



DELIVERING ON OUR STRATEGIC PLAN

2019 ANNUAL REPORT



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 15.2% as at December 31, 2019 and of 14.8% as at May 8, 2020 ⁽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**®, **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 2,500 employees and operates eight 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.

© 2020 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.

FIVE-YEAR FINANCIAL PERFORMANCE⁽¹⁾

(In millions of Canadian dollars)

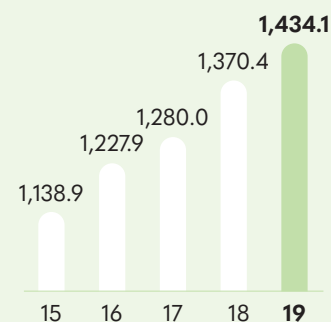
For the years ended December 31	2019	2018 ⁽²⁾	2017	2016	2015
Revenue	1,434.1	1,370.4	1,280.0	1,227.9	1,138.9
Operating income	75.6	54.9	92.1	105.9	78.4
Net income	2.1	45.4	15.3	35.5	1.5

OTHER FINANCIAL DATA

Adjusted EBITDA ⁽³⁾	145.0	118.3	144.2	152.5	126.4
Adjusted EBITDA margin ⁽³⁾	10.1%	8.6%	11.3%	12.4%	11.1%
Capital expenditures	175.0	61.5	69.8	82.0	57.4
Working capital	90.3	219.3	(79.5)	115.7	123.9
Long-term debt	579.1	564.0	225.4	415.4	425.9

REVENUE

(in millions of Canadian dollars)



CORPORATE HIGHLIGHTS

FISCAL 2019

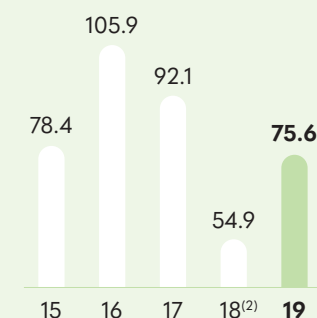
- Revenue of \$1.4 billion, up 4.6% over 2018
- Adjusted EBITDA increased by 22.6% to \$145.0 million, due primarily to positive impact of price and volume increases, favourable sales mix, lower pulp prices in 2nd half of the year and the benefits of operational transformation initiatives
- Sherbrooke TAD facility progressing on time and on budget
- Put in place OpEx program with combined savings expected to reach \$15-\$20 million on a run rate basis by the end of 2020
- Amended Senior Credit Facility to increase overall borrowing capacity by \$50 million

FIRST QUARTER RESULTS OF FISCAL 2020

- With start of COVID-19 pandemic, priority and focus was on keeping our employees safe while maintaining Business Continuity
- Revenue increased by \$24.1 million or 6.9% to \$375.1 million. Excluding the divested Mexico business, Q1 2020 revenue increased by \$50.2 million or 15.5%
- Adjusted EBITDA increased 116.4% to \$51.0 million, due primarily to unprecedented consumer demand for all products due to the COVID-19 pandemic
- TAD Sherbrooke site temporarily shutdown due to COVID-19 pandemic, progressing well after restart in late April

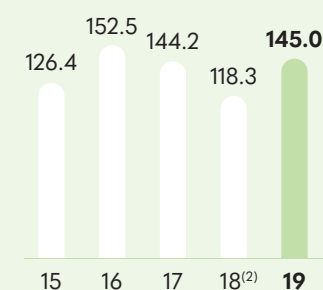
OPERATING INCOME

(in millions of Canadian dollars)



ADJUSTED EBITDA⁽³⁾

(in millions of Canadian dollars)



⁽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, 2019, KPT reported an equity loss of \$5.4 million, a net loss of \$6.5 million and basic loss per share of (\$0.68). For more information refer to the KPT Audited Financial Statements for the period ended December 31, 2019.

⁽²⁾ Effective January 1, 2019, KPLP adopted IFRS 16 Leases, the new accounting standard covering lease accounting, using the full retrospective approach. Under this approach, Fiscal 2018 have 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.



MESSAGE TO SHAREHOLDERS

During 2019, we made significant progress on several fronts and delivered very solid results. We progressed the construction of our TAD Sherbrooke facility, launched our Operational and Logistics excellence programs (“OpEx”), implemented pricing actions in response to cost increases and sequentially improved the performance of our Away-From-Home (“AFH”) business. While we quickly responded to challenges and issues surrounding the COVID-19 crisis, our vision and long-term strategy remains intact. Furthermore, we can look forward to our next phase of growth with the start of production at TAD Sherbrooke.

FISCAL 2019 RESULTS

We are very pleased with Fiscal 2019’s performance, particularly with the strong second half, reflecting volume growth and the benefit of previous pricing actions in all business segments and a favourable cost environment. Excluding the impact of the divested Mexico business, our revenues increased by 5.8% to \$1.4 billion. Adjusted EBITDA totalled \$145.0 million, an increase of 22.6% over last year.

COVID-19 RESPONSE AND IMPACT

In response to COVID-19, we activated our Pandemic Response and Business Continuity teams and protocols in late February. Our top priorities were to keep our employees safe while being able to meet the surge in demand for all our products.

We saw consumers significantly stock up on Consumer Tissue products and increase usage driven by spending more time at home. Our team responded quickly to the increased demand and we had no major production disruptions during the first quarter. We also elevated our

**EXCLUDING THE IMPACT
OF THE DIVESTED MEXICO
BUSINESS, OUR REVENUES
INCREASED BY 5.8% TO
\$1.4 BILLION. ADJUSTED EBITDA
TOTALLED \$145.0 MILLION,
AN INCREASE OF 22.6%
OVER LAST YEAR**

corporate giving by providing tissue products and financial support to food banks and frontline healthcare workers in both Canada and the United States.

TAD SHERBROOKE

We started construction of the TAD Sherbrooke facility in May 2019. Despite a temporary halt to the work in March 2020 due to the COVID-19 pandemic, the project is essentially progressing on time and on budget. Capital expenditures in 2019 for the project reached \$143.1 million and at year-end related accrued liabilities were \$43.1 million. As for 2020, TAD Sherbrooke capital expenditures are estimated at between \$340.0 and \$365.0 million. The start of production is slated for early 2021 and we are ready to ramp-up TAD-enabled product sales with new and existing customers across North America. (See page 6 for more details on TAD Sherbrooke).

OPEX PROGRAM

At the beginning of 2019, we put in place an operational excellence improvement program ("OpEx") which combined with a logistics program is expected to yield significant savings estimated at between \$15 million to \$20 million on a run-rate basis by the end of 2020. Our OpEx program is supported by five key pillars: environment, health and safety, asset care and progressive maintenance, end-to-end quality, and strategic deployment initiative management, which all combined, will drive manufacturing excellence.

We are now in the second year of the OpEx program and it has been rolled out to all our sites. We are seeing the tangible benefits of the program with more constant improved performance of our facilities. During the first quarter of 2020, we were able to reduce our reliance on outsourced manufacturing when compared to last year and we are now expanding the focus of the program to reduce waste. I am very pleased with the progress to-date as we are delivering against the objectives we set.

AWAY-FROM-HOME

Our Away-From-Home ("AFH") business is the market leader in Canada with a market share of approximately 30% and represents approximately 17% of total KPLP revenues. The AFH business consists primarily of bathroom tissue, facial tissue, paper towels and napkins to address the needs of food service, property management, healthcare, manufacturing, education, and lodging.

AFH results were negatively impacted early in 2019 by higher pulp and freight costs, combined with a competitive environment and increased outsourcing costs. However, performance sequentially improved during the year driven by the benefit of price increases and the growing traction of our OpEx program. The Adjusted EBITDA contribution remained negative in the fourth quarter but marked a significant improvement over the prior periods.

The segment has had a relatively good start to 2020, supported by solid orders and crossover opportunities with the consumer segments. Results for the second quarter and going forward will face more challenging market conditions due to the severe impact of COVID-19 on AFH's end-user markets. Much has been accomplished with the OpEx program to rebuild and create stronger foundations for the Away-From-Home business. At this stage, future performance will be primarily driven by market demand.

TRADEMARK

We have some of the best recognized and loved brands in Canada and our focus remains on building our brands to even stronger positions. In the Consumer segment, we continue

DURING THE PAST FEW MONTHS, BEGINNING IN MARCH, WE FACED UNPRECEDENTED CONSUMER DEMAND FOR ALL OUR PRODUCTS DUE TO THE COVID-19 PANDEMIC. THIS HAS RESULTED IN EXCEPTIONAL RESULTS FOR OUR FIRST QUARTER OF 2020.

to be the clear Canadian leader in overall tissue market share while expanding in the North American private label market. The Consumer segment represents approximately 83% of KPLP's total revenues.

In Canada, we remain the recognized market leader in the bathroom tissue category with an approximate 34% market share. In the facial tissue category, we hold a significant lead over our closest competitor and our market share is 31%. Finally, in the paper towel category, our market share is approximately 21% which represents a strong number two position. We have been able to maintain our market leadership with the support of exceptional brands, a strong and comprehensive product offering, key innovations, and the recognized quality of our tissue. These pillars will remain the foundation of success going forward.

During the past few months, beginning in March, we faced unprecedented consumer demand for all our products due to the COVID-19 pandemic. This has resulted in exceptional results for our first quarter of 2020. The crisis has forced us to rethink some of our marketing initiatives and plans for the year with significant change now required on how we promote our brands. However, we remain committed to maintaining our investment in marketing during 2020. While the COVID-19 pandemic has created uncertainty and some volatility in our business, we remain focused on expanding our market share and building on the momentum of the past few quarters.

OUTLOOK

While over the past few months we experienced unprecedented times due to the COVID-19 pandemic which may persist for some time, our long-term vision and strategy remains essentially unchanged. Most of our business is considered resilient to economic conditions and that's good news for our shareholders and for our ability to continue to drive top-line growth. TAD Sherbrooke is by far the largest investment in the Company's history and will support the next phase of growth. Our team has been actively working on the commercialization process of TAD-enabled products and we are fully ready for the ramp-up in sales starting early next year. This should allow us to continue to increase the market share momentum in the Canadian consumer segment that started in the fourth quarter of 2019 and has continued into 2020.

A WORD OF THANKS

In these uniquely challenging times, we have seen our employees rise to the occasion and I want to personally thank each one of them for their remarkable dedication and passion to the success of our Company as well as for community initiatives such as #RollingItForward. I also wish to thank them for collectively developing our organizational capability and our culture of continuous improvement to drive success which is now a permanent part of Kruger Products' DNA. In this, my second year as CEO, I want to express my heartfelt gratitude to the members of our Board for their valuable advice and guidance. Thank you as well to our consumers, customers and suppliers for making us a company of choice. To you, our shareholders, please know our consistent objective is to enhance shareholder value. I believe that the initiatives we are undertaking will make us a better company and deliver stronger sustained shareholder returns. Thank you for your support.

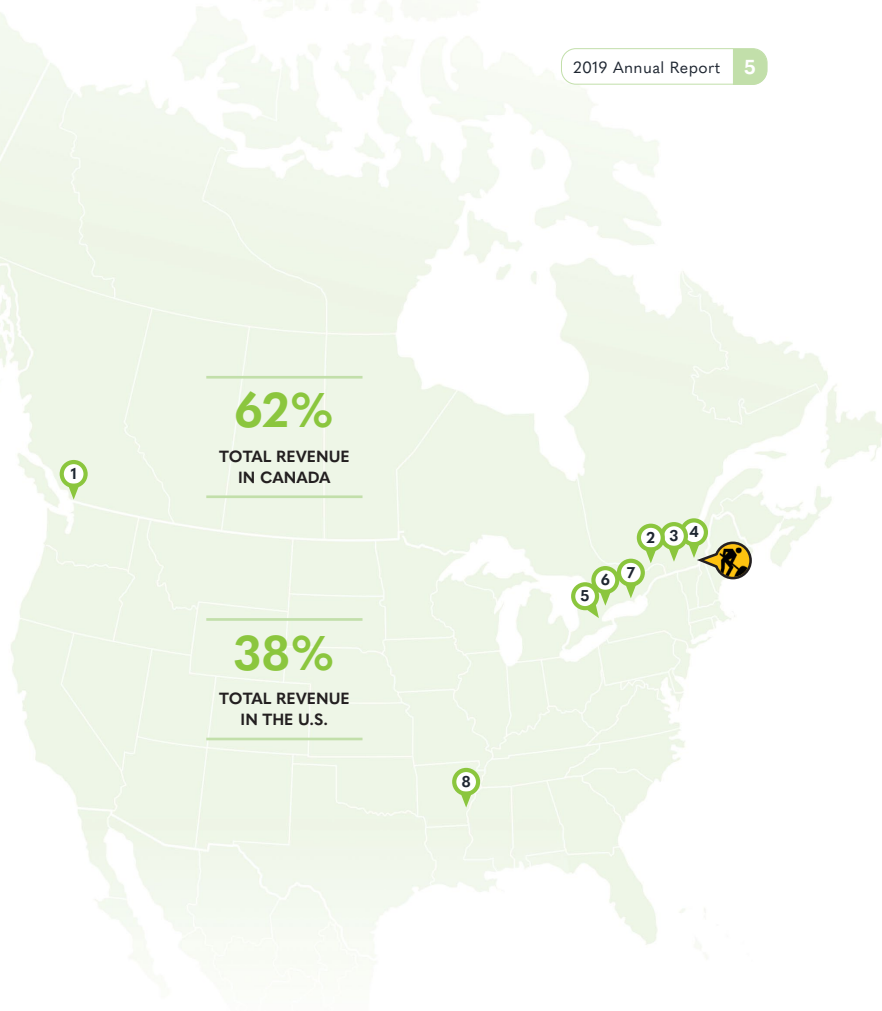


Dino Bianco
Chief Executive Officer
KP Tissue Inc. and Kruger Products L.P.

