MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE AND TWELVE-MONTH PERIODS ENDED DECEMBER 31, 2016

The following management's discussion and analysis of financial condition and results of operations ("MD&A"), dated February 15, 2017, of Supremex Inc. (the "Company") should be read together with the accompanying audited consolidated financial statements and related notes of the Company for the year ended December 31, 2016. These consolidated financial statements of the Company have been prepared by management in accordance with International Financial Reporting Standards ("IFRS"). The fiscal year of the Company ends on December 31. The Company's reporting currency is the Canadian dollar. Per share amounts are calculated using the weighted average number of shares outstanding for the three and twelve-month periods ended December 31, 2016.

This MD&A contains forward-looking information. Please see "Forward-Looking Information" for a discussion of the risks, uncertainties and assumptions relating to these statements. In addition to our results reported in accordance with IFRS, the MD&A may contain other non-IFRS financial measures. Terms by which non-IFRS financial measures are identified include, but are not limited to, "EBITDA" or other similar expressions. Non-IFRS financial measures are used to provide management and investors with additional measures of performance. However, non-IFRS financial measures do not have standard meanings prescribed by IFRS and therefore may not be directly comparable to similar measures used by other companies and should not be viewed as alternatives to measures of financial performance prepared in accordance with IFRS. See "Definition of EBITDA and Non-IFRS Measures" and "Selected Consolidated Financial Information" for the reconciliation of EBITDA to net earnings.

Overview

Supremex is a leading North American manufacturer and marketer of a broad range of stock and custom envelopes and a growing provider of packaging and specialty products. Supremex is the only national envelope manufacturer in Canada, with facilities across seven provinces and three facilities in the United States and employs approximately 780 people. Supremex' growing footprint allows it to efficiently manufacture and distribute products tailored to the specifications of major corporations, national resellers, government entities, as well as paper merchants, statement processors and solutions providers.

2016 Highlights and Overall Performance

Key Events:

On August 29, 2016, Supremex announced it acquired substantially all of the assets of Indiana-based Bowers Envelope Company, Inc. ("Bowers Envelope") a manufacturer and printer of envelopes strategically located at "The Crossroads of America". In 2015, Bowers Envelope generated approximately US$8.5 million in revenues from the sale of stock and custom envelopes through a variety of sales channels.

On November 4, 2016, Supremex announced the appointment of Mr. Drew Sullivan as Director for the Company. Mr. Sullivan recently retired as President of RR Donnelley Canada.

On November 28, 2016, Supremex announced the acquisition of substantially all of the assets of Durabox Paper Inc. ("Durabox Paper"), a manufacturer of specialty corrugated paper boxes located in Lachine, Quebec. During its last fiscal year, Durabox Paper generated approximately $8.0 million in revenues.

On December 23, 2016, Supremex concluded a strategic acquisition of Printer Gateway Inc. ("Printer Gateway"), a nationally recognized Toronto-based Web-to-Print printer servicing the communications and graphic arts industry. In addition to its e-commerce based B2B store front, Printer Gateway developed a proprietary leading edge integrated technology that allows it to efficiently service small orders. Supremex intends to deploy this technology across certain product lines to improve machinery utilization and turnaround time. Printer Gateway generated approximately $4.0 million of revenues from the sale of various marketing materials (such as postcards, brochures, booklets and flyers) over the last twelve-month period.

Fourth Quarter Performance Highlights:

Revenue for the three-month period ended December 31, 2016, increased by 5.1% or $2.1 million reaching to $43.4 million compared with $41.3 million during the three-month period ended December 31, 2015, mostly on the execution of the Company's diversification strategy with the acquisitions of Bowers Envelope and Durabox Paper.

Revenue from the Canadian envelope market was down by $1.0 million or 3.5%, to $28.0 million. Revenue from the U.S. envelope market increased by $2.0 million or 21.6%, reaching $11.1 million mostly from the contribution of Bowers Envelope, acquired in August 2016. Revenue from packaging and specialty products increased by 36.5% to reach $4.3 million, mostly explained by the acquisition of Durabox Paper on November 28, 2016.

EBITDA stood at $7.8 million for the three-month period ended December 31, 2016, compared with $8.1 million for the same period in 2015, a decrease of $0.3 million or 3.5%. EBITDA margins stood at 18.0% compared to 19.6% during the fourth quarter of 2015, mainly the result of a higher level of selling and administrative expenses from the acquired businesses.

Net earnings increased by 22.0%, amounting to $4.6 million (or $0.16 per share) for the three-month period ended December 31, 2016, compared with $3.8 million (or $0.13 per share) for the same period in 2015.

Fiscal Year Performance Highlights:

Revenue for the year ended December 31, 2016, increased by 12.8% or $18.3 million, reaching $160.6 million. During the last sixteen months, the Company focused on executing its acquisition strategy to maintain a strong envelope platform in Canada, diversify into the U.S. envelope and packaging and specialty products markets.

Revenue from the Canadian envelope market increased by $3.2 million or 3.0% reaching $110.0 million. Although the acquisition of substantially all of the assets of Premier Envelope Ltd. ("Premier Envelope") performed well during the year and helped mitigate the secular decline of the Canadian envelope market, disruptions caused by the threat of a work stoppage at Canada Post over the summer affected revenues. Additionally, last year's results benefited from the effects of a large order for the government that only occurs every four years.

Continued strength in the U.S. envelope market came mostly from the acquisitions of Classic Envelope Inc., concluded in October 2015, and of Bowers Envelope at the end of August 2016. This market contributed $13.3 million revenue growth in 2016 and revenues increased by 53.3% to $38.4 million. Revenue from packaging and specialty products also increased, by 16.4% or $1.7 million reaching $12.2 million. The acquisition of Durabox Paper concluded in November and legacy product growth contributed to this increase.

EBITDA stood at $27.4 million (or 17.1% of revenues) for the year ended December 31, 2016, compared with $33.1 million (or 23.3% of revenues) in 2015, a decrease of $5.7 million or 17.3%. In 2015, gains on amendments to the pension and post-retirement benefit plans amounting to $5.0 million were recognized. On an adjusted basis, EBITDA stood at $27.4 million (or 17.1% of revenues) compared with $28.1 million (or 19.8% of revenues) in 2015. Weakness in the Canadian envelope market brought on by the threat of labour disruptions at Canada Post, the execution in 2015 of a large order for the government that only occurs every four years, a growing presence in a more competitive U.S. envelope market and additional costs incurred to integrate the acquired businesses explain a weaker EBITDA in 2016.

Net earnings amounted to $14.6 million (or $0.51 per share) for the year ended December 31, 2016, compared with the net earnings of $15.9 million (or $0.55 per share) for the same period in 2015, a decrease of $1.3 million or 8.4%.

Declaration of Dividend:

On February 15, 2017, the Board of Directors declared a quarterly dividend of $0.06 per share, payable on April 14, 2017, to shareholders of record at the close of business on March 31, 2017. The dividend is equivalent to the dividend declared during the last quarter and represents an increase of 9.1% over the dividend paid in the fourth quarter of last year. This dividend is designated as an "eligible" dividend for the purpose of the Income Tax Act (Canada) and any similar provincial legislation.

Execution of Normal Course Issuer Bid:

On July 29, 2016 Supremex received approval for a new Normal Course Issuer Bid ("NCIB") whereby the Company can repurchase, for cancellation, up to 500,000 common shares, for a maximum period of twelve months. During 2016, the Company purchased for cancellation under the NCIB programs in effect, a total of 139,616 shares, for total considerations of $668,939. After year end, the Company purchased an additionnal 2,300 shares following execution of the NCIB, for total considerations of $11,492.

Table of revenue information,
(In thousands of dollars)

	Three-month periods ended December 31		**Twelve-month periods ended December 31**	
Revenue information **Percentage variation**	**2016**	**2015**	**2016**	**2015**
Canadian envelope market revenues	**$28.0**	$29.0	**$110.0**	$106.8
Volume	***-7.1%***	*-1.8%*	***-1.3%***	*-3.6%*
Average Selling Price	***3.9%***	*4.3%*	***4.4%***	*3.2%*
Total Growth Rate	***-3.5%***	*2.4%*	***3.0%***	*-0.5%*
U.S. envelope market revenues	**$11.1**	$9.1	**$38.4**	$25.0
Volume	***20.5%***	*81.5%*	***46.0%***	*45.4%*
Average Selling Price (in CAD)	***0.8%***	*26.4%*	***5.0%***	*16.5%*
Total Growth Rate	***21.5%***	*129.4%*	***53.3%***	*69.5%*
Packaging & Specialty products revenues (Canada and U.S.)	**$4.3**	$3.2	**$12.2**	$10.5
Total Growth Rate	***36.5%***	*13.0%*	***16.4%***	*6.7%*
Total	**$43.4**	$41.3	**$160.6**	$142.3
Year-over-Year performance	***5.1%***	*17.6%*	***12.8%***	*7.9%*

Reconciliation from Net Earnings to EBITDA and to Adjusted EBITDA
(In thousands of dollars)

	Three-month periods ended December 31		Twelve-month periods ended December 31	
	2016	**2015**	**2016**	**2015**
	$	**$**	**$**	**$**
Net Earnings	**4,643**	3,804	14,593	15,931
Income tax expense	**1,886**	1,407	5,474	5,877
Financing charges, net	**202**	181	852	966
Amortization of property, plant and equipment	**777**	1,153	4,520	4,111
Amortization of intangible assets	**316**	1,588	1,917	6,211
Loss (gain) on disposal of property, plant and equipment	**3**	(26)	27	(7)
EBITDA [1]	**7,827**	8,107	27,383	33,089
Adjustments				
Less: Gains on pension plans amendments	**—**	—	—	(4,341)
Less: Gain on post-retirement benefits plans amendment	**—**	—	—	(614)
Adjusted EBITDA[1]	**7,827**	8,107	27,383	28,134

[1] See “Definition of EBITDA.” EBITDA (or Adjusted EBITDA) is not a recognized measure under IFRS and does not have a standardized meaning prescribed by IFRS. EBITDA (or Adjusted EBITDA) may not be comparable to similar measures presented by other issuers.

Reconciliation from Net Earnings to Adjusted Net Earnings
(In thousands of dollars)

	Three-month periods ended December 31		Twelve-month periods ended December 31	
	2016	**2015**	**2016**	**2015**
	$	**$**	**$**	**$**
Net Earnings	**4,643**	3,804	14,593	15,931
Adjustments				
Less: Gains on pension plans amendments	—	—	—	(4,341)
Less: Gain on post-retirement benefits plans amendment	—	—	—	(614)
Deferred income tax on gains on pension and post-retirement benefits plans amendments	—	—	—	1,290
Adjusted Net Earnings [1]	**4,643**	3,804	14,593	12,266

[1] See “Definition of Adjusted Net Earnings”. Adjusted Net Earnings is not a recognized measure under IFRS and does not have a standardized meaning prescribed by IFRS. Adjusted Net Earnings may not be comparable to similar measures presented by other issuers.

Summary of quarterly operating results from January 1, 2015, to December 31, 2016
(In thousands of dollars, except for per share amounts)

	Dec. 31, 2016	Sept. 30, 2016	June 30, 2016	Mar. 31, 2016	Dec. 31, 2015	Sept. 30, 2015	June 30, 2015	Mar. 31, 2015
	$	$	$	$	$	$	$	$
Revenue	**43,374**	36,514	39,420	41,262	41,287	32,435	33,868	34,708
Adjusted EBITDA [1]	**7,827**	5,508	6,903	7,145	8,107	6,586	6,430	7,011
Earnings before income taxes	**6,529**	3,826	5,264	4,448	5,211	3,824	7,568	5,204
Net earnings	**4,643**	2,832	3,890	3,228	3,804	2,771	5,552	3,804
Net earnings per share	**0.16**	0.10	0.14	0.11	0.13	0.10	0.19	0.13

[1] See “Definition of EBITDA or Adjusted EBITDA”

Supremex' revenue is subject to the seasonal advertising and mailing patterns of its customers. The number of units sold by Supremex is generally higher during fall and winter mainly due to the higher number of mailings related to events including the return to school, fund-raising, the holidays and tax seasons. The number of units sold by Supremex is generally lower during spring and summer in anticipation of a slowdown in mailing activities of businesses during the summer. As a result, Supremex' revenue and financial performance for any single quarter may not be indicative of revenue and financial performance which may be expected for the full year. To maintain production efficiencies, Supremex uses warehouse capabilities to stock envelopes as required and thereby counter predictable seasonal variations in sales volume.

Selected Consolidated Financial Information
(In thousands of dollars, except for per share amounts)

	Three-monthperiods ended December 31			**Twelve-month periods ended December 31**		
	2016	**2015**	**2014**	**2016**	**2015**	**2014**
	$	**$**	**$**	**$**	**$**	**$**
Revenue	**43,374**	41,287	35,097	**160,570**	142,298	131,888
Operating expenses [1]	**30,612**	28,649	23,659	**114,447**	93,893	88,723
Selling, general and administrative expenses[1]	**4,935**	4,531	4,941	**18,740**	15,316	16,946
EBITDA [1] [2]	**7,827**	8,107	6,497	**27,383**	33,089	26,219
Amortization of property, plant and equipment	**777**	1,153	925	**4,520**	4,111	3,567
Amortization of intangible assets	**316**	1,588	1,541	**1,917**	6,211	6,164
Loss (gain) on disposal of property, plant and equipment	**3**	(26)	—	**27**	(7)	6
Operating earnings	**6,731**	5,392	4,031	**20,919**	22,774	16,482
Financing charges, net	**202**	181	223	**852**	966	1,334
Earnings before income taxes	**6,529**	5,211	3,808	**20,067**	21,808	15,148
Income taxes expenses	**1,886**	1,407	1,080	**5,474**	5,877	4,101
Net earnings	**4,643**	3,804	2,728	**14,593**	15,931	11,047
Basic and diluted net earnings per share	**0.16**	0.13	0.09	**0.51**	0.55	0.38
Dividend paid per share	**0.055**	0.05	0.045	**0.22**	0.20	0.165

	As at December 31,		
	2016	**2015**	**2014**
	$	$	$
Total assets	**132,539**	**125,166**	109,792
Secured credit facility, net of cash	**24,929**	**25,140**	22,042

(1) Includes gains on pension plans and post-retirement plans amendments. See "Reconciliation from Net Earnings to EBITDA and to Adjusted EBITDA"

(2) See "Definition of EBITDA."

