Management's Discussion and Analysis

For the three and twelve-month periods ended December 31, 2021 and 2020

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1. BASIS OF PRESENTATION

The following management's discussion and analysis of financial condition and results of operations ("MD&A"), dated February 23, 2022, 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, 2021. These consolidated financial statements of the Company have been prepared by management in accordance with International Financial Reporting Standards ("IFRS"). The fiscal year of the Company ends on December 31. The Company's reporting currency is the Canadian dollar. Per share amounts are calculated using the weighted average number of common shares outstanding for the three and twelve-month periods ended December 31, 2021.

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

2. FORWARD-LOOKING STATEMENTS

This MD&A contains "forward-looking information" within the meaning of applicable Canadian securities laws, including (but not limited to) statements about the EBITDA, Adjusted EBITDA, Adjusted Net Earnings, Adjusted net earnings per share, Free Cash Flow 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 the MD&A for the year ended December 31, 2021. Supremex cautions that such assumptions may not materialize and that current economic conditions, including all of the current uncertainty resulting from the ongoing COVID-19 health crisis and its broader repercussions on the global economy, render such assumptions, although believed reasonable at the time they were made, subject to greater uncertainty.

Forward-looking information is subject to certain risks and uncertainties and should not be read as a guarantee of future performance or results and actual results may differ materially from the conclusion, forecast or projection stated in such forward-looking information. These risks and uncertainties include but are not limited to the following: global health crisis, decline in envelope consumption, increase of competition, economic cycles, key personnel, labor shortage, contributions to employee benefits plans, raw material price increases and availability, operational disruption, exchange rate fluctuation, growth by acquisitions, availability of capital, credit risks with respect to trade receivables, interest rate fluctuation, concerns about protection of the environment, potential risk of litigation, cyber security and data protection and no guarantee to pay dividends. In addition, risks and uncertainties arising as a result of the COVID-19 pandemic that could cause results to differ from those expected include, but are not limited to: potential government actions, changes in consumer behaviors and demand, changes in customer requirements, disruptions of the Company's suppliers and supply chain, availability of personnel and uncertainty about the extent and duration of the pandemic. Such risks and uncertainties are discussed throughout this MD&A for the year ended December 31, 2021 and in particular, in ''Risk Factors''. Consequently, the Company cannot guarantee that any forward-looking information will materialize. Readers should not place any undue reliance on such forward-looking information unless otherwise required by applicable securities legislation. The Company expressly disclaims any intention and assumes no obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise.

3. KEY QUARTERLY HIGHLIGHTS

3.1 Financial Highlights Tables

Selected Consolidated Financial Information
(in thousands of dollars, except for per share amounts and margins)

	Three-month periods ended December 31		Twelve-month periods ended December 31	
	2021	2020	2021	2020
Statement of Earnings				
Revenue	**66,203**	54,636	**226,430**	204,604
Operating earnings	**6,819**	960	**23,279**	13,357
Adjusted EBITDA(1)	**12,218**	9,206	**39,042**	32,504
Adjusted EBITDA margin(1)	**18.5%**	16.9%	**17.2%**	15.9%
Net earnings	**4,896**	309	**15,752**	7,495
Basic and diluted net earnings per share	**0.18**	0.01	**0.58**	0.27
Adjusted Net earnings(1)	**6,431**	3,719	**17,409**	11,388
Adjusted Net earnings per share(1)	**0.24**	0.13	**0.64**	0.41
Cash Flow				
Free Cash Flow(1)	**12,281**	10,074	**26,142**	34,448

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

3.2 Highlights of the three-month period ended December 31, 2021

- Total revenue increased by 21.2% to \$66.2 million, from \$54.6 million in the fourth quarter of 2020.
- Envelope segment revenue was up 15.3% to \$46.7 million, from \$40.5 million in the fourth quarter of 2020.
- Packaging and specialty products segment revenue increased by 38.0% to \$19.6 million, from \$14.2 million in the fourth quarter of 2020.
- Adjusted EBITDA[1] increased to \$12.2 million, from \$9.2 million in the fourth quarter of 2020.
- Net Earnings increased significantly to \$4.9 million, from \$0.3 million in the fourth quarter of 2020.
- Earnings per share increased significantly to \$0.18, up from \$0.01 in the fourth quarter of 2020.
- Recorded no assistance from the Canada Emergency Wage Subsidy ("CEWS") and Canada Emergency Rent Subsidy ("CERS") programs in the fourth quarter of 2021, compared to \$1.1 million in the fourth quarter of 2020.
- Purchased 406,900 shares for a total consideration of \$1.0 million as part of the Company's NCIB program.
- On January 5, 2022, the Board of Directors declared a dividend of \$0.025 per common share, payable on February 15, 2022, to the shareholders of record at the close of business on January 31, 2022.
- On February 23, 2022, the Board of Directors declared a dividend of \$0.025 per common share, payable on April 8, 2022, to the shareholders of record at the close of business on March 24, 2022.

3.3 Highlights of the twelve-month period ended December 31, 2021

- Total revenue increased by 10.7% to \$226.4 million, from \$204.6 million in 2020.
- Envelope segment revenue was up 7.3% to \$157.2 million, from \$146.5 million in 2020.
- Packaging and specialty products segment revenue increased by 19.2% to \$69.2 million, from \$58.1 million in 2020.
- Adjusted EBITDA[1] at \$39.0 million, up 20.1%, from \$32.5 million in 2020.
- Net Earnings more than doubled to \$15.8 million, from \$7.5 million in 2020.
- Earnings per share increased significantly to \$0.58, up from \$0.27 in 2020.
- Recorded \$2.1 million of assistance from the CEWS and CERS programs in 2021, compared to \$2.0 million in 2020.
- Renewed the Company's Normal Course Issuer Bid ("NCIB") over a maximum period of 12 months beginning on August 31, 2021 and ending on August 30, 2022.

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1 This is a non-IFRS financial measure. Refer to the non-IFRS financial measures section for definitions and reconciliations.

- Purchased 1,409,300 shares for total consideration of $3.3 million as part of the Company's NCIB program.
- Entered into series of annuity buy-out transactions in order to reduce the risk profile associated with its defined benefit pension plans.
- Acquired Vista Graphic Communications, LLC, ("Vista") a print and folding carton supplier that brings the Company's manufacturing closer to its American e-commerce packaging customers.
- Appointed Joe Baglione to the newly created position of President, Envelope, effective November 15, 2021.
- Appointed Mary Chronopoulos to the position of CFO and Corporate Secretary, effective May 31, 2021.

4. NON-IFRS FINANCIAL MEASURES

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

These Non-IFRS Financial Measures are defined as follows:

Non-IFRS Measure	Definition
EBITDA	Earnings before financing charges, income tax expense, depreciation of property, plant and equipment and right-of-use assets and amortization of intangible assets.
Adjusted EBITDA	EBITDA adjusted to remove items of significance that are not in the normal course of operations. These items of significance include, but are not limited to, charges for impairment of assets, restructuring expenses, value adjustment on inventory acquired and acquisition costs.
EBITDA and adjusted EBITDA margins	EBITDA or adjusted EBITDA margin is a percentage corresponding to the ratio of EBITDA or Adjusted EBITDA to revenue.
Adjusted Net Earnings	Net Earnings excluding items of significance listed above under Adjusted EBITDA, net of income taxes.
Adjusted Net earnings per share	Diluted earnings per share calculated on the basis of Adjusted Net Earnings.
Free Cash Flow	Net Cash flows related to operating activities according to the consolidated statements of cash flows less net additions to property, plant and equipment and intangible assets.

