and Other Finance Costs

Interest expense and other finance costs were \$22.8 million in Q4 2021 compared to \$9.3 million in Q4 2020, an increase of \$13.5 million. The increase was primarily due to higher debt levels as a result of the TAD Sherbrooke Project and a loss on extinguishment of debt under IFRS related to the refinancing of the AgCredit US\$147 million term loan.

Other Income (Expense)

Other income was \$5.9 million in Q4 2021 compared to expense of \$25.8 million in Q4 2020. Other income in Q4 2021 was primarily related to a gain resulting from the change in amortized cost of Partnership units liability of \$5.0 million (Q4 2020 – \$36.2 million expense) (refer to Critical Accounting Estimates – Partnership Units Liability for additional details) and a foreign exchange gain on USD denominated debt of \$1.3 million (Q4 2020 – \$10.4 million).

Income Taxes

An income tax recovery of \$43.2 million was recorded in Q4 2021 compared to \$0.7 million income tax expense in Q4 2020. KPLP is not directly taxable on its Canadian business. The income tax recovery resulted from the recording of an income tax asset of \$40.0 million as KPLP was able to record the benefit from non-operating losses related to a subsidiary and also from operating losses related to the U.S. entities. Income tax in partner's hands was a recovery of \$5.4 million in Q4 2021 compared to an expense of \$6.9 million in Q4 2020.

Net Income (Loss)

Net income was \$42.3 million in Q4 2021 compared to a loss of \$28.5 million in Q4 2020, an increase of \$70.8 million. The increase was primarily due to higher income tax recovery of \$43.9 million, lower other expense of \$31.7 million, an impairment charge of \$8.9 million in Fiscal 2020 and higher Adjusted EBITDA of \$2.1 million as discussed above, partially offset by higher interest expense and other finance costs of \$13.5 million and higher depreciation and amortization of \$2.8 million.

² Adjusted EBITDA is a non-GAAP financial measure. Refer to the *Non-GAAP Financial Measures* section of this MD&A for more information on these measures.

Segment Information Q4 2021 compared to Q4 2020

(C\$ millions, unless otherwise noted)	Q4 2021	Q4 2020	Q4 2021 vs. Q4 2020	
			\$ Change	% Change
Segment Revenue				
Consumer	364.0	333.2	30.8	9.2%
AFH	60.1	51.8	8.3	16.0%
Total segment revenue	424.1	385.0	39.1	10.2%
Adjusted EBITDA				
Consumer	43.7	44.2	(0.5)	
AFH	(1.7)	(2.4)	0.7	
Corporate and other costs	(3.7)	(5.6)	1.9	
Total Adjusted EBITDA	38.3	36.2	2.1	

Consumer Segment

Q4 2021 compared to Q4 2020

Consumer segment revenue was \$364.0 million in Q4 2021 compared to \$333.2 million in Q4 2020, an increase of \$30.8 million or 9.2%. The increase in revenue was due to a selling price increase in Canada and higher sales volume compared to Q4 2020, partially offset by the unfavourable impact of foreign exchange fluctuations on U.S. dollar sales. Consumer segment revenue increased in the U.S. and decreased slightly in Canada.

Consumer Segment Adjusted EBITDA was \$43.7 million in Q4 2021 compared to \$44.2 million in Q4 2020, a decrease of \$0.5 million. The decrease in Adjusted EBITDA was primarily due to higher cost of sales as described above in Results of Operations for Q4 2021, partially offset by lower SG&A expenses, including advertising and promotion and the favourable sales impact.

AFH Segment

Q4 2021 compared to Q4 2020

AFH segment revenue was \$60.1 million in Q4 2021 compared to \$51.8 million in Q4 2020, an increase of \$8.3 million or 16.0%. The increase was primarily due to higher sales volumes primarily in the U.S. and a selling price increase, 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 a loss of \$1.7 million in Q4 2021 compared to a loss of \$2.4 million in Q4 2020, an improvement of \$0.7 million. The improvement was primarily due to the favourable impact of sales as described above, along with more in-house production compared to Q4 2020, partially offset by increased pulp costs.

Corporate and Other Costs

Q4 2021 compared to Q4 2020

Corporate and other costs include certain overhead costs, timing adjustments for certain manufacturing costs included in inventory not allocated to the Consumer and AFH segments and start-up costs related to the TAD Sherbrooke Project.

