Supremex

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2014

The following management's discussion and analysis of financial condition and results of operations ("MD&A"), dated May 7, 2014, of Supremex Inc. ("Supremex" or the "Company") should be read together with the accompanying unaudited interim condensed consolidated financial statements and related notes of the Company for the three months period ended March 31, 2014. These consolidated financial statements of the Company have been prepared by management in accordance with IAS 34, Interim Financial Reporting ("IAS 34"). 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, 2013. The fiscal year of the Company ends on December 31. The Company's reporting currency is the Canadian dollar. Per share amounts are calculated using the weighted average number of shares outstanding for the three-month period ended March 31, 2014. The consolidated financial statements for the three-month period ended March 31, 2014 have not been audited or reviewed by the Company's auditors.

This MD&A contains forward-looking statements. Please see "Forward-Looking Statements" for a discussion of the risks, uncertainties and assumptions relating to these statements. In addition to our results reported in accordance with IAS 34, the MD&A may contain other non-IFRS financial measures. Terms by which non-IFRS financial measures are identified include, but are not limited to, "EBITDA" or other similar expressions. 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 "Definition of EBITDA" and "Selected Consolidated Financial Information" for the reconciliation of EBITDA to net earnings.

Overview

Supremex is Canada's leading manufacturer and marketer of a broad range of stock and custom envelopes and related products. Supremex employs approximately 520 people and is the only national envelope manufacturer in Canada, with eight manufacturing facilities strategically located across Canada, including one facility in the United States. This national presence allows Supremex to meet the manufacturing needs of large national customers, such as large Canadian corporations, nationwide resellers and government bodies, as well as paper merchants and solution and process providers.

Highlights and Overall Performance

Revenue in the first quarter of 2014 amounted to $33.9 million compared with $33.7 million in the first quarter of 2013, an increase of 0.7% attributable to the sales increase in the United States, which more than offset the decrease of volume in Canada.

EBITDA for the first quarter of 2014 amounted to $7.3 million compared with $7.0 million in 2013, without taking into account the gain of $2.8 million resulting from the 2013 defined benefit pension plan amendments. A favorable product mix combined with control over labor costs contributed to this increase of $0.3 million in profitability offsetting the increase in costs of raw materials. The amendments made in 2013 to the defined benefit pension plan and to the group insurance benefits generated savings, which also positively contributed to this first quarter results.

Net earnings in the first quarter of 2014 amounted to $3.4 million compared with $4.8 million in the first quarter of 2013. Net earnings in 2013 benefited from the non-cash gain of $2.8 million resulting from the amendments reducing early retirement and bridging benefits of the defined benefit pension plan effective January 1, 2013.

As a result, earnings per share amounted to $0.12 in the first quarter of 2014 compared to $0.16 in the comparative period of 2013.

On March 4, 2014, the Company announced the departure of Mr. Gilles Cyr, President and Chief Executive Officer. The Company established a transition plan and, in the interim, Dany Paradis, Chairman of the Board, has been appointed Interim President and Chief Executive Officer.

Supremex pays quarterly dividends to shareholders at the discretion of the Board of Directors. A dividend of $1,158,435 or $0.04 per share was declared on February 28, 2014 and paid on March 14, 2014.

During the first quarter of 2014, the Company repaid a total amount of $2.5 million on its secured credit facilities.

Summary of Quarterly Results

Supremex's revenue is subject to the seasonal advertising and mailing patterns of its customers. The number of units 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, and the holiday and tax seasons. The number of units sold by Supremex is generally lower during spring and summer in anticipation of a slowdown in mailing activities of businesses during the summer. As a result, Supremex's 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.

The following table presents a summary of operating results of the Company on a quarterly basis from April 1, 2012 to March 31, 2014.

