Supremex

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE AND SIX-MONTH PERIODS ENDED JUNE 30, 2017

The following management's discussion and analysis of financial condition and results of operations ("MD&A"), dated July 31, 2017, 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 and six-month periods ended June 30, 2017. These 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, 2016. The Company's year-end is 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 and six-month periods ended June 30, 2017. The consolidated financial statements for the three and six-month periods ended June 30, 2017, have not been audited or reviewed by the Company's auditors.

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. 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 "net indebtedness to EBITDA ratio". 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 non-IFRS measures" and "Reconciliation of Net Earnings to EBITDA".

Business Overview

Supremex is a leading North American manufacturer and marketer of envelopes and a growing provider of packaging and specialty products. Supremex operates facilities across seven provinces in Canada and three facilities in the United States employing approximately 845 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.

Second Quarter Highlights and Recent Events

- Acquired Stuart Packaging Inc. on July 20, 2017, a leading provider of premium quality folding carton packaging for the consumer market. The transaction was concluded for cash consideration of $17.5 million on a cash-free debt-free basis, plus an amount of up to $2.1 million over 24 months subject to the realization of certain financial targets.
- 2017 Q2 revenues increased by 4.4% year-over-year, reaching $41.1 million.
- Net earnings decreased to $2.8 million (or $0.10 per share) compared with $3.9 million (or $0.14 per share).
- EBITDA[1] stood at $5.4 million, down by $1.5 million from the prior year's result of $6.9 million.
- Maintained strong financial flexibility with a low net indebtedness to EBITDA[1] ratio of 1.1 times.
- Approved a quarterly dividend of $0.06 per share, equivalent to the last quarter and up 9.1% year-over-year.
- Purchased a total of 100,640 common shares for cancellation under the Normal Course Issuer Bid ("NCIB") program, for total considerations of $482,369.
- Renewed the Company's NCIB program to repurchase up to 500,000 common shares for cancellation during a period of 12 months ending August 2, 2018.

[1] Refer to the reconciliation of Net Earnings to EBITDA and to the definition of EBITDA and non-IFRS measures.

Declaration of Dividend

On July 31, 2017, the Board of Directors declared a quarterly dividend of $0.06 per common share, payable on October 13, 2017, to the shareholders of record at the close of business on September 30, 2017. This dividend is designated as an “eligible” dividend for the purpose of the Income Tax Act (Canada) and any similar provincial legislation.

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,	
	2017	**2016**	**2017**	**2016**
Revenue	**41,147**	39,420	**86,298**	80,681
Operating expenses	**30,299**	27,909	**62,972**	57,157
Selling, general and administrative expenses	**5,451**	4,608	**11,034**	9,476
EBITDA[1]	**5,397**	6,903	**12,292**	14,048
Amortization of property, plant and equipment	**817**	1,232	**1,640**	2,479
Amortization of intangible assets	**381**	217	**755**	1,352
(Gain) loss on disposal of property, plant and equipment	**(1)**	(5)	**(1)**	53
Operating earnings	**4,200**	5,459	**9,898**	10,164
Financing charges, net	**183**	195	**367**	452
Earnings before income taxes	**4,017**	5,264	**9,531**	9,712
Income taxes expenses	**1,184**	1,374	**2,617**	2,594
Net earnings	**2,833**	3,890	**6,914**	7,118
Basic and diluted net earnings per share	**0.10**	0.14	**0.24**	0.25
Dividend declared per share	**0.060**	0.055	**0.120**	0.110

(1) Refer to “Definition of EBITDA and non-IFRS measures”

Revenue Information

(In millions of dollars)

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2017	**2016**	**2017**	**2016**
Canadian envelope	**24.5**	28.4	**52.6**	57.9
Volume variation	**-14.9%**	3.2%	**-10.0%**	2.3%
Average selling price variation	**1.6%**	5.3%	**1.1%**	6.0%
Total variation	**-13.5%**	8.6%	**-9.0%**	8.5%
U.S. envelope	**10.4**	8.2	**21.4**	17.4
Volume variation	**16.1%**	45.6%	**20.4%**	50.7%
Average selling price variation	**9.5%**	6.1%	**2.1%**	10.4%
Total variation	**27.1%**	54.4%	**22.9%**	66.5%
Packaging & specialty products				
Canada & U.S.	**6.2**	2.8	**12.3**	5.4
Total variation	**117.6%**	17.0%	**127.2%**	13.1%
Total revenue	**41.1**	39.4	**86.3**	80.7
Revenue variation	**4.4%**	16.4%	**7.0%**	17.7%

Reconciliation of Net Earnings to EBITDA

(In thousands of dollars)

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2017	**2016**	**2017**	**2016**
Net earnings	**2,833**	3,890	**6,914**	7,118
Income tax expense	**1,184**	1,374	**2,617**	2,594
Financing charges, net	**183**	195	**367**	452
(Gain) loss on disposal of property, plant and equipment	**(1)**	(5)	**(1)**	53
Amortization of property, plant and equipment	**817**	1,232	**1,640**	2,479
Amortization of intangible assets	**381**	217	**755**	1,352
EBITDA(1)	**5,397**	6,903	**12,292**	14,048

(1) Refer to "Definition of EBITDA and non-IFRS measurges"

Results of Operations

Three-month period ended June 30, 2017 compared with the three-month period ended June 30, 2016

Revenue

Revenue for the three-month period ended June 30, 2017, increased by 4.4% or $1.7 million reaching $41.1 million compared with $39.4 million during the three-month period ended June 30, 2016, primarily from the contribution of the fiscal 2016 acquisitions (Bowers Envelope Company, Inc. concluded on August 29, 2016, Durabox Paper Inc. on November 28, 2016 and Printer Gateway Inc. on December 23, 2016) as part of the Company's stated diversification strategy, partially offset by the lower volume of Canadian envelope revenue.