Corporate and other costs were a loss of \$3.7 million in Q4 2021 compared to a loss of \$5.6 million in Q4 2020, a decrease of \$1.9 million resulting primarily from TAD Sherbrooke start-up costs reported in the Other segment in Q4 2020, along with an increase in certain overhead costs allocated to Corporate in Q4 2021.

SHARE INFORMATION

KPT's authorized share capital consists of an unlimited number of Common Shares. As of March 9, 2022, there were 9,931,426 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 March 9, 2022 for Common Shares, it would hold approximately 85.6% of the issued and outstanding Common Shares. As of March 9, 2022, there were no potentially dilutive instruments outstanding.

Pursuant to the Limited Partnership Agreement, KPLP may issue an unlimited number of KPLP Units. As of March 9, 2022, there were 68,870,766 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 2021 Annual Information Form dated March 9, 2022 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.

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 Fiscal 2021 that have materially affected, or are reasonably expected to materially affect, its internal controls over financial reporting.

Management's Report on Disclosure Controls and Procedures

Management, under the supervision of and with the participation of the Corporations' CEO and CFO, evaluated the effectiveness of the Corporations' disclosure controls and procedures (as defined under National Instrument 52-109) and concluded, as of December 31, 2021, that such disclosure controls and procedures were effective.

Management's Report on Internal Controls over Financial Reporting

Management, under the supervision of and with the participation of the Corporations' CEO and CFO, evaluated the effectiveness of the Corporations' internal controls over financial reporting (as defined under National Instrument 52-109). In making this evaluation, Management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commissions (COSO) in Internal Control - Integrated Framework (2013). Based on that evaluation, Management and the CEO and CFO have concluded that, as of December 31, 2021, the Corporations' internal controls over financial reporting were effective. This evaluation took into consideration the Corporations' Corporate Disclosure Policy and the functioning of its Disclosure Policy Committee.

ADDITIONAL INFORMATION

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



KP TISSUE INC.

AUDITED FINANCIAL STATEMENT

FOR THE YEARS ENDED DECEMBER 31, 2021 AND DECEMBER 31, 2020



Independent auditor's report

To the Shareholders of KP Tissue Inc.

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of KP Tissue Inc. (the Corporation) as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Corporation's financial statements comprise:

- the statements of financial position as at December 31, 2021 and 2020;
- the statements of comprehensive income (loss) for the years then ended;
- the statements of changes in equity for the years then ended;
- the statements of cash flows for the years then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2021. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



Key audit matter	How our audit addressed the key audit matter
<p>Impairment indicator assessment on the equity accounted investment in Kruger Products L.P.</p> <p><i>Refer to note 1 – General information, note 3 – Summary of significant accounting policies, note 4 – Critical accounting estimates and judgments, note 5 – Investment in associate and note 9 – Economic dependence to the financial statements.</i></p> <p>The Corporation was created to acquire, and its business is limited to holding, a limited partnership interest in Kruger Products L.P. (KPLP), which is accounted for as an investment in an associate using the equity method of accounting. As at December 31, 2021, the Corporation held a 14.5% interest in KPLP and the carrying amount of the Corporation's equity accounted investment in KPLP amounted to \$78.7 million.</p> <p>Management assesses at each reporting period whether there is any objective evidence that indicates an impairment related to the investment in KPLP. Management applies judgment when assessing whether there is any objective evidence that would require an impairment test to be performed, including whether (i) KPLP has recognized impairment losses in its financial results; or (ii) the recoverable amounts of KPLP's cash generating units tested for impairment have declined below the carrying amount of the Corporation's basis in KPLP's assets included in the investment in KPLP after taking into account the fair value increment for identifiable assets recorded on acquisition of interests in KPLP; or (iii) there is a significant decline in the market capitalization of the Corporation compared to its net assets. Management did not perform an impairment test as at December 31, 2021, as there was no objective evidence that indicated that an impairment test was required.</p>	<p>Our approach to addressing the matter included the following procedures, among others:</p> <ul style="list-style-type: none">• Evaluated the reasonableness of management's impairment indicator assessment on the equity accounted investment in KPLP by:<ul style="list-style-type: none">– Performing an audit of the consolidated financial statements of KPLP as at December 31, 2021. This included:<ul style="list-style-type: none">○ considering the financial performance of KPLP and the impact of recognized impairment losses, if any, in the consolidated financial statements of KPLP on the carrying amount of the Corporation's investment in KPLP;○ comparing the recoverable amounts of KPLP's cash generating units tested for impairment to the carrying amount of the Corporation's basis in KPLP's assets included in the investment in KPLP after taking into account the fair value increment for identifiable assets recorded on acquisition of interests in KPLP; and○ evaluating the completeness of management's impairment indicator assessment of whether there was any other objective evidence that indicates an impairment related to the investment in KPLP.– Recalculating and comparing the Corporation's market capitalization to its net assets as at December 31, 2021.



