Management's Discussion and Analysis

For the three and twelve-month periods ended December 31, 2022 and 2021

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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 22, 2023, 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, 2022. 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, 2022.

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 EBITDA margin, Adjusted Net Earnings, Adjusted net earnings per share, Free Cash Flow, Net debt, Net debt to Adjusted EBITDA ratio[1], split of revenue between its Envelope and Packaging segments by the end of 2025, capital expenditures, dividend payments, 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 ability 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, 2022. Supremex cautions that such assumptions may not materialize and that economic conditions such as heightened inflation and central banks' large interest rate hikes, economic downturns or recessions, may 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: decline in envelope consumption, growth and diversification strategy, key personnel, labour shortage, contributions to employee benefits plans, global health crisis, raw material price increases, operational disruption, increase of competition, dependence on and lost of customer relationships, economic cycles, exchange rate fluctuation, credit risks with respect to trade receivables, availability of capital, 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, inflationary pressures on input costs and incapacity to pass raw material increases to customers, 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, 2022 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.

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[1] These are non-IFRS financial measures or ratios. Refer to the non-IFRS financial measures section for definitions and reconciliations.

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	
	2022	**2021**	**2022**	**2021**
Statement of earnings				
Revenue	**78,761**	66,203	**272,467**	226,430
Operating earnings	**10,075**	6,819	**40,664**	23,279
Adjusted EBITDA(1)	**15,332**	12,218	**56,841**	39,042
Adjusted EBITDA margin(1)	**19.5%**	18.5%	**20.9%**	17.2%
Net earnings	**6,660**	4,896	**28,436**	15,752
Basic and diluted net earnings per share	**0.26**	0.18	**1.09**	0.58
Adjusted net earnings(1)	**7,854**	6,431	**29,980**	17,409
Adjusted net earnings per share(1)	**0.31**	0.24	**1.15**	0.64
Cash Flow				
Net cash flows related to operating activities	**11,739**	13,821	**26,914**	29,996
Free Cash Flow(1)	**10,193**	12,281	**24,362**	26,142

(1) Non-IFRS financial measures and ratios. Non-IFRS financial measures do not have standardized meanings prescribed by IFRS and therefore may not be comparable to similar measures presented by other entities. Refer to the non-IFRS financial measures section for definitions and reconciliations.

3.2 Highlights of the three-month period ended December 31, 2022 and recent events

- Total revenue increased by 19.0% to $78.8 million, from $66.2 million in the fourth quarter of 2021.
- Envelope segment revenue was up 30.1% to $60.7 million, from $46.7 million in the fourth quarter of 2021.
- Packaging and specialty products segment revenue decreased by 7.6% to $18.1 million, from $19.6 million last year, largely as a result of the wind down of Durabox and the relocation of folding carton operations.
- Adjusted EBITDA[2] reached $15.3 million, or 19.5% of revenue, versus $12.2 million, or 18.5% of revenue, last year.
- Net Earnings increased 36.0% to $6.7 million, from $4.9 million in the fourth quarter of 2021.
- Earnings per share increased to $0.26, up from $0.18 in the fourth quarter of 2021.
- Acquisition on November 1, 2022 of Royal Envelope Corporation ("Royal Envelope") located in Chicago.
- Acquisition on January 16, 2023 of Impression Paragraph Inc. ("Paragraph"), an integrated provider of paper-based packaging, print and point-of-sale products with two facilities in the province of Quebec.
- On February 22, 2023, the Board of Directors declared a quarterly dividend of $0.035 per common share, representing a 16.7% rise over the previous dividend paid. This represents the second increase, for a cumulative rise of 40.0% since reinstating dividend payments at the beginning of 2022.

3.3 Highlights of the twelve-month period ended December 31, 2022

- Total revenue increased by 20.3% to $272.5 million, from $226.4 million last year.
- Packaging and specialty products segment revenue increased by 4.2% to $72.1 million, from $69.2 million in 2021.
- Envelope segment revenue was up 27.4% to $200.3 million, from $157.2 million a year earlier.
- Adjusted EBITDA[2] was $56.8 million, or 20.9% of revenue, up from $39.0 million, or 17.2% of revenue, in the prior year.
- Net Earnings rose sharply to $28.4 million, from $15.8 million in 2021.
- Earnings per share increased significantly to $1.09, up from $0.58 a year ago.

[2] Non-IFRS financial measures or ratios. Refer to the non-IFRS financial measures section for definitions and reconciliations.

- Recorded no assistance from the Canada Emergency Wage Subsidy ("CEWS") and Canada Emergency Rent Subsidy ("CERS") programs in 2022, compared to $2.1 million in 2021.
- Reinstated dividends with payments to shareholders totalling $0.135 per common share in 2022.
- Renewed the Company's Normal Course Issuer Bid ("NCIB") program, allowing Supremex to buy back up to 1,301,713 common shares until August 30, 2023.
- Purchased 438,400 shares for total consideration of $1.5 million as part of NCIB program.
- Appointed Simon Provencher as President of the Packaging segment, effective September 6, 2022.

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	EBITDA represents earnings before net financing charges, income tax expense, depreciation of property, plant and equipment and right-of-use assets and amortization of intangible assets. The Company uses EBITDA to assess its performance. Management believes this non-IFRS measure, provides users with an enhanced understanding of its operating earnings.
Adjusted EBITDA	Adjusted EBITDA represents EBITDA adjusted to remove items of significance that are not in the normal course of operations. These items of significance include, when applicable, but are not limited to, charges for impairment of assets, restructuring expenses, value adjustment on inventory acquired and business acquisition costs. The Company uses Adjusted EBITDA to assess its operating performance, excluding items that are not in the normal course of operations. Management believes this non-IFRS measure, provides users with enhanced understanding of the Company's operating earnings and increase the transparency and clarity of the Company's core results. It also allows users to better evaluate the Company's operating profitability when compared to previous years.
Adjusted EBITDA margin	Adjusted EBITDA margin is a percentage corresponding to the ratio of Adjusted EBITDA divided by revenue. The Company uses Adjusted EBITDA margin for purpose of evaluating business performance, excluding items that are not in the normal course of operations. Management believes this non-IFRS measure, provides users with enhanced understanding of its results and related trends.
Adjusted net earnings	Adjusted net earnings represents net earnings excluding items of significance listed above under Adjusted EBITDA, net of income taxes. The Company uses Adjusted net earnings to assess its business performance and profitability without the effect of items that are not in the normal course of operations, net of income taxes. Management believes this non-IFRS measure, provides users with an alternative assessment of the Company's earnings without the effect of items that are not it the normal course of operations making it valuable to assess ongoing operations and trends in the business performance. Management also believes this non-IFRS measure provides users with enhanced understanding of the Company's results and provides better comparability between period.
Adjusted net earnings per share	Adjusted net earnings per share represents Adjusted net earnings divided by the weighted average number of common shares outstanding for the relevant period. The Company uses Adjusted net earnings per share for purposes of evaluating performance and profitability, excluding items that are not in the normal course of operations of the Company, net of income taxes, on a per share basis.

