



## **Management's Discussion and Analysis**

For the three and twelve-month periods ended December 31, 2022 and 2021

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## 1. BASIS OF PRESENTATION

The following management's discussion and analysis of financial condition and results of operations ("MD&A"), dated February 22, 2023, 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, 2022. 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 common shares outstanding for the three and twelve-month periods ended December 31, 2022.

The Company's common shares are traded on the Toronto Stock Exchange (the "TSX") under the symbol SXP. Additional information on Supremex, including the Company's Annual Information Form, may be found on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.supremex.com](http://www.supremex.com).

## 2. FORWARD-LOOKING STATEMENTS

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 EBITDA margin, Adjusted Net Earnings, Adjusted net earnings per share, Free Cash Flow, Net debt, Net debt to Adjusted EBITDA ratio<sup>1</sup>, split of revenue between its Envelope and Packaging segments by the end of 2025, capital expenditures, dividend payments, 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 ability 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 the MD&A for the year ended December 31, 2022. Supremex cautions that such assumptions may not materialize and that economic conditions such as heightened inflation and central banks' large interest rate hikes, economic downturns or recessions, may 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: decline in envelope consumption, growth and diversification strategy, key personnel, labour shortage, contributions to employee benefits plans, global health crisis, raw material price increases, operational disruption, increase of competition, dependence on and lost of customer relationships, economic cycles, exchange rate fluctuation, credit risks with respect to trade receivables, availability of capital, interest rate fluctuation, concerns about protection of the environment, potential risk of litigation, cyber security and data protection and 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, inflationary pressures on input costs and incapacity to pass raw material increases to customers, 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, 2022 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.

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<sup>1</sup> These are non-IFRS financial measures or ratios. Refer to the non-IFRS financial measures section for definitions and reconciliations.

### 3. KEY QUARTERLY HIGHLIGHTS

#### 3.1 Financial Highlights Tables

##### Selected Consolidated Financial Information

(in thousands of dollars, except for per share amounts and margins)

|  | Three-month periods ended<br>December 31 |        | Twelve-month periods ended<br>December 31 |         |
|--|--|--------|---|---------|
|  | 2022                                     | 2021   | 2022                                      | 2021    |
| <b>Statement of earnings</b>                   |  |        |   |         |
| Revenue  | 78,761                                   | 66,203 | 272,467                                   | 226,430 |
| Operating earnings                             | 10,075                                   | 6,819  | 40,664                                    | 23,279  |
| Adjusted EBITDA <sup>(1)</sup>                 | 15,332                                   | 12,218 | 56,841                                    | 39,042  |
| Adjusted EBITDA margin <sup>(1)</sup>          | 19.5%                                    | 18.5%  | 20.9%                                     | 17.2%   |
| Net earnings                                   | 6,660                                    | 4,896  | 28,436                                    | 15,752  |
| Basic and diluted net earnings per share       | 0.26                                     | 0.18   | 1.09                                      | 0.58    |
| Adjusted net earnings <sup>(1)</sup>           | 7,854                                    | 6,431  | 29,980                                    | 17,409  |
| Adjusted net earnings per share <sup>(1)</sup> | 0.31                                     | 0.24   | 1.15                                      | 0.64    |
| <b>Cash Flow</b>                               |  |        |   |         |
| Net cash flows related to operating activities | 11,739                                   | 13,821 | 26,914                                    | 29,996  |
| Free Cash Flow <sup>(1)</sup>                  | 10,193                                   | 12,281 | 24,362                                    | 26,142  |

<sup>(1)</sup> Non-IFRS financial measures and ratios. Non-IFRS financial measures do not have standardized meanings prescribed by IFRS and therefore may not be comparable to similar measures presented by other entities. Refer to the non-IFRS financial measures section for definitions and reconciliations.

#### 3.2 Highlights of the three-month period ended December 31, 2022 and recent events

- Total revenue increased by 19.0% to \$78.8 million, from \$66.2 million in the fourth quarter of 2021.
- Envelope segment revenue was up 30.1% to \$60.7 million, from \$46.7 million in the fourth quarter of 2021.
- Packaging and specialty products segment revenue decreased by 7.6% to \$18.1 million, from \$19.6 million last year, largely as a result of the wind down of Durabox and the relocation of folding carton operations.
- Adjusted EBITDA<sup>2</sup> reached \$15.3 million, or 19.5% of revenue, versus \$12.2 million, or 18.5% of revenue, last year.
- Net Earnings increased 36.0% to \$6.7 million, from \$4.9 million in the fourth quarter of 2021.
- Earnings per share increased to \$0.26, up from \$0.18 in the fourth quarter of 2021.
- Acquisition on November 1, 2022 of Royal Envelope Corporation ("Royal Envelope") located in Chicago.
- Acquisition on January 16, 2023 of Impression Paragraph Inc. ("Paragraph"), an integrated provider of paper-based packaging, print and point-of-sale products with two facilities in the province of Quebec.
- On February 22, 2023, the Board of Directors declared a quarterly dividend of \$0.035 per common share, representing a 16.7% rise over the previous dividend paid. This represents the second increase, for a cumulative rise of 40.0% since reinstating dividend payments at the beginning of 2022.

#### 3.3 Highlights of the twelve-month period ended December 31, 2022

- Total revenue increased by 20.3% to \$272.5 million, from \$226.4 million last year.
- Packaging and specialty products segment revenue increased by 4.2% to \$72.1 million, from \$69.2 million in 2021.
- Envelope segment revenue was up 27.4% to \$200.3 million, from \$157.2 million a year earlier.
- Adjusted EBITDA<sup>2</sup> was \$56.8 million, or 20.9% of revenue, up from \$39.0 million, or 17.2% of revenue, in the prior year.
- Net Earnings rose sharply to \$28.4 million, from \$15.8 million in 2021.
- Earnings per share increased significantly to \$1.09, up from \$0.58 a year ago.

<sup>2</sup> Non-IFRS financial measures or ratios. Refer to the non-IFRS financial measures section for definitions and reconciliations.

- Recorded no assistance from the Canada Emergency Wage Subsidy (“CEWS”) and Canada Emergency Rent Subsidy (“CERS”) programs in 2022, compared to \$2.1 million in 2021.
- Reinstated dividends with payments to shareholders totalling \$0.135 per common share in 2022.
- Renewed the Company’s Normal Course Issuer Bid (“NCIB”) program, allowing Supremex to buy back up to 1,301,713 common shares until August 30, 2023.
- Purchased 438,400 shares for total consideration of \$1.5 million as part of NCIB program.
- Appointed Simon Provencher as President of the Packaging segment, effective September 6, 2022.

#### 4. NON-IFRS FINANCIAL MEASURES

Non-IFRS financial measures do not have any standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other companies and should not be viewed as alternatives to measures of financial performance prepared in accordance with IFRS. Management considers these metrics to be information which may assist investors in evaluating the Company’s profitability and enable better comparability of the results from one period to another.

These Non-IFRS Financial Measures are defined as follows:

| Non-IFRS Measure                | Definition  |
|---------------------------------|---|
| EBITDA                          | <p>EBITDA represents earnings before net financing charges, income tax expense, depreciation of property, plant and equipment and right-of-use assets and amortization of intangible assets.</p> <p>The Company uses EBITDA to assess its performance. Management believes this non-IFRS measure, provides users with an enhanced understanding of its operating earnings.</p>  |
| Adjusted EBITDA                 | <p>Adjusted EBITDA represents EBITDA adjusted to remove items of significance that are not in the normal course of operations. These items of significance include, when applicable, but are not limited to, charges for impairment of assets, restructuring expenses, value adjustment on inventory acquired and business acquisition costs.</p> <p>The Company uses Adjusted EBITDA to assess its operating performance, excluding items that are not in the normal course of operations. Management believes this non-IFRS measure, provides users with enhanced understanding of the Company’s operating earnings and increase the transparency and clarity of the Company’s core results. It also allows users to better evaluate the Company’s operating profitability when compared to previous years.</p> |
| Adjusted EBITDA margin          | <p>Adjusted EBITDA margin is a percentage corresponding to the ratio of Adjusted EBITDA divided by revenue.</p> <p>The Company uses Adjusted EBITDA margin for purpose of evaluating business performance, excluding items that are not in the normal course of operations. Management believes this non-IFRS measure, provides users with enhanced understanding of its results and related trends.</p>  |
| Adjusted net earnings           | <p>Adjusted net earnings represents net earnings excluding items of significance listed above under Adjusted EBITDA, net of income taxes.</p> <p>The Company uses Adjusted net earnings to assess its business performance and profitability without the effect of items that are not in the normal course of operations, net of income taxes. Management believes this non-IFRS measure, provides users with an alternative assessment of the Company’s earnings without the effect of items that are not in the normal course of operations making it valuable to assess ongoing operations and trends in the business performance. Management also believes this non-IFRS measure provides users with enhanced understanding of the Company’s results and provides better comparability between period.</p>    |
| Adjusted net earnings per share | <p>Adjusted net earnings per share represents Adjusted net earnings divided by the weighted average number of common shares outstanding for the relevant period.</p> <p>The Company uses Adjusted net earnings per share for purposes of evaluating performance and profitability, excluding items that are not in the normal course of operations of the Company, net of income taxes, on a per share basis.</p>   |

| Non-IFRS Measure                  | Definition  |
|-----------------------------------|---|
| Free Cash Flow                    | <p>This measure corresponds to net cash flows related to operating activities according to the consolidated statements of cash flows less additions (net of disposals) to property, plant and equipment and intangible assets.</p> <p>Management considers Free Cash Flow to be a good indicator of the Company's financial strength and operating performance because it shows the amount of funds available to manage growth, repay debt and reinvest in the Company. Management considers this measure useful to provide investors with a perspective on its ability to generate liquidity, after making capital investments required to support business operations and long-term value creation.</p> |
| Net debt                          | <p>Net debt represents the Company's total debt, net of deferred financing costs and cash.</p> <p>The Company uses Net debt as an indicator of its indebtedness level and financial leverage as it represents the amount of debt that is not covered by available cash. Management believes that investors could benefit from the use of net debt to determine a company's financial leverage.</p>  |
| Net debt to Adjusted EBITDA ratio | <p>Net debt to Adjusted EBITDA ratio represents Net debt divided by trailing 12-month (TTM) Adjusted EBITDA.</p> <p>This ratio is used by management to monitor the Company's financial leverage and management believes certain investors use this ratio as a measure of financial leverage.</p>   |

The following tables provide the reconciliation of Non-IFRS Financial Measures:

#### Reconciliation of Net earnings to Adjusted EBITDA

(In thousands of dollars, except for margins)

|   | Three-month periods ended December 31 |               | Twelve-month periods ended December 31 |               |
|---|---------------------------------------|---------------|--|---------------|
|   | 2022                                  | 2021          | 2022                                   | 2021          |
| <b>Net earnings</b>   | <b>6,660</b>                          | <b>4,896</b>  | <b>28,436</b>                          | <b>15,752</b> |
| Income tax expense  | 2,345                                 | 1,363         | 9,657                                  | 5,301         |
| Net financing charges   | 1,070                                 | 560           | 2,571                                  | 2,226         |
| Depreciation of property, plant and equipment                         | 1,299                                 | 1,314         | 5,799                                  | 5,314         |
| Depreciation of right-of-use assets                                   | 1,239                                 | 1,144         | 4,529                                  | 4,830         |
| Amortization of intangible assets                                     | 1,106                                 | 867           | 3,762                                  | 3,381         |
| <b>EBITDA</b>   | <b>13,719</b>                         | <b>10,144</b> | <b>54,754</b>                          | <b>36,804</b> |
| Acquisition costs related to business combinations                    | 520                                   | —             | 550                                    | 164           |
| Asset impairment  | —                                     | 2,074         | —                                      | 2,074         |
| Restructuring expenses  | 966                                   | —             | 1,410                                  | —             |
| Value adjustment on acquired inventory through a business combination | 127                                   | —             | 127                                    | —             |
| <b>Adjusted EBITDA</b>  | <b>15,332</b>                         | <b>12,218</b> | <b>56,841</b>                          | <b>39,042</b> |
| <i>Adjusted EBITDA Margin (%)</i>                                     | 19.5%                                 | 18.5%         | 20.9%                                  | 17.2%         |

## Reconciliation of Net earnings to Adjusted net earnings and of Net earnings per share to Adjusted net earnings per share

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

|   | Three-month periods ended December 31 |              | Twelve-month periods ended December 31 |               |
|---|---------------------------------------|--------------|--|---------------|
|   | 2022                                  | 2021         | 2022                                   | 2021          |
| <b>Net earnings</b>   | <b>6,660</b>                          | <b>4,896</b> | <b>28,436</b>                          | <b>15,752</b> |
| Adjustments, net of income taxes                                      |                                       |              |  |               |
| Acquisition costs related to business combinations                    | 385                                   | —            | 407                                    | 122           |
| Asset impairment  | —                                     | 1,535        | —                                      | 1,535         |
| Restructuring expenses  | 715                                   | —            | 1,043                                  | —             |
| Value adjustment on acquired inventory through a business combination | 94                                    | —            | 94                                     | —             |
| <b>Adjusted net earnings</b>  | <b>7,854</b>                          | <b>6,431</b> | <b>29,980</b>                          | <b>17,409</b> |
| <b>Net earnings per share</b>   | <b>0.26</b>                           | <b>0.18</b>  | <b>1.09</b>                            | <b>0.58</b>   |
| Adjustments, net of income taxes, in dollar per share                 | 0.05                                  | 0.06         | 0.06                                   | 0.06          |
| <b>Adjusted net earnings per share</b>                                | <b>0.31</b>                           | <b>0.24</b>  | <b>1.15</b>                            | <b>0.64</b>   |

## Reconciliation of Cash flows related to operating activities to Free Cash Flow

(In thousands of dollars)

|  | Three-month periods ended December 31 |               | Twelve-month periods ended December 31 |               |
|--|---------------------------------------|---------------|--|---------------|
|  | 2022                                  | 2021          | 2022                                   | 2021          |
| <b>Cash flows related to operating activities</b>                | <b>11,739</b>                         | <b>13,821</b> | <b>26,914</b>                          | <b>29,996</b> |
| Acquisitions (net of disposals) of property, plant and equipment | (1,475)                               | (1,132)       | (2,180)                                | (3,304)       |
| Acquisitions of intangible assets                                | (71)                                  | (408)         | (372)                                  | (550)         |
| <b>Free Cash Flow</b>  | <b>10,193</b>                         | <b>12,281</b> | <b>24,362</b>                          | <b>26,142</b> |

## Net debt to Adjusted EBITDA ratio

(in thousands of dollars)

|  | As at December 31, 2022 | As at December 31, 2021 |
|--|-------------------------|-------------------------|
| Total debt                               | 54,748                  | 44,529                  |
| Deferred financing costs                 | (334)                   | (178)                   |
| Cash                                     | (1,929)                 | (6,365)                 |
| <b>Net debt</b>                          | <b>52,485</b>           | <b>37,986</b>           |
| Adjusted EBITDA – TTM <sup>(1)</sup>     | 56,841                  | 39,042                  |
| <b>Net debt to Adjusted EBITDA ratio</b> | <b>0.9</b>              | <b>1.0</b>              |

<sup>(1)</sup> Refer to the "Selected Quarterly Operating Results" section for more information on the results of each of the last eight quarters.

## 5. BUSINESS OVERVIEW

Supremex is a leading North American manufacturer and marketer of envelopes and a growing provider of paper-based packaging solutions. Supremex operates eleven manufacturing facilities across four provinces in Canada and six manufacturing facilities in four states in the United States employing over 1,000 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, direct mailers, 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 high-end quality folding carton packaging and e-Commerce Fulfillment Packaging solutions. Other packaging and specialty products include the Conformer Products<sup>®3</sup>, labels, polyethylene bags for courier applications, bubble mailers and Enviro-logiX<sup>®4</sup>.

## **Reporting Segments**

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. 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. Several years ago, it initiated a growth and diversification strategy into packaging and specialty products.

### ***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, direct mailers, 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-end folding carton packaging, e-commerce solutions 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 eco-friendly and are designed and manufactured to optimize shipping and reduce over-packaging for small and international e-tailers. 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<sup>®</sup>, polyethylene bags for courier applications, bubble mailers and Enviro-logiX<sup>®</sup>.

## **6. STRATEGY**

Over the last decade, Supremex has actively pursued a three-pronged diversification strategy to sustain revenue and profitability growth. First, the Company strengthened its market-leading position in the Canadian envelope market by leveraging its footprint through capacity allocation and acquisitions in Western and Eastern Canada. Second, Supremex pursued growth opportunities in the U.S. envelope market, both organically by using excess capacity from the Canadian facilities, and through acquisitions in the Northeast and the Midwest. Third, Supremex' has methodically built its packaging capabilities, mostly through acquisitions, with the objective of achieving critical mass in this attractive growth market, specifically in the value-added folding carton, e-commerce and label markets.

The growth in e-commerce and changes in consumer behaviour have been significant growth drivers for packaging, labels and specialty products. In 2017 and 2018, Supremex established the foundation of its packaging platform by acquiring two important manufacturers of folding carton packaging solutions, complemented by a small label entity, focused primarily on the food, pharmaceutical and cosmeceutical industries in the province of Quebec. In 2021, Supremex made its first U.S. packaging acquisition by purchasing Vista Graphic Communications, LLC ("Vista"), an Indianapolis, Indiana based provider of print and folding carton packaging. The Company added critical mass to its Packaging and specialty products segment in Quebec early in 2023 through the acquisition of Paragraph.

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<sup>3</sup> Conformer<sup>®</sup> is a registered trademark of Conformer Products, Inc.

<sup>4</sup> Enviro-logiX<sup>®</sup> is a registered trademark of Envirologix Inc.