Results of Operations

Three-month period ended December 31, 2016, compared with three-month period ended December 31, 2015

Revenue

Revenue for the three-month period ended December 31, 2016, increased by 5.1% or $2.1 million reaching to $43.4 million.

Revenue from the Canadian envelope market was down by $1.0 million or 3.5%, to $28.0 million. The decline was driven by a 7.1% reduction in volume, which was slightly mitigated by an increase of 3.9% in the average selling price. The decrease in volume is in line with general industry trends.

Revenue from the U.S. envelope market increased by $2.0 million or 21.6%, reaching $11.1 million, mostly from the contribution of Bowers Envelope, acquired on August 29, 2016. Overall, the number of units sold grew by 20.5% and average selling prices increased by less than 1.0%.

Revenue from packaging and specialty products increased by 36.5% reaching $4.3 million, mostly on the acquisition of Durabox Paper concluded on November 28, 2016.

Operating expenses

Operating expenses for the three-month period ended December 31, 2016, amounted to $30.6 million compared with $28.6 million for the same period in 2015, an increase of $2.0 million or 6.9%. This increase is mainly attributable to the acquired businesses.

Selling, general and administrative expenses

Selling, general and administrative expenses totalled $4.9 million for the three-month period ended December 31, 2016, compared with $4.5 million for the same period in 2015, representing an increase of $0.4 million or 9% attributable to the Company's strategy to grow its presence in the U.S. envelope market and strengthen its plateform in Canada resulting in the acquisition of three businesses in the past twelve months.

EBITDA and Adjusted EBITDA

EBITDA stood at $7.8 million for the three-month period ended December 31, 2016, compared with $8.1 million for the same period in 2015, a decrease of $0.3 million or 3.5%. EBITDA margins stood at 18.0% compared to 19.6% during the fourth quarter of 2015, reflecting a higher level of selling and administrative expenses from the acquired businesses.

Amortization

Aggregate amortization expense for the three-month period ended December 31, 2016, amounted to $1.1 million compared with $2.7 million for the comparable period of 2015, representing a decrease of $1.6 million or 60.1% mostly explained by the lower amortizable intangible assets given the fully amortized customer relationships accounted for following the initial public offering of 2006.

Financing charges

Financing charges for the three-month period ended December 31, 2016, remained stable at $0.2 million.

Earnings before income taxes

Due to the fluctuation in revenue and expenses described herein, earnings before income taxes grew to $6.5 million during the three-month period ended December 31, 2016, up 25.3% from $5.2 million for the same period in 2015.

Provision for income taxes

During the three-month period ended December 31, 2016, the Company recorded a provision for income taxes of $1.9 million compared with a provision for income taxes of $1.4 million for the three-month period ended December 31, 2015, attributable to higher earnings before income taxes in 2016.

Net earnings

Net earnings increased by 22.0%, amounting to $4.6 million (or $0.16 per share) for the three-month period ended December 31, 2016, compared with $3.8 million (or $0.13 per share) for the same period in 2015.

Other comprehensive income

The increase in the discount rate used to calculate the accrued plan benefit obligations combined with a higher than expected return on assets have generated net actuarial gains of $7.1 million. This variation impacted the Company's other comprehensive income.

Twelve-month period ended December 31, 2016, compared with twelve-month period ended December 31, 2015

Revenue

Revenue for the year ended December 31, 2016, amounted to $160.6 million compared with $142.3 million for the year ended December 31, 2015, an increase of $18.3 million or 12.8%.

Revenue from the Canadian envelope market increased by $3.2 million or 3.0% reaching $110.0 million. A decrease of 1.3% in the number of units sold was compensated by an increase in average selling prices of 4.4% brought on by higher costs of raw materials mostly on the strength of the USD. Although the acquisition of Premier Envelope performed well during the year and helped mitigate the secular decline of the Canadian envelope market and disruptions caused by the threat of a work stoppage at Canada Post over the summer. Additionally, last year's third quarter results benefited from the effects of a large order for the government that only occurs every four years.

This year's total revenue increase is mainly attributable to continued strength in the U.S. envelope market, mostly from the acquisitions of Classic Envelope Inc., concluded in October 2015, and of Bowers Envelope at the end of August 2016. This market contributed $13.3 million revenue growth in 2016 and revenue increased by 53.3% to $38.4 million. Overall, the number of units sold grew by 46.0% and average selling price denominated in CAD grew by 5.0%, of which 3.5% results from the appreciation of USD .

Revenue from packaging and specialty products increased by 16.4% or $1.7 million reaching $12.2 million in 2016, resulting from the contribution of the acquisition of Durabox Paper, concluded on November 28, 2016. The legacy packaging and specialty products offering also performed well with growth both in the number of units sold and average selling prices from changes in the product mix.

Operating expenses

Operating expenses for the year ended December 31, 2016, amounted to $114.4 million compared with $93.9 million for the same period in 2015, an increase of $20.5 million or 21.9%. This increase reflects the acquisitions of Classic Envelope Inc. and Premier Envelope Ltd. in the fourth quarter of 2015 and to a lesser extent, Bowers Envelope and Durabox Paper in the last two quarters of 2016. Further explaining this variance are non-cash gains of $3.8 million that were recorded in the first half of 2015 on amendments to the pension and post-retirement benefits plans.

The Company incurred various integration costs mainly during the first half of 2016, such as expenses related to the closing and remediation of two facilities, equipment moving costs, severances and costs related to temporary inefficiencies.

Selling, general and administrative expenses

Selling, general and administrative expenses totalled $18.7 million for the year ended December 31, 2016, compared with $15.3 million for the same period in 2015, an increase of $3.4 million or 22.4% resulting from the business acquisitions, integration activities and non-cash gains of $1.2 million recorded in the first half of 2015 on amendments to the pension and post-retirement benefits plans.

EBITDA and Adjusted EBITDA

EBITDA stood at $27.4 million for the year ended December 31, 2016, compared with $33.1 million for the same period in 2015, a decrease of $5.7 million or 17.3%. EBITDA margins were 17.1% of revenues, compared to 23.3% last year when gains on amendments to the pension plan and post retirement plan, amounting to $5.0 million, were recognized. On an adjusted basis, EBITDA stood at $27.4 million, or 17.1% of revenues, compared with $28.1 million, or 19.8% of revenues for the same period in 2015. As explained above, weakness in the Canadian envelope market brought on by the threat of labour disruptions at Canada Post, a growing presence in a more competitive U.S. envelope market, non-cash gains totalling $5.0 million recorded in 2015 and additional costs incurred to integrate the acquired businesses explain a weaker EBITDA in 2016.

Amortization

Total amortization expense for the year ended December 31, 2016, amounted to $6.4 million compared with $10.3 million for the comparable period of 2015 representing a decrease of $3.9 million or 37.6% mostly explained by lower amortizable intangible assets, given the fully amortized customer relationships accounted for following the initial public offering in 2006.

Financing charges

Financing charges for the year ended December 31, 2016, amounted to $0.9 million compared with $1.0 million for the same period in 2015, representing a decrease of $0.1 million or 11.8%, resulting mainly from the impact of the reduced 2016 average level of debt and improved financial position of the pension plans.

Earnings before income taxes

Due to the changes in revenue and expenses described herein, earnings before income taxes totalled $20.1 million for the year ended December 31, 2016, compared with earnings before income taxes of $21.8 million for the same period in 2015, a decrease of $1.7 million or 8.0%.

Provision for income taxes

During the year ended December 31, 2016, the Company recorded a provision for income taxes of $5.5 million compared with $5.9 million for the year ended December 31, 2015, a decrease of $0.4 million due to lower earnings before income taxes during the year.

Net earnings

As a result of the changes described above, net earnings amounted to $14.6 million (or $0.51 per share) for the year ended December 31, 2016, compared with the net earnings of $15.9 million (or $0.55 per share) for the same period in 2015, a decrease of $1.3 million or 8.4%.

Adjusted net earnings grew by 18.9% to $14.6 million (or $0.51 per share) for the year ended December 31, 2016, compared with $12.3 million (or $0.44 per share) for the same period in 2015.

Other comprehensive income

A higher than expected return on assets on the Company's defined benefit pension plans has offset the decrease of the discount rate used to calculate the accrued pension plan benefit obligations and generated net actuarial gains of $2.4 million. These variations affected the Company's other comprehensive income.

Segmented Information

The Company currently operates in one business segment: the manufacturing and sale of envelopes and packaging and specialty products. The Company's non-current assets amounted to $77.1 million in Canada and 12.8 million in the United States as at December 31, 2016, as compared to $74.3 million and $9.7 million as at December 31, 2015, respectively.

During the fourth quarter of 2016, the Company's revenue in Canada amounted to $31.2 million down 1.4% from $31.7 million in the equivalent period of 2015. For the twelve-month period of 2016, revenue generated in Canada amounted to $119.1 million, up 3.0% from $115.6 million in 2015.

During the fourth quarter of 2016, the Company's revenue in the United States amounted to $12.1 million up by 26.2% from $9.6 million in the equivalent period of last year. For the twelve-month period of 2016, revenue generated in the U.S. amounted to $41.4 million, up 55.5% from 26.7 million in 2015.

Liquidity and Capital Resources

Operating activities

Operating activities generated net cash of $21.6 million during the year ended December 31, 2016, compared with $20.1 million during the same period of 2015. This increase is mostly explained by positive net changes in working capital balances, mostly on tight management of inventory and accounts receivable.

Investing activities

Investing activities used $14.3 million of cash during the year ended December 31, 2016, compared with $17.5 million in 2015, a decrease of $3.2 million mainly related to lower business acquisitions in 2016.

Financing activities

Financing activities used $8.8 million during the year ended December 31, 2016, compared with inflows of $0.3 million in 2015, a decrease of $9.1 million due to repayments of the Company's credit facility, increases in dividend payout and active execution of the normal course issuer bid.

Liquidity and capital resources summary

Supremex' ability to generate cash flows from operations combined with its availability under existing credit facilities are expected to provide sufficient liquidity to meet anticipated needs for existing and future projects.

Contractual Obligations and Off-Balance Sheet Arrangements

The following chart outlines the Company’s contractual obligations as at December 31, 2016.

(in thousands of dollars)

		Payments due by fiscal year		
	Total	**2017**	**2018**	**2019 and thereafter**
Secured credit facility	**27,151**	—	—	27,151
Operating leases	**15,269**	3,361	2,644	9,264
Total	**42,420**	3,361	2,644	36,415

The Company has no other off-balance sheet arrangements.

Financing

As of December 31, 2016, the Company has a five-year committed $50 million senior secured revolving facility agreement maturing on October 6, 2020. The secured credit facility is used for working capital, capital expenditure and other general corporate purposes. It is collateralized by hypothec and security interests covering all assets of the Company and its subsidiaries and is subject to certain covenants, which the Company is required, among other conditions, to meet. The Company was in compliance with these covenants during 2016.

As at December 31, 2016, the Company had outstanding letters of credit for a total of $60,000 compared with $50,000 in 2015.

This facility bears interest at a floating rate based on the Canadian prime rate or bankers’ acceptance rate, plus an applicable margin on those rates. As at December 31, 2016, the effective interest rate on the credit facility was 2.43%.

Capitalization

As at December 31, 2016, Supremex had 28,611,351 common shares outstanding following the execution of two subsequent NCIB during the year, whereby the Company purchased for cancellation a total of 139,616 common shares representing total considerations of $668,939. As at February 15, 2017, the Company had 28,609,051 common shares outstanding, a decrease of 2,300 shares following execution of the NCIB during the start of 2017 for total considerations of $11,492.

Financial Instruments

Interest rate and foreign exchange risk

The Company’s credit facility bear interest at a floating rate which gives rise to the risk that its earnings and cash flows may be adversely affected by fluctuations in interest rates.

The Company operates in Canada and the United States, which exposes its earnings and cash flows to fluctuations in the exchange rate between the U.S. and Canadian dollar. A portion of Supremex’ revenue is earned in U.S. dollars while a large portion of its expenses, including most of its paper and other raw materials costs as well as certain capital expenditures, are incurred in U.S. dollars. Supremex also derives a portion of its revenue from Canadian dollar sales to certain customers for whom the selling price is sensitive to U.S. competition (see “Risk Factors”). Cash, accounts receivable and accounts payable and accrued liabilities include balances denominated in U.S. dollars at the end of the year.

Fair value

The fair value of the Company’s financial instruments is indicated in note 21 to the Company’s audited consolidated financial statements for the year ended December 31, 2016.

Financial Position Highlights
(In thousands of dollars)

	December 31, 2016	**December 31, 2015**
Working capital	**20,442**	20,213
Total assets	**132,539**	125,166
Total secured credit facilities[(1)]	**26,894**	28,674
Equity	**82,337**	72,635

[(1)] Net of deferred financing costs of $257 ($326 as at December 31, 2015)

Working capital remained stable year-over-year, at $20.4 million compared to $20.2 million in 2015.

Total assets increased by $7.4 million, reaching $132.5 million as a result of business combinations performed during 2016, up from to $125.2 million in 2015.
On December 23, 2016, the Company acquired substantially all of the assets of Printer Gateway Inc. for cash considerations of $2,900,000. Printer Gateway is a growing Web-to-print printer serving the communications and graphic arts industry located in Toronto, Ontario.

On November 28, 2016, the Company acquired substantially all of the assets of Durabox Paper Inc. for cash considerations of $4,464,196. Durabox Paper is a manufacturer of specialty corrugated paper boxes located in Lachine, Quebec.

On August 29, 2016, the Company acquired substantially all of the assets of Bowers Envelope Inc., for cash considerations of $4,619,239, a manufacturer and printer of envelopes based in Indianapolis, Indiana.

These acquisitions were financed through the $50 million credit facility.