OUR NETWORK ACROSS NORTH AMERICA

Our locations are strategically aligned to the natural resources we use to make our products, and to key population centres.

With seven manufacturing plants in North America, including six in Canada, our total papermaking capacity is just over one-third of Canada's total tissue manufacturing capacity. We are also proud to be the only tissue products company with manufacturing operations in Western Canada.



1 PAPERMAKING & CONVERTING NEW WESTMINSTER, BC

Produce more than
58,000 MT
of tissue products every year

2 PAPERMAKING & CONVERTING GATINEAU, QC

Produce more than
92,500 MT
of tissue products every year

3 PAPERMAKING & CONVERTING CRABTREE, QC

Produce more than
72,000 MT
of tissue products every year

4 PAPERMAKING SHERBROOKE, QC

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

5 CORPORATE HEADQUARTER MISSISSAUGA, ON

6 CONVERTING SCARBOROUGH, ON

7 CONVERTING TRENTON, ON

8 PAPERMAKING & CONVERTING MEMPHIS, TENNESSEE

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

TAD SHERBROOKE UNDER CONSTRUCTION

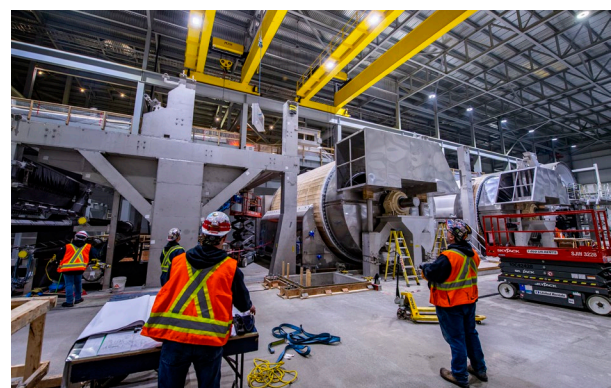
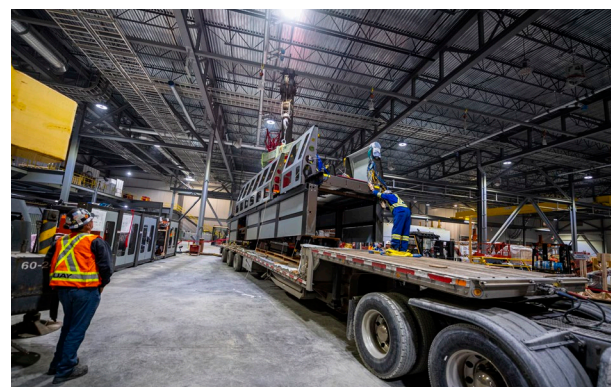


THE TAD SHERBROOKE PROJECT UPDATE

In May 2019, Kruger Products commenced the construction of the TAD Sherbrooke facility which includes a through-air-dry (TAD) tissue machine, the world's most advanced ultra-premium tissue manufacturing technology.

Once fully operational, the new facility will produce approximately 70,000 metric tonnes per annum of ultra premium and innovative tissue products to support Kruger Products' brands, including Cashmere®, SpongeTowels® and Purex® as well as North American clients' other tissue needs. At this stage, Sherbrooke remains on track for production to start in early 2021 and is within the planned budget of \$575 million. Capital expenditures in 2019 for the project reached \$143.1 million and at year-end accrued liabilities related to the project were \$43.1 million.

Due to the COVID-19 pandemic, construction was temporarily halted in late March for approximately one month. Measures were put in place to ensure a safe environment for all employees and contractors. The majority of the required major machinery has been delivered with no disruption. Significant progress is being made on the commercialization plan of TAD-enabled products and we are pleased with the interest level from our customers. While the new facility was always considered as a key North American asset due to its location and the scope of the capital investment, the COVID-19 pandemic has clearly heightened the strategic importance of TAD Sherbrooke and the incremental capacity it provides.



GREAT PARTNERS TO FURTHER OUR BRANDS

Kruger Products is Canada's leading tissue company and the 7th largest in North America. In Canada, the Company's brands account for approximately 44% of total branded volume. Our success reflects continued investments in our brands and products, and strong collaboration with our well recognized partners.



Since 1981



Since 1990



Since 1999



Canadian
Cancer
Society

Since 2005



Since 2013



Crohn's and
Colitis Canada
Crohn et
Colite Canada

Since 2014



Quebec
Breast Cancer
Foundation

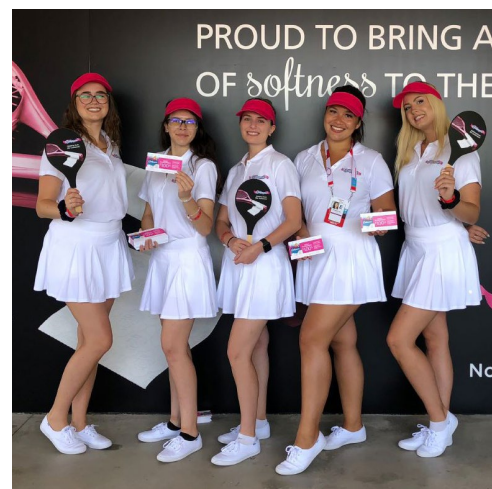
Since 2017



Since 2018



Since 2019



RISING TO THE TOP

2019 EMPLOYEE AND CORPORATE SOCIAL RESPONSIBILITY AWARDS

We try to lead by example and strive to continuously elevate our status as a model corporate citizen. This is an important priority for us which is driven by and for our employees, customers, suppliers, the community, the environment and our shareholders. We share the honors and the awards with our employees which truly celebrates their hard work and commitment.



Corporate Knights' Best 50 Corporate Citizens in Canada for 2nd consecutive year, Ranked #10



Canada's Best Managed Companies for 2nd consecutive year



Forbes Canada's Best Employers for 3rd consecutive year



Greater Toronto Area Top Employer for 7th consecutive year





BUILDING ON A SOLID FOUNDATION

Our first sustainable development program was launched a decade ago. Sustainability 2020 focuses on four targets where we can have the most impact: reducing energy use, water consumption and greenhouse gas emissions, and while we are achieving our goals, we never lose sight that the health and safety of our employees is our top priority.

We are very proud to offer one of the largest portfolios of third-party certified products in North America. Furthermore, we were the first Canadian tissue manufacture to receive FSC® Chain of Custody Certification from the Rainforest Alliance. Our investment and genuine commitment to sustainability will help ensure that future generations inherit a healthy planet.

	2020 TARGET	2019 RESULTS
Employee Safety ⁽¹⁾	50% improvement from 2015	35% improvement from 2015
Energy Consumption ⁽²⁾	15% reduction from 2009	10% reduction from 2009
Greenhouse Gas Emissions ⁽²⁾	27% reduction from 2009	22% reduction from 2009
Water Consumption ⁽²⁾	35% reduction from 2009	33% reduction from 2009

⁽¹⁾ OSHA Total Incidence Rate

⁽²⁾ Intensity-based



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, 2019

DATED MARCH 11, 2020

TABLE OF CONTENTS

Cautionary Forward Looking Statement	1
Overview	2
Business Highlights.....	6
Results of Operations	6
Segment Information	9
Liquidity and Capital Resources	11
Financial Instruments and Other Instruments	21
Transactions with Related Parties	23
Off Balance Sheet Arrangements and Contractual Obligations.....	23
Critical Accounting Estimates	24
Accounting Changes and Future Accounting Standards	25
Selected Annual Financial Information	28
Selected Quarterly Financial Information	28
Share Information	31
Risk Factors.....	31
Controls and Procedures.....	31
Additional Information	32

The following Management's Discussion and Analysis (MD&A) dated March 11, 2020 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, 2019 and December 31, 2018, respectively, and the consolidated financial statements of KPLP for the years ended December 31, 2019 (Fiscal 2019) and December 31, 2018 (Fiscal 2018), 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 15.0% interest in KPLP (15.2% as of December 31, 2019). 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), the anticipated benefits of the TAD Sherbrooke Project and the expected dates for commencement of construction and production of the TAD Sherbrooke 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 13, 2020 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; 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 COVID-19.

These factors are not intended to represent a complete list of the factors that could affect KPT and/or KPLP; however, these factors should be considered carefully, and readers should not place undue reliance on forward-looking statements made herein or in the documents reproduced herein. KPT and KPLP cannot guarantee future results, levels of activity, performance, or achievements. Moreover, KPT and KPLP do not assume responsibility for the accuracy and

completeness of the forward-looking statements. KPT and/or KPLP's actual results, performance or achievements could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits that KPT and/or KPLP will derive therefrom.

To the extent any forward-looking information in this MD&A constitutes future-oriented financial information or financial outlooks within the meaning of securities laws, such information is being provided to demonstrate the potential benefits and readers are cautioned that this information may not be appropriate for any other purpose. Future-oriented financial information and financial outlooks, including expected cost-savings related to the restructuring activities, refinancing, and the installation of TAD Sherbrooke (as defined below), are, without limitation, based on the assumptions and subject to the risks set out above.

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

OVERVIEW

Business Overview

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

KPLP is headquartered in Mississauga, Ontario and has approximately 2,500 employees across Canada and the United States. KPLP's Canadian paper manufacturing facilities, consisting of three tissue plants in Québec and one plant in British Columbia, have a combined annual tissue production capacity of approximately 273,500 metric tonnes which, according to RISI data, represents approximately one-third of Canada's annual production capacity.

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

Pursuant to its Articles, KPT's business is limited to (i) the investment in, holding of and disposition of limited partnership interests, units, shares or other securities of KPLP and its general partner, KPGP Inc. (KPGP) (or any successor entity of either KPLP or KPGP), (ii) the acquisition of, holding, operation and disposition of any assets, liabilities, operations or business of such entities, and (iii) all activities related, incidental or ancillary to any of the foregoing. As of the date of the MD&A and following the participation by the partners in the Dividend Reinvestment Plan (DRIP) on January 15, 2020, KPT held 15.0% of the KPLP Partnership Units (KPLP Units).

Basis of Presentation

The consolidated financial statements of KPLP presented for Fiscal 2019 and Fiscal 2018 and the Financial statements of KPT presented for the years ended December 31, 2019 and 2018, respectively, have each been prepared in accordance with IFRS (International Financial Reporting Standards).

Lease Accounting

Effective January 1, 2019, KPLP adopted IFRS 16 Leases, the new accounting standard covering lease accounting, using the full retrospective approach. Under this approach all comparative period information has been restated to reflect the adoption of IFRS 16. The following tables provide the transition effect of the adoption of IFRS 16 on the income statement and segment reporting for Q4 2018 and Fiscal 2018:

	Q4 2018			Fiscal 2018		
	Original	Transition effect	Restated	Original	Transition effect	Restated
(C\$ millions, unless otherwise stated)	\$	\$	\$	\$	\$	\$
Statement of Operations Data:						
Revenue	359.3	-	359.3	1,370.4	-	1,370.4
Cost of sales	(328.3)	1.3	(327.0)	(1,233.4)	5.3	(1,228.1)
Selling, general and administrative expenses	(24.1)	-	(24.1)	(87.7)	0.1	(87.6)
Gain on sale of non-financial assets	-	-	-	0.2	-	0.2
Operating income	6.9	1.3	8.2	49.5	5.4	54.9
Interest expense	(12.2)	(1.3)	(13.5)	(48.1)	(5.4)	(53.5)
Other income	41.3	-	41.3	40.8	-	40.8
Income before income taxes	36.0	-	36.0	42.2	-	42.2
Income taxes	2.0	-	2.0	3.2	-	3.2
Net income for the period	38.0	-	38.0	45.4	-	45.4

	Q4 2018			Fiscal 2018		
	Original	Transition effect	Restated	Original	Transition effect	Restated
(C\$ millions, unless otherwise stated)	\$	\$	\$	\$	\$	\$
Segment revenue						
Consumer	300.7	-	300.7	1,139.3	-	1,139.3
AFH	58.6	-	58.6	231.1	-	231.1
Total segment revenue	359.3	-	359.3	1,370.4	-	1,370.4
Adjusted EBITDA						
Consumer	26.4	3.3	29.7	119.6	12.7	132.3
AFH	(5.1)	1.2	(3.9)	(13.1)	3.6	(9.5)
Corporate and other costs	(1.0)	(0.3)	(1.3)	(4.2)	(0.3)	(4.5)
Total Adjusted EBITDA	20.3	4.2	24.5	102.3	16.0	118.3

Reconciliation of Adjusted EBITDA to Net income:

Adjusted EBITDA	20.3	4.2	24.5	102.3	16.0	118.3
Less:						
Interest expense	12.2	1.3	13.5	48.1	5.4	53.5
Depreciation and amortization	13.3	2.9	16.2	52.4	10.6	63.0
Foreign exchange loss	1.3	-	1.3	1.5	-	1.5
Change in amortized cost of Partnership units liability	(42.6)	-	(42.6)	(41.9)	-	(41.9)
Change in fair value of derivatives	(0.1)	-	(0.1)	(0.4)	-	(0.4)
Loss on sale of property, plant and equipment	0.2	-	0.2	0.6	-	0.6
Gain on sale of non-financial assets	-	-	-	(0.2)	-	(0.2)
Income before income taxes	36.0	-	36.0	42.2	-	42.2
Income taxes	(2.0)	-	(2.0)	(3.2)	-	(3.2)
Net income for the period	38.0	-	38.0	45.4	-	45.4

Accounting Periods

This MD&A includes financial information for the 3-month periods ended December 31, 2019 (Q4 2019) and December 31, 2018 (Q4 2018), respectively, and Fiscal 2019 and Fiscal 2018. Q4 2019 and Q4 2018 each consists of 92 days.