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

	Mar. 31 2014	Dec. 31 2013	Sept. 30, 2013	June 30, 2013	Mar. 31, 2013 (2)	Dec. 31 2012 (2)	Sept. 30, 2012 (2)	June 30, 2012 (2)
	$	$	$	$	$	$	$	$
Revenue	**33,916**	33,583	29,776	31,941	33,666	33,737	30,703	31,831
EBITDA (1)	**7,345**	6,714	5,370	6,130	9,765	7,094	6,089	5,122
Earnings (loss) before income taxes	**4,601**	3,548	2,166	3,307	6,423	3,873	(25,973)	1,590
Net earnings (loss)	**3,368**	2,737	1,577	2,462	4,755	2,981	(26,271)	1,161
Net earnings (loss) per share	**0.12**	0.10	0.05	0.09	0.16	0.10	(0.90)	0.04

(1) See "Definition of EBITDA." EBITDA is not a recognized measure under IFRS and does not have a standardized meaning prescribed by IFRS. EBITDA may not be comparable to similar measures presented by other issuers.

(2) Restated following the transition to the new accounting standard IAS 19 *Employee Benefits* as described in note 4 to the Company's audited consolidated financial statements for the year ended December 31, 2013.

During most of the 2012 and 2013 quarters, revenue has remained relatively constant. The business was negatively affected by a general decline in the envelope market, which was compensated by a better product mix. However, the recent weakening of the Canadian dollar has allowed the Company to increase its sales in the United States, hence generating an increase in revenue during the first quarter of 2014. The third quarter of 2012 loss is attributable to a goodwill impairment of $28.9 million considering the decline in North America's envelope industry.

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

	Three-month periods ended March 31,		
	2014	**2013**	**2012 (2)**
	$	**$**	**$**
Revenue	**33,916**	33,666	35,604
Operating expenses	**22,336**	20,268	24,688
Selling, general and administrative expenses	**4,235**	3,633	4,613
EBITDA (1)	**7,345**	9,765	6,303
Amortization of property, plant and equipment	**881**	986	845
Amortization of intangible assets	**1,541**	1,541	1,541
Loss (gain) on disposal of property, plant and equipment	**—**	(9)	9
Operating earnings	**4,923**	7,247	3,908
Financing charges	**322**	824	463
Earnings before income taxes	**4,601**	6,423	3,445
Income taxes expenses	**1,233**	1,668	960
Net earnings	**3,368**	4,755	2,485
Basic and diluted net earnings per share	**0.12**	0.16	0.09
Dividend declared per share	**0.04**	0.03	0.03
Total assets	**118,688**	127,123	163,128
Secured credit facilities	**35,550**	49,250	54,250

(1) See "Definition of EBITDA."
(2) Restated following the transition to the new accounting standard IAS 19 *Employee Benefits* as described in note 4 to the Company's audited consolidated financial statements for the year ended December 31, 2013.

Results of Operations

Three-month period ended March 31, 2014 compared with three-month period ended March 31, 2013

Revenue

Revenue for the three-month period ended March 31, 2014 amounted to $33.9 million compared with $33.7 million for the three-month period ended March 31, 2013, an increase of $0.2 million or 0.7%. The increase in revenue was mainly attributable to a higher number of units sold in the United States and partially offset by a decrease of volume in Canada.

Revenue in Canada decreased by $1.3 million or 4.2%, from $30.9 million to $29.6 million, while revenue in the United States increased by $1.5 million or 55.8%, from $2.8 million to $4.3 million.

The decrease in revenue in Canada was driven by a 13.3% decrease in the number of units sold, which was partially compensated by a change in product mix that improved the average selling price. The merchants, form resellers, public sector and direct mail negatively affected the volume sold in 2014.

The increase in revenue in the United States was driven by a 26.3% increase in the number of units sold, by an increase in the average selling price and also by the appreciation of the US dollar versus the Canadian dollar in the first three months of 2014.

Operating expenses

Operating expenses for the three-month period ended March 31, 2014 amounted to $22.3 million compared with $20.3 million for the same period in 2013, an increase of $2.0 million or 10.2.%. This increase is mainly explained by the gain of $2.1 million resulting from the 2013 defined benefit pension plan amendments which, combined to changes in the group insurance benefits, generated savings in the first quarter of 2014 when compared to 2013. While costs of raw materials were up, lower labor costs positively affected the operating expenses of the first quarter.

Selling, general and administrative expenses

Selling, general and administrative expenses totalled $4.2 million for the three-month period ended March 31, 2014 compared with $3.6 million for the same period in 2013, an increase of $0.6 million or 16.6%. The increase is mainly attributable to the non-cash impact of the defined benefits pension plan amendments of $0.7 million effective January 1, 2013 reducing early retirement and bridging benefits.

