

Interim Condensed Consolidated Financial Statements

Supremex Inc.

For the three-month periods ended March 31, 2024 and 2023

[Unaudited]

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		March 31, 2024	December 31, 2023
[Unaudited]	Notes	\$	\$
[in thousands of Canadian dollars]			
ASSETS			
Current assets			
Cash		1,006	1,066
Accounts receivable		38,557	33,640
Income taxes recoverable		2,984	2,506
Inventories	5	35,097	33,423
Prepaid expenses		3,323	1,858
Total current assets		80,967	72,493
Derivative financial instruments		398	185
Property, plant and equipment		50,615	51,559
Right-of-use assets		35,058	30,116
Accrued pension benefit net assets		10,751	11,471
Intangible assets		36,807	38,226
Goodwill		59,881	59,707
Total assets		274,477	263,757
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		32,696	26,494
Dividend payable		1,014	—
Restructuring provisions	6	305	582
Current portion of contingent consideration payable	4	67	114
Current portion of lease liabilities		4,990	4,328
Current portion of long-term debt	7	247	245
Total current liabilities		39,319	31,763
Contingent consideration payable	4	247	237
Long-term debt	7	54,427	56,265
Deferred income tax liabilities		11,371	11,608
Lease liabilities		32,816	28,413
Other long-term liabilities		132	754
Total liabilities		138,312	129,040
Total equity		136,165	134,717
Total liabilities and equity		274,477	263,757

Subsequent events [note 11]

See accompanying notes

On behalf of the Directors:

By: signed (Robert B. Johnston)
Director

By: signed (Steven P. Richardson)
Director

Supremex Inc.

INTERIM CONSOLIDATED STATEMENTS OF EARNINGS

For the three-month periods ended March 31 [Unaudited] [in thousands of Canadian dollars, except per share amounts and number of common shares]	Notes	2024 \$	2023 \$
Revenue		73,268	88,422
Operating expenses	5	52,460	58,061
Selling, general and administrative expenses		10,318	11,811
Operating earnings before depreciation, amortization and other items		10,490	18,550
Depreciation of property, plant and equipment		1,633	1,547
Depreciation of right-of-use assets		1,354	1,346
Amortization of intangible assets		1,709	1,193
Restructuring expenses	6	24	126
Loss (gain) on disposal of property, plant and equipment		7	(33)
Operating earnings		5,763	14,371
Net financing charges	7	1,114	1,470
Earnings before income taxes		4,649	12,901
Income tax expense		1,153	3,404
Net earnings		3,496	9,497
Basic and diluted net earnings per share		0.14	0.37
Weighted average number of shares outstanding		25,471,574	25,977,069

See accompanying notes

Supremex Inc.

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the three-month periods ended March 31

[Unaudited]

[in thousands of Canadian dollars]

	2024	2023
	\$	\$
Net earnings	3,496	9,497
Other comprehensive income		
<i>Other comprehensive income (loss) to be reclassified to earnings in subsequent periods</i>		
Unrealized income (loss) on derivative financial instruments, net of income tax expense of \$55 [2023 – recovery of \$9]	158	(27)
Foreign currency translation adjustments	470	(8)
Net other comprehensive income (loss) to be reclassified to earnings in subsequent periods	628	(35)
<i>Items not to be reclassified to earnings in subsequent periods</i>		
Recognized actuarial (loss) gain on defined benefit pension plans, net of income tax recovery of \$108 [2023 – expense of \$46]	(310)	133
Recognized actuarial gain (loss) on other post-retirement benefit, net of income tax expense of \$0 [2023 – recovery \$0]	2	(1)
Net other comprehensive (loss) income not to be reclassified to earnings in subsequent periods	(308)	132
Other comprehensive income	320	97
Total comprehensive income	3,816	9,594

See accompanying notes

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the three-month periods ended March 31
[Unaudited]
[in thousands of Canadian dollars]

