



**SUPREMEX INC.**

**ANNUAL INFORMATION FORM**

**March 30, 2016**

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## **EXPLANATORY NOTES**

The information in this Annual Information Form is stated as at December 31, 2015, unless otherwise indicated.

Unless otherwise indicated or the context otherwise requires, “Supremex” or the “Company” refers to Supremex Inc. together with its subsidiaries and predecessors. References to “Management” in this Annual Information Form are to the senior officers of Supremex. Any statements in this Annual Information Form made by or on behalf of Management are made in such persons’ capacities as officers of Supremex and not in their personal capacities.

For an explanation of the capitalized terms and expressions and certain defined terms, please refer to the “Glossary of Terms” at the end of this Annual Information Form. Unless otherwise indicated, all dollar amounts are expressed in Canadian dollars and comparative figures prior to January 1, 2011 are those of Supremex Income Fund (the “Fund”). References to “\$” are to Canadian dollars and references to “US \$” or “US dollars” are to United States dollars.

## **FORWARD-LOOKING INFORMATION**

This Annual Information Form contains “forward-looking information” within the meaning of applicable Canadian securities laws, including (but not limited to) statements about the EBITDA (or Adjusted) and future performance of Supremex and similar statements or information concerning anticipated future results, circumstances, performance or expectations. Forward-looking information may include words such as anticipate, assume, believe, could, expect, goal, guidance, intend, may, objective, outlook, plan, seek, should, strive, target and will. Such information relates to future events or future performance and reflects current assumptions, expectations and estimates of management regarding growth, results of operations, performance, business prospects and opportunities, Canadian economic environment and liability to attract and retain customers. Such forward-looking information reflects current assumptions, expectations and estimates of management and is based on information currently available to Supremex as at the date of this Annual Information Form. Such assumptions, expectations and estimates are discussed throughout our Management, Discussion and Analysis (“MD&A”) for fiscal 2015.

Forward-looking information is subject to certain risks and uncertainties, and should not be read as a guarantee of future performance or results and actual results may differ materially from the conclusion, forecast or projection stated in such forward-looking information. These risks and uncertainties include but are not limited to the following: economic cycles, availability of capital, decline in envelope consumption, increase of competition, exchange rate fluctuation, raw material price increases, credit risks with respect to trade receivables, increase in pension plans responsibilities, postal services deficiencies, interest rate fluctuation and potential risk of litigation. Such risks and uncertainties are discussed throughout this Annual Information Form and, in particular, in “Risk Factors”. Consequently, we cannot guarantee that any forward-looking statements or information will materialize. Readers should not place any undue reliance on such forward-looking information unless otherwise required by applicable securities legislation. The Company expressly disclaims any intention and assumes no obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise.

## **DEFINITION OF EBITDA AND NON – IFRS MEASURES**

References to “EBITDA” are to earnings before financing charges, income tax expense, amortization of property, plant and equipment and of intangible assets, (gain) loss on disposal of property, plant and equipment. Supremex believes that EBITDA is a measurement commonly used by readers of financial

statements to evaluate a company's operational cash-generating capacity and ability to discharge its financial expenses.

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

EBITDA or Adjusted EBITDA is not an earnings measure recognized under International Financial Reporting Standards ("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.

## CORPORATE STRUCTURE

### Name, Address and Incorporation

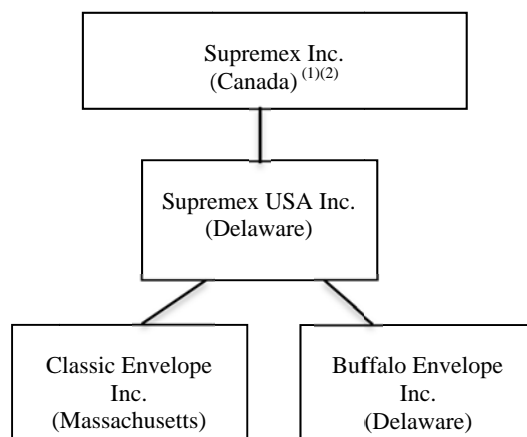
Supremex Inc. is governed by the *Canada Business Corporation Act* (the "CBCA") pursuant to articles of arrangement dated January 1, 2011. Supremex is a reporting issuer in all the provinces of Canada and its common shares are publicly traded on the Toronto Stock Exchange (the "TSX") under the symbol "SXP". The principal head office of Supremex is located at 7213 Cordner, LaSalle, Québec, H8N 2J7.

Supremex resulted from conversion on January 1, 2011 of the Fund into a public corporation named Supremex Inc. pursuant to a court-approved plan of arrangement (the "Arrangement") under section 192 of the CBCA. As a result of the Arrangement, unitholders (the "Unitholders") of the Fund received, for each unit (the "Units") of the Fund held, one common share (the "Shares") of Supremex and consequently, the holders of Units became the holders of Shares of Supremex (the "Shareholders"). The Fund was an unincorporated open-ended trust established under the laws of the Province of Québec by a fund declaration of trust made as of February 10, 2006, as amended and restated on March 31, 2006.

Accordingly, references to "Supremex" in this Annual Information Form for periods prior to January 1, 2011 are references to the Fund and /or its subsidiaries, as the context may require.

### Intercorporate Relationship

The following chart illustrates the structure of Supremex (including jurisdiction of establishment/incorporation of the various entities) as of March 30, 2016.



- (1) Supremex Inc. owns, directly or indirectly, all of the shares of Supremex USA Inc., Buffalo Envelope Inc. and Classic Envelope Inc.
- (2) Certain subsidiaries of the Company have been omitted because, at the most recent fiscal year end, none of them exceeded 10% of the consolidated assets of the Corporation or more than 10% of the consolidated revenue of the Company, and these subsidiaries, in the aggregate, did not represent more than 20% of the consolidated assets of the Company or more than 20% of the consolidated revenue of the Company.

## **GENERAL DEVELOPMENT OF THE BUSINESS**

### **History of Supremex**

The Supremex business was founded by four envelope industry executives in 1977 through the incorporation of Enveloppe Supreme Inc.

In 1990, the Schrodgers Canadian Buy-out Fund and Company, Limited (“Schrodgers”), an investment fund, acquired a 78% interest in Supremex, while the management group retained the remainder (22%). In 1991, Supremex acquired the assets of Innova Envelope from Abitibi-Price Inc., creating the largest envelope manufacturer in Canada. Supremex was sold by Schrodgers and the management group to Cenveo Inc. (“Cenveo”) (then Mail-Well Holdings Inc.) in 1995.

After 1995, Supremex, as a subsidiary of Cenveo, continued to expand through the completion of several strategic acquisitions. In 1996, Supremex acquired the assets of PNG Products Inc., PAC National Group and PNG Enveloppe Internationale Inc., which until then was the only other national envelope manufacturer and marketer in Canada. In 1998, Supremex acquired the assets of the envelope division of Québec-based Dominion BlueLine Inc. In 2000, Supremex acquired Ontario-based CML Industries Ltd., which included Regional Envelope Products Inc., Transit Envelope Inc. (Montreal), Precision Fine Papers Inc. and CML’s Specialty Paper Products division. In 2001, Supremex commenced the management of the consumer business of Cenveo “Depew” (as defined herein) operations in Buffalo, New York. Precision Fine Papers Inc., a paper sheeter and converter, was sold in September 2005.

In November 2005, Cenveo publicly announced its intention to evaluate the sale of its Canadian operations to de-leverage Cenveo’s balance sheet and redeploy its capital. This resulted in an Initial Public Offering in March 2006, which was completed in March 2007 with the sale by Cenveo of the balance of its indirect retained interest in Supremex.

On August 9, 2007 and September 16, 2008, Supremex acquired substantially all of the assets of NPG Envelope and Montreal Envelope respectively. On September 16, 2010, Supremex also acquired substantially all the assets of Pioneer Envelope Ltd.

On January 1, 2011, Supremex completed its conversion from an income trust structure to a corporation. As a result, Unitholders of the Fund became Shareholders of Supremex, receiving one Share of Supremex for each Unit held of the Fund. The Units of the Fund were delisted from the TSX and trading of the Shares of Supremex on the TSX commenced under the symbol “SXP”.

On October 8, 2015, Supremex acquired all of the outstanding shares of Classic Envelope Inc. a manufacturer and printer of envelopes based in Massachusetts and serving the greater Boston and New York City areas. Classic Envelope Inc. generated approximately US\$12 million in annual revenues from the sale of stock and custom envelopes and letterhead, primarily through various re-sale channels.