Financial Measures and Key Indicators

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

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

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 U.S. 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*, 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 and timing adjustments for certain manufacturing costs included in inventory are not allocated to the Consumer and AFH segments, since those items are reviewed separately by management. Such items are reported as Corporate and other costs. KPLP previously included in the Other segment the revenue and profit or loss associated with the sales of parent rolls to other tissue manufacturing companies, primarily in the United States, and sales of recycled fibre, primarily to its parent company in Canada. These revenues and profits or losses are now included in Consumer or AFH as appropriate.

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 has historically entered into foreign exchange swaps and foreign exchange forwards and may continue to do so going forward.

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. Fibre, 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 has historically entered into foreign exchange swaps and foreign exchange forwards and may continue to do so going forward. 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, finance, information technology, product development, legal, human resources, executive administration and other corporate expenses. It also includes the foreign exchange gains and losses realized during the period.

Interest Expense

Interest expense is 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.

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 2019 and Fiscal 2018. 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 and Purex brands and also enable expansion in the U.S. private label business. Construction of the new site has commenced and production is expected to start in early 2021.

As of December 31, 2019, a total of \$225.4 million had been spent on the TAD Sherbrooke Project, including financing related costs. To date, the project has been financed by a \$72.5 million equity investment by KPLP into Kruger Products Sherbrooke Inc. (KPSI), the entity that will construct and operate the project, a \$105 million convertible debenture issued to Investissement Quebec (IQ) and amounts drawn on the TAD Sherbrooke Project Facility, as follows:

- (i) US\$10.3 million on the US\$188 million term loan facility (December 31, 2018 – nil);
- (ii) \$6.1 million on the \$111 million term loan facility (December 31, 2018 – nil); and
- (iii) \$7.0 million on the \$12.5 million revolving loan facility (December 31, 2018 – nil)

The project continues to be on-time and on-budget.

RESULTS OF OPERATIONS

Results of Operations of KPLP

(C\$ millions, unless otherwise noted)	\$ Change				
	Fiscal 2019	Restated Fiscal 2018	Fiscal 2017	Fiscal 2019 vs. Fiscal 2018	Fiscal 2018 vs. Fiscal 2017
Statement of Operations Data:					
Revenue	1,434.1	1,370.4	1,280.0	63.7	90.4
Cost of sales	(1,257.0)	(1,228.1)	(1,098.1)	(28.9)	(130.0)
Selling, general and administrative expenses	(99.6)	(87.6)	(90.1)	(12.0)	2.5
Gain on sale of non-financial assets	-	0.2	0.1	(0.2)	0.1
Restructuring costs, net	(1.9)	-	0.2	(1.9)	(0.2)
Operating income	75.6	54.9	92.1	20.7	(37.2)
Interest expense	(45.1)	(53.5)	(42.0)	8.4	(11.5)
Other income (expense)	(25.9)	40.8	(22.0)	(66.7)	62.8
Income before income taxes	4.6	42.2	28.1	(37.6)	14.1
Income taxes:					
Combined income tax rate after					
manufacturing and processing credits	(1.2)	(11.2)	(7.3)	10.0	(3.9)
Income tax in partners' hands	2.4	15.8	4.9	(13.4)	10.9
Other	(3.7)	(1.4)	(10.4)	(2.3)	9.0
Income taxes	(2.5)	3.2	(12.8)	(5.7)	16.0
Net income	2.1	45.4	15.3	(43.3)	30.1

(C\$ millions, unless otherwise noted)	\$ Change				
	Fiscal 2019	Restated Fiscal 2018	Fiscal 2017	Fiscal 2018 vs. Fiscal 2017	Fiscal 2018 vs. Fiscal 2017
Reconciliation of Adjusted EBITDA					
to Net income:					
Net income	2.1	45.4	15.3	(43.3)	30.1
Interest expense	45.1	53.5	42.0	(8.4)	11.5
Income taxes	2.5	(3.2)	12.8	5.7	(16.0)
Depreciation and amortization	60.6	63.0	52.4	(2.4)	10.6
Foreign exchange (gain) loss	(2.0)	1.5	(1.4)	(3.5)	2.9
Change in amortized cost of Partnership units liability	27.0	(41.9)	23.0	68.9	(64.9)
Change in fair value of derivatives	0.4	(0.4)	0.4	0.8	(0.8)
Loss on sale of property, plant and equipment	-	0.6	-	(0.6)	0.6
Loss on sale of shares	0.6	-	-	0.6	-
Gain on sale of non-financial assets	-	(0.2)	(0.1)	0.2	(0.1)
Restructuring costs, net	1.9	-	(0.2)	1.9	0.2
Consulting costs related to					
operational transformation initiatives	6.0	-	-	6.0	-
Corporate development related costs	0.8	-	-	0.8	-
Adjusted EBITDA	145.0	118.3	144.2	26.7	(25.9)

Results of Operations Fiscal 2019 compared to Fiscal 2018

Revenue

Revenue was \$1,434.1 million in Fiscal 2019 compared to \$1,370.4 million in Fiscal 2018, an increase of \$63.7 million or 4.6%. The increase in revenue was primarily due to price increases across all business segments, volume increases in Canada and the U.S. and the benefit of foreign exchange fluctuations on U.S. sales (USD average 1.33 in Fiscal 2019 compared to 1.29 in Fiscal 2018), partially offset by lower sales volume in Mexico. The shares in GTM were sold at the end of the third quarter, and therefore KPLP no longer recorded Mexico sales revenue beginning in Q4 2019. As a result, Fiscal 2019 revenue in Mexico decreased \$10.5 million, or 12.1%. From a geographic perspective, revenue in the U.S. increased \$36.9 million, or 7.7%, while revenue in Canada increased \$37.3 million or 4.6%.

Cost of Sales

Cost of sales was \$1,257.0 million in Fiscal 2019 compared to \$1,228.1 million in Fiscal 2018, an increase of \$28.9 million or 2.3%. Manufacturing costs increased due to several factors: the unfavourable impact of foreign exchange fluctuations on USD denominated costs (USD average 1.33 in Fiscal 2019 compared to 1.29 in Fiscal 2018); the cost of outsourced manufacturing resulting from capacity related challenges and increased costs due to production inefficiencies in AFH; additional maintenance costs and inflation. These cost increases were partially offset by favourable pulp costs in the second half of 2019. Freight costs decreased primarily due to lower carrier rates in Fiscal 2019 compared to Fiscal 2018 and no Q4 sales volume in Mexico, partially offset by the unfavourable impact of foreign exchange fluctuations. Warehousing costs increased related primarily to additional warehousing space required to manage the logistics network. As a percentage of revenue, cost of sales were 87.6% in Fiscal 2019 compared to 89.6% in Fiscal 2018.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses were \$99.6 million in Fiscal 2019 compared to \$87.6 million in Fiscal 2018, an increase of \$12.0 million or 13.7%. The increase was primarily due to increased compensation related costs compared to Fiscal 2018, higher advertising and promotion expenses, corporate development costs and the unfavourable impact of foreign exchange fluctuations on USD costs. As a percentage of revenue, SG&A expenses were 6.9% in Fiscal 2019 compared to 6.4% in Fiscal 2018.

Adjusted EBITDA

Adjusted EBITDA was \$145.0 million in Fiscal 2019 compared to \$118.3 million in Fiscal 2018, an increase of \$26.7 million or 22.6%. The increase was primarily due to price increases across all business segments and favourable sales mix, the favourable impact of lower pulp prices in the second half of 2019 and the favourable impact of operational transformation initiatives, partially offset by the cost of outsourced manufacturing, higher maintenance and SG&A costs and the unfavourable impact of foreign exchange fluctuations.

Interest Expense

Interest expense was \$45.1 million in Fiscal 2019 compared to \$53.5 million in Fiscal 2018, a decrease of \$8.4 million. The decrease was primarily due to lower interest rates related to the refinancing of KTG, partially offset by the unfavourable impact of foreign exchange and higher debt levels during the first half of 2019 (excluding debt related to the TAD Sherbrooke Project).

Other Income (Expense)

Other expense was \$25.9 million in Fiscal 2019 compared to other income of \$40.8 million in Fiscal 2018. Other expense in Fiscal 2019 was primarily related to a loss resulting from the change in amortized cost of Partnership units liability of \$27.0 million (Fiscal 2018 – gain of \$41.9 million) (refer to Critical Accounting Estimates – Partnership Units Liability for additional information), a loss on sale of shares of \$0.6 million and a loss on change in fair value of derivatives of \$0.4 million (Fiscal 2018 – gain of \$0.4 million), partially offset by a foreign exchange gain of \$2.0 million (Fiscal 2018 – loss of \$1.5 million).

Income Taxes

An income tax expense of \$2.5 million was recorded in Fiscal 2019 compared to income tax recovery of \$3.2 million in Fiscal 2018. KPLP is not directly taxable on its Canadian business. The income tax expense in Fiscal 2019 resulted primarily from operating income related to the U.S. entities and the income tax recovery in Fiscal 2018 resulted primarily from an operating loss related to the U.S. entities. Income tax in partner's hands was a recovery of \$2.4 million in Fiscal 2019 compared to \$15.8 million in Fiscal 2018.

Net Income

Net income was \$2.1 million in Fiscal 2019 compared to \$45.4 million in Fiscal 2018, a decrease of \$43.3 million. The decrease was primarily due to a change in other expense of \$66.7 million, consulting costs related to operational transformation initiatives of \$6.0 million, higher income tax expense of \$5.7 million, restructuring costs of \$1.9 million, and corporate development costs of \$0.8 million, partially offset by higher Adjusted EBITDA of \$26.7 million as discussed above, a decrease in interest expense of \$8.4 million and lower depreciation expense of \$2.4 million.

Results of Operations of KPT

(C\$ millions, unless otherwise noted)

Statement of Operations Data:

	Fiscal 2019	Fiscal 2018
Share of income	0.3	7.2
Depreciation of fair value increments	(5.7)	(5.8)
Equity income (loss)	(5.4)	1.4
Dilution gain	0.6	0.2
Income (loss) before income taxes	(4.8)	1.6
Income taxes:		
Current tax expense	(1.0)	(0.1)
Deferred tax expense	(0.7)	(1.7)
Income taxes	(1.7)	(1.8)
Net loss	(6.5)	(0.2)
Basic loss per share (dollars)	(0.39)	(0.02)

The financial information presented above is based on KPT's interest in KPLP for Fiscal 2019 and Fiscal 2018. 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 5 in KPT's financial statements for additional information.

The current income tax expense (recovery) is based on KPT's share of the taxable income (loss) of KPLP for the same periods. The deferred tax expense (recovery) is a result of changes in the temporary differences of KPLP's assets and liabilities since acquisition and the difference between the accounting and tax basis for KPT's investment in KPLP. Refer to note 6 in KPT's financial statements for additional information.

Pursuant to the Tax Distribution as defined in the Partnership Agreement, on February 28, 2020, KPLP declared a Tax Distribution of \$5.1 million, of which \$0.1 million was used to settle the outstanding advance to KPT as of December 31, 2019.

KPT incurred a loss for tax purposes for Fiscal 2018 and as a result no Tax Distribution was declared on February 28, 2019. The excess advances over the Tax Distribution in the amount of \$1.7 million, of which \$0.3 million was used to pay the monthly tax instalment on behalf of KPT and the remaining was advanced to Kruger Inc. and KPGP, are repayable by the partners and due to KPLP on or before March 31, 2020. Kruger Inc. and KPGP repaid the advances during Fiscal 2019 and the KPT advance was repaid in connection with the 2020 Tax Distribution as described above.

The advances are non-interest bearing and non-recourse in nature and will be settled when the Tax Distribution is declared annually.

SEGMENT INFORMATION

Segment Operating Income

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

Segment Results

(C\$ millions, unless otherwise noted)	Restated			Fiscal 2019 vs Fiscal 2018		Fiscal 2018 vs Fiscal 2017	
	Fiscal 2019	Fiscal 2018	Fiscal 2017	\$ Change	% Change	\$ Change	% Change
Segment Revenue							
Consumer	1,186.5	1,139.3	1,046.7	47.2	4.1%	92.6	8.8%
AFH	247.6	231.1	233.3	16.5	7.1%	(2.2)	-0.9%
Total segment revenue	1,434.1	1,370.4	1,280.0	63.7	4.6%	90.4	7.1%
Adjusted EBITDA							
Consumer	158.9	132.2	138.2	26.7		(6.0)	
AFH	(12.7)	(9.4)	6.2	(3.3)		(15.6)	
Corporate and other costs	(1.2)	(4.5)	(0.2)	3.3		(4.3)	
Total Adjusted EBITDA	145.0	118.3	144.2	26.7		(25.9)	

Consumer Segment

Fiscal 2019 compared to Fiscal 2018

Consumer segment revenue was \$1,186.5 million in Fiscal 2019 compared to \$1,139.3 million in Fiscal 2018, an increase of \$47.2 million or 4.1%. The increase in revenue was primarily due to price increases in Canada and the U.S., increased sales volume in Canada and favourable foreign exchange fluctuations on U.S. sales (USD average 1.33 in Fiscal 2019 compared to 1.29 in Fiscal 2018). Consumer segment revenue increased in the U.S. and Canada and decreased in Mexico. The shares in GTM were sold at the end of the third quarter, and as a result KPLP no longer recorded gross revenue related to Mexico beginning in Q4 2019.