Non-IFRS Measure	Definition
Free Cash Flow	This measure corresponds to net cash flows related to operating activities according to the consolidated statements of cash flows less additions (net of disposals) to property, plant and equipment and intangible assets. Management considers Free Cash Flow to be a good indicator of the Company's financial strength and operating performance because it shows the amount of funds available to manage growth, repay debt and reinvest in the Company. Management considers this measure useful to provide investors with a perspective on its ability to generate liquidity, after making capital investments required to support business operations and long-term value creation.
Net debt	Net debt represents the Company's total debt, net of deferred financing costs and cash. The Company uses Net debt as an indicator of its indebtedness level and financial leverage as it represents the amount of debt that is not covered by available cash. Management believes that investors could benefit from the use of net debt to determine a company's financial leverage.
Net debt to Adjusted EBITDA ratio	Net debt to Adjusted EBITDA ratio represents Net debt divided by trailing 12-month (TTM) Adjusted EBITDA. This ratio is used by management to monitor the Company's financial leverage and management believes certain investors use this ratio as a measure of financial leverage.

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	
	2022	2021	2022	2021
Net earnings	**6,660**	**4,896**	**28,436**	**15,752**
Income tax expense	2,345	1,363	9,657	5,301
Net financing charges	1,070	560	2,571	2,226
Depreciation of property, plant and equipment	1,299	1,314	5,799	5,314
Depreciation of right-of-use assets	1,239	1,144	4,529	4,830
Amortization of intangible assets	1,106	867	3,762	3,381
EBITDA	**13,719**	**10,144**	**54,754**	**36,804**
Acquisition costs related to business combinations	520	—	550	164
Asset impairment	—	2,074	—	2,074
Restructuring expenses	966	—	1,410	—
Value adjustment on acquired inventory through a business combination	127	—	127	—
Adjusted EBITDA	**15,332**	**12,218**	**56,841**	**39,042**
Adjusted EBITDA Margin (%)	19.5%	18.5%	20.9%	17.2%

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	
	2022	2021	2022	2021
Net earnings	**6,660**	**4,896**	**28,436**	**15,752**
Adjustments, net of income taxes				
Acquisition costs related to business combinations	385	—	407	122
Asset impairment	—	1,535	—	1,535
Restructuring expenses	715	—	1,043	—
Value adjustment on acquired inventory through a business combination	94	—	94	—
Adjusted net earnings	**7,854**	**6,431**	**29,980**	**17,409**
Net earnings per share	**0.26**	**0.18**	**1.09**	**0.58**
Adjustments, net of income taxes, in dollar per share	0.05	0.06	0.06	0.06
Adjusted net earnings per share	**0.31**	**0.24**	**1.15**	**0.64**

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	
	2022	2021	2022	2021
Cash flows related to operating activities	**11,739**	**13,821**	**26,914**	**29,996**
Acquisitions (net of disposals) of property, plant and equipment	(1,475)	(1,132)	(2,180)	(3,304)
Acquisitions of intangible assets	(71)	(408)	(372)	(550)
Free Cash Flow	**10,193**	**12,281**	**24,362**	**26,142**

Net debt to Adjusted EBITDA ratio
(in thousands of dollars)

	As at December 31, 2022	As at December 31, 2021
Total debt	54,748	44,529
Deferred financing costs	(334)	(178)
Cash	(1,929)	(6,365)
Net debt	**52,485**	**37,986**
Adjusted EBITDA – TTM[(1)]	56,841	39,042
Net debt to Adjusted EBITDA ratio	**0.9**	1.0

(1) Refer to the ''Selected Quarterly Operating Results'' section for more information on the results of each of the last eight quarters.

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 eleven manufacturing facilities across four provinces in Canada and six manufacturing facilities in four states in the United States employing over 1,000 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, direct mailers, 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 high-end quality folding carton packaging and e-Commerce Fulfillment Packaging solutions. Other packaging and specialty products include the Conformer Products®[3], labels, polyethylene bags for courier applications, bubble mailers and Enviro-logiX®[4].

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. Several years ago, 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, direct mailers, 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-end folding carton packaging, e-commerce solutions 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 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

Over the last decade, Supremex has actively pursued a three-pronged diversification strategy to sustain revenue and profitability growth. First, the Company strengthened its market-leading position in the Canadian envelope market by leveraging its footprint through capacity allocation and acquisitions in Western and Eastern Canada. Second, Supremex pursued growth opportunities in the U.S. envelope market, both organically by using excess capacity from the Canadian facilities, and through acquisitions in the Northeast and the Midwest. Third, Supremex' has methodically built its packaging capabilities, mostly through acquisitions, with the objective of achieving critical mass in this attractive growth market, specifically in the value-added folding carton, e-commerce and label markets.

The growth in e-commerce and changes in consumer behaviour have been significant growth drivers for packaging, labels and specialty products. In 2017 and 2018, Supremex established the foundation of its packaging platform by acquiring two important manufacturers of folding carton packaging solutions, complemented by a small label entity, focused primarily on the food, pharmaceutical and cosmeceutical industries in the province of Quebec. In 2021, Supremex made its first U.S. packaging acquisition by purchasing Vista Graphic Communications, LLC ("Vista"), an Indianapolis, Indiana based provider of print and folding carton packaging. The Company added critical mass to its Packaging and specialty products segment in Quebec early in 2023 through the acquisition of Paragraph.

[3] Conformer® is a registered trademark of Conformer Products, Inc.
[4] Enviro-logiX® is a registered trademark of Envirologix Inc.

From late 2017 to 2019, Supremex proceeded with investments exceeding $5 million, which significantly expanded its packaging capabilities and capacity to meet growing demand. These investments opened the door to new customers and applications in various markets and strengthened Supremex' position as a provider of value-added specialty packaging.