From late 2017 to 2019, Supremex proceeded with investments exceeding \$5 million, which significantly expanded its packaging capabilities and capacity to meet growing demand. These investments opened the door to new customers and applications in various markets and strengthened Supremex' position as a provider of value-added specialty packaging.

Supremex' strategy is to leverage its Envelope capacity, know-how and cash flow to fund the pivot to Packaging and specialty products. The Company aims to achieve an equal revenue split between its Envelope and Packaging segments by the end of 2025. To accelerate this shift, Supremex plans to make further strategic acquisitions.

The following table shows the evolution of Supremex' Packaging & specialty products revenue over the 2017-2022 period.

#### **% Revenue in Packaging & Specialty Products**

(in thousands of dollars, except %)

|   | 2017         | 2018         | 2019         | 2020         | 2021         | 2022         |
|---|--------------|--------------|--------------|--------------|--------------|--------------|
| Revenue in Packaging & specialty products                 | 34,600       | 56,886       | 54,546       | 58,104       | 69,235       | 72,149       |
| Total Revenue   | 179,072      | 195,087      | 191,669      | 204,604      | 226,430      | 272,467      |
| <b>% of Revenue in Packaging &amp; specialty products</b> | <b>19.3%</b> | <b>29.2%</b> | <b>28.5%</b> | <b>28.4%</b> | <b>30.6%</b> | <b>26.5%</b> |

## **7. OUTLOOK**

Driven by solid demand for its products and a robust backlog, Supremex is operating at high-capacity levels given its current labour force. With proactive sourcing and a solid reputation in the marketplace, the Company has the ability to secure raw material in the event of shortages, as occurred until recently, and it also demonstrated it can successfully pass through cost inflation. Entering 2023, market conditions in the supply chain have returned to more normal levels.

In 2023, the Company will focus on the integration of its recent acquisitions while actively seeking to capture all sales and cost synergies. In the Envelope segment, Royal Envelope provides additional capacity as well as geographic reach in its addressable market. In the Packaging and specialty products segment, Paragraph brings critical mass and provides Supremex with additional folding carton revenue and capabilities and new solutions offerings to its customers.

In terms of capital deployment for 2023, the Company expects to invest in capital expenditures and continue paying quarterly dividends. The Company will also continue to look for strategic acquisitions, mainly in the Packaging and specialty products segment.

## **8. FOREIGN EXCHANGE RATES**

The following table shows average and closing exchange rates applicable to Supremex' three and twelve-month periods ended December 31, 2022 and 2021. Average rates are used to translate sales and expenses for the periods mentioned, while closing rates translate assets and liabilities of foreign operations and monetary assets and liabilities of the Canadian operations denominated in U.S. dollars.

#### **US\$/CDN\$ Rate**

|             | Three-month periods ended December 31 |       | Twelve-month periods ended December 31 |       |
|-------------|---------------------------------------|-------|--|-------|
|             | 2022                                  | 2021  | 2022                                   | 2021  |
| USD Average | 1.358                                 | 1.260 | 1.302                                  | 1.254 |
| USD Closing | 1.354                                 | 1.268 | 1.354                                  | 1.268 |

## 9. SUMMARY OF FINANCIAL INFORMATION

### 9.1 Summary of Financial Information

#### Selected Consolidated Financial Information

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

|   | Three-month periods<br>ended December 31 |               | Twelve-month periods<br>ended December 31 |                |
|---|--|---------------|---|----------------|
|   | 2022                                     | 2021          | 2022                                      | 2021           |
| <b>Revenue</b>  | <b>78,761</b>                            | <b>66,203</b> | <b>272,467</b>                            | <b>226,430</b> |
| Operating expenses  | 52,430                                   | 44,743        | 181,733                                   | 158,260        |
| Selling, general and administrative expenses                                    | 11,798                                   | 9,242         | 34,978                                    | 29,292         |
| <b>Operating earnings before depreciation, amortization<br/>and other items</b> | <b>14,533</b>                            | <b>12,218</b> | <b>55,756</b>                             | <b>38,878</b>  |
| Depreciation of property, plant and equipment                                   | 1,299                                    | 1,314         | 5,799                                     | 5,314          |
| Depreciation of right-of-use assets   | 1,239                                    | 1,144         | 4,529                                     | 4,830          |
| Amortization of intangible assets   | 1,106                                    | 867           | 3,762                                     | 3,381          |
| Asset impairment  | —  | 2,074         | —   | 2,074          |
| Restructuring expenses  | 966                                      | —             | 1,410                                     | —              |
| Gain on disposal of property, plant and equipment                               | (152)                                    | —             | (408)                                     | —              |
| <b>Operating earnings</b>   | <b>10,075</b>                            | <b>6,819</b>  | <b>40,664</b>                             | <b>23,279</b>  |
| Net financing charges   | 1,070                                    | 560           | 2,571                                     | 2,226          |
| <b>Earnings before income taxes</b>   | <b>9,005</b>                             | <b>6,259</b>  | <b>38,093</b>                             | <b>21,053</b>  |
| Income tax expense  | 2,345                                    | 1,363         | 9,657                                     | 5,301          |
| <b>Net earnings</b>   | <b>6,660</b>                             | <b>4,896</b>  | <b>28,436</b>                             | <b>15,752</b>  |
| Basic and diluted net earnings per share  | 0.26                                     | 0.18          | 1.09                                      | 0.58           |
| Dividend declared per share   | 0.03                                     | —             | 0.135                                     | —              |

#### Revenue Information

(in thousands of dollars, except %)

|   | Three-month periods<br>ended December 31 |               | Twelve-month periods<br>ended December 31 |                |
|---|--|---------------|---|----------------|
|   | 2022                                     | 2021          | 2022                                      | 2021           |
| <b>Envelope</b>                           | <b>60,686</b>                            | <b>46,650</b> | <b>200,318</b>                            | <b>157,195</b> |
| Volume change                             | (12.6%)                                  | 13.6%         | (0.9%)                                    | 6.9%           |
| Average selling price change              | 48.8%                                    | 1.5%          | 28.6%                                     | 0.4%           |
| <b>Total change</b>                       | <b>30.1%</b>                             | <b>15.3%</b>  | <b>27.4%</b>                              | <b>7.3%</b>    |
|   |  |               |   |                |
| <b>Packaging &amp; specialty products</b> | <b>18,075</b>                            | <b>19,553</b> | <b>72,149</b>                             | <b>69,235</b>  |
| <b>Total change</b>                       | <b>(7.6%)</b>                            | <b>38.0%</b>  | <b>4.2%</b>                               | <b>19.2%</b>   |
|   |  |               |   |                |
| <b>Total Revenue</b>                      | <b>78,761</b>                            | <b>66,203</b> | <b>272,467</b>                            | <b>226,430</b> |
| <b>Revenue change</b>                     | <b>19.0%</b>                             | <b>21.2%</b>  | <b>20.3%</b>                              | <b>10.7%</b>   |

## Segmented Information

(in thousands of dollars, except %)

|  | Three-month periods<br>ended December 31 |               | Twelve-month periods<br>ended December 31 |                |
|--|--|---------------|---|----------------|
|  | 2022                                     | 2021          | 2022                                      | 2021           |
| <b>Segmented Revenue</b>                       |  |               |   |                |
| Envelope                                       | 60,686                                   | 46,650        | 200,318                                   | 157,195        |
| Packaging & specialty products                 | 18,075                                   | 19,553        | 72,149                                    | 69,235         |
| <b>Total Revenue</b>                           | <b>78,761</b>                            | <b>66,203</b> | <b>272,467</b>                            | <b>226,430</b> |
| <b>Segmented Adjusted EBITDA<sup>(1)</sup></b> |  |               |   |                |
| Envelope                                       | 14,893                                   | 7,974         | 49,944                                    | 28,485         |
| % of segmented revenue                         | 24.5%                                    | 17.1%         | 24.9%                                     | 18.1%          |
| Packaging & specialty products                 | 3,908                                    | 6,197         | 15,187                                    | 13,625         |
| % of segmented revenue                         | 21.6%                                    | 31.7%         | 21.0%                                     | 19.7%          |
| Corporate and unallocated costs                | (3,469)                                  | (1,953)       | (8,290)                                   | (3,068)        |
| <b>Total Adjusted EBITDA<sup>(1)</sup></b>     | <b>15,332</b>                            | <b>12,218</b> | <b>56,841</b>                             | <b>39,042</b>  |
| % of total revenue                             | 19.5%                                    | 18.5%         | 20.9%                                     | 17.2%          |

<sup>(1)</sup> This is a non-IFRS financial measure. Refer to the non-IFRS financial measures section for definitions and reconciliations.

## 10. ANALYSIS OF RESULTS

### 10.1 Results for the three-month period ended December 31, 2022

#### Revenue

Total revenue for the three-month period ended December 31, 2022, was \$78.8 million, representing an increase of \$12.6 million, or 19.0%, from the equivalent quarter of 2021. The contribution from the Royal Envelope acquisition was approximately \$9.7 million.

#### Envelope Segment

Revenue was \$60.7 million, representing an increase of 30.1%, from \$46.7 million in the equivalent quarter of 2021. The higher revenue reflects the contribution of the Royal Envelope acquisition, an average selling price increase of 48.8% from last year's fourth quarter primarily stemming from a more favourable customer and product mix in U.S. operations, price increases to mitigate input cost inflation as well as a favourable currency conversion effect. These factors were partially offset by lower volume mainly due to very strong industry demand in the fourth quarter of 2021. The envelope segment represented 77.1% of the Company's revenue in the quarter, versus 70.5% during the equivalent period of last year.

#### Packaging & Specialty Products Segment

Revenue was \$18.1 million, down 7.6% from \$19.6 million in the corresponding quarter of 2021. The variation is essentially attributable to the wind down of the Durabox operations and the one-time impact on sales resulting from interrupted production due to the relocation of the Town of Mount Royal folding carton operations, both of which occurred in the third and fourth quarters. The relocation process was completed at the end of the period. These factors were partially offset by higher sales at the Company's other folding carton facility and increased demand from e-commerce packaging solutions. Packaging & specialty products represented 22.9% of the Company's revenue in the quarter, compared to 29.5% during the equivalent period of last year.

## ***Operating Expenses***

Operating expenses for the three-month period ended December 31, 2022 were \$52.4 million, compared to \$44.7 million in the equivalent period of 2021. This 17.2% increase is mainly due to the acquisition of Royal Envelope, a higher volume of sales and higher cost of materials. On a percentage of revenue basis, operating expenses stood at 66.6% of revenues, down from 67.6% in the equivalent period of 2021.

## ***Selling, General and Administrative Expenses***

Selling, general and administrative expenses totalled \$11.8 million in the three-month period ended December 31, 2022, compared to \$9.2 million during the same period in 2021. This increase of \$2.6 million or 27.7% is essentially attributable to expenses from Royal Envelope, higher compensation expenses, mainly explained by the impact of share price appreciation on Deferred Share Unit ("DSU") and Performance Share Unit ("PSU"), as well as acquisition costs of \$0.5 million related to the Company's recent acquisitions.

## ***EBITDA<sup>5</sup> and Adjusted EBITDA<sup>5</sup>***

EBITDA was \$13.7 million, up 35.2% from \$10.1 million in the fourth quarter last year. Adjusted EBITDA was \$15.3 million, up 25.5%, from \$12.2 million in the fourth quarter of 2021. This increase was the result of higher total revenue, partially offset by the higher cost of materials and higher selling, general and administrative expenses. The Adjusted EBITDA margin reached 19.5% of revenue, up from 18.5% in the equivalent quarter of 2021.

## ***Segment EBITDA and Adjusted EBITDA***

### **Envelope Segment**

Adjusted EBITDA was \$14.9 million, up 86.8%, or \$6.9 million, from \$8.0 million in the fourth quarter of 2021. This increase reflects higher revenue, in part due to the acquisition of Royal Envelope, as well as higher average selling prices primarily stemming from a more favourable customer and product mix in U.S. operations. On a percentage of segmented revenue, Adjusted EBITDA from the envelope segment was 24.5%, compared to 17.1% in the equivalent period of 2021.

### **Packaging & Specialty Products Segment**

Adjusted EBITDA was \$3.9 million, compared to \$6.2 million in the fourth quarter of 2021. This decrease is largely explained by lower revenue related to the wind down of the Durabox operations commencing in the third quarter and the relocation of the Town of Mount Royal folding carton operations which interrupted production over a six-week period, resulting in an under absorption of fixed costs. On a percentage of segmented revenue, Adjusted EBITDA from the packaging and specialty operations was 21.6%, compared to 31.7% in the equivalent period of 2021.

### **Corporate and unallocated costs**

The Corporate and unallocated costs were \$3.5 million compared to \$2.0 million in the fourth quarter of 2021. This increase is attributable to an unfavourable adjustment to the DSUs and PSUs during the quarter due to share price appreciation and to higher remuneration related expenses.

## ***Depreciation and Amortization***

Aggregate depreciation and amortization expenses for the three-month period ended December 31, 2022, amounted to \$3.6 million, compared to \$3.3 million in the fourth quarter of 2021.

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<sup>5</sup> Non-IFRS financial measures or ratios. Refer to the non-IFRS financial measures section for definitions and reconciliations.

### ***Restructuring Expenses***

In the three-month period ended December 31, 2022, the Company incurred restructuring expenses of \$1.0 million related to the winding down of the Durabox operations and the relocation of the folding carton plant. These expenses mainly consist of inventory write-down, severances, as well as expenses for decommissioning and moving of equipment.

### ***Asset Impairment***

In the fourth quarter of 2021, a non-cash asset impairment charge of \$2.1 million was recorded related to Durabox.

### ***Net Financing Charges***

Net financing charges for the three-month period ended December 31, 2022 were \$1.1 million, up from \$0.6 million in the equivalent period of the prior year. The variation reflects higher indebtedness in 2022, compared to 2021, due to the financing of the Royal Envelope acquisition and a higher effective interest rate on the Company's secured credit facility.

### ***Earnings Before Income Taxes***

As a result of the fluctuation in revenue and expenses described above, earnings before income taxes were \$9.0 million, or 11.4% of revenue, during the three-month period ended December 31, 2022, compared to \$6.3 million, or 9.5% of revenue, during the equivalent period of 2021.

### ***Income Tax Expense***

Income taxes were \$2.3 million, or an effective tax rate of 26.0%, in the three-month period ended December 31, 2022, compared to \$1.4 million, or an effective tax rate of 21.8%, in the equivalent quarter of last year. The absolute dollar increase is due to higher earnings before income taxes in the current period.

### ***Net Earnings, Adjusted Net Earnings, Net Earnings per share and Adjusted Net Earnings per share<sup>6</sup>***

Net earnings were \$6.7 million or \$0.26 per share for the three-month period ended December 31, 2022, compared to \$4.9 million or \$0.18 per share for the equivalent period last year.

Adjusted net earnings were \$7.9 million or \$0.31 per share for the three-month period ended December 31, 2022, compared to \$6.4 million or \$0.24 per share for the equivalent period in 2021.

### ***Other Comprehensive Income***

The discount rate used to calculate the accrued plan benefit obligations was 5.1% as at December 31, 2022, compared to 5.0% as at September 30, 2022. This increase, combined with a higher-than-expected return on assets, resulted in a net actuarial gain of \$0.8 million in the fourth quarter of 2022.

## **10.2 Results for the twelve-month period ended December 31, 2022**

### ***Revenue***

Total revenue for the twelve-month period ended December 31, 2022 reached \$272.5 million, a 20.3% increase from \$226.4 million for the twelve-month period ended December 31, 2021. The contribution from the Royal Envelope acquisition was approximately \$9.7 million.

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<sup>6</sup> Non-IFRS financial measures or ratios. Refer to the non-IFRS financial measures section for definitions and reconciliations.

### *Envelope Segment*

Revenue from the envelope segment was \$200.3 million, an increase of \$43.1 million, or 27.4%, from \$157.2 million in the comparable period of 2021. This improvement reflects an average selling price increase of 28.6% from last year primarily driven by price increases implemented to mitigate input cost inflation, a more favourable customer and product mix in U.S. operations, a favourable currency conversion effect and the acquisition of Royal Envelope in the fourth quarter. The volume of units sold remained relatively stable with a year-over-year decrease of only 0.9%.

### *Packaging & Specialty Products Segment*

Revenue was \$72.1 million, up 4.2%, or \$2.9 million, from \$69.2 million during the twelve-month period ended December 31, 2021. Revenue growth came mainly from the acquisition of Vista and organic growth in folding carton and e-commerce packaging solutions, partially offset by lower corrugate box sales from the wind down of the Durabox operations and the relocation of the folding carton business.

### **Operating Expenses**

Operating expenses for the twelve-month period ended December 31, 2022 were \$181.7 million, compared to \$158.3 million for the equivalent period in 2021, representing an increase of 14.8%. This increase results primarily from a higher volume of sales, due in part to the acquisitions of Royal Envelope and Vista, higher cost of materials, as well as the phasing out of the CEWS and CERS programs (\$1.5 million of subsidies recorded for the corresponding period last year). On a percentage of revenue basis, operating expenses decreased to 66.7% of revenues, from 69.9% in the equivalent period of 2021.

### **Selling, General and Administrative Expenses**

Selling, general and administrative expenses were \$35.0 million for the twelve-month period ended December 31, 2022, compared to \$29.3 million in the equivalent period of 2021. This increase of \$5.7 million, or 19.4%, is attributable to the Royal Envelope and Vista acquisitions, higher compensation expenses, including the impact of share price appreciation on DSUs and PSUs, severances, acquisition costs of \$0.6 million and the phasing out of the CEWS and CERS programs (\$0.6 million of subsidies recorded for the 12-month period ended December 31, 2021).

