



NEWS RELEASE

For immediate release

KP Tissue Releases First Quarter 2021 Financial Results

Inventory de-stocking impacts sales, strong start for TAD Sherbrooke

Mississauga (ON), May 7, 2021 - KP Tissue Inc. (KPT) (TSX: KPT) reports the Q1 2021 financial and operational results of KPT and Kruger Products L.P. (KPLP). Kruger Products is Canada's leading manufacturer of quality tissue products for the Consumer market (Cashmere, Purex, SpongeTowels, Scotties, and White Swan) and the Away-From-Home market and continues to grow in the U.S. Consumer tissue business with the White Cloud® brand and premium private label products. KPT currently holds a 14.6% interest in KPLP.

KPLP Q1 2021 Business and Financial Highlights

- Revenue decreased by \$64.7 million or 17.3% to \$310.4 million in Q1 2021 compared to \$375.1 million in Q1 2020.
- Adjusted EBITDA was \$37.5 million in Q1 2021 compared to \$51.0 million in Q1 2020, a decrease of 26.5%, and compared to \$36.2 million in Q4 2020, an increase of 3.5%.
- TAD Sherbrooke start-up was successful in Q1 and is running above the ramp-up curve.
- Declared a quarterly dividend of \$0.18 per share to be paid on July 15, 2021.

"Last year, we reported exceptional first quarter results driven by unprecedented consumer demand related to COVID-19. During the first quarter of this year, we observed a reversal of the situation with retailers and consumers de-stocking as supply concerns subsided. The AFH segment continued to face strong headwinds from government restrictions. In these circumstances, revenues and Adjusted EBITDA for the quarter declined by 17.3% and 26.5%, respectively," stated KP Tissue Chief Executive Officer, Dino Bianco.

"To counter the exceptional and rapid rise in pulp prices, at the beginning of April we announced a price increase for consumer-branded and private-label products sold in Canada to be effective in early July. We continue to be very pleased with the successful ramp-up of TAD Sherbrooke where one of the first products commercialized is the new *SpongeTowels Ultra Pro™* premium paper towel.

"At this stage, we anticipate consumer demand to start stabilizing in the second quarter with a return to more normal buying patterns. While U.S. market conditions for the AFH segment are gradually improving, the Canadian AFH market will remain challenging with ongoing restrictions. More favourable market conditions combined with pricing actions should translate into a stronger performance in the second half of 2021," concluded Mr. Bianco.

Outlook

Considering the continued risk and uncertainties associated with the COVID-19 recovery and the impacts it could have on sales volumes, along with significantly higher pulp prices, Q2 2021 Adjusted EBITDA is expected to be in the same range as Q1 2021.

KPLP Q1 2021 Financial Results

Revenue was \$310.4 million in Q1 2021 compared to \$375.1 million in Q1 2020, a decrease of \$64.7 million or 17.3%. The decrease in revenue was primarily due to significant sales volume decreases in both Canada and the U.S. resulting from high COVID-19 buying activity in the year ago quarter across all business segments; the de-stocking of tissue inventories by both retailers and consumers in Q1 2021; and the unfavourable impact of COVID-19 related restrictions on the AFH segment in Q1 2021. Revenue was also unfavourably impacted by foreign exchange fluctuations on U.S. dollar sales.

Cost of sales was \$263.3 million in Q1 2021 compared to \$314.5 million in Q1 2020, a decrease of \$51.2 million or 16.3%. Manufacturing costs decreased primarily due to significantly lower sales volumes, the favourable impact of foreign exchange fluctuations on U.S. dollar costs and the higher absorption of overhead costs into inventory in Q1 2021 resulting from increased inventory levels, partially offset by unfavourable pulp costs and higher outsourcing costs. Freight costs decreased due to lower volume, partially offset by higher rates and warehousing costs increased compared to Q1 2020. As a percentage of revenue, cost of sales was 84.8% in Q1 2021 compared to 83.8% in Q1 2020.

Selling, general and administrative (SG&A) expenses were \$27.8 million in Q1 2021 compared to \$29.6 million in Q1 2020, a decrease of \$1.8 million or 6.3%. The decrease was primarily due to lower advertising and promotion expenses. As a percentage of revenue, SG&A expenses were 8.9% in Q1 2021 compared to 7.9% in Q1 2020.

Adjusted EBITDA was \$37.5 million in Q1 2021 compared to \$51.0 million in Q1 2020, a decrease of \$13.5 million or 26.5%. The decrease was primarily due to the impact of lower sales volumes net of overhead absorption, along with the unfavourable impact of higher pulp prices, outsourcing costs, freight rates and warehousing costs, slightly offset by lower SG&A expenses.