Supremex' strategy is to leverage its Envelope capacity, know-how and cash flow to fund the pivot to Packaging and specialty products. The Company aims to achieve an equal revenue split between its Envelope and Packaging segments by the end of 2025. To accelerate this shift, Supremex plans to make further strategic acquisitions.

The following table shows the evolution of Supremex' Packaging & specialty products revenue over the 2017-2022 period.

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

	2017	2018	2019	2020	2021	2022
Revenue in Packaging & specialty products	34,600	56,886	54,546	58,104	69,235	72,149
Total Revenue	179,072	195,087	191,669	204,604	226,430	272,467
% of Revenue in Packaging & specialty products	**19.3%**	**29.2%**	**28.5%**	**28.4%**	**30.6%**	**26.5%**

7. OUTLOOK

Driven by solid demand for its products and a robust backlog, Supremex is operating at high-capacity levels given its current labour force. With proactive sourcing and a solid reputation in the marketplace, the Company has the ability to secure raw material in the event of shortages, as occurred until recently, and it also demonstrated it can successfully pass through cost inflation. Entering 2023, market conditions in the supply chain have returned to more normal levels.

In 2023, the Company will focus on the integration of its recent acquisitions while actively seeking to capture all sales and cost synergies. In the Envelope segment, Royal Envelope provides additional capacity as well as geographic reach in its addressable market. In the Packaging and specialty products segment, Paragraph brings critical mass and provides Supremex with additional folding carton revenue and capabilities and new solutions offerings to its customers.

In terms of capital deployment for 2023, the Company expects to invest in capital expenditures and continue paying quarterly dividends. The Company will also continue to look for strategic acquisitions, mainly in the Packaging and specialty products segment.

8. FOREIGN EXCHANGE RATES

The following table shows average and closing exchange rates applicable to Supremex' three and twelve-month periods ended December 31, 2022 and 2021. 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	
	2022	2021	2022	2021
USD Average	1.358	1.260	1.302	1.254
USD Closing	1.354	1.268	1.354	1.268

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	
	2022	2021	2022	2021
Revenue	**78,761**	**66,203**	**272,467**	**226,430**
Operating expenses	52,430	44,743	181,733	158,260
Selling, general and administrative expenses	11,798	9,242	34,978	29,292
Operating earnings before depreciation, amortization and other items	**14,533**	**12,218**	**55,756**	**38,878**
Depreciation of property, plant and equipment	1,299	1,314	5,799	5,314
Depreciation of right-of-use assets	1,239	1,144	4,529	4,830
Amortization of intangible assets	1,106	867	3,762	3,381
Asset impairment	—	2,074	—	2,074
Restructuring expenses	966	—	1,410	—
Gain on disposal of property, plant and equipment	(152)	—	(408)	—
Operating earnings	**10,075**	**6,819**	**40,664**	**23,279**
Net financing charges	1,070	560	2,571	2,226
Earnings before income taxes	**9,005**	**6,259**	**38,093**	**21,053**
Income tax expense	2,345	1,363	9,657	5,301
Net earnings	**6,660**	**4,896**	**28,436**	**15,752**
Basic and diluted net earnings per share	0.26	0.18	1.09	0.58
Dividend declared per share	0.03	—	0.135	—

Revenue Information
(in thousands of dollars, except %)

	Three-month periods ended December 31		Twelve-month periods ended December 31	
	2022	2021	2022	2021
Envelope	**60,686**	**46,650**	**200,318**	**157,195**
Volume change	(12.6%)	13.6%	(0.9%)	6.9%
Average selling price change	48.8%	1.5%	28.6%	0.4%
Total change	**30.1%**	**15.3%**	**27.4%**	**7.3%**
Packaging & specialty products	**18,075**	**19,553**	**72,149**	**69,235**
Total change	**(7.6%)**	**38.0%**	**4.2%**	**19.2%**
Total Revenue	**78,761**	**66,203**	**272,467**	**226,430**
Revenue change	**19.0%**	**21.2%**	**20.3%**	**10.7%**

Segmented Information
(in thousands of dollars, except %)

	Three-month periods ended December 31		Twelve-month periods ended December 31	
	2022	2021	2022	2021
Segmented Revenue				
Envelope	60,686	46,650	200,318	157,195
Packaging & specialty products	18,075	19,553	72,149	69,235
Total Revenue	**78,761**	**66,203**	**272,467**	**226,430**
Segmented Adjusted EBITDA[(1)]				
Envelope	14,893	7,974	49,944	28,485
% of segmented revenue	24.5%	17.1%	24.9%	18.1%
Packaging & specialty products	3,908	6,197	15,187	13,625
% of segmented revenue	21.6%	31.7%	21.0%	19.7%
Corporate and unallocated costs	(3,469)	(1,953)	(8,290)	(3,068)
Total Adjusted EBITDA[(1)]	**15,332**	**12,218**	**56,841**	**39,042**
% of total revenue	19.5%	18.5%	20.9%	17.2%

(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, 2022

Revenue

Total revenue for the three-month period ended December 31, 2022, was $78.8 million, representing an increase of $12.6 million, or 19.0%, from the equivalent quarter of 2021. The contribution from the Royal Envelope acquisition was approximately $9.7 million.

Envelope Segment

Revenue was $60.7 million, representing an increase of 30.1%, from $46.7 million in the equivalent quarter of 2021. The higher revenue reflects the contribution of the Royal Envelope acquisition, an average selling price increase of 48.8% from last year's fourth quarter primarily stemming from a more favourable customer and product mix in U.S. operations, price increases to mitigate input cost inflation as well as a favourable currency conversion effect. These factors were partially offset by lower volume mainly due to very strong industry demand in the fourth quarter of 2021. The envelope segment represented 77.1% of the Company's revenue in the quarter, versus 70.5% during the equivalent period of last year.

Packaging & Specialty Products Segment

Revenue was $18.1 million, down 7.6% from $19.6 million in the corresponding quarter of 2021. The variation is essentially attributable to the wind down of the Durabox operations and the one-time impact on sales resulting from interrupted production due to the relocation of the Town of Mount Royal folding carton operations, both of which occurred in the third and fourth quarters. The relocation process was completed at the end of the period. These factors were partially offset by higher sales at the Company's other folding carton facility and increased demand from e-commerce packaging solutions. Packaging & specialty products represented 22.9% of the Company's revenue in the quarter, compared to 29.5% during the equivalent period of last year.

