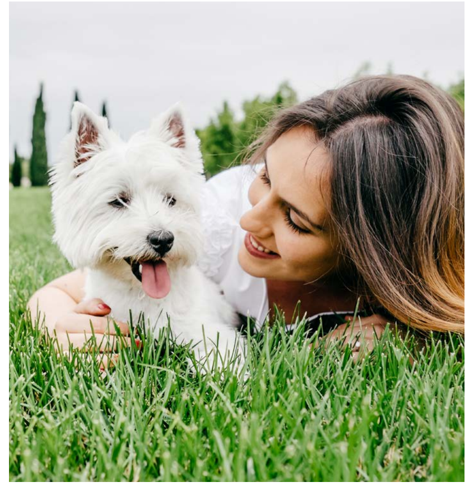


INVESTING
IN OUR BUSINESS TO DRIVE
LONG-TERM VALUE

KP

2022 ANNUAL REPORT

KP

KP Tissue Inc.

2,700	**9**	**13**	**73**
EMPLOYEES	PRODUCTION FACILITIES	PAPER MACHINES	CONVERTING LINES

Kruger Products is Canada's leading manufacturer of quality tissue products for household, industrial and commercial use. Kruger Products serves the Canadian consumer market with such well-known brands as **Cashmere®**, **Bonterra™**, **Purex®**, **SpongeTowels®**, **Scotties®** and **White Swan®**. In the U.S., Kruger Products 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. Kruger Products has approximately 2,700 employees and operates nine FSC® COC-certified (FSC® C-104904) production facilities in North America.

KPT (the Corporation) holds an equity interest in Kruger Products. 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 Kruger Products.

On January 1, 2023, Kruger Products L.P. (KPLP) undertook a corporate reorganization pursuant to which the limited partnership was essentially replaced by a corporate entity, Kruger Products Inc. (Kruger Products), without adversely affecting KP Tissue (KPT). KPT held a minority interest in KPLP of 13.9% as at December 31, 2022 and in Kruger Products of 13.5% as at May 11, 2023.

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.

FISCAL 2022 CORPORATE HIGHLIGHTS

REVENUE OF $1.7 BILLION UP 14.8% FROM 2021

Revenue increased year-over-year mainly due to selling price increases across all segments and regions, significantly higher Away-from-home sales volume, and a favourable foreign exchange impact.

ADJUSTED EBITDA[1] OF $116.0 MILLION DOWN 24.4% FROM 2021

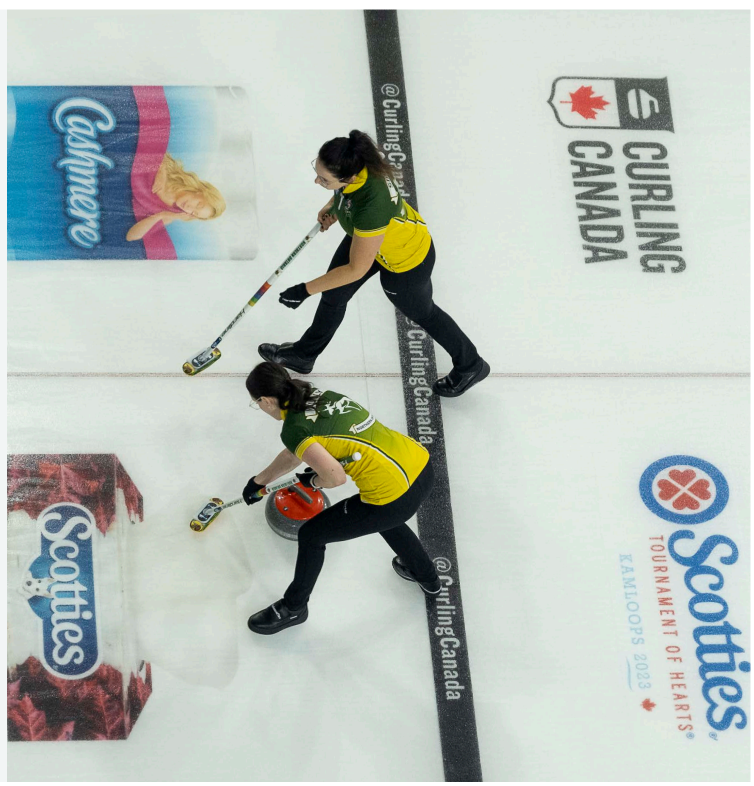
Adjusted EBITDA decreased year-over-year as price adjustments did not fully catch up to inflation until later into the year, while cost management initiatives helped mitigate the impact.

NET LOSS OF $56.9 MILLION COMPARED TO NET INCOME OF $42.0 MILLION IN 2021

Net loss incurred primarily due to lower Adjusted EBITDA, reduced income tax recovery, higher foreign exchange loss and greater depreciation expense.

2022 REVENUE BY SEGMENT

2022 REVENUE BY GEOGRAPHY



[1] Adjusted EBITDA is a non-GAAP financial measure. This measure does 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.

FINANCIAL PERFORMANCE[(1)]

(In millions of Canadian dollars)

For the years ended December 31	**2022**	2021	2020	2019	2018[(2)]
Net income	**(56.9)**	42.0	27.3	2.1	45.4
Working capital	**116.4**	146.4	53.7	97.3	219.3
Long-term debt	**1077.3**	920.3	744.0	586.1	564.0
Net debt/LTM adjusted EBITDA [(3)]	**8.9x**	5.3x	3.2x	3.4x	4.0x

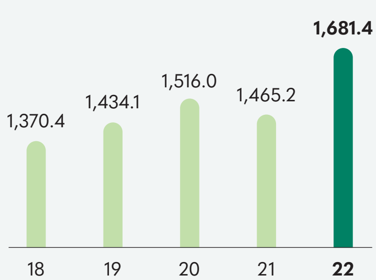
(1) All financial data presented herein are related to Kruger Products unless otherwise noted and have been prepared in accordance with IFRS. For the year ended December 31, 2022, KPT reported an equity loss of $13.3 million, net loss of $10.2 million and net loss per share of $1.03. For more information, refer to the KPT Audited Financial Statements for the period ended December 31, 2022.

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

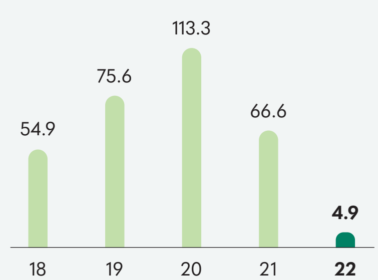
(3) Adjusted EBITDA and Adjusted EBITDA margin are non-GAAP financial measures. These measures do not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similarly titled measures presented by other companies. Refer to the MD&A for the definition and reconciliation of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

* Including Mexico business divested in September 2019.

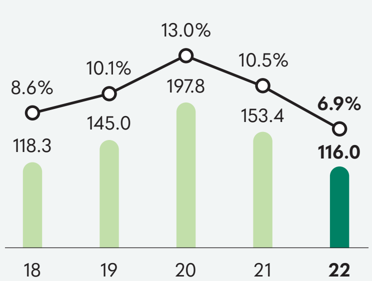
REVENUE* [(1)]
(in millions of Canadian dollars)



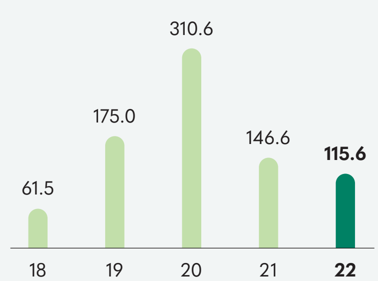
OPERATING INCOME
(in millions of Canadian dollars)



ADJUSTED EBITDA[(3)], ADJUSTED EBITDA MARGIN[(3)]
(in millions of Canadian dollars, %)



CAPITAL EXPENDITURES
(in millions of Canadian dollars)



MESSAGE TO SHAREHOLDERS

Dino Bianco
Chief Executive Officer

Dear Shareholders,

Fiscal 2022 proved to be a year of recovery despite uncertain market conditions and persistent inflationary pressure. Revenue increased 15% year-over-year to $1.7 billion in 2022 mainly due to selling price increases across all segments and regions to counter higher pulp, manufacturing and freight costs.

To provide some context, NBSK and BEK average prices soared 26% and 37%, respectively, in 2022, on top of double-digit increases in 2021. We also witnessed escalating freight, natural gas, packaging, chemical, and labour costs during the past year. Altogether, we estimate inflation raised our cost base by an additional $180 million in 2022.

Accordingly, Adjusted EBITDA[1] declined to $116 million in 2022 as price increases did not fully catch up to inflation until later into the year, while cost management initiatives helped mitigate the impact. These initiatives mainly consisted of reducing capital spending, lowering inventory levels, eliminating discretionary spending, and making productivity gains. In short, we adopted a multi-faceted strategy to return to profitable growth in 2023.

[1] Adjusted EBITDA is a non-GAAP financial measure. This measure does 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.

Despite inflationary pressure, we continued to invest in our business to drive long-term value in 2022. Production capacity at TAD Sherbrooke exceeded ramp-up plans. We recently deployed artificial intelligence (AI) at this site to maximize reliability and uptime.

NETWORK MODERNIZATION

Despite inflationary pressure, we continued to invest in our business to drive long-term value in 2022. Production capacity at TAD Sherbrooke exceeded ramp-up plans. We recently deployed artificial intelligence (AI) at this site to maximize reliability and uptime. Digital twin tools have also been expanded to include our TAD paper machine.

In terms of our Sherbrooke Expansion Project, we anticipate it will become a key, long-term catalyst with our bathroom and facial tissue lines starting up in 2023. The paper machine, meanwhile, is scheduled to be rolled out by the end of 2024. At this point, everything is tracking according to plan, but we are keeping a close eye on potential supply-chain issues and inflationary pressure.

Turning to our Memphis, Tennessee plant, we improved operating efficiency in January 2023 by permanently shutting down older assets, including a paper machine and six converting lines. Although this was a difficult decision, we closed down these assets because we saw no clear path to profitability in a highly competitive market.

The impact on US customers has been negligible as we refocused production capacity on TAD and facial tissue products. Enhanced operating efficiency from this shutdown will lead to a more efficient and profitable Memphis plant that will become a competitive advantage for us. The new facial tissue line that rolled out last summer continues to ramp up ahead of expectations. Operators have been hired and are quickly developing experience with the new machinery. As a result, we anticipate incremental growth opportunities in the U.S.

BRAND SUPPORT

Aligned with industry-wide trends, our Consumer segment experienced lower volume in the latter part of the year as some shoppers traded down on purchases due to higher pricing. Historically, these share fluctuations have returned to normal levels once inflation recedes. Kruger Products still maintains a comfortable leadership position in the bathroom and facial tissue markets in Canada, along with a well-entrenched No. 2 share in paper towels.

To support prices increases and innovations in 2022, we prudently invested in our brands. We continued to develop awareness and trial-building activities for established names, such as Cashmere®, Purex®, and SpongeTowels UltraPRO®, along with emerging ones like Bonterra™ and White Cloud®. Targeted campaigns were dedicated to the launch of Bonterra™, our new environmentally friendly line, and the relaunch of White Cloud® in the U.S. to highlight their key selling points. Managing price gaps following industry-wide price increases remains a key focus for our team.

Purpose-driven, community-focused initiatives also delivered strong results in the past year. The Kruger Big Assist program, which awards $200,000 annually to selected minor hockey associations across Canada, was supplemented by a Shopping Assist incentive to increase revenue. When consumers spent $25 on participating tissue products, they received a $10 gift card to drive in-store sales and mitigate prices increases.

Of particular note, our 19th Annual Cashmere® Collection returned to a live audience in late September, signalling the beginning of October's Breast Cancer Awareness Month. Clothing was fashioned entirely with new-and-improved Cashmere UltraLuxe® bathroom tissue.

AWAY-FROM-HOME

In the Away-from-Home segment, we benefited from significantly higher sales volume in 2022 as the business fully recovered post-pandemic. AFH revenue increased 40% year-over-year on the strength of pricing actions, a portfolio approach to targeting higher-margin segments, and aggressive expansion in the U.S. As a result, AFH Adjusted EBITDA[1] finished in positive territory at $7.4 million in 2022 with room for growth. I would add that our AFH segment is gradually moving towards a sustainable profit model.

SUSTAINABILITY

Our sustainable development plan—entitled Reimagine 2030—is based on the belief that profitable growth and sustainability are not mutually exclusive goals. We intend to grow our business while having a positive impact on the planet on a long-term basis. This strategy, which was implemented two years ago, consists of four pillars: Products Empower, Planet Conscious, Employee Impact and Community Embrace.

Our four key targets for 2030 are well-documented, but I want to highlight the tangible efforts that we are deploying to make this a better planet. Kruger Energy's two electric semi-trailer trucks have started carrying material and tissue products between Kruger Products facilities in Quebec. These trucks are among the first all-electric, class 8 vehicles operating in Canada and the first in the Canadian tissue industry. Their use is expected to eliminate 150,000 litres of fossil fuel, resulting in removing the equivalent GHG emissions of 90 cars annually from Canadian highways

We will keep you updated on our progress in our annual sustainability report.

REORGANIZATION OF KPLP

On January 1, 2023, KPLP undertook a corporate reorganization (the Reorganization) under which KPLP, a limited partnership, was essentially replaced by a corporate entity without adversely affecting KP Tissue. The Reorganization was undertaken to realize certain tax efficiencies for Kruger Products and to simplify its corporate structure and financial reporting. As a result of the Reorganization, Kruger Products, as the successor corporate entity to KPLP, now operates the business previously operated by KPLP. KP Tissue currently holds a 13.5% interest in Kruger Products.

LOOKING AHEAD

We are highly encouraged by the ongoing progress of our financial results. The actions undertaken on pricing, cost management and the Memphis redeployment are driving a path to profitable growth. We are also looking forward to additional leverage in our operating model through the Sherbrooke Expansion Project.

Looking ahead to 2023, we intend to deliver continued topline growth and improved profitability, while closely monitoring input costs and a fluctuating Canadian dollar.

WRAP-UP

In closing, I would like to thank all our employees for their dedication and resilience during what can best be described as a recovery year in 2022. I would also like to express my appreciation to consumers and customers for their deep loyalty to our brands. In addition, I want to acknowledge our Board of Directors for their wise counsel during the past year. Finally, many thanks to our shareholders for supporting our long-term growth strategy.

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

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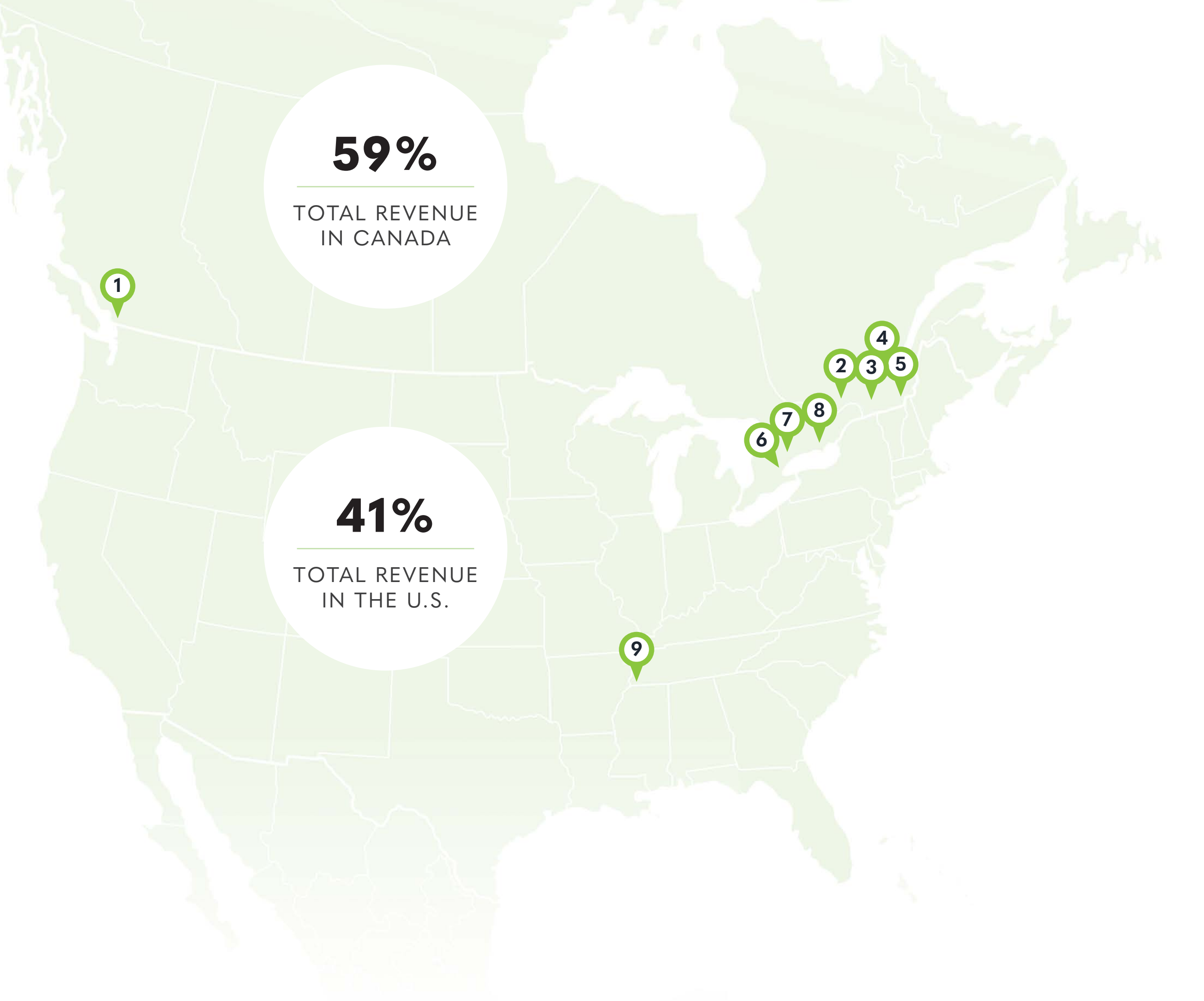
(1) Adjusted EBITDA is a non-GAAP financial measure. This measure does not have a standardized meaning prescribed by IFRS and, therefore, may not be comparable to similarly titled measures presented by other companies. Refer to the MD&A for the definition and reconciliation of Adjusted EBITDA.