### **EBITDA<sup>7</sup> and Adjusted EBITDA<sup>7</sup>**

EBITDA increased by 48.8%, or \$18.0 million, to \$54.8 million in the twelve-month period ended December 31, 2022, from \$36.8 million in the equivalent period of 2021. Adjusted EBITDA increased by 45.6%, or \$17.8 million, to \$56.8 million in the twelve-month period ended December 31, 2022, from \$39.0 million last year. This increase is the result of higher revenue in both segments, driven primarily by higher average selling prices, partially offset by the higher cost of materials and the phasing out of the CEWS and CERS programs (\$2.1 million in 2021). The Adjusted EBITDA margin increased to 20.9% of revenue, compared to 17.2% in the equivalent period of 2021.

### *Segment EBITDA and Adjusted EBITDA*

#### Envelope Segment

Adjusted EBITDA was \$49.9 million, up from \$28.5 million in the equivalent period of 2021. This increase reflects higher revenue as a result of higher average selling prices primarily stemming from a more favourable customer and product mix in U.S. operations and in part, from the acquisition of Royal Envelope, completed in the fourth quarter. On a percentage of segmented revenue, Adjusted EBITDA from the Envelope segment was 24.9%, up from 18.1% in the equivalent period of 2021.

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<sup>7</sup> Non-IFRS financial measures or ratios. Refer to the non-IFRS financial measures section for definitions and reconciliations.

## Packaging & Specialty Products Segment

Adjusted EBITDA was \$15.2 million, up from \$13.6 million in the comparable period of 2021, primarily due to higher revenue, driven by a more favourable product mix, partially offset by reduced profitability from the Durabox operations and the Town of Mount Royal Folding Carton relocation. On a percentage of segmented revenue, Adjusted EBITDA from the Packaging & specialty products segment was 21.0%, compared to 19.7% in the equivalent period of 2021.

## Corporate and unallocated costs

The Corporate and unallocated costs amounted to \$8.3 million compared to \$3.1 million in 2021. The increase resulted from the phasing out of the CEWS and CERS programs (\$2.1 million in 2021), an unfavourable adjustment to the DSUs and PSUs during the year due to share price appreciation and severances.

## ***Depreciation and Amortization***

Aggregate depreciation and amortization expenses for the twelve-month period ended December 31, 2022, amounted to \$14.1 million, compared to \$13.5 million in the corresponding period last year.

## ***Restructuring Expenses***

In the twelve-month period ended December 31, 2022, the Company incurred restructuring expenses of \$1.4 million related to the winding down of the Durabox operations and the relocation of the folding carton plant. These expenses mainly consist of inventory write-down, severances, as well as expenses for decommissioning and moving of equipment.

## ***Asset Impairment***

In 2021, a non-cash asset impairment charge of \$2.1 million was recorded related to Durabox.

## ***Net Financing Charges***

Net financing charges for the twelve-month period ended December 31, 2022 were \$2.6 million, up from \$2.2 million in the equivalent period of the prior year. The variation results from higher indebtedness in the late stages of 2022 due to the financing of the Royal Envelope acquisition and a higher effective interest rate on the Company's secured credit facility.

## ***Earnings Before Income Taxes***

As a result of the fluctuation in revenue and expenses described above, earnings before income taxes stood at \$38.1 million, or 14.0% of revenue, during the twelve-month period ended December 31, 2022, compared to \$21.1 million, or 9.3% of revenue, during the equivalent period of 2021.

## ***Income Tax Expense***

Income taxes were \$9.7 million, or an effective income tax rate of 25.4% in the twelve-month period ended December 31, 2022, compared to \$5.3 million, or an effective income tax rate of 25.2% in the equivalent period of last year. The absolute dollar increase is due to higher earnings before income taxes in the current period.

## **Net Earnings, Adjusted Net Earnings, Net Earnings per share and Adjusted Net Earnings per share<sup>8</sup>**

Net earnings were \$28.4 million or \$1.09 per share for the twelve-month period ended December 31, 2022, compared to \$15.8 million or \$0.58 per share for the equivalent period in 2021.

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<sup>8</sup> Non-IFRS financial measures or ratios. Refer to the non-IFRS financial measures section for definitions and reconciliations.



Adjusted net earnings were \$30.0 million or \$1.15 per share for the twelve-month period ended December 31, 2022, compared to \$17.4 million or \$0.64 per share for the equivalent period in 2021.

### **Other Comprehensive Income**

The discount rate used to calculate the accrued plan benefit obligations was 5.1% as at December 31, 2022, compared to 3.0% as at December 31, 2021. This increase, partially offset by a lower-than-expected return on assets, resulted in a net actuarial gain of \$2.4 million during the twelve-month period ended December 31, 2022.

## **10.3 Geographical Revenue and Asset Diversification**

### **Revenue by Geography**

(in thousands of dollars)

|                      | Three-month periods<br>ended December 31 |               | Twelve-month periods<br>ended December 31 |                |
|----------------------|--|---------------|---|----------------|
|                      | 2022                                     | 2021          | 2022                                      | 2021           |
| Canada               | 42,748                                   | 37,651        | 155,213                                   | 138,668        |
| U.S.                 | 36,013                                   | 28,552        | 117,254                                   | 87,762         |
| <b>Total Revenue</b> | <b>78,761</b>                            | <b>66,203</b> | <b>272,467</b>                            | <b>226,430</b> |

For the three-month period ended December 31, 2022, the Company's revenue in Canada was \$42.7 million, up 13.5% from \$37.7 million in the equivalent quarter of 2021. In the United States, revenue was \$36.0 million, representing an increase of 26.1% from \$28.6 million in 2021.

For the twelve-month period ended December 31, 2022, the Company's revenue in Canada was \$155.2 million, representing an increase of 11.9% from \$138.7 million in the equivalent period of 2021. In the United States, revenue was \$117.3 million, up 33.6% from \$87.8 million in the equivalent period of 2021.

The Company's non-current assets were \$115.9 million in Canada and \$55.9 million in the United States as at December 31, 2022, compared to \$118.4 million in Canada and \$22.3 million in the United States as at December 31, 2021.

## **11. SUMMARY OF RESULTS – SELECTED QUARTELY FINANCIAL INFORMATION**

Supremex' revenue is subject to some seasonal patterns, mainly driven by the Envelope segment. This segment is subject to the seasonal advertising and mailing patterns of its customers which is generally higher during the fall and winter months. The first and fourth quarters have a higher number of mailings related to specific events (i.e., return to school, fundraising, the holidays and tax seasons) than the spring and summer months. As a result, the second and third quarters tend to have less activity. To maintain production efficiencies, Supremex uses warehouse capabilities to stock envelopes as required and thereby counter predictable seasonal variations in sales volume. Only a small portion of the Packaging and specialty products segment, primarily the e-Commerce offering, is subject to seasonal patterns related to the holidays. Therefore, Supremex' revenue and financial performance for any single quarter may not be extrapolated for the full year.

The following table sets forth selected financial information for the Company's past eight quarters.

### Selected Quarterly Operating Results

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

|  | Dec. 31<br>2022 | Sep. 30<br>2022 | Jun. 30<br>2022 | Mar. 31<br>2022 | Dec. 31<br>2021 | Sep. 30<br>2021 | Jun. 30<br>2021 | Mar. 31<br>2021 |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Envelope                                       | 60,686          | 49,115          | 45,878          | 44,639          | 46,650          | 37,050          | 35,230          | 38,265          |
| Packaging                                      | 18,075          | 18,804          | 16,640          | 18,630          | 19,553          | 17,773          | 16,571          | 15,338          |
| <b>Total Revenue</b>                           | <b>78,761</b>   | <b>67,919</b>   | <b>62,518</b>   | <b>63,269</b>   | <b>66,203</b>   | <b>54,823</b>   | <b>51,801</b>   | <b>53,603</b>   |
| Adjusted EBITDA <sup>(1)</sup>                 | 15,332          | 15,512          | 13,914          | 12,083          | 12,218          | 8,714           | 8,562           | 9,548           |
| Earnings before income taxes                   | 9,005           | 10,881          | 9,822           | 8,386           | 6,259           | 4,709           | 4,595           | 5,490           |
| Net earnings                                   | 6,660           | 8,110           | 7,364           | 6,302           | 4,896           | 3,364           | 3,389           | 4,103           |
| Net earnings per share                         | 0.26            | 0.31            | 0.28            | 0.24            | 0.18            | 0.13            | 0.12            | 0.15            |
| Adjusted net earnings <sup>(1)</sup>           | 7,854           | 8,451           | 7,364           | 6,311           | 6,431           | 3,364           | 3,393           | 4,221           |
| Adjusted net earnings <sup>(1)</sup> per share | 0.31            | 0.32            | 0.28            | 0.24            | 0.24            | 0.13            | 0.12            | 0.15            |

<sup>(1)</sup> This is a non-IFRS financial measure. Refer to the non-IFRS financial measures section for definitions and reconciliations.

## 12. FINANCIAL POSITION

### 12.1 Summary Financial Position Highlights

#### Selected Balance Sheet Information

(in thousands of dollars)

|                   | As at December 31, 2022 | As at December 31, 2021 |
|-------------------|-------------------------|-------------------------|
| Working capital   | 46,034                  | 25,250                  |
| Total assets      | 260,556                 | 206,371                 |
| Total liabilities | 136,238                 | 108,966                 |
| Total equity      | 124,318                 | 97,405                  |

### 12.2 Assets

The increases in total assets and total liabilities as at December 31, 2022, when compared to December 31, 2021, mostly result from the Royal Envelope acquisition on November 1, 2022. Meanwhile, the increase in total equity mainly reflects net earnings of \$28.4 million for the 12-month period ended December 31, 2022.

### 12.3 Liabilities

#### Secured Credit Facility

On May 25, 2022, the Company entered into a three-year senior secured revolving credit facility of \$120 million which replaced its pre-existing revolving and term facility. No principal repayments are required prior to maturity. The credit facility bears interest at a floating rate based on the Canadian prime rate, the U.S. base rate, the Secured Overnight Financing Rate (SOFR) or bankers' acceptance rates, plus an applicable margin that ranges between 0% and 2.75%. The agreement for this credit facility matures in May 2025. The Company may request that the agreement be extended by one year on every anniversary date. The extension is dependent upon the approval of the lenders. As at December 31, 2022, the amount outstanding on the credit facility was \$54.7 million.

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, 2022.

**Amounts owed under the secured credit facility**  
(in thousands of dollars)

|   | As at December 31, 2022 | As at December 31, 2021 |
|---|-------------------------|-------------------------|
| Revolving facility                                  | 54,748                  | 18,279                  |
| Term facility                                       | —                       | 26,250                  |
| <b>Total debt</b>                                   | <b>54,748</b>           | <b>44,529</b>           |
| Deferred financing costs                            | (334)                   | (178)                   |
| Current portion                                     | —                       | (3,500)                 |
| <b>Long-term portion of secured credit facility</b> | <b>54,414</b>           | <b>40,851</b>           |

The Company's total debt increased to \$54.7 million as at December 31, 2022, compared to \$44.5 million as at December 31, 2021. Although the Royal Envelope acquisition was concluded for a consideration of \$28.3 million, strong free cash flow generation enabled the Company to regularly proceed with debt repayment throughout the year.

As at December 31, 2022, the ratio of Net debt<sup>9</sup> to Adjusted EBITDA<sup>9</sup> was 0.9x down from 1.0x as at December 31, 2021.

## 12.4 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.

## 13. LIQUIDITY AND CAPITAL RESOURCES

The following table sets forth summarized cash flow components for the periods indicated.

### Summary of cash flows

  
(in thousands of dollars)

|                                 | Three-month periods ended<br>December 31 |              | Twelve-month periods ended<br>December 31 |              |
|---------------------------------|--|--------------|---|--------------|
|                                 | 2022                                     | 2021         | 2022                                      | 2021         |
| Operating activities            | 11,739                                   | 13,821       | 26,914                                    | 29,996       |
| Investing activities            | (29,813)                                 | (1,540)      | (31,723)                                  | (6,611)      |
| Financing activities            | 19,684                                   | (9,715)      | (49)                                      | (20,022)     |
| Net foreign exchange difference | 113                                      | (26)         | 422                                       | (34)         |
| <b>Net change in cash</b>       | <b>1,723</b>                             | <b>2,540</b> | <b>(4,436)</b>                            | <b>3,329</b> |

### 13.1 Net Cash Flows Related to Operating Activities

Net cash flows from operating activities were \$11.7 million during the three-month period ended December 31, 2022, compared to \$13.8 million in the equivalent period of 2021. The decrease is mainly attributable to higher working capital requirements, primarily due to an increase in inventories to meet customer demand in the coming quarters, partially offset by higher profitability.

Net cash flows from operating activities were \$26.9 million during the twelve-month period ended December 31, 2022, compared to \$30.0 million in the equivalent period of 2021. The variation essentially reflects the aforementioned factors.

<sup>9</sup> Non-IFRS financial measures or ratios. Refer to the non-IFRS financial measures section for definitions and reconciliations.

### 13.2 Net Cash Flows Related to Investing Activities

Net cash flows used in investing activities amounted to \$29.8 million during the three-month period ended December 31, 2022, compared to \$1.5 million in the equivalent period of 2021, primarily to fund the acquisition of Royal Envelope for an amount of \$28.3 million.

Net cash flows used in investing activities amounted to \$31.7 million during the twelve-month period ended December 31, 2022, mainly used to fund the acquisition of Royal Envelope and to acquire property, plant and equipment. In 2021, net cash flows used in investing activities amounted to \$6.6 million, primarily used to fund acquisitions of property, plant and equipment and the acquisition of Vista.

### 13.3 Net Cash Flows Related to Financing Activities

Net cash flows from financing activities were \$19.7 million during the three-month period ended December 31, 2022, essentially reflecting an increase in the credit facility to finance the acquisition of Royal Envelope. During the three-month period ended December 31, 2021, net cash flows used by financing activities stood at \$9.7 million, primarily to pay down debt and buy back shares.

Net cash flows used by financing activities were \$0.05 million during the twelve-month period ended December 31, 2022, as an increase in the revolving credit facility to finance the acquisition of Royal Envelope was offset by funds used to pay dividend, repay lease liabilities and buy back shares. Net cash flows used by financing activities were \$20.0 million in the twelve-month period ended December 31, 2021, mainly used to pay down debt, repay lease liabilities and buy back shares.

#### ***Free Cash Flow<sup>10</sup>***

Free cash flow amounted to \$10.2 million in the fourth quarter of 2022, compared to \$12.3 million for the same period last year, mainly attributable to lower cash flow from operations.

Free cash flow amounted to \$24.4 million in the twelve-month period ended December 31, 2022, compared to \$26.1 million in the corresponding period of 2021, mainly attributable to lower cash flow from operations, partially offset by lower acquisitions of property, plant and equipment, net of disposals.

#### ***Normal Course Issuer Bid ("NCIB")***

During the three and twelve-month periods ended December 31, 2022, the Company repurchased 20,000 and 438,400 common shares for cancellation through the current and prior NCIB, in consideration of \$0.1 million and \$1.5 million, respectively.

## **14. SHARE CAPITAL**

As at December 31, 2022 the share capital issued and outstanding of the Company consisted of 25,977,069 common shares (26,415,469 as at December 31, 2021).

The following table presents the outstanding capital stock activity for the three- and twelve-month periods ended December 31, 2022:

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<sup>10</sup> Non-IFRS financial measures or ratios. Refer to the non-IFRS financial measures section for definitions and reconciliations.

## Number of common shares

|  | Three-month periods ended<br>December 31, 2022 | Twelve-month periods ended<br>December 31, 2021 |
|--|--|---|
| Balance – Beginning of period            | 25,997,069                                     | 26,415,469                                      |
| Common shares purchased for cancellation | (20,000)                                       | (438,400)                                       |
| <b>Balance – End of period</b>           | <b>25,977,069</b>                              | <b>25,977,069</b>                               |

As at February 22, 2023, the Company had 25,977,069 common shares outstanding.

## 15. SUBSEQUENT EVENTS

- On January 16, 2023, the Company announced the acquisition of Paragraph, an integrated provider of paper-based packaging, print and point of sale products for a broad range of commercial markets. The transaction was concluded for a total closing consideration of approximately \$28.1 million, on a cash-free and debt-free basis, including an estimated working capital adjustment of \$1.5 million. The acquisition was financed through the Company's existing credit facility and the total consideration amount is subject to customary adjustments.

Founded more than 35 years ago, Paragraph operates two facilities located in Ville-Saint-Laurent and Saint-Hyacinthe, Québec. Its offering consists primarily of folding carton packaging and point-of-sale displays for the cosmetic, pharmaceutical, food, confectionary and retail sectors. It also provides an array of commercial, digital and wide-format printing.

- On February 22, 2023, the Board of Directors declared a quarterly dividend of \$0.035 per common share, payable on April 7, 2023, to the shareholders of record at the close of business on March 23, 2023. This dividend is designated as an "eligible" dividend for the purpose of the *Income Tax Act* (Canada) and any similar provincial legislation.

## 16. ACCOUNTING POLICIES

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 reassesses 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* of the Company's audited consolidated financial statements for the year ended December 31, 2022.

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 current global economic uncertainty, including heightened inflation, large interest rate hikes and the geopolitical environment. It is possible that an underperformance to these projections could occur in future periods since these uncertainties 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, 2022, 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 value. As a result, no goodwill impairment was recorded for these CGU's.

### ***Valuation technique***

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

### ***Significant assumptions***

The income approach is predicated upon the value of the future cash flows that a business will generate going forward. The DCF method, which was used as at December 31, 2022 for the 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.