Operating Expenses

Operating expenses for the three-month period ended December 31, 2022 were $52.4 million, compared to $44.7 million in the equivalent period of 2021. This 17.2% increase is mainly due to the acquisition of Royal Envelope, a higher volume of sales and higher cost of materials. On a percentage of revenue basis, operating expenses stood at 66.6% of revenues, down from 67.6% in the equivalent period of 2021.

Selling, General and Administrative Expenses

Selling, general and administrative expenses totalled $11.8 million in the three-month period ended December 31, 2022, compared to $9.2 million during the same period in 2021. This increase of $2.6 million or 27.7% is essentially attributable to expenses from Royal Envelope, higher compensation expenses, mainly explained by the impact of share price appreciation on Deferred Share Unit ("DSU") and Performance Share Unit ("PSU"), as well as acquisition costs of $0.5 million related to the Company's recent acquisitions.

EBITDA[5] and Adjusted EBITDA[5]

EBITDA was $13.7 million, up 35.2% from $10.1 million in the fourth quarter last year. Adjusted EBITDA was $15.3 million, up 25.5%, from $12.2 million in the fourth quarter of 2021. This increase was the result of higher total revenue, partially offset by the higher cost of materials and higher selling, general and administrative expenses. The Adjusted EBITDA margin reached 19.5% of revenue, up from 18.5% in the equivalent quarter of 2021.

Segment EBITDA and Adjusted EBITDA

<u>Envelope Segment</u>

Adjusted EBITDA was $14.9 million, up 86.8%, or $6.9 million, from $8.0 million in the fourth quarter of 2021. This increase reflects higher revenue, in part due to the acquisition of Royal Envelope, as well as higher average selling prices primarily stemming from a more favourable customer and product mix in U.S. operations. On a percentage of segmented revenue, Adjusted EBITDA from the envelope segment was 24.5%, compared to 17.1% in the equivalent period of 2021.

<u>Packaging & Specialty Products Segment</u>

Adjusted EBITDA was $3.9 million, compared to $6.2 million in the fourth quarter of 2021. This decrease is largely explained by lower revenue related to the wind down of the Durabox operations commencing in the third quarter and the relocation of the Town of Mount Royal folding carton operations which interrupted production over a six-week period, resulting in an under absorption of fixed costs. On a percentage of segmented revenue, Adjusted EBITDA from the packaging and specialty operations was 21.6%, compared to 31.7% in the equivalent period of 2021.

<u>Corporate and unallocated costs</u>

The Corporate and unallocated costs were $3.5 million compared to $2.0 million in the fourth quarter of 2021. This increase is attributable to an unfavourable adjustment to the DSUs and PSUs during the quarter due to share price appreciation and to higher remuneration related expenses.

Depreciation and Amortization

Aggregate depreciation and amortization expenses for the three-month period ended December 31, 2022, amounted to $3.6 million, compared to $3.3 million in the fourth quarter of 2021.

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[5] Non-IFRS financial measures or ratios. Refer to the non-IFRS financial measures section for definitions and reconciliations.

Restructuring Expenses

In the three-month period ended December 31, 2022, the Company incurred restructuring expenses of $1.0 million related to the winding down of the Durabox operations and the relocation of the folding carton plant. These expenses mainly consist of inventory write-down, severances, as well as expenses for decommissioning and moving of equipment.

Asset Impairment

In the fourth quarter of 2021, a non-cash asset impairment charge of $2.1 million was recorded related to Durabox.

Net Financing Charges

Net financing charges for the three-month period ended December 31, 2022 were $1.1 million, up from $0.6 million in the equivalent period of the prior year. The variation reflects higher indebtedness in 2022, compared to 2021, due to the financing of the Royal Envelope acquisition and a higher effective interest rate on the Company's secured credit facility.

Earnings Before Income Taxes

As a result of the fluctuation in revenue and expenses described above, earnings before income taxes were $9.0 million, or 11.4% of revenue, during the three-month period ended December 31, 2022, compared to $6.3 million, or 9.5% of revenue, during the equivalent period of 2021.

Income Tax Expense

Income taxes were $2.3 million, or an effective tax rate of 26.0%, in the three-month period ended December 31, 2022, compared to $1.4 million, or an effective tax rate of 21.8%, 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, Adjusted Net Earnings, Net Earnings per share and Adjusted Net Earnings per share[6]

Net earnings were $6.7 million or $0.26 per share for the three-month period ended December 31, 2022, compared to $4.9 million or $0.18 per share for the equivalent period last year.

Adjusted net earnings were $7.9 million or $0.31 per share for the three-month period ended December 31, 2022, compared to $6.4 million or $0.24 per share for the equivalent period in 2021.

Other Comprehensive Income

The discount rate used to calculate the accrued plan benefit obligations was 5.1% as at December 31, 2022, compared to 5.0% as at September 30, 2022. This increase, combined with a higher-than-expected return on assets, resulted in a net actuarial gain of $0.8 million in the fourth quarter of 2022.

10.2 Results for the twelve-month period ended December 31, 2022

Revenue

Total revenue for the twelve-month period ended December 31, 2022 reached $272.5 million, a 20.3% increase from $226.4 million for the twelve-month period ended December 31, 2021. The contribution from the Royal Envelope acquisition was approximately $9.7 million.

[6] Non-IFRS financial measures or ratios. Refer to the non-IFRS financial measures section for definitions and reconciliations.

Envelope Segment

Revenue from the envelope segment was $200.3 million, an increase of $43.1 million, or 27.4%, from $157.2 million in the comparable period of 2021. This improvement reflects an average selling price increase of 28.6% from last year primarily driven by price increases implemented to mitigate input cost inflation, a more favourable customer and product mix in U.S. operations, a favourable currency conversion effect and the acquisition of Royal Envelope in the fourth quarter. The volume of units sold remained relatively stable with a year-over-year decrease of only 0.9%.

Packaging & Specialty Products Segment

Revenue was $72.1 million, up 4.2%, or $2.9 million, from $69.2 million during the twelve-month period ended December 31, 2021. Revenue growth came mainly from the acquisition of Vista and organic growth in folding carton and e-commerce packaging solutions, partially offset by lower corrugate box sales from the wind down of the Durabox operations and the relocation of the folding carton business.