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

KPLP Q1 2021 Financing Activity

On April 8, 2021, KPLP issued \$135 million aggregate principal amount of 5.375% senior unsecured notes due April 9, 2029 by way of private placement in Canada in accordance with applicable Canadian prospectus and registration exemptions. KPLP intends to use the net proceeds from the offering to reduce the outstanding balance under the Senior Credit Facility and for general corporate purposes.

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

Total liquidity, representing cash and availability under the revolving credit agreements, was \$202.8 million as of March 31, 2021. In addition, \$22.4 million of cash was held by KPSI and committed to the TAD Sherbrooke Project.

KPT Q1 2021 Financial Results

KPT had net income of \$1.2 million in Q1 2021. Included in net income was \$1.0 million representing KPT's share of KPLP's net income, depreciation expense of \$1.3 million related to adjustments to carrying amounts on acquisition and an income tax recovery of \$1.5 million.

Dividends on Common Shares

The Board of Directors of KPT declared a quarterly dividend of \$0.18 per share to be paid on July 15, 2021 to shareholders of record at the close of business on June 30, 2021.

Additional Information

For additional information please refer to Management's Discussion and Analysis (MD&A) of KPT and KPLP for the first quarter ended March 31, 2021 available on SEDAR at www.sedar.com or our website at www.kptissueinc.com.

First Quarter Results Conference Call Information

KPT will hold its first quarter conference call on Friday, May 7, 2021 at 8:30 a.m. Eastern Time.

Via telephone: 1-800-599-5188 or 647-365-5897

Via the internet at: www.kptissueinc.com

Presentation material referenced during the conference call will be available at www.kptissueinc.com.

A rebroadcast of the conference call will be available until midnight, May 14, 2021 by dialing 1-800-585-8367 or 416-621-4642 and entering passcode 9884406.

The replay of the webcast will remain available on the website until midnight, May 14, 2021.

About KP Tissue Inc. (KPT)

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 on the equity basis. KPT currently holds a 14.6% interest in KPLP. For more information visit www.kptissueinc.com.

About Kruger Products L.P. (KPLP)

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®, 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. For more information visit www.krugerproducts.ca.

Non-IFRS Measures

This press release uses certain non-IFRS financial measures which KPLP believes provide useful information to management of KPLP and the readers of the financial information in measuring the financial performance and financial condition of KPLP. 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. An example of such a measure is Adjusted EBITDA. Beginning with Q4 2015 in accordance with Canadian Securities Administrators Staff Notice 52-306 (Revised), we have referenced Adjusted EBITDA as a non-IFRS financial measure. This term replaces the previously referenced non-IFRS financial measure EBITDA. Adjusted EBITDA is not a measurement of operating performance computed in accordance with IFRS and should not be considered as a substitute for operating income, net income or cash flows from operating activities computed in accordance with IFRS. "Adjusted EBITDA" is calculated by KPLP as net income (loss) before (i) interest expense, (ii) income taxes, (iii) depreciation, (iv) amortization, (v) impairment (gain on sale) of non-financial assets, (vi) loss (gain) on disposal of property, plant and equipment, (vii) foreign exchange loss (gain), (viii) costs related to restructuring activities, (ix) changes in amortized cost of Partnership units liability, (x) change in fair value of derivatives, (xi) consulting costs related to operational transformation initiatives, (xii) corporate development related costs and (xiii) loss (gain) on sale of shares. A reconciliation of Adjusted EBITDA to the relevant reported results can be found in the MD&A of KPT and KPLP for the quarter ended March 31, 2021 available on SEDAR at www.sedar.com.

COVID-19

In March 2020, the World Health Organization characterized the outbreak of the novel strain of coronavirus, specifically identified as "COVID-19" as a global pandemic. This has resulted in the local governments enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses in the United States of America and Canada resulting in an economic slowdown. Equity markets have experienced significant volatility and the local governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. There is significant uncertainty as to the likely effects of this outbreak. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments to quantify the impact this pandemic may have on the financial results and condition of KPLP in future periods.

Forward-Looking Statements

Certain statements in this press release 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 press release include, but are not limited to, statements regarding the projected capacity of the TAD Sherbrooke Project and the Sherbrooke Expansion Project, 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.