### ***Growth or decline of revenue***

The assumptions used were based on the Company's internal annual 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 CGUs. 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 share in the U.S. 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 to calculate the present value of its projected cash flows. The discount rate represented the Company's estimated 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:

| Key Assumptions                 | 2022     |           | 2021     |           |
|---------------------------------|----------|-----------|----------|-----------|
|                                 | Envelope | Packaging | Envelope | Packaging |
| Pre-tax discount rate           | 15.2%    | 14.0%     | 14.4%    | 12.9%     |
| Tax rate                        | 25.9%    | 25.9%     | 25.9%    | 25.9%     |
| 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 25.7% or the perpetual decline rate had increased to 17.9%, the recoverable amount of the Envelope CGU would have then equaled the carrying amount as at December 31, 2022.

#### *Packaging CGU*

In the most recent impairment test performed for the Packaging CGU, if the pre-tax discount rate had increased to 34.3% or the perpetual growth rate had decreased to (30.4)%, the recoverable amount of the Packaging CGU would have then equaled the carrying amount as at December 31, 2022.

### **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 rate of 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 | 5.05%       |
| Discount rate for net pension cost           | 3.00%       |
| Rate of compensation increase                | 2.50%       |
| Mortality assumption                         | CPM Private |

### **Discount rate**

As at December 31, 2022, 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 \$1.4 million as at December 31, 2022. A 0.25% increase or decrease in the rate of compensation would have increased or decreased the pension benefit liability by approximately \$0.1 million as at December 31, 2022. An increase of one year in the life expectancy of plan members as at December 31, 2022 results in an increase of \$0.8 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 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 that the Company will exercise that option. Lease terms range from 1 to 20 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-value 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. The Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable, the amount of lease liabilities is increased to reflect accretion of interest and reduced for lease payments made. 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, 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.

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.

## **17. 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* 22 of the Company's audited consolidated financial statements for the year ended December 31, 2022.

## **18. RISK FACTORS**

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

### **Decline in Envelope Consumption**

Supremex' envelope manufacturing business is highly dependent upon the demand for envelopes sent through the mail. 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 global progressive reduction in the use of traditional paper-based products. Supremex' 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 in its envelope business.

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.

### **Growth and Diversification Strategy**

The Company's growth strategy involves a further diversification of its operations through a deeper penetration in the packaging industry, both organically and through acquisitions. There can be no assurance that Supremex will successfully achieve the initiatives it puts in place towards its growth and diversification strategy, and achieving its objectives may require investments which may result in short-term costs without generating incremental revenue. The Company's inability to fully realize the benefits it expects to achieve could have a material adverse effect on its business, financial condition and results of operations.

As the Company pursues acquisitions to implement its growth and diversification strategy, it is subject to risks inherent to its ability to properly evaluate the fair value of the businesses being acquired, consolidate functions, manage costs, integrate information systems, and properly devote the time and human resources required to successfully integrate and leverage their operations and activities with the Company's procedures, controls, policies, systems, culture and personnel as well as the capability to share knowledge and realize synergies, improvements and the expected profit and returns. Although the Company performs a due diligence investigation of the businesses or assets that it acquires and anticipates continuing to do so for future acquisitions, the acquired business or assets may have liabilities that the Company fails or is unable to uncover during its due diligence investigation and for which the Company, as a successor owner, may be responsible. The Company usually seeks to minimize the impact of these types of potential liabilities by obtaining indemnities and warranties from the seller, which may in some instances be supported by deferring payment of a portion of the purchase price. However, these indemnities and warranties, if obtained, may not fully cover the liabilities because of their limited scope, amount or duration, or the financial resources of the indemnitor or warrantor, or for other reasons. 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. Any failure by the Company to successfully integrate or address the risks associated with acquisitions or to take advantage of future strategic opportunities could materially adversely affect its financial position, financial performance, cash flows, business or reputation.

The successful integration of an acquired business is also subject to the risk that personnel from the acquired business and the Company may not be able to work together successfully, which could affect morale and the Company's operations. In particular, the Company may seek to require as a condition of completion of one or more acquisitions that key personnel from the acquired business enter into employment agreements for specified post-acquisition periods and/or non-competition undertakings; however, there are risks that such commitments will not be respected or that the personnel and professionals subject to same or other personnel will not be successfully integrated as productive contributors to the Company's business. In addition, all acquisitions carry the risk of the potential loss of key personnel.

### **Human Resources**

#### ***Key Personnel***

The success of the Company's business strategy is dependent upon the ability and experience of a number of key personnel who have substantial expertise with its operations and industry. Supremex' senior executives and key employees have extensive experience with the business, suppliers, products and customers. The loss of management knowledge, expertise and technical proficiency as a result of the inability to retain or replace one or more members of the core management team, including the Company's President and Chief Executive Officer, or to establish an effective succession plan, 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 the Company's business, including 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 and pursue its continued expansion, which in turn would materially adversely affect its business and financial results.

### ***Labour Shortage***

Social, demographic and economic trends observed on a global basis, including as a result of COVID-19, are making it more challenging to hire and retain personnel in most industries. Inflationary pressures, shortages, competitiveness in the labour markets where the Company operates, increased employee turnover and changes in the availability of its employees have resulted in, and could continue to result in, increased labour-related costs, which could have a material adverse effect on the Company's results and financial condition. In addition, these factors have impacted, and could continue to impact, its ability to meet consumer demand, which could negatively affect its financial condition, results, or cash flows. The failure to recruit, retain, motivate, effectively communicate with, and train and develop highly skilled and competent people at all levels of Supremex' organization could also result in shortages in the availability of appropriately skilled people at any particular levels within the organization and significantly affect its financial results.

### ***Employee Future Benefits***

The Company maintains four registered defined benefit pension plans substantially covering all of its Canadian 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. In addition, contributions to fund the Company's defined benefit plans are based on actuarial valuations, which themselves are based on assumptions and estimates about the long-term operations of the plans, including assumptions on inflation, mortality, and the discount rates used to determine the liabilities of the plans. Actual results of actuarial valuations may differ from expectations. Any increase in the Company's pension expenses or liabilities, or funding obligations would divert funds the Company would otherwise apply to other uses, and could adversely affect its business, financial condition, results from operations, and cash flows.

### ***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' 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.

### ***Raw Material***

The primary raw materials the Company uses are paper and paper-based substrates, window material, glue and ink. Fluctuations in raw material prices and availability can have a material adverse effect on the Company's operating results.

Fluctuations in raw material and energy prices affect operations. Paper costs represent a significant portion of Supremex' material costs and they have been subject to volatility due to supply and demand in the marketplace. In 2022, the cost of raw materials, including paper and other inputs, as well as energy, fuel, transportation, and logistics necessary for the production and distribution of the Company's products has rapidly increased. The Company expects the inflationary

pressures on input costs to continue to impact its business in 2023. 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. However, even if such initiatives are effective, higher prices to the Company's customers may result in decrease in sales volume or market share which can have a material adverse effect on the Company's operating results.

Fluctuations in raw material availability affect operations. In the past, the Company was able to mitigate temporary shortages of materials given its scale, buying power and long-standing relationships with suppliers. However, global supply-chain issues, which have limited the availability of containers, combined with the COVID-19 pandemic, geopolitical conditions, as well as specific paper mill challenges, including employee strikes, accidents and change in ownership have in recent years created an unprecedented shortage of paper. While shortage levels are slowly decreasing, if the Company is unable to obtain all the tons of paper it requires to produce customer orders, its operations will be affected as it will have to reduce or push-out deliveries. Similarly, the availability of suitable quality recycled board within a reasonable distance of the Company's packaging divisions is also a risk.

Any significant increase in the price of raw materials or prolonged shortage in its availability, whether due to the aforementioned reasons or other factors, could have a material adverse effect on the Company's business and results of operations.

### **Operational Disruption**

Any operational disruption at one of the Company's facilities, including the inability to meet deadlines as a result of major equipment failure, pandemic and epidemic outbreaks, armed conflicts, natural disaster, human error, supply problems, labour disputes, material labour shortages, attacks or transportation problems, could adversely impact the Company's financial results, and could result in transfer of volume from its customer to a competitor. The magnitude of the impact of these risks on results depends on certain factors, including the nature of the disruption, its duration and the facilities affected by the disrupting event.

### **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, which could affect our revenues. Although Supremex' revenues do not materially depend on any specific client, some of its largest clients provide significant contributions to its revenue. There can be no assurance that Supremex will be able to retain its relationships with its largest clients and maintain or increase its sales levels.

In addition, certain of the Company's 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. If a customer were to default on a payment obligation, the Company may be unable to collect the amounts owed, in which case some or all of such amounts would need to be written off, which could affect the Company's financial position, especially if it were to happen to one of its largest clients.

### **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.

## **Economic Cycles**

A significant risk that Supremex faces and over which it has no control is related to economic cycles. Adverse general economic conditions, such as heightened inflation and central banks' large interest rate hikes, economic downturns or increased recession fear, leading to a declining level of commercial activity, could have a negative impact on Supremex' financial condition. As an example, 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 25% 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.

As a result of events beyond the Company's control such as the COVID-19 pandemic and the conflict between Russia and Ukraine, global financial markets have experienced and may continue to experience significant volatility and weakness, energy prices have remained high and supply chain have been disrupted, leading to increased costs and supply chain delays, all of which could have an impact on the Company's results and financial condition.

## **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, which compensates for the volume of raw materials it currently purchases in U.S. dollar. However, fluctuations in exchange rates between the Canadian and the U.S. dollar may have an adverse effect on the Company's results and financial condition. Future events that may significantly increase or decrease the risk of future movement in the exchange rates for these currencies cannot be predicted.

## **Interest Rate**

The Company's borrowings under its credit facility bear floating interest rates and the Company is therefore exposed to market risks related to interest rate fluctuations and volatility. Floating-rate debt bears interest based on Canadian prime rate, the U.S. base rate, the Secured Overnight Financing Rate ("SOFR") or bankers' acceptance rates, plus an applicable margin, that ranges between 0 to 2.75%. As interest rates increase, the Company's debt service obligations on its variable rate indebtedness will increase, which could, if the Company is not able to otherwise mitigate this risk, have a material adverse effect impact the Company's financial condition.

## **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, but there is no guarantee that this tendency will persist over time, especially given the volatility of general economic conditions. As at December 31, 2022, the maximum credit risk exposure for receivables corresponds to their carrying value.

## Availability of Capital

On May 25, 2022, the Company entered into a three-year senior secured revolving credit facility of \$120 million which replaced its pre-existing and term facility (the "**Credit Facility**"). Although the Company was able to increase its credit facility, 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.

## 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. There is no guarantee that these initiatives will be sufficient to mitigate the risk. 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.

Supremex' business and operations are also subject to environmental laws and regulations, including those relating to permitting requirements, wastewater discharges, air emissions, greenhouse gases, releases of hazardous substances, and remediation of contaminated sites. The Company believes that its operations are in compliance, in all material respects, with such environmental laws and regulations, but changes in environmental laws and regulations, evolving interpretation thereof, or more vigorous regulatory enforcement policies could impose additional compliance costs, capital expenditures, as well as other financial obligations, which could have a material adverse effect on Supremex' financial position and performance.

## 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, compliance with changing laws and regulations 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. Supremex could also be threatened by, or named as a defendant in, legal proceedings alleging a breach of securities laws, including as a result of sudden variations in the price of common shares. 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.

## No Guaranty to Pay Cash Dividends

Decisions regarding dividends are within the discretion of the Board of Directors, and are influenced by a number of factors, including general business and economic conditions, Supremex' financial condition, operating results and restrictions imposed by its debt agreements, the emergence of acquisition opportunities, changes in business strategy and other factors. There is no guarantee that the current dividend policy of the Company will continue over time. Changes in, or the elimination of dividends could have an adverse effect on the price of Supremex' common shares.



## Global Health Crisis

Despite vaccine rollout in Canada, resurgences in new COVID-19 cases, including new variants, the strengthening or reintroduction of emergency measures, or a more prolonged duration to the COVID-19 pandemic, could result in increased adverse economic disruptions and financial markets volatility.

The COVID-19 outbreak could also adversely affect the Company's business, financial condition, liquidity and future results of operations due to, among other factors: 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, and increased operating and non-compensable costs for specific needs in response to COVID-19. Such adverse effects could be rapid and unexpected.

The COVID-19 pandemic and its reoccurrence may have the effect of heightening other risks and uncertainties disclosed and described above. Any future epidemic, pandemic, or other public health crisis that occurs in the future may pose similar risks to the Company.

## 19. DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

In accordance with National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings*, the Company has filed certifications signed by the President and Chief Executive Officer and the 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, 2022.

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, 2022. 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, 2022, that materially affected, or is likely to materially affect, the Company's internal control over financial reporting.

In accordance with the provisions of National Instrument 52-109, Supremex has limited the scope of its design of Supremex' disclosure controls and procedures (DC&P) and ICFR to exclude controls, policies and procedures of a business acquired not more than 365 days before December 31, 2022. The scope limitation is primarily due to the time required for Supremex' management to assess DC&P and ICFR in a manner consistent with Supremex' other operations.

The Company expects that its business acquisition of Royal Envelope will be covered by its certification in the fourth quarter of 2023.

## Additional Information

Additional information relating to the Company, including the Company's annual information form, is available on SEDAR at [www.sedar.com](http://www.sedar.com).

Consolidated Financial Statements

**Supremex Inc.**

December 31, 2022 and 2021

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, 2022 and 2021, 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, 2022 and 2021, 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 the 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 matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.



| Key audit matter   | How our audit addressed the key audit matter  |
|--|---|
| <i>Business combination</i>  |   |
| <p>On November 1, 2022, the Group acquired all of the assets of Royal Envelope Corporation. ["Royal"] for a cash consideration of \$28,266,674. As per Note 4 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 \$1,069,440 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 rate as well as the state of the acquired machinery and equipment, which led us to conclude that the valuation of intangible assets and machinery and equipment part of this business combination is a key audit matter.</p> | <p>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 when available, quotations from manufacturers and invoices for recently purchased assets. 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 growth rate 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 margin percentage, growth rate and discount rate assumptions.</p> <p>Finally, we assessed the adequacy of the Group's disclosures included in Note 4 of the accompanying consolidated financial statements in relation to this matter.</p> |

## 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<sup>1</sup>*

Montréal, Canada  
February 22, 2023

<sup>1</sup> CPA auditor, public accountancy permit no. A121006



Supremex Inc.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| As at December 31                                   |           | 2022               | 2021               |
|---|-----------|--------------------|--------------------|
|   | Notes     | \$                 | \$                 |
| <b>ASSETS</b>                                       | <b>14</b> |                    |                    |
| <b>Current assets</b>                               |           |                    |                    |
| Cash  |           | 1,928,539          | 6,364,662          |
| Accounts receivable                                 | 5         | 39,334,457         | 32,982,719         |
| Income taxes recoverable                            | 16        | 1,021,175          | —                  |
| Inventories   | 6         | 44,872,153         | 24,924,388         |
| Prepaid expenses                                    |           | 1,545,974          | 1,368,046          |
| <b>Total current assets</b>                         |           | <b>88,702,298</b>  | <b>65,639,815</b>  |
| Derivative financial instruments                    | 22        | 26,456             | —                  |
| Property, plant and equipment                       | 7         | 42,184,888         | 34,141,450         |
| Right-of-use assets                                 | 8         | 32,027,920         | 21,795,786         |
| Accrued pension benefit net assets                  | 9         | 14,678,400         | 12,440,500         |
| Intangible assets                                   | 10        | 31,698,639         | 22,899,246         |
| Goodwill  | 11        | 51,237,278         | 49,453,832         |
| <b>Total assets</b>                                 |           | <b>260,555,879</b> | <b>206,370,629</b> |
| <b>LIABILITIES AND EQUITY</b>                       |           |                    |                    |
| <b>Current liabilities</b>                          |           |                    |                    |
| Accounts payable and accrued liabilities            | 12        | 34,838,428         | 27,449,300         |
| Income taxes payable                                | 16        | 3,421,131          | 4,162,698          |
| Provisions  | 13        | 25,220             | 405,400            |
| Current portion of contingent consideration payable | 4         | 265,030            | 620,291            |
| Current portion of lease liabilities                | 15        | 4,118,931          | 4,251,766          |
| Current portion of secured credit facility          | 14        | —                  | 3,500,000          |
| <b>Total current liabilities</b>                    |           | <b>42,668,740</b>  | <b>40,389,455</b>  |
| Contingent consideration payable                    | 4         | 316,778            | 157,263            |
| Secured credit facility                             | 14        | 54,414,272         | 40,850,825         |
| Deferred tax liabilities                            | 16        | 8,566,286          | 8,361,769          |
| Lease liabilities                                   | 15        | 29,568,761         | 18,995,479         |
| Other long-term liabilities                         | 9, 17     | 702,914            | 211,300            |
| <b>Total liabilities</b>                            |           | <b>136,237,751</b> | <b>108,966,091</b> |
| <b>Total equity</b>                                 |           | <b>124,318,128</b> | <b>97,404,538</b>  |
| <b>Total liabilities and equity</b>                 |           | <b>260,555,879</b> | <b>206,370,629</b> |

Contingencies and guarantees [note 25]; Subsequent events [note 26]

See accompanying notes

On behalf of the Directors:

