



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

The following management's discussion and analysis of the financial condition and results of operations ("MD&A"), dated November 9, 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 nine-month periods ended September 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 and its reporting currency is the Canadian dollar. Per share amounts are calculated using the weighted average number of shares outstanding for the three and nine-month periods ended September 30, 2017. The consolidated financial statements for the three and nine-month periods ended September 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.

Third Quarter Highlights and Recent Events

- Acquired Stuart Packaging Inc. ("Stuart Packaging") on July 20, 2017, a leading provider of premium quality folding carton packaging for the consumer market.
- Revenue increased by 18.9% year-over-year, reaching \$43.4 million.
- Net earnings increased by 13.5% to \$3.2 million (or \$0.11 per share) compared with \$2.8 million (or \$0.10 per share) in the prior year.
- EBITDA¹ stood at \$6.1 million, an increase of \$0.6 million or 10.8% from the prior year's result of \$5.5 million.
- Increased net indebtedness to EBITDA¹ ratio to 1.5 times as a result of the acquisition of Stuart Packaging while maintaining strong financial flexibility.
- Purchased a total of 77,142 common shares for cancellation under the Normal Course Issuer Bid ("NCIB") program, for total considerations of \$317,032.
- Approved a quarterly dividend of \$0.065 per share, an increase of 8.3% over the prior quarter as well as over the same period last year.

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

Declaration of Dividend

On November 9, 2017, the Board of Directors declared a quarterly dividend of \$0.065 per common share, payable on January 16, 2018, to the shareholders of record at the close of business on December 31, 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		Nine-month periods	
	2017	September 30, 2016	ended September 30, 2017	ended September 30, 2016
Revenue	43,424	36,514	129,722	117,195
Operating expenses	31,238	26,677	94,210	83,835
Selling, general and administrative expenses	6,081	4,329	17,115	13,804
EBITDA⁽¹⁾	6,105	5,508	18,397	19,556
Amortization of property, plant and equipment	1,048	1,264	2,688	3,743
Amortization of intangible assets	430	249	1,185	1,601
Loss (gain) on disposal of property, plant and equipment	76	(29)	75	24
Operating earnings	4,551	4,024	14,449	14,188
Financing charges, net	313	198	679	650
Earnings before income taxes	4,238	3,826	13,770	13,538
Income taxes expenses	1,024	994	3,641	3,588
Net earnings	3,214	2,832	10,129	9,950
Basic and diluted net earnings per share	0.113	0.099	0.355	0.347
Dividend declared per share	0.060	0.055	0.180	0.165

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

Revenue Information

(In millions of dollars)

	Three-month periods		Nine-month periods	
	ended September 30, 2017	ended September 30, 2016	ended September 30, 2017	ended September 30, 2016
Canadian envelope	24.0	24.1	76.6	82.0
Volume variation	1.9%	(2.4)%	(6.5)%	0.9%
Average selling price variation	(2.3)%	1.3%	0.0%	4.5%
Total variation	(0.5)%	(1.2)%	(6.5)%	5.5%
U.S. envelope	10.0	9.9	31.4	27.3
Volume variation	6.3%	74.6%	15.3%	58.6%
Average selling price variation	(4.3)%	3.6%	(0.1)%	8.1%
Total variation	1.7%	81.0%	15.2%	71.4%
Packaging & specialty products				
Canada & U.S.	9.4	2.5	21.7	7.9
Total variation	271.0%	1.6%	173.2%	7.9%
Total revenue	43.4	36.5	129.7	117.2
Revenue variation	18.9%	12.6%	10.7%	16.0%

Reconciliation of Net Earnings to EBITDA

(In thousands of dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2017	2016	2017	2016
Net earnings	3,214	2,832	10,129	9,950
Income tax expense	1,024	994	3,641	3,588
Financing charges, net	313	198	679	650
Loss (gain) on disposal of property, plant and equipment	76	(29)	75	24
Amortization of property, plant and equipment	1,048	1,264	2,688	3,743
Amortization of intangible assets	430	249	1,185	1,601
EBITDA⁽¹⁾	6,105	5,508	18,397	19,556