On December 1, 2015, Supremex Inc. announced it acquired substantially all of the assets of Premier Envelope Ltd. and affiliated operating entities, an established manufacturer of stock and custom envelopes, principally operating in Western Canada. Premier Envelope Ltd. generated approximately \$12

million in annual revenues from the sale of stock and custom envelopes, both directly and through a network of distributors, to financial institutions, large and small businesses, government organizations, commercial printers and mailing houses, primarily located in Western Canada.

## **BUSINESS OF SUPREMEX**

### **Overview**

Supremex is a leading North American manufacturer and marketer of a broad range of stock and custom envelopes and a growing provider of packaging and specialty products. Supremex is the only national envelope manufacturer in Canada, with facilities across seven provinces and two facilities in the United States and employs approximately 650 people. Supremex' growing footprint allows it to efficiently manufacture and distribute products tailored to the specifications of major corporations, national resellers, governmental entities, as well as paper merchants, statement processors and solution providers. In fiscal 2015, Supremex generated revenue of approximately \$142.3 million on a volume of 4.9 billion units<sup>1</sup>.

Over the years, Supremex developed strong relationships with a diversified and loyal base of customers in Canada and increasingly in the North-Eastern United States. The Company has more than 8,000 clients, none of whom represents more than 6% of revenues.

In fiscal 2015, revenues were mostly generated in the Central and Eastern regions, with 43% and 27% of sales respectively. The United States followed with 16% of revenues and 14% in the Western region. Most revenue growth was derived from increased sales of envelopes in the United States and from the sale of packaging and specialty products.

Supremex has been actively pursuing a market leading strategy in the Canadian envelope market, by leveraging its footprint through capacity allocation and consolidation opportunities. In the United States, the Company has been pursuing growth opportunities both organically and through acquisitions located in the North East. It has also increased its focus on building its value-added packaging and specialty offering, providing a more appealing long term growth profile and higher margin potential.

### ***Table of revenue information***

*(In thousands of dollars)*

<b>Revenue information</b>	<b>2015</b>	<b>2014</b>
<b>Percentage variation</b>		
Canadian envelope market revenues	\$106.8	\$107.3
Volume	-3.6%	-5.0%
Average selling price	3.2%	4.5%
<i>Total Growth Rate</i>	-0.5%	-0.7%
US envelope market revenues	\$25.0	\$14.8
Volume	45.4%	10.0%
Average selling price (in CAD)	16.5%	13.4%
<i>Total Growth Rate</i>	69.5%	24.8%

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<sup>1</sup> The term "units" used here refers to the collective number of custom envelopes, stock envelopes and packaging and specialty products.

Packaging & Specialty products <i>Total Growth Rate</i>	\$10.5 6.7%	\$9.8 8.1%
Total <i>Year-over-Year performance</i>	\$142.3 7.9%	\$131.9 2.3%

## Industry Overview

### *The American Envelope Market*

The American envelope manufacturing industry is a mature and declining industry which generated approximately US\$2.6 billion in annual sales in 2015 based on a volume of 157 billion units, according to the Envelope Manufacturers Association (EMA).

Management views the North Eastern United States as a very attractive market with an estimated 15% share of the American envelope market, representing revenues of approximately US\$450 million. Supremex has been actively pursuing growth opportunities in this market, taking advantage of its proximity to its largest manufacturing facilities, an undersupplied customer base because of distressed competitors and a favorable exchange rate.

In October 2015, Supremex acquired Massachusetts-based Classic Envelope Inc., adding to its existing New-York-based Buffalo Envelope Inc. operations. Classic Envelope Inc. generated annual sales of US\$12 million in 2015. With its growing presence in the North-Eastern United States, Supremex now estimates it is among the top five envelope manufacturers operating in the United States, following Cenveo Inc., Tension Envelope and two other larger independent owner-operators.

### *The Canadian Envelope Market*

The Canadian envelope manufacturing industry is relatively concentrated with the top five producers accounting for an estimated 90% of domestic sales. Management believes that Supremex has the largest share of the Canadian envelope manufacturing industry based on fiscal 2015 revenues. During 2015, it is estimated that the total Canadian envelope market stood at \$180 million. In 2015, Supremex generated revenue of \$106.8 million coming from the Canadian envelope market, to which should be added approximately \$12 million of annualized revenues from the December 2015 acquisition of Premier Envelope Ltd.

### *Envelope Trends*

A significant majority of envelopes manufactured in Canada are used for mailing purposes and the remainder are used for non-mail purposes. Examples of envelopes used for non-mail purposes include automatic teller machine (“ATM”) envelopes, overnight courier envelopes, payroll envelopes and photo product envelopes.

Transactional mail volumes are driven by activities of business-to-consumer businesses, primarily in the form of bills and statements from financial institutions, telecommunications companies and governmental entities. Transactional mail volumes are positively influenced by the overall growth of the economy, the population and the number of households.

Trends such as bill consolidation, whereby a service provider combines the billing of multiple services into one invoice, and the growth in the use of Internet for electronic bill presentment and payment are

generally thought to have a negative impact on transactional mail volumes and related items such as envelopes.

Transactional mail or First-Class Mail (as qualified by the U.S. Postal Service) volumes delivered by national postal services is a good proxy for trends in the broader envelope industry. Canada Post reported in its latest third quarter results<sup>2</sup> published on November 20<sup>th</sup> 2015, that Transactional mail (letters, bills and statements) volumes were down 5.5% over last year. These numbers exclude the positive effect of increased volume attributable to the most recent Federal elections.

The same long term trends are at work in the United States, with the U.S. Postal Service's total First-Class Mail volumes declining by approximately 3.3%<sup>3</sup>.

### *Direct Mail Trends*

Direct mail volumes are driven by direct mail activities of direct marketers, catalog-oriented retailers, publications marketers, credit card companies and other companies involved in business-to-consumer advertising. Demand for direct mail is driven by advertising spending and has historically tracked economic activity.

At Canada Post, Direct Mail volumes grew by 5.6% year-over-year during their third quarter results of 2015, mainly on election mailing volumes. Year-to-date, Direct Mail volumes increased by 0.9%, a better indication of long term steady growth trend in this market. At the U.S. Postal Service, Standard Advertising Mail volumes have been steady since 2009, with a slight decline of less than 1% in 2014.

### *Packaging and Specialty Products Trends*

The rise in e-commerce and consumer trends have been significant growth drivers for the packaging, labels and related products market. According to the World Packaging Organization, packaging tonnage for the flexible consumer packaging market is expected to grow 24.3% from 2011 to 2016<sup>4</sup>. With five principal types of packaging (paper and board, rigid plastic, glass, flexible plastic, beverage cans and other) and a diversified base of attractive end markets (such as food, various consumer products, beverage, health care and cosmetics), the packaging market<sup>5</sup> represents a complimentary and diversified growth market for Supremex and requires the same core competencies.

Parcel deliveries by Canada Post and the U.S. Postal Service is a good indicator of long term trends in this market. Canada Post's 2015 third quarter results saw 16.1% annual growth in Domestic Parcel volumes

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<sup>2</sup> As per News Releases section on Canada Post web site.

[https://www.canadapost.ca/web/en/blogs/announcements/details.page?article=2015/11/20/canada\\_post\\_segment\\_&catttype=announcements&cat=newsreleases](https://www.canadapost.ca/web/en/blogs/announcements/details.page?article=2015/11/20/canada_post_segment_&catttype=announcements&cat=newsreleases)

<sup>3</sup> As per Fact and Figures section on U.S Postal Service web site.

<https://about.usps.com/who-we-are/postal-facts/decade-of-facts-and-figures.htm>

<sup>4</sup> As per a presentation available on the Institute of Packaging Professionals web site.

<http://www.iopp.org/files/SchneiderwebinarslidesFINAL.pdf>

<sup>5</sup> As per a study available on EY web site.

[http://www.ey.com/Publication/vwLUAssets/Unwrapping\\_the\\_packaging\\_industry\\_-\\_seven\\_factors\\_for\\_success/\\$FILE/EY\\_Unwrapping\\_the\\_packaging\\_industry\\_-\\_seven\\_success\\_factors.pdf](http://www.ey.com/Publication/vwLUAssets/Unwrapping_the_packaging_industry_-_seven_factors_for_success/$FILE/EY_Unwrapping_the_packaging_industry_-_seven_success_factors.pdf)



and Shipping and Package volumes at the U.S.P.S. also grew by 8.1% in 2014. Canada Post attributes this growth to its e-commerce strategy and innovative solutions for online retailers and shoppers.