Key audit matter

How our audit addressed the key audit matter

We considered this a key audit matter due to the significance of the equity accounted investment in KPLP carrying amount and the judgment applied by management when assessing whether there was any objective evidence that would require an impairment test to be performed. This resulted in a high degree of auditor judgment, subjectivity and effort in performing procedures and evaluating audit evidence related to management's impairment indicator assessment.

Other information

Management is responsible for the other information. The other information comprises the KP Tissue Inc. and Kruger Products L.P. Management's Discussion and Analysis of Results of Operations and Financial Position, which we obtained prior to the date of this auditor's report and the information, other than the financial statements and our auditor's report thereon, included in the annual report, which is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard. When we read the information, other than the financial statements and our auditor's report thereon, included in the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.



In preparing the financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Corporation to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Aneil Manji.

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
March 10, 2022

KP Tissue Inc.

Statement of Financial Position

(tabular amounts are in thousands of Canadian dollars)

	December 31, 2021	December 31, 2020
	\$	\$
Assets		
Current assets		
Distributions receivable	1,781	1,755
Receivable from Partnership	-	21
Income taxes recoverable	208	-
	1,989	1,776
Non-current assets		
Investment in associate (note 5)	78,727	69,537
Total assets	80,716	71,313
Liabilities		
Current liabilities		
Dividend payable (note 7)	1,781	1,755
Payable to Partnership	246	-
Current portion of advances from Partnership (note 6)	2,014	874
Income tax payable	-	1,722
	4,041	4,351
Non-current liabilities		
Deferred income taxes (note 6)	806	634
Total liabilities	4,847	4,985
Equity		
Common shares (note 7)	21,844	20,355
Contributed surplus	144,819	144,819
Deficit	(103,561)	(111,907)
Accumulated other comprehensive income	12,767	13,061
Total equity	75,869	66,328
Total liabilities and equity	80,716	71,313
Subsequent events (notes 6 and 7)		

Approved by the Board of Directors

/s/ James Hardy
Director

/s/ François Vimard
Director

The accompanying notes are an integral part of these financial statements.

KP Tissue Inc.
Statement of Comprehensive Income (Loss)
For the years ended December 31, 2021 and December 31, 2020

(tabular amounts are in thousands of Canadian dollars, except share and per share amounts)

	2021	2020
	\$	\$
Equity income (loss) (note 5)	800	(1,428)
Dilution gain (note 7)	321	634
Income (loss) before income taxes	1,121	(794)
Income tax expense (recovery) (note 6)	(118)	1,159
Net income (loss) for the year	1,239	(1,953)
Other comprehensive income (loss)		
net of tax expense (recovery) (note 8)		
Items that will not be reclassified to net income (loss):		
Remeasurements of pensions	13,568	(1,841)
Remeasurements of post-retirement benefits	614	(442)
Items that may be subsequently reclassified to net income (loss):		
Cumulative translation adjustment	(294)	(936)
Total other comprehensive income (loss) for the year	13,888	(3,219)
Comprehensive income (loss) for the year	15,127	(5,172)
Basic earnings (loss) per share	0.13	(0.20)
Weighted average number of shares outstanding	9,835,582	9,703,625

The accompanying notes are an integral part of these financial statements.

KP Tissue Inc.

Statement of Changes in Equity

For the years ended December 31, 2021 and December 31, 2020

(tabular amounts are in thousands of Canadian dollars, except share amounts)

