**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
FOR THE THREE AND TWELVE-MONTH PERIODS ENDED DECEMBER 31, 2019**

The following management's discussion and analysis of financial condition and results of operations ("MD&A"), dated February 20, 2020, of Supremex Inc. ("Supremex" or the "Company") should be read together with the accompanying audited consolidated financial statements and related notes of the Company for the year ended December 31, 2019. 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, 2019.

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

This MD&A contains forward-looking information. Please see "Forward-Looking Information" for a discussion of the risks, uncertainties and assumptions relating to these statements. This MD&A contains certain other non-IFRS financial measures. Terms by which non-IFRS financial measures are identified include, but are not limited to "EBITDA" and "Adjusted EBITDA". Non-IFRS financial measures are used to provide management and investors with additional measures of performance. However, non-IFRS financial measures do not have standard meanings prescribed by IFRS and therefore may not be directly comparable to similar measures used by other companies and should not be viewed as alternatives to measures of financial performance prepared in accordance with IFRS. See "Non IFRS measures: Definition of EBITDA and Adjusted EBITDA" and "Reconciliation of Net Earnings to Adjusted EBITDA".

Business Overview

Supremex is a leading North American manufacturer and marketer of envelopes and a growing provider of paper-based packaging solutions. Including its most recent acquisition, Supremex operates 13 facilities across seven provinces in Canada and three facilities in the United States employing approximately 935 people. Supremex' growing footprint allows it to efficiently manufacture and distribute paper and packaging solutions designed to the specifications of major national and multinational corporations, resellers, government entities, SMEs and solutions providers.

The Company manufactures a broad range of stock and custom envelopes in an array of styles, shapes and colours, which allows it to offer a high degree of flexibility and customization. It also manufactures and distributes a diverse range of packaging and specialty products, including corrugated boxes, high quality folding carton packaging and e-Commerce Fulfillment Packaging solutions. Other packaging and specialty products include the Conformer Products®[1], polyethylene bags for courier applications, bubble mailers, Enviro-logiX®[2] and Tyvek®[3] and other related products such as protective envelopes, X-ray envelopes, medical and file folders, repositionable notes, membership cards as well as labelling products.

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

2 Enviro-logiX® is a registered trademark of Envirologix Inc.

3 Tyvek® is a registered trademark of E.I. du Pont de Nemours and Company.

Growth and Diversification Strategy

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

The growth in e-commerce and changes in consumer behaviour have been significant growth drivers for packaging, labels and specialty products. From 2016 to 2018, the Company acquired three specialty packaging business (plus a small complementary label entity) to build the first building blocks of its packaging platform. In 2016, the Company acquired Durabox Paper Inc. ("Durabox"), a manufacturer and distributor of corrugated paper boxes and, in 2017, acquired Stuart Packaging Inc. ("Stuart Packaging"), a manufacturer of specialty folding carton packaging solutions. In 2018, Supremex further expanded its specialty folding carton offering with the acquisition of Groupe Deux Printing Inc. ("G2 Printing") and Pharmaflex Labels Inc. ("Pharmaflex"). By the end of 2018, Supremex became an important supplier of paper packaging solutions in the province of Quebec, focused primarily on the food, pharmaceutical and cosmeceutical industries.

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

When Supremex first introduced this diversification strategy in 2014, Canadian envelope revenue represented 81.4% of total revenue, U.S. envelope revenue represented 11.2%, and packaging was 7.4%. At the end of 2019, more than half of the Company's revenue came from a combination of the U.S. envelope and packaging sales, which represented 23.7% and 28.5% respectively, compared with 22.2% and 29.2% respectively at the end of 2018. In the longer term, the Company's objective is to achieve an equal revenue split between packaging and envelope.

Fourth Quarter Financial Highlights and Recent Events

- Acquired Royal Envelope, a leading envelope manufacturer and printer, for a total purchase price of $27.4 million.
- Total revenue was $49.2 million, down from $54.2 million in the fourth quarter of 2018.
- Envelope segment revenue was $35.7 million, down from $38.3 million in the fourth quarter of 2018.
- Packaging and specialty products segment revenue was $13.4 million, down from $15.8 million, representing 27.3% of total revenue.
- Net Earnings of $2.3 million (or $0.08 per share), up from a net loss of $12.4 million (or $(0.44) per share) in the fourth quarter of 2018.
- EBITDA[4] was $6.8 million, up from $(9.4) million in the fourth quarter of 2018. Adjusted EBITDA[4] was $5.4 million, down from $8.1 million in the fourth quarter of 2018.
- Approved a quarterly dividend of $0.065 per share, equivalent to the same period of last year.
- The Company's defined benefit pension plan entered into a $46.4 million CAD group annuity buy-in with RBC Life Insurance Company.

[4] Refer to the reconciliation of Net Earnings to Adjusted EBITDA and to the definition of EBITDA and Adjusted EBITDA in section Non-IFRS Measures. The adoption of IFRS 16 had a material impact on the Company's consolidated statement of financial position and its consolidated statement of earnings as nearly all operating leases were capitalized with a corresponding liability, while the rent expense was replaced by the depreciation of the right-of-use assets, and interest accretion expense from the liabilities was recorded.

Fiscal Year Financial Highlights

- Total revenue was $191.7 million, down from $195.1 million in 2018.
- Envelope segment revenue was $137.1 million, slightly down from $138.2 million in 2018.
- Packaging and specialty products segment revenue was $54.5 million, slightly down from $56.9 million, and represented 28.5% of total revenue.
- Net Earnings of $7.1 million (or $0.25 per share), up from a net loss of $4.8 million (or $(0.17) per share) in 2018.
- EBITDA[5] was $25.3 million, up from $7.5 million in 2018. Adjusted EBITDA[5] was $20.2 million, down from $26.0 million in 2018.
- Declared a total of $0.26 per share in dividends, equivalent to last year.
- Purchased 150,000 common shares for cancellation under the Normal Course Issuer Bid ("NCIB") program for total consideration of $424,633.
- Concluded a new four-year senior secured credit facility of $115 million with improved terms and conditions.

Growing Packaging Capabilities

On January 8, 2019, the Company announced that it received exclusive rights to manufacture Conformer® products in Canada. Conformer® is a registered trademark of Conformer Products, Inc. As a long-time licensee, Supremex' Conformer® offering has enjoyed significant growth over the last several years. The Company plans to accelerate growth of its e-commerce fulfillment packaging offering based on these exclusive rights and the addition of new capabilities and capacity.

On April 12, 2019, Supremex announced that its Laval, Quebec folding carton facility had received the industry leading BRC Certification after a rigorous auditing process, being awarded the highest AA grade status. This certification is a symbol for best practices in the retail supply chain and an important recognition of Supremex high standards in product safety and reliability, a key value proposition for the premium segment of the food and beverage industry.

In the fourth quarter of 2019, Supremex completed its 2018-2019 packaging CAPEX program. The new 144,000 feet Durabox facility reached an important milestone by quadrupling its corrugate board production capacity and becoming fully self-sufficient for its internal corrugate board requirements. The Company's folding carton division also completed the installation and commissioning of a new state-of-the-art printing press.

New Credit Facility

On May 7, 2019, the Company entered into a four-year senior secured credit facility of $115 million composed of an $80 million revolving facility and a $35 million term facility. The term facility is repayable in quarterly principal installments of $875,000. No principal repayments are required on the revolving facility prior to maturity. The credit facility replaces Supremex' pre-existing $75 million revolving credit facility and is used for working capital, capital expenditures, acquisitions and other general corporate purposes.

Business acquisition

On February 18, 2020, Supremex announced the acquisition of substantially all of the assets of Royal Envelope Ltd and Envelope Royal Inc. (together "Royal Envelope"), a leading Eastern Canada based envelope manufacturer and printer, for a total purchase price of $27.4 million. This transaction is financed through the existing senior secured credit facility. Founded in 1989, Royal Envelope generated approximately $30 million of revenue during their most recent fiscal year

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[5] Refer to the reconciliation of Net Earnings to Adjusted EBITDA and to the definition of EBITDA and Adjusted EBITDA in section Non-IFRS Measures. The adoption of IFRS 16 had a material impact on the Company's consolidated statement of financial position and its consolidated statement of earnings as nearly all operating leases were capitalized with a corresponding liability, while the rent expense was replaced by the depreciation of the right-of-use assets, and interest accretion expense from the liabilities was recorded.

mainly from the direct sale of envelopes and printing services. Royal Envelope employs approximately 135 people at its two facilities located in Concord (Ontario) and in LaSalle (Quebec).

Declaration of Dividend

On February 20, 2020, the Board of Directors declared a quarterly dividend of $0.065 per common share, payable on April 15, 2020, to the shareholders of record at the close of business on March 31, 2020. This dividend is designated as an "eligible" dividend for the purpose of the Income Tax Act (Canada) and any similar provincial legislation.

Summary of Financial Information and Non-IFRS Measures

Selected Consolidated Financial Information
(In thousands of dollars, except for per share amounts)

	Three-month periods ended December 31		**Twelve-month periods ended December 31**	
	2019	**2018**	**2019**	**2018**
Revenue	**49,188**	54,150	**191,669**	195,087
Operating expenses	**37,289**	40,785	**143,766**	146,294
Selling, general and administrative expenses	**5,204**	5,397	**22,555**	24,708
Operating earnings before depreciation, amortization and other items	**6,695**	7,968	**25,348**	24,085
Depreciation of property, plant and equipment	**1,100**	1,286	**4,837**	4,295
Depreciation of right-of-use assets	**1,172**	—	**4,697**	—
Amortization of intangible assets	**557**	588	**2,193**	2,088
(Gain) loss on disposal of property, plant and equipment and right-of-use assets	**(9)**	—	**165**	(777)
Goodwill impairment	**—**	16,137	—	16,137
Restructuring (recovery) expenses	**(124)**	1,219	**(124)**	1,219
Operating earnings (loss)	**3,999**	(11,262)	**13,580**	1,123
Financing charges, net	**816**	557	**3,435**	1,841
Earnings (loss) before income taxes	**3,183**	(11,819)	**10,145**	(718)
Income tax expense	**894**	607	**3,057**	4,075
Net earnings (loss)	**2,289**	(12,426)	**7,088**	(4,793)
Basic and diluted net earnings (loss) per share	**0.08**	(0.44)	**0.25**	(0.17)
Dividend declared per share	**0.065**	0.065	**0.26**	0.26

Reconciliation of Net Earnings (Loss) to Adjusted EBITDA
(In thousands of dollars)

	Three-month periods ended December 31		Twelve-month periods ended December 31	
	2019	**2018**	**2019**	**2018**
Net Earnings (Loss)	**2,289**	(12,426)	**7,088**	(4,793)
Income tax expense	**894**	607	**3,057**	4,075
Financing charges, net	**816**	557	**3,435**	1,841
Depreciation of property, plant and equipment	**1,100**	1,286	**4,837**	4,295
Depreciation of right-of-use assets	**1,172**	—	**4,697**	—
Amortization of intangible assets	**557**	588	**2,193**	2,088
EBITDA(1)	**6,828**	(9,388)	**25,307**	7,506
Goodwill impairment	**—**	16,137	—	16,137
Restructuring (recovery) expenses	**(124)**	1,219	**(124)**	1,219
(Gain) loss on disposal of property, plant and equipment and right-of-use assets	**(9)**	—	**165**	(777)
New Durabox facility start-up costs	**—**	180	**—**	333
Expense for contingent remuneration related to business combination	**—**	—	**—**	1,623
Actual lease payments (IFRS 16 impact)	**(1,289)**	—	**(5,136)**	—
Adjusted EBITDA(1)	**5,406**	8,148	**20,212**	26,041
Adjusted EBITDA Margin (%)	**11.0%**	15.1%	**10.6%**	13.4%

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

Revenue Information
(In millions of dollars)

	Three-month periods ended December 31		Twelve-month periods ended December 31	
	2019	**2018**	**2019**	**2018**
Canadian Envelope	**$23.9**	$25.8	**$91.7**	$94.8
Volume variation	**-14.2%**	-7.4%	**-12.6%**	-10.9%
Average selling price variation	**8.1%**	9.2%	**10.6%**	4.2%
Total variation	**-7.3%**	1.1%	**-3.3%**	-7.2%
U.S. Envelope	**$11.9**	$12.6	**$45.5**	$43.4
Volume variation	**-7.1%**	3.5%	**-2.7%**	-4.0%
Average selling price variation (in CAD)	**1.5%**	11.2%	**7.7%**	6.8%
Total variation	**-5.7%**	15.1%	**4.8%**	2.5%
Packaging & Specialty Products				
Canada & U.S.	**$13.4**	$15.8	**$54.5**	$56.9
Total variation	**-15.0%**	22.2%	**-4.1%**	64.4%
Total Revenue	**$49.2**	$54.2	**$191.7**	$195.1
Revenue variation	**-9.2%**	9.7%	**-1.8%**	8.9%

Segmented Information

The Company currently operates in two reporting segments: the manufacturing and sale of envelopes and the manufacturing and sale of paper-based packaging solutions and specialty products. The new segmentation was completed during the fourth quarter of 2019 as of which the Company will start reporting its consolidated financial results on a segmented basis. For 40 years, Supremex has developed its core paper substrate and converting expertise to become one of the largest manufacturers and distributors of envelopes in North America. In 2014, the Company implemented a growth and diversification strategy aimed at expanding its paper-based packaging offering into folding carton and corrugate to serve several value-added markets in Eastern Canada. The Company's packaging and specialty products revenue now accounts for 28.5% of its annual revenue.