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

Results of Operations

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

Revenue

Revenue for the three-month period ended September 30, 2017, increased by 18.9% or \$6.9 million reaching \$43.4 million compared with \$36.5 million during the three-month period ended September 30, 2016, primarily from the contribution of recent business acquisitions (Stuart Packaging concluded on July 20, 2017, Printer Gateway Inc. ("Printer Gateway") on December 23, 2016, Durabox Paper Inc. ("Durabox") on November 28, 2016 and Bowers Envelope Company, Inc. ("Bowers") concluded on August 29, 2016 as part of the Company's stated diversification strategy.

Revenue from the Canadian envelope market stood at \$24.0 million, in-line with the revenue of \$24.1 million recorded during the third quarter of 2016. The increase in volume of 1.9% was offset by a reduction in average selling prices of 2.3%.

Revenue from the U.S. envelope stood at \$10.0 million, also in-line with the revenue of \$9.9 million recorded during the third quarter of 2016. The number of units sold grew by 6.3% while average selling prices decreased by 4.3%, primarily from a stronger Canadian dollar during the period compared to the equivalent period of last year.

Revenue from packaging and specialty products reached \$9.4 million, an increase of 271.0% compared to the prior year, resulting primarily from the acquisition of Stuart Packaging in July 2017 as well as two business acquisitions during the fourth quarter of 2016, namely Durabox and Printer Gateway.

Operating Expenses

Operating expenses for the three-month period ended September 30, 2017, were \$31.2 million compared with \$26.7 million for the same period in 2016, an increase of \$4.5 million or 17.1%. The increase is mainly attributable to the 2016 and 2017 acquired businesses mentioned above, partially offset by lower operating costs in Canada.

Selling, General and Administrative Expenses

Selling, general and administrative expenses totalled \$6.1 million for the three-month period ended September 30, 2017, compared with \$4.3 million for the same period in 2016, representing an increase of \$1.8 million or 40.5% primarily due to the fiscal 2016 and 2017 business acquisitions as well as \$0.5 million in non-recurring costs related to business acquisitions.

EBITDA

EBITDA stood at \$6.1 million for the three-month period ended September 30, 2017, compared with \$5.5 million for the same period in 2016, an increase of \$0.6 million or 10.8%. EBITDA margin stood at 14.1% compared to 15.1% during the third quarter of last year.

The Company's strategy to grow its presence in the U.S. envelope market and diversify into packaging resulted in four recent business acquisitions, including Stuart Packaging in July 2017 as well as three acquisitions during the second half of fiscal 2016. The acquisition of Bowers in August 2016 significantly grew the Company's presence in the U.S., a much larger although more competitive envelope market. Furthermore, the Company continues to integrate all four businesses and position them for future growth, incurring in the process certain non-recurring costs.

Amortization

Aggregate amortization expense for the three-month period ended September 30, 2017 amounted to \$1.5 million, an amount equal to the prior year's amortization. The increase in amortization of new customer relationships related to the recently acquired businesses mentioned above were offset by lower amortization related to fully amortized customer relationships 10 years after the initial public offering in 2006.

Financing Charges

Financing charges for the three-month period ended September 30, 2017, were \$0.3 million, compared to \$0.2 million during the same quarter of the prior year. The increase is related mainly to higher debt used to finance business acquisitions mentioned previously.

Earnings before Income Taxes

Due to the fluctuation in revenue and expenses described herein, earnings before income taxes increased to \$4.2 million during the three-month period ended September 30, 2017 compared to \$3.8 million for the same period in 2016.

Provision for Income Taxes

The Company recorded a provision for income taxes of \$1.0 million during the three-month period ended September 30, 2017, equal to the amount recorded during the same quarter of the prior year.

Net Earnings

Net earnings stood at \$3.2 million (or \$0.11 per share) for the three-month period ended September 30, 2017, compared with \$2.8 million (or \$0.10 per share) for the equivalent period in 2016.

