



**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
FOR THE THREE AND TWELVE-MONTH PERIODS ENDED DECEMBER 31, 2015**

*The following management's discussion and analysis of financial condition and results of operations ("MD&A"), dated February 17, 2016, 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, 2015. 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, 2015.*

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

## **Overview**

Supremex is a leading North American manufacturer and marketer of a broad range of stock and custom envelopes and a growing provider of packaging and specialty products. Supremex is the only national envelope manufacturer in Canada, with facilities across seven provinces and 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, government entities, as well as paper merchants, statement processors and solutions providers.

## **2015 Highlights and Overall Performance**

### *Key Events:*

On October 7, 2015, Supremex Inc. announced it entered into a Five-Year Committed \$50 million Senior Secured Revolving Facility Agreement with Bank of Montreal (the "Facility"). This Facility replaced Supremex' existing three-year \$15 million facility and \$25 million non-revolving term loan and expands the Company's borrowing flexibility with slightly improved rates. The Five-Year Senior Secured Revolving Facility has no scheduled principal repayments prior to maturity and the Facility contains customary representations, warranties and covenants.

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 generated approximately \$12 million USD 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 CAD 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.

*Fourth Quarter Performance Highlights:*

Revenue in the fourth quarter of 2015 amounted to \$41.3 million compared with \$35.1 million in the fourth quarter of 2014, up by \$6.2 million or 17.6%. This increase is mainly attributable to Supremex' growing footprint in the U.S. envelope market, with a large contribution from the newly acquired Classic Envelope Inc. and the Company's existing Buffalo operations. Overall, this market reached \$9.1 million up 129.4% from the fourth quarter of 2014, on an increase of 81.5% in the volume of units sold and higher average selling prices on product mix and strength of the USD. Revenues from the Canadian envelope market was positively affected by the recent acquisition of Premier Envelope and reached \$29.0 million, up by 2.4%. Higher average selling price necessitated by increased raw material costs compensated for a decrease of 1.8% in the volume of units sold. Sales of packaging and specialty products also contributed to this quarter's revenue growth with an increase in revenue of 13.0%, reaching \$3.1 million.

Net earnings in the fourth quarter of 2015 amounted to \$3.8 million or \$0.13 per share, compared with 2.7 million or \$0.09 per share for the corresponding period of last year, an increase of \$1.1 million or 39.5%. The Company's growing focus on the U.S. market and its operational discipline contributed to this performance.

*Fiscal Year Performance Highlights:*

Revenue for the year ended December 31, 2015 grew to \$142.3 million compared to \$131.9 million in the same period of last year, an increase of \$10.4 million or 7.9%. This year's performance was mostly driven by solid performance in the U.S. envelope market, with a strong contribution from the existing Buffalo operations and from the Classic Envelope acquisition, which was concluded early in the fourth quarter of 2015. Revenues from the U.S. envelope market reached \$25.0 million up 69.5% from \$14.8 million, on a 45.4% increase in the number of units sold and higher average selling prices in USD resulting from changes in the product mix and strengthening of the USD. Revenues from packaging and specialty products also increased, reaching \$10.5 million, up 6.7% over last year. Revenues from the Canadian envelope market, including the contribution from the Premier Envelope acquisition, stood at \$106.8 million down 0.5% over last year, on a 3.6% reduction in volume, which was mitigated by higher average selling prices resulting from increased costs of raw material.

Net earnings for year 2015 amounted to \$15.9 million or \$0.55 per share, compared to \$11.0 million or \$0.38 per share in fiscal 2014. Efforts to grow into the U.S. envelope market both organically and through the acquisition of Classic Envelope Inc. were key growth drivers in 2015. The increased focus on expanding the Company's value-added packaging and specialty products offering and constant focus on operational discipline also contributed to these results. The \$5.0 million pre-tax non-cash gains resulting from amendments to the defined benefit pension plans and post-retirement benefits plan also helped improve net earnings.

*Declaration of Dividend:*

On February 17, 2016, the Board of Directors declared a quarterly dividend of \$0.055 per common share, payable on April 14, 2016 to shareholders of record at the close of business on March 31, 2016.

## Reconciliation from Net Earnings to EBITDA and to Adjusted EBITDA

(In thousands of dollars)

	Three-month periods ended		Twelve-month periods ended	
	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2015	Dec. 31, 2014
	\$	\$	\$	\$
<b>Net Earnings</b>	<b>3,804</b>	2,728	<b>15,931</b>	11,047
Income tax expense	1,407	1,080	5,877	4,101
Financing charges, net	181	223	966	1,334
Amortization of property, plant and equipment	1,153	925	4,111	3,567
Amortization of intangible assets	1,588	1,541	6,211	6,164
(Gain) loss on disposal of property, plant and equipment	(26)	—	(7)	6
<b>EBITDA <sup>(1)</sup></b>	<b>8,107</b>	6,497	<b>33,089</b>	26,219
Adjustments				
Less: Gain on pension plans' amendments	—	—	(4,341)	(264)
Less: Gain on post-retirement benefits plans amendment	—	—	(614)	—
Plus: Claim settlement expense	—	665	—	665
<b>Adjusted EBITDA <sup>(1)</sup></b>	<b>8,107</b>	7,162	<b>28,134</b>	26,620

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

## Summary of quarterly operating results from January 1, 2014 to December 31, 2015

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

	Dec. 31, 2015	Sept. 30, 2015	June 30, 2015	Mar. 31, 2015	Dec. 31, 2014	Sept. 30, 2014	June 30, 2014	Mar. 31, 2014
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	41,287	32,435	33,868	34,708	35,097	32,241	30,634	33,916
Adjusted EBITDA <sup>(1)</sup>	8,107	6,586	6,430	7,011	7,162	6,296	5,816	7,345
Earnings before income taxes	5,211	3,824	7,568	5,204	3,808	3,638	3,101	4,601
Net earnings	3,804	2,771	5,552	3,804	2,728	2,621	2,330	3,368
Net earnings per share	0.13	0.10	0.19	0.13	0.09	0.09	0.08	0.12

<sup>(1)</sup> See "Definition of EBITDA or Adjusted EBITDA"

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

## Selected Consolidated Financial Information

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

	Three-month periods ended			Twelve-month periods ended		
	December 31,			December 31,		
	2015	2014	2013	2015	2014	2013
		\$	\$		\$	\$
<b>Revenue</b>	<b>41,287</b>	35,097	33,583	<b>142,298</b>	131,888	128,966
Operating expenses <sup>(1)</sup>	<b>28,649</b>	23,659	22,561	<b>93,893</b>	88,723	85,259
Selling, general and administrative expenses <sup>(1)</sup>	<b>4,531</b>	4,941	4,308	<b>15,316</b>	16,946	15,728
<b>EBITDA</b> <sup>(1)(2)</sup>	<b>8,107</b>	6,497	6,714	<b>33,089</b>	26,219	27,979
Amortization of property, plant and equipment	<b>1,153</b>	925	875	<b>4,111</b>	3,567	3,575
Amortization of intangible assets	<b>1,588</b>	1,541	1,541	<b>6,211</b>	6,164	6,164
(Gain) loss on disposal of property, plant and equipment	<b>(26)</b>	—	15	<b>(7)</b>	6	(58)
<b>Operating earnings</b>	<b>5,392</b>	4,031	4,283	<b>22,774</b>	16,482	18,298
Financing charges, net	<b>181</b>	223	735	<b>966</b>	1,334	2,854
<b>Earnings before income taxes</b>	<b>5,211</b>	3,808	3,548	<b>21,808</b>	15,148	15,444
Income taxes expenses	<b>1,407</b>	1,080	811	<b>5,877</b>	4,101	3,913
<b>Net earnings</b>	<b>3,804</b>	2,728	2,737	<b>15,931</b>	11,047	11,531
Basic and diluted net earnings per share	<b>0.13</b>	0.09	0.09	<b>0.55</b>	0.38	0.40
Dividend paid per share	<b>0.05</b>	0.045	0.04	<b>0.20</b>	0.165	0.13
	<b>As at December 31,</b>					
	<b>2015</b>	<b>2014</b>	<b>2013</b>			
	\$	\$	\$			
Total assets	<b>125,166</b>	109,792	126,754			
Secured credit facility, net of cash	<b>25,140</b>	22,042	36,077			

<sup>(1)</sup> Includes gains on pension plans and post-retirement plans amendments. See “Reconciliation from Net Earnings to EBITDA and to Adjusted EBITDA”

<sup>(2)</sup> See “Definition of EBITDA.”

## Results of Operations

### *Three-month period ended December 31, 2015 compared with three-month period ended December 31, 2014*

#### *Revenue*

Revenue for the three-month period ended December 31, 2015 amounted to \$41.3 million compared with \$35.1 million for the three-month period ended December 31, 2014, an increase of \$6.2 million or 17.6%.