Supremex believes that EBITDA, Adjusted EBITDA and Adjusted Net Earnings are measurements 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 years.

Supremex considers free cash flow to be a good indicator of financial strength and profitability because it shows how much of the cash generated by operations is available for distribution, to repay debt or fund other investments.

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

Reconciliation of Net earnings to Adjusted EBITDA
(In thousands of dollars, except for margins)

	Three-month periods ended December 31		Twelve-month periods ended December 31	
	2021	2020	2021	2020
Net earnings	**4,896**	**309**	**15,752**	**7,495**
Income tax expense	1,363	31	5,301	2,789
Net financing charges	560	620	2,226	3,073
Depreciation of property, plant and equipment	1,314	1,695	5,314	5,442
Depreciation of right-of-use assets	1,144	1,060	4,830	5,091
Amortization of intangible assets	867	885	3,381	3,356
EBITDA	**10,144**	**4,600**	**36,804**	**27,246**
Acquisition costs related to business combinations	—	—	164	97
Asset impairment	2,074	2,770	2,074	2,770
Restructuring expense	—	1,836	—	1,836
Value adjustment on acquired inventory through a business combination	—	—	—	555
Adjusted EBITDA	**12,218**	**9,206**	**39,042**	**32,504**
Adjusted EBITDA Margin (%)	18.5%	16.9%	17.2%	15.9%

Reconciliation of Net earnings to Adjusted net earnings and of Net earnings per share to Adjusted net earnings per share
(In thousands of dollars, except for per share amounts)

	Three-month periods ended December 31		Twelve-month periods ended December 31	
	2021	2020	2021	2020
Net earnings	**4,896**	**309**	**15,752**	**7,495**
Adjustments, net of income taxes				
Acquisition costs related to business combinations	—	—	122	72
Asset impairment	1,535	2,051	1,535	2,051
Restructuring expense	—	1,359	—	1,359
Value adjustment on acquired inventory through a business combination	—	—	—	411
Adjusted net earnings	**6,431**	**3,719**	**17,409**	**11,388**
Net earnings per share	**0.18**	**0.01**	**0.58**	**0.27**
Adjustments, net of income taxes, in dollar per share	0.06	0.12	0.06	0.14
Adjusted net earnings per share	**0.24**	**0.13**	**0.64**	**0.41**

Reconciliation of Cash flows related to operating activities to Free Cash Flow
(In thousands of dollars)

	Three-month periods ended December 31		Twelve-month periods ended December 31	
	2021	2020	2021	2020
Cash flows related to operating activities	**13,821**	**10,965**	**29,996**	**37,025**
Net acquisitions of property, plant and equipment	(1,132)	(808)	(3,304)	(2,117)
Net acquisitions of intangible assets	(408)	(83)	(550)	(460)
Free Cash Flow	**12,281**	**10,074**	**26,142**	**34,448**

5. BUSINESS OVERVIEW

Supremex is a leading North American manufacturer and marketer of envelopes and a growing provider of paper-based packaging solutions. Supremex operates ten manufacturing facilities across four provinces in Canada and three manufacturing facilities in the United States employing approximately 825 people. Supremex' growing footprint allows it to efficiently manufacture and distribute envelope and packaging solutions designed to the specifications of major national and multinational corporations, 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, premium quality folding carton packaging and e-Commerce Fulfillment Packaging solutions. Other packaging and specialty products include the Conformer Products®[2], polyethylene bags for courier applications, bubble mailers and Enviro-logiX®[3].

Reporting Segments

The Company currently operates in two reporting segments: the manufacturing and sale of envelopes and the manufacturing and sale of paper-based packaging solutions and specialty products. For over 40 years, Supremex has developed its core paper substrate and converting expertise to become one of the largest manufacturers and distributors of envelopes in North America. In 2016, it initiated a growth and diversification strategy into packaging and specialty products.

The Envelope Segment

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

The Packaging and Specialty Products Segment

The Company also manufactures and distributes a diverse range of paper-based packaging solutions and specialty products, including high-quality folding carton packaging, e-commerce solutions, corrugated boxes and labels. The folding carton offering is primarily aimed at corporations in the health, beauty, pharmaceutical and food-at-home markets. E-commerce solutions are eco-friendly and are designed and manufactured to optimize shipping and reduce over-packaging for small and international e-tailers. The corrugated box offering is primarily focused on the food industry (pizza, meat and vegetable boxes), internal procurement for the e-commerce offering and envelope box requirements. The label offering primarily serves the Company's existing envelope and packaging customers with complementary label solutions and is an integral offering for the health, beauty and pharmaceutical customers. Other packaging and specialty products include the Conformer Products®, polyethylene bags for courier applications, bubble mailers and Enviro-logiX®.

6. 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, and by the acquisition of Royal Envelope Ltd and Envelope Royal Inc. (together ''Royal Envelope'') in early 2020. 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.

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[2] Conformer® is a registered trademark of Conformer Products, Inc.

[3] Enviro-logiX® is a registered trademark of Envirologix Inc.

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 (and a small complementary label entity) to build the first building blocks of its packaging platform. In 2016, the Company acquired Durabox Paper Inc., a manufacturer and distributor of corrugated paper boxes and, in 2017, acquired Stuart Packaging Inc., 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. and Pharmaflex Labels Inc. 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. In 2021, Supremex acquired Vista, an Indianapolis, Indiana based provider of print and folding carton packaging.

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, 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 2021, more than half of the Company's revenue came from a combination of the U.S. envelope and packaging sales, which represented 26.0% and 30.6% respectively, compared with 23.9% and 28.4% respectively at the end of 2020.

In the longer term, Supremex' strategy is to leverage its Canadian Envelope capacity, knowhow and cash flow to fund the pivot to Packaging and Specialty Products. The Company's objective is to achieve an equal revenue split between the Envelope Segment and the Packaging and Specialty Products Segment. To accelerate this shift, Supremex plans to make strategic acquisitions.

The following table shows the evolution of Supremex' Packaging & Specialty Products revenue over the past five years.

% Revenue in Packaging & Specialty Products
(in thousands of dollars, except %)

	2017	2018	2019	2020	2021
Revenue in Packaging & Speciality Products	34,600	56,886	54,546	58,104	69,235
Total Revenue	179,072	195,087	191,669	204,604	226,430
% of Revenue in Packaging & Specialty Products	**19.3%**	**29.2%**	**28.5%**	**28.4%**	**30.6%**

7. OUTLOOK

The Company has solid backlogs and is currently operating at full capacity given the labor at its disposal and its teams continue to successfully pass through input cost inflation. However, the Company is faced with increasingly challenging supply chain issues, primarily related to paper procurement, which is forcing it to reduce or push-out delivery orders creating missed sales opportunities. The envelope acquisition in New York recently completed should help to mitigate this impact in the short term.