INVESTING IN OUR NETWORK



1

PAPERMAKING & CONVERTING

NEW WESTMINSTER, BC

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

3

DEINKING, PULPING, PAPERMAKING & CONVERTING

CRABTREE, QC

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

2

PAPERMAKING & CONVERTING

GATINEAU, QC*

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

4

PAPERMAKING

LENNOXVILLE (SHERBROOKE), QC

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

Kruger Products has the largest combined annual production capacity of bathroom tissue, paper towels, facial tissue and napkins in Canada at approximately 350,000 metric tonnes, or 44%(1) of Canada's current production capacity. Across Canada and the United States, Kruger Products has a total annual production capacity of 435,000 metric tonnes.

Manufacturing plants in North America are strategically located in close proximity to customers and logistics providers, which enables operational flexibility and lower distribution costs. Kruger Products is also the only Canadian tissue company with manufacturing operations in Western Canada, which, in addition to lowering distribution costs, allows it to develop strong relationships with local suppliers and customers.

5 PAPERMAKING & CONVERTING
TAD SHERBROOKE, QC

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

6 CORPORATE HEADQUARTERS
MISSISSAUGA, ON

7 CONVERTING
SCARBOROUGH, ON

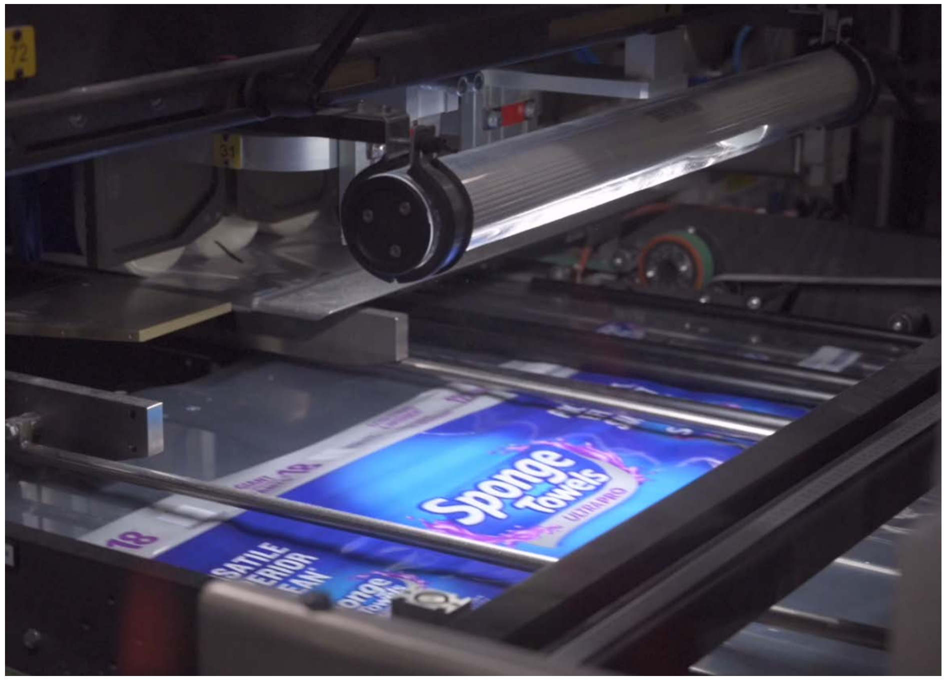
8 CONVERTING
TRENTON, ON

9 PAPERMAKING & CONVERTING
MEMPHIS, TENNESSEE

Produce more than
85,000 MT
of tissue products every year

(1) Based on RISI data.
* The Laurier facility (papermaking) and the Richelieu facility (converting).

NETWORK MODERNIZATION UPDATE



Network modernization represents a key element of our growth strategy. Investing in state-of-the-art machinery and artificial intelligence (AI) will enable us to scale up our product offering and grow market share in 2023 and beyond. As a result, we're investing in our business to create long-term value.

SHERBROOKE, QC

1

TAD Sherbrooke continued to exceed ramp-up plans for bathroom tissue and paper towels in Year 2 post-deployment. A $350-million investment in the Sherbrooke Expansion Project will become a reality in 2023 with the start up of a bathroom tissue line in the first quarter and facial tissue line in the fourth quarter. A paper machine, meanwhile, is slated to be rolled out by the end of 2024. At maturity, the LDC machine is expected to increase annual output by at least 60,000 metric tonnes.

MEMPHIS, TN

2

Operating efficiency greatly improved at the Memphis plant when older assets, including a paper machine and six converting lines, were shut down in early 2023. This difficult decision was made because there was no clear path to profitability. The impact on US customers was negligible as production capacity was redeployed towards TAD and facial tissue products. Going forward, this should create incremental growth opportunities in the U.S. market.

AWARDS AND RECOGNITIONS

These awards highlight our ongoing commitment to raise our status as a responsible corporate citizen. They also reflect the dedication and hard work of our employees, who make it a priority every day to better serve our customers, suppliers and community at large. As a result, we firmly believe the path to long-term shareholder value is built on meeting the needs of all stakeholders while growing the business.

Canada's Best Managed Companies for 5th consecutive year, Gold Member

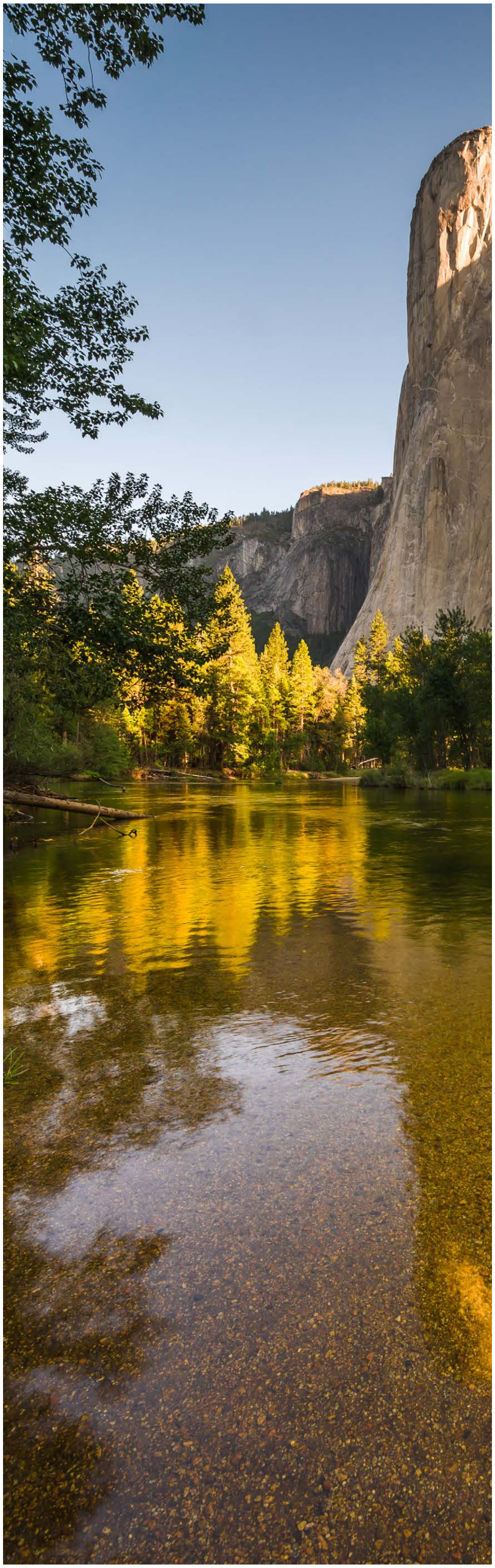
Corporate Knights' Best 50 Corporate Citizens in Canada for 5th consecutive year

Greater Toronto Area Top Employer for 10th consecutive year

Women In Governance, Bronze Level Parity Certification

Canadian Grocer Annual Impact Awards, Community Service for Kruger Big Assist

Product of the Year Canada, Household Paper Towel, SpongeTowels Ultra Pro



REIMAGINE 2030™

Kruger Products' 10-year sustainable development plan—Reimagine 2030—is based on growing the business while having a positive impact on the planet. This strategy builds upon the success of past programs and includes four pillars: Products Empower, Planet Conscious, Employee Impact and Community Embrace.

KEY TARGETS TO ACHIEVE BY 2030

- Reducing Scope 1 and 2 GHG emissions by 25% (intensity-based vs. 2009 benchmark)
- Lowering water consumption by 50% (intensity-based vs. 2009)
- Reducing virgin plastic packaging in branded products by 50% (intensity-based vs. 2020 baseline)
- Utilizing 100% third-party certified fibres in the manufacture of products

PROGRESS MADE IN 2022

13% REDUCTION IN SCOPE 1+2 GHG EMISSIONS (1)

38% REDUCTION OF WATER CONSUMPTION (1)

3% REDUCTION IN VIRGIN PLASTICS PACKAGING IN BRANDED PRODUCTS (2)

100% THIRD-PARTY CERTIFIED FIBERS

66% IMPROVEMENT IN EMPLOYEE HEALTH & SAFETY (3)

230+ THIRD PARTY CERTIFIED PRODUCTS

(1) Intensity-based versus 2009 Benchmark
(2) Intensity-based versus 2020 Benchmark
(3) OSHA Total incidence Rate since 2015 Benchmark

KP TISSUE INC. AND KRUGER PRODUCTS L.P.

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

FOR THE FOURTH QUARTER AND FISCAL YEAR ENDED DECEMBER 31, 2022

DATED MARCH 9, 2023

KP Tissue Inc. and Kruger Products L.P.
2 Prologis Blvd., Suite 500, Mississauga, Ontario L5W 0G8
www.kptissueinc.com

TABLE OF CONTENTS

The following Management's Discussion and Analysis (MD&A) dated March 9, 2023 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, 2022 and December 31, 2021, respectively, and the consolidated financial statements of KPLP for the years ended December 31, 2022 (Fiscal 2022) and December 31, 2021 (Fiscal 2021), 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. As of December 31, 2022, KPT held a 13.9% interest in KPLP. 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.

Subsequent to December 31, 2022, on January 1, 2023, KPLP undertook a corporate reorganization (the Reorganization) pursuant to which KPLP sold and assigned to its wholly-owned subsidiary, Kruger Products Inc. (Kruger Products), and Kruger Products purchased and assumed from KPLP, in exchange for common shares, all of the properties, operations, assets and liabilities of KPLP, and KPLP was subsequently dissolved and wound-up into its partners. As a result of the Reorganization, Kruger Products, as the successor corporate entity to KPLP, now operates the business previously operated by KPLP. Unless the context otherwise requires, references herein to "KPLP" are references to Kruger Products Inc. for the period following the Reorganization. KPT currently holds a 13.7% interest in Kruger Products. Refer to Business Highlights, Corporate Reorganization for additional details.

CAUTIONARY FORWARD LOOKING STATEMENT

Certain statements in this MD&A about KPT's and Kruger Products' 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 Sherbrooke Expansion Project (as defined below), the anticipated benefits of the Sherbrooke Expansion Project and the expected cost and dates for commencement of production of the Sherbrooke Expansion Project; Kruger Products' expansion efforts in U.S. premium private label; and Kruger Products' future business strategy and the anticipated benefits of its 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 Kruger Products. Although KPT and Kruger Products 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 Kruger Products' 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 Kruger Products) 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 Kruger Products' Business" section of the KPT Annual Information Form dated March 9, 2023 available on SEDAR at www.sedar.com (the Annual Information Form): Kruger Inc.'s influence over Kruger Products; Kruger Products' reliance on Kruger Inc.; consequences of an event of insolvency relating to Kruger Inc.; risks associated with the TAD Sherbrooke Project; risks associated with the Sherbrooke Expansion Project; operational risks; significant increases in input costs; reduction in supply of fibre; increased pricing pressure and intense competition; Kruger Products' inability to innovate effectively; adverse economic conditions; dependence on key retail trade customers; damage to the reputation of Kruger Products or Kruger Products' brands; Kruger Products' sales being less than anticipated; Kruger Products' failure to implement its business and operating strategies; Kruger Products' obligation to make regular capital expenditures; Kruger Products entering into unsuccessful acquisitions; Kruger Products' dependence on key personnel; Kruger Products' inability to retain its existing customers or obtain new customers; Kruger Products' loss of key suppliers; Kruger Products' failure to adequately protect its intellectual property rights; Kruger Products' reliance on third party intellectual property licenses; adverse litigation and other claims affecting Kruger Products; material expenditures due to comprehensive environmental regulation affecting Kruger Products' cash flow; Kruger Products' pension obligations are significant and can be materially higher than predicted if Kruger Products Management's underlying assumptions are incorrect; labour disputes adversely affecting Kruger Products' cost structure and Kruger Products' ability to run its plants; exchange rate and U.S. competitors; Kruger Products' inability to service all of its indebtedness; exposure to potential consumer product liability; covenant compliance; interest rate and refinancing risk; information technology; cyber-security; insurance; internal controls; trade related; and risk related to COVID-19.

These factors are not intended to represent a complete list of the factors that could affect KPT and/or Kruger Products; 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 Kruger Products cannot guarantee future results, levels of activity, performance, or achievements. Moreover, KPT and Kruger Products do not assume responsibility for the accuracy and completeness of the forward-looking statements. KPT and/or Kruger Products' 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 Kruger Products 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 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 Kruger Products 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

Kruger Products 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, Kruger Products is also a leader in the Canadian AFH market and has a considerable presence in the U.S. private label tissue market. The Consumer segment consists of well recognized brands such as *Cashmere, Purex, Scotties, SpongeTowels* and *Bonterra* in Canada and *White Cloud* in the United States.

Kruger Products is headquartered in Mississauga, Ontario and has approximately 2,700 employees across Canada and the United States. Kruger Products' Canadian paper manufacturing facilities, consisting of four tissue plants in Québec and one plant in British Columbia, have a combined annual tissue production capacity of approximately 350,000 metric tonnes which, according to RISI data, represents approximately 44% of Canada's annual production capacity.

On November 14, 2022, KPLP announced that certain older and inefficient production assets will be shut down at its U.S. manufacturing facility in January 2023, held in its wholly owned subsidiary K.T.G. (USA) Inc. (KTG), located in Memphis, Tennessee. Refer to Business Highlights, Shutdown of Certain Memphis Plant Production Assets for additional details. Following the shutdown, the Memphis manufacturing facility consists of one TAD paper machine (the Memphis TAD Machine) with an aggregate annual capacity of 55,000 metric tonnes and one adjacent Light Dry Crepe (LDC) paper machine with an aggregate annual capacity of 30,000 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 Reorganization and participation by Kruger Products' shareholders in the Kruger Products DRIP on January 16, 2023, KPT held 13.7% of the Kruger Products class B common shares (the Kruger Products Common Shares). Refer to Business Highlights, Corporate Reorganization for additional details.

Basis of Presentation

The consolidated financial statements of KPLP presented for Fiscal 2022 and Fiscal 2021 and the financial statements of KPT presented for the years ended December 31, 2022 and 2021, respectively, have each been prepared in accordance with IFRS (International Financial Reporting Standards).

Accounting Periods

This MD&A includes financial information for the 3-month periods ended December 31, 2022 (Q4 2022) and December 31, 2021 (Q4 2021), respectively, and Fiscal 2022 and Fiscal 2021.

Non-GAAP Financial Measures

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

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

Outlook

Kruger Products is committed to building its consumer brands and developing innovative products for its retail and commercial customers. Kruger Products' strategy is to maintain its leadership position in the Canadian market. Though the Canadian tissue market is expected to remain competitive, Kruger Products believes that its brands and products are well positioned for continued growth. Kruger Products 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.

Kruger Products also expects to continue to grow by leveraging its Through Air Dry (TAD) product capabilities in Canada and the United States and focusing on the high-end private label business in the U.S. market. Kruger Products' U.S. strategy also includes the expansion of the White Cloud brand to additional U.S. retailers.

Refer to Business Highlights, Sherbrooke Expansion Project for additional details.