Revenue in the Canadian envelope market increased by \$0.7 million or 2.4%, reaching \$29.0 million. This steady growth was driven by a 4.3% increase in average selling prices, necessitated by increased costs of raw materials, mostly denominated in USD, which was partially offset by a 1.8% decrease in the number of units sold. The decrease in volume sold occurred mainly in the government, merchants and direct mail customer segments and is in-line with industry trends.

Revenue in the U.S. envelope market increased by \$5.1 million or 129.4%, reaching \$9.1 million, up from \$4.0 million in the fourth quarter of 2014. Growth was fuelled by a 81.5% increase in the volume of units sold, with a strong contribution from the Classic Envelope acquisition and continued growth at the existing Buffalo operations, combined with a 26.4% increase in the average selling price which resulted from changes in the product mix and strength of the USD that had a positive conversion effect and contributed to approximately 17% of the quarter's revenue growth.

Revenue of packaging and specialty products reached \$3.1 million, an increase of 13.0% from \$2.8 million in the equivalent quarter of 2014, on price increases mostly from a different product mix and growing sales in the US market.

#### *Operating expenses*

Operating expenses for the three-month period ended December 31, 2015 amounted to \$28.6 million compared with \$23.7 million for the same period in 2014, an increase of \$4.9 million or 21.1%. This increase is mainly attributable to the acquired businesses and to increased costs of raw materials mostly denominated in USD, the effect of which was mitigated by tight control over operating expenses.

#### *Selling, general and administrative expenses*

Selling, general and administrative expenses totalled \$4.5 million for the three-month period ended December 31, 2015 compared with \$4.9 million for the same period in 2014, representing a decrease of \$0.4 million or 8.3% attributable to the settlement, in 2014, of a claim by a former executive.

#### *EBITDA and Adjusted EBITDA*

EBITDA stood at \$8.1 million for the three-month period ended December 31, 2015 compared with \$6.5 million for the same period in 2014, an increase of \$1.6 million or 24.8%. EBITDA margins stood at 19.6% compared to 18.5% during the fourth quarter of 2014, an increase of 6.1%. Strong growth in the U.S. envelope market, both from existing operations and from the acquisition of Classic Envelope Inc. and Supremex's disciplined approach at managing its cost structure mitigated the effects of increased prices of raw materials denominated in USD.

#### *Amortization*

Aggregate amortization expense for the three-month period ended December 31, 2015 amounted to \$2.7 million compared with \$2.5 million for the comparable period of 2014, representing an increase of \$0.2 million or 11.2%.

#### *Financing charges*

Financing charges for the three-month period ended December 31, 2015 remained stable at \$0.2 million.

#### *Earnings before income taxes*

Due to this quarter's solid top-line and operating performance, earnings before income taxes totalled \$5.2 million for the three-month period ended December 31, 2015 compared with \$3.8 million for the same period in 2014, an increase of \$1.4 million or 36.9%.

### *Provision for income taxes*

During the three-month period ended December 31, 2015, the Company recorded a provision for income taxes of \$1.4 million compared with \$1.1 million for the three-month period ended December 31, 2014, an increase of \$0.3 million or 30.3%. The increase is mainly attributable to higher earnings before income taxes in 2015.

### *Net earnings*

Net earnings amounted to \$3.8 million (or \$0.13 per share) for the three-month period ended December 31, 2015 compared with \$2.7 million (or \$0.09 per share) for the same period in 2014, an increase of 39.5%.

### *Other comprehensive loss*

The decrease in the discount rate used to calculate the accrued plan benefit obligations and lower than expected return on assets have generated net actuarial losses of \$1.1 million. This variation, offset by a gain on the currency translation of the Company's U.S. subsidiaries impacted the Company's other comprehensive income and deficit.

### ***Twelve-month period ended December 31, 2015 compared with twelve-month period ended December 31, 2014***

#### *Revenue*

Revenue for the year ended December 31, 2015 amounted to \$142.3 million compared with \$131.9 million for the year ended December 31, 2014, an increase of \$10.4 million or 7.9%.

Revenue generated by the Canadian envelope market decreased by \$0.5 million or 0.5% to \$106.8 million in 2015 and was positively affected by the recent acquisition of Premier Envelope. An increase of 3.2% in the average selling price brought on by higher costs of raw materials mostly on the strength of the USD, offset by a decrease of 3.6% in the volume of units sold in Canada, reflecting long term trends in the envelope market, mainly in the government and corporate customer segments.

This year's total revenue increase is mainly attributable to growth in the U.S. envelope market, which totalled \$25.0 million compared to \$14.8 million last year, an improvement of \$10.3 million or 69.5%. An increase of 45.4% in the volume of units sold and a higher average selling price of 16.5% resulting from changes in the product mix and strength of the USD, contributed to this result. The appreciation of the U.S. dollar against the Canadian dollar during the year had a positive conversion effect and contributed to approximately 16% of the year's revenue growth.

Revenue of packaging and specialty products increased by 6.7% or \$0.7 million to \$10.5 million in 2015 as a result of an increase in the volume of units sold both in Canada and in the U.S.

#### *Operating expenses*

Operating expenses for the year ended December 31, 2015 amounted to \$93.9 million compared with \$88.7 million for the same period in 2014, an increase of \$5.2 million or 5.8%. This increase relates mainly to the acquisitions of Classic Envelope and to a lesser extent Premier Envelope. While the cost increase related to these business combinations reflects those of a growing organization, the weaker Canadian dollar against the U.S. dollar also contributed to the increase of raw material costs. The increase would have been higher without the non-cash gains that resulted from amendments to the defined benefits pension plan both in 2015 and 2014.

### *Selling, general and administrative expenses*

Selling, general and administrative expenses totalled \$15.3 million for the year ended December 31, 2015 compared with \$16.9 million for the same period in 2014, a decrease of \$1.6 million or 9.6%. The decrease was mainly attributable to a higher non-cash gain recorded in 2015 compared to 2014, both of which resulted from amendments to the defined benefits pension plan, offsetting higher administration expenses related to business acquisition and integration activities.

### *EBITDA and Adjusted EBITDA*

As a result of the changes described above, EBITDA was \$33.1 million for the year ended December 31, 2015 compared with \$26.2 million for the same period in 2014, representing an increase of \$6.9 million or 26.2%. EBITDA margins grew to 23.3% of revenues, compared to 19.9% last year. Without taking into account the claim settlement expense, gain resulting from the post-retirement benefits plan amendment and gains resulting from the pension plan both in 2015 and 2014, Adjusted EBITDA stood at \$28.1 million, or 19.8% of revenues, compared with \$26.6 million, or 20.2% of revenues for the same period in 2014. In fiscal 2015, Adjusted EBITDA increased in absolute terms by \$1.5 million or 5.7%. Supremex' disciplined approach of controlling its cost structure, improving utilization rates and generating cost synergies had a positive effect on maintaining the level of EBITDA margin.

### *Amortization*

Total amortization expense for the year ended December 31, 2015 amounted to \$10.3 million compared with \$9.7 million for the comparable period of 2014 representing an increase of \$0.6 million or 6.1% in relation to the recent acquisitions.

### *Financing charges*

Financing charges for the year ended December 31, 2015 amounted to \$1.0 million compared with \$1.3 million for the same period in 2014, representing a decrease of \$0.3 million or 27.5%, resulting mainly from the impact of the reduced 2015 average level of debt and improved financial position of the pension plans.

### *Earnings before income taxes*

Due to the changes in revenue and expenses described herein, earnings before income taxes totalled \$21.8 million for the year ended December 31, 2015 compared with earnings before income taxes of \$15.1 million for the same period in 2014, an increase of \$6.7 million or 44.0%.

### *Provision for income taxes*

During the year ended December 31, 2015, the Company recorded a provision for income taxes of \$5.9 million compared with \$4.1 million for the year ended December 31, 2014, an increase of \$1.8 million or 43.3% due to increased earnings before income tax.

### *Net earnings*

As a result of the changes described above, net earnings amounted to \$15.9 million (or \$0.55 per share) for the year ended December 31, 2015 compared with the net earnings of \$11.0 million (or \$0.38 per share) for the same period in 2014, an increase of \$4.9 million or 44.2%.

### *Other comprehensive loss*

A lower than expected return on assets of the Company's defined benefit pension plans combined with a decrease of the discount rate used to calculate the accrued plan benefit obligations generated net actuarial losses of \$2.0 million, which were partially offset by a gain of \$0.8 million on the foreign currency translation of the Company's subsidiaries in the U.S. These variations affected the Company's other comprehensive income and deficit.