The Company's total liability decreased to $50.2 million from $52.5 million on reimbursements made to the secured credit facility, which amounted to $26.9 million at December 31, 2016, compared with $28.7 million at the equivalent date of 2015. Additionally, the Company had an accrued pension benefit asset of $2.3 million compared to an accrued pension benefit liability of $0.3 million at the end of 2015. This increase results from the higher returns on the pension plans' assets.

Supremex pays quarterly dividends to shareholders at the discretion of the Board of Directors. A dividend of $1.7 million or $0.06 per share was declared in the fourth quarter of 2016 and paid subsequent to year-end. Other quarterly dividend payments that occurred previously in 2016 were declared and paid at a rate of $0.055 per share.

Disclosure Controls and Internal Controls over Financial Reporting

In accordance with National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings*, the Company has filed certifications signed by the President and Chief Executive Officer and the Interim Vice-President, Finance, that, among other things, report on the design and effectiveness of disclosure controls and procedures, and the design and effectiveness of internal control over financial reporting.

Management has designed disclosure controls and procedures to provide reasonable assurance that material information relating to the Company is made known to the President and Chief Executive Officer and the Interim Vice-President, Finance, particularly during the period in which annual filings are being prepared. The President and Chief Executive Officer and the Interim Vice-President, Finance, evaluated the effectiveness of the Company's disclosure controls and procedures and concluded, based on its evaluation, that such disclosure controls and procedures were effective as of December 31, 2016.

Management has also designed internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The President and Chief Executive Officer and the Interim Vice-President, Finance, evaluated the effectiveness of the Company's internal control over financial reporting and concluded, based on its evaluation, that such internal control over financial reporting was effective as of December 31, 2016. In making its evaluation, the President and Chief Executive Officer and the Interim Vice-President, Finance, used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control – Integrated Framework.

Finally, there has been no change in the Company's internal control over financial reporting during the year ended December 31, 2016, that materially affected, or is likely to materially affect, the Company's internal control over financial reporting.

Significant accounting policies and estimates

The Company prepares its financial statements in conformity with IFRS, which requires management to make estimates and assumptions that management believes are reasonable based upon the information available. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant areas requiring the use of management estimates relate to intangible assets and goodwill, employee future benefits and income taxes. Management bases its estimates on historical experience and other assumptions, which it believes are reasonable under the circumstances. Management also assesses its estimates on an ongoing basis. The effect on the financial statements of changes in such estimates in future periods could be material and would be accounted for in the period a change occurs.

The significant accounting policies of the Company are described in note 2 to the Company's audited consolidated financial statements for the year ended December 31, 2016.

The policies the Company believes are most critical to assist in fully understanding and evaluating its reported results include the following:

Intangible assets and goodwill

Intangible assets and goodwill arise out of business combinations for which the Company has applied the purchase method of accounting. The purchase method involves the allocation of the cost of an acquisition to the underlying net assets acquired based on their respective estimated fair value. As part of this allocation process, the Company must identify and attribute values and estimated lives to the intangible assets acquired. These determinations involve significant estimates and assumptions regarding cash flow projections, economic risk and weighted average cost of capital.

These estimates and assumptions determine the amount allocated to other identifiable intangible assets and goodwill as well as the amortization period for identifiable intangible assets with finite lives. If future events or results differ adversely from these estimates and assumptions, the Company could record increased amortization or impairment charges in the future.

As at December 31, 2016, the Company performed a goodwill impairment test using the discounted cash flows method based upon management's best estimates which reflect the Company's planned course of action in light of market conditions. The Company concluded that there was no impairment in the carrying amount of its goodwill. The Company will continue to monitor the resulting impact of market changes.

Valuation technique

The Company uses the discounted cash flows ("DCF") method to determine the value in use of its cash-generating unit and has not made any changes to the valuation methodology used to assess goodwill impairment since the last annual impairment test.

Significant assumptions

The income approach is predicated upon the value of the future cash flows that a business will generate going forward. The DCF method which was used as at December 31, 2016, involves projecting cash flows and converting them into a present value equivalent through discounting. The discounting process uses a rate of return that is commensurate with the risk associated with the business or asset and the time value of money. This approach requires assumptions about revenue growth or decline rates, operating margins, tax rate and discount rates.

Growth or Decline of Revenue

The assumptions used were based on the Company's internal budget. The Company projected revenue, operating margins and cash flows for a period of four years that reflect lower demand in the Canadian envelope market, a capacity to gain market share in the US envelope market and applied a perpetual long-term decline rate for the period thereafter. In arriving at its forecasts, the Company considered past experience, recent acquisitions, economic trends as well as industry and market trends.

Discount Rate

The Company assumed a pre-tax discount rate to calculate the present value of its projected cash flows. The discount rate represented a weighted average cost of capital ("WACC") for comparable companies operating in a similar industry. The WACC is an estimate of the overall required rate of return on an investment for both debt and equity owners and serves as the basis for developing an appropriate discount rate. Determination of the WACC requires separate analysis of the cost of equity and debt, and considers a risk premium based on an assessment of risks related to the projected cash flows.

The key assumptions used in performing the impairment test were as follows:

	Assumptions
Pre-tax discount rate	16.6%
Tax rate	26.1%
Perpetual decline rate	3.0%

Sensitivity

In the most recent impairment test performed, if the pre-tax discount rate had increased to 28.9% or the perpetual decline rate had increased to 44.8%, the recoverable amount of the cash-generating unit would have then equalled the carrying amount as at December 31, 2016.

Employee future benefits

The Company sponsors defined benefit plans to provide pension and other post-employment benefits to covered employees. The determination of expense and obligations associated with employee future benefits requires the use of assumptions such as the discount rate to measure obligations, the expected mortality, the expected retirement age, the expected rate of future compensation increase and the expected healthcare cost trend rate. Because the determination of the cost and obligations associated with employee future benefits requires the use of various assumptions, there is measurement uncertainty inherent in the actuarial valuation. Actual results will differ from estimated results which are based on assumptions.

Significant assumptions:

Discount rate for accrued benefit obligation	3.80%
Discount rate for net pension costs	3.90%
Rate of compensation increase	2.50%
Mortality assumption	CPM Private

Discount rate

As at December 31, 2016, we used the *Fiera Capital's CIA Method Accounting Discount Rate Curve* which follows the methodology suggested in the CIA Education Note on *Accounting Discount Rate Assumption for Pension and Post-employment Benefit Plans*. For the Company, a 0.25% increase or decrease in the discount rate would have decreased or increased the defined benefit obligation by approximately $3.2 million as at December 31, 2016. An increase of one year in the life expectancy of plan members as at December 31, 2016, results in an increase of $2.9 million in total projected defined benefit obligation of pension plans.

Rate of compensation

Future salary increases are based on expected future inflation rates.

Income taxes

The Company computes an income tax provision in each of the jurisdictions in which it operates. However, the actual amount of the income tax expense becomes final only upon filing and acceptance of the tax return by the relevant authorities, which take place subsequent to the issuance of the financial statements. Additionally, estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the ability to use the underlying future tax deductions against future taxable income before they expire. The assessment is based upon existing tax laws and estimates of future taxable income. To the extent estimates differ from the final tax return, earnings would be affected in a subsequent period.

The Company is subject to taxation in numerous jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain during the normal course of business. The Company maintains provisions for uncertain tax positions that it believes appropriately reflects its risk with respect to tax matters under active discussion, audit, dispute or appeal with tax authorities, or which are otherwise considered to involve uncertainty. These provisions are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

The Company's 2016 effective tax rate was 27.3% of earnings before income tax.

Recent Accounting Pronouncements

IFRS 9, *Financial Instruments*

IFRS 9, *Financial Instruments* ("IFRS 9"), which replaces IAS 39, *Financial Instruments: Recognition and Measurement,* establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows.

IFRS will be effective on January 1, 2018.

The Company is assessing the impact of this new standard on its consolidated financial statements.

IFRS 15, *Revenue from Contracts with Customers*

In May 2014, the International Accounting Standards Board (IASB) issued a revenue recognition standard, IFRS 15 *Revenue from Contracts with Customers,* which replaces IAS 18 *Revenue* and IAS 11 *Construction Contracts* and all existing IFRS revenue interpretations. IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). In April 2016, the International Accounting Standards Board (IASB) issued the amendments to IFRS 15. The amendments provide clarification in order to assist companies with implementing the new revenue standard.

IFRS 15 is effective for annual periods beginning on or after January 1, 2018.

The Company is assessing the impact of this new standard on its consolidated financial statements.

IFRS 16, Leases is required to be applied retrospectively for annual periods beginning on or after January 1, 2019, with early adoption permitted provided that IFRS 15 has been applied or is applied at the same time as IFRS 16.

IFRS 16 sets out the new principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract. The standard provides to lessees a single accounting model for all leases, with certain exemptions. In particular, lessees will be required to report most leases on their balance sheets by recognising right-of-use assets and related financial liabilities.

The Company is assessing the impact of this new standard on its consolidated financial statements

Recent Event

On February 15, 2017, the Board of Directors declared a quarterly dividend of $0.06 per common share, payable on April 14, 2017, to shareholders of record at the close of business on March 31, 2017.

Risk Factors

The results of operations, business prospects and financial condition of Supremex are subject to a number of risks and uncertainties, and are affected by a number of factors outside the control of Supremex' management.

Decline in Envelope Consumption

Supremex' envelope manufacturing business is highly dependent upon the demand for envelopes sent through the mail. Supremex may compete with product substitutes, which can impact demand for its products. Usage of the Internet and other electronic media continues to grow. Consumers use these media to purchase goods and services, and for other purposes such as paying utility and credit card bills. Advertisers use the Internet and electronic media for targeted campaigns directed at specific electronic user groups. Large and small businesses use electronic media to conduct business, send invoices and collect bills. The demand for envelopes and other printed materials for transactional purposes is expected to continue to decline in the future.

The North American envelope manufacturing and mailing industries are expected to continue to decline in the foreseeable future, due to a general progressive decline in the use of traditional paper-based products. The business depends on transactional mail and direct mail activities. Transactional mail volumes are thought to have declined in the last few years due in part to the increasing use of non-traditional means of communication and information transfer, such as electronic mail and the Internet. There is no assurance that the direct mail industry will regain. As a result, there can be no assurance that Supremex will be able to grow or even maintain historical sales levels.

To reduce this risk, the Company continually strives to improve operational efficiency and develop new products such as the packaging directed toward e-commerce fulfillment.

Because the majority of envelopes consumed in Canada and the United States are mailed, any strike or other work stoppage by unionized postal workers would result in a temporary suspension of the mail activities of most of Supremex' customers and could have a material adverse effect on Supremex. In the summer of 2011, there was a work stoppage at Canada Post that lasted about 3 weeks. Further labour negotiations threatened a work stoppage at Canada Post in the summer of 2016. However an agreement was reached and work disruptions were averted. During both periods, envelope shipments to customers were slightly affected and some direct mail orders were cancelled. Adoption of e-billing also increased during that period. Many large corporations used the work stoppage at Canada Post to promote the advantages of e-billing. It is impossible to quantify the impact of the work stoppage due to its long-term potential effect.

In addition, postal rates are a significant factor affecting envelope usage and any increases in postal rates, relative to changes in the cost of alternative delivery means or advertising media, could result in reductions in the volume of mail sent. To that effect, in December 2013, Canada Post announced a Five-Point action plan by which, notably:

- Over the next five years, the one third of Canadian households that receive their mail at their door will be converted to community mailbox delivery;
- A new pricing structure for Letter Mail mailed within Canada will be introduced in March 2014 (increases from 14.75% for machineable standard letter mail to 35% for individual stamps);
- The retail network will be strengthened by opening more franchise postal outlets in stores across Canada;

- Changes to internal operations to obtain a more efficient flow of parcels and mail through the network and to the customers; and
- Changes to the business model, which will require fewer employees.

No assurance can be provided that future increases in postal rates will not have a negative effect on the level of mail sent or the volume of envelopes purchased.

Finally, there has been growing talk of "do-not-mail" legislation in the U.S. with respect to the direct marketing industry. "Do-not-mail" legislation is instituted at the state level. In 2008, such legislation was introduced but not passed in some states. That being said, if such legislation were to be passed, it would have a negative impact on the Company's sales volume.

Relation With Customers

Supremex typically does not enter into long-term, written agreements with customers. As a result, there is a risk that customers may, without notice or penalty, terminate their relationship with Supremex at any time. In addition, even if customers decide to continue their relationship with Supremex, there can be no guarantee that they will purchase the same amount as in the past, or that purchases will be on similar terms.

Competition

Despite Supremex' leading market position in Canada, new entrants into the Canadian envelope market may have an impact on sales and margins. During the 2008-2011 period, the strengthening of the Canadian dollar against the U.S. dollar created an incentive for US-based competitors to increase market penetration in Canada in the five years preceding 2013. The large U.S. envelope manufacturers may use their excess capacity to penetrate the Canadian envelope market. As long as the U.S. market stays relatively soft, there will be pricing pressure in the Canadian market. However, the costs of freight, coupled with delivery inefficiencies are barriers to servicing any significant customer volume from a distance. Since the second half of 2012, the Canadian dollar started weakening against the U.S. dollar, a general trend that continued into 2016. While the weakening of the Canadian dollar may decrease the ability of U.S.-based competitors to further penetrate the envelope market in Canada, it also puts an upward pressure on the Company's raw material costs.

In the current market, the Canadian envelope manufacturers are more aggressive on pricing in order to generate new sales to replace their lost sales. Given the Company's large market share in Canada, most of the gains by smaller competitors in Canada are made at the expense of Supremex' accounts.

Growth by Acquisitions

The Company plans to grow both organically and through acquisitions. In the recent years, the Company has grown through acquisitions and should reasonably and in large part rely on new acquisitions to pursue its growth. The ability to properly evaluate the fair value of the businesses being acquired, to properly devote the time and human resources required to successfully integrate their activities with those of the Company as well as the capability to realize synergies, improvements and the expected profit and to achieve anticipated returns constitute inherent risks related to acquisitions.