According to the International Data Corporation (IDC), the labels and packaging press market has grown 27.5% in 2014, driven by customization and on-demand solutions. This trend is expected to continue with an average compound annual rate of 8.7%<sup>6</sup>.

### Product and Service Offering

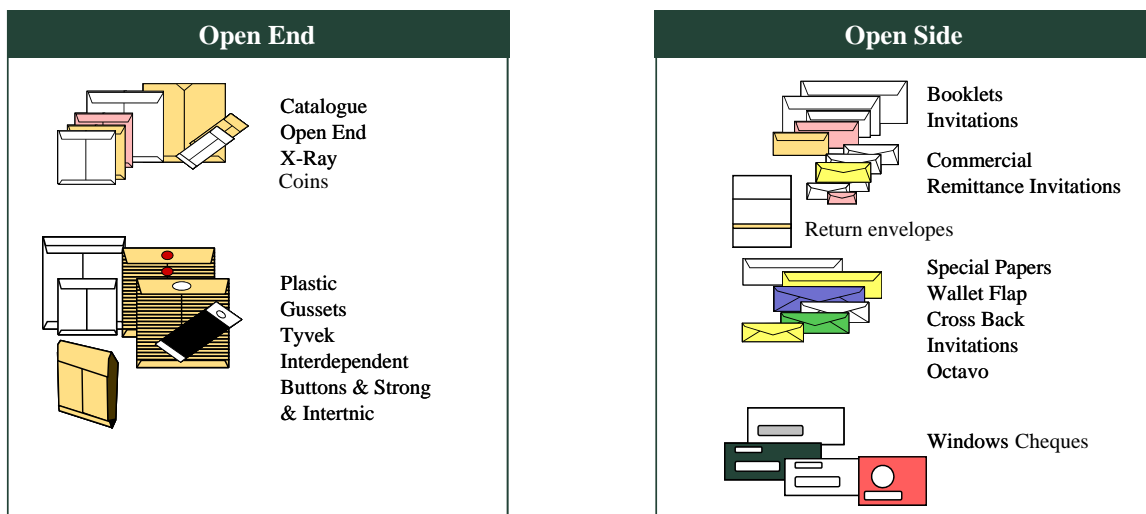
For almost 40 years, Supremex has developed its core paper substrate and converting expertise to become one of the largest manufacturers and distributors of envelopes and related products in North America. The Company manufactures a broad range of envelopes in an array of styles, shapes and colours, which allows it to offer its customers a high degree of flexibility and customization. The Company’s products can generally be divided into three categories: stock envelopes, custom envelopes and packaging and specialty products.

As part of its envelope offering, Supremex offers its customers graphic art, warehousing and distribution services related to its products. Graphic art services include basic design and creative activities through to final customer-approved proofs for envelope printing. Warehousing and distribution of its products are provided to customers seeking to minimize the total cost of buying envelopes, while ensuring availability of supply and timely delivery.

#### Stock Envelopes

Supremex maintains the broadest stock envelope product line in Canada. The stock envelope is a generic product that can be used by customers for a variety of uses.

Stock envelopes range from the smallest greeting card or coin envelope to jumbo mailers and are made of various colours and grades of paper. The following charts illustrate examples of stock envelopes:



<sup>6</sup> As per a press release issued by IDC and available on their web site. <https://www.idc.com/getdoc.jsp?containerId=prUS25712215>

Stock envelopes are mainly sold through fine paper merchants, independent envelope printers and commercial and office stationery suppliers. Management has determined that it is more cost effective for Supremex to sell stock envelopes through these distribution channels, rather than conducting its own marketing and sales efforts to sell them directly to end users.

### *Custom Envelopes*

Custom envelopes are manufactured according to customer specifications, which may require the collection of over 100 different pieces of information. Examples of custom features include size, colour, print, paper quality and window characteristics. Management believes that custom envelopes represent the majority of all envelopes consumed in the Canadian market. The method of procurement of custom envelopes by customers varies from end users buying directly for their own use to solution providers buying on behalf of large end users, and Supremex has been successful in adapting itself to various procurement methods in the marketplace.



### *Packaging Products*

Supremex offers a diverse range of packaging products such as Conformer Products®, polyethylene bags for courier applications, bubble mailers, Enviro-logiX and Tyvek®.

### *Specialized Products*

In addition to custom and stock envelopes, Supremex offers related products which include RFID protective envelopes, X-ray envelopes, medical and file folders, repositionable notes, membership cards as well as labelling products.

## **Distribution Channels**

Supremex typically distributes its products within approximately 800 kilometers of its manufacturing facilities to all major geographic markets across Canada and in certain parts of the Northern United States via two distinct distribution channels:

### *Resellers of Stock Envelopes*

The resellers of stock envelopes consist of distributors who resell Supremex' envelopes to printers and to small and large businesses, which include fine paper merchants, independent envelope printers and stationers. Management believes that Supremex' unique combination of a broad stock envelope offering, next-day product delivery and national distribution network provide key selling propositions for resellers.

### *Resellers and End Users of Custom Envelopes*

The resellers of custom envelopes consist of intermediaries who resell Supremex' envelopes to end users. Such resellers include solution providers (such as forms manufacturers, large printers, and commercial and office stationery suppliers) and process providers (such as statement preparation providers).

Supremex believes that its broad custom envelope offering, flexible and highly customized manufacturing capabilities and national distribution network provide compelling value propositions to resellers of custom envelopes.

Supremex also uses its sales force to market custom envelopes directly to corporate end users of custom envelopes.

### **Customers**

Supremex sells its products to large and small customers in a variety of industries. Supremex maintains long-term relationships with several end users, including leading financial institutions, telecommunications and utility companies, as well as federal, provincial and municipal governmental entities. Supremex also maintains strong relationships with customers in the resale distribution channel.

The envelope manufacturing business is characterized by individual orders for specific manufacturing jobs and Supremex does not typically enter into long-term agreements with its customers.

### **Raw Materials and Suppliers**

The principal raw materials used by Supremex are paper, window film, boxes, adhesives and ink.

In fiscal 2015, paper, net of paper waste revenue, represented approximately 64% of Supremex' raw material costs. All were purchased from a variety of suppliers located in Canada and the United States. The purchase price of paper varies according to paper grades and suppliers, and is the result of individual negotiations with such suppliers. However, the net price paid from one supplier to the other is relatively similar and is based on the market price in effect from time to time.

Supremex typically purchases its paper and window film supplies on an ongoing basis. Supremex has never experienced a business interruption due to insufficient supply of raw materials.

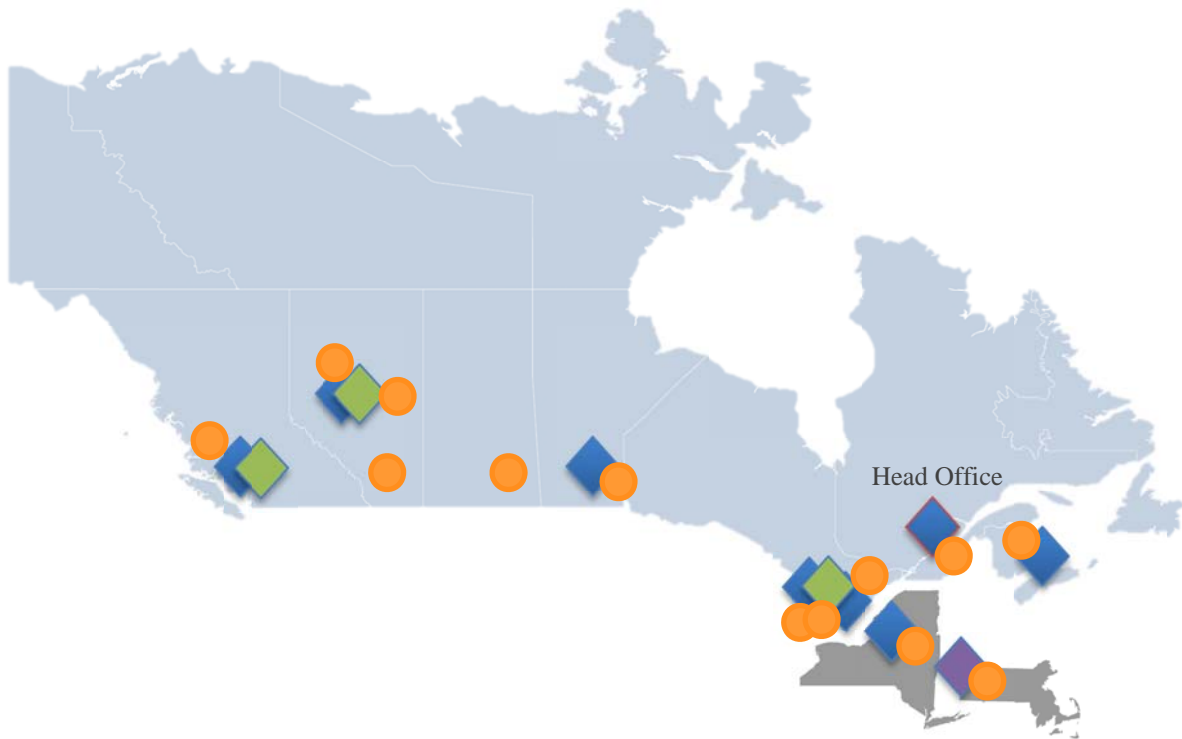
Due to the variability in the prices of raw material supplies, envelope manufacturing costs are subject to fluctuation over time and such variations in costs, including the effect of currency exchange rates, are generally passed on to Supremex' customers. In 2015, approximately three quarters of Supremex's total raw materials were purchased in U.S. dollars while the appreciation of the U.S. dollar against the Canadian dollar had a positive conversion effect and contributed to approximately 16% of the year's revenue growth.

