Supremex

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
FOR THE THREE AND TWELVE-MONTH PERIODS ENDED DECEMBER 31, 2013

The following management's discussion and analysis of financial condition and results of operations ("MD&A"), dated February 19, 2014, of Supremex Inc. (the "Company") should be read together with the accompanying audited consolidated financial statements and related notes of the Company for the year ended December 31, 2013. These consolidated financial statements of the Company have been prepared by management in accordance with International Financial Reporting Standards ("IFRS"). The fiscal year of the Company ends on December 31. The Company's reporting currency is the Canadian dollar. Per share amounts are calculated using the weighted average number of shares outstanding for the three and twelve-month periods ended December 31, 2013.

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

Overview

Supremex is Canada's leading manufacturer and marketer of a broad range of stock and custom envelopes and related products. Supremex employs approximately 525 people and is the only national envelope manufacturer in Canada, with seven manufacturing facilities across six provinces. This national presence allows Supremex to meet the manufacturing needs of large national customers, such as large Canadian corporations, nationwide resellers and government bodies, as well as paper merchants and solution and process providers.

2013 Highlights and Overall Performance

Revenue in the fourth quarter of 2013 amounted to $33.6 million compared with $33.7 million in the fourth quarter of 2012 and to $129.0 million in the 2013 year compared to $131.9 million in the comparative year. This decrease is mainly attributable to a reduction of volume sold.

EBITDA in the fourth quarter of 2013 amounted to $6.7 million compared with $7.1 million in the fourth quarter of 2012 (restated – see note 4 of the audited consolidated financial statements for the year ended December 31, 2013). In the 2013 year, EBITDA amounted to $25.1 million, without taking into account the gain of $2.8 million resulting from the 2013 defined benefit pension plan amendments, compared to $24.6 million (restated – see note 4 of the audited consolidated financial statements for the year ended December 31, 2013) in the comparative year. The increase in EBITDA is mainly attributable to the cost reduction initiatives implemented in 2012.

Net earnings in the fourth quarter of 2013 amounted to $2.7 million compared with $3.0 million in the fourth quarter of 2012 (restated – see note 4 of the audited consolidated financial statements for the year ended December 31, 2013). In the 2013 year, net earnings amounted to $11.5 million, compared to a net loss of $19.6 million (restated – see note 4 of the audited consolidated financial statements for the year ended December 31, 2013) in the comparative year. The increase in net earnings is mainly attributable to the 2012 goodwill impairment of $28.9 million.

Earnings per share amounted to $0.09 in the fourth quarter of 2013 compared to $0.10 in the comparative period of 2012 and to $0.40 for the year ended December 31, 2013 compared to a loss per share of $0.67 in the comparative year (restated – see note 4 of the audited consolidated financial statements for the year ended December 31, 2013). The increase in earnings per share for the 2013 year is mainly attributable to the impairment of goodwill recorded in 2012.

In November 2013, the Board of Directors declared a quarterly dividend of $0.04 per share, up by 33.3% from the dividend declared last year following the 2012 fourth quarter results.

During the year 2013, the Company has repaid a total amount of $12 million on its secured credit facilities.

The financial position of the pension plan has benefited from an impressive turnaround.

Key Factors Affecting the Business

The Company’s operating results and financial condition are subject to a number of risks and uncertainties, and are affected by a number of factors outside management’s control. See “Risk Factors” for a discussion of these risks.

Summary of Quarterly Results

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

The following table presents a summary of operating results of the Company on a quarterly basis from January 1, 2012 to December 31, 2013.

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

	Dec. 31, 2013	Sept. 30 2013	June 30, 2013	Mar. 31, 2013	Dec. 31, 2012 (2)	Sept. 30 2012 (2)	June 30, 2012 (2)	Mar. 31, 2012 (2)
	$	**$**	$	$	$	$	$	$
Revenue	**33,583**	29,776	31,941	33,666	33,737	30,703	31,831	35,604
EBITDA (1)	**6,714**	5,370	6,130	9,765	7,094	6,089	5,122	6,303
Earnings (loss) before income taxes	**3,548**	2,166	3,307	6,423	3,873	(25,973)	1,590	3,444
Net earnings (loss)	**2,737**	1,577	2,462	4,755	2,981	(26,271)	1,161	2,484
Net earnings (loss) per share	**0.10**	0.05	0.09	0.16	0.10	(0.90)	0.04	0.09

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

(2) Restated following the transition to the new accounting standard IAS 19 *Employee Benefits* as described in note 4 to the Company's audited consolidated financial statements for the year ended December 31, 2013.

Excluding the last quarters of 2012 and 2013 and seasonal patterns of the business, revenue has decreased over the previous six quarters mainly due to the decrease in volume sold in Canada following a general decline in the envelope market and the relative strength of the Canadian dollar. The third quarter of 2012 loss is attributable to the recording of goodwill impairment of $28.9 million considering the higher than expected future decline in North America's envelope industry.

Selected Consolidated Financial Information

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

	Three-month periods ended December 31,			Twelve-month periods ended December 31,		
	2013	**2012 (2)**	**2011**	**2013**	**2012 (2)**	**2011**
	$	**$**	**$**	**$**	**$**	**$**
Revenue	**33,583**	33,737	36,699	**128,966**	131,875	143,892
Operating expenses	**22,707**	22,258	24,441	**85,471**	90,359	97,298
Selling, general and administrative expenses	**4,162**	4,385	4,826	**15,516**	16,909	18,145
EBITDA (1)	**6,714**	7,094	7,432	**27,979**	24,607	28,449
Amortization of property, plant and equipment	**875**	916	853	**3,575**	3,499	4,398
Amortization of intangible assets	**1,541**	1,541	1,541	**6,164**	6,164	6,164
Loss (gain) on disposal of property, plant and equipment	**15**	—	86	**(58)**	(18)	400
Impairment of goodwill	**—**	—	—	**—**	28,862	**—**
Operating earnings (loss)	**4,283**	4,637	4,952	**18,298**	(13,900)	17,487
Financing charges	**735**	764	992	**2,854**	3,167	5,975
Earnings (loss) before income taxes	**3,548**	3,873	3,960	**15,444**	(17,067)	11,512
Income taxes expenses	**811**	892	1,010	**3,913**	2,578	3,197
Net earnings (loss)	**2,737**	2,981	2,950	**11,531**	(19,645)	8,315
Basic and diluted net earnings (loss) per share	**0.09**	0.10	0.10	**0.40**	(0.67)	0.28
Dividend declared per share	**0.04**	0.03	0.03	**0.13**	0.12	0.09
Total assets	**126,754**	129,565	166,841	**126,754**	129,565	166,841
Secured credit facilities	**38,000**	50,000	54,177	**38,000**	50,000	54,177

(1) See "Definition of EBITDA."

(2) Restated following the transition to the new accounting standard IAS 19 *Employee Benefits* as described in note 4 to the Company's audited consolidated financial statements for the year ended December 31, 2013.

Results of Operations

Three-month period ended December 31, 2013 compared with three-month period ended December 31, 2012

Revenue

Revenue for the three-month period ended December 31, 2013 amounted to $33.6 million compared with $33.7 million for the three-month period ended December 31, 2012, a decrease of $0.1 million or 0.5%. The decrease in revenue was mainly attributable to the impact of the decrease of volume sold in Canada and in the United States, offset by a favorable sales mix resulting in an increase in the overall selling price in the United States.

Revenue in Canada decreased by $0.3 million or 1.1%, from $30.9 million to $30.6 million, while revenue in the United States increased by $0.2 million or 6.8%, from $2.8 million to $3.0 million.

The decrease in revenue in Canada was driven by a 5.1% decrease in the number of units sold partially offset by an improvement of the average selling price due to the change in the product mix. The decrease in the number of units sold was mainly in the public sector market.

The increase in revenue in the United States was driven by a 5.2% increase in the overall selling price offset by a reduction of volume sold, mainly attributable to the direct mail market.

Operating expenses

Operating expenses for the three-month period ended December 31, 2013 amounted to $22.7 million compared with $22.3 million for the same period in 2012, an increase of $0.4 million or 2.0%. This increase is mainly explained by the impact of the weakening of the Canadian dollar. As a consequence, there has been a margin erosion causing a gross profit decrease compared with the comparable period of 2012.

Selling, general and administrative expenses

Selling, general and administrative expenses totalled $4.2 million for the three-month period ended December 31, 2013 compared with $4.4 million for the same period in 2012, a decrease of $0.2 million or 5.1%. The decrease is mainly attributable to reduced compensation costs.

EBITDA

As a result of the changes described above, EBITDA stood at $6.7 million for the three-month period ended December 31, 2013 compared with $7.1 million for the same period in 2012, a decrease of $0.4 million or 5.4%.

Amortization

Aggregate amortization expense for the three-month period ended December 31, 2013 amounted to $2.4 million compared with $2.5 million for the comparable period of 2012 representing a decrease of $0.1 million or 1.7%.

Financing charges

Financing charges for the three-month period ended December 31, 2013 amounted to $0.7 million compared with $0.8 million for the same period in 2012, resulting mainly from the impact of the reduced level of debt in 2013 offset by a lower gain on valuation of derivative financial instrument.

Earnings before income taxes

Due to the changes in revenue and expenses described herein, the earnings before income taxes totalled $3.5 million for the three-month period ended December 31, 2013 compared with $3.9 million for the same period in 2012, a decrease of $0.4 million or 8.4%.