Revenue from the Canadian envelope market stood at $24.5 million down by $3.9 million or 13.5% from the second quarter of 2016. The decline was driven mainly by a 14.9% reduction in volume, which was slightly mitigated by an increase of 1.6% in average selling prices. Management believes that the 14.9% reduction is not completely indicative of overall market conditions. Volume of Canadian envelopes increased somewhat artificially in the second quarter of last year as direct mail processors accelerated mailings ahead of the announced threat of a work stoppage at Canada Post in the summer of 2016. In addition, a key account in the financial industry was lost to competition in the second quarter of 2016 but actually resulted in higher than normal sales to this client during the second quarter of 2016 in anticipation of the transition. Canada Post's most recently available information indicates transaction mail volume is 5.9% lower than 2016 and direct mail is 0.3% lower than 2016, which is likely the most accurate reflection of current volume trends for Canadian envelopes.

Revenue from the U.S. envelope market grew to $10.4 million, representing an increase of 27.1% mainly from the contribution of the acquisition of Bowers Envelope Company Inc. located in the Midwestern United States. The number of units sold grew by 16.1% and average selling prices increased by 9.5% primarily from a weaker Canadian dollar during the period compared to the equivalent period of last year.

Revenue from packaging and specialty products reached $6.2 million, an increase of 117.6% resulting primarily from the acquisition of Quebec-based Durabox Paper Inc. and to a lesser extent, Ontario-based Printer Gateway Inc.

Operating Expenses

Operating expenses for the three-month period ended June 30, 2017, were $30.3 million compared with $27.9 million for the same period in 2016, an increase of $2.4 million or 8.6%. The increase is mainly attributable to the 2016 acquired businesses mentioned above, partially offset by lower operating costs in Canada in line with the lower envelope sales volume.

Selling, General and Administrative Expenses

Selling, general and administrative expenses totalled $5.5 million for the three-month period ended June 30, 2017, compared with $4.6 million for the same period in 2016, representing an increase of $0.9 million or 18.3% primarily due to the fiscal 2016 acquisitions.

EBITDA

EBITDA stood at $5.4 million for the three-month period ended June 30, 2017, compared with $6.9 million for the same period in 2016, a decrease of $1.5 million or 21.8%. EBITDA margins stood at 13.1% compared to 17.5% during the second quarter of last year.

The Company's strategy to grow its presence in the U.S. envelope market and diversify into packaging resulted in three acquisitions during fiscal 2016, all in the second half of the year. During this period, the acquisition of Bowers Envelope Company, Inc. significantly grew the Company's presence in the U.S., a much larger and competitive envelope market. Furthermore, the company continues to integrate all three businesses and position them for future growth.

Amortization

Aggregate amortization expense for the three-month period ended June 30, 2017, amounted to $1.2 million compared with $1.4 million for the comparable period of 2016, representing a decrease of $0.2 million or 17.3% mainly explained by the lower amortizable intangible assets given the customer relationships that are now fully amortized 10 years after the initial public offering in 2006.

Financing Charges

Financing charges for the three-month period ended June 30, 2017, were $0.2 million, as in the same period of the prior year.

Earnings before Income Taxes

Due to the fluctuation in revenue and expenses described herein, earnings before income taxes was reduced to $4.0 million during the three-month period ended June 30, 2017 from $5.3 million for the same period in 2016.

Provision for Income Taxes

During the three-month period ended June 30, 2017, the Company recorded a provision for income taxes of $1.2 million compared with a provision for income taxes of $1.4 million for the same period in 2016, attributable to lower earnings before income taxes in this most recent quarter.

Net Earnings

Net earnings stood at $2.8 million (or $0.10 per share) for the three-month period ended June 30, 2017, compared with $3.9 million (or $0.14 per share) for the equivalent same period in 2016, primarily due to the lower sales volume of Canadian envelopes.

Other Comprehensive Income

The discount rate used to calculate the accrued plan benefit obligations decreased to 3.4% as at June 30, 2017 from 3.7% as at March 31, 2017. This decrease generated a pre-tax actuarial loss of $4.1 million that was partially offset by a pre-tax increase in pension assets of $0.2 million.

Six-month period ended June 30, 2017 compared with the six-month period ended June 30, 2016

Revenue

Revenue for the six-month period ended June 30, 2017, increased by 7.0% or $5.6 million reaching to $86.3 million compared with $80.7 million during the six-month period ended June 30, 2016, primarily from the contribution of the fiscal 2016 acquisitions (Bowers Envelope Company, Inc. concluded on August 29, 2016 - Durabox Paper Inc. on November 28, 2016 - Printer Gateway Inc. on December 23, 2016) as part of the Company's stated diversification strategy, partially offset by the lower sales volume of Canadian envelopes.