Operating Expenses

Operating expenses for the twelve-month period ended December 31, 2022 were $181.7 million, compared to $158.3 million for the equivalent period in 2021, representing an increase of 14.8%. This increase results primarily from a higher volume of sales, due in part to the acquisitions of Royal Envelope and Vista, higher cost of materials, as well as the phasing out of the CEWS and CERS programs ($1.5 million of subsidies recorded for the corresponding period last year). On a percentage of revenue basis, operating expenses decreased to 66.7% of revenues, from 69.9% in the equivalent period of 2021.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were $35.0 million for the twelve-month period ended December 31, 2022, compared to $29.3 million in the equivalent period of 2021. This increase of $5.7 million, or 19.4%, is attributable to the Royal Envelope and Vista acquisitions, higher compensation expenses, including the impact of share price appreciation on DSUs and PSUs, severances, acquisition costs of $0.6 million and the phasing out of the CEWS and CERS programs ($0.6 million of subsidies recorded for the 12-month period ended December 31, 2021).

EBITDA[7] and Adjusted EBITDA[7]

EBITDA increased by 48.8%, or $18.0 million, to $54.8 million in the twelve-month period ended December 31, 2022, from $36.8 million in the equivalent period of 2021. Adjusted EBITDA increased by 45.6%, or $17.8 million, to $56.8 million in the twelve-month period ended December 31, 2022, from $39.0 million last year. This increase is the result of higher revenue in both segments, driven primarily by higher average selling prices, partially offset by the higher cost of materials and the phasing out of the CEWS and CERS programs ($2.1 million in 2021). The Adjusted EBITDA margin increased to 20.9% of revenue, compared to 17.2% in the equivalent period of 2021.

Segment EBITDA and Adjusted EBITDA

Envelope Segment

Adjusted EBITDA was $49.9 million, up from $28.5 million in the equivalent period of 2021. This increase reflects higher revenue as a result of higher average selling prices primarily stemming from a more favourable customer and product mix in U.S. operations and in part, from the acquisition of Royal Envelope, completed in the fourth quarter. On a percentage of segmented revenue, Adjusted EBITDA from the Envelope segment was 24.9%, up from 18.1% in the equivalent period of 2021.

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[7] Non-IFRS financial measures or ratios. Refer to the non-IFRS financial measures section for definitions and reconciliations.

Packaging & Specialty Products Segment

Adjusted EBITDA was $15.2 million, up from $13.6 million in the comparable period of 2021, primarily due to higher revenue, driven by a more favourable product mix, partially offset by reduced profitability from the Durabox operations and the Town of Mount Royal Folding Carton relocation. On a percentage of segmented revenue, Adjusted EBITDA from the Packaging & specialty products segment was 21.0%, compared to 19.7% in the equivalent period of 2021.

Corporate and unallocated costs

The Corporate and unallocated costs amounted to $8.3 million compared to $3.1 million in 2021. The increase resulted from the phasing out of the CEWS and CERS programs ($2.1 million in 2021), an unfavourable adjustment to the DSUs and PSUs during the year due to share price appreciation and severances.

Depreciation and Amortization

Aggregate depreciation and amortization expenses for the twelve-month period ended December 31, 2022, amounted to $14.1 million, compared to $13.5 million in the corresponding period last year.

Restructuring Expenses

In the twelve-month period ended December 31, 2022, the Company incurred restructuring expenses of $1.4 million related to the winding down of the Durabox operations and the relocation of the folding carton plant. These expenses mainly consist of inventory write-down, severances, as well as expenses for decommissioning and moving of equipment.

Asset Impairment

In 2021, a non-cash asset impairment charge of $2.1 million was recorded related to Durabox.

Net Financing Charges

Net financing charges for the twelve-month period ended December 31, 2022 were $2.6 million, up from $2.2 million in the equivalent period of the prior year. The variation results from higher indebtedness in the late stages of 2022 due to the financing of the Royal Envelope acquisition and a higher effective interest rate on the Company's secured credit facility.

Earnings Before Income Taxes

As a result of the fluctuation in revenue and expenses described above, earnings before income taxes stood at $38.1 million, or 14.0% of revenue, during the twelve-month period ended December 31, 2022, compared to $21.1 million, or 9.3% of revenue, during the equivalent period of 2021.

Income Tax Expense

Income taxes were $9.7 million, or an effective income tax rate of 25.4% in the twelve-month period ended December 31, 2022, compared to $5.3 million, or an effective income tax rate of 25.2% 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, Adjusted Net Earnings, Net Earnings per share and Adjusted Net Earnings per share[8]

Net earnings were $28.4 million or $1.09 per share for the twelve-month period ended December 31, 2022, compared to $15.8 million or $0.58 per share for the equivalent period in 2021.

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[8] Non-IFRS financial measures or ratios. Refer to the non-IFRS financial measures section for definitions and reconciliations.

Adjusted net earnings were $30.0 million or $1.15 per share for the twelve-month period ended December 31, 2022, compared to $17.4 million or $0.64 per share for the equivalent period in 2021.

Other Comprehensive Income

The discount rate used to calculate the accrued plan benefit obligations was 5.1% as at December 31, 2022, compared to 3.0% as at December 31, 2021. This increase, partially offset by a lower-than-expected return on assets, resulted in a net actuarial gain of $2.4 million during the twelve-month period ended December 31, 2022.

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	
	2022	2021	2022	2021
Canada	42,748	37,651	155,213	138,668
U.S.	36,013	28,552	117,254	87,762
Total Revenue	**78,761**	**66,203**	**272,467**	**226,430**

For the three-month period ended December 31, 2022, the Company's revenue in Canada was $42.7 million, up 13.5% from $37.7 million in the equivalent quarter of 2021. In the United States, revenue was $36.0 million, representing an increase of 26.1% from $28.6 million in 2021.

For the twelve-month period ended December 31, 2022, the Company's revenue in Canada was $155.2 million, representing an increase of 11.9% from $138.7 million in the equivalent period of 2021. In the United States, revenue was $117.3 million, up 33.6% from $87.8 million in the equivalent period of 2021.

The Company's non-current assets were $115.9 million in Canada and $55.9 million in the United States as at December 31, 2022, compared to $118.4 million in Canada and $22.3 million in the United States as at December 31, 2021.

11. SUMMARY OF RESULTS – SELECTED QUARTELY 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, fundraising, 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, primarily the e-Commerce offering, is subject to seasonal patterns related to the holidays. Therefore, Supremex' revenue and financial performance for any single quarter may not be extrapolated for the full year.