The outlook provided in respect of Adjusted EBITDA for Q2 2021 is forward-looking information and is subject to the risk and uncertainties referred to below. The purpose of the outlook is to provide the reader with an indication of management's expectations, at the date of this press release, regarding KPLP's future financial performance. Readers are cautioned that this information may not be appropriate for other purposes.

Many factors could cause KPLP's actual results, level of activity, performance or achievements or future events or developments (which could in turn affect the economic benefits derived from KPT's economic interest in KPLP) to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, the following factors, which are discussed in greater detail in the "Risk Factors – Risks Related to KPLP's Business" section of the KPT Annual Information Form dated March 11, 2021 available on SEDAR at www.sedar.com (the Annual Information Form), except for the risks associated with the Sherbrooke Expansion Project, which are discussed in greater detail in Risk Factors in the MD&A of KPT and KPLP for the quarter ended March 31, 2021 available on SEDAR at www.sedar.com: Kruger Inc.'s influence over KPLP; KPLP's reliance on Kruger Inc.; consequences of an event of insolvency relating to Kruger Inc.; risks associated with the TAD Sherbrooke Project; operational risks; significant increases in input costs; reduction in supply of fibre; increased pricing pressure and intense competition; KPLP's inability to innovate effectively; adverse economic conditions; dependence on key retail trade customers; damage to the reputation of KPLP or KPLP's brands; KPLP's sales being less than anticipated; KPLP's failure to implement its business and operating strategies; KPLP's obligation to make regular capital expenditures; KPLP's entering into unsuccessful acquisitions; KPLP's dependence on key personnel; KPLP's inability to retain its existing customers or obtain new customers; KPLP's loss of key suppliers; KPLP's failure to adequately protect its intellectual property rights; KPLP's reliance on third party intellectual property licenses; adverse litigation and other claims affecting KPLP; material expenditures due to comprehensive environmental regulation affecting KPLP's cash flow; KPLP's pension obligations are significant and can be materially higher than predicted if KPLP Management's underlying assumptions are incorrect; labour disputes adversely affecting KPLP's cost structure and KPLP's ability to run its plants; exchange rate and U.S. competitors; KPLP's inability to service all of its indebtedness; exposure to potential consumer product liability; covenant compliance; interest rate and refinancing risk; information technology; cyber-security; insurance; internal controls; trade related; and risk related to COVID-19.

Readers should not place undue reliance on forward-looking statements made herein. The forward-looking information contained herein is expressly qualified in its entirety by this cautionary statement. The forward-looking information contained herein is made as of the date of press release and KPT undertakes no obligation to publicly update such forward-looking information to reflect new information, subsequent or otherwise, unless required by applicable securities laws.

INFORMATION:

Francois Paroyan
General Counsel and Corporate Secretary
KP Tissue Inc.
Tel.: 905.812.6936
francois.paroyan@krugerproducts.ca

INVESTORS:

Mike Baldesarra
Director of Investor Relations
KP Tissue Inc.
Tel.: 905.812.6962
IR@KPTissueinc.com

Kruger Products L.P.
Unaudited Condensed Consolidated Statement of Financial Position
(thousands of Canadian dollars)

	March 31, 2021	December 31, 2020
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	57,552	128,739
Trade and other receivables	67,016	88,041
Receivables from related parties	31	13
Current portion of advances to partners	2,162	5,647
Inventories	283,680	215,934
Income tax recoverable	-	358
Prepaid expenses	12,819	8,315
	<u>423,260</u>	<u>447,047</u>
Non-current assets		
Property, plant and equipment	1,204,197	1,194,191
Right-of-use assets	104,556	107,633
Other long-term assets	198	10
Goodwill	152,021	152,021
Intangible assets	29,946	26,205
Deferred income taxes	24,442	24,217
	<u>1,938,620</u>	<u>1,951,324</u>
Total assets		
Liabilities		
Current liabilities		
Trade and other payables	243,445	332,072
Payables to related parties	5,016	9,097
Income tax payable	726	554
Distributions payable	12,010	11,919
Current portion of provisions	4,483	4,913
Current portion of long-term debt	9,939	9,495
Current portion of lease liabilities	24,953	25,341
	<u>300,572</u>	<u>393,391</u>
Non-current liabilities		
Long-term debt	842,822	743,978
Lease liabilities	102,519	105,634
Provisions	10,524	9,549
Other long-term liabilities	-	575
Pensions	64,988	161,333
Post-retirement benefits	57,522	63,038
	<u>1,378,947</u>	<u>1,477,498</u>
Liabilities to non-unitholders		
Current portion of Partnership units liability	14,976	31,244
Long-term portion of Partnership units liability	156,341	154,180
Total Partnership units liability	<u>171,317</u>	<u>185,424</u>
	<u>1,550,264</u>	<u>1,662,922</u>
Total liabilities		
Equity		
Partnership units	445,010	439,571
Deficit	(126,543)	(224,503)
Accumulated other comprehensive income	69,889	73,334
	<u>388,356</u>	<u>288,402</u>
Total equity	<u>388,356</u>	<u>288,402</u>
Total equity and liabilities	<u>1,938,620</u>	<u>1,951,324</u>