The envelope segment

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

The packaging and specialty products segment

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

Segmented Information
(In thousands of dollars)

	Three-month periods ended December 31		Twelve-month periods ended December 31	
	2019	**2018**	**2019**	**2018**
Segmented Revenue				
Envelope	**35,744**	38,332	**137,123**	138,201
Packaging & specialty products	**13,444**	15,818	**54,546**	56,886
Total revenue	**49,188**	54,150	**191,669**	195,087
Segmented Adjusted EBITDA[(1)]				
Envelope	**5,786**	6,121	**19,982**	20,034
% of segmented revenue	**16.2%**	16.0%	**14.6%**	14.5%
Packaging & specialty products	**319**	2,039	**2,702**	7,034
% of segmented revenue	**2.4%**	12.9%	**5.0%**	12.4%
Corporate and unallocated costs	**(699)**	(12)	**(2,472)**	(1,027)
Total Adjusted EBITDA[(1)]	**5,406**	8,148	**20,212**	26,041
% of total revenue	**11.0%**	15.1%	**10.6%**	13.4%

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

Results of Operations

Three-month period ended December 31, 2019, compared with the three-month period ended December 31, 2018

Revenue

Total revenue for the three-month period ended December 31, 2019, was $49.2 million, representing a 9.2% reduction from $54.2 million in the fourth quarter of 2018.

Revenue from the envelope segment stood at $35.8 million, down 6.8% or $2.6 million compared to the fourth quarter of 2018.

- Canadian envelope revenue was $23.9 million, down 7.3% or $1.9 million from $25.8 million in the fourth quarter of 2018. Canadian envelope volume declined by 14.2%, primarily resulting from the combined effects of the industry-wide secular decline, customer movement and the Company's strategy to maintain a disciplined market approach with price leadership and differentiation. Average selling prices increased by 8.1% to mitigate the effect of significant input cost inflation that occurred throughout 2018 and in the first half of 2019. For comparison, Canada Post Transactional Mail volumes were down 11.3% during their third quarter ended September 28, 2019[6].

- Revenue from the U.S. envelope market was $11.9 million, a decrease of 5.7% from $12.6 million in the fourth quarter of 2018. The volume of units sold decreased by 7.1% while average selling prices increased by 1.5%. For comparison, U.S. Postal Service First Class Mail volumes were down 3.8% during their first quarter fiscal 2020[7].

Revenue from the packaging and specialty products segment was $13.4 million, a decrease of 15.0% or $2.4 million compared to the equivalent quarter of 2018. The majority of the decline results from the loss of business with an e-commerce customer and from weaker revenue in the folding carton division. Packaging and specialty products represented 27.3% of the Company's revenue in the quarter, down from 29.2% during the equivalent period of last year.

Operating Expenses

Operating expenses for the three-month period ended December 31, 2019, were $37.3 million compared with $40.8 million for the equivalent period in 2018, representing a reduction of $3.5 million or 8.6%. The decrease is mostly attributable to a lower cost of good sold in relation with lower sales and the adoption of IFRS 16 which reduced operating lease expenses by $1.3 million.

Selling, General and Administrative Expenses

Selling, general and administrative expenses totalled $5.2 million for the three-month period ended December 31, 2019, compared with $5.4 million during the same period in 2018, a decrease of $0.2 million.

EBITDA and Adjusted EBITDA[8]

EBITDA was $6.8 million, compared with a negative EBITDA of $9.4 million primarily as a result of a $16.1 million goodwill impairment charge on the Company's envelope operations and a $1.2 million restructuring expense recorded in the fourth quarter of 2018. Furthermore, the adoption in January 2019 of IFRS 16 had a material impact on the Company's consolidated statement of financial position and consolidated statement of earnings as nearly all operating leases were capitalized with a corresponding liability, while operating expenses were reduced by $1.3 million in the fourth quarter of 2019. Adjusted EBITDA for the fourth quarter of 2019 was $5.4 million compared with $8.1 million in the

[6] Canada Post Third Quarter Results Press Release dated November 22, 2019

[7] US Postal Service First Quarter 2020 Press Release dated February 6, 2020

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

equivalent quarter of 2018. The decrease of $2.7 million in Adjusted EBITDA stems primarily from the lower contribution from the packaging and specialty products segment. Fourth quarter 2019 Adjusted EBITDA margins stood at 11.0% of revenue compared with 15.1% in the equivalent quarter of 2018.

- Envelope segment Adjusted EBITDA was $5.8 million, down $0.3 million from $6.1 million in the fourth quarter of 2018. Lower contribution from the U.S. operations mitigated a slight improvement of operating profitability of the Canadian envelope operations. On a percentage of segmented revenue, Adjusted EBITDA from the envelope operations was 16.2%, up from 16.0% in the equivalent period of 2018.
- Packaging and specialty products segment Adjusted EBITDA was $0.3 million, down $1.7 million from $2.0 million in the fourth quarter of 2018. Operational inefficiencies in folding carton from the commissioning of the new printing press was the largest contributor to the reduction in operating profitability in the fourth quarter, followed by inefficiencies from the much slower than anticipated ramp-up of the new Durabox facility and the loss of volume of a single, large e-commerce customer. On a percentage of segmented revenue, Adjusted EBITDA from the packaging and specialty operations was 2.4% compared with 12.9% in the equivalent period of 2018.
- The balance of the variance results from corporate and unallocated costs, which stood at $0.7 million, compared with nil in the equivalent quarter of 2018. A loss on foreign exchange translation in the three-month period of 2019 versus a gain in the comparable period of 2018 accounted for $0.4 million of the variance.

Depreciation and Amortization

Depreciation and amortization expenses for the three-month period ended December 31, 2019, amounted to $2.8 million compared with $1.9 million in the fourth quarter of 2018. The adoption of IFRS 16 resulted in a depreciation charge for the right-of-use assets equivalent to $1.2 million in the fourth quarter of 2019 compared to nil in 2018. Under the adopted modified retrospective method permitted under the IFRS 16, 2018 comparative figures are not being restated.

Financing Charges

Financing charges for the three-month period ended December 31, 2019, were $0.8 million, compared to $0.6 million during the equivalent quarter of the prior year, primarily from the interest expense of $0.3 million on lease liabilities from the implementation of IFRS 16.

Earnings (Loss) Before Income Taxes

As a result of the fluctuation in revenue and expenses described above, earnings before income taxes amounted to $3.2 million during the three-month period ended December 31, 2019, compared with a loss before income taxes of $11.8 million during the equivalent period of 2018.

Income Tax Expense

Income taxes amounted to $0.9 million during the three-month period ended December 31, 2019, compared with $0.6 million in the equivalent quarter of last year.

Net Earnings (Loss)

Net Earnings were $2.3 million (or $0.08 per share) for the three-month period ended December 31, 2019, compared with a net loss of $12.4 million (or $(0.44) per share) for the equivalent period in 2018.

Other Comprehensive Income

The discount rate used to calculate the accrued plan benefit obligations increased to 3.1% as at December 31, 2019 from 2.9% as at September 30, 2019. This increase combined with a better than expected return on assets resulted in a net actuarial gain of $3.3 million during the fourth quarter ended December 31, 2019.

Twelve-month period ended December 31, 2019, compared with the twelve-month period ended December 31, 2018

Revenue

Total revenue for the twelve-month period ended December 31, 2019, decreased by 1.8% or $3.4 million, to $191.7 million from $195.1 million during the twelve-month period ended December 31, 2018, from lower revenue from both business segments.

Revenue from the envelope segment was $137.1 million, down 0.8% from $138.2 million.

- Canadian envelope revenue stood at $91.7 million, down 3.3% or $3.1 million from a reduction of 12.6% in the volume of units sold primarily from the combined effects of industry-wide secular decline, customer movement and the Company's strategy to maintain a disciplined market approach with price leadership and differentiation. Average selling prices increased by 10.6% in order to mitigate input cost inflation.

- Revenue from the U.S. envelope market stood at $45.5 million, an increase of 4.8% from revenue of $43.4 million in 2018. The volume of units sold decreased by 2.7% while average selling prices increased by 7.7% to offset rising input costs. Average selling prices were impacted by a positive foreign exchange translation effect of approximately 2.4% from a weaker Canadian dollar when compared to the equivalent period of last year.

Revenue from packaging and specialty products segment stood at $54.5 million, a decrease of 4.1% compared to $56.9 million in the prior year. The loss of volume from a single e-commerce packaging customer was partly mitigated by higher folding carton sales from the acquisition of G2 Printing.

Operating Expenses

Operating expenses for the twelve-month period ended December 31, 2019, stood at $143.8 million compared with $146.3 million for the same period in 2018, representing a decrease of $2.5 million or 1.7%. The adoption of IFRS 16 reduced lease expenses by $5.1 million, which was mitigated by higher costs associated with the acquisition of G2 Printing concluded on April 30, 2018, higher input costs, outsourcing costs associated with the commissioning of the new folding carton printing press and costs related to the new Durabox facility.

Selling, General and Administrative Expenses

Selling, general and administrative expenses totalled $22.6 million for the twelve-month period ended December 31, 2019, compared with $24.7 million during the equivalent period in 2018, representing a decrease of $2.1 million or 8.7%. The variance is mainly attributable to the $1.6 million expense recorded in 2018 in connection with the contingent remuneration related to the acquisition of Stuart Packaging.

EBITDA and Adjusted EBITDA[9]

EBITDA stood at $25.3 million for the twelve-month period ended December 31, 2019, compared with $7.5 million for the equivalent period in 2018, mainly on account of a $16.1 million goodwill impairment charge on the Company's envelope operations and of a $1.2 million restructuring expense recorded in the fourth quarter of 2018. Since January 1, 2019, the adoption of IFRS 16 had a material impact on the Company's consolidated statement of financial position and its consolidated statement of earnings as nearly all operating leases were capitalized with a corresponding liability, while operating expenses were reduced by $5.1 million. Adjusted EBITDA, without consideration of IFRS 16 effect, stood at $20.2 million, down from $26.0 million during the equivalent period of 2018. The decrease of $5.8 million in Adjusted EBITDA is mainly attributable to lower contribution from the packaging and specialty products segment. Adjusted EBITDA margins stood at 10.6% of revenue in 2019, compared with 13.4% last year.

- Envelope segment Adjusted EBITDA stood at $20.0 million, in line with 2018. On a percentage of segmented revenue, Adjusted EBITDA from the envelope operations was 14.6%, up from 14.5% in 2018.
- Packaging and specialty products segment Adjusted EBITDA stood at $2.7 million, down $4.3 million from $7.0 million in 2018. Operational inefficiencies at the Folding Carton division mainly attributable to the de-commissioning of a printing press in Q2 followed by the slower than planned ramp up of a new printing press in Q3 was the largest contributor to the reduction in operating profitability in the year, followed by inefficiencies related to the new Durabox facility and the loss of volume with a single, large e-commerce customer. On a percentage of segmented revenue, Adjusted EBITDA from the packaging and specialty operations was 5.0% compared with 12.4% in 2018.
- The balance of the variance results from corporate and unallocated costs, which stood at $2.5 million in 2019, compared with $1.0 million in 2018. This increase of $1.5 million is mostly attributable to a loss on foreign exchange translation in the year ended in 2019 versus a gain in the comparable period of 2018 which accounted for $0.7 million of this increase and to a lesser extent, a positive adjustment for the mark-to-market value of Deferred Share Units (DSUs) recorded in 2018 compared to nil in 2019.

Depreciation and Amortization

Aggregate depreciation and amortization expense for the twelve-month period ended December 31, 2019, amounted to $11.7 million, compared with $6.4 million in the comparable period of 2018. Higher depreciation of property, plant and equipment and amortization of intangible assets are related to the Durabox capital expenditure project and to the acquisitions of G2 Printing. The adoption of IFRS 16 also resulted in a depreciation charge for the right-of-use assets equivalent to $4.7 million compared to nil in 2018. Under the adopted modified retrospective method permitted under the IFRS 16, 2018 comparative figures are not being restated.