### **Operations and Facilities**

Supremex is organized into three regions across Canada: Western region (British Columbia, Alberta and Manitoba/Saskatchewan), Central region (Ontario) and Eastern region (Québec and the Atlantic provinces). In the United States, Supremex is in Western New York operating under the name of Buffalo Envelope Inc. and in Douglas, Massachusetts with the recent acquisition of Classic Envelope Inc. Supremex' head office is located at its LaSalle facility in Québec. While each region is managed based on the unique characteristics of local markets and customers, local management teams have significant autonomy in the way their respective regions operate, coordination of operations between each region is a

priority to benefit from efficiencies and performance. The Supremex corporate office sets various strategic priorities and financial targets for the regions and leverages its national purchasing power and provides other support services. The following chart shows the Supremex facility locations.

*National Footprint, Growing U.S. Presence*



- Legend:
- ◆ Supremex Facility (pre-2015 acquisitions)
  - ◆ Premier Envelope Ltd. Facility (acquired 12-2015)
  - ◆ Classic Envelope Inc. Facility (acquired 10-2015)
  - Sales and Distribution Office

Note: American States not to scale.

During the fourth quarter of 2015, Supremex acquired two envelope manufacturers, Classic Envelope Inc. which had one manufacturing and distribution center in Massachusetts and Premier Envelope Ltd. which had three facilities (represented by a green diamond above). During the first quarter of 2016 and upon expiration of the commercial lease, Supremex moved its personnel located at its Delta legacy facility in British Columbia to the Premier facility located nearby in Richmond. Supremex now has eleven manufacturing facilities, nine of which are located in Canada and two in the North-Eastern United States.

*Supremex' Facilities*

Supremex currently manufactures its products at eleven facilities, two of which are owned by Supremex and nine of which are leased by Supremex. The following table sets out certain information regarding Supremex' manufacturing facilities.

<u>Location</u>	<u>Type</u>	<u>Approximate Square Footage</u>	<u>Owned/Leased</u>	<u>Lease Expiry Date</u>
<b>Western region</b>				
Richmond, BC	Manufacturing & Sales	27,000	Leased	Nov. 30, 2025
Edmonton, AB	Manufacturing & Sales	33,000	Leased	Aug. 31, 2017
Edmonton, AB	Manufacturing & Sales	24,500	Leased	Nov. 30, 2017
Winnipeg, MB	Manufacturing & Sales	38,000	Leased	Oct. 31, 2017
Regina, SK	Distribution	3,000	Leased	Oct. 31, 2018
<b>Central region</b>				
Etobicoke, ON	Manufacturing & Sales	96,000	Owned	n/a
Mississauga, ON	Manufacturing & Sales	7,400	Leased	Feb 29, 2016 <sup>(1)</sup>
Mississauga, ON	Manufacturing	85,500	Leased	Sept. 30, 2019
<b>Eastern region</b>				
LaSalle, QC	Manufacturing & Sales	139,000	Owned	n/a
Moncton, NB	Manufacturing & Sales	18,500	Leased	May 31, 2016 <sup>(1)</sup>
<b>North-East U.S. region</b>				
Buffalo, NY	Manufacturing & Sales	11,600	Leased	March 31, 2017
Douglas, MA	Manufacturing & Sales	150,000	Leased	Sept. 30, 2020

<sup>(1)</sup> These leases are up for renewal and are currently under negotiation.

In addition to the above facilities, Supremex has two sales offices which are leased.

### **Seasonality**

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

### **Employees**

As at December 31, 2015, Supremex had a total of approximately 650 employees, of which approximately 79% were involved in production activities and the remainder in sales and administration activities.

As at March 30, 2016, all of Supremex' workforce is non-unionized and the Company believes that its relationship with its employees is good.

The LaSalle (Québec) facility is not covered by a union certification, but has an employee association which has adopted an employee manual. The employee manual contains personnel policies for hourly paid production and warehouse employees and is aimed at informing employees about their working

conditions, in a manner similar to a standard collective agreement. The rights, privileges and benefits defined in the employee manual apply to all permanent employees of Supremex in the LaSalle (Québec) facility. The current employee manual has been effective since January 1<sup>st</sup>, 2015 and is valid for a three-year period until a new agreement is signed between the parties.

## **Competition**

The Canadian envelope manufacturing industry is comprised of both domestic and foreign manufacturers. Management estimates that, in addition to Supremex, there are less than ten domestic manufacturers of envelopes, all of which are owner-operator businesses that focus their efforts on local Canadian envelope markets. Only two domestic manufacturers operate more than one manufacturing location in Canada. Foreign manufacturers are almost exclusively US-based without any Canadian manufacturing operations and generally concentrate their efforts in Canada on a narrow range of high volume purchasers of envelopes.

With the exception of a few national customer accounts, manufacturers of envelopes in Canada supply local customers. Manufacturing is locally organized due to the geographic scale of Canada and the freight costs involved in the transportation of envelopes. Consequently, most envelopes are produced and consumed locally wherever possible to maximize cost efficiency and speed to market and to permit press approvals, local warehousing and just-in-time purchasing strategies.

Supremex believes that its primary competitors in the Canadian envelope industry consist both of large manufacturers located in the United States (principally of Cenveo, who integrated the assets of National Envelope who went bankrupt in late 2013), and of many smaller Canadian local competitors. The large manufacturers located in the United States, may in the future increase their market share and penetration of the Canadian envelope market, however the current foreign exchange rate creates a barrier to entry in the Canadian market.

## **Environmental Regulations**

Supremex' operations and real property are subject to a legislative regime including laws, regulations, guidelines, policies, permits and other approvals relating to environmental matters, including those governing the use, storage, treatment, transportation and disposal of hazardous materials, or the emission, release or discharge of such materials into the environment, the remediation of contamination and occupational health and safety matters (collectively, the "Environmental Laws"). Some of these Environmental Laws may impose joint and several liability on lessees and owners or operators of facilities for the costs of investigation or remediation of contaminated properties, based on their ownership or management and control of real properties, regardless of current ownership, fault, negligence or the legality of the original disposal or release.

Supremex generates both hazardous and non-hazardous waste. Environmental liability is a risk associated with Supremex' business, principally with regard to past and present business operations involving the use, storage, handling and contracting for recycling or disposal of hazardous and non-hazardous materials such as washes, inks, alcohol-based products, plate solvent and photographic fixer.

The facilities owned or operated by Supremex have been in operation for many years and, over such time, Supremex and the prior owners or operators of such properties may have used, generated or disposed of substances, some of which are or may be considered hazardous. Some of these facilities are located in industrial areas where there could have been migratory contamination from adjacent sources. Accordingly, it is possible that additional environmental liabilities may arise in the future as a result of the use, generation, release and disposal of any such hazardous and non-hazardous substances.

## DIVIDENDS AND DISTRIBUTION

Supremex' current dividend policy is to declare quarterly dividends. The dividend policy is subject to the discretion of the Board of Directors and may vary depending on, among other things, Supremex' earnings, financial requirements, compliance to the covenants of the Senior Secured Revolving Facility and the satisfaction of the solvency tests imposed by the CBCA for the declaration of dividends and other conditions existing at such future time.

