



MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE AND TWELVE-MONTH PERIODS ENDED DECEMBER 31, 2020

The following management's discussion and analysis of financial condition and results of operations ("MD&A"), dated February 24, 2021, of Supremex Inc. ("Supremex" or 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, 2020. 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, 2020.

The Company's common shares are traded on the Toronto Stock Exchange (the "TSX") under the symbol SXP. Additional information on Supremex may be found on SEDAR at www.sedar.com and on the Company's website at www.supremex.com.

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. This MD&A contains certain other non-IFRS financial measures. Terms by which non-IFRS financial measures are identified include, but are not limited to, "EBITDA", "Adjusted EBITDA" and "Adjusted Net Earnings". 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 "Non IFRS measures: Definition of EBITDA, Adjusted EBITDA and Adjusted Net Earnings" and "Reconciliation of Net Earnings to Adjusted EBITDA" and "Reconciliation of Net Earnings to Adjusted Net Earnings".

Business Overview

Supremex is a leading North American manufacturer and marketer of envelopes and a growing provider of paper-based packaging solutions. Supremex operates 13 facilities across six provinces in Canada and three facilities in the United States employing approximately 850 people. Supremex' growing footprint allows it to efficiently manufacture and distribute envelope and packaging solutions designed to the specifications of major national and multinational corporations, resellers, government entities, SMEs and solutions providers.

The Company manufactures a broad range of stock and custom envelopes in an array of styles, shapes and colours, which allows it to offer a high degree of flexibility and customization. It also manufactures and distributes a diverse range of packaging and specialty products, including corrugated boxes, premium quality folding carton packaging and e-Commerce Fulfillment Packaging solutions. Other packaging and specialty products include the Conformer Products^{®1}, polyethylene bags for courier applications, bubble mailers and Enviro-logiX^{®2}.

¹ Conformer[®] is a registered trademark of Conformer Products, Inc.

² Enviro-logiX[®] is a registered trademark of Envirollogix Inc.

Growth and Diversification Strategy

To sustain long-term revenue and profitability growth, Supremex has been actively pursuing a three-pronged diversification strategy since 2014. First, the Company strengthened its market-leading position in the Canadian envelope market by leveraging its footprint through capacity allocation and acquiring Premier Envelope in 2015, a large supplier of envelopes in Western Canada, and by the acquisition of Royal Envelope in early 2020. Second, by pursuing growth opportunities in the U.S. envelope market, both organically and through the acquisition of Classic Envelope Inc. in the Northeast (in 2015), followed by the acquisition of Bowers Envelope Inc. in the Midwest (in 2016). Finally, by building Supremex' packaging capabilities organically and through acquisitions, with the objective of significantly growing its revenues from this attractive growth market, specifically in the value-added folding carton and e-commerce markets.

The growth in e-commerce and changes in consumer behaviour have been significant growth drivers for packaging, labels and specialty products. From 2016 to 2018, the Company acquired three specialty packaging business (and a small complementary label entity) to build the first building blocks of its packaging platform. In 2016, the Company acquired Durabox Paper Inc., a manufacturer and distributor of corrugated paper boxes and, in 2017, acquired Stuart Packaging Inc., a manufacturer of specialty folding carton packaging solutions. In 2018, Supremex further expanded its specialty folding carton offering with the acquisition of Groupe Deux Printing Inc. and Pharmaflex Labels Inc. By the end of 2018, Supremex became an important supplier of paper packaging solutions in the province of Quebec, focused primarily on the food, pharmaceutical and cosmeceutical industries.

From the late 2017 to 2019, to further position itself to meet anticipated demand, Supremex initiated a growth CAPEX program that represented investments in excess of \$11 million, which significantly expanded the packaging platform's capabilities and capacity. These investments have opened the door to new customers and applications in various markets and have strengthened Supremex' position as a specialty packaging provider.

When Supremex first introduced this diversification strategy in 2014, Canadian envelope revenue represented 81.4% of total revenue, U.S. envelope revenue represented 11.2%, and packaging was 7.4%. At the end of 2020, more than half of the Company's revenue came from a combination of the U.S. envelope and packaging sales, which represented 23.9% and 28.4% respectively, compared with 23.7% and 28.5% respectively at the end of 2019. In the longer term, the Company's objective is to achieve an equal revenue split between packaging and envelope.

Fourth Quarter Financial Highlights and Recent Events

- Total revenue increased by 11.1% to \$54.6 million, from \$49.2 million in the fourth quarter of 2019.
- Envelope segment revenue was up 13.2% to \$40.5 million, from \$35.7 million in the fourth quarter of 2019.
- Packaging and specialty products segment revenue increased by 5.4% to \$14.2 million, from \$13.4 million.
- EBITDA³ was \$4.6 million, down from \$6.8 million in the fourth quarter of 2019 resulting primarily from a non-cash asset impairment charge of \$2.8 million and a restructuring expense of \$1.8 million.
- Adjusted EBITDA³ was up 37.5% to \$9.2 million, from \$6.7 million in the fourth quarter of 2019.
- Net Earnings at \$0.3 million (or \$0.01 per share), down from \$2.3 million (or \$0.08 per share) in the fourth quarter of 2019 from the above mentioned non-recurring items.
- Adjusted Net Earnings³ at \$3.7 million (or \$0.13 per share), up from \$2.3 million (or \$0.08 per share).
- Recorded \$1 million of assistance from the Canadian Emergency Wage Subsidy ("CEWS") program
- Initiated a plan to optimize the Canadian envelope operations which resulted in the \$1.8 million restructuring expenses and an estimated annual pre-tax savings of \$2.3 million.
- Purchased 152,800 shares for total consideration of \$223,213 as part of the Company's Normal Course Issuer Bid ("NCIB") program.

³ Refer to the definition of EBITDA, Adjusted EBITDA and Adjusted Net Earnings in the section describing Non-IFRS Measures and to the reconciliation of Net Earnings to Adjusted EBITDA and of Net Earnings to Adjusted Net Earnings in the Summary of Financial Information and Non-IFRS Measures.

Fiscal Year Financial Highlights

- Total revenue increased by 6.7% to \$204.6 million, from \$191.7 million in 2019.
- Envelope segment revenue was up 6.8% to \$146.5 million, from \$137.1 million in 2019.
- Packaging and specialty products segment revenue was up 6.5% to \$58.1 million, from \$54.5 million.
- EBITDA⁴ was \$27.2 million, which include a fourth quarter non-cash asset impairment charge of \$2.8 million and restructuring expenses of \$1.8 million, up \$1.9 million from \$25.3 million in 2019.
- Adjusted EBITDA⁴ was up 27.9%, or \$7.1 million, to \$32.4 million from \$25.3 million in 2019.
- Net Earnings were \$7.5 million (or \$0.27 per share), which include the above mentioned non-recurring items, increased \$0.4 million from \$7.1 million (or \$0.25 per share) in 2019.
- Adjusted Net Earnings⁴ at \$11.3 million (or \$0.40 per share), up from Adjusted Net Earnings of \$7.1 million (or \$0.25 per share) in 2019.
- Net cash flows from operating activities, before working capital adjustments, reached \$24.5 million, an increase of \$5.0 million versus 2019.
- Recorded \$1.9 million of assistance from the CEWS program.
- Acquired Royal Envelope on February 18, 2020, a leading envelope manufacturer and printer, for a total purchase price of \$27.4 million.
- Purchased 305,700 common shares for cancellation under the NCIB program for total consideration of \$424,054.

Strengthening the Envelope Platform

On February 18, 2020, Supremex announced the acquisition of substantially all of the assets of Royal Envelope Ltd and Envelope Royal Inc. (together "Royal Envelope"), a leading Eastern Canada based envelope manufacturer and printer, for a total purchase price of \$27.4 million. Founded in 1989, Royal Envelope generated approximately \$30 million of revenue during their most recent fiscal year mainly from the direct sale of envelopes and printing services. The integration of Royal Envelope also allows the Company to better allocate any underutilized production capacity to supply a portion of growing demand coming from the United States. At the date hereof, the business has been fully integrated and has generated significant operational and cost synergies to the envelope platform. The purchase price was funded through the use of the credit facility.

On December 1, 2020, Supremex announced a plan to further optimize its Canadian envelope operations by reducing expenses and improving resource allocation. Supremex will be closing its Edmonton facility and reducing its Canadian envelope facility headcount by a total of 39 employees, or approximately 5% of its total workforce. These measures are expected to bring annual cost savings of approximately \$2.3 million, before taxes, which began to materialize in the fourth quarter of 2020 and are expected to continue throughout the first three quarters of 2021 as operations wind down in Edmonton. A one-time restructuring charge of \$1.8 million, before taxes, was recorded in the Company's 2020 fourth quarter results.

Focus on Folding Carton and E-Commerce Packaging

As described above, the Company's objective is to achieve an equal revenue split between envelope and packaging by actively managing the effect of the secular decline of the envelope industry on its legacy business and diversifying into packaging and specialty products. The first acquisition in this space was Durabox, a corrugate die-cut box manufacturer, which was completed in 2016 with the objective of providing vertical integration synergies. In spite of a significant CAPEX project to improve production efficiencies and capacity, and significant resources dedicated to grow this business, this division's results are lagging expectations and the Company therefore recorded a non-cash asset impairment charge of \$2.8 million to reflect the lower expected contribution from this business.

⁴ Refer to the definition of EBITDA, Adjusted EBITDA and Adjusted Net Earnings in the section describing Non-IFRS Measures and to the reconciliation of Net Earnings to Adjusted EBITDA and of Net Earnings to Adjusted Net Earnings in the Summary of Financial Information and Non-IFRS Measures.

Supremex' objective is to drive profitable growth of its Packaging and Specialty Products segment by focusing on its value-added folding carton offering primarily targeting the premium food, pharmaceutical and health and beauty industries, while supporting organic growth of its custom e-commerce packaging offering. The latter has performed well in 2020, with the onboarding of new e-tailer customer relationships and has been a significant contributor to growth and profitability since the second quarter of 2020.

In 2021, the Company will focus on driving further profitable growth of its Packaging and Specialty Products segment by improving production efficiencies and growing customer relationships. Secondly, it will dedicate additional resources to help gain market share in the custom e-commerce packaging space and thirdly, improve the contribution of the corrugate manufacturing facility. In order to support these objectives, Supremex has hired in the third quarter of 2020, Robert B. Young, an industry veteran, to the newly created position of President, Supremex Packaging Division.

COVID-19

As a provider of envelopes to government entities, financial institutions, utilities and other large organizations, and a provider of packaging solutions to essential businesses operating in the pharmaceutical, food and e-commerce industries, Supremex remained in operation throughout the year as the COVID-19 pandemic erupted. The Company quickly implemented robust business continuity plans which include enhanced safety measures for its employees and customers and various other initiatives aimed at preserving the Company's balance sheet and cashflow, including limiting capital expenditures and suspending its regular quarterly dividend starting in May 2020.

Renewal of the Normal Course Issuer Bid

On August 13, 2020, the Company announced the renewal of its Normal Course Issuer Bid ("NCIB"), after its approval by the TSX, to purchase for cancellation up to 1,406,523 of its common shares, representing 5.0% of its 28,130,469 issued and outstanding common shares as of August 12, 2020, for a period of twelve months, beginning on August 17, 2020.

Summary of Financial Information and Non-IFRS Measures

Selected Consolidated Financial Information

(In thousands of dollars, except for per share amounts)

	Three-month periods ended December 31		Twelve-month periods ended December 31	
	2020	2019	2020	2019
Revenue	54,636	49,188	204,604	191,669
Operating expenses	38,122	37,289	147,356	143,766
Selling, general and administrative expenses	7,308	5,204	25,396	22,555
Operating earnings before depreciation, amortization and other items	9,206	6,695	31,852	25,348
Depreciation of property, plant and equipment	1,695	1,100	5,442	4,837
Depreciation of right-of-use assets	1,060	1,172	5,091	4,697
Amortization of intangible assets	885	557	3,356	2,193
Asset impairment	2,770	—	2,770	—
Loss (gain) on disposal of property, plant and equipment	—	(9)	—	165
Restructuring expense (recovery)	1,836	(124)	1,836	(124)
Operating earnings	960	3,999	13,357	13,580
Net financing charges	620	816	3,073	3,435
Earnings before income taxes	340	3,183	10,284	10,145
Income tax expense	31	894	2,789	3,057
Net earnings	309	2,289	7,495	7,088
Basic and diluted net earnings per share	0.01	0.08	0.27	0.25
Dividend declared per share	—	0.065	0.065	0.26

Reconciliation of Net Earnings to Adjusted EBITDA

(In thousands of dollars)

	Three-month periods ended December 31		Twelve-month periods ended December 31	
	2020	2019	2020	2019
Net Earnings	309	2,289	7,495	7,088
Income tax expense	31	894	2,789	3,057
Net financing charges	620	816	3,073	3,435
Depreciation of property, plant and equipment	1,695	1,100	5,442	4,837
Depreciation of right-of-use assets	1,060	1,172	5,091	4,697
Amortization of intangible assets	885	557	3,356	2,193
EBITDA⁽¹⁾	4,600	6,828	27,246	25,307
Asset impairment	2,770	—	2,770	—
Restructuring expense (recovery)	1,836	(124)	1,836	(124)
Loss (gain) on disposal of property, plant and equipment	—	(9)	—	165
Value adjustment on acquired inventory through the business acquisition	—	—	555	—
Adjusted EBITDA⁽¹⁾	9,206	6,695	32,407	25,348
Adjusted EBITDA Margin (%)	16.9%	13.6%	15.8%	13.2%

⁽¹⁾ Refer to "Definition of EBITDA and Adjusted EBITDA" in the Non-IFRS measures section

Reconciliation of Net Earnings to Adjusted Net Earnings

(In thousands of dollars)

	Three-month periods ended December 31		Twelve-month periods ended December 31	
	2020	2019	2020	2019
Net Earnings	309	2,289	7,495	7,088
Adjustments, net of income taxes				
Asset impairment	2,051	—	2,051	—
Restructuring expense (recovery)	1,359	(92)	1,359	(92)
Loss (gain) on disposal of property, plant and equipment	—	(7)	—	122
Value adjustment on acquired inventory through the business acquisition	—	—	411	—
Adjusted Net Earnings⁽²⁾	3,719	2,190	11,316	7,118

⁽²⁾ Refer to "Definition of Adjusted Net Earnings" in the Non-IFRS measures section

Revenue Information

(In millions of dollars)

	Three-month periods ended December 31		Twelve-month periods ended December 31	
	2020	2019	2020	2019
Canadian Envelope	\$27.5	\$23.9	\$97.6	\$91.7
Volume change	20.4%	-14.2%	12.3%	-12.6%
Average selling price change	-4.6%	8.1%	-5.1%	10.6%
Total change	15.0%	-7.3%	6.5%	-3.3%
U.S. Envelope	\$13.0	\$11.9	\$48.9	\$45.5
Volume change	13.0%	-7.1%	10.1%	-2.7%
Average selling price change (in CAD)	-2.9%	1.5%	-2.3%	7.7%
Total change	9.7%	-5.7%	7.5%	4.8%
Packaging & Specialty Products				
Canada & U.S.	\$14.1	\$13.4	\$58.1	\$54.5
Total change	5.4%	-15.0%	6.5%	-4.1%
Total Revenue	\$54.6	\$49.2	\$204.6	\$191.7
Revenue change	11.1%	-9.2%	6.7%	-1.8%

Segmented Information

The Company currently operates in two reporting segments: the manufacturing and sale of envelopes and the manufacturing and sale of paper-based packaging solutions and specialty products. The new segmentation was completed during the fourth quarter of 2019 as of which time the Company started reporting its consolidated financial results on a segmented basis. For over 40 years, Supremex has developed its core paper substrate and converting expertise to become one of the largest manufacturers and distributors of envelopes in North America.