Other Comprehensive Income

The discount rate used to calculate the accrued plan benefit obligations increased to 3.8% as at September 30, 2017 from 3.4% as at June 30, 2017. This increase generated a pre-tax actuarial gain of \$4.6 million on pension liabilities. This gain was partially offset by a pre-tax loss of \$0.6 million on pension assets as a result of lower than expected returns.

Nine-month period ended September 30, 2017 compared with the nine-month period ended September 30, 2016

Revenue

Revenue for the nine-month period ended September 30, 2017, increased by 10.7% or \$12.5 million reaching to \$129.7 million compared with \$117.2 million during the nine-month period ended September 30, 2016, primarily from the contribution of recent business acquisitions mentioned previously 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 \$76.6 million down by \$5.4 million or 6.5% from the first nine months of 2016. The decline was driven mainly by a 6.5% reduction in volume, as average selling prices were in-line with the same period last year. Canada Post's most recently available information (for the six-month period ended June 2017) indicates transaction mail volume was 8.3% lower and direct mail was 3.6% lower than the same period in the prior year.

Revenue from the U.S. envelope market grew to \$31.4 million, representing an increase of 15.2% mainly from the contribution of the acquisition of Bowers located in the Midwestern United States. The number of units sold grew by 15.3% and average selling prices remained virtually the same as in the prior year.

Revenue from packaging and specialty products reached \$21.7 million, an increase of 173.2% resulting primarily from the acquisition of Stuart Packaging in July 2017 as well as two acquisitions during the fourth quarter of 2016, namely Durabox and Printer Gateway.

Operating Expenses

Operating expenses for the nine-month period ended September 30, 2017, were \$94.2 million compared with \$83.8 million for the same period in 2016, an increase of \$10.4 million or 12.4%. The increase is mainly attributable to the 2017 and 2016 acquired businesses previously mentioned, 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 \$17.1 million for the nine-month period ended September 30, 2017, compared with \$13.8 million for the same period in 2016, representing an increase of \$3.3 million or 24.1% primarily due to the fiscal 2016 and 2017 business acquisitions.

EBITDA

EBITDA stood at \$18.4 million for the nine-month period ended September 30, 2017, compared with \$19.6 million for the same period in 2016, a decrease of \$1.2 million or 5.9%. EBITDA margin stood at 14.2% compared to 16.7% during the first nine months of last year.

The Company's strategy to grow its presence in the U.S. envelope market and diversify into packaging resulted in four recent acquisitions, including the acquisition of Stuart Packaging in July 2017 as well as three acquisitions during the second half of fiscal 2016. The acquisition of Bowers in August 2016 significantly grew the Company's presence in the U.S., a much larger although more competitive envelope market. Furthermore, the company continues to integrate all four businesses and position them for future growth, incurring in the process certain non-recurring costs.

Amortization

Aggregate amortization expense for the nine-month period ended September 30, 2017, amounted to \$3.9 million compared with \$5.3 million for the comparable period of 2016, representing a decrease of \$1.4 million or 27.5% 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, partially offset by the amortization of new customer relationships related to the recently acquired businesses mentioned above.

Financing Charges

Financing charges for the nine-month period ended September 30, 2017 remained stable at \$0.7 million compared with \$0.7 million in the prior year.

Earnings before Income Taxes

Due to the fluctuation in revenue and expenses described herein, earnings before income taxes was \$13.8 million during the nine-month period ended September 30, 2017, an increase of 1.7% from \$13.5 million for the same period in 2016.

Provision for Income Taxes

During the nine-month period ended September 30, 2017, the Company recorded a provision for income taxes of \$3.6 million, comparable to the provision for income taxes recorded for the nine-month period ended September 30, 2016.

Net earnings

Net earnings amounted to \$10.1 million (or \$0.35 per share) for the nine-month period ended September 30, 2017, compared with \$10.0 million (or \$0.35 per share) for the equivalent period in 2016.

Other comprehensive income

The discount rate used to calculate the accrued plan benefit obligations was 3.8% as at September 30, 2017, equal to the rate as at December 31, 2016. However, the variation in rates during each of the first three quarters generated a pre-tax actuarial loss on pension liabilities of \$0.7 million for the nine-month period ended September 30, 2017. This loss was offset by a pre-tax gain of \$3.3 million on pension assets as a result of better than expected returns.