The following table sets forth the quarterly dividend per Share declared by Supremex for the last three most recently completed years:

Month	2015	2014	2013
January	—	—	—
February	\$0.05	\$0.04	\$0.03
March	—	—	—
April	—	\$0.04	—
May	\$0.05	—	\$0.03
June	—	\$0.04	—
July <sup>(1)</sup>	\$0.05	\$0.045	—
August	—	—	\$0.03
September	—	—	—
October	—	—	—
November	\$0.055	\$0.05	\$0.04
December	—	—	—

<sup>(1)</sup> On July 31, 2014 the Board of Directors has declared the quarterly dividend payable to shareholders of record at the close of business on September 30, 2014. Previously, the quarterly dividend was declared after the quarter-end upon the publication of the quarterly results, which occurs between 30 to 45 days after quarter-end.

All decisions pertaining to the Company's dividend policy are taken at its quarterly Board meeting which usually takes place 30 to 45 days after the end of each quarter.

## DESCRIPTION OF CAPITAL STRUCTURE

The authorized share capital of Supremex consists of an unlimited number of Shares and an unlimited number of preferred non-voting shares, issuable in series. The rights, privileges, restrictions and conditions attaching to the shares and the preferred shares are as follows:

### *Common Shares*

Holder of Shares are entitled to receive dividends as and when declared by the Board of Directors of Supremex and are entitled to one vote per Share on all matters to be voted on at all meetings of shareholders. Upon the voluntary or involuntary liquidation, dissolution or winding-up of Supremex, the holders of Shares are entitled to share rateably in the remaining assets available for distribution, after payment of liabilities and subject to the prior rights of preferred shares (if any).

## Preferred Shares

The Board of Directors of Supremex has the authority, without further action by the shareholders, to issue an unlimited number of preferred shares in one or more series. These preferred shares may be entitled to dividend and liquidation preferences over the Shares. The Board of Directors may fix the designations, powers, preferences, privileges and relative, participating, optional or special rights of any preferred shares issued, including any qualifications, limitations or restrictions. Special rights which may be granted to a series of preferred shares may include dividend rights, conversion rights, voting rights, terms of redemption and liquidation preferences, any of which may be superior to the rights of the Shares.

## DIRECTORS AND OFFICERS

The following table sets out, for each of the directors and officers of Supremex as of March 30, 2016, the name, municipality of residence, position(s) with Supremex and the principal occupation. The term of office for each of the directors will expire at the time of the next annual meeting of Shareholders. As of March 30, 2016, the directors and officers of Supremex beneficially owned, directly or indirectly or exercised control or direction over, Shares representing in the aggregate approximately 20.2% of the issued and outstanding Shares on a fully-diluted basis. 5,487,385 shares are held by the Article 6 Marital Trust created under the First Amended and Restated Jerry Zucker Revocable Trust dated 4-2-07, an affiliate of The InterTech Group, Inc.

Name and Municipality of Residence	Position	Principal Occupation	Director since	Ownership of Shares
Robert B. Johnston <sup>(1)</sup> Isle of Palms, South Carolina	Director, Chairman of the Board of Directors	Executive Vice President and Chief Strategy Officer of The InterTech Group, Inc.	May 8, 2014	15,000
Stewart Emerson Toronto, Ontario	President and Chief Executive Officer, Director	President and Chief Executive Officer of Supremex Inc.	December 11, 2014	210,000
Mathieu Gauvin <sup>(2)(4)(5)</sup> Montreal, Québec	Director	Partner of Richter Advisory Group Inc.	June 2, 2011	—
Georges Kobrynsky <sup>(2)(3)(5)</sup> Montreal, Québec	Director	Corporate Director	From March 31, 2006 to May 7, 2012 and since February 21, 2013	—
Dany Paradis <sup>(3)(4)(5)</sup> Montreal, Québec	Director	Senior Vice President and Chief Human Resources Officer of Yellow Pages Limited	February 21, 2013	2,000
Warren J. White <sup>(2)(3)(4)</sup> Dollard-des-Ormeaux, Québec	Director	Corporate Director and Independent Consultant	December 11, 2014	5,000
Benoît Crowe Montreal, Québec	Vice President, Finance and Corporate Secretary	Vice President, Finance and Corporate Secretary of Supremex Inc.	N/A	—

<sup>(1)</sup> 5,487,385 shares are held by the Article 6 Marital Trust created under the First Amended and Restated Jerry Zucker Revocable Trust dated 4-2-07, an affiliate of The Intertech Group, Inc.

<sup>(2)</sup> Member of the Audit Committee.

<sup>(3)</sup> Member of the Human Resources Committee



<sup>(4)</sup> Member of the Corporate Governance Committee.

<sup>(5)</sup> Member of the Pension Investment Committee.

The following are brief profiles of the current directors and officers of Supremex:

**Robert B. Johnston, Chairman**

Robert B. Johnston is Executive Vice President and Chief Strategy Officer of The InterTech Group, Inc., since 2008. Mr. Johnston previously served as Chief Executive Officer and Vice Chairman of The Hudson's Bay Company. Mr. Johnston holds an MBA Degree from the John Molson School of Business, a Master's Degree in Public Policy and Public Administration, as well as a Bachelor's Degree in Political Science from Concordia University and holds the ICD.D Designation from the Institute of Corporate Directors. Mr. Johnston is a Director of Fyffes plc, Gas Natural Inc., Corning Natural Gas Holding Corporation, Circa Enterprises Inc. and Experiences Canada.

**Stewart Emerson, President and Chief Executive Officer**

Stewart Emerson is the President and Chief Executive Officer of Supremex Inc. Prior to his current role, Mr. Emerson began his career as Account Manager at Innova Envelope Inc. in 1990 and has since held a number of positions, including Sales Manager, General Sales Manager, Vice President and General Manager, Central Region and Buffalo Envelope. He is responsible for leading many successful M&A integrations. He holds a Bachelor's Degree in Business Administration with a double major in Marketing and Management from the Northeastern University of Boston.

**Mathieu Gauvin, Director**

Mathieu Gauvin is Partner at Richter Advisory Group Inc. and has been with the firm since September 2006. He is a Director and Chair of the Audit Committees of HNZ Group Inc., Richelieu Hardware Ltd. and Logistik Unicorp Inc. From January 2006 to May 2006, he was Chief Financial Officer of Europe's Best Inc. From February 1991 to January 2006, he was Vice President and Partner of Schrodgers & Associates Canada Inc. and, from November 1987 to February 1991, he was Director, Acquisition Analysis, for this company or for its predecessor corporations. He holds a Bachelor's degree in Commerce from McGill University, is a Chartered Professional Accountant, Chartered Financial Analyst and Chartered Business Valuator.

**Georges Kobrynsky, Director**

Georges Kobrynsky, a former Trustee of Supremex Income Fund and Director of Supremex Inc. from 2006 to 2012. He is currently corporate Director of Cascades Inc. Previously, Mr. Kobrynsky was Senior Vice President, Investments Forest Products of the Société générale de financement du Québec from 2005 to 2010 and held various senior positions at Domtar Inc. for over 30 years. He also held a position at the Ministry of the Environment of Canada from 1971 to 1975. Mr. Kobrynsky has completed the Senior Executive Program from University of Western Ontario. He also holds a Master of Business Administration from McGill University, a Bachelor's degree in Sciences from the Université Laval and a Bachelor's of Arts degree from the Université de Montréal.

**Dany Paradis, Director**

Dany Paradis is Senior Vice President and Chief Human Resources Officer at Yellow Pages Limited since June 2014. Previously, he was a senior executive at Fibrek Inc. leading the supply chain teams and the corporate services. Mr. Paradis held various senior management positions at ReebokCCM/Reebok Canada (adidas Group) from 2005 to 2008 and at Domtar Inc. from 1998 to 2005. He holds a Bachelor of

Actuarial Sciences from Laval University and has completed the Advanced Leadership Program at McGill University. He holds the ICD.D designation from the Institute of Corporate Directors.

**Warren J. White, Director**

Warren J. White sits on the Board of Directors of Circa Enterprises Inc. and Titan Logix Corp. He has held many senior leadership roles for large international manufacturing organizations with responsibilities in information technology, finance, procurement and strategic planning. Before becoming an independent consultant, Mr. White was Senior Vice President, Global Business Engineering at CGI until 2012 and Vice President, Information Technology and Global Procurement at Alcan Aluminum until 2003. Mr. White is a Chartered Professional Accountant and holds an MBA degree from Concordia University.

