



MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE AND SIX-MONTH PERIODS ENDED JUNE 30, 2020

The following management's discussion and analysis of financial condition and results of operations ("MD&A"), dated August 12, 2020, of Supremex Inc. ("Supremex" or the "Company") should be read together with the accompanying unaudited interim consolidated financial statements and related notes of the Company for the three and six-month periods ended June 30, 2020. These condensed consolidated financial statements of the Company have been prepared by management in accordance with IAS 34, Interim Financial Reporting ("IAS 34"). Therefore, certain information and disclosures have been omitted or condensed. The accounting principles are consistent with those set out in the Company's audited consolidated financial statements for the year ended December 31, 2019. 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 six-month periods ended June 30, 2020. The consolidated financial statements for the three and six-month periods ended June 30, 2020 have not been audited or reviewed by the Company's auditors.

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

This MD&A contains forward-looking information. Please see "Forward-Looking Information" for a discussion of the risks, uncertainties and assumptions relating to these statements. For a description of risks relating to Supremex, please see "Risk Factors" of this MD&A and "Risk Factors" of the Annual Information Form dated March 30, 2020. This MD&A contains certain other non-IFRS financial measures. Terms by which non-IFRS financial measures are identified include, but are not limited to "EBITDA" and "Adjusted EBITDA". Non-IFRS financial measures are used to provide management and investors with additional measures of performance. However, non-IFRS financial measures do not have standard meanings prescribed by IFRS and therefore may not be directly comparable to similar measures used by other companies and should not be viewed as alternatives to measures of financial performance prepared in accordance with IFRS. See "Non IFRS measures: Definition of EBITDA and Adjusted EBITDA" and "Reconciliation of Net Earnings to Adjusted EBITDA".

Business Overview

Supremex is a leading North American manufacturer and marketer of envelopes and a growing provider of paper-based packaging solutions. Supremex operates 13 facilities across six provinces in Canada and three facilities in the United States employing approximately 875 people. Supremex' growing footprint allows it to efficiently manufacture and distribute paper and packaging solutions designed to the specifications of major national and multinational corporations, resellers, government entities, SMEs and solutions providers.

The Company manufactures a broad range of stock and custom envelopes in an array of styles, shapes and colours, which allows it to offer a high degree of flexibility and customization. It also manufactures and distributes a diverse range of packaging and specialty products, including corrugated boxes, high quality folding carton packaging and e-Commerce Fulfillment Packaging solutions. Other packaging and specialty products include the Conformer Products¹, polyethylene bags for courier applications, bubble mailers, Enviro-logiX² and Tyvek³ and other related products such as RFID protective envelopes, X-ray envelopes, medical and file folders, repositionable notes, membership cards as well as labelling products.

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

² Enviro-logiX[®] is a registered trademark of Envirollogix Inc.

³ Tyvek[®] is a registered trademark of E.I. du Pont de Nemours, Inc.

Second Quarter Financial Highlights and Recent Event

- Net Earnings increased to \$1.9 million (or \$0.07 per share), from \$1.8 million (or \$0.06 per share) in the second quarter of 2019.
- EBITDA⁴ was up 3.9% to \$6.9 million, representing an increase of \$0.3 million from \$6.6 million in the second quarter of 2019. Adjusted EBITDA⁴ was \$6.9 million, up from \$6.8 million in the second quarter of 2019.
- Total revenue was \$47.7 million, in line with the second quarter of 2019.
- Packaging and Specialty Products segment revenue was up by 8.9% to \$14.9 million from \$13.7 million in the second quarter of 2019 as a result of growth in e-commerce packaging.
- Envelope segment revenue decreased by 3.5% to \$32.8 million from \$33.9 million in the second quarter of 2019.
- Net cash flows from operating activities increased to \$10.7 million from \$5.0 million in the second quarter of 2019.
- The Company today announced the renewal of its normal course issuer bid program (the "NCIB") after its approval by the TSX to purchase for cancellation up to 1,406,523 of its common shares, representing 5.0% of its 28,130,469 issued and outstanding common shares as of August 12, 2020, for a period of twelve months, beginning on August 17, 2020.

Summary of Financial Information and Non-IFRS Measures

Selected Consolidated Financial Information

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

	Three-month periods ended June 30		Six-month periods ended June 30	
	2020	2019	2020	2019
Revenue	47,662	47,642	100,078	97,297
Operating expenses	34,699	34,905	74,109	72,089
Selling, general and administrative expenses	6,068	5,962	11,388	11,956
Operating earnings before depreciation, amortization and other items	6,895	6,775	14,581	13,252
Depreciation of property, plant and equipment	1,315	1,282	2,504	2,691
Depreciation of right-of-use assets	1,382	1,170	2,651	2,343
Amortization of intangible assets	881	544	1,589	1,090
Loss on disposal of property, plant and equipment	—	138	—	174
Operating earnings	3,317	3,641	7,837	6,954
Financing charges, net	883	942	1,760	1,775
Earnings before income taxes	2,434	2,699	6,077	5,179
Income tax expense	569	884	1,624	1,556
Net earnings	1,865	1,815	4,453	3,623
Basic and diluted net earnings per share	0.07	0.06	0.16	0.13
Dividend declared per share	—	0.065	0.065	0.130

⁴ Refer to the reconciliation of Net Earnings to Adjusted EBITDA and to the definition of EBITDA and Adjusted EBITDA in section "Non-IFRS Measures".

Reconciliation of Net Earnings to Adjusted EBITDA

(In thousands of dollars)

	Three-month periods ended June 30		Six-month periods ended June 30	
	2020	2019	2020	2019
Net Earnings	1,865	1,815	4,453	3,623
Income tax expense	569	884	1,624	1,556
Financing charges, net	883	942	1,760	1,775
Depreciation of property, plant and equipment	1,315	1,282	2,504	2,691
Depreciation of right-of-use assets	1,382	1,170	2,651	2,343
Amortization of intangible assets	881	544	1,589	1,090
EBITDA⁽¹⁾	6,895	6,637	14,581	13,078
Loss on disposal of property, plant and equipment	—	138	—	174
Value adjustment on acquired inventory	—	—	555	—
Adjusted EBITDA⁽¹⁾	6,895	6,775	15,136	13,252
Adjusted EBITDA Margin (%)	14.5	14.2	15.1	13.6

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

Revenue Information

(In millions of dollars)

	Three-month periods ended June 30		Six-month periods ended June 30	
	2020	2019	2020	2019
Canadian Envelope	22.2	23.3	48.4	47.5
Volume change	6.7%	-8.1%	7.6%	-11.2%
Average selling price change	-10.7%	15.5%	-5.2%	11.7%
Total change	-4.7%	6.2%	2.1%	-0.7%
U.S. Envelope	10.6	10.7	23.5	22.0
Volume change	-3.5%	-1.9%	5.9%	-2.2%
Average selling price change (in CAD)	2.6%	12.4%	0.8%	13.3%
Total change	-1.0%	10.2%	6.7%	10.8%
Packaging & Specialty Products				
Canada & U.S.	14.9	13.6	28.2	27.8
Total change	8.9%	-10.2%	1.2%	-1.0%
Total Revenue	47.7	47.6	100.1	97.3
Revenue change	0.0%	1.7%	2.9%	1.6%

Segmented Information

The Company currently operates in two reporting segments: the manufacturing and sale of envelopes and the manufacturing and sale of paper-based packaging solutions and specialty products. The new segmentation was completed during the fourth quarter of 2019 as of which the Company started reporting its consolidated financial results on a segmented basis. For over 40 years, Supremex has developed its core paper substrate and converting expertise to become one of the largest manufacturers and distributors of envelopes in North America. In 2014, the Company implemented a growth and diversification strategy aimed at expanding its paper-based packaging offering into folding carton and corrugate to serve several value-added markets in Eastern Canada. The Company's packaging and specialty products revenue now accounts for 31.3% of its revenue for the second quarter of 2020.