### **Segmented Information**

The Company currently operates in one business segment: the manufacturing and sale of envelopes and packaging and specialty products. The Company's non-current assets amounted to \$74.3 million in Canada and \$9.7 million in the United States as at December 31, 2015 as compared to \$78.6 million and \$0.7 million as at December 31, 2014, respectively.

In Canada, the Company's revenue amounted to \$31.7 million and to \$115.6 million for the three and twelve-month periods ended December 31, 2015 compared to \$31.0 million and \$116.4 million for the same periods in 2014, representing an increase of \$0.7 million or 2.1% quarter-over-quarter and a decrease of \$0.8 million or 0.7% year-over-year. In the United States, the Company's revenue amounted to \$9.6 million and to \$26.7 million for the three and twelve-month periods ended December 31, 2015 compared to \$4.1 million and \$15.5 million for the same periods in 2014, representing an increase of \$5.5 million or 136.4% quarter-over-quarter and \$11.2 million or 72.3% year-over-year.

### ***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%
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%
Price (in CAD)	16.5%	13.4%
<i>Total Growth Rate</i>	69.5%	24.8%
Packaging & Specialty products	\$10.5	\$9.8
<i>Total Growth Rate</i>	6.7%	8.1%
Total	\$142.3	\$131.9
<i>Year-over-Year performance</i>	7.9%	2.3%



## Liquidity and Capital Resources

### *Operating activities*

Operating activities generated net cash of \$20.1 million during the year ended December 31, 2015 compared with \$21.8 million during the same period of 2014. The decrease was due to the net change in working capital balances, on an increase in inventory levels required by the level of activity and by lower income tax payable, which were compensated by stronger earnings from operations.

### *Investing activities*

Investing activities used \$17.5 million of cash during the year ended December 31, 2015 compared with a use of \$2.0 million in 2014, an increase of \$15.5 million mainly related to the acquisitions of both all the shares of Classic Envelope Inc., and substantially all of the assets of Premier Envelope Ltd. (including its related companies).

### *Financing activities*

Financing activities generated inflows of \$0.3 million during the year ended December 31, 2015, compared with outflows of \$21.0 million in 2014, a variation of \$21.3 million mainly due to the acquisitions, which were financed through the Company's credit facility and to increases in dividend payout.

### *Liquidity and capital resources summary*

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

## Contractual Obligations and Off-Balance Sheet Arrangements

The following chart outlines the Company's contractual obligations as at December 31, 2015.

*(in thousands of dollars)*

	Payments due by fiscal year			2018 and thereafter
	Total	2016	2017	
Secured credit facility	29,000	—	—	29,000
Operating leases	10,675	2,815	2,419	5,441
Total	39,675	2,815	2,419	34,441

The Company has no other off-balance sheet arrangements.

## Financing

On October 6, 2015, the Company entered into a five-year committed \$50 million senior secured revolving facility agreement. No principal repayments are required prior to maturity. This facility replaces Supremex' existing three-year \$15 million revolving facility and \$25 million term loan.

The secured credit facility is used for working capital, capital expenditure and other general corporate purpose. It is collateralized by hypothec and security interests covering all assets of the Company and

its subsidiaries and is subject to certain covenants, which the Company is required, among other conditions, to meet. The Company was in compliance with these covenants during 2015.

As at December 31, 2015, the Company had outstanding letters of credit for a total of \$50,000 [2014 – \$1,145,000].

This facility bears interest at a floating rate based on the Canadian prime rate or bankers' acceptance rate, plus an applicable margin on those rates. As at December 31, 2015, the interest rate on the credit facilities was 2.59%.

### Capitalization

As at February 17, 2016, the Company had 28,644,771 common shares outstanding, a decrease of 106,196 shares following the repurchase done under the NCIB program since its implementation for a total consideration of \$499,703.

### Financial Instruments

#### *Interest rate and foreign exchange risk*

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

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

#### *Fair value*

The fair value of the Company's financial instruments is indicated in note 21 to the Company's audited consolidated financial statements for the year ended December 31, 2015.

### Financial Position Highlights

*(In thousands of dollars)*

	<b>December 31, 2015</b>	<b>December 31, 2014</b>
Working capital	<b>20,213</b>	5,839
Total assets	<b>125,166</b>	109,792
Total secured credit facilities <sup>(1)</sup>	<b>28,674</b>	22,406
Equity	<b>72,635</b>	63,752

<sup>(1)</sup> Net of deferred financing costs of \$326 (\$171 as at December 31, 2014)

Working capital increased by \$14.4 million as a result of the two acquisitions closed in the fourth quarter of 2015 and the credit facility entered into on October 6<sup>th</sup>, 2015, which does not require mandatory repayments before the end of the five-year term.

Total assets increased by \$15.4 million, reaching \$125.2 million as a result of business combinations performed during the last quarter of 2015 compared to \$109.8 million in 2014, a year where no

acquisitions were concluded, and mostly depreciation and amortization affected the value of total assets.

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

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

These acquisitions were financed through the \$50 million credit facility, which explains the increase of the Company's debt as at December 31, 2015 when compared with December 31, 2014. Total secured credit facilities thus amounted to \$28.7 million at December 31, 2015, compared with \$22.4 at December 31, 2014.

As at December 31, 2015, the Company had an accrued pension benefit liability of \$0.3 million compared to a \$0.6 million accrued pension benefit liability as at December 31, 2014. This change was a result of the gain recorded on amendments to the Pension Plans, offset by lower returns on the pension plans' assets and combined to the lower discount rate on the accrued pension plan obligations.

Supremex pays quarterly dividends to shareholders at the discretion of the Board of Directors. A dividend of \$1.6 million or \$0.055 per share was declared in the fourth quarter of 2015 and paid subsequent to year-end. Other quarterly dividend payments that occurred previously in 2015 were declared and paid at a rate of \$0.05 per share.

### **Disclosure Controls and Internal Controls over Financial Reporting**

In accordance with National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings*, the Company has filed certifications signed by the President and Chief Executive Officer and the 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, 2015.

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, 2015. 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, 2015 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 intangible assets and goodwill, employee future benefits and income taxes. Management bases its estimates on historical experience and other assumptions, which it believes are reasonable under the circumstances. Management also assesses its estimates on an ongoing basis. The effect on the financial statements of changes in such estimates in future periods could be material and would be accounted for in the period a change occurs.

The significant accounting policies of the Company are described in note 2 to the Company's audited consolidated financial statements for the year ended December 31, 2015.

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, 2015, 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, 2015 involves

projecting cash flows and converting them into a present value equivalent through discounting. The discounting process uses a rate of return that is commensurate with the risk associated with the business or asset and the time value of money. This approach requires assumptions about revenue growth or decline rates, operating margins, tax rate and discount rate.

*Growth or decline of revenue*

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

*Discount rate*

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

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

	Assumptions
Pre-tax discount rate	16.6%
Tax rate	26.0%
Perpetual decline rate	3.0%

*Sensitivity*

In the most recent impairment test performed, if the pre-tax discount rate had increased to 33.1% or the perpetual decline rate had increased to 53.7%, the recoverable amount of the cash generating unit would have then equaled the carrying amount as at December 31, 2015.

*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	3.90%
Discount rate for net pension cost	4.00%
Rate of compensation increase	2.50%

### *Discount rate*

As at December 31, 2015, we used the *Fiera Capital's CIA Method Accounting Discount Rate Curve* which follows the methodology suggested in the CIA Education Note on *Accounting Discount Rate Assumption for Pension and Post-employment Benefit Plans*. For the Company, a 0.25% increase or decrease in the discount rate would have decreased or increased the defined benefit obligation by approximately \$3.2 million as at December 31, 2015. An increase of one year in the life expectancy of plan members as at December 31, 2015 results in an increase of \$2.8 million in total projected defined benefit obligation of pension plans.

### *Rate of compensation*

Future salary increases are based on expected future inflation rates.

### *Income taxes*

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

The Company is subject to taxation in numerous jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain during the normal course of business. The Company maintains provisions for uncertain tax positions that it believes appropriately 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 2015 effective tax rate was 27.0% of earnings before income tax.

### *Recent Accounting Pronouncements*

#### *IFRS 9, Financial Instruments*

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

IFRS will be effective on January 1, 2018.

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

#### *IFRS 15, Revenue from Contracts with Customers*

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

IFRS 15 is effective for annual periods beginning on or after January 1, 2018. In September 2015, IASB announced a one-year deferral of the IFRS 15 effective date, originally set for January 1, 2017.

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

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

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

#### *IAS 1, Presentation of Financial Statements*

In December 2014, IASB issued amendments to IAS 1 *Presentation of Financial Statements* and an exposure draft (ED) proposing amendments to IAS 7 *Statement of Cash Flows* as part of its Disclosure Initiative. The IASB's Disclosure Initiative is made up of a number of implementation and research projects, including a materiality project, a fundamental review of IAS 1, IAS 7 and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, and a general review of disclosure requirements in existing standards.