Provision for income taxes

During the three-month period ended December 31, 2013, the Company recorded a provision for income taxes of $0.8 million compared with $0.9 million for the three-month period ended December 31, 2012, a decrease of $0.1 million or 9.1%. The decrease is mainly attributable to lower earnings in 2013.

Net earnings

As a result of the changes described above, net earnings amounted to $2.7 million for the three-month period ended December 31, 2013 compared with $3.0 million for the same period in 2012, a decrease of $0.3 million or 8.2%.

Other comprehensive loss

The increase of the discount rate for accrued plan benefit obligation and better than expected return on assets have generated net actuarial gain of $12.7 million. This variation impacted the Company's other comprehensive income and deficit.

Twelve-month period ended December 31, 2013 compared with twelve-month period ended December 31, 2012

Revenue

Revenue for the year ended December 31, 2013 amounted to $129.0 million compared with $131.9 million for the year ended December 31, 2012, a decrease of $2.9 million or 2.2%. The decrease in revenue was mainly attributable to the lower number of units sold in Canada partially offset by the increased number of units sold in the United States.

Revenue in Canada decreased by $3.5 million or 3.0%, from $120.3 million to $116.8 million, while revenue in the United States increased by $0.6 million or 5.9%, from $11.6 million to $12.2 million.

The decrease in revenue in Canada was driven by a 4.9% decrease in the number of units sold partially offset by an increase in average selling price. The forms resellers, corporate and direct mail markets negatively affected the volume sold in 2013.

The increase in revenue in the United States was driven by a 12.1% increase in the number of units sold offset by a deterioration of the average selling price. The increase in the number of units sold comes mainly from the corporate market but was slightly offset by decline in the direct mail market.

Operating expenses

Operating expenses for the year ended December 31, 2013 amounted to $85.5 million compared with $90.4 million for the same period in 2012, a decrease of $4.9 million or 5.4%. The decrease was mainly attributable to the non-cash gain of $2.1 million that resulted from the defined benefits pension plan amendments, which consisted of reducing early retirement and bridging benefits that became effective January 1, 2013. Furthermore, other cost reduction initiatives implemented in 2012 improved the 2013 cost structure.

Gross profit increased in 2013 compared with 2012 mainly resulting from the gain on the defined benefits pension plans amendments. By excluding this gain, the gross profit remained relatively stable.

Selling, general and administrative expenses

Selling, general and administrative expenses totalled $15.5 million for the year ended December 31, 2013 compared with $16.9 million for the same period in 2012, a decrease of $1.4 million or 8.2%. The decrease was mainly attributable to decreased compensation including the non-cash impact of the defined benefits pension plan amendments of $0.7 million effective January 1, 2013 reducing early retirement and bridging benefits, the effect of conversion, for future service, of the defined benefit plans into defined contributions plans of $0.2 million and non-recurring expenses incurred in 2012.

EBITDA

As a result of the changes described above, EBITDA was $28.0 million for the year ended December 31, 2013 compared with $24.6 million for the same period in 2012, an increase of $3.4 million or 13.7%.

Amortization

Aggregate amortization expense for the year ended December 31, 2013 remained stable at $9.7 million.

Impairment of goodwill

No goodwill impairment was recorded in 2013. An impairment of goodwill charge has been recorded in the year ended December 31, 2012 in the amount of $28.9 million.

Financing charges

Financing charges for the year ended December 31, 2013 amounted to $2.9 million compared with $3.2 million for the same period in 2012, representing a decrease of $0.3 million or 9.9%, resulting mainly from the impact of the reduced level of debt offset by a lower gain on valuation of derivative financial instrument.

Earnings (loss) before income taxes

Due to the changes in revenue and expenses described herein, the earnings before income taxes totalled $15.4 million for the year ended December 31, 2013 compared with the loss before income taxes of $17.1 million for the same period in 2012, an increase of $32.5 million, due to the 2012 goodwill impairment.

Provision for income taxes

During the year ended December 31, 2013, the Company recorded a provision for income taxes of $3.9 million compared with $2.6 million for the year ended December 31, 2012, an increase of $1.3 million or 51.8%. The increase was mainly attributable to the impact of the portion of goodwill impairment deductible for tax purposes in 2012 combined with higher earnings in 2013.

Net earnings (loss)

As a result of the changes described above, net earnings amounted to $11.5 million for the year ended December 31, 2013 compared with the net loss of $19.6 million for the same period in 2012, an increase of $31.2 million.

Other comprehensive loss

The higher than expected return on assets of the Company's defined benefit pension plan combined with the increase of the discount rate for accrued plan benefit obligation has generated net actuarial gain of $20.2 million. These variations impacted the Company's other comprehensive income and deficit.

Related Party Transactions

During the year ended December 31, 2013, the Company has, in the normal course of business, received services in the amount of $239,493 (2012 - $117,891) from a major shareholder, Clarke Inc., and its subsidiaries.

Segmented Information

The Company currently operates in one business segment: the manufacturing and sale of envelopes. The Company's non-current assets amounted to $94.4 million in Canada and $0.8 million in the United States as at December 31, 2013 as compared to $94.9 million and $0.8 million as at December 31, 2012, respectively.

In Canada, the Company's revenue amounted to $30.6 million and to $116.8 million for the three and twelve-month periods ended December 31, 2013 compared with $30.9 million and $120.3 million for the same periods in 2012, representing a decrease of $0.3 million or 1.1% and $3.5 million or 3.0% respectively. In the United States, the Company's revenue amounted to $3.0 million and to $12.2 million for the three and twelve-month periods ended December 31, 2013 compared with $2.8 million and $11.6 million for the same periods in 2012, representing an increase of $0.2 million or 6.8% and $0.6 million or 5.9% respectively.

Liquidity and Capital Resources

Operating activities

Cash of $13.3 million was generated in operating activities during the year ended December 31, 2013 compared with $13.7 million during the same period of 2012. The decrease in net cash flows from operating activities was primarily due to the decrease in net change in non-cash working capital balances partially offset by higher earnings before non-cash items.

The higher non-cash working capital level as at December 31, 2013 compared with December 31, 2012, resulted mainly from the lower accounts payable and accrued liabilities, mainly due to timing of payment to suppliers combined with higher accounts receivable.

Investing activities

Cash used in investing activities of $1.1 million during the year ended December 31, 2013 compared with $2.2 million in 2012, a decrease of $1.1 million mainly related to lower acquisition of property, plant and equipment.

Financing activities

During the year ended December 31, 2013, cash of $15.8 million was used in financing activities, compared with $9.0 million in 2012, an increase of $6.8 million mainly due to the higher repayment of the credit facilities, which totalled $12.0 million in 2013.

Liquidity and capital resources summary

Supremex's ability to generate cash flows from operations combined with our availability under our existing credit facilities are expected to provide sufficient liquidity to meet anticipated needs for existing and future projects. Furthermore, the Company is considering the sale of its two properties to lease them back.

Contractual Obligations and Off-Balance Sheet Arrangements

The following chart outlines the Company's contractual obligations as at December 31, 2013.

(in thousands of dollars)

		Payments due by fiscal year		
	Total	**2014**	**2015**	**2016 and thereafter**
Secured credit facilities	**38,000**	4,750	33,250	—
Operating leases	**6,010**	1,578	1,425	3,007
Total	**44,010**	6,328	34,675	3,007

The Company has no other off-balance sheet arrangements.**Financing**

The Company's credit facilities consist of a $15 million revolving facility ($20 million as at December 31, 2012) and a $38 million term credit facility ($45 million as at December 31, 2012).

As permitted by the credit agreement, effective February 22, 2013, the $25 million acquisition/capital expenditures credit facility was cancelled, as requested by the Company. No amount was drawn on this facility at that date. Effective on August 7, 2013, the $20 million revolving credit facility was reduced to $15 million, as requested by the Company. At that date, an amount of $5 million was drawn on this facility.

The revolving credit facility may be used to refinance existing credit facilities, finance working capital requirements and for other general corporate purposes. The revolving and term credit facilities mature on November 4, 2015. The term credit facility is repayable in quarterly principal instalments of $1,187,500. In addition, 50% of the annual excess cash flow, as defined in the credit agreement, will be applied against the term credit facility if the debt to EBITDA ratio rises above 2.50, or 25% if the debt to EBITDA ratio falls between 2.50 and 2.00. No cash flow sweep are required if the debt to EBITDA ratio falls below 2.00 which was the case in 2013.

The facilities bear interest at a floating rate based on the Canadian prime rate or bankers' acceptance rate, plus an applicable margin on those rates. As at December 31, 2013, the interest rate on the term credit facility was 3.53%. The Company was in compliance with the covenants of its credit facilities as at December 31, 2013.

As at January 14, 2011, Supremex Inc. entered into an interest rate swap agreement for an amount of $30 million at a fixed rate of 2.84% until January 14, 2016, excluding all applicable margins.
The credit facilities are collateralized by a hypothec and security interests covering all present and future assets of the Company and its subsidiaries.

Capitalization

As at February 19, 2014, the Company had 28,960,867 common shares outstanding.

Financial Instruments

Interest rate and foreign exchange risk

The Company's credit facilities bear interest at a floating rate which give rise to the risk that its earnings and cash flows may be adversely impacted by fluctuations in interest rates. As at January 14, 2011, Supremex Inc. entered into an interest rate swap agreement for an amount of $30 million at a fixed rate of 2.84% until January 14, 2016, excluding the applicable margin.