In 2022, the Company intends to move its folding carton plant in Town Mount Royal, Quebec to an alternative location necessitated by the expropriation of its current facility for the Royalmount project. The Company will incur one-time costs for the move.

In terms of capital deployment for 2022, the Company expects to pay quarterly dividends, continue to buy back shares in line with its NCIB and invest in capital expenditures. The Company also continues to look for strategic acquisitions in the packaging segment.

8. INDUSTRY AND MARKET STATISTICS

8.1 Envelope Statistics

	Q4-21	Q3-21	Q2-21	Q1-21	Q4-20	Q3-20	Q2-20	Q1-20
Canada Post – Transaction Mail								
Variation (%) year-over year	n/a	(0.2%)	4.1%	(6.9%)	n/a	(11.5%)	(14.7%)	(2.2%)
For quarterly data ended - Fiscal Year ended December 31								
U.S. Postal Service – First Class Mail								
Variation (%) year-over year	(3.8%)	(2.8%)	1.1%	(7.9%)	4.1%	(5.7%)	(8.4%)	(0.2%)
For quarterly data ended - Fiscal Year ended September 30								

8.2 Foreign Exchange Rates

The following table shows average and closing exchange rates applicable to Supremex' fourth quarters and the years 2021 and 2020. Average rates are used to translate sales and expenses for the periods mentioned, while closing rates translate assets and liabilities of foreign operations and monetary assets and liabilities of the Canadian operations denominated in U.S. dollars.

US$/CDN$ Rate

	Three-month periods ended December 31		Twelve-month periods ended December 31	
	2021	2020	2021	2020
USD Average	1.260	1.303	1.254	1.341
USD Closing	1.268	1.273	1.268	1.273

9. SUMMARY OF FINANCIAL INFORMATION

9.1 Summary of Financial Information

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

	Three-month periods ended December 31		Twelve-month periods ended December 31	
	2021	2020	2021	2020
Revenue	**66,203**	**54,636**	**226,430**	**204,604**
Operating expenses	44,743	38,122	158,260	147,356
Selling, general and administrative expenses	9,242	7,308	29,292	25,396
Operating earnings before depreciation, amortization and other items	**12,218**	**9,206**	**38,878**	**31,852**
Depreciation of property, plant and equipment	1,314	1,695	5,314	5,442
Depreciation of right-of-use assets	1,144	1,060	4,830	5,091
Amortization of intangible assets	867	885	3,381	3,356
Asset impairment	2,074	2,770	2,074	2,770
Restructuring expense	—	1,836	—	1,836
Operating earnings	**6,819**	**960**	**23,279**	**13,357**
Net financing charges	560	620	2,226	3,073
Earnings before income taxes	**6,259**	**340**	**21,053**	**10,284**
Income tax expense	1,363	31	5,301	2,789
Net earnings	**4,896**	**309**	**15,752**	**7,495**
Basic and diluted net earnings per share	0.18	0.01	0.58	0.27
Dividend declared per share	—	—	—	0.065

Revenue Information
(in thousands of dollars)

	Three-month periods ended December 31		Twelve-month periods ended December 31	
	2021	2020	2021	2020
Canadian Envelope	**26,703**	**27,474**	**98,363**	**97,600**
Volume change	(12.6%)	20.4%	(5.4%)	12.3%
Average selling price change	11.2%	(4.6%)	6.6%	(5.1%)
Total change	**(2.8%)**	**15.0%**	**0.8%**	**6.5%**
U.S. Envelope	**19,947**	**12,991**	**58,832**	**48,900**
Volume change	53.7%	13.0%	25.0%	10.1%
Average selling price change (in CAD)	(0.1%)	(2.9%)	(3.7%)	(2.3%)
Total change	**53.5%**	**9.7%**	**20.3%**	**7.5%**
Packaging & Specialty Products				
Canada & U.S.	19,553	14,171	69,235	58,104
Total change	**38.0%**	**5.4%**	**19.2%**	**6.5%**
Total Revenue	**66,203**	**54,636**	**226,430**	**204,604**
Revenue change	**21.2%**	**11.1%**	**10.7%**	**6.7%**

Segmented Information
(in thousands of dollars)

	Three-month periods ended December 31		Twelve-month periods ended December 31	
	2021	2020	2021	2020
Segmented Revenue				
Envelope	46,650	40,465	157,195	146,500
Packaging & specialty products	19,553	14,171	69,235	58,104
Total Revenue	**66,203**	**54,636**	**226,430**	**204,604**
Segmented Adjusted EBITDA[(1)]				
Envelope	7,974	7,072	28,485	25,503
% of segmented revenue	17.1%	17.5%	18.1%	17.4%
Packaging & specialty products	6,197	2,322	13,625	8,538
% of segmented revenue	31.7%	16.4%	19.7%	14.7%
Corporate and unallocated costs	(1,953)	(188)	(3,068)	(1,537)
Total Adjusted EBITDA[(1)]	**12,218**	**9,206**	**39,042**	**32,504**
% of total revenue	18.5%	16.9%	17.2%	15.9%

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

10. ANALYSIS OF RESULTS

10.1 Results for the three-month period ended December 31, 2021

Revenue

Total revenue for the three-month period ended December 31, 2021, was $66.2 million, representing an increase of $11.6 million, or 21.2%, from the equivalent quarter of 2020.

Envelope Segment

Revenue was $46.7 million, representing an increase of $6.2 million, or 15.3%, from $40.5 million in the equivalent quarter of 2020. The envelope segment represented 70.5% of the Company's revenue in the quarter, down from 74.1% during the equivalent period of last year.

Canadian Envelope

Revenue was $26.7 million, representing a decrease of $0.8 million, or 2.8%, from $27.5 million in the fourth quarter of 2020. The volume of units declined by 12.6% due in part to timing, as capacity was allocated to service new businesses opportunities in the U.S. In addition, the long-term secular decline continued to affect the envelope market. The volume shortfall was partially offset by the increase in average selling prices, which rose by 11.2% from last year's comparable period, primarily resulting from price increases swiftly implemented to reflect rising input cost inflation and changes in the product mix. Canada Post's latest published financial results, for the period ended October 2, 2021, indicated that Transaction Mail volumes were down 0.2% year-over-year[4] as the federal election mailing was more than offset by businesses increasingly using digital communication rather than the Lettermail service, a trend precipitated by COVID-19.

U.S. Envelope

Revenue was $19.9 million, representing an increase of $6.9 million, or 53.5%, from $13.0 million in the fourth quarter of 2020. The volume of units sold increased by 53.7% from efforts dedicated to increase penetration of the U.S. envelope market and from the rebound in demand in recent quarters from certain channels that were more affected by the pandemic and lockdown measures. The Company's strong supply chain and dedicated workforce, on both sides of the border also played in its favor. Average selling prices in Canadian dollars decreased by 0.1%, mainly resulting from a negative foreign exchange translation effect and the change in product mix. For comparison, the U.S. Postal Service's last published results, for the period ended December 31, 2021, indicated that the First-Class Mail volumes were down 3.8%[5].