The Envelope Segment

The Company manufactures a broad range of stock and custom envelopes in an array of styles, shapes and colours, which allows it to offer a high degree of flexibility and customization. Products are designed to the specifications of major national and multinational corporations, resellers, government entities, SMEs and solutions providers.

The Packaging and Specialty Products Segment

The Company also manufactures and distributes a diverse range of paper-based packaging solutions and specialty products, including high-quality folding carton packaging, e-commerce solutions, corrugated boxes and labels. The folding carton offering is primarily aimed at corporations in the health, beauty, pharmaceutical and food-at-home markets. E-commerce solutions are designed and manufactured to optimize shipping and reduce over-packaging for small and international e-tailers. The corrugated box offering is mainly aimed at the food industry (pizza, meat and vegetable boxes) and internal procurement for the e-commerce offering and envelope box requirements. The label offering primarily serves the Company's existing envelope and packaging customers with complementary label solutions and is an integral offering for the health, beauty and pharmaceutical customers. Other packaging and specialty products include the Conformer Products®, polyethylene bags for courier applications, bubble mailers and Enviro-logiX®.

Segmented Information

(In thousands of dollars)

	Three-month periods ended December 31		Twelve-month periods ended December 31	
	2020	2019	2020	2019
Segmented Revenue				
Envelope	40,465	35,744	146,500	137,123
Packaging & specialty products	14,171	13,444	58,104	54,546
Total revenue	54,636	49,188	204,604	191,669
Segmented Adjusted EBITDA⁽¹⁾				
Envelope	7,072	6,591	25,503	23,178
% of segmented revenue	17.5%	18.4%	17.4%	16.9%
Packaging & specialty products	2,322	801	8,537	4,641
% of segmented revenue	16.4%	6.0%	14.7%	8.5%
Corporate and unallocated costs	(188)	(697)	(1,633)	(2,471)
Total Adjusted EBITDA⁽¹⁾	9,206	6,695	32,407	25,348
% of total revenue	16.9%	13.6%	15.8%	13.2%

⁽¹⁾ Refer to "Definition of EBITDA and Adjusted EBITDA" in section "Non-IFRS measures"

Results of Operations

Three-month period ended December 31, 2020, compared with the three-month period ended December 31, 2019

Revenue

Total revenue for the three-month period ended December 31, 2020, was \$54.6 million, representing an increase of 11.1% from the equivalent quarter of 2019.

Revenue from the Envelope segment was \$40.5 million, an increase of 13.2% or \$4.8 million, from \$35.7 million in the equivalent quarter of 2019.

- Revenue from the Canadian envelope market was \$27.5 million, up 15.0% or \$3.6 million from \$23.9 million in the fourth quarter of 2019. Volume increased by 20.4% primarily from the acquisition of Royal Envelope which more than compensated for the effect of the secular decline on the Company's legacy envelope sales and from the effect of the COVID-19 pandemic on non-essential envelope demand. Average selling prices were lower by 4.6% from last year's comparable period primarily resulting from changes in the envelope mix sold during the COVID-19 pandemic. Canada Post's latest published financial results indicated that Transaction Mail volumes were down 11.5% during their third quarter ended September 26, 2020⁵ due to the COVID-19 pandemic.
- Revenue from the U.S. envelope market was \$13.0 million, representing an increase of 9.7% or \$1.1 million from \$11.9 million in the fourth quarter of 2019. The volume of units sold increased by 13.0% from market share gains and, to a lesser extent, demand related to the vote-by-mail initiative ahead of the 2020 U.S. elections, while average selling prices decreased by 2.9% primarily as a result of changes in the product mix sold during the COVID-19 pandemic. Average selling prices include a positive foreign exchange translation effect of 1.3%. For comparison, the U.S. Postal Service's last published results indicated that the First-Class Mail volumes were down 4.1% during their first quarter ended December 31, 2020⁶ due to the COVID-19 pandemic.

⁵ [Canada Post Third Quarter 2020 Results Financial Report](#)

⁶ [U.S. Postal Service press release dated February 9, 2021 on first quarter 2021 results.](#)

Revenue from the Packaging and specialty products segment was \$14.1 million, an increase of 5.4% or \$0.7 million, from the equivalent quarter of 2019. Revenue growth came from the Company's e-commerce packaging business which onboarded new customer accounts in 2020. Packaging and specialty products represented 25.9% of the Company's revenue in the quarter, down from 27.3% during the equivalent period of last year.

Operating Expenses

Operating expenses for the three-month periods ended December 31, 2020, were \$38.1 million compared with \$37.3 million in the equivalent period of 2019, an increase of \$0.8 million or 2.2%. The increase is mainly attributable to the Royal Envelope acquisition which was mitigated by the tight control over operating expenses to manage the effects of the COVID-19 pandemic, operational improvements at the Folding Carton division, the cost optimization plan announced on December 1, 2020 and \$0.7 million from the CEWS program. On a percentage of revenue basis, operating expenses decreased to 69.8% of revenues from 75.8% in the equivalent period of 2019. Excluding the CEWS, operating expenses were 71.1%.

Selling, General and Administrative Expenses

Selling, general and administrative expenses totalled \$7.3 million in the three-month period ended December 31, 2020, compared with \$5.2 million during the same period in 2019, representing an increase of \$2.1 million. The increase is mainly attributable to the acquisition of Royal Envelope, remuneration related expenses, an expense from the change in mark-to-market value of the Deferred Share Units (DSUs) and to a loss on foreign exchange translation. The effect of which was partially mitigated by tight control over SG&A expenses in the context of the COVID-19 pandemic, the cost optimization plan and contribution of \$0.3 million from the CEWS program.

Restructuring Expenses

Pursuant to the cost optimization plan announced on December 1, 2020, a one-time restructuring charge amounting to \$1.8 million was taken in the fourth quarter of 2020

EBITDA and Adjusted EBITDA⁷

EBITDA was \$4.6 million, down from \$6.8 million in the equivalent quarter of last year resulting from a \$2.8 million non-cash asset impairment and a \$1.8 million restructuring expense recorded in the quarter. Adjusted EBITDA was \$9.2 million, up 37.5% from \$6.7 million in the equivalent period of last year, resulting primarily from the contribution of the Royal Envelope acquisition, higher e-commerce sales, continued growth in the U.S. envelope businesses and \$1.0 million subsidy from the CEWS program. Adjusted EBITDA margins increased to 16.9% of revenue compared to 13.6% in the equivalent quarter of 2019. Excluding the contribution of the CEWS, Adjusted EBITDA margins stood at 15.0% of revenue in the fourth quarter of 2020.

- Envelope segment Adjusted EBITDA was \$7.1 million, up 7.3% or \$0.5 million, from \$6.6 million in the fourth quarter of 2019. The operating profitability of the Canadian envelope operations improved with the acquisition of Royal Envelope on February 18, 2020, which, in addition to higher sales volume, provided synergies in production efficiencies and procurement. On a percentage of segmented revenue, Adjusted EBITDA from the envelope segment was 17.5%, down from 18.4% in the equivalent period of 2019.
- Packaging and specialty products segment Adjusted EBITDA was \$2.3 million, up \$1.5 million from \$0.8 million in the fourth quarter of 2019 primarily from higher e-commerce sales and efficiency gains in the folding carton division. On a percentage of segmented revenue, Adjusted EBITDA from the packaging and specialty operations was 16.4% compared with 6.0% in the equivalent period of 2019.

⁷ Refer to "Definition of EBITDA and Adjusted EBITDA" in section "Non-IFRS measures"

- The balance of the variance results primarily from an unfavorable adjustment on foreign exchange translation in the fourth quarter, an expense from the change in mark-to-market value of the Deferred Share Units (DSUs) and higher other non-allocated corporate expenses which were offset by the contribution of the CEWS.

Depreciation and Amortization

Aggregate depreciation and amortization expenses for the three-month period ended December 31, 2020, amounted to \$3.6 million compared with \$2.8 million in the fourth quarter of 2019 resulting from the acquisition of Royal Envelope.

Net Financing Charges

Net financing charges for the three-month period ended December 31, 2020, were \$0.6 million, down from \$0.8 million in the equivalent period of the prior year.

Earnings Before Income Taxes

As a result of the fluctuation in revenue and expenses described above, earnings before income taxes amounted to \$0.3 million during the three-month period ended December 31, 2020, compared with \$3.2 million during the equivalent period of 2019.

Income Tax Expense

Income taxes were negligible during the three-month period ended December 31, 2020, compared with \$0.9 million in the equivalent quarter of last year due to lower earnings before income taxes.

Net Earnings and Adjusted Net Earnings

Net Earnings were \$0.3 million (or \$0.01 per share) for the three-month period ended December 31, 2020, compared with \$2.3 million (or \$0.08 per share) for the equivalent period in 2019. Adjusted Net Earnings were \$3.7 million (or \$0.13 per share), an increase of 69.8% or \$1.5 million, from Adjusted Net Earnings of \$2.2 million (or \$0.08 per share) during the fourth quarter of 2019.

Other Comprehensive Income

The discount rate used to calculate the accrued plan benefit obligations decreased to 2.50% as at December 31, 2020 from 2.70% as at September 30, 2020. This decrease was offset by a better than expected return on assets resulted in a net actuarial gain of \$1.2 million during the fourth quarter of 2020.

Twelve-month period ended December 31, 2020, compared with the twelve-month period ended December 31, 2019

Revenue

Total revenue for the twelve-month period ended December 31, 2020 increased by 6.7% to \$204.6 million, from \$191.7 million during the twelve-month period ended December 31, 2019.

Revenue from the Envelope segment increased by 6.8%, or \$9.4 million, to \$146.5 million, from \$137.1 million in the comparable period of 2019.

- Revenue from the Canadian envelope market was \$97.6 million, an increase of 6.5% or \$5.9 million from \$91.7 million recorded during the twelve-month periods ended December 31, 2019. Volume increased by 12.3% primarily from the acquisition of Royal Envelope which more than compensated for the effect of the secular decline on the Company's legacy envelope sales and for the effect of the COVID-19 pandemic on non-essential envelope demand since the second quarter of 2020. Average selling prices decreased by 5.1% as a result of changes in the envelope mix sold during the COVID-19 pandemic.

- Revenue from the U.S. envelope market was \$48.9 million, representing an increase of 7.5% or \$3.4 million from \$45.5 million in the equivalent period of 2019, resulting from market share gains and, to a lesser extent, demand related to the vote-by-mail initiative ahead of the 2020 U.S. elections. The volume of units sold increased by 10.1% and average selling prices decreased by 2.3% primarily as a result of changes in the product mix sold during the COVID-19 pandemic. Average selling prices include a negative foreign exchange translation effect of 1.0%.

Revenue from packaging and specialty products increased by 6.5%, or \$3.6 million, to \$58.1 million, from \$54.5 million in 2019 and results mainly from growing e-commerce packaging sales since the second quarter of 2020.

Operating Expenses

Operating expenses for the twelve-month period ended December 31, 2020 were \$147.4 million compared with \$143.8 million in 2019, an increase of \$3.6 million or 2.5%. The variance is in large part attributable to the Royal Envelope acquisition, offset in part by cost mitigation measures in the context of the COVID-19 pandemic, operational improvements at the Folding Carton division and \$1.3 million from the CEWS program in the third and fourth quarters of 2020. On a percentage of revenue basis, operating expenses decreased to 72.0% from 75.0% in 2019. Excluding the CEWS program, operating expenses were 72.7% of revenues.

Selling, General and Administrative Expenses

Selling, general and administrative expenses totaled \$25.4 million for the twelve-month period ended December 31, 2020, up \$2.8 million from \$22.6 million in 2019. The variance is mainly attributable to the acquisition of Royal Envelope in the first quarter of 2020 which was partially offset by the cost mitigation measures in the context of the COVID-19 pandemic, a gain on foreign exchange translation compared to a loss in 2019 and \$0.6 million from the CEWS program for the third and fourth quarters of 2020.

EBITDA and Adjusted EBITDA⁸

EBITDA increased by 7.7% to \$27.2 million in fiscal 2020, up from \$25.3 million in fiscal 2019 primarily from, the acquisition of Royal Envelope, higher e-commerce sales, growth of the U.S. envelope businesses and \$1.9 million from the CEWS program. Adjusted EBITDA grew by 27.9% or \$7.1 million, to \$32.4 million. Adjusted EBITDA margins were 15.8% of revenues, up from 13.2% in 2019. Excluding the contribution of the CEWS, Adjusted EBITDA margins stood at 14.9% of revenue.