The Company operates in Canada and the United States, which gives rise to a risk that its earnings and cash flows may be adversely impacted by fluctuations in the exchange rate between the US and Canadian dollar. A portion of Supremex's revenue is earned in US 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 US dollars. Supremex also derives a portion of its revenue from Canadian dollar sales to certain customers for whom the selling price is sensitive to US competition. Net exposure to the US dollar decreased in 2013 due to lower US dollar purchases (see "Risk Factors"). Cash, accounts receivable and accounts payable and accrued liabilities include balances denominated in US dollars at the end of the year.

Fair value

The fair value of the Company's financial instruments is indicated in note 21 to the Company's audited consolidated financial statements for the year ended December 31, 2013.

Financial Position Highlights

(In thousands of dollars)

	December 31, 2013 **$**	**December 31, 2012** **$**
Working capital	**11,080**	10,215
Total assets	**126,754**	129,565
Total secured credit facilities	**37,583**	49,356
Equity	**65,623**	37,907

As at December 31, 2013, the Company has an accrued pension benefit asset of $8.2 million compared to a $21.9 million accrued pension benefit liability as at December 31, 2012. This improvement was a result of an exceptional investment return combined with an increase in interest rates and, to a lesser degree by the impact resulting from pension plan amendments, which consisted of reducing early retirements and bridging benefits.

Supremex pays quarterly dividends to shareholders at the discretion of the Board of Directors. A dividend of $1,158,435 or $0.04 per share was declared and paid in the fourth quarter of 2013. Other dividend payments that occurred previously in 2013 were declared and paid at a rate of $0.03 per share.

Controls and Internal Controls over Financial Reporting

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

Management has designed disclosure controls and procedures to provide reasonable assurance that material information relating to the Company is made known to the President and Chief Executive Officer and the Vice-President, Finance, particularly during the period in which annual filings are being prepared. The President and Chief Executive Officer and the Vice-President, Finance, evaluated the effectiveness of the Company's disclosure controls and procedures and concluded, based on its evaluation, that such disclosure controls and procedures were effective as of December 31, 2013.

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 Vice-President, Finance, evaluated the effectiveness of the Company’s internal control over financial reporting and concluded, based on its evaluation, that such internal control over financial reporting was effective as of December 31, 2013. In making its evaluation, the President and Chief Executive Officer and the Vice-President, Finance, used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control – Integrated Framework.

Finally, there has been no change in the Company’s internal control over financial reporting during the year ended December 31, 2013 that materially affected, or is likely to materially affect, the Company’s internal control over financial reporting.

Significant accounting policies and estimates

The Company prepares its financial statements in conformity with IFRS, which requires management to make estimates, judgments and assumptions that management believes are reasonable based upon the information available. These estimates, judgments 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 implied fair value of goodwill, determination of fair value of assets acquired and liabilities assumed in business combinations, determination of pension and other employee benefits, useful life of certain assets for amortization and evaluation of net recoverable amount, income taxes and determination of fair value of financial instruments. Management bases its estimates on historical experience and other assumptions, which it believes are reasonable under the circumstances. Management also assesses its estimates on an ongoing basis. The effect on the financial statements of changes in such estimates in future periods could be material and would be accounted for in the period a change occurs.

The significant accounting policies of the Company are described in note 2 to the Company’s audited consolidated financial statements for the year ended December 31, 2013.

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

Intangible assets and goodwill

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

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

As at December 31, 2013, the Company performed a goodwill impairment test using the discounted cash flows method based upon management's best estimates which reflect the Company's planned course of action in light of market conditions. The Company concluded that there was no impairment in the carrying amount of its goodwill. The Company will continue to monitor the resulting impact of market changes.

Valuation technique

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

Significant assumptions

The income approach is predicated upon the value of the future cash flows that a business will generate going forward. The DCF method which was used as at December 31, 2013 involves projecting cash flows and converting them into a present value equivalent through discounting. The discounting process uses a rate of return that is commensurate with the risk associated with the business or asset and the time value of money. This approach requires assumptions about revenue growth or decline rates, operating margins, tax rate and discount rate.

Growth or decline of revenue

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

Discount rate

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

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

	Assumptions
Pre-tax discount rate	17.8%
Tax rate	26.0%
Perpetual decline rate	3.0%

Sensitivity

In the most recent impairment test performed, if the pre-tax discount rate had increased by 5.8% or the perpetual decline rate had increased by 4.9%, the recoverable amount of the cash generating unit would have then equaled the carrying amount as at December 31, 2013.

Employee future benefits

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

Significant assumptions:

Discount rate for accrued benefit obligation	4.80%
Discount rate for net pension cost	3.90%
Rate of compensation increase	3.25%

Discount rate

As at December 31, 2013, we used the *Fiera Capital's CIA Method Accounting Discount Rate Curve* which follows the methodology suggested in the CIA Education Note on *Accounting Discount Rate Assumption for Pension and Post-employment Benefit Plans*. For the Company, a 0.25% increase or decrease in the discount rate would have decreased or increased the defined benefit obligation by approximately $3.4 million as at December 31, 2013.

Rate of compensation

Future salary increases are based on expected future inflation rates.

Medical cost trend

The medical cost trend is based on our actuarial medical claims experience and future projections of medical costs. The average medical cost trend rate used was 8.0% for 2013, which is expected to decline to 5.0% in 2024. A one-percentage-point change in assumed health care cost trend rates would have no material impact.

Income taxes

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

The Company is subject to taxation in numerous jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain during the normal course of business. The Company maintains provisions for uncertain tax positions that it believes appropriately 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.

The Company's 2013 effective tax rate was 25.3% of earnings before income tax.

New Accounting Policies

In the first quarter of 2013, the Company has adopted the following new accounting standards issued by the International Accounting Standards Board ("IASB") or International Financial Reporting Interpretations Committee ("IFRIC"):

IFRS 13, Fair Value Measurement
In May 2011, the IASB issued IFRS 13 *Fair Value Measurement* ("IFRS 13"). IFRS 13 improves consistency and reduces complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS.

IAS 1, Financial Statement Presentation
In June 2011, the IASB issued amendments to IAS 1, *Financial Statement Presentation* ("IAS 1"). This amendment to IAS 1 improves the presentation of the components of other comprehensive income.

IAS 19, Employee Benefits
In June 2011, the IASB issued amendments to IAS 19, *Employee Benefits* ("IAS 19"). This amendment to IAS 19 improves the recognition and disclosure requirements for defined benefits plans. The adoption of these amendments was applied retrospectively with restatement of the consolidated financial statements of prior periods (see note 4 of the audited consolidated financial statements for the year ended December 31, 2013).

Several other new standards and amendments apply for the first time in 2013. However, they do not impact the annual consolidated financial statements of the Company.

Recent Accounting Pronouncements

IFRS 9, Financial Instruments
In October 2010, the International Accounting Standards Board ("IASB") issued IFRS 9, *Financial Instruments* ("IFRS 9"). IFRS 9, which replaces IAS 39, *Financial Instruments: Recognition and Measurement*, establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows.

In December 2011, the IASB deferred the mandatory effective date to fiscal years beginning on or after January 1, 2015.

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

Recent Event

On February 19, 2014, the Board of Directors has declared a quarterly dividend of $0.04 per common share, payable on March 14, 2014 to shareholders of record at the close of business on February 28, 2014.

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's management.

Decline in Envelope Consumption

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

The North American envelope manufacturing and mailing industries are expected to continue to decline in the foreseeable future, due to a general progressive decline in the use of traditional paper-based products. The business depends on transactional mail and direct mail activities. Transactional mail volumes are thought to have declined in the last few years due in part to the increasing use of non-traditional means of communication and information transfer, such as electronic mail and the Internet. While management believes that the significant decline experienced in the direct mail volume in the last few years was related to the economic conditions, we have no choice but to admit that many companies have reduced their marketing spend as well as redirected some of their overall marketing expenditures to other media channels. There is no assurance that the direct mail industry will regain. As a result, there can be no assurance that Supremex will be able to grow or even maintain historical sales levels.

To reduce this risk, the Company continually strives to improve operational efficiency and develop new products such as the RFID card protector.

Postal Services

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

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

- Over the next five years, the one third of Canadian household that receive their mail at their door will be converted to community mailbox delivery;
- A new pricing structure for Letter Mail mailed within Canada will be introduced in March 2014 (increases from 14.75% for machineable standard letter mail to 35% for individual stamps);
- The retail network will be strengthened by opening more franchise postal outlets in stores across Canada;
- Changes to internal operations to obtain a more efficient flow of parcels and mail through the network and to the customers; and
- Changes to the business model, which will require fewer employees.

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

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

Relation with customers

Supremex typically does not enter into long-term, written agreements with customers. As a result, there is a risk that customers may, without notice or penalty, terminate their relationship with Supremex at any time. In addition, even if customers decide to continue their relationship with Supremex, there can be no guarantee that they will purchase the same amount as in the past, or that purchases will be on similar terms. Supremex's customer base is solidly diversified with no single account representing more than 10% of sales, thus reducing dependence on any given single customer.

Competition

Despite Supremex's leading market position in Canada, new entrants into the Canadian envelope market may have an impact on sales and margins. The strengthening of the Canadian dollar against the US dollar created an incentive for US-based competitors to increase market penetration in Canada in the last five years. The large US envelope manufacturers are using their excess capacity to penetrate the Canadian envelope market. As long as the US market stays relatively soft, there will be pricing pressure in the Canadian market. In January 2014, the Canadian dollar weakened by almost 10% which could possibly ease the pressure on the Canadian envelope market. However, the costs of freight, coupled with the efficiency of delivery 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 lost sales. Given the Company's large market share in Canada, most of the gains of our smaller competitors in Canada are made in Supremex's accounts.