The amendments to IAS 1 are applicable for annual periods beginning on or after January 1, 2016. Earlier application is permitted.

In the event of an immediate adoption, the changes will have no significant impact on the consolidated financial statements.

#### **Recent Events**

On February 17, 2016, the Board of Directors declared a quarterly dividend of \$0.055 per common share, payable on April 14, 2016 to shareholders of record at the close of business on March 31, 2016.

Subsequent to year end, the Company repurchased 106,196 common shares for cancellation through a normal course issuer bid for a total consideration of \$499,703.

#### **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 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 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 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 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 10% 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 in the five years preceding 2013. The large U.S. envelope manufacturers may use their excess capacity to penetrate the Canadian envelope market. As long as the U.S. market stays relatively soft, there will be pricing pressure in the Canadian market. However, the costs of freight, coupled with delivery inefficiencies are barriers to servicing any significant customer volume from a distance. Since the second half of 2012, the Canadian dollar started weakening against the U.S. dollar, a situation that has further continued into January 2016. While the weakening of the Canadian dollar may decrease the ability of U.S based competitors to penetrate further 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 large 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 less than 20% of Supremex’ total annual volume. For transactional mail, which represents about 50% of Supremex’ annual volume, economic cycles have a lesser impact than on direct mail since businesses

must still mail out bills to their customers, and the online billing penetration is fairly low in this segment. In the long term, transactional mail volume has been declining.

#### *Raw Material Price Increases*

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

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

Fluctuations in the price of oil, a core ingredient in the composition of window material, glue and ink 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 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 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 the realized return on the pension fund asset and the discount rate of the future liabilities, which could affect the financial condition of Supremex.

### **Forward-Looking Information**

This MD&A contains "forward-looking information" within the meaning of applicable Canadian securities laws, including (but not limited to) statements about the EBITDA (or Adjusted EBITDA)

and future performance of Supremex and similar statements or information concerning anticipated future results, circumstances, performance or expectations. Forward-looking information may include words such as anticipate, assumption, believe, could, expect, goal, guidance, intend, may, objective, outlook, plan, seek, should, strive, target and will. Such information relates to future events or future performance and reflects current assumptions, expectations and estimates of management regarding growth, results of operations, performance, business prospects and opportunities, Canadian economic environment and liability to attract and retain customers. Such forward-looking information reflects current assumptions, expectations and estimates of management and is based on information currently available to Supremex as at the date of this MD&A. Such assumptions, expectations and estimates are discussed throughout our MD&A for fiscal 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 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 risks and uncertainties are discussed throughout our MD&A for fiscal 2014 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 (or Adjusted 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 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 IFRS and does not have a standardized meaning prescribed by IFRS. Therefore, EBITDA or Adjusted EBITDA may not be comparable to similar measures presented by other entities. Investors are cautioned that EBITDA or Adjusted 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, including the Company’s annual information form, is available on SEDAR at [www.sedar.com](http://www.sedar.com).

Consolidated Financial Statements

**Supremex Inc.**

December 31, 2015 and 2014

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, 2015 and 2014, and the consolidated statements of earnings comprehensive income, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

#### **Management's responsibility for the consolidated financial statements**

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

#### **Auditors' responsibility**

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

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

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

#### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Supremex Inc. as at December 31, 2015 and 2014, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

*Ernst & Young S.N.L./S.E.N.C.R.L.<sup>1</sup>*

Montreal, Canada,  
February 17, 2016

<sup>1</sup> CPA auditor, CA, public accountancy permit no. A118111

**Supremex Inc.**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

As at December 31	Notes	2015 \$	2014 \$
<b>ASSETS</b>	<b>14</b>		
<b>Current assets</b>			
Cash		3,533,917	364,079
Accounts receivable	6	21,358,826	18,560,419
Inventories	7	15,563,613	10,978,732
Prepaid expenses		653,580	558,564
<b>Total current assets</b>		<b>41,109,936</b>	<b>30,461,794</b>
Property, plant and equipment	8	26,790,391	24,333,630
Intangible assets	10	6,500,672	8,107,329
Goodwill	11	50,765,024	46,889,125
<b>Total assets</b>		<b>125,166,023</b>	<b>109,791,878</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	12	18,147,715	16,419,302
Dividend payable	18	1,581,303	1,437,733
Provisions	13	332,939	337,401
Income tax payable		835,246	1,207,692
Current portion of secured credit facilities	14	—	5,221,115
<b>Total current liabilities</b>		<b>20,897,203</b>	<b>24,623,243</b>
Secured credit facilities	14	28,674,021	17,184,599
Deferred income tax liabilities	15	2,419,291	2,218,415
Accrued pension benefit liability	9	301,339	566,464
Other post-retirement benefit obligations	9	239,000	899,900
Derivative financial liability	14	—	547,562
<b>Total liabilities</b>		<b>52,530,854</b>	<b>46,040,183</b>
<b>Equity</b>			
Share capital	16	9,813,365	9,814,628
Contributed surplus	16	279,601,180	279,611,054
Deficit		(217,615,887)	(225,695,059)
Foreign currency translation reserve		836,511	21,072
<b>Total equity</b>		<b>72,635,169</b>	<b>63,751,695</b>
<b>Total liabilities and equity</b>		<b>125,166,023</b>	<b>109,791,878</b>

Commitments, contingencies and guarantees [note 19]

Subsequent events [note 24]

See accompanying notes

On behalf of the Directors:

By: signed (Robert B. Johnston) \_\_\_\_\_  
Director

By: signed (Mathieu Gauvin) \_\_\_\_\_  
Director

**Supremex Inc.**

**CONSOLIDATED STATEMENTS OF EARNINGS**

Years ended December 31	Notes	2015 \$	2014 \$
<b>Revenue</b>		<b>142,298,458</b>	131,888,065
Operating expenses	7, 9, 17	<b>93,893,132</b>	88,723,062
Selling, general and administrative expenses	9,17	<b>15,315,871</b>	16,945,995
<b>Operating earnings before amortization, (gain) loss on disposal of property, plant and equipment</b>		<b>33,089,455</b>	26,219,008
Amortization of property, plant and equipment	8	<b>4,110,569</b>	3,567,177
Amortization of intangible assets	10	<b>6,211,107</b>	6,163,900
(Gain) loss on disposal of property, plant and equipment		<b>(6,740)</b>	5,617
<b>Operating earnings</b>		<b>22,774,519</b>	16,482,314
Financing charges, net	14	<b>966,419</b>	1,333,699
<b>Earnings before income taxes</b>		<b>21,808,100</b>	15,148,615
Income tax expense	15	<b>5,877,300</b>	4,101,273
<b>Net earnings</b>		<b>15,930,800</b>	11,047,342
<b>Basic and diluted net earnings per share</b>		<b>0.5541</b>	0.3822
<b>Weighted average number of shares outstanding</b>		<b>28,751,008</b>	28,905,181

*See accompanying notes*



**Supremex Inc.**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

Years ended December 31	Notes	2015 \$	2014 \$
<b>Net earnings</b>		<b>15,930,800</b>	11,047,342
<b>Other comprehensive income (loss)</b>			
<i>Other comprehensive income to be reclassified to earnings in subsequent periods</i>			
Foreign currency translation adjustments		<b>815,439</b>	72,062
Net other comprehensive income to be reclassified to earnings in subsequent periods		<b>815,439</b>	72,062
<i>Items not to be reclassified to earnings in subsequent periods</i>			
Recognized actuarial loss on defined benefit pension plans, net of income tax recovery of \$699,751 [2014 – \$2,167,348]	<b>9</b>	<b>(1,984,649)</b>	(6,181,452)
Recognized actuarial gain (loss) on other post-retirement benefit, net of income tax expense of \$10,088 [2014 – recovery of \$11,526]	<b>9</b>	<b>28,612</b>	(32,874)
Net other comprehensive loss not being reclassified to earnings in subsequent periods		<b>(1,956,037)</b>	(6,214,326)
Other comprehensive loss		<b>(1,140,598)</b>	(6,142,264)
<b>Total comprehensive income</b>		<b>14,790,202</b>	4,905,078

*See accompanying notes*

Supremex Inc.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Years ended December 31