	Common shares		Contributed surplus	Deficit	Accumulated other comprehensive income	Total equity
	#	\$	\$	\$	\$	\$
As of January 1, 2020	9,626,153	18,997	144,819	(100,696)	13,997	77,117
Issuance of common shares (note 7)	125,618	1,373	-	-	-	1,373
Dividends payable (note 7)	-	-	-	(1,755)	-	(1,755)
Dividends paid (note 7)	-	-	-	(5,235)	-	(5,235)
Fair value adjustment	-	(15)	-	15	-	-
Remeasurements of pensions	-	-	-	(1,841)	-	(1,841)
Remeasurements of post-retirement benefits	-	-	-	(442)	-	(442)
Cumulative translation adjustment	-	-	-	-	(936)	(936)
Net loss for the year	-	-	-	(1,953)	-	(1,953)
As of December 31, 2020	<u>9,751,771</u>	<u>20,355</u>	<u>144,819</u>	<u>(111,907)</u>	<u>13,061</u>	<u>66,328</u>
As of January 1, 2021	9,751,771	20,355	144,819	(111,907)	13,061	66,328
Issuance of common shares (note 7)	143,648	1,498	-	-	-	1,498
Dividends payable (note 7)	-	-	-	(1,781)	-	(1,781)
Dividends paid (note 7)	-	-	-	(5,303)	-	(5,303)
Fair value adjustment	-	(9)	-	9	-	-
Remeasurements of pensions	-	-	-	13,568	-	13,568
Remeasurements of post-retirement benefits	-	-	-	614	-	614
Cumulative translation adjustment	-	-	-	-	(294)	(294)
Net income for the year	-	-	-	1,239	-	1,239
As of December 31, 2021	<u>9,895,419</u>	<u>21,844</u>	<u>144,819</u>	<u>(103,561)</u>	<u>12,767</u>	<u>75,869</u>

The accompanying notes are an integral part of these financial statements.

KP Tissue Inc.

Statement of Cash Flows

For the years ended December 31, 2021 and December 31, 2020

(tabular amounts are in thousands of Canadian dollars)

	2021	2020
	\$	\$
Cash flows from (used in) operating activities		
Net income (loss) for the year	1,239	(1,953)
Items not affecting cash		
Equity (income) loss (note 5)	(800)	1,428
Dilution gain (note 7)	(321)	(634)
Income tax expense (recovery) (note 6)	(118)	1,159
Total items not affecting cash	(1,239)	1,953
Net change in non-cash working capital (note 10)	233	146
Tax payments	(4,020)	(1,801)
Tax Distribution received	1,738	781
Advances received	2,049	874
Net cash from (used in) operating activities	-	-
Cash flows from investing activities		
Partnership unit distributions received	5,560	5,595
Net cash from investing activities	5,560	5,595
Cash flows used in financing activities (note 11)		
Dividends paid, net (note 7)	(5,560)	(5,595)
Net cash used in financing activities	(5,560)	(5,595)
Increase (decrease) in cash and cash equivalents during the year	-	-
Cash and cash equivalents - Beginning of year	-	-
Cash and cash equivalents - End of year	-	-

The accompanying notes are an integral part of these financial statements.

KP Tissue Inc.

Notes to Financial Statements

December 31, 2021 and December 31, 2020

(tabular amounts are in thousands of Canadian dollars, except share amounts)

1 General information

KP Tissue Inc. (KPT or the Corporation) was incorporated by articles of incorporation under the Canadian Business Corporations Act on October 1, 2012. As of December 31, 2021, the Corporation held a 14.5% (December 31, 2020 – 14.7%) interest in Kruger Products L.P. (KPLP or the Partnership), whose principal business is to produce, distribute, market and sell a wide range of disposable tissue products, including bathroom tissue, facial tissue, paper towels and napkins for both the consumer and away-from-home markets in North America. The Corporation's headquarters are located in Mississauga, Ontario, Canada.

2 Basis of presentation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), and with interpretations of the International Financial Reporting Committee which the Canadian Accounting Standards Board has approved for incorporation into Part 1 of the CPA Canada Handbook - Accounting. The financial statements have been prepared using the historical cost convention.

The financial statements were approved by the board of directors on March 9, 2022.

3 Summary of significant accounting policies

The significant accounting policies used in the preparation of these financial statements are as follows:

(a) Investments in associates

Associates are entities over which the Corporation has significant influence but not control. The Corporation accounts for its investment in associates using the equity method. Under the equity method, the investment is initially recognized at cost and the carrying amount is adjusted for the Corporation's share of profits or losses of associates recognized in the statement of comprehensive income (loss) and its share of other comprehensive income (loss) of associates included in other comprehensive income (loss).

Unrealized gains on transactions between the Corporation and an associate are eliminated to the extent of the Corporation's interest in the associate. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Dilution gains and losses arising from changes in interests in investments in associates are recognized in the statement of comprehensive income (loss).

The Corporation assesses at each reporting period whether there is any objective evidence that its interests in investments in associates are impaired. If so, the carrying value of the Corporation's share of the underlying assets of associates is written down to its net recoverable amount (being the higher of fair value, less cost to sell and value in use) and the loss is charged to the statement of comprehensive income (loss).