Nonetheless, to mitigate this risk, the Company continues to focus on continuous improvement programs, cost reduction initiatives and development of value-added services and products around its core businesses, and still believes in the value of having local service and representation in all the major Canadian markets.

Economic Cycles

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

Raw Material Price Increases

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

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

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

Exchange Rate

A portion of Supremex's revenue is earned in US 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 US dollars. Supremex also derives a portion of its revenue from Canadian dollar sales to certain customers for whom selling price is sensitive to US competition.

Net exposure to the US dollar has decreased in 2013 due to lower US dollar purchases. Revenue generated in the United States represented 9.5% of consolidated revenue in fiscal 2013, up from 8.8% in fiscal 2012.

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

Availability of Capital

In 2011, the Company completed the refinancing of its credit facilities totalling \$95 million consisting of a \$20 million revolving facility, a \$50 million term credit facility and a \$25 million acquisition/capital expenditures facility. The revolving and term credit facilities mature on November 4, 2015. Although the Company carried out this refinancing successfully, there is no guarantee that additional funds will be available in the future, and if they are, that they will be provided in a timeframe and under conditions acceptable to the Company.

Credit

The Company is exposed to credit risk with respect to trade receivables. To mitigate this risk, the Company analyzes and reviews the financial health of its current customers on an ongoing basis. A specific credit limit is established for each customer and reviewed periodically by the Company. Supremex is protected against any concentration of credit risk through its clientele and geographic diversity. No single customer accounts for more than 10% of consolidated accounts receivable. Supremex's customer base is solidly diversified and consists mainly of large national customers, such as large Canadian corporations, nationwide resellers and governmental bodies, as well as paper merchants and solution and process providers. Historically, the level of bad debt has been low given the nature of the customers. As at December 31, 2013, the maximum credit risk exposure for receivables corresponds to their carrying value.

Interest Rate

The Company is exposed to market risks related to interest rate fluctuations. On January 14, 2011, a \$30 million interest swap was contracted. The Company's policy is to fix a portion of its long-term debt. Under this swap, the fixed-rate portion represented 43% at the time it was entered into. It represented 79% as at December 31, 2013. Floating-rate debt bears interest rates based on bankers' acceptances rate. This swap converts the variable interest rate, based on bankers' acceptance rate, to an average fixed interest rate of 2.84% until January 14, 2016, excluding an applicable margin, which is 225 basis points as at December 31, 2013.

To mitigate this risk, the Company tries to maintain a good balance of fixed versus floating rate debt.

Litigation

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

Employee future benefits

The Company maintains three registered defined benefit pension plans substantially covering all of its employees. Two of these plans are hybrid and included a defined contribution component. In the third quarter of 2012, the Company converted, for future services, its defined benefit pension plans into defined contributions 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 pension fund performance and the discount rate, which could affect the financial condition of Supremex.

Forward-Looking Statements

This MD&A contains "forward-looking statements" within the meaning of applicable Canadian securities laws, including (but not limited to) statements about the EBITDA projection, future performance of Supremex and similar statements concerning anticipated future results, circumstances, performance or expectations. A statement is forward-looking when it uses what Supremex knows and expects today to make a statement about the future. Forward-looking statements may include words such as anticipate, assumption, believe, could, expect, goal, guidance, intend, may, objective, outlook, plan, seek, should, strive, target and will. These statements relate to future events or future performance and reflect current assumptions, expectations and estimates of management regarding growth, results of operations, performance, business prospects and opportunities, Canadian economic environment and liability to attract and retain customers. Such forward-looking statements reflect current assumptions, expectations and estimates of management and are based on information currently available to Supremex as at the date of this MD&A.

Forward-looking statements are subject to certain risks and uncertainties, and should not be read as guarantees of future performance or results and actual results may differ materially from the conclusion, forecast or projection stated in such forward-looking statements. These risks, uncertainties and other factors include but are not limited to the following: economic cycles, availability of capital, decline in envelope consumption, increase of competition, exchange rate fluctuation, raw material increases, credits risks with respect to trade receivables, increase in funding of pension plans, postal services deficiencies, interest rates fluctuation and potential risk of litigation. Such assumptions, expectations, estimates, risks and uncertainties are discussed throughout our MD&A for fiscal 2013 and, in particular, in "Risk Factors". Consequently, we cannot guarantee that any forward-looking statements will materialize. Readers should not place any undue reliance on such forward-looking statements.

Definition of EBITDA and Non-IFRS Measures

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

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

Additional Information

Additional information relating to the Company is available on SEDAR at [www.sedar.com.](http://www.sedar.com)

Consolidated Financial Statements

Supremex Inc.

December 31, 2013 and 2012

All amounts expressed in Canadian dollars

INDEPENDENT AUDITORS' REPORT

To the shareholders of
Supremex Inc.

We have audited the accompanying consolidated financial statements of Supremex Inc, which comprise the consolidated statements of financial position as at December 31, 2013 and 2012, and the consolidated statements of earnings (loss), comprehensive income (loss), changes in equity and cash flow for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Supremex Inc. as at December 31, 2013 and 2012, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP[1]

Montreal, Canada,
February 19, 2014

[1] CPA auditor, CA, public accountancy permit no. A118111

Supremex Inc.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at December 31	Notes	2013 $	2012 $
ASSETS	**14**		
Current assets			
Cash		**1,506,205**	5,093,876
Accounts receivable	**6**	**17,375,214**	15,071,817
Income tax receivable		—	11,115
Inventories	**7**	**12,147,658**	13,017,305
Prepaid expenses		**522,033**	605,258
Total current assets		**31,551,110**	33,799,371
Property, plant and equipment	**8**	**25,880,298**	28,264,702
Deferred income tax assets	**15**	—	176,426
Accrued pension benefit assets	**9**	**8,161,800**	—
Intangible assets	**10**	**14,271,229**	20,435,129
Goodwill	**11**	**46,889,125**	46,889,125
Total assets		**126,753,562**	129,564,753
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	**12**	**14,418,279**	18,157,589
Provisions	**13**	**411,276**	426,311
Income tax payable		**891,201**	—
Current portion of secured credit facilities	**14**	**4,750,000**	5,000,000
Total current liabilities		**20,470,756**	23,583,900
Secured credit facilities	**14**	**32,833,034**	44,355,599
Deferred income tax liabilities	**15**	**5,982,971**	—
Accrued pension benefit liability	**9**	—	21,852,000
Other post-retirement benefit obligations	**9**	**888,500**	615,200
Derivative financial liability	**14**	**954,925**	1,251,154
Equity			
Share capital	**16**	**9,885,008**	9,885,008
Contributed surplus		**280,108,017**	280,108,017
Deficit		**(224,318,659)**	(252,002,146)
Foreign currency translation reserve		**(50,990)**	(83,979)
Total equity		**65,623,376**	37,906,900
Total liabilities and equity		**126,753,562**	129,564,753

Commitments, contingencies and guarantees [*note 19*]

Subsequent event [*note 23*]

See accompanying notes

On behalf of the Directors:

By: (Signed) Dany Paradis
Director

By: (Signed) Gilles Cyr
Director

Supremex Inc.

CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)

Years ended December 31	**Notes**	**2013** **$**	**2012 Restated [*note 4*]** **$**
Revenue		**128,966,408**	131,874,631
Operating expenses	**7, 17**	**85,471,703**	90,358,799
Selling, general and administrative expenses	**17**	**15,516,205**	16,908,870
Operating earnings before amortization, gain on disposal of property, plant and equipment and impairment of goodwill		**27,978,500**	24,606,962
Amortization of property, plant and equipment	**8**	**3,574,848**	3,499,088
Amortization of intangible assets	**10**	**6,163,900**	6,163,900
Gain on disposal of property, plant and equipment		**(58,231)**	(17,517)
Impairment of goodwill	**11**	—	28,862,000
Operating earnings (loss)		**18,297,983**	(13,900,509)
Financing charges	**14**	**2,853,971**	3,167,028
Earnings (loss) before income taxes		**15,444,012**	(17,067,537)
Income tax expense	**15**	**3,912,964**	2,578,339
Net earnings (loss)		**11,531,048**	(19,645,876)
Basic and diluted net earnings (loss) per share		**0.3982**	(0.6719)
Weighted average number of shares outstanding		**28,960,867**	29,237,295

See accompanying notes

Supremex Inc.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Years ended December 31	**Notes**	**2013** **$**	**2012** **Restated** **[*note 4*]** **$**
Net earnings (loss)		**11,531,048**	(19,645,876)
Other comprehensive income (loss)			
Other comprehensive income (loss) to be reclassified to earnings in subsequent periods			
Foreign currency translation adjustments		**32,989**	(7,818)
Net other comprehensive income (loss) to be reclassified to earnings in subsequent periods		**32,989**	(7,818)
Items not to be reclassified to earnings in subsequent periods			
Recognized actuarial gain (loss) on defined benefit pension plans, net of income tax expense of $7,069,220 [2012 – recovery of $1,143,085]	**9**	**20,161,980**	(3,148,115)
Recognized actuarial loss on other post-retirement benefit, net of income tax recovery of $85,772 [2012 – $7,810]	**9**	**(244,628)**	(21,890)
Net other comprehensive income (loss) not being reclassified to earnings in subsequent periods		**19,917,352**	(3,170,005)
Other comprehensive income (loss)		**19,950,341**	(3,177,823)
Total comprehensive income (loss)		**31,481,389**	(22,823,699)