Revenue from the Canadian envelope market stood at $52.6 million down by $5.3 million or 9.0% from the first six months of 2016. The decline was driven by a 10.0% reduction in volume, which was slightly mitigated by an increase of 1.1% in average selling prices. Management believes that the 10.0% reduction is not completely indicative of overall market conditions. Volume of Canadian envelopes increased somewhat artificially in the second quarter of last year as direct mail processors accelerated mailings ahead of the announced threat of a work stoppage at Canada Post in the summer of 2016. In addition, a key account in the financial industry was lost to competition in the second quarter of 2016 but actually resulted in higher than normal sales to this client during the second quarter of 2016 in anticipation of the transition. Canada Post's most recently available information indicates transaction mail volume is 5.9% lower than 2016 and direct mail is 0.3% lower than 2016, which is likely the most accurate reflection of current volume trends for Canadian envelopes.

Revenue from the U.S. envelope market grew to $21.4 million, representing an increase of 22.9% mainly from the contribution of the acquisition of Bowers Envelope Company Inc. located in the Midwestern United States. The number of units sold grew by 20.4% and average selling prices increased by 2.1%.

Revenue from packaging and specialty products reached $12.3 million, an increase of 127.2% resulting primarily from the acquisition of Quebec-based Durabox Paper Inc. and to a lesser extent, Ontario-based Printer Gateway Inc.

Operating Expenses

Operating expenses for the six-month period ended June 30, 2017, were $63.0 million compared with $57.2 million for the same period in 2016, an increase of $5.8 million or 10.2%. The increase is mainly attributable to the 2016 acquired businesses mentioned above, partially offset by lower operating costs in Canada in line with the lower envelope sales volume.

Selling, General and Administrative Expenses

Selling, general and administrative expenses totaled $11.0 million for the six-month period ended June 30, 2017, compared with $9.5 million for the same period in 2016, representing an increase of $1.5 million or 16.4% primarily due to the fiscal 2016 acquisitions.

EBITDA

EBITDA stood at $12.3 million for the six-month period ended June 30, 2017, compared with $14.0 million for the same period in 2016, a decrease of $1.7 million or 12.5%. EBITDA margins stood at 14.2% compared to 17.4% during the first six months of last year.

The Company's strategy to grow its presence in the U.S. envelope market and diversify into packaging resulted in three acquisitions during fiscal 2016, all in the second half of the year. During this period, the acquisition of Bowers Envelope Company, Inc. significantly grew the Company's presence in the U.S., a much larger and competitive envelope market. Furthermore, the company continues to integrate all three businesses and position them for future growth.

Amortization

Aggregate amortization expense for the six-month period ended June 30, 2017, amounted to $2.4 million compared with $3.8 million for the comparable period of 2016, representing a decrease of $1.4 million or 37.5% mainly explained by the lower amortizable intangible assets given the customer relationships that are now fully amortized 10 years after the initial public offering in 2006.

Financing Charges

Financing charges for the six-month period ended June 30, 2017, remained stable at $0.4 million compared with $0.5 million in the prior year.

Earnings before Income Taxes

Due to the fluctuation in revenue and expenses described herein, earnings before income taxes was $9.5 million during the six-month period ended June 30, 2017, a reduction of 1.9% from $9.7 million for the same period in 2016.

Provision for Income Taxes

During the six-month period ended June 30, 2017, the Company recorded a provision for income taxes of $2.6 million, comparable to the provision for income taxes recorded for the six-month period ended June 30, 2016.

Net earnings

Net earnings amounted to $6.9 million (or $0.24 per share) for the six-month period ended June 30, 2017, compared with $7.1 million (or $0.25 per share) for the equivalent period in 2016.

Other comprehensive income

The discount rate used to calculate the accrued plan benefit obligations decreased to 3.4% as at June 30, 2017 from 3.8% as at December 31, 2016. This decrease generated a pre-tax actuarial loss of $5.4 million that was partially offset by a pre-tax increase in pension assets of $4.0 million.

Segment Information

The Company currently operates in one business segment: the manufacturing and sale of envelopes. The Company's non-current assets amounted to $81.1 million in Canada and $12.0 million in the United States as at June 30, 2017, compared with $79.4 million and $12.8 million respectively as at December 31, 2016.

During the second quarter of 2017, the Company's revenue in Canada was $28.8 million, a reduction of 5.2% from $30.4 million in the equivalent period of 2016, and was $12.3 million in the United States, up by 36.3% from $9.0 million in the equivalent period of last year.

For the six-month period ended June 30, 2017, the Company's revenue in Canada was $61.2 million, a reduction of 1.1% compared with $61.9 million in the equivalent period of 2016, and was $25.1 million in the United States, up by 33.4% from $18.8 million in the equivalent period of last year.

