



MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2019

The following management's discussion and analysis of financial condition and results of operations ("MD&A"), dated May 7, 2019, of Supremex Inc. ("Supremex" or the "Company") should be read together with the accompanying unaudited interim consolidated financial statements and related notes of the Company for the three-month period ended March 31, 2019. These condensed consolidated financial statements of the Company have been prepared by management in accordance with IAS 34, Interim Financial Reporting ("IAS 34"). Therefore, certain information and disclosures have been omitted or condensed. The accounting principles are consistent with those set out in the Company's audited consolidated financial statements for the year ended December 31, 2018 except for the one mentioned in section New Accounting Standard adopted in the first quarter of 2019. The fiscal year of the Company ends on December 31. The Company's reporting currency is the Canadian dollar. Per share amounts are calculated using the weighted average number of shares outstanding for the three-month period ended March 31, 2019. The consolidated financial statements for the three-month period ended March 31, 2019 have not been audited or reviewed by the Company's auditors.

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

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

Business Overview

Supremex is a leading North American manufacturer and marketer of envelopes and a growing provider of paper-based packaging solutions. Supremex operates 12 facilities across seven provinces in Canada and three facilities in the United States employing approximately 810 people. Supremex' growing footprint allows it to efficiently manufacture and distribute paper and packaging solutions designed to the specifications of major national and multinational corporations, resellers, government entities, SMEs and solutions providers.

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

First Quarter Financial Highlights and Recent Events

- Revenue up by 1.5% to \$49.7 million from \$48.9 million compared to the first quarter of 2018.
- Revenue from packaging and specialty products up by 10.0%, to \$14.2 million from \$12.9 million.
- January 1, 2019, Supremex adopted IFRS 16 – Leases which specifies how IFRS will account for leases.
- EBITDA¹ stood at \$6.4 million. Excluding the impact of IFRS 16, Supremex EBITDA would have been \$5.1 million compared with \$6.4 million in the first quarter of 2018. IFRS 16 accounting standard was adopted on January 1, 2019 resulting in a reduction of \$1.3 million in operating lease expenses for the quarter. Please refer to IFRS 16 Leases in the section of the New Accounting Standard adopted in first quarter 2019.
- Adjusted EBITDA¹ was \$6.4 million. Excluding the impact of IFRS 16, Supremex adjusted EBITDA would have been \$5.1 million compared with \$6.6 million in the first quarter of 2018.
- Net Earnings of \$1.8 million (or \$0.06 per share) compared with Net Earnings of \$3.3 million (or \$0.12 per share).
- Adjusted Net Earnings¹ stood at \$1.8 million (or \$0.06 per share), compared with \$3.6 million (or \$0.13 per share).
- Purchased 8,200 shares for cancellation under the Company's Normal Course Issuer Bid, for total consideration of \$26,524.
- Approval of a quarterly dividend of \$0.065 per share, equivalent to the same period of last year.
- Announced a new four-year senior secured credit facility of \$115 million with improved terms and conditions.

Growing Focus on Packaging

On January 8, 2019, the Company announced that it received exclusive rights to manufacture Conformer® products in Canada. Conformer® is a registered trademark of Conformer Products, Inc. As a long-time licensee, Supremex's Conformer® offering has enjoyed significant growth over the last several years. The Company expects to accelerate growth of its e-commerce fulfillment packaging offering based on these exclusive rights.

On April 12, 2019, Supremex announced that it received the industry leading BRC Certification after a rigorous auditing process. This AA status certification, the highest standard available recognizes the compliance of its folding carton packaging manufacturing facility in Laval, Quebec, to the best practices in product safety and reliability, a key value proposition for the premium segment of the food and beverage industry.

Declaration of Dividend

On May 7, 2019, the Board of Directors declared a quarterly dividend of \$0.065 per common share, payable on July 16, 2019, to the shareholders of record at the close of business on June 28, 2019. This dividend is designated as an "eligible" dividend for the purpose of the Income Tax Act (Canada) and any similar provincial legislation.

¹ Refer to the reconciliation of Net Earnings to Adjusted EBITDA and to the definition of Adjusted EBITDA and Adjusted Net Earnings in section Non-IFRS Measures. The adoption of IFRS 16 had a material impact on the Company's statement of financial position and its statement of earnings as nearly all operating leases were capitalized with a corresponding liability, while the rent expense was replaced by the depreciation of the right-of-use assets, and interest accretion expense from the liabilities was recorded.