Segment Information

The Company currently operates in one business reporting segment: the manufacturing and sale of envelopes and related products. The Company's non-current assets amounted to \$103.6 million in Canada and \$11.3 million in the United States as at September 30, 2017, compared with \$79.4 million and \$12.8 million respectively as at December 31, 2016.

During the third quarter of 2017, the Company's revenue in Canada was \$30.4 million, an increase of 17.1% from \$26.0 million in the equivalent period of 2016, and was \$13.0 million in the United States, up by 23.5% from \$10.5 million in the equivalent period of last year.

For the nine-month period ended September 30, 2017, the Company's revenue in Canada was \$91.7 million, an increase of 4.3% compared with \$87.9 million in the equivalent period of 2016, and was \$38.1 million in the United States, up by 29.8% from \$29.3 million in the equivalent period of last year.

Summary of Quarterly Operating Results from October 1, 2015 to September 30, 2017

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

	Sept. 30, 2017	June 30, 2017	Mar. 31, 2017	Dec. 31, 2016	Sept. 30, 2016	June 30, 2016	Mar. 31, 2016	Dec. 31, 2015
Revenue	43,424	41,147	45,151	43,374	36,514	39,420	41,262	41,287
EBITDA ⁽¹⁾	6,105	5,397	6,895	7,827	5,508	6,903	7,145	8,107
Earnings before income taxes	4,238	4,017	5,514	6,529	3,826	5,264	4,448	5,211
Net earnings	3,214	2,833	4,081	4,643	2,832	3,890	3,228	3,804
Net earnings per share	0.11	0.10	0.14	0.16	0.10	0.14	0.11	0.13

⁽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)

	September 30, 2017	Dec. 31, 2016
Working capital	26,463	20,442
Total assets	160,978	132,539
Secured credit facility	46,931	26,894
Total equity	87,262	82,337

For the three-month period ended September 30, 2017, cash increased by \$0.5 million when compared to June 30, 2017 while for the nine-month period ended September 30, 2017, cash decreased by \$0.9 million compared to the prior year-end. The following table summarizes cash flow components for the periods indicated:

Summary of Cash Flows (In thousands of dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2017	2016	2017	2016
Operating activities	3,759	3,068	9,716	12,526
Investing activities	(19,239)	(5,014)	(24,191)	(6,298)
Financing activities	16,084	2,632	13,906	(8,490)
Net foreign exchange difference	(154)	55	(299)	(163)
Net change in cash	450	741	(868)	(2,425)

Cash Flows from Operating Activities

Cash flows generated from operating activities were \$9.7 million during the nine-month period ended September 30, 2017, compared with \$12.5 million during the same period of 2016. Working capital used in operations amounted to \$4.3 million for the nine month period ended September 30, 2017 compared with \$2.7 million in the equivalent period of 2016. This variation as well as the lower profitability generated before amortization expense explain the reduction in cash flows generated from operations.

Cash Flows used in Investing Activities

Net cash flows used in investing activities were \$24.1 million during the nine-month period ended September 30, 2017, compared to \$6.3 million in 2016, an increase of \$17.8 million mainly attributable to the acquisition of Stuart Packaging as well as the acquisition of a building in Mississauga, Ontario. The operations of Printer Gateway and the Ontario operations of Premier Envelope Ltd. in Ontario were both moved to this new facility during the current quarter.

Cash Flows from Financing Activities

Net cash flows from financing activities were \$13.9 million during the nine-month period ended September 30, 2017, compared with cash flows used in financing activities of \$8.5 million in the comparable period, an increase of \$22.4 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 September 30, 2017, the Company had a senior secured credit facility consisting of a revolving operating credit facility of up to \$60 million which matures in October 2020. 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 September 30, 2017, the credit facility is used in an amount of \$47.1 million.

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 September 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 its availability under existing credit facility 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 have not changed significantly since that date except for the addition of leases acquired from Stuart Packaging, which relate mainly to the building in which it operates. The Company has no other off-balance sheet arrangements.