- Envelope segment Adjusted EBITDA was \$25.5 million, up 10.0% or \$2.3 million from \$23.2 million in 2019. The operating profitability of the Canadian envelope operations improved with the acquisition of Royal Envelope on February 18, 2020, which provided incremental revenue as well as production and procurement synergies. The cost optimization plan implemented at the beginning of December 2020 also contributed to improving the envelope platform's cost structure. As a percentage of segmented revenue, Adjusted EBITDA from the envelope operations was 17.4%, up from 16.9% in 2019.
- Packaging and specialty products segment Adjusted EBITDA increased to \$8.6 million, up 83.9% or \$4.0 million, from \$4.6 million in 2019, primarily from higher e-commerce sales since the second quarter of 2020 and efficiency gains in the folding carton division. On a percentage of segmented revenue, Adjusted EBITDA from the packaging and specialty operations increased to 14.7% compared with 8.5% in 2019.
- The corporate and unallocated costs amount to \$1.6 million and include the \$1.9 million contribution from the CEWS for the third and fourth quarters of 2020. Excluding the support from the Federal Government, corporate and unallocated costs would have been \$3.5 million, an increase of \$1.1 million compared to 2019, resulting from higher other non-allocated corporate expenses and remuneration related expenses.

⁸ Refer to "Definition of EBITDA and Adjusted EBITDA" in section "Non-IFRS measures"

Depreciation and Amortization

Aggregate depreciation and amortization expenses for the twelve-month period ended December 31, 2020, amounted to \$13.9 million, compared with \$11.7 million in 2019 resulting primarily from the acquisition of Royal Envelope.

Net Financing Charges

Net financing charges for the twelve-month period ended December 31, 2020 amounted to \$3.1 million, down from \$3.4 million last year.

Earnings Before Income Taxes

As a result of the fluctuation in revenue and expenses described above, earnings before income taxes amounted to \$10.3 million during the twelve-month period ended December 31, 2020 compared with earnings before income taxes of \$10.1 million during the equivalent period of 2019.

Income Tax Expense

Income taxes amounted to \$2.8 million during the twelve-month period ended December 31, 2020, compared with \$3.1 million in 2019.

Net Earnings and Adjusted Net Earnings

Net earnings stood at \$7.5 million (or \$0.27 per share) for the twelve-month period ended December 31, 2020, compared with net earnings of \$7.1 million (or \$0.25 per share) in the equivalent period in 2019. Adjusted Net Earnings were \$11.3 million (or \$0.40 per share), up from \$7.1 million (or \$0.25 per share) in 2019.

Other Comprehensive Income

The discount rate used to calculate the accrued plan benefit obligations decreased to 2.50% as at December 31, 2020, from 3.10% as at December 31, 2019. This decrease was partially offset by a better than expected return on assets, for a total net actuarial loss of \$2.1 million during the twelve-month period ended December 31, 2020.

Geographical Revenue and Asset Diversification

The Company's non-current assets amounted to \$118.9 million in Canada and \$14.4 million in the United States as at December 31, 2020, compared with \$114.5 million in Canada and \$16.1 million in the United States as at December 31, 2019.

For the three-month period ended December 31, 2020, the Company's revenue in Canada was \$36.9 million, an increase of 7.1% from \$34.4 million in the equivalent period of 2019. In the United States, revenue stood at \$17.7 million, an increase of 20.3% from \$14.7 million in 2019.

For the twelve-month period ended December 31, 2020, the Company's revenue in Canada was \$136.2 million, an increase of 4.1% from \$130.9 million in 2019. In the United States, revenue stood at \$68.4 million, an increase of 12.5% from \$60.7 million in 2019.

Summary of Quarterly Operating Results from January 1, 2019 to December 31, 2020

(In thousands of dollars, except for per share amounts)

	Dec. 31 2020	Sep. 30 2020	June 30 2020	Mar. 31 2020	Dec. 31 2019	Sep. 30 2019	June 30 2019	Mar. 31 2019
Revenue								
Envelope	40,465	34,136	32,751	39,149	35,744	31,932	33,945	35,502
Packaging	14,171	15,754	14,911	13,267	13,444	13,252	13,697	14,153
Total revenue	54,636	49,890	47,662	52,416	49,188	45,184	47,642	49,655
Adjusted EBITDA ⁽¹⁾	9,206	8,065	6,895	8,241	6,695	5,401	6,775	6,477
Earnings Before Income Taxes	340	3,867	2,434	3,643	3,183	1,783	2,699	2,480
Net Earnings	309	2,733	1,865	2,588	2,289	1,176	1,815	1,808
Net Earnings per share	0.01	0.10	0.07	0.09	0.08	0.04	0.06	0.06
Adjusted Net Earnings ⁽¹⁾	3,719	2,733	1,865	2,999	2,190	1,176	1,917	1,835
Adjusted Net Earnings ⁽¹⁾ per share	0.13	0.10	0.07	0.10	0.08	0.04	0.07	0.06

(1) Refer to definition of Adjusted EBITDA and Adjusted Net Earnings in the "Non-IFRS measures" section

Seasonality

Supremex' revenue is subject to the seasonal advertising and mailing patterns of its customers. The number of envelopes 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 envelopes sold by Supremex is generally lower during spring and summer in anticipation of a slowdown in mailing activities of businesses during the summer.

Most revenues from packaging and specialty products are not subject to seasonal patterns (i.e. specialty folding cartons for large multinational customers). Only a small portion is subject to seasonal patterns related to the holidays and sporting events (i.e. innovative protective packaging solutions for e-commerce or corrugated boxes for food delivery). As such, there is currently little to no seasonal effect from packaging and specialty products on Supremex' total revenues.

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.

Financial Position and Capital Resources

Financial Position Highlights

(In thousands of dollars)

	December 31, 2020	December 31, 2019
Working capital	20,937	24,140
Total assets	186,551	179,649
Secured credit facility	56,750	53,815
Total equity	78,961	76,473

The increase in total assets as at December 31, 2020, when compared to December 31, 2019, is mainly driven by the acquisition of substantially all of the assets of Royal Envelope on February 18, 2020, for a total consideration of \$27.4 million. During 2020, the Company focused on reimbursing its debt, and at year end, the total outstanding amount on the secured credit facility stood at \$56.8 million, representing an increase of only \$2.9 million from the outstanding amount on December 31, 2019.

Summary of Cash Flows

(In thousands of dollars)

	Three-month periods ended December 31		Twelve-month periods ended December 31	
	2020	2019	2020	2019
Operating activities	10,965	8,475	37,025	20,181
Investing activities	(890)	(903)	(29,977)	(6,084)
Financing activities	(11,595)	(5,251)	(5,709)	(12,004)
Net foreign exchange difference	(349)	(55)	(526)	(179)
Net change in cash	(1,869)	2,266	813	1,914

Cash Flows provided by Operating Activities

Net cash flows from operating activities stood at \$37.0 million during the twelve-month period ended December 31, 2020, compared with \$20.2 million in the equivalent period of 2019. The improvement is mainly attributable to a \$12.5 million positive net change in working capital adjustments and higher Adjusted Net Earnings.

Cash Flows used in Investing Activities

Net cash flows used in investing activities amounted to \$30.0 million during the twelve-month period ended December 31, 2020, compared with \$6.1 million used in the equivalent period of 2019. The increase reflects the acquisition of Royal Envelope in the amount of \$27.4 million in the first quarter of 2020, which was mitigated by lower capital expenditures during the twelve-month period ended December 31, 2020.

Cash Flows used in Financing Activities

Net cash flows used by financing activities stood at \$5.7 million during the twelve-month period ended December 31, 2020, compared with \$12.0 million in the equivalent period of 2019. The variance results almost entirely from the suspension of the regular quarterly dividend in the second quarter of 2020 and from the increase in the credit facility to fund the acquisition of Royal Envelope.

Financial Position and Capital Resources Summary

In light of the ongoing COVID-19 pandemic, it can be reasonably assumed that demand for certain of the Company's product categories will continue to be negatively affected. Furthermore, it is impossible at this time for the Company to estimate the duration and scope of the pandemic's ensuing economic impact. In order to mitigate the effect of the COVID-19 pandemic on the Company's operations and financial results, management tightly controlled its operating expenses and working capital and reduced all non-critical capital expenditures. Taking a prudent approach, the Company's Board of Directors announced on May 15, 2020 the suspension of the quarterly dividend until further notice. In the second half of 2020, the Company recorded a \$1.9 million subsidy from the CEWS program. Based on current and anticipated market conditions and management's projections, the Company expects to have sufficient liquidity to meet its currently anticipated needs.

The future negative impact of COVID-19 creates uncertainties that could generate, in future reporting periods, a significant risk of material adjustment to the carrying amounts of the following accounts: accounts receivable, inventories, intangible assets and goodwill impairment.

The accounts receivable and credit risk stems primarily from the potential inability of clients to discharge their obligations. While the Company had historically reported low bad debt expenses, COVID-19 may increase the risk over certain customers that management is monitoring. As at December 31, 2020, the Company had not identified significant negative trend from its accounts receivable collection.

Even though the Company continues to operate during the COVID-19 pandemic crisis, the Company holds inventories of envelopes, packaging and specialty products for a wide range of customers. COVID-19 had an impact on the level of customers' demand and future orders which has resulted in a lower level of activity primarily in its Canadian envelope business. At this current time, the Company reviewed its inventory levels and did not note significant excess inventories that could be subject to significant write-downs in the future.

Contractual Obligations and Off-Balance Sheet Arrangements

The Company has no other off-balance sheet arrangements, except for the operating leases with terms of twelve months or less or leases of low-value assets which do not have a current or future material effect on the Company's performance.

Financing

The Company has a secured credit facility consisting of a \$80 million revolving facility (\$80 million as at December 31, 2019) and a \$29.8 million term credit facility (\$33.3 million as at December 31, 2019). No principal repayments are required on the revolving operating facility prior to maturity. The term facility is repayable in quarterly principal installments of \$875,000. The availability of the credit facility is variable and dependant on respecting certain financial covenants. As of December 31, 2020, the credit facility stands at \$56.8 million. This facility bears interest at a floating rate based on the Canadian prime rate, plus an applicable margin that ranges between 0% and 2.00% or bankers' acceptance rates, plus an applicable margin that ranges between 1.25% and 3.25%. The agreement for those credit facilities matures in May 2023.

The secured credit facility is used for working capital, capital expenditures, acquisitions and other general corporate purpose. It is collateralized by mortgage and a security interest 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 as at December 31, 2020 and had an additional borrowing capacity of \$35 million while respecting said covenants. Further to the developments arising from the COVID-19 pandemic, Supremex assessed its financial and liquidity position and expects to remain in compliance with its financial covenants during fiscal year 2021.

Normal Course Issuer Bid ("NCIB")

On August 13, 2020, the Company announced the renewal of its NCIB after its approval by the TSX, to purchase for cancellation, up to 1,406,523 of its common shares, representing approximately 5.0% of its 28,130,469 issued and outstanding common shares as of August 12, 2020. Purchases under the NCIB are made through the facilities of the TSX or alternative trading facilities in Canada, if eligible, in accordance with applicable securities laws and regulations, over a maximum period of 12 months beginning on August 17, 2020 and ending on August 16, 2021.

During the fourth quarter of 2020, the Company purchased 152,800 shares, for a total consideration of \$223,213. During fiscal 2020, the Company purchased a total of 305,700 shares, for total consideration of \$424,054. After the end of the period, an additional 81,800 shares were purchased for cancellation for total consideration of \$158,144.

Capitalization

As at February 24, 2021, the Company had 27,742,969 common shares outstanding.

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, accounts payable and accrued liabilities and lease 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 24 of the Company's audited consolidated financial statements for the year ended December 31, 2020.

Disclosure Controls and procedures ("DC&P") and Internal Controls over Financial Reporting ("ICFR")

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 Chief Financial Officer, 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 Chief Financial Officer, particularly during the period in which annual filings are being prepared. The President and Chief Executive Officer and the Chief Financial Officer, 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, 2020.

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 Chief Financial Officer 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, 2020. In making its evaluation, the President and Chief Executive Officer and the Chief Financial Officer, 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, 2020, that materially affected, or is likely to materially affect, the Company's internal control over financial reporting.

The Company expects that its February 2020 business acquisition of Royal Envelope will be covered by its certification in the first quarter of 2021.

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, leases 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, 2020.

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 acquisition method of accounting. The acquisition 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"). However, these projections are inherently uncertain due to the evolving impact of the COVID-19 pandemic. The COVID-19 pandemic and its impact on the economy is constantly evolving in an unpredictable manner and presents many variables and contingencies for modeling. It is possible that an underperformance to these projections could occur in future periods since the effects of the pandemic may have material impacts on the Company's anticipated revenue levels and the recoverable amount of the cash generating units ("CGU").

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.

Impairment test of non-financial assets

As at December 31, 2020, the Company performed a goodwill impairment test for its Envelope and Packaging CGUs 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 recoverable amount of the Envelope CGU and the Packaging CGU exceeded their respective carrying values. As a result, no goodwill impairment was recorded for those CGU's. However, the underperformance of the Other CGU, Corrugated Die-Cut boxes, led management to review its assets value and a \$2.8 million non-cash asset impairment was recorded.

Valuation technique

The Company uses the discounted cash flows ("DCF") method to determine the value in use of its CGU and has not made any changes to the valuation methodology used to assess goodwill impairment since the last annual impairment test, except for the Other CGU for which a fair value less cost of disposal technique was used to assess the fair value of specific assets.

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, 2020 for Envelope and Packaging CGUs, 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. For the Other CGU, assumptions mainly related to the estimation process of the individual assets at disposal, based on management's experience and market data, when available.