By: signed (Robert B. Johnston)  
Director

By: signed (Steven P. Richardson)  
Director



**Supremex Inc.**

**CONSOLIDATED STATEMENTS OF EARNINGS**

| <b>Years ended December 31</b>  | <b>Notes</b> | <b>2022<br/>\$</b> | <b>2021<br/>\$</b> |
|---|--------------|--------------------|--------------------|
| <b>Revenue</b>  |              | <b>272,467,276</b> | 226,429,947        |
| Operating expenses  | 6, 9, 18, 20 | 181,733,453        | 158,259,751        |
| Selling, general and administrative expenses                                | 9, 18, 20    | 34,978,257         | 29,292,887         |
| <b>Operating earnings before depreciation, amortization and other items</b> |              | <b>55,755,566</b>  | 38,877,309         |
| Depreciation of property, plant and equipment                               | 7            | 5,798,521          | 5,313,542          |
| Depreciation of right-of-use assets   | 8            | 4,529,462          | 4,829,664          |
| Amortization of intangible assets   | 10           | 3,761,866          | 3,381,104          |
| Asset impairment  | 13           | —                  | 2,073,631          |
| Restructuring expenses  | 13           | 1,409,740          | —                  |
| Gain on disposal of property, plant and equipment and right-of-use assets   |              | (408,277)          | —                  |
| <b>Operating earnings</b>   |              | <b>40,664,254</b>  | 23,279,368         |
| Net financing charges   | 14           | 2,571,577          | 2,226,214          |
| <b>Earnings before income taxes</b>   |              | <b>38,092,677</b>  | 21,053,154         |
| Income tax expense  | 16           | 9,656,539          | 5,300,866          |
| <b>Net earnings</b>   |              | <b>28,436,138</b>  | 15,752,288         |
| <b>Basic and diluted net earnings per share</b>                             |              | <b>1.0873</b>      | 0.5792             |
| <b>Weighted average number of shares outstanding</b>                        |              | <b>26,152,557</b>  | 27,194,848         |

*See accompanying notes*

Supremex Inc.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| Years ended December 31  | Notes    | 2022<br>\$        | 2021<br>\$        |
|--|----------|-------------------|-------------------|
| <b>Net earnings</b>  |          | <b>28,436,138</b> | <b>15,752,288</b> |
| <b>Other comprehensive income (loss)</b>   |          |                   |                   |
| <i>Other comprehensive income (loss) to be reclassified to earnings in subsequent periods</i>  |          |                   |                   |
| Unrealized gain on derivative financial instruments, net of income tax expense of \$6,850  |          | <b>19,606</b>     | —                 |
| Foreign currency translation adjustments   |          | <b>1,074,641</b>  | (66,657)          |
| Net other comprehensive income (loss) to be reclassified to earnings in subsequent periods   |          | <b>1,094,247</b>  | (66,657)          |
| <i>Items not to be reclassified to earnings in subsequent periods</i>  |          |                   |                   |
| Recognized actuarial gain on defined benefit pension plans, net of income tax expense of \$823,300 [2021 income tax expense – \$2,107,775] | <b>9</b> | <b>2,356,300</b>  | 6,031,925         |
| Recognized actuarial gain on other post-retirement benefit, net of income tax expense of \$16,779 [2021 income tax expense – \$2,331]      | <b>9</b> | <b>48,021</b>     | 6,669             |
| Net other comprehensive income not to be reclassified to earnings in subsequent periods  |          | <b>2,404,321</b>  | 6,038,594         |
| Other comprehensive income   |          | <b>3,498,568</b>  | 5,971,937         |
| <b>Total comprehensive income</b>  |          | <b>31,934,706</b> | <b>21,724,225</b> |

See accompanying notes

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

## Years ended December 31

|   | Share capital<br>\$ | Contributed<br>surplus<br>\$ | Deficit<br>\$        | Foreign currency<br>translation reserve<br>\$ | Total equity<br>\$ |
|---|---------------------|------------------------------|----------------------|---|--------------------|
| <b>As at December 31, 2020</b>                    | <b>9,497,234</b>    | <b>277,029,086</b>           | <b>(207,071,737)</b> | <b>(493,240)</b>                              | <b>78,961,343</b>  |
| Net earnings                                      | —                   | —                            | 15,752,288           | —   | 15,752,288         |
| Other comprehensive income (loss)                 | —                   | —                            | 6,038,594            | (66,657)                                      | 5,971,937          |
| Total comprehensive income (loss)                 | —                   | —                            | 21,790,882           | (66,657)                                      | 21,724,225         |
| Shares repurchased and cancelled <i>[note 17]</i> | (481,027)           | (2,800,003)                  | —                    | —   | (3,281,030)        |
| <b>As at December 31, 2021</b>                    | <b>9,016,207</b>    | <b>274,229,083</b>           | <b>(185,280,855)</b> | <b>(559,897)</b>                              | <b>97,404,538</b>  |
| Net earnings                                      | —                   | —                            | 28,436,138           | —   | 28,436,138         |
| Other comprehensive income                        | —                   | —                            | 2,404,321            | 1,094,247                                     | 3,498,568          |
| Total comprehensive income                        | —                   | —                            | 30,840,459           | 1,094,247                                     | 31,934,706         |
| Dividends declared <i>[note 19]</i>               | —                   | —                            | (3,531,138)          | —   | (3,531,138)        |
| Shares repurchased and cancelled <i>[note 17]</i> | (149,636)           | (1,340,342)                  | —                    | —   | (1,489,978)        |
| <b>As at December 31, 2022</b>                    | <b>8,866,571</b>    | <b>272,888,741</b>           | <b>(157,971,534)</b> | <b>534,350</b>                                | <b>124,318,128</b> |

See accompanying notes

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| Years ended December 31   | Notes  | 2022<br>\$          | 2021<br>\$          |
|---|--------|---------------------|---------------------|
| <b>OPERATING ACTIVITIES</b>   |        |                     |                     |
| Net earnings  |        | 28,436,138          | 15,752,288          |
| Non-cash adjustments to reconcile net earnings to net cash flows          |        |                     |                     |
| Depreciation of property, plant and equipment                             | 7      | 5,798,521           | 5,313,542           |
| Depreciation of right-of-use assets                                       | 8      | 4,529,462           | 4,829,664           |
| Amortization of intangible assets   | 10     | 3,761,866           | 3,381,104           |
| Amortization of deferred financing costs                                  | 14     | 209,956             | 169,946             |
| Asset impairment  | 13     | —                   | 2,073,631           |
| Gain on disposal of property, plant and equipment and right-of-use assets |        | (408,277)           | —                   |
| Interest on contingent consideration payable                              |        | 31,181              | 34,702              |
| Deferred income tax recovery  | 16     | (695,085)           | (1,433,257)         |
| Change in accrued pension benefit net assets                              |        | 941,700             | —                   |
| Change in other long-term liabilities                                     |        | 563,214             | 159,600             |
|   |        | 43,168,676          | 30,281,220          |
| Variations in working capital accounts                                    |        |                     |                     |
| Variation in accounts receivable  |        | 952,576             | (5,602,277)         |
| Variation in income taxes recoverable or payable                          |        | (1,762,742)         | 4,514,932           |
| Variation in inventories  |        | (14,933,703)        | (2,682,604)         |
| Variation in prepaid expenses   |        | (177,928)           | (35,775)            |
| Variation in accounts payable and accrued liabilities                     |        | 53,640              | 4,704,579           |
| Variation in provisions   | 13     | (380,180)           | (1,173,006)         |
| Change in other long-term liabilities                                     |        | (6,800)             | (11,500)            |
| <b>Net cash flows related to operating activities</b>                     |        | <b>26,913,539</b>   | <b>29,995,569</b>   |
| <b>INVESTING ACTIVITIES</b>   |        |                     |                     |
| Business combinations   | 4      | (29,171,074)        | (2,756,295)         |
| Acquisition of property, plant and equipment                              | 7      | (2,723,070)         | (3,356,409)         |
| Acquisition of intangible assets  | 10     | (372,074)           | (550,357)           |
| Proceeds from disposal of property, plant and equipment                   |        | 543,259             | 52,516              |
| <b>Net cash flows related to investing activities</b>                     |        | <b>(31,722,959)</b> | <b>(6,610,545)</b>  |
| <b>FINANCING ACTIVITIES</b>   |        |                     |                     |
| Change in revolving credit facility                                       | 14     | 11,094,000          | (8,720,855)         |
| Repayment of term facility  | 14     | (875,000)           | (3,500,000)         |
| Repayment of lease liabilities  | 15     | (4,346,616)         | (4,479,093)         |
| Dividends paid  | 19, 26 | (3,531,138)         | —                   |
| Deferred financing costs  | 14     | (365,509)           | (40,934)            |
| Purchase of share capital for cancellation                                | 17     | (1,489,978)         | (3,281,030)         |
| Payment of contingent consideration payable                               | 4      | (534,605)           | —                   |
| <b>Net cash flows related to financing activities</b>                     |        | <b>(48,846)</b>     | <b>(20,021,912)</b> |
| Net change in cash during the year  |        | (4,858,266)         | 3,363,112           |
| Net foreign exchange difference   |        | 422,143             | (34,449)            |
| Cash, beginning of year   |        | 6,364,662           | 3,035,999           |
| <b>Cash, end of year</b>  |        | <b>1,928,539</b>    | <b>6,364,662</b>    |
| <b>Supplemental information <sup>(1)</sup></b>                            |        |                     |                     |
| Interest paid   |        | 2,512,365           | 2,147,663           |
| Interest received   |        | 29,079              | 11,242              |
| Income taxes paid   |        | 12,084,679          | 2,800,831           |
| Income taxes received   |        | —                   | 623,165             |

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

See accompanying notes

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

### 1. CORPORATE INFORMATION

Supremex Inc. (the “Company” or “Supremex”) was incorporated on March 31, 2006 under the *Canada Business Corporations 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, fundraising, 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 revenue from packaging and specialty products is not subject to seasonal patterns (i.e., specialty folding cartons for large multinational customers). Only a small portion, primarily the e-commerce offering, is subject to seasonal patterns related to the holidays. As such, there is currently little to no seasonal effect from packaging and specialty products on Supremex’ total revenue.

These consolidated financial statements were approved by the Company’s Board of Directors on February 22, 2023.

### 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, except for the contingent consideration payable, the Deferred Share Unit (“DSU”) Plan and the Performance Share Unit (“PSU”) Plan liabilities and the derivative financial instruments, which are measured at fair value, provisions, which are measured based on the best estimates of the expenditures required to settle the obligation and the accrued pension benefit net assets, which are measured at the fair value of plan assets reduced by the estimated fair value of the defined benefit obligations.

#### Principles of consolidation

The consolidated financial statements comprise the financial statements of Supremex Inc. and its wholly owned subsidiaries, Supremex USA Inc., Supremex Midwest LLC, Buffalo Envelope LLC and Classic Envelope LLC.

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, revenue and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

### 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.

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. The consideration transferred also includes the fair value of any contingent consideration payable to the seller. The contingent consideration is classified as an asset or liability that is a financial instrument and within the scope of IFRS 9, *Financial Instruments*, is measured at fair value with the changes in fair value recognized in the consolidated statements of earnings.

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 statements 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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

(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 statements of earnings.

### 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.

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 statements 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 statements of financial position. Deferred tax is calculated using tax rates and laws that have been enacted or substantively

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

enacted at the end of the reporting period, and which are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

### *Deferred tax liabilities:*

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

### *Deferred tax assets:*

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

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**

Revenue, 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; and
- 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 statements of financial position.

## **Employee future benefits**

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 statements of earnings on the earlier of the date of the plan amendment or curtailment, and the date the Company recognizes pension plan restructuring related costs.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

The net asset or net liability recognized in the consolidated statements of financial position is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets and the effect of the ceiling, if any. The present value of the defined benefit obligation for service accrued at year-end is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. All actuarial gains and losses, the effect of the asset ceiling and the return on plan assets, excluding net interest, are recognized immediately in other comprehensive income (loss). For funded plans, surpluses are recognized only to the extent that the surplus is considered recoverable taking into account future contributions for unfunded liability. Recoverability is primarily based on the extent to which the Company can unilaterally reduce future contributions to the plan. The interest expense of defined benefit obligation is calculated by applying the prior year's discount rate to the beginning balance of the accrued pension benefit liability and to the year's cash inflows. It is recognized in the financing charges of the consolidated statements of earnings. All the other administrative defined benefit plan expense components are recognized in the selling, general and administrative expenses of the consolidated statements 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 | 5 to 15 years  |
| Office equipment        | 3 to 5 years   |
| Computer equipment      | 3 to 5 years   |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

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 mainly comprised of customer relationships which are amortized on a straight-line basis over 5 to 10 years. Software is amortized on a straight-line basis over 7 to 10 years.

### Impairment of non-financial assets

Impairment is recorded when the recoverable amount of an asset is less than its carrying amount. 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 CGU 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 CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

### *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 that the Company will exercise that option. Lease terms range from 1 to 20 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-value 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 or 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 CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

- 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, dividends 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. The contingent consideration payable is a financial liability measured initially at fair value at a business acquisition date then remeasured periodically at FVTPL. The DSU and PSU liabilities are measured periodically at their fair value based on the Company's share price and vested DSUs and PSUs at the end of each period while changes to the fair value are recorded in the consolidated statements of earnings.

*(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 receivable have been grouped based on shared risk characteristics and the days past due. As at December 31, 2022 and 2021, 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.

*(iv) Derivative financial instruments and hedging relationships:*

- The Company holds derivative financial instruments to hedge its interest rate risk exposures. At inception of the hedge, the Company formally documents the relationship between the hedging instrument and hedged item, including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Company makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be highly effective in offsetting the changes in the cash flows of the respective hedged items during the period for which the hedge is designated.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

- Derivative financial instruments are recognized initially at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Cash flow hedges:

- When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or highly probable anticipated transaction that could affect net earnings, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income (loss) and presented in accumulated other comprehensive income (loss) in equity. The amount recognized in other comprehensive income (loss) is transferred to net earnings in the same period as the hedged cash flows under the same line item in the consolidated statements of comprehensive income as the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in net earnings as net financing charges.
- If the hedging instrument no longer meets the criteria for hedge accounting, expires, is sold or terminated, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognized in other comprehensive income (loss) and presented in accumulated other comprehensive income (loss) in equity then remains there until the anticipated transaction affects net earnings. If it is probable that the transaction will not occur, then the balance in other comprehensive income (loss) is recognized immediately in net earnings.

### Government assistance

Government assistance, including wage subsidies, rent 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.

### 3. SIGNIFICANT JUDGMENTS 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 revenue, expenses, assets and liabilities, and the disclosure of contingent consideration payable at the end of the reporting period.

#### 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").

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

amortization or impairment charges in the future. The Company also used other estimates and assumptions related to the impairment test of goodwill [note 11].

### Employee future benefits

The Company sponsors defined benefit plans providing pension and other post-employment benefits to covered employees. The determination of expense and obligations associated with employee future benefits requires the use of assumptions such as the discount rate to measure obligations, the expected 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 [note 9]. Actual results will differ from estimated results which are based on assumptions.

### Income taxes

The Company computes an income tax provision in each of the jurisdictions in which it operates. However, actual amounts of income tax expense only become final upon filing and acceptance of the tax return by the relevant authorities, which occur subsequent to the issuance of the consolidated 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 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. The Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable, the amount of lease liabilities is increased to reflect accretion of interest and reduced for lease payments made. 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).

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

### 4. BUSINESS COMBINATIONS

#### 2022 Business Combinations

##### *Niagara Envelope Inc.*

On February 4, 2022, the Company acquired the manufacturing assets and inventory of Niagara Envelope Inc. ("Niagara"), for a cash consideration of \$904,400 (US\$708,889). Niagara is a regional envelope manufacturer based in Niagara, New York. In addition to the consideration paid, the Company has a contingent consideration payable to the previous owner on the realization of certain financial targets over a five-year period, fair valued at the acquisition date at an amount of \$363,492. The fair value of the contingent consideration payable as at December 31, 2022 is \$405,760, representing the maximum amount of the obligation. This acquisition will provide additional volume and support to two long-term strategic customers in the Western New York market.

The Company's consolidated statements of earnings include revenue from Niagara of \$2,897,424 since the acquisition date. If the acquisition had occurred on January 1, 2022, revenue for the twelve-month period ended December 31, 2022 would have been approximately \$3,205,000. The Company has not disclosed net earnings for Niagara as it is impracticable to do so given that the activities of the acquired business have been integrated into the pre-existing operations of the Company.

The goodwill related to the acquisition is composed of expected growth and operational synergies and is allocated to the envelope CGU. Goodwill deductible for tax purposes is expected to be in the amount of \$363,492 (US\$284,913).

##### *Royal Envelope Corporation*

On November 1, 2022, the Company acquired substantially all of the assets of Royal Envelope Corporation ("Royal Envelope"), for a cash consideration of \$28,266,674 (US\$20,709,703). Royal Envelope is an envelope manufacturer and lithography company located in Chicago, Illinois. This acquisition expands the Company's reach in the fragmented U.S. envelope market and gives a significant manufacturing presence in the U.S. Midwest. Royal Envelope has established itself as one of the preeminent direct mail envelope manufacturers in North America.

The Company's consolidated statements of earnings include revenue and net earnings from Royal Envelope of \$9,652,331 and \$932,852, respectively, since the acquisition date. The fair value of trade receivables acquired of \$6,729,255 (US\$4,932,124) of which no amount was considered uncollectible at the acquisition date, is included in total current assets in the table below. If the acquisition had occurred on January 1, 2022, revenue and net earnings for the full year ended December 31, 2022 would have been approximately \$53,900,000 and \$4,055,000, respectively.

The goodwill related to the acquisition is composed of expected growth and operational synergies and is allocated to the envelope CGU. Goodwill deductible for tax purposes is expected to be in the amount of \$1,069,440 (US\$783,530).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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2021 Business Combination

*Vista Graphic Communications, LLC*

On March 8, 2021, the Company acquired substantively all of the assets of Vista Graphic Communications, LLC ("Vista"), for a cash consideration of \$2,756,295 (US\$2,170,481). Vista is an Indianapolis, Indiana based provider of print and folding carton packaging. In addition to the consideration paid, the Company has a contingent consideration payable to the previous owner on the realization of certain financial targets over the first 24 months after the acquisition date, fair valued at the acquisition date at an amount of \$743,781 (US\$625,000). A first payment of the contingent consideration amount of \$534,605 (US\$419,397) took place in March 2022. A second and final payment is scheduled for March 2023. The fair value of the contingent consideration payable as at December 31, 2022 is \$176,048.

