



NEWS RELEASE
For immediate release

KP Tissue Releases First Quarter 2022 Financial Results

Strong topline growth tempered by inflation headwinds

Mississauga (ON), May 12, 2022 - KP Tissue Inc. (KPT) (TSX: KPT) reports the Q1 2022 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®, White Swan® and Bonterra™) and the Away-From-Home (AFH) market and continues to expand in the U.S. Consumer market with the White Cloud® brand and premium private label products. KPT currently holds a 14.3% interest in KPLP.

KPLP Q1 2022 Business and Financial Highlights

- Revenue was \$398.7 million in Q1 2022 compared to \$310.4 million in Q1 2021, an increase of \$88.3 million or 28.5%.
- Adjusted EBITDA¹ was \$29.1 million in Q1 2022, compared to \$37.5 million in Q1 2021, a decrease of 22.4%.
- Net income was \$1.4 million in Q1 2022 compared to \$6.8 million in Q1 2021, a decrease of \$5.4 million.
- Declared a quarterly dividend of \$0.18 per share to be paid on July 15, 2022.

"We delivered strong sales growth of 28.5% year-over-year in the first quarter of 2022, driven by an ongoing market recovery, increased capacity driven by Sherbrooke and a pricing increase mainly impacting our Canadian operations. Robust top-line growth was tempered by escalating inflation across many essential cost items such as pulp, freight, natural gas, packaging and labour," stated KP Tissue's Chief Executive Officer, Dino Bianco.

"To counter inflationary pressure, we have adopted a multi-faceted strategy based on further price increases across all segments, cash management through reductions in working capital and discretionary capital spending, as well as incremental productivity programs. We believe price increases, combined with the aforementioned cost-saving initiatives, should begin catching up with inflation in the second half of the year."

"In light of price increases in the marketplace, we believe it's vital to continue supporting our brands through targeted innovation and marketing. Accordingly, we are seeing strong distribution for our new sustainably focused brand, Bonterra. Recently upgraded Purex® and Cashmere UltraLuxe® TAD products are also tracking well against expectations, while SpongeTowels UltraPro® continues to drive share with consumers since its introduction last year. More recently, we expanded the distribution of re-launched White Cloud in the United States as we continue to build that brand," Mr. Bianco concluded.

Outlook for Q2 2022

We anticipate continued momentum in Q2 sales in both Consumer and AFH. However, cost inflation and supply chain issues are expected to continue to impact the business and as a result Q2 2022 Adjusted EBITDA¹ is expected to be well below Q1 2022 until selling price increases can restore margins in the second half of the year.

KPLP Q1 2022 Financial Results

Revenue was \$398.7 million in Q1 2022 compared to \$310.4 million in Q1 2021, an increase of \$88.3 million or 28.5%. The increase in revenue was due to selling price increases in all segments and regions and higher sales volume in the Consumer segment compared to the year ago quarter that saw lower sales as a result of the de-stocking of tissue inventories by both retailers and consumers. The AFH segment also had significantly higher sales volume compared to Q1 2021 as the business continues to recover from the impact of COVID-19.

Cost of sales was \$363.8 million in Q1 2022 compared to \$263.3 million in Q1 2021, an increase of \$100.5 million or 38.2%. Manufacturing costs increased primarily due to higher sales volumes, increased pulp costs, the impact of labour shortages in Memphis manufacturing, the unfavourable impact of overhead absorption as inventory levels were lower than the year ago quarter, along with higher depreciation expense and inflation.

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

These increases were partially offset by more in-house production in AFH. Freight costs increased significantly compared to Q1 2021 primarily due to increased freight rates resulting from cost inflation and supply issues across North America and also higher sales volumes. As a percentage of revenue, cost of sales was 91.3% in Q1 2022 compared to 84.8% in Q1 2021.