Loss (gain) on disposal of property, plant and equipment

The Company recognized a loss of $0.2 million on disposal of property, plant and equipment in 2019, while it recognized a gain of $0.8 million on the disposal of a building in Mississauga, Ontario and Printer Gateway's manufacturing equipment in 2018.

Financing Charges

Financing charges for the twelve-month period ended December 31, 2019, were at $3.4 million, compared to $1.8 million during 2018, primarily from the higher debt used to finance the G2 Printing acquisition, the acquisition of a folding carton press and the Durabox project combined with $1.2 million related to the incremental interest accretion on lease liabilities from the adoption of the IFRS 16.

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[9] Refer to "Definition of EBITDA and Adjusted EBITDA in section Non-IFRS measures"

Earnings (Loss) Before Income Taxes

As a result of the fluctuation in revenue and expenses described above, earnings before income taxes increased to $10.1 million during the twelve-month period ended December 31, 2019, compared with a loss of $0.7 million during the equivalent period of 2018, mainly from the $16.1 million goodwill impairment charge related to the Company's envelope operations in the fourth quarter of 2018.

Income Tax Expense

Income taxes amounted to $3.1 million during the twelve-month period ended December 31, 2019 compared with $4.1 million in 2018.

Net Earnings (Loss)

Net Earnings stood at $7.1 million (or $0.25 per share) for the twelve-month period ended December 31, 2019, compared with a net loss of $4.8 million (or $(0.17) per share) for the equivalent period in 2018.

Other Comprehensive Income

The discount rate used to calculate the accrued plan benefit obligations decreased to 3.1% as at December 31, 2019, from 3.8% as at December 31, 2018. This decrease was offset by a higher than expected return on assets which resulted in a net actuarial gain of $2.2 million.

Geographical Revenue and Asset Diversification

The Company's non-current assets amounted to $114.5 million in Canada and $16.1 million in the United States as at December 31, 2019, compared with $94.5 million in Canada and $11.9 million in the United States as at December 31, 2018.

For the three-month period ended December 31, 2019, the Company's revenue in Canada was $34.4 million, a decrease of 6.3% from $36.8 million in the equivalent period of 2018. In the United States, revenue stood at $14.7 million, representing a decrease of 15.2% from $17.4 million in the equivalent period of 2018.

For the twelve-month period ended December 31, 2019, the Company's revenue in Canada was $130.9 million, an increase of 0.7% from $130.0 million in the equivalent period of 2018. In the United States, revenue stood at $60.7 million, representing a decrease of 6.7% from $65.1 million in the equivalent period of 2018.

Summary of Quarterly Operating Results from January 1, 2018 to December 31, 2019
(In thousands of dollars, except for per share amounts)

	Dec. 31 2019	Sep. 30 2019	June 30 2019	Mar. 31 2019	Dec. 31 2018	Sep. 30 2018	June 30 2018	Mar. 31 2018
Revenue								
Envelope	**35,744**	31,932	33,945	35,502	38,332	32,211	31,595	36,062
Packaging	**13,444**	13,252	13,697	14,153	15,818	12,947	15,250	12,872
Total revenue	**49,188**	45,184	47,642	49,655	54,150	45,158	46,845	48,934
Adjusted EBITDA[(1)]	**5,406**	4,111	5,502	5,193	8,148	5,125	6,140	6,628
Earnings (loss) before income taxes	**3,183**	1,783	2,699	2,480	(11,819)	1,995	4,527	4,579
Net earnings (loss)	**2,289**	1,176	1,815	1,808	(12,426)	1,153	3,135	3,345
Net earnings (loss) per share	**0.08**	0.04	0.06	0.06	(0.44)	0.04	0.11	0.12

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

Seasonality

Supremex' revenue is subject to the seasonal advertising and mailing patterns of its customers. The number of envelopes sold by Supremex is generally higher during fall and winter mainly due to the higher number of mailings related to events including the return to school, fund-raising, the holidays and tax seasons. The number of envelopes sold by Supremex is generally lower during spring and summer in anticipation of a slowdown in mailing activities of businesses during the summer.

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

As a result, Supremex' revenue and financial performance for any single quarter may not be indicative of revenue and financial performance which may be expected for the full year. To maintain production efficiencies, Supremex uses warehouse capabilities to stock envelopes as required and thereby counter predictable seasonal variations in sales volume.

Financial Position and Capital Resources

Financial Position Highlights

(In thousands of dollars)

	December 31, 2019	December 31, 2018
Working capital	**24,140**	30,620
Total assets	**179,649**	159,703
Secured credit facility	**53,472**	53,894
Total equity	**76,473**	75,661

The increase in total assets at December 31, 2019 when compared to December 31, 2018 is mainly driven by the recognition of a right-of-use assets from the implementation of IFRS 16. Lower working capital stems primarily from a $2.5 million inventory reduction, the current portion of the new credit facility and the effect of IFRS 16.

Summary of Cash Flows

(In thousands of dollars)

	Three-month periods ended December 31		Twelve-month periods ended December 31	
	2019	**2018**	**2019**	**2018**
Operating activities	**8,475**	2,907	**20,181**	11,937
Investing activities	**(903)**	(1,822)	**(6,084)**	(16,051)
Financing activities	**(5,251)**	(1,253)	**(12,004)**	3,379
Net foreign exchange difference	**(55)**	239	**(179)**	338
Net change in cash	**2,266**	71	**1,914**	(397)

Cash Flows from Operating Activities

Net cash flows from operating activities stood at $20.2 million during the twelve-month period ended December 31, 2019, compared with $11.9 million in the equivalent period of 2018. The improvement is mainly attributable to the impact of IFRS 16 where repayment of principal of lease liabilities is now presented under financing activities and a $2.5 million reduction in inventory.

Cash Flows used in Investing Activities

Net cash flows used in investing activities amounted to $6.1 million during the twelve-month period ended December 31, 2019, compared with $16.1 million used in the equivalent period of 2018. The reduction is mainly resulting from lower cash used in business combinations.

Cash Flows used in Financing Activities

Net cash flows used by financing activities stood at $12.0 million during the twelve-month period ended December 31, 2019, compared with $3.4 million generated in the equivalent period of 2018. The $15.4 million variance results primarily from a lower draw of the credit facility and lease liability repayments from the adoption of IFRS 16.

Financial Position and Capital Resources Summary

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

Contractual Obligations and Off-Balance Sheet Arrangements

Upon adoption of IFRS 16 on January 1, 2019, commitments under operating leases are now largely recorded on the balance sheet as right-of-use assets and lease liabilities.

The Company has no other off-balance sheet arrangements, except for the operating leases with terms of twelve months or less or leases of low-value assets which do not have a current or future material effect on the Company's performance (refer to note 4 to the Company's audited consolidated financial statements for the year ended December 31, 2019).

Financing

On May 7, 2019, the Company entered into a four-year senior secured credit facility of $115 million composed of an $80 million revolving operating facility and a $35 million term facility. No principal repayments are required on the revolving operating facility prior to maturity. The term facility is repayable in quarterly principal installments of $875,000. As of December 31, 2019, the term facility stands at $33.3 million. The credit facility replaces Supremex' pre-existing $75 million revolving credit facility. This facility bears interest at a floating rate based on the Canadian prime rate, plus an applicable margin that ranges between 0% and 1.00% or bankers' acceptance rates, plus an applicable margin that ranges between 1.25% and 2.25%.

The secured credit facility is used for working capital, capital expenditures, acquisitions and other general corporate purpose. It is collateralized by hypothec and a security interest covering all assets of the Company and its subsidiaries and is subject to certain covenants, which the Company is required, among other conditions, to meet. The Company was in compliance with these covenants as at December 31, 2019.

As at December 31, 2019 and 2018, the Company had outstanding letters of credit for a total of $10,000.

Capitalization

As at February 20, 2020, the Company had 28,130,469 common shares outstanding, representing a reduction of 150,000 when compared to the 28,280,469 shares outstanding as at December 31, 2018.

Execution of Normal Course Issuer Bid (“NCIB”)

The Company purchased 150,000 common shares for cancellation under its NCIB program for a total consideration of $424,633 from January 1, 2019 to August 7, 2019. The NCIB program was in effect until August 7, 2019.

Financial Instruments

Interest rate and foreign exchange risk

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

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

Fair value

The fair value of the Company’s financial instruments is indicated in note 20 of the Company’s audited consolidated financial statements for the year ended December 31, 2019.

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

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

Management has designed disclosure controls and procedures to provide reasonable assurance that material information relating to the Company is made known to the President and Chief Executive Officer and the Chief Financial Officer, particularly during the period in which annual filings are being prepared. The President and Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures and concluded, based on its evaluation, that such disclosure controls and procedures were effective as of December 31, 2019.

Management has also designed internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The President and Chief Executive Officer and the Chief Financial Officer evaluated the effectiveness of the Company’s internal control over financial reporting and concluded, based on its evaluation, that such internal control over financial reporting was effective as of December 31, 2019. In making its evaluation, the President and Chief Executive Officer and the Chief Financial Officer, used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control – Integrated Framework.

Finally, there has been no change in the Company’s internal control over financial reporting during the year ended December 31, 2019, that materially affected, or is likely to materially affect, the Company’s internal control over financial reporting.

The Company's certification includes its previous business acquisitions of G2 Printing and Pharmaflex as of the third quarter of 2019.

Significant accounting policies and estimates

The Company prepares its financial statements in conformity with IFRS, which requires management to make estimates and assumptions that management believes are reasonable based upon the information available. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant areas requiring the use of management estimates relate to intangible assets and goodwill, employee future benefits 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, 2019.

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

Intangible assets and goodwill

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

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

Impairment test of goodwill

As at December 31, 2019, the Company performed a goodwill impairment test for its envelope and packaging cash generating units 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 has a third CGU for which no impairment test was performed given the immateriality of the carrying amount of goodwill. 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, 2019, involves projecting cash flows and converting them into a present value equivalent through discounting. The discounting process uses a rate of return that is commensurate with the risk associated with the business or asset and the time value of money. This approach requires assumptions about revenue growth or decline rates, operating margins, tax rate and discount rates.

Growth or Decline of Revenue

The assumptions used were based on the Company's internal budget approved by the board of directors. The Company projected revenue, operating margins and cash flows for a period of four years for each cash generating unit ("CGU"). Specific assumptions are used for each CGU. Forecasts for Envelope CGU considered a lower demand in the Canadian envelope market, a capacity to gain share in the U.S. envelope market and applied a perpetual long-term decline rate for the periods thereafter. Forecasts for Packaging CGU considered a perpetual long-term growth for this market. In arriving at its forecasts, the Company considered past experience, recent acquisitions, economic trends as well as industry and market trends.

Discount Rate

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

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

	2019		**2018**	
	Envelopes	**Packaging**	**Envelopes**	**Packaging**
Pre-tax discount rate	**16.8%**	**17.2%**	16.8%	16.9%
Tax rate	**26.0%**	**26.0%**	26.0%	26.5%
Perpetual (decline) growth rate	**(3.0%)**	**2.5%**	(3.0%)	2.5%

Sensitivity

Envelope CGU - In the most recent impairment test performed for the Envelope CGU, if the pre-tax discount rate had increased to 17.4% or the perpetual decline rate had increased to 3.7%, the recoverable amount of the Envelope cash generating unit would have then equaled the carrying amount as at December 31, 2019.

Packaging CGU - In the most recent impairment test performed for the Packaging CGU, if the pre-tax discount rate had increased to 17.6% or the perpetual growth rate had decreased to 2.1%, the recoverable amount of the Packaging cash generating unit would have then equaled the carrying amount as at December 31, 2019.

Employee future benefits

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

On December 20, 2019, the Company concluded the purchase of a $46.4 million CAD group annuity buy-in with RBC Life Insurance Company in order to transfer longevity and investment risks related to the pensioners and deferred vested members of its largest defined benefit plan. This transaction considerably reduces the risk profile and volatility associated with the defined benefit pension plans and further secures the Company's members' benefits.

Significant assumptions:

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

Discount rate

As at December 31, 2019, the Company used the *Fiera Capital's CIA Method Accounting Discount Rate Curve* which follows the methodology suggested in the CIA Education Note on *Accounting Discount Rate Assumption for Pension and Post-Employment Benefit Plans*.