(b) Income tax

Income tax comprises current and deferred tax. Income tax is recognized in the statement of comprehensive income (loss) except to the extent that it relates to items recognized directly in other comprehensive income (loss) or directly in equity, in which case the income tax is also recognized directly in other comprehensive income (loss) or equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

KP Tissue Inc.
Notes to Financial Statements
December 31, 2021 and December 31, 2020

(tabular amounts are in thousands of Canadian dollars, except share amounts)

In general, deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax is not recognized if it arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except, in the case of subsidiaries, where the timing of the reversal of the temporary difference is controlled by the Corporation and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the statement of financial position date and are expected to apply when the deferred tax asset is realized or liability is settled. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized.

Deferred income tax assets and liabilities are presented as non-current.

(c) Share capital

Incremental costs directly attributable to the issuance of common shares are recognized as a deduction from equity.

(d) Earnings per share

Basic earnings per share (EPS) is calculated by dividing the net income (loss) for the period attributable to equity owners of the Corporation by the weighted average number of common shares outstanding during the period.

Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to options, warrants and similar instruments is computed using the treasury stock method. The Corporation does not currently have any potentially dilutive instruments.

(e) Accounting standards issued but not yet applied

- (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. Management is evaluating the amended standard and has not yet determined the impact on the 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 financial statements.
- (iii) 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 financial statements.
- (iv) 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.

KP Tissue Inc.

Notes to Financial Statements

December 31, 2021 and December 31, 2020

(tabular amounts are in thousands of Canadian dollars, except share amounts)

permitted. The amended standard is not expected to have an impact on the financial statements.

4 Critical accounting estimates and judgments

The preparation of these financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities in the financial statements and the disclosure of contingencies at the dates of the statement of financial position, and the reported amounts of revenues and expenses during the reporting period. On a regular basis and with the information available, management reviews its estimates and judgements, including those related to fair value and the basis of accounting. Actual results could differ from those estimates. When adjustments become necessary, they are reported in earnings in the period in which they occur.

Equity method of accounting

The equity method of accounting is being applied by the Corporation 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 the Corporation. Based on the Corporation having four of ten seats on the board of directors of KPGP Inc. (KPGP), management has concluded that the Corporation has the ability to exercise significant influence over KPLP.

Impairment test

The Corporation is required to perform an impairment test on its investment in KPLP if there is objective evidence that indicates that the investment may be impaired. Management applies judgment when assessing whether there is any objective evidence that would require an impairment test to be performed, including whether (i) KPLP has recognized impairment losses in its financial results; or (ii) the recoverable amounts of KPLP's cash generating units tested for impairment have declined below the carrying amount of the Corporation's basis in KPLP's assets included in the investment in KPLP after taking into account the fair value increment for identifiable assets recorded on acquisition of interests in KPLP; or (iii) there is a significant decline in the market capitalization of the Corporation compared to its net assets. During the year ended December 31, 2021, management considered the impact of various events, including COVID-19, on the Corporation's assessment of whether there was objective evidence that its investment in KPLP may be impaired. Management concluded the future forecasts that support the investment value had not changed significantly and as a result no triggering event had occurred requiring an impairment test to be performed. While management concluded that there was no objective evidence to indicate that an impairment test was required as at December 31, 2021, the duration and severity of the COVID-19 pandemic could result in future impairment charges.

Partnership units

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.

Income taxes

The Corporation 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, the Corporation 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.

KP Tissue Inc.
Notes to Financial Statements
December 31, 2021 and December 31, 2020

(tabular amounts are in thousands of Canadian dollars, except share amounts)

COVID-19

During the year ended December 31, 2021, management considered the impact of COVID-19 on the Corporation's critical accounting estimates and judgments, including the Corporation's assessment of triggering events with respect to its impairment analysis for its investment in associate. Management concluded the future forecasts that support the investment value had not changed significantly and therefore no impairment adjustment was made for the year ended December 31, 2021. While management concluded that a triggering event did not occur during the year ended December 31, 2021, the length and severity of the COVID-19 pandemic could result in further impairment charges.