Economic Cycles

A significant risk that Supremex faces and over which it has no control is related to economic cycles. In a soft economy, the market most affected at Supremex is its direct mail market. There is a direct correlation between growth/decline in the gross domestic product and direct mail volume. Because of the economic conditions faced recently, the Company has experienced a significant direct mail volume decline. The effects of this decline are limited for Supremex, since direct mail represents less than 20% of Supremex' total annual volume. For transactional mail, which represents about 50% of Supremex' annual volume, economic cycles have a lesser impact than on direct mail since businesses must still mail out bills to their customers, and the online billing penetration is fairly low in this segment. In the long term, transactional mail volume has been declining.

Reliance on Key Personnel

Supremex's senior executives and employees have extensive experience in the industry and with the business, suppliers, products and customers. The loss of management knowledge, expertise and technical proficiency as a result of the loss of one or more members of the core management team could result in a diversion of management resources or a temporary executive gap, and negatively affect the Company's ability to develop and pursue other business strategies, which could materially adversely affect its business and financial results. Also, the expertise pertaining to envelope manufacturing, is rare and the loss of key executives heading those functions could have a material adverse effect on the Company's ability to continue to offer a compelling product offering to its customers, which in turn would materially adversely affect its business and financial results.

Raw Material Price Increases

The primary raw materials the Company uses are paper, window material, glue and ink. Fluctuations in raw material and energy prices affect operations.

While paper costs were generally a pass through in the past, an increase in the price of paper can negatively affect our operations if it changes the purchasing habits of customers, especially in the current economic conditions. Moreover, an increase in the price of paper negatively affects Supremex' profitability if the increases cannot be passed on to the customer. To mitigate this risk, the Company does not rely on any one supplier and is generally disciplined in passing on any raw material increases to its customers.

Fluctuations in the price of oil, a core ingredient in the composition of window material, glue and ink has a direct impact on their price. An increase in the price of oil can have a negative effect on operations if it changes the purchasing habits of customers.

Exchange Rate

A portion of Supremex' revenue is earned in U.S. dollars while a large portion of its expenses, including most of its paper and other raw materials costs as well as certain capital expenditures are incurred in U.S. dollars. Supremex also derives a portion of its revenue from Canadian dollar sales to certain customers for whom selling price is sensitive to U.S. competition.

Net exposure to the U.S. dollar continues to decrease as the Company's growing revenues in the U.S. envelope market, compensates for the volume of raw materials it currently purchases in USD. Revenue generated in the United States represented 25.8% of consolidated revenue in fiscal 2016, up from 18.7% in fiscal 2015.

Environment

The Company operates in an industry which uses large quantities of paper in its day-to-day operations. With society's mounting concern over the protection of the environment and sustainable development, Supremex' products and services are under pressure to be more environmentally friendly. For instance, the growing concern over the environment could change the consumption habits of consumers and new regulations could force the Company to use more expensive environmentally friendly materials in its production process. To mitigate this risk, the Company tries to be at the forefront of its industry in terms of commitment to the environment and, in collaboration with its suppliers, seeks on an ongoing basis to reduce its impact on the environment. Supremex is also a leader in the Canadian envelope market in the marketing of environmentally friendly products, such as 100% recycled paper.

Availability of Capital

In 2015, the Company entered into a Five-Year Committed $50 million Senior Secured Revolving Facility Agreement with Bank of Montreal maturing on October 6, 2020. Although the Company carried out this refinancing successfully, there is no guarantee that additional funds will be available in the future, and if they are, that they will be provided in a timeframe and under conditions acceptable to the Company.

Credit

The Company is exposed to credit risk with respect to trade receivables. A specific credit limit is established for each customer and periodically reviewed by the Company. No single customer accounts for more than 10% of consolidated accounts receivable. Supremex' customer base is solidly diversified and consists mainly of large national customers, such as large Canadian corporations, nationwide resellers and governmental bodies, as well as paper merchants and solution and process providers. Historically, the level of bad debt has been low given the nature of the customers. As at December 31, 2016, the maximum credit risk exposure for receivables corresponds to their carrying value.

Interest Rate

The Company is exposed to market risks related to interest rate fluctuations. Floating-rate debt bears interest based on Canadian prime rate or bankers' acceptance rates, plus an applicable margins, which ranges from 1.50% to 1.75%. As at February 17, 2016, the debt level was not deemed high enough to enter into a new interest swap.

Litigation

Supremex, like other manufacturing and sales organizations, is subject to potential liabilities connected with its business operations, including expenses associated with product defects, performance, reliability or delivery delays. Supremex is from time to time threatened with, or named as a defendant in, legal proceedings, including lawsuits based on product liability, personal injury, breach of contract and lost profits or other consequential damages claims, in the ordinary course of conducting its business. A significant judgment against Supremex or the imposition of a significant fine or penalty, as a result of a finding that Supremex failed to comply with laws or regulations, or being named as a defendant on multiple claims could have a material adverse effect on Supremex' business, financial condition, results of operations and cash available for distributions.

Employee Future Benefits

The Company maintains three registered defined benefit pension plans substantially covering all of its employees. Two of these plans are hybrids and included a defined contribution component. In the third quarter of 2012, the Company converted, for future services, its defined benefit pension plans into defined-contribution plans. In the past, the Company has also provided post-retirement and post-employment benefits, including health care, dental care and life insurance, to a limited number of employees.

The level of the contributions may vary depending on the realized return on the pension fund asset and the discount rate of the future liabilities, which could affect the financial condition of Supremex.

Forward-Looking Information

This MD&A contains "forward-looking information" within the meaning of applicable Canadian securities laws, including (but not limited to) statements about the EBITDA (or Adjusted EBITDA) and future performance of Supremex and similar statements or information concerning anticipated future results, circumstances, performance or expectations. Forward-looking information may include words such as anticipate, assumption, believe, could, expect, goal, guidance, intend, may, objective, outlook, plan, seek, should, strive, target and will. Such information relates to future events or future performance and reflects current assumptions, expectations and estimates of management regarding growth, results of operations, performance, business prospects and opportunities, Canadian economic environment and liability to attract and retain customers. Such forward-looking information reflects current assumptions, expectations and estimates of management and is based on information currently available to Supremex as at the date of this MD&A. Such assumptions, expectations and estimates are discussed throughout our MD&A for fiscal 2016.

Forward-looking information is subject to certain risks and uncertainties, and should not be read as a guarantee of future performance or results and actual results may differ materially from the conclusion, forecast or projection stated in such forward-looking information. These risks and uncertainties include but are not limited to the following: economic cycles, availability of capital, decline in envelope consumption, increase of competition, exchange rate fluctuations, raw material increases, credit risks with respect to trade receivables, increase in funding of pension plans, postal services deficiencies, interest rates fluctuations and potential risk of litigation. Such risks and uncertainties are discussed throughout this MD&A for fiscal 2016 and, in particular, in

“Risk Factors”. Consequently, we cannot guarantee that any forward-looking information will materialize. Readers should not place any undue reliance on such forward-looking information unless otherwise required by applicable securities legislation. The Company expressly disclaims any intention and assumes no obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise.

Definition of EBITDA, Adjusted EBITDA, Adjusted Net Earnings, and Non-IFRS Measures

References to “EBITDA” are to earnings before financing charges, income tax expense, amortization of property, plant and equipment and of intangible assets and (gain) loss on disposal of property, plant and equipment. Supremex believes that EBITDA is a measurement commonly used by readers of financial statements to evaluate a company’s operational cash-generating capacity and ability to discharge its financial expenses.

References to “Adjusted EBITDA” are to EBITDA adjusted to remove non-recurring items such as gains on amendments to pension and post-retirement benefits plans in 2015. Supremex believes that Adjusted EBITDA is a measurement commonly used by readers of financial statements to evaluate a company’s operational cash-generating capacity and ability to discharge its financial expenses.

References to “Adjusted net earnings” are to Net earnings adjusted to remove non-recurring items such as gains on amendments to pension and post-retirement benefits plans, net of tax.

EBITDA, Adjusted EBITDA or Adjusted Net Earnings is not an earnings measure recognized under IFRS and does not have a standardized meaning prescribed by IFRS. Therefore, EBITDA, Adjusted EBITDA or Adjusted Net Earnings may not be comparable to similar measures presented by other entities. Investors are cautioned that EBITDA, Adjusted EBITDA or Adjusted Net Earnings should not be construed as an alternative to net earnings determined in accordance with IFRS as an indicator of the Company’s performance.

Additional Information

Additional information relating to the Company, including the Company’s annual information form, is available on SEDAR at www.sedar.com.

Consolidated Financial Statements

Supremex Inc.

December 31, 2016 and 2015

All amounts expressed in Canadian dollars

Independent auditors' report

To the shareholders of
Supremex Inc.

We have audited the accompanying consolidated financial statements of **Supremex Inc.**, which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, and the consolidated statements of earnings, comprehensive income, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Supremex Inc.** as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP[1]

Montreal, Canada
February 15, 2017

[1] CPA auditeur, CA, permis de comptabilité publique nº A118111

Supremex Inc.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at December 31	**Notes**	**2016 $**	**2015 $**
ASSETS	**14**		
Current assets			
Cash		**1,964,947**	3,533,917
Accounts receivable	**6**	**21,237,321**	21,358,826
Income tax receivable		**472,886**	—
Inventories	**7**	**16,042,550**	15,563,613
Prepaid expenses		**647,541**	653,580
Total current assets		**40,365,245**	41,109,936
Property, plant and equipment	**8**	**27,404,026**	26,790,391
Accrued pension benefit asset	**9**	**2,305,107**	—
Intangible assets	**10**	**9,377,021**	6,500,672
Goodwill	**11**	**53,088,016**	50,765,024
Total assets		**132,539,415**	125,166,023
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	**12**	**17,881,807**	18,147,715
Dividend payable	**18**	**1,716,681**	1,581,303
Provisions	**13**	**324,236**	332,939
Income tax payable		**—**	835,246
Total current liabilities		**19,922,724**	20,897,203
Secured credit facilities	**14**	**26,893,914**	28,674,021
Deferred income tax liabilities	**15**	**3,186,717**	2,419,291
Accrued pension benefit liability	**9**	**—**	301,339
Other post-retirement benefit obligations	**9**	**199,000**	239,000
Total liabilities		**50,202,355**	52,530,854
Equity			
Share capital	**16**	**9,765,711**	9,813,365
Contributed surplus	**16**	**278,979,895**	279,601,180
Deficit		**(207,043,901)**	(217,615,887)
Foreign currency translation reserve		**635,355**	836,511
Total equity		**82,337,060**	72,635,169
Total liabilities and equity		**132,539,415**	125,166,023

Commitments, contingencies and guarantees [*note 19*]

Subsequent event [*note 24*]

See accompanying notes

On behalf of the Directors:

By: signed (Robert B. Johnston)	By: signed (Mathieu Gauvin)
Director	Director

Supremex Inc.

CONSOLIDATED STATEMENTS OF EARNINGS

Years ended December 31	Notes	2016 $	2015 $
Revenue		**160,570,353**	142,298,458
Operating expenses	**7, 9, 17**	**114,447,567**	93,893,132
Selling, general and administrative expenses	**9, 17**	**18,740,282**	15,315,871
Operating earnings before amortization and loss (gain) on disposal of property, plant and equipment		**27,382,504**	33,089,455
Amortization of property, plant and equipment	**8**	**4,519,575**	4,110,569
Amortization of intangible assets	**10**	**1,916,581**	6,211,107
Loss (gain) on disposal of property, plant and equipment		**26,766**	(6,740)
Operating earnings		**20,919,582**	22,774,519
Financing charges, net	**14**	**852,029**	966,419
Earnings before income taxes		**20,067,553**	21,808,100
Income tax expense	**15**	**5,474,809**	5,877,300
Net earnings		**14,592,744**	15,930,800
Basic and diluted net earnings per share		**0.5094**	0.5541
Weighted average number of shares outstanding		**28,645,053**	28,751,008

See accompanying notes

Supremex Inc.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years ended December 31	**Notes**	**2016** **$**	**2015** **$**
Net earnings		**14,592,744**	15,930,800
Other comprehensive income (loss)			
Other comprehensive (loss) income to be reclassified to earnings in subsequent periods			
Foreign currency translation adjustments		**(201,156)**	815,439
Net other comprehensive (loss) income to be reclassified to earnings in subsequent periods		**(201,156)**	815,439
Items not to be reclassified to earnings in subsequent periods			
Recognized actuarial gain (loss) on defined benefit pension plans, net of income tax expense of $847,190 [2015 – recovery of $699,751]	**9**	**2,401,910**	(1,984,649)
Recognized actuarial gain on other post-retirement benefit, net of income tax expense of $6,962 [2015 – $10,088]	**9**	**19,738**	28,612
Net other comprehensive income (loss) not being reclassified to earnings in subsequent periods		**2,421,648**	(1,956,037)
Other comprehensive income (loss)		**2,220,492**	(1,140,598)
Total comprehensive income		**16,813,236**	14,790,202

See accompanying notes

Supremex Inc.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Years ended December 31

	Share capital $	**Contributed surplus** $	**Deficit** $	**Foreign currency translation reserve** $	**Total equity** $
As at December 31, 2014	9,814,628	279,611,054	(225,695,059)	21,072	63,751,695
Net earnings	—	—	15,930,800	—	15,930,800
Other comprehensive (loss) income	—	—	(1,956,037)	815,439	(1,140,598)
Total comprehensive income	—	—	13,974,763	815,439	14,790,202
Dividends declared [*note 18*]	—	—	(5,895,591)	—	(5,895,591)
Shares repurchased and cancelled [*note 16*]	(1,263)	(9,874)	—	—	(11,137)
As at December 31, 2015	9,813,365	279,601,180	(217,615,887)	836,511	72,635,169
Net earnings	—	—	14,592,744	—	14,592,744
Other comprehensive income (loss)	—	—	2,421,648	(201,156)	2,220,492
Total comprehensive income	—	—	17,014,392	(201,156)	16,813,236
Dividends declared [*note 18*]	—	—	(6,442,406)	—	(6,442,406)
Shares repurchased and cancelled [*note 16*]	(47,654)	(621,285)	—	—	(668,939)
As at December 31, 2016	**9,765,711**	**278,979,895**	**(207,043,901)**	**635,355**	**82,337,060**