	Share capital \$	Contributed surplus \$	Deficit \$	Foreign currency translation reserve \$	Total equity \$
As at December 31, 2022	8,867	272,889	(157,972)	534	124,318
Net earnings	—	—	9,497	—	9,497
Other comprehensive income (loss)	—	—	132	(35)	97
Total comprehensive income (loss)	—	—	9,629	(35)	9,594
Dividends declared [note 9]	—	—	(909)	—	(909)
As at March 31, 2023	8,867	272,889	(149,252)	499	133,003
As at December 31, 2023	8,761	271,589	(145,894)	261	134,717
Net earnings	—	—	3,496	—	3,496
Other comprehensive (loss) income	—	—	(308)	628	320
Total comprehensive income	—	—	3,188	628	3,816
Dividends declared [note 9]	—	—	(1,014)	—	(1,014)
Shares repurchased and cancelled	(109)	(1,245)	—	—	(1,354)
As at March 31, 2024	8,652	270,344	(143,720)	889	136,165

See accompanying notes

Supremex Inc.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three-month periods ended March 31

[Unaudited]

[in thousands of Canadian dollars]

	Notes	2024 \$	2023 \$
OPERATING ACTIVITIES			
Net earnings		3,496	9,497
Non-cash adjustments to reconcile net earnings to net cash flows			
Depreciation of property, plant and equipment		1,633	1,547
Depreciation of right-of-use assets		1,354	1,346
Amortization of intangible assets		1,709	1,193
Amortization of deferred financing costs	7	53	67
Loss (gain) on disposal of property, plant and equipment		7	(33)
Interest on contingent consideration payable		5	7
Deferred income tax recovery		(231)	(86)
Change in accrued pension benefit net assets		301	115
Change in other long-term liabilities		(616)	71
		7,711	13,724
Variations in working capital accounts			
Variation in accounts receivable		(4,917)	4,016
Variation in income taxes recoverable or payable		(478)	(1,985)
Variation in inventories		(1,674)	(1,656)
Variation in prepaid expenses		(1,465)	(551)
Variation in accounts payable and accrued liabilities		6,202	(5,982)
Variation in provisions		(277)	(20)
Change in other long-term liabilities		(6)	(5)
Net cash flows related to operating activities		5,096	7,541
INVESTING ACTIVITIES			
Business combinations, net of cash acquired		—	(27,067)
Acquisition of property, plant and equipment and right-of-use assets		(457)	(4,313)
Acquisition of intangible assets		—	(5)
Proceeds from disposal of property, plant and equipment		94	180
Net cash flows related to investing activities		(363)	(31,205)
FINANCING ACTIVITIES			
Net change in secured revolving credit facility		(1,829)	25,307
Repayment of term loans		(60)	(55)
Repayment of lease liabilities		(1,254)	(1,167)
Purchase of share capital for cancellation	8	(1,354)	—
Payment of contingent consideration payable		(50)	(243)
Net cash flows related to financing activities		(4,547)	23,842
Net change in cash during the period		186	178
Net foreign exchange difference		(246)	12
Cash, beginning of period		1,066	1,929
Cash, end of period		1,006	2,119
Supplemental information ⁽¹⁾			
Interest paid		1,163	1,817
Interest received		22	14
Income taxes paid		1,894	5,424
Income taxes received		22	—

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

See accompanying notes

Supremex Inc.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2024 and 2023

[Unaudited, expressed in thousands of Canadian dollars, except per share amounts]

1. CORPORATE INFORMATION

Supremex Inc. (the “Company” or “Supremex”) was incorporated on March 31, 2006 under the *Canadian Business Corporations 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, in 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, fundraising, 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 revenue from packaging and specialty products is not subject to seasonal patterns (i.e. specialty folding cartons for large multinational customers). Only a small portion, primarily the e-commerce offering, is subject to seasonal patterns related to the holidays. As such, there is currently little to no seasonal effect from packaging and specialty products on Supremex’ total revenue.

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 and statement of compliance

The unaudited interim condensed consolidated financial statements include the accounts of the Company and its subsidiaries. They are presented in Canadian dollars, which is the functional currency of the Company, and tabular amounts are rounded to the nearest thousand (\$000) except when otherwise indicated.