Summary of Quarterly Operating Results from July 1, 2015 to June 30, 2017
(In thousands of dollars, except for per share amounts)

	June 30, 2017	Mar. 31, 2017	Dec. 31, 2016	Sept. 30, 2016	June 30, 2016	Mar. 31, 2016	Dec. 31, 2015	Sept. 30, 2015
Revenue	**41,147**	45,151	43,374	36,514	39,420	41,262	41,287	32,435
EBITDA[(1)]	**5,397**	6,895	7,827	5,508	6,903	7,145	8,107	6,586
Earnings before income taxes	**4,017**	5,514	6,529	3,826	5,264	4,448	5,211	3,824
Net earnings	**2,833**	4,081	4,643	2,832	3,890	3,228	3,804	2,771
Net earnings per share	**0.10**	0.14	0.16	0.10	0.14	0.11	0.13	0.10

(1) Refer to "Definition of EBITDA and non-IFRS measures"

Supremex' 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, the holidays 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' 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, 2017	**Dec. 31, 2016**
Working capital	**22,255**	20,442
Total assets	**133,427**	132,539
Total secured credit facility	**28,804**	26,894
Equity	**83,630**	82,337

For the three-month period ended June 30, 2017, cash decreased by $0.3 million when compared to March 31, 2017 while for the six-month period ended June 30, 2017, cash decreased by $1.3 million compared to the prior year-end. The following table summarizes cash flow components for the periods indicted:

Summary of Cash Flows
(In thousands of dollars)

	Three-month periods ended June 30,		**Six-month periods ended June 30,**	
	2017	**2016**	**2017**	**2016**
Operating activities	**5,170**	7,498	**5,956**	9,458
Investing activities	**(4,581)**	(545)	**(4,952)**	(1,284)
Financing activities	**(796)**	(7,210)	**(2,178)**	(11,122)
Net foreign exchange difference	**(101)**	(20)	**(145)**	(218)
Net change in cash	**(308)**	(277)	**(1,319)**	(3,166)

Cash Flows from Operating Activities

Cash flows generated from operating activities were $6.0 million during the six-month period ended June 30, 2017, compared with $9.5 million during the same period of 2016. Working capital used in operations amounted to $3.1 million in the first half of 2017 compared with $1.4 million in the equivalent period of 2016. This variation as well as the lower profitability generated explain the reduction in cash flows generated from operations.

Cash Flows Used in Investing Activities

Net cash flows used in investing activities were $5.0 million during the six-month period ended June 30, 2017, compared to $1.3 million in 2016, an increase of $3.7 million mainly attributable to the acquisition of a building in Mississauga, Ontario. The operations of Printer Gateway and the Ontario operations of Premier Envelope in Ontario were both moved to this new facility during July 2017.

Cash Flows Used in Financing Activities

Net cash flows used in financing activities were $2.2 million during the six-month period ended June 30, 2017, compared with $11.1 million in the comparable period, a decrease of $8.9 million, mainly due to a net increase in the use of the secured credit facility. Supremex remains focused on maintaining low net debt ratios and maximizing shareholder returns while maintaining its financial flexibility.

Financing

As at June 30, 2017, the Company had a senior secured credit facility consisting of a revolving operating credit facility of up to $50 million which matures in October 2020. The credit facility was increased to $60 million effective July 31, 2017. This facility bears interest at a floating rate based on the Canadian prime rate or bankers' acceptance rates, plus an applicable margin that varies between 1.5% and 1.75%. As at June 30, 2017, the credit facility is used in an amount of $28.0 million based on bankers' acceptance and $1.0 million by way of direct advances.

The credit facility is collateralized by a hypothec and a security interest covering all present and future assets of the Company and its material subsidiaries. Consistent with the terms of the credit facility, the Company is subject to certain covenants including financial ratios. As at June 30, 2017 and December 31, 2016, the Company was in compliance with such covenants.

Financial Position and Capital Resources Summary

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

Contractual Obligations and Off-Balance Sheet Arrangements

Operating lease commitments have been disclosed in note 19 of the Company's audited consolidated financial statements as at December 31, 2016, and did not significantly change since that date. The Company has no other off-balance sheet arrangements.

Capitalization

As at July 31, 2017, the Company had 28,482,611 common shares outstanding, a decrease of 128,740 shares following the repurchase made under the Normal Course Issuer Bid program since January 1, 2017.

Definition of EBITDA and Non-IFRS Measures

References to "EBITDA" are to earnings before financing charges, income tax expense, amortization of property, plant and equipment and of intangible assets and gain or loss on disposal of property, plant and equipment. EBITDA is not an earnings measure recognized under IFRS and do 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. 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 obligations. Other non-IFRS measures include net indebtedness to EBITDA ratio. This ratio is calculated in accordance with the definition in the Company's credit agreement as total debt net of cash divided by EBITDA.

Disclosure Controls 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 of disclosure controls and procedures, as well as the design of internal controls 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 April 1, 2017 to June 30, 2017 that have materially affected, or is reasonably likely to materially affect, the Company’s internal controls over financial reporting.

The Company expects that its 2016 business acquisitions be covered by its certification of ICFR under National Instrument 52-109 during the second half of 2017.

Future Changes of Accounting Policies

IFRS 9, Financial instruments

IFRS 9, Financial instruments was issued in July 2014 and is mandatorily effective for periods beginning on or after January 1, 2018 with early adoption permitted. IFRS 9 simplifies the measurement and classification of financial assets by reducing the number of measurement categories and removing complex rule-driven embedded derivative guidance in IAS 39, Financial Instruments: Recognition and Measurement. The new standard also provides for a fair value option in the designation of a non-derivative financial liability and its related classification and measurement, as well as for a new hedge accounting model more closely aligned with risk management activities undertaken by entities. The Company’s preliminary analysis has not identified significant recognition or measurement differences in respect of the classification and measurement of its financial instruments. The Company continues to assess the impact of adopting this standard on its financial statements.