This acquisition brings the Company's manufacturing closer to its growing e-commerce customer base in the U.S. and provides it with much needed print and converting capacity to meet existing and growing demand for its packaging solutions.

The goodwill related to the acquisition is composed of expected growth and operational synergies and is allocated to the packaging CGU. Goodwill deductible for tax purposes amounted to \$368,022 (US\$289,804).



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Purchase Price Allocation

As at December 31, 2022, the Company had not finalized the allocation of the consideration paid for the Royal Envelope acquisition due to final working capital adjustments. The purchase price allocations that reflect the estimated fair value of assets acquired and liabilities assumed at the acquisition dates, using the acquisition method, are as follows:

|  | Final purchase<br>price allocation<br>Niagara<br>\$ | Preliminary<br>purchase price<br>allocation<br>Royal Envelope<br>\$ | 2022<br>Total<br>\$ | 2021<br>Final purchase<br>price allocation<br>Vista<br>\$ |
|--|---|---|---------------------|---|
| <b>Net assets acquired</b>                         |   |   |                     |   |
| Accounts receivable                                | —   | 7,304,314   | 7,304,314           | 525,251   |
| Inventories  | 585,450   | 4,428,612   | 5,014,062           | 503,417   |
| Prepaid expenses                                   | —   | —   | —                   | 18,920  |
| <b>Total current assets</b>                        | <b>585,450</b>                                      | <b>11,732,926</b>   | <b>12,318,376</b>   | <b>1,047,588</b>  |
| Property, plant and equipment                      | 318,950   | 10,652,005  | 10,970,955          | 1,115,607   |
| Right-of-use assets                                | 215,129   | 10,485,077  | 10,700,206          | 3,253,620   |
| Customer relationships                             | —   | 12,147,610  | 12,147,610          | 1,295,298   |
| Goodwill   | 363,492   | 1,069,440   | 1,432,932           | 368,022   |
| <b>Total assets</b>                                | <b>1,483,021</b>                                    | <b>46,087,058</b>   | <b>47,570,079</b>   | <b>7,080,135</b>  |
| Accounts payable and accrued liabilities           | —   | 7,335,488   | 7,335,488           | 326,439   |
| Lease liabilities                                  | 215,129   | 10,484,896  | 10,700,025          | 3,253,620   |
| <b>Net assets acquired</b>                         | <b>1,267,892</b>                                    | <b>28,266,674</b>   | <b>29,534,566</b>   | <b>3,500,076</b>  |
| Less: Contingent consideration payable             | 363,492   | —   | 363,492             | 743,781   |
| <b>Cash consideration</b>                          | <b>904,400</b>                                      | <b>28,266,674</b>   | <b>29,171,074</b>   | <b>2,756,295</b>  |
| Acquisition-related costs recognized as an expense | 30,173  | 206,746   | 236,919             | 164,831   |

## 5. ACCOUNTS RECEIVABLE

|                                       | December 31,<br>2022<br>\$ | December 31,<br>2021<br>\$ |
|---------------------------------------|----------------------------|----------------------------|
| Trade receivables                     | 39,303,419                 | 32,606,856                 |
| Less: Allowance for doubtful accounts | 545,402                    | 466,288                    |
| Net trade receivables                 | 38,758,017                 | 32,140,568                 |
| Other receivables                     | 576,440                    | 842,151                    |
|                                       | <b>39,334,457</b>          | <b>32,982,719</b>          |

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## December 31, 2022 and 2021

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

|               | December 31,<br>2022<br>\$ | December 31,<br>2021<br>\$ |
|---------------|----------------------------|----------------------------|
| Current       | 22,584,397                 | 20,105,441                 |
| 31–60 days    | 12,443,543                 | 8,417,112                  |
| 61–90 days    | 2,892,831                  | 2,801,462                  |
| 91–120 days   | 928,940                    | 676,163                    |
| Over 120 days | 453,708                    | 606,678                    |
|               | <b>39,303,419</b>          | <b>32,606,856</b>          |

## Allowance for doubtful account

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

|                                   | December 31,<br>2022<br>\$ | December 31,<br>2021<br>\$ |
|-----------------------------------|----------------------------|----------------------------|
| Balance, beginning of year        | 466,288                    | 410,809                    |
| Business combinations             | 20,316                     | —                          |
| Charge for the year               | 141,481                    | 102,695                    |
| Utilized                          | (67,702)                   | (48,596)                   |
| Unused amount reversed            | (21,561)                   | —                          |
| Impact of foreign exchange losses | 6,580                      | 1,380                      |
| <b>Balance, end of year</b>       | <b>545,402</b>             | <b>466,288</b>             |

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 creditworthiness is evaluated before credit is extended. Historically, the estimated credit losses from trade receivables have not been significant.

## 6. INVENTORIES

|                  | December 31,<br>2022<br>\$ | December 31,<br>2021<br>\$ |
|------------------|----------------------------|----------------------------|
| Raw materials    | 24,253,289                 | 10,067,382                 |
| Work in progress | 2,162,180                  | 1,641,979                  |
| Finished goods   | 18,456,684                 | 13,215,027                 |
|                  | <b>44,872,153</b>          | <b>24,924,388</b>          |

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 inventories during the year ended December 31, 2022 is \$179,854,636 [2021 – \$158,218,794].

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

## 7. PROPERTY, PLANT AND EQUIPMENT

|                                       | Land<br>\$       | Buildings<br>and leasehold<br>improvements<br>\$ | Machinery<br>and<br>equipment<br>\$ | Office and<br>computer<br>equipment<br>\$ | Total<br>\$        |
|---------------------------------------|------------------|--|-------------------------------------|---|--------------------|
| <b>Cost:</b>                          |                  |  |                                     |   |                    |
| As at December 31, 2020               | 3,578,895        | 13,045,847                                       | 70,039,318                          | 3,150,356                                 | 89,814,416         |
| Additions                             | —                | 190,682  | 2,952,319                           | 197,075                                   | 3,340,076          |
| Business combinations <i>[note 4]</i> | —                | —  | 1,109,257                           | 6,350                                     | 1,115,607          |
| Disposals                             | —                | (2,701)  | (895,961)                           | (94,143)                                  | (992,805)          |
| Impairment <i>[note 18]</i>           | —                | —  | (2,073,631)                         | —   | (2,073,631)        |
| Translation adjustment                | —                | 454  | (9,981)                             | (474)                                     | (10,001)           |
| <b>As at December 31, 2021</b>        | <b>3,578,895</b> | <b>13,234,282</b>                                | <b>71,121,321</b>                   | <b>3,259,164</b>                          | <b>91,193,662</b>  |
| Additions                             | —                | 1,534,078  | 672,539                             | 516,453                                   | 2,723,070          |
| Business combinations <i>[note 4]</i> | —                | —  | 10,882,237                          | 88,718                                    | 10,970,955         |
| Disposals                             | —                | —  | (4,312,749)                         | (20,467)                                  | (4,333,216)        |
| Translation adjustment                | —                | 21,969   | 629,298                             | 8,401                                     | 659,668            |
| <b>As at December 31, 2022</b>        | <b>3,578,895</b> | <b>14,790,329</b>                                | <b>78,992,646</b>                   | <b>3,852,269</b>                          | <b>101,214,139</b> |
| <b>Accumulated depreciation:</b>      |                  |  |                                     |   |                    |
| As at December 31, 2020               | —                | 5,968,872  | 44,067,808                          | 2,646,343                                 | 52,683,023         |
| Depreciation                          | —                | 561,979  | 4,494,292                           | 257,271                                   | 5,313,542          |
| Disposals                             | —                | (2,701)  | (842,347)                           | (94,143)                                  | (939,191)          |
| Translation adjustment                | —                | (29,238)   | 24,333                              | (257)                                     | (5,162)            |
| <b>As at December 31, 2021</b>        | <b>—</b>         | <b>6,498,912</b>                                 | <b>47,744,086</b>                   | <b>2,809,214</b>                          | <b>57,052,212</b>  |
| Depreciation                          | —                | 626,543  | 4,942,366                           | 229,612                                   | 5,798,521          |
| Disposals                             | —                | —  | (4,177,618)                         | (20,467)                                  | (4,198,085)        |
| Translation adjustment                | —                | 10,441   | 357,880                             | 8,282                                     | 376,603            |
| <b>As at December 31, 2022</b>        | <b>—</b>         | <b>7,135,896</b>                                 | <b>48,866,714</b>                   | <b>3,026,641</b>                          | <b>59,029,251</b>  |
| <b>Net book value:</b>                |                  |  |                                     |   |                    |
| As at December 31, 2021               | 3,578,895        | 6,735,370  | 23,377,235                          | 449,950                                   | 34,141,450         |
| <b>As at December 31, 2022</b>        | <b>3,578,895</b> | <b>7,654,433</b>                                 | <b>30,214,650</b>                   | <b>736,910</b>                            | <b>42,184,888</b>  |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

## 8. RIGHT-OF-USE ASSETS

|                                  | Buildings<br>\$   | Manufacturing<br>equipment<br>\$ | Office<br>equipment<br>\$ | Total<br>\$       |
|----------------------------------|-------------------|----------------------------------|---------------------------|-------------------|
| <b>Cost:</b>                     |                   |                                  |                           |                   |
| As at December 31, 2020          | 27,323,896        | 330,255                          | 50,367                    | 27,704,518        |
| Additions                        | 5,550,670         | 371,517                          | 9,428                     | 5,931,615         |
| Business combinations [note 4]   | 3,233,370         | —                                | 20,250                    | 3,253,620         |
| Disposals                        | (860,391)         | —                                | (3,084)                   | (863,475)         |
| Reassessments                    | (1,765,112)       | —                                | —                         | (1,765,112)       |
| Translation adjustment           | 40,633            | 162                              | (82)                      | 40,713            |
| <b>As at December 31, 2021</b>   | <b>33,523,066</b> | <b>701,934</b>                   | <b>76,879</b>             | <b>34,301,879</b> |
| Additions                        | 35,710            | —                                | 78,724                    | 114,434           |
| Business combinations [note 4]   | 10,687,733        | —                                | 12,473                    | 10,700,206        |
| Disposals                        | (4,194,648)       | —                                | (19,088)                  | (4,213,736)       |
| Reassessments                    | 3,412,771         | (2,797)                          | —                         | 3,409,974         |
| Translation adjustment           | 707,275           | 11,983                           | 3,126                     | 722,384           |
| <b>As at December 31, 2022</b>   | <b>44,171,907</b> | <b>711,120</b>                   | <b>152,114</b>            | <b>45,035,141</b> |
| <b>Accumulated depreciation:</b> |                   |                                  |                           |                   |
| As at December 31, 2020          | 9,445,069         | 117,870                          | 21,210                    | 9,584,149         |
| Depreciation                     | 4,656,564         | 155,643                          | 17,457                    | 4,829,664         |
| Disposals                        | (840,024)         | —                                | (2,795)                   | (842,819)         |
| Reassessments                    | (1,069,046)       | —                                | —                         | (1,069,046)       |
| Translation adjustment           | 3,904             | 169                              | 72                        | 4,145             |
| <b>As at December 31, 2021</b>   | <b>12,196,467</b> | <b>273,682</b>                   | <b>35,944</b>             | <b>12,506,093</b> |
| Depreciation                     | 4,376,819         | 126,825                          | 25,818                    | 4,529,462         |
| Disposals                        | (4,194,648)       | —                                | (16,880)                  | (4,211,528)       |
| Translation adjustment           | 179,829           | 2,215                            | 1,150                     | 183,194           |
| <b>As at December 31, 2022</b>   | <b>12,558,467</b> | <b>402,722</b>                   | <b>46,032</b>             | <b>13,007,221</b> |
| <b>Net book value:</b>           |                   |                                  |                           |                   |
| As at December 31, 2021          | 21,326,599        | 428,252                          | 40,935                    | 21,795,786        |
| <b>As at December 31, 2022</b>   | <b>31,613,440</b> | <b>308,398</b>                   | <b>106,082</b>            | <b>32,027,920</b> |

## 9. EMPLOYEE DEFINED BENEFIT PLANS

## (a) Pension plans

The Company maintains four defined benefit pension plans covering substantially all of its Canadian 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* (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 Retraite 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

The key risks pension plans are exposed to include interest rate risks, investment risks and change in the life expectancy for pensioners. Recently, the Company executed a series of transactions in order to reduce the risk profile and volatility associated with its defined benefit pension plans and further secure the Company's members' benefits.

On June 23, 2021 and September 1, 2021, the Company entered into annuity buy-out transactions with Brookfield Annuity Company and RBC Insurance to transfer \$7.0 million and \$41.5 million, respectively, of its defined benefit pension obligations. These completed transactions fully transferred and discharged the pension plan of these related obligations. Supremex was not required to make any cash contribution to complete the transactions. Those transactions led to a net settlement loss of \$49,800. Finally, effective September 28, 2021, the Company implemented a new de-risking strategy for its defined benefit plans' assets whereby 70% of assets are now invested in bonds.

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

|   | 2022<br>\$       | 2021<br>\$       |
|---|------------------|------------------|
| Defined benefit plans expense (administration expenses) | 329,100          | 212,100          |
| Defined contribution plan expense                       | 1,437,139        | 1,220,672        |
| Net settlement loss                                     | —                | 49,800           |
| <b>Pension plans expense [note 18]</b>                  | <b>1,766,239</b> | <b>1,482,572</b> |

Interest income on pension defined benefit plan obligation of \$357,900 [2021 – \$107,800] is included in the net financing charges in the consolidated statements of earnings [note 14].

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,<br>2022<br>\$ | December 31,<br>2021<br>\$ |
|--|----------------------------|----------------------------|
| <b>Change in accrued benefit obligation:</b>                   |                            |                            |
| Benefit obligation, beginning of year                          | 46,736,000                 | 105,482,300                |
| Interest cost  | 1,349,900                  | 2,149,900                  |
| Actuarial gain from change in financial assumptions            | (10,983,400)               | (7,380,600)                |
| Actuarial gain from experience                                 | (58,700)                   | (686,200)                  |
| Benefits paid  | (3,475,700)                | (4,322,900)                |
| Settlements  | —                          | (48,506,500)               |
| Benefit obligation, end of year                                | <b>33,568,100</b>          | <b>46,736,000</b>          |
| <b>Change in plan assets:</b>                                  |                            |                            |
| Fair value of plan assets, beginning of year                   | 59,176,500                 | 109,931,900                |
| Interest income on plan assets                                 | 1,707,800                  | 2,257,700                  |
| Actuarial (loss) gain  | (7,862,500)                | 72,900                     |
| Use of surplus to pay for employer defined contributions       | (970,500)                  | 5,300                      |
| Benefits paid  | (3,475,700)                | (4,322,900)                |
| Plan administration expenses                                   | (329,100)                  | (212,100)                  |
| Settlements  | —                          | (48,556,300)               |
| Fair value of plan assets, end of year                         | <b>48,246,500</b>          | <b>59,176,500</b>          |
| <b>Amount recognized as accrued pension benefit net assets</b> | <b>14,678,400</b>          | <b>12,440,500</b>          |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## December 31, 2022 and 2021

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

|                       | 2022<br>\$ | 2021<br>\$ |
|-----------------------|------------|------------|
| Total actuarial gains | 3,179,600  | 8,139,700  |

The cumulative amount of actuarial gains recognized in the consolidated statements of comprehensive income is \$10,403,300 as at December 31, 2022 [2021 – \$7,223,700].

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

|  | 2022<br>%      | 2021<br>%      |
|--|----------------|----------------|
| Discount rate for accrued benefit obligation | 5.05           | 3.00           |
| Discount rate for net pension cost           | 3.00           | 2.50           |
| Rate of compensation increase                | 2.50           | 2.50           |
| Mortality assumption <sup>1</sup>            | CPM<br>Private | CPM<br>Private |

The weighted average allocation of plan assets, excluding annuity contracts of \$5.7 million in two pension plans [2021 – \$6.6 million] as at December 31, is as follows:

|                             | 2022<br>%    | 2021<br>%    |
|-----------------------------|--------------|--------------|
| Equity securities           |              |              |
| Canadian Equity Funds       | 12.1         | 12.3         |
| US Equity Funds             | 5.4          | —            |
| Foreign Global Equity Funds | 12.6         | 18.1         |
|                             | 30.1         | 30.4         |
| Fixed income funds          |              |              |
| Canadian                    | 69.9         | 69.6         |
| <b>Total</b>                | <b>100.0</b> | <b>100.0</b> |

As at December 31, 2022, all financial instruments and investment funds are classified as Level 2 in the fair value hierarchy, including fixed income funds and \$5.7 million of annuity contracts (inputs other than quoted prices that are observable). As at December 31, 2021, all financial instruments and investment funds are classified as Level 2 in the fair value hierarchy, including fixed income funds and \$6.6 million of annuity contracts (inputs other than quoted prices that are observable).

All four of the pension plans have an investment policy with the following target asset allocation: 70% in fixed income securities and 30% in equity securities [2021 – same]. As at December 31, 2022 and 2021, the pension plans were in compliance with their investment policy allocations.

As at December 31, 2022 and 2021, there were no Supremex shares held in the Company's pension plans.

<sup>1</sup> CPM 2004 Private Sector Mortality table projected generationally using improvement scale MI-2017

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## December 31, 2022 and 2021

The average duration of the defined benefit plan obligation is 15.1 years as at December 31, 2022 [2021 — 17.6 years].