See accompanying notes

Supremex Inc.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Year ended December 31

	Share capital [*note 16*] $	**Contributed surplus $**	**Deficit $**	**Foreign currency translation reserve $**	**Total equity $**
As at December 31, 2012	9,885,008	280,108,017	(252,002,146)	(83,979)	37,906,900
Net earnings	—	—	11,531,048	—	11,531,048
Other comprehensive income	—	—	19,917,352	32,989	19,950,341
Total comprehensive income	—	—	31,448,400	32,989	31,481,389
Dividends declared [*note 18*]	—	—	(3,764,913)	—	(3,764,913)
As at December 31, 2013	**9,885,008**	**280,108,017**	**(224,318,659)**	**(50,990)**	**65,623,376**
As at December 31, 2011 Restated [*note 4*]	10,000,000	280,423,746	(225,680,313)	(76,161)	64,667,272
Net loss (Restated [*note 4*])	—	—	(19,645,876)	—	(19,645,876)
Other comprehensive loss (Restated [*note 4*])	—	—	(3,170,005)	(7,818)	(3,177,823)
Total comprehensive loss	—	—	(22,815,881)	(7,818)	(22,823,699)
Dividends declared [*note 18*]	—	—	(3,505,952)	—	(3,505,952)
Shares repurchased and cancelled	(114,992)	(315,729)	—	—	(430,721)
As at December 31, 2012	9,885,008	280,108,017	(252,002,146)	(83,979)	37,906,900

See accompanying notes

Supremex Inc.

CONSOLIDATED STATEMENTS OF CASH FLOW

Years ended December 31	Notes	2013 $	2012 Restated [*note 4*] $
OPERATING ACTIVITIES			
Net earnings (loss)		**11,531,048**	(19,645,876)
Non-cash adjustment to reconcile net earnings to net cash flows			
Amortization of property, plant and equipment	**8**	**3,574,848**	3,499,088
Amortization of intangible assets	**10**	**6,163,900**	6,163,900
Amortization of deferred financing costs	**14**	**227,435**	229,556
Gain on disposal of property, plant and equipment		**(58,231)**	(17,517)
Impairment of goodwill	**11**	—	28,862,000
Gain on valuation of derivative financial instruments	**14**	**(296,229)**	(525,139)
Deferred income tax recovery	**15**	**(824,051)**	(1,207,923)
Change in employees benefits		**(2,822,500)**	1,705,000
		17,496,220	19,063,089
Working capital adjustments			
Variation in accounts receivable		**(2,303,397)**	3,668,682
Variation in inventories		**869,647**	85,887
Variation in prepaid expenses		**83,225**	(92,674)
Variation in accounts payable and accrued liabilities		**(3,739,310)**	(1,832,691)
Variation in provisions		**(15,035)**	(230,256)
Variation in income tax receivable and payable		**902,316**	(3,502,111)
Change in employee benefits		**(17,200)**	(3,459,400)
Net cash flows from operating activities		**13,276,466**	13,700,526
INVESTING ACTIVITIES			
Acquisition of property, plant and equipment	**8**	**(1,178,767)**	(2,347,392)
Proceeds from sale of property, plant and equipment		**105,801**	107,417
Net cash flows used in investing activities		**(1,072,966)**	(2,239,975)
FINANCING ACTIVITIES			
Repayment of secured credit facilities		**(12,000,000)**	(5,000,000)
Dividends paid	**18**	**(3,764,913)**	(3,505,952)
Purchase of share capital for cancellation	**16**	—	(430,721)
Financing cost incurred		—	(50,891)
Net cash flows used in financing activities		**(15,764,913)**	(8,987,564)
Net change in cash		**(3,561,413)**	2,472,987
Net foreign exchange difference		**(26,258)**	14,557
Cash, beginning of period		**5,093,876**	2,606,332
Cash, ending of period		**1,506,205**	5,093,876
Supplemental information [(1)]			
Interest paid		**2,250,036**	2,660,394
Interest received		**15,441**	5,780
Income taxes paid		**3,895,689**	7,336,626
Income taxes received		**132,885**	167,409

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

See accompanying notes

1. CORPORATE INFORMATION AND BASIS OF PREPARATION

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

The business of Supremex follows seasonal patterns with the highest revenue occurring from August to February due to seasonal advertising and mailing patterns of its customers since the highest number of mailings related to events including the return to school, fund-raising and the holiday and tax seasons take place during that period.

These consolidated financial statements were approved by the Company's Board of Directors on February 19, 2014.

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"), as issued by the International Accounting Standards Board ("IASB"). These consolidated financial statements were prepared on a going concern basis, under the historical cost convention, except for derivative financial instruments that have been measured at fair value.

Principles of consolidation

The consolidated financial statements comprise the financial statements of Supremex Inc. and its subsidiaries, Buffalo Envelope Inc., Montreal Envelope (2008) Inc. and Quebec Envelope (2008) Inc., as at December 31, 2013 and 2012.

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

Business combinations and goodwill

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

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

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

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

Segment reporting

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

Foreign currency translation

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

Transactions and balances

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

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

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

Subsidiary

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

Revenue recognition

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

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

Taxation

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

Current tax

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

Deferred tax

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

Deferred tax liabilities:

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

Deferred tax assets:

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

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

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

Sales tax

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

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

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

Employee future benefits

The Company maintains three defined benefit pension plans, two of which are hybrid as they also have a defined contribution component, covering substantially all of its employees. In the third quarter of 2012, the Company converted its defined benefit pension plans into defined contribution plans for future services. All defined benefit pension plans are funded. The acquired businesses have also provided post-retirement and post-employment benefits plans to a limited number of employees covering health care, dental care and life insurance. These benefits are unfunded.

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

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

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

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

Termination benefits

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

Basic and diluted net earnings per share

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

Inventories

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

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Property, plant and equipment

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

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

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

Intangible assets

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

Impairment of non-financial assets

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

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

Impairment testing of goodwill

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

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Provisions

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

Restructuring provisions

Restructuring provisions are only recognized when general recognition criteria for provisions are fulfilled. Additionally, the Company needs to follow a detailed formal plan about the business or part of the business concerned, the location and number of employees affected, a detailed estimate of the associated costs and appropriate time-line. The people affected must also have a valid expectation that the restructuring is being carried out or the implementation has been initiated already.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a financing charge.

Leases

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

Operating lease

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

Financial instruments

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

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Fair value through earnings

Classification

Financial assets are classified at fair value through earnings if acquired principally for the purpose of selling in the short-term, such as financial assets held for trading, or if so designated by the Company. Assets in this category principally include derivatives which do not qualify for hedge accounting and cash.

Recognition and measurement

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

Loans and receivables

Classification

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

Recognition and measurement

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

Impairment of financial assets

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

Financial liabilities

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

Derivative financial instruments and hedging

Derivatives are initially recognized at fair value on the date a contract is entered into and are subsequently re-measured at their fair value.

3. SIGNIFICANT ACCOUNTING ESTIMATES

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

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

Intangible assets and goodwill

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

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

Employee future benefits

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

3. SIGNIFICANT ACCOUNTING ESTIMATES [Cont'd]

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

4. NEW ACCOUNTING POLICIES

Adopted in 2013

In the first quarter of 2013, the Company adopted the following new accounting standards issued by the IASB or International Financial Reporting Interpretations Committee ("IFRIC").

The Company applied certain standards and amendments that require the restatement of previous financial statements.

- IFRS 13, *Fair Value Measurement*
  IFRS 13, *Fair Value Measurement*, ("IFRS 13") establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 has not materially impacted the fair value measurements carried out by the Company.

4. NEW ACCOUNTING POLICIES [Cont'd]

- IAS 1, *Financial Statement Presentation*
  The amendment to IAS 1, *Financial Statement Presentation*, ("IAS 1") introduces a grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to the consolidated statements of earnings at a future point in time now have to be presented separately from items that will never be reclassified (e.g., recognized actuarial gain (loss) on defined benefit pension plan and recognized actuarial gain (loss) on other post-retirement benefit). The adoption of this amendment affected presentation only and did not have any effect on the Company's results, financial position or cash flows.

- IAS 19, *Employee Benefits*
  IAS 19, *Employee Benefits*, ("IAS 19") includes a number of amendments relating to the accounting for defined benefit pension plans. These amendments include:
  - actuarial gains and losses that have to be recognized in other comprehensive income and permanently excluded from the consolidated statement of earnings;
  - expected returns on plan assets that are no longer recognized in the consolidated statements of earnings. Instead, there is a requirement to recognize interest on the net defined benefit asset (liability);
  - interest on the net defined benefit asset (liability) is now recognized as financing charge in the consolidated statements of earnings, calculated using the discount rate used to measure the defined benefit obligation;
  - unvested past service costs are now recognized in consolidated statements of earnings at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognized;
  - other amendments include new disclosures, such as, quantitative sensitivity disclosures.

  Amendments to IAS 19 have been applied retrospectively from January 1, 2012. For the Company, the expected returns on plan assets are no longer recognized in the consolidated statements of earnings. Instead, the interest on net defined benefit obligation is recognized in the financing charges of the consolidated statement of earnings, calculated using the discount rate used to measure the defined benefit obligation.

  Also, unvested past service costs can no longer be deferred and recognized over the future vesting period. Instead, all past service costs recognized at the earlier of when the amendment occurs and when the Company recognized the related restructuring or termination costs. Until 2012, the Company's unvested past service costs were recognized as an expense on a straight-line basis over the average period until the benefits become vested. Upon transition to IAS 19, past service costs are recognized if the benefits have vested immediately following the introduction of, or changes to, a pension plan.