Sensitivity analysis

For the Company, a 0.25% increase or decrease in the discount rate would have decreased or increased the defined benefit liability by approximately $2.9 million as at December 31, 2019. A 0.25% increase or decrease in the rate of compensation would have increased or decreased the pension benefit liability by approximately $0.3 million as at December 31, 2019. An increase of one year in the life expectancy of plan members as at December 31, 2019 results in an increase of $3.4 million in total projected defined benefit obligation of pension plans. The sensitivity analysis has been determined based on a method that determines the impact on the defined benefit liability of a 0.25% change in the key assumptions. There have been no changes in the methods and assumptions used to determine the sensitivity analysis from the comparative year.

Rate of compensation

Future salary increases are based on expected future inflation rates.

Leases

Effective January 1, 2019

The following describes the Company's accounting policy under IFRS 16, leases:

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

Right-of-Use Assets:

- The right-of-use assets are measured at cost. The cost is based on the initial amount of the lease liability plus initial direct costs incurred and estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located adjusted for any lease payments made at or before the commencement date, less any lease incentives received, if any.

- The cost of the right-of-use assets is periodically reduced by depreciation expenses and impairment losses, if any, and adjusted for certain remeasurements of the lease liabilities. The right-of-use assets are amortized to the lesser of the useful life or the lease term using the straight-line method as this reflects the expected pattern of consumption of the future economic benefits. The lease term includes the renewal option only if it is reasonably certain to exercise that option. Lease terms range from 2 to 12 years for buildings.

- The Company elected not to recognize a right-of-use asset and liability for the leases where the total lease term is less than or equal to 12 months and for the leases of low valued assets in nature; such as but not limited to, office equipment.

Lease Liabilities:

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

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

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

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

Income taxes

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

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

New Accounting Standard adopted in 2019

The Company adopted the following new accounting standard effective January 1, 2019.

IFRS 16 Leases

Effective January 1, 2019, the Company adopted IFRS 16, leases, which supersedes IAS 17, leases and its related interpretations. IFRS 16 introduces a single lease accounting model under which most of lease-related assets and liabilities are recognized in the consolidated statement of financial position. The Company has recognized an asset related to the right of use and a liability at the present value of future lease payments. Depreciation of the right-of-use asset and interest expense on the lease obligation have replaced rent expense related to operating leases. This applies to the lease contracts that convey the right to control the use of an identified asset for a period of time in exchange for consideration, except for short term leases (lease term of 12 months or less) and leases of low-value assets. The standard also specifies how to recognize, measure, present, and disclose leases. Prior to the adoption of IFRS 16, the Company recorded all leases, as either operating or finance, based on the substance of the transaction at the inception of the lease. The Company classified all leases as operating leases prior to January 1, 2019.

The Company adopted IFRS 16 using the modified retrospective method with the date of initial application of January 1, 2019. Under this method, the standard is applied retrospectively and the comparatives figures from 2018 are not restated. Instead, the cumulative effect of initially applying the new standard is recognized as an adjustment to the opening balance of the deficit account in equity, if any. The Company also elected to apply the practical expedient to account for both lease and non-lease components as lease components.

Impact on transition to IFRS 16, leases:

- Total right-of-use assets and lease liabilities of $27,475,507 were recorded as of January 1, 2019, with no impact on the deficit as at January 1, 2019.

- Instead of recognizing monthly rent expenses, the Company starts to recognize interest expense for lease liabilities and depreciation expense for the right-of-use assets from January 1, 2019.

The following table presents the reconciliation of the operating lease commitments as of December 31, 2018 to the lease liabilities as at January 1, 2019:

	$
Operating lease commitments as at December 31, 2018	**25,298,109**
Discounted operating lease commitments as at January 1, 2019	**(5,160,232)**
Commitments relating to the change in the lease term assumptions and inclusion of non-lease components	**7,377,767**
Commitments relating to short-term and low-value assets	**(40,137)**
Lease liabilities as at January 1, 2019	**27,475,507**

The incremental borrowing rate applied to lease liabilities recognised at the date of initial application and at December 31, 2019 ranged between 4.01% and 5.25% for building leases.

Recent Events

On February 18, 2020, Supremex announced the acquisition of substantially all of the assets of Royal Envelope Ltd, a leading Eastern Canada based envelope manufacturer and printer, for a total purchase price of $27.4 million. Founded in 1989, Royal Envelope Ltd generated $30 million of revenue during their most recent fiscal year mainly from the direct sale of envelopes and printing services. Royal Envelope Ltd employs approximately 135 people at its two facilities located in Concord (Ontario) and LaSalle (Quebec).

On February 20, 2020, the Board of Directors declared a quarterly dividend of $0.065 per common share, payable on April 15, 2020 to shareholders of record at the close of business on March 31, 2020.

Risk Factors

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

Decline in Envelope Consumption

Supremex' envelope manufacturing business is highly dependent upon the demand for envelopes sent through the mail. Usage of the Internet and other electronic media continues to grow. Consumers use these media to purchase goods and services, and for other purposes such as paying invoices. Advertisers use the Internet and electronic media for targeted campaigns directed at specific electronic user groups. Large and small businesses use electronic media to conduct business, send invoices and receive payments.

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

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

In addition, postal rates are a significant factor affecting envelope usage and any increases in postal rates, relative to changes in the cost of alternative delivery means or advertising media, could result in reductions in the volume of mail sent.

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

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

Customer relationships

Supremex typically does not enter into long-term, written agreements with customers. As a result, there is a risk that customers may, without notice or penalty, terminate their relationship with Supremex at any time. In addition, even if customers decide to continue their relationship with Supremex, there can be no guarantee that they will purchase the same amount as they did in the past, or that purchases will be on similar terms.

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

Competition

Envelope

Despite Supremex' leading market position in Canada in the envelope business, new competitors could enter the Canadian envelope market impacting sales and margins. A strengthening of the Canadian dollar against the U.S. dollar could create an incentive for U.S.-based competitors to increase market penetration in Canada. Also, as long as the U.S. market stays oversupplied, there will be pricing pressure in the Canadian market. However, the costs of freight, coupled with delivery inefficiencies are barriers to servicing any significant customer volume from a distance.

In the current market, the Canadian envelope manufacturers are more aggressive on pricing in order to generate new sales to replace their sales lost to secular decline. Given the Company's large market share in Canada, most of the gains by smaller competitors in Canada are made at the expense of Supremex' accounts.

Packaging

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

Growth by Acquisitions

The Company plans to grow both organically and through acquisitions. In the recent years, the Company has grown through acquisitions and has relied in large part on new acquisitions to pursue its growth. The ability to properly evaluate the fair value of the businesses being acquired, to properly devote the time and human resources required to successfully integrate their activities with those of the Company as well as the capability to realize synergies, improvements and the expected profit and to achieve anticipated returns constitute inherent risks related to acquisitions. The Company may also be subject to potential liabilities from past acquisitions that it may not discover in its due diligence process. One or more of these factors could impact the Company's ability to successfully integrate or leverage an acquisition and could negatively affect the Company's results of operations.

Economic Cycles

A significant risk that Supremex faces and over which it has no control is related to economic cycles. In a soft economy, the market most affected at Supremex is its direct mail market. There is a direct correlation between growth/decline in the gross domestic product and direct mail volume. Therefore, soft economic conditions can have significant impact on direct mail volume. Although direct mail represents less than 15% of Supremex' total annual envelope volume, a decline would put pressure on the overall market. For transactional mail, which represents about 50% of Supremex' annual envelope volume, economic cycles have a lesser impact than on direct mail since businesses must still mail out invoices to their customers, although the online billing penetration is growing in this segment. In the long term, transactional mail volume has been declining.

Reliance on Key Personnel

Supremex' senior executives and employees have extensive experience in the industry and with the business, suppliers, products and customers. The loss of management knowledge, expertise and technical proficiency as a result of the loss of one or more members of the core management team could result in a diversion of management resources or a temporary executive gap, and negatively affect the Company's ability to develop and pursue other business strategies, which could materially adversely affect its business and financial results. Also, the expertise pertaining to envelope manufacturing is rare and the loss of key executives heading those functions could have a material adverse effect on the

Company's ability to continue to offer a compelling product offering to its customers, which in turn would materially adversely affect its business and financial results.

Raw Material

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

Paper costs represent a significant portion of Supremex's material costs and they have been subject to volatility due to supply and demand in the marketplace. While paper costs were generally a pass through in the past, an increase in the price of paper can negatively affect operations if it changes the purchasing habits of customers. Moreover, an increase in the price of paper negatively affects Supremex' profitability if the increases cannot be passed on to the customer. To mitigate this risk, the Company does not rely on any one supplier, and has generally been disciplined in passing on raw material increases to its customers. The availability of suitable quality recycled board within a reasonable distance of the Company's packaging divisions is also a risk. Finally, fluctuations in the price of oil, a core ingredient in the composition of window material, glue and ink has a direct impact on their price. An increase in the price of oil can have a negative effect on operations if it changes the purchasing habits of customers.

Exchange Rate

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

Net exposure to the U.S. dollar continues to decrease as the Company's growing revenues in the U.S. envelope market, compensates for the volume of raw materials it currently purchases in USD. Revenue generated from customers in the United States represented 31.7% of consolidated revenue in fiscal 2019, down from 33.4% in fiscal 2018.

Environment

The Company operates in an industry which uses large quantities of paper in its day-to-day operations. With society's mounting concern over the protection of the environment and sustainable development, Supremex' products and services are under pressure to be more environmentally friendly. For instance, the growing concern over the environment could change the consumption habits of consumers and new regulations could force the Company to use more expensive environmentally friendly materials in its production process. There is no assurance that any of such increased costs could be passed on to Supremex' customers. To mitigate this risk, the Company tries to be at the forefront of its industry in terms of commitment to the environment and, in collaboration with its suppliers, seeks on an ongoing basis to reduce its impact on the environment. Supremex is also a leader in the Canadian envelope market in the marketing of environmentally friendly products, such as 100% recycled paper. If price of raw materials were to increase for environmental reasons, it could negatively affect Supremex' profitability if such increase cannot be passed on to the customer.

Availability of Capital

In 2019, the Company entered into a four-year senior secured credit facility of $115 million composed of an $80 million revolving facility and a $35 million term facility, replacing its $75 million Senior Secured Revolving Facility. Although the Company carried out this modification to its line of credit 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. A specific credit limit is established for each customer and periodically reviewed by the Company. No single customer accounts for more than 10% of consolidated accounts receivable. Supremex' customer base is well diversified and consists mainly of large national customers, such as large Canadian corporations, nationwide resellers and governmental bodies, as well as paper merchants and solution and process providers. Historically, the level of bad debt has been low given the nature of the customers. As at December 31, 2019, the maximum credit risk exposure for receivables corresponds to their carrying value.

Interest Rate

The Company is exposed to market risks related to interest rate fluctuations. Floating-rate debt bears interest based on Canadian prime rate, plus an applicable margin that ranges between 0% and 1.00% or bankers' acceptance rates, plus an applicable margin, which ranges from 1.25% to 2.25%.

Litigation

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

Employee Future Benefits

The Company maintains four registered defined benefit pension plans substantially covering all of its employees. Three of these plans are hybrids and included a defined contribution component. In the third quarter of 2012, the Company converted, for future services, its defined benefit pension plans into defined-contribution plans. In the past, the Company has also provided post-retirement and post-employment benefits, including health care, dental care and life insurance, to a limited number of employees.

The level of the contributions may vary depending on the realized return on the pension fund asset and the discount rate of the future liabilities, which could affect the financial condition of Supremex.

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

Cyber security and data protection

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

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

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

No guaranty to pay cash dividends

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

Cash payments

Supremex depends on its relationships with its existing customers and on the development of its growing clientele. Some of Supremex's customers have been paying for Supremex's products in cash. The Corporation took measures to ensure that appropriate procedures were followed in connection with such payments. Given the number of rules applicable to the handling of cash amounts and the risk associated with this practice, the Company has been decided to cease accepting large cash payments during the year ended December 31, 2019.

Forward-Looking Information

This MD&A contains "forward-looking information" within the meaning of applicable Canadian securities laws, including (but not limited to) statements about the EBITDA, Adjusted EBITDA and future performance of Supremex and similar statements or information concerning anticipated future results, circumstances, performance or expectations. Forward-looking information may include words such as anticipate, assumption, believe, could, expect, goal, guidance, intend, may, objective, outlook, plan, seek, should, strive, target and will. Such information relates to future events or future performance and reflects current assumptions, expectations and estimates of management regarding growth, results of operations, performance, business prospects and opportunities, Canadian economic environment and liability to attract and retain customers. Such forward-looking information reflects current assumptions, expectations and estimates of management and is based on information currently available to Supremex as at the date of this MD&A. Such assumptions, expectations and estimates are discussed throughout this MD&A for the year ended December 31, 2019.