EBITDA

As a result of the changes described above, EBITDA stood at $7.3 million for the three-month period ended March 31, 2014 compared with $9.8 million for the same period in 2013, a decrease of $2.5 million or 24.8%.

Amortization

Aggregate amortization expense for the three-month period ended March 31, 2014 amounted to $2.4 million compared with $2.5 million for the comparable period of 2013 representing a decrease of $0.1 million or 4.1%.

Financing charges

Financing charges for the three-month period ended March 31, 2014 amounted to $0.3 million compared with $0.8 million for the same period in 2013. The decrease resulted mainly from the impact of the reduced level of debt in 2013, by a gain on valuation of a derivative financial instrument and by an interest revenue on the defined benefit plan obligations.

Earnings before income taxes

Due to the fluctuations in revenue and expenses described herein, earnings before income taxes totalled $4.6 million for the three-month period ended March 31, 2014 compared with $6.4 million for the same period in 2013, a decrease of $1.8 million or 28.4%.

Provision for income taxes

During the three-month period ended March 31, 2014, the Company recorded a provision for income taxes of $1.2 million compared with $1.7 million for the three-month period ended March 31, 2013, a decrease of $0.5 million or 26.1%. The decrease is mainly attributable to higher earnings in the first quarter of 2013 resulting from the amendments reducing early retirement and bridging benefits of the defined benefit pension plan effective January 1, 2013.

Net earnings

As a result of the changes described above, net earnings amounted to $3.4 million for the three-month period ended March 31, 2014 compared with $4.8 million for the same period in 2013, a decrease of $1.4 million or 29.1%.

Other comprehensive loss

The higher than expected return on assets during the first quarter of 2014 did not offset the decrease of the discount rate for accrued plan benefit obligation and has generated a net actuarial loss of $3.8 million. This variation impacted the Company's other comprehensive income and deficit.

Segmented Information

The Company currently operates in one business segment: the manufacturing and sale of envelopes. The Company's non-current assets amounted to $87.1 million in Canada and $0.8 million in the United States as at March 31, 2014 as compared to $94.4 million and $0.8 million as at December 31, 2013, respectively.

In Canada, the Company's revenue amounted to $29.6 million for the three-month period ended March 31, 2014 compared with $30.9 million for the same period in 2013, representing a decrease of $1.3 million or 4.2%. In the United States, the Company's revenue amounted to $4.3 million for the three-month period ended March 31, 2014 compared with $2.8 million for the same period in 2013, representing an increase of $1.5 million or 55.8%.

Liquidity and Capital Resources

Operating activities

Cash of $3.3 million was generated in operating activities during the three-month period ended March 31, 2014 compared with $0.9 million used during the same period of 2013. The increase in net cash flows from operating activities is primarily due to the decrease in net change in non-cash working capital balances. Working capital required $2.0 million during the first quarter of 2014 compared to $5.8 million for the same period in 2013. This is mainly due to the decrease of accounts receivable and less outflows related to accounts payable and accrued liabilities.

Investing activities

Cash of $0.2 million was used in investing activities during the three-month period ended March 31, 2014, compared to $0.3 million in 2013, a decrease of $0.1 million related to less acquisition of property, plant and equipment.

Financing activities

In the three-month period ended March 31, 2014, $3.6 million was used in financing activities for the repayment of the credit facilities and the payment of dividends, compared with $1.6 million in 2013.

Liquidity and capital resources summary

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

Off-Balance Sheet Arrangements

Operating lease commitments have been disclosed in the Company's audited consolidated financial statements as at December 31, 2013 and did not significantly change since that date. The Company has no other off-balance sheet arrangements.

Capitalization

As at May 7, 2014, the Company had 28,960,867 common shares outstanding.

Financial Position Highlights

(In thousands of dollars)

	March 31, 2014 $	**December 31, 2013 $**
Working capital	**12,933**	11,080
Total assets	**118,688**	126,754
Total secured credit facilities[1]	**35,190**	37,583
Equity	**64,029**	65,623

[1] Net of deferred financing cost of $360,107 ($416,966 at Dec. 31, 2013)

The Company was in compliance with the covenants of its credit facilities as at March 31, 2014.