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 2022	Sep. 30 2022	Jun. 30 2022	Mar. 31 2022	Dec. 31 2021	Sep. 30 2021	Jun. 30 2021	Mar. 31 2021
Envelope	**60,686**	49,115	45,878	44,639	46,650	37,050	35,230	38,265
Packaging	**18,075**	18,804	16,640	18,630	19,553	17,773	16,571	15,338
Total Revenue	**78,761**	67,919	62,518	63,269	66,203	54,823	51,801	53,603
Adjusted EBITDA(1)	**15,332**	15,512	13,914	12,083	12,218	8,714	8,562	9,548
Earnings before income taxes	**9,005**	10,881	9,822	8,386	6,259	4,709	4,595	5,490
Net earnings	**6,660**	8,110	7,364	6,302	4,896	3,364	3,389	4,103
Net earnings per share	**0.26**	0.31	0.28	0.24	0.18	0.13	0.12	0.15
Adjusted net earnings(1)	**7,854**	8,451	7,364	6,311	6,431	3,364	3,393	4,221
Adjusted net earnings(1) per share	0.31	0.32	0.28	0.24	0.24	0.13	0.12	0.15

(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 Balance Sheet Information
(in thousands of dollars)

	As at December 31, 2022	As at December 31, 2021
Working capital	46,034	25,250
Total assets	260,556	206,371
Total liabilities	136,238	108,966
Total equity	124,318	97,405

12.2 Assets

The increases in total assets and total liabilities as at December 31, 2022, when compared to December 31, 2021, mostly result from the Royal Envelope acquisition on November 1, 2022. Meanwhile, the increase in total equity mainly reflects net earnings of $28.4 million for the 12-month period ended December 31, 2022.

12.3 Liabilities

Secured Credit Facility

On May 25, 2022, the Company entered into a three-year senior secured revolving credit facility of $120 million which replaced its pre-existing revolving and term facility. No principal repayments are required prior to maturity. The credit facility bears interest at a floating rate based on the Canadian prime rate, the U.S. base rate, the Secured Overnight Financing Rate (SOFR) or bankers' acceptance rates, plus an applicable margin that ranges between 0% and 2.75%. The agreement for this credit facility matures in May 2025. The Company may request that the agreement be extended by one year on every anniversary date. The extension is dependent upon the approval of the lenders. As at December 31, 2022, the amount outstanding on the credit facility was $54.7 million.

The secured credit facility is used for working capital, capital expenditure, 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, 2022.

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

	As at December 31, 2022	As at December 31, 2021
Revolving facility	54,748	18,279
Term facility	—	26,250
Total debt	**54,748**	**44,529**
Deferred financing costs	(334)	(178)
Current portion	—	(3,500)
Long-term portion of secured credit facility	**54,414**	**40,851**

The Company's total debt increased to $54.7 million as at December 31, 2022, compared to $44.5 million as at December 31, 2021. Although the Royal Envelope acquisition was concluded for a consideration of $28.3 million, strong free cash flow generation enabled the Company to regularly proceed with debt repayment throughout the year.

As at December 31, 2022, the ratio of Net debt[9] to Adjusted EBITDA[9] was 0.9x down from 1.0x as at December 31, 2021.

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	
	2022	2021	2022	2021
Operating activities	11,739	13,821	26,914	29,996
Investing activities	(29,813)	(1,540)	(31,723)	(6,611)
Financing activities	19,684	(9,715)	(49)	(20,022)
Net foreign exchange difference	113	(26)	422	(34)
Net change in cash	**1,723**	**2,540**	**(4,436)**	**3,329**

13.1 Net Cash Flows Related to Operating Activities

Net cash flows from operating activities were $11.7 million during the three-month period ended December 31, 2022, compared to $13.8 million in the equivalent period of 2021. The decrease is mainly attributable to higher working capital requirements, primarily due to an increase in inventories to meet customer demand in the coming quarters, partially offset by higher profitability.

Net cash flows from operating activities were $26.9 million during the twelve-month period ended December 31, 2022, compared to $30.0 million in the equivalent period of 2021. The variation essentially reflects the aforementioned factors.

[9] Non-IFRS financial measures or ratios. Refer to the non-IFRS financial measures section for definitions and reconciliations.

13.2 Net Cash Flows Related to Investing Activities

Net cash flows used in investing activities amounted to $29.8 million during the three-month period ended December 31, 2022, compared to $1.5 million in the equivalent period of 2021, primarily to fund the acquisition of Royal Envelope for an amount of $28.3 million.

Net cash flows used in investing activities amounted to $31.7 million during the twelve-month period ended December 31, 2022, mainly used to fund the acquisition of Royal Envelope and to acquire property, plant and equipment. In 2021, net cash flows used in investing activities amounted to $6.6 million, primarily used to fund acquisitions of property, plant and equipment and the acquisition of Vista.

13.3 Net Cash Flows Related to Financing Activities

Net cash flows from financing activities were $19.7 million during the three-month period ended December 31, 2022, essentially reflecting an increase in the credit facility to finance the acquisition of Royal Envelope. During the three-month period ended December 31, 2021, net cash flows used by financing activities stood at $9.7 million, primarily to pay down debt and buy back shares.

Net cash flows used by financing activities were $0.05 million during the twelve-month period ended December 31, 2022, as an increase in the revolving credit facility to finance the acquisition of Royal Envelope was offset by funds used to pay dividend, repay lease liabilities and buy back shares. Net cash flows used by financing activities were $20.0 million in the twelve-month period ended December 31, 2021, mainly used to pay down debt, repay lease liabilities and buy back shares.

Free Cash Flow[10]

Free cash flow amounted to $10.2 million in the fourth quarter of 2022, compared to $12.3 million for the same period last year, mainly attributable to lower cash flow from operations.

Free cash flow amounted to $24.4 million in the twelve-month period ended December 31, 2022, compared to $26.1 million in the corresponding period of 2021, mainly attributable to lower cash flow from operations, partially offset by lower acquisitions of property, plant and equipment, net of disposals.

Normal Course Issuer Bid ("NCIB")

During the three and twelve-month periods ended December 31, 2022, the Company repurchased 20,000 and 438,400 common shares for cancellation through the current and prior NCIB, in consideration of $0.1 million and $1.5 million, respectively.

14. SHARE CAPITAL

As at December 31, 2022 the share capital issued and outstanding of the Company consisted of 25,977,069 common shares (26,415,469 as at December 31, 2021).

The following table presents the outstanding capital stock activity for the three- and twelve-month periods ended December 31, 2022:

[10] Non-IFRS financial measures or ratios. Refer to the non-IFRS financial measures section for definitions and reconciliations.