Packaging & Specialty Products Segment

Revenue was $19.6 million, an increase of $5.4 million, or 38.0%, from $14.2 million in the corresponding quarter of 2020. The increase resulted mainly from the contribution of the Vista acquisition concluded on March 8, 2021, coupled with organic growth across all lines of the packaging business. Packaging and specialty products represented 29.5% of the Company's revenue in the quarter, up from 25.9% during the equivalent period of last year.

Operating Expenses

Operating expenses for the three-month period ended December 31, 2021, were $44.7 million, compared to $38.1 million in the equivalent period of 2020, representing an increase of $6.6 million, or 17.4%. The increase is mainly due to a higher volume of sales, due in part to the Vista acquisition, higher cost of materials and the winding down of the CEWS and CERS programs ($0.8 million of subsidies recorded for the same period last year). These factors were mitigated by the cost optimization plan initiated on the envelope platform at the end of 2020. On a percentage of revenue basis, operating expenses decreased to 67.6% of revenue, down from 69.8% in the equivalent period of 2020.

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[4] Canada Post, 2021 Third Quarter Financial Report.

[5] U.S. Postal Service press release dated February 8, 2022 on first quarter 2022 results.

Selling, General and Administrative Expenses

Selling, general and administrative expenses totalled $9.2 million in the three-month period ended December 31, 2021, compared to $7.3 million during the same period in 2020, representing an increase of $1.9 million, or 26.5%. The increase is largely attributable to higher remuneration related expenses, including severances, higher professional fees and the winding down of the subsidy programs ($0.3 million of subsidies recorded for the same period last year).

EBITDA[6] and Adjusted EBITDA[6]

Consolidated EBITDA and Adjusted EBITDA

EBITDA was $10.1 million, up $5.5 million, from $4.6 million in the fourth quarter last year. Adjusted EBITDA was $12.2 million, up $3.0 million, or 32.7%, from $9.2 million in the fourth quarter of 2020. This increase resulted from higher revenue in both segments, driven by increased volume and sales prices, and operational efficiencies derived from the cost optimizations plan. It was partially offset by the higher cost of materials and the winding down of the CEWS and CERS programs (no subsidies recorded in the fourth quarter ended December 31, 2021 compared to $1.1 million of subsidies recorded for the same period last year). Adjusted EBITDA margins increased to 18.5% of revenue, compared to 16.9% in the equivalent quarter of 2020.

Segment EBITDA and Adjusted EBITDA

Envelope Segment

Adjusted EBITDA was $8.0 million, up 12.8%, or $0.9 million, from $7.1 million in the fourth quarter of 2020. This increase was primarily due to higher revenue, driven by increased volume and sales prices, and operational efficiencies derived from the cost optimizations plan, partially offset by an unfavorable product mix. On a percentage of segmented revenue, Adjusted EBITDA from the envelope segment was 17.1%, down from 17.5% in the equivalent period of 2020.

Packaging & Speciality Products Segment

Adjusted EBITDA was $6.2 million, up 166.8% or $3.9 million, from $2.3 million in the fourth quarter of 2020. This significant increase is mainly explained by higher revenue, driven by increased volume and sales prices, the contribution of the Vista acquisition and a favorable product mix. On a percentage of segmented revenue, Adjusted EBITDA from the packaging and specialty operations was 31.7%, compared to 16.4% in the equivalent period of 2020.

Corporate and unallocated costs

The Corporate and unallocated costs was $2.0 million compared to $0.2 million in the fourth quarter of 2020 which includes the contribution of $1.1 million from the CEWS and CERS programs. Excluding the subsidies, corporate and unallocated costs in the fourth quarter of 2020 would have been $1.3 million. The increase of $0.7 million resulted from higher remuneration related expenses and other non-allocated corporate expenses.

Depreciation and Amortization

Aggregate depreciation and amortization expenses for the three-month period ended December 31, 2021, amounted to $3.3 million, compared to $3.6 million in the fourth quarter of 2020.

Restructuring Expenses

In the fourth quarter of 2020, a one-time restructuring charge amounting to $1.8 million was taken pursuant to the cost optimization plan announced on December 1, 2020 and the plan is progressing as expected.

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[6] This is a non-IFRS financial measure. Refer to the non-IFRS financial measures section for definitions and reconciliations.

Asset Impairment

In the fourth quarter of 2021 and 2020, a non-cash asset impairment charge of $2.1 million and $2.8 million, respectively, was recorded related to the corrugated box packaging business.

Net Financing Charges

Net financing charges for the three-month period ended December 31, 2021, were $0.6 million in line with the equivalent period of the prior year.

Earnings Before Income Taxes

As a result of the fluctuation in revenue and expenses described above, earnings before income taxes were $6.3 million, or 9.5% of revenue, during the three-month period ended December 31, 2021, compared to $0.3 million, or 0.6% of revenue, during the equivalent period of 2020.

Income Tax Expense

Income taxes were $1.4 million, or an effective tax rate of 21.8%, in the three-month period ended December 31, 2021, compared to a negligible amount in the equivalent quarter of last year. The absolute dollar increase is due to higher earnings before income taxes in the current period.

Net Earnings and Adjusted Net Earnings[7]

Net Earnings were $4.9 million (or $0.18 per share) for the three-month period ended December 31, 2021, compared to $0.3 million (or $0.01 per share) for the equivalent period last year. Adjusted Net Earnings were $6.4 million (or $0.24 per share) for the three-month period ended December 31, 2021, compared to $3.7 million (or $0.13 per share) for the equivalent period in 2020.

Other Comprehensive Income

The discount rate used to calculate the accrued plan benefit obligations decreased to 3.0% as at December 31, 2021 from 3.2% as at September 30, 2021. This decrease was partially offset by a higher-than-expected return on assets resulting in a net actuarial loss of $0.5 million in the fourth quarter of 2021.

10.2 Results for the twelve-month period ended December 31, 2021

Revenue

Total revenue for the twelve-month period ended December 31, 2021, reached $226.4 million, a 10.7% increase from $204.6 million for the twelve-month period ended December 31, 2020.

Envelope Segment

Revenue from the envelope segment was $157.2 million, an increase of $10.7 million, or 7.3%, from $146.5 million in the comparable period of 2020.

<u>Canadian Envelope</u>

Revenue was $98.4 million, an increase of 0.8%, or $0.8 million, from $97.6 million during the twelve-month period ended December 31, 2020. Average selling prices increased by 6.6%, primarily from price increases implemented during the year. This growth was partially offset by a volume decrease of 5.4%, mainly due to the secular decline of the envelope

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[7] This is a non-IFRS financial measure. Refer to the non-IFRS financial measures section for definitions and reconciliations.

market and to timing, as capacity in Canada was allocated to service new businesses opportunities in the U.S. in the fourth quarter of 2021.

U.S. Envelope

Revenue was $58.8 million, an increase of 20.3%, or $9.9 million, from $48.9 million in the equivalent period of 2020. The volume of units sold increased by 25.0% from efforts dedicated to increase the Company's market share in the U.S. envelope market and the continued effect of the COVID-19 economic rebound. The Company's strong supply chain and dedicated workforce on both sides of the border also played in its favor. This growth was partially offset by the 3.7% decrease in average selling prices in Canadian dollars resulting from a negative foreign exchange translation effect and the change in product mix.

