



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

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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)	\$ Change				
	Fiscal 2022	Fiscal 2021	Fiscal 2020	Fiscal 2022 vs. Fiscal 2021	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 administrative 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 manufacturing 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)	\$ Change				
	Fiscal 2022	Fiscal 2021	Fiscal 2020	Fiscal 2022 vs. Fiscal 2021	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 EBITDA¹ 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, unless otherwise noted)	Fiscal 2022	Fiscal 2021	Fiscal 2020	Fiscal 2022 vs Fiscal 2021		Fiscal 2021 vs 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	<u>1,681.4</u>	<u>1,465.2</u>	<u>1,516.0</u>	<u>216.2</u>	<u>14.8%</u>	<u>(50.8)</u>	<u>-3.4%</u>
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	<u>116.0</u>	<u>153.4</u>	<u>197.8</u>	<u>(37.4)</u>		<u>(44.4)</u>	

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)	\$ Change				
	Fiscal 2022	Fiscal 2021	Fiscal 2020	Fiscal 2022	Fiscal 2021
				vs.	vs.
			Fiscal 2021	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:

<u>Year</u>	<u>Percentage</u>
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:

<u>Year</u>	<u>Percentage</u>
2024	102.688%
2025	101.344%
2026 and thereafter	100.000%

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

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

AgCredit Agreement

Subsidiaries of KPLP are party to a credit agreement 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 repaying 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)	<u>December 31, 2022</u>	<u>December 31, 2021</u>
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:

(C\$ millions, unless otherwise stated)	<u>2022</u>				<u>2021</u>			
	<u>Q4</u>	<u>Q3</u>	<u>Q2</u>	<u>Q1</u>	<u>Q4</u>	<u>Q3</u>	<u>Q2</u>	<u>Q1</u>
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 EBITDA² 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.