Number of common shares

	Three-month periods ended December 31, 2022	Twelve-month periods ended December 31, 2021
Balance – Beginning of period	25,997,069	26,415,469
Common shares purchased for cancellation	(20,000)	(438,400)
Balance – End of period	**25,977,069**	**25,977,069**

As at February 22, 2023, the Company had 25,977,069 common shares outstanding.

15. SUBSEQUENT EVENTS

- On January 16, 2023, the Company announced the acquisition of Paragraph, an integrated provider of paper-based packaging, print and point of sale products for a broad range of commercial markets. The transaction was concluded for a total closing consideration of approximately $28.1 million, on a cash-free and debt-free basis, including an estimated working capital adjustment of $1.5 million. The acquisition was financed through the Company's existing credit facility and the total consideration amount is subject to customary adjustments.

  Founded more than 35 years ago, Paragraph operates two facilities located in Ville-Saint-Laurent and Saint-Hyacinthe, Québec. Its offering consists primarily of folding carton packaging and point-of-sale displays for the cosmetic, pharmaceutical, food, confectionary and retail sectors. It also provides an array of commercial, digital and wide-format printing.

- On February 22, 2023, the Board of Directors declared a quarterly dividend of $0.035 per common share, payable on April 7, 2023, to the shareholders of record at the close of business on March 23, 2023. 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 reassesses 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* of the Company's audited consolidated financial statements for the year ended December 31, 2022.

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 current global economic uncertainty, including heightened inflation, large interest rate hikes and the geopolitical environment. It is possible that an underperformance to these projections could occur in future periods since these uncertainties 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, 2022, 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 value. As a result, no goodwill impairment was recorded for these CGU's.

Valuation technique

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

Significant assumptions

The income approach is predicated upon the value of the future cash flows that a business will generate going forward. The DCF method, which was used as at December 31, 2022 for the 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.

Growth or decline of revenue

The assumptions used were based on the Company's internal annual 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 CGUs. Specific assumptions are used for each CGU. Forecasts for the 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 the 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 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:

Key Assumptions	2022		2021	
	Envelope	Packaging	Envelope	Packaging
Pre-tax discount rate	15.2%	14.0%	14.4%	12.9%
Tax rate	25.9%	25.9%	25.9%	25.9%
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 25.7% or the perpetual decline rate had increased to 17.9%, the recoverable amount of the Envelope CGU would have then equaled the carrying amount as at December 31, 2022.

Packaging CGU

In the most recent impairment test performed for the Packaging CGU, if the pre-tax discount rate had increased to 34.3% or the perpetual growth rate had decreased to (30.4)%, the recoverable amount of the Packaging CGU would have then equaled the carrying amount as at December 31, 2022.

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 increase and the expected healthcare cost trend rate. Because the determination of the cost and obligations associated with employee future benefits requires the use of various assumptions, there is measurement uncertainty inherent in the actuarial valuation. Actual results will differ from estimated results which are based on assumptions.

Significant Assumptions	
Discount rate for accrued benefit obligation	5.05%
Discount rate for net pension cost	3.00%
Rate of compensation increase	2.50%
Mortality assumption	CPM Private

Discount rate

As at December 31, 2022, 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 $1.4 million as at December 31, 2022. A 0.25% increase or decrease in the rate of compensation would have increased or decreased the pension benefit liability by approximately $0.1 million as at December 31, 2022. An increase of one year in the life expectancy of plan members as at December 31, 2022 results in an increase of $0.8 million in total projected defined benefit obligation of pension plans. The sensitivity analysis has been determined based on a method that determines the impact on the defined benefit liability of a 0.25% change in the key assumptions. There have been no changes in the methods and assumptions used to determine the sensitivity analysis from the comparative year.

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 20 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-value 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 22* of the Company's audited consolidated financial statements for the year ended December 31, 2022.

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.

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 in its envelope business.

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.

Growth and Diversification Strategy

The Company's growth strategy involves a further diversification of its operations through a deeper penetration in the packaging industry, both organically and through acquisitions. There can be no assurance that Supremex will successfully achieve the initiatives it puts in place towards its growth and diversification strategy, and achieving its objectives may require investments which may result in short-term costs without generating incremental revenue. The Company's inability to fully realize the benefits it expects to achieve could have a material adverse effect on its business, financial condition and results of operations.

As the Company pursues acquisitions to implement its growth and diversification strategy, it is subject to risks inherent to its ability to properly evaluate the fair value of the businesses being acquired, consolidate functions, manage costs, integrate information systems, and properly devote the time and human resources required to successfully integrate and leverage their operations and activities with the Company's procedures, controls, policies, systems, culture and personnel as well as the capability to share knowledge and realize synergies, improvements and the expected profit and returns. Although the Company performs a due diligence investigation of the businesses or assets that it acquires and anticipates continuing to do so for future acquisitions, the acquired business or assets may have liabilities that the Company fails or is unable to uncover during its due diligence investigation and for which the Company, as a successor owner, may be responsible. The Company usually seeks to minimize the impact of these types of potential liabilities by obtaining indemnities and warranties from the seller, which may in some instances be supported by deferring payment of a portion of the purchase price. However, these indemnities and warranties, if obtained, may not fully cover the liabilities because of their limited scope, amount or duration, or the financial resources of the indemnitor or warrantor, or for other reasons. 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. Any failure by the Company to successfully integrate or address the risks associated with acquisitions or to take advantage of future strategic opportunities could materially adversely affect its financial position, financial performance, cash flows, business or reputation.

The successful integration of an acquired business is also subject to the risk that personnel from the acquired business and the Company may not be able to work together successfully, which could affect morale and the Company's operations. In particular, the Company may seek to require as a condition of completion of one or more acquisitions that key personnel from the acquired business enter into employment agreements for specified post-acquisition periods and/or non-competition undertakings; however, there are risks that such commitments will not be respected or that the personnel and professionals subject to same or other personnel will not be successfully integrated as productive contributors to the Company's business. In addition, all acquisitions carry the risk of the potential loss of key personnel.

Human Resources

Key Personnel

The success of the Company's business strategy is dependent upon the ability and experience of a number of key personnel who have substantial expertise with its operations and industry. Supremex' senior executives and key employees have extensive experience with the business, suppliers, products and customers. The loss of management knowledge, expertise and technical proficiency as a result of the inability to retain or replace one or more members of the core management team, including the Company's President and Chief Executive Officer, or to establish an effective succession plan, 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 the Company's business, including 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 and pursue its continued expansion, which in turn would materially adversely affect its business and financial results.