See accompanying notes

Supremex Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31	**Notes**	**2016** **$**	**2015** **$**
OPERATING ACTIVITIES			
Net earnings		**14,592,744**	15,930,800
Non-cash adjustment to reconcile net earnings to net cash flows			
Amortization of property, plant and equipment	**8**	**4,519,575**	4,110,569
Amortization of intangible assets	**10**	**1,916,581**	6,211,107
Amortization of deferred financing costs	**14**	**68,628**	188,073
Loss (gain) on disposal of property, plant and equipment		**26,766**	(6,740)
Gain on valuation of derivative financial instruments	**14**	**—**	(547,562)
Deferred income tax recovery	**15**	**(474,488)**	(743,450)
Change in employees benefits		**676,754**	(3,478,094)
		21,326,560	21,664,703
Working capital adjustments			
Variation in accounts receivable		**2,394,651**	121,645
Variation in inventories		**1,180,850**	(1,082,191)
Variation in prepaid expenses		**44,309**	(67,451)
Variation in accounts payable and accrued liabilities		**(1,959,958)**	(27,447)
Variation in provisions	**13**	**(8,703)**	(4,462)
Variation in income tax payable		**(1,308,132)**	(386,685)
Change in employee benefits		**(47,400)**	(93,631)
Net cash flows from operating activities		**21,622,177**	20,124,481
INVESTING ACTIVITIES			
Business acquisitions, net of cash acquired	**5**	**(11,983,435)**	(15,392,198)
Acquisition of property, plant and equipment		**(1,635,186)**	(1,303,568)
Acquisition of intangibles assets		**(770,446)**	(1,238,996)
Proceeds from sale of property, plant and equipment		**75,982**	416,102
Net cash flows used in investing activities		**(14,313,085)**	(17,518,660)
FINANCING ACTIVITIES			
(Repayment) increase of secured credit facilities		**(1,848,735)**	6,423,370
Dividends paid	**18**	**(6,307,029)**	(5,752,020)
Purchase of share capital for cancellation	**16**	**(668,939)**	(11,137)
Financing cost incurred		**—**	(343,136)
Net cash flows (used in) from financing activities		**(8,824,703)**	317,077
Net change in cash		**(1,515,611)**	2,922,898
Net foreign exchange difference		**(53,359)**	246,940
Cash, beginning of period		**3,533,917**	364,079
Cash, ending of period		**1,964,947**	3,533,917
Supplemental information [(1)]			
Interest paid		**887,660**	1,280,983
Interest received		**6,555**	2,920
Income taxes paid		**7,503,602**	7,044,827
Income taxes received		**388,672**	150,332

[(1)] Amounts paid and received for interest and for income taxes were reflected as cash flows from operating activities in the consolidated statements of cash flows.

See accompanying notes

1. CORPORATE INFORMATION

Supremex Inc. (the "Company" or "Supremex") was incorporated on March 31, 2006 under the *Canadian Business Corporation Act.* The common shares ("common share") of the Company are listed on the Toronto Stock Exchange ("TSX") under the symbol SXP. The registered office is located at 7213 Cordner Street in LaSalle, Quebec.

Supremex is a manufacturer and marketer of a broad range of stock and custom envelopes and a growing provider of packaging and specialty products. The business follows seasonal patterns with the highest revenue occurring from August to February due to seasonal advertising and mailing patterns of its customers since the highest number of mailings related to events including the return to school, fund-raising and the holiday and tax seasons take place during that period.

These consolidated financial statements were approved by the Company's Board of Directors on February 15, 2017.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation and statement of compliance

These consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS"). These consolidated financial statements were prepared on a going concern basis, under the historical cost convention.

Principles of consolidation

The consolidated financial statements comprise the financial statements of Supremex Inc. and its wholly-owned subsidiaries, Supremex Midwest Inc., SXP Packaging Inc., Buffalo Envelope Inc., Classic Envelope Inc., as at December 31, 2016 and Buffalo Envelope Inc. and Classic Envelope Inc. as at December 31, 2015.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at the fair value at the date of the acquisition. Acquisition costs incurred are expensed.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred over the Company's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Segment reporting

The Company operates in one reporting segment: the manufacturing and sale of a broad range of standard and custom envelopes and related products.

Foreign currency translation

Supremex' consolidated financial statements are presented in Canadian dollars, which is also its functional currency. Supremex and its subsidiaries each determine their own functional currency and items included in each of their financial statements are measured using that functional currency.

Transactions and balances

Transactions in foreign currencies are initially recorded by the entities at their respective functional currency rates prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. All differences are taken to the consolidated statement of earnings.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Subsidiaries

The assets and liabilities of foreign operations are translated into Canadian dollars at the rate of exchange prevailing at the reporting date and their statements of earnings are translated at average exchange rates of the period. The exchange differences arising on translation are recognized in other comprehensive income (loss). On disposal of a foreign operation, the component of other comprehensive income (loss) relating to that particular foreign operation is recognized in the consolidated statement of earnings.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, net of estimated returns and discounts, and after eliminating intercompany sales.

Revenue from the sale of goods is recognized when the following criteria are met:

- The risks and rewards of ownership, including managerial involvement, have been transferred to the buyer;
- The amount of revenue can be measured reliably;
- The receipt of economic benefits is probable; and
- Costs incurred or to be incurred can be measured reliably.

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

In addition to the above general principles, the Company applies specific revenue recognition for bill and hold transactions. When customers request a bill and hold, revenue is recognized when the customer is invoiced for goods that have been produced, packaged and made ready for shipment. These goods are shipped within a specified period of time and are segregated from other inventory, the risk of ownership of the goods is assumed by the customer, and the terms and collection experience on the related billings are consistent with all other sales.

Taxation

Tax expense comprises current and deferred tax. Tax is recognized in the consolidated statement of earnings except to the extent it is related to items recognized in other comprehensive loss or directly in equity.

Current tax

Current tax expense is based on the results for the year as adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax

Deferred tax is recognized, using the liability method, on temporary differences at the reporting date arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated statement of financial position. Deferred tax is calculated using tax rates and laws that have been enacted or substantively enacted at the end of the reporting period, and which are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax liabilities:

- Are generally recognized for all taxable temporary differences;
- Are recognized for taxable temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- Are not recognized on temporary differences that arise from goodwill which is not deductible for tax purposes.

Deferred tax assets:

- Are recognized to the extent it is probable that taxable profits will be available against which the deductible temporary differences (carry-forward of unused tax credits and unused tax losses) can be utilized ; and
- Are reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Deferred tax assets and liabilities are not recognized in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination. The transaction does not affect accounting profit or taxable profit upon completion. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Sales tax

Revenues, expenses and assets are recognized net of the amount of sales tax, except:

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable;
- For accounts receivables and trade payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of the accounts payable and accrued liabilities in the consolidated statement of financial position.

Employee future benefits

The Company maintains three defined benefit pension plans, two of which are hybrid as they also have a defined contribution component, covering substantially all of its employees. In the third quarter of 2012, the Company converted its defined benefit pension plans into defined contribution plans for future services. All defined benefit pension plans are funded.

For defined benefit pension plans and other post-employment benefits, the net periodic pension expense is actuarially determined on an annual basis by independent actuaries using the projected unit credit method. The past service cost is recognized in the consolidated statement of earnings on the earlier of the date of the plan amendment or curtailment, and the date the Company recognizes pension plan restructuring related costs.

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

The asset or liability recognized in the consolidated statement of financial position is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets and the effect of the ceiling, if any. The present value of the defined benefit obligation for service accrued at year-end is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. All actuarial gains and losses, the effect of the asset ceiling and the return on plan assets, excluding net interest, are recognized immediately in other comprehensive income (loss). For funded plans, surpluses are recognized only to the extent that the surplus is considered recoverable taking into account future contributions for unfunded liability. Recoverability is primarily based on the extent to which the Company can unilaterally reduce future contributions to the plan. The interest expense of defined benefit obligation is calculated by applying the prior year's discount rate to the beginning balance of the accrued pension benefit liability and to the year's cash inflows. It is recognized in the financing charges of the consolidated statements of earnings. All the other administrative defined benefit plan expense components are recognized in the selling, general and administrative expenses of the consolidated statement of earnings.

Payments to defined contribution plans are expensed as incurred, i.e., as the related employee service is rendered.

Termination benefits

Termination benefits are generally payable when employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without realistic possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

Basic and diluted net earnings per share

The Company presents basic net earnings per share for its common shares, calculated by dividing the net earnings attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the first-in, first-out method. The cost of finished goods and work-in-progress comprises raw materials, direct labour, other direct costs and related production overheads. Net realizable value is the estimated selling price in the normal course of business, less applicable variable selling expenses.

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Property, plant and equipment

Property, plant and equipment are recorded at cost. Amortization is calculated using the straight-line method over the following estimated useful lives:

Buildings	10 to 40 years
Leasehold improvements	Lease term
Machinery and equipment	Seven to 15 years
Office equipment	Three to five years
Computer equipment	Three years

Residual values, method of amortization and useful lives are reviewed annually prior to year-end and adjusted if appropriate.

Intangible assets

Upon acquisition, identifiable intangible assets are recorded at fair value if they result from a business acquisition, if not, at cost and are carried at cost less accumulated amortization. Intangible assets acquired are comprised of customer relationships and non-compete agreements which are amortized on a straight-line basis over five to ten years. Software is amortized on a straight line basis over seven to ten years.

Impairment of non-financial assets

Impairments are recorded when the recoverable amount of assets are less than their carrying amounts. The recoverable amount is the higher of an asset's fair value less cost to sell or its value in use. Impairment losses, other than those relating to goodwill, are evaluated for potential reversals when events or changes in circumstances warrant such consideration.

The carrying values of all intangible assets and property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows. The Company bases its impairment calculation on detailed budgets and forecast calculations, which generally cover a period of four years.

Impairment testing of goodwill

Goodwill is tested for impairment annually as at December 31 or more often if events or changes in circumstances indicate that it might be impaired. The impairment test consists of a comparison of the recoverable amount of the cash-generating unit to which goodwill is assigned with its carrying amount. Any impairment loss in the carrying amount compared with the fair value is charged to earnings in the period in which the impairment occurs.

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at the present value of the expected expenditures to settle the obligation using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as a financing charge.

Leases

Leases are classified as either operating or finance, based on the substance of the transaction at the inception of the lease. Classification is re-assessed if the terms of the lease are changed.

Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments under an operating lease are recognized in the consolidated statement of earnings on a straight-line basis over the period of the lease.

Financial instruments

The Company classifies its financial assets in the following categories: at fair value through earnings or loans and receivables. The classification depends on the purpose for which the financial assets were acquired. The Company determines the classification of its financial assets at initial recognition. Financial liabilities are classified as other financial liabilities. For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Company determines whether transfers have occurred between levels of fair value hierarchy at the end of each reporting period.

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Fair value through earnings

Classification

Financial assets are classified at fair value through earnings if acquired principally for the purpose of selling in the short-term, such as financial assets held for trading, or if so designated by the Company. Assets in this category include cash.

Recognition and measurement

Financial assets carried at fair value through earnings are initially recognized, and subsequently carried, at fair value, with changes recognized in the consolidated statement of earnings. Transaction costs are expensed.

Loans and receivables

Classification

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Company's loans and receivables comprise accounts receivable in the consolidated statement of financial position.

Recognition and measurement

Loans and receivables are initially recognized at fair value plus transaction costs and subsequently carried at amortized cost using the effective interest method.

Impairment of financial assets

At the end of each reporting period, the Company assesses whether there is objective evidence that a financial asset is impaired. Impairments are measured as the excess of the carrying amount over the fair value and are recognized in the consolidated statement of earnings.

Financial liabilities

Accounts payable and accrued liabilities, dividend payable, provisions and secured credit facilities are classified as other financial liabilities. They are initially recognized at fair value, net of directly attributable transaction costs, and are subsequently carried at amortized cost using the effective interest method.

3. SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of the Company's consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Intangible assets and goodwill

Intangible assets and goodwill arise out of business combinations for which the Company has applied the purchase method of accounting. The purchase method involves the allocation of the cost of an acquisition to the underlying net assets acquired based on their respective estimated fair value. As part of this allocation process, the Company must identify and attribute values and estimated lives to the intangible assets acquired. These determinations involve significant estimates and assumptions regarding cash flow projections, economic risk and weighted average cost of capital ("WACC").

These estimates and assumptions determine the amount allocated to other identifiable intangible assets and goodwill as well as the amortization period for identifiable intangible assets with finite lives. If future events or results differ adversely from these estimates and assumptions, the Company could record increased amortization or impairment charges in the future [see note 5]. The Company used also other estimates and assumptions related to the impairment test of goodwill [see note 11].

Employee future benefits

The Company sponsors defined benefit plans providing pension and other post-employment benefits to covered employees. The determination of expense and obligations associated with employee future benefits requires the use of assumptions such as the discount rate to measure obligations, the expected mortality, the expected retirement age, the expected rate of future compensation increase and the expected healthcare cost trend rate. Because the determination of the cost and obligations associated with employee future benefits requires the use of various assumptions, there is measurement uncertainty inherent in the actuarial valuation process [see note 9]. Actual results will differ from estimated results which are based on assumptions.

Income taxes

The Company computes an income tax provision in each of the jurisdictions in which it operates. However, actual amounts of income tax expense only become final upon filing and acceptance of the tax return by the relevant authorities, which occur subsequent to the issuance of the financial statements. Additionally, estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the ability to use the underlying future tax deductions against future taxable income before they expire. The assessment is based upon existing tax laws and estimates of future taxable income. To the extent estimates differ from the final tax return, earnings would be affected in a subsequent period.

3. SIGNIFICANT ACCOUNTING ESTIMATES [Cont'd]

The Company is subject to taxation in numerous jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain during the normal course of business. The Company maintains a provision for uncertain tax positions that it believes appropriately reflect its risk with respect to tax matters under active discussion, audit, dispute or appeal with tax authorities, or which are otherwise considered to involve uncertainty. These provisions are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that, at some future date, an additional liability could result from audits by taxing authorities.

Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

4. RECENT ACCOUNTING PRONOUNCEMENTS

Certain new standards, interpretations, amendments and improvements to existing standards were recently issued. The standards impacted that are applicable to the Company are as follows:

- IFRS 9, *Financial Instruments*
  IFRS 9, *Financial Instruments* ("IFRS 9") which replaces IAS 39, *Financial Instruments: Recognition and Measurement*, establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows.

  IFRS 9 will be effective on January 1, 2018.

  The Company is assessing the impact of this new standard on its consolidated financial statements.

- IFRS 15, *Revenue from Contracts with Customers*
  In May 2014, the International Accounting Standards Board (IASB) issued a revenue recognition standard, IFRS 15 *Revenue from Contracts with Customers*, which replaces IAS 18 *Revenue* and IAS 11 *Construction Contracts* and all existing IFRS revenue interpretations. IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). In April 2016, the International Accounting Standards Board (IASB) issued the amendments to IFRS 15. The amendments provide clarification in order to assist companies with implementing the new revenue standard.

4. RECENT ACCOUNTING PRONOUNCEMENT [Cont'd]

IFRS 15 is effective for annual periods beginning on or after January 1, 2018.

The Company is assessing the impact of this new standard on its consolidated financial statements.

- IFRS 16, Leases is required to be applied retrospectively for annual periods beginning on or after January 1, 2019, with early adoption permitted provided that IFRS 15 has been applied or is applied at the same time as IFRS 16.

  IFRS 16 sets out the new principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract. The standard provides to lessees a single accounting model for all leases, with certain exemptions. In particular, lessees will be required to report most leases on their balance sheets by recognising right-of-use assets and related financial liabilities.

  The Company is assessing the impact of this new standard on its consolidated financial statements

5. BUSINESS COMBINATIONS

On August 29, 2016, the Company purchased the principal net assets of Bowers Envelope Company, Inc. ("Bowers Envelope") for a cash consideration of $4,619,239 ($3,547,257 US). Bowers Envelope is a growing manufacturer and printer of envelopes based in Indianapolis, Indiana.

This acquisition is part of the Company's long-term strategy to extend its core products in key markets.

On November 28, 2016, the Company purchased the principal net assets of Durabox Paper Inc. ("Durabox Paper") for a cash consideration of $4,464,196. Durabox Paper is a manufacturer of specialty corrugated paper boxes based in Lachine, Quebec.

This acquisition is also part of the Company's long-term strategy to extend its products in key markets.

On December 23, 2016, the Company purchased the principal net assets of Printer Gateway Inc. ("Printer Gateway") for a cash consideration of $2,900,000. Printer Gateway is a nationally recognized Toronto-based Web-to-Print printer servicing the communications and graphic arts industry.

Printer Gateway developed a proprietary leading edge integrated technology that allows it to efficiently service small orders and the Company intends to deploy this technology across its business lines to improve machinery utilization and turnaround time.

5. BUSINESS COMBINATIONS [Cont'd]

Given the timing of the transactions, the Company has not completed its fair value assessment of the assets acquired and the liabilities assumed. The purchase price allocations are based on initial estimates of fair values at the dates of acquisition and are subject to change until the business valuation is final. The Company expects to complete the purchase price allocations as soon as it gathered all the significant information available to refine the assumptions related to expected future cash flows related to client contracts.

The following table presents a preliminary summary of the estimated fair value of assets acquired and liabilities assumed at the acquisition date that occurred during the year ended December 31, 2016:

	Bowers Envelope Company, Inc. $	**Durabox Paper Inc. $**	**Printer Gateway Inc. $**	**Total $**
Net assets acquired				
Accounts receivable	1,196,611	891,764	184,771	2,273,146
Inventories	918,617	608,400	132,770	1,659,787
Prepaid expenses	18,713	—	19,557	38,270
Total current assets	**2,133,941**	**1,500,164**	**337,098**	**3,971,203**
Property, plant and equipment	1,740,098	1,064,946	946,541	3,751,585
Software	—	—	546,207	546,207
Customer relationships	898,518	2,313,311	290,000	3,501,829
Goodwill	1,102,989	15,736	1,159,550	2,278,275
Total assets	**5,875,546**	**4,894,157**	**3,279,396**	**14,049,099**
Accounts payable and accrued liabilities	900,429	414,225	379,396	1,694,050
Deferred income tax liabilities	355,878	15,736	—	371,614
Net assets acquired	**4,619,239**	**4,464,196**	**2,900,000**	**11,983,435**
Cash consideration	4,619,239	4,464,196	2,900,000	11,983,435
Acquisition-related costs recognized as an expense	149,501	115,336	39,612	304,449

The Company's consolidated statement of earnings for the year ended December 31, 2016 includes the operating results of Bowers Envelope, Durabox Paper and Printer Gateway, since their acquisition dates; including additional revenue of $4,382,555. The fair value of the receivables acquired of $2,273,146 of which no amount was considered uncollectible at the acquisition date, is included in the current assets in the accounting of the business acquisition.

If the acquisition had occurred on January 1, 2016, revenue for the full year from Bowers Envelope, Durabox Paper and Printer Gateway would have been approximately $22,800,000.

Goodwill deductible for tax purposes amounts to $2,823,927. The goodwill related to the acquisitions is composed of expected growth and operational synergies.

5. BUSINESS COMBINATIONS [Cont'd]

On December 1, 2015, the Company purchased the principal net assets of Premier Envelope Ltd. and affiliated operating companies for a cash consideration of $6,100,000. Premier Envelope is an established manufacturer of stock and custom envelopes, principally operating in Western Canada.

This acquisition allows the Company to elevate its manufacturing capabilities in Western Canada and improve its ability to unlock capacity in Eastern Canada to support its growth strategy in the United States.

On October 8, 2015, the Company acquired all of the outstanding common shares of Classic Envelope Inc. for a cash consideration of $9,387,741 ($7,200,844 US) including cash of $95,543 ($73,287 US). This business is a growing manufacturer and printer of envelopes and letterhead based in Massachusetts and servicing the greater Boston and New York City areas.

This acquisition is part of the Company's long-term strategy to extend its reach in key markets and to expand its value added offering in packaging and specialty products.

During the year ended December 31, 2016, the Company finalized the purchase price allocation. Adjustments are non-significant and are related to the assessment of property, plant and equipment and deferred income tax liabilities.

The following table presents a summary of the estimated fair value of assets acquired and liabilities assumed at the acquisition date that occurred during the year ended December 31, 2015:

	Premier Envelope Ltd. **$**	**Classic Envelope Inc.** $	**Total** **$**
Net assets acquired			
Accounts receivable	1,561,419	1,358,633	2,920,052
Inventories	1,224,222	2,278,468	3,502,690
Prepaid expenses	10,370	17,195	27,565
Total current assets	**2,796,011**	**3,654,296**	**6,450,307**
Property, plant and equipment	1,829,094	3,429,840	5,258,934
Customer relationships	1,669,000	1,598,336	3,267,336
Goodwill	197,784	3,581,393	3,779,177
Total assets	**6,491,889**	**12,210,073**	**18,755,754**
Accounts payable and accrued liabilities	391,889	1,378,210	1,770,099
Deferred income tax liabilities	—	1,593,457	1,539,665
Nets assets acquired	**6,100,000**	**9,292,198**	**15,392,198**
Consideration			
Cash, net of cash acquired	**6,100,000**	**9,292,198**	**15,392,198**
Acquisition-related costs recognized as an expense	183,494	260,287	443,781

5. BUSINESS COMBINATIONS [Cont'd]

The Company's consolidated statement of earnings for the year ended December 31, 2015 include the operating results of Premier Envelope Ltd. and Classic Envelope Inc. since their acquisition dates; including additional revenue of $4,673,822. The fair value of the receivables acquired of $2,920,052 of which no amount was considered uncollectible at the acquisition date, is included in the current asset in the accounting of the business acquisition.

If the acquisition had occurred on January 1, 2015 revenue for the full year from Premier Envelope Ltd. and Classic Envelope Inc. would have been approximately $26,200,000.

Goodwill deductible for tax purposes amounts to $106,562. The goodwill related to the acquisitions is composed of expected growth and operational synergies.

6. ACCOUNTS RECEIVABLE

	December 31, 2016 $	**December 31, 2015 $**
Trade receivables	**20,721,591**	20,503,055
Less: Allowance for doubtful accounts	**(185,693)**	(87,757)
Trade receivables - net	**20,535,898**	20,415,298
Other receivables	**701,423**	943,528
	21,237,321	21,358,826

Trade receivables are non-interest bearing and are generally on 30-60 days terms.

The aging analysis of trade receivables at each reporting date was as follows:

	December 31, 2016 $	**December 31, 2015 $**
Current	**13,431,999**	13,979,732
31 – 60 days	**5,079,123**	4,710,924
61 – 90 days	**1,241,245**	1,437,496
91 – 120 days	**620,508**	315,734
Over 120 days	**348,716**	59,169
	20,721,591	20,503,055

6. ACCOUNTS RECEIVABLE [Cont'd]

Allowance for doubtful accounts

The changes in the allowance for doubtful accounts were as follows:

	December 31, 2016 $	December 31, 2015 $
Balance, beginning of year	**87,757**	77,914
Business combinations	**31,406**	25,664
Charge for the year	**121,007**	115,318
Utilized	**(49,552)**	(120,989)
Unused amount reversed	**—**	(10,682)
Impact of foreign exchange losses	**(4,925)**	532
Balance, end of year	**185,693**	87,757

The Company is exposed to normal credit risk with respect to its accounts receivable and maintains provisions for potential credit losses. Potential for such losses is mitigated because there is no significant exposure to any single customer and because customer credit worthiness is evaluated before credit is extended.

7. INVENTORIES

	December 31, 2016 $	December 31, 2015 $
Raw materials	**5,234,234**	4,461,908
Work in progress	**279,212**	329,869
Finished goods	**10,529,104**	10,771,836
	16,042,550	15,563,613

The cost of inventories recognized as an expense and included in operating expenses, including the related amortization of property, plant and equipment allocated to inventories, during the year ended December 31, 2016 is $118,765,333 [2015 - $97,829,869].

8. PROPERTY, PLANT AND EQUIPMENT

	Land, buildings and leasehold improvements $	Machinery and equipment $	Office and computer equipment $	Total $
Cost:				
At December 31, 2014	15,374,531	38,549,441	1,757,411	55,681,383
Acquisition	50,209	1,110,603	142,756	1,303,568
Business combinations [*note 5*]	—	5,303,667	22,032	5,325,699
Disposals	—	(504,001)	(19,459)	(523,460)
Translation adjustment	2,587	503,233	14,695	520,515
At December 31, 2015	15,427,327	44,962,943	1,917,435	62,307,705
Acquisition	192,276	1,096,728	346,182	1,635,186
Business combinations [*note 5*]	108,331	3,506,414	70,075	3,684,820
Disposals	(115,896)	(505,752)	(18,507)	(640,155)
Translation adjustment	2,490	(111,010)	(2,532)	(111,052)
At December 31, 2016	**15,614,528**	**48,949,323**	**2,312,653**	**66,876,504**
Amortization:				
At December 31, 2014	3,358,931	26,496,464	1,492,358	31,347,753
Amortization	449,924	3,543,662	116,983	4,110,569
Disposals	—	(114,098)	—	(114,098)
Translation adjustment	2,587	155,808	14,695	173,090
At December 31, 2015	3,811,442	30,081,836	1,624,036	35,517,314
Amortization	436,628	3,953,210	129,737	4,519,575
Disposals	(115,896)	(421,511)	—	(537,407)
Translation adjustment	(442)	(23,869)	(2,693)	(27,004)
At December 31, 2016	**4,131,732**	**33,589,666**	**1,751,080**	**39,472,478**
Net book value:				
At December 31, 2015	11,615,885	14,881,107	293,399	26,790,391
At December 31, 2016	**11,482,796**	**15,359,657**	**561,573**	**27,404,026**

9. EMPLOYEE DEFINED BENEFIT PLANS

(a) Pension Plans

The Company maintains three defined benefit pension plans covering substantially all of salaried and hourly employees. Two of these pension plans are hybrid because they also have a defined contribution component. All defined benefit pension plans are funded. Two of these plans are governed by the *Pension Benefits Act of Ontario.* The benefits of one of these plans are based on the average earnings of the best three years and on the final average earnings of the five consecutive years for the other plan. The other plan is governed under the *Supplemental Pension Plans Act of the Régie des rentes du Québec*. The benefits for this plan are based on the average earnings of the best five consecutive years. During the third quarter of 2012, the Company converted, for future service, its defined benefit pension plans into defined contributions plans.

The key risks pension plans are exposed to include interest rate risks, investment risks and change in the life expectancy for pensioners.

The defined benefit and defined contribution plans expenses included in operating, selling, general and administrative expenses are as follows:

	2016 **$**	**2015** **$**
Defined benefit plans		
Administration expenses	**246,400**	198,100
Past service gains	**—**	(4,341,400)
Defined benefit plans loss (gain)	**246,400**	(4,143,300)
Defined contribution plan expense	**1,373,300**	1,389,500
Pension plans loss (gain)	**1,619,700**	(2,753,800)

Interest expense (income) on pension defined benefit plan obligation of $29,400 [2015 – ($42,800)] is included in the financing charges in the consolidated statement of earnings [see note 14].

9. EMPLOYEE DEFINED BENEFIT PLANS [Cont'd]

The following table presents the changes in the accrued benefit obligation and the fair value of plan assets, as well as the funded status of the defined benefit plans.