Factors Affecting the Results of Operations

Revenue

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

KPLP has two reportable business segments: (i) consumer products sold through traditional retail channels such as grocery stores, mass merchandisers, club stores, drug stores and convenience stores (Consumer) and (ii) AFH. The Consumer segment includes sales of branded tissue products such as *Cashmere*, *Purex*, *Scotties*, *SpongeTowels*, *Bonterra* and *White Cloud*. AFH sells commercial tissue products primarily through distributors to businesses involved in property management, health care, food service, manufacturing and lodging, and to other public facilities. Certain management overhead costs not directly attributable to the business segments are reported as Corporate and other costs.

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

Cost of Sales

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

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

Selling, General and Administrative Expenses

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

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

Interest Expense and Other Finance Costs

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

Other Income (Expense)

Other income (expense) includes foreign exchange gains and losses related to U.S. dollar denominated debt, the change in amortized cost of Partnership units liability, the change in fair value of derivatives 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 2022 and Fiscal 2021. 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 and Luxembourg. Effective December 15, 2022, TAD Luxembourg S.A.R.L., a principal subsidiary of KPLP, filed a certificate of conversion to continue out of a Luxembourg limited liability company to a Delaware corporation. On December 15, 2022, the name of the company was changed from TAD Luxembourg S.A.R.L. to K.T.G. US Holdco Inc.

BUSINESS HIGHLIGHTS

Sherbrooke Expansion Project

On February 26, 2021, KPLP announced an investment of $240 million to expand the Sherbrooke operations with a LDC tissue machine and two new production lines as well as the construction of a new tissue manufacturing facility (the Sherbrooke Expansion Project) over the next three years. On December 17, 2021, KPLP announced an additional investment of $111.5 million in the Sherbrooke Expansion Project, to increase the production capacity of the LDC paper machine, for a total investment of $351.5 million. The cost of the project could be subject to change as a result of inflationary pressures across the supply chain. Management continues to monitor the project to minimize the overall impact. At maturity, the LDC Machine is expected to increase Kruger Products' annual output by at least 60,000 metric tonnes.

The additional capacity will allow Kruger Products to expand its product offering and is expected to enable it to grow its market share across its different categories, including bathroom tissue, paper towels and facial tissue for household and away-from-home use under such brands as Cashmere®, SpongeTowels®, Scotties®, Purex® and Bonterra™ in Canada, and White Cloud® in the U.S. Construction of this new facility has started on a site adjacent to the Sherbrooke TAD facility, with converting production line commissioning in 2023, and the LDC Machine start-up planned in 2024.

AgCredit Agreement

On March 30, 2022, the borrowers entered into the fourth amendment to the AgCredit Agreement (the Fourth Amendment) to make available through the TAD Sherbrooke Project Facility a new US$87 million term loan facility (the Term D Credit Facility) for the purpose of refinancing the borrowings outstanding under the $111 million term loan facility (the Term C Credit Facility) and to extend the maturity dates of the revolving loans of US$10 million and $12.5 million from December 31, 2023 to December 31, 2026. The Term D Credit Facility was drawn in full on March 30, 2022 and was used to repay in full the $107.0 million of principal, accrued interest and fees outstanding under the Term C Credit Facility. The Term D Credit Facility is repayable by March 30, 2032.

On September 15, 2022, the borrowers entered into the fifth amendment to the AgCredit Agreement (the Fifth Amendment) to amend the definition of the Combined Fixed Charge Coverage Ratio (as defined in the AgCredit Agreement) and change the starting date of the Combined Fixed Charge Coverage Ratio from the fiscal quarter ending September 30, 2022 to the fiscal quarter ending December 31, 2022.

Refer to Liquidity and Capital Resources, Indebtedness for additional details.

Shutdown of Certain Memphis Plant Production Assets

On November 14, 2022, KPLP announced that certain older and inefficient production assets would be shut down at its plant in Memphis in January 2023. The plant, operated by KPLP's subsidiary KTG, announced the shutdown of production assets including a LDC paper machine and six converting lines. The shutdown of these assets was determined to be in the best interests of operating efficiencies and profitability of the Memphis plant, and high quality facial tissue and premium TAD products will continue to be produced at the plant. Total restructuring costs of $3.3 million are expected, of which $2.6 million was recorded in the consolidated statement of comprehensive income in Fiscal 2022, with the remaining $0.7 million expected to be recorded in 2023. As of December 31, 2022, $2.3 million was recorded in accrued liabilities in the consolidated statement of financial position.

Corporate Reorganization

Subsequent to December 31, 2022, on January 1, 2023, KPLP undertook a corporate reorganization (the Reorganization) pursuant to which KPLP, a limited partnership, was essentially replaced by a corporate entity without adversely affecting KPT. More specifically, KPLP sold and assigned to its wholly-owned subsidiary, Kruger Products, and Kruger Products purchased and assumed from KPLP, in exchange for common shares, all of the properties, operations, assets and liabilities of KPLP, and KPLP was subsequently dissolved and wound-up into its partners. As a result of the Reorganization, Kruger Products, as the successor corporate entity to KPLP, now operates the business previously operated by KPLP.

The interest that KPT previously held in KPLP is now held in Kruger Products, and, through a shareholders' agreement dated January 1, 2023 entered into with Kruger Inc. (the Shareholders' Agreement), KPT has substantially equivalent rights in respect of the operation of, and its investment in, Kruger Products, as it had in respect of KPLP. The Reorganization was undertaken to realize certain tax efficiencies for Kruger Products and to simplify Kruger Products' corporate structure and financial reporting. The Reorganization was approved by the independent directors of KPT.

The Shareholders' Agreement, and certain other agreements with Kruger Inc. that were amended and restated to reflect the Reorganization, are described in the Annual Information Form, and copies of those agreements are available on SEDAR at www.sedar.com.

Pursuant to the Shareholders' Agreement, the board of directors of Kruger Products shall determine the amount and date of any distribution by way of dividend. The holders of the issued and outstanding Kruger Products Common Shares are entitled to receive dividends if, as and when declared by the board of directors of Kruger Products.

Pursuant to the Shareholders' Agreement, Kruger Products adopted a dividend reinvestment plan (the Kruger Products DRIP), which permits shareholders that elect to participate in the Kruger Products DRIP to automatically reinvest all cash dividends in additional common shares at a price per common share equal to 100% of the five-day weighted average trading price of the common shares prior to the date of payment of the dividend.

RESULTS OF OPERATIONS

(C$ millions, unless otherwise noted)	Fiscal 2022	Fiscal 2021	Fiscal 2020	$ Change Fiscal 2022 vs. Fiscal 2021	$ Change Fiscal 2021 vs. Fiscal 2020
Statement of Operations Data:					
Revenue	1,681.4	1,465.2	1,516.0	216.2	(50.8)
Cost of sales	(1,547.3)	(1,279.9)	(1,264.4)	(267.4)	(15.5)
Selling, general and adminstrative expenses	(124.6)	(118.1)	(128.1)	(6.5)	10.0
Impairment charge	-	-	(8.9)	-	8.9
Restructuring costs, net	(4.6)	(0.6)	(1.3)	(4.0)	0.7
Operating income	4.9	66.6	113.3	(61.7)	(46.7)
Interest expense and other finance costs	(74.5)	(70.7)	(41.0)	(3.8)	(29.7)
Other expense	(3.4)	(4.9)	(36.3)	1.5	31.4
Income (loss) before income taxes	(73.0)	(9.0)	36.0	(64.0)	(45.0)
Income taxes:					
Combined income tax rate after manfacturing and processing credits	19.0	2.3	(9.4)	16.7	11.7
Income tax in partners' hands	1.2	11.1	3.8	(9.9)	7.3
Other	(4.1)	37.6	(3.1)	(41.7)	40.7
Income taxes	16.1	51.0	(8.7)	(34.9)	59.7
Net income (loss)	(56.9)	42.0	27.3	(98.9)	14.7

(C$ millions, unless otherwise noted)	Fiscal 2022	Fiscal 2021	Fiscal 2020	$ Change Fiscal 2022 vs. Fiscal 2021	$ Change Fiscal 2021 vs. Fiscal 2020
Reconciliation of Adjusted EBITDA to Net income (loss):					
Net income (loss)	(56.9)	42.0	27.3	(98.9)	14.7
Interest expense and other finance costs	74.5	70.7	41.0	3.8	29.7
Income taxes	(16.1)	(51.0)	8.7	34.9	(59.7)
Depreciation and amortization	102.9	85.7	68.8	17.2	16.9
Foreign exchange loss (gain)	28.9	(0.8)	(10.3)	29.7	9.5
Change in amortized cost of Partnership units liability	(25.6)	5.3	47.0	(30.9)	(41.7)
Change in fair value of derivatives	-	-	(0.4)	-	0.4
Other expense	0.1	0.4	-	(0.3)	0.4
Loss on sale of property, plant and equipment	0.1	0.4	0.9	(0.3)	(0.5)
Impairment charge	-	-	8.9	-	(8.9)
Restructuring costs, net	4.6	0.6	1.3	4.0	(0.7)
Consulting costs related to operational transformation initiatives	3.5	-	4.3	3.5	(4.3)
Corporate development related costs	-	0.1	0.3	(0.1)	(0.2)
Adjusted EBITDA	116.0	153.4	197.8	(37.4)	(44.4)

Results of Operations Fiscal 2022 compared to Fiscal 2021

Revenue

Revenue was $1,681.4 million in Fiscal 2022 compared to $1,465.2 million in Fiscal 2021, an increase of $216.2 million or 14.8%. The increase in revenue was due to selling price increases in all segments and regions, significantly higher sales volume in the AFH segment as the business recovered from the impact of COVID-19. Revenue was also favourably impacted by foreign exchange fluctuations on U.S. dollar sales (USD average 1.30 in Fiscal 2022 compared to 1.25 in Fiscal 2021). From a geographic perspective, revenue in Canada increased $101.7 million or 11.4% and revenue in the U.S. increased $114.5 million, or 20.0%.

Cost of Sales

Cost of sales was $1,547.3 million in Fiscal 2022 compared to $1,279.9 million in Fiscal 2021, an increase of $267.4 million or 20.9%. Manufacturing costs increased primarily due to significantly increased pulp costs, high inflation on other input costs, higher sales volumes net of higher overhead absorption, the impact of labour shortages and productivity in Memphis manufacturing, increased plant overhead in Sherbrooke, higher plant maintenance costs and the unfavourable impact of foreign exchange fluctuations on U.S. dollar costs. Depreciation expense increased compared to Fiscal 2021 primarily due to accelerated depreciation related to the shutdown of certain LDC assets at the Memphis plant in January 2023 (refer to Business Highlights, Shutdown of Certain Memphis Plant Production Assets for additional details) and higher warehousing depreciation expense in Fiscal 2022. Freight costs increased significantly compared to Fiscal 2021 primarily due to increased freight rates resulting from cost inflation along with higher sales volumes. As a percentage of revenue, cost of sales was 92.0% in Fiscal 2022 compared to 87.4% in Fiscal 2021.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses were $124.6 million in Fiscal 2022 compared to $118.1 million in Fiscal 2021, an increase of $6.5 million or 5.5%. The increase was primarily due to the release of a COVID-19 related AFH accounts receivable provision in the comparative period, a return to more normal travel levels, consulting and legal costs related to the Reorganization, higher selling expenses related to increased sales volume, and slightly higher advertising and promotion expenses, partially offset by foreign exchange gains related to working capital. As a percentage of revenue, SG&A expenses were 7.4% in Fiscal 2022 compared to 8.1% in Fiscal 2021.

Adjusted EBITDA

Adjusted EBITDA[1] was $116.0 million in Fiscal 2022 compared to $153.4 million in Fiscal 2021, a decrease of $37.4 million or 24.4%. The decrease was primarily due to significant inflation on pulp and manufacturing costs and freight as described above, higher SG&A expenses and the unfavourable impact of foreign exchange fluctuations, partially offset by selling price increases and higher sales volume.

Interest Expense and Other Finance Costs

Interest expense and other finance costs were $74.5 million in Fiscal 2022 compared to $70.7 million in Fiscal 2021, an increase of $3.8 million. The increase was primarily due to higher debt levels, increased interest rates and the unfavourable impact of foreign exchange fluctuations, partially offset by a lower loss on extinguishment of debt recorded in Fiscal 2022 compared to Fiscal 2021 and decreases in pension and lease interest expense.

Other Expense

Other expense was $3.4 million in Fiscal 2022 compared to $4.9 million in Fiscal 2021. Other expense in Fiscal 2022 was primarily related to an unrealized foreign exchange loss on USD denominated debt of $28.9 million (Fiscal 2021 - gain

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

of $0.8 million), partially offset by a gain from the change in amortized cost of Partnership units liability of $25.6 million resulting from the annual revaluation (Fiscal 2021 – loss of $5.3 million).

Income Taxes

An income tax recovery of $16.1 million was recorded in Fiscal 2022 compared to $51.0 million in Fiscal 2021. KPLP is not directly taxable on its Canadian business. The income tax recovery resulted from taxable losses in KPLP's incorporated operating entities in the U.S. and Canada. Income tax in partner's hands was a recovery of $1.2 million in Fiscal 2022 compared to $11.1 million in Fiscal 2021.

Net Income (Loss)

Net loss was $56.9 million in Fiscal 2022 compared to net income of $42.0 million in Fiscal 2021, a decrease of $98.9 million. The decrease was primarily due to lower Adjusted EBITDA of $37.4 million as discussed above, higher foreign exchange loss of $29.7 million, higher depreciation and interest expense of $17.2 million and $3.8 million, respectively, consulting costs related to operational transformation initiatives of $3.5 million, higher restructuring costs of $4.0 million and a lower income tax recovery of $34.9 million, partially offset by a higher decrease in the amortized costs of the Partnership units liability of $30.9 million.

Results of Operations of KPT

(C$ millions, unless otherwise noted)	Fiscal 2022	Fiscal 2021
Statement of Operations Data:		
Share of income (loss)	(8.1)	6.1
Depreciation of fair value increments	(5.2)	(5.3)
Equity gain (loss)	(13.3)	0.8
Dilution gain	0.8	0.3
Income (loss) before income taxes	(12.5)	1.1
Income taxes:		
Current tax recovery (expense)	0.4	(2.1)
Deferred tax recovery	1.9	2.2
Income taxes	2.3	0.1
Net income (loss)	(10.2)	1.2
Basic earnings (loss) per share (dollars)	**(1.03)**	**0.13**

The financial information presented above is based on KPT's interest in KPLP for Fiscal 2022 and Fiscal 2021. The share of income (loss) relates to KPT's share of income (loss) 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 details.

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

On February 28, 2022, pursuant to the Tax Distribution as defined in the Partnership Agreement, KPLP declared a Tax Distribution of $14.1 million, of which the advances of $13.8 million were offset and the remaining $0.3 million was paid on February 28, 2022. There was no Tax Distribution declared on February 28, 2023 and the Tax Distribution is not required in future periods as a result of the Reorganization. Refer to Business Highlights, Corporate Reorganization for additional details.

SEGMENT INFORMATION

Segment Operating Income

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

Segment Results

(C$ millions,				Fiscal 2022 vs Fiscal 2021		Fiscal 2021 vs Fiscal 2020	
unless otherwise noted)	Fiscal 2022	Fiscal 2021	Fiscal 2020	$ Change	% Change	$ Change	% Change
Segment Revenue							
Consumer	1,394.1	1,260.1	1,304.6	134.0	10.6%	(44.5)	-3.4%
AFH	287.3	205.1	211.4	82.2	40.1%	(6.3)	-3.0%
Total segment revenue	1,681.4	1,465.2	1,516.0	216.2	14.8%	(50.8)	-3.4%
Adjusted EBITDA							
Consumer	117.4	167.3	223.4	(49.9)		(56.1)	
AFH	7.4	(4.9)	(9.0)	12.3		4.1	
Corporate and other costs	(8.8)	(9.0)	(16.6)	0.2		7.6	
Total Adjusted EBITDA	116.0	153.4	197.8	(37.4)		(44.4)	

Consumer Segment

Fiscal 2022 compared to Fiscal 2021

Consumer segment revenue was $1,394.1 million in Fiscal 2022 compared to $1,260.1 million in Fiscal 2021, an increase of $134.0 million or 10.6%. The increase in revenue was due to selling price increases in Canada and the U.S. and the favourable impact of foreign exchange fluctuations on U.S. dollar sales. Consumer segment revenue increased in both Canada and the U.S.

Consumer Segment Adjusted EBITDA was $117.4 million in Fiscal 2022 compared to $167.3 million in Fiscal 2021, a decrease of $49.9 million. The decrease in Adjusted EBITDA was primarily due to significant inflation in cost of sales as described above in Results of Operations for Fiscal 2022 along with higher SG&A expenses, partially offset by the selling price increases.

AFH Segment

Fiscal 2022 compared to Fiscal 2021

AFH segment revenue was $287.3 million in Fiscal 2022 compared to $205.1 million in Fiscal 2021, an increase of $82.2 million or 40.1%. The increase was primarily due to significantly higher sales volumes in both the U.S. and Canada as the business recovered from the impact of COVID-19, selling price increases in Fiscal 2022 and the favourable impact of foreign exchange fluctuations on U.S. dollar sales. AFH segment revenue increased in both Canada and the U.S.

AFH Segment Adjusted EBITDA was a $7.4 million in Fiscal 2022 compared to a loss of $4.9 million in Fiscal 2021, an improvement of $12.3 million. The improvement resulted from the favourable impact of higher sales volume and selling price increases, partially offset by significant inflation in cost of sales as described above in Results of Operations for Fiscal 2022 along with higher SG&A expenses.