Selling, general and administrative (SG&A) expenses were \$28.9 million in Q1 2022 compared to \$27.8 million in Q1 2021, an increase of \$1.1 million or 3.9%. The increase was primarily due to higher advertising and promotion expenses. As a percentage of revenue, SG&A expenses were 7.2% in Q1 2022 compared to 8.9% in Q1 2021.

Adjusted EBITDA¹ was \$29.1 million in Q1 2022 compared to \$37.5 million in Q1 2021, a decrease of \$8.4 million or 22.4%. The decrease was primarily due to higher pulp prices and other inflation, overhead absorption, labour shortages in Memphis manufacturing and higher freight rates, partially offset by higher sales volume and selling price increases.

Net income was \$1.4 million in Q1 2022 compared to \$6.8 million in Q1 2021, a decrease of \$5.4 million. The decrease was primarily due to lower Adjusted EBITDA¹ of \$8.4 million as discussed above, higher interest expense and other finance costs and higher depreciation and amortization, partially offset by higher income tax recovery and higher other income.

KPLP Q1 2022 Liquidity

Total liquidity, representing cash and availability under the revolving credit agreements, was \$206.9 million as of March 31, 2022. In addition, \$76.4 million of cash was held by KPLP for the TAD Sherbrooke and Sherbrooke Expansion Projects.

KPT Q1 2022 Financial Results

KPT had a net income of \$1.0 million in Q1 2022. Included in the net income was \$0.2 million representing KPT's share of KPLP's net income, and a dilution gain of \$0.1 million, depreciation expense of \$1.3 million related to adjustments to carrying amounts on acquisition and an income tax recovery of \$2.0 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, 2022 to shareholders of record at the close of business on June 30, 2022.

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, 2022 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 Thursday, May 12, 2022 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 19, 2022 by dialing 1-800-770-2030 or 647-362-9199 and entering passcode 9884406.

The replay of the webcast will remain available on the website until midnight, May 19, 2022.

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 14.3% 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®, White Swan® and Bonterra™. 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-GAAP Financial Measures

This press release uses certain non-GAAP 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 GAAP and therefore may not be comparable to similarly titled measures presented by other companies. An example of such a measure is Adjusted EBITDA. Adjusted EBITDA is not a measurement of operating performance computed in accordance with GAAP and should not be considered as a substitute for operating income, net income or cash flows from operating activities computed in accordance with GAAP. "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. A reconciliation of Adjusted EBITDA to the relevant reported results can be found in the Segment and Geographic Results table of this news release.

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. 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.

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, expected revenue growth 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 2022 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 10, 2022 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; 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; and risks relating to information technology; cyber-security; insurance; internal controls; trade; and risks 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.

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

	March 31, 2022	December 31, 2021
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	110,026	148,519
Restricted cash	3,652	2,506
Trade and other receivables	97,447	88,802
Receivables from related parties	271	271
Advances to partners	-	13,752
Inventories	254,633	251,071
Income tax recoverable	425	1,171
Prepaid expenses	16,962	5,455
	<u>483,416</u>	<u>511,547</u>
Non-current assets		
Property, plant and equipment	1,213,201	1,224,698
Right-of-use assets	90,899	91,626
Other long-term assets	34,624	37,456
Pensions	47,188	-
Goodwill	152,021	152,021
Intangible assets	32,742	29,222
Deferred income taxes	84,493	75,742
Total assets	<u><u>2,138,584</u></u>	<u><u>2,122,312</u></u>
Liabilities		
Current liabilities		
Trade and other payables	235,220	258,626
Payables to related parties	12,107	11,485
Income tax payable	68	300
Distributions payable	12,397	12,300
Current portion of provisions	3,504	3,705
Current portion of long-term debt	33,459	48,550
Current portion of lease liabilities	29,809	30,170
	<u>326,564</u>	<u>365,136</u>
Non-current liabilities		
Long-term debt	952,047	920,331
Long-term lease liabilities	81,018	82,354
Long-term payable to related party	43,038	42,454
Long-term provisions	6,799	6,929
Pensions	-	58,481
Post-retirement benefits	49,764	57,331
Liabilities to non-unitholders	<u>1,459,230</u>	<u>1,533,016</u>
Current portion of Partnership units liability	-	14,064
Long-term portion of Partnership units liability	159,137	159,137
Total Partnership units liability	<u>159,137</u>	<u>173,201</u>
Total liabilities	<u><u>1,618,367</u></u>	<u><u>1,706,217</u></u>
Equity		
Partnership units	467,227	461,536
Deficit	(14,655)	(117,123)
Accumulated other comprehensive income	67,645	71,682
Total equity	<u>520,217</u>	<u>416,095</u>
Total equity and liabilities	<u><u>2,138,584</u></u>	<u><u>2,122,312</u></u>