5 Investment in associate

Changes in the carrying amount of the investment were as follows:

	\$
As of January 1, 2020	81,052
Investment in associate	1,373
Share of income	4,058
Depreciation of fair value increments	(5,486)
Share of other comprehensive loss	(4,323)
Dilution gain	634
Tax Distribution	(781)
Partnership unit distributions	(6,990)
As of December 31, 2020	<u>69,537</u>
As of January 1, 2021	69,537
Investment in associate	1,498
Share of income	6,125
Depreciation of fair value increments	(5,325)
Share of other comprehensive income	16,267
Dilution gain	321
Tax Distribution	(2,612)
Partnership unit distributions	(7,084)
As of December 31, 2021	<u><u>78,727</u></u>

The equity income (loss) was comprised of the following components:

	2021	2020
	\$	\$
Share of income	6,125	4,058
Depreciation of fair value increments	(5,325)	(5,486)
	<u>800</u>	<u>(1,428)</u>

The following summarizes financial information about the assets, liabilities, revenue and net income of KPLP, in which the Corporation held a 14.5% interest as of December 31, 2021 (December 31, 2020 – 14.7%). The financial information was derived from the consolidated financial statements of KPLP for the year ended December 31, 2021. The assets and liabilities disclosed include the fair value adjustments made to the carrying amount of the assets and liabilities of the associate on its acquisition.

KP Tissue Inc.
Notes to Financial Statements
December 31, 2021 and December 31, 2020

(tabular amounts are in thousands of Canadian dollars, except share amounts)

	December 31, 2021		
	KPLP basis of accounting	FV increment	KPT basis of accounting
	\$	\$	\$
Current assets	511,547	-	511,547
Non-current assets	1,610,765	351,875	1,962,640
Liabilities to non-unitholders	1,533,016	-	1,533,016
Partnership units liability	173,201	-	173,201
Net assets	416,095		
	Year ended December 31, 2021		
	\$		
Revenue	1,465,161		
Net income	41,999		
Other comprehensive income	112,226		
Total comprehensive income	154,225		
	December 31, 2020		
	KPLP basis of accounting	FV increment	KPT basis of accounting
	\$	\$	\$
Current assets	447,047	-	447,047
Non-current assets	1,504,277	388,562	1,892,839
Liabilities to non-unitholders	1,477,498	-	1,477,498
Partnership units liability	185,424	-	185,424
Net assets	288,402		
	Year ended December 31, 2020		
	\$		
Revenue	1,515,983		
Net income	27,306		
Other comprehensive loss	(27,526)		
Total comprehensive loss	(220)		

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(tabular amounts are in thousands of Canadian dollars, except share amounts)

The following shows the reconciliation of KPT's portion of KPLP equity to the investment recorded in KPT:

	December 31, 2021	December 31, 2020
	\$	\$
KPLP consolidated equity	416,095	288,402
Add back: Inception value of Partnership units liability	118,562	118,562
Less: Equity pertaining to Kruger Inc. and KPGP	(383,737)	(272,950)
Equity pertaining to KPT	150,920	134,014
Investment in associate recorded in KPT	78,727	69,537
Reconciling difference	72,193	64,477
Reconciling items since inception:		
Equity issuance costs	(11,110)	(11,110)
Depreciation of FV increments	53,958	48,633
Currency translation adjustment in fair value increments	(3,030)	(3,130)
Tax Distribution	7,268	4,656
Gain on exercise of over-allotment option	(375)	(375)
Dilution gain	(2,518)	(2,197)
Impairment in investment in associate	28,000	28,000
	<u>-</u>	<u>-</u>

With respect to KPT's investment in KPLP, the liability of KPT for the debts, liabilities and other obligations of KPLP is limited to KPT's capital contribution to KPLP.

On January 15, 2021, April 15, 2021, July 15, 2021, and October 15, 2021, in connection with the Corporation Distribution Reinvestment Plan (DRIP), a portion of the dividends received by the shareholders was used to acquire an additional 143,648 common shares of the Corporation for proceeds of \$1.5 million (note 7).

6 Income taxes

The Corporation is required to pay income tax on its share of the taxable income of KPLP. The Corporation 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, the Corporation is tracking the temporary differences that were subject to the initial recognition exemption and recognizes newly created temporary differences as they arise.