Corporate and Other Costs

Fiscal 2022 compared to Fiscal 2021

Corporate and other costs include certain management overhead costs not directly attributable to the business segments.

Corporate and other costs were of $8.8 million in Fiscal 2022 compared $9.0 million in Fiscal 2021, a decrease in costs of $0.2 million, primarily due to consulting costs related to corporate reorganizations and operational transformation initiatives.

LIQUIDITY AND CAPITAL RESOURCES

Overview

KPLP's principal uses of funds are for operating costs, working capital, capital expenditures, pension contributions and Tax and Partnership Unit distributions (together, the Funding Requirements). To date, KPLP has met the Funding Requirements by using cash generated from operating activities and the Dividend Reinvestment Plan and borrowings under its various debt facilities. The registered defined benefit pension plans (RDBPP) sponsored by KPLP are currently in a solvency deficiency position, requiring KPLP to make funding contributions over the next ten years. KPLP Management believes that cash generated from operations and the Dividend Reinvestment Plan, together with amounts available under the various debt facilities will be sufficient to meet its future Funding Requirements. However, KPLP's ability to meet future Funding Requirements and its ability to make scheduled payments of interest and principal on its debt facilities and to satisfy any of its other present or future debt obligations will depend on its future operating performance, which will be affected by general economic, financial, and other factors including factors beyond its control. KPLP Management reviews investment opportunities in the normal course of its business and may, if suitable opportunities arise, make selected investments to implement KPLP's business strategy. Historically, the funding for any such investments has come from cash flows from operations and/or additional debt.

As of December 31, 2022, KPLP was in compliance with all of its financial covenants under all of its outstanding credit facilities. As of December 31, 2022, KPLP had drawn $90.3 million from the $200 million committed amount under the KPLP Senior Credit Facility and had $18.0 million of letters of credit outstanding, resulting in $91.7 million available from the KPLP Senior Credit Facility, subject to covenant limitations. As of December 31, 2022, KPLP had drawn US$10 million ($13.5 million) and $3.6 million, respectively, on the US$10 million ($13.5 million) and $12.5 million committed amounts under the revolving loans of the TAD Sherbrooke Project Facility and had $8.9 million of letters of credit outstanding, resulting in the revolving loans being fully drawn. As of December 31, 2022, KPSB had not drawn on the $5 million committed amount under the KPSB Revolving Facility and had $0.8 million of letters of credit outstanding, resulting in $4.2 million available from the KPSB Revolving Facility, subject to covenant limitations. As of December 31, 2022, KPLP had total liquidity of $137.5 million (December 31, 2021 - $263.8 million) representing cash and cash equivalents and availability under the KPLP Senior Credit Facility and the KPSB Revolving Facility within the covenant limitations. In addition, $29.7 million (December 31, 2021 - $86.5 million) of cash and cash equivalents were held by KPLP for the TAD Sherbrooke and Sherbrooke Expansion projects.

As it pertains to capital expenditures, approximately $25 million annually relates to maintenance projects and the remaining expenditures are focused on strategic and growth projects aimed at reducing costs and offsetting annual inflation or increasing production capacity. Regular growth projects focused on performance improvement generally have a 3 to 4 year payback. Capital expenditures were $115.6 million in Fiscal 2022, including $20.7 million related to the TAD Sherbrooke Project, $53.4 million related to the Sherbrooke Expansion Project (including interest capitalized during construction) and government assistance received of $1.0 million. This included a reduction in discretionary plant expenditures and revised Sherbrooke Expansion Project expenditures due to supply chain delays. Capital expenditures are expected to be approximately $200 million to $230 million in fiscal 2023, including the Sherbrooke Expansion Project.

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

Cash Flows

(C$ millions, unless otherwise stated)	Fiscal 2022	Fiscal 2021	Fiscal 2020	$ Change Fiscal 2022 vs. Fiscal 2021	$ Change Fiscal 2021 vs. Fiscal 2020
Net cash flows from operating activities	38.7	81.4	253.5	(42.7)	(172.1)
Net cash flows used in investing activities	(115.6)	(145.7)	(313.7)	30.1	168.0
Net cash flows from (used in) financing activities	(2.5)	84.9	98.1	(87.4)	(13.2)
Effect of exchange rate changes on cash, cash equivalents and restricted cash held in foreign currency	2.2	(0.8)	(2.3)	3.0	1.5
Increase (decrease) in cash and cash equivalents	(77.2)	19.8	35.6	(97.0)	(15.8)
Beginning cash and cash equivalents	148.5	128.7	93.1	19.8	35.6
Ending cash and cash equivalents	71.3	148.5	128.7	(77.2)	19.8

Net Cash Flows from Operating Activities

Net cash from operating activities was $38.7 million in Fiscal 2022 compared to $81.4 million in Fiscal 2021. Cash used in operating activities in Fiscal 2022 was primarily driven by an increase in working capital of $65.2 million (Fiscal 2021 - $66.8 million), provisions paid of $7.8 million (Fiscal 2021 - $4.3 million), income tax payments of $1.8 million (Fiscal 2021 - $2.6 million) and pension and post-retirement benefit contributions above expense of $0.6 million (Fiscal 2021 - ($0.7) million), partially offset by Adjusted EBITDA of $116.0 million (Fiscal 2021 - $153.4 million).

Net Cash Flows used in Investing Activities

Net cash used in investing activities was $115.6 million in Fiscal 2022 compared to $145.7 million in Fiscal 2021. Cash used in investing activities related to capital expenditures of $115.6 million (including $20.7 million for the TAD Sherbrooke Project and $53.4 million for the Sherbrooke Expansion Project) in Fiscal 2022 compared to $145.7 million (including $94.5 million for the TAD Sherbrooke Project and $5.2 million for the Sherbrooke Expansion Project) in Fiscal 2021.

Net Cash Flows from (used in) Financing Activities

Net cash used in financing activities was $2.5 million in Fiscal 2022 compared to net cash from financing activities of $84.9 million in Fiscal 2021. Net cash used in financing activities in Fiscal 2022 was primarily due to interest paid of $51.9 million (Fiscal 2021 – $42.0 million), lease payments of $28.1 million (Fiscal 2021 – $24.6 million), distributions and advances paid (net of DRIP proceeds) of $17.5 million (Fiscal 2021 – $51.8 million included higher Tax Distributions), the change in Restricted cash of $4.6 million (Fiscal 2021 - $2.5 million) and deferred financing fees paid of $3.0 million (Fiscal 2021 - $9.5 million), partially offset by proceeds from debt net of repayments of $102.7 million (Fiscal 2021 – $215.3 million.

Contractual Obligations

(C$ millions, unless otherwise stated)	Fiscal 2023	Fiscal 2024	Fiscal 2025	Fiscal 2026	Fiscal 2027	Thereafter	Total
Contractual obligations:							
KPLP Senior Credit Facility, principal repayments	-	-	-	90.3	-	-	90.3
Senior Unsecured Notes due April 24, 2025, principal repayments	-	-	125.0	-	-	-	125.0
Senior Unsecured Notes due April 9, 2029, principal repayments	-	-	-	-	-	135.0	135.0
AgCredit Term A Credit Facility, principal repayments	4.5	4.5	4.5	10.7	13.3	159.3	196.8
AgCredit Term B Credit Facility, principal repayments	-	-	-	14.3	18.2	212.0	244.5
AgCredit Term D Credit Facility, principal repayments	-	-	-	5.7	8.1	104.0	117.8
AgCredit Revolver, principal repayments	-	-	-	17.1	-	-	17.1
KPSI IQ Debenture, principal repayments	16.7	16.7	16.7	16.7	16.7	14.7	98.2
Nordea2 Credit Facility, principal repayments	7.8	7.8	7.8	7.8	7.8	15.3	54.3
KPSB IQ Debenture, principal repayments	-	-	-	2.5	9.9	14.6	27.0
Quebec PM Loan, principal repayments	4.9	4.9	1.6	-	-	-	11.4
IQ Bathroom Tissue Loan, principal repayments	-	-	1.1	6.9	6.9	6.5	21.4
IQ Facial Tissue Loan, principal repayments	-	-	2.7	4.8	-	-	7.5
Ontario Loan, principal repayments	0.5	0.5	0.5	0.4	-	-	1.9
Interest payments	58.3	57.2	52.9	49.1	36.7	129.1	383.3
Right-of-use lease payments	28.3	19.8	10.5	8.3	7.7	55.0	129.6
KPLP Contribution Undertaking Agreement, Contributions	5.7	5.8	5.8	5.8	5.8	29.0	57.9
Service contract payments	15.2	5.9	0.4	0.2	-	-	21.7
Total contractual obligations	141.9	123.1	229.5	240.6	131.1	874.5	1,740.7

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, 2022, KPLP had $121.7 million (December 31, 2021 – $20.6 million) of commitments related to the Sherbrooke Expansion Project.

KPLP's cash pension contribution for defined benefit pension arrangements in Fiscal 2022 was $12.8 million, while its post-retirement benefits contribution was $2.4 million. In addition, as of December 31, 2022, KPLP had $16.5 million of letters of credit related to pensions outstanding. Pension contributions for fiscal 2023 are expected to be $10.4 million and post-retirement contributions for fiscal 2023 are expected to be $2.4 million.

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, 2022, $133.6 million was recorded as a liability in respect of this obligation (December 31, 2021 - $173.2 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. As a result of the Reorganization, the Partnership unit liability was extinguished as the Limited Partnership Agreement was dissolved and the corresponding requirement to make the Tax Distribution was eliminated. Refer to Business Highlights, Corporate Reorganization for additional details.

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 (the KPT Common Shares) issued by KPT on the basis of one KPLP Unit for one KPT Common Share, subject to adjustment upon the occurrence of certain events that would result in the indirect economic interest in KPLP represented by a KPT Common Share diverging from the direct economic interest in KPLP represented by a KPLP Unit, including splits or consolidations of the KPT Common Shares without a corresponding split or consolidation of the KPLP Units, issuances or repurchases of the KPT 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 KPT Common Shares on the basis of one KPLP Unit for one KPT Common Share subject to adjustment as set forth above. As of December 31, 2022, no KPLP Units had been exchanged for KPT Common Shares. The Exchange Agreement was amended and restated on January 1, 2023 to reflect the Reorganization.

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. The Administration Agreement was amended and restated on January 1, 2023 to reflect the Reorganization.

Indebtedness

KPLP Senior Credit Agreement

On December 21, 2022, KPLP entered into the eighth amended and restated credit agreement (the KPLP Senior Credit Agreement) related to the revolving credit facility (the KPLP Senior Credit Facility), to amend certain provisions of the KPLP Senior Credit Agreement to allow for implementation of the Reorganization. Refer to Business Highlights, Corporate Reorganization for additional details. The KPLP Senior Credit Agreement is for a five year period, maturing on May 21, 2026 with the option to extend the maturity date to or beyond January 1, 2028 subject to certain conditions. The KPLP Senior Credit Facility is used by KPLP to finance general corporate purposes and the ongoing working capital requirements of the Restricted Credit Parties (as defined below), and to finance the cash portion of any permitted acquisition or any permitted investment by the Restricted Credit Parties (as defined below).

Under the KPLP Senior Credit Agreement, Restricted Credit Parties means, KPLP, KPGP, Kruger Products, Kruger Products Real Estate Holdings Inc. (KPREH), Kruger Products (USA) Inc. (KP USA), Kruger Products AFH G.P. Inc., Kruger Products AFH L.P. and their respective subsidiaries involved in the tissue business but excluding the Unrestricted Credit Parties (which include Kruger Products SB Inc. (KPSB), KTG, K.T.G. US Holdco Inc., 8528365 Canada Inc., Kruger Products Sherbrooke Inc. (KPSI), Kruger Sherbrooke Water Treatment Inc., Community Benefit Partners LLC, TAD2 GP ULC, TAD2 US LP, TAD1 Canco I Inc., TAD1 GP ULC, TAD1 US LP and TAD1 Canco II Inc.) and the Non-Material Credit Parties (as such terms are defined in the KPLP Senior Credit Agreement).

The borrowings under the KPLP Senior Credit Facility bear interest at a base rate of Canadian prime rate, U.S. base rate, banker's acceptance rates, SOFR (as defined in the KPLP Senior Credit Agreement) or the applicable benchmark replacement rate, plus a margin varying between 0.20% and 3.50% depending on the Ratio of Total Net Funded Debt to EBITDA (as defined in the KPLP Senior Credit Agreement) and the type of advance. Stand-by fees are also payable on the available portion of the KPLP Senior Credit Facility at a rate varying between 0.24% and 0.70% depending on the Ratio of Total Net Funded Debt to EBITDA (as defined in the KPLP Senior Credit Agreement).

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

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

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

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

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

The KPLP Senior Credit Agreement is guaranteed by the Restricted Credit Parties. The Restricted Credit Parties provide first ranking security interests and hypothecs over their current and future tangible and intangible assets (subject to permitted liens) to secure the obligations under the KPLP Senior Credit Agreement including a pledge of 100% of the stock or ownership interest in all subsidiaries owned by the Restricted Credit Parties. The guarantees and security are granted on a pari passu basis in favour of the lenders and the administrative agent under the KPLP Senior Credit Agreement and the lenders and the administrative agent under the Nordea2 Credit Agreement (as defined below).

Trust Indenture – Senior Unsecured Notes due April 24, 2025

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

Under the 2025 Notes, the Restricted Subsidiaries includes any subsidiary of KPLP that is not an Unrestricted Subsidiary as defined in the 2025 Indenture (which Unrestricted Subsidiaries include K.T.G. US Holdco Inc., KTG, KPSI, TAD2 GP ULC, TAD2 US LP, TAD1 Canco I Inc., TAD1 GP ULC, TAD1 US LP, TAD1 Canco II Inc., 8528365 Canada Inc., KPSB and the Non-Material Subsidiaries as defined in the 2025 Indenture).

The 2025 Notes are senior unsecured obligations of KPLP. The 2025 Notes rank senior in right of payment to all existing and future subordinated indebtedness of KPLP and equal in right of payment to all indebtedness of KPLP that is not subordinated in right of payment to the 2025 Notes other than any indebtedness that ranks senior to the 2025 Notes by operation of law. The 2025 Notes will be effectively subordinated to all existing and future secured indebtedness of the issuer, to the extent of the assets securing such indebtedness.

The 2025 Notes are unconditionally guaranteed, jointly and severally, by all existing and future Restricted Subsidiaries (the Guarantors). The guarantees are senior unsecured obligations of each of the Guarantors and will rank senior in right of payment to all existing and future subordinated indebtedness of the Guarantors and equal in right of payment to all indebtedness of such Guarantor that is not subordinated in right of payment to their guarantee, other than indebtedness that ranks senior to the guarantees by operation of law.

On or after April 24, 2021, KPLP may redeem all or part of the 2025 Notes at the following redemption prices, plus accrued and unpaid interest to the applicable redemption date, if redeemed during the 12-month period commencing April 24 of the year set forth below:

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

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

The 2025 Indenture contains certain restrictive covenants of KPLP, including, but not limited to, limitations on making certain restricted payments by KPLP or its Restricted Subsidiaries, restrictions on incurring certain indebtedness by KPLP or its Restricted Subsidiaries, restrictions on incurring certain liens by KPLP or its Restricted Subsidiaries, certain restrictions on transactions with affiliates, limitations on engaging in any line of business other than the businesses in which KPLP and the Restricted Subsidiaries were engaged on the date of issuance of the 2025 Notes, and any business reasonably related, incidental, complementary or ancillary thereto, limitations on creating any contractual restrictions on the ability of KPLP or its Restricted Subsidiaries to take certain actions, such as the payment of dividends or making of distributions, restrictions on consolidating, amalgamating or merging into any other person and restrictions on selling, transferring, assigning, leasing, conveying or otherwise disposing of all or substantially all of the property of KPLP and the Restricted Subsidiaries taken as a whole.

Trust Indenture – Senior Unsecured Notes due April 9, 2029

On April 8, 2021, KPLP issued $135 million aggregate principal amount of 5.375% senior unsecured notes due April 9, 2029 (the Senior Unsecured Notes due April 9, 2029 or the 2029 Notes) by way of private placement in Canada in accordance with applicable Canadian prospectus and registration exemptions. The 2029 Notes were issued pursuant to a trust indenture entered into as of April 8, 2021 between KPLP, the Guarantors and Computershare Trust Company of Canada (the 2029 Indenture). Interest on the 2029 Notes accrues at 5.375% per year and is payable semi-annually on April 9 and October 9 of each year.

Under the 2029 Notes, the Restricted Subsidiaries includes any subsidiary of KPLP that is not an Unrestricted Subsidiary as defined in the 2029 Indenture (which Unrestricted Subsidiaries include K.T.G. US Holdco Inc., KTG, KPSI, TAD2 GP ULC, TAD2 US LP, TAD1 Canco I Inc., TAD1 GP ULC, TAD1 US LP, TAD1 Canco II Inc., 8528365 Canada Inc., KPSB and the Non-Material Subsidiaries as defined in the 2029 Indenture).