IFRS 15, Revenue from contracts with customers

IFRS 15, Revenue from contracts with customers was issued in May 2014 and is mandatorily effective for periods beginning on or after January 1, 2018 with early adoption permitted. IFRS 15 specifies the steps and timing for issuers to recognize revenue as well as requiring them to provide more informative and relevant disclosures. IFRS 15 supersedes IAS 11, Construction Contracts, and IAS 18, Revenue, as well as various IFRIC and SIC interpretations regarding revenue. In April 2016, the IASB issued Clarifications to IFRS 15 Revenue from Contracts with Customers (Amendments to IFRS 15, Revenue from Contracts). The amendments clarify the standard and provide additional transition relief for modified and completed contracts. The Company has completed the planning stage for IFRS 15 adoption and is in the process of reviewing contracts with customers. The Company continues to assess the impact of adopting this standard on its financial statements.

IFRS 16, Leases

IFRS 16, Leases was issued in January 2016 and is mandatorily effective for periods beginning on or after January 1, 2019 with early adoption permitted under certain conditions. IFRS 16 replaces IAS 17, Leases and related interpretation. Under this new standard, which provides a single model for leases abolishing the current distinction between finance leases and operating leases, most leases will be recognized in the statement of financial position. Certain exemptions will apply for short-term leases of low-value assets. The Company anticipates that the adoption of IFRS 16 will have a material impact on its statement of financial position and its statement of earnings as nearly all operating leases will be capitalized with a corresponding liability, while the rent expense will be replaced by the amortization of the right to use the related assets, and interest accretion expense from the liabilities will be recorded. The Company continues to assess the impact of adopting this standard on its financial statements.

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 2016 Annual Information Form, dated March 30, 2017 (which can be found at www.sedar.com).

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 and future performance of Supremex and similar statements or information concerning anticipated future results, circumstances, performance or expectations. Forward-looking information may include words such as anticipate, assumption, believe, could, expect, goal, guidance, intend, may, objective, outlook, plan, seek, should, strive, target and will. Such information relates to future events or future performance and reflects current assumptions, expectations and estimates of management regarding growth, results of operations, performance, business prospects and opportunities, Canadian economic environment and liability to attract and retain customers. Such forward-looking information reflects current assumptions, expectations and estimates of management and is based on information currently available to Supremex as at the date of this MD&A. Such assumptions, expectations and estimates are discussed throughout the MD&A for the year ended December 31, 2016.

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: economic cycles, availability of capital, decline in envelope consumption, increase of competition, exchange rate fluctuations, raw material increases, credit risks with respect to trade receivables, increases in funding requirements of pension plans, postal services deficiencies, interest rates fluctuations and potential risk of litigation. Such risks and uncertainties are discussed throughout the MD&A for the year ended December 31, 2016 and, in particular, in “Risk Factors”. Consequently, we 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.

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, 2017 and 2016

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 [Unaudited]	Notes	June 30, 2017 $	December 31, 2016 $
ASSETS	**5**		
Current assets			
Cash		**646,222**	1,964,947
Accounts receivable		**19,804,726**	21,237,321
Income tax receivable		**1,238,700**	472,886
Inventories	**4**	**17,402,479**	16,042,550
Prepaid expenses		**1,276,874**	647,541
Total current assets		**40,369,001**	40,365,245
Property, plant and equipment		**30,278,002**	27,404,026
Accrued pension benefit asset		**1,040,383**	2,305,107
Intangible assets		**8,833,154**	9,377,021
Goodwill		**52,906,755**	53,088,016
Total assets		**133,427,295**	132,539,415
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		**16,084,451**	17,881,807
Dividend payable	**7**	**1,708,957**	1,716,681
Provisions		**320,793**	324,236
Total current liabilities		**18,114,201**	19,922,724
Secured credit facilities	**5**	**28,804,101**	26,893,914
Deferred income tax liabilities		**2,672,894**	3,186,717
Other post-retirement benefit obligations		**206,200**	199,000
Total liabilities		**49,797,396**	50,202,355
Equity			
Share capital	**6**	**9,721,769**	9,765,711
Contributed surplus	**6**	**278,402,110**	278,979,895
Deficit		**(204,621,407)**	(207,043,901)
Foreign currency translation reserve		**127,427**	635,355
Total equity		**83,629,899**	82,337,060
Total liabilities and equity		**133,427,295**	132,539,415

Subsequent events [*note 9*]

See accompanying notes

On behalf of the Directors:

By: signed (Robert B. Johnston)
Director

By: signed (Mathieu Gauvin)
Director

Supremex Inc.