Packaging & Specialty Products Segment

Revenue was $69.2 million, an increase of 19.2%, or $11.1 million, from $58.1 million in the equivalent period of the prior year. Revenue growth came mainly from the acquisition of Vista and organic growth across all business lines.

Operating Expenses

Operating expenses for the twelve-month period ended December 31, 2021 were $158.3 million, compared to $147.4 million for the equivalent period in 2020, representing an increase of $10.9 million or 7.4%. This increase results primarily from higher volume of sales, due in part to the Vista acquisition as well as higher cost of materials. It was partially offset by the cost optimization plan initiated on the envelope platform at the end of 2020, tighter control of operating expenses to mitigate the effects of the COVID-19 pandemic, improved efficiencies in folding carton and slightly higher recorded subsidies ($1.5 million in 2021 versus $1.4 million for the corresponding period last year). On a percentage of revenue basis, operating expenses decreased to 69.9% of revenue, down from 72.0% in the equivalent period of 2020.

Selling, General and Administrative Expenses

Selling, general and administrative expenses amounted to $29.3 million for the twelve-month period ended December 31, 2021, compared to $25.4 million in the equivalent period of 2020, representing an increase of $3.9 million, or 15.4%. The increase is primarily attributable to the Vista acquisition, higher remuneration related expenses and higher professional fees. Recorded subsidies were $0.6 million for both periods.

EBITDA[8] and Adjusted EBITDA[8]

Consolidated EBITDA and Adjusted EBITDA

EBITDA increased by 35.1%, or $9.6 million, to $36.8 million in the twelve-month period ended December 31, 2021, from $27.2 million in the equivalent period of 2020. Adjusted EBITDA increased by 20.1%, or $6.5 million, to $39.0 million in the twelve-month period ended December 31, 2021, from $32.5 million last year. This increase results from higher revenue in both segments, driven by increased volume and sales prices, operational efficiencies derived from cost optimizations, improvements in folding carton manufacturing activities and slightly higher recorded subsidies ($2.1 million in 2021 versus $2.0 million for the same period last year). It was partially offset by higher cost of materials. Adjusted EBITDA margins increased to 17.2% of revenue, compared to 15.9% in the equivalent period of 2020.

[8] This is a non-IFRS financial measure. Refer to the non-IFRS financial measures section for definitions and reconciliations.

Segment EBITDA and Adjusted EBITDA

Envelope Segment

Adjusted EBITDA was $28.5 million, up 11.7%, or $3.0 million, from $25.5 million in the equivalent period of 2020. This increase is mainly due to higher revenue, driven by increased volume and sales prices and operational efficiencies derived from the cost optimizations plan. On a percentage of segmented revenue, Adjusted EBITDA from the envelope segment was 18.1%, up from 17.4% in the equivalent period of 2020.

Packaging & Specialty Products Segment

Adjusted EBITDA was $13.6 million, up 59.6%, or $5.1 million, from $8.5 million in the comparable period of 2020 primarily due to higher revenue, driven by increased volume and sales prices, the contribution of the Vista acquisition, efficiency gains in the folding carton division and a favorable product mix. On a percentage of segmented revenue, Adjusted EBITDA from the packaging and specialty operations was 19.7%, compared to 14.7% in the equivalent period of 2020.

Corporate and unallocated costs

The Corporate and unallocated costs amounted to $3.1 million compared to $1.5 million in the equivalent period of 2020. The increase of $1.6 million resulted from higher remuneration related expenses and other non-allocated corporate expenses.

Depreciation and Amortization

Aggregate depreciation and amortization expenses for the twelve-month period ended December 31, 2021, amounted to $13.5 million, compared to $13.9 million in the corresponding period last year.

Restructuring Expenses

In 2020, a one-time restructuring charge amounting to $1.8 million was taken pursuant to the cost optimization plan announced on December 1, 2020 and the plan is progressing as expected.

Asset Impairment

In the fourth quarter of 2021 and 2020, a non-cash asset impairment charge of $2.1 million and $2.8 million, respectively, was recorded related to the corrugated box packaging business.

Net Financing Charges

Net financing charges for the twelve-month period ended December 31, 2021, were $2.2 million, down from $3.1 million in the equivalent period of the prior year, resulting from a lower level of indebtedness and lower interest rates.

Earnings Before Income Taxes

As a result of the fluctuation in revenue and expenses described above, earnings before income taxes were $21.1 million, or 9.3% of revenue, during the twelve-month period ended December 31, 2021, compared to $10.3 million, or 5.0% of revenue, during the equivalent period of 2020.

Income Tax Expense

Income taxes were $5.3 million, or an effective income tax rate of 25.2% in the twelve-month period ended December 31, 2021, compared to $2.8 million, or an effective income tax rate of 27.1% in the equivalent period of last year. The absolute dollar increase is due to higher earnings before income taxes in the current period.

Net Earnings and Adjusted Net Earnings[9]

Net Earnings were $15.8 million (or $0.58 per share) for the twelve-month period ended December 31, 2021, compared to $7.5 million (or $0.27 per share) for the equivalent period in 2020. Adjusted Net Earnings were $17.4 million (or $0.64 per share) for the twelve-month period ended December 31, 2021, compared to $11.4 million (or $0.41 per share) for the equivalent period in 2020.

Other Comprehensive Income

The discount rate used to calculate the accrued plan benefit obligations increased to 3.0% as at December 31, 2021 from 2.5% as at December 31, 2020. This increase, combined with a slightly higher-than-expected return on assets, resulted in a net actuarial gain of $6.0 million during the twelve-month period ended December 31, 2021.

10.3 Geographical Revenue and Asset Diversification

Revenue by Geography
(in thousands of dollars)

	Three-month periods ended December 31		Twelve-month periods ended December 31	
	2021	**2020**	**2021**	**2020**
Canada	37,651	36,905	138,668	136,243
U.S.	28,552	17,731	87,762	68,361
Total Revenue	**66,203**	**54,636**	**226,430**	**204,604**

For the three-month period ended December 31, 2021, the Company's revenue in Canada was $37.7 million, an increase of 2.0% from $36.9 million in the equivalent quarter of 2020. In the United States, revenue was $28.6 million, an increase of 61.0% from $17.7 million in 2020.

For the twelve-month period ended December 31, 2021, the Company's revenue in Canada was $138.7 million, an increase of 1.8% from $136.2 million in the equivalent period of 2020. In the United States, revenue was at $87.8 million, representing an increase of 28.4% from $68.4 million in the equivalent period of 2020.

The Company's non-current assets were $118.4 million in Canada and $22.3 million in the United States as at December 31, 2021, compared to $118.9 million in Canada and $14.4 million in the United States as at December 31, 2020.

11. SUMMARY OF RESULTS – SELECTED QUARTERLY FINANCIAL INFORMATION

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

[9] This is a non-IFRS financial measure. Refer to the non-IFRS financial measures section for definitions and reconciliations.