	December 31, 2016 $	**December 31, 2015 $**
Change in accrued benefit obligation		
Benefit obligation, beginning of the year	**92,221,800**	97,001,500
Interest cost	**3,504,900**	3,705,500
Employees contribution	**1,600**	76,500
Actuarial loss from change in financial assumptions	**1,291,600**	120,100
Actuarial loss (gain) from experience	**1,076,600**	(100,300)
Benefits paid	**(4,704,700)**	(4,240,100)
Past service gains	**—**	(4,341,400)
Benefit obligation, end of year	**93,391,800**	92,221,800
Change in plan assets		
Fair value of plan assets, beginning of the year	**91,920,461**	96,435,036
Interest income on plan assets	**3,475,500**	3,748,300
Actuarial gains (losses)	**5,617,300**	(2,664,600)
Employer contribution	**25,200**	74,731
Employees contribution	**1,600**	76,500
Use of surplus to pay for employer defined contributions	**(392,054)**	(1,311,306)
Benefits paid	**(4,704,700)**	(4,240,100)
Plan administration expenses	**(246,400)**	(198,100)
Fair value of plan assets, end of year	**95,696,907**	91,920,461
Net amount recognized as accrued pension benefit asset (liability)	**2,305,107**	(301,339)

9. EMPLOYEE DEFINED BENEFIT PLANS [Cont'd]

The defined benefit plans amount recognized in other comprehensive income (loss), before taxation, is as follows:

	2016 $	2015 $
Total actuarial gains (losses)	**3,249,100**	(2,684,400)
	3,249,100	(2,684,400)

The cumulative amount of actuarial losses recognized in the consolidated statement of comprehensive income is $2,674,000 as at December 31, 2016 [2015 – $5,923,100].

The key assumptions used in computing the benefit obligation and net pension cost were as follows:

	2016 %	2015 %
Discount rate for accrued benefit obligation	**3.80**	3.90
Discount rate for net pension cost	**3.90**	4.00
Rate of compensation increase	**2.50**	2.50
Mortality assumption[1]	**CPM Private**	CPM Private

[1] CPM 2014 Private Sector Mortality table projected generationally using CPM improvement scale B with no size adjustment

9. EMPLOYEE DEFINED BENEFIT PLANS [Cont'd]

The weighted average allocation of plan assets as at December 31 is as follows:

	2016 **%**	**2015** **%**
Equity securities		
Canadian	**30.2**	23.0
Oil & Gas	6.9	4.9
Financial services	6.6	5.4
Communications & media	3.5	3.2
Industrial products	4.0	2.3
Other	9.2	7.2
United States	**—**	15.4
Technology	—	2.8
Health Care	—	2.7
Financial services	—	2.4
Other	—	7.5
Europe, Australia and Far East	**—**	11.2
Foreign Global Equity Funds	**27.4**	3.1
	57.6	52.7
Fixed income funds		
Canadian	**37.6**	37.3
Cash and short-term securities		
Canadian	**4.8**	10.0
Total	**100.0**	100.0

9. EMPLOYEE DEFINED BENEFIT PLANS [Cont'd]

All financial equity instruments and investment funds are classified as Level 1 fair value hierarchy (quoted prices in active markets).

The pension plans have an investment policy with the following target asset allocations: 50% in equity securities and 50% in fixed income securities. As at December 31, 2016 and 2015, the pension plans were in compliance with the investment policy allocations.

As of December 31, 2016 and 2015, there were no Supremex shares held in the Company's pension plans.

The average duration of the defined benefit plan obligation is 14.0 years as at December 31, 2016 [2015 – 15.0 years].

Sensitivity analysis

For the Company, a 0.25% increase or decrease in the discount rate would have decreased or increased the defined benefit liability by approximately $3.2 million as at December 31, 2016. A 0.25% increase or decrease in the rate of compensation would have increased or decreased the pension benefit liability by approximately $0.4 million as at December 31, 2016. An increase of one year in the life expectancy of plan members as at December 31, 2016 results in an increase of $2.9 million in total projected defined benefit obligation of pension plans. The sensitivity analysis has been determined based on a method that determines the impact on the defined benefit liability of a 0.25% change in the key assumptions. There have been no changes in the methods and assumptions used to determine the sensitivity analysis from the comparative year.

(b) Post-retirement benefits other than pension

The following table provides a reconciliation of the change in the accrued benefit obligation of the plans.

	December 31, 2016 $	**December 31, 2015 $**
Change in accrued benefit obligation		
Benefit obligation, beginning of year	**239,000**	899,900
Interest cost [*note 14*]	**8,900**	11,100
Actuarial gain from change in financial assumption	**(26,700)**	(38,700)
Benefits paid	**(22,200)**	(18,900)
Past service gain [*note 17*]	**—**	(614,400)
Benefit obligation, end of year	**199,000**	239,000

Post-employment and other retirement benefits plans are not funded.

9. EMPLOYEE DEFINED BENEFIT PLANS [Cont'd]

The other post-retirement benefits amount recognized in other comprehensive income (loss), before taxation, consists of actuarial gains of $26,700 [2015 – $38,700]. The cumulative amount of actuarial losses recognized in the consolidated statement of comprehensive income is $406,100 as at December 31, 2016 [2015 - $432,800].

The assumptions used in the measurement of the Company's other post-retirement benefit cost were as follows:

	2016 %	2015 %
Weighted-average assumptions		
Discount rate for benefit obligation	**3.80**	3.90
Discount rate for net periodic benefit cost	**3.90**	4.00

As at December 31, 2016, no coverage is provided to retirees for healthcare and dental. The average duration of the other post-retirements obligation is 7.0 years as at December 31, 2016 and 2015.

10. INTANGIBLE ASSETS

	Customer relationships $	Non-compete agreements $	Software $	Total $
Cost				
At December 31, 2014	60,884,000	755,000	—	61,639,000
Additions	—	—	1,238,996	1,238,996
Business combinations [*note 5*]	3,267,336	—	—	3,267,336
Translation adjustment	98,448	—	—	98,448
At December 31, 2015	64,249,784	755,000	1,238,996	66,243,780
Additions	—	—	770,446	770,446
Business combinations [*note 5*]	3,501,829	—	546,207	4,048,036
Translation adjustment	(24,205)	—	—	(24,205)
At December 31, 2016	**67,727,408**	**755,000**	**2,555,649**	**71,038,057**
Accumulated amortization:				
At December 31, 2014	52,870,839	660,832	—	53,531,671
Amortization	6,135,607	75,500	—	6,211,107
Translation adjustment	330	—	—	330
At December 31, 2015	59,006,776	736,332	—	59,743,108
Amortization	1,816,971	18,668	80,942	1,916,581
Translation adjustment	1,347	—	—	1,347
At December 31, 2016	**60,825,094**	**755,000**	80,942	**61,661,036**
Net book value:				
At December 31, 2015	5,243,008	18,668	1,238,996	6,500,672
At December 31, 2016	**6,902,314**	—	**2,474,707**	**9,377,021**

11. GOODWILL

	$
Cost	
At December 31, 2014	46,889,125
Business combinations [*note 5*]	3,658,620
Translation adjustment	217,279
At December 31, 2015	50,765,024
Business combinations [*note 5*]	2,398,832
Translation adjustment	(75,840)
At December 31, 2016	**53,088,016**

Impairment test of goodwill

The Company conducted its annual impairment test as at December 31, 2016, in accordance with its policy described in note 2. The recoverable amount of the cash-generating unit exceeded its carrying values. As a result, no goodwill impairment was recorded.

Valuation technique

The Company uses the discounted cash flows ("DCF") method to determine the value in use of its cash-generating unit and has not made any changes to the valuation methodology used to assess goodwill impairment since the last annual impairment test.

Significant assumptions

The income approach is predicated upon the value of the future cash flows that a business will generate going forward. The DCF method, which was used as at December 31, 2016, involves projecting cash flows and converting them into a present value equivalent through discounting. The discounting process uses a rate of return that is commensurate with the risk associated with the business or asset and the time value of money. This approach requires assumptions about revenue growth or decline rates, operating margins, tax rate and discount rate.

Growth or decline of revenue

The assumptions used were based on the Company's internal budget. The Company projected revenue, operating margins and cash flows for a period of four years that reflect lower demand in the Canadian envelope market, a capacity to gain market share in the US envelope market and applied a perpetual long-term decline rate for the period thereafter. In arriving at its forecasts, the Company considered past experience, recent acquisitions, economic trends as well as industry and market trends.

Discount rate

The Company assumed a pre-tax discount rate in order to calculate the present value of its projected cash flows. The discount rate represented a weighted average cost of capital ("WACC") for comparable companies operating in a similar industry. The WACC is an estimate of the overall required rate of return on an investment for both debt and equity owners and serves as the basis for developing an appropriate discount rate.

11. GOODWILL [Cont'd]

Determination of the WACC requires separate analysis of the cost of equity and debt, and considers a risk premium based on an assessment of risks related to the projected cash flows.

The key assumptions used in performing the impairment test were as follows:

	2016	**2015**
Pre-tax discount rate	16.6%	16.6%
Tax rate	26.1%	26.0%
Perpetual decline rate	3.0%	3.0%

Sensitivity

In the most recent impairment test performed, if the pre-tax discount rate had increased to 28.9% or the perpetual decline rate had increased to 44.8%, the recoverable amount of the cash generating unit would have then equaled the carrying amount as at December 31, 2016.

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2016 **$**	**December 31, 2015** **$**
Trade payables	**8,833,102**	8,175,683
Accrued liabilities	**9,048,705**	9,972,032
	17,881,807	18,147,715

Trade payables are non-interest bearing and are normally settled on 20 to 60 day terms.

13. PROVISIONS

In connection with the acquisitions of NPG Envelope ("NPG") in 2007, Montreal Envelope Inc. ("Montreal") in 2008 and Pioneer Envelopes Ltd. ("Pioneer") in 2010, the Company adopted a plan for the integration and restructuring of the acquired businesses. As a result, the Company recognized a provision for severance, relocation and exit costs relating to certain employees and facilities of the acquired businesses. As at December 31, 2016, the amount of the remaining accrued restructuring provision was $0.3 million [$0.3 million as at December 31, 2015]. This amount is related to deferred severance for employees on long-term disability and is payable on demand.

The following is a summary of amounts accrued and paid relating to restructuring expenses.

	December 31, 2016 **$**	**December 31, 2015** **$**
Balance, beginning of year	**332,939**	337,401
Cash payments	**(8,703)**	(4,462)
Balance, end of year	**324,236**	332,939

14. SECURED CREDIT FACILITIES

As at December 31, 2016, the Company has a five-year committed $50 million senior secured revolving facility agreement maturing on October 6, 2020. No principal repayments are required prior to maturity. This facility bears interest at a floating rate based on the Canadian prime rate or bankers' acceptance rates, plus an applicable margin that ranges between 1.50% and 1.75%.

The secured credit facility is used for working capital, capital expenditure and other general corporate purpose. It is collateralized by hypothec and security interests covering all assets of the Company and its subsidiaries and is subject to certain covenants, which the Company is required, among other conditions, to meet. The Company was in compliance with these covenants during 2016.

Amounts owed under secured credit facilities are as follows:

	December 31, 2016	**December 31, 2015**
	$	$
Revolving credit facility	**27,151,265**	29,000,000
Less: deferred financing costs, net	**(257,351)**	(325,979)
Long-term portion of secured credit facility	**26,893,914**	28,674,021

There are no minimum required payments on secured credit facility.

The Company had outstanding letters of credit for a total of $60,000 as at December 31, 2016, [2015 – $50,000].

The effective interest rate on the secured credit facilities was 2.43% as at December 31, 2016 [2.59% as at December 31, 2015].

Financing charges are as follows:

	2016	**2015**
	$	**$**
Interest on secured credit facilities	**739,618**	1,348,008
Interest expense (income) on defined benefit plan obligation [*note 9*]	**29,400**	(42,800)
Interest expense on post-retirement benefits [*note 9*]	**8,900**	11,100
Other interest	**5,483**	9,600
Amortization of deferred financing costs	**68,628**	188,073
Gain on valuation of derivative financial instrument (interest rate swap)	—	(547,562)
	852,029	966,419

15. INCOME TAXES

Income tax expense

The major components of income tax expense recognized in the consolidated statement of earnings were as follows:

	2016 $	2015 $
Current income tax:		
Current income tax expense	**5,949,297**	6,620,621
Deferred income tax:		
Reversal of temporary differences	**(474,488)**	(743,321)
Income tax expense	**5,474,809**	5,877,300

Income taxes on items recognized in other comprehensive loss were as follows:

	2016 $	2015 $
Deferred income tax related to items imputed directly to equity during the year:		
Deferred tax expense (benefit) on recognized actuarial gain (loss) on defined benefit pension plans	**847,190**	(699,751)
Deferred tax expense on recognized actuarial gain on other post-retirement benefit	**6,962**	10,088
Income tax expense (benefit) charged to other comprehensive income	**854,152**	(689,663)

The income tax expense differs from the expense that would be obtained by applying the combined Canadian income tax (federal and provincial) as follows:

	2016 $	2015 $
Earnings before income taxes	**20,067,553**	21,808,100
Income tax expense at combined federal and provincial statutory rate of 26.1% [2015 – 26.0%]	**5,232,113**	5,675,849
Effect of change in enacted tax rates	**97**	6,555
Income tax rate differential for foreign subsidiaries	**11,405**	53,535
Non-deductible expenses and other	**231,194**	141,361
Income tax expense	**5,474,809**	5,877,300

15. INCOME TAXES [Cont'd]

Deferred income tax

Deferred income tax relates to the following:

	Consolidated statement of financial position		Consolidated statement of earnings	
	December 31, 2016 $	December 31, 2015 $	**December 31, 2016 $**	December 31, 2015 $
Deferred tax assets				
Accrued pension benefit asset (liability)	**(601,048)**	78,551	**(167,763)**	768,297
Goodwill	**1,253,251**	1,339,488	**152,123**	228,048
Derivative financial liability	—	—	—	142,189
Other	**483,679**	244,928	**(50,762)**	(50,762)
Non-capital losses	**186,437**	145,942	**143,282**	143,282
	1,322,319	1,808,909	**76,880**	76,880
Deferred tax liabilities				
Property, plant and equipment	**3,509,167**	3,162,455	**440,036**	763,478
Intangible assets	**786,105**	835,866	**116,085**	1,202,416
Other	**213,764**	229,879	**(4,753)**	(4,753)
	4,509,036	4,228,200	**551,368**	551,368
Deferred tax recovery			**(474,488)**	(743 321)
Net deferred income tax liabilities	**(3,186,717)**	(2,419,291)		

15. INCOME TAXES [Cont'd]

Reconciliation of net deferred tax liabilities

	2016 $	2015 $
Balance – beginning of the year	**(2,419,291)**	(2,218,415)
Tax recovery during the year recognized in the consolidated statement of earnings	**474,488**	743,321
Tax benefit recognized in other comprehensive loss	**(854,152)**	689,663
Other	—	129
Net deferred tax from business acquisitions [*note 5*]	**(425,406)**	(1,539,665)
Translation adjustment on net deferred tax	**37,644**	(94,324)
Balance – end of year	**(3,186,717)**	(2,419,291)

16. SHARE CAPITAL

An unlimited number of common shares are issuable. Each common share represents a shareholder's proportionate undivided interest in the Company. Each common share confers to its holder the right to one vote at any meeting of shareholders and to participate equally and rateably in any dividends of the Company, if any, and, in the event of any required distribution of all of the property of the Company, in the net assets of the Company remaining after satisfaction of all liabilities.