Capitalization

As at November 9, 2017, the Company had 28,405,469 common shares outstanding, a decrease of 205,882 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 July 1, 2017 to September 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 fourth quarter of 2017 while the July 2017 acquisition of Stuart Packaging will be covered by the second quarter of 2018.

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's preliminary analysis has not identified significant recognition or measurement differences in respect of the classification and measurement of its revenues from 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 and for the third quarter ended September 30, 2017.

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 for the third quarter ended September 30, 2017 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 nine-month periods ended September 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		September 30, 2017	December 31, 2016
[Unaudited]	Notes	\$	\$
ASSETS	5		
Current assets			
Cash		1,096,661	1,964,947
Accounts receivable		22,986,828	21,237,321
Income tax receivable		1,308,064	472,886
Inventories	4	19,390,912	16,042,550
Prepaid expenses		1,340,233	647,541
Total current assets		46,122,698	40,365,245
Property, plant and equipment		36,092,984	27,404,026
Accrued pension benefit asset		5,283,156	2,305,107
Intangible assets		14,572,214	9,377,021
Goodwill		58,906,701	53,088,016
Total assets		160,977,753	132,539,415
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		17,636,005	17,881,807
Dividend payable	7	1,704,328	1,716,681
Provisions		318,916	324,236
Total current liabilities		19,659,249	19,922,724
Secured credit facilities	5	46,930,884	26,893,914
Deferred income tax liabilities		4,875,904	3,186,717
Other long term liabilities	3	2,050,000	—
Other post-retirement benefit obligations		199,800	199,000
Total liabilities		73,715,837	50,202,355
Equity			
Share capital	6	9,695,439	9,765,711
Contributed surplus	6	278,111,408	278,979,895
Deficit		(200,120,047)	(207,043,901)
Foreign currency translation reserve		(424,884)	635,355
Total equity		87,261,916	82,337,060
Total liabilities and equity		160,977,753	132,539,415

Subsequent event [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 September 30,		Nine-month periods ended September 30,	
		2017	2016	2017	2016
		\$	\$	\$	\$
Revenue		43,423,725	36,513,756	129,722,019	117,194,902
Operating expenses	4	31,237,996	26,677,453	94,210,158	83,834,722
Selling, general and administrative expenses	6	6,080,936	4,328,550	17,114,976	13,804,358
Operating earnings before amortization and loss (gain) on disposal of property, plant and equipment		6,104,793	5,507,753	18,396,885	19,555,822
Amortization of property, plant and equipment		1,047,767	1,263,626	2,687,678	3,742,756
Amortization of intangible assets		430,174	249,007	1,185,212	1,600,346
Loss (gain) on disposal of property, plant and equipment		76,203	(29,147)	74,885	23,705
Operating earnings		4,550,649	4,024,267	14,449,110	14,189,015
Financing charges, net	5	312,661	198,010	679,451	650,320
Earnings before income taxes		4,237,988	3,826,257	13,769,659	13,538,695
Income tax expense		1,023,622	994,284	3,641,096	3,588,360
Net earnings		3,214,366	2,831,973	10,128,563	9,950,335
Basic and diluted net earnings per share		0.113	0.099	0.355	0.347
Weighted average number of shares outstanding		28,436,491	28,637,319	28,525,715	28,650,193

See accompanying notes

Supremex Inc.

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

[Unaudited]	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2017 \$	2016 \$	2017 \$	2016 \$
Net earnings	3,214,366	2,831,973	10,128,563	9,950,335
<i>Other comprehensive (loss) income to be reclassified to earnings in subsequent periods:</i>				
Foreign currency translation adjustments	(552,311)	197,435	(1,060,239)	(567,908)
<i>Other comprehensive (loss) income not to be reclassified to earnings in subsequent periods:</i>				
Recognized actuarial gain (loss) on defined benefit pension plans	4,037,400	(251,600)	2,600,300	(6,411,400)
Recognized actuarial gain (loss) on other post- retirement benefit	6,600	(3,200)	(200)	(11,100)
Deferred income tax	(1,052,678)	66,436	(676,529)	1,674,467
Other comprehensive income (loss)	2,439,011	9,071	863,332	(5,315,941)
Total comprehensive income	5,653,377	2,841,044	10,991,895	4,634,394

Supremex Inc.