*Sensitivity analysis*

For the Company, a 0.25% increase or decrease in the discount rate would have decreased or increased the defined benefit liability by approximately \$1.4 million as at December 31, 2022. A 0.25% increase or decrease in the rate of compensation would have increased or decreased the pension benefit liability by approximately \$0.1 million as at December 31, 2022. An increase of one year in the life expectancy of plan members as at December 31, 2022 would have resulted in an increase of \$0.8 million in total projected defined benefit obligation of pension plans. The sensitivity analysis has been determined based on a method that determines the impact on the defined benefit liability of a 0.25% change in the key assumptions. There have been no changes in the methods and assumptions used to determine the sensitivity analysis from the comparative year.

## (b) Post-retirement benefits other than pension

The following table provides a reconciliation of the change in the accrued benefit obligation of the plans, which is presented under the caption other long-term liabilities in the consolidated statements of financial position.

|   | December 31,<br>2022<br>\$ | December 31,<br>2021<br>\$ |
|---|----------------------------|----------------------------|
| <b>Change in accrued benefit obligation:</b>                  |                            |                            |
| Other post-retirement benefit obligations, beginning of year  | 211,300                    | 221,000                    |
| Interest cost [note 14]                                       | 6,300                      | 5,500                      |
| Actuarial gain from change in financial assumptions           | (64,800)                   | (9,000)                    |
| Benefits paid   | (6,800)                    | (6,200)                    |
| <b>Other post-retirement benefit obligations, end of year</b> | <b>146,000</b>             | <b>211,300</b>             |

Post-retirement benefits other than pension are not funded.

The post-retirement benefits amount recognized in other comprehensive income (loss), before taxation, consists of an actuarial gain of \$64,800 [2021 — \$9,000]. The cumulative amount of actuarial losses recognized in the consolidated statements of comprehensive income is \$269,800 as at December 31, 2022 [2021 — \$334,600].

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

|   | 2022<br>% | 2021<br>% |
|---|-----------|-----------|
| <b>Weighted-average assumptions</b>         |           |           |
| Discount rate for benefit obligation        | 5.05      | 3.00      |
| Discount rate for net periodic benefit cost | 3.00      | 2.50      |

As at December 31, 2022, no coverage is provided to retirees for healthcare and dental. The average duration of the post-retirement benefits' obligation is 6.1 years as at December 31, 2022 and [2021 — 8 years].

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

## 10. INTANGIBLE ASSETS

|                                       | Customer<br>relationships<br>\$ | Non-<br>compete<br>agreements<br>\$ | Software<br>\$   | Total<br>\$        |
|---------------------------------------|---------------------------------|-------------------------------------|------------------|--------------------|
| <b>Cost:</b>                          |                                 |                                     |                  |                    |
| As at December 31, 2020               | 90,909,179                      | 755,000                             | 3,600,691        | 95,264,870         |
| Additions                             | —                               | —                                   | 550,360          | 550,360            |
| Business combinations <i>[note 4]</i> | 1,295,298                       | —                                   | —                | 1,295,298          |
| Disposals                             | (991,727)                       | (755,000)                           | —                | (1,746,727)        |
| Translation adjustment                | (12,489)                        | —                                   | —                | (12,489)           |
| <b>As at December 31, 2021</b>        | <b>91,200,261</b>               | <b>—</b>                            | <b>4,151,051</b> | <b>95,351,312</b>  |
| Additions                             | —                               | —                                   | 372,074          | 372,074            |
| Business combinations <i>[note 4]</i> | 12,147,610                      | —                                   | —                | 12,147,610         |
| Translation adjustment                | 160,780                         | —                                   | —                | 160,780            |
| <b>As at December 31, 2022</b>        | <b>103,508,651</b>              | <b>—</b>                            | <b>4,523,125</b> | <b>108,031,776</b> |
| <b>Accumulated amortization:</b>      |                                 |                                     |                  |                    |
| As at December 31, 2020               | 68,903,797                      | 755,000                             | 1,159,923        | 70,818,720         |
| Amortization                          | 2,997,779                       | —                                   | 383,325          | 3,381,104          |
| Disposals                             | (991,727)                       | (755,000)                           | —                | (1,746,727)        |
| Translation adjustment                | (1,031)                         | —                                   | —                | (1,031)            |
| <b>As at December 31, 2021</b>        | <b>70,908,818</b>               | <b>—</b>                            | <b>1,543,248</b> | <b>72,452,066</b>  |
| Amortization                          | 3,245,367                       | —                                   | 516,499          | 3,761,866          |
| Translation adjustment                | 119,205                         | —                                   | —                | 119,205            |
| <b>As at December 31, 2022</b>        | <b>74,273,390</b>               | <b>—</b>                            | <b>2,059,747</b> | <b>76,333,137</b>  |
| <b>Net book value:</b>                |                                 |                                     |                  |                    |
| As at December 31, 2021               | 20,291,443                      | —                                   | 2,607,803        | 22,899,246         |
| <b>As at December 31, 2022</b>        | <b>29,235,261</b>               | <b>—</b>                            | <b>2,463,378</b> | <b>31,698,639</b>  |

## 11. GOODWILL

|                                       | \$                |
|---------------------------------------|-------------------|
| <b>Cost:</b>                          |                   |
| As at December 31, 2020               | 49,105,826        |
| Business combinations <i>[note 4]</i> | 368,022           |
| Translation adjustment                | (20,016)          |
| <b>As at December 31, 2021</b>        | <b>49,453,832</b> |
| Business combinations <i>[note 4]</i> | 1,432,932         |
| Translation adjustment                | 350,514           |
| <b>As at December 31, 2022</b>        | <b>51,237,278</b> |



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

The net carrying amount of goodwill as at December 31, 2022 was allocated to the following significant CGUs:

|              | December 31,<br>2022<br>\$ | December 31,<br>2021<br>\$ |
|--------------|----------------------------|----------------------------|
| <b>CGUs:</b> |                            |                            |
| Envelope     | 38,278,298                 | 36,519,950                 |
| Packaging    | 12,958,980                 | 12,933,882                 |
| <b>Total</b> | <b>51,237,278</b>          | <b>49,453,832</b>          |

**Impairment test of goodwill**

The Company conducted its annual goodwill impairment test as at December 31, 2022, in accordance with their policy described in note 2. The recoverable amount of the Envelope CGU and the Packaging CGU exceeded carrying value, respectively. As a result, no goodwill impairment was recorded for these CGUs.

**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.

**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, 2022 for the 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.

*Growth or decline of revenue*

The assumptions used were based on the Company's internal annual 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 CGUs. 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 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## December 31, 2022 and 2021

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

|                                 | 2022     |           | 2021     |           |
|---------------------------------|----------|-----------|----------|-----------|
|                                 | Envelope | Packaging | Envelope | Packaging |
| Pre-tax discount rate           | 15.2%    | 14.0%     | 14.4%    | 12.9%     |
| Tax rate                        | 25.9%    | 25.9%     | 25.9%    | 25.9%     |
| 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 25.7% or the perpetual decline rate had increased to 17.9%, the recoverable amount of the Envelope CGU would have then equaled the carrying amount as at December 31, 2022.

Packaging CGU — In the most recent impairment test performed for the Packaging CGU, if the pre-tax discount rate had increased to 34.3% or the perpetual growth rate had decreased to (30.4)%, the recoverable amount of the Packaging CGU would have then equaled the carrying amount as at December 31, 2022.

**12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

|                               | December 31,<br>2022 | December 31,<br>2021 |
|-------------------------------|----------------------|----------------------|
|                               | \$                   | \$                   |
| Trade payables                | 16,288,415           | 11,494,850           |
| Accrued rebates liabilities   | 2,609,041            | 2,334,732            |
| Salaries and benefits payable | 12,993,057           | 11,099,799           |
| Other accrued liabilities     | 2,947,915            | 2,519,919            |
|                               | <b>34,838,428</b>    | <b>27,449,300</b>    |

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

**13. PROVISIONS AND IMPAIRMENT OF ASSETS**

In the third quarter of 2022, the Company approved a restructuring initiative to accelerate the move of its folding carton plant in the Town of Mount Royal, Quebec, following receipt of an early termination notice from the lessor. As a result of this initiative, the affected folding carton business was transferred to the Durabox corrugated packaging facility in Lachine, Quebec. Consequently, the Durabox business was wound down. Restructuring expenses related to these activities amounted to \$1,409,740, mainly comprised of employee-related charges, inventory write-downs and costs incurred to relocate the business.

In 2021, due to continued lagging results in its corrugated die-cut box CGU, the Company recorded an impairment expense totalling \$2,073,631 based on the fair value less cost of disposal method of these assets which was allocated to the property, plant and equipment carrying amount within the CGU [note 7].

In 2020, the Company implemented a plan to optimize costs in its Envelope CGU. As a result, the Company recognized a provision for severance relating to certain terminated employees. The balance of accrued restructuring provision in connection with this plan was settled during 2022.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## December 31, 2022 and 2021

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

|                             | December 31,<br>2022<br>\$ | December 31,<br>2021<br>\$ |
|-----------------------------|----------------------------|----------------------------|
| Balance, beginning of year  | 405,400                    | 1,578,406                  |
| Restructuring expenses      | 1,409,740                  | —                          |
| Payments                    | (1,789,920)                | (1,173,006)                |
| <b>Balance, end of year</b> | <b>25,220</b>              | <b>405,400</b>             |

## 14. SECURED CREDIT FACILITY

On May 25, 2022, the Company entered into a three-year senior secured revolving credit facility of \$120 million which replaced its pre-existing revolving and term facility. No principal repayments are required prior to maturity. The credit facility bears interest at a floating rate based on the Canadian prime rate, the U.S. base rate, the Secured Overnight Financing Rate (SOFR) or bankers' acceptance rates, plus an applicable margin that ranges between 0% and 2.75%. The agreement for this credit facility matures in May 2025. The Company may request that the agreement be extended by one year on every anniversary date. The extension is dependent upon the approval of the lenders. As at December 31, 2022, the amount outstanding on the credit facility was \$54,748,146.

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, 2022.

Amounts owed under the secured credit facility are as follows:

|   | December 31,<br>2022<br>\$ | December 31,<br>2021<br>\$ |
|---|----------------------------|----------------------------|
| Revolving facility                                  | 54,748,146                 | 18,279,146                 |
| Term facility                                       | —                          | 26,250,000                 |
| Total debt  | 54,748,146                 | 44,529,146                 |
| Deferred financing costs                            | (333,874)                  | (178,321)                  |
| Current portion                                     | —                          | (3,500,000)                |
| <b>Long-term portion of secured credit facility</b> | <b>54,414,272</b>          | <b>40,850,825</b>          |

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

|   | December 31,<br>2022<br>\$ | December 31,<br>2021<br>\$ |
|---|----------------------------|----------------------------|
| Secured credit facility, beginning of year  | 44,350,825                 | 56,442,668                 |
| Repayment of term facility                  | (875,000)                  | (3,500,000)                |
| Increase (decrease) in revolving facility   | 11,094,000                 | (8,720,855)                |
| Deferred financing costs                    | (365,509)                  | (40,934)                   |
| Amortization of deferred financing cost     | 209,956                    | 169,946                    |
| <b>Secured credit facility, end of year</b> | <b>54,414,272</b>          | <b>44,350,825</b>          |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## December 31, 2022 and 2021

As at December 31, 2022, the Company had an outstanding Canadian dollar letter of credit in the amount of \$10,000 [\$10,000 as at December 31, 2021].

The effective interest rate on the secured credit facility was 5.70% as at December 31, 2022 [2.01% as at December 31, 2021].

Net financing charges are as follows:

|   | 2022<br>\$       | 2021<br>\$       |
|---|------------------|------------------|
| Interest on secured credit facility                             | 1,719,906        | 1,228,654        |
| Interest on lease liabilities                                   | 954,005          | 887,512          |
| Net interest income on defined benefit plan net assets [note 9] | (357,900)        | (107,800)        |
| Interest on post-retirement benefits [note 9]                   | 6,300            | 5,500            |
| Other interest expense  | 39,310           | 42,402           |
| Amortization of deferred financing costs                        | 209,956          | 169,946          |
|   | <b>2,571,577</b> | <b>2,226,214</b> |

## 15. LEASE LIABILITIES

|   | December 31,<br>2022<br>\$ | December 31,<br>2021<br>\$ |
|---|----------------------------|----------------------------|
| Lease liabilities, beginning of year          | 23,247,245                 | 19,239,197                 |
| Additions                                     | 114,183                    | 5,915,282                  |
| Business combinations [note 4]                | 10,700,025                 | 3,253,620                  |
| Disposals                                     | (2,357)                    | (21,754)                   |
| Reassessments                                 | 3,409,974                  | (696,066)                  |
| Lease repayments                              | (5,300,621)                | (5,366,604)                |
| Interest expense on lease liabilities         | 954,005                    | 887,512                    |
| Translation adjustment                        | 565,238                    | 36,058                     |
|   | <b>33,687,692</b>          | <b>23,247,245</b>          |
| Less: Current portion                         | <b>4,118,931</b>           | <b>4,251,766</b>           |
| <b>Long-term portion of lease liabilities</b> | <b>29,568,761</b>          | <b>18,995,479</b>          |

The expense relating to short-term leases during the year ended December 31, 2022 was \$739,600 [2021 — \$683,055]. The expense relating to leases of low-value assets during the year ended December 31, 2022 was \$5,443 [2021 — \$13,280]. The expense relating to variable lease payments not included in the measurement of lease liabilities during the year ended December 31, 2022 was \$1,635,995 [2021 — \$1,350,705]. Total cash outflow for leases during the year ended December 31, 2022 was \$7,681,659 [2021 — \$7,413,644].

The maturity analysis of lease liabilities is disclosed in note 22.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

## 16. INCOME TAXES

## Income tax expense

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

|   | 2022<br>\$       | 2021<br>\$       |
|---|------------------|------------------|
| <b>Current income tax:</b>              |                  |                  |
| Current income tax expense              | 10,351,624       | 6,734,123        |
| <b>Deferred income tax:</b>             |                  |                  |
| Recovery of deferred income tax expense | (695,085)        | (1,433,257)      |
| <b>Income tax expense</b>               | <b>9,656,539</b> | <b>5,300,866</b> |

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

|   | 2022<br>\$     | 2021<br>\$       |
|---|----------------|------------------|
| Deferred income tax related to items imputed directly to equity during the year:    |                |                  |
| Deferred tax expense on recognized actuarial gain on defined benefit pension plans  | 823,300        | 2,107,775        |
| Deferred tax expense on recognized actuarial gain on other post-retirement benefits | 16,779         | 2,331            |
| Deferred tax expense on recognized gain on interest rate swap agreements            | 6,850          | —                |
| <b>Income tax expense recorded to other comprehensive income (loss)</b>             | <b>846,929</b> | <b>2,110,106</b> |

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

|  | 2022<br>\$       | 2021<br>\$       |
|--|------------------|------------------|
| Earnings before income taxes   | 38,092,677       | 21,053,154       |
| Income tax expense at combined federal and provincial statutory rate of 26% [2021 – 26%] | 9,863,413        | 5,451,715        |
| Adjustment of prior periods  | (74,018)         | (126,619)        |
| Income tax rate differential for U.S. subsidiaries                                       | (53,432)         | 2,282            |
| Non-deductible expenses and other  | (79,424)         | (26,512)         |
| <b>Income tax expense</b>  | <b>9,656,539</b> | <b>5,300,866</b> |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

## Deferred income tax

Deferred income tax relates to the following:

|  | Consolidated statements<br>of financial position |                      | Consolidated statements<br>of earnings |                      |
|--|--|----------------------|--|----------------------|
|  | December 31,<br>2022                             | December 31,<br>2021 | December 31,<br>2022                   | December 31,<br>2021 |
|  | \$   | \$                   | \$                                     | \$                   |
| <b>Deferred tax assets:</b>                    |  |                      |  |                      |
| Goodwill                                       | 168,065  | 356,348              | 186,336                                | 180,559              |
| Right-of-use assets and lease liabilities, net | 429,851  | 364,840              | (59,179)                               | (163,471)            |
| Non-capital losses                             | 1,519,332  | 462,336              | (1,009,844)                            | (336,681)            |
| Deferred and performance share unit plans      | 726,601  | —                    | (726,601)                              | —                    |
| Other  | 51,787   | 182,312              | 30,856                                 | 230,094              |
|  | 2,895,636  | 1,365,836            | (1,578,432)                            | (89,499)             |
| <b>Deferred tax liabilities:</b>               |  |                      |  |                      |
| Accrued pension benefit net asset              | 3,800,707  | 3,221,467            | 244,061                                | 39,947               |
| Property, plant and equipment                  | 6,667,482  | 4,980,401            | (1,634,936)                            | 717,314              |
| Intangible assets                              | 956,131  | 1,524,014            | 614,125                                | 477,734              |
| Other  | 37,602   | 1,723                | (106,597)                              | 108,763              |
|  | 11,461,922                                       | 9,727,605            | (883,347)                              | 1,343,758            |
| <b>Recovery of deferred income tax expense</b> |  |                      | 695,085                                | 1,433,257            |
| <b>Net deferred tax liabilities</b>            | <b>8,566,286</b>                                 | <b>8,361,769</b>     |  |                      |

## Reconciliation of net deferred tax liabilities

|  | 2022<br>\$         | 2021<br>\$         |
|--|--------------------|--------------------|
| Balance, beginning of year   | (8,361,769)        | (7,689,813)        |
| Tax recovery during the year recognized in the consolidated statements of earnings | 695,085            | 1,433,257          |
| Tax expense recognized in other comprehensive income (loss)                        | (846,929)          | (2,110,106)        |
| Translation adjustment on net deferred tax   | (52,673)           | 2,217              |
| Other  | —                  | 2,676              |
| <b>Balance, end of year</b>  | <b>(8,566,286)</b> | <b>(8,361,769)</b> |

## 17. 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## December 31, 2022 and 2021

The change in share capital was as follows:

|  | Number of<br>common<br>shares | Share<br>capital<br>\$ |
|--|-------------------------------|------------------------|
| Balance, as at December 31, 2020           | 27,824,769                    | 9,497,234              |
| Purchase of share capital for cancellation | (1,409,300)                   | (481,027)              |
| <b>Balance, as at December 31, 2021</b>    | <b>26,415,469</b>             | <b>9,016,207</b>       |
| Purchase of share capital for cancellation | (438,400)                     | (149,636)              |
| <b>Balance, as at December 31, 2022</b>    | <b>25,977,069</b>             | <b>8,866,571</b>       |

On August 29, 2022, 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 1,301,713 of its common shares, representing approximately 5.0% of its 26,034,269 issued and outstanding common shares as at August 18, 2022, for a period of 12 months, beginning on August 31, 2022.