The unaudited interim condensed consolidated financial statements 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, 2023, 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, 2023.

These unaudited interim condensed consolidated financial statements were approved by the Company’s Board of Directors on May 8, 2024 and have not been audited or reviewed by the Company’s auditors.

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.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2024 and 2023

[Unaudited, expressed in thousands of Canadian dollars, except per share amounts]

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, 2023.

4. BUSINESS COMBINATIONS

2023 Business Combinations

Graf-Pak Inc.

On May 8, 2023, the Company acquired the assets of Graf-Pak Inc. ("Graf-Pak"), for a cash consideration of \$5,890, net of working capital adjustments and on a cash-free and debt-free basis. Graf-Pak is a provider of folding carton packaging solutions to a variety of commercial markets.

The goodwill related to the acquisition is composed of expected growth and operational synergies and is allocated to the packaging CGU. Goodwill deductible for tax purposes is expected to amount to \$291.

Impression Paragraph Inc.

On January 16, 2023, the Company acquired the shares of Impression Paragraph Inc. ("Paragraph"), for a cash consideration of \$25,678, net of cash acquired and working capital adjustments. Paragraph is an integrated provider of paper-based packaging, print and point of sale products for a broad range of commercial markets, which operates a facility located in Ville Saint-Laurent, in Quebec.

The goodwill related to the acquisition is composed of expected growth and operational synergies and is allocated to the packaging CGU. The goodwill is non-deductible for tax purposes.

Purchase Price Allocation

As at March 31, 2024, the Company had not finalized the allocation of the consideration paid for the Graf-Pak acquisition mainly due to final working capital adjustments that have not been finalized. Accordingly, the fair values of the assets acquired and the liabilities assumed, including goodwill, are subject to change. The purchase price allocation that reflects the estimated fair value of assets acquired and liabilities assumed at the acquisition date, using the acquisition method, is as follows:

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[Unaudited, expressed in thousands of Canadian dollars, except per share amounts]

	Final purchase price allocation Paragraph \$	Preliminary purchase price allocation Graf-Pak \$	2023 Total \$
Net assets acquired			
Cash	550	—	550
Accounts receivable	5,448	638	6,086
Inventories	3,005	761	3,766
Prepaid expenses	235	—	235
Total current assets	9,238	1,399	10,637
Property, plant and equipment	8,094	4,347	12,441
Right-of-use assets	3,707	—	3,707
Software	301	—	301
Customer relationships	12,000	830	12,830
Goodwill	7,793	291	8,084
Total assets	41,133	6,867	48,000
Accounts payable and accrued liabilities	4,820	977	5,797
Income taxes payable	37	—	37
Long-term debt	1,351	—	1,351
Lease liabilities	3,457	—	3,457
Deferred tax liabilities	5,240	—	5,240
Net assets acquired	26,228	5,890	32,118
Cash acquired	550	—	550
Cash consideration	25,678	5,890	31,568
Total acquisition-related costs	445	251	696
Total acquisition-related costs recognized as an expense in 2023	132	251	383

5. INVENTORIES

	March 31, 2024 \$	December 31, 2023 \$
Raw materials	14,849	14,293
Work in progress	1,347	1,910
Finished goods	18,901	17,220
	35,097	33,423

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-month period ended March 31, 2024 is \$52,929 [2023 — \$58,107].

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6. RESTRUCTURING PROVISIONS

In the fourth quarter of 2023, the Company announced optimization initiatives in its packaging and specialty products segment. The initiatives mainly include the closing of its Saint-Hyacinthe, Quebec, facility, acquired as part of the Impression Paragraph Inc. transaction completed in 2023. Restructuring expenses related to these initiatives, mainly comprised of employee related charges, decommissioning costs, impairment of right-of-use asset and costs to relocate machinery and inventory, amounted to \$24 in the first quarter of 2024 \$1,317 in 2023.