The change in share capital was as follows:

	Number of common shares	Share capital $
Balance, as of December 31, 2014	28,754,667	9,814,628
Purchase of share capital for cancellation	(3,700)	(1,263)
Balance, as of December 31, 2015	28,750,967	9,813,365
Purchase of share capital for cancellation	(139,616)	(47,654)
Balance, as of December 31, 2016	**28,611,351**	**9,765,711**

During the year ended December 31, 2016, the Company repurchased 139,616 (2015 – 3,700) common shares for cancellation through a normal course issuer bid for a consideration of $668,939 (2015 - $11,137). The excess of the purchase price over the carrying value in the amount of $621,285 (2015- $9,874) was recorded as a reduction of contributed surplus.

Deferred Share Unit Plan (DSU)

On December 15, 2015 the Company adopted a Deferred Share Unit ("DSU") Plan for its members of the Board of Directors. The DSU Plan enables its participants to receive compensation in cash at the termination date, as a member of the Board of Directors, equal to the market price of the Corporation's common share for each DSU.

16. SHARE CAPITAL [Cont'd]

Each participant in the DSU Plan may elect, each fiscal year, to receive up to 100% of their director's annual retainer fees in DSUs. Such DSUs are expensed on an earned basis and their costs are determined using a valuation model and all issued and outstanding DSUs are measured at each reporting period.

The financial liability resulting from the plan of $113,800 [2015 - $0] is presented under "*Accounts payable and accrued liabilities*".

The compensation expense for the DSUs during the twelve-month period ended December 31, 2016 amounted to $113,800 [2015 - $0] and is recognized under selling, general and administrative expenses.

17. OPERATING, SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	2016	**2015**
	$	**$**
Wages and salaries	**39,702, 805**	33,353,444
Social security costs	**6,235,175**	4,703,580
Pension plans loss (gain) [*see note 9*]	**1,619,700**	(2,753,800)
Post-employment benefits other than pension [*see note 9*]	**—**	(614,400)
Employee benefits expenses	**47,557,680**	34,688,824
Raw materials and other purchases	**63,170,718**	58,447,167
Other	**22,459,451**	16,073,012
	133,187,849	**109,209,003**

18. DIVIDENDS

Dividends declared from January 1, 2016 to December 31, 2016 were as follows:

Declaration date	**Record date**	**Payment date**	**Per share $**	**Dividend $**
February 17, 2016	March 31, 2016	April 14, 2016	0.055	1,575,462
May 5, 2016	June 30, 2016	July 14, 2016	0.055	1,575,462
July 28, 2016	September 30, 2016	October 14, 2016	0.055	1,574,801
November 3, 2016	December 30, 2016	January 13, 2017	0.06	1,716,681
Total				**6,442,406**

18. DIVIDENDS [Cont'd]

Dividends declared from January 1, 2015 to December 31, 2015 were as follows:

Declaration date	Record date	Payment date	Per share $	Dividend $
February 20, 2015	March 31, 2015	April 14, 2015	0.05	1,437,548
May 7, 2015	June 30, 2015	July 14, 2015	0.05	1,439,191
July 30, 2015	September 30, 2015	October 14, 2015	0.05	1,437,548
November 5, 2015	December 31, 2015	January 14, 2016	0.055	1,581,304
Total				**5,895,591**

19. COMMITMENTS, CONTINGENCIES AND GUARANTEES

Operating lease commitments

The Company has entered into operating leases mainly for buildings.

Future minimum rentals payable under non-cancellable operating leases are as follows:

	December 31, 2016 $
Within one year	**3,361,160**
After one year but not more than five years	**8,202,083**
More than five years	**3,706,088**
	15,269,331

Legal claim

In the normal course of its operations, the Company is exposed to various claims, disputes and legal proceedings. These disputes may involve numerous uncertainties and the outcome of individual cases is unpredictable. According to management, these disputes should not have a significant negative impact on the Company's financial position.

Guarantees

In the normal course of business, the Company has entered into agreements that contain features which meet the definition of a guarantee. These agreements may require the Company to compensate counterparties for costs and losses incurred as a result of various events including breaches of representations and warranties, loss of or damages to property, claims that may arise while providing services, and environmental liabilities. These agreements provide for indemnification and guarantees to counterparties as follows:

19. COMMITMENTS, CONTINGENCIES AND GUARANTEES [Cont'd]

Operating leases

The Company has general indemnity clauses in many of its real estate leases whereby it, as lessee, indemnifies the lessor against liabilities related to the use of leased property. These leases mature at various dates through July 2027 with renewal option for some leases. The nature of these indemnification agreements prevents the Company from estimating the total potential amount it would have to pay to lessors, since these events have not occurred yet. Historically, the Company has not made any significant payments under such agreements, has insurance coverage for certain of the obligations undertaken and, as at December 31, 2016, has not recorded any liability associated with these indemnifications.

20. RELATED PARTY TRANSACTIONS

Compensation of key management personnel of Supremex is as follows:

	2016 **$**	**2015** **$**
Short-term employee benefits	**1,704,627**	1,776,769
Post-employment benefits	**74,575**	72,885
	1,779,202	1,849,654

The amounts disclosed in the table are the amounts recognized as an expense related to key management personnel during the reporting period.

21. FINANCIAL INSTRUMENTS

Financial assets and liabilities

Financial assets and liabilities in the statements of financial position were as follows:

December 31, 2016	**Loans and receivables** $	**Assets at fair value through earnings** $	**Other financial liabilities** $	**Total** $
Cash	—	1,964,947	—	**1,964,947**
Accounts receivable	21,237,321	—	—	**21,237,321**
Accounts payable and accrued liabilities excluding sales tax payable	—	—	(16,591,199)	**(16,591,199)**
Dividend payable	—	—	(1,716,681)	**(1,716,681)**
Provisions	—	—	(324,236)	**(324,236)**
Secured credit facility	—	—	(27,151,265)	**(27,151,265)**
Total	**21,237,321**	**1,964,947**	**(45,783,381)**	**(22,581,113)**

December 31, 2015	**Loans and receivables** $	**Assets at fair value through earnings** $	**Other financial liabilities** $	**Total** $
Cash	—	3,533,917	—	**3,533,917**
Accounts receivable	21,358,826	—	—	**21,358,826**
Accounts payable and accrued liabilities excluding sales tax payable	—	—	(16,768,700)	**(16,768,700)**
Dividend payable	—	—	(1,581,303)	**(1,581,303)**
Provisions	—	—	(332,939)	**(332,939)**
Secured credit facilities	—	—	(29,000,000)	**(29,000,000)**
Total	**21,358,826**	**3,533,917**	**(47,682,942)**	**(22,790,199)**

Fair values

The carrying amount of secured credit facilities approximates its fair value given its nature and floating interest rate.

For the secured credit facilities, the Company categorized the fair value measurement in Level 2, as it is primarily derived from observable market inputs, that is, interest rates.

21. FINANCIAL INSTRUMENTS [Cont'd]

Management of risks arising from financial instruments

In the normal course of business, the Company is exposed to a range of financial risks, which include credit risk, liquidity risk and market risk. To limit the effects of these risks on revenues, expenses and cash flows, the Company can avail itself of various derivative financial instruments. The Company's management is responsible for determining the acceptable level of risk and uses derivative financial instruments only to manage existing or anticipated risks, commitments or obligations based on past experience.

Credit risk

Credit risk arises from cash and accounts receivable. In order to minimize the credit exposure, the Company's cash is placed with Canadian Schedule 1 banks and their U.S subsidiaries.

Credit risk stems primarily from the potential inability of clients to discharge their obligations. Accounts receivable credit risk is mitigated through established monitoring activities, lack of customer concentration and the Company's diversified customer base. Historically, the Company has never made any significant write-off of accounts receivable. As at December 31, 2016 and 2015, total trade accounts receivable over 90 days past due amounted to less than 5% [see note 6]. The Company does not hold collateral as security.

Liquidity risk

The Company is exposed to the risk of being unable to honour its financial commitments within the deadlines set out under the terms of such commitments and at a reasonable price. The Company manages liquidity risk by maintaining adequate cash balances and by appropriately using the Company's secured credit facilities. The Company continuously reviews both actual and forecasted cash flows to ensure that it has adequate credit facility capacity. The Company continuously reviews its exposure to interest rate fluctuations and as at February 15, 2017, the debt level was not deemed high enough to enter into a new interest swap.

21. FINANCIAL INSTRUMENTS [Cont'd]

The table below sets forth the contractual undiscounted cash flows of financial liabilities by maturity based on the remaining period from December 31, to the contractual maturity date.

December 31, 2016	**Less than 3 months** **$**	**1 to 5 years** **$**	**Total** **$**
Accounts payable and accrued liabilities	16,591,199	—	16,591,199
Dividend payable	1,716,681	—	1,716,681
Provisions	324,236	—	324,236
Secured credit facilities	—	27,151,265	27,151,265
	18,632,116	**27,151,265**	**45,783,381**

December 31, 2015	**Less than 3 months** **$**	**1 to 5 years** **$**	**Total** **$**
Accounts payable and accrued liabilities	16,768,700	—	16,768,700
Dividend payable	1,581,303	—	1,581,303
Provisions	332,939	—	332,939
Secured credit facilities	—	29,000,000	29,000,000
	18,682,942	**29,000,000**	**47,682,942**

Market risk

Market risk is the risk that changes in market prices due to foreign exchange rates and interest rates will affect the value of the Company's financial instruments. The objective of market risk management is to mitigate and control exposures within acceptable parameters while optimizing the return on risk.

Interest rate risk

The Company is exposed to interest rate fluctuations mainly on its secured credit facility. The Company manages interest rate exposure by maintaining a balanced portfolio of fixed and variable loans and borrowings depending on the level of the Company's exposure. Furthermore, interest rate fluctuations could have an impact on interest expense on its credit facility and on income the Company derives from cash. The Company invests, when applicable, its cash in highly liquid investment instruments to safeguard its capital while generating a reasonable return.

On December 31, 2016, a 25 basis-point rise or fall in interest rates, assuming all other variables remained unchanged, would have resulted, respectively, in a $44,997 increase or decrease in the Company's net earnings for the year ended December 31, 2016 [2015 - $23,678].

21. FINANCIAL INSTRUMENTS [Cont'd]

Foreign exchange risk

The Company is exposed to fluctuations in U.S. exchange rates because a portion of its activities are conducted in the United States and a portion of its purchases and capital expenditures are made in U.S. dollars. The Company continuously reviews its exposure to fluctuations in the U.S. exchange rate and has decided at this time not to enter into derivatives as the exposure is not significant.

As at December 31, 2016, net financial assets of the Company in Canadian dollars, denominated in U.S. dollars, totalled $2,537,766 [2015 - $1,849,867].

On December 31, 2016, a 5% rise or fall in the Canadian dollar against the U.S. dollar on financial instruments held at that date, assuming all other variables remained unchanged, would have resulted, respectively, in a $126,888 increase or decrease in the Company's net earnings for the year then ended [2015 - $92,493], whereas other comprehensive income (loss) would have increased or decreased by $332,543 [2015 - $132,014].

22. CAPITAL MANAGEMENT

The Company's capital consists of equity and secured credit facilities. The Company maintains a capital level that enables it to meet several objectives:

- Assure the longevity of its capital to support continued operations;
- Satisfy certain financial covenants under the secured credit facilities;
- Preserve its financial flexibility to benefit from potential opportunities as they arise; and
- Sustain growth in share value.

The Company continually assesses the adequacy of its capital structure and capacity and makes adjustments in view of the Company's strategy, economic conditions and the risk characteristics of the business to achieve the above objectives. The Company also monitors its capital to ensure full adherence to the "secured credit facilities/EBITDA" and "fixed charge coverage" ratios as defined in the credit facilities agreement.

The Company's capital structure is composed of equity and secured credit facilities less cash. The capital structure is as follows:

	December 31, 2016 $	**December 31, 2015 $**
Secured credit facilities	**26,893,914**	28,674,021
Cash	**(1,964,947)**	(3,533,917)
Net debt	**24,928,967**	25,140,104
Equity	**82,337,060**	72,635,169

The Company is not subject to any externally imposed capital requirements other than certain restrictions under the terms of its secured credit facilities.

23. SEGMENTED INFORMATION

The Company currently operates in one reporting segment: the manufacturing and sale of envelopes. The Company's non-current assets amounted to $77,092,104 in Canada and $12,776,959 in the United States as at December 31, 2016 [$74,347,005 and $9,709,082, respectively, as at December 31, 2015]. The Company's revenue amounted to $119,132,897 in Canada and $41,437,456 in the United States for the year ended December 31, 2016 based on customer location [2015 - $115,645,871 in Canada and $26,652,587 in the United States].

24. SUBSEQUENT EVENT

On February 15, 2017, the Board of Directors has declared a quarterly dividend of $0.06 per common share, payable on April 14, 2017 to shareholders of record at the close of business on March 31, 2017.