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the nine-month periods ended September 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	—	—	9,950,335	—	9,950,335
Other comprehensive loss	—	—	(4,748,033)	(567,908)	(5,315,941)
Total comprehensive income (loss)	—	—	5,202,302	(567,908)	4,634,394
Dividends declared [note 7]	—	—	(4,725,725)	—	(4,725,725)
Shares repurchased and cancelled [note 6]	(40,350)	(520,321)	—	—	(560,671)
As at September 30, 2016	9,773,015	279,080,859	(217,139,310)	268,603	71,983,167
As at December 31, 2016	9,765,711	278,979,895	(207,043,901)	635,355	82,337,060
Net earnings	—	—	10,128,563	—	10,128,563
Other comprehensive income (loss)	—	—	1,923,571	(1,060,239)	863,332
Total comprehensive income (loss)	—	—	12,052,134	(1,060,239)	10,991,895
Dividends declared [note 7]	—	—	(5,128,280)	—	(5,128,280)
Shares repurchased and cancelled [note 6]	(70,272)	(868,487)	—	—	(938,759)
As at September 30, 2017	9,695,439	278,111,408	(200,120,047)	(424,884)	87,261,916

See accompanying notes

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

[Unaudited]	Notes	Three-month periods ended September 30,		Nine-month periods ended September 30,	
		2017	2016	2017	2016
		\$	\$	\$	\$
OPERATING ACTIVITIES					
Net earnings		3,214,366	2,831,973	10,128,563	9,950,335
Non-cash adjustment to reconcile net earnings to net cash flows					
Amortization of property, plant and equipment		1,047,767	1,263,626	2,687,678	3,742,756
Amortization of intangible assets		430,174	249,007	1,185,212	1,600,346
Amortization of deferred financing costs	5	17,157	17,157	51,471	51,471
Loss (gain) on disposal of property, plant and equipment		76,203	(29,147)	74,885	23,705
Deferred income tax recovery		(99,222)	(1,794)	(180,948)	(665,939)
Change in employees benefit plans		12,276	74,100	58,200	614,354
		4,698,721	4,404,922	14,005,061	15,317,028
Working capital adjustments					
Variation in accounts receivable		(176,715)	(1,367,589)	1,257,559	1,317,095
Variation in inventories		(190,849)	334,505	(1,564,575)	969,350
Variation in prepaid expenses		100,289	211,212	(512,952)	(326,521)
Variation in accounts payable and accrued liabilities		(392,607)	(253,521)	(2,203,267)	(3,303,001)
Variation in provisions		(1,877)	(2,060)	(5,320)	(5,441)
Variation in income tax receivable and payable		(59,748)	(251,342)	(825,562)	(1,401,803)
Contributions to employee benefit plans		(217,449)	(7,900)	(435,349)	(40,400)
Net cash flows from operating activities		3,759,765	3,068,227	9,715,595	12,526,307
INVESTING ACTIVITIES					
Business combinations, net of cash acquired	3	(18,044,989)	(4,678,009)	(18,044,989)	(4,678,009)
Adjustments to consideration paid for business combinations	3	301,774	—	330,629	—
Acquisition of property, plant and equipment		(1,527,860)	(142,984)	(6,233,799)	(1,005,039)
Acquisition of intangible assets		(38,067)	(212,637)	(322,859)	(686,028)
Proceeds from sale of property, plant and equipment		69,985	20,000	80,268	71,631
Net cash flows used in investing activities		(19,239,157)	(5,013,630)	(24,190,750)	(6,297,445)
FINANCING ACTIVITIES					
Increase (repayment) of operating facilities		18,109,626	4,267,784	19,985,499	(3,197,493)
Dividends paid		(1,708,957)	(1,575,462)	(5,140,633)	(4,732,228)
Purchase of shares for cancellation	6	(317,032)	(60,969)	(938,759)	(560,671)
Net cash flows from (used) in financing activities		16,083,637	2,631,353	13,906,107	(8,490,392)
Net change in cash		604,245	685,950	(569,048)	(2,261,530)
Net foreign exchange difference		(153,806)	54,788	(299,238)	(163,212)
Cash, beginning of period		646,222	368,437	1,964,947	3,533,917
Cash, end of period		1,096,661	1,109,175	1,096,661	1,109,175
Supplemental information ⁽¹⁾					
Interest paid		340,508	167,953	740,141	701,482
Interest received		4,657	603	12,571	6,555
Income taxes paid		1,458,767	1,632,108	4,808,265	5,906,280
Income taxes received		270,031	388,672	296,797	388,672