In 2022, the Company had approved a restructuring initiative to accelerate the move of its folding carton plant in the Town of Mount Royal, Quebec, following receipt of an early termination notice from the lessor. As a result of this initiative, the affected folding carton business was transferred to the Durabox corrugated packaging facility in Lachine, Quebec. Consequently, the Durabox business was wound down. Restructuring expenses related to these activities, mainly comprised of employee related charges, inventory write-downs and costs incurred to relocate the business, amounted to \$955 during 2023.

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

	March 31, 2024	December 31, 2023
	\$	\$
Balance, beginning of year	582	25
Restructuring expenses	24	2,272
Impairment of right-of-use assets	—	(604)
Gain on disposal of assets	—	148
Payments	(301)	(1,259)
Balance, end of period	305	582

7. LONG-TERM DEBT

	March 31, 2024	December 31, 2023
	\$	\$
Secured revolving credit facility	53,801	55,630
Term loans	1,076	1,136
Total debt	54,877	56,766
Deferred financing costs	(203)	(256)
Current portion	(247)	(245)
Long-term portion	54,427	56,265

Secured revolving credit facility

The Company has a three-year senior secured revolving credit facility of \$120,000 which 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 2026, following the approval of a one-year extension in May 2023, and no principal repayments are required prior to maturity. 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 March 31, 2024, the amount outstanding on the credit facility was \$53,801.

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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 March 31, 2024.

Term loans

The Company has four term loans totaling \$1,076 as at March 31, 2024, that were assumed following the acquisition of Paragraph [note 4]. The loans bear interest at rates ranging from 4.23% to 4.69% and are repayable in monthly instalments totaling \$24, including capital and interest. The loans mature between March 2026 and July 2028.

Other

As at March 31, 2024, the Company had outstanding letters of credit totaling \$241 [\$241 as at December 31, 2023].

The effective interest rate on the secured credit facility was 5.70% as at March 31, 2024 [5.74% as at December 31, 2023].

Net financing charges are as follows:

	Three-month periods ended March 31,	
	2024	2023
	\$	\$
Interest on secured credit facility	781	1,170
Interest on lease liabilities	393	399
Interest income on defined benefit plans obligations	(130)	(182)
Other interest expense	17	16
Amortization of deferred financing costs	53	67
	1,114	1,470

8. SHARE CAPITAL

The change in share capital was as follows:

	Number of common shares	Share capital \$
Balance, as at December 31, 2022 and March 31, 2023	25,977,069	8,867
Balance, as at December 31, 2023	25,666,269	8,761
Purchase of share capital for cancellation	(318,600)	(109)
Balance, as at March 31, 2024	25,347,669	8,652

On August 29, 2023, the Company announced that it had received approval from the TSX to purchase by way of a normal course issuer bid ("NCIB") for cancellation, up to 1,294,058 of its common shares, representing approximately 5.0% of its 25,881,169 issued and outstanding common shares as at August 18, 2023, for a period of twelve months, beginning on August 31, 2023.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2024 and 2023

[Unaudited, expressed in thousands of Canadian dollars, except per share amounts]

During the three-month period ended March 31, 2024, the Company repurchased 318,600 common shares for cancellation through the NCIB in consideration of \$1,354 [2023 – no common shares were repurchased]. The excess of the purchase price over the carrying value in the amount of \$1,245 [2023 – no common shares were repurchased] was recorded as a reduction of contributed surplus.

Deferred Share Unit Plan (“DSU”)

The financial liability resulting from the DSU plan of \$1,882 [December 31, 2023 – \$2,268] is presented under “*Accounts payable and accrued liabilities*”.

During the three-month period ended March 31, 2024, no amount [2023 – nil] of variable executive compensation was allocated in DSUs and an amount of \$335 [2023 – nil] was paid out. The net compensation expense for the DSU Plan amounted to \$51 [2023 – \$188] during the three-month period ended March 31, 2024 and is recognized under Selling, general and administrative expenses.

Performance Share Unit Plan (“PSU”)

The financial liability resulting from the PSU Plan of \$657 [December 31, 2023 – \$617] is presented under “*Accounts payable and accrued liabilities*”.