INTERIM CONSOLIDATED STATEMENTS OF EARNINGS

[Unaudited]	Notes	Three-month periods ended June 30, 2017 $	Three-month periods ended June 30, 2016 $	Six-month periods ended June 30, 2017 $	Six-month periods ended June 30, 2016 $
Revenue		**41,147,619**	39,419,542	**86,298,294**	80,681,146
Operating expenses	**4**	**30,299,017**	27,908,971	**62,972,162**	57,157,269
Selling, general and administrative expenses	**6**	**5,451,148**	4,607,995	**11,034,040**	9,475,808
Operating earnings before amortization and (gain) loss on disposal of property, plant and equipment		**5,397,454**	6,902,576	**12,292,092**	14,048,069
Amortization of property, plant and equipment		**816,856**	1,231,681	**1,639,911**	2,479,130
Amortization of intangible assets		**380,690**	216,685	**755,038**	1,351,339
(Gain) loss on disposal of property, plant and equipment		**(1,318)**	(4,562)	**(1,318)**	52,852
Operating earnings		**4,201,226**	5,458,772	**9,898,461**	10,164,748
Financing charges, net	**5**	**183,405**	194,882	**366,790**	452,310
Earnings before income taxes		**4,017,821**	5,263,890	**9,531,671**	9,712,438
Income tax expense		**1,184,399**	1,374,001	**2,617,474**	2,594,076
Net earnings		**2,833,422**	3,889,889	**6,914,197**	7,118,362
Basic and diluted net earnings per share		**0.0993**	0.1358	**0.2420**	0.2484
Weighted average number of shares outstanding		**28,538,292**	28,644,771	**28,571,066**	28,656,700

See accompanying notes

Supremex Inc.

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

[Unaudited]	Three-month periods ended June 30, 2017 $	Three-month periods ended June 30, 2016 $	Six-month periods ended June 30, 2017 $	Six-month periods ended June 30, 2016 $
Net earnings	**2,833,422**	3,889,889	**6,914,197**	7,118,362
Other comprehensive loss				
Other comprehensive loss to be reclassified to earnings in subsequent periods				
Foreign currency translation adjustments	**(357,374)**	(59,593)	**(507,928)**	(765,343)
Net other comprehensive loss to be reclassified to earnings in subsequent periods	**(357,374)**	(59,593)	**(507,928)**	(765,343)
Items not to be reclassified to earnings in subsequent periods				
Recognized actuarial loss on defined benefit pension plans, net of income tax recovery of $1,009,711 and of $374,377 [2016 – $992,399 and $1,605,971]	**(2,863,989)**	(2,813,601)	**(1,062,723)**	(4,553,829)
Recognized actuarial loss on other post-retirement benefit, net of income tax recovery of $1,329 and $1,772 [2016 – $1,643 and $2,060]	**(3,771)**	(4,657)	**(5,028)**	(5,840)
Net other comprehensive loss not being reclassified to earnings in subsequent periods	**(2,867,760)**	(2,818,258)	**(1,067,751)**	(4,559,669)
Other comprehensive loss	**(3,225,134)**	(2,877,851)	**(1,575,679)**	(5,325,012)
Total comprehensive (loss) income	**(391,712)**	1,012,038	**5,338,518**	1,793,350

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, 2015	9,813,365	279,601,180	(217,615,887)	836,511	72,635,169
Net earnings	—	—	7,118,362	—	7,118,362
Other comprehensive loss	—	—	(4,559,669)	(765,343)	(5,325,012)
Total comprehensive income (loss)	—	—	2,558,693	(765,343)	1,793,350
Dividends declared [*note 7*]	—	—	(3,150,924)	—	(3,150,924)
Shares repurchased and cancelled [*note 6*]	(36,247)	(463,455)	—	—	(499,702)
As at June 30, 2016	**9,777,118**	**279,137,725**	**(218,208,118)**	**71,168**	**70,777,893**
As at December 31, 2016	9,765,711	278,979,895	(207,043,901)	635,355	82,337,060
Net earnings	—	—	6,914,197	—	6,914,197
Other comprehensive loss	—	—	(1,067,751)	(507,928)	(1,575,679)
Total comprehensive income (loss)	—	—	5,846,446	(507,928)	5,338,518
Dividends declared [*note 7*]	—	—	(3,423,952)	—	(3,423,952)
Shares repurchased and cancelled [*note 6*]	(43,942)	(577,785)	—	—	(621,727)
As at June 30, 2017	**9,721,769**	**278,402,110**	**(204,621,407)**	**127,427**	**83,629,899**