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

Selected Quarterly Operating Results
(in thousands of dollars, except for per share amounts)

	Dec. 31 2021	Sep. 30 2021	Jun. 30 2021	Mar. 31 2021	Dec. 31 2020	Sep. 30 2020	Jun. 30 2020	Mar. 31 2020
Envelope	**46,650**	37,050	35,230	38,265	40,465	34,136	32,751	39,149
Packaging	**19,553**	17,773	16,571	15,338	14,171	15,754	14,911	13,267
Total Revenue	**66,203**	54,823	51,801	53,603	54,636	49,890	47,662	52,416
Adjusted EBITDA(1)	**12,218**	8,714	8,562	9,548	9,206	8,065	6,895	8,338
Earnings Before Income Taxes	**6,259**	4,709	4,595	5,490	340	3,867	2,434	3,643
Net Earnings	**4,896**	3,364	3,389	4,103	309	2,733	1,865	2,588
Net Earnings per share	**0.18**	0.13	0.12	0.15	0.01	0.10	0.07	0.09
Adjusted Net Earnings(1)	**6,431**	3,364	3,393	4,221	3,719	2,733	1,865	3,071
Adjusted Net Earnings(1) per share	**0.24**	0.13	0.12	0.15	0.13	0.10	0.07	0.11

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

12. FINANCIAL POSITION

12.1 Summary Financial Position Highlights

Selected Financial Position Information
(in thousands of dollars)

	As at December 31, 2021	As at December 31, 2020
Working capital	25,250	20,937
Total Assets	206,371	186,551
Total Liabilities	108,966	107,590
Total Equity	97,405	78,961

12.2 Assets

The increase in total assets of $19.8 million as at December 31, 2021, when compared to December 31, 2020, is mainly the result of the increase of $8.0 million in the accrued pension benefit net asset, the increase of $6.1 million in accounts receivable and the acquisition of Vista concluded on March 8, 2021, for a total consideration of $2.8 million.

12.3 Liabilities

Secured Credit Facility

The Company has a secured credit facility consisting of a $80 million revolving facility ($80 million as at December 31, 2020) and a $26.3 million term facility ($29.8 million as at December 31, 2020). No principal repayments are required on the revolving facility prior to maturity. The term facility is repayable in quarterly principal installments of $875,000. The availability of the secured credit facility is variable and dependant on respecting certain financial covenants. As at December 31, 2021, the total amount outstanding on the secured credit facility was $44.5 million. This facility bears interest at a floating rate based on the Canadian prime rate, plus an applicable margin that ranges between 0% and 2.00% or bankers' acceptance rates, plus an applicable margin that ranges between 1.25% and 3.25%. The agreement for this secured credit facility matures in May 2023.

The secured credit facility is used for working capital, capital expenditures, acquisitions and other general corporate purpose. It is collateralized by mortgage and a security interest covering all assets of the Company and its subsidiaries and is subject to certain covenants, which the Company is required, among other conditions, to meet. The Company was in compliance with these covenants as at December 31, 2021.

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

	As at December 31, 2021	As at December 31, 2020
Revolving facility	18,279	27,000
Term facility	26,250	29,750
Total Debt	**44,529**	**56,750**
Less: deferred financing costs	(178)	(307)
Less: current portion	(3,500)	(3,500)
Long-term portion of secured credit facility	**40,851**	**52,943**

The Company's total debt decreased to $44.5 million as at December 31, 2021, compared to $56.8 million as at December 31, 2020, in spite of the Vista acquisition concluded on March 8, 2021, for a total consideration of $2.8 million.

As at December 31, 2021, the total debt to adjusted EBITDA ratio was 1.1x, down from 1.7x at the end of December 31, 2020.

12.4 Contractual Obligations and Off-Balance Sheet Arrangements

The Company has no other off-balance sheet arrangements, except for the operating leases with terms of twelve months or less or leases of low-value assets, which do not have a current or future material effect on the Company's performance.

13. LIQUIDITY AND CAPITAL RESOURCES

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

Summary of cash flows
(in thousands of dollars)

	Three-month periods ended December 31		Twelve-month periods ended December 31	
	2021	2020	2021	2020
Operating activities	13,821	10,965	29,996	37,025
Investing activities	(1,540)	(890)	(6,611)	(29,977)
Financing activities	(9,715)	(11,595)	(20,022)	(5,709)
Net foreign exchange difference	(26)	(349)	(34)	(526)
Net change in cash	**2,540**	**(1,869)**	**3,329**	**813**

13.1 Cash Flows Related to Operating Activities

Net cash flows from operating activities were $13.8 million during the three-month period ended December 31, 2021, compared to $11.0 million in the equivalent period of 2020. The increase is mainly attributable to higher profitability, partially offset by unfavorable movements in working capital.

Net cash flows from operating activities were $30.0 million during the twelve-month period ended December 31, 2021, compared to $37.0 million in the equivalent period of 2020. The decrease is mainly attributable to unfavorable movements in working capital particularly in accounts receivable and inventories, partially offset by higher profitability.

13.2 Cash Flows Related to Investing Activities

Net cash flows used in investing activities amounted to $1.5 million during the three-month period ended December 31, 2021, compared to $0.9 million in the equivalent period of 2020, primarily used to invest in capital expenditures.

Net cash flows used in investing activities amounted to $6.6 million during the twelve-month period ended December 31, 2021, mainly used to invest in capital expenditures and fund the acquisition of Vista. In 2020, net cash flows used in investing activities amounted to $30.0 million, primarily used to fund the acquisition of Royal Envelope.

13.3 Cash Flows Related to Financing Activities

Net cash flows used by financing activities were $9.7 million during the three-month period ended December 31, 2021, compared to $11.6 million in the equivalent period of 2020, primarily used to pay down debt and buy back shares.

Net cash flows used by financing activities were $20.0 million during the twelve-month period ended December 31, 2021, compared to $5.7 million for the twelve-month period ended December 31, 2020, mainly due to higher net repayment of the revolving debt and increased buyback of shares under the NCIB in 2021 compared to 2020.

Free Cash Flow[10]

Free cash flow amounted to $12.3 million in the fourth quarter of 2021, versus $10.1 million for the same period last year, mainly attributable to higher cash flow from operations, partially offset by higher capex.

Free cash flow amounted to $26.1 million in the twelve-month period ended December 31, 2021, versus $34.4 million in the corresponding period in 2020, mainly attributable to lower cash flows related to operating activities as described above and higher capex.

Normal Course Issuer Bid ("NCIB")

During the three and twelve-month periods ended December 31, 2021, the Company repurchased 406,900 and 1,409,300 common shares for cancellation through the current and prior NCIB, which expired on August 16, 2021, in consideration of $1,004,924 and $3,281,030, respectively.

Subsequent to the end of the year, an additional 59,000 shares were purchased for cancellation for total consideration of $171,419.

14. SHARE CAPITAL

As at December 31, 2021 the capital stock issued and outstanding of the Company consisted of 26,415,469 common shares (27,824,769 as at December 31, 2020).