Growth or Decline of Revenue

The assumptions used were based on the Company's internal budget approved by the board of directors. The Company projected revenue, operating margins and cash flows for a period of four years for each of the Envelope and Packaging CGU. Specific assumptions are used for each CGU. Forecasts for Envelope CGU considered a lower demand in the Canadian envelope market, a capacity to gain share in the U.S. envelope market and applied a perpetual long-term decline rate for the periods thereafter. Forecasts for Packaging CGU considered a perpetual long-term growth for this market. 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 the Company's estimated weighted average cost of capital ("WACC"). 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:

	2020		2019	
	Envelope	Packaging	Envelope	Packaging
Pre-tax discount rate	14.5%	14.5%	16.8%	17.2%
Tax rate	26.0%	26.0%	26.0%	26.0%
Perpetual (decline) growth rate	(3.0)%	2.5%	(3.0)%	2.5%

Sensitivity

Envelope CGU - In the most recent impairment test performed for the Envelope CGU, if the pre-tax discount rate had increased to 19.7% or the perpetual decline rate had increased to 9.5%, the recoverable amount of the Envelope CGU would have then equaled the carrying amount as at December 31, 2020.

Packaging CGU - In the most recent impairment test performed for the Packaging CGU, if the pre-tax discount rate had increased to 24.9% or the perpetual growth rate had decreased to (10.1) %, the recoverable amount of the Packaging CGU would have then equaled the carrying amount as at December 31, 2020.

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	2.50%
Discount rate for net pension costs	3.10%
Rate of compensation increase	2.50%
Mortality assumption	CPM Private

Discount rate

As at December 31, 2020, the Company 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*.

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 \$3.5 million as at December 31, 2020. A 0.25% increase or decrease in the rate of compensation would have increased or decreased the pension benefit liability by approximately \$0.3 million as at December 31, 2020. An increase of one year in the life expectancy of plan members as at December 31, 2020 results in an increase of \$4.7 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.

Rate of compensation

Future salary increases are based on expected future inflation rates.

Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The right-of-use asset and lease liability are recognized at the lease commencement date.

Right-of-Use Assets:

- The right-of-use assets are measured at cost. The cost is based on the initial amount of the lease liability plus initial direct costs incurred and estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located adjusted for any lease payments made at or before the commencement date, less any lease incentives received, if any.
- The cost of the right-of-use assets is periodically reduced by depreciation expenses and impairment losses, if any, and adjusted for certain remeasurements of the lease liabilities. The right-of-use assets are amortized to the lesser of the useful life or the lease term using the straight-line method as this reflects the expected pattern of consumption of the future economic benefits. The lease term includes the renewal option only if it is reasonably certain to exercise that option. Lease terms range from 1 to 12 years.
- The Company does not recognize a right-of-use asset and liability for the leases where the total lease term is less than or equal to 12 months and for the leases of low valued assets in nature; such as but not limited to, office equipment.

Lease Liabilities:

- At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as an expense in the reporting period in which the event or condition that triggers the payment occurs.

- In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Significant judgement in determining the lease term of contracts with renewal and termination options

- The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew or terminate (e.g., a change in business strategy).

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 multiple 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.

New Accounting Standard adopted in 2020

The Company adopted the following new accounting standards and amendments effective January 1, 2020.

Amendments to IFRS 3: *Definition of a business*

The amendment to IFRS 3 *Business Combinations* clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the consolidated financial statements of the Company, but may impact future periods should the Company enter into any business combinations.

Amendments to IAS 1 and IAS 8 Definition of Material

The amendments provide a new definition of material that states, "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the consolidated financial statements of, nor is there expected to be any future impact to the Company.

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.

Global Health Crisis

The emergence and spread of the COVID-19 pandemic dealt a major shock to the Canadian and global economies in 2020. During the first half of 2020, widespread lockdown measures caused material disruption to businesses globally and resulted in a global recession. Extraordinary policy support on the part of governments through monetary and fiscal interventions has helped to cushion the impact but continuing economic impacts and rising caseloads are constraining the recovery. The Company has implemented various measures in response to COVID-19 which include, among other things, diligently managing working capital, closely monitoring its account receivable credit risk, reviewing its inventory levels, suspending its regular quarterly dividend and implementing a Business Continuity Plan. At this stage, it is not possible to predict what additional measures and restrictions will be imposed by governmental authorities, the period in time during which those measures and restrictions will apply and their full impact.

The COVID-19 outbreak could adversely affect, and possibly materially, the Company's business, financial condition, liquidity and future results of operations due to, among other factors: the significant impact on the prices of the Company's products in connection with an ensuing economic downturn, operating and supply shortages, delays or disruptions, trade disruption, temporary staff shortages, temporary closures of facilities in geographic locations more importantly impacted by the outbreak, action taken by governmental and non-governmental bodies to curtail activity in an effort to help slow the spread of COVID-19 which may cause significant business interruptions and restrict the Company's ability to deliver its services, and increased operating and non-compensable costs for specific needs in response to COVID-19. In addition, although Supremex has not yet experienced material employment-related issues due to the COVID-19 pandemic, Supremex' operations could nevertheless be adversely impacted if its employees (or third-party employees) are unable or restricted in their ability to work, including by reasons of being quarantined or becoming ill as a result of exposure to COVID-19, or if they are subject to government or other restrictions. Such adverse effects could be rapid and unexpected. The Company is not able at this time to estimate the future impact of the COVID-19 situation on its operations or its financial results; however, such adverse impact could be material. The Company cannot presently predict the scope and severity of potential business disruptions, which may have a material and adverse effect on the Company's financial and/or operating performance.

Supremex is actively monitoring the situation and will respond as the impact of the COVID-19 pandemic evolves, which will depend on a number of factors including the course of the virus and government actions, none of which can be predicted with any degree of certainty.

The COVID-19 pandemic may also have the effect of heightening other risks and uncertainties disclosed and described below. The adverse impacts of COVID-19 on the Company can be expected to increase the longer the pandemic and the related response measures persist.

Decline in Envelope Consumption

Supremex' envelope manufacturing business is highly dependent upon the demand for envelopes sent through the mail. 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 invoices. 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 receive payments.

The North American envelope manufacturing and mailing industries are expected to continue to decline in the foreseeable future, due to a general progressive reduction in the use of traditional paper-based products. The business depends on transactional mail and direct mail activities. Transactional and direct mail volumes 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. 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 and acquire new products such as the packaging directed toward e-commerce fulfillment and other applications.

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.

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, from time to time, there has been talk of "do-not-mail" legislation in the U.S. with respect to the direct mail industry, primarily around the distribution of non-targeted advertising mail and the environment. "Do-not-mail" legislation is instituted at the state level. While such activities have generally not been successful, if such legislation were to be passed, it would have a negative impact on the Company's sales volume.

Customer relationships

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 they did in the past, or that purchases will be on similar terms.

In addition, certain of our customers may become insolvent or bankrupt, face a sudden deterioration in their financial position or operating results, or elect to default under their contract with Supremex, in which case the recovery of accounts receivable may be doubtful or hardened. If a customer were to default on a payment obligation, we may be unable to collect the amounts owed, in which case some or all of such amounts would need to be written off.

Competition

Envelope

Despite Supremex' leading market position in Canada in the envelope business, new competitors could enter the Canadian envelope market impacting sales and margins. A strengthening of the Canadian dollar against the U.S. dollar could create an incentive for U.S.-based competitors to increase market penetration in Canada. Also, as long as the U.S. market stays oversupplied, 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.

In the current market, the Canadian envelope manufacturers are more aggressive on pricing in order to generate new sales to replace their sales lost to secular decline. 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.

Packaging

The packaging industry is highly competitive and Supremex' diversification in packaging is relatively recent. Some of Supremex competitors are larger and have more fully integrated operations. If Supremex fails to further penetrate the packaging industry, the growth in its sales, could be negatively impacted. Supremex cannot assure that its efforts to increase market penetration in its existing markets and to expand into the packaging market will be successful. Failure to do so could have a material adverse effect on Supremex operating results.

Growth by Acquisitions

The Company plans to grow both organically and through acquisitions. In recent years, the Company has grown through acquisitions and has relied in large part 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. The Company may also be subject to potential liabilities from past acquisitions that it may not discover in its due diligence process. One or more of these factors could impact the Company's ability to successfully integrate or leverage an acquisition and could negatively affect the Company's results of operations.

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. Therefore, soft economic conditions can have significant impact on direct mail volume. Although direct mail represents less than 15% of Supremex' total annual envelope volume, a decline would put pressure on the overall market. For transactional mail, which represents about 50% of Supremex' annual envelope volume, economic cycles have a lesser impact than on direct mail since businesses must still mail out invoices to their customers, although the online billing penetration is growing in this segment. In the long term, transactional mail volume has been declining.

Reliance on Key Personnel

Supremex' 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

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

Paper costs represent a significant portion of Supremex's material costs and they have been subject to volatility due to supply and demand in the marketplace. While paper costs were generally a pass through in the past, an increase in the price of paper can negatively affect operations if it changes the purchasing habits of customers. 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 has generally been disciplined in passing on raw material increases to its customers. The availability of suitable quality recycled board within a reasonable distance of the Company's packaging divisions is also a risk. Finally, 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 from customers in the United States represented 33.4% of consolidated revenue in fiscal 2020, up from 31.7% in fiscal 2019.

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. There is no assurance that any of such increased costs could be passed on to Supremex' customers. 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. If the price of raw materials were to increase for environmental reasons, it could negatively affect Supremex' profitability if such increase cannot be passed on to the customer.

Availability of Capital

The Company has a secured credit facility consisting of a \$80 million revolving facility and a \$29.8 million term credit. Although the Company carried out this modification to its line of credit successfully in 2019, 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.

The Credit Facility contains certain covenants that affect and, in some cases, significantly limit, among other things, the activities in which the Company may engage, the ability of the Company to incur debt, grant liens over its assets, engage in lines of business different from its own, consummate asset sales, or merge consolidate or amalgamate with another person. These restrictions and covenants could impede access to capital or prevent the Company from engaging in business activities that may be in its interest.

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 well 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, 2020, 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, plus an applicable margin that ranges between 0% and 2.00% or bankers' acceptance rates, plus an applicable margin, which ranges from 1.25% to 3.25%.

Litigation

Supremex, like other manufacturing and sales organizations, is subject to potential liabilities in connection with its business operations, including expenses associated with product defects, performance, and 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 four registered defined benefit pension plans substantially covering all of its employees. Three of these plans are hybrids and include a defined contribution component. In 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.

On December 20, 2019, the Company concluded the purchase of a group annuity buy-in with RBC Life Insurance Company in order to transfer longevity and investment risks related to the pensioners and deferred vested members of its largest defined benefit plan. This transaction considerably reduces the risk profile and volatility associated with the defined benefit pension plans and further secures the Company's members' benefits.

Cyber security and data protection

In the normal course of its operations, the Company relies on the continuous and uninterrupted operation of its systems, data hosting centers, cloud computing systems and computer hardware. In addition, it receives processes and transfers sensitive data, including confidential information about Supremex, its customers, its suppliers, as well as personal information regarding its employees.

If the Company were to experience cyber threats, breaches, unauthorized accesses, viruses other security breaches, human errors, sabotage or other similar events, it could have a material adverse impact on its activities, including system disruptions or breakdowns. This could also negatively impact Supremex's results, cause considerable damage to the Company's reputation and potentially result in legal actions against it.

Cyberattacks attempts occur more and more frequently, and their nature continuously evolves and become more refined, which increases the risk that the Company's operations be disrupted, and that the Company's data be compromised. In addition, it is possible that such a cyber breach or event might not be detected quickly enough to limit the scope of the information that could be stolen or compromised.

No guaranty to pay cash dividends

The Board of Directors has, for some years, declared a cash dividend on a quarterly regular basis. However, on May 15, 2020, the Company's Board of Directors announced the suspension of the quarterly dividend until further notice. Decisions regarding dividends are within the discretion of the Board of Directors, and will be influenced by a number of factors, including general business and economic conditions, Supremex's financial condition, operating results and restrictions imposed by its debt agreements, the emergence of acquisition opportunities, changes in business strategy and other factors. Changes in, or the elimination of dividends could have an adverse effect on the price of Supremex common shares.

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, Adjusted EBITDA, Adjusted Net Earnings 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 this MD&A for year ended December 31, 2020. Supremex cautions that such assumptions may not materialize and that current economic conditions, including all of the current uncertainty resulting from the ongoing COVID-19 health crisis and its broader repercussions on the global economy, render such assumptions, although believed reasonable at the time they were made, subject to greater uncertainty.

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: global health crisis, economic cycles, decline in envelope consumption, increase of competition, growth by acquisition, reliance on key personnel, raw material price increases, exchange rate fluctuation, concerns about protection of the environment, availability of capital, credit risks with respect to trade receivables, interest rate fluctuation, potential risk of litigation, contributions to employee benefits plans, cyber security and data protection, no guarantee to pay dividends. In addition, risks and uncertainties arising as a result of the COVID-19 pandemic that could cause results to differ from those expected include, but are not limited to: potential government actions, changes in consumer behaviors and demand, changes in customer requirements, disruptions of the Company's suppliers and supply chain, availability of personnel and uncertainty about the extent and duration of the pandemic. Such risks and uncertainties are discussed throughout this MD&A for the year ended December 31, 2020 and in particular, in "Risk Factors". Consequently, the Company 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.

Non-IFRS measures: Definition of EBITDA, Adjusted EBITDA and Adjusted Net Earnings

References to “EBITDA” are to earnings before financing charges, income tax expense, depreciation of property, plant and equipment and right-of-use assets and amortization of intangible assets. References to “Adjusted EBITDA” are to EBITDA adjusted to remove items of significance that are not in the normal course of operations. These items of significance include, but are not limited to, charges for impairment of assets, restructuring expenses, new facility start-up costs, value adjustment on inventory acquired and losses (gains) on disposal of property, plant and equipment and right-of-use assets. Adjusted Net Earnings refers to Net Earnings to which the items listed above have been removed, net of income taxes. Supremex believes that EBITDA, Adjusted EBITDA and Adjusted Net Earnings are measurements commonly used by readers of financial statements to evaluate a company’s operational cash-generating capacity and ability to discharge its financial obligations. Adjusted EBITDA allows readers to appreciate the Company’s earnings without effect of non-recurring items making it valuable to assess ongoing operations and to better evaluate the Company’s operating profitability when compared to the previous years.