Labour Shortage

Social, demographic and economic trends observed on a global basis, including as a result of COVID-19, are making it more challenging to hire and retain personnel in most industries. Inflationary pressures, shortages, competitiveness in the labour markets where the Company operates, increased employee turnover and changes in the availability of its employees have resulted in, and could continue to result in, increased labour-related costs, which could have a material adverse effect on the Company's results and financial condition. In addition, these factors have impacted, and could continue to impact, its ability to meet consumer demand, which could negatively affect its financial condition, results, or cash flows. The failure to recruit, retain, motivate, effectively communicate with, and train and develop highly skilled and competent people at all levels of Supremex' organization could also 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 Canadian 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. In addition, contributions to fund the Company's defined benefit plans are based on actuarial valuations, which themselves are based on assumptions and estimates about the long-term operations of the plans, including assumptions on inflation, mortality, and the discount rates used to determine the liabilities of the plans. Actual results of actuarial valuations may differ from expectations. Any increase in the Company's pension expenses or liabilities, or funding obligations would divert funds the Company would otherwise apply to other uses, and could adversely affect its business, financial condition, results from operations, and cash flows.

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.

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' material costs and they have been subject to volatility due to supply and demand in the marketplace. In 2022, the cost of raw materials, including paper and other inputs, as well as energy, fuel, transportation, and logistics necessary for the production and distribution of the Company's products has rapidly increased. The Company expects the inflationary pressures on input costs to continue to impact its business in 2023. 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. However, even if such initiatives are effective, higher prices to the Company's customers may result in decrease in sales volume or market share which can have a material adverse effect on the Company's operating results.

Fluctuations in raw material availability affect operations. In the past, the Company was able to mitigate temporary shortages of materials 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, geopolitical conditions, as well as specific paper mill challenges, including employee strikes, accidents and change in ownership have in recent years created an unprecedented shortage of paper. While shortage levels are slowly decreasing, if the Company is unable to obtain all the tons of paper it requires to produce customer orders, its operations will be affected 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, pandemic and epidemic outbreaks, armed conflicts, natural disaster, human error, supply problems, labour disputes, material labour shortages, 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.

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, which could affect our revenues. Although Supremex' revenues do not materially depend on any specific client, some of its largest clients provide significant contributions to its revenue. There can be no assurance that Supremex will be able to retain its relationships with its largest clients and maintain or increase its sales levels.

In addition, certain of the Company's 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. If a customer were to default on a payment obligation, the Company may be unable to collect the amounts owed, in which case some or all of such amounts would need to be written off, which could affect the Company's financial position, especially if it were to happen to one of its largest clients.

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. Adverse general economic conditions, such as heightened inflation and central banks' large interest rate hikes, economic downturns or increased recession fear, leading to a declining level of commercial activity, could have a negative impact on Supremex' financial condition. As an example, 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 25% 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.

As a result of events beyond the Company's control such as the COVID-19 pandemic and the conflict between Russia and Ukraine, global financial markets have experienced and may continue to experience significant volatility and weakness, energy prices have remained high and supply chain have been disrupted, leading to increased costs and supply chain delays, all of which could have an impact on the Company's results and financial condition.

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, which compensates for the volume of raw materials it currently purchases in U.S. dollar. However, fluctuations in exchange rates between the Canadian and the U.S. dollar may have an adverse effect on the Company's results and financial condition. Future events that may significantly increase or decrease the risk of future movement in the exchange rates for these currencies cannot be predicted.

Interest Rate

The Company's borrowings under its credit facility bear floating interest rates and the Company is therefore exposed to market risks related to interest rate fluctuations and volatility. Floating-rate debt bears interest based on Canadian prime rate, the U.S. base rate, the Secured Overnight Financing Rate ("SOFR") or bankers' acceptance rates, plus an applicable margin, that ranges between 0 to 2.75%. As interest rates increase, the Company's debt service obligations on its variable rate indebtedness will increase, which could, if the Company is not able to otherwise mitigate this risk, have a material adverse effect impact the Company's financial condition.

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, but there is no guarantee that this tendency will persist over time, especially given the volatility of general economic conditions. As at December 31, 2022, the maximum credit risk exposure for receivables corresponds to their carrying value.

Availability of Capital

On May 25, 2022, the Company entered into a three-year senior secured revolving credit facility of $120 million which replaced its pre-existing and term facility (the "**Credit Facility**"). Although the Company was able to increase its credit facility, 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.

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. There is no guarantee that these initiatives will be sufficient to mitigate the risk. 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.

Supremex' business and operations are also subject to environmental laws and regulations, including those relating to permitting requirements, wastewater discharges, air emissions, greenhouse gases, releases of hazardous substances, and remediation of contaminated sites. The Company believes that its operations are in compliance, in all material respects, with such environmental laws and regulations, but changes in environmental laws and regulations, evolving interpretation thereof, or more vigorous regulatory enforcement policies could impose additional compliance costs, capital expenditures, as well as other financial obligations, which could have a material adverse effect on Supremex' financial position and performance.

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.

No Guaranty to Pay Cash Dividends

Decisions regarding dividends are within the discretion of the Board of Directors, and are 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. There is no guarantee that the current dividend policy of the Company will continue over time. Changes in, or the elimination of dividends could have an adverse effect on the price of Supremex' common shares.

Global Health Crisis

Despite vaccine rollout in Canada, resurgences in new COVID-19 cases, including new variants, 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 also adversely affect the Company's business, financial condition, liquidity and future results of operations due to, among other factors: 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, and increased operating and non-compensable costs for specific needs in response to COVID-19. Such adverse effects could be rapid and unexpected.

The COVID-19 pandemic and its reoccurrence may have the effect of heightening other risks and uncertainties disclosed and described above. Any future epidemic, pandemic, or other public health crisis that occurs in the future may pose similar risks to the Company.

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, 2022.

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, 2022. 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, 2022, that materially affected, or is likely to materially affect, the Company's internal control over financial reporting.

In accordance with the provisions of National Instrument 52-109, Supremex has limited the scope of its design of Supremex' disclosure controls and procedures (DC&P) and ICFR to exclude controls, policies and procedures of a business acquired not more than 365 days before December 31, 2022. The scope limitation is primarily due to the time required for Supremex' management to assess DC&P and ICFR in a manner consistent with Supremex' other operations.

The Company expects that its business acquisition of Royal Envelope will be covered by its certification in the fourth quarter of 2023.

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)