Kruger Products L.P.
Unaudited Condensed Consolidated Statement of Comprehensive Income
(thousands of Canadian dollars)

	3-month period ended March 31, 2021	3-month period ended March 31, 2020
	<u>\$</u>	<u>\$</u>
Revenue	310,379	375,146
Expenses		
Cost of sales	263,331	314,513
Selling, general and administrative expenses	27,765	29,634
Loss on sale of non-financial assets	1	1
Restructuring costs, net	56	738
Operating income	<u>19,226</u>	<u>30,260</u>
Interest expense	12,922	10,580
Other (income) expense	(316)	11,421
Income before income taxes	<u>6,620</u>	<u>8,259</u>
Income taxes	<u>(139)</u>	<u>(129)</u>
Net income for the period	<u>6,759</u>	<u>8,388</u>
Other comprehensive income (loss)		
Items that will not be reclassified to net income:		
Remeasurements of pensions	97,447	66,377
Remeasurements of post-retirement benefits	5,769	6,508
Items that may be subsequently reclassified to net income:		
Cumulative translation adjustment	(3,445)	26,707
Total other comprehensive income for the period	<u>99,771</u>	<u>99,592</u>
Comprehensive income for the period	<u><u>106,530</u></u>	<u><u>107,980</u></u>

Kruger Products L.P.
Unaudited Condensed Consolidated Statement of Cash Flows
(thousands of Canadian dollars)

	3-month period ended March 31, 2021	3-month period ended March 31, 2020
	\$	\$
Cash flows from (used in) operating activities		
Net income for the period	6,759	8,388
Items not affecting cash		
Depreciation	17,456	16,445
Amortization	710	374
Change in amortized cost of Partnership units liability	3,428	2,520
Foreign exchange (gain) loss	(3,744)	9,261
Change in fair value of derivatives	-	(360)
Interest expense	12,922	10,580
Pension and post-retirement benefits	4,002	3,780
Provisions	652	1,755
Income taxes	(139)	(129)
Loss on sale of non-financial assets	1	1
Total items not affecting cash	<u>35,288</u>	<u>44,227</u>
Net change in non-cash working capital	(122,455)	(21,505)
Contributions to pension and post-retirement benefit plans	(3,809)	(4,085)
Provisions paid	(185)	(208)
Income tax payments	<u>(91)</u>	<u>-</u>
Net cash from (used in) operating activities	<u>(84,493)</u>	<u>26,817</u>
Cash flows from (used in) investing activities		
Purchases of property, plant and equipment	(2,845)	(4,046)
Purchases of property, plant and equipment related to the TAD Sherbrooke Project	(50,479)	(64,693)
Interest paid on credit facilities related to the TAD Sherbrooke Project	(608)	(2,150)
Purchases of software	(738)	(1,045)
Proceeds on sale of shares	-	992
Proceeds on sale of property, plant and equipment	<u>2</u>	<u>-</u>
Net cash used in investing activities	<u>(54,668)</u>	<u>(70,942)</u>
Cash flows from (used in) financing activities		
Proceeds from long-term debt	104,640	105,573
Repayment of long-term debt	(1,642)	(1,267)
Payment of deferred financing fees	(324)	(5)
Payment of lease liabilities	(6,637)	(4,491)
Interest paid on long-term debt	(7,006)	(1,920)
Distributions and advances paid, net	<u>(20,535)</u>	<u>(6,497)</u>
Net cash from financing activities	<u>68,496</u>	<u>91,393</u>
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	<u>(522)</u>	<u>4,230</u>
Increase (decrease) in cash and cash equivalents during the period	<u>(71,187)</u>	<u>51,498</u>
Cash and cash equivalents - Beginning of period	<u>128,739</u>	<u>93,141</u>
Cash and cash equivalents - End of period	<u><u>57,552</u></u>	<u><u>144,639</u></u>

Kruger Products L.P.
Segment and Geographic Results
(thousands of Canadian dollars)