Contingent liability

During the three-month period ended March 31, 2014, a former executive instituted legal proceedings against the Company, claiming $1,077,474 following his departure. Given the nature of this litigation, uncertainty exists as to the possibility of a future outflow, its amount and its timing, if any. The litigation is recent and proceedings at their early stage. Therefore, the Company's assessment of the probability of a future outflow may change as information becomes available. As at March 31, 2014, the Company had not recorded a provision as part of its liabilities.

Disclosure Controls and Internal Controls over Financial Reporting

In accordance with National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings*, the Company has filed certifications signed by the Interim President and Chief Executive Officer and the Vice-President, Finance, that, among other things, report on the design of disclosure controls and procedures as well as the design 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 Interim President and Chief Executive Officer and the Vice-President, Finance, by others 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 control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The 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 control over financial reporting that occured during the period beginning January 1, 2014 and ended March 31, 2014 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Recent Events

Effective on April 9, 2014, as permitted by the credit agreement, the $15 million revolving credit facility was reduced to $10 million as requested by the Company.

On April 22, 2014, the Board of Directors of the Company declared a dividend of $0.04 per share payable on May 6, 2014, to the shareholders of record as at April 25, 2014.

The TSX recently approved our Normal Course Issuer Bid ("NCIB") program which will allow the purchase of up to 1,448,000 common shares from the period commencing on May 12, 2014 until May 11, 2015. The new NCIB program will not impede our key objective of reducing our debt level in fiscal 2014.

Significant accounting policies and estimates

The Company's unaudited interim consolidated financial statements for the three-month ended March 31, 2014 have been prepared by management in accordance with IFRS, as disclosed in Note 1 accompanying the interim consolidated financial statements for the same period.

Risk Factors

The Company's result of operations, business prospects and financial condition are subject to a number of risks and uncertainties, and are affected by a number of factors, outside the control of the management. Details are provided in the "Risk Factors" section of the Company's 2013 Annual Information Form, dated March 28, 2014 (which can be found at www.sedar.com).

Forward-Looking Statements

This MD&A contains "forward-looking statements" within the meaning of applicable Canadian securities laws, including (but not limited to) statements about the EBITDA, future performance of Supremex and similar statements concerning anticipated future results, circumstances, performance or expectations. A statement is forward-looking when it uses what Supremex knows and expects today to make a statement about the future. Forward-looking statements may include words such as anticipate, assumption, believe, could, expect, goal, guidance, intend, may, objective, outlook, plan, seek, should, strive, target and will. These statements relate to future events or future performance and reflect 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 statements reflect current assumptions, expectations and estimates of management and are based on information currently available to Supremex as at the date of this MD&A.

Forward-looking statements are subject to certain risks and uncertainties, and should not be read as guarantees of future performance or results and actual results may differ materially from the conclusion, forecast or projection stated in such forward-looking statements. These risks, uncertainties and other factors include but are not limited to the following: economic cycles, availability of capital, decline in envelope consumption, increase of competition, exchange rate fluctuation, raw material increases, credits risks with respect to trade receivables, increase in funding of pension plans, postal services deficiencies, interest rates fluctuation and potential risk of litigation. Such assumptions, expectations, estimates, risks and uncertainties are discussed throughout our MD&A for fiscal 2013 and, in particular, in "Risk Factors". Consequently, we cannot guarantee that any forward-looking statements will materialize. Readers should not place any undue reliance on such forward-looking statements.

Definition of EBITDA

References to "EBITDA" are to earnings before financing charges, income tax expense, amortization of property, plant and equipment and of intangible assets and gain (loss) on disposal of property, plant and equipment. Supremex believes that EBITDA is a measurement commonly used by readers of financial statements to evaluate a company's operational cash-generating capacity and ability to discharge its financial expenses.