**Benoît Crowe, Vice President, Finance and Corporate Secretary**

Benoît Crowe is Vice President, Finance of Supremex Inc. since January 2014. He is a Chartered Professional Accountant and cumulates more than 15 years of experience in accounting, reporting, treasury management and acquisitions. Prior to joining Supremex, Mr. Crowe worked at ProSep as Vice President, Finance and was previously corporate controller at Richelieu Hardware Ltd. where he led the accounting, financial and treasury teams. Previously, he held various positions at the accounting firm KPMG. He holds a Bachelor of Business Administration and a Specialized Graduate Diploma in Public Accounting from HEC Montreal.

**CORPORATE GOVERNANCE**

The directors are responsible for the governance of Supremex and have established an Audit Committee, a Human Resources Committee, a Corporate Governance Committee as well as a Pension Investment Committee, each of which shall have a number of members as determined by the Board of Directors from time to time. For the Audit Committee, all three of its members shall be “independent”; for the Human Resources Committee, all three of its members shall be “independent”; for the Corporate Governance Committee, all three of its members shall be “independent”; and for the Pension Investment Committee, all three of its members shall be “independent”.

**Corporate Governance Committee (“CG”)**

The committee shall review and make recommendations to the directors concerning the appointment of officers of Supremex and its subsidiary entities. The committee is responsible for developing Supremex’ approach to corporate governance issues, advising the board on filling vacancies on the board and periodically reviewing the composition and effectiveness of the board and the contribution of individual directors. The committee is responsible for adopting and periodically reviewing and updating Supremex’ written disclosure policy. This policy, among other things: (i) articulates the legal obligations of Supremex, its affiliates and their respective directors, officers, employees and consultants with respect to confidential information; (ii) identifies spokespersons of Supremex who are the only persons authorized to communicate with third parties such as analysts, the media and investors; (iii) provides guidelines on the disclosure of forward-looking information; (iv) requires advance review by senior executives of Supremex of any selective disclosure of financial information to ensure the information is not material or, if selective disclosure of material information does occur, that a news release is issued immediately; and (v) establishes “black-out” periods prior to and following the disclosure of quarterly and annual financial results and prior to the disclosure of certain material changes, during which periods Supremex, its affiliates and their respective directors, officers, employees and consultants may not purchase or sell Shares.

### **Human Resources Committee (“HR”)**

The Human Resources Committee shall annually review the Chief Executive Officer’s goals and objectives for the upcoming year and provide an assessment of the Chief Executive Officer’s performance to the Board of Directors. The committee shall make recommendations concerning the remuneration of the directors and shall administer and make recommendations regarding any employee bonus plans.

### **Pension Investment Committee (“PIC”)**

On February 19, 2014, the Board of Directors established the Pension Investment Committee whose mandate is, inter alia, to assist the Board in the administration of the Company’s sponsored pension plans and the investment of the funds therein.

### **Audit Committee**

The Audit Committee assists the directors in fulfilling their responsibilities regarding the oversight and supervision of the accounting and financial reporting practices and procedures of Supremex, the adequacy of internal accounting controls and procedures, and the quality and integrity of the financial statements of Supremex. In addition, the committee is responsible for directing the auditors’ examination of specific areas and for the selection of potential independent auditors to be appointed by the Shareholders.

### **Charter of the Audit Committee**

The charter of the Audit Committee, as approved on April 12, 2006 and amended on November 5, 2007 on March 22, 2011, and on March 20, 2015, is set out in Schedule A to this Annual Information Form.

### **Composition of the Audit Committee**

The Audit Committee is composed of three members. Each member of the Audit Committee is independent of Supremex and financially literate as required under Multilateral Instrument 52-110 – *Audit Committee*.

### **Relevant Education and Experience of the Audit Committee Members**

In addition to each member’s general business experience, the education and experience of each Audit Committee member that is relevant to the performance of his or her responsibilities as an Audit Committee member is as follows:

- (i) Mathieu Gauvin is Partner at Richter Advisory Group Inc. and works for the company since September 2006. He is Director and Chair of the Audit Committee of HNZ Group Inc., Richelieu Hardware Ltd. and Logistik Unicorp Inc. Previously, from January 2006 to May 2006 he was Chief Financial Officer of Europe’s Best Inc. From February 1991 to January 2006, he was Vice President and Partner of Schrodgers & Associates Canada Inc. and, from November 1987 to February 1991, he was Director, Acquisition Analysis, for this company or for its predecessor corporations. He holds a Bachelor’s degree in Commerce from the McGill University and is also Chartered Professional Accountant, Chartered Financial Analyst and Chartered Business Valuator.
- (ii) Georges Kobrynsky, a former Trustee of Supremex Income Fund and Director of Supremex Inc. from 2006 to 2012, is currently a Corporate Director and the Chair of the

Audit Committee of Cascades Inc. Previously, Mr. Kobrynsky was Senior Vice President, Investments Forest Products of the Société générale de financement du Québec from 2005 to 2010 and held various senior positions at Domtar Inc. over 30 years. He also held a position at the Ministry of the Environment of Canada from 1971 to 1975. Mr. Kobrynsky has completed the Senior Executive Program from University of Western Ontario. He also holds a Master of Business Administration from McGill University, a Bachelor's degree in Sciences from the Université Laval and a Bachelor's of Arts degree from the Université de Montréal.

- (iii) Warren J. White is a CPA and an MBA graduate from Concordia University. He has held many senior leadership roles for large international manufacturing organizations with responsibilities in information technology, finance, procurement and strategic planning. Before becoming an independent consultant, Mr. White was Senior Vice President, Global Business Engineering at CGI until 2012 and Vice President, Information Technology and Global Procurement at Alcan Aluminum until 2003. Mr. White is also a director of Circa Enterprises Inc. and Titan Logix Corp.

### **Audit Fees**

Ernst & Young LLP has served as Supremex' auditing firm since October 2005. As detailed in the table below, fees to Ernst & Young LLP and its affiliates for the Fiscal 2015 and the fiscal year ended December 31, 2014 ("Fiscal 2014") represented approximately \$213,085 and \$152,450 respectively.

	<b>Fiscal 2015</b>	<b>Fiscal 2014</b>
Audit fees <sup>(1)</sup>	\$130,725	\$110,000
Audit-related fees <sup>(2)</sup>	\$20,500	\$20,000
Tax fees <sup>(3)</sup>	<u>\$61,860</u>	<u>\$22,450</u>
<b>Total Fees</b>	<b>\$213,085</b>	<b>\$152,450</b>

(1) "Audit Fees" include fees for professional services rendered for the audit of Supremex annual financial statements.

(2) "Audit-Related Fees" include fees for audit-related fees for consultations concerning financial accounting or the presentation of financial information which are not categorized as "audit services", pension plans audit, accounting work related to acquisitions and review of documents filed with regulatory authorities.

(3) "Tax Fees" include fees for all tax services other than those included in "Audit Fees" and "Audit-Related Fees". This category includes fees paid for various consultations and the review of tax returns.

### **CEASE TRADE ORDERS, BANKRUPTCIES, PENALTIES OR SANCTIONS**

#### *Corporate Cease Trade Orders or Bankruptcies*

To the knowledge of Supremex, in the last ten years, no director, chief executive officer, or chief financial officer of Supremex is or has been a director or executive officer of any company that, while that person was acting in that capacity, (i) was the subject of a cease trade order or similar order, or an order that denied the relevant company access to any exemptions under securities legislation, for a period of more than 30 consecutive days, (ii) was the subject of an event that resulted, after that person ceased to be a director or executive officer, in the company being the subject of a cease trade order or similar order or an order that denied the relevant company access to an exemption under securities legislation, for a period of more than 30 consecutive days or (iii) within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or

instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets, except for:

- (i) Mr. Benoît Crowe who, while acting as Vice President, Finance for ProSep Inc. (“ProSep”) was the subject, along with all other officers and directors of ProSep, to a temporary management cease trade order on April 29, 2013 for ProSep’s failure to file its annual financial statements. The order was revoked on June 17, 2013. Moreover, on October 26, 2013, ProSep entered into a plan of arrangement with its creditors pursuant to the CCAA and was dissolved on or about December 19, 2013.

#### *Penalties or Sanctions*

To the knowledge of Supremex, no director or executive officer of Supremex, (i) has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority or (ii) has been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

#### *Personal Bankruptcies*

To the knowledge of Supremex, in the last ten years, no director or executive officer of Supremex has become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or was subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director or executive officer.