The Envelope Segment

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

The Packaging and Specialty Products Segment

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

Segmented Information

(In thousands of dollars)

	Three-month periods ended June 30		Six-month periods ended June 30	
	2020	2019	2020	2019
Segmented Revenue				
Envelope	32,751	33,946	71,899	69,448
Packaging & specialty products	14,911	13,696	28,179	27,849
Total revenue	47,662	47,642	100,078	97,297
Segmented Adjusted EBITDA⁽¹⁾				
Envelope	5,727	5,245	12,669	11,382
% of segmented revenue	17.5%	15.5%	17.6%	16.4%
Packaging & specialty products	1,989	1,987	3,296	3,243
% of segmented revenue	13.3%	14.5%	11.7%	11.6%
Corporate and unallocated costs	(821)	(457)	(829)	(1,373)
Total Adjusted EBITDA⁽¹⁾	6,895	6,775	15,136	13,252
% of total revenue	14.5%	14.2%	15.1%	13.6%

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

Results of Operations

Three-month period ended June 30, 2020, compared with the three-month period ended June 30, 2019

Revenue

Total revenue for the three-month period ended June 30, 2020, was \$47.7 million, equivalent to the second quarter of 2019.

Revenue from the envelope segment decreased by 3.5% to \$32.8 million compared to \$33.9 million in the second quarter of 2019.

- Canadian envelope revenue was \$22.2 million, down 4.7% or \$1.1 million from \$23.3 million in the second quarter of 2019. Canadian envelope volume increased by 6.7% from the contribution of the acquisition of Royal Envelope. Excluding revenues from Royal Envelope, Canadian envelope sales were down by approximately 26.8% resulting from the temporary closure of non-essential businesses during the second quarter and from the effects of the secular decline of the Canadian envelope market. Average selling prices were 10.7% lower to last year's comparable period primarily as a result of changes in the envelope mix sold during the COVID-19 pandemic. Canada Post's last published results, pre Covid-19 pandemic, indicated that the Transaction Mail volumes were down 2.2% during their first quarter ended March 28, 2020⁵.
- Revenue from the U.S. envelope market was \$10.6 million, representing a decrease of 1.0% from \$10.7 million in the second quarter of 2019. The volume of units sold decreased by 3.5% while average selling prices increased by 2.6% from a positive foreign exchange translation effect of approximately 3.6%. For comparison, U.S. Postal Service's last published results indicated that the First Class Mail volumes were down 8.4% during their third quarter fiscal 2020⁶.

Revenue from the packaging and specialty products segment was \$14.9 million, an increase of 8.9% or \$1.3 million compared to the equivalent quarter of 2019. Revenue growth came from the Company's e-commerce packaging business that on boarded new customer accounts in 2020 offsetting a reduction in folding carton sales. Packaging and specialty products represented 31.3% of the Company's revenue in the quarter, up from 28.7% during the equivalent period of last year.

Operating Expenses

Operating expenses for the three-month period ended June 30, 2020, were \$34.7 million compared with \$34.9 million for the equivalent period in 2019, representing a decrease of \$0.2 million or 0.6%.

Selling, General and Administrative Expenses

Selling, general and administrative expenses totalled \$6.1 million for the three-month period ended June 30, 2020, compared with \$6.0 million during the same period in 2019, representing an increase of \$0.1 million.

EBITDA and Adjusted EBITDA⁷

EBITDA was \$6.9 million, compared with an EBITDA of \$6.6 million in the equivalent period of last year, an increase of 3.9% primarily from the contribution of Royal Envelope and higher e-commerce packaging sales. Adjusted EBITDA for the second quarter of 2020 was up \$0.1 million, to \$6.9 million. Adjusted EBITDA margins increased to 14.5% of revenue compared with 14.2% in the equivalent quarter of 2019.

⁵ [Canada Post First Quarter Results Press Release dated May 25, 2020](#)

⁶ [US Postal Service Third Quarter 2020 Press Release dated August 7, 2020](#)

⁷ Refer to "Definition of EBITDA and Adjusted EBITDA" in section "Non-IFRS measures"

- Envelope segment Adjusted EBITDA was \$5.7 million, up \$0.5 million from \$5.2 million in the second quarter of 2019. The operating profitability of the Canadian envelope operations improved with the acquisition of Royal Envelope on February 18, 2020, which, in addition to higher sales volume, provided synergies in production efficiencies and procurement. On a percentage of segmented revenue, Adjusted EBITDA from the envelope operations was 17.5%, up from 15.5% in the equivalent period of 2019.
- Packaging and specialty products segment Adjusted EBITDA was \$1.9 million, in line with the equivalent period of 2019. Higher e-commerce sales compensated for the lower contribution from folding carton packaging. On a percentage of segmented revenue, Adjusted EBITDA from the packaging and specialty operations was 13.3% compared with 14.5% in the equivalent period of 2019.
- The balance of the variance is primarily from an unfavorable adjustment on foreign exchange translation and higher corporate expenses.

Depreciation and Amortization

Depreciation and amortization expenses for the three-month period ended June 30, 2020, amounted to \$3.6 million compared with \$3.0 million in the second quarter of 2019 primarily as a result of the acquisition of Royal Envelope.

Financing Charges

Financing charges for the three-month period ended June 30, 2020, were \$0.9 million, equivalent to the prior year.

Earnings Before Income Taxes

As a result of the fluctuation in revenue and expenses described above, earnings before income taxes amounted to \$2.4 million during the three-month period ended June 30, 2020, compared with \$2.7 million during the equivalent period of 2019.

Income Tax Expense

Income taxes amounted to \$0.6 million during the three-month period ended June 30, 2020, compared with \$0.9 million in the equivalent quarter of last year.

Net Earnings

Net Earnings were \$1.9 million (or \$0.07 per share) for the three-month period ended June 30, 2020, compared with \$1.8 million (or \$0.06 per share) for the equivalent period in 2019.

Other Comprehensive Income

The discount rate used to calculate the accrued plan benefit obligations decreased to 2.70% as at June 30, 2020 from 3.75% as at March 31, 2020. This decrease was partially offset by a better than expected return on assets resulting in a net actuarial loss of \$2.7 million during the second quarter of 2020.

Six-month period ended June 30, 2020, compared with the six-month period ended June 30, 2019

Revenue

Total revenue for the six-month period ended June 30, 2020 reached \$100.1 million, a 2.9% increase from \$97.3 million for the six-month period ended June 30, 2019.

Revenue from the envelope segment increased by 3.5% to \$71.9 million from \$69.5 million in the comparable period of 2019.

- Revenue from the Canadian envelope market was \$48.4 million, an increase of 2.1% or \$0.9 million from \$47.5 million recorded during the six-month period ended June 30, 2019. Volume increased by 7.6% from the acquisition of Royal envelope which compensated for the effect of the secular decline on the Company's legacy envelope sales and from the COVID-19 effect in the second quarter of 2020. Average selling prices decreased by 5.2% from a less favorable product mix in the second quarter of 2020 attributable to the COVID-19 pandemic.
- Revenue from the U.S. envelope market was \$23.5 million, an increase of 6.7% or \$1.5 million from \$22.0 million in the equivalent period of 2019. The volume of units sold increased by 5.9% and average selling prices increased by 0.8%. The average selling prices were impacted by a positive foreign exchange translation effect of approximately 2.4% from a weaker Canadian dollar when compared to the equivalent period of last year.