EBITDA, Adjusted EBITDA and Adjusted Net Earnings are not recognized earnings measures under IFRS and do not have a standardized meaning prescribed by IFRS. Therefore, EBITDA, Adjusted EBITDA and Adjusted Net Earnings may not be comparable to similar measures presented by other entities. Investors are cautioned that EBITDA, Adjusted EBITDA and 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, 2020 and 2019

All amounts expressed in Canadian dollars

Independent auditor's report

To the Shareholders of
Supremex Inc.

Opinion

We have audited the consolidated financial statements of **Supremex Inc.** and its subsidiaries [the Group], which comprise the consolidated statements of financial position as at December 31, 2020 and 2019, the consolidated statements of earnings, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards [IFRS].

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addresses the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.



Key audit matter

Impairment of goodwill and other non-financial assets

As at December 31, 2020, goodwill and other non-financial assets, comprised of intangible assets, right of use assets and property, plant and equipment, amounted to \$128,803,738 and were recorded on the consolidated statement of financial position. As disclosed in Note 2, Significant Accounting Policies, for each cash generating unit ["CGU"], management assesses at least annually, or at any time if an indicator of impairment exists, whether there has been an impairment loss in the carrying value of these CGUs. The Group uses a value in use discounted cash flow model to determine a recoverable amount for each of the Envelopes and Packaging CGUs. For the corrugated die-cut box CGU, the Group uses a fair value less cost of disposal method to determine the recoverable amount.

Recoverable amounts for the Envelopes and Packaging CGUs are based on the Group's estimates of key assumptions such as sales projections for each of the Canadian and U.S. markets, expected future growth or decline rates in sales and an appropriate discount rate. The challenging industry and market conditions combined with the uncertainties surrounding the sales projections and declined market capitalization of the Group during the year increase the complexity and risk related to the impairment assessment. The corrugated die-cut box CGU's decreased earnings in the current year created an impairment indicator. Also, the relatively recent business acquisitions in the Envelopes, Packaging and corrugated die-cut box CGUs cause their respective carrying amounts to be relatively close to their recoverable amounts making their recoverable amounts more sensitive to the assumptions used in the valuation model. This combined with the significance and sensitivity of other assumptions such as the discount rates, annual/perpetual growth rates and earnings multiples led us to conclude that the goodwill and other non-financial assets' impairment test for the Group's CGUs is a key audit matter.

How our audit addressed the key audit matter

Our audit procedures included, among others, evaluating and recalculating the Group's assumptions relating to sales projections, discount rates and growth or decline rates. We performed sensitivity analyses on these key assumptions to assess the potential effect of a significant change to the assumptions. We also compared the assumptions related to sales projections and annual/perpetual growth and decline rates to historical data from the Group's Envelopes and Packaging CGUs, and market and industry data when publicly available.

For the corrugated die-cut box CGU, we compared the estimated fair value less cost of disposal method used by the Group to an earnings multiple method. We also reviewed a sample of machinery and equipment and compared the Group's estimates of their fair value to publicly available market data. For the Envelopes and Packaging CGUs, we reviewed the use of a discounted cashflows model for the purpose of the value-in-use determination.

We involved our valuation specialists to assist in reviewing the Group's valuation models for each CGU, the discount rates and earnings multiples. Finally, we assessed the adequacy of the Group's disclosures included in Notes 12 and 19 of the accompanying consolidated financial statements in relation to this matter.



Key audit matter

How our audit addressed the key audit matter

Business combination

On February 18, 2020, the Group acquired all of the assets of Royal Envelope Inc. ("Royal") for a cash consideration of \$27,400,000. As per Note 5 in the consolidated financial statements, the cost of an acquisition is measured as the aggregate fair values of the assets acquired and liabilities assumed as at the date of the exchange of control of the acquiree. Where the amounts allocated to the assets and liabilities are less than the overall consideration given, the difference is accounted for as goodwill. Goodwill amounted to \$3,213,418 from this business acquisition. Auditing the measurement of certain assets such as intangible assets and machinery and equipment is complex due to their sensitivity to assumptions made by the Group primarily on the sales projections, discount rate and growth/decline rates and the material amount of goodwill, intangible assets and machinery and equipment in the consolidated financial statements.

In evaluating the Group's purchase price allocation for Royal, our audit procedures included, among others, procedures over the valuation of the intangible assets and machinery and equipment acquired. In particular for the acquired machinery and equipment, we inspected a sample of machinery and equipment and compared the Group's estimates of their fair value to publicly available market data. For the intangible assets consisting primarily of customer relationships, we evaluated the Group's key assumptions related to the sales projections, discount rate and sales decline rates in determining the fair value by comparing them to historical financial data and publicly market data, when available. We involved our internal valuation specialists to support us in these procedures. We also performed certain sensitivity analyses on some of these assumptions to assess their effect on the purchase price allocation, including the growth/decline rate and discount rate assumptions.

Other information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis

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

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

We obtained Management's Discussion & Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.



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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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

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



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

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

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

*Ernst & Young LLP*¹

Montréal, Canada
February 24, 2021

¹ CPA auditor, CA, public accountancy permit no. A121006



Supremex Inc.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at December 31		2020	2019
	Notes	\$	\$
ASSETS	15		
Current assets			
Cash		3,035,999	2,222,889
Accounts receivable	6	26,855,191	22,340,239
Income tax receivable		352,234	1,742,610
Inventories	7	21,738,367	21,080,346
Prepaid expenses		1,315,580	1,667,542
Total current assets		53,297,371	49,053,626
Property, plant and equipment	8	37,131,393	37,274,148
Right-of-use assets	9	18,120,369	23,333,921
Accrued pension benefit net assets	10	4,449,600	7,270,807
Intangible assets	11	24,446,150	16,421,864
Goodwill	12	49,105,826	46,155,723
Other long-term asset		—	138,809
Total assets		186,550,709	179,648,898
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	13	22,418,282	15,470,329
Dividend payable	21	—	1,828,481
Provisions	14	1,578,406	7,821
Current portion of lease liabilities	16	4,863,402	4,106,902
Current portion of secured credit facility	15	3,500,000	3,500,000
Total current liabilities		32,360,090	24,913,533
Secured credit facility	15	52,942,668	49,972,422
Deferred income tax liabilities	17	7,689,813	8,187,623
Lease liabilities	16	14,375,795	19,891,021
Other post-retirement benefit obligations	10	221,000	211,200
Total liabilities		107,589,366	103,175,799
Equity			
Share capital	18	9,497,234	9,601,576
Contributed surplus		277,029,086	277,348,798
Deficit		(207,071,737)	(210,653,168)
Foreign currency translation reserve		(493,240)	175,893
Total equity		78,961,343	76,473,099
Total liabilities and equity		186,550,709	179,648,898

Contingencies and guarantees [note 27]

See accompanying notes

On behalf of the Directors:

By: signed (Robert B. Johnston)

Director

By: signed (Steven P. Richardson)

Director

December 31, 2020 and 2019

CONSOLIDATED STATEMENTS OF EARNINGS

Years ended December 31	Notes	2020 \$	2019 \$
Revenue		204,604,433	191,669,152
Operating expenses	7, 10, 20	147,355,947	143,765,907
Selling, general and administrative expenses	10, 20	25,395,706	22,555,158
Operating earnings before depreciation, amortization and other items		31,852,780	25,348,087
Depreciation of property, plant and equipment	8	5,443,472	4,837,189
Depreciation of right-of-use assets	9	5,089,028	4,696,686
Amortization of intangible assets	11	3,355,591	2,193,257
Asset impairment	19	2,770,479	—
Restructuring expense (recovery)	14	1,836,425	(124,227)
Loss on disposal of property, plant and equipment and right-of-use assets		—	164,991
Operating earnings		13,357,785	13,580,191
Net financing charges	15	3,073,486	3,434,858
Earnings before income taxes		10,284,299	10,145,333
Income tax expense	17	2,789,606	3,057,432
Net earnings		7,494,693	7,087,901
Basic and diluted net earnings per share		0.2671	0.2514
Weighted average number of shares outstanding		28,060,808	28,198,474

See accompanying notes

Supremex Inc.

December 31, 2020 and 2019

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years ended December 31	Notes	2020 \$	2019 \$
Net earnings		7,494,693	7,087,901
Other comprehensive (loss) income			
<i>Other comprehensive loss to be reclassified to earnings in subsequent periods</i>			
Foreign currency translation adjustments		(669,133)	(699,799)
Net other comprehensive loss to be reclassified to earnings in subsequent periods		(669,133)	(699,799)
<i>Items not to be reclassified to earnings in subsequent periods</i>			
Recognized actuarial (loss) gain on defined benefit pension plans, net of income tax recovery of \$726,870 [2019 income tax expense – \$764,821]	10	(2,076,930)	2,181,979
Recognized actuarial loss on other post-retirement benefit, net of income tax recovery of \$2,748 [2019 income tax recovery – \$3,089]	10	(7,852)	(8,811)
Net other comprehensive (loss) income not being reclassified to earnings in subsequent periods		(2,084,782)	2,173,168
Other comprehensive (loss) income		(2,753,915)	1,473,369
Total comprehensive income		4,740,778	8,561,270

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, 2018	9,652,774	277,722,233	(212,589,405)	875,692	75,661,294
Net earnings	—	—	7,087,901	—	7,087,901
Other comprehensive income (loss)	—	—	2,173,168	(699,799)	1,473,369
Total comprehensive income (loss)			9,261,069	(699,799)	8,561,270
Dividends declared [note 21]	—	—	(7,324,832)	—	(7,324,832)
Shares repurchased and cancelled [note 18]	(51,198)	(373,435)	—	—	(424,633)
As at December 31, 2019	9,601,576	277,348,798	(210,653,168)	175,893	76,473,099
Net earnings	—	—	7,494,693	—	7,494,693
Other comprehensive loss	—	—	(2,084,782)	(669,133)	(2,753,915)
Total comprehensive income (loss)	—	—	5,409,911	(669,133)	4,740,778
Dividends declared [note 21]	—	—	(1,828,480)	—	(1,828,480)
Shares repurchased and cancelled [note 18]	(104,342)	(319,712)	—	—	(424,054)
As at December 31, 2020	9,497,234	277,029,086	(207,071,737)	(493,240)	78,961,343

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31	Notes	2020 \$	2019 \$
OPERATING ACTIVITIES			
Net earnings		7,494,693	7,087,901
Non-cash adjustments to reconcile net earnings to net cash flows			
Depreciation of property, plant and equipment	8	5,443,472	4,837,189
Depreciation of right-of-use assets	9	5,089,028	4,696,686
Amortization of intangible assets	11	3,355,591	2,193,257
Amortization of deferred financing costs	15	115,348	188,632
Loss on disposal of property, plant and equipment and right-of-use assets		—	164,991
Asset impairment	19	2,770,479	—
Deferred income tax expense	17	228,154	308,288
Change in employee benefits		(396)	54,000
		24,496,369	19,530,944
Working capital adjustments			
Variation in accounts receivable		854,002	4,178,001
Variation in income tax receivable		1,390,376	(493,692)
Variation in inventories		3,276,592	2,481,326
Variation in prepaid expenses and others		448,196	(206,506)
Variation in accounts payable and accrued liabilities		4,972,048	(4,336,750)
Variation in provisions	14	1,570,585	(1,021,352)
Change in employee benefits		17,000	49,500
Net cash flows provided by operating activities		37,025,168	20,181,471
INVESTING ACTIVITIES			
Business combination, net of cash acquired	5	(27,400,000)	—
Acquisition of property, plant and equipment	8	(2,116,509)	(5,942,604)
Acquisition of intangible assets	11	(460,435)	(565,280)
Proceeds from the disposal of property, plant and equipment		—	424,023
Net cash flows used in investing activities		(29,976,944)	(6,083,861)
FINANCING ACTIVITIES			
Net change in revolving credit facility	15	6,434,898	(33,449,189)
Increase in term facility	15	—	35,000,000
Repayment of term facility	15	(3,500,000)	(1,750,000)
Repayment of lease liabilities	16	(4,625,926)	(3,964,209)
Dividends paid	21	(3,656,962)	(7,334,581)
Deferred financing costs	15	(80,000)	(411,217)
Purchase of share capital for cancellation	18	(424,054)	(424,633)
Change in other long-term asset		143,224	329,073
Net cash flows used in financing activities		(5,708,820)	(12,004,756)
Net change in cash during the year		1,339,404	2,092,854
Net foreign exchange difference		(526,294)	(178,906)
Cash, beginning of year		2,222,889	308,941
Cash, end of year		3,035,999	2,222,889
Supplemental information ⁽¹⁾			
Interest paid		3,145,690	3,298,545
Interest received		11,879	22,088
Income taxes paid		787,282	4,143,168
Income taxes received		177,940	966,702

⁽¹⁾ Amounts paid and received for interest and for income taxes were reflected as cash flows provided by operating activities in the consolidated statements of cash flows

See accompanying notes

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

1. CORPORATE INFORMATION

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

Supremex is a leading North American manufacturer and marketer of envelopes and a growing provider of paper-based packaging solutions and specialty products. Supremex’ revenue is subject to the seasonal advertising and mailing patterns of its customers. The number of envelopes 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 envelopes sold by Supremex is generally lower during spring and summer in anticipation of a slowdown in mailing activities of businesses during the summer.

Most revenues from packaging and specialty products are not subject to seasonal patterns (i.e. specialty folding cartons for large multinational customers). Only a small portion is subject to seasonal patterns related to the holidays and sporting events (i.e. innovative protective packaging solutions for e-commerce or corrugated boxes for food delivery). As such, there is currently little to no seasonal effect from packaging and specialty products on Supremex’ total revenues.

These consolidated financial statements were approved by the Company’s Board of Directors on February 24, 2021.

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., Buffalo Envelope Inc. and Classic Envelope Inc.

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 and included in administrative expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

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.

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

Goodwill is allocated as at the date of a business combination to a cash-generating unit ("CGU") for purpose of impairment testing. The allocation is made to the CGU or group of CGUs expected to benefit from the synergies of the business acquisitions.