4. NEW ACCOUNTING POLICIES [Cont'd]

The transition did not have impact on the net defined benefit plan obligation or on the consolidated statement of financial position. The impacts of the transition are presented below:

Impact on consolidated statement of earnings (loss)	**Year ended December 31, 2012** **$**
Increase in operating expenses	362,475
Increase in selling, general and administrative expenses	120,825
Increase in financing charges [*note 14*]	805,600
Decrease in income tax expense	(333,696)
Impact on net loss	**955,204**
Impact on basic and diluted net loss per share	**0.0327**

Impact on consolidated statement of comprehensive income (loss)	**Year ended December 31, 2012** **$**
Decrease in recognized actuarial loss on defined benefit pension plans, net of income tax recovery	955,204
Impact on other comprehensive loss	**955,204**

Several other new standards and amendments apply for the first time in 2013. However, they do not impact the annual consolidated financial statements of the Company.

5. RECENT ACCOUNTING PRONOUNCEMENT

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC. The standard impacted that is applicable to the Company is as follows:

- IFRS 9, *Financial Instruments*
  In October 2010, the IASB issued IFRS 9, *Financial Instruments* ("IFRS 9"). IFRS 9, which replaces IAS 39, *Financial Instruments: Recognition and Measurement*, establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows.

Recently, the IASB deferred the mandatory effective date to a later date.

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

6. ACCOUNTS RECEIVABLE

	December 31, 2013 $	**December 31, 2012 $**
Trade receivables	**17,189,041**	14,572,956
Less: Allowance for doubtful accounts	**(197,681)**	(108,514)
Trade receivables - net	**16,991,360**	14,464,442
Other receivables	**383,854**	607,375
	17,375,214	15,071,817

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

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

	December 31, 2013 $	**December 31, 2012 $**
Current	**11,420,833**	9,627,835
31 – 60 days	**3,853,604**	3,768,323
61 – 90 days	**1,366,839**	955,385
91 – 120 days	**344,638**	126,620
Over 120 days	**203,127**	94,793
	17,189,041	14,572,956

Allowance for doubtful accounts

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

	December 31, 2013 $	**December 31, 2012 $**
Balance, beginning of year	**108,514**	237,360
Charge for the year	**150,272**	51,286
Utilized	**(63,182)**	(179,965)
Impact of foreign exchange gains (losses)	**2,077**	(167)
Balance, end of year	**197,681**	108,514

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

7. INVENTORIES

	December 31, 2013 $	December 31, 2012 $
Raw materials	**3,008,114**	2,897,252
Work in progress	**70,788**	99,941
Finished goods	**9,068,756**	10,020,112
	12,147,658	13,017,305

The cost of inventories recognized as an expense and included in operating expenses, including the related amortization of property, plant and equipment allocated to inventories, during the year ended December 31, 2013 is $88,796,932 [2012 - $93,646,270].

8. PROPERTY, PLANT AND EQUIPMENT

	Land, buildings and leasehold improvements $	Machinery and equipment $	Office and computer equipment $	Total $
Cost:				
At December 31, 2011	15,182,466	34,268,297	1,454,621	50,905,384
Acquisition	61,074	2,111,666	174,652	2,347,392
Disposals	—	(448,965)	(5,823)	(454,788)
Translation adjustment	(255)	(28,209)	(1,451)	(29,915)
At December 31, 2012	15,243,285	35,902,789	1,621,999	52,768,073
Acquisition	129,337	857,814	191,616	1,178,767
Disposals	—	(289,533)	(128,480)	(418,013)
Translation adjustment	794	89,608	4,508	94,910
At December 31, 2013	**15,373,416**	**36,560,678**	**1,689,643**	**53,623,737**
Amortization and impairment:				
At December 31, 2011	2,016,044	18,231,698	1,128,969	21,376,711
Amortization	444,908	2,884,910	169,270	3,499,088
Disposals	—	(359,065)	(5,823)	(364,888)
Translation adjustment	(255)	(5,834)	(1,451)	(7,540)
At December 31, 2012	2,460,697	20,751,709	1,290,965	24,503,371
Amortization	446,295	2,921,728	206,825	3,574,848
Disposals	—	(243,574)	(126,869)	(370,443)
Translation adjustment	794	30,361	4,508	35,663
At December 31, 2013	**2,907,786**	**23,460,224**	**1,375,429**	**27,743,439**
Net book value:				
At December 31, 2012	12,782,588	15,151,080	331,034	28,264,702
At December 31, 2013	**12,465,630**	**13,100,454**	**314,214**	**25,880,298**

9. EMPLOYEE DEFINED BENEFIT PLANS

(a) Pension Plans

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

In 2013, amendments to the defined benefit plans were adopted, reducing early retirement and bridging benefits, effective January 1, 2013.

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

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

	2013	**2012 Restated [*note 4*]**
	$	**$**
Defined benefit plans		
Administration expenses	**282,300**	204,400
Current service costs	**—**	1,677,800
Past service costs	**(2,844,900)**	—
Defined benefit plans (gain) loss	**(2,562,600)**	1,882,200
Defined contribution plan expense	**1,433,900**	938,700
Pension plans (gain) loss	**(1,128,700)**	2,820,900

Interest expense on benefit obligation of $724,400 (2012 - $805,600) is included in the financing charges in the consolidated statement of earnings [see note 14].

9. EMPLOYEE DEFINED BENEFIT PLANS [Cont'd]

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

	December 31, 2013	**December 31, 2012 Restated [*note 4*]**
	$	**$**
Change in accrued benefit obligation		
Benefit obligation, beginning of the year	**101,987,500**	91,597,100
Current service cost	**—**	1,677,800
Interest cost	**3,778,900**	4,058,600
Employees contribution	**900**	308,900
Actuarial (gain) loss from change in financial assumptions	**(12,317,700)**	9,143,200
Actuarial loss from change in demographic assumptions	**3,233,300**	—
Actuarial gain from experience	**(2,217,600)**	—
Benefits paid	**(4,516,300)**	(4,798,100)
Past service cost	**(2,844,900)**	—
Benefit obligation, end of year	**87,104,100**	101,987,500
Change in plan assets		
Fair value of plan assets, beginning of the year	**80,135,500**	72,346,000
Interest income on plan assets	**3,054,500**	3,253,000
Actuarial gains	**15,929,200**	4,852,000
Employer contribution	**944,400**	4,378,100
Employees contribution	**900**	308,900
Benefits paid	**(4,516,300)**	(4,798,100)
Plan administration expenses	**(282,300)**	(204,400)
Fair value of plan assets, end of year	**95,265,900**	80,135,500
Net amount recognized as accrued pension benefit asset (liability)	**8,161,800**	(21,852,000)

9. EMPLOYEE DEFINED BENEFIT PLANS [Cont'd]

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

	2013 $	2012 Restated [*note 4*] $
Actuarial gains (losses)	**27,231,200**	(4,291,200)
	27,231,200	(4,291,200)

The cumulative amount of actuarial gains recognized in the consolidated statement of comprehensive income is $5,110,100 as at December 31, 2013 [2012 – loss of $22,121,100].

The Company expects to contribute approximately $1.4 million to its defined contribution pension plans in 2014.

The assumptions used in computing the net pension cost were as follows:

	2013 %	2012 %
Discount rate for accrued benefit obligation	**4.80**	3.90
Discount rate for net pension cost	**3.90**	4.50
Rate of compensation increase	**3.25**	3.25

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

	2013 %	2012 %
Equity securities		
Canadian	**23.5**	25.6
United States	**19.6**	16.2
Europe, Australia and Far East	**24.8**	25.2
Other	**3.2**	0.9
	71.1	67.9
Fixed income		
Canadian	**26.8**	29.0
Cash and short-term securities		
Canadian	**2.1**	3.1
Total	**100.0**	100.0

The pension plans have an investment policy with the following target asset allocations: 57% equity securities, 42% debt securities and 1% short-term securities with a tolerable deviation of such allocation. As at December 31, 2013, the pension plans were in compliance with the investment policy allocations.

9. EMPLOYEE DEFINED BENEFIT PLANS [Cont'd]

As of December 31, 2013 and 2012, there were no Supremex shares held in the Company's pension plans.

The average duration of the defined benefit plan obligation, as at December 31, 2013 is 15.7 years.

Sensitivity analysis

For the Company, a 0.25% increase or decrease in the discount rate would have decreased or increased the defined benefit asset by approximately $3.4 million as at December 31, 2013. A 0.25% increase or decrease in the rate of compensation would have increased or decreased the pension benefit asset by approximately $0.8 million as at December 31, 2013. The sensitivity analysis has been determined based on a method that determines the impact on the defined benefit asset 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 tables provide a reconciliation of the change in the accrued benefit obligation of the plans.

	December 31, 2013 $	**December 31, 2012 $**
Change in accrued benefit obligation		
Benefit obligation, beginning of year	**615,200**	649,600
Interest cost	**22,400**	27,200
Actuarial loss from experience	**174,800**	—
Actuarial loss from change in financial assumption	**120,900**	29,700
Actuarial loss from change in demographic assumptions	**34,700**	—
Benefits paid	**(79,500)**	(91,300)
Benefit obligation, end of year	**888,500**	615,200

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

The other post-retirement benefit cost included in operating, selling, general and administrative expenses is composed of the interest cost on liability of $22,400 for the year ended December 31, 2013 [2012 - $27,200].