	Share capital \$	Contributed surplus \$	Deficit \$	Foreign currency translation reserve \$	Total equity \$
As at December 31, 2013	9,885,008	280,108,017	(224,318,659)	(50,990)	65,623,376
Net earnings	—	—	11,047,342	—	11,047,342
Other comprehensive (loss) income	—	—	(6,214,326)	72,062	(6,142,264)
Total comprehensive income	—	—	4,833,016	72,062	4,905,078
Dividends declared [note 18]	—	—	(6,209,416)	—	(6,209,416)
Shares repurchased and cancelled [note 16]	(70,380)	(496,963)	—	—	(567,343)
<b>As at December 31, 2014</b>	<b>9,814,628</b>	<b>279,611,054</b>	<b>(225,695,059)</b>	<b>21,072</b>	<b>63,751,695</b>
Net earnings	—	—	15,930,800	—	15,930,800
Other comprehensive (loss) income	—	—	(1,956,037)	815,439	(1,140,598)
Total comprehensive income	—	—	13,974,763	815,439	14,790,202
Dividends declared [note 18]	—	—	(5,895,591)	—	(5,895,591)
Shares repurchased and cancelled [note 16]	(1,263)	(9,874)	—	—	(11,137)
<b>As at December 31, 2015</b>	<b>9,813,365</b>	<b>279,601,180</b>	<b>(217,615,887)</b>	<b>836,511</b>	<b>72,635,169</b>

See accompanying notes

**Supremex Inc.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**Years ended December 31**

	Notes	2015 \$	2014 \$
<b>OPERATING ACTIVITIES</b>			
Net earnings		15,930,800	11,047,342
Non-cash adjustment to reconcile net earnings to net cash flows			
Amortization of property, plant and equipment	8	4,110,569	3,567,177
Amortization of intangible assets	10	6,211,107	6,163,900
Amortization of deferred financing costs	14	188,073	438,330
(Gain) loss on disposal of property, plant and equipment		(6,740)	5,617
Gain on valuation of derivative financial instruments	14	(547,562)	(407,363)
Deferred income tax recovery	15	(743,450)	(1,585,680)
Change in employees benefits		(3,478,094)	420,364
		<b>21,664,703</b>	<b>19,649,687</b>
Working capital adjustments			
Variation in accounts receivable		121,645	(1,185,205)
Variation in inventories		(1,082,191)	1,168,926
Variation in prepaid expenses		(67,451)	(36,531)
Variation in accounts payable and accrued liabilities		(27,447)	2,001,023
Variation in provisions	13	(4,462)	(73,875)
Variation in income tax payable		(386,685)	316,491
Change in employee benefits		(93,631)	(73,900)
<b>Net cash flows from operating activities</b>		<b>20,124,481</b>	<b>21,766,616</b>
<b>INVESTING ACTIVITIES</b>			
Business acquisitions, net of acquired cash	5	(15,392,198)	—
Acquisition of property, plant and equipment	8	(1,303,568)	(1,963,481)
Acquisition of intangibles assets	10	(1,238,996)	—
Proceeds from sale of property, plant and equipment		416,102	8,000
<b>Net cash flows used in investing activities</b>		<b>(17,518,660)</b>	<b>(1,955,481)</b>
<b>FINANCING ACTIVITIES</b>			
Increase (repayment) of secured credit facilities		6,423,370	(15,423,371)
Dividends paid	18	(5,752,020)	(4,771,683)
Purchase of share capital for cancellation	16	(11,137)	(567,343)
Financing cost incurred	14	(343,136)	(192,280)
<b>Net cash flows from (used in) financing activities</b>		<b>317,077</b>	<b>(20,954,677)</b>
Net change in cash		2,922,898	(1,143,542)
Net foreign exchange difference		246,940	1,416
Cash, beginning of period		364,079	1,506,205
<b>Cash, ending of period</b>		<b>3,533,917</b>	<b>364,079</b>
<b>Supplemental information <sup>(1)</sup></b>			
Interest paid		1,280,983	1,809,904
Interest received		2,920	8,637
Income taxes paid		7,044,827	5,543,855
Income taxes received		150,332	185,822

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

*See accompanying notes*

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2015 and 2014**

**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 17, 2016.

**2. SIGNIFICANT ACCOUNTING POLICIES**

**Basis of preparation and statement of compliance**

These consolidated financial statements were prepared in accordance with International Financial Reporting Standards (“IFRS”). These consolidated financial statements were prepared on a going concern basis, under the historical cost convention, except for 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 wholly-owned subsidiaries, Buffalo Envelope Inc., Montreal Envelope (2008) Inc., Quebec Envelope (2008) Inc., Classic Envelope Inc., Supremex Acquisition Inc., Supremex U.S.A. Inc. as at December 31, 2015 and Buffalo Envelope Inc., Montreal Envelope (2008) Inc., Quebec Envelope (2008) Inc., as at December 31, 2014.

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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2015 and 2014**

**2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]**

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

**Segment reporting**

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

**Foreign currency translation**

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

***Transactions and balances***

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

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

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

***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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

### 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2015 and 2014**

**2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]**

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

***Sales tax***

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

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

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

**Employee future benefits**

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2015 and 2014**

**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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

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 inflows. The Company bases its impairment calculation on detailed budgets and forecast calculations, which generally cover a period of four years.

**Impairment testing of goodwill**

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2015 and 2014**

**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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2015 and 2014**

**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, dividend payable, 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2015 and 2014**

**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.

**Income taxes**

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

### 3. SIGNIFICANT ACCOUNTING ESTIMATES [Cont'd]

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

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

### 4. RECENT ACCOUNTING PRONOUNCEMENTS

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

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

IFRS 9 will be effective on January 1, 2018.

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

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

IFRS 15 is effective for annual periods beginning on or after January 1, 2018. In September 2015, IASB announced one year deferral of the IFRS 15 effective date, originally set for January 1, 2017.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

### 4. RECENT ACCOUNTING PRONOUNCEMENT [Cont'd]

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

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

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

- IAS 1, *Presentation of Financial Statements*  
In December 2014, IASB issued amendments to IAS 1 *Presentation of Financial Statements* and an exposure draft (ED) proposing amendments to IAS 7 *Statement of Cash Flows* as part of its Disclosure Initiative. The IASB's Disclosure Initiative is made up of a number of implementation and research projects, including a materiality project, a fundamental review of IAS 1, IAS 7 and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, and a general review of disclosure requirements in existing standards.

The amendments to IAS 1 are applicable for annual periods beginning on or after January 1, 2016. Earlier application is permitted.

In the event of an immediate adoption, the changes will have no significant impact on the consolidated financial statements.

### 5. BUSINESS COMBINATIONS

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

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

## 5. BUSINESS COMBINATIONS [Cont'd]

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

	Premier Envelope Ltd. \$	Classic Envelope Inc. \$	Total \$
<b>Net assets acquired</b>			
Accounts receivable	1,561,419	1,358,633	2,920,052
Inventories	1,224,222	2,278,468	3,502,690
Prepaid expenses	10,370	17,195	27,565
Total current assets	<b>2,796,011</b>	<b>3,654,296</b>	<b>6,450,307</b>
Property, plant and equipment	1,895,859	3,429,840	5,325,699
Customer relationships	1,669,000	1,598,336	3,267,336
Goodwill	131,019	3,527,601	3,658,620
Total assets	<b>6,491,889</b>	<b>12,210,073</b>	<b>18,701,962</b>
Accounts payable and accrued liabilities	391,889	1,378,210	1,770,099
Deferred income tax liabilities	—	1,539,665	1,539,665
<b>Nets assets acquired</b>	<b>6,100,000</b>	<b>9,292,198</b>	<b>15,392,198</b>
<b>Consideration</b>			
Cash, net of cash acquired	<b>6,100,000</b>	<b>9,292,198</b>	<b>15,392,198</b>
Acquisition-related costs recognized as an expense	183,494	260,287	443,781

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

## 6. ACCOUNTS RECEIVABLE

	December 31, 2015 \$	December 31, 2014 \$
Trade receivables	20,503,055	17,533,332
Less: Allowance for doubtful accounts	(87,757)	(77,914)
Trade receivables - net	20,415,298	17,455,418
Other receivables	943,528	1,105,001
	<b>21,358,826</b>	<b>18,560,419</b>

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, 2015 \$	December 31, 2014 \$
Current	13,979,732	12,272,608
31 – 60 days	4,710,924	3,893,495
61 – 90 days	1,437,496	1,056,440
91 – 120 days	315,734	240,796
Over 120 days	59,169	69,993
	<b>20,503,055</b>	<b>17,533,332</b>

**Allowance for doubtful accounts**

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

	December 31, 2015 \$	December 31, 2014 \$
Balance, beginning of year	77,914	197,681
Business combinations	25,664	—
Charge for the year	115,318	473
Utilized	(120,989)	(121,213)
Unused amount reversed	(10,682)	—
Impact of foreign exchange losses	532	973
<b>Balance, end of year</b>	<b>87,757</b>	<b>77,914</b>

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

## 7. INVENTORIES

	December 31, 2015 \$	December 31, 2014 \$
Raw materials	4,461,908	2,686,610
Work in progress	329,869	196,024
Finished goods	10,771,836	8,096,098
	<b>15,563,613</b>	10,978,732

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, 2015 is \$97,829,869 [2014 - \$92,136,451].