Revenue from packaging and specialty products was \$28.2 million, an increase of 1.2% or \$0.4 million from \$27.8 million in the equivalent period of the prior year as a result of higher e-commerce packaging sales in the second quarter of 2020 offsetting lower revenue in the folding carton and corrugate lines of business.

Operating Expenses

Operating expenses for the six-month period ended June 30, 2020 stood at \$74.1 million compared with \$72.1 million for the same period in 2019, an increase of \$2.0 million or 2.8%. The increase is in large part attributable to the acquisition of Royal Envelope offset in part by cost containment to mitigate the effect of Covid-19 pandemic.

Selling, General and Administrative Expenses

Selling, general and administrative expenses totalled \$11.4 million for the six-month period ended June 30, 2020, a decrease of \$0.6 million from \$12.0 million. The decrease is mainly attributable to a gain on foreign exchange translation and to a lesser extent, an expense recovery from the change in mark-to-market value of the Deferred Share Units (DSUs) recorded in the six-month period of 2020 compared with an expense in the equivalent period of 2019.

EBITDA and Adjusted EBITDA⁸

EBITDA increased by 11.5% or \$1.5 million, reaching \$14.6 million in the first six months of 2020, up from \$13.1 million in the equivalent period of 2019. The EBITDA increase is primarily attributable to the acquisition of Royal Envelope and to the growth in e-commerce packaging sales in the second quarter of 2020. Adjusted EBITDA was \$15.1 million compared with \$13.3 million during the first half of 2019. Adjusted EBITDA margins stood at 15.1% of revenues, up from 13.6% in the equivalent period of 2019.

- Envelope segment Adjusted EBITDA was \$12.7 million, up \$1.3 million from \$11.4 million in the equivalent period of 2019. The operating profitability of the Canadian envelope operations improved with the acquisition of Royal Envelope on February 18, 2020, which, in addition to additional revenues, provided synergies in production efficiencies and procurement. On a percentage of segmented revenue, Adjusted EBITDA from the envelope operations was 17.6%, up from 16.4% in the equivalent period of 2019.
- Packaging and specialty products segment Adjusted EBITDA increased to \$3.3 million, up \$0.1 million from \$3.2 million in the comparable period of 2019. Higher e-commerce sales in the second quarter helped compensate for lower sales in the other packaging lines of business. On a percentage of segmented revenue, Adjusted EBITDA from the packaging and specialty operations was 11.7% compared to 11.6% in the equivalent period of 2019.
- The variance in corporate and unallocated expenses is the result of a gain on foreign exchange translation in the six-month period of 2020 compared with a loss in the equivalent period of 2019 and to a lesser extent, a positive adjustment for the mark-to-market value of the Deferred Share Units (DSUs) which are partially offset by a decrease in the corporate expenses allocated to the segments.

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

Depreciation and Amortization

Depreciation and amortization expenses for the six-month period ended June 30, 2020, amounted to \$6.7 million, compared with \$6.1 million in the equivalent period of 2019 primarily as a result of the acquisition of Royal Envelope.

Financing Charges

Financing charges for the six-month period ended June 30, 2020 were \$1.8 million and equivalent to last year.

Earnings Before Income Taxes

As a result of the fluctuation in revenue and expenses described above, earnings before income taxes amounted to \$6.1 million during the six-month period ended June 30, 2020 compared with earnings before income taxes of \$5.2 million during the equivalent period of 2019.

Income Tax Expense

Income taxes amounted to \$1.6 million during the six-month period ended June 30, 2020 and equivalent to the prior year.

Net Earnings

Net earnings stood at \$4.5 million (or \$0.16 per share) for the six-month period ended June 30, 2020, compared with net earnings of \$3.6 million (or \$0.13 per share) in the equivalent period in 2019.

Other Comprehensive Income

The discount rate used to calculate the accrued plan benefit obligations decreased to 2.70% as at June 30, 2020, from 3.10% as at December 31, 2019. This decrease combined with a lower than expected return on assets generated a net actuarial loss of \$5.0 million during the six-month period ended June 30, 2020.

Geographical Revenue and Asset Diversification

The Company's non-current assets amounted to \$125.2 million in Canada and \$15.8 million in the United States as at June 30, 2020, compared with \$114.5 million in Canada and \$16.1 million in the United States as at December 31, 2019.

For the three-month period ended June 30, 2020, the Company's revenue in Canada was \$31.4 million, a decrease of 5.4% from \$33.2 million in the equivalent period of 2019. In the United States, revenue stood at \$16.2 million, representing an increase of 12.5% from \$14.4 million in the equivalent period of 2019.

For the six-month period ended June 30, 2020, the Company's revenue in Canada was \$67.3 million, an increase of 0.4% from \$67.0 million in the equivalent period of 2019. In the United States, revenue stood at \$32.8 million, representing an increase of 8.3% from \$30.3 million in the equivalent period of 2019.

Summary of Quarterly Operating Results from July 1, 2018 to June 30, 2020

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

	June 30 2020	Mar. 31 2020	Dec. 31 2019	Sep. 30 2019	June 30 2019	Mar. 31 2019	Dec. 31 2018	Sep. 30 2018
Revenue								
Envelope	32,751	39,149	35,744	31,932	33,945	35,502	38,332	32,211
Packaging	14,911	13,267	13,444	13,252	13,697	14,153	15,818	12,947
Total revenue	47,662	52,416	49,188	45,184	47,642	49,655	54,150	45,158
Adjusted EBITDA ^{(1) (2)}	6,895	8,241	6,695	5,401	6,775	6,477	8,148	5,125
Earnings (loss) before income taxes	2,434	3,643	3,183	1,783	2,699	2,480	(11,819)	1,995
Net earnings (loss)	1,865	2,588	2,289	1,176	1,815	1,808	(12,426)	1,153
Net earnings (loss) per share	0.07	0.09	0.08	0.04	0.06	0.06	(0.44)	0.04

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

(2) 2018 quarters have not been restated for IFRS 16 where rent expenses were replaced by an interest charge on lease liabilities and amortization of the right-of-use assets while the lease payments on lease liabilities are now excluded from EBITDA.

Seasonality

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

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

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

Financial Position and Capital Resources

Financial Position Highlights

(In thousands of dollars)

	June 30, 2020	December 31, 2019
Working capital	27,674	24,140
Total assets	195,404	179,649
Secured credit facility	71,413	53,815
Total equity	74,570	76,473

The increase in total assets at June 30, 2020 when compared to December 31, 2019 is mainly driven by the acquisition of substantially all of the assets of Royal Envelope on February 18, 2020 for total consideration of \$27.4 million. The outstanding amount on the secured credit facility increased by \$17.6 million primarily resulting from the net effect of borrowings in the first quarter of 2020 to finance the acquisition of Royal Envelope.