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 fluctuations, raw material increases, credit risks with respect to trade receivables, interest rates fluctuations and potential risk of litigation. Such risks and uncertainties are discussed throughout this MD&A for the year ended December 31, 2019, and, in particular, in "Risk Factors". Consequently, we cannot guarantee that any forward-looking information will materialize. Readers should not place any undue reliance on such forward-looking information unless otherwise required by applicable securities legislation. The Company expressly disclaims any intention and assumes no obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise.

Non-IFRS measures: Definition of EBITDA and Adjusted EBITDA

References to “EBITDA” are to earnings before financing charges, income tax expense, depreciation of property, plant and equipment and right-of-use assets and amortization of intangible assets. References to “Adjusted EBITDA” are to EBITDA adjusted to remove items of significance that are not in the normal course of operations and to exclude the impact of IFRS 16, where rent expense was replaced by an interest charge on lease liabilities and amortization of the right-of-use assets while the lease repayments on lease liabilities are now excluded from EBITDA. These items of significance include, but are not limited to, charges for impairment of assets, restructuring expenses, contingent remuneration expenses in connection with certain business combinations, new facility start-up costs and losses (gains) on disposal of property, plant and equipment and right-of-use assets. Supremex believes that EBITDA or 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 obligations. Adjusted EBITDA allows readers to appreciate the Company’s earnings without effect of non-recurring items making it valuable to assess ongoing operations and to better evaluate the Company’s operating profitability when compared to the previous year since 2018 comparatives were not restated under the adopted modified retrospective approach permitted by IFRS 16.

EBITDA or Adjusted EBITDA are not recognized earnings measures under IFRS and do 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 and 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.

Consolidated Financial Statements

Supremex Inc.

December 31, 2019 and 2018

All amounts expressed in Canadian dollar

Independent auditor's report

To the Shareholders of **Supremex Inc.**

Opinion

We have audited the consolidated financial statements of **Supremex Inc.** and its subsidiaries [the "Group"], which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, the consolidated statements of earnings (loss), consolidated statements of comprehensive income (loss), consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ["IFRS"].

Basis for opinion

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

Other information

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

- Management's Discussion and Analysis

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Ernst & Young LLP [1]

Montréal, Canada
February 20, 2020

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

Supremex Inc.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at December 31	Notes	2019 $	2018 $
ASSETS	**14**		
Current assets			
Cash		**2,222,889**	308,941
Accounts receivable	**6**	**22,340,239**	26,518,240
Income tax receivable		**1,742,610**	1,248,918
Inventories	**7**	**21,080,346**	23,561,672
Prepaid expenses and others		**1,667,542**	1,656,993
Total current assets		**49,053,626**	53,294,764
Property, plant and equipment	**8**	**37,274,148**	36,965,022
Right-of-use assets	**4**	**23,333,921**	—
Accrued pension benefit asset	**9**	**7,270,807**	4,427,607
Intangible assets	**10**	**16,421,864**	18,133,648
Goodwill	**11**	**46,155,723**	46,390,779
Other long-term asset		**138,809**	490,802
Total assets		**179,648,898**	159,702,622
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	**12**	**15,470,329**	19,807,079
Dividend payable	**18**	**1,828,481**	1,838,230
Provisions	**13**	**7,821**	1,029,173
Current portion of secured credit facility	**14**	**3,500,000**	—
Current portion of lease liabilities	**4**	**4,106,902**	—
Total current liabilities		**24,913,533**	22,674,482
Secured credit facility	**14**	**49,972,422**	53,894,196
Deferred income tax liabilities	**15**	**8,187,623**	7,273,250
Lease liabilities	**4**	**19,891,021**	—
Other post-retirement benefit obligations	**9**	**211,200**	199,400
Total liabilities		**103,175,799**	84,041,328
Equity			
Share capital	**16**	**9,601,576**	9,652,774
Contributed surplus		**277,348,798**	277,722,233
Deficit		**(210,653,168)**	(212,589,405)
Foreign currency translation reserve		**175,893**	875,692
Total equity		**76,473,099**	75,661,294
Total liabilities and equity		**179,648,898**	159,702,622

Contingencies and guarantees [*note 23*]
Subsequent events [*note 24*]

See accompanying notes

On behalf of the Directors:

By: signed (Robert B. Johnston) — Director

By: signed (Steven P. Richardson) — Director

CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)

Years ended December 31	Notes	2019 $	2018 $
Revenue		**191,669,152**	195,087,280
Operating expenses	**7, 9, 17**	**143,765,907**	146,294,758
Selling, general and administrative expenses	**9, 17**	**22,555,158**	24,707,600
Operating earnings before depreciation, amortization and other items		**25,348,087**	24,084,922
Depreciation of property, plant and equipment	**8**	**4,837,189**	4,295,024
Depreciation of right-of-use assets	**4**	**4,696,686**	—
Amortization of intangible assets	**10**	**2,193,257**	2,088,659
Loss (gain) on disposal of property, plant and equipment and right-of-use assets		**164,991**	(777,740)
Goodwill impairment	**11**	**—**	16,137,000
Restructuring (recovery) expenses	**13**	**(124,227)**	1,218,945
Operating earnings		**13,580,191**	1,123,034
Financing charges, net	**14**	**3,434,858**	1,841,635
Earnings (loss) before income taxes		**10,145,333**	(718,601)
Income tax expense	**15**	**3,057,432**	4,074,509
Net earnings (loss)		**7,087,901**	(4,793,110)
Basic and diluted net earnings (loss) per share		**0.2514**	(0.1691)
Weighted average number of shares outstanding		**28,198,474**	28,345,948

See accompanying notes

Supremex Inc.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Years ended December 31	Notes	2019 $	2018 $
Net earnings (loss)		**7,087,901**	(4,793,110)
Other comprehensive income			
Other comprehensive (loss) income to be reclassified to earnings in subsequent periods			
Foreign currency translation adjustments		**(699,799)**	1,223,551
Net other comprehensive (loss) income to be reclassified to earnings in subsequent periods		**(699,799)**	1,223,551
Items not to be reclassified to earnings in subsequent periods			
Recognized actuarial gain on defined benefit pension plans, net of income tax expense of $764,821 [2018 – $176,247]	**9**	**2,181,979**	501,053
Recognized actuarial (loss) gain on other post-retirement benefit, net of income tax recovery of $3,089 [2018 – expense of $1,822]	**9**	**(8,811)**	5,178
Net other comprehensive income not being reclassified to earnings in subsequent periods		**2,173,168**	506,231
Other comprehensive income		**1,473,369**	1,729,782
Total comprehensive income (loss)		**8,561,270**	(3,063,328)

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, 2017	**9,695,439**	**278,111,408**	**(200,939,855)**	**(347,859)**	**86,519,133**
Net loss	—	—	(4,793,110)	—	(4,793,110)
Other comprehensive income	—	—	506,231	1,223,551	1,729,782
Total comprehensive (loss) income	—	—	(4,286,879)	1,223,551	(3,063,328)
Dividends declared [*note 18*]	—	—	(7,362,671)	—	(7,362,671)
Shares repurchased and cancelled [*note 16*]	(42,665)	(389,175)	—	—	(431,840)
As at December 31, 2018	**9,652,774**	**277,722,233**	**(212,589,405)**	**875,692**	**75,661,294**
Net earnings	—	—	7,087,901	—	7,087,901
Other comprehensive income	—	—	2,173,168	(699,799)	1,473,369
Total comprehensive income	—	—	9,261,069	(699,799)	8,561,270
Dividends declared [*note 18*]	—	—	(7,324,832)	—	(7,324,832)
Shares repurchased and cancelled [*note 16*]	(51,198)	(373,435)	—	—	(424,633)
As at December 31, 2019	**9,601,576**	**277,348,798**	**(210,653,168)**	**175,893**	**76,473,099**

See accompanying notes

Supremex Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31	Notes	2019 $	2018 $
OPERATING ACTIVITIES			
Net earnings (loss)		**7,087,901**	(4,793,110)
Non-cash adjustments to reconcile net earnings (loss) to net cash flows			
Depreciation of property, plant and equipment	**8**	**4,837,189**	4,295,024
Depreciation of right-of-use assets	**4**	**4,696,686**	—
Amortization of intangible assets	**10**	**2,193,257**	2,088,659
Amortization of deferred financing costs	**14**	**188,632**	68,628
Loss (gain) on disposal of property, plant and equipment and right-of-use assets		**164,991**	(777,740)
Goodwill impairment	**11**	**—**	16,137,000
Deferred income tax expense (recovery)	**15**	**308,288**	(628,695)
Change in employee benefits		**54,000**	101,000
		19,530,944	16,490,766
Working capital adjustments			
Variation in accounts receivable		**4,178,001**	1,325,036
Variation in income tax receivable		**(493,692)**	(668,433)
Variation in inventories		**2,481,326**	(3,743,354)
Variation in prepaid expenses and others		**(206,506)**	(266,103)
Variation in accounts payable and accrued liabilities		**(4,336,750)**	(1,537,765)
Variation in provisions	**13**	**(1,021,352)**	738,309
Change in other long-term liability		**—**	(427,000)
Change in employee benefits		**49,500**	25,400
Net cash flows from operating activities		**20,181,471**	11,936,856
INVESTING ACTIVITIES			
Business combination, net of cash acquired	**5**	**—**	(11,696,509)
Acquisition of property, plant and equipment	**8**	**(5,942,604)**	(8,216,739)
Acquisition of intangible assets	**10**	**(565,280)**	(343,699)
Proceeds from the disposal of property, plant and equipment		**424,023**	4,205,836
Net cash flows used in investing activities		**(6,083,861)**	(16,051,111)
FINANCING ACTIVITIES			
(Repayment) increase of secured credit facility		**(199,189)**	10,994,682
Repayment of lease liabilities	**4**	**(3,964,209)**	—
Dividends paid	**18**	**(7,334,581)**	(7,370,796)
Deferred financing costs		**(411,217)**	—
Purchase of share capital for cancellation	**16**	**(424,633)**	(431,840)
Change in other long-term asset		**329,073**	187,026
Net cash flows (used in) from financing activities		**(12,004,756)**	3,379,072
Net change in cash during the year		**2,092,854**	(735,183)
Net foreign exchange difference		**(178,906)**	337,934
Cash, beginning of year		**308,941**	706,190
Cash, end of year		**2,222,889**	308,941
Supplemental information [1]			
Interest paid		**3,298,545**	2,141,906
Interest received		**22,088**	13,381
Income taxes paid		**4,143,168**	5,884,285
Income taxes received		**966,702**	622,678

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

See accompanying notes

1. CORPORATE INFORMATION

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

Supremex is a leading North American manufacturer and marketer of envelopes and a growing provider of paper-based packaging solutions and specialty products. Supremex' revenue is subject to the seasonal advertising and mailing patterns of its customers. The number of envelopes sold by Supremex is generally higher during fall and winter mainly due to the higher number of mailings related to events including the return to school, fund-raising, the holidays and tax seasons. The number of envelopes sold by Supremex is generally lower during spring and summer in anticipation of a slowdown in mailing activities of businesses during the summer.

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

These consolidated financial statements were approved by the Company's Board of Directors on February 20, 2020.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation and statement of compliance

These consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS"). These consolidated financial statements were prepared on a going concern basis, under the historical cost convention.

Principles of consolidation

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

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

Business combinations and goodwill

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

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

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

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

Segment reporting

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

Foreign currency translation

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

Transactions and balances

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

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

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

Subsidiaries

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

Revenue recognition

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

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

This is achieved by applying the following five steps:

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

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

Taxation

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

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

Sales tax

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

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

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

Employee future benefits

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

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. 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 (loss). All the other administrative defined benefit plan expense components are recognized in the selling, general and administrative expenses of the consolidated statement of earnings (loss).

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

Termination benefits

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

Basic and diluted net earnings per share

The Company presents basic net earnings per share for its common shares, calculated by dividing the net earnings attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year. There are no dilutive elements affecting the calculation of diluted earnings per share.

Inventories

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

Property, plant and equipment

Property, plant and equipment are recorded at cost. 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 mainly customer relationships and non-compete agreements which are amortized on a straight-line basis over five to ten years. Software is amortized on a straight line basis over seven to ten years.

Impairment of non-financial assets

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

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

Impairment testing of goodwill

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

Provisions

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

Leases

Prior to January 1, 2019

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

Effective January 1, 2019

The following describes the Company's accounting policy under IFRS 16, leases:

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

Right-of-Use Assets:

- The right-of-use assets are measured at cost. The cost is based on the initial amount of the lease liability plus initial direct costs incurred and estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located adjusted for any lease payments made at or before the commencement date, less any lease incentives received, if any.