Consumer Segment Adjusted EBITDA was \$158.9 million in Fiscal 2019 compared to \$132.3 million in Fiscal 2018, an increase of \$26.6 million. Higher sales volume in Canada, price increases in Canada and the U.S., favourable pulp costs in the second half of 2019 and lower freight costs were partially offset by additional maintenance costs, and higher warehousing, advertising and promotion and G&A expenses.

AFH Segment

Fiscal 2019 compared to Fiscal 2018

AFH segment revenue was \$247.6 million in Fiscal 2019 compared to \$231.1 million in Fiscal 2018, an increase of \$16.5 million or 7.1%. The increase was primarily due to selling price increases, higher sales volume, and the favourable impact of foreign exchange fluctuations on U.S. sales (USD average 1.33 in Fiscal 2019 compared to 1.29 in Fiscal 2018). AFH segment revenue increased in the U.S. and Canada.

AFH Segment Adjusted EBITDA was a loss of \$12.7 million in Fiscal 2019 compared to a loss of \$9.5 million in Fiscal 2018, a decrease of \$3.2 million. The decrease was primarily due to higher outsourced paper and freight costs resulting from production inefficiencies and higher warehousing and SG&A costs, partially offset by the benefit from price increases, higher sales volume and lower fibre costs. The AFH segment results have improved throughout 2019 as operational issues have been addressed. AFH Segment Adjusted EBITDA improved to a loss of \$3.1 million in the second half of 2019 compared to \$9.6 million in the first half of the year.

Corporate and Other Costs

Fiscal 2019 compared to Fiscal 2018

Corporate and other costs previously included revenue and profit (loss) associated with the sales of parent rolls and recycled fibre, which were considered an "Other" segment. Any associated profit (loss) is now included in Consumer or AFH segments as appropriate. Corporate and other costs currently includes certain overhead costs and timing adjustments for certain manufacturing costs included in inventory not allocated to the Consumer and AFH segments.

Corporate and other costs were \$1.2 million in Fiscal 2019 compared to \$4.5 million in Fiscal 2018, a decrease of \$3.3 million, as the timing adjustments in inventory partially offset the overhead costs.

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 flow from operations and/or additional debt.

On September 19, 2019, KPLP entered into a second supplemental credit agreement to the sixth amended and restated credit agreement (the Senior Credit Agreement) related to its revolving credit facility (the Senior Credit Facility). The maturity date of the Senior Credit Facility was also amended to September 19, 2023.

The Senior Credit Facility was increased to \$250.0 million from \$200.0 million, which increased the total borrowing capacity by \$50.0 million. The 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 Senior Credit Agreement) such that the Unrestricted Credit Parties are accounted for as investments but not consolidated. As such, the Unrestricted Subsidiaries' EBITDA are not included in such calculations. Pursuant to the second supplemental credit agreement dated September 19, 2019, KPLP is no longer required to maintain the Ratio of Total Net Funded Debt to EBITDA and the requirement for the Ratio of Senior Secured Net Funded Debt to EBITDA has been updated.

KPLP shall maintain on an adjusted consolidated basis and quarterly financial basis:

Ratio of Senior Secured Net Funded Debt to EBITDA not greater than:

- i) 3.00 to 1.00 until December 31, 2018, inclusively;
- ii) 3.25 to 1.00 from January 1, 2019 to March 31, 2019;
- iii) 3.75 to 1.00 from April 1, 2019 to September 30, 2019;
- iv) 3.50 to 1.00 from October 1, 2019 to June 30, 2020;
- v) 3.25 to 1.00 from July 1, 2020 to September 30, 2020; and
- vi) 3.00 to 1.00 thereafter;

Interest Coverage Ratio of at least 3.00 to 1.00.

In connection with the amendments above, Kruger Inc. has agreed to increase its participation in the dividend reinvestment plan (DRIP) from 75% to 100% until December 31, 2020, which will reduce the net distribution.

As of December 31, 2019, KPLP was in compliance with all of its financial covenants under all of its outstanding credit facilities. As of December 31, 2019, KPLP had drawn \$90.0 million from the \$250.0 million committed amount under the Senior Credit Facility, and had \$20.0 million of letters of credit outstanding, resulting in \$140.0 million available from the credit line, subject to covenant limitations. As of December 31, 2019, KPLP had total liquidity of \$233.2 million (December 31, 2018 - \$178.7 million) representing cash and cash equivalents and availability under the credit line within the covenant limitations. Total liquidity of \$233.2 million includes \$16.4 million of cash and cash equivalents held by KPSI and committed to the TAD Sherbrooke Project.

As it pertains to capital expenditures, approximately \$25 million annually relate to maintenance projects and the remaining expenditures are focused on growth projects aimed at reducing costs and offsetting annual inflation, or increasing production capacity. Regular growth projects focused on performance improvement generally have a 3 to 4 year payback. Capital expenditures were \$175.0 million in Fiscal 2019, including \$143.1 million related to the TAD Sherbrooke Project (including interest capitalized during construction). The TAD Sherbrooke Project also had \$43.0 million of accrued and unpaid capital spending as of December 31, 2019. Capital expenditures are expected to be approximately \$365.0 million to \$400.0 million in fiscal 2020, primarily driven by the TAD Sherbrooke Project expenditures of \$340.0 million to \$360.0 million.

The tissue industry is generally characterized by high sales volume and rapid turnover of inventories and accounts receivable. In general, accounts receivable and inventories are readily convertible into cash. Investment in working capital may be affected by fluctuations in the prices of pulp and other supply costs, vendor terms and timing of collection of accounts receivable. KPLP participates in a factoring program to assist in managing working capital. Under the program, KPLP derecognizes certain receivables upon sale.

Cash Flows

(C\$ millions, unless otherwise stated)	\$ Change				
	Restated			Fiscal 2019 vs.	Fiscal 2018 vs.
	Fiscal 2019	Fiscal 2018	Fiscal 2017	Fiscal 2018	Fiscal 2017
Net cash flows from operating activities	133.6	140.3	99.2	(6.7)	41.1
Net cash flows used in investing activities	(168.9)	(41.9)	(63.9)	(127.0)	22.0
Net cash flows from (used in) financing activities	(39.6)	69.5	(61.9)	(109.1)	131.4
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	(1.9)	2.2	(1.1)	(4.1)	3.3
Increase (decrease) in cash and cash equivalents	(76.8)	170.1	(27.7)	(246.9)	197.8
Beginning cash and cash equivalents, net	169.9	(0.2)	27.5	170.1	(27.7)
Ending cash and cash equivalents, net	93.1	169.9	(0.2)	(76.8)	170.1
Bank indebtedness	-	-	9.0	-	(9.0)
Ending cash and cash equivalents	93.1	169.9	8.8	(76.8)	161.1

Net Cash Flows from Operating Activities

Net cash from operating activities was \$133.6 million in Fiscal 2019 compared to \$140.3 million in Fiscal 2018. Cash from operating activities in Fiscal 2019 was primarily driven by Adjusted EBITDA of \$145.0 million (Fiscal 2018 – \$118.3 million) and a decrease in working capital of \$1.5 million (Fiscal 2018 – decrease of \$27.0 million), partially offset by funding of pension and post-retirement benefit plans of \$15.5 million (Fiscal 2018 – \$15.2 million), income tax payments of \$2.7 million (Fiscal 2018 – \$2.5 million) and provisions paid of \$1.0 million (Fiscal 2018 – \$0.2 million).

Net Cash Flows used in Investing Activities

Net cash used in investing activities was \$168.9 million in Fiscal 2019 compared to \$41.9 million in Fiscal 2018. Cash used in investing activities related to capital expenditures of \$175.0 million (including \$143.1 million for the TAD Sherbrooke Project and \$31.9 million for the existing business) in Fiscal 2019 compared to \$61.5 million (including \$26.8 million for the TAD Sherbrooke Project and \$34.7 million for the existing business) in Fiscal 2018, excluding government assistance of \$19.2 million. This was partially offset by proceeds on sale of shares of \$5.7 million in Fiscal 2019.

Net Cash Flows from (used in) Financing Activities

Net cash used in financing activities was \$39.6 million in Fiscal 2019 compared to cash from financing activities of \$69.5 million in Fiscal 2018. Net cash used in financing activities in Fiscal 2019 was primarily due to interest paid of \$29.5 million (Fiscal 2018 – \$34.4 million), lease payments of \$17.0 million (Fiscal 2018 – \$16.0 million), and distributions and advances paid (net of DRIP proceeds) of \$10.2 million (Fiscal 2018 – \$19.5 million) and payment of deferred

financing fees of \$1.4 million (Fiscal 2018 –\$18.5 million), partially offset by net proceeds from debt of \$18.6 million (Fiscal 2018 –\$157.9 million).

Contractual Obligations

(C\$ millions, unless otherwise stated)	Fiscal 2020	Fiscal 2021	Fiscal 2022	Fiscal 2023	Fiscal 2024	Thereafter	Total
Contractual obligations:							
Senior Credit Facility, principal repayments	-	-	-	90.0	-	-	90.0
Senior Unsecured Notes, principal repayments	-	-	-	-	-	125.0	125.0
AgCredit - KTG Facility TLA	-	-	4.4	4.4	4.4	177.7	190.9
AgCredit - TAD Sherbrooke Project Facility TLB	-	-	-	-	-	13.4	13.4
AgCredit - TAD Sherbrooke Project Facility TLC	-	-	1.2	1.5	1.7	1.7	6.1
AgCredit - TAD Sherbrooke Project Facility Cdn Revolver	7.0	-	-	-	-	-	7.0
IQ Convertible Debenture	-	1.3	15.0	15.0	15.0	58.7	105.0
Quebec PM Loan, principal repayments	4.9	4.9	4.9	4.9	4.9	4.2	28.7
Nordea2 Credit Facility, principal repayments	-	3.2	6.4	6.4	6.4	31.9	54.3
Ontario Loan, principal repayments	-	-	1.0	1.0	1.0	2.0	5.0
Interest expense	31.1	31.2	33.2	30.2	24.8	105.6	256.1
Service contracts	8.1	3.1	2.4	0.1	-	-	13.7
Total contractual obligations	51.1	43.7	68.5	153.5	58.2	520.2	895.2

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, 2019, KPLP had \$151.1 million (December 31, 2018 – \$52.8 million) commitments related to the TAD Sherbrooke Project.

KPLP's cash pension contribution for defined benefit pension arrangements in Fiscal 2019 was \$12.7 million, while its post-retirement benefits contribution was \$2.8 million. In addition, as of December 31, 2019, KPLP had \$19.5 million of letters of credit related to pensions outstanding. Pension and post-retirement contributions for fiscal 2020 are expected to be \$16.2 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.

As of December 31, 2019, KPLP had foreign exchange swaps outstanding of nil (December 31, 2018 – nil) and foreign exchange forwards outstanding of \$23.7 million (December 31, 2018 – nil).

KPLP holds interest rate swaps, contracted to fix the interest rate on a notional amount of \$100.0 million at December 31, 2019 (December 31, 2018 – \$100.0 million). The interest rate swaps will mature in the first quarter of 2020.

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, 2019, \$143.5 million was recorded as a liability in respect of this obligation (December 31, 2018 - \$116.5 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, 2019 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

Senior Credit Agreement

General

KPLP is a party to a sixth amended and restated credit agreement dated as of April 24, 2018 entered into by KPLP, as borrower, the lenders party thereto and National Bank of Canada, as administrative agent, as amended by a first supplemental credit agreement dated November 19, 2018 and a second supplemental credit agreement dated September 19, 2019 (the Senior Credit Agreement) pursuant to which a senior secured revolving credit facility in a maximum amount of \$250 million (increased from \$200 million) with a \$75 million accordion feature (the Senior Credit Facility) is made available to KPLP. The maturity date of the Senior Credit Facility is September 19, 2023. The Senior Credit Facility is to be 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 investment by any such Restricted Credit Party (as defined below).

The Senior Credit Agreement is guaranteed by each Restricted Credit Party. Under the Senior Credit Agreement, "Restricted Credit Parties" means KPLP, KPGP, Kruger Products Real Estate Holdings Inc., Kruger Products (USA) Inc., Kruger Products AFH G.P. Inc. and Kruger Products AFH L.P. and their respective subsidiaries involved in the tissue business but excluding the Unrestricted Credit Parties (which 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 and TAD1 Canco II Inc.) and the Non-Material Credit Parties (as such terms are defined in the Senior Credit Agreement). All Restricted Credit Parties granted first ranking security interests and hypothecs over all of their assets, present and future, movable and immovable, corporeal and incorporeal, to secure the obligations under the Senior Credit Agreement including a pledge of 100% of the stock or ownership interest in all credit parties owned by KPLP and the Restricted Credit Parties.

Interest Rates and Fees

Borrowings under the Senior Credit Facility bear interest at a base rate of Canadian Prime Rate, U.S. Base Rate, LIBOR, Banker's Acceptance Stamping Fees or LC Fees, plus a margin varying between 0.20% and 3.50% depending on the Ratio of Total Net Funded Debt to EBITDA (as defined in the Senior Credit Agreement) and the type of advance. Stand-By Fees are also payable on the available portion of the Senior Credit Facility at a rate varying between 0.24% and 0.70% depending on the Restricted Credit Parties' Ratio of Total Net Funded Debt to EBITDA (as defined in the Senior Credit Agreement).