Summary of Cash Flows

(In thousands of dollars)

	Three-month periods ended June 30		Six-month periods ended June 30	
	2020	2019	2020	2019
Operating activities	10,739	4,976	18,852	8,016
Investing activities	(318)	(1,914)	(28,357)	(3,357)
Financing activities	(7,804)	(3,439)	11,668	(4,622)
Net foreign exchange difference	(318)	(101)	(15)	(202)
Net change in cash	2,299	(478)	2,148	(165)

Cash Flows from Operating Activities

Net cash flows from operating activities stood at \$18.9 million during the six-month period ended June 30, 2020, compared with \$8.0 million in the equivalent period of 2019. The improvement is mainly attributable to higher net earnings and to a \$6.9 million positive net change in working capital adjustments.

Cash Flows used in Investing Activities

Net cash flows used in investing activities amounted to \$28.4 million during the six-month period ended June 30, 2020, compared with \$3.4 million used in the equivalent period of 2019. The increase reflects the acquisition of Royal Envelope in the first quarter of 2020 and lower capital expenditures during the six-month period ended June 30, 2020.

Cash Flows from (used in) Financing Activities

Net cash flows generated by financing activities stood at \$11.7 million during the six-month period ended June 30, 2020, compared with a use of \$4.6 million in the equivalent period of 2019. The variance results almost entirely from the increase in the credit facility to fund the acquisition of Royal Envelope.

Financial Position and Capital Resources Summary

In light of the recent COVID-19 pandemic, it can be reasonably assumed that demand for certain of the Company's product categories will continue to be negatively affected. Furthermore, it is impossible at this time for the Company to estimate the duration and scope of the pandemic's ensuing economic impact. During the first month of the second quarter of 2020, the Company experienced a revenue decline of approximately 6%. Excluding Royal Envelope sales, the Company's revenue would have declined by approximately 20%. In the two following months, demand for certain product categories started improving and resulted in a total year-over-year second quarter revenue decline of 11.3% when excluding Royal Envelope revenues. In order to mitigate the effect of the COVID-19 pandemic on the Company's operations and financial results, management tightly controlled its operating expenses and working capital and reduced all non-critical capital expenditures. Taking a prudent approach, the Company further negotiated and obtained a more favorable Debt to EBITDA covenant ratio for the second and third quarter of fiscal year 2020, and, on May 15, 2020, the Company's Board of Directors also announced the suspension of the quarterly dividend until further notice. Based on current and anticipated market conditions and management's projections, the Company expects to have sufficient liquidity to meet its currently anticipated needs.

The future negative impact of COVID-19 creates uncertainties that could generate, in future reporting periods, a significant risk of material adjustment to the carrying amounts of the following accounts: accounts receivable, inventories, intangible assets and goodwill impairment.

The accounts receivable and credit risk stems primarily from the potential inability of clients to discharge their obligations. While the Company had historically reported low bad debt expenses, COVID-19 increases the risk over certain

customers that management is monitoring. As at June 30, 2020, the Company had not identified significant negative trend from its accounts receivable collection.

Even though the Company continues to operate during the COVID-19 pandemic crisis, the Company holds inventories of envelopes, packaging and specialty products for a wide range of customers. COVID-19 had an impact on the level of customers' demand and future orders which was seen in reduced activities in the three-month period ended on June 30, 2020. The Company reviewed its inventory levels and did not note significant excess inventories that could be subject to significant write-downs in the future.

The goodwill impairment test at December 31, 2019 was sensitive to the Company's assumptions. COVID-19 is a triggering event for an interim assessment of goodwill and intangible assets specifically for the cash generating units ("CGUs") of envelopes and packaging. An assessment of the recoverable amount of the Company's CGUs compared to their carrying values was performed based on updated cash flow projections in light of the current COVID-19 pandemic. The cash flows are management's best projections based on current and anticipated market conditions covering a four-year period. However, these projections are inherently uncertain due to the recent and fluidly evolving impact of the COVID-19 pandemic. It is possible that long-term underperformance to these projections could occur. The COVID-19 pandemic and its impact on the economy is constantly evolving in an unpredictable manner and presents many variables and contingencies for modeling. In future periods, the effects of the pandemic may have material impacts on the Company's anticipated revenue levels and the recoverable amount of the CGUs.

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.

Financing

The Company has a secured credit facility consisting of a \$80 million revolving facility [\$80 million as at December 31, 2019] and a \$31.5 million term credit facility [\$33.3 million as at December 31, 2019]. No principal repayments are required on the revolving operating facility prior to maturity. The term facility is repayable in quarterly principal installments of \$875,000. The availability of the credit facility is variable and dependant on respecting certain financial covenants. As of June 30, 2020, the credit facility stands at \$71.4 million. This facility bears interest at a floating rate based on the Canadian prime rate, plus an applicable margin that ranges between 0% and 2.00% or bankers' acceptance rates, plus an applicable margin that ranges between 1.25% and 3.25%.

The secured credit facility is used for working capital, capital expenditures, acquisitions and other general corporate purpose. It is collateralized by mortgage and a security interest covering all assets of the Company and its subsidiaries and is subject to certain covenants, which the Company is required, among other conditions, to meet. The Company was in compliance with these covenants as at June 30, 2020 and had an additional borrowing capacity of \$20.7 million while respecting said covenants. Further to the recent developments arising from the COVID-19 pandemic, Supremex assessed its financial and liquidity position and expects to remain in compliance with its financial covenants during fiscal year 2020.

As at June 30, 2020, the Company had outstanding letters of credit for a total of \$10,000.

Normal Course Issuer Bid ("NCIB")

On August 13, 2020, the Company announced that it has received approval from the TSX to purchase by a way of a NCIB, for cancellation, up to 1,406,523 of its common shares, representing approximately 5.0% of its 28,130,469 issued and outstanding common shares as of August 12, 2020. Purchases under the NCIB will be made through the facilities of the TSX or alternative trading systems in Canada, if eligible, in accordance with applicable securities laws and regulations, over a maximum period of 12 months beginning on August 17, 2020 and ending on August 16, 2021.

Capitalization

As at August 12, 2020, the Company had 28,130,469 common shares outstanding.

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

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

As indicated in such certifications, management has designed disclosure controls and procedures to provide reasonable assurance that:

- i. 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 interim filings are being prepared, and
- ii. information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

Management has also designed internal controls 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 control framework management used to design the Company's internal control over financial reporting is the Committee of Sponsoring Organizations (“COSO”).

There were no changes in the Company's internal controls over financial reporting that occurred during the period from January 1, 2020 to June 30, 2020 that have materially affected, or is reasonably likely to materially affect, the Company's internal controls 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 June 30, 2020. 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 February 2020 business acquisition of Royal Envelope will be covered by its certification in the first quarter of 2021.

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. Details are provided in the “Risk Factors” section of the Company's Annual Information Form, dated March 30, 2020 (which can be found at www.sedar.com). The following risk factors supplement those disclosed and described in the “Risk Factors” section of the Company's Annual Information Form, dated March 30, 2020 as a result of the continuing COVID-19 pandemic.

Global Health Crisis

The Company is subject to epidemics and other public health crises, such as the recent COVID-19 pandemic. The transmission of COVID-19 and efforts to contain its spread have recently resulted in international, national and local border closings, travel restrictions, significant disruptions to business operations, supply chains and customer activity and demand, service cancellations, reductions and other changes, significant challenges in healthcare service preparation

and delivery, and quarantines, as well as considerable general concern and uncertainty, all of which have negatively affected the economic environment and may in the future have further and larger impacts. This has caused material disruption to businesses globally and created unprecedented economic slowdown and volatility in global financial markets. Governments have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The Company has implemented various measures in response to COVID-19 which include, among other things, diligently managing working capital, closely monitoring its account receivable credit risk, reviewing its inventory levels, suspending its regular quarterly dividend and implementing a Business Continuity Plan. At this stage, it is not possible to predict what additional measures and restrictions will be imposed by governmental authorities, the period in time during which those measures and restrictions will apply and their full impact.