EBITDA is not an earnings measure recognized under IFRS and does not have a standardized meaning prescribed by IFRS. Therefore, EBITDA may not be comparable to similar measures presented by other entities. Investors are cautioned that 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-month periods ended March 31, 2014 and 2013

All amounts expressed in Canadian dollars

NOTICE

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

Supremex Inc.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at [Unaudited]	Notes	March 31, 2014 $	December 31, 2013 $
ASSETS	**3**		
Current assets			
Cash		**1,037,612**	1,506,205
Accounts receivable		**16,503,602**	17,375,214
Inventories	**2**	**12,464,213**	12,147,658
Prepaid expenses		**774,440**	522,033
Total current assets		**30,779,867**	31,551,110
Property, plant and equipment		**25,224,325**	25,880,298
Accrued pension benefit assets		**3,064,000**	8,161,800
Intangible assets		**12,730,254**	14,271,229
Goodwill		**46,889,125**	46,889,125
Total assets		**118,687,571**	126,753,562
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		**12,510,355**	14,418,279
Provisions		**403,710**	411,276
Income tax payable		**569,807**	891,201
Current portion of secured credit facilities	**3**	**4,362,903**	4,750,000
Total current liabilities		**17,846,775**	20,470,756
Secured credit facilities	**3**	**30,826,990**	32,833,034
Deferred income tax liabilities		**4,217,360**	5,982,971
Other post-retirement benefit obligations		**907,900**	888,500
Derivative financial liability	**3**	**859,216**	954,925
Equity			
Share capital		**9,885,008**	9,885,008
Contributed surplus		**280,108,017**	280,108,017
Deficit		**(225,937,366)**	(224,318,659)
Foreign currency translation reserve		**(26,329)**	(50,990)
Total equity		**64,029,330**	65,623,376
Total liabilities and equity		**118,687,571**	126,753,562

Subsequent events [*note 7*]

See accompanying notes

On behalf of the Directors:

By: (Signed) Dany Paradis
Director

By: (Signed Mathieu Gauvin)
Director

Supremex Inc.

CONSOLIDATED STATEMENTS OF EARNINGS

For the three-month periods ended March 31 [Unaudited]	Notes	2014 $	2013 $
Revenue		**33,915,629**	33,665,729
Operating expenses	**2**	**22,335,224**	20,268,104
Selling, general and administrative expenses		**4,234,917**	3,632,220
Operating earnings before amortization and gain on disposal of property, plant and equipment		**7,345,488**	9,765,405
Amortization of property, plant and equipment		**881,443**	985,819
Amortization of intangible assets		**1,540,975**	1,540,975
Gain on disposal of property, plant and equipment		**—**	(8,910)
Operating earnings		**4,923,070**	7,247,521
Financing charges	**3**	**321,964**	824,405
Earnings before income taxes		**4,601,106**	6,423,116
Income tax expense		**1,233,066**	1,668,522
Net earnings		**3,368,040**	4,754,594
Basic and diluted net earnings per share		**0.1163**	0.1642
Weighted average number of shares outstanding		**28,960,867**	28,960,867

See accompanying notes

Supremex Inc.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

For the three-month periods ended March 31 **[Unaudited]**	**2014** **$**	**2013** **$**
Net earnings	**3,368,040**	4,754,594
Other comprehensive income		
Other comprehensive income to be reclassified to earnings in subsequent periods		
Foreign currency translation adjustments	**24,661**	9,391
Net other comprehensive income to be reclassified to earnings in subsequent periods	**24,661**	9,391
Items not to be reclassified to earnings in subsequent periods		
Recognized actuarial (loss) gain on defined benefit pension plans, net of income tax recovery of $1,334,837 [2013 – expense of $1,581,465]	**(3,807,063)**	4,526,935
Recognized actuarial (loss) gain on other post-retirement benefit, net of income recovery of $7,451 [2013 – expense of $932]	**(21,249)**	2,668
Net other comprehensive (loss) income not being reclassified to earnings in subsequent periods	**(3,828,312)**	4,529,603
Other comprehensive (loss) income	**(3,803,651)**	4,538,994
Total comprehensive (loss) income	**(435,611)**	9,293,588

See accompanying notes

Supremex Inc.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the three-month periods ended March 31
[Unaudited]