Prepayments and Repayments

KPLP may voluntarily cancel or reduce the Senior Credit Facility, in whole or in part, subject to minimum amounts and notice period, with customary restrictions on prepayment of Banker's Acceptances, Libor Loans and liabilities under Letters of Credit (in each case, as defined in the Senior Credit Agreement).

Covenants

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

The 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 Senior Credit Agreement) such that the Unrestricted Credit Parties are accounted for as investments but not consolidated. As such, indebtedness under the AgCredit Agreement, IQ Debenture and the Unrestricted Subsidiaries' EBITDA are not included in such calculations. Pursuant to the second supplemental credit agreement dated September 19, 2019, KPLP is no longer required to maintain the Ratio of Total Net Funded Debt to EBITDA and the requirement for the Ratio of Senior Secured Net Funded Debt to EBITDA has been updated.

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

Ratio of Senior Secured Net Funded Debt to EBITDA not greater than:

- (i) 3.00 to 1.00 until December 31, 2018, inclusively;
- (ii) 3.25 to 1.00 from January 1, 2019 to March 31, 2019;
- (iii) 3.75 to 1.00 from April 1, 2019 to September 30, 2019;
- (iv) 3.50 to 1.00 from October 1, 2019 to June 30, 2020;
- (v) 3.25 to 1.00 from July 1, 2020 to September 30, 2020; and
- (vi) 3.00 to 1.00 thereafter;

Interest Coverage Ratio of at least 3.00 to 1.00.

The Senior Credit Agreement contains customary negative covenants of KPLP, including, but not limited to, (i) restrictions on the ability of KPLP and the Restricted Credit Parties to, subject to certain exceptions, grant liens, incur indebtedness, merge or consolidate, amend, restate or otherwise modify the Limited Partnership Agreement, make investments and loans, grant guarantees, make acquisitions, declare, set apart and pay distributions (which does not apply to the Tax Distribution (as defined below) to KPT), reduce capital, sell or otherwise dispose of assets, incur capital expenditures or materially change their business, and (ii) restrictions on the indebtedness of TAD Canco Inc., TAD Luxembourg S.A.R.L and KTG and the amendment of the TAD financing documents.

Events of Default

The Senior Credit Agreement contains customary events of default, including, but not limited to, non-payment, misrepresentation, breach of covenants, cross-default and cross-acceleration to other debt above a certain threshold, cross defaults to the Nordea Credit Agreement and the Nordea2 Credit Agreement (as defined below), insolvency, change of control of KPLP or Kruger and enforcement proceedings.

Security and Guarantees

The Senior Credit Facility is guaranteed by each Restricted Credit Party. KPLP and each Restricted Credit Party granted 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 Senior Credit Facility, including a pledge of all capital stock or ownership interest in all subsidiaries owned by KPLP and 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 Senior Credit Agreement and

the lenders and the administrative agent under the Nordea Credit Agreement and the Nordea2 Credit Agreement (as defined below).

Senior Unsecured Notes Indenture

General

On April 24, 2018, KPLP issued \$125 million aggregate principal amount of 6.0% senior unsecured notes due April 24, 2025 (the Notes) by way of private placement in Canada in accordance with applicable Canadian prospectus and registration exemptions. The 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 Indenture). Interest on the Notes accrues at 6.0% per year and is payable semi-annually on April 24 and October 24 of each year.

Under the Notes, “Restricted Subsidiaries” means any subsidiary of KPLP that is not an Unrestricted Subsidiary as defined in the Indenture (which Unrestricted Subsidiaries include TAD Canco, TAD Luxembourg, KTG and Non-Material Subsidiaries as defined in the Indenture).

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

Proceeds from the offering were \$125 million, which were used to reduce the outstanding balance under the Senior Credit Facility and to pay transaction costs associated with the offering.

Guarantees

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

Redemption

At any time prior to April 24, 2021, KPLP may redeem up to 35.0% of the aggregate principal amount of the Notes at a redemption price of 106% of the principal amount of the 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 24, 2021, KPLP may redeem the Notes, at a redemption price equal to the greater of (a) the Applicable Premium (as defined in the Indenture) and (b) 101% of the aggregate principal amount of the Notes redeemed, plus, in each case, accrued and unpaid interest, if any, to the applicable redemption date.

On or after April 24, 2021, KPLP may redeem all or part of the 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%

Change of Control

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

Covenants

The 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 Notes, and any business reasonably related, incidental, complementary or ancillary thereto, limitations on creating any contractual restrictions on the ability of KPLP or its Restricted Subsidiaries to take certain actions, such as the payment of dividends or making of distributions, restrictions on consolidating, amalgamating or merging into any other person and restrictions on selling, transferring, assigning, leasing, conveying or otherwise disposing of all or substantially all of the property of KPLP and the Restricted Subsidiaries taken as a whole.

Events of Default

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

AgCredit Agreement

General

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 (AgCredit Agreement) pursuant to which the following credit facilities were made available: (i) US\$188 million term loan facility repayable by December 31, 2036 by quarterly principal instalment payments commencing on March 31, 2026 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 March 31, 2022 and bearing interest at a floating interest rate based on CDOR 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 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 March 31, 2022 and bearing interest at a 7.3% maximum fixed interest rate and repayable after a three-year lock-out period (the KTG Facility).

The purpose of the TAD Sherbrooke Project Facility is to partially finance the TAD Sherbrooke Project. The purpose of the KTG Facility is to repay existing indebtedness of KTG and TAD Canco Inc.

Guarantees

The TAD Sherbrooke Project Facility and KTG Facility are each guaranteed by each of the borrowers and guarantors. All 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.

Redemption

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.

Covenants

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).

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

Events of Default

The AgCredit Agreement contains customary events of default such as non-payment, misrepresentation, breach of covenants and change of control.

IQ Debenture

General

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

Interest Rates and Fees

Borrowings under the IQ Debenture bear interest at a fixed capitalized interest rate of 3%.

Redemption

The 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 48% equity interest in KPSI if the entirety of the debenture was so converted.

Pursuant to a repayment agreement (the 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 Repayment Agreement, if Kruger Inc. makes all of the redemption payments, it will hold approximately 48% of KPSI.

Covenants

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

Events of Default

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

Nordea2 Credit Agreement

General

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 (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 is to be 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.

Interest Rates and Fees

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.

Prepayments and Repayments

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

Covenants

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

Events of Default

The Nordea2 Credit Agreement contains customary events of default such as non-payment, misrepresentation and breach of covenants and also provides for a cross-default to the Senior Credit Agreement and a default related to the termination or loss of the EKN guarantee.

Security and Guarantees

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 Nordea Credit Agreement, the Nordea2 Credit Agreement and the administrative agent and the lenders under the Senior Credit Agreement being governed by a collateral agency and security sharing agreement.

Quebec PM Loan Agreement

General

KPLP is a party to a loan agreement dated as of August 9, 2016 entered into by KPLP, as borrower, and 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 (PM Project). The Quebec PM Loan Agreement matures ten years after the first loan disbursement, which occurred on September 6, 2016.

Interest Rates and Fees

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.

Prepayments and Repayments

The Quebec PM Loan has 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.

Covenants

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

Events of Default

The Quebec PM Loan Agreement contains customary events of default such as non-performance, non-payment, misrepresentation, breach of covenants, cross-default to the Nordea Credit Facility (as defined below) and the Senior Credit Facility, insolvency and enforcement proceedings.

Security and Guarantees

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 Senior Credit Facility.

Ontario Loan Agreement

General

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 \$10.0 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.

Interest Rates and Fees

Borrowings under the Ontario Loan bear interest, up to a maximum rate of 4.4% per annum for a period of ten years from the date of the first loan disbursement. A portion of the loan interest is forgivable, subject to prescribed conditions.

Prepayments and Repayments

The Ontario Loan has a moratorium on repayment of the principal for the initial five years following the date of the first loan disbursement, after which the principal is to be repaid in five equal annual payments. A portion of the loan principal is forgivable, subject to prescribed conditions, up to a maximum forgivable portion of \$5.0 million.

Covenants

The Ontario Loan Agreement contains covenants including, but not limited to, delivery of financial and other information to the Government of Ontario, the preservation of existence, maintenance of insurance, compliance with laws, payment of taxes, completion of project and limitations on project procurement. The Ontario Loan Agreement also contains restrictions on the disposition of assets and changing the nature of the business and an undertaking to comply with the negative covenants in the Senior Credit Agreement.

Events of Default

The Ontario Loan Agreement contains customary events of default such as non-performance, non-payment, misrepresentation, breach of covenants and abandonment of the project and also provides for a cross-default to the Senior Credit Agreement.

Security and Guarantees

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

Nordea Credit Agreement

General

KPLP was a party to a fourth amended and restated credit agreement (the Nordea Credit Agreement) dated as of April 24, 2018 entered into by KPLP, as borrower, the lender party thereto and Nordea Bank Abp Filial I Sverige (as successor of Nordea Bank A.B. (publ)), as administrative agent, as amended by an amendment letter dated November 19, 2018 (the Nordea Credit Agreement) pursuant to which a senior secured non-revolving loan facility in a maximum amount of US\$46.2 million (the Nordea Credit Facility) was made available to KPLP. The Nordea Credit Facility was used to pay up to 85% of the equity investment of KPLP in the Memphis TAD Machine and the fees of the Swedish Export Credits Guarantee Board (EKN) in connection with its guarantee of the Nordea Credit Facility. The Nordea Credit Facility matured on December 30, 2019.

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, 2019 included cash and cash equivalents, trade and other receivables, receivables from related parties and advances to partners. KPLP places its cash and cash equivalents with financial institutions of high creditworthiness.

KPLP sells its products to a variety of customers under certain credit terms and therefore is exposed to credit risks. Normal trade receivables are due within 30 days from the invoice date and amounts in excess of 90 days past the invoice date are considered delinquent. KPLP routinely assesses the financial strength of its customers and mitigates against identified exposure primarily by lowering credit limits with high risk accounts. KPLP's customers are well established companies and accordingly, KPLP has experienced limited financial loss with respect to credit risk. As a result, KPLP believes that its exposure to credit risk is limited.

On November 16, 2018, KPLP entered into a factoring arrangement with the Bank of Nova Scotia, pursuant to a Receivables Purchase Agreement. 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 is committed to a two year term, renewable for additional one year periods. As eligible trade receivables are sold, KPLP removes the factored receivables from the consolidated statement of financial position, recognizes the proceeds received as consideration for the transfer and records a loss on factoring, which is included in interest expense in the consolidated

statement of comprehensive income (loss). Cash flows from the factoring arrangement are presented as operating activities in the consolidated statement of cash flows. During the year ended December 31, 2019, the gross amount of eligible trade receivables sold to the Bank of Nova Scotia was \$774.4 million (2018 - \$141.9 million). KPLP sold 95% of these trade receivables, net of a dilution factor, for \$508.6 million (2018 - \$87.1 million). As of December 31, 2019, the trade receivables sold and uncollected amounted to \$31.4 million (December 31, 2018 - \$30.9 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, 2019, KPLP had net liabilities denominated in U.S. dollars of \$58.8 million (December 31, 2018 - \$43.9 million). Assuming the Canadian dollar strengthened (weakened) by 5% against the U.S. dollar, with all other variables held constant, the result on net income before tax in Fiscal 2019 would have been an increase (decrease) of \$2.9 million (Fiscal 2018 - \$2.2 million).

From time to time, KPLP uses derivative financial instruments to manage foreign currency risk. Foreign exchange swaps and foreign exchange forwards are used to manage U.S. dollar borrowings. As of December 31, 2019, KPLP had foreign exchange swaps outstanding of nil (December 31, 2018 - nil) and foreign exchange forwards outstanding of \$23.7 million (December 31, 2018 - nil).

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, 2019, KPLP had drawn \$90.0 million from the \$250 million committed amount under the Senior Credit Facility entered into on April 24, 2018, as amended by a first supplemental credit agreement dated November 19, 2018 and a second supplemental credit agreement dated September 19, 2019, maturing in September 2023. KPLP had \$20.0 million of letters of credit outstanding, resulting in \$140.0 million available from the credit line, subject to covenant limitations. As of December 31, 2019, KPLP had total liquidity of \$233.2 million (December 31, 2018 - \$178.7 million) representing cash and cash equivalents and availability under the credit line within the covenant limitations. Total liquidity of \$233.2 million includes \$16.4 million of cash and cash equivalents held by KPSI and committed to the TAD Sherbrooke Project. KPLP prepares projections to ensure it has sufficient funds to fulfill its obligations.

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. KPLP's trade and other payables of \$242.4 million as of December 31, 2019 (December 31, 2018 - \$238.9 million) are all due for payment within twelve months of the dates of the consolidated statements of financial position.

Interest Rate Risk

KPLP's interest rate risk arises from its variable rate debt related to the Senior Credit Facility and certain credit facilities made available as part of the TAD Sherbrooke Project Facility. As of December 31, 2019, KPLP had variable rate debts of \$99.4 million (December 31, 2018 - \$109.0 million related to the Senior Credit Facility). The Senior Credit Facility bears interest at a base rate of Canadian prime rate, U.S. base rate, banker's acceptance rates or LIBOR plus the applicable margins. The applicable margin on the loans ranges between 0.20% and 3.50%. The \$111 million term loan made available as part of the TAD Sherbrooke Project Facility bears interest at a floating interest rate based on CDOR plus an applicable margin. The revolving loans of US\$10 million and \$12.5 million made available as part of the TAD Sherbrooke Project Facility also bear interest at floating interest rates.