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

Supremex is actively monitoring the situation and will respond as the impact of the COVID-19 pandemic evolves, which will depend on a number of factors including the course of the virus and government actions, none of which can be predicted with any degree of certainty.

The COVID-19 pandemic may also have the effect of heightening other risks and uncertainties disclosed and described in the "Risk Factors" section of the Company's Annual Information Form, dated March 30, 2020. The adverse impacts of COVID-19 on the Company can be expected to increase the longer the pandemic and the related response measures persist.

Forward-Looking Information

This MD&A contains "forward-looking information" within the meaning of applicable Canadian securities laws, including (but not limited to) statements about the EBITDA, Adjusted EBITDA and future performance of Supremex and similar statements or information concerning anticipated future results, circumstances, performance or expectations. Forward-looking information may include words such as anticipate, assumption, believe, could, expect, goal, guidance, intend, may, objective, outlook, plan, seek, should, strive, target and will. Such information relates to future events or future performance and reflects current assumptions, expectations and estimates of management regarding growth, results of operations, performance, business prospects and opportunities, Canadian economic environment and liability to attract and retain customers. Such forward-looking information reflects current assumptions, expectations and estimates of management and is based on information currently available to Supremex as at the date of this MD&A. Such assumptions, expectations and estimates are discussed throughout this MD&A for the quarter ended June 30, 2020. Supremex cautions that such assumptions may not materialize and that current economic conditions, including all of the current uncertainty resulting from the ongoing COVID-19 health crisis and its broader repercussions on the global

economy, render such assumptions, although believed reasonable at the time they were made, subject to greater uncertainty.

Forward-looking information is subject to certain risks and uncertainties and should not be read as a guarantee of future performance or results and actual results may differ materially from the conclusion, forecast or projection stated in such forward-looking information. These risks and uncertainties include but are not limited to the following: global health crisis, economic cycles, decline in envelope consumption, increase of competition, growth by acquisition, reliance on key personnel, raw material price increases, exchange rate fluctuation, concerns about protection of the environment, availability of capital, credit risks with respect to trade receivables, interest rate fluctuation, potential risk of litigation, contributions to employee benefits plans, cyber security and data protection, no guarantee to pay dividends and past cash payments. In addition, risks and uncertainties arising as a result of the COVID-19 pandemic that could cause results to differ from those expected include, but are not limited to: potential government actions, changes in consumer behaviors and demand, changes in customer requirements, disruptions of the Company's suppliers and supply chain, availability of personnel and uncertainty about the extent and duration of the pandemic. Such risks and uncertainties are discussed throughout the MD&A for the year ended December 31, 2019 and the Company's Annual Information Form dated March 30, 2020, and, in particular, in "Risk Factors" in both these documents. 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.

Non-IFRS measures: Definition of EBITDA and Adjusted EBITDA

References to "EBITDA" are to earnings before financing charges, income tax expense, depreciation of property, plant and equipment and right-of-use assets and amortization of intangible assets. References to "Adjusted EBITDA" are to EBITDA adjusted to remove items of significance that are not in the normal course of operations. These items of significance include, but are not limited to, charges for impairment of assets, restructuring expenses, contingent remuneration expenses in connection with certain business combinations, new facility start-up costs, value adjustment on inventory acquired and losses (gains) on disposal of property, plant and equipment and right-of-use assets. Supremex believes that EBITDA and Adjusted EBITDA are measurements commonly used by readers of financial statements to evaluate a company's operational cash-generating capacity and ability to discharge its financial obligations. Adjusted EBITDA allows readers to appreciate the Company's earnings without effect of non-recurring items making it valuable to assess ongoing operations and to better evaluate the Company's operating profitability when compared to the previous years.

EBITDA and Adjusted EBITDA are not recognized earnings measures under IFRS and do not have a standardized meaning prescribed by IFRS. Therefore, EBITDA and Adjusted EBITDA may not be comparable to similar measures presented by other entities. Investors are cautioned that EBITDA and Adjusted EBITDA should not be construed as an alternative to net earnings determined in accordance with IFRS as an indicator of the Company's performance.

Additional Information

Additional information relating to the Company, including the Company's annual information form, is available on SEDAR at www.sedar.com.

Interim Condensed Consolidated Financial Statements

Supremex Inc.

Unaudited

For the three and six-month periods ended June 30, 2020 and 2019

All amounts expressed in Canadian dollars

NOTICE

The Company's independent auditors have not reviewed these Interim Condensed Consolidated Financial Statements in accordance with the standard established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

Supremex Inc.

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at		June 30, 2020	December 31, 2019
[Unaudited]	Notes	\$	\$
ASSETS	6		
Current assets			
Cash		4,370,826	2,222,889
Accounts receivable		23,306,886	22,340,239
Income tax receivable		716,135	1,742,610
Inventories	5	23,817,112	21,080,346
Prepaid expenses and others		2,177,683	1,667,542
Total current assets		54,388,642	49,053,626
Property, plant and equipment		40,385,941	37,274,148
Right-of-use assets		23,298,214	23,333,921
Accrued pension benefit asset		534,707	7,270,807
Intangible assets		27,592,628	16,421,864
Goodwill		49,203,579	46,155,723
Other long-term asset		—	138,809
Total assets		195,403,711	179,648,898
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		18,130,629	15,470,329
Dividend payable	8	—	1,828,481
Provisions		—	7,821
Current portion of secured credit facility	6	3,500,000	3,500,000
Current portion of lease liabilities		5,084,235	4,106,902
Total current liabilities		26,714,864	24,913,533
Secured credit facility	6	67,602,653	49,972,422
Deferred income tax liabilities		7,155,354	8,187,623
Lease liabilities		19,143,109	19,891,021
Other post-retirement benefit obligations		217,600	211,200
Total liabilities		120,833,580	103,175,799
Equity			
Share capital	7	9,601,576	9,601,576
Contributed surplus	7	277,348,798	277,348,798
Deficit		(213,004,130)	(210,653,168)
Foreign currency translation reserve		623,887	175,893
Total equity		74,570,131	76,473,099
Total liabilities and equity		195,403,711	179,648,898
Subsequent event [note 10]			

See accompanying notes

On behalf of the Directors:

By: signed (Robert B. Johnston)
Director

By: signed (Steven P. Richardson)
Director

INTERIM CONSOLIDATED STATEMENTS OF EARNINGS

[Unaudited]	Notes	Three-month periods ended June 30		Six-month periods ended June 30	
		2020	2019	2020	2019
		\$	\$	\$	\$
Revenue		47,662,153	47,642,867	100,078,086	97,297,498
Operating expenses	5	34,698,992	34,905,631	74,109,586	72,089,114
Selling, general and administrative expenses		6,067,843	5,961,611	11,387,514	11,955,878
Operating earnings before depreciation, amortization and other items		6,895,318	6,775,625	14,580,986	13,252,506
Depreciation of property, plant and equipment		1,315,614	1,282,318	2,504,232	2,691,119
Depreciation of right-of-use assets		1,382,356	1,169,198	2,651,459	2,342,515
Amortization of intangible assets		880,726	544,281	1,588,790	1,090,494
Loss on disposal of property, plant and equipment		—	137,961	—	174,441
Operating earnings		3,316,622	3,641,867	7,836,505	6,953,937
Financing charges, net	6	883,147	942,319	1,759,683	1,775,262
Earnings before income taxes		2,433,475	2,699,548	6,076,822	5,178,675
Income tax expense		568,740	884,086	1,624,097	1,555,659
Net earnings		1,864,735	1,815,462	4,452,725	3,623,016
Basic and diluted net earnings per share		0.0663	0.0643	0.1583	0.1282
Weighted average number of shares outstanding		28,130,469	28,253,047	28,130,469	28,266,456

See accompanying notes

Supremex Inc.