	Share capital $	Contributed surplus $	Deficit $	Foreign currency translation reserve $	Total equity $
As at December 31, 2013	9,885,008	280,108,017	(224,318,659)	(50,990)	65,623,376
Net earnings	—	—	3,368,040	—	3,368,040
Other comprehensive (loss) income	—	—	(3,828,312)	24,661	(3,803,651)
Total comprehensive income	—	—	(460,272)	24,661	(435,611)
Dividends declared [*note 5*]	—	—	(1,158,435)	—	(1,158,435)
As at March 31, 2014	**9,885,008**	**280,108,017**	**(225,937,366)**	**(26,329)**	**64,029,330**
As at December 31, 2012	9,885,008	280,108,017	(252,002,146)	(83,979)	37,906,900
Net earnings	—	—	4,754,594	—	4,754,594
Other comprehensive income	—	—	4,529,603	9,391	4,538,994
Total comprehensive income	—	—	9,284,197	9,391	9,293,588
Dividends declared [*note 5*]	—	—	(868,826)	—	(868,826)
As at March 31, 2013	9,885,008	280,108,017	(243,586,775)	(74,588)	46,331,662

See accompanying notes

Supremex Inc.

CONSOLIDATED STATEMENTS OF CASH FLOW

For the three-month periods ended March 31 [Unaudited]	Notes	2014 $	2013 $
OPERATING ACTIVITIES			
Net earnings		**3,368,040**	4,754,594
Non-cash adjustment to reconcile net earnings to net cash flows			
Amortization of property, plant and equipment		**881,443**	985,819
Amortization of intangible assets		**1,540,975**	1,540,975
Amortization of deferred financing costs	3	**56,859**	56,859
Gain on disposal of property, plant and equipment		**—**	(8,910)
(Gain) loss on valuation of derivative financial instruments	3	**(95,709)**	20
Deferred income tax (recovery) expense		**(423,323)**	380,809
Change in employees benefits		**10,200**	(2,796,500)
		5,338,485	4,913,666
Working capital adjustments			
Variation in accounts receivable		**871,612**	(1,998,891)
Variation in inventories		**(316,555)**	(405,730)
Variation in prepaid expenses		**(252,407)**	(329,638)
Variation in accounts payable and accrued liabilities		**(1,907,924)**	(3,184,552)
Variation in provisions		**(7,566)**	8,863
Variation in income tax receivable and payable		**(321,394)**	402,661
Change in employee benefits		**(63,600)**	(267,100)
Net cash flows from operating activities		**3,340,651**	(860,721)
INVESTING ACTIVITIES			
Acquisition of property, plant and equipment		**(191,807)**	(306,789)
Proceeds from sale of property, plant and equipment		**—**	8,910
Net cash flows used in investing activities		**(191,807)**	(297,879)
FINANCING ACTIVITIES			
Repayment of secured credit facilities		**(2,450,000)**	(750,000)
Dividends paid	4	**(1,158,435)**	(868,826)
Net cash flows used in financing activities		**(3,608,435)**	(1,618,826)
Net change in cash		**(459,591)**	(2,777,426)
Net foreign exchange difference		**(9,002)**	(9,922)
Cash, beginning of period		**1,506,205**	5,093,876
Cash, ending of period		**1,037,612**	2,306,528
Supplemental information [(1)]			
Interest paid		**473,128**	594,509
Interest received		**3,142**	7,594
Income taxes paid		**1,989,555**	884,984
Income taxes received		**12,227**	—

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

See accompanying notes

1. CORPORATE INFORMATION AND BASIS OF PREPARATION

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

The business of Supremex follows seasonal patterns with the highest revenue occurring from August to February due to seasonal advertising and mailing patterns of its customers since the highest number of mailings related to events including the return to school, fund-raising and the holiday and tax seasons take place during that period. As a result, revenue and financial performance for the three-month period ended March 31, 2014 are not necessarily indicative of the revenue and performance that may be expected for a full year

These unaudited interim condensed consolidated financial statements were approved by the Company's Board of Directors on May 7, 2014 and have not been audited or reviewed by the Company's auditors. 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, 2013, prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). 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, 2013.