See accompanying notes

Supremex Inc.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

[Unaudited]	Notes	Three-month periods ended June 30, 2017 $	2016 $	Six-month periods ended June 30, 2017 $	2016 $
OPERATING ACTIVITIES					
Net earnings		**2,833,422**	3,889,889	**6,914,197**	7,118,362
Non-cash adjustment to reconcile net earnings to net cash flows					
Amortization of property, plant and equipment		**816,856**	1,231,681	**1,639,911**	2,479,130
Amortization of intangible assets		**380,690**	216,685	**755,038**	1,351,339
Amortization of deferred financing costs	**5**	**17,157**	17,157	**34,314**	34,314
(Gain) loss on disposal of property, plant and equipment		**(1,318)**	(4,562)	**(1,318)**	52,852
Deferred income tax expense (recovery)		**30,120**	(148,383)	**(81,726)**	(664,145)
Change in employees benefit plans		**3,624**	74,100	**45,924**	540,254
		4,080,551	5,276,567	**9,306,340**	10,912,106
Working capital adjustments					
Variation in accounts receivable		**2,597,725**	1,718,763	**1,434,274**	2,684,684
Variation in inventories		**(595,174)**	397,204	**(1,373,726)**	634,845
Variation in prepaid expenses		**(116,975)**	(228,998)	**(613,241)**	(537,733)
Variation in accounts payable and accrued liabilities		**73,651**	599,688	**(1,810,660)**	(3,049,480)
Variation in provisions		**(2,677)**	(3,263)	**(3,443)**	(3,381)
Variation in income tax receivable and payable		**(680,770)**	(246,513)	**(765,814)**	(1,150,461)
Contributions to employee benefit plans		**(185,900)**	(15,700)	**(217,900)**	(32,500)
Net cash flows from operating activities		**5,170,431**	7,497,748	**5,955,830**	9,458,080
INVESTING ACTIVITIES					
Adjustments to consideration paid for business acquisitions		**—**	—	**28,855**	—
Acquisition of property, plant and equipment		**(4,448,876)**	(218,606)	**(4,705,939)**	(862,055)
Acquisition of intangible assets		**(142,326)**	(331,442)	**(284,792)**	(473,391)
Proceeds from sale of property, plant and equipment		**10,283**	4,562	**10,283**	51,631
Net cash flows used in investing activities		**(4,580,919)**	(545,486)	**(4,951,593)**	(1,283,815)
FINANCING ACTIVITIES					
Increase (repayment) of operating facility		**1,401,150**	(5,634,219)	**1,875,873**	(7,465,277)
Dividends paid		**(1,714,995)**	(1,575,462)	**(3,431,676)**	(3,156,765)
Purchase of shares for cancellation	**6**	**(482,369)**	—	**(621,727)**	(499,702)
Net cash flows used in financing activities		**(796,214)**	(7,209,681)	**(2,177,530)**	(11,121,744)
Net change in cash		**(206,702)**	(257,419)	**(1,173,293)**	2,947,479
Net foreign exchange difference		**(100,735)**	(19,588)	**(145,432)**	(218,001)
Cash, beginning of period		**953,659**	645,444	**1,964,947**	3,533,917
Cash, end of period		**646,222**	368,437	**646,222**	368,437
Supplemental information [(1)]					
Interest paid		**200,472**	170,886	**399,633**	533,529
Interest received		**7,524**	5,544	**7,914**	5,952
Income taxes paid		**1,692,796**	1,643,016	**3,349,498**	4,274,172
Income taxes received		**—**	—	**26,766**	—

(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

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.

Supremex’ 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, the holidays and tax seasons. As a result, revenue and financial performance for the three and six-month periods ended June 30, 2017 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 July 31, 2017 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, 2016, 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, 2016.

2. FUTURE CHANGES OF ACCOUNTING POLICIES

IFRS 9, Financial instruments

IFRS 9, Financial instruments was issued in July 2014 and is mandatorily effective for periods beginning on or after January 1, 2018 with early adoption permitted. IFRS 9 simplifies the measurement and classification of financial assets by reducing the number of measurement categories and removing complex rule-driven embedded derivative guidance in IAS 39, Financial Instruments: Recognition and Measurement. The new standard also provides for a fair value option in the designation of a non-derivative financial liability and its related classification and measurement, as well as for a new hedge accounting model more closely aligned with risk management activities undertaken by entities. The Company’s preliminary analysis has not identified significant recognition or measurement differences in respect of the classification and measurement of its financial instruments. The Company continues to assess the impact of adopting this standard on its financial statements.

IFRS 15, Revenue from contracts with customers

IFRS 15, Revenue from contracts with customers was issued in May 2014 and is mandatorily effective for periods beginning on or after January 1, 2018 with early adoption permitted. IFRS 15 specifies the steps and timing for issuers to recognize revenue as well as requiring them to provide more informative, relevant disclosures. IFRS 15 supersedes IAS 11, Construction Contracts, and IAS 18, Revenue, as well as various IFRIC and SIC interpretations regarding revenue. In April 2016, the IASB issued Clarifications to IFRS 15 Revenue from Contracts with Customers (Amendments to IFRS 15, Revenue from Contracts). The amendments clarify the standard and provide additional transition relief for modified and completed contracts.

2. FUTURE CHANGES OF ACCOUNTING POLICIES [Cont'd]

The Company has completed the planning stage for IFRS 15 adoption and is in the process of reviewing contracts with customers. The Company continues to assess the impact of adopting this standard on its financial statements.

IFRS 16, Leases

IFRS 16, Leases was issued in January 2016 and is mandatorily effective for periods beginning on or after January 1, 2019 with early adoption permitted under certain conditions. IFRS 16 replaces IAS 17, Leases and related interpretation. Under this new standard, which provides a single model for leases abolishing the current distinction between finance leases and operating leases, most leases will be recognized in the statement of financial position. Certain exemptions will apply for short-term leases of low-value assets. The Company anticipates that the adoption of IFRS 16 will have a material impact on its statement of financial position and its statement of earnings as nearly all operating leases will be capitalized with a corresponding liability, while the rent expense will be replaced by the amortization of the right to use the related assets, and interest accretion expense from the liabilities will be recorded. The Company continues to assess the impact of adopting this standard on its financial statements.

3. BUSINESS COMBINATIONS

During the three and six-month periods ended June 30, 2017, the preliminary assessments of the estimated fair value of assets acquired and liabilities assumed at the acquisition date related to the combinations of Bowers Envelope Company, Inc., Durabox Paper Inc. and Printer Gateway Inc. all of which occurred at various dates during 2016, have not significantly changed from December 31, 2016. 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.