The 2029 Notes are senior unsecured obligations of KPLP. The 2029 Notes rank senior in right of payment to all existing and future subordinated indebtedness of KPLP and equal in right of payment to all indebtedness of KPLP that is not subordinated in right of payment to the 2029 Notes other than any indebtedness that ranks senior to the 2029 Notes by operation of law. The 2029 Notes will be effectively subordinated to all existing and future secured indebtedness of KPLP, to the extent of the assets securing such indebtedness.

The 2029 Notes are unconditionally guaranteed, jointly and severally, by all existing and future Restricted Subsidiaries (the Guarantors). The guarantees are senior unsecured obligations of each of the Guarantors and will rank senior in right of payment to all existing and future subordinated indebtedness.

At any time prior to April 9, 2024, KPLP may redeem up to 40.0% of the aggregate principal amount of the 2029 Notes at a redemption price of 105.375% of the principal amount of the 2029 Notes to be redeemed, plus accrued and unpaid interest to the date of redemption, with the net proceeds received by KPLP from certain equity offerings after the issue date.

At any time prior to April 9, 2024, KPLP may redeem the 2029 Notes, at a redemption price equal to the greater of (a) the Applicable Premium (as defined in the 2029 Indenture) and (b) 101% of the aggregate principal amount of the 2029 Notes redeemed, plus, in each case, accrued and unpaid interest, if any, to the applicable redemption date.

On or after April 9, 2024, KPLP may redeem all or part of the 2029 Notes at the following redemption prices, plus accrued and unpaid interest to the applicable redemption date, if redeemed during the 12-month period commencing April 9 of the year set forth below:

Year	Percentage
2024	102.688%
2025	101.344%
2026 and thereafter	100.000%

Upon the occurrence of a Change of Control of KPLP (as defined in the 2029 Indenture), KPLP will be required to offer to repurchase all or any part of each holder's 2029 Notes for a payment in cash equal to 101% of the aggregate principal amount of the 2029 Notes repurchased, plus accrued and unpaid interest thereon to the purchase date.

The 2029 Indenture contains certain restrictive covenants of KPLP, including, but not limited to, limitations on making certain restricted payments by KPLP or its Restricted Subsidiaries, restrictions on incurring certain indebtedness by KPLP or its Restricted Subsidiaries, restrictions on incurring certain liens by KPLP or its Restricted Subsidiaries, certain restrictions on transactions with affiliates, limitations on engaging in any line of business other than the businesses in which KPLP and the Restricted Subsidiaries were engaged on the date of issuance of the 2029 Notes, and any business reasonably related, incidental, complementary or ancillary thereto, limitations on creating any contractual restrictions on the ability of KPLP or its Restricted Subsidiaries to take certain actions, such as the payment of dividends or making of distributions, restrictions on consolidating, amalgamating or merging into any other person and restrictions on selling, transferring, assigning, leasing, conveying or otherwise disposing of all or substantially all of the property of KPLP and the Restricted Subsidiaries taken as a whole.

AgCredit Agreement

Subsidiaries of KPLP are party to a credit agreement entered into by, among others, KTG, TAD1 US LP, TAD2 US LP and KPSI, as borrowers, each guarantor from time to time party thereto, as guarantors, each lender from time to time party thereto, as lenders, American AgCredit, FLCA, as administrative agent and National Bank of Canada, as Canadian administrative agent, as amended by the fourth amendment to the credit agreement dated March 30, 2022, the fifth amendment to the credit agreement dated September 15, 2022, the sixth amendment and consent to the credit agreement dated December 8, 2022 and the consent letter dated October 28, 2022 and effective as of January 1, 2023 (the AgCredit Agreement).

Pursuant to the AgCredit Agreement, the following credit facilities were made available:

(i) US$188 million term loan facility repayable by March 31, 2037 related to amounts drawn on or after March 23, 2020 by quarterly principal instalment payments commencing on June 30, 2026 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 (the Term B Credit Facility);

(ii) US$87 million term loan facility repayable by March 30, 2032 by quarterly principal instalment payments commencing on June 30, 2026 and bearing interest at a 6.07% maximum fixed interest rate (the Term D Credit Facility);

(iii) Revolving loans of US$10 million and $12.5 million with a maturity date of December 31, 2026 with floating interest rates based on U.S. base rate, Canadian prime rate or CDOR (or the applicable replacement rate) plus an applicable margin and a renewal option; and

(iv) US$147 million term loan repayable by December 31, 2036 by quarterly principal instalment payments commencing on June 30, 2022 and bearing interest at a 4.82% fixed interest rate effective November 19, 2021 (repriced from the 7.3% fixed interest rate set at the initial closing date) and repayable after a three-year lock-out period (the Term A Credit Facility or the KTG Facility).

The facilities detailed in items (i) to (iii) above are collectively the TAD Sherbrooke Project Facility. The purpose of the TAD Sherbrooke Project Facility was to partially finance the TAD Sherbrooke Project. On November 1, 2021, the borrowers executed the final draws on the TAD Sherbrooke Project Facility, in connection with the financing of the TAD Sherbrooke Project. The purpose of the KTG Facility was to repay existing indebtedness of KTG and TAD Canco Inc.

On March 30, 2022, the borrowers entered into the fourth amendment to the AgCredit Agreement (the Fourth Amendment) to make available through the TAD Sherbrooke Project Facility a new US$87 million term loan facility (the Term D Credit Facility) for the purpose of refinancing the borrowings outstanding under the $111 million term loan facility (the Term C Credit Facility) and to extend the maturity dates of the revolving loans of US$10 million and $12.5 million from December 31, 2023 to December 31, 2026. Prior to the refinancing, the Term C Credit Facility formed part of the TAD Sherbrooke Project Facility and was repayable by December 31, 2025. The Term D Credit Facility was drawn in full on March 30, 2022 and was used to repay in full the $107.0 million of principal, accrued interest and fees outstanding under the Term C Credit Facility on March 30, 2022.

Pursuant to the Fourth Amendment, within 120 days after the end of each fiscal year, commencing with the fiscal year ending on or about December 31, 2022 through and including the fiscal year ending on or about December 31, 2025, KPSI agreed to deposit an aggregate amount equal to 75% of the Canadian Borrower Excess Cash Flow (as defined in the Fourth Amendment) for such fiscal year in a designated bank account (the KPSI Dedicated Account) to be used only for the purpose of prepaying the Term D Credit Facility, subject to certain conditions specified in the Fourth Amendment. The KPSI

Dedicated Account constitutes collateral and is subject to a Blocked Account Control Agreement (as defined in the Fourth Amendment) in favour of KPSI's senior lenders.

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

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

The AgCredit Agreement requires the borrowers to comply with certain financial covenants. The financial covenants are calculated on a Combined Basis (as defined in the AgCredit Agreement). KPLP has the option under its credit facilities to fund the respective borrowing entities to provide liquidity or achieve compliance with covenant ratios.

On September 15, 2022, the borrowers entered into the fifth amendment to the AgCredit Agreement (the Fifth Amendment) to amend the definition of the Combined Fixed Charge Coverage Ratio (as defined in the AgCredit Agreement) so that for the fiscal quarters ending December 31, 2022, March 31, 2023 and June 30, 2023, the relevant amount calculated for the ratio is determined not by using four consecutive fiscal quarter periods but instead by using the financial results from October 1, 2022 to each fiscal quarter end, dividing by the number of days in the period and multiplying by 365. The Fifth Amendment also changed the starting date of the Combined Fixed Charge Coverage Ratio from the fiscal quarter ending September 30, 2022 to the fiscal quarter ending December 31, 2022.

On a Combined Basis and quarterly financial basis, the borrowers:

Shall not permit the Combined Leverage Ratio (as defined in the AgCredit Agreement) as of the end of any fiscal quarter of the borrowers to exceed 60%;

Shall not permit the Combined Fixed Charge Coverage Ratio (as defined in the AgCredit Agreement) as of the end of any fiscal quarter of the borrowers, beginning with the fiscal quarter ending December 31, 2022, to be less than:

(i) 1.10 to 1.00 with respect to the fiscal quarter ending December 31, 2022 through and including the fiscal quarter ending September 30, 2023; and

(ii) 1.25 to 1.00 with respect to the fiscal quarter ending December 31, 2023 and each fiscal quarter thereafter.

The AgCredit Agreement was further amended by a consent letter dated as of October 28, 2022 related to, among other things, amending certain provisions of the AgCredit Agreement to allow for implementation of the Reorganization. Refer to Business Highlights, Corporate Reorganization for additional details.

As of December 31, 2022, the following amounts were drawn on the TAD Sherbrooke Project Facility:

(i) US$180.5 million on the Term B Credit Facility (December 31, 2021 – US$180.5 million);

(ii) US$87.0 million on the Term D Credit Facility (December 31, 2021 – nil);

(iii) US$10.0 million on the revolving loan facility (December 31, 2021 – nil); and

(iv) $3.6 million cash drawn and $8.9 million letters of credit drawn on the $12.5 million revolving loan facility (December 31, 2021 - $2.0 million cash drawn and $7.3 million letters of credit drawn).

As of December 31, 2022, the following amount was drawn on the KTG Facility:

(i) US$144.5 million on the Term A Credit Facility (December 31, 2021 – US$147.0 million).

KPSI IQ Debenture

On November 19, 2018, KPSI issued a 10-year convertible debenture in favour of Investissement Québec (IQ) in the principal amount of $105 million, as amended effective as of January 1, 2023 to reflect the Reorganization (the KPSI IQ Debenture). The KPSI IQ Debenture was used to partially finance the TAD Sherbrooke Project.

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

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

Pursuant to a repayment agreement, as amended effective as of January 1, 2023 to reflect the Reorganization (the KPSI Repayment Agreement) between Kruger Inc., Kruger Products, KPSI and IQ, Kruger Products 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. The first twelve monthly redemption payments under the KPSI IQ Debenture were made by KPLP during the year ended December 31, 2022, in exchange for common shares of KPSI.

Subsequent to December 31, 2022, on January 5, 2023 and February 1, 2023, respectively, Kruger Products waived its priority right to make the first two monthly redemption payments under the KPSI IQ Debenture during the year ended December 31, 2023. Also on January 5, 2023 and February 1, 2023, respectively, Kruger Inc. notified IQ that it would make the first two monthly redemption payments under the KPSI IQ Debenture during the year ended December 31, 2023.

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

Nordea2 Credit Agreement

Pursuant to the Nordea2 Credit Agreement, a senior secured non-revolving loan facility in a maximum amount of US$48.8 million (the Nordea2 Credit Facility) was made available to KPLP. The Nordea2 Credit Facility was used to partially finance the TAD Sherbrooke Project and the fees of the Swedish Export Credits Guarantee Board (EKN) in connection with its guarantee of the Nordea2 Credit Facility. The Nordea2 Credit Facility matures on August 31, 2029.

On December 21, 2022, KPLP, as borrower, entered into the amended and restated credit agreement between KPLP, as borrower, Nordea Bank Abp Filial I Sverige, as administrative agent, and Ab Svensk Exportkredit (Publ), as lender (the Nordea2 Credit Agreement) to, among other things, reflect the Reorganization.

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

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

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

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

KPSB IQ Debenture

On May 21, 2021, KPSB entered into an agreement to issue a 10-year convertible debenture in favour of IQ in the maximum principal amount of $75 million, as amended effective as of January 1, 2023 to reflect the Reorganization (the KPSB IQ Debenture). The purpose of the KPSB IQ Debenture is to partially finance the implementation of a light dry crepe tissue machine (the LDC Machine) in a new facility adjacent to the Sherbrooke TAD facility, as part of the Sherbrooke Expansion Project. The KPSB IQ Debenture matures ten years from the earlier of (i) the date on which commercial operation of the LDC Machine begins (the LDC Machine Commissioning Date) or (ii) September 1, 2024.

Borrowings under the KPSB IQ Debenture bear interest at a fixed capitalized interest rate of 2.0% per annum (the Fixed Rate), calculated monthly, starting on the disbursement date of each payment in respect of the amount disbursed. In the event KPLP is in default (the KPLP Default) under the KPLP Contribution Undertaking Agreement (refer to Transactions with Related Parties for additional details), the Fixed Rate would increase from the date of the KPLP Default (the KPLP Default Date) to 6.0% per annum (the Fixed Default Rate), until the KPLP Default is remedied to IQ's satisfaction within twelve months of the KPLP Default Date, failing which the Fixed Default Rate would continue to apply permanently. Interest is capitalized to the loan principal from the date of the first loan disbursement until the LDC Machine Commissioning Date. As of the LDC Machine Commissioning Date, interest will cease to be capitalized and is due and payable monthly. KPSB may redeem, or cause to be redeemed, the KPSB IQ Debenture, in whole or in part, at any time and without penalty.

The KPSB IQ Debenture is redeemable on a monthly basis (proportionately based on the number of months remaining until maturity) commencing 24 months following the earlier of: (i) the LDC Machine Commissioning Date or (ii) September 1, 2024, which payments KPSB undertakes to cause KPLP to make, failing which, and to the extent such amounts cannot be realized from the KPLP Dedicated Account (as defined below), IQ will have a conversion right on terms of conversion that would provide IQ with a 100% equity interest in KPSB if the entirety of the debenture was so converted.

Pursuant to a repayment agreement entered into by KPLP, KPSB and IQ on May 21, 2021, as amended effective as of January 1, 2023 to reflect the Reorganization, KPLP agreed to make the required monthly redemption payments to IQ. KPLP's redemption payments to IQ will effectively be funded by rate discounts on electricity usage attributable to KPLP, KPSB and KPSI for their plants under the rate discounts program applicable to consumers billed at rate "L", as administered by the Ministère des Finances du Québec (the Rate Discounts). The Rate Discounts are held by KPLP in a designated bank account to be used only for the purpose of funding KPLP's redemption payments to IQ (the KPLP Dedicated Account). KPLP has granted a first movable hypothec on the KPLP Dedicated Account in favour of IQ.

KPLP has guaranteed, jointly and severally, to a maximum of $90 million: (i) KPSI's IQ Bathroom Tissue Loan, (ii) KPSB's IQ Facial Tissue Loan and (iii) the KPSB IQ Debenture.

Quebec PM Loan Agreement

KPLP is a party to a loan agreement dated as of August 9, 2016 entered into by KPLP, as borrower, and IQ as lender, as amended effective as of January 1, 2023 to reflect the Reorganization (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 purpose of the Quebec PM Loan is to partially finance the acquisition and relocation of a paper machine to be installed at the Crabtree facility (the PM Project). The Quebec PM Loan Agreement matures ten years after the first loan disbursement, which occurred on September 6, 2016.

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

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

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

IQ Bathroom Tissue Credit Agreement

KPSI is party to a loan agreement dated as of May 21, 2021 entered into by KPSI, as borrower, and IQ as lender, as first amended on December 16, 2021 and further amended effective as of January 1, 2023 to reflect the Reorganization (the IQ Bathroom Tissue Credit Agreement) pursuant to which a secured non-revolving subordinated loan in a maximum amount of $47 million (the IQ Bathroom Tissue Loan) is made available to KPSI. The purpose of the IQ Bathroom Tissue Loan is to finance the implementation of the bathroom tissue converting line (the BT Line) in the existing Sherbrooke TAD facility, as part of the Sherbrooke Expansion Project. The IQ Bathroom Tissue Loan matures ten years from the earlier of (i) the date on which commercial operation of the BT Line begins (the BT Line Commissioning Date) or (ii) November 1, 2022.

Borrowings under the IQ Bathroom Tissue Loan bear interest at a fixed interest rate of 2.0% per annum (the Fixed Rate), calculated monthly, starting on the disbursement date of each payment in respect of the amount disbursed. In the event KPLP is in default (the KPLP Default) under the KPLP Contribution Undertaking Agreement (refer to Transactions with Related Parties for additional details), the Fixed Rate would increase from the date of the KPLP Default (the KPLP Default Date) to 6.0% per annum (the Fixed Default Rate), until the KPLP Default is remedied to IQ's satisfaction within twelve months of the KPLP Default Date, failing which the Fixed Default Rate would continue to apply permanently. Interest is capitalized to the loan principal from the date of the first loan disbursement, which occurred on February 4, 2022, until the BT Line Commissioning Date. As of the BT Line Commissioning Date, interest will cease to be capitalized and is due and payable monthly.

The IQ Bathroom Tissue Loan has a moratorium on repayment of the principal, ending no later than 36 months from the earlier of (i) the BT Line Commissioning Date or (ii) November 1, 2022, after which the principal is to be repaid in 84 equal monthly consecutive payments. KPSI may prepay all or part of the IQ Bathroom Tissue Loan at any time and without penalty.

KPLP has guaranteed, jointly and severally, to a maximum of $90 million: (i) KPSI's IQ Bathroom Tissue Loan, (ii) KPSB's IQ Facial Tissue Loan and (iii) the KPSB IQ Debenture.

The IQ Bathroom Tissue Loan is secured by the BT Line. The security is second ranking immediately after the security granted in favour of KPSI's senior lenders.

IQ Facial Tissue Credit Agreement

KPSB is party to a loan agreement dated as of May 21, 2021 entered into by KPSB, as borrower, and IQ as lender, as first amended on December 16, 2021 and further amended effective as of January 1, 2023 to reflect the Reorganization (the IQ Facial Tissue Credit Agreement) pursuant to which a secured non-revolving subordinated loan in a maximum amount of $43 million (the IQ Facial Tissue Loan) is made available to KPSB. The purpose of the IQ Facial Tissue Loan is to finance the implementation of a facial tissue converting line (the FT Line) in a new facility adjacent to the Sherbrooke TAD facility, as part of the Sherbrooke Expansion Project. The IQ Facial Tissue Loan matures ten years from the earlier of (i) the date on which commercial operation of the FT Line begins (the FT Line Commissioning Date) or (ii) July 1, 2023.