The major components of income taxes recognized in the statement of comprehensive income (loss) were as follows:

	2021	2020
	\$	\$
Current tax expense	2,089	2,579
Deferred tax recovery	(2,207)	(1,420)
	<u>(118)</u>	<u>1,159</u>

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(tabular amounts are in thousands of Canadian dollars, except share amounts)

Details of the provision for income taxes were as follows:

	2021	2020
	\$	\$
Income tax at statutory rate of 26%	291	(206)
Permanent differences and other	15	10
Dilution gain	(84)	(165)
Taxed in hands of subsidiaries	31	(493)
Realization of previously unrecognized tax attributes	1,744	1,451
Change in basis of investment in associate	(2,115)	562
	<u>(118)</u>	<u>1,159</u>

Components of the deferred income tax liability were as follows:

	December 31, 2021	December 31, 2020
	\$	\$
Deferred tax liability (asset)		
ROU assets and lease liabilities	(762)	(829)
Pensions	(807)	(1,084)
Partnership units liability	(3,825)	(3,692)
Property, plant and equipment	6,960	7,043
Other	(760)	(804)
	<u>806</u>	<u>634</u>

The analysis of the deferred tax liability were as follows:

	December 31, 2021	December 31, 2020
	\$	\$
Deferred tax liabilities to be realized greater than 12 months	806	634
	<u>806</u>	<u>634</u>

In addition to the above, the Corporation has a deferred tax asset of \$7.0 million (December 31, 2020 - \$8.3 million) related to the Investment in associate which has not been recognized in the financial statements for the year ended December 31, 2021.

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The movement in the deferred tax liability was as follows:

	\$
As of January 1, 2020	3,158
Charge to net loss	(1,420)
Charge to other comprehensive loss	
- remeasurements of cumulative translation adjustment	(140)
Charge to other comprehensive loss	
- remeasurements of post-retirement benefits	(282)
Charge to other comprehensive loss	
- remeasurements of pensions	(682)
As of December 31, 2020	634
As of January 1, 2021	634
Charge to net loss	(2,207)
Charge to other comprehensive loss	
- remeasurements of cumulative translation adjustment	(44)
Charge to other comprehensive income	
- remeasurements of post-retirement benefits	393
Charge to other comprehensive income	
- remeasurements of pensions	2,030
As of December 31, 2021	806

On December 13, 2012, in connection with the issuance of Partnership units to KPT, 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.

Pursuant to the Tax Distribution as defined in the Partnership Agreement, on February 26, 2021, KPT received a Tax Distribution of \$2.6 million from KPLP for purposes of settling its obligation for federal and provincial taxes, for the year ended December 31, 2020. The Tax Distribution was used to settle the outstanding advance to KPT in the amount of \$0.9 million as of December 31, 2020. During the year ended December 31, 2021, pursuant to the Tax Distribution as defined in the Partnership Agreement, KPT received an advance from KPLP of \$2.0 million to pay the monthly tax instalments. The advances are non-interest bearing and non-recourse in nature and were offset against the Tax Distribution of \$2.1 million declared and paid by KPLP on February 28, 2022.

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7 Dividends

During the years ended December 31, 2021 and December 31, 2020, the Corporation paid a quarterly dividend of \$0.18 per common share to shareholders. Pursuant to the Corporation Dividend Reinvestment Plan (DRIP), a portion of the dividend was reinvested by the shareholders, resulting in the Corporation issuing common shares. The proceeds were used to acquire additional units of KPLP. The dividends paid, the additional common shares issued at the share price, and the gross proceeds were as follows:

				2021
	Dividends paid	Share price	Issuance of Common shares	Gross proceeds
Dividend Payment Date	\$	\$	#	\$
January 15, 2021	1,755	10.70	32,921	352
April 15, 2021	1,761	10.47	39,046	409
July 15, 2021	1,768	10.32	35,366	365
October 15, 2021	1,774	10.26	36,315	372
	<u>7,058</u>		<u>143,648</u>	<u>1,498</u>
				2020
	Dividends paid	Share price	Issuance of Common shares	Gross proceeds
Dividend Payment Date	\$	\$	#	\$
January 15, 2020	1,733	9.84	34,545	340
April 15, 2020	1,739	9.92	34,131	339
July 15, 2020	1,745	11.16	30,924	345
October 15, 2020	1,751	13.41	26,018	349
	<u>6,968</u>		<u>125,618</u>	<u>1,373</u>

On January 17, 2022, the Corporation paid a dividend of \$1.8 million to shareholders at \$0.18 per common share. Pursuant to the Corporation DRIP, a portion of the dividend was reinvested by the shareholders, resulting in the Corporation issuing 36,007 common shares at a price of \$10.50.

Subsequent to December 31, 2021, the Corporation declared a dividend of \$0.18 per common share to shareholders, payable on April 15, 2022.