- The cost of the right-of-use assets is periodically reduced by depreciation expenses and impairment losses, if any, and adjusted for certain remeasurements of the lease liabilities. The right-of-use assets are amortized to the lesser of the useful life or the lease term using the straight-line method as this reflects the expected pattern of consumption of the future economic benefits. The lease term includes the renewal option only if it is reasonably certain to exercise that option. Lease terms range from 2 to 12 years for buildings.

- The Company elected not to recognize a right-of-use asset and liability for the leases where the total lease term is less than or equal to 12 months and for the leases of low valued assets in nature; such as but not limited to, office equipment.

Lease Liabilities:

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

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

Financial instruments

(i) Classification and subsequent measurement categories

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

- A financial liability is classified as subsequently measured at amortized cost or FVTPL. The Company's financial liabilities measured at amortized cost consist of accounts payable and accrued liabilities, dividend payable, provisions and secured credit facility and are classified as liabilities amortized at cost. They are initially recognized at fair value, net of directly attributable transaction costs, and are subsequently carried at amortized cost using the effective interest method.

(ii) Impairment of financial assets measured at amortized cost

- The Company applies the simplified approach to measuring expected credit losses ("ECL") which uses a lifetime expected loss allowance for all trade receivables.

- The Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is considered at a higher credit risk as soon as it is 30 days past due and the Company regularly monitors these accounts receivable to ensure its credit risk is not significant with such customers. In some cases, the fact that certain accounts receivable are past due does not necessarily represent a higher credit risk and subsequent collection is successful based on contractual payment terms or particular arrangements with customers to resolve commercial differences. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows which generally occurs if the account receivable is 120 days past due unless the Company has reasonable and supportable information to demonstrate that a more lagging criterion is more appropriate.

- To measure the ECL, accounts receivables have been grouped based on shared risk characteristics and the days past due. As at December 31, 2019 and 2018, ECL was not significant.

(iii) Derecognition of financial assets and liabilities

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

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 acquisition method of accounting. The acquisition method involves the allocation of the cost of an acquisition to the underlying net assets acquired based on their respective estimated fair value. As part of this allocation process, the Company must identify and attribute values and estimated lives to the intangible assets acquired. These determinations involve significant estimates and assumptions regarding cash flow projections, economic risk and weighted average cost of capital ("WACC").

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

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

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

Leases

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

4. NEW ACCOUNTING STANDARD ADOPTED IN 2019

The Company adopted the following new accounting standards effective January 1, 2019.

IFRS 16 Leases

Effective January 1, 2019, the Company adopted IFRS 16, leases, which supersedes IAS 17, leases and its related interpretations. IFRS 16 introduces a single lease accounting model under which most of lease-related assets and liabilities are recognized in the statement of financial position. The Company has recognized an asset related to the right of use and a liability at the present value of future lease payments. Depreciation of the right-of-use asset and interest expense on the lease obligation have replaced rent expense related to operating leases. This applies to the lease contracts that convey the right to control the use of an identified asset for a period of time in exchange for consideration, except for short term leases (lease term of 12 months or less) and leases of low-value assets. The standard also specifies how to recognize, measure, present, and disclose leases. Prior to the adoption of IFRS 16, the Company recorded all leases, as either operating or finance, based on the substance of the transaction at the inception of the lease. The Company classified all leases as operating leases prior to January 1, 2019.

The Company adopted IFRS 16 using the modified retrospective method with the date of initial application of January 1, 2019. Under this method, the standard is applied retrospectively and the comparatives figures from 2018 are not restated. Instead, the cumulative effect of initially applying the new standard is recognized as an adjustment to the opening balance of the deficit account in equity, if any. The Company also elected to apply the practical expedient to account for both lease and non-lease components as lease components.

Impact on transition to IFRS 16, leases:

- Total right-of-use assets and lease liabilities of $27,475,507 were recorded as of January 1, 2019, with no impact on the deficit as at January 1, 2019.
- Instead of recognizing monthly rent expenses, the Company starts to recognize interest expense for lease liabilities and depreciation expense for the right-of-use assets from January 1, 2019.

The following table presents the reconciliation of the operating lease commitments as of December 31, 2018 to the lease liabilities as at January 1, 2019:

	$
Operating lease commitments as at December 31, 2018	**25,298,109**
Discounted operating lease commitments as at January 1, 2019	**(5,160,232)**
Commitments relating to the change in the lease term assumptions and inclusion of non-lease components	**7,377,767**
Commitments relating to short-term and low-value assets	**(40,137)**
Lease liabilities as at January 1, 2019	**27,475,507**

The incremental borrowing rate applied to lease liabilities recognised at the date of initial application and at December 31, 2019 ranged between 4.01% and 5.25% for building leases.

The following table presents the right-of-use assets for the Company as of December 31, 2019:

	Buildings $	Manufacturing equipment $	Office equipment $	Vehicles $	Total $
Cost:					
At January 1, 2019	27,261,213	147,056	32,924	34,314	27,475,507
Additions	65,117	—	27,899	—	93,016
Disposals	(35,230)	—	(12,069)	—	(47,299)
Reassessments of lease terms and non-lease components	803,845	—	1,902	(4,531)	801,216
Translation adjustment	(357,002)	(121)	(523)	—	(357,646)
At December 31, 2019	**27,737,943**	**146,935**	**50,133**	**29,783**	**27,964,794**
Accumulated depreciation:					
At January 1, 2019	—	—	—	—	—
Disposals	(32,295)	—	(8,807)	—	(41,102)
Depreciation	4,625,039	33,384	17,354	20,909	4,696,686
Translation adjustment	(24,585)	(42)	(84)	—	(24,711)
At December 31, 2019	**4,568,159**	**33,342**	**8,463**	**20,909**	**4,630,873**
Net book value:					
At December 31, 2019	**23,169,784**	**113,593**	**41,670**	**8,874**	**23,333,921**

The following table presents the lease liabilities for the Company as of December 31, 2019:

	December 31, 2019 $
At January 1, 2019	27,475,507
Additions	27,899
Disposals	(6,289)
Reassessments of lease terms and non-lease components	801,216
Lease payments	(5,135,616)
Interest expense on lease liabilities	1,171,407
Translation adjustment	(336,201)
	23,997,923
Current portion	(4,106,902)
Long-term portion of lease liabilities	**19,891,021**

The expense relating to short-term leases during the year ended December 31, 2019 was $33,754. The expense relating to leases of low-value assets during the year ended December 31, 2019 was $12,175. Total cash outflow for leases during the year ended December 31, 2019 was $5,181,545.

The maturity analysis of lease liabilities is disclosed in Note 20.

5. 2018 BUSINESS COMBINATIONS

On April 30, 2018, the Company acquired all of the outstanding shares of Groupe Deux Printing Inc. ("G2 Printing") and Pharmaflex Labels Inc. ("Pharmaflex"), for a cash consideration of $12,367,794. G2 Printing is a leading manufacturer of premium quality folding carton packaging and labels for the pharmaceutical industry based in Laval, Quebec.

This acquisition aligns with the Company's long-term strategy to extend its core products in key markets.

On December 13, 2018, the Company purchased the principal net assets of The Filing Store Inc. and Filing Specialties Systems Products Co. Ltd (''Filing Store'') for a cash consideration of $127,959.

The following table presents a summary of the fair value of assets acquired and liabilities assumed at the acquisition date that occurred during the year ended December 31, 2018:

	G2 Printing and Pharmaflex $	**Filing Store** $	**Total** $
Net assets acquired			
Cash	799,244	—	799,244
Accounts receivable	1,962,413	—	1,962,413
Income tax receivable	55,965	—	55,965
Inventories	803,040	97,419	900,459
Prepaid expenses and others	49,327	—	49,327
Total current assets	**3,669,989**	**97,419**	**3,767,408**
Property and equipment	2,725,119	5,540	2,730,659
Customer relationships	4,900,000	25,000	4,925,000
Goodwill	4,267,993	—	4,267,993
Total assets	**15,563,101**	**127,959**	**15,691,060**
Accounts payable and accrued liabilities	1,349,860	—	1,349,860
Deferred income tax liabilities	1,845,447	—	1,845,447
Net assets acquired	**12,367,794**	**127,959**	**12,495,753**
Cash consideration, net of cash acquired	**11,568,550**	**127,959**	**11,696,509**
Acquisition-related costs recognized as an expense	54,322	—	54,322

The Company's consolidated statement of earnings for the period ended December 31, 2018 included the G2 Printing revenue of $5,935,509 since the acquisition date. The fair value of the receivables acquired of $1,962,413 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, 2018, revenue for the full year from G2 Printing would have been approximately $10,000,000.

There is no goodwill deductible for tax purposes. The goodwill related to the acquisition is composed of expected growth and operation synergies.

During fiscal 2019, the Company completed its final assessment of the fair value of assets acquired and liabilities assumed of G2 Printing and Pharmaflex and Filing Store without significant changes to the purchase price allocation.

6. ACCOUNTS RECEIVABLE

	December 31, 2019 $	December 31, 2018 $
Trade receivables	**21,996,190**	25,803,562
Less: Allowance for doubtful accounts	**(298,067)**	(157,475)
Trade receivables - net	**21,698,123**	25,646,087
Other receivables	**642,116**	872,153
	22,340,239	26,518,240

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, 2019 $	December 31, 2018 $
Current	**13,400,503**	15,463,514
31 – 60 days	**5,524,409**	8,086,623
61 – 90 days	**1,859,254**	1,540,845
91 – 120 days	**545,035**	439,908
Over 120 days	**666,989**	272,672
	21,996,190	25,803,562

Allowance for doubtful accounts

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

	December 31, 2019 $	December 31, 2018 $
Balance, beginning of year	**157,475**	230,835
Business combinations	**—**	5,000
Charge for the year	**229,648**	18,851
Utilized	**(87,570)**	(100,364)
Impact of foreign exchange (gains) losses	**(1,486)**	3,153
Balance, end of year	**298,067**	157,475

The Company is exposed to normal credit risk with respect to its accounts receivable and maintains provisions for potential credit losses. Potential for such losses is mitigated because there is no significant exposure to any single customer and because customer credit worthiness is evaluated before credit is extended. Historically, the estimated credit losses from trade receivables have been not significant.

7. INVENTORIES

	December 31, 2019 $	December 31, 2018 $
Raw materials	**6,942,380**	8,987,542
Work in progress	**678,784**	978,561
Finished goods	**13,459,182**	13,595,569
	21,080,346	23,561,672

The cost of inventories recognized as an expense and included in operating expenses, including the related depreciation of property, plant and equipment and depreciation of right-of-use assets allocated to cost of inventories, during the year ended December 31, 2019 is $145,931,681 [2018 - $143,935,112].

8. PROPERTY, PLANT AND EQUIPMENT

	Lands $	Buildings and leasehold improvements $	Machinery and equipment $	Office and computer equipment $	Total $
Cost:					
At December 31, 2017	4,678,895	15,009,351	54,251,639	2,510,491	76,450,376
Acquisition	—	1,497,110	6,515,954	203,675	8,216,739
Business combinations [*note 5*]	—	—	2,653,339	77,320	2,730,659
Disposals	(1,100,000)	(2,625,567)	(3,079,964)	(69,256)	(6,874,787)
Translation adjustment	—	17,562	596,605	10,034	624,201
At December 31, 2018	3,578,895	13,898,456	60,937,573	2,732,264	81,147,188
Acquisition	—	260,585	5,522,340	159,679	5,942,604
Disposals	—	—	(1,497,937)	—	(1,497,937)
Translation adjustment	—	(11,600)	(324,133)	(6,148)	(341,881)
At December 31, 2019	**3,578,895**	**14,147,441**	**64,637,843**	**2,885,795**	**85,249,974**
Accumulated depreciation:					
At December 31, 2017	—	4,619,850	35,726,279	1,775,040	42,121,169
Depreciation	—	550,839	3,451,953	292,232	4,295,024
Disposals	—	(92,596)	(2,313,889)	(55,530)	(2,462,015)
Translation adjustment	—	3,403	215,922	8,663	227,988
At December 31, 2018	—	5,081,496	37,080,265	2,020,405	44,182,166
Depreciation	—	605,200	3,900,649	331,340	4,837,189
Disposals	—	—	(908,831)	—	(908,831)
Translation adjustment	—	(11,674)	(117,460)	(5,564)	(134,698)
At December 31, 2019	—	**5,675,022**	**39,954,623**	**2,346,181**	**47,975,826**
Net book value:					
At December 31, 2018	3,578,895	8,816,960	23,857,308	711,859	36,965,022
At December 31, 2019	**3,578,895**	**8,472,419**	**24,683,220**	**539,614**	**37,274,148**

9. EMPLOYEE DEFINED BENEFIT PLANS

(a) Pension Plans

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

The key risks pension plans are exposed to include interest rate risks, investment 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:

	2019	**2018**
	$	**$**
Defined benefit plans		
Administration expenses	**209,700**	267,000
Past service gains	**—**	(43,000)
Defined benefit plans expense	**209,700**	224,000
Defined contribution plan expense	**1,288,400**	1,251,000
Pension plans expense [*note 17*]	**1,498,100**	1,475,000

Interest income on pension defined benefit plan obligation of $163,100 [2018 – $129,900] is included in the financing charges in the consolidated statement of earnings (loss) [note 14].