The other post-retirement benefits amount recognized in other comprehensive income, before taxation, consists of actuarial losses of $330,400 [2012 - $29,700]. The cumulative amount of actuarial losses recognized in the consolidated statement of comprehensive income is $427,100 as at December 31, 2013 [2012 - $96,700].

9. EMPLOYEE DEFINED BENEFIT PLANS [Cont'd]

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

	2013 %	2012 %
Weighted-average assumptions		
Discount rate for benefit obligation	**4.80**	3.90
Discount rate for net periodic benefit cost	**3.90**	4.50

As at December 31, 2013, the assumed health care trend rate for 2013 was 8.0%, progressively declining to 5.0% in 2024. A one-percentage-point change in assumed health care cost trend rates would have no material impact. The average duration of the other post-retirements obligation, as at December 31, 2013, is of 6.4 years.

10. INTANGIBLE ASSETS

	Customer relationships $	Non-compete agreements $	Total $
Cost	**60,884,000**	**755,000**	**61,639,000**
Accumulated amortization:			
At December 31, 2011	34,605,639	434,332	35,039,971
Amortization	6,088,400	75,500	6,163,900
At December 31, 2012	40,694,039	509,832	41,203,871
Amortization	6,088,400	75,500	6,163,900
At December 31, 2013	**46,782,439**	**585,332**	**47,367,771**
Net book value:			
At December 31, 2012	20,189,961	245,168	20,435,129
At December 31, 2013	**14,101,561**	**169,668**	**14,271,229**

11. GOODWILL

	$
Cost:	
At December 31, 2011	75,751,125
Impairment of goodwill	(28,862,000)
At December 31, 2012	46,889,125
At December 31, 2013	**46,889,125**

11. GOODWILL [Cont'd]

Impairment test of goodwill

The Company conducted its annual impairment test as at December 31, 2013, in accordance with its policy described in note 2. The recoverable amount of the cash-generating unit exceeded its carrying values. As a result, no goodwill impairment was recorded.

Valuation technique

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

Significant assumptions

The income approach is predicated upon the value of the future cash flows that a business will generate going forward. The DCF method, which was used as at December 31, 2013, involves projecting cash flows and converting them into a present value equivalent through discounting. The discounting process uses a rate of return that is commensurate with the risk associated with the business or asset and the time value of money. This approach requires assumptions about revenue growth or decline rates, operating margins, tax rate and discount rate.

Growth or decline of revenue

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

Discount rate

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

	2013	**2012**
Pre-tax discount rate	17.8%	15.6%
Tax rate	26.0%	25.8%
Perpetual decline rate	3.0%	3.0%

11. GOODWILL [Cont'd]

Sensitivity

In the most recent impairment test performed, if the pre-tax discount rate had increased by 5.8% or the perpetual decline rate had increased by 4.9%, the recoverable amount of the cash generating unit would have then equaled the carrying amount as at December 31, 2013.

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2013 $	**December 31, 2012 $**
Trade payables	**6,578,912**	10,141,306
Accrued liabilities	**7,839,367**	8,016,283
	14,418,279	18,157,589

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

13. PROVISIONS

In connection with the acquisitions of NPG Envelope ("NPG") in 2007, Montreal Envelope Inc. ("Montreal") in 2008 and Pioneer Envelopes Ltd. ("Pioneer") in 2010, the Company adopted a plan for the integration and restructuring of the acquired businesses. As a result, the Company recognized a provision for severance, relocation and exit costs relating to certain employees and facilities of the acquired businesses. As at December 31, 2013, the amount of the remaining accrued restructuring provision was $0.4 million [$0.4 million as at December 31, 2012]. This amount is related to deferred severance for employees on long-term disability and is payable on demand.

The Company incurred additional expenses during 2013 in the form of severances and other costs as a result of the restructuring to the Western region operations. All of these expenses were paid during the year.

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

	December 31, 2013 $	**December 31, 2012 $**
Balance, beginning of year	**426,311**	656,567
Restructuring expenses charged against earnings	**191,898**	—
Cash payments	**(206,933)**	(230,256)
Balance, end of year	**411,276**	426,311

14. SECURED CREDIT FACILITIES

As at December 31, 2013, the Company has secured credit facilities consisting of a $15 million revolving facility [$20 million as at December 31, 2012] and a $38 million term credit facility [$45 million as at December 31, 2012]. As permitted by the credit agreement, the Company requested the cancellation of the $25 million acquisition/capital expenditures credit facility effective February 22, 2013. No amount was drawn on this facility at that date. Effective on August 7, 2013, the $20 million revolving credit facility was reduced to $15 million, as requested by the Company. At that date, an amount of $5 million was drawn on this facility. The facilities bear interest at a floating rate based on the Canadian prime rate or bankers' acceptance rates, plus an applicable margin on those rates.

The revolving credit facility may be used to refinance existing credit facilities, finance working capital requirements and for other general corporate purposes. The revolving and term credit facilities mature on November 4, 2015. The term credit facility is repayable in quarterly principal instalments of $1,187,500. In addition, 50% of the annual excess cash flow, as defined in the credit agreement, will be applied against the term credit facility if the debt to EBITDA ratio rises above 2.50, or 25% if the debt to EBITDA ratio falls between 2.50 and 2.00. No additional repayment is required if the debt to EBITDA ratio falls below 2.00, which was the case in 2012 and 2013.

Amounts owed under revolving and term credit facilities are as follows:

	December 31, 2013	**December 31, 2012**
	$	**$**
Revolving credit facility	**—**	5,000,000
Term credit facility	**38,000,000**	45,000,000
Less: deferred financing costs, net	**(416,966)**	(644,401)
	37,583,034	49,355,599
Current portion	**(4,750,000)**	(5,000,000)
Long-term portion of secured credit facilities	**32,833,034**	44,355,599

Under the terms of the secured credit facilities, the Company is required, among other conditions, to meet certain covenants. The Company was in compliance with these covenants as at December 31, 2013. The secured credit facilities are collateralized by hypothec and security interests covering all present and future assets of the Company and its subsidiaries.

Minimum required payments on secured credit facilities are as follows:

	$
2014	4,750,000
2015	33,250,000

As at December 31, 2013, the effective interest rate on the term credit facility was 3.53% [3.54% on both facilities as at December 31, 2012]. On January 14, 2011, the Company entered into an interest rate swap agreement for an amount of $30 million at a fixed rate of 2.84% until January 14, 2016, excluding the applicable margin.

14. SECURED CREDIT FACILITIES [Cont'd]

Financing charges are as follows:

	2013 $	2012 $
Interest on secured credit facilities	**2,191,448**	2,629,629
Interest on defined benefit plan obligation [note 4]	**724,400**	805,600
Other interest	**6,917**	27,382
Amortization of deferred financing costs	**227,435**	229,556
Gain on valuation of derivative financial instrument (interest rate swap)	**(296,229)**	(525,139)
	2,853,971	3,167,028

15. INCOME TAXES

Income tax expense

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

	2013 $	2012 $
Current income tax:		
Current income tax expense	**4,712,466**	3,786,262
Deferred income tax:		
Reversal of temporary differences	**(799,502)**	(1,207,923)
Income tax expense	**3,912,964**	2,578,339

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

	2013 $	2012 $
Deferred income tax related to items credited directly to equity during the year:		
Deferred tax expense (benefit) on recognized actuarial gain (loss) on defined benefit pension plans	**7,069,220**	(1,143,085)
Deferred tax benefit on recognized actuarial loss on other post-retirement benefit	**(85,772)**	(7,810)
Income tax expense (benefit) charged to other comprehensive income	**6,983,448**	(1,150,895)

15. INCOME TAXES [Cont'd]

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

	2013 $	2012 $
Earnings (loss) before income taxes	**15,444,012**	(17,067,537)
Income tax expense (recovery) at combined federal and provincial statutory rate of 25.9%	**4,006,177**	(4,418,785)
Impact of impairment of goodwill not deductible for tax purposes	**—**	6,969,268
Effect of change in enacted tax rates	**(3,061)**	43,331
Non-deductible expenses and other	**(90,152)**	(15,475)
Income tax expense	**3,912,964**	2,578,339

Changes in statutory rate mainly result from the reduction in the federal and Ontario corporation tax rate, as well as a change in the proportion of the Company's earnings in the two jurisdictions, which have different tax rates.

Deferred income tax

Deferred income tax relates to the following:

	Consolidated statement of financial position		Consolidated statement of earnings (loss)	
	December 31, 2013 $	December 31, 2012 $	2013 $	2012 $
Deferred tax assets				
Goodwill	**1,745,681**	1,932,948	**187,267**	(307,780)
Derivative financial liability	**247,858**	323,898	**76,040**	132,861
Other	**332,843**	355,529	**108,458**	155,221
Non-capital losses	**16,407**	31,684	**15,276**	130,439
	2,342,789	2,644,059	**387,041**	110,741
Deferred tax liabilities				
Property, plant and equipment	**3,071,711**	3,310,146	**238,435**	138,192
Intangible assets	**2,918,583**	4,422,905	**1,504,321**	1,468,470
Accrued pension benefit asset (liability)	**2,118,455**	(5,657,000)	**(706,267)**	(436,348)
Other	**217,011**	391,582	**150,054**	148,350
	8,325,760	2,467,633	**1,186,543**	1,318,664
Deferred tax recovery			**(799,502)**	(1,207,923)
Net deferred income tax (liabilities) assets	**(5,982,971)**	176,426		

15. INCOME TAXES [Cont'd]

Reconciliation of net deferred tax (liabilities) assets

	2013 **$**	2012 $
Balance – beginning of the year	**176,426**	(2,182,392)
Tax recovery during the year recognized in the consolidated statement of earnings (loss)	**799,502**	1,207,923
Tax benefit recognized in other comprehensive loss	**(6,983,448)**	1,150,895
Other	**24,549**	—
Balance – end of year	**(5,982,971)**	176,426

16. SHARE CAPITAL

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

The change in share capital was as follows:

	Number of common shares	**Share capital** **$**
Balance, as of December 31, 2011	29,297,767	10,000,000
Purchase of share capital for cancellation	(336,900)	(114,992)
Balance, as of December 31, 2012	28,960,867	9,885,008
Balance, as of December 31, 2013	**28,960,867**	**9,885,008**

Pursuant to the normal course issuer bid, which began on December 5, 2011, the Company could have purchased for cancellation up to 1,500,000 common shares until December 4, 2012. During the twelve month period ended December 31, 2012, the Company purchased for cancellation 336,900 common shares at a price ranging from $1.05 to $1.62 per common share and thus completed the normal course issuer bid. The excess of the cost of the common shares over their average book value of $315, 729 was accounted for as a reduction of contributed surplus.