A 100 basis point increase (decrease) in the market rate of interest would result in a decrease (increase) in net income before tax of \$1.0 million for the year ended December 31, 2019.

From time to time, KPLP uses interest rate swaps to manage part of its exposure to movements in interest rates on its credit facilities. KPLP holds interest rate swaps, contracted to fix the interest rate on a notional amount of \$100.0 million at December 31, 2019 (December 31, 2018 – \$100.0 million). The interest rate swaps will mature in the first quarter of 2020.

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, 2019 and December 31, 2018.

TRANSACTIONS WITH RELATED PARTIES

KPLP and Kruger are parties to a Third Amended and Restated Management Services Agreement dated as of November 15, 2019 with effect as of January 1, 2020 (the "Management Services Agreement") pursuant to which Kruger provides certain management and support services to KPLP, including corporate management support and administrative support services; accounting and tax support; corporate financing and treasury support; benefits and human resources support services; corporate insurance; corporate procurement services complementary to KPLP procurement; project development and management services (including in connection with the TAD Sherbrooke Project), corporate development support, environmental support and corporate engineering support services. The annual management fee paid by KPLP to Kruger under this agreement will be \$7,350,000 which amount will be adjusted for inflation annually.

During Fiscal 2019, management fees of \$4.4 million (Fiscal 2018 - \$4.3 million) were paid to Kruger Inc. for management services provided to KPLP.

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

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

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

Sales of goods to Kruger Inc. during Fiscal 2019 were \$0.1 million (Fiscal 2018 – \$0.5 million). Sales of goods to subsidiaries of Kruger Inc. during Fiscal 2019 were \$0.2 million (Fiscal 2018 – \$0.2 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 2019 were \$5.8 million (Fiscal 2018 - \$7.3 million). Purchases of goods and services from subsidiaries of Kruger Inc. during Fiscal 2019 were \$42.8 million (Fiscal 2018 - \$34.5 million). Goods are purchased from Kruger Inc. and related parties under normal commercial terms and conditions. These purchases of goods and services are included within cost of sales and SG&A expenses.

OFF BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS

KPLP has entered into right-of-use lease commitments related to land, buildings, IT services, vehicles and other machines and equipment. Contractual obligations including these right-of-use leases are described in the "Contractual Obligations" subsection under the "Liquidity and Capital Resources" section of this MD&A.

CRITICAL ACCOUNTING ESTIMATES

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

Pension and Post-Retirement Benefit Obligations

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

Partnership Units Liability

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

The liability is based on 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, 2019, \$143.5 million was recorded as a liability in respect of this obligation (December 31, 2018 - \$116.5 million). As of December 31, 2019, the valuation utilized a discount rate and terminal growth rate of 9.75% and 2.0% (December 31, 2018 - 10.75% 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 \$9.1 million and \$10.4 million, respectively. The discount rate reflects the risks associated with the business, which operates primarily in Canada.

The loss of \$27.0 million recorded during the year ended December 31, 2019 (2018 - gain of \$41.9 million) related to the change in amortized cost of Partnership units liability represents the adjustment made as a result of the reassessment performed as of December 31, 2019. The change in the discount rate resulted in an increase in the liability of \$17.1 million, while the changes in other assumptions resulted in an increase to the liability of \$9.9 million.

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 three of nine seats on the board of directors of KPGP, management has concluded that KPT has the ability to exercise significant influence over KPLP.

Impairment Tests

KPLP performs annual impairment tests for goodwill and indefinite lived trademarks. The impairment tests indicated there was no impairment as of December 31, 2019.

KPLP is in the process of assessing various marketing plans in support of the indefinite lived trademarks. Recoverable amounts 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.

KPT is required to perform an impairment test on its investment in KPLP if there is objective evidence that the investment may be impaired. Under IFRS, KPT did not perform an impairment test at December 31, 2019, as there were no events or changes in circumstances to indicate that the asset may be impaired.

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 the year ended December 31, 2019, KPLP reassessed its ability to utilize the U.S. state tax credits. As a result of this reassessment, a reversal of \$5.1 million of the U.S. state tax credits was recorded during Fiscal 2019 (Fiscal 2018 –\$1.2 million).

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.

ACCOUNTING CHANGES AND FUTURE ACCOUNTING STANDARDS

Accounting Standards Implemented effective January 1, 2019

- (i) IAS 19, Employee Benefits. In February 2018, the IASB issued an amendment in connection with defined benefit plans and accounting for plan amendments, settlements or curtailments. The mandatory effective date was for annual periods beginning on or after January 1, 2019. The amended standard had no impact on the consolidated financial statements.
- (ii) IAS 23, Borrowing Costs. In December 2017, the IASB issued Annual Improvements to IFRS Standards 2015-

2017 Cycle, which includes an amendment to IAS 23, Borrowing Costs. The amendment clarifies borrowing costs eligible for capitalization. The mandatory effective date was for annual periods beginning on or after January 1, 2019. The amended standard had no impact on the consolidated financial statements.

- (iii) IAS 28, Interests in Associates and Joint Ventures. In February 2018, the IASB issued an amendment to clarify that an entity applies IFRS 9, including its impairment requirements, to long term interests in an associate or joint venture to which the equity method is not applied. The mandatory effective date was for annual periods beginning on or after January 1, 2019. The amended standard had no impact on the consolidated financial statements.
- (iv) Effective January 1, 2019, KPLP adopted IFRS 16 Leases, using the full retrospective approach. Under this approach all comparative period information has been restated to reflect the adoption of IFRS 16. An opening statement of financial position at the beginning of the earliest comparative period, January 1, 2018, is presented, as is a restated statement of financial position at December 31, 2018. Impacts on the consolidated statement of financial position, the consolidated statement of comprehensive income (loss) and the consolidated statement of cash flows are disclosed in note 29 in the consolidated financial statements.

IFRS 16 establishes principles on how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all major leases. IFRS 16 superseded the current lease recognition guidance, including IAS 17 Leases and the related interpretations, when it became effective.

The primary changes to lease accounting as a result of adopting IFRS 16 include the following:

- The definition of a lease has changed under the new standard. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Previously, KPLP determined at contract inception whether an arrangement is or contains a lease under IFRIC 4;
- Under IFRS 16, the lessee recognizes a right-of-use asset and a lease liability upon lease commencement for leases with a lease term of greater than one year. The right-of-use asset is initially measured at the amount of the lease liability plus any initial direct costs incurred by the lessee. Subsequent measurement is determined based on the nature of the underlying asset. The lease liability is initially measured at the present value of the lease payments payable over the lease term and discounted at the implied lease rate. If the implied lease rate cannot be readily determined, the lessee uses its incremental borrowing rate. Subsequent re-measurement is required under specific circumstances.

Previously, KPLP classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to KPLP;

- IFRS 16 provides detailed guidance on determining the lease term when KPLP has an option to extend the lease; and
- The new standard includes extensive disclosure requirements that differ from previous requirements.

At the inception of the lease, KPLP records the right-of-use asset based on the corresponding lease liability over the term of the lease. Right-of-use assets of \$94.2 million and lease obligations of \$115.1 million were recorded as of January 1, 2019, adjusted for \$2.8 million of lease payments made at or before January 1, 2019, with a \$23.7 million net impact on the deficit. When measuring lease liabilities, KPLP discounted lease payments using its incremental borrowing rate at the lease commencement date.

In applying IFRS 16 upon initial adoption, KPLP has used the following practical expedients permitted by the standard:

- KPLP adopted the recognition exemptions permitted for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are recognized as an expense on a straight-line basis over the lease term;
- KPLP has applied the practical expedient whereby KPLP is not required to reassess which transactions are leases on the date of initial application, as previously assessed under IAS 17 and IFRIC 4. KPLP applied the definition of a lease under IFRS 16 to contracts entered into or changed on or after January 1, 2019;
- KPLP has applied the practical expedient whereby certain classes of underlying assets are not required to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components within the contract as a single lease component.

The application of IFRS 16 Leases requires significant judgements and certain key estimations to be made as disclosed in note 4 in the consolidated financial statements.

Future Accounting Standards

The following revised standards and amendments are effective for annual periods beginning on or after January 1, 2020, 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 and IAS 8, Definition of Material. In October 2018, the IASB issued amendments to the definition of material in IAS 1 and IAS 8 and provide guidance to improve consistency in the application of the concept whenever it is used. The mandatory effective date would be annual periods beginning on or after January 1, 2020, with early adoption permitted. The amended standards are not expected to have an impact on the consolidated financial statements
- (ii) IFRS 3, Definition of a Business. In October 2018, the IASB issued an amendment that revises the definition of a business. The amendment aims to resolve the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The mandatory effective date would be annual periods beginning on or after January 1, 2020, with early adoption permitted. The amended standard is not expected to have an impact on the consolidated financial statements.
- (iii) IFRS 9/IAS 39 and IFRS 7, Interest Rate Benchmark Reform (Phase 1). In September 2019, the IASB issued amendments that provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by IBOR reform and require certain related disclosures. The mandatory effective date would be annual periods beginning on or after January 1, 2020, with early adoption permitted. The amended standards are 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)	Restated	
	December 31, 2019	December 31, 2018
KPT Financial Information		
Total assets	83.0	101.6
Total liabilities	5.9	5.6
KPLP Financial Information		
Total assets	1,623.6	1,596.3
Total liabilities	1,318.8	1,229.5

SELECTED QUARTERLY FINANCIAL INFORMATION

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

(C\$ millions, unless otherwise stated)	2019				2018 (Restated)			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Number of days in the period	92	92	91	90	92	91	91	91
Revenue	348.1	369.4	365.7	351.0	359.3	348.6	338.8	323.7
Net income (loss) for the period	(6.1)	10.5	0.9	(3.2)	38.0	4.2	1.6	1.6
Reconciliation of Net income (loss) to Adjusted EBITDA								
Net income (loss)	(6.1)	10.5	0.9	(3.2)	38.0	4.2	1.6	1.6
Interest expense	10.9	11.4	11.4	11.3	13.5	13.5	13.8	12.7
Income taxes	0.8	0.7	1.1	(0.2)	(2.0)	(0.5)	0.4	(1.1)
Depreciation and amortization	16.0	15.1	15.1	14.8	16.2	15.8	15.6	15.4
Foreign exchange (gain) loss	(0.8)	0.5	(1.0)	(0.7)	1.3	(0.5)	0.9	(0.2)
Change in amortized cost of								
Partnership units liability	22.3	1.5	1.5	1.5	(42.6)	-	(2.0)	2.7
Change in fair value of derivatives	0.4	(0.3)	0.3	-	(0.1)	-	0.3	(0.6)
Loss on sale of property, plant and equipment	-	-	-	-	0.2	-	-	0.4
Loss on sale of shares	-	0.6	-	-	-	-	-	-
Gain on sale of non-financial assets	-	-	-	-	-	-	-	(0.2)
Restructuring costs, net	0.1	1.6	0.2	0.1	-	-	-	-
Consulting costs related to								
operational transformation initiatives	2.4	2.3	1.3	-	-	-	-	-
Corporate development related costs	-	0.1	0.7	-	-	-	-	-
Adjusted EBITDA	46.0	44.0	31.5	23.6	24.5	32.5	30.6	30.7

The quarterly information for 2018 above has been retrospectively restated for the adoption of IFRS 16, Leases.

Results of Operations Q4 2019 compared to Q4 2018

Revenue

Revenue was \$348.1 million in Q4 2019 compared to \$359.3 million in Q4 2018, a decrease of \$11.2 million or 3.1%. The decrease in revenue was primarily the result of no Mexico sales volume recorded in Q4 2019, partially offset by the benefit of previous price increases and higher volume. From a geographic perspective, revenue in Canada increased \$15.4 million or 7.4%, while revenue in the U.S. decreased \$2.3 million, or 1.8%. Revenue in Mexico decreased \$24.3 million

compared to the year ago quarter. The shares in GTM were sold at the end of the third quarter, and as a result KPLP no longer recorded Mexico sales revenue beginning in Q4 2019.

Cost of Sales

Cost of sales was \$294.1 million in Q4 2019 compared to \$327.0 million in Q4 2018, a decrease of \$32.9 million or 10.1%. Manufacturing costs decreased primarily due to lower Mexico volume driven by the sale of GTM shares and lower pulp costs compared to Q4 2018. These decreases were partially offset by the cost of outsourced manufacturing due to production inefficiencies in AFH, additional maintenance costs and inflation. Warehousing costs increased related primarily to additional warehousing space required to manage the logistics network. As a percentage of revenue, cost of sales were 84.5% in Q4 2019 compared to 91.0% in Q4 2018.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses were \$26.4 million in Q4 2019 compared to \$24.1 million in Q4 2018, an increase of \$2.3 million or 9.5%. The increase was primarily due to increased compensation related costs compared to Q4 2018 and higher advertising and promotion expenses. As a percentage of revenue, SG&A expenses were 7.6% in Q4 2019 compared to 6.7% in Q4 2018.

Adjusted EBITDA

Adjusted EBITDA was \$46.0 million in Q4 2019 compared to \$24.5 million in Q4 2018, an increase of \$21.5 million or 87.5%. The higher Adjusted EBITDA resulted primarily from lower pulp costs, the benefit of previous price increases across all business segments and favourable sales mix along with the benefit from operational transformation initiatives, partially offset by the cost of outsourced manufacturing and maintenance costs, and higher SG&A costs.