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

	December 31, 2019 $	December 31, 2018 $
Change in accrued benefit obligation		
Benefit obligation, beginning of the year	**91,785,800**	98,367,200
Interest cost	**3,398,000**	3,263,200
Employees contribution	**—**	43,000
Actuarial loss from change in demographic assumptions	**—**	2,592,900
Actuarial loss (gain) from change in financial assumptions	**8,822,300**	(4,884,200)
Actuarial gain from experience	**(233,000)**	(2,771,700)
Benefits paid	**(4,731,100)**	(4,781,600)
Past service gains	**—**	(43,000)
Benefit obligation, end of year	**99,042,000**	91,785,800
Change in plan assets		
Fair value of plan assets, beginning of the year	**96,213,407**	102,244,107
Interest income on plan assets	**3,561,100**	3,393,100
Actuarial gains (losses)	**11,536,100**	(4,385,700)
Employer contribution	**—**	163,100
Employees contribution	**—**	43,000
Use of surplus to pay for employer defined contributions	**(57,000)**	(195,600)
Benefits paid	**(4,731,100)**	(4,781,600)
Plan administration expenses	**(209,700)**	(267,000)
Fair value of plan assets, end of year	**106,312,807**	96,213,407
Net amount recognized as accrued pension benefit asset	**7,270,807**	4,427,607

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

	2019 $	2018 $
Total actuarial gains	**2,946,800**	677,300
	2,946,800	677,300

The cumulative amount of actuarial gains recognized in the consolidated statement of comprehensive income (loss) is $1,887,800 as at December 31, 2019 [2018 – losses of $1,059,000].

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

	2019 %	2018 %
Discount rate for accrued benefit obligation	**3.10**	3.80
Discount rate for net pension cost	**3.80**	3.40
Rate of compensation increase	**2.50**	2.50
Mortality assumption[1]	**CPM Private**	CPM Private

The weighted average allocation of plan assets, excluding annuity contracts of $53.1 million in two pension plans (2018 - $6.3 million in one pension plan) as at December 31, is as follows:

	2019 %	2018 %
Equity securities		
Canadian	**25.6**	23.9
Consumer Staple	**1.9**	2.1
Financial services	**2.0**	1.9
Industrial products	**1.8**	1.9
Other	**5.2**	3.9
Pooled Equity Funds	**13.0**	10.5
Preferred Shares Funds	**1.7**	3.6
Foreign Global Equity Funds	**48.4**	33.4
	74.0	57.3
Fixed income funds		
Canadian	**23.0**	41.4
Cash and short-term securities		
Canadian	**3.0**	1.3
Total	**100.0**	100.0

All financial instruments and investment funds are classified as level 1 fair value hierarchy (quoted prices in active markets) except for $12.2 million of fixed income funds and $53.1 million of annuity contracts which are classified as level 2 (inputs other than quoted prices included in level 1 that are observable) (2018 - $17.0 millions of fixed income funds and $6.3 million of annuity contract).

All four of the pension plans have an investment policy with the following target asset allocation: 75% in equity securities and 25% in fixed income securities (2018 – one pension plan had a different investment policy with the following target asset allocation: 52% in equity securities and 48% in fixed income securities). As at December 31 2019 and 2018, the pension plans were in compliance with their investment policy allocations.

As of December 31, 2019 and 2018, there were no Supremex shares held in the Company's pension plans.

The average duration of the defined benefit plan obligation is 14.6 years as at December 31, 2019 [2018 - 13.0 years].

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

Sensitivity analysis

For the Company, a 0.25% increase or decrease in the discount rate would have decreased or increased the defined benefit obligation by approximately $2.9 million as at December 31, 2019. A 0.25% increase or decrease in the rate of compensation would have increased or decreased the pension benefit obligation by approximately $0.3 million as at December 31, 2019. An increase of one year in the life expectancy of plan members as at December 31, 2019 results in an increase of $3.4 million in total projected defined benefit obligations of pension plans. The sensitivity analysis has been determined based on a method that determines the impact on the defined benefit liability of a 0.25% change in the key assumptions. There have been no changes in the methods and assumptions used to determine the sensitivity analysis from the comparative year.

(b) Post-retirement benefits other than pension

The following table provides a reconciliation of the change in the accrued benefit obligation of the plans.

	December 31, 2019 $	**December 31, 2018 $**
Change in accrued benefit obligation		
Benefit obligation, beginning of year	**199,400**	206,600
Interest cost [note 14]	**7,400**	6,900
Actuarial loss (gain) from change in financial assumption	**11,900**	(7,000)
Benefits paid	**(7,500)**	(7,100)
Benefit obligation, end of year	**211,200**	199,400

Post retirement benefits other than pension are not funded.

The post-retirement benefits amount recognized in other comprehensive income (loss), before taxation, consists of an actuarial loss of $11,900 [2018 – gain of $7,000]. The cumulative amount of actuarial losses recognized in the consolidated statement of comprehensive income (loss) is $333,000 as at December 31, 2019 [2018 - $321,100].

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

	2019 %	**2018 %**
Weighted-average assumptions		
Discount rate for benefit obligation	**3.10**	3.80
Discount rate for net periodic benefit cost	**3.80**	3.40

As at December 31, 2019, no coverage is provided to retirees for healthcare and dental. The average duration of the post-retirement benefits' obligation is 8.0 years as at December 31, 2019 and 2018.

10. INTANGIBLE ASSETS

	Customer relationships $	Non-compete agreements $	Software $	Total $
Cost				
At December 31, 2017	75,272,934	755,000	2,929,484	78,957,418
Additions	—	—	343,699	343,699
Business combinations [*note 5*]	4,925,000	—	—	4,925,000
Disposals	(403,000)	—	(556,207)	(959,207)
Translation adjustment	210,185	—	—	210,185
At December 31, 2018	80,005,119	755,000	2,716,976	83,477,095
Additions	195,000	—	370,280	565,280
Translation adjustment	(125,306)	—	—	(125,306)
At December 31, 2019	**80,074,813**	**755,000**	**3,087,256**	**83,917,069**
Accumulated amortization:				
At December 31, 2017	62,549,625	755,000	856,737	64,161,362
Amortization	1,837,983	—	250,676	2,088,659
Disposals	(403,000)	—	(556,207)	(959,207)
Translation adjustment	52,633	—	—	52,633
At December 31, 2018	64,037,241	755,000	551,206	65,343,447
Amortization	1,915,248	—	278,009	2,193,257
Translation adjustment	(41,499)	—	—	(41,499)
At December 31, 2019	**65,910,990**	**755,000**	**829,215**	**67,495,205**
Net book value:				
At December 31, 2018	15,967,878	—	2,165,770	18,133,648
At December 31, 2019	**14,163,823**	—	**2,258,041**	**16,421,864**

11. GOODWILL

Cost	
At December 31, 2017	57,769,363
Business combinations [note 5]	4,267,993
Adjustments for previous year's business combinations	96,147
Impairment	(16,137,000)
Translation adjustment	394,276
At December 31, 2018	46,390,779
Translation adjustment	(235,056)
At December 31, 2019	**46,155,723**

The net carrying amount of goodwill as of December 31, 2019 was allocated to the following significant CGU groups**:**

	$
CGU groups	
Envelopes	33,417,948
Packaging	12,566,469
Other	171,306
Total	**46,155,723**

The packaging CGU was created in 2017 following the acquisitions of Stuart Packaging, acquired on July 20, 2017 and Groupe Deux Printing Inc. and Pharmaflex Labels Inc., acquired on April 30, 2018. As of fiscal 2019, it includes the packaging and specialty products from legacy envelope businesses.

Impairment test of goodwill

The Company conducted its annual goodwill impairment test as at December 31, 2019, in accordance with its policy described in note 2. The recoverable amount of each of the cash-generating unit exceeded its carrying values. As a result, no goodwill impairment was recorded.

During the year ended December 31, 2018, several indicators have shown that the volume decrease in North America's envelope industry is expected to continue in the upcoming years. Furthermore, the Company volume has decreased at a higher than expected rate in 2018 which lead the Company to revise its financial projections in the fourth quarter of fiscal 2018. Following its goodwill impairment test in 2018, the recoverable value of the Company's envelopes cash-generating unit, determined on the basis of a value in use, fell below its carrying value at December 31, 2018. As a result, the Company recorded a non-cash goodwill impairment charge of $16,137,000 in fiscal 2018.

Valuation technique

The Company uses the discounted cash flows ("DCF") method to determine the value in use of each of its cash-generating units 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, 2019, 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 approved by the board of directors. The Company projected revenue, operating margins and cash flows for a period of four years for each CGU. Specific assumptions are used for each CGU. Forecasts for Envelopes CGU considered a lower demand in the Canadian envelope market, a capacity to gain market share in the US envelope market and applied a perpetual long-term decline rate for the periods thereafter. Forecasts for Packaging CGU considered a perpetual long-term growth for this market. In arriving at its forecasts, the Company considered past experience, recent acquisitions, economic trends as well as industry and market trends.

Discount rate

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

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:

	2019		**2018**	
	Envelopes	**Packaging**	**Envelopes**	**Packaging**
Pre-tax discount rate	**16.8%**	**17.2%**	16.8%	16.9%
Tax rate	**26.0%**	**26.0%**	26.0%	26.5%
Perpetual (decline) growth rate	**(3.0%)**	**2.5%**	(3.0%)	2.5%

Sensitivity

Envelope CGU - In the most recent impairment test performed for the Envelope CGU, if the pre-tax discount rate had increased to 17.4% or the perpetual decline rate had increased to 3.7%, the recoverable amount of Envelope cash generating unit would have then equaled the carrying amount as at December 31, 2019.

Packaging CGU - In the most recent impairment test performed for the Packaging CGU, if the pre-tax discount rate had increased to 17.6% or the perpetual growth rate had decreased to 2.1%, the recoverable amount of the Packaging cash generating unit would have then equaled the carrying amount as at December 31, 2019.

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2019	**December 31, 2018**
	$	**$**
Trade payables	**6,967,180**	10,945,666
Accrued rebates liabilities	**1,647,271**	1,649,258
Other accrued liabilities	**6,855,878**	7,212,155
	15,470,329	19,807,079

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

13. PROVISIONS

In 2018, the Company adopted a plan to optimize costs at its envelope CGU. As a result, the Company recognized a provision for severance relating to certain terminated employees.
The following is a summary of amounts accrued and paid relating to restructuring expenses:

	December 31, 2019 $	December 31, 2018 $
Balance, beginning of year	**1,029,173**	290,864
Settlement	**—**	(290,864)
Current year restructuring (recovery) expenses	**(124,227)**	1,218,945
Cash payments	**(897,125)**	(189,772)
Balance, end of year	**7,821**	1,029,173

14. SECURED CREDIT FACILITY

On May 7, 2019, the Company entered into a four-year senior secured credit facility of $115 million composed of an $80 million revolving operating facility and a $35 million term facility. No principal repayments are required on the revolving operating facility prior to maturity. The term facility is repayable in quarterly principal installments of $875,000. As of December 31, 2019, the term facility stands at $33.3 million. The credit facility replaces Supremex' pre-existing $75 million revolving credit facility. This facility bears interest at a floating rate based on the Canadian prime rate, plus an applicable margin that ranges between 0% and 1.00% or bankers' acceptance rates, plus an applicable margin that ranges between 1.25% and 2.25%.

The secured credit facility is used for working capital, capital expenditure and other general corporate purpose. It is collateralized by hypothec and a security interest covering all assets of the Company and its subsidiaries and is subject to certain covenants, which the Company is required, among other conditions, to meet. The Company was in compliance with these covenants as at December 31, 2019.

Amounts owed under the secured credit facility are as follows:

	December 31, 2019 $	December 31, 2018 $
Revolving credit facility	**20,565,102**	54,014,291
Term facility	**33,250,000**	—
Less: deferred financing costs, net	**(342,680)**	(120,095)
	53,472,422	53,894,196
Current portion	**(3,500,000)**	—
Long-term portion of secured credit facility	**49,972,422**	53,894,196

The following table presents reconciliation between the opening and closing balances for the secured credit facility:

	December 31, 2019 $	**December 31, 2018** $
Secured credit facility, beginning of year	**53,894,196**	42,830,886
Increase in term facility	**35,000,000**	—
Repayment of term facility	**(1,750,000)**	—
(Decrease) Increase in revolving facility	**(33,449,189)**	10,994,682
Deferred financing costs	**(411,217)**	—
Amortization of deferred financing cost	**188,632**	68,628
Secured credit facility, end of year	**53,472,422**	53,894,196

The Company had outstanding letters of credit for a total of $10,000 as at December 31, 2019, [2018 - $10,000].