As a result of the DRIP and Kruger's reinvestment of its distribution from KPLP in units of KPLP, a dilution gain of \$0.3 million was recorded during the year ended December 31, 2021 (2020 - \$0.6 million).

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(tabular amounts are in thousands of Canadian dollars, except share amounts)

8 Income tax (recovery) expense on other comprehensive income (loss)

Income tax (recovery) expense on other comprehensive income (loss) were as follows:

	2021	2020
	\$	\$
Items that will not be reclassified to net income (loss):		
Remeasurements of pensions	15,598	(2,523)
Income tax recovery (expense)	(2,030)	682
Net of income tax recovery (expense)	13,568	(1,841)
 Remeasurements of post-retirement benefits	 1,007	 (724)
Income tax recovery (expense)	(393)	282
Net of income tax recovery (expense)	614	(442)
 Items that may be subsequently reclassified to net income (loss):		
Cumulative translation adjustment	(338)	(1,076)
Income tax recovery	44	140
Net of income tax recovery	(294)	(936)
Total other comprehensive income (loss) for the year	13,888	(3,219)

9 Economic dependence

The Corporation 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. As such, the Corporation is economically dependent on KPLP and exposed to all the risks associated with the business of KPLP, including, but not limited to, liquidity risk.

10 Non-cash working capital

The change in non-cash working capital on the statement of cash flows comprised the following:

	2021	2020
	\$	\$
Decrease in receivable from Partnership	21	146
Increase in payable to Partnership	212	-
	233	146

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11 Cash flows used in financing activities

The change in financing activities on the statement of cash flows comprised the following:

	As of January 1, 2020	Dividends paid	Movements not in financing activities	As of December 31, 2020
	\$	\$	\$	\$
Dividend payable	1,733	(6,968)	6,990	1,755
Common shares	18,997	1,373	(15)	20,355
Total	20,730	(5,595)	6,975	22,110

	As of January 1, 2021	Dividends paid	Movements not in financing activities	As of December 31, 2021
	\$	\$	\$	\$
Dividend payable	1,755	(7,058)	7,084	1,781
Common shares	20,355	1,498	(9)	21,844
Total	22,110	(5,560)	7,075	23,625

SHAREHOLDER INFORMATION

CORPORATE ADDRESS

Kruger Products L.P.
2 Prologis Blvd, Suite 500,
Mississauga, Ontario, L5W 0G8
Telephone: 905-812-6900
www.kptissueinc.com

INVESTOR RELATIONS

Mike Baldesarra
Director of Investor Relations
Telephone: 905-812-6900
ir@kptissueinc.com

TRANSFER AGENT AND REGISTRAR

TSX Trust Company
200 University Avenue
Suite 300
Toronto, Ontario M5H 4H1
Telephone: 1 866 393-4891
www.tsxtrust.com

STOCK EXCHANGE LISTING

Toronto Stock Exchange
Stock Symbol: KPT

AUDITORS

PricewaterhouseCoopers LLP
PwC Tower
18 York Street
Suite 2600
Toronto, Ontario M5J 0B2

BOARD OF DIRECTORS

The Board of Directors of KPT consists of four members. In keeping with best practices of corporate governance, three directors (and all board committee members) are independent of management. They also represent an exceptionally strong base of experience in consumer products, business management, finance, accounting and capital markets.

François Vimard (Chair and Independent Director)^{(1) (3) (4)}
James Hardy (Independent Director)^{(1) (3) (4)}
Michel Letellier (Independent Director)^{(1) (2) (3)}
Louise Denys Wendling (Director)

⁽¹⁾ Member of the Corporation Audit Committee and the KPGP Audit Committee
⁽²⁾ Member of the KPGP HR & Compensation Committee
⁽³⁾ Member of the Corporation Nominating and Governance Committee
⁽⁴⁾ Member of the KPGP Governance Committee

For complete information about Board Members and Corporate Governance, please visit www.kptissueinc.com

ANNUAL MEETING OF SHAREHOLDERS

In the context of the COVID-19 pandemic, the Annual Meeting of Shareholders will be held in a virtual-only format which will be conducted via live webcast online at <http://web.lumiagm.com/297703906> on June 21, 2022 at 2:00 p.m. (EST).

DESIGNED AND WRITTEN BY

MaisonBrison Communications

OUR VISION

TO BE THE MOST TRUSTED AND BEST LOVED
TISSUE COMPANY IN NORTH AMERICA.



Making everyday life more comfortable.



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