The following table presents the outstanding capital stock activity for the three and twelve-month periods ended December 31, 2021:

Number of common shares

	Three-month period ended December 31, 2021	Twelve-month period ended December 31, 2021
Balance – Beginning of period	26,822,369	27,824,769
Common shares purchased for cancellation	(406,900)	(1,409,300)
Balance – End of period	**26,415,469**	**26,415,469**

As at February 23, 2022, the Company had 26,356,469 common shares outstanding.

[10] This is a non-IFRS financial measure. Refer to the non-IFRS financial measures section for definitions and reconciliations.

15. SUBSEQUENT EVENTS

- On January 5, 2022, the Board of Directors declared a dividend of $0.025 per common share, payable on February 15, 2022, to the shareholders of record at the close of business on January 31, 2022.

- On January 6, 2022, Supremex announced the reinstatement of the Company's quarterly dividends after having suspended them in the early months of the pandemic. Starting in the first quarter of 2022, the Board will reinstate its quarterly dividends of $0.025 per common share.

- On January 11, 2022, Leslie Sutherland, Vice President, People & Culture left Supremex.

- On February 4, 2022, the Company concluded the acquisition of the manufacturing assets and inventory of Niagara Envelope Inc, a regional envelope manufacturer based in Niagara, New York, for an approximate cash consideration of $1,407,000 (US$1,110,000) including an amount of $507,000 (US$400,000) payable over a five-year period subject to the realization of certain pre-established financial targets over that period.

- On February 23, 2022, the Board of Directors declared a quarterly dividend of $0.025 per common share, payable on April 8, 2022, to the shareholders of record at the close of business on March 24, 2022. This dividend is designated as an "eligible" dividend for the purpose of the Income Tax Act (Canada) and any similar provincial legislation.

16. ACCOUNTING POLICIES

The Company prepares its financial statements in conformity with IFRS, which requires management to make estimates and assumptions that management believes are reasonable based upon the information available. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant areas requiring the use of management estimates relate to intangible assets and goodwill, employee future benefits, leases and income taxes. Management bases its estimates on historical experience and other assumptions, which it believes are reasonable under the circumstances. Management also 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, 2021.

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

Intangible assets and goodwill

Intangible assets and goodwill arise out of business combinations for which the Company has applied the acquisition method of accounting. The acquisition method involves the allocation of the cost of an acquisition to the underlying net assets acquired based on their respective estimated fair value. As part of this allocation process, the Company must identify and attribute values and estimated lives to the intangible assets acquired. These determinations involve significant estimates and assumptions regarding cash flow projections, economic risk and weighted average cost of capital ("WACC"). However, these projections are inherently uncertain due to the evolving impact of the COVID-19 pandemic. The COVID-19 pandemic and its impact on the economy is constantly evolving in an unpredictable manner and presents many variables and contingencies for modeling. It is possible that an underperformance to these projections could occur in future periods since the effects of the pandemic may have material impacts on the Company's anticipated revenue levels and the recoverable amount of the cash generating units ("CGU").

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

Impairment test of non-financial assets

As at December 31, 2021, the Company performed a goodwill impairment test for its Envelope and Packaging CGUs using the discounted cash flows method based upon management's best estimates which reflect the Company's planned course of action in light of market conditions. The recoverable amount of the Envelope CGU and the Packaging CGU exceeded their respective carrying values. As a result, no goodwill impairment was recorded for those CGU's. However, the underperformance of the Other CGU, Corrugated Die-Cut boxes, led management to review its assets recoverable value and a $2.1 million non-cash asset impairment was recorded.

Valuation technique

The Company uses the discounted cash flows ("DCF") method to determine the value in use of its CGU and has not made any changes to the valuation methodology used to assess goodwill impairment since the last annual impairment test, except for the Other CGU for which a fair value less cost of disposal technique was used to assess the fair value of specific assets.

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, 2021 for Envelope and Packaging CGUs, involves projecting cash flows and converting them into a present value equivalent through discounting. The discounting process uses a rate of return that is commensurate with the risk associated with the business or asset and the time value of money. This approach requires assumptions about revenue growth or decline rates, operating margins, tax rate and discount rates. For the Other CGU, assumptions mainly related to the estimation process of the individual assets at disposal, based on management's experience and market data, when available.

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 of the Envelope and Packaging 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:

	2021		2020	
	Envelope	Packaging	Envelope	Packaging
Pre-tax discount rate	14.4%	12.9%	14.5%	13.1%
Tax rate	25.9%	25.9%	26.0%	26.0%
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 19.7% or the perpetual decline rate had increased to 9.6%, the recoverable amount of the Envelope CGU would have then equaled the carrying amount as at December 31, 2021.

Packaging CGU

In the most recent impairment test performed for the Packaging CGU, if the pre-tax discount rate had increased to 34.9% or the perpetual growth rate had decreased to (33.9)%, the recoverable amount of the Packaging CGU would have then equaled the carrying amount as at December 31, 2021.

Employee future benefits

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

Significant Assumptions	
Discount rate for accrued benefit obligation	3.00%
Discount rate for net pension costs	2.50%
Rate of compensation increase	2.50%
Mortality assumption	CPM Private

Discount rate

As at December 31, 2021, the Company used the Fiera Capital's CIA Method Accounting Discount Rate Curve which follows the methodology suggested in the CIA Education Note on *Accounting Discount Rate Assumption for Pension and Post-Employment Benefit Plans.*

Sensitivity analysis

For the Company, a 0.25% increase or decrease in the discount rate would have decreased or increased the defined benefit liability by approximately $1.9 million as at December 31, 2021. 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, 2021. An increase of one year in the life expectancy of plan members as at December 31, 2021 results in an increase of $1.2 million in total projected defined benefit obligation of pension plans. The sensitivity analysis has been determined based on a method that determines the impact on the defined benefit liability of a 0.25% change in the key assumptions. There have been no changes in the methods and assumptions used to determine the sensitivity analysis from the comparative year.

Rate of compensation

Future salary increases are based on expected future inflation rates.

Leases

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

Right-of-Use Assets:

- The right-of-use assets are measured at cost. The cost is based on the initial amount of the lease liability plus initial direct costs incurred and estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located adjusted for any lease payments made at or before the commencement date, less any lease incentives received, if any.
- The cost of the right-of-use assets is periodically reduced by depreciation expenses and impairment losses, if any, and adjusted for certain remeasurements of the lease liabilities. The right-of-use assets are depreciated to the lesser of the useful life or the lease term using the straight-line method as this reflects the expected pattern of consumption of the future economic benefits. The lease term includes the renewal option only if it is reasonably certain that the Company will exercise that option. Lease terms range from 1 to 12 years.
- The Company does not recognize a right-of-use asset and liability for the leases where the total lease term is less than or equal to 12 months and for the leases of low 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. The Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable, the amount of lease liabilities is increased to reflect accretion of interest and reduced for lease payments made. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew or terminate (e.g., a change in business strategy).

Income taxes

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

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

17. FINANCIAL INSTRUMENTS

Interest rate and foreign exchange risk

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

Fair value

The fair value of the Company's financial instruments is indicated in note 23 of the Company's audited consolidated financial statements for the year ended December 31, 2021.