Segment reporting

The Company operates in two reporting segments: the manufacturing and sale of a broad range of standard and custom envelopes and the manufacturing and sale of paper-based packaging solutions and specialty 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 year. 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 (loss).

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, net of estimated discounts, and after eliminating intercompany sales. Discounts are estimated based on the most likely amount method and using contractual terms with customers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

Revenue from the sale of goods is recognized in a manner that depicts the transfer of promised goods or services to a customer, which is at a point in time representing the delivery of products which coincides with the transfer of control to the customer and at an amount that reflects the consideration expected to be received in exchange for transferring those goods or services.

This is achieved by applying the following five steps:

1. Identify the contract with a customer;
2. Identify the performance obligations in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligations in the contract; and
5. Recognize revenue when (or as) the entity satisfies a performance obligation, which is generally achieved upon the delivery of the products.

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 control is transferred to 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 income (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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

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.

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 and 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 receivable or accounts payable and accrued liabilities in the consolidated statement of financial position.

Employee future benefits

The Company maintains four defined benefit pension plans, three of which are hybrid as they also have a defined contribution component, covering substantially all of its employees. In 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 (loss) on the earlier of the date of the plan amendment or curtailment, and the date the Company recognizes pension plan restructuring related costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

The net asset or net 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. 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. There are no dilutive elements affecting the calculation of diluted earnings per share.

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.

Property, plant and equipment

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

Buildings	10 to 35 years
Leasehold improvements	Lease term
Machinery and equipment	Seven to 15 years
Office equipment	Three to five years
Computer equipment	Three years

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

Residual values, method of depreciation 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 combination, if not, at cost and are carried at cost less accumulated amortization. Intangible assets acquired are comprised of mainly 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.

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.

For restructuring provisions, the Company has a constructive obligation when a detailed formal plan identifies the business or part of the business concerned, the location and number of employees affected, a detailed estimate of the associated costs and an appropriate timeline. Furthermore, the affected employees or worker councils must have been notified of the plan's main features.

Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The right-of-use asset and lease liability are recognized at the lease commencement date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

Right-of-Use Assets:

- The right-of-use assets are measured at cost. The cost is based on the initial amount of the lease liability plus initial direct costs incurred and estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located adjusted for any lease payments made at or before the commencement date, less any lease incentives received, if any.
- The cost of the right-of-use assets is periodically reduced by depreciation expenses and impairment losses, if any, and adjusted for certain remeasurements of the lease liabilities. The right-of-use assets are depreciated to the lesser of the useful life or the lease term using the straight-line method as this reflects the expected pattern of consumption of the future economic benefits. The lease term includes the renewal option only if it is reasonably certain to exercise that option. Lease terms range from 1 to 12 years.
- The Company does not recognize a right-of-use asset and liability for the leases where the total lease term is less than or equal to 12 months and for the leases of low valued assets in nature; such as but not limited to, office equipment.

Lease Liabilities:

- At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as an expense in the reporting period in which the event or condition that triggers the payment occurs.
- In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Financial instruments

(i) Classification and subsequent measurement categories

- A financial asset is classified as subsequently measured at amortized cost; fair value through other comprehensive income ("FVTOCI"); or fair value through profit and loss ("FVTPL"). The classification is based on two criteria: the Company's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the "SPPI criterion"). The Company's financial assets are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion and are classified and subsequently measured at amortized cost. They consist of cash, accounts receivable and other long-term asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

- A financial liability is classified as subsequently measured at amortized cost or FVTPL. The Company's financial liabilities measured at amortized cost consist of accounts payable and accrued liabilities, dividend payable, provisions and secured credit facility and are classified as liabilities amortized at cost. 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.

(ii) *Impairment of financial assets measured at amortized cost*

- The Company applies the simplified approach to measuring expected credit losses ("ECL") which uses a lifetime expected loss allowance for all trade receivables.
- The Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is considered at a higher credit risk as soon as it is 30 days past due and the Company regularly monitors these accounts receivable to ensure its credit risk is not significant with such customers. In some cases, the fact that certain accounts receivable are past due does not necessarily represent a higher credit risk and subsequent collection is successful based on contractual payment terms or particular arrangements with customers to resolve commercial differences. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows which generally occurs if the account receivable is 120 days past due unless the Company has reasonable and supportable information to demonstrate that a more lagging criterion is more appropriate.
- To measure the ECL, accounts receivables have been grouped based on shared risk characteristics and the days past due. As at December 31, 2020 and 2019, ECL was not significant.

(iii) *Derecognition of financial assets and liabilities*

- Financial assets are derecognized when the rights to receive cash flows from the assets have expired or when substantially all the risks and rewards of ownership and cash flows have been transferred. A financial liability is derecognized when the obligation under the liability is discharged, canceled or expired. Gains and losses on derecognition are recognized within finance income and finance expenses, respectively.

Government assistance

Government assistance, including wage subsidies and investment tax credits, is recognized when there is a reasonable assurance that the assistance will be received and that the Company will comply with all relevant conditions. Government assistance related to the cost of an asset is recorded as a reduction of the cost of the related asset. Government assistance related to incurred expenses is recorded as a reduction of the related expenses. Wage subsidies are recorded as a reduction of inventories or the related wage expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

3. SIGNIFICANT JUDGMENT AND 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, especially given the continued COVID-19 pandemic, could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Intangible assets and goodwill

Intangible assets and goodwill arise out of business combinations for which the Company has applied the acquisition method of accounting. The acquisition 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"). However, these projections are inherently uncertain due to the evolving impact of the COVID-19 pandemic. The COVID-19 pandemic and its impact on the economy is constantly evolving in an unpredictable manner and presents many variables and contingencies for modeling. It is possible that an underperformance to these projections could occur in future periods since the effects of the pandemic may have material impacts on the Company's anticipated revenue levels and the recoverable amount of the CGUs.

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. The Company used also other estimates and assumptions related to the impairment test of goodwill [see note 12].

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 rate of mortality, the expected retirement age, the expected rate of future compensation increases 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 10]. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

The Company is subject to taxation in multiple 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.

Leases

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew or terminate (e.g., a change in business strategy).

4. NEW ACCOUNTING STANDARDS AND AMENDMENTS ADOPTED IN 2020

The Company adopted the following new accounting standards and amendments effective January 1, 2020.

Amendments to IFRS 3: *Definition of a business*

The amendment to IFRS 3 *Business Combinations* clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the consolidated financial statements of the Company, but may impact future periods should the Company enter into any business combinations.

Amendments to IAS 1 and IAS 8 *Definition of Material*

The amendments provide a new definition of material that states, "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the consolidated financial statements of, nor is there expected to be any future impact to the Company.

5. BUSINESS COMBINATION

On February 18, 2020, the Company acquired substantively all of the assets of Royal Envelope Ltd and Envelope Royal Inc. (together "Royal Envelope"), for a cash consideration of \$27,400,000. Royal Envelope is a leading Eastern Canada based envelope manufacturer and printer based in Ontario.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

This acquisition aligns with the Company strategy to optimize the operations cost-base, enhance cash-flow generation capacity and provides the necessary capacity and capabilities to support our envelope growth strategy in the U.S.

The Company's preliminary purchase price allocation has been revised as of December 31, 2020. The adjustments are mainly related to the revised assessment of working capital, property and equipment and goodwill.

This purchase price reflects the estimated fair value of assets acquired and liabilities assumed at the acquisition date, using the acquisition method, is as follows.

	Initial purchase price allocation \$	Adjustments \$	Final adjusted purchase price allocation \$
Net assets acquired:			
Accounts receivable	5,444,478	(75,524)	5,368,954
Inventories	4,220,612	(285,999)	3,934,613
Prepaid expenses	99,301	(6,610)	92,691
Total current assets	9,764,391	(368,133)	9,396,258
Property and equipment	4,708,815	(395,585)	4,313,230
Right-of-use assets	1,958,645	—	1,958,645
Software	53,000	—	53,000
Customer relationships	12,400,000	—	12,400,000
Goodwill	2,298,036	915,382	3,213,418
Total assets	31,182,887	151,664	31,334,551
Accounts payable and accrued liabilities	1,824,242	151,664	1,975,906
Lease liabilities	1,958,645	—	1,958,645
Net assets acquired	27,400,000	—	27,400,000
Cash consideration, net of cash acquired	27,400,000	—	27,400,000
Acquisition-related costs recognized as an expense			154,084

The Company has not disclosed revenue from Royal Envelope operations or consolidated pro-forma profit including this assets' acquisition of Royal Envelope as though the acquisition date had occurred on January 1, 2020, or for the period from the acquisition date, as it is impracticable to do so given that the activities and accounts of the acquired business were rapidly integrated into the operations of the Company post-acquisition. The Company is no longer able to track revenue from the Royal Envelope acquisition since July 1, 2020 as revenue has been entirely integrated to Supremex accounts and operations as of that date, while costs and expenses have been integrated as of the acquisition date.

Goodwill deductible for tax purposes amounts to \$3,213,418. The goodwill related to the acquisition is composed of expected growth and operational synergies and is allocated to the Envelope operating segment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

6. ACCOUNTS RECEIVABLE

	December 31, 2020 \$	December 31, 2019 \$
Trade receivables	24,756,952	21,996,190
Less: Allowance for doubtful accounts	(410,809)	(298,067)
Net trade receivables	24,346,143	21,698,123
Other receivables	2,509,048	642,116
	26,855,191	22,340,239

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, 2020 \$	December 31, 2019 \$
Current	17,175,656	13,400,503
31 – 60 days	5,355,240	5,524,409
61 – 90 days	1,053,056	1,859,254
91 – 120 days	648,264	545,035
Over 120 days	524,736	666,989
	24,756,952	21,996,190

Allowance for doubtful accounts

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

	December 31, 2020 \$	December 31, 2019 \$
Balance, beginning of year	298,067	157,475
Business combination	174,023	—
Charge for the year	12,029	229,648
Utilized	(73,594)	(87,570)
Impact of foreign exchange losses (gains)	284	(1,486)
Balance, end of year	410,809	298,067

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. Historically, the estimated credit losses from trade receivables have not been significant.

7. INVENTORIES

	December 31, 2020 \$	December 31, 2019 \$
Raw materials	7,834,431	6,942,380
Work in progress	832,245	678,784
Finished goods	13,071,691	13,459,182
	21,738,367	21,080,346

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

The cost of inventories recognized as an expense and included in operating expenses, including the related depreciation of property, plant and equipment and depreciation of right-of-use assets allocated to cost of inventories, during the year ended December 31, 2020 is \$149,044,431 [2019 - \$145,931,681].

8. PROPERTY, PLANT AND EQUIPMENT

	Lands \$	Buildings and leasehold improvements \$	Machinery and equipment \$	Office and computer equipment \$	Total \$
Cost:					
At December 31, 2018	3,578,895	13,898,456	60,937,573	2,732,264	81,147,188
Additions	—	260,585	5,522,340	159,679	5,942,604
Disposals	—	—	(1,497,937)	—	(1,497,937)
Translation adjustment	—	(11,600)	(324,133)	(6,148)	(341,881)
At December 31, 2019	3,578,895	14,147,441	64,637,843	2,885,795	85,249,974
Additions	—	323,664	1,568,774	224,071	2,116,509
Business combination [note 5]	—	—	4,253,530	59,700	4,313,230
Disposals	—	(24,988)	(277,230)	(16,804)	(319,022)
Impairment [note 19]	—	(1,395,636)	—	—	(1,395,636)
Translation adjustment	—	(4,634)	(143,599)	(2,406)	(150,639)
At December 31, 2020	3,578,895	13,045,847	70,039,318	3,150,356	89,814,416
Accumulated depreciation:					
At December 31, 2018	—	5,081,496	37,080,265	2,020,405	44,182,166
Depreciation	—	605,200	3,900,649	331,340	4,837,189
Disposals	—	—	(908,831)	—	(908,831)
Translation adjustment	—	(11,674)	(117,460)	(5,564)	(134,698)
At December 31, 2019	—	5,675,022	39,954,623	2,346,181	47,975,826
Depreciation	—	643,393	4,480,743	319,336	5,443,472
Disposals	—	(24,988)	(277,230)	(16,804)	(319,022)
Impairment [note 19]	—	(313,047)	—	—	(313,047)
Translation adjustment	—	(11,508)	(90,328)	(2,370)	(104,206)
At December 31, 2020	—	5,968,872	44,067,808	2,646,343	52,683,023
Net book value:					
At December 31, 2019	3,578,895	8,472,419	24,683,220	539,614	37,274,148
At December 31, 2020	3,578,895	7,076,975	25,971,510	504,013	37,131,393

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

9. RIGHT-OF-USE ASSETS

	Buildings \$	Manufacturing equipment \$	Office equipment \$	Vehicles \$	Total \$
Cost:					
At January 1, 2019	27,261,213	147,056	32,924	34,314	27,475,507
Additions	65,117	—	27,899	—	93,016
Disposals	(35,230)	—	(12,069)	—	(47,299)
Adjustments	803,845	—	1,902	(4,531)	801,216
Translation adjustment	(357,002)	(121)	(523)	—	(357,646)
At December 31, 2019	27,737,943	146,935	50,133	29,783	27,964,794
Additions	339,691	—	—	—	339,691
Business combination [note 5]	1,583,580	183,367	—	191,698	1,958,645
Disposals	—	—	—	(220,431)	(220,431)
Adjustments	(2,172,109)	—	479	(1,050)	(2,172,680)
Translation adjustment	(165,209)	(47)	(245)	—	(165,501)
At December 31, 2020	27,323,896	330,255	50,367	—	27,704,518
Accumulated depreciation:					
At January 1, 2019	—	—	—	—	—
Depreciation	4,625,039	33,384	17,354	20,909	4,696,686
Disposals	(32,295)	—	(8,807)	—	(41,102)
Translation adjustment	(24,585)	(42)	(84)	—	(24,711)
At December 31, 2019	4,568,159	33,342	8,463	20,909	4,630,873
Depreciation	4,955,721	84,604	13,050	35,653	5,089,028
Disposals	—	—	—	(56,562)	(56,562)
Translation adjustment	(78,811)	(76)	(303)	—	(79,190)
At December 31, 2020	9,445,069	117,870	21,210	—	9,584,149
Net book value:					
At December 31, 2019	23,169,784	113,593	41,670	8,874	23,333,921
At December 31, 2020	17,878,827	212,385	29,157	—	18,120,369

10. EMPLOYEE DEFINED BENEFIT PLANS

(a) Pension Plans

The Company maintains four defined benefit pension plans covering substantially all of its salaried and hourly employees. Three 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 two plans are governed under the *Supplemental Pension Plans Act of the Régie des rentes du Québec*. The benefits of one of these plans are based on the average earnings of the best three years where the maximum salary was reached and on the average earnings of the best five consecutive years for the other plan. During 2012, the Company converted, for future service, its defined benefit pension plans into defined contribution plans.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

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

	2020 \$	2019 \$
Defined benefit plans:		
Defined benefit plans expense (administration expenses)	214,807	209,700
Defined contribution plan expense	1,239,313	1,288,400
Pension plans expense [note 20]	1,454,120	1,498,100

Interest income on pension defined benefit plan obligation of \$221,600 [2019 – \$163,100] is included in the net financing charges in the consolidated statement of earnings [note 15].