During the three-month period ended March 31, 2024, the net compensation expense for the PSU Plan amounted to \$40 [2023 – \$69] and is recognized under Selling, general and administrative expenses.

9. DIVIDENDS

Dividends declared from January 1, 2024 to March 31, 2024 were as follows:

Declaration date	Record date	Payment date	Per share \$	Dividend \$
February 21, 2024	March 21, 2024	April 5, 2024	0.04	1,014
Total				1,014

Dividends declared from January 1, 2023 to March 31, 2023 were as follows:

Declaration date	Record date	Payment date	Per share \$	Dividend \$
February 22, 2023	March 23, 2023	April 7, 2023	0.035	909
Total				909

10. 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, 2023, prepared in accordance with IFRS.

Supremex Inc.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2024 and 2023

[Unaudited, expressed in thousands of Canadian dollars, except per share amounts]

The following tables provide the segmented EBITDA before Corporate and other non-allocated expenses:

	2024		
	\$		
	Envelope	Packaging & Specialty Products	Total
Revenue	53,426	19,842	73,268
Operating expenses	36,913	15,676	52,589
Selling, general and administrative expenses	5,609	2,956	8,565
Segmented Adjusted EBITDA⁽¹⁾	10,904	1,210	12,114
Corporate and other non-allocated expenses			1,631
Depreciation of property, plant and equipment			1,633
Depreciation of right-of-use assets			1,354
Amortization of intangible assets			1,709
Restructuring expenses [note 6]			24
Net financing charges [note 7]			1,114
Earnings before income taxes			4,649

	2023		
	\$		
	Envelope	Packaging & Specialty Products	Total
Revenue	64,455	23,967	88,422
Operating expenses	41,137	17,032	58,169
Selling, general and administrative expenses	6,050	3,086	9,136
Segmented Adjusted EBITDA⁽¹⁾	17,268	3,849	21,117
Corporate and other non-allocated expenses			2,276
Depreciation of property, plant and equipment			1,547
Depreciation of right-of-use assets			1,346
Amortization of intangible assets			1,193
Inventory revaluation related to business combinations			67
Acquisition costs [note 4]			191
Restructuring expenses [note 6]			126
Net financing charges [note 7]			1,470
Earnings before income taxes			12,901

⁽¹⁾ The Chief Executive Officer uses adjusted earnings before interest, taxes, depreciation and amortization ("Adjusted EBITDA"), as a measure of financial performance for assessing the performance of each of the Company's segments. Adjusted EBITDA equals EBITDA adjusted to remove items of significance that are not in the normal course of operations and corporate and other non-allocated expenses. These non-recurring items of significance include, but are not limited to, charges for impairment of assets, restructuring expenses, value adjustment on inventory acquired and acquisition costs.

The Company's non-current assets amounted to \$143,213 in Canada and \$50,297 in the United States as at March 31, 2024 [\$140,935 and \$50,329, respectively, as at December 31, 2023]. The Company's revenue amounted to \$40,992, in Canada and \$32,276, in the United States for the three-month period ended March 31, 2024 based on the customer's locations [2023 — \$51,278 in Canada and \$37,144 in the United States].

Supremex Inc.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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[Unaudited, expressed in thousands of Canadian dollars, except per share amounts]

11. SUBSEQUENT EVENTS

Business combination

On May 1st, 2024, the Company concluded the acquisition of the assets of Forest Envelope Group, a regional leader in specialty envelope manufacturing and lithography located in Bolingbrook, Illinois in the Greater Chicago area, for a total closing cash consideration of \$2,460 [US \$1,800] on a cash-free and debt-free basis. The acquisition was financed through the Company's existing credit facility and the total consideration amount is subject to customary adjustments. The preliminary purchase price allocation will be prepared once information on the fair values of assets acquired and liabilities assumed is readily available.

Dividend declaration

On May 8, 2024, the Board of Directors declared a quarterly dividend of \$0.04 per common share, payable on June 21, 2024, to the shareholders of record at the close of business on June 6, 2024. This dividend is designated as an "eligible" dividend for the purpose of the *Income Tax Act* (Canada) and any similar provincial legislation.