During the year ended December 31, 2022, the Company repurchased 438,400 [2021 — 1,409,300] common shares for cancellation through the NCIB in consideration of \$1,489,978 [2021 — \$3,281,030]. The excess of the purchase price over the carrying value in the amount of \$1,340,342 [2021 — \$2,800,003] was recorded as a reduction of contributed surplus.

#### Deferred Share Unit (DSU) Plan

In 2015, the Company adopted a DSU Plan for its members of the Board of Directors and senior executives. The DSU Plan enables its participants to receive compensation in cash at the termination date equal to the market price of the Company'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.

As at December 31, 2022, the financial liability resulting from the DSU Plan of \$2,749,467 [December 31, 2021 — \$1,086,300] is presented under Accounts payable and accrued liabilities.

During the twelve-month period ended December 31, 2022, an amount of \$126,065 [2021 — \$145,214] of variable executive compensation was allocated in DSUs and an amount of \$40,368 [2021 — nil] was paid out. The net compensation expense for the DSU Plan amounted to \$1,577,471 [2021 — \$369,445] during the year ended December 31, 2022 and is recognized under Selling, general and administrative expenses.

#### Performance Share Unit (PSU) Plan

In February 2022, the Company adopted a PSU Plan for its executive officers. Under the PSU Plan, participants are entitled to receive an amount equivalent to the quoted price of the Company's common shares at the end of a three-year performance cycle for each vested PSU if pre-determined performance objectives are achieved. PSUs are expensed on an earned basis over the three-year performance cycle and their value is determined based on their underlying shares. All issued and outstanding PSUs are measured at each reporting period.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## December 31, 2022 and 2021

As at December 31, 2022, the financial liability resulting from the PSU Plan of \$556,914 [December 31, 2021 – nil] is presented under Other long-term liabilities. During the twelve-month period ended December 31, 2022, the net compensation expense for the PSU Plan amounted to \$556,914 [2021 – nil] and is recognized under Selling, general and administrative expenses.

## 18. OPERATING AND SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

|                                       | 2022               | 2021               |
|---------------------------------------|--------------------|--------------------|
|                                       | \$                 | \$                 |
| Wages and salaries <i>[note 20]</i>   | 63,751,857         | 56,429,712         |
| Social security costs                 | 8,933,257          | 8,421,633          |
| Pension plans expense <i>[note 9]</i> | 1,766,239          | 1,482,572          |
| Employee benefits expenses            | 74,451,353         | 66,333,917         |
| Raw materials and other purchases     | 109,104,779        | 92,914,002         |
| General manufacturing costs           | 14,020,820         | 12,795,311         |
| Distribution costs                    | 11,265,224         | 9,234,119          |
| Other                                 | 7,869,534          | 6,275,289          |
|                                       | <b>216,711,710</b> | <b>187,552,638</b> |

## 19. DIVIDENDS

Dividends declared from January 1, 2022 to December 31, 2022 were as follows:

| Declaration date  | Record date       | Payment date       | Per share | Dividend         |
|-------------------|-------------------|--------------------|-----------|------------------|
|                   |                   |                    | \$        | \$               |
| January 5, 2022   | January 31, 2022  | February 15, 2022  | 0.025     | 658,912          |
| February 23, 2022 | March 24, 2022    | April 8, 2022      | 0.025     | 658,494          |
| May 11, 2022      | June 9, 2022      | June 27, 2022      | 0.025     | 654,034          |
| August 10, 2022   | September 8, 2022 | September 23, 2022 | 0.030     | 780,386          |
| November 10, 2022 | December 8, 2022  | December 23, 2022  | 0.030     | 779,312          |
| <b>Total</b>      |                   |                    |           | <b>3,531,138</b> |

There were no dividends declared from January 1, 2021 to December 31, 2021.

## 20. GOVERNMENT ASSISTANCE

During 2022, the Company did not record any amount of subsidies. During 2021, the Company recorded subsidies in the amount of \$1,805,407 under the Canada Emergency Wage Subsidy (CEWS) program. Of this amount, \$1,222,441 was allocated against operating expenses while \$582,966 was allocated against selling, general and administrative expenses. In 2021, the Company also recorded subsidies in the amount of \$318,234 under the Canada Emergency Rent Subsidy (CERS) program. This amount was allocated against operating expenses.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

## 21. RELATED PARTY TRANSACTIONS

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

|                              | 2022<br>\$       | 2021<br>\$       |
|------------------------------|------------------|------------------|
| Short-term employee benefits | 5,083,229        | 2,769,184        |
| Post-employment benefits     | 112,324          | 95,022           |
|                              | <b>5,195,553</b> | <b>2,864,206</b> |

## 22. FINANCIAL INSTRUMENTS

## Financial assets and liabilities

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

|  | Assets at<br>amortized<br>cost<br>\$ | Derivative<br>at fair<br>value<br>\$ | Liabilities at<br>amortized<br>cost<br>\$ | Liabilities<br>at fair value<br>through<br>profit or<br>loss<br>\$ | Total<br>\$         |
|--|--------------------------------------|--------------------------------------|---|--|---------------------|
| Cash   | 1,928,539                            | —                                    | —   | —  | 1,928,539           |
| Accounts receivable  | 39,334,457                           | —                                    | —   | —  | 39,334,457          |
| Derivative financial instruments   | —                                    | 26,456                               | —   | —  | 26,456              |
| Accounts payable and accrued<br>liabilities excluding sales tax<br>payable and DSU liability | —                                    | —                                    | (31,230,001)                              | —  | (31,230,001)        |
| Provisions   | —                                    | —                                    | (25,220)                                  | —  | (25,220)            |
| DSU liability  | —                                    | —                                    | —   | (2,749,467)  | (2,749,467)         |
| Secured credit facility  | —                                    | —                                    | (54,748,146)                              | —  | (54,748,146)        |
| PSU liability  | —                                    | —                                    | —   | (556,914)  | (556,914)           |
| Contingent consideration<br>payable  | —                                    | —                                    | —   | (581,808)  | (581,808)           |
| <b>Total</b>   | <b>41,262,996</b>                    | <b>26,456</b>                        | <b>(86,003,367)</b>                       | <b>(3,888,189)</b>   | <b>(48,602,104)</b> |

  

|  | Assets at<br>amortized cost<br>\$ | Liabilities at<br>amortized<br>cost<br>\$ | Liabilities at<br>fair value<br>through profit<br>or loss<br>\$ | Total<br>\$         |
|--|-----------------------------------|---|---|---------------------|
| Cash   | 6,364,662                         | —   | —   | 6,364,662           |
| Accounts receivable  | 32,982,719                        | —   | —   | 32,982,719          |
| Accounts payable and accrued<br>liabilities excluding sales tax<br>payable and DSU liability | —                                 | (25,439,710)                              | —   | (25,439,710)        |
| Provisions   | —                                 | (405,400)                                 | —   | (405,400)           |
| DSU liability  | —                                 | —   | (1,086,300)   | (1,086,300)         |
| Secured credit facility  | —                                 | (44,529,146)                              | —   | (44,529,146)        |
| Contingent consideration payable   | —                                 | —   | (777,554)   | (777,554)           |
| <b>Total</b>   | <b>39,347,381</b>                 | <b>(70,374,256)</b>                       | <b>(1,863,854)</b>  | <b>(32,890,729)</b> |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

### Fair values

The carrying amount of accounts receivable and accounts payable and accrued liabilities approximates their fair value given their short-term nature. The carrying amount of secured credit facility approximates its fair value given it carries a floating interest rate.

For the senior secured revolving 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.

For the contingent consideration payable, the Company categorizes the fair value measurement as Level 3, as it is primarily derived from unobservable inputs upon the realization of certain financial targets over a certain period after the acquisition date.

### 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 revenue, 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. 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, 2022 and 2021, total trade accounts receivable over 90 days past due amounted to less than 4% [2021 — less than 4%] [note 5] of total trade receivables. The Company does not hold collateral as a security. As at December 31, 2022, 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 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. It also is continuously seeking cost savings opportunities and manages its capacity to respond to demand fluctuations including workplace reductions if needed.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## December 31, 2022 and 2021

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, 2022   | Less than<br>1 year<br>\$ | 1 to 5 years<br>\$ | More than<br>5 years<br>\$ | Total<br>\$        |
|---|---------------------------|--------------------|----------------------------|--------------------|
| Accounts payable and accrued liabilities<br>excluding sales tax payable | 33,979,468                | —                  | —                          | 33,979,468         |
| Provisions  | 25,220                    | —                  | —                          | 25,220             |
| Secured credit facility   | —                         | 54,748,146         | —                          | 54,748,146         |
| Contingent consideration payable  | 265,030                   | 316,778            | —                          | 581,808            |
| Lease liabilities   | 5,500,815                 | 15,155,928         | 23,992,708                 | 44,649,451         |
|   | <b>39,770,533</b>         | <b>70,220,852</b>  | <b>23,992,708</b>          | <b>133,984,093</b> |

  

| December 31, 2021   | Less than<br>1 year<br>\$ | 1 to 5 years<br>\$ | More than<br>5 years<br>\$ | Total<br>\$       |
|---|---------------------------|--------------------|----------------------------|-------------------|
| Accounts payable and accrued liabilities<br>excluding sales tax payable | 26,526,010                | —                  | —                          | 26,526,010        |
| Provisions  | 405,400                   | —                  | —                          | 405,400           |
| Secured credit facility   | 3,500,000                 | 41,029,146         | —                          | 44,529,146        |
| Contingent consideration payable  | —                         | 777,554            | —                          | 777,554           |
| Lease liabilities   | 5,048,056                 | 12,927,717         | 8,558,697                  | 26,534,470        |
|   | <b>35,479,466</b>         | <b>54,734,417</b>  | <b>8,558,697</b>           | <b>98,772,580</b> |

**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 earnings the Company derives from cash.

The Company has entered into an interest rate swap agreement covering \$8.0 million of its outstanding credit facility at a fixed rate of 3.94% plus a stamping fee of 1.25% for a period of three years ending in December 2025. This derivative instrument was designated as an eligible hedging instrument for accounting purposes. The fair value of this financial instrument is presented in accumulated other comprehensive income (loss) in equity. Unrealized gains on this interest rate swap agreement amounted to \$26,456 as at December 31, 2022 [2021 — nil].

The Company invests, when applicable, its cash in highly liquid investment instruments to safeguard its capital while generating a reasonable return.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## December 31, 2022 and 2021

On December 31, 2022, a 25 basis-point rise or fall in interest rates, assuming all other variables remained unchanged, would have resulted, respectively, in a \$262,344 decrease or increase in the Company's net earnings for the year ended December 31, 2022 [2021 — \$299,805].

*Foreign exchange risk*

The Company is exposed to fluctuations in U.S. exchange rates because a portion of its activities are conducted in the U.S. 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, 2022, net financial assets of the Company in Canadian dollars, denominated in U.S. dollars, totalled \$10,490,292 [2021 — \$12,943,595].

On December 31, 2022, 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 \$524,515 decrease or increase in the Company's net earnings for the year then ended [2021 — \$647,180], whereas other comprehensive income (loss) would have decreased or increased by \$946,813 [2021 — \$246,136].

**23. CAPITAL MANAGEMENT**

The Company's capital consists of equity and the 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,<br>2022<br>\$ | December 31,<br>2021<br>\$ |
|-------------------------|----------------------------|----------------------------|
| Secured credit facility | 54,414,272                 | 44,350,825                 |
| Cash                    | (1,928,539)                | (6,364,662)                |
| Net debt                | 52,485,733                 | 37,986,163                 |
| Equity                  | 124,318,128                | 97,404,538                 |

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 CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

## 24. 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 tables provide the segmented Adjusted EBITDA before Corporate and other non-allocated expenses:

|  |                   |                                      | 2022<br>\$        |
|--|-------------------|--------------------------------------|-------------------|
|  | Envelope          | Packaging<br>& Specialty<br>Products | Total             |
| Revenue  | 200,318,303       | 72,148,973                           | 272,467,276       |
| Operating expenses                                     | 132,920,132       | 49,430,014                           | 182,350,146       |
| Selling, general and administrative expenses           | 17,454,389        | 7,532,070                            | 24,986,459        |
| <b>Segmented Adjusted EBITDA<sup>(1)</sup></b>         | <b>49,943,782</b> | <b>15,186,889</b>                    | <b>65,130,671</b> |
| Corporate and other non-allocated expenses             |                   |                                      | 8,289,814         |
| Depreciation of property, plant and equipment [note 7] |                   |                                      | 5,798,521         |
| Depreciation of right-of-use assets [note 8]           |                   |                                      | 4,529,462         |
| Amortization of intangible assets [note 10]            |                   |                                      | 3,761,866         |
| Inventory revaluation related to business acquisitions |                   |                                      | 126,936           |
| Acquisition costs [note 4]                             |                   |                                      | 550,078           |
| Restructuring expenses [note 13]                       |                   |                                      | 1,409,740         |
| Net financing charges [note 14]                        |                   |                                      | 2,571,577         |
| <b>Earnings before income taxes</b>                    |                   |                                      | <b>38,092,677</b> |

<sup>(1)</sup> The Chief Executive Officer uses adjusted earnings before interest, taxes, depreciation and amortization ("Adjusted EBITDA"), as a measure of financial performance for assessing the performance of each of the Company's segments. Adjusted EBITDA equals EBITDA adjusted to remove items of significance that are not in the normal course of operations and corporate and other non-allocated expenses. These items of significance include, but are not limited to, charges for impairment of assets, restructuring expenses, value adjustment on inventory acquired and acquisition costs.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

|   |                   |                                      | 2021<br>\$        |
|---|-------------------|--------------------------------------|-------------------|
|   | Envelope          | Packaging<br>& Specialty<br>Products | Total             |
| Revenue   | 157,194,765       | 69,235,182                           | 226,429,947       |
| Operating expenses  | 113,287,667       | 47,594,088                           | 160,881,755       |
| Selling, general and administrative expenses  | 15,422,270        | 8,016,009                            | 23,438,279        |
| <b>Segmented Adjusted EBITDA<sup>(1)</sup></b>  | <b>28,484,828</b> | <b>13,625,085</b>                    | <b>42,109,913</b> |
| Corporate and other non-allocated expenses, net of<br>CEWS <sup>(2)</sup> and CERS <sup>(3)</sup> |                   |                                      | 3,067,773         |
| Depreciation of property, plant and equipment <i>[note 7]</i>                                     |                   |                                      | 5,313,542         |
| Depreciation of right-of-use assets <i>[note 8]</i>   |                   |                                      | 4,829,664         |
| Amortization of intangible assets <i>[note 10]</i>  |                   |                                      | 3,381,104         |
| Acquisition costs <i>[note 4]</i>   |                   |                                      | 164,831           |
| Asset impairment <i>[note 13]</i>   |                   |                                      | 2,073,631         |
| Net financing charges <i>[note 14]</i>  |                   |                                      | 2,226,214         |
| <b>Earnings before income taxes</b>   |                   |                                      | <b>21,053,154</b> |

<sup>(1)</sup> The Chief Executive Officer uses adjusted earnings before interest, taxes, depreciation and amortization ("Adjusted EBITDA"), as a measure of financial performance for assessing the performance of each of the Company's segments. Adjusted EBITDA equals EBITDA adjusted to remove items of significance that are not in the normal course of operations and corporate and other non-allocated expenses, net of CEWS and CERS. These items of significance include, but are not limited to, charges for impairment of assets, restructuring expenses, value adjustment on inventory acquired and acquisition costs.

<sup>(2)</sup> Canada Emergency Wage Subsidy program ("CEWS")

<sup>(3)</sup> Canada Emergency Rent Subsidy program ("CERS")

The Company's non-current assets amounted to \$115,908,885 in Canada and \$55,944,696 in the U.S. as at December 31, 2022 [\$118,429,995 and \$22,300,819, respectively, as at December 31, 2021]. The Company's revenue amounted to \$155,213,221 in Canada and \$117,254,155 in the U.S. for the twelve-month period ended December 31, 2022 based on the customer's locations [2021 - \$138,667,615, in Canada and \$87,762,332 in the U.S].

## 25. 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, 2022, has not recorded any liability associated with these indemnifications.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

### 26. SUBSEQUENT EVENTS

#### Business combination

On January 16, 2023, the Company concluded the acquisition of the shares of Impression Paragraph Inc., an integrated provider of paper-based packaging, print and point of sale products for a broad range of commercial markets, based in St-Laurent and Saint-Hyacinthe, Quebec, for a total closing cash consideration of approximately \$28,100,000 on a cash-free and debt-free basis, including an estimated working capital adjustment of \$1,500,000. The acquisition was financed through the Company's existing credit facility and the total consideration amount is subject to customary adjustments. The preliminary purchase price allocation will be prepared once information on the fair values of assets acquired and liabilities assumed is readily available.

#### Dividend declaration

On February 22, 2023, the Board of Directors declared a quarterly dividend of \$0.035 per common share, payable on April 7, 2023, to the shareholders of record at the close of business on March 23, 2023. This dividend is designated as an "eligible" dividend for the purpose of the *Income Tax Act* (Canada) and any similar provincial legislation.