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

[Unaudited]	Three-month periods ended June 30		Six-month periods ended June 30	
	2020	2019	2020	2019
	\$	\$	\$	\$
Net earnings	1,864,735	1,815,462	4,452,725	3,623,016
Other comprehensive loss				
<i>Other comprehensive (loss) income to be reclassified to earnings in subsequent periods</i>				
Foreign currency translation adjustments	(689,546)	(295,912)	447,994	(615,359)
Net other comprehensive (loss) income to be reclassified to earnings in subsequent periods	(689,546)	(295,912)	447,994	(615,359)
<i>Items not to be reclassified to earnings in subsequent periods</i>				
Recognized actuarial loss on defined benefit pension plans, net of income tax recovery of \$940,557 and \$1,742,155 [2019 – recovery of \$726,666 and \$763,955]	(2,683,343)	(2,078,734)	(4,970,245)	(2,184,745)
Recognized actuarial loss on other post-retirement benefit, net of income tax recovery of \$4,698 and \$1,739 [2019 – recovery of \$1,606 and \$4,104]	(13,402)	(4,594)	(4,961)	(11,696)
Net other comprehensive loss not being reclassified to earnings in subsequent periods	(2,696,745)	(2,083,328)	(4,975,206)	(2,196,441)
Other comprehensive loss	(3,386,291)	(2,379,240)	(4,527,212)	(2,811,800)
Total comprehensive (loss) income	(1,521,556)	(563,778)	(74,487)	811,216

See accompanying notes

Supremex Inc.

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the six-month periods ended June 30
[Unaudited]

	Share capital \$	Contributed surplus \$	Deficit \$	Foreign currency translation reserve \$	Total equity \$
As at December 31, 2018	9,652,774	277,722,233	(212,589,405)	875,692	75,661,294
Net earnings	—	—	3,623,016	—	3,623,016
Other comprehensive loss	—	—	(2,196,441)	(615,359)	(2,811,800)
Total comprehensive income (loss)	—	—	1,426,575	(615,359)	811,216
Dividends declared [note 8]	—	—	(3,667,870)	—	(3,667,870)
Shares repurchased and cancelled [note 7]	(42,311)	(314,314)	—	—	(356,625)
As at June 30, 2019	9,610,463	277,407,919	(214,830,700)	260,333	72,448,015
As at December 31, 2019	9,601,576	277,348,798	(210,653,168)	175,893	76,473,099
Net earnings	—	—	4,452,725	—	4,452,725
Other comprehensive (loss) income	—	—	(4,975,206)	447,994	(4,527,212)
Total comprehensive (loss) income	—	—	(522,481)	447,994	(74,487)
Dividends declared [note 8]	—	—	(1,828,481)	—	(1,828,481)
Shares repurchased and cancelled [note 7]	—	—	—	—	—
As at June 30, 2020	9,601,576	277,348,798	(213,004,130)	623,887	74,570,131

See accompanying notes

Supremex Inc.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

[Unaudited]	Notes	For the three-month periods ended June 30		For the six-month periods ended June 30	
		2020 \$	2019 \$	2020 \$	2019 \$
OPERATING ACTIVITIES					
Net earnings		1,864,735	1,815,462	4,452,725	3,623,016
Non-cash adjustment to reconcile net earnings to net cash flows					
Depreciation of property, plant and equipment		1,315,614	1,282,318	2,504,232	2,691,119
Depreciation of right-of-use assets		1,382,356	1,169,198	2,651,459	2,342,515
Amortization of intangible assets		880,726	544,281	1,588,790	1,090,494
Amortization of deferred financing costs	6	29,451	119,503	55,152	136,660
Loss on disposal of property, plant and equipment		—	137,961	—	174,441
Deferred income tax (recovery) expense		(60,945)	(707,604)	687,302	(884,851)
Change in employee benefits		976	17,600	6,000	35,200
		5,412,913	4,378,719	11,945,660	9,208,594
Working capital adjustments					
Variation in accounts receivable		5,691,009	2,375,739	4,402,307	4,886,767
Variation in income tax receivable		740,493	521,608	1,026,475	127,962
Variation in inventories		1,424,479	(993,658)	1,197,847	(2,066,158)
Variation in prepaid expenses and others		(201,933)	(212,891)	(414,216)	(375,976)
Variation in accounts payable and accrued liabilities		(2,336,623)	(991,452)	684,394	(3,321,291)
Variation in provisions		—	(115,692)	(7,821)	(472,783)
Change in employee benefits		8,400	13,800	17,400	29,000
Net cash flows from operating activities		10,738,738	4,976,173	18,852,046	8,016,115
INVESTING ACTIVITIES					
Business combination, net of cash acquired	4	—	—	(27,400,000)	—
Acquisition of property, plant and equipment		(211,859)	(2,244,933)	(725,351)	(3,650,713)
Acquisition of intangible assets		(105,984)	(46,736)	(231,333)	(91,176)
Proceeds from disposal of property, plant and equipment		—	377,156	—	385,182
Net cash flows used in investing activities		(317,843)	(1,914,513)	(28,356,684)	(3,356,707)
FINANCING ACTIVITIES					
(Repayment) increase of secured credit facility		(4,766,608)	21,898	17,597,579	1,598,668
Repayment of lease liabilities		(1,245,290)	(978,163)	(2,393,151)	(1,955,466)
Dividends paid	8	(1,828,481)	(1,837,697)	(3,656,962)	(3,675,927)
Financing costs incurred		(22,500)	(397,490)	(22,500)	(397,490)
Purchase of share capital for cancellation	7	—	(330,101)	—	(356,625)
Change in other long-term asset		58,871	82,847	143,224	164,604
Net cash flows (used in) from financing activities		(7,804,008)	(3,438,706)	11,668,190	(4,622,236)
Net change in cash		2,616,887	(377,046)	2,163,552	37,172
Net foreign exchange difference		(317,886)	(100,788)	(15,615)	(201,716)
Cash, beginning of period		2,071,825	622,231	2,222,889	308,941
Cash, ending of period		4,370,826	144,397	4,370,826	144,397
Supplemental information ⁽¹⁾					
Interest paid		865,057	892,074	1,822,146	1,632,545
Interest received		4,930	3,515	7,205	17,033
Income taxes paid		1,504	881,582	1,504	2,442,995
Income taxes received		101,625	—	101,625	308,360

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

See accompanying notes

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020 and 2019

[Unaudited]

1. CORPORATE INFORMATION

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The unaudited interim condensed consolidated financial statements include the accounts of the Company and its subsidiaries. They have been prepared by management in accordance with IAS 34, Interim Financial Reporting. Therefore, certain information and disclosures have been omitted or condensed. The accounting principles are consistent with those set out in the Company's audited consolidated financial statements for the year ended December 31, 2019, prepared in accordance with International Financial Reporting Standards ("IFRS"). Accordingly, these unaudited interim condensed consolidated financial statements and the notes thereto should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2019.