Interest Expense

Interest expense was \$10.9 million in Q4 2019 compared to \$13.5 million in Q4 2018, a decrease of \$2.6 million. The decrease was primarily due to lower interest rates related to the refinancing of KTG.

Other Income (Expense)

Other expense was \$21.9 million in Q4 2019 compared to other income of \$41.3 million in Q4 2018. Other expense in Q4 2019 was primarily related to the loss on the change in amortized cost of Partnership units liability of \$22.4 million (Q4 2018 – gain of \$42.6 million) (refer to Critical Accounting Estimates – Partnership Units Liability for additional information) and expense related to a change in the fair value of derivatives of \$0.4 million (Q4 2018 – gain of \$0.1 million), partially offset by a foreign exchange gain of \$0.8 million (Q4 2018 – loss of \$1.3 million). Refer to Transactions with Related Parties – Partnership Units Liability for an explanation of the change in amortized cost of Partnership units liability.

Income Taxes

An income tax expense of \$0.8 million was recorded in Q4 2019 compared to income tax recovery of \$2.0 million in Q4 2018. KPLP is not directly taxable on its Canadian business. The income tax expense in Q4 2019 resulted primarily from operating income related to the U.S. entities and the income tax recovery in Q4 2018 resulted primarily from an operating loss related to the U.S. entities. Income tax in partner's hands was an expense of \$0.1 million in Q4 2019 compared to \$11.6 million in Q4 2018.

Net Income (Loss)

Net loss was \$6.1 million in Q4 2019 compared to net income of \$38.0 million in Q4 2018, a decrease of \$44.1 million. The decrease was primarily due to a change in other expense of \$63.2 million, higher income tax expense of \$2.8 million and consulting costs related to operational transformation initiatives of \$2.4 million, partially offset by higher Adjusted EBITDA of \$21.5 million as discussed above, and a decrease in interest expense of \$2.6 million.

Segment Information Q4 2019 compared to Q4 2018

(C\$ millions, unless otherwise noted)	Q4 2019	Restated Q4 2018	Q4 2019 vs. Q4 2018	
			\$ Change	% Change
Segment Revenue				
Consumer	285.6	300.7	(15.1)	-5.0%
AFH	62.5	58.6	3.9	6.7%
Total segment revenue	348.1	359.3	(11.2)	-3.1%
Adjusted EBITDA				
Consumer	47.4	29.7	17.7	
AFH	(1.1)	(3.9)	2.8	
Corporate and other costs	(0.3)	(1.3)	1.0	
Total Adjusted EBITDA	46.0	24.5	21.5	

Consumer Segment

Q4 2019 compared to Q4 2018

Consumer segment revenue was \$285.6 million in Q4 2019 compared to \$300.7 million in Q4 2018, a decrease of \$15.1 million or 5.0%. The decrease in revenue was primarily due to lower Mexico volume resulting from the sale of GTM shares in Q3 2019, partially offset by higher sales volume in Canada and price increases in the U.S. and Canada. Consumer segment revenue increased in Canada and decreased slightly in the U.S. as a result of lower sales volume compared to Q4 2018.

Consumer Segment Adjusted EBITDA was \$47.4 million in Q4 2019 compared to \$29.7 million in Q4 2018, an increase of \$17.7 million. The increase was primarily due to lower fibre costs, favourable sales mix and the price increases, partially offset by higher SG&A expenses.

AFH Segment

Q4 2019 compared to Q4 2018

AFH segment revenue was \$62.5 million in Q4 2019 compared to \$58.6 million in Q4 2018, an increase of \$3.9 million or 6.7%. The increase was primarily due to selling price increases and higher sales volume. AFH segment revenue increased in both the U.S. and Canada.

AFH Segment Adjusted EBITDA was a loss of \$1.1 million in Q4 2019 compared to loss of \$3.9 million in Q4 2018, an improvement of \$2.8 million. The improvement was primarily due to lower fibre costs, the benefit from price increases and higher sales volume, partially offset by higher outsourced paper and freight costs resulting from production inefficiencies, and higher warehousing and SG&A costs.

Corporate and Other Costs

Q4 2019 compared to Q4 2018

Corporate and other costs previously included revenue and profit (loss) associated with the sales of parent rolls and recycled fibre, which were considered an "Other" segment. Any associated profit (loss) is now included in Consumer or AFH segments as appropriate. Corporate and other costs currently includes certain overhead costs and timing adjustments for certain manufacturing costs included in inventory not allocated to the Consumer and AFH segments.

Corporate and other costs were \$0.3 million in Q4 2019 compared to \$1.3 million in Q4 2018, a decrease of \$1.0 million, as the timing adjustments in inventory partially offset the overhead costs.

SHARE INFORMATION

KPT's authorized share capital consists of an unlimited number of Common Shares. As of March 11, 2020, there were 9,660,698 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 11, 2020 for Common Shares, it would hold approximately 85.0% of the issued and outstanding Common Shares. As of March 11, 2020, 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 11, 2020, there were 64,309,315 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 2019 Annual Information Form dated March 13, 2020 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 2019 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, 2019, 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, 2019, 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, 2019 AND DECEMBER 31, 2018



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 Company) as at December 31, 2019 and 2018, 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 Company's financial statements comprise:

- the statements of financial position as at December 31, 2019 and 2018;
- 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 a summary of significant accounting policies.

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 Company 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.

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.

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



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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company'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 Company'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 Company'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 Company 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.

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.

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

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
March 11, 2020

KP Tissue Inc.

Statement of Financial Position

(tabular amounts are in thousands of Canadian dollars)

	December 31, 2019 \$	Restated (note 13) December 31, 2018 \$	Restated (note 13) January 1, 2018 \$
Assets			
Current assets			
Distributions receivable	1,733	1,694	1,658
Receivable from Partnership	247	269	-
Income taxes recoverable	-	230	826
	1,980	2,193	2,484
Non-current assets			
Investment in associate (note 6)	81,052	99,421	94,952
Total assets	83,032	101,614	97,436
Liabilities			
Current liabilities			
Dividend payable (note 8)	1,733	1,694	1,658
Payable to Partnership	-	-	52
Current portion of advances from Partnership (note 7)	80	-	309
Income tax payable	944	-	-
	2,757	1,694	2,019
Non-current liabilities			
Advances from Partnership (note 7)	-	269	731
Deferred income taxes (note 7)	3,158	3,634	515
Total liabilities	5,915	5,597	3,265
Equity			
Common shares (note 8)	18,997	17,090	15,014
Contributed surplus	144,819	144,819	144,819
Deficit	(100,696)	(82,269)	(77,706)
Accumulated other comprehensive income	13,997	16,377	12,044
Total equity	77,117	96,017	94,171
Total liabilities and equity	83,032	101,614	97,436
Subsequent events (note 8)			

Approved by the Board of Directors

/s/ James Hardy
Director

/s/ Michael Korenberg
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, 2019 and December 31, 2018

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

	2019	2018
	\$	\$
Equity income (loss) (note 6)	(5,375)	1,390
Dilution gain (note 8)	574	196
Income (loss) before income taxes	(4,801)	1,586
Income taxes (note 7)	1,727	1,759
Net loss for the year	(6,528)	(173)
Other comprehensive income (loss)		
net of tax expense (recovery) (note 9)		
Items that will not be reclassified to net loss:		
Remeasurements of pensions	(4,769)	2,334
Remeasurements of post-retirement benefits	(200)	776
Items that may be subsequently reclassified to net loss:		
Cumulative translation adjustment	(2,380)	4,333
Total other comprehensive income (loss) for the year	(7,349)	7,443
Comprehensive income (loss) for the year	(13,877)	7,270
Basic loss per share	(0.68)	(0.02)
Weighted average number of shares outstanding	9,542,384	9,319,683

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, 2019 and December 31, 2018

(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, 2018 Restated (note 13)	9,212,913	15,014	144,819	(77,706)	12,044	94,171
KPT's portion of KPLP change in accounting policy IFRS 15 (note 4)	-	-	-	(748)	-	(748)
Restated total equity as of January 1, 2018	9,212,913	15,014	144,819	(78,454)	12,044	93,423
Issuance of common shares (note 8)	196,294	2,040	-	-	-	2,040
Dividends payable (note 8)	-	-	-	(1,694)	-	(1,694)
Dividends paid (note 8)	-	-	-	(5,022)	-	(5,022)
Fair value adjustment	-	36	-	(36)	-	-
Remeasurements of pensions	-	-	-	2,334	-	2,334
Remeasurements of post-retirement benefits	-	-	-	776	-	776
Cumulative translation adjustment	-	-	-	-	4,333	4,333
Net loss for the year	-	-	-	(173)	-	(173)
As of December 31, 2018 Restated (note 13)	9,409,207	17,090	144,819	(82,269)	16,377	96,017
As of January 1, 2019 Restated (note 13)	9,409,207	17,090	144,819	(82,269)	16,377	96,017
Issuance of common shares (note 8)	216,946	1,853	-	-	-	1,853
Dividends payable (note 8)	-	-	-	(1,733)	-	(1,733)
Dividends paid (note 8)	-	-	-	(5,143)	-	(5,143)
Fair value adjustment	-	54	-	(54)	-	-
Remeasurements of pensions	-	-	-	(4,769)	-	(4,769)
Remeasurements of post-retirement benefits	-	-	-	(200)	-	(200)
Cumulative translation adjustment	-	-	-	-	(2,380)	(2,380)
Net loss for the year	-	-	-	(6,528)	-	(6,528)
As of December 31, 2019	9,626,153	18,997	144,819	(100,696)	13,997	77,117

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

KP Tissue Inc.

Statement of Cash Flows

For the years ended December 31, 2019 and December 31, 2018

(tabular amounts are in thousands of Canadian dollars)

	2019 \$	2018 \$
Cash flows from (used in) operating activities		
Net loss for the year	(6,528)	(173)
Items not affecting cash		
Equity (income) loss	5,375	(1,390)
Dilution gain	(574)	(196)
Income taxes	1,727	1,759
Total items not affecting cash	6,528	173
Net change in non-cash working capital (note 11)	189	-
Tax refunds	-	462
Advances received	-	274
Advances paid	(189)	(736)
Net cash from (used in) operating activities	-	-
Cash flows from investing activities		
Partnership unit distributions received	4,984	4,640
Net cash from investing activities	4,984	4,640
Cash flows used in financing activities (note 12)		
Dividends paid (note 8)	(4,984)	(4,640)
Net cash used in financing activities	(4,984)	(4,640)
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, 2019 and December 31, 2018

(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, 2019, the Corporation held a 15.2% (December 31, 2018 – 15.8%) 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, 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 11, 2020.

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 year-end 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.

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

KP Tissue Inc.
Notes to Financial Statements
December 31, 2019 and December 31, 2018

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

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 and IAS 8, Definition of Material. In October 2018, the IASB issued amendments to the definition of material in IAS 1 and IAS 8 and provide guidance to improve consistency in the application of the concept whenever it is used. The mandatory effective date would be annual periods beginning on or after January 1, 2020, with early adoption permitted. The amended standards are not expected to have an impact on the financial statements.
- (ii) IFRS 3, Definition of a Business. In October 2018, the IASB issued an amendment that revises the definition of a business. The amendment aims to resolve the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The mandatory effective date would be annual periods beginning on or after January 1, 2020, with early adoption permitted. The amended standard is not expected to have an impact on the financial statements.

KP Tissue Inc.

Notes to Financial Statements

December 31, 2019 and December 31, 2018

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

4 KPT's portion of KPLP change in accounting policy

KPLP adopted IFRS 15, Revenue from Contracts with Customers on January 1, 2018 using the modified retrospective approach. The adoption of this standard had no significant impact on the consolidated financial statements of KPLP. The application of IFRS 15 resulted in a change in KPLP's revenue recognition related to dispensers and related revenue. KPLP recorded a transitional adjustment of \$6.3 million in the deficit, to reduce the balance related to the dispensers recorded in Other long term assets at December 31, 2017. KPT's portion of KPLP's transitional adjustment was \$0.7 million, net of tax, and was recognized in KPT's deficit on January 1, 2018.

KPLP adopted IFRS 16, Leases on January 1, 2019 using the full retrospective approach. The adoption of this standard had a significant impact on the consolidated financial statements of KPLP. IFRS 16 requires lessees to recognize a right-of-use asset and a lease liability reflecting future lease payments for virtually all lease contracts. The right-of-use asset and lease liability were material to the consolidated statement of financial position of KPLP. There was no material impact on KPLP's net income or cash flow. KPLP recorded a transitional adjustment at January 1, 2019, on adoption of IFRS 16. Accordingly, KPT has recorded a portion of KPLP's transitional adjustment at January 1, 2019 (refer to note 13 for additional information).

5 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 three of nine 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 the investment may be impaired. Under IFRS, the Corporation did not perform an impairment test at December 31, 2019, as there were no events or changes in circumstances to indicate that the investment may be impaired.

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.

KP Tissue Inc.
Notes to Financial Statements
December 31, 2019 and December 31, 2018

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

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.