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

	3-month period ended March 31, 2022 \$	3-month period ended March 31, 2021 \$
Revenue	398,739	310,379
Expenses		
Cost of sales	363,855	263,331
Selling, general and administrative expenses	28,855	27,765
Loss on sale of non-financial assets	5	1
Restructuring costs, net	516	56
Operating income	5,508	19,226
Interest expense and other finance costs	17,534	12,922
Other income	(4,315)	(316)
Income (loss) before income taxes	(7,711)	6,620
Income tax recovery	(9,148)	(139)
Net income for the period	1,437	6,759
Other comprehensive income (loss)		
Items that will not be reclassified to net income:		
Remeasurements of pensions	105,621	97,447
Remeasurements of post-retirement benefits	7,861	5,769
Items that may be subsequently reclassified to net income:		
Cumulative translation adjustment	(4,037)	(3,445)
Total other comprehensive income for the period	109,445	99,771
Comprehensive income for the period	110,882	106,530

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

	3-month period ended March 31, 2022	3-month period ended March 31, 2021
	\$	\$
Cash flows from (used in) operating activities		
Net income for the period	1,437	6,759
Items not affecting cash		
Depreciation	21,982	17,456
Amortization	1,044	710
Change in amortized cost of Partnership units liability	-	3,428
Foreign exchange gain	(4,315)	(3,744)
Interest expense and other finance costs	17,534	12,922
Pension and post-retirement benefits	3,694	4,002
Provisions	(239)	652
Income tax recovery	(9,148)	(139)
Loss on sale of non-financial assets	5	1
Total items not affecting cash	30,557	35,288
Net change in non-cash working capital	(46,490)	(122,455)
Contributions to pension and post-retirement benefit plans	(4,183)	(3,809)
Provisions paid	(182)	(185)
Income tax payments	(320)	(91)
Net cash used in operating activities	(19,181)	(84,493)
Cash flows from (used in) investing activities		
Purchases of property, plant and equipment	(499)	(2,845)
Purchases of property, plant and equipment and software related to the TAD Sherbrooke Project	(5,331)	(50,479)
Purchases of property, plant and equipment related to the Sherbrooke Expansion Project	(6,044)	-
Interest paid on credit facilities related to the TAD Sherbrooke Project	-	(608)
Purchases of software	(4,455)	(738)
Proceeds on sale of property, plant and equipment	-	2
Net cash used in investing activities	(16,329)	(54,668)
Cash flows from (used in) financing activities		
Proceeds from long-term debt	141,956	104,640
Repayment of long-term debt	(118,539)	(1,642)
Payment of deferred financing fees	(2,135)	(324)
Payment of lease liabilities	(6,985)	(6,637)
Change in Restricted cash	(1,146)	-
Interest paid on long-term debt	(8,893)	(7,006)
Distributions and advances paid, net	(6,975)	(20,535)
Net cash from (used in) financing activities	(2,717)	68,496
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	(266)	(522)
Decrease in cash and cash equivalents during the period	(38,493)	(71,187)
Cash and cash equivalents - Beginning of period	148,519	128,739
Cash and cash equivalents - End of period	110,026	57,552