These unaudited interim condensed consolidated financial statements were approved by the Company's Board of Directors on August 12, 2020 and have not been audited or reviewed by the Company's auditors.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020 and 2019

[Unaudited]

3. SIGNIFICANT JUDGMENT AND ACCOUNTING ESTIMATES

The preparation of the Company's unaudited interim condensed consolidated financial statements requires management to make estimates, judgment and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

The areas involving key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are the same as those set out in the Company's audited consolidated financial statements for the year ended December 31, 2019.

However, these areas of critical accounting estimates were impacted by the outbreak of the coronavirus, specifically identified as COVID-19, characterized as a global pandemic in March 2020. The uncertainties around the COVID-19 pandemic required the use of judgments and estimates which resulted in no material impacts for the six-month period ended June 30, 2020. The future negative impact of COVID-19 creates uncertainties which could generate, in future reporting periods, a significant risk of material adjustment to the carrying amounts of the following accounts: accounts receivable, inventories, intangible assets and goodwill impairment.

Accounts receivable and credit risk: Credit risk stems primarily from the potential inability of clients to discharge their obligations. While the Company had historically reported low bad debt expenses, COVID-19 increases the risk over certain customers that management is monitoring. Accounts receivable credit risk is mitigated through established monitoring activities which were rigorously followed in light of the current environment, lack of customer concentration and the Company's diversified customer base and their sector diversification. As at June 30, 2020, the Company had not identified significant negative trend from its accounts receivable collection.

Inventories: Even though the Company continues to operate during the COVID-19 pandemic crisis, the Company holds inventories of envelopes, packaging and specialty products for a wide range of customers. COVID-19 had an impact on the level of customers' demand and future orders which was seen in reduced activities for the three-month period ended June 30, 2020, due to the closure of many non-essential services and the gradual re-opening of businesses. The Company reviewed its inventory levels and did not note significant excess inventories that could be subject to significant write-downs in the future.

Goodwill and intangible assets impairment: Goodwill impairment test at December 31, 2019 was sensitive to the Company's assumptions. COVID-19 is a triggering event for an interim assessment of goodwill and intangible assets specifically for the cash generating units ("CGUs") of envelopes and packaging. An assessment of the recoverable amount of the Company's CGUs compared to their carrying values was performed based on updated cash flow projections in light of the current COVID-19 pandemic. The cash flows are management's best projections based on current and anticipated market conditions covering a four-year period. However, these projections are inherently uncertain due to the evolving impact of the COVID-19 pandemic. It is possible that long-term underperformance to these projections could occur. The COVID-19 pandemic and its impact on the economy is constantly evolving in an unpredictable manner and presents many variables and contingencies for modeling. In future periods, the effects of the pandemic may have material impacts on the Company's anticipated revenue levels and the recoverable amount of the CGUs.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020 and 2019

[Unaudited]

Liquidity risk: The Company manages liquidity risk by maintaining adequate cash balances and by appropriately using the Company's secured credit facility. The Company continuously reviews both actual and forecasted cash flows to ensure that it has adequate credit facility capacity and reviews its exposure to interest rate fluctuations. In response to COVID-19 pandemic, the Company has updated its forecasted cash flows for the next twelve months and has taken the following actions to support its liquidity position and preserve cash:

- The Company negotiated and obtained a more favorable Debt to EBITDA covenant ratio for the second and third quarter of fiscal year 2020.
- On May 14, 2020, Company's Board of Directors announced the suspension of the quarterly dividend until further notice.
- The Company is continuously seeking cost savings opportunities and will manage its capacity to respond to demand fluctuations and including workplace reductions if needed.

4. BUSINESS COMBINATIONS

On February 18, 2020, the Company acquired substantively all of the assets of Royal Envelope Ltd and Envelope Royal Inc. (together "Royal Envelope"), for a cash consideration of \$27,400,000. Royal Envelope is a leading Eastern Canada based envelope manufacturer and printer based in Ontario.

This acquisition aligns with the Company strategy to optimize the operations cost-base, enhance cash-flow generation capacity and provides the necessary capacity and capabilities to support our envelope growth strategy in the U.S.

The preliminary purchase price allocation has been revised as of June 30, 2020. The adjustments are mainly related to the revised assessment of working capital and Goodwill. This purchase price reflects the estimated fair value of assets acquired and liabilities assumed at the acquisition date, using the acquisition method, is as follows.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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[Unaudited]

	Initial purchase price allocation	Adjustments	Total adjusted purchase price allocation
	\$	\$	\$
Net assets acquired			
Accounts receivable	5,444,478	(75,524)	5,368,954
Inventories	4,220,612	(285,999)	3,934,613
Prepaid expenses and others	99,301	(6,610)	92,691
Total current assets	9,764,391	(368,133)	9,396,258
Property and equipment	4,708,815	—	4,708,815
Right-of-use assets	1,958,645	—	1,958,645
Software	53,000	—	53,000
Customer relationships	12,400,000	—	12,400,000
Goodwill	2,298,036	519,797	2,817,833
Total assets	31,182,887	151,664	31,334,551
Accounts payable and accrued liabilities	1,824,242	151,664	1,975,906
Lease liabilities	1,958,645	—	1,958,645
Net assets acquired	27,400,000	—	27,400,000
Cash consideration, net of cash acquired	27,400,000	—	27,400,000
Acquisition-related costs recognized as an expense			108,981

The Company's consolidated statement of earnings for the six-month period ended June 30, 2020 includes Royal Envelope revenue of \$9,416,382 since the acquisition date. The revised fair value of the receivables acquired of \$5,368,954 of which no amount was considered uncollectible at the acquisition date, is included in the current asset in the accounting of the business acquisition.

The Company will finalize the purchase price allocation over the coming quarters as soon as it has gathered all significant information available and considered necessary in order to finalize the fair value measurement of working capital, machinery and equipment and intangible assets, including customer relationships and goodwill.

If the acquisition had occurred on January 1, 2020, revenue for the six-month period from Royal Envelope would have been approximately \$13,700,000. The Company has not disclosed consolidated pro-forma profit including the acquisition of Royal Envelope as though the acquisition date had occurred on January 1, 2020, or for the period from the acquisition date, as it is impracticable to do so given that the activities of the acquired business was rapidly integrated into the operations of the Company post-acquisition.

Goodwill deductible for tax purposes amount to \$2,817,833. The goodwill related to the acquisition is composed of expected growth and operational synergies.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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[Unaudited]

5. INVENTORIES

	June 30, 2020 \$	December 31, 2019 \$
Raw materials	7,948,298	6,942,380
Work in progress	732,830	678,784
Finished goods	15,135,984	13,459,182
	23,817,112	21,080,346

The cost of inventories recognized as an expense and included in operating expenses, including the related depreciation of property, plant and equipment and depreciation of right-of-use assets allocated to inventories, during the three and six-month periods ended June 30, 2020 are \$35,554,826 and \$75,431,067 respectively [2019 - \$35,551,913 and \$73,384,634 respectively].

6. SECURED CREDIT FACILITY

The Company has a secured credit facility consisting of a \$80 million revolving facility [\$80 million as at December 31, 2019] and a \$31.5 million term credit facility [\$33.3 million as at December 31, 2019]. No principal repayments are required on the revolving operating facility prior to maturity. The term facility is repayable in quarterly principal installments of \$875,000. The availability of the credit facility is variable and dependant on respecting certain financial covenants. As at June 30, 2020, the credit facility stands at \$71.4 million. This facility bears interest at a floating rate based on the Canadian prime rate, plus an applicable margin that ranges between 0% and 2.00% or bankers' acceptance rates, plus an applicable margin that ranges between 1.25% and 3.25%.