#### *Conflicts of Interest*

No director or senior officer of Supremex or other insider of Supremex, nor any associate or affiliate of the foregoing persons has any substantial interest, direct or indirect, in any material transaction since the commencement of Supremex’ last financial year.

## MARKET FOR SECURITIES

### *Trading Price and Volume*

The Shares are currently listed for trading on the TSX under the symbol “SXP”. The following table shows the monthly range of high and low prices per Unit and the total monthly volumes of Shares traded on the TSX for the months of January to, and including, December 2015.

<b>2015 Month</b>	<b>Price per Share (\$) Monthly High</b>	<b>Price per Share (\$) Monthly Low</b>	<b>Shares Total Monthly Volume</b>
January	3.59	2.95	745,382
February	3.92	3.30	971,219
March	3.98	3.55	892,022
April	4.50	3.69	1,792,833
May	5.16	4.00	1,770,561
June	5.05	4.60	893,517
July	5.90	4.29	991,050
August	5.92	4.07	1,121,231
September	5.32	4.21	701,418
October	5.13	4.31	683,262
November	5.45	4.78	305,802
December	5.08	4.37	341,025

## TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Shares is Computershare Investor Services Inc. at its principal transfer office in Montreal, Québec.

## RISK FACTORS

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

### *Decline in Envelope Consumption*

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

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

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

### *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' 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 three 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.

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 would be introduced in March 2014 (increases from 14.75% for machineable standard letter mail to 35% for individual stamps);
- The retail network would be strengthened by opening more franchise postal outlets in stores across Canada;
- Changes to internal operations to obtain a more efficient flow of parcels and mail through the network and to the customers; and
- Changes to the business model, which will require fewer employees.

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

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

### *Relation with Customers*

Supremex typically does not enter into long-term, written agreements with customers. As a result, there is a risk that customers may, without notice or penalty, terminate their relationship with Supremex at any time. In addition, even if customers decide to continue their relationship with Supremex, there can be no guarantee that they will purchase the same amount as in the past, or that purchases will be on similar terms. Supremex' customer base is solidly diversified with no single account representing more than 6% of sales, thus reducing dependence on any given single customer.

### *Competition*

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

In the current market, the Canadian envelope manufacturers are more aggressive on pricing in order to generate new sales to replace their lost sales. Given the Company's leading market share in Canada, most of the gains by smaller competitors in Canada are made at the expense of Supremex' 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, the Company has experienced a significant direct mail volume decline. The effects of this decline are limited for Supremex, since direct mail represents approximately 20% of Supremex' total annual volume. For transactional mail, which represents about 50% of Supremex' annual volume, economic cycles have a lesser impact than on direct mail since businesses must still mail out bills to their customers. In the long term, 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 operations.

While paper costs were generally a pass through in the past, an increase in the price of paper can negatively affect our operations if it changes the purchasing habits of our customers. Moreover, an increase in the price of paper negatively affects Supremex' profitability if the increases cannot be passed



on to the customer. To mitigate this risk, the Company does not rely on any one supplier and 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 operations if it changes the purchasing habits of customers.

#### *Exchange Rate*

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

Net exposure of the Canadian operations to the U.S. dollar has decreased in 2015 due to lower U.S. dollar purchases. Revenue generated in the United States represented 18.7% of consolidated revenue in fiscal 2015, up from 11.7% in fiscal 2014.

#### *Environment*

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

#### *Availability of Capital*

In 2015, the Company entered into a Five-Year Committed \$50 million Senior Secured Revolving Facility Agreement with Bank of Montreal. This Facility replaced the existing three-year \$15 million facility and \$25 million non-revolving term loan concluded in 2014. 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' 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, 2015, 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. Under this swap, the fixed-rate portion represented 43% at the time it was entered into. It represented 105% as at December 31, 2015. Floating-rate debt bears interest based on bankers' acceptance rates. This swap converted the variable interest rate, based on bankers' acceptance rates, to an average fixed interest rate of 2.92% until January 14, 2016, excluding applicable margins, which ranges from 1.50% to 1.75%. The Company's policy is to neutralize potential variations of a portion of its long-term debt depending on the debt level and the cost to service such debt. As at February 17, 2016, the debt level was not deemed high enough to enter into a new interest swap.

### *Litigation*

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

### *Employee future benefits*

The Company maintains three registered defined benefit pension plans substantially covering all of its employees. Two of these plans are hybrid and include a defined contribution component. In the third quarter of 2012, the Company converted, for future services, its defined benefits 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.

### *Dependence on key personnel*

Supremex relies on the experience and expertise of key personnel. There are no assurances that the Company will be able to retain key personnel or attract additional personnel as necessary for the development and the operation of the business. Loss or failure to attract and retain key personnel could have a material adverse effect on Supremex' business.

### *Technology*

Supremex' business is dependent on its transaction, financial, accounting and other data processing systems. Significant or prolonged disruptions may result in corruption or loss of data, regulatory issues, litigation, or prevent the Company from achieving its strategic objectives.

## **INTEREST OF EXPERTS**

Ernst & Young LLP are the auditors of Supremex and have advised that they are independent with respect to Supremex within the meaning of the Rules of Professional Conduct of the Ordre des comptables professionnels agréés du Québec.

## **LEGAL PROCEEDINGS AND REGULATORY ACTIONS**

The Company is not involved nor has it been involved since the beginning of Fiscal 2015 in any material legal proceedings or regulatory actions (including such proceedings or actions which are pending or threatened and of which the Company is aware), except for legal proceedings instituted by a former executive which was settled in December 2014.

## **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

None of (i) the directors or executive officers of the Company, (ii) the shareholders who beneficially own or control or direct, directly or indirectly, more than 10% of the voting shares of the Company, or (iii) any associate or affiliate of the persons referred to in (i) and (ii), has or has had any material interest, direct or indirect, in any transaction within the three most recently completed financial years or during the current financial year that has materially affected or is reasonably expected to materially affect the Company.

## **ADDITIONAL INFORMATION**

Additional information relating to Supremex may be found on SEDAR at [www.sedar.com](http://www.sedar.com).

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of Supremex' securities and securities authorized for issuance under equity compensation plans will be contained in Supremex' information circular for its annual meeting of Shareholders of Supremex. Additional financial information is provided in the financial statements and management's discussion and analysis for the year ended December 31, 2015.

## GLOSSARY OF TERMS

“**Arrangement**” means the arrangement under Section 192 of the CBCA as set out in the plan of arrangement attached as a schedule to the Arrangement Agreement, pursuant to which, on January 1, 2011, the Fund converted from an income trust structure to Supremex.

“**Arrangement Agreement**” means the arrangement agreement dated March 22, 2010, as amended on December 17, 2010 between Supremex, the Fund and 7351020 Canada Inc.

“**Audit Committee**” means the audit committee of Supremex.

“**Board of Directors**” means the board of directors of Supremex.

“**CBCA**” means the *Canada Business Corporations Act*.

“**Cenveo Depew**” means the business unit located in Buffalo, New York, which has been named “Buffalo Envelope” on the closing of the Initial Public Offering.

“**Environmental Laws**” has the meaning ascribed thereto under “Business – Environmental Regulations”

“**Fund**” means Supremex Income Fund, an unincorporated open-ended trust formed pursuant to the Fund Declaration of Trust under the laws of the Province of Québec, which converted into Supremex pursuant to the Arrangement.

“**Fund Declaration of Trust**” means the Fund Declaration of Trust made as of February 10, 2006 as amended and restated between the trustee and the settlor thereof governed by the laws of the Province of Québec, pursuant to which the Fund was established, as amended, supplemented or restated from time to time.

“**IFRS**” means international financial reporting standards.

“**Initial Public Offering**” means the offering of 17,500,000 Units issued and sold by the Fund on March 31, 2006 pursuant to the prospectus dated March 17, 2006.

“**Management**” means the management of Supremex.

“**Shares**” means the common shares of Supremex.

“**Shareholders**” means the holders of the Shares.

“**Supremex**” or the “**Company**” refers to Supremex Inc., together with its subsidiaries and predecessors.

“**TSX**” means the Toronto Stock Exchange.

“**Units**” means the units of the Fund.

“**US**” means the United States of America.

Words importing the singular include the plural and vice versa and words importing any gender include all genders.