The effective interest rate on the secured credit facility was 3.52% as at December 31, 2019 [4.01% as at December 31, 2018].

Financing charges are as follows:

	2019 **$**	**2018** **$**
Interest on secured credit facility	**2,235,677**	1,901,148
Interest on lease liabilities	**1,171,407**	—
Interest income on defined benefit plan obligation [*note 9*]	**(163,100)**	(129,900)
Interest on post-retirement benefits [*note 9*]	**7,400**	6,900
Other interest income	**(5,158)**	(5,141)
Amortization of deferred financing costs	**188,632**	68,628
	3,434,858	1,841,635

15. INCOME TAXES

Income tax expense

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

	2019 **$**	**2018** **$**
Current income tax:		
Current income tax expense	**2,749,144**	4,703,204
Deferred income tax:		
(Reversal of) temporary differences	**308,288**	(628,695)
Income tax expense	**3,057,432**	4,074,509

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

	2019 $	2018 $
Deferred income tax related to items imputed directly to equity during the year:		
Deferred tax expense on recognized actuarial gain on defined benefit pension plans	**764,821**	176,247
Deferred tax (benefit) expense on recognized actuarial (loss) gain on other post-retirement benefit	**(3,089)**	1,822
Income tax expense charged to other comprehensive income	**761,732**	178,069

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

	2019 $	2018 $
Earnings (loss) before income taxes	**10,145,333**	(718,601)
Income tax expense (recovery) at combined federal and provincial statutory rate of 26.1% [2018 – 26.1%]	**2,648,452**	(187,410)
Effect of change in enacted tax rates	**(118,971)**	(55,240)
Impact of goodwill impairment not deductible for tax purposes	—	4,208,505
Income tax rate differential for subsidiaries	**75,609**	19,865
Non-deductible expenses and other	**452,342**	88,789
Income tax expense	**3,057,432**	4,074,509

Deferred income tax

Deferred income tax relates to the following:

	Consolidated statement of financial position		Consolidated statement of earnings	
	December 31, 2019 $	December 31, 2018 $	December 31, 2019 $	December 31, 2018 $
Deferred tax assets				
Goodwill	**689,187**	850,569	**160,130**	179,304
Right-of-use assets	**167,423**	—	**(168,176)**	—
Other	**92,266**	390,126	**298,053**	(165,714)
Non-capital losses	**861,931**	1,133,511	**245,077**	(889,694)
	1,810,807	2,374,206	**535,084**	(876,104)
Deferred tax liabilities				
Accrued pension benefit asset	**1,887,086**	1,152,151	**29,886**	36,309
Property, plant and equipment	**5,239,608**	4,972,787	**(305,991)**	(632,205)
Intangible assets	**2,787,497**	3,291,783	**495,601**	349,239
Other	**84,239**	230,735	**7,300**	(752)
	9,998,430	9,647,456	**226,796**	(247,409)
Deferred tax expense (recovery)			**308,288**	(628,695)
Net deferred income tax liabilities	**(8,187,623)**	(7,273,250)		

Reconciliation of net deferred tax liabilities

	2019 $	2018 $
Balance – beginning of the year	**(7,273,250)**	(5,808,186)
Tax (expense) recovery during the year recognized in the consolidated statement of earnings (loss)	**(308,288)**	628,695
Tax benefit recognized in other comprehensive loss	**(761,732)**	(178,069)
Net deferred tax from business combinations [*note 5*]	**—**	(1,845,447)
Other	**121,127**	—
Translation adjustment on net deferred tax	**34,520**	(70,243)
Balance – end of year	**(8,187,623)**	(7,273,250)

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, 2017	28,405,469	9,695,439
Purchase of share capital for cancellation	(125,000)	(42,665)
Balance, as of December 31, 2018	28,280,469	9,652,774
Purchase of share capital for cancellation	(150,000)	(51,198)
Balance, as of December 31, 2019	**28,130,469**	**9,601,576**

During the year ended December 31, 2019, the Company repurchased 150,000 (2018 – 125,000) common shares for cancellation through a normal course issuer bid for a consideration of $424,633 (2018 - $431,840). The excess of the purchase price over the carrying value in the amount of $373,435 (2018 - $389,175) was recorded as a reduction of contributed surplus.

Deferred Share Unit Plan (DSU)

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

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

The financial liability resulting from the plan of $504,428 [2018 - $305,647] is presented under "*Accounts payable and accrued liabilities*".

The compensation expense for the DSUs during the year ended December 31, 2019 amounted to $132,729 [2018 – income of $3,604] and is recognized under selling, general and administrative expenses.

17. OPERATING, SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	2019 **$**	**2018** **$**
Wages and salaries	**48,417,724**	49,855,038
Social security costs	**7,972,340**	7,727,919
Pension plans expense [*note 9*]	**1,498,100**	1,475,000
Employee benefits expenses	**57,888,164**	59,057,957
Raw materials and other purchases	**85,996,362**	86,030,590
Other	**22,436,539**	25,913,811
	166,321,065	171,002,358

18. DIVIDENDS

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

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

Dividends declared from January 1, 2018 to December 31, 2018 were as follows:

Declaration date	**Record date**	**Payment date**	**Per share** **$**	**Dividend** **$**
February 20, 2018	March 29, 2018	April 13, 2018	0.065	1,846,355
May 8, 2018	June 29, 2018	July 17, 2018	0.065	1,839,856
August 2, 2018	September 28, 2018	October 12, 2018	0.065	1,838,230
November 8, 2018	December 31, 2018	January 16, 2019	0.065	1,838,230
Total				**7,362,671**

19. RELATED PARTY TRANSACTIONS

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

	2019 **$**	**2018** **$**
Short-term employee benefits	**1,762,662**	1,549,767
Post-employment benefits	**60,947**	77,487
	1,823,609	1,627,254

20. FINANCIAL INSTRUMENTS

Financial assets and liabilities

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

December 31, 2019	Assets at amortized cost $	Liabilities at amortized cost $	Total $
Cash	2,222,889	—	**2,222,889**
Accounts receivable	22,340,239	—	**22,340,239**
Other assets	467,272	—	**467,272**
Accounts payable and accrued liabilities excluding sales tax payable	—	(15,009,949)	**(15,009,949)**
Dividend payable	—	(1,828,481)	**(1,828,481)**
Provisions	—	(7,821)	**(7,821)**
Secured credit facility	—	(53,815,102)	**(53,815,102)**
Total	**25,030,400**	**(70,661,353)**	**(45,630,953)**

December 31, 2018	Assets at amortized cost $	Liabilities at amortized cost $	Total $
Cash	308,941	—	**308,941**
Accounts receivable	26,518,240	—	**26,518,240**
Other assets	828,979	—	**828,979**
Accounts payable and accrued liabilities excluding sales tax payable	—	(19,060,879)	**(19,060,879)**
Dividend payable	—	(1,838,230)	**(1,838,230)**
Provisions	—	(1,029,173)	**(1,029,173)**
Secured credit facility	—	(54,014,291)	**(54,014,291)**
Total	**27,656,160**	**(75,942,573)**	**(48,286,413)**

Fair values

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

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

Management of risks arising from financial instruments

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

Credit risk

Credit risk arises from cash and accounts receivable. In order to minimize the credit exposure, the Company's cash is placed with major Canadian banks and their U.S subsidiaries.

Credit risk stems primarily from the potential inability of clients to discharge their obligations. 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, 2019 and 2018, total trade accounts receivable over 90 days past due amounted to approximately 5% [see note 6] of total trade receivables. The Company does not hold collateral as a 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 facility. The Company continuously reviews both actual and forecasted cash flows to ensure that it has adequate credit facility capacity and continuously reviews its exposure to interest rate fluctuations.

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

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

December 31, 2018	**Less than 1 year** **$**	**1 to 5 years** **$**	**More than 5 years** **$**	**Total** **$**
Accounts payable and accrued liabilities excluding sales tax payable	19,060,879	—	—	19,060,879
Dividend payable	1,838,230	—	—	1,838,230
Provisions	1,029,173	—	—	1,029,173
Secured credit facility	—	54,014,291	—	54,014,291
	21,928,282	**54,014,291**	**—**	**75,942,573**

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, 2019, a 25 basis-point rise or fall in interest rates, assuming all other variables remained unchanged, would have resulted, respectively, in a $274,668 increase or decrease in the Company's net earnings for the year ended December 31, 2019 [2018 - $206,464].

Foreign exchange risk

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

As at December 31, 2019, net financial assets of the Company in Canadian dollars, denominated in U.S. dollars, totalled $5,958,064 [2018 - $4,848,743].

On December 31, 2019, 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 $297,903 increase or decrease in the Company's net earnings for the year then ended [2018- $242,437], whereas other comprehensive income (loss) would have increased or decreased by $282,778 [2018 - $376,169].

21. CAPITAL MANAGEMENT

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

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

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

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

	December 31, 2019 $	December 31, 2018 $
Secured credit facility	**53,472,422**	53,894,196
Cash	**(2,222,889)**	(308,941)
Net debt	**51,249,533**	53,585,255
Equity	**76,473,099**	75,661,294

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

22. SEGMENTED INFORMATION

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

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

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

			2019 $
	Envelope	**Packaging & Speciality Products**	**Total**
Revenue	137,123,378	54,545,774	191,669,152
Operating expenses	100,038,824	44,652,076	144,690,900
Selling, general and administrative expenses	13,906,529	5,252,276	19,158,805
Operating earnings before depreciation, amortization, other items and unallocated corporate expenses and other [(1)]	**23,178,025**	**4,641,422**	**27,819,447**
Corporate expenses and other non allocated expenses			2,471,360
Depreciation of property, plant and equipment			4,837,189
Depreciation of right-of-use assets			4,696,686
Amortization of intangible assets			2,193,257
Loss on disposal of property, plant and equipment and right-of-use assets			164,991
Restructuring (recovery) expenses			(124,227)
Financing charges, net			3,434,858
Earnings before income taxes			**10,145,333**

			2018 $
	Envelope	**Packaging & Speciality Products**	**Total**
Revenue	138,200,941	56,886,339	195,087,280
Operating expenses	102,914,811	44,249,818	147,164,629
Selling, general and administrative expenses	15,252,372	5,936,197	21,188,569
Operating earnings before depreciation, amortization, other items and unallocated corporate expenses and other(1)	20,033,758	6,700,324	26,734,082
Corporate expenses and other non allocated expenses			2,649,160
Depreciation of property, plant and equipment			4,295,024
Amortization of intangible assets			2,088,659
Gain on disposal of property, plant and equipment			(777,740)
Goodwill Impairment			16,137,000
Restructuring (recovery) expenses			1,218,945
Financing charges, net			1,841,635
Loss before income taxes			(718,601)

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

The Company's non-current assets amounted to $114,529,278 in Canada and $16,065,994 in the United States as at December 31, 2019 [$94,532,165 and $11,875,693, respectively, as at December 31, 2018]. The Company's revenue amounted to $130,921,866 in Canada and $60,747,286 in the United States for the year ended December 31, 2019 based on customers' locations [2018 - $130,005,492 in Canada and $65,081,788 in the United States].

23. CONTINGENCIES AND GUARANTEES

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

Guarantees under leases

In the normal course of business, the Company has entered into lease agreements that contain features which meet the definition of a guarantee. These agreements may require the Company to compensate counterparties for costs and losses incurred as a result of various events including breaches of representations and warranties, loss of or damages to property, claims that may arise while providing services, and environmental liabilities. The nature of these indemnification agreements prevents the Company from estimating the total potential amount it would have to pay to lessors, since these events have not occurred yet. Historically, the Company has not made any significant payments under such agreements, has insurance coverage for certain of the obligations undertaken and, as at December 31, 2019, has not recorded any liability associated with these indemnifications.

24. SUBSEQUENT EVENTS

On February 18, 2020, the Company concluded the acquisition of substantially all of the assets of Royal Envelope Ltd and Envelope Royal Inc., a leading Eastern Canada based envelope manufacturer and printer, for a total purchase price of $27.4 millions.

On February 20, 2020, the Board of Directors declared a quarterly dividend of $0.065 per common share, payable on April 15, 2020 to shareholders of record at the close of business on March 31, 2020.