4. INVENTORIES

	June 30, 2017 $	**December 31, 2016 $**
Raw materials	**5,114,352**	5,234,234
Work in progress	**301,016**	279,212
Finished goods	**11,987,111**	10,529,104
	17,402,479	16,042,550

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 and six-month periods ended June 30, 2017 are $31,043,314 and $64,471,755 respectively [2016 - $29,105,018 and $59,566,569 respectively].

5. SECURED CREDIT FACILITIES

As at June 30, 2017, the Company had a five-year committed $50 million senior secured revolving facility agreement maturing on October 6, 2020. The agreement has been amended on July 31, 2017 to increase the amount of the credit facility to $60 million. No principal repayments are required prior to maturity. This facility bears interest at a floating rate based on the Canadian prime rate or bankers' acceptance rates, plus an applicable margin that ranges between 1.50% and 1.75%.

The secured credit facility is used for working capital, capital expenditure and other general corporate purpose. It is collateralized by hypothec 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, 2017.

Amounts owed under secured credit facility are as follows:

	June 30, 2017	**December 31, 2016**
	$	**$**
Revolving credit facility	**29,027,138**	27,151,265
Less: deferred financing costs, net	**(223,037)**	(257,351)
Long-term portion of secured credit facility	**28,804,101**	26,893,914

As at June 30, 2017, the Company had outstanding letters of credit for a total of $10,000 [$60,000 as at December 31, 2016].

As June 30, 2017, the effective variable interest rate on the secured credit facility was 2.36% [2.43% as at December 31, 2016].

Financing charges are as follows:

	Three-month periods ended June 30,		**Six-month periods ended June 30,**	
	2017	**2016**	**2017**	**2016**
	$	**$**	**$**	**$**
Interest on secured credit facilities	**189,144**	165,106	**376,787**	393,154
Interest (income) expense on defined benefit plans obligations	**(22,800)**	11,600	**(45,600)**	23,200
Other interest	**(96)**	1,019	**1,289**	1,642
Amortization of deferred financing costs	**17,157**	17,157	**34,314**	34,314
	183,405	194,882	**366,790**	452,310

6. SHARE CAPITAL

The change on share capital was as follows:

	Number of common shares	Share capital $
Balance, as of December 31, 2015	28,750,967	9,813,365
Purchase of shares for cancellation	(106,196)	(36,247)
Balance, as of June 30, 2016	**28,644,771**	**9,777,118**
Balance, as of December 31, 2016	28,611,351	9,765,711
Purchase of shares for cancellation	(128,740)	(43,942)
Balance, as of June 30, 2017	**28,482,611**	**9,721,769**

During the six-month period ended June 30, 2017, the Company repurchased 128,740 common shares for cancellation through a normal course issuer bid in consideration of $621,727. The excess of the purchase price over the carrying value in the amount of $577,785 was recorded as a reduction of contributed surplus [2016 –106,196 common shares for cancellation in consideration of $499,702 which resulted in an excess of the carrying value of $463,455].

Supremex has received approval from the TSX to renew the Company's NCIB program to repurchase up to 500,000 common shares for cancellation during a period of 12 months ending August 2, 2018.

Deferred Share Unit Plan (DSU)

The financial liability resulting from the plan of $243,096 (December 31, 2016 - $113,800) is presented under "*Accounts payable and accrued liabilities*".

The compensation expense for the DSUs during the three and six-month periods ended June 30, 2017 amounted to $16,692 and $59,296 [2016 - $23,229 and $57,434] and is recognized under selling, general and administrative expenses.

7. DIVIDENDS

Dividends declared from January 1, 2017 to June 30, 2017 were as follows:

Declaration date	Record date	Payment date	Per share $	Dividend $
February 15, 2017	March 31, 2017	April 14, 2017	0.06	1,714,995
May 4, 2017	June 30, 2017	July 14, 2017	0.06	1,708,957
Total				**3,423,952**

7. DIVIDENDS [Cont'd]

Dividends declared from January 1, 2016 to June 30, 2016 were as follows:

Declaration date	Record date	Payment date	Per share $	Dividend $
February 17, 2016	March 31, 2016	April 14, 2016	0.055	1,575,462
May 5, 2016	June 30, 2016	July 14, 2016	0.055	1,575,462
Total				**3,150,924**

8. SEGMENTED INFORMATION

The Company currently operates in one reporting segment: the manufacturing and sale of envelopes. The Company's non-current assets amounted to $81,105,957 in Canada and $11,952,337 in the United States as at June 30, 2017 [$79,397,211 and $12,776,959 respectively, as at December 31, 2016]. The Company's revenue amounted to $28,819,280 and to $61,231,739 in Canada and $12,328,339 and $25,066,555 in the United States for the three and six-month periods ended June 30, 2017 based on the customer's locations [2016 - $30,375,573 and $61,891,818 in Canada and $9,043,969 and $18,789,328 in the United States, respectively].

9. SUBSEQUENT EVENTS

On July 20, 2017, the Company concluded the acquisition of Stuart Packaging Inc., a leading provider of premium quality folding carton packaging for the consumer market. The transaction was concluded for cash consideration of $17.5 million on a cash-free debt-free basis, plus an amount of up to $2.1 million over 24 months subject to the realization of certain financial targets.

On July 31, 2017, the Board of Directors has declared a quarterly dividend of $0.06 per common share, payable on October 13, 2017 to shareholders of record at the close of business on September 30, 2017.