## SCHEDULE A

### AUDIT COMMITTEE CHARTER

#### SECTION 1 PURPOSE

The Audit Committee (sometimes referred to herein as the “**Committee**”) is a committee of the Board of directors (the “**Board**”) of Supremex Inc. (“**Supremex**”). Its primary function is to assist the Board members in fulfilling their applicable responsibilities to Supremex, the shareholder(s), the investment community and others by:

- (1) recommending to the Board the appointment and compensation of the external auditor;
- (2) reviewing and approving all audit services provided by the external auditors;
- (3) overseeing the work of the external auditor, including the resolution of any issues between the external auditor and management;
- (4) pre-approving the list of non-audit services (or delegating such pre-approval if and to the extent permitted by law) to be provided to Supremex or its subsidiaries by the external auditor;
- (5) reviewing and recommending the approval of the annual and interim financial statements, related management discussion and analysis (“**MD&A**”), and annual and interim earnings press releases before such information is publicly disclosed;
- (6) ensuring that adequate procedures are in place for the review of Supremex’ public disclosure of financial information extracted or derived from its financial statements, including periodically assessing the adequacy of such procedures; and
- (7) reviewing and approving any proposed hiring of current or former partner or employee of the current and former auditor of Supremex or its subsidiaries.

The Committee should primarily fulfill these responsibilities by carrying out the activities enumerated in this Charter. However, it is not the duty of the Committee to prepare financial statements, to plan or conduct audits, to determine that the financial statements are complete and accurate and are in accordance with International Financial Reporting Standards (“**IFRS**”), to conduct investigations, or to assure compliance with laws and regulations or Supremex’ internal policies, procedures and controls, as these are the responsibility of management and in certain cases the external auditor, as the case may be.

#### SECTION 2 COMPOSITION AND MEETINGS

- (1) The Committee shall be composed as required under National Instrument 52-110 – *Audit Committees*, as it may be amended or replaced from time to time (“**NI 52-110**”), of at least, three independent directors of Supremex.
- (2) The Committee should be comprised of such members as are determined by the Board, all of whom (except to the extent permitted by NI 52-110) should be independent members Directors (as defined by NI 52-110), and free from any relationship that, in the view of the Board, could be reasonably expected to interfere with the exercise of his or her independent judgment as a member of the Committee.

- (3) All members of the Committee and its Chairman must (except to the extent permitted by NI 52-110) be financially literate (which is defined as the ability to read and understand a set of financial statements that present a breadth and level of complexity of the accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by Supremex' financial statements).
- (4) The members of the Committee shall be elected by the Board on an annual basis or until their successors shall be duly appointed. Unless a Chair is elected by the full Board, the members of the Committee may designate a Chair by majority vote of the full Committee membership.
- (5) Any member of the Committee may be removed or replaced at any time by the Board and shall cease to be a member of the Committee on ceasing to be a Director. The Board may fill vacancies on the Committee by election from among the Board. If and whenever a vacancy shall exist on the Committee, the remaining members may exercise all of its powers so long as a quorum remains.
- (6) The Committee shall meet at least four times annually, or more frequently as circumstances require.
- (7) The Committee should meet at least once per annum or more frequently as circumstances require. The Committee may ask members of Management or others to attend meetings and provide pertinent information as necessary. The Committee shall have full access to all information it deems appropriate for the purpose of fulfilling its role, and shall be permitted to discuss such information and any other matters relating to the financial position of Supremex with senior employees, officers and the external auditor of Supremex, and others as they consider appropriate.
- (8) In order to foster open communication, the Committee or its Chair shall meet at least quarterly with management and the external auditor in separate sessions to discuss any matters that the Committee or each of these groups believes should be discussed privately. In addition, the Committee or its Chair should meet with management quarterly in connection with Supremex' interim financial statements.
- (9) A quorum for the transaction of business at any meeting of the Committee shall be a majority of the number of members of the Committee or such greater number as the Committee shall by resolution determine.
- (10) Meetings of the Committee shall be held from time to time and at such place as any member of the Committee shall determine upon reasonable notice to each of its members, which shall not be less than 48 hours. The notice period may be waived by all members of the Committee. Each of the Chairman of the Board and the external auditor, and the President and Chief Executive Officer and the Vice President, Chief Financial Officer and Corporate Secretary of Supremex, shall be entitled to request that any member of the Committee call a meeting.
- (11) The Committee shall determine any desired agenda items.

### **SECTION 3   ROLE**

The Committee shall, in addition to the matters described in Section 1:

- (1) Review on an annual basis and recommend to the Board changes to this Charter as considered appropriate from time to time.
- (2) Review the public disclosure regarding the Committee required by NI 52-110.
- (3) Review and discuss, on an annual basis, with the external auditor all significant relationships they have with Supremex to assess their independence.
- (4) Review the performance of the external auditor and any proposed discharge of the external auditor when circumstances warrant.
- (5) Perform an annual assessment of the external auditor as recommended by the Canadian Public Accountability Board. At least every five years, conduct a comprehensive review of the external auditor.
- (6) Periodically consult with the external auditor out of the presence of management about significant risks or exposures, internal controls and other steps that management has taken to control such risks, and the fullness and accuracy of the financial statements, including the adequacy of internal controls to expose any payments, transactions or procedures that might be deemed illegal or otherwise improper.
- (7) Arrange for the external auditor to be available to the Committee and the Board as needed.
- (8) Review the integrity of the financial reporting processes, both internal and external, in consultation with the external auditor.
- (9) Consider the external auditor's judgments about the quality, transparency and appropriateness, not just the acceptability, of Supremex' accounting principles and financial disclosure practices, as applied in its financial reporting, including the degree of aggressiveness or conservatism of its accounting principles and underlying estimates, and whether those principles are common practices or are minority practices.
- (10) Review all material balance sheet issues, material contingent obligations (including those associated with material acquisitions or dispositions) and material related party transactions.
- (11) Consider proposed major changes to Supremex' accounting principles and practices.
- (12) If considered appropriate, establish separate systems of reporting to the Committee by each of management and the external auditor.
- (13) Review the scope and plans of the external auditor's audit and reviews. The Committee may authorize the external auditor to perform supplemental reviews or audits as the Committee may deem desirable.
- (14) Periodically consider the need for an internal audit function, if not present.
- (15) Following completion of the annual audit and, if applicable, quarterly reviews, review separately with each of management and the external auditor any significant changes to planned procedures,

any difficulties encountered during the course of the audit and, if applicable, reviews, including any restrictions on the scope of work or access to required information and the cooperation that the external auditor received during the course of the audit and, if applicable, reviews.

- (16) Review with the external auditor and management significant findings during the year and the extent to which changes or improvements in financial or accounting practices, as approved by the Committee, have been implemented. This review should be conducted at an appropriate time subsequent to implementation of changes or improvements, as decided by the Committee.
- (17) Review activities, organizational structure and qualifications of the chief financial officer and the staff in the financial reporting area and see to it that matters related to succession planning are raised for consideration by the Board.
- (18) Review management's program of risk assessment and steps taken to address significant risks or exposures of all types, including insurance coverage and tax compliance.
- (19) Establish procedures for: the receipt, retention and treatment of complaints received by Supremex regarding accounting, internal accounting controls or auditing matters; and the confidential, anonymous submission by Supremex employees of concerns regarding questionable accounting or auditing matters.

#### **SECTION 4 GENERAL MATTERS**

- (1) The Committee is authorized to retain independent counsel, accountants, consultants and any other professionals (“**Advisors**”) it deems necessary to carry out its duties, and the Committee shall have the authority to determine the compensation of and to cause Supremex to pay any such Advisors.
- (2) The Committee is authorized to communicate directly with the external (and, if applicable, internal) auditors as it sees fit.
- (3) The Committee also has the authority to delegate certain responsibilities to individual members or subcommittees of the Committee in accordance with NI 52-110.
- (4) If considered appropriated by it, the Committee is authorized to conduct or authorize investigations into any matters within the Committee's scope of responsibilities, and to perform any other activities as the Committee deems necessary or appropriate.
- (5) Notwithstanding the foregoing and subject to applicable law, the Committee shall not be responsible for preparing financial statements, for planning or conducting internal or external audits or for determining that Supremex' financial statements are complete and accurate and are in accordance with generally accepted accounting principles, as these are the responsibility of management and in certain cases the external auditor, as the case may be. Nothing contained in this Charter is intended to make the Committee liable for any non-compliance by Supremex with applicable laws or regulations.
- (6) The Committee is a committee of the Board and is not and shall not be deemed to be an agent of Supremex' shareholders for any purpose whatsoever. The Board may, from time to time, permit departures from the terms hereof, either prospectively or retrospectively, and no provision contained herein is intended to give rise to civil liability to securityholders of Supremex or to any other liability whatsoever.