Borrowings under the IQ Facial Tissue Loan bear interest at a fixed interest rate of 2.0% per annum (the Fixed Rate), calculated monthly, starting on the disbursement date of each payment in respect of the amount disbursed. In the event KPLP is in default (the KPLP Default) under the KPLP Contribution Undertaking Agreement (refer to Transactions with Related Parties for additional details), the Fixed Rate would increase from the date of the KPLP Default (the KPLP Default Date) to 6.0% per annum (the Fixed Default Rate), until the KPLP Default is remedied to IQ's satisfaction within twelve months of the KPLP Default Date, failing which the Fixed Default Rate would continue to apply permanently. Interest is capitalized to the loan principal from the date of the first loan disbursement, which occurred on July 29, 2022, until the FT Line Commissioning Date. As of the FT Line Commissioning Date, interest will cease to be capitalized and is due and payable monthly.

The IQ Facial Tissue Loan has a moratorium on repayment of the principal, ending no later than 24 months from the earlier of (i) the FT Line Commissioning Date or (ii) July 1, 2023, after which the principal is to be repaid in 96 equal monthly consecutive payments. KPSB may prepay all or part of the IQ Facial Tissue Loan at any time and without penalty.

KPLP has guaranteed, jointly and severally, to a maximum of $90 million: (i) KPSI's IQ Bathroom Tissue Loan, (ii) KPSB's IQ Facial Tissue Loan and (iii) the KPSB IQ Debenture.

The IQ Facial Tissue Loan is secured by the FT Line. The security is second ranking immediately after the security granted in favour of KPSB's senior lenders

Ontario Loan Agreement

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

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

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

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

KPSB Senior Credit Agreement

KPSB is a party to a credit agreement dated as of May 21, 2021 entered into by KPSB, as borrower, the lenders party thereto and National Bank of Canada, as administrative agent as amended by a first supplemental credit agreement dated December 17, 2021 and a second supplemental credit agreement dated December 21, 2022 and effective as of January 1, 2023 (the KPSB Senior Credit Agreement). Pursuant to the KPSB Senior Credit Agreement, credit facilities were made available to KPSB consisting of (a) a $150 million construction loan of which $75 million was reserved on May 21, 2021 and made fully available on December 17, 2021 concurrently with the execution of the first supplemental credit agreement to the KPSB Senior Credit Agreement to finance increased investment in the Sherbrooke Expansion Project) with a seven year term maturing on May 21, 2028 (the KPSB Construction Facility) and (b) a revolving loan of $5 million (reduced from $10 million on December 17, 2021 concurrently with the first supplemental credit agreement to the KPSB Senior Credit Agreement) with a maturity date of May 21, 2026 with the option to extend the maturity date on an annual basis by one additional year (the KPSB Revolving Facility and, collectively with the KPSB Construction Facility, the KPSB Senior Credit Facilities).

The purpose of the KPSB Construction Facility is to partially finance the implementation of the LDC Machine in a new facility adjacent to the Sherbrooke TAD facility, as part of the Sherbrooke Expansion Project, subject to KPSB having first used the full amount of the KPSB IQ Debenture. The purpose of the KPSB Revolving Facility is to finance general corporate purposes, the ongoing working capital requirements of KPSB and to finance the implementation of the LDC Machine in a new facility adjacent to the Sherbrooke TAD facility, as part of the Sherbrooke Expansion Project.

Borrowings under the KPSB Construction Facility bear interest at a base rate of Canadian prime rate, US base rate, LIBOR or the applicable benchmark replacement rate, or banker's acceptance stamping fees plus a margin varying between 1.50% and 3.25% depending on the Total Leverage Ratio (as defined in the KPSB Senior Credit Agreement) and the type of advance. Borrowings under the KPSB Revolving Facility bear interest at a base rate of Canadian prime rate or US base rate or letter of credit fees, depending on the type of advance. Stand-by fees are also payable on the available portion of the KPSB Senior Credit Facilities at a rate varying between 0.50% and 0.75% depending on the Total Leverage Ratio (as defined in the KPSB Senior Credit Agreement).

The KPSB Construction Facility is available for multiple draws on a non-revolving basis, until the achievement of Term Conversion (as defined in the KPSB Senior Credit Agreement), which occurs on the earlier of (i) substantial completion of the LDC Machine installation or (ii) December 31, 2025, and subject to satisfaction of certain conditions set out in the KPSB Senior Credit Agreement. After the achievement of Term Conversion, the principal is to be repaid in quarterly instalments equal to 1.875% of the aggregate principal amount of the outstanding KPSB Construction Facility, plus once-annual prepayments in the amount equal to 50% of KPSB's annual Excess Cash Flow (as defined in the KPSB Senior Credit Agreement) calculated and paid within 120 days at the end of each fiscal year of KPSB.

The KPSB Senior Credit Agreement requires KPSB to comply with certain financial covenants. At all times, starting on the first day of the fourth fiscal quarter following the quarter during which Term Conversion is achieved, KPSB shall maintain on a quarterly financial basis:

Senior Leverage Ratio not greater than:

(i) 4.75x up to and including the end of the 7th fiscal quarter;
(ii) 3.75x from the 8th fiscal quarter up to and including the 11th fiscal quarter; and
(iii) 3.25x from the 12th fiscal quarter and thereafter

Total Leverage Ratio not greater than:

(i) 7.00x up to and including the end of the 7th fiscal quarter;
(ii) 5.25x from the 8th fiscal quarter up to and including the 11th fiscal quarter; and
(iii) 4.50x from the 12th fiscal quarter and thereafter

Fixed Charge Coverage Ratio not less than:

(i) 1.10x up to and including the end of the 7th fiscal quarter; and
(ii) 1.25x from the 8th fiscal quarter and thereafter

To secure the obligations under the KPSB Senior Credit Facilities, KPSB shall (i) grant first ranking liens (subject to permitted liens) on all its current and future tangible and intangible assets, including a pledge of all capital stock or ownership interest in all subsidiaries, and liens on the LDC Machine and the FT Line, in favour of the administrative agent under the KPSB Senior Credit Agreement, (ii) cause every wholly-owned subsidiary of KPSB to solidarily guarantee the obligations under the KPSB Senior Credit Facilities (the Future Guarantors) and grant first ranking liens (subject to permitted liens) on all of its current and future tangible and intangible assets, including a pledge of all capital stock or ownership interest in all subsidiaries, in favour of the administrative agent under the KPSB Senior Credit Agreement (there are no Future Guarantors as of December 31, 2022) and (iii) cause KPLP to pledge on a limited recourse basis all of its capital stock in KPSB.

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, 2022 included cash and cash equivalents, restricted cash, trade and other receivables and receivables from related parties. KPLP places its cash and cash equivalents and restricted cash with financial institutions of high creditworthiness.

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

On November 16, 2018, KPLP entered into a factoring arrangement with the Bank of Nova Scotia, pursuant to a Receivables Purchase Agreement, as amended by a first amendment agreement dated November 12, 2020, a second amendment agreement dated November 8, 2021, a third amendment agreement dated November 8, 2022 and a fourth amended and restated agreement dated December 15, 2022. 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. Pursuant to the fourth amendment, the Receivables Purchase Agreement was renewed on a non-committed basis going forward, whereby either party may terminate the Receivables Purchase Agreement at any time subject to a notice period. As eligible trade receivables are sold, KPLP removes the factored receivables from the consolidated statement of financial position, recognizes the proceeds received as consideration for the transfer and records a loss on factoring, which is included in Interest expense and other finance costs in the consolidated statement of comprehensive income. Cash flows from the factoring arrangement are presented as operating activities in the consolidated statement of cash flows. During Fiscal 2022, the factored receivables sold to the Bank of Nova Scotia were $674.3 million (Fiscal 2021 - $608.1 million). KPLP sold 95% of these trade receivables, net of a dilution factor, for $672.4 million (Fiscal 2021 - $607.3 million). As of December 31, 2022, the trade receivables sold were $42.3 million (December 31, 2021 - $33.5 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, 2022, KPLP had net liabilities denominated in U.S. dollars of $421.2 million (December 31, 2021 – $254.9 million). Assuming the Canadian dollar strengthened (weakened) by 5% against the U.S. dollar, with all other variables held constant, the hypothetical result on net income before tax in Fiscal 2022 would have been an increase (decrease) of $21.1 million (Fiscal 2021 – $12.7 million).

Liquidity Risk

The purpose of liquidity risk management is to maintain sufficient cash and cash equivalents and to ensure KPLP has sufficient authorized credit facilities to maintain liquidity and meet its future obligations as they come due.

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 $279.4 million as of December 31, 2021 (December 31, 2021 –$258.6 million) are all due for payment within twelve months of the dates of the consolidated statements of financial position.

Refer to Liquidity and Capital Resources, Overview for additional details.

Interest Rate Risk

KPLP's interest rate risk arises from its variable rate debt related to the KPLP Senior Credit Facility, certain credit facilities made available as part of the TAD Sherbrooke Project Facility and the KPSB Senior Credit Facility. As of December 31, 2022, KPLP had variable rate debts of $106.9 million (December 31, 2021 – $106.7 million). The KPLP Senior Credit Facility bears interest at a base rate of Canadian prime rate, U.S. base rate, banker's acceptance rates, SOFR (as defined in the KPLP Senior Credit Agreement) or the applicable benchmark replacement rate, plus an applicable margin varying between 0.20% and 3.50%. The revolving loans of US$10 million and $12.5 million made available as part of the TAD Sherbrooke Project Facility bear interest at floating interest rates based on U.S. base rate, Canadian prime rate or CDOR (or the applicable replacement rate) plus an applicable margin. The KPSB Senior Credit Facility bears interest at a base rate of Canadian prime rate, U.S. base rate, LIBOR or the applicable benchmark replacement rate, banker's acceptance rates, plus a margin varying between 1.50% and 3.25%.

A 100 basis point increase (decrease) in the market rate of interest would result in a decrease (increase) in net income before tax of $1.1 million for Fiscal 2022.

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 and other commodity 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, 2022 and December 31, 2021.

TRANSACTIONS WITH RELATED PARTIES

KPLP and Kruger are parties to a Third Amended and Restated Management Services Agreement dated as of November 15, 2019 with effect as of January 1, 2020 (the Management Services Agreement) pursuant to which Kruger provides certain management and support services to KPLP, including corporate management support and administrative support services; accounting and tax support; corporate financing and treasury support; benefits and human resources support services; corporate insurance; corporate procurement services complementary to KPLP procurement; project development and management services, corporate development support, environmental support and corporate engineering support services.

During Fiscal 2022, management fees of $7.8 million (Fiscal 2021 - $7.4 million) were paid to Kruger Inc. for management services provided to KPLP.

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

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

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

Sales of goods and services to Kruger Inc. during Fiscal 2022 were $0.3 million (Fiscal 2021 – $1.3 million). Sales of goods to subsidiaries of Kruger Inc. during Fiscal 2022 were $4.1 million (Fiscal 2021 – $4.1 million). Goods are sold based on the price lists in force and terms that would be available to third parties.

Purchases of goods and services from Kruger Inc. during Fiscal 2022 were $8.0 million (Fiscal 2021 - $7.5 million). Purchases of goods and services from subsidiaries of Kruger Inc. during Fiscal 2022 were $57.9 million (Fiscal 2021 - $52.5 million). These purchases of goods and services are included within Cost of sales and SG&A expenses in the consolidated statement of comprehensive income.

OFF BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS

KPLP has entered into right-of-use lease commitments related to land, buildings, IT services, vehicles and other machines and equipment. Refer to Liquidity and Capital Resources, Contractual Obligations for additional details on contractual obligations including these right-of-use leases.

CRITICAL ACCOUNTING ESTIMATES

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

Pension and Post-Retirement Benefit Obligations

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

Partnership Units Liability

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

The liability is based on KPLP Management's best estimate of the net present value of expected future Tax Distributions, which are made on a pro rata basis based on taxes payable by KPT, which results from KPT's taxable income from its partnership interest in KPLP. KPLP updates the net present value of the liability annually and records any resulting change in Other income (expense). The net present value of the liability is based on a number of assumptions including estimates of taxable income and tax rates, as well as discount rates, growth rates, forecasted Adjusted EBITDA, future commodity prices and foreign exchange rates. Taxable income can differ significantly from accounting income as a result of both timing and permanent tax differences based on enacted tax legislation and therefore changes in the Partnership units obligation are not necessarily indicative of a change in the expected future profitability of KPLP.

As of December 31, 2022, $133.6 million was recorded as a liability in respect of this obligation (December 31, 2021 - $173.2 million). As of December 31, 2022, the valuation utilized a discount rate and terminal growth rate of 9.75% and 2.0% (December 31, 2021 – 8.75% and 2.0%), respectively. The discount rate reflects the risks associated with the business, which operates primarily in Canada.

The gain of $25.6 million recorded during Fiscal 2022 (Fiscal 2021 – loss of $5.3 million) related to the change in amortized cost of Partnership units liability represents the results of the reassessment performed as of December 31, 2022. The Partnership units liability decreased by $39.6 million due to the change in the discount rate causing a decrease of $27.9 million, the final 2021 Tax Distribution of $14.1 million and the changes in other assumptions causing an increase of $2.4 million.

As a result of the Reorganization, the Partnership unit liability was extinguished as the Partnership Agreement was dissolved and the corresponding requirement to make the Tax Distribution was eliminated. Refer to Business Highlights, Corporate Reorganization for additional details.

Equity Method of Accounting

The equity method of accounting is being applied by KPT as it relates to its investment in KPLP. The conclusion to account for an investment using the equity method, particularly when the percentage of ownership is below 20%, is based on an assessment of several facts and circumstances and ultimately requires significant judgment in reaching a conclusion. Management has reviewed the agreements and made an assessment of the rights of KPT. Based on KPT having four of ten seats on the board of directors of KPGP, KPT Management has concluded that KPT has the ability to exercise significant influence over KPLP.

Impairment Tests

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

Management completed the annual impairment test for goodwill related to the Consumer Canada CGU, utilizing future forecasts and concluded that the recoverable amount exceeded the carrying amount as of December 31, 2022 and no impairment was recorded. As of December 31, 2022, the carrying value of the Canada Consumer CGU's goodwill was $152.0 million.

As of December 31, 2022, the carrying value of the AFH CGU's goodwill was nil.

KPLP completed the annual impairment test for indefinite lived trademark. Recoverable amounts related to indefinite lived trademarks are determined based on management’s best estimate using a relief from royalty model. The estimates of relief from royalty are based on the royalties that would have to be paid based on market royalty rates and projected sales volumes. Additional assumptions include estimates of the discount rate, growth rates, selling price to customer and foreign exchange rates. Management has concluded that current and projected sales volumes and profitability support the recoverable amount of the indefinite lived trademarks. As of December 31, 2022, the carrying value of indefinite lived trademarks was $16.0 million.

KPT is required to perform an impairment test on its investment in KPLP if there is objective evidence that the investment may be impaired. Management concluded the future forecasts that support the investment value had not changed significantly and therefore there was no indication of impairment.

Income Taxes

KPLP computes its income taxes in each jurisdiction in which its subsidiaries operate. Estimation of income taxes includes evaluating the recoverability of the deferred tax assets and the income taxes recoverable 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. Management exercises judgment to determine the extent to which realization of future taxable benefits is probable, considering factors such as the number of years to include in the forecast period and the history of taxable profits. During Fiscal 2022, KPLP reassessed its ability to utilize the U.S. State tax credits and its ability to utilize net operating loss carry forwards. KPLP recognized loss carry forwards previously unrecognized and recorded an additional $40.3 million deferred tax asset for Fiscal 2021.

As a result of the Reorganization, certain tax assets and liabilities as well as current and deferred income tax expense will be recognized directly by the successor corporate entity, Kruger Products, as it has an obligation to pay income taxes. Refer to Business Highlights, Corporate Reorganization for additional details.

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

The application of IFRS 16 requires a number of critical judgements, including 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. The application of IFRS 16 also involves a number of key estimates, including 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, 2022

(i) IFRS 3, Reference to Conceptual Framework. In May 2020, the IASB issued an amendment to IFRS 3 to (i) clarify references to the 2018 Conceptual Framework in order to determine what constitutes an asset or liability in a business combination, (ii) add an exception for certain liabilities and contingent liabilities to refer to IAS 37 or IFRIC 21 and (iii) clarify that an acquirer should not recognize contingent assets at the acquisition date. The mandatory effective date was for annual periods beginning on or after January 1, 2022. The amended standard had no impact on the consolidated financial statements.

(ii) IAS 37, Onerous Contracts – Cost of Fulfilling a Contract. In May 2020, the IASB issued an amendment to IAS 37 to clarify which costs to include in estimating the cost of fulfilling a contract for the purpose of assessing whether that contract is onerous. The mandatory effective date was for annual periods beginning on or after January 1, 2022. The amended standard had no impact on the consolidated financial statements.