2. INVENTORIES

	March 31, 2014 $	**December 31, 2013 $**
Raw materials	**2,765,548**	3,008,114
Work in progress	**165,393**	70,788
Finished goods	**9,533,272**	9,068,756
	12,464,213	12,147,658

The cost of inventories recognized as an expense and included in operating expenses, including the related amortization of property, plant and equipment allocated to inventories, during the three-month period ended March 31, 2014 is $23,173,106 [2013 - $21,146,439].

3. SECURED CREDIT FACILITIES

Amounts owed under revolving and term credit facilities are as follows:

	March 31, 2014 $	December 31, 2013 $
Revolving credit facility [note 7]	**1,737,500**	—
Term credit facility	**33,812,500**	38,000,000
Less: deferred financing costs, net	**(360,107)**	(416,966)
	35,189,893	37,583,034
Current portion	**(4,362,903)**	(4,750,000)
Long-term portion of secured credit facilities	**30,826,990**	32,833,034

Under the terms of the secured credit facilities, the Company is required, among other conditions, to meet certain covenants. The Company was in compliance with these covenants as at March 31, 2014. The secured credit facilities are collateralized by hypothec and security interests covering all present and future assets of the Company and its subsidiaries.

Minimum required payments on secured credit facilities are as follows:

	$
2014	4,362,903
2015	31,187,097

As at March 31, 2014, the effective interest rate on the revolving and term credit facilities was 3.51% [3.53% on the term credit facility as at December 31, 2013]. On January 14, 2011, the Company entered into an interest rate swap agreement for an amount of $30 million at a fixed rate of 2.84% until January 14, 2016, excluding the applicable margin.

Financing charges are as follows:

	Three-month periods ended March 31,	
	2014 $	2013 $
Interest on secured credit facilities	**456,778**	589,195
Interest (income) expense on defined benefit plan obligation	**(97,900)**	181,500
Other interest	**1,936**	(3,169)
Amortization of deferred financing costs	**56,859**	56,859
(Gain) loss on valuation of derivative financial instrument (interest rate swap)	**(95,709)**	20
	321,964	824,405

4. DIVIDENDS

Dividends declared from January 1, 2014 to March 31, 2014 were as follows:

Declaration date	Record date	Payment date	Per share $	Dividend $
February 19, 2014	February 28, 2014	March 14, 2014	0.04	1,158,435
Total				**1,158,435**

Dividends declared from January 1, 2013 to March 31, 2013 were as follows:

Declaration date	Record date	Payment date	Per share $	Dividend $
February 20, 2013	March 4, 2013	March 15, 2013	0.03	868,826
Total				**868,826**

5. EMPLOYEE DEFINED BENEFIT PLANS

The Company's total benefit revenue for the pension plans was $44,100 for the three-month period ended March 31, 2014 including $97,900 of interest income [2013 – revenue of $2,505,100 including $181,500 of net interest cost].

6. SEGMENTED INFORMATION

The Company currently operates in one reporting segment: the manufacturing and sale of envelopes. The Company's non-current assets amounted to $87,145,970 in Canada and $761,734 in the United States as at March 31, 2014 [$94,437,158 and $765,294 respectively, as at December 31, 2013]. The Company's revenue amounted to $29,621,433 in Canada and $4,294,192 in the United States for the three-month period ended March 31, 2014 based on customer location [2013 - $30,909,464 in Canada and $2,756,265 in the United States, respectively].

7. SUBSEQUENT EVENTS

Effective on April 9, 2014, as permitted by the credit agreement, the $15 million revolving credit facility was reduced to $10 million, as requested by the Company.

On April 22, 2014, the Board of Directors has declared a quarterly dividend of $0.04 per common share, payable on May 6, 2014 to shareholders of record at the close of business on April 25, 2014.

8. COMPARATIVE FIGURES

Certain comparative figures from the previous year were reclassified to conform to the presentation adopted for the current year.

9. CONTINGENT LIABILITIES

During the three-month period ended March 31, 2014, a former executive instituted legal proceedings against the Company, claiming $1,077,474 following his departure. Given the nature of this litigation, uncertainty exists as to the possibility of a future outflow, its amount and its timing, if any. The litigation is recent and proceedings at their early stage. Therefore, the Company's assessment of the probability of a future outflow may change as information becomes available. As at March 31, 2014, the Company had not recorded a provision as part of its liabilities.