⁽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 of the Company are listed on the Toronto Stock Exchange (“TSX”) under the symbol SXP. The Company’s registered office is located at 7213 Cordner Street in LaSalle, Quebec.

Supremex’ 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 nine-month periods ended September 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 November 9, 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's preliminary analysis has not identified significant recognition or measurement differences in respect of the classification and measurement of its revenue from 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

On July 20, 2017, the Company acquired all of the outstanding shares of Stuart Packaging Inc. ("Stuart Packaging") for a cash consideration of \$20,094,989, net of cash acquired and including a contingent consideration payable of \$2,050,000 on the realization of certain financial targets 24 months after the acquisition date. Stuart Packaging is a leading provider of premium quality folding carton packaging for the consumer based in Montreal, Quebec.

This acquisition aligns with the Company long-term strategy to extend its core products in key markets.

3. BUSINESS COMBINATIONS [Cont'd]

2017

The following table presents a preliminary summary of the estimated fair value of assets acquired and liabilities assumed at the acquisition.

	Stuart Packaging \$
Net assets acquired	
Accounts receivable	3,032,262
Income tax receivable	9,616
Inventories	1,851,164
Prepaid expenses	163,648
Total current assets	5,056,690
Property, plant and equipment	5,924,957
Customer relationships	6,100,000
Goodwill	6,216,981
Total assets	23,298,628
Accounts payable and accrued liabilities	1,891,915
Deferred income tax liabilities	1,311,724
Net assets acquired	20,094,989
Cash consideration paid excluding contingent consideration, net of cash acquired	18,044,989
Acquisition-related costs recognized as an expense	83,378

The Company's consolidated statement of earnings for the three and nine-month periods ended September 30, 2017 include the Stuart Packaging's revenue of \$3,620,196 since the acquisition date. The fair value of the receivables acquired of \$3,032,262 of which no amount was considered uncollectible at the acquisition date, is included in the current asset in the accounting of the business acquisition.

If the acquisition had occurred on January 1, 2017 revenue for the nine-month period from Stuart Packaging would have been approximately \$13,500,000.

Goodwill deductible for tax purposes amounts to \$4,905,257. The goodwill related to the acquisition is composed of expected growth and operational synergies.

2016

During the three-month period ended September 30, 2017, the Company reduced its consideration paid by \$301,774 for the December 2016 acquisition of Printer Gateway Inc. after reaching a settlement with the previous owner. The Company revised the purchase price allocation and adjustments are mainly related to the revised assessment of fair value of property, plant and equipment and customer relationships.

3. BUSINESS COMBINATIONS [Cont'd]

The following table presents a summary of the adjustments for the estimated fair value of assets acquired and liabilities assumed at the acquisition.

	Printer Gateway Inc. \$
Adjustments to net assets acquired	
Accounts receivable	(26,875)
Inventories	(53,580)
Property, plant and equipment	(243,666)
Customer relationships	113,000
Goodwill	(38,407)
Accounts payable and accrued liabilities	(52,246)
Reduction of consideration paid	(301,774)

During the three and nine-month periods ended September 30, 2017, the preliminary assessment of the estimated fair value of assets acquired and liabilities assumed at the acquisition date related to the combination of Durabox Paper Inc., which occurred in November 2016, has not significantly changed from December 31, 2016.