	3-month period ended March 31, 2021	3-month period ended March 31, 2020
	\$	\$
<i>Segment Information</i>		
Segment Revenue		
Consumer	271,367	313,289
AFH	39,012	61,857
Total segment revenue	<u>310,379</u>	<u>375,146</u>
Adjusted EBITDA		
Consumer	44,051	54,349
AFH	(4,782)	(1,021)
Corporate and other costs	(1,804)	(2,377)
Total Adjusted EBITDA	<u>37,465</u>	<u>50,951</u>
Reconciliation to Net Income:		
Depreciation and amortization	18,166	16,819
Interest expense	12,922	10,580
Change in amortized cost of Partnership units liability	3,428	2,520
Change in fair value of derivatives	-	(360)
Loss on sale of non-financial assets	1	1
Restructuring costs, net	56	738
Foreign exchange (gain) loss	(3,744)	9,261
Corporate development related costs	16	-
Consulting costs related to operational transformation initiatives	-	3,133
Income before income taxes	<u>6,620</u>	<u>8,259</u>
Income taxes	(139)	(129)
Net income	<u>6,759</u>	<u>8,388</u>
Geographic Revenue		
Canada	194,603	230,095
US	115,776	145,051
Total revenue	<u>310,379</u>	<u>375,146</u>

KP Tissue Inc.
Unaudited Condensed Statement of Financial Position
(thousands of Canadian dollars)

	March 31, 2021	December 31, 2020
	<u>\$</u>	<u>\$</u>
Assets		
Current assets		
Distributions receivable	1,761	1,755
Receivable from Partnership	24	21
	<u>1,785</u>	<u>1,776</u>
Non-current assets		
Investment in associate	79,770	69,537
	<u>79,770</u>	<u>69,537</u>
Total Assets	<u>81,555</u>	<u>71,313</u>
Liabilities		
Current liabilities		
Dividend payable	1,761	1,755
Current portion of advances from Partnership	326	874
Income tax payable	315	1,722
	<u>2,402</u>	<u>4,351</u>
Non-current liabilities		
Deferred income taxes	1,060	634
	<u>1,060</u>	<u>634</u>
Total liabilities	<u>3,462</u>	<u>4,985</u>
Equity		
Common shares	20,708	20,355
Contributed surplus	144,819	144,819
Deficit	(99,950)	(111,907)
Accumulated other comprehensive income	12,516	13,061
	<u>78,093</u>	<u>66,328</u>
Total equity	<u>78,093</u>	<u>66,328</u>
Total liabilities and equity	<u>81,555</u>	<u>71,313</u>

KP Tissue Inc.
Unaudited Condensed Statement of Comprehensive Income
(thousands of Canadian dollars, except share and per share amounts)

	3-month period ended March 31, 2021	3-month period ended March 31, 2020
	\$	\$
Equity loss	(345)	(125)
Dilution gain	80	220
Income (loss) before income taxes	(265)	95
Income taxes	(1,473)	(1,606)
Net income for the period	1,208	1,701
Other comprehensive income (loss) net of tax expense (recovery)		
Items that will not be reclassified to net income:		
Remeasurements of pensions	11,995	8,692
Remeasurements of post-retirement benefits	516	597
Items that may be subsequently reclassified to net income:		
Cumulative translation adjustment	(545)	4,081
Total other comprehensive income for the period	11,966	13,370
Comprehensive income for the period	13,174	15,071
Basic earnings per share	0.12	0.18
Weighted average number of shares outstanding	9,779,571	9,655,383

KP Tissue Inc.
Unaudited Condensed Statement of Cash Flows
(thousands of Canadian dollars)

	3-month period ended March 31, 2021	3-month period ended March 31, 2020
	\$	\$
Cash flows from (used in) operating activities		
Net income for the period	1,208	1,701
Items not affecting cash		
Equity loss	345	125
Dilution gain	(80)	(220)
Income taxes	(1,473)	(1,606)
Total items not affecting cash	(1,208)	(1,701)
Net change in non-cash working capital	(3)	93
Tax payments	(2,061)	(874)
Tax Distribution paid	1,738	781
Advances received	326	-
Net cash from (used in) operating activities	-	-
Cash flows from investing activities		
Partnership unit distributions received	1,403	1,393
Net cash from investing activities	1,403	1,393
Cash flows used in financing activities		
Dividends paid	(1,403)	(1,393)
Net cash used in financing activities	(1,403)	(1,393)
Increase (decrease) in cash and cash equivalents during the period	-	-
Cash and cash equivalents - Beginning of period	-	-
Cash and cash equivalents - End of period	-	-