## 8. PROPERTY, PLANT AND EQUIPMENT

	Land, buildings and leasehold improvements \$	Machinery and equipment \$	Office and computer equipment \$	Total \$
<b>Cost:</b>				
At December 31, 2013	15,373,416	36,560,678	1,689,643	53,623,737
Acquisition	—	1,902,046	61,435	1,963,481
Disposals	—	(40,057)	—	(40,057)
Translation adjustment	1,115	126,774	6,333	134,222
At December 31, 2014	15,374,531	38,549,441	1,757,411	55,681,383
Acquisition	50,209	1,110,603	142,756	1,303,568
Business combinations [note 5]	—	5,303,667	22,032	5,325,699
Disposals	—	(504,001)	(19,459)	(523,460)
Translation adjustment	2,587	503,233	14,695	520,515
<b>At December 31, 2015</b>	<b>15,427,327</b>	<b>44,962,943</b>	<b>1,917,435</b>	<b>62,307,705</b>
<b>Amortization:</b>				
At December 31, 2013	2,907,786	23,460,224	1,375,429	27,743,439
Amortization	450,030	3,006,551	110,596	3,567,177
Disposals	—	(26,440)	—	(26,440)
Translation adjustment	1,115	56,129	6,333	63,577
At December 31, 2014	3,358,931	26,496,464	1,492,358	31,347,753
Amortization	449,924	3,543,662	116,983	4,110,569
Disposals	—	(114,098)	—	(114,098)
Translation adjustment	2,587	155,808	14,695	173,090
<b>At December 31, 2015</b>	<b>3,811,442</b>	<b>30,081,836</b>	<b>1,624,036</b>	<b>35,517,314</b>
<b>Net book value:</b>				
At December 31, 2014	12,015,600	12,052,977	265,053	24,333,630
<b>At December 31, 2015</b>	<b>11,615,885</b>	<b>14,881,107</b>	<b>293,399</b>	<b>26,790,391</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

## 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:

	2015 \$	2014 \$
<b>Defined benefit plans</b>		
Administration expenses	198,100	187,000
Past service gains	(4,341,400)	(263,900)
Defined benefit plans gain	(4,143,300)	(76,900)
Defined contribution plan expense	1,389,500	1,347,300
<b>Pension plans (gain) loss</b>	<b>(2,753,800)</b>	1,270,400

Interest income on pension defined benefit plan obligation of \$42,800 (2014 – \$384,500) is included in the financing charges in the consolidated statement of earnings [see note 14].

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

## 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, 2015 \$	December 31, 2014 \$
<b>Change in accrued benefit obligation</b>		
Benefit obligation, beginning of the year	97,001,500	87,104,100
Interest cost	3,705,500	4,083,800
Employees contribution	76,500	600
Actuarial loss from change in financial assumptions	120,100	10,810,013
Actuarial gain from experience	(100,300)	(797,713)
Benefits paid	(4,240,100)	(3,935,400)
Past service gains	(4,341,400)	(263,900)
<b>Benefit obligation, end of year</b>	<b>92,221,800</b>	<b>97,001,500</b>
<b>Change in plan assets</b>		
Fair value of plan assets, beginning of the year	96,435,036	95,265,900
Interest income on plan assets	3,748,300	4,468,300
Actuarial (losses) gains	(2,664,600)	1,663,500
Employer contribution	74,731	—
Employees contribution	76,500	600
Use of surplus to pay for employer defined contributions	(1,311,306)	(840,864)
Benefits paid	(4,240,100)	(3,935,400)
Plan administration expenses	(198,100)	(187,000)
<b>Fair value of plan assets, end of year</b>	<b>91,920,461</b>	<b>96,435,036</b>
<b>Net amount recognized as accrued pension benefit liability</b>	<b>(301,339)</b>	<b>(566,464)</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

## 9. EMPLOYEE DEFINED BENEFIT PLANS [Cont'd]

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

	2015 \$	2014 \$
Actuarial losses	(2,684,400)	(8,348,800)
	<b>(2,684,400)</b>	<b>(8,348,800)</b>

The cumulative amount of actuarial losses recognized in the consolidated statement of comprehensive income is \$5,923,100 as at December 31, 2015 [2014 – \$3,238,700].

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

	2015 %	2014 %
Discount rate for accrued benefit obligation	<b>3.90</b>	4.00
Discount rate for net pension cost	<b>4.00</b>	4.80
Rate of compensation increase	<b>2.50</b>	3.25

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

	2015 %	2014 %
Equity securities		
Canadian	<b>23.0</b>	28.2
Financial services	5.4	5.9
Oil & Gas	4.9	5.7
Communications & media	3.2	4.5
Industrial products	2.3	2.7
Other	7.2	9.4
United States	<b>15.4</b>	10.3
Technology	2.8	1.8
Health Care	2.7	1.7
Financial services	2.4	1.8
Other	7.5	5.0
Europe, Australia and Far East	<b>11.2</b>	9.1
Other	<b>3.1</b>	2.3
	<b>52.7</b>	49.9
Fixed income <sup>(1)</sup>		
Canadian	<b>37.3</b>	—
Cash and short-term securities		
Canadian	<b>10.0</b>	50.1
<b>Total</b>	<b>100.0</b>	100.0

<sup>(1)</sup>Investments in fixed income funds

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

## 9. EMPLOYEE DEFINED BENEFIT PLANS [Cont'd]

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

The pension plans have an investment policy with the following target asset allocations: 50% in equity securities and 50% in fixed income securities. As at December 31, 2015 and 2014, the pension plans were in compliance with the investment policy allocations.

As of December 31, 2015 and 2014, there were no Supremex shares held in the Company's pension plans.

The average duration of the defined benefit plan obligation is 15.0 years as at December 31, 2015 [2014 – 16.0 years].

*Sensitivity analysis*

For the Company, a 0.25% increase or decrease in the discount rate would have decreased or increased the defined benefit liability by approximately \$3.2 million as at December 31, 2015. A 0.25% increase or decrease in the rate of compensation would have increased or decreased the pension benefit liability by approximately \$0.4 million as at December 31, 2015. An increase of one year in the life expectancy of plan members as at December 31, 2015 results in an increase of \$2.8 million in total projected defined benefit obligation of pension plans. The sensitivity analysis has been determined based on a method that determines the impact on the defined benefit liability of a 0.25% change in the key assumptions. There have been no changes in the methods and assumptions used to determine the sensitivity analysis from the comparative year.

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

The following tables provide a reconciliation of the change in the accrued benefit obligation of the plans.

	December 31, 2015 \$	December 31, 2014 \$
<b>Change in accrued benefit obligation</b>		
Benefit obligation, beginning of year	<b>899,900</b>	888,500
Interest cost [note 14]	<b>11,100</b>	40,900
Actuarial (gain) loss from change in financial assumption	<b>(38,700)</b>	44,400
Benefits paid	<b>(18,900)</b>	(73,900)
Past service gain [note 17]	<b>(614,400)</b>	—
<b>Benefit obligation, end of year</b>	<b>239,000</b>	899,900

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

## 9. EMPLOYEE DEFINED BENEFIT PLANS [Cont'd]

The other post-retirement benefits amount recognized in other comprehensive income, before taxation, consists of actuarial gains of \$38,700 [2014 – losses of \$44,400]. The cumulative amount of actuarial losses recognized in the consolidated statement of comprehensive income is \$432,800 as at December 31, 2015 [2014 - \$471,500].