6 Investment in associate

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

	December 31, 2019	Restated (note 13) December 31, 2018
	\$	\$
Opening balance	99,421	94,952
KPT's portion of KPLP change in accounting policy IFRS 15 (note 4)	-	(1,010)
Investment in associate	1,853	2,040
Share of income	325	7,208
Depreciation of fair value increments	(5,700)	(5,818)
Share of other comprehensive income (loss)	(8,545)	8,878
Dilution gain	574	196
Tax Distribution	-	(309)
Partnership unit distributions	(6,876)	(6,716)
Closing balance	<u>81,052</u>	<u>99,421</u>

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

	2019	2018
	\$	\$
Share of income	325	7,208
Depreciation of fair value increments	(5,700)	(5,818)
	<u>(5,375)</u>	<u>1,390</u>

The following summarizes financial information about the assets, liabilities, revenue and net income of KPLP, in which the Corporation held a 15.2% interest as of December 31, 2019 (December 31, 2018 – 15.8%). The financial information was derived from the consolidated financial statements of KPLP for the year ended December 31, 2019. 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, 2019 and December 31, 2018

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

	December 31, 2019		
	KPLP basis of accounting	FV increment	KPT basis of accounting
	\$	\$	\$
Current assets	382,009	-	382,009
Non-current assets	1,241,602	426,181	1,667,783
Liabilities to non-unitholders	1,175,294	-	1,175,294
Partnership units liability	143,515	-	143,515
Net assets	304,802		

	Year ended December 31, 2019
	\$
Revenue	1,434,113
Net income	2,098
Other comprehensive loss	(51,570)
Total comprehensive loss	(49,472)

	Restated (notes 4 and 13) December 31, 2018		
	KPLP basis of accounting	FV increment	KPT basis of accounting
	\$	\$	\$
Current assets	505,032	-	505,032
Non-current assets	1,091,286	466,047	1,557,333
Liabilities to non-unitholders	1,112,983	-	1,112,983
Partnership units liability	116,524	-	116,524
Net assets	366,811		

	Year ended December 31, 2018
	\$
Revenue	1,370,432
Net income	45,406
Other comprehensive income	50,505
Total comprehensive income	95,911

KP Tissue Inc.
Notes to Financial Statements
December 31, 2019 and December 31, 2018

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

			Restated (notes 4 and 13)
			January 1, 2018
	KPLP basis of	FV increment	KPT basis of
	accounting		accounting
	\$	\$	\$
Current assets	322,469	-	322,469
Non-current assets	1,073,962	497,088	1,571,050
Liabilities to non-unitholders	935,918	-	935,918
Partnership units liability	160,309	-	160,309
Net assets	300,204		

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

	December 31, 2019	Restated (note 13)
	\$	December 31, 2018
	\$	\$
KPLP consolidated equity	304,802	366,811
Add back: Inception value of Partnership units liability	118,562	118,562
Less: Equity pertaining to Kruger Inc. and KPGP	(283,700)	(333,030)
Equity pertaining to KPT	139,664	152,343
Investment in associate recorded in KPT	81,052	99,421
Reconciling difference	58,612	52,922
Reconciling items since inception:		
Equity issuance costs	(11,110)	(11,110)
Depreciation of FV increments	43,147	37,447
Currency translation adjustment in fair value increments	(3,362)	(3,926)
Tax Distribution	3,875	3,875
Gain on exercise of overallotment option	(375)	(375)
Dilution gain	(1,563)	(989)
Impairment in investment in associate	28,000	28,000
	-	-

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, 2019, April 15, 2019, July 15, 2019, and October 15, 2019, in connection with the Corporation Distribution Reinvestment Plan (DRIP), the portion of the distributions received by the shareholders was used to acquire an additional 216,946 units of KPLP for proceeds of \$1.9 million (note 8).

Impairment test

Under IFRS, the Corporation did not perform an impairment test at December 31, 2019, as there were no events or changes in circumstances to indicate that the investment may be impaired.

7 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

KP Tissue Inc.
Notes to Financial Statements
December 31, 2019 and December 31, 2018

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

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:

	2019	2018
	\$	\$
Current tax expense	1,007	75
Deferred tax expense	720	1,684
	<u>1,727</u>	<u>1,759</u>

Details of the provision for income taxes were as follows:

	2019	2018
	\$	\$
Income tax at statutory rate of 26%	(1,248)	412
Permanent differences and other	28	64
Dilution gain	(149)	(51)
Taxed in hands of subsidiaries	287	593
Realization of previously unrecognized tax attributes	1,698	1,895
Change in basis of investment in associate	1,111	(1,154)
	<u>1,727</u>	<u>1,759</u>

Components of the deferred income tax liability were as follows:

	December 31, 2019	Restated (note 13) December 31, 2018
	\$	\$
Deferred tax liability (asset)		
ROU assets and lease liabilities	(965)	(968)
Pensions	(366)	(253)
Partnership units liability	(1,953)	(890)
Property, plant and equipment	6,818	5,995
Other	(376)	(250)
	<u>3,158</u>	<u>3,634</u>

The analysis of the deferred tax liability were as follows:

	December 31, 2019	Restated (note 13) December 31, 2018
	\$	\$
Deferred tax liabilities to be realized greater than 12 months	3,158	3,634
	<u>3,158</u>	<u>3,634</u>

In addition to the above, the Corporation has a deferred tax asset of \$6.4 million (December 31, 2018 - \$4.2 million) related to the Investment in associate which has not been recognized in the financial statements for the year ended December 31, 2019.

KP Tissue Inc.
Notes to Financial Statements
December 31, 2019 and December 31, 2018

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

The movement in the deferred tax liability was as follows:

	Year ended December 31, 2019	Year ended December 31, 2018
	\$	\$
Opening balance	3,634	515
Charge to net loss	720	1,684
Charge to other comprehensive income (loss)		
- remeasurements of cumulative translation adjustment	(355)	647
Charge to other comprehensive income (loss)		
- remeasurements of post-retirement benefits	(128)	420
Charge to other comprehensive income (loss)		
- remeasurements of pensions	(713)	368
	<u>3,158</u>	<u>3,634</u>

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 partners is entitled to its share of the Tax Distribuion made in respect of any given year.

On February 28, 2018, KPT received a Tax Distribution of \$0.3 million from KPLP for purposes of settling its obligation for federal and provincial taxes, for the year ended December 31, 2017. The Tax Distribution was used to partially settle the advances to KPT recorded during the year ended December 31, 2017. The excess advance over KPT's portion of the Tax Distribution, in the amount of \$0.7 million, was repaid by KPT to KPLP during the year ended December 31, 2018. During the year ended December 31, 2018, KPT received an advance from KPLP of \$0.3 million. The advance in the amount of \$0.2 million was repaid by KPT to KPLP during the year ended December 31, 2019. The remaining advance in the amount of \$0.1 million was repaid by KPT to KPLP by offsetting the Tax Distribution received on February 28, 2020.

KPT incurred a loss for tax purposes for the year ended December 31, 2018 and as a result no Tax Distribution was declared on February 28, 2019. As a result of the 2018 loss for tax purposes, KPT is not required to pay monthly tax instalments and as a result did not require any advances from KPLP during the year ended December 31, 2019.

On February 28, 2020, KPT received a Tax Distribution of \$0.8 million from KPLP for purposes of settling its obligation for federal and provincial taxes, for the year ended December 31, 2019, and to settle the outstanding advance as described above.

KP Tissue Inc.
Notes to Financial Statements
December 31, 2019 and December 31, 2018

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

8 Dividends

During the years ended December 31, 2019 and December 31, 2018, 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:

				2019
	Dividends paid	Share price	Issuance of	Gross proceeds
Dividend Payment Date	\$	\$	Common shares	\$
			#	
January 15, 2019	1,694	8.36	65,308	546
April 15, 2019	1,705	8.70	48,921	426
July 15, 2019	1,714	8.16	53,328	435
October 15, 2019	1,724	9.04	49,389	446
	<u>6,837</u>		<u>216,946</u>	<u>1,853</u>
				2018
	Dividends paid	Share price	Issuance of	Gross proceeds
Dividend Payment Date	\$	\$	Common shares	\$
			#	
January 15, 2018	1,658	13.50	38,122	514
April 16, 2018	1,665	10.70	47,482	508
July 16, 2018	1,674	9.72	50,670	493
October 15, 2018	1,683	8.74	60,020	525
	<u>6,680</u>		<u>196,294</u>	<u>2,040</u>

On January 15, 2020, the Corporation paid a dividend of \$1.7 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 34,545 common shares at a price of \$9.84.

Subsequent to December 31, 2019, the Corporation declared a dividend of \$0.18 per common share to shareholders, payable on April 15, 2020.

As a result of the DRIP and Kruger's reinvestment of its distribution from KPLP in units of KPLP, a dilution gain of \$0.6 million was recorded during the year ended December 31, 2019 (year ended December 31, 2018 - \$0.2 million).

KP Tissue Inc.
Notes to Financial Statements
December 31, 2019 and December 31, 2018

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

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

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

	2019	2018
	\$	\$
Items that will not be reclassified to net loss:		
Remeasurements of pensions	(5,482)	2,702
Income tax recovery (expense)	713	(368)
Net of income tax recovery (expense)	(4,769)	2,334
 Remeasurements of post-retirement benefits	 (328)	 1,196
Income tax recovery (expense)	128	(420)
Net of income tax recovery (expense)	(200)	776
 Items that may be subsequently reclassified to net loss:		
Cumulative translation adjustment	(2,735)	4,980
Income tax recovery (expense)	355	(647)
Net of income tax recovery (expense)	(2,380)	4,333
Total other comprehensive income (loss) for the year	(7,349)	7,443

10 Economic dependence

The Corporation was created to acquire, and its business is limited to holding, a limited partnership interest in the Partnership, which is accounted for as an investment in an associate using the equity method of accounting. As such, the Corporation is economically dependent on the Partnership and exposed to all the risks associated with the business of the Partnership, including, but not limited to, liquidity risk.

11 Non-cash working capital

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

	2019	2018
	\$	\$
Decrease (increase) in receivable from the Partnership	22	(269)
Decrease in income taxes	167	321
Decrease in payable to Partnership	-	(52)
	189	-

KP Tissue Inc.
Notes to Financial Statements
December 31, 2019 and December 31, 2018

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

12 Cash flows used in financing activities

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

	Dividend payable \$	Common shares \$	Total \$
As of January 1, 2018	1,658	15,014	16,672
Dividends paid	(6,680)	2,040	(4,640)
Movements not in financing activities	6,716	36	6,752
As of December 31, 2018	1,694	17,090	18,784
As of January 1, 2019	1,694	17,090	18,784
Dividends paid	(6,837)	1,853	(4,984)
Movements not in financing activities	6,876	54	6,930
As of December 31, 2019	1,733	18,997	20,730

KP Tissue Inc.
Notes to Financial Statements
December 31, 2019 and December 31, 2018

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

13 IFRS 16 Transition reconciliation

The following are reconciliations from the previous lease recognition guidance in IAS 17, to the new standard on leases, IFRS 16, adopted January 1, 2019. Reconciliations are provided for the statement of financial position at December 31, 2018 and January 1, 2018. Refer to note 4 for additional information.

	December 31, 2018			January 1, 2018		
	IAS 17	Transition effect	IFRS 16	IAS 17	Transition effect	IFRS 16
	\$	\$	\$	\$	\$	\$
Assets						
Current assets						
Distributions receivable	1,694	-	1,694	1,658	-	1,658
Receivable from Partnership	269	-	269	-	-	-
Income taxes recoverable	230	-	230	826	-	826
	<u>2,193</u>	<u>-</u>	<u>2,193</u>	<u>2,484</u>	<u>-</u>	<u>2,484</u>
Non-current assets						
Investment in associate	103,143	(3,722)	99,421	98,674	(3,722)	94,952
Total assets	<u>105,336</u>	<u>(3,722)</u>	<u>101,614</u>	<u>101,158</u>	<u>(3,722)</u>	<u>97,436</u>
Liabilities						
Current liabilities						
Dividend payable	1,694	-	1,694	1,658	-	1,658
Payable to Partnership	-	-	-	52	-	52
Current portion of advances from Partnership	-	-	-	309	-	309
	<u>1,694</u>	<u>-</u>	<u>1,694</u>	<u>2,019</u>	<u>-</u>	<u>2,019</u>
Non-current liabilities						
Advances from Partnership	269	-	269	731	-	731
Deferred income taxes	4,602	(968)	3,634	1,483	(968)	515
Total liabilities	<u>6,565</u>	<u>(968)</u>	<u>5,597</u>	<u>4,233</u>	<u>(968)</u>	<u>3,265</u>
Equity						
Common shares	17,090	-	17,090	15,014	-	15,014
Contributed surplus	144,819	-	144,819	144,819	-	144,819
Deficit	(79,515)	(2,754)	(82,269)	(74,952)	(2,754)	(77,706)
Accumulated other comprehensive income	16,377	-	16,377	12,044	-	12,044
Total equity	<u>98,771</u>	<u>(2,754)</u>	<u>96,017</u>	<u>96,925</u>	<u>(2,754)</u>	<u>94,171</u>
Total liabilities and equity	<u>105,336</u>	<u>(3,722)</u>	<u>101,614</u>	<u>101,158</u>	<u>(3,722)</u>	<u>97,436</u>



SHAREHOLDER INFORMATION

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Toronto Stock Exchange
Stock Symbol: KPT

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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, law, finance, accounting and capital markets.

Michael Korenberg (Chair and Independent Director)^{(1) (3) (4)}
James Hardy (Independent Director)^{(1) (3) (4) (5)}
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
- ⁽⁵⁾ Chair of the Corporation Audit Committee and the KPGP Audit 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 crisis, the Corporation has decided to hold the Annual Meeting of Shareholders in a virtual-only format which will be conducted via live webcast online at <http://web.lumiagm.com/297479061> on June 4, 2020 at 3:00 p.m. (EST).

DESIGNED AND WRITTEN BY

MaisonBrison Communications

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TRUSTED AND BEST LOVED TISSUE
COMPANY IN NORTH AMERICA.

Making everyday life more comfortable.



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