The Company will finalize the purchase price allocations over the coming quarter 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. The Company completed its final assessment of the fair value of assets acquired and liabilities assumed of Bowers Envelope Company, Inc., and there was no significant adjustment required.

4. INVENTORIES

	September 30, 2017 \$	December 31, 2016 \$
Raw materials	5,323,042	5,234,234
Work in progress	485,694	279,212
Finished goods	13,582,176	10,529,104
	19,390,912	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 nine-month periods ended September 30, 2017 are \$32,192,265 and \$96,664,019 respectively [2016 - \$27,882,792 and \$87,449,362 respectively].

5. SECURED CREDIT FACILITIES

As at September 30, 2017, the Company had a five-year committed \$60 million senior secured revolving facility agreement maturing on October 6, 2020. 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%.

5. SECURED CREDIT FACILITIES [Cont'd]

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 September 30, 2017.

Amounts owed under secured credit facility are as follows:

	September 30, 2017 \$	December 31, 2016 \$
Revolving credit facility	47,136,764	27,151,265
Less: deferred financing costs, net	(205,880)	(257,351)
Long-term portion of secured credit facility	46,930,884	26,893,914

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

As at September 30, 2017, the effective variable interest rate on the secured credit facility was 2.87% [2.43% as at December 31, 2016].

Financing charges are as follows:

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2017 \$	2016 \$	2017 \$	2016 \$
Interest on secured credit facilities	327,996	168,667	704,783	561,821
Interest on defined benefit plans obligations	(22,800)	11,600	(68,400)	34,800
Other interest	(9,692)	586	(8,403)	2,228
Amortization of deferred financing costs	17,157	17,157	51,471	51,471
	312,661	198,010	679,451	650,320

6. SHARE CAPITAL

The change in 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	(118,216)	(40,350)
Balance, as of September 30, 2016	28,632,751	9,773,015
Balance, as of December 31, 2016	28,611,351	9,765,711
Purchase of shares for cancellation	(205,882)	(70,272)
Balance, as of September 30, 2017	28,405,469	9,695,439

During the nine-month period ended September 30, 2017, the Company repurchased 205,882 common shares for cancellation through a normal course issuer bid ("NCIB") in consideration of \$938,759. The excess of the purchase price over the carrying value in the amount of \$868,487 was recorded as a reduction of contributed surplus [2016 – 118,216 common shares for cancellation in consideration of \$560,671 which resulted in an excess of the carrying value of \$520,321].

On August 1, 2017, Supremex 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 \$255,770 (December 31, 2016 - \$113,800) is presented under "Accounts payable and accrued liabilities".

The compensation expense for the DSUs during the three and nine-month periods ended September 30, 2017 amounted to \$12,674 and \$71,970 [2016 - \$40,293 and \$97,727] and is recognized under selling, general and administrative expenses.

7. DIVIDENDS

Dividends declared from January 1, 2017 to September 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
July 31, 2017	September 30, 2017	October 13, 2017	0.06	1,704,328
Total				5,128,280

7. DIVIDENDS [Cont'd]

Dividends declared from January 1, 2016 to September 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
July 28, 2016	September 30, 2016	October 14, 2016	0.055	1,574,801
Total				4,725,725

8. SEGMENTED INFORMATION

The Company currently operates in one reporting segment: the manufacturing and sale of envelopes and related products. The Company's non-current assets amounted to \$103,563,724 in Canada and \$11,291,331 in the United States as at September 30, 2017 [\$79,397,211 and \$12,776,959 respectively, as at December 31, 2016]. The Company's revenue amounted to \$30,437,898 and to \$91,669,637 in Canada and \$12,985,827 and to \$38,052,382 in the United States for the three and nine-month periods ended September 30, 2017 based on the customer's locations [2016 - \$25,996,529 and to \$87,888,347 in Canada and \$10,517,227 and to \$29,306,555 in the United States, respectively].

9. SUBSEQUENT EVENT

On November 9, 2017, the Board of Directors declared a quarterly dividend of \$0.065 per common share, payable on January 16, 2018 to shareholders of record at the close of business on December 31, 2017.