The 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 June 30, 2020 and had an additional borrowing capacity of \$20.7 million while respecting said covenants. Further to the recent developments arising from the COVID-19 pandemic, Supremex assessed its financial and liquidity position and expects to remain in compliance with its financial covenants during fiscal 2020.

Amounts owed under the secured credit facility are as follows:

	June 30, 2020 \$	December 31, 2019 \$
Revolving credit facility	39,912,681	20,565,102
Term Facility	31,500,000	33,250,000
Less: deferred financing costs, net	(310,028)	(342,680)
	71,102,653	53,472,422
Current portion	(3,500,000)	(3,500,000)
Long-term portion of secured credit facility	67,602,653	49,972,422

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June 30, 2020 and 2019

[Unaudited]

As at June 30, 2020, the Company had outstanding letters of credit for a total of \$10,000 [\$10,000 as at December 31, 2019].

As at June 30, 2020, the effective variable interest rate on the secured credit facility was 3.07% [3.52% as at December 31, 2019].

Financing charges are as follows:

	Three-month period ended June 30,		Six-month periods ended June 30,	
	2020	2019	2020	2019
	\$	\$	\$	\$
Interest on secured credit facility	634,500	569,827	1,261,196	1,125,247
Interest expense on lease liabilities	276,771	295,142	556,958	601,776
Interest income on defined benefit plans obligations	(54,600)	(39,900)	(109,200)	(79,800)
Other interest	(2,975)	(2,253)	(4,423)	(8,621)
Amortization of deferred financing costs	29,451	119,503	55,152	136,660
	883,147	942,319	1,759,683	1,775,262

7. SHARE CAPITAL

The change in share capital was as follows:

	Number of common shares	Share capital \$
Balance, as of December 31, 2018	28,280,469	9,652,774
Purchase of share capital for cancellation	(123,962)	(42,311)
Balance, as of June 30, 2019	28,156,507	9,610,463
Balance, as of December 31, 2019	28,130,469	9,601,576
Purchase of share capital for cancellation	—	—
Balance, as of June 30, 2020	28,130,469	9,601,576

Pursuant to the normal course issuer bid ("NCIB"), which began on August 8, 2018 and ended on August 7, 2019, the Company repurchased 115,762 and 123,962 common shares for cancellation in consideration of \$330,101 and \$356,625 respectively, during the three and six-month periods ended June 30, 2019. The excess of the purchase price over the carrying value in the amount \$290,589 and \$314,314, respectively was recorded as a reduction of contributed surplus.

Deferred Share Unit Plan (DSU)

The financial liability resulting from the DSU plan of \$286,028 (December 31, 2019 - \$504,428) is presented under "Accounts payable and accrued liabilities".

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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[Unaudited]

The compensation income for the DSU plan during the three and six-month periods ended June 30, 2020 amounted to \$59,664 and \$218,400 respectively [2019 – income of \$47,432 and expense of \$124,990] and is recognized under selling, general and administrative expenses.

8. DIVIDENDS

Dividends declared from January 1, 2020 to June 30, 2020 were as follows:

Declaration date	Record date	Payment date	Per share \$	Dividend \$
February 20, 2020	March 31, 2020	April 15, 2020	0.065	1,828,481
Total				1,828,481

Dividends declared from January 1, 2019 to June 30, 2019 were as follows:

Declaration date	Record date	Payment date	Per share \$	Dividend \$
February 20, 2019	March 29, 2019	April 12, 2019	0.065	1,837,697
May 7, 2019	June 28, 2019	July 16, 2019	0.065	1,830,173
Total				3,667,870

9. SEGMENTED INFORMATION

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

The segmented information is prepared using the accounting policies described in Note 2 – Significant accounting policies in the Company's audited consolidated financial statements for the year ended December 31, 2019, prepared in accordance with "IFRS".

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

Supremex Inc.

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[Unaudited]

For the three-month periods ended June 30,

	2020 \$			2019 \$		
	Envelope	Packaging & Speciality Products	Total	Envelope	Packaging & Speciality Products	Total
Revenue	32,750,733	14,911,420	47,662,153	33,946,633	13,696,234	47,642,867
Operating expenses	23,189,647	11,575,103	34,764,750	24,789,215	10,384,465	35,173,680
Selling, general and administrative expenses	3,834,174	1,346,925	5,181,099	3,911,576	1,325,165	5,236,741
Operating earnings before depreciation, amortization, other items and unallocated corporate expenses and other⁽¹⁾	5,726,912	1,989,392	7,716,304	5,245,842	1,986,604	7,232,446
Corporate expenses and other non-allocated expenses			820,986			456,821
Depreciation of property, plant and equipment			1,315,614			1,282,318
Depreciation of right-of-use assets			1,382,356			1,169,198
Amortization of intangible assets			880,726			544,281
Loss on disposal of property, plant and equipment			—			137,961
Financing charges, net			883,147			942,319
Earnings before income taxes			2,433,475			2,699,548

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020 and 2019

[Unaudited]

For the six-month periods ended June 30,

	2020 \$			2019 \$		
	Envelope	Packaging & Speciality Products	Total	Envelope	Packaging & Speciality Products	Total
Revenue	71,899,323	28,178,763	100,078,086	69,448,285	27,849,213	97,297,498
Operating expenses	51,290,172	22,386,021	73,676,193	50,681,265	21,846,219	72,527,484
Selling, general and administrative expenses	7,940,097	2,496,097	10,436,194	7,384,431	2,760,110	10,144,541
Operating earnings before depreciation, amortization, other items and unallocated corporate expenses and other⁽¹⁾	12,669,054	3,296,645	15,965,699	11,382,589	3,242,884	14,625,473
Corporate expenses and other non-allocated expenses			1,384,713			1,372,967
Depreciation of property, plant and equipment			2,504,232			2,691,119
Depreciation of right-of-use assets			2,651,459			2,342,515
Amortization of intangible assets			1,588,790			1,090,494
Loss on disposal of property, plant and equipment			—			174,441
Financing charges, net			1,759,683			1,775,262
Earnings before income taxes			6,076,822			5,178,675

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

The Company's non-current assets amounted to \$125,214,263 in Canada and \$15,800,806 in the United States as at June 30, 2020 [\$114,529,278 and \$16,065,994, respectively, as at December 31, 2019]. The Company's revenue amounted to \$31,426,791 and \$67,261,284, in Canada and \$16,235,362 and \$32,816,802, in the United States for the three and six-month periods ended June 30, 2020 based on the customer's locations [2019 - \$33,216,558 and \$67,004,373, in Canada and \$14,426,309 and \$30,293,125 in the United States].

For the three and six-month periods ended June 30, 2020, the Company's revenue from envelopes amounted to \$32,750,733 and \$71,899,323 and those from packaging and specialty products amounted to \$14,911,420 and \$28,178,763, based on product classification [2019 - \$33,946,633 and \$69,448,285 from envelopes and \$13,696,234 and \$27,849,213 from packaging and specialty products].

10. SUBSEQUENT EVENT

On August 13, 2020, the Company announced that it has received approval from the TSX to purchase by a way of a NCIB, for cancellation, up to 1,406,523 of its common shares, representing approximately 5.0% of its 28,130,469 issued and outstanding common shares as of August 12, 2020, for a period of twelve months, beginning on August 17, 2020.