18. RISK FACTORS

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

Global Health Crisis

The emergence and spread of the COVID-19 pandemic dealt a major shock to the Canadian and global economies in 2020. Among other things, governments and businesses worldwide have adopted emergency measures to combat the spread of the virus. These emergency measures have included, without limitation, social distancing, the temporary closure on non-essential businesses, stay-at-home and work-from-home policies, quarantine periods, border closures, travel bans or restrictions and curfews. Despite the recent progress in the vaccination campaign in the jurisdictions in which Supremex operates and the related easing of emergency measures, uncertainty still remains with respect to the duration and impact of the COVID-19 pandemic on the Company's activities and on the global economic landscape. Resurgences in new COVID-19 cases, including new variants, have causes and could continue to cause governments to strengthen or re-introduce emergency measures including, depending on a resurgence's intensity, certain or all of the strict confinement measures and business closures previously mandated or, potentially, additional measures. The strengthening or reintroduction of emergency measures, or a more prolonged duration to the COVID -19 pandemic, could result in increased adverse economic disruptions and financial markets volatility.

The COVID-19 outbreak could adversely affect, and possibly materially, the Company's business, financial condition, liquidity and future results of operations due to, among other factors: the significant impact on the prices of the Company's products in connection with an ensuing economic downturn, operating and supply shortages, delays or disruptions, trade disruption, temporary staff shortages, temporary closures of facilities in geographic locations more importantly impacted by the outbreak, action taken by governmental and non-governmental bodies to curtail activity in an effort to help slow the spread of COVID-19 which may cause significant business interruptions and restrict the Company's ability to deliver its services, and increased operating and non-compensable costs for specific needs in response to COVID-19. In addition, although Supremex has not yet experienced material employment-related issues due to the COVID-19 pandemic, Supremex' operations could nevertheless be adversely impacted if its employees (or third-party employees) are unable or restricted in their ability to work, including by reasons of being quarantined or becoming ill as a result of exposure to COVID-19, or if they are subject to government or other restrictions. Such adverse effects could be rapid and unexpected. The Company is not able at this time to estimate the future impact of the COVID-19 situation on its operations or its financial results; however, such adverse impact could be material. The Company cannot presently predict the scope and severity of potential business disruptions, which may have a material and adverse effect on the Company's financial and/or operating performance.

The Company has implemented various measures in response to COVID-19 which include, among other things, diligently managing working capital, closely monitoring its accounts receivable credit risk, reviewing its inventory levels, suspending its regular quarterly dividend from May 2020 up to December 2021 and implementing a Business Continuity Plan. Supremex is actively monitoring the situation and will respond as the impact of the COVID-19 pandemic evolves, including by imposing or reinstating such measures and restrictions, as applicable.

The COVID-19 pandemic may also have the effect of heightening other risks and uncertainties disclosed and described below. The adverse impacts of COVID-19 on the Company can be expected to increase the longer the pandemic and the related response measures persist.

Decline in Envelope Consumption

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

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

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 competitors are larger and have more fully integrated operations. If Supremex fails to further penetrate the packaging industry, the growth in its sales, could be negatively impacted. Supremex cannot assure that its efforts to increase market penetration in its existing markets and to expand into the packaging market will be successful. Failure to do so could have a material adverse effect on Supremex operating results.

Economic Cycles

A significant risk that Supremex faces and over which it has no control is related to economic cycles. 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.

Human Resources

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.

Labor Shortage

Social and demographic trends observed on a global basis are making it more challenging to hire and retain personnel in most industries. The failure to recruit, retain, motivate, effectively communicate with and develop highly skilled and competent people at all levels of Supremex' organization could result in shortages in the availability of appropriately skilled people at any particular levels within the organization and significantly affect its financial results.

Employee Future Benefits

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

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

Recently, the Company executed a series of transactions in order to reduce the risk profile and volatility associated with its defined benefit pension plans and further secures the Company's members' benefits.

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

Raw Material

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

Fluctuations in raw material and energy prices affect operations. Paper costs represent a significant portion of Supremex'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 Supremex' profitability, if it changes the purchasing habits of customers, or if the increases cannot be passed on. Similarly, 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. 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.

Fluctuations in raw material availability affect operations. Paper procurement is increasingly becoming a risk factor for the Company. In the past, the Company was able to mitigate temporary shortages of paper given its scale, buying power and long-standing relationships with suppliers. However, global supply-chain issues, which have limited the availability of containers, combined with the COVID-19 pandemic as well as specific paper mill challenges, including employee strikes, accidents and change in ownership have created an unprecedented shortage of paper. This situation has forced paper mills to allocate the paper it has amongst its customers. The Company's inability to obtain all the tons of paper it requires to produce customer orders will affect its operations as it will have to reduce or push-out deliveries. Similarly, the availability of suitable quality recycled board within a reasonable distance of the Company's packaging divisions is also a risk.

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

Operational Disruption

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

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 U.S. dollar. Revenue generated from customers in the United States represented 38.8% of consolidated revenue in fiscal 2021, up from 33.4% in fiscal 2020.

Growth by Acquisitions

The Company plans to grow both organically and through acquisitions. In recent years, the Company has grown through acquisitions and has relied in large part on new acquisitions to pursue its growth and diversification strategy. 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.

Availability of Capital

The Company has a secured credit facility consisting of a $80 million revolving facility and a $26.3 million term facility. Although the Company carried out this modification to its line of credit successfully in 2019, there is no guarantee that additional funds will be available in the future, and if they are, that they will be provided in a timeframe and under conditions acceptable to the Company.

The Credit Facility contains certain covenants that affect and, in some cases, significantly limit, among other things, the activities in which the Company may engage, the ability of the Company to incur debt, grant liens over its assets, engage in lines of business different from its own, consummate asset sales, or merge consolidate or amalgamate with another person. These restrictions and covenants could impede access to capital or prevent the Company from engaging in business activities that may be in its interest.

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, 2021, 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 2.00% or bankers' acceptance rates, plus an applicable margin, which ranges from 1.25% to 3.25%.

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 the price of raw materials were to increase for environmental reasons, it could negatively affect Supremex' profitability if such increase cannot be passed on to the customer.

Litigation

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

Cyber security and data protection

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

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

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

No guaranty to pay cash dividends

The Board of Directors has, for some years, declared a cash dividend on a regular quarterly basis. However, due to the unpredictable impact of the COVID-19 pandemic and potential future impact on the Company's results and its available cash, the Company's Board of Directors has suspended its quarterly dividend from May 2020 to December 2021.

On January 5, 2022, a dividend was declared, and the quarterly dividend was reinstated, subject to the Board approval.

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' 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' common shares.

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

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

Management has designed disclosure controls and procedures to provide reasonable assurance that material information relating to the Company is made known to the President and Chief Executive Officer and the Chief Financial Officer, particularly during the period in which annual filings are being prepared. The President and Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures and concluded, based on its evaluation, that such disclosure controls and procedures were effective as of December 31, 2021.

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, 2021. 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, 2021, that materially affected, or is likely to materially affect, the Company's internal control over financial reporting.

The Company expects that its March 2021 business acquisition of Vista will be covered by its certification in the first quarter of 2022.

Additional Information

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