(iii) IAS 16, Proceeds before Intended Use. In May 2020, the IASB issued an amendment to IAS 16 to clarify the accounting for the net proceeds from selling any items produced while bringing an item of property, plant and equipment into use. The mandatory effective date was for annual periods beginning on or after January 1, 2022. The amended standard had no impact on the consolidated financial statements.

Future Accounting Standards

The following revised standards and amendments are effective for annual periods beginning on or after January 1, 2023, and with earlier application permitted. KPLP and KPT Management are in the process of assessing the impact of these standards and amendments and have determined that the standards and amendments will not be early adopted.

(i) IAS 1, Classification of Liabilities as Current or Non-current. In January 2020, the IASB issued an amendment to IAS 1 to clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. In October 2022, the IASB issued an amendment to IAS1, Non-current Liabilities with Covenants, to clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. The 2022 amendments also introduce additional disclosure requirements to improve the information an entity provides when its right to defer settlement of a liability is subject to compliance with covenants within twelve months after the reporting period. The 2022 amendments changed the effective date of the 2020 amendments. The mandatory effective date would be annual periods beginning on or after January 1, 2024, with early adoption permitted. The amended standard is expected to result in additional disclosures in the consolidated financial statements for non-current liabilities arising from loan arrangements that are subject to covenants to be complied with within twelve months after the reporting period.

(ii) IAS 1, Disclosure of Accounting Policies. In February 2021, the IASB issued amendments to IAS 1 to provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The mandatory effective date would be annual periods beginning on or after January 1, 2023, with early adoption permitted. The amended standard is not expected to have an impact on the consolidated financial statements.

(iii) IAS 8, Accounting Policies, Changes to Accounting Estimates and Errors. In February 2021, the IASB issued amendments to IAS 8 to introduce a new definition of accounting estimates to clarify the distinction between changes in accounting policies and changes in accounting estimates and the correction of errors. The mandatory effective date would be annual periods beginning on or after January 1, 2023, with early adoption permitted. The amended standard is not expected to have an impact on the consolidated financial statements.

(iv) IAS 12, Deferred Tax related to Assets and Liabilities arising from a Single Transaction. In May 2021, the IASB issued amendments to IAS 12 that require an entity to recognize deferred tax on certain transactions such as leases and decommissioning obligations that give rise to equal amounts of taxable and deductible temporary differences on initial recognition. The mandatory effective date would be annual periods beginning on or after January 1, 2023, with early adoption permitted. The amended standard is not expected to have an impact on the consolidated financial statements.

(v) IFRS 16, Lease Liability in a Sale and Leaseback. In September 2022, the IASB issued amendments to IFRS 16 to clarify how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. The mandatory effective date would be annual periods beginning on or after January 1, 2024, with early adoption permitted. The amended standard is not expected to have an impact on the consolidated financial statements.

SELECTED ANNUAL FINANCIAL INFORMATION

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

(C$ millions, unless otherwise stated)	December 31, 2022	December 31, 2021
KPT Financial Information		
Total assets	81.7	80.7
Total liabilities	7.7	4.8
KPLP Financial Information		
Total assets	2,256.8	2,122.3
Total liabilities	1,763.6	1,706.2

SELECTED QUARTERLY FINANCIAL INFORMATION

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

	2022				2021			
(C$ millions, unless otherwise stated)	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Number of days in the period	92	92	91	90	92	92	91	90
Revenue	458.1	427.0	397.5	398.7	424.1	391.4	339.3	310.4
Net income (loss) for the period	16.0	(38.8)	(35.5)	1.4	42.3	(9.3)	2.2	6.8
Reconciliation of Net income (loss) to Adjusted EBITDA								
Net income (loss)	16.0	(38.8)	(35.5)	1.4	42.3	(9.3)	2.2	6.8
Interest expense and other finance costs	20.7	18.9	17.4	17.5	22.8	18.7	16.3	12.9
Income taxes	1.8	(3.9)	(4.9)	(9.1)	(43.2)	(4.6)	(3.0)	(0.2)
Depreciation and amortization	33.0	24.9	21.9	23.1	21.8	23.5	22.2	18.2
Foreign exchange (gain) loss	(5.3)	26.0	12.5	(4.3)	(1.3)	8.3	(4.1)	(3.7)
Change in amortized cost of Partnership units liability	(25.6)	-	-	-	(5.0)	3.5	3.4	3.4
Other expense	0.1	-	-	-	0.4	-	-	-
Loss on sale of property, plant and equipment	0.1	-	-	-	0.1	-	0.3	-
Restructuring costs, net	3.6	0.1	0.4	0.5	0.4	0.2	(0.1)	0.1
Consulting costs related to operational transformation initiatives	-	3.5	-	-	-	-	-	-
Corporate development related costs	-	-	-	-	-	-	0.1	-
Adjusted EBITDA	44.4	30.7	11.8	29.1	38.3	40.3	37.3	37.5

Results of Operations Q4 2022 compared to Q4 2021

Revenue

Revenue was $458.1 million in Q4 2022 compared to $424.1 million in Q4 2021, an increase of $34.0 million or 8.0%. The increase in revenue was due to selling price increases in all segments and regions partially offset by lower sales volume in the Consumer segment and unfavourable mix. Revenue was also favourably impacted by foreign exchange fluctuations on U.S. dollar sales (USD average 1.36 in Q4 2022 compared to 1.26 in Q4 2021). From a geographic perspective, revenue in Canada increased $17.2 million or 7.0% and revenue in the U.S. increased $16.9 million, or 9.5%.

Cost of Sales

Cost of sales was $416.4 million in Q4 2022 compared to $376.0 million in Q4 2021, an increase of $40.4 million or 10.7%. Manufacturing costs increased primarily due to significantly increased pulp costs and high inflation on other input costs, along with the unfavourable impact of foreign exchange fluctuations on U.S. dollar costs, partially offset by lower sales volumes. Depreciation expense increased compared to Q4 2021 primarily due to accelerated depreciation related to the shutdown of certain LDC assets at the Memphis plant in January 2023 (refer to Business Highlights, Shutdown of Certain Memphis Plant Production Assets for additional details) and higher warehousing depreciation expense in Q4 2022. Freight costs increased compared to Q4 2021 primarily due to increased freight rates resulting from cost inflation. As a percentage of revenue, cost of sales was 90.9% in Q4 2022 compared to 88.7% in Q4 2021.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses were $30.6 million in Q4 2022 compared to $31.7 million in Q4 2021, a decrease of $1.1 million or 3.4%. The decrease was primarily due to lower advertising and promotion expenses resulting from cost containment activities partially offset by consulting and legal costs related to the Reorganization and higher personnel costs. As a percentage of revenue, SG&A expenses were 6.7% in Q4 2022 compared to 7.5% in Q4 2021.

Adjusted EBITDA

Adjusted EBITDA[2] was $44.4 million in Q4 2022 compared to $38.3 million in Q4 2021, an increase of $6.1 million or 15.8%. The increase was primarily due to higher selling prices and lower SG&A expenses, partially offset by significant inflation on pulp, manufacturing costs and freight as described above, lower sales volume and the unfavourable impact of foreign exchange fluctuations.

Interest Expense and Other Finance Costs

Interest expense and other finance costs were $20.7 million in Q4 2022 compared to $22.8 million in Q4 2021, a decrease of $2.1 million. The decrease was primarily due to a loss on extinguishment of debt recorded in Fiscal 2021, partially offset by higher debt levels, increased interest rates and the unfavourable impact of foreign exchange fluctuations.

Other Income

Other income was $30.8 million in Q4 2022 compared to $5.9 million in Q4 2021. Other income in Q4 2022 was primarily related to a gain resulting from the change in amortized cost of Partnership units liability of $25.6 million (Q4 2021 – $5.0 million) (refer to Critical Accounting Estimates, Partnership Units Liability for additional details) and a foreign exchange gain on USD denominated debt of $5.3 million (Q4 2021 – $1.3 million).

Income Taxes

An income tax expense of $1.8 million was recorded in Q4 2022 compared to a recovery of $43.2 million in Q4 2021. KPLP is not directly taxable on its Canadian business. The income tax expense in Fiscal 2022 resulted from a provision recorded against certain tax assets, partially offset by a recovery resulting from taxable losses in KPLP's incorporated

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

operating entities in the U.S. and Canada. The recovery in Fiscal 2021 resulted from the recording of an income tax asset of $40.0 million as KPLP was able to record the benefit from non-operating losses related to a subsidiary and from operating losses related to the U.S. entities. Income tax in partner's hands was a recovery of $5.9 million in Q4 2022 compared to $5.4 million in Q4 2021.

Net Income

Net income was $16.0 million in Q4 2022 compared to $42.3 million in Q4 2021, a decrease of $26.3 million. The decrease was primarily due to a significantly lower income tax recovery of $45.0 million as described above, higher depreciation expense of $11.2 and restructuring costs of $3.2 million, partially offset by higher Adjusted EBITDA of $6.1 million as discussed above, higher change in the amortized costs of the Partnership units liability of $20.6 million, higher foreign exchange gain of $4.0 million, lower interest expense of $2.1 million and lower other expense of $0.3 million.

Segment Information Q4 2022 compared to Q4 2021

(C$ millions, unless otherwise noted)	Q4 2022	Q4 2021	Q4 2022 vs. Q4 2021 $ Change	 % Change
Segment Revenue				
Consumer	378.8	364.0	14.8	4.1%
AFH	79.3	60.1	19.2	31.9%
Total segment revenue	458.1	424.1	34.0	8.0%
Adjusted EBITDA				
Consumer	42.7	43.7	(1.0)	
AFH	5.7	(1.7)	7.4	
Corporate and other costs	(4.0)	(3.7)	(0.3)	
Total Adjusted EBITDA	44.4	38.3	6.1	

Consumer Segment

Q4 2022 compared to Q4 2021

Consumer segment revenue was $378.8 million in Q4 2022 compared to $364.0 million in Q4 2021, an increase of $14.8 million or 4.1%. The increase in revenue was due to selling price increase in Canada and the U.S., and the favourable impact of foreign exchange fluctuations on U.S. dollar sales, partially offset by a decrease in sales volume related to lower consumer demand in the quarter. Consumer segment revenue increased in both Canada and the U.S.

Consumer Segment Adjusted EBITDA was $42.7 million in Q4 2022 compared to $43.7 million in Q4 2021, a decrease of $1.0 million. The decrease in Adjusted EBITDA was primarily due to lower sales volumes and significant inflation in cost of sales as described above in Results of Operations for Q4 2022, which was only partially offset by the selling price increases.

AFH Segment

Q4 2022 compared to Q4 2021

AFH segment revenue was $79.3 million in Q4 2022 compared to $60.1 million in Q4 2021, an increase of $19.2 million or 31.9%. The increase was primarily due to significantly higher sales volumes in both the U.S. and Canada as the business continues to recover from the impact of COVID-19, selling price increases in Fiscal 2022 and the favourable impact of foreign exchange fluctuations on U.S. dollar sales. AFH segment revenue increased in both the U.S. and Canada.

AFH Segment Adjusted EBITDA was $5.7 million in Q4 2022 compared to a loss of $1.7 million in Q4 2021, an improvement of $7.4 million. The significant increase was due to the favourable impact of higher sales volume and selling price increases along with increased production efficiencies, which were only partially offset by high inflation in cost of sales as described above in Results of Operations for Q4 2022 along with higher SG&A expenses.

Corporate and Other Costs

Q4 2022 compared to Q4 2021

Corporate and other costs include certain management overhead costs not directly attributable to the business segments.

Corporate and other costs were a loss of $4.0 million in Q4 2022 compared to a loss of $3.7 million in Q4 2021, an increase of $0.3 million.

SHARE INFORMATION

KPT's authorized share capital consists of an unlimited number of KPT Common Shares. As of March 9, 2023, there were 9,950,658 KPT 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 KPT Common Shares on the basis of one KPLP Unit for one KPT Common Share, subject to adjustment as set out in the Exchange Agreement. Pursuant to the Asset Purchase Agreement dated as of January 1, 2023, KPLP transferred its rights under the Exchange Agreement to Kruger Products, in connection with the Reorganization (refer to Business Highlights, Corporate Reorganization for additional details). Accordingly, if Kruger Inc. were to exchange all Kruger Products Common Shares held by it as of March 9, 2023 for KPT Common Shares, it would hold approximately 86.3% of the issued and outstanding KPT Common Shares. As of March 9, 2023, there were no potentially dilutive instruments outstanding.

Pursuant to the Limited Partnership Agreement, KPLP may issue an unlimited number of KPLP Units. Following the Reorganization, on January 1, 2023 (refer to Business Highlights, Corporate Reorganization for additional details), KPLP was dissolved and wound up (the Dissolution). Pursuant to the Shareholders' Agreement, Kruger Products is authorized to issue an unlimited number of common shares and an unlimited number of Kruger Products Common Shares. As of March 9, 2023, there were 72,572,012 Kruger Products Common Shares 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 2022 Annual Information Form dated March 9, 2023 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 2022 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, 2022, 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, 2022, 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 STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2022 AND DECEMBER 31, 2021

KP Tissue Inc.
2 Prologis Blvd., Suite 500, Mississauga, Ontario L5W 0G8
www.kptissueinc.com

Independent auditor's report

To the Shareholders of KP Tissue Inc.

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of KP Tissue Inc. (the Corporation) as at December 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited
The Corporation's financial statements comprise:

- the statements of financial position as at December 31, 2022 and 2021;
- the statements of comprehensive income for the years then ended;
- the statements of changes in equity for the years then ended;
- the statements of cash flows for the years then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

PricewaterhouseCoopers LLP
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Key audit matter	How our audit addressed the key audit matter
Impairment indicator assessment on the equity accounted investment in Kruger Products L.P. *Refer to note 1 – General information, note 3 – Summary of significant accounting policies, note 4 – Critical accounting estimates and judgments, note 5 – Investment in associate, and note 9 – Economic dependence to the financial statements.* The Corporation was created to acquire, and its business is limited to holding, a limited partnership interest in Kruger Products L.P. (KPLP), which is accounted for as an investment in an associate using the equity method of accounting. As at December 31, 2022, the Corporation held a 13.9% interest in KPLP and the carrying amount of the Corporation's equity accounted investment in KPLP amounted to $79.3 million. Management assesses at each reporting period whether there is any objective evidence that indicates an impairment related to the investment in KPLP. Management applies judgment when assessing whether there is any objective evidence that would require an impairment test to be performed, including whether (i) KPLP has recognized impairment losses in its financial results; (ii) the recoverable amounts of KPLP's cash generating units tested for impairment have declined below the carrying amount of the Corporation's basis in KPLP's assets included in the investment in KPLP after taking into account the fair value increment for identifiable assets recorded on acquisition of interests in KPLP; or (iii) there is a significant decline in the market capitalization of the Corporation compared to its net assets. Management did not perform an impairment test as at December 31, 2022, as there was no objective evidence that indicated that an impairment test was required. We considered this a key audit matter due to the	Our approach to addressing the matter included the following procedures, among others: • Evaluated the reasonableness of management's impairment indicator assessment on the equity accounted investment in KPLP by: – Performing an audit of the consolidated financial statements of KPLP as at December 31, 2022. This included: o considering the financial performance of KPLP and the impact of recognized impairment losses, if any, in the consolidated financial statements of KPLP on the carrying amount of the Corporation's investment in KPLP; o comparing the recoverable amounts of KPLP's cash generating units tested for impairment to the carrying amount of the Corporation's basis in KPLP's assets included in the investment in KPLP after taking into account the fair value increment for identifiable assets recorded on acquisition of interests in KPLP; and o evaluating the completeness of management's impairment indicator assessment of whether there was any other objective evidence that indicates an impairment related to the investment in KPLP. – Recalculating and comparing the Corporation's market capitalization to its net assets as at December 31, 2022.