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

	2015	2014
	%	%
<b>Weighted-average assumptions</b>		
Discount rate for benefit obligation	3.90	4.00
Discount rate for net periodic benefit cost	4.00	4.80

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

## 10. INTANGIBLE ASSETS

	Customer relationships \$	Non-compete agreements \$	Software \$	Total \$
<b>Cost</b>				
At December 31, 2014 and 2013	60,884,000	755,000	—	61,639,000
Additions	—	—	1,238,996	1,238,996
Business combinations [note 5]	3,267,336	—	—	3,267,336
Translation adjustment	98,448	—	—	98,448
<b>At December 31, 2015</b>	<b>64,249,784</b>	<b>755,000</b>	<b>1,238,996</b>	<b>66,243,780</b>
<b>Accumulated amortization:</b>				
At December 31, 2013	46,782,439	585,332	—	47,367,771
Amortization	6,088,400	75,500	—	6,163,900
At December 31, 2014	52,870,839	660,832	—	53,531,671
Amortization	6,135,607	75,500	—	6,211,107
Translation adjustment	330	—	—	330
<b>At December 31, 2015</b>	<b>59,006,776</b>	<b>736,332</b>	<b>—</b>	<b>59,743,108</b>
<b>Net book value:</b>				
At December 31, 2014	8,013,161	94,168	—	8,107,329
<b>At December 31, 2015</b>	<b>5,243,008</b>	<b>18,668</b>	<b>1,238,996</b>	<b>6,500,672</b>

As at December 31, 2015, the software has not been yet amortized as the project is not completed.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

## 11. GOODWILL

	\$
<b>Cost</b>	
At December 31, 2014 and 2013	46,889,125
Business combinations [note 5]	3,658,620
Translation adjustment	217,279
<b>At December 31, 2015</b>	<b>50,765,024</b>

**Impairment test of goodwill**

The Company conducted its annual impairment test as at December 31, 2015, 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, 2015, involves projecting cash flows and converting them into a present value equivalent through discounting. The discounting process uses a rate of return that is commensurate with the risk associated with the business or asset and the time value of money. This approach requires assumptions about revenue growth or decline rates, operating margins, tax rate and discount rate.

*Growth or decline of revenue*

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

*Discount rate*

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

## 11. GOODWILL [Cont'd]

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

	<b>2015</b>	<b>2014</b>
Pre-tax discount rate	16.6%	18.3%
Tax rate	26.0%	26.0%
Perpetual decline rate	3.0%	3.0%

*Sensitivity*

In the most recent impairment test performed, if the pre-tax discount rate had increased to 33.1% or the perpetual decline rate had increased to 53.7%, the recoverable amount of the cash generating unit would have then equaled the carrying amount as at December 31, 2015.

## 12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	<b>December 31, 2015</b>	<b>December 31, 2014</b>
	<b>\$</b>	<b>\$</b>
Trade payables	<b>8,175,683</b>	8,036,688
Accrued liabilities	<b>9,972,032</b>	8,382,614
	<b>18,147,715</b>	16,419,302

Trade payables are non-interest bearing and are normally settled on 20 to 60 days 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, 2015, the amount of the remaining accrued restructuring provision was \$0.3 million [\$0.3 million as at December 31, 2014]. This amount is related to deferred severance for employees on long-term disability and is payable on demand.

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

	<b>December 31, 2015</b>	<b>December 31, 2014</b>
	<b>\$</b>	<b>\$</b>
Balance, beginning of year	<b>337,401</b>	411,276
Cash payments	<b>(4,462)</b>	(73,875)
<b>Balance, end of year</b>	<b>332,939</b>	337,401



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

## 14. SECURED CREDIT FACILITIES

On October 6, 2015, the Company entered into a five-year committed \$50 million senior secured revolving facility agreement. No principal repayments are required prior to maturity. This facility replaces Supremex' existing three-year \$15 million revolving facility and \$25 million term loan. This facility bears interest at a floating rate based on the Canadian prime rate or bankers' acceptance rates, plus an applicable margin that range between 1.50% and 1.75%.

The secured credit facility is used for working capital, capital expenditure and other general corporate purpose. It is collateralized by hypothec and security interests covering all assets of the Company and its subsidiaries and is subject to certain covenants, which the Company is required, among other conditions, to meet. The Company was in compliance with these covenants during 2015.

As at December 31, 2014, the Company had secured credit facilities consisting of a \$15 million revolving facility and a \$25 million term loan. These facilities beared interest at a floating rate based on the Canadian prime rate or bankers' acceptance rates, plus an applicable margin that range between 1.50% and 1.75%.

Amounts owed under secured credit facilities are as follows:

	<b>December 31, 2015</b>	<b>December 31, 2014</b>
	\$	\$
Operating facility	—	767,106
Term loan	—	21,809,524
Revolving credit facility	<b>29,000,000</b>	—
Less: deferred financing costs, net	<b>(325,979)</b>	(170,916)
	<b>28,674,021</b>	22,405,714
Current portion	—	(5,221,115)
Long-term portion of secured credit facilities	<b>28,674,021</b>	17,184,599

There are no minimum required payments on secured credit facility.

The Company had outstanding letters of credit for a total of \$50,000 as at December 31, 2015, [2014 – \$1,145,000].

The effective interest rate on the secured credit facilities was 2.59% as at December 31, 2015 [3.42% as at December 31, 2014].

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

## 14. SECURED CREDIT FACILITIES [Cont'd]

Financing charges are as follows:

	2015	2014
	\$	\$
Interest on secured credit facilities	1,348,008	1,643,440
Interest income on defined benefit plan obligation [note 9]	(42,800)	(384,500)
Interest expense on post-retirement benefits [note 9]	11,100	40,900
Other interest	9,600	2,892
Amortization of deferred financing costs	188,073	438,330
Gain on valuation of derivative financial instrument (interest rate swap)	(547,562)	(407,363)
	<b>966,419</b>	<b>1,333,699</b>

## 15. INCOME TAXES

## Income tax expense

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

	2015	2014
	\$	\$
<b>Current income tax:</b>		
Current income tax expense	6,620,621	5,682,759
<b>Deferred income tax:</b>		
Reversal of temporary differences	(743,321)	(1,581,486)
<b>Income tax expense</b>	<b>5,877,300</b>	<b>4,101,273</b>

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

	2015	2014
	\$	\$
Deferred income tax related to items imputed directly to equity during the year:		
Deferred tax benefit on recognized actuarial loss on defined benefit pension plans	(699,751)	(2,167,348)
Deferred tax expense (benefit) on recognized actuarial gain (loss) on other post-retirement benefit	10,088	(11,526)
<b>Income tax benefit charged to other comprehensive income</b>	<b>(689,663)</b>	<b>(2,178,874)</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

## 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:

	2015 \$	2014 \$
Earnings before income taxes	<b>21,808,100</b>	15,148,615
Income tax expense at combined federal and provincial statutory rate of 26.0% [2014 – 25.9%]	<b>5,675,849</b>	3,934,095
Effect of change in enacted tax rates	<b>6,555</b>	2,754
Income tax rate differential for foreign subsidiaries	<b>53,535</b>	58,626
Non-deductible expenses and other	<b>141,361</b>	105,798
<b>Income tax expense</b>	<b>5,877,300</b>	4,101,273

**Deferred income tax**

Deferred income tax relates to the following:

	Consolidated statement of financial position		Consolidated statement of earnings	
	December 31, 2015 \$	December 31, 2014 \$	December 31, 2015 \$	December 31, 2014 \$
<b>Deferred tax assets</b>				
Accrued pension benefit asset (liability)	<b>78,551</b>	147,098	<b>768,297</b>	(98,204)
Goodwill	<b>1,339,488</b>	1,567,536	<b>228,048</b>	178,144
Derivative financial liability	—	142,189	<b>142,189</b>	105,669
Other	<b>244,928</b>	316,860	<b>62,918</b>	27,509
Non-capital losses	<b>145,942</b>	—	<b>22,529</b>	16,407
	<b>1,808,909</b>	2,173,683	<b>1,223,981</b>	229,525
<b>Deferred tax liabilities</b>				
Property, plant and equipment	<b>3,162,455</b>	2,779,381	<b>763,478</b>	292,329
Intangible assets	<b>835,866</b>	1,399,906	<b>1,202,416</b>	1,518,677
Other	<b>229,879</b>	212,811	<b>1,408</b>	5
	<b>4,228,200</b>	4,392,098	<b>1,967,302</b>	1,811,011
<b>Deferred tax recovery</b>			<b>(743 321)</b>	(1,581,486)
<b>Net deferred income tax liabilities</b>	<b>(2,419,291)</b>	(2,218,415)		

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

## 15. INCOME TAXES [Cont'd]

## Reconciliation of net deferred tax liabilities

	2015 \$	2014 \$
Balance – beginning of the year	(2,218,415)	(5,982,971)
Tax recovery during the year recognized in the consolidated statement of earnings	743,321	1,581,486
Tax benefit recognized in other comprehensive loss	689,663	2,178,874
Other	129	4,196
Net deferred tax from business acquisitions [note 5]	(1,539,665)	—
Translation adjustment on net deferred tax	(94,324)	—
<b>Balance – end of year</b>	<b>(2,419,291)</b>	<b>(2,218,415)</b>

## 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, 2013	28,960,867	9,885,008
Purchase of share capital for cancellation	(206,200)	(70,380)
Balance, as of December 31, 2014	<b>28,754,667</b>	<b>9,814,628</b>
Purchase of share capital for cancellation	(3,700)	(1,263)
<b>Balance, as of December 31, 2015</b>	<b>28,750,967</b>	<b>9,813,365</b>

The Company repurchased 3,700 common shares for cancellation through a normal course issuer bid in consideration of \$11,137 and completed its normal course issuer bid on May 11, 2015. The excess of the purchase price over the carrying value in the amount of \$9,874 (2014- \$496,963) was recorded as a reduction of contributed surplus.