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, 2020 \$	December 31, 2019 \$
Change in accrued benefit obligation:		
Benefit obligation, beginning of year	99,042,000	91,785,800
Interest cost	2,992,400	3,398,000
Actuarial loss from change in financial assumptions	8,004,000	8,822,300
Actuarial loss (gain) from experience	468,500	(233,000)
Benefits paid	(5,024,600)	(4,731,100)
Benefit obligation, end of year	105,482,300	99,042,000
Change in plan assets:		
Fair value of plan assets, beginning of year	106,312,807	96,213,407
Interest income on plan assets	3,214,000	3,561,100
Actuarial gains	5,668,700	11,536,100
Use of surplus to pay for employer defined contributions	(24,200)	(57,000)
Benefits paid	(5,024,600)	(4,731,100)
Plan administration expenses	(214,807)	(209,700)
Fair value of plan assets, end of year	109,931,900	106,312,807
Amount recognized as accrued pension benefit net assets	4,449,600	7,270,807

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

	2020 \$	2019 \$
Total actuarial (losses) gains	(2,803,800)	2,946,800

The cumulative amount of actuarial losses recognized in the consolidated statement of comprehensive income is \$916,000 as at December 31, 2020 [2019 – gains of \$1,887,800].

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

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

	2020 %	2019 %
Discount rate for accrued benefit obligation	2.50	3.10
Discount rate for net pension cost	3.10	3.80
Rate of compensation increase	2.50	2.50
Mortality assumption ¹	CPM Private	CPM Private

The weighted average allocation of plan assets, excluding annuity contracts of \$54.1 million in two pension plans [2019 - \$53.1 million] as at December 31, is as follows:

	2020 %	2019 %
Equity securities		
Canadian	30.0	25.6
Equity Funds	30.0	13.0
Consumer Staple	—	1.9
Financial services	—	2.0
Industrial products	—	1.8
Preferred Shares Funds	—	1.7
Other	—	5.2
Foreign Global Equity Funds	45.1	48.4
	75.1	74.0
Fixed income funds		
Canadian	24.9	23.0
Cash and short-term securities		
Canadian	—	3.0
Total	100.0	100.0

All financial instruments and investment funds are classified as level 2 fair value hierarchy, including fixed income funds and \$54.1 million of annuity contracts (inputs other than quoted prices that are observable) [2019 – All financial instruments and investment funds were classified as level 1 fair value hierarchy (quoted prices in active markets) except for \$12.2 million of fixed income funds and \$53.1 million of annuity contracts which were classified as level 2.]

All four of the pension plans have an investment policy with the following target asset allocation: 75% in equity securities and 25% in fixed income securities [2019 – 75% in equity securities and 25% in fixed income securities]. As at December 31 2020 and 2019, the pension plans were in compliance with their investment policy allocations.

As of December 31, 2020 and 2019, there were no Supremex shares held in the Company's pension plans.

The average duration of the defined benefit plan obligation is 14.7 years as at December 31, 2020 [2019-14.6 years].

¹ CPM 2004 Private Sector Mortality table projected generationally using improvement scale MI-2017

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

Sensitivity analysis

For the Company, a 0.25% increase or decrease in the discount rate would have decreased or increased the defined benefit obligation by approximately \$3.5 million as at December 31, 2020. A 0.25% increase or decrease in the rate of compensation would have increased or decreased the pension benefit obligation by approximately \$0.3 million as at December 31, 2020. An increase of one year in the life expectancy of plan members as at December 31, 2020 results in an increase of \$4.7 million in total projected defined benefit obligations 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, 2020 \$	December 31, 2019 \$
Change in accrued benefit obligation:		
Other post-retirement benefit obligations, beginning of year	211,200	199,400
Interest cost [note 15]	6,400	7,400
Actuarial loss from change in financial assumptions	10,600	11,900
Benefits paid	(7,200)	(7,500)
Other post-retirement benefit obligations, end of year	221,000	211,200

Post retirement benefits other than pension are not funded.

The post-retirement benefits amount recognized in other comprehensive income, before taxation, consists of an actuarial loss of \$10,600 [2019 – loss of \$11,900]. The cumulative amount of actuarial losses recognized in the consolidated statement of comprehensive income is \$343,600 as at December 31, 2020 [2019 - \$333,000].

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

	2020 %	2019 %
Weighted-average assumptions		
Discount rate for benefit obligation	2.50	3.10
Discount rate for net periodic benefit cost	3.10	3.80

As at December 31, 2020, no coverage is provided to retirees for healthcare and dental. The average duration of the post-retirement benefits' obligation is 8.0 years as at December 31, 2020 and 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

11. INTANGIBLE ASSETS

	Customer relationships \$	Non- compete agreements \$	Software \$	Total \$
Cost:				
At December 31, 2018	80,005,119	755,000	2,716,976	83,477,095
Additions	195,000	—	370,280	565,280
Translation adjustment	(125,306)	—	—	(125,306)
At December 31, 2019	80,074,813	755,000	3,087,256	83,917,069
Additions	—	—	460,435	460,435
Business combination [note 5]	12,400,000	—	53,000	12,453,000
Impairment [note 19]	(1,516,584)	—	—	(1,516,584)
Translation adjustment	(49,050)	—	—	(49,050)
At December 31, 2020	90,909,179	755,000	3,600,691	95,264,870
Accumulated amortization:				
At December 31, 2018	64,037,241	755,000	551,206	65,343,447
Amortization	1,915,248	—	278,009	2,193,257
Translation adjustment	(41,499)	—	—	(41,499)
At December 31, 2019	65,910,990	755,000	829,215	67,495,205
Amortization	3,024,883	—	330,708	3,355,591
Translation adjustment	(32,076)	—	—	(32,076)
At December 31, 2020	68,903,797	755,000	1,159,923	70,818,720
Net book value:				
At December 31, 2019	14,163,823	—	2,258,041	16,421,864
At December 31, 2020	22,005,382	—	2,440,768	24,446,150

12. GOODWILL

	\$
Cost	
At December 31, 2018	46,390,779
Translation adjustment	(235,056)
At December 31, 2019	46,155,723
Business combination [note 5]	3,213,418
Impairment [note 19]	(171,306)
Translation adjustment	(92,009)
At December 31, 2020	49,105,826

The net carrying amount of goodwill as of December 31, 2020 was allocated to the following significant CGUs:

	December 31, 2020 \$	December 31, 2019 \$
CGUs:		
Envelope	36,539,357	33,417,948
Packaging	12,566,469	12,566,469
Other [note 19]	—	171,306
Total	49,105,826	46,155,723

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

The increase of the Envelope CGU is mainly due to Royal Envelopes, acquired on February 18, 2020 [note 5]. The Packaging CGU was created in 2017 following the acquisition of Stuart Packaging. Groupe Deux Printing Inc. and Pharmaflex Labels Inc. were added to the CGU following their acquisition in 2018. As of fiscal 2019, it also included the packaging and specialty products from legacy envelope businesses.

Impairment test of goodwill

The Company conducted its annual goodwill impairment test as at December 31, 2020, in accordance with their policy described in note 2. The recoverable amount of the Envelope CGU and the Packaging CGU exceeded its carrying values. As a result, no goodwill impairment was recorded for those CGU's. However, goodwill impairment was recorded for the Other CGU [note 19].

Valuation technique

The Company uses the discounted cash flows ("DCF") method to determine the value in use of each of its CGUs and has not made any changes to the valuation methodology used to assess goodwill impairment since the last annual impairment test, except for the Other CGU for which a fair value less cost of disposal technique was used to assess the fair value of specific assets.

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, 2020 for Envelope and Packaging CGUs, 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. For the Other CGU, assumptions mainly related to the estimation process of the individual assets at disposal, based on management's experience and market data, when available.

Growth or decline of revenue

The assumptions used were based on the Company's internal budget approved by the board of directors. The Company projected revenue, operating margins and cash flows for a period of four years for each of the Envelope and Packaging CGU. Specific assumptions are used for each CGU. Forecasts for the Envelope CGU considered a 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 periods thereafter. Forecasts for the Packaging CGU considered a perpetual long-term growth for this market. 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 the Company's estimated weighted average cost of capital ("WACC"). 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

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:

	2020		2019	
	Envelope	Packaging	Envelope	Packaging
Pre-tax discount rate	14.5%	14.5%	16.8%	17.2%
Tax rate	26.0%	26.0%	26.0%	26.0%
Perpetual (decline) growth rate	(3.0)%	2.5%	(3.0)%	2.5%

Sensitivity

Envelope CGU - In the most recent impairment test performed for the Envelope CGU, if the pre-tax discount rate had increased to 19.7% or the perpetual decline rate had increased to 9.5%, the recoverable amount of Envelope CGU would have then equaled the carrying amount as at December 31, 2020.

Packaging CGU - In the most recent impairment test performed for the Packaging CGU, if the pre-tax discount rate had increased to 24.9% or the perpetual growth rate had decreased to (10.1)%, the recoverable amount of the Packaging CGU would have then equaled the carrying amount as at December 31, 2020.

13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2020	December 31, 2019
	\$	\$
Trade payables	9,498,490	6,967,180
Accrued rebates liabilities	2,034,417	1,647,271
Salaries and benefits payable	8,596,207	5,189,125
Other accrued liabilities	2,289,168	1,666,753
	22,418,282	15,470,329

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

14. PROVISIONS

In 2020, the Company implemented a plan to optimize costs at its Envelope CGU. As a result, the Company recognized a provision for severance relating to certain terminated employees. As at December 31, 2020, the amount of remaining accrued restructuring provision was \$1.6 million. The balance of accrued restructuring provision in connection with previous restructuring plans was settled during 2020.

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

	December 31, 2020	December 31, 2019
	\$	\$
Balance, beginning of year	7,821	1,029,173
Settlement	(7,821)	—
Current year restructuring expenses (recovery)	1,836,425	(124,227)
Payments	(258,019)	(897,125)
Balance, end of year	1,578,406	7,821

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

15. SECURED CREDIT FACILITY

The Company has a secured credit facility consisting of a \$80 million revolving facility and a \$29.8 million term credit facility. No principal repayments are required on the revolving operating facility prior to maturity. The term facility is repayable in quarterly principal installments of \$875,000. The availability of the credit facility is variable and dependant on respecting certain financial covenants. As at December 31, 2020, the credit facility stands at \$56.8 million. This facility bears interest at a floating rate based on the Canadian prime rate, plus an applicable margin that ranges between 0% and 2.00% or bankers' acceptance rates, plus an applicable margin that ranges between 1.25% and 3.25%. The agreement for those credit facilities matures in may 2023.

The secured credit facility is used for working capital, capital expenditure, acquisitions and other general corporate purpose. It is collateralized by mortgage and a security interest 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 as at December 31, 2020 and had an additional borrowing capacity of \$35.0 million while respecting said covenants.

Amounts owed under secured credit facility are as follows:

	December 31, 2020 \$	December 31, 2019 \$
Revolving credit facility	27,000,000	20,565,102
Term facility	29,750,000	33,250,000
Less: deferred financing costs	(307,332)	(342,680)
	56,442,668	53,472,422
Current portion	(3,500,000)	(3,500,000)
Long-term portion of secured credit facility	52,942,668	49,972,422

The following table presents a reconciliation between the opening and closing balances of the secure credit facility:

	December 31, 2020 \$	December 31, 2019 \$
Secured credit facility, beginning of year	53,472,422	53,894,196
Increase in term facility	—	35,000,000
Repayment of term facility	(3,500,000)	(1,750,000)
Increase (decrease) in revolving facility	6,434,898	(33,449,189)
Deferred financing costs	(80,000)	(411,217)
Amortization of deferred financing cost	115,348	188,632
Secured credit facility, end of year	56,442,668	53,472,422

The Company had outstanding letters of credit totalling \$10,000 as at December 31, 2020, [2019 - \$10,000].

The effective interest rate on the secured credit facility was 1.99% as at December 31, 2020 [3.52% as at December 31, 2019].

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

Net financing charges are as follows:

	2020 \$	2019 \$
Interest on secured credit facility	2,109,226	2,235,677
Interest on lease liabilities	1,069,642	1,171,407
Interest income on defined benefit plan obligation [note 10]	(221,600)	(163,100)
Interest on post-retirement benefits [note 10]	6,400	7,400
Other interest income	(5,530)	(5,158)
Amortization of deferred financing costs	115,348	188,632
	3,073,486	3,434,858

16. LEASE LIABILITIES

The following table presents the Company's lease liabilities:

	December 31, 2020 \$	December 31, 2019 \$
Lease Liabilities, beginning of year	23,997,923	27,475,507
Additions	339,691	27,899
Business combination [note 5]	1,958,645	—
Disposals	(163,870)	(6,289)
Adjustments	(2,172,680)	801,216
Lease repayments	(5,695,568)	(5,135,616)
Interest expense on lease liabilities	1,069,642	1,171,407
Translation adjustment	(94,586)	(336,201)
	19,239,197	23,997,923
Current portion	(4,863,402)	(4,106,902)
Long-term portion of lease liabilities	14,375,795	19,891,021

The expense relating to short-term leases during the year ended December 31, 2020 was \$550,407 [2019 - \$33,754]. The expense relating to leases of low-value assets during the year ended December 31, 2020 was \$11,761 [2019 - \$12,175]. Total cash outflow for leases during the year ended December 31, 2020 was \$6,257,736 [2019 - \$5,181,545].