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

Other information

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

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

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

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
March 9, 2023

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KP Tissue Inc.
Statements of Financial Position

(tabular amounts are in thousands of Canadian dollars)

	December 31, 2022	December 31, 2021
	$	$
Assets		
Current assets		
Distributions receivable	1,790	1,781
Income taxes recoverable	580	208
	2,370	1,989
Non-current assets		
Investment in associate (note 5)	79,338	78,727
Total assets	81,708	80,716
Liabilities		
Current liabilities		
Dividend payable (note 7)	1,790	1,781
Payable to Partnership	170	246
Current portion of advances from Partnership (note 6)	-	2,014
	1,960	4,041
Non-current liabilities		
Deferred income taxes (note 6)	5,718	806
Total liabilities	7,678	4,847
Equity		
Common shares (note 7)	22,379	21,844
Contributed surplus	144,819	144,819
Deficit	(108,008)	(103,561)
Accumulated other comprehensive income	14,840	12,767
Total equity	74,030	75,869
Total liabilities and equity	81,708	80,716

Subsequent events (notes 1 and 7)

Approved by the Board of Directors

/s/ James Hardy | /s/ François Vimard

Director | **Director**

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

KP Tissue Inc.
Statements of Comprehensive Income
For the years ended December 31, 2022 and December 31, 2021

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

	2022 $	2021 $
Equity income (loss) (note 5)	(13,299)	800
Dilution gain (note 7)	752	321
Income (loss) before income taxes	(12,547)	1,121
Income tax recovery (note 6)	(2,298)	(118)
Net income (loss) for the year	(10,249)	1,239
Other comprehensive income (loss)		
net of tax expense (recovery) (note 8)		
Items that will not be reclassified to net income (loss):		
Remeasurements of pensions	11,493	13,568
Remeasurements of post-retirement benefits	1,470	614
Items that may be subsequently reclassified to net income (loss):		
Cumulative translation adjustment	2,073	(294)
Total other comprehensive income for the year	15,036	13,888
Comprehensive income for the year	4,787	15,127
Basic earnings (loss) per share	**(1.03)**	**0.13**
Weighted average number of shares outstanding	**9,936,187**	**9,835,582**

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

KP Tissue Inc.
Statements of Changes in Equity
For the years ended December 31, 2022 and December 31, 2021

(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, 2021	9,751,771	20,355	144,819	(111,907)	13,061	66,328
Issuance of common shares (note 7)	143,648	1,498	-	-	-	1,498
Dividends payable (note 7)	-	-	-	(1,781)	-	(1,781)
Dividends paid (note 7)	-	-	-	(5,303)	-	(5,303)
Fair value adjustment	-	(9)	-	9	-	-
Remeasurements of pensions	-	-	-	13,568	-	13,568
Remeasurements of post-retirement benefits	-	-	-	614	-	614
Cumulative translation adjustment	-	-	-	-	(294)	(294)
Net income for the year	-	-	-	1,239	-	1,239
As of December 31, 2021	9,895,419	21,844	144,819	(103,561)	12,767	75,869
As of January 1, 2022	9,895,419	21,844	144,819	(103,561)	12,767	75,869
Issuance of common shares (note 7)	50,557	529	-	-	-	529
Dividends payable (note 7)	-	-	-	(1,790)	-	(1,790)
Dividends paid (note 7)	-	-	-	(5,365)	-	(5,365)
Fair value adjustment	-	6	-	(6)	-	-
Remeasurements of pensions	-	-	-	11,493	-	11,493
Remeasurements of post-retirement benefits	-	-	-	1,470	-	1,470
Cumulative translation adjustment	-	-	-	-	2,073	2,073
Net loss for the year	-	-	-	(10,249)	-	(10,249)
As of December 31, 2022	9,945,976	22,379	144,819	(108,008)	14,840	74,030

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

KP Tissue Inc.
Statements of Cash Flows
For the years ended December 31, 2022 and December 31, 2021

(tabular amounts are in thousands of Canadian dollars)

	2022 $	2021 $
Cash flows from (used in) operating activities		
Net income (loss) for the year	(10,249)	1,239
Items not affecting cash		
Equity loss (income) (note 5)	13,299	(800)
Dilution gain (note 7)	(752)	(321)
Income tax recovery (note 6)	(2,298)	(118)
Total items not affecting cash	10,249	(1,239)
Net change in non-cash working capital (note 10)	(76)	233
Tax refunds (payments)	38	(4,020)
Tax Distribution received, net	38	1,738
Advances received	-	2,049
Net cash from (used in) operating activities	-	-
Cash flows from investing activites		
Partnership unit distributions received	6,617	5,560
Net cash from investing activities	6,617	5,560
Cash flows used in financing activities (note 11)		
Dividends paid, net (note 7)	(6,617)	(5,560)
Net cash used in financing activities	(6,617)	(5,560)
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.

(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, 2022, the Corporation held a 13.9% (December 31, 2021 – 14.5%) 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.

Subsequent to December 31, 2022, on January 1, 2023, KPLP undertook a corporate reorganization (the Kruger Products Reorganization) pursuant to which KPLP, a limited partnership, was essentially replaced by a corporate entity, Kruger Products Inc. (Kruger Products), without adversely affecting the Corporation. As a result of the Kruger Products Reorganization, Kruger Products, as the successor corporate entity to KPLP, now operates the business previously operated by KPLP. The Corporation currently holds a 13.7% interest in Kruger Products.

2 Basis of presentation

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

The financial statements were approved by the board of directors on March 8, 2023.

3 Summary of significant accounting policies

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

(a) Investments in associates

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

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

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

(b) Income tax

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

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

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 arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except, in the case of subsidiaries, where the timing of the reversal of the temporary difference is controlled by the Corporation and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

(c) Share capital

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

(d) Earnings per share

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

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

(e) Accounting standards issued but not yet applied

(i) IAS 1, Classification of Liabilities as Current or Non-current. In January 2020, the IASB issued an amendment to IAS 1 to clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. In October 2022, the IASB issued an amendment to IAS1, Non-current Liabilities with Covenants, to clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. The 2022 amendments also introduce additional disclosure requirements to improve the information an entity provides when its right to defer settlement of a liability is subject to compliance with covenants within twelve months after the reporting period. The 2022 amendments changed the effective date of the 2020 amendments. The mandatory effective date would be annual periods beginning on or after January 1, 2024, with early adoption permitted. The amended standard is not expected to have an impact on the financial statements.

(ii) IAS 1, Disclosure of Accounting Policies. In February 2021, the IASB issued amendments to IAS 1 to provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The mandatory effective date would be annual periods beginning on or after January 1, 2023, with early adoption permitted. The amended standard is not expected to have an impact on the financial statements.

(iii) IAS 8, Accounting Policies, Changes to Accounting Estimates and Errors. In February 2021, the IASB issued amendments to IAS 8 to introduce a new definition of accounting estimates to clarify the distinction between changes in accounting policies and changes in accounting estimates and the correction of errors. The mandatory effective date would be annual periods beginning on or after January 1, 2023, with early adoption permitted. The amended standard is not expected to have an impact on the financial statements.

4 Critical accounting estimates and judgments

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

Equity method of accounting

The equity method of accounting is being applied by the Corporation as it relates to its investment in KPLP. The conclusion to account for an investment using the equity method, particularly when the percentage of ownership is below 20%, is based on an assessment of several facts and circumstances and ultimately requires significant judgment in reaching a conclusion. Management has reviewed the agreements and made an assessment of the rights of the Corporation. Based on the Corporation having four of ten seats on the board of directors of KPGP Inc. (KPGP), management has concluded that the Corporation has the ability to exercise significant influence over KPLP.

Impairment test

The Corporation is required to perform an impairment test on its investment in KPLP if there is objective evidence that indicates that the investment may be impaired. Management applies judgment when assessing whether there is any objective evidence that would require an impairment test to be performed, including whether (i) KPLP has recognized impairment losses in its financial results; or (ii) the recoverable amounts of KPLP's cash generating units tested for impairment have declined below the carrying amount of the Corporation's basis in KPLP's assets included in the investment in KPLP after taking into account the fair value increment for identifiable assets recorded on acquisition of interests in KPLP; or (iii) there is a significant decline in the market capitalization of the Corporation compared to its net assets. During the year ended December 31, 2022, management considered the impact of various events on the Corporation's assessment of whether there was objective evidence that its investment in KPLP may be impaired. Management concluded the future forecasts that support the investment value had not changed significantly and as a result no triggering event had occurred requiring an impairment test to be performed.

Partnership units

On December 13, 2012, in connection with the issuance of Partnership units to KPT, the Limited Partnership Agreement was amended to require KPLP, subject to compliance with contractual obligations and applicable law, to make distributions to its partners in such amounts as would enable KPT to discharge its obligation to pay federal and provincial income taxes (the Tax Distribution). Each partner is entitled to its share of the Tax Distribution made in respect of any given year.

Income taxes

The Corporation has not recognized at the date of acquisition the deferred tax assets and liabilities related to the differences between the accounting and tax basis of KPLP's assets and liabilities. Accordingly, the Corporation is tracking temporary differences that are subject to the initial recognition exemption and recognizes newly created temporary differences as they arise. The determination of the temporary differences that are subject to the initial recognition exemption requires significant judgment.

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

5 Investment in associate

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

	$
As of January 1, 2021	69,537
Investment in associate	1,498
Share of income	6,125
Depreciation of fair value increments	(5,325)
Share of other comprehensive income	16,267
Dilution gain	321
Tax Distribution	(2,612)
Partnership unit distributions	(7,084)
As of December 31, 2021	78,727
As of January 1, 2022	78,727
Investment in associate	529
Share of loss	(8,086)
Depreciation of fair value increments	(5,213)
Share of other comprehensive income	21,836
Dilution gain	752
Tax Distribution	(2,052)
Partnership unit distributions	(7,155)
As of December 31, 2022	79,338

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

	2022 $	**2021** $
Share of income (loss)	(8,086)	6,125
Depreciation of fair value increments	(5,213)	(5,325)
	(13,299)	800

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

The following summarizes financial information about the assets, liabilities, revenue and net income (loss) of KPLP, in which the Corporation held a 13.9% interest as of December 31, 2022 (December 31, 2021 – 14.5%). The financial information was derived from the consolidated financial statements of KPLP for the year ended December 31, 2022. 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.

			December 31, 2022
	KPLP basis of accounting $	FV increment $	KPT basis of accounting $
Current assets	491,822	-	491,822
Non-current assets	1,764,946	317,605	2,082,551
Liabilities to non-unitholders	1,630,046	-	1,630,046
Partnership units liability	133,551	-	133,551
Net assets	493,171		

	Year ended December 31, 2022 $
Revenue	1,681,403
Net loss	(56,882)
Other comprehensive income	151,707
Total comprehensive income	94,825

			December 31, 2021
	KPLP basis of accounting $	FV increment $	KPT basis of accounting $
Current assets	511,547	-	511,547
Non-current assets	1,610,765	351,875	1,962,640
Liabilities to non-unitholders	1,533,016	-	1,533,016
Partnership units liability	173,201	-	173,201
Net assets	416,095		

	Year ended December 31, 2021 $
Revenue	1,465,161
Net income	41,999
Other comprehensive income	112,226
Total comprehensive income	154,225

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

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

	December 31, 2022 $	December 31, 2021 $
KPLP consolidated equity	493,171	416,095
Add back: Inception value of Partnership units liability	118,562	118,562
Less: Equity pertaining to Kruger Inc. and KPGP	(453,961)	(383,737)
Equity pertaining to KPT	157,772	150,920
Investment in associate recorded in KPT	79,338	78,727
Reconciling difference	78,434	72,193
Reconciling items since inception:		
Equity issuance costs	(11,110)	(11,110)
Depreciation of FV increments	59,171	53,958
Currency translation adjustment in fair value increments	(3,302)	(3,030)
Tax Distribution	9,320	7,268
Gain on exercise of overallotment option	(375)	(375)
Dilution gain	(3,270)	(2,518)
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 17, 2022, April 15, 2022, July 15, 2022, and October 17, 2022, in connection with the Corporation Distribution Reinvestment Plan (DRIP), a portion of the dividends received by the shareholders was used to acquire an additional 50,557 common shares of the Corporation for proceeds of $0.5 million (note 7).

6 Income taxes

The Corporation is required to pay income tax on its share of the taxable income of KPLP. The Corporation has not recognized at the date of acquisition the deferred tax assets and liabilities related to the differences between the accounting and tax basis of KPLP's assets and liabilities. Accordingly, the Corporation is tracking the temporary differences that were subject to the initial recognition exemption and recognizes newly created temporary differences as they arise.

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

	2022 $	2021 $
Current tax expense (recovery)	(410)	2,089
Deferred tax recovery	(1,888)	(2,207)
	(2,298)	(118)

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

Details of the provision for income taxes were as follows:

	2022	2021
	$	$
Income tax at statutory rate of 26%	(3,264)	291
Permanent differences and other	174	15
Dilution gain	(195)	(84)
Taxed in hands of subsidiaries	2,345	31
Realization of previously unrecognized tax attributes	1,480	1,744
Change in basis of investment in associate	(2,838)	(2,115)
	(2,298)	(118)

Components of the deferred income tax liability were as follows:

	December 31, 2022	December 31, 2021
	$	$
Deferred tax liability (asset)		
ROU assets and lease liabilities	(592)	(762)
Pensions	3,078	(807)
Partnership units liability	(2,782)	(3,825)
Property, plant and equipment	6,737	6,960
Other	(723)	(760)
	5,718	806

The analysis of the deferred tax liability were as follows:

	December 31, 2022	December 31, 2021
	$	$
Deferred tax liabilities to be realized greater than 12 months	5,718	806

In addition to the above, the Corporation has a deferred tax asset of $5.7 million (December 31, 2021 - $7.0 million) related to the Investment in associate which has not been recognized in the financial statements for the year ended December 31, 2022.

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

The movement in the deferred tax liability was as follows:

	$
As of January 1, 2021	634
Charge to net loss	(2,207)
Charge to other comprehensive loss	
- remeasurements of cumulative translation adjustment	(44)
Charge to other comprehensive income	
- remeasurements of post-retirement benefits	393
Charge to other comprehensive income	
- remeasurements of pensions	2,030
As of December 31, 2021	806
As of January 1, 2022	806
Charge to net loss	(1,888)
Charge to other comprehensive income	
- remeasurements of cumulative translation adjustment	310
Charge to other comprehensive income	
- remeasurements of post-retirement benefits	629
Charge to other comprehensive income	
- remeasurements of pensions	5,861
As of December 31, 2022	5,718

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.

Pursuant to the Tax Distribution as defined in the Partnership Agreement, on February 28, 2022, KPT received a Tax Distribution of $2.1 million from KPLP for purposes of settling its obligation for federal and provincial taxes, for the year ended December 31, 2021. The Tax Distribution was used to settle the outstanding advance to KPT in the amount of $2.0 million as of December 31, 2021. There was no Tax Distribution declared on February 28, 2023. The Tax Distribution is not required in future periods as Kruger Products, the successor to KPLP, is a corporate entity and is therefore subject to tax directly.

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

7 Dividends

During the years ended December 31, 2022 and December 31, 2021, 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:

				2022
	Dividends paid	Share price	Issuance of Common shares	Gross proceeds
Dividend Payment Date	$	$	#	$
January 17, 2022	1,781	10.50	36,007	378
April 15, 2022	1,788	10.81	4,351	47
July 15, 2022	1,788	10.26	4,426	46
October 17, 2022	1,789	10.26	5,773	58
	7,146		50,557	529

				2021
	Dividends paid	Share price	Issuance of Common shares	Gross proceeds
Dividend Payment Date	$	$	#	$
January 15, 2021	1,755	10.70	32,921	352
April 15, 2021	1,761	10.47	39,046	409
July 15, 2021	1,768	10.32	35,366	365
October 15, 2021	1,774	10.26	36,315	372
	7,058		143,648	1,498

As a result of the Kruger Products Reorganization, the Corporation received a dividend of $1.8 million from Kruger Products on January 16, 2023, such that the Corporation received the same amount in the form of a dividend as the Corporation would have received had the January 16, 2023 distribution been paid by KPLP.

On January 16, 2023, the Corporation paid a dividend of $1.8 million to shareholders at $0.18 per common share. Pursuant to the Corporation DRIP, a portion of the dividend was reinvested by the shareholders, resulting in the Corporation issuing 4,682 common shares at a price of $10.18.

Subsequent to December 31, 2022, the Corporation declared a dividend of $0.18 per common share to shareholders, payable on April 17, 2023.

As a result of the DRIP and Kruger's reinvestment of its distribution from KPLP in units of KPLP, a dilution gain of $0.8 million was recorded during the year ended December 31, 2022 (2021 - $0.3 million).

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

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

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

	2022 $	2021 $
Items that will not be reclassified to net income (loss):		
Remeasurements of pensions	17,354	15,598
Income tax expense	(5,861)	(2,030)
Net of income tax expense	11,493	13,568
Remeasurements of post-retirement benefits	2,099	1,007
Income tax expense	(629)	(393)
Net of income tax expense	1,470	614
Items that may be subsequently reclassified to net income (loss):		
Cumulative translation adjustment	2,383	(338)
Income tax recovery (expense)	(310)	44
Net of income tax recovery (expense)	2,073	(294)
Total other comprehensive income for the year	15,036	13,888

9 Economic dependence

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

10 Non-cash working capital

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

	2022 $	2021 $
Decrease in receivable from Partnership	-	21
Increase (decrease) in payable to Partnership	(76)	212
	(76)	233

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

11 Cash flows used in financing activities

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

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

	As of January 1, 2022	Dividends paid, net	Movements not in financing	As of December 31, 2022
	$	$	$	$
Dividend payable	1,781	(7,146)	7,155	1,790
Common shares	21,844	529	6	22,379
Total	23,625	(6,617)	7,161	24,169

SHAREHOLDER INFORMATION

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STOCK EXCHANGE LISTING

Toronto Stock Exchange
Stock Symbol: KPT

AUDITORS

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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, finance, accounting and capital markets.

François Vimard (Chair and Independent Director) [(1) (2) (3)]
James Hardy (Independent Director) [(1) (2) (3)]
John ('Jay') Wright (Independent Director) [(1) (3) (4)]
Louise Denys Wendling (Director)

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

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

ANNUAL MEETING OF SHAREHOLDERS

The Annual Meeting of Shareholders will be held
at TMX Market Centre (Pearce Bunting Room),
120 Adelaide Street West, Ground Floor,
Toronto, Ontario M5H 1S3
on June 20, 2023 at 2:00 p.m. (ET).

DESIGNED AND WRITTEN BY

MBC Capital Markets Advisors

OUR VISION

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

OUR MISSION

MAKING EVERYDAY LIFE MORE COMFORTABLE.

Kruger
Products