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

	3-month period ended March 31, 2022 \$	3-month period ended March 31, 2021 \$
<i>Segment Information</i>		
Segment Revenue		
Consumer	342,842	271,367
AFH	55,897	39,012
Total segment revenue	<u>398,739</u>	<u>310,379</u>
Adjusted EBITDA		
Consumer	35,383	44,051
AFH	(3,221)	(4,782)
Corporate and other costs	(3,107)	(1,804)
Total Adjusted EBITDA	<u>29,055</u>	<u>37,465</u>
Reconciliation to Net Income:		
Depreciation and amortization	23,026	18,166
Interest expense and other finance costs	17,534	12,922
Change in amortized cost of Partnership units liability	-	3,428
Loss on sale of non-financial assets	5	1
Restructuring costs, net	516	56
Foreign exchange gain	(4,315)	(3,744)
Corporate development related costs	-	16
Income (loss) before income taxes	<u>(7,711)</u>	<u>6,620</u>
Income tax recovery	(9,148)	(139)
Net income	<u>1,437</u>	<u>6,759</u>
<i>Geographic Revenue</i>		
Canada	242,920	194,603
US	155,819	115,776
Total revenue	<u>398,739</u>	<u>310,379</u>

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

	March 31, 2022	December 31, 2021
	\$	\$
Assets		
Current assets		
Distributions receivable	1,788	1,781
Income tax recoverable	277	208
	<u>2,065</u>	<u>1,989</u>
Non-current assets		
Investment in associate	89,923	78,727
Total Assets	<u>91,988</u>	<u>80,716</u>
Liabilities		
Current liabilities		
Dividend payable	1,788	1,781
Payable to Partnership	246	246
Current portion of advances from Partnership	-	2,014
	<u>2,034</u>	<u>4,041</u>
Non-current liabilities		
Deferred income taxes	4,194	806
Total liabilities	<u>6,228</u>	<u>4,847</u>
Equity		
Common shares	22,226	21,844
Contributed surplus	144,819	144,819
Deficit	(93,457)	(103,561)
Accumulated other comprehensive income	12,172	12,767
Total equity	<u>85,760</u>	<u>75,869</u>
Total liabilities and equity	<u>91,988</u>	<u>80,716</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, 2022	3-month period ended March 31, 2021
	\$	\$
Equity loss	(1,108)	(345)
Dilution gain	73	80
Loss before income taxes	(1,035)	(265)
Income tax recovery	(2,013)	(1,473)
Net income for the period	978	1,208
Other comprehensive income (loss)		
net of tax expense (recovery)		
Items that will not be reclassified to net income:		
Remeasurements of pensions	10,248	11,995
Remeasurements of post-retirement benefits	670	516
Items that may be subsequently reclassified to net income:		
Cumulative translation adjustment	(595)	(545)
Total other comprehensive income for the period	10,323	11,966
Comprehensive income for the period	11,301	13,174
Basic earnings per share	0.10	0.12
Weighted average number of shares outstanding	9,925,825	9,779,571

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

	3-month period ended March 31, 2022	3-month period ended March 31, 2021
	\$	\$
Cash flows from (used in) operating activities		
Net income for the period	978	1,208
Items not affecting cash		
Equity loss	1,108	345
Dilution gain	(73)	(80)
Income tax recovery	(2,013)	(1,473)
Total items not affecting cash	(978)	(1,208)
Net change in non-cash working capital	-	(3)
Tax payments	(38)	(2,061)
Tax Distribution received, net	38	1,738
Advances received	-	326
Net cash from (used in) operating activities	-	-
Cash flows from investing activities		
Partnership unit distributions received	1,403	1,403
Net cash from investing activities	1,403	1,403
Cash flows used in financing activities		
Dividends paid, net	(1,403)	(1,403)
Net cash used in financing activities	(1,403)	(1,403)
Increase (decrease) in cash and cash equivalents during the period	-	-
Cash and cash equivalents - Beginning of period	-	-
Cash and cash equivalents - End of period	-	-