The maturity analysis of lease liabilities is disclosed in Note 24.

17. INCOME TAXES

Income tax expense

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

	2020 \$	2019 \$
Current income tax:		
Current income tax expense	2,561,452	2,749,144
Deferred income tax:		
Creation of temporary differences	228,154	308,288
Income tax expense	2,789,606	3,057,432

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

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

	2020 \$	2019 \$
Deferred income tax related to items imputed directly to equity during the year:		
Deferred tax (recovery) expense on recognized actuarial (loss) gain on defined benefit pension plans	(726,870)	764,821
Deferred tax recovery on recognized actuarial loss on other post-retirement benefits	(2,748)	(3,089)
Income tax (recovery) expense recorded to other comprehensive (loss) income	(729,618)	761,732

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

	2020 \$	2019 \$
Earnings before income taxes	10,284,299	10,145,333
Income tax expense at combined federal and provincial statutory rate of 26% [2019 – 26.1%]	2,670,709	2,648,452
Effect of change in enacted tax rates	—	(118,971)
Income tax rate differential for U.S. subsidiaries	28,911	75,609
Non-deductible expenses and other	89,986	452,342
Income tax expense	2,789,606	3,057,432

Deferred income tax

Deferred income tax relates to the following:

	Consolidated statement of financial position		Consolidated statement of earnings	
	December 31, 2020 \$	December 31, 2019 \$	December 31, 2020 \$	December 31, 2019 \$
Deferred tax assets:				
Goodwill	535,124	689,187	154,359	160,130
Right-of-use assets	203,290	167,423	(37,551)	(168,176)
Non-capital losses	155,700	861,931	695,106	245,077
Other	393,581	92,266	(270,637)	298,053
	1,287,695	1,810,807	541,277	535,084
Deferred tax liabilities:				
Accrued pension benefit asset	1,153,639	1,887,086	6,577	29,886
Property, plant and equipment	5,738,692	5,239,608	(502,991)	(305,991)
Intangible assets	1,997,936	2,787,497	789,112	495,601
Other	87,241	84,239	20,425	7,300
	8,977,508	9,998,430	313,123	226,796
Deferred tax expense			228,154	308,288
Net deferred income tax liabilities	(7,689,813)	(8,187,623)		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

Reconciliation of net deferred tax liabilities

	2020 \$	2019 \$
Balance – beginning of year	(8,187,623)	(7,273,250)
Tax expense during the year recognized in the consolidated statement of earnings	(228,154)	(308,288)
Tax recovery (expense) recognized in other comprehensive (loss) income	729,618	(761,732)
Translation adjustment on net deferred tax	8,934	34,520
Other	(12,588)	121,127
Balance – end of year	(7,689,813)	(8,187,623)

18. 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, 2018	28,280,469	9,652,774
Purchase of share capital for cancellation	(150,000)	(51,198)
Balance, as of December 31, 2019	28,130,469	9,601,576
Balance, as of December 31, 2019	28,130,469	9,601,576
Purchase of share capital for cancellation	(305,700)	(104,342)
Balance, as of December 31, 2020	27,824,769	9,497,234

On August 13, 2020, the Company announced that it had received approval from the TSX to purchase by way of a normal course issuer bid ("NCIB") for cancellation, up to 1,406,523 of its common shares, representing approximately 5.0% of its 28,130,469 issued and outstanding common shares as of August 12, 2020, for a period of twelve months, beginning on August 17, 2020.

During the year ended December 31, 2020, the Company repurchased 305,700 [2019 – 150 000] common shares for cancellation through the NCIB in consideration of \$424,054 [2019 - \$424,633]. The excess of the purchase price over the carrying value in the amount of \$319,712 [2019 - \$373,435] was recorded as a reduction of contributed surplus.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

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.

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 \$571,641 [2019 - \$504,428] is presented under "*Accounts payable and accrued liabilities*".

The compensation expense for the DSUs during the year ended December 31, 2020 amounted to \$67,213 [2019 - \$132,729] and is recognized under selling, general and administrative expenses.

19. IMPAIRMENT IN CORRUGATED DIE-CUT BOX CGU

Due to lagging results in its corrugated die-cut box CGU, the Company has recorded an impairment expense in 2020 totaling \$2,770,479 which was allocated to specific assets' carrying amounts within the CGU as presented under property, plant and equipment [note 8], intangible assets [note 11], and goodwill [note 12].

20. OPERATING AND SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	2020 \$	2019 \$
Wages and salaries [note 22]	50,786,896	48,417,724
Social security costs	8,327,298	7,972,340
Pension plans expense [note 10]	1,454,120	1,498,100
Employee benefits expenses	60,568,314	57,888,164
Raw materials and other purchases	87,865,031	85,996,362
Other	24,318,308	22,436,539
	172,751,653	166,321,065

21. DIVIDENDS

Dividends declared from January 1, 2020 to December 31, 2020 were as follows:

Declaration date	Record date	Payment date	Per share \$	Dividend \$
February 20, 2020	March 31, 2020	April 15, 2020	0.065	1,828,480
Total				1,828,480

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

Dividends declared from January 1, 2019 to December 31, 2019 were as follows:

Declaration date	Record date	Payment date	Per share \$	Dividend \$
February 20, 2019	March 29, 2019	April 12, 2019	0.065	1,837,697
May 7, 2019	June 28, 2019	July 16, 2019	0.065	1,830,173
August 1, 2019	September 30, 2019	October 16, 2019	0.065	1,828,481
November 13, 2019	December 31, 2019	January 16, 2020	0.065	1,828,481
Total				7,324,832

22. GOVERNMENT ASSISTANCE

During 2020, the Company recorded a subsidy in the amount of \$1,934,488 under the Canada Emergency Wage Subsidy (CEWS) program. Of this amount, \$1,309,842 was allocated against operating expenses while \$624,646 was allocated against selling, general and administrative expenses.

The Company also recorded a subsidy in the amount of \$70,926 under the Canada Emergency Rent Subsidy (CERS) program. This amount was allocated against operating expenses.

23. RELATED PARTY TRANSACTIONS

Compensation of key management personnel, including members of the Board of directors of Supremex recognized as an expense is as follows:

	2020 \$	2019 \$
Short-term employee benefits	1,540,840	1,762,662
Post-employment benefits	65,183	60,947
	1,606,023	1,823,609

24. FINANCIAL INSTRUMENTS

Financial assets and liabilities

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

December 31, 2020	Assets at amortized cost \$	Liabilities at amortized cost \$	Total \$
Cash	3,035,999	—	3,035,999
Accounts receivable	26,855,191	—	26,855,191
Other assets	136,073	—	136,073
Accounts payable and accrued liabilities excluding sales tax payable	—	(21,186,965)	(21,186,965)
Provisions	—	(1,578,406)	(1,578,406)
Secured credit facility	—	(56,750,000)	(56,750,000)
Total	30,027,263	(79,515,371)	(49,488,108)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

December 31, 2019

	Assets at amortized cost	Liabilities at amortized cost	Total
	\$	\$	\$
Cash	2,222,889	—	2,222,889
Accounts receivable	22,340,239	—	22,340,239
Other assets	467,272	—	467,272
Accounts payable and accrued liabilities excluding sales tax payable	—	(15,009,949)	(15,009,949)
Dividend payable	—	(1,828,481)	(1,828,481)
Provisions	—	(7,821)	(7,821)
Secured credit facility	—	(53,815,102)	(53,815,102)
Total	25,030,400	(70,661,353)	(45,630,953)

Fair values

The carrying amount of secured credit facility approximates its fair value given it carries a floating interest rate.

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

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 major Canadian banks and their U.S subsidiaries.

Credit risk stems primarily from the potential inability of clients to discharge their obligations. While the Company had historically reported low bad debt expenses, COVID-19 increases the risk over certain customers that management is monitoring. 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, 2020 and 2019, total trade accounts receivable over 90 days past due amounted to less than 5% [see note 6] of total trade receivables. The Company does not hold collateral as a security. As at December 31, 2020, the Company had not identified significant negative trend from its accounts receivable collection.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

credit facility. The Company continuously reviews both actual and forecasted cash flows to ensure that it has adequate credit facility capacity and continuously reviews its exposure to interest rate fluctuations.

In response to the COVID-19 pandemic, the Company has taken certain preventive actions to support its liquidity position and preserve cash, such as the suspension as of May 14, 2020 of its quarterly dividend. The Company is continuously seeking cost savings opportunities and will manage its capacity to respond to demand fluctuations and including workplace reductions if needed.

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

December 31, 2020	Less than 1 year \$	1 to 5 years \$	More than 5 years \$	Total \$
Accounts payable and accrued liabilities excluding sales tax payable	21,186,965	—	—	21,186,965
Provisions	1,578,406	—	—	1,578,406
Secured credit facility	3,500,000	53,250,000	—	56,750,000
Lease liabilities	4,827,579	12,092,469	4,262,312	21,182,360
	31,092,950	65,342,469	4,262,312	100,697,731

December 31, 2019	Less than 1 year \$	1 to 5 years \$	More than 5 years \$	Total \$
Accounts payable and accrued liabilities excluding sales tax payable	15,009,949	—	—	15,009,949
Dividend payable	1,828,481	—	—	1,828,481
Provisions	7,821	—	—	7,821
Secured credit facility	3,500,000	50,315,102	—	53,815,102
Lease liabilities	5,109,732	15,495,025	7,408,837	28,013,594
	25,455,983	65,810,127	7,408,837	98,674,947

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

On December 31, 2020, a 25 basis-point rise or fall in interest rates, assuming all other variables remained unchanged, would have resulted, respectively, in a \$370,012 increase or decrease in the Company's net earnings for the year ended December 31, 2020 [2019 - \$274,668].

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 net exposure is not significant.

As at December 31, 2020, net financial assets of the Company in Canadian dollars, denominated in U.S. dollars, totalled \$7,394,187 [2019 - \$5,958,064].

On December 31, 2020, 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 \$369,709 increase or decrease in the Company's net earnings for the year then ended [2019- \$297,903], whereas other comprehensive income (loss) would have increased or decreased by \$258,858 [2019 - \$282,778].

25. CAPITAL MANAGEMENT

The Company's capital consists of equity and secured credit facility. 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 facility;
- 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 facility / EBITDA" and "fixed charge coverage" ratios as defined in the credit facility agreement.

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

	December 31, 2020 \$	December 31, 2019 \$
Secured credit facility	56,442,668	53,472,422
Cash	(3,035,999)	(2,222,889)
Net debt	53,406,669	51,249,533
Equity	78,961,343	76,473,099

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

26. SEGMENTED INFORMATION

The Company currently operates in two reporting segments: the manufacturing and sale of envelopes and the manufacturing and sale of paper-based packaging solutions and specialty products.

The segmented information is prepared using the accounting policies described in Note 2 – Significant accounting policies.

The following table provides the segmented Operating earnings before depreciation, amortization, other items and unallocated corporate expenses and other:

	2020 \$		
	Envelope	Packaging & Speciality Products	Total
Revenue	146,500,290	58,104,143	204,604,433
Operating expenses	104,188,253	43,836,015	148,024,268
Selling, general and administrative expenses	16,809,391	5,729,773	22,539,164
Operating earnings before depreciation, amortization, other items and unallocated corporate expenses and other ⁽¹⁾	25,502,646	8,538,355	34,041,001
Corporate expenses and other non allocated expenses			1,632,825
Value adjustment on acquired inventory through a business acquisition			555,396
Depreciation of property, plant and equipment <i>[note 8]</i>			5,443,472
Depreciation of right-of-use assets <i>[note 9]</i>			5,089,028
Amortization of intangible assets <i>[note 11]</i>			3,355,591
Restructuring expenses <i>[note 14]</i>			1,836,425
Asset impairment <i>[note 19]</i>			2,770,479
Net financing charges <i>[note 15]</i>			3,073,486
Earnings before income taxes			10,284,299
	2019 \$		
	Envelope	Packaging & Speciality Products	Total
Revenue	137,123,378	54,545,774	191,669,152
Operating expenses	100,038,824	44,652,076	144,690,900
Selling, general and administrative expenses	13,906,529	5,252,276	19,158,805
Operating earnings before depreciation, amortization, other items and unallocated corporate expenses and other⁽¹⁾	23,178,025	4,641,422	27,819,447
Corporate expenses and other non allocated expenses			2,471,360
Depreciation of property, plant and equipment <i>[note 8]</i>			4,837,189
Depreciation of right-of-use assets <i>[note 9]</i>			4,696,686
Amortization of intangible assets <i>[note 11]</i>			2,193,257
Loss on disposal of property, plant and equipment and right-of-use assets			164,991
Restructuring recovery <i>[note 14]</i>			(124,227)
Net financing charges <i>[note 15]</i>			3,434,858
Earnings before income taxes			10,145,333

(1) The Chief Executive Officer uses Operating earnings before depreciation, amortization, other items and unallocated corporate expenses and other as a measure of financial performance for assessing the performance of each of the Corporation's segments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

The Company's non-current assets amounted to \$118,877,555 in Canada and \$14,375,782 in the United States as at December 31, 2020 [\$114,529,278 and \$16,065,994, respectively, as at December 31, 2019]. The Company's revenue amounted to \$136,242,946, in Canada and \$68,361,487, in the United States for the twelve-month periods ended December 31, 2020 based on the customer's locations [2019 - \$130,921,866, in Canada and \$60,747,286 in the United States].

27. CONTINGENCIES AND GUARANTEES

Legal claims

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. The Company believes these disputes should not have a significant negative impact on the Company's financial position.

Guarantees under leases

In the normal course of business, the Company has entered into lease 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. 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, 2020, has not recorded any liability associated with these indemnifications.