Pursuant to the normal course issuer bid, which began on July 2, 2015, the Company can purchase for cancellation up to 1,435,000 common shares until July 1, 2016.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

## 16. SHARE CAPITAL [Cont'd]

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

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

The compensation expense related to these DSUs are accounted for in Selling, general and administrative expenses and the related liability presented with Accounts payable and accrued liabilities for each participant remaining active, as a member of the Board of Directors. As at December 31, 2015 there are no issued and outstanding DSUs.

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

	2015	2014
	\$	\$
Wages and salaries	33,353,444	31,502,045
Social security costs	4,703,580	4,309,728
Pension plans (gain) loss [see note 9]	(2,753,800)	1,270,400
Post-employment benefits other than pension [see note 9]	(614,400)	—
Employee benefits expenses	34,688,824	37,082,173
Raw materials and other purchases	58,447,167	53,343,163
Other	16,073,012	15,243,721
	<b>109,209,003</b>	<b>105,669,057</b>

## 18. DIVIDENDS

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

## 18. DIVIDENDS [Cont'd]

Dividends declared from January 1, 2014 to December 31, 2014 were as follows:

<b>Declaration date</b>	<b>Record date</b>	<b>Payment date</b>	<b>Per share \$</b>	<b>Dividend \$</b>
February 19, 2014	February 28, 2014	March 14, 2014	0.04	1,158,435
April 22, 2014	April 25, 2014	May 6, 2014	0.04	1,158,434
June 17, 2014	June 30, 2014	July 11, 2014	0.04	1,156,975
July 31, 2014	September 30, 2014	October 10, 2014	0.045	1,297,839
November 6, 2014	December 31, 2014	January 12, 2015	0.05	1,437,733
<b>Total</b>				<b>6,209,416</b>

## 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:

	<b>December 31, 2015 \$</b>
Within one year	<b>2,814,967</b>
After one year but not more than five years	<b>6,253,899</b>
More than five years	<b>1,606,727</b>
	<b>10,675,593</b>

**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:

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

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

*Operating leases*

The Company has general indemnity clauses in many of its real estate leases whereby it, as lessee, indemnifies the lessor against liabilities related to the use of leased property. These leases mature at various dates through November 2025 with renewal option for some leases. The nature of these indemnification agreements prevents the Company from estimating the total potential amount it would have to pay to lessors, since these events have not occurred yet. Historically, the Company has not made any significant payments under such agreements, has insurance coverage for certain of the obligations undertaken and, as at December 31, 2015, has not recorded any liability associated with these indemnifications.

## 20. RELATED PARTY TRANSACTIONS

Compensation of key management personnel of Supremex is as follows:

	2015	2014
	\$	\$
Short-term employee benefits	1,776,769	1,338,813
Post-employment benefits	72,885	46,353
Termination benefits	—	665,000
	<b>1,849,654</b>	<b>2,050,166</b>

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

In the year ended December 31, 2014, the Company has, in the normal course of business, received services in an amount of \$37,334 from a former major shareholder, Clarke Inc., and its subsidiaries. Except for compensation of key management personnel, no other related party transactions occurred in 2015.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

## 21. FINANCIAL INSTRUMENTS

## Financial assets and liabilities

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

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

December 31, 2014		Assets at fair value through earnings	Derivatives	Other financial liabilities	Total
	Loans and receivables				
	\$	\$	\$	\$	\$
Cash	—	364,079	—	—	364,079
Accounts receivable	18,560,419	—	—	—	18,560,419
Accounts payable and accrued liabilities	—	—	—	(15,103,325)	(15,103,325)
Dividend payable	—	—	—	(1,437,733)	(1,437,733)
Provisions	—	—	—	(337,401)	(337,401)
Secured credit facilities	—	—	—	(22,576,630)	(22,576,630)
Derivative financial liability	—	—	(547,562)	—	(547,562)
<b>Total</b>	<b>18,560,419</b>	<b>364,079</b>	<b>(547,562)</b>	<b>(39,455,089)</b>	<b>(21,078,153)</b>

## 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.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2015 and 2014**

**21. FINANCIAL INSTRUMENTS [Cont'd]**

**Management of risks arising from financial instruments**

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

**Credit risk**

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

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, 2015 and 2014, total trade accounts receivable over 90 days past due amounted to less than 5% [see note 6]. The Company does not hold collateral as security.

**Liquidity risk**

The Company is exposed to the risk of being unable to honour its financial commitments within the deadlines set out under the terms of such commitments and at a reasonable price. The Company manages liquidity risk by maintaining adequate cash balances and by appropriately using the Company's secured credit facilities. The Company continuously reviews both actual and forecasted cash flows to ensure that it has adequate credit facility capacity. The Company continuously reviews its exposure to interest rate fluctuations and as at February 17, 2016, the debt level was not deemed high enough to enter into a new interest swap.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

## 21. FINANCIAL INSTRUMENTS [Cont'd]

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.

<b>December 31, 2015</b>	<b>Less than 3 months \$</b>	<b>3 to 12 months \$</b>	<b>1 to 5 years \$</b>	<b>Total \$</b>
Accounts payable and accrued liabilities	16,768,700	—	—	16,768,700
Dividend payable	1,581,303	—	—	1,581,303
Provisions	332,939	—	—	332,939
Secured credit facilities	—	—	29,000,000	29,000,000
	<b>18,682,942</b>	<b>—</b>	<b>29,000,000</b>	<b>47,682,942</b>
<b>December 31, 2014</b>	<b>Less than 3 months \$</b>	<b>3 to 12 months \$</b>	<b>1 to 5 years \$</b>	<b>Total \$</b>
Accounts payable and accrued liabilities	15,103,325	—	—	15,103,325
Dividend payable	1,437,733	—	—	1,437,733
Provisions	337,401	—	—	337,401
Secured credit facilities	892,857	4,328,258	17,355,515	22,576,630
Derivative financial liability	123,525	337,919	105,551	566,995
	<b>17,894,841</b>	<b>4,666,177</b>	<b>17,461,066</b>	<b>40,022,084</b>

**Market risk**

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

*Interest rate risk*

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

On December 31, 2015, a 25 basis-point rise or fall in interest rates, assuming all other variables remained unchanged, would have resulted, respectively, in a \$23,678 increase or decrease in the Company's net earnings for the year ended December 31, 2015 [2014 - \$4,156].

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

## 21. FINANCIAL INSTRUMENTS [Cont'd]

*Foreign exchange risk*

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

As at December 31, 2015, net financial assets (liabilities) of the Company in Canadian dollars, denominated in U.S. dollars, totalled \$1,849,867 [2014 - \$ (2,211,939)].

On December 31, 2015, a 5% rise or fall in the Canadian dollar against the U.S. dollar on financial instruments held at that date, assuming all other variables remained unchanged, would have resulted, respectively, in a \$92,493 increase or decrease in the Company's net earnings for the year then ended [2014 - \$110,597], whereas other comprehensive income (loss) would have increased or decreased by \$132,014 [2014 - \$45,105].

## 22. CAPITAL MANAGEMENT

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

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

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

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

	<b>December 31, 2015</b>	<b>December 31, 2014</b>
	<b>\$</b>	<b>\$</b>
Secured credit facilities	<b>28,674,021</b>	22,576,630
Cash	<b>(3,533,917)</b>	(364,079)
Net debt	<b>25,140,104</b>	22,212,551
Equity	<b>72,635,169</b>	63,751,695

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2015 and 2014**

**23. SEGMENTED INFORMATION**

The Company currently operates in one reporting segment: the manufacturing and sale of envelopes. The Company's non-current assets amounted to \$74,347,005 in Canada and \$9,709,082 in the United States as at December 31, 2015 [\$78,640,750 and \$689,334, respectively, as at December 31, 2014]. The Company's revenue amounted to \$115,645,871 in Canada and \$26,652,587 in the United States for the year ended December 31, 2015 based on customer location [2014 - \$116,421,849 in Canada and \$15,466,216 in the United States].

**24. SUBSEQUENT EVENTS**

On February 17, 2016, the Board of Directors has declared a quarterly dividend of \$0.055 per common share, payable on April 14, 2016 to shareholders of record at the close of business on March 31, 2016.

Subsequent to year end, the Company repurchased 106,196 common shares for cancellation through a normal course issuer bid for a total consideration of \$499,703.

**25. COMPARATIVE FIGURES**

Certain comparative figures from the previous year were reclassified to conform to the presentation adopted for the current year.