17. OPERATING, SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	2013 $	2012 Restated (note 4) $
Wages and salaries	30,652,836	33,513,477
Social security costs	5,063,211	4,999,024
Pension (gain) loss [see note 9]	(1,128,700)	2,820,900
Post-employment benefits other than pension [see note 9]	22,400	27,200
Share-based program expense	(42,238)	(2,048)
Employee benefits expenses	34,567,509	41,358,553
Raw materials and other purchases	50,456,121	50,832,904
Other	15,964,278	15,076,212
	100,987,908	**107,267,669**

18. DIVIDENDS

Dividends declared from January 1, 2013 to December 31, 2013 were as follows:

Declaration date	Record date	Payment date	Per share $	Dividend $
February 20, 2013	March 4, 2013	March 15, 2013	0.03	868,826
May 6, 2013	May 31, 2013	June 14, 2013	0.03	868,826
August 1, 2013	August 16, 2013	August 30, 2013	0.03	868,826
November 7, 2013	November 30, 2013	December 13, 2013	0.04	1,158,435
Total				**3,764,913**

Dividends declared from January 1, 2012 to December 31, 2012 were as follows:

Declaration date	Record date	Payment date	Per share $	Dividend $
February 15, 2012	February 29, 2012	March 15, 2012	0.03	878,933
May 7, 2012	May 31, 2012	June 15, 2012	0.03	878,933
July 31, 2012	August 31, 2012	September 17, 2012	0.03	878,210
November 8, 2012	November 30, 2012	December 17, 2012	0.03	869,876
Total				**3,505,952**

19. COMMITMENTS, CONTINGENCIES AND GUARANTEES

Operating lease commitments

The Company has entered into operating leases mainly for buildings.

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

	December 31, 2013 $	December 31, 2012 $
Within one year	**1,578,168**	1,719,418
After one year but not more than five years	**4,074,549**	4,827,585
More than five years	**357,286**	830,096
	6,010,003	7,377,099

Legal claim

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

Guarantees

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

Operating leases

The Company has general indemnity clauses in many of its real estate leases whereby it, as lessee, indemnifies the lessor against liabilities related to the use of leased property. These leases mature at various dates through September 2019 with renewal option for some leases. The nature of the agreements varies based on individual contracts and this prevents the Company from estimating the total potential amount it would have to pay to lessors, if any. Historically, the Company has not made any significant payments under such agreements, has insurance coverage for certain of the obligations undertaken, and, as December 31, 2013, has not recorded any liability associated with these indemnifications.

20. RELATED PARTY TRANSACTIONS

Compensation of key management personnel of Supremex is as follows:

	2013 $	2012 $
Short-term employee benefits	**1,342,665**	1,645,459
Post-employment benefits	**52,627**	77,409
Share-based payment transactions	**(42,238)**	(2,048)
	1,353,054	1,720,820

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

During the year ended December 31, 2013, the Company has, in the normal course of business, received services in an amount of $239,493 [2012 - $117,891] from a major shareholder, Clarke Inc., and its subsidiaries.

21. FINANCIAL INSTRUMENTS

Financial assets and liabilities

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

December 31, 2013	**Loans and receivables** **$**	**Assets at fair value through earnings** **$**	**Derivatives** **$**	**Other financial liabilities** **$**	**Total** **$**
Cash	—	1,506,205	—	—	**1,506,205**
Accounts receivable	17,375,214	—	—	—	**17,375,214**
Accounts payable and accrued liabilities	—	—	—	(14,418,279)	**(14,418,279)**
Provisions	—	—	—	(411,276)	**(411,276)**
Secured credit facilities	—	—	—	(38,000,000)	**(38,000,000)**
Derivative financial liability	—	—	(954,925)	—	**(954,925)**
Total	**17,375,214**	**1,506,205**	**(954,925)**	**(52,829,555)**	**(34,903,061)**

December 31, 2012	**Loans and receivables** **$**	**Assets at fair value through earnings** **$**	**Derivatives** **$**	**Other financial liabilities** **$**	**Total** **$**
Cash	—	5,093,876	—	—	**5,093,876**
Accounts receivable	15,071,817	—	—	—	**15,071,817**
Accounts payable and accrued liabilities	—	—	—	(18,157,589)	**(18,157,589)**
Provisions	—	—	—	(426,311)	**(426,311)**
Secured credit facilities	—	—	—	(50,000,000)	**(50,000,000)**
Derivative financial liability	—	—	(1,251,154)	—	**(1,251,154)**
Total	**15,071,817**	**5,093,876**	**(1,251,154)**	**(68,583,900)**	**(49,669,361)**

21. FINANCIAL INSTRUMENTS [Cont'd]

Fair values

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

The fair value of interest rate swap is measured using a generally accepted valuation technique, that is, the discounted value of the difference between the value of the swap based on variable interest rates (estimated using the yield curve for anticipated interest rates) and the value of the swap based on the swap's fixed interest rate. The Company's credit risk is also taken into consideration in determining fair value.

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

Management of risks arising from financial instruments

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

Credit risk

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

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, 2013 and 2012, total trade accounts receivable over 90 days past due amounted to less than 5% [see note 6]. The Company does not hold collateral as security.

21. FINANCIAL INSTRUMENTS [Cont'd]

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 revolving credit facility. The Company continuously reviews both actual and forecasted cash flows to ensure that it has adequate credit facility capacity. The Company continuously reviews its exposure to interest rate fluctuations and has decided to enter into an interest rate swap agreement [see note 14].

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

December 31, 2013	**Less than 3 months** **$**	**3 to 12 months** **$**	**1 to 5 years** **$**	**Total** **$**
Accounts payable and accrued liabilities	14,418,279	—	—	14,418,279
Provisions	411,276	—	—	411,276
Secured credit facilities	1,187,500	3,562,500	33,250,000	38,000,000
Derivative financial liability	118,000	353,999	491,666	963,665
	16,135,055	**3,916,499**	**33,741,666**	**53,793,220**

December 31, 2012	**Less than 3 months** **$**	**3 to 12 months** **$**	**1 to 5 years** **$**	**Total** **$**
Accounts payable and accrued liabilities	18,157,589	—	—	18,157,589
Provisions	426,311	—	—	426,311
Secured credit facilities	1,250,000	3,750,000	45,000,000	50,000,000
Derivative financial liability	85,500	256,500	358,435	700,435
	19,919,400	**4,006,500**	**45,358,435**	**69,284,335**

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 and risk management is to mitigate and control exposures within acceptable parameters while optimizing the return on risk.

21. FINANCIAL INSTRUMENTS [Cont'd]

Interest rate risk

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

On December 31, 2013, a 25 basis-point rise or fall in interest rates, assuming all other variables remained unchanged, would have resulted, respectively, in a $32,060 increase or decrease in the Company's net earnings for the year ended December 31, 2013 [2012 - $48,697].

Foreign exchange risk

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

As at December 31, 2013, net financial liabilities of the Company in Canadian dollars, denominated in US dollars, totalled $1,350,485 [2012 - $2,690,690].

On December 31, 2013, a 5% rise or fall in the Canadian dollar against the US dollar on financial instruments held at that date, assuming all other variables remained unchanged, would have resulted, respectively, in a $67,524 increase or decrease in the Company's net income (loss) for the year then ended [2012 - $134,535], whereas other comprehensive income (loss) would have remained unchanged.

Capital management

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

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

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

21. FINANCIAL INSTRUMENTS [Cont'd]

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

	December 31, 2013 $	December 31, 2012 $
Secured credit facilities	**38,000,000**	50,000,000
Cash	**(1,506,205)**	(5,093,876)
Net debt	**36,493,795**	44,906,124
Equity	**65,623,376**	37,906,900

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

22. SEGMENTED INFORMATION

The Company currently operates in one reporting segment: the manufacturing and sale of envelopes. The Company's non-current assets amounted to $94,437,158 in Canada and $765,294 in the United States as at December 31, 2013 [$94,919,075 and $846,307, respectively, as at December 31, 2012]. The Company's revenue amounted to $116,733,296 in Canada and $12,233,112 in the United States for the year ended December 31, 2013 based on customer location [2012 - $120,318,758 in Canada and $11,555,873 in the United States, respectively].

23. SUBSEQUENT EVENT

On February 19, 2014, the Board of Directors has declared a quarterly dividend of $0.04 per common share, payable on March 14, 2014 to shareholders of record at the close of business on February 28, 2014.