Summary of Financial Information and Non-IFRS Measures

Selected Consolidated Financial Information

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

	Three-month periods ended March 31	
	2019	2018
Revenue	49,655	48,933
Operating expenses	37,184	36,538
Selling, general and administrative expenses	5,994	6,024
Operating earnings before depreciation, amortization and other items	6,477	6,371
Depreciation of property, plant and equipment	1,409	967
Depreciation of right-of-use assets	1,173	—
Amortization of intangible assets	546	449
Loss on disposal of property, plant and equipment	36	13
Operating earnings	3,313	4,942
Financing charges, net	833	363
Earnings before income taxes	2,480	4,579
Income tax expense	672	1,234
Net earnings	1,808	3,345
Basic and diluted net earnings per share	0.06	0.12
Dividend declared per share	0.065	0.065

Revenue Information

(In millions of dollars)

	Three-month periods ended March 31	
	2019	2018
Canadian Envelope	\$24.2	\$25.9
Volume variation	-13.8%	-9.6%
Average selling price variation	8.4%	2.1%
Total variation	-6.6%	-7.8%
U.S. Envelope	\$11.3	\$10.1
Volume variation	-2.5%	-7.8%
Average selling price variation (in CAD)	14.2%	0.3%
Total variation	11.3%	-7.5%
Packaging & Specialty Products		
Canada & U.S.	\$14.2	\$12.9
Total variation	10.0%	111.5%
Total Revenue	\$49.7	\$48.9
Revenue variation	1.5%	8.4%

Reconciliation of Net Earnings to Adjusted EBITDA

(In thousands of dollars)

	Three-month periods ended March 31	
	2019	2018
Net Earnings	1,808	3,345
Income tax expense	672	1,234
Financing charges, net	833	363
Depreciation of property, plant and equipment	1,409	967
Depreciation of right-of-use assets	1,173	—
Amortization of intangible assets	546	449
EBITDA⁽¹⁾	6,441	6,358
Expense for contingent remuneration related to business combination	—	256
Adjusted EBITDA⁽¹⁾	6,441	6,614
Rent expenses included in the measurement of lease obligations	(1,284)	—
Proforma adjusted EBITDA⁽¹⁾ for IFRS 16	5,157	6,614
<i>Proforma adjusted EBITDA⁽¹⁾ margin for IFRS 16</i>	10.4%	13.5%

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

Reconciliation of Net Earnings to Adjusted Net Earnings

(In thousands of dollars)

	Three-month periods ended March 31	
	2019	2018
Net Earnings	1,808	3,345
Adjustment, net of income taxes		
Expense for contingent remuneration related to business combination	—	256
Adjusted Net Earnings⁽¹⁾	1,808	3,601

⁽¹⁾ Refer to "Definition of Adjusted Net Earnings in section Non-IFRS measures"

Results of Operations

Three-month period ended March 31, 2019, compared with the three-month period ended March 31, 2018

Revenue

Revenue for the three-month period ended March 31, 2019 increased by 1.5% or \$0.8 million, reaching \$49.7 million compared to \$48.9 million during the three-month period ended March 31, 2018. Revenue growth from packaging and specialty products and U.S. envelope sales was mitigated by lower Canadian envelope sales.

Revenue from the Canadian envelope market stood at \$24.2 million, a decrease of 6.6% or \$1.7 million from \$25.9 million recorded during the first quarter of 2018. Volume declined by 13.8%, primarily from the combined effects of the industry-wide secular decline and customer and contract movements. Average selling prices increased by 8.4% to offset input cost inflation. For reference, Canada Post Transactional Mail volumes were down 6.2% or 187 million piece in calendar 2018 vs. 2017².

Revenue from the U.S. envelope market grew to \$11.3 million, an increase of 11.3% or \$1.2 million from revenue of \$10.1 million in the first quarter of 2018. The volume of units sold decreased by 2.5% and average selling prices increased by 14.2% driven by a combination of a more favorable product mix, increased customer prices implemented to mitigate rising input costs and from a favourable foreign exchange conversion from a weaker

² [Canada Post 2018 Annual Report](#)

Canadian dollar. For reference, the U.S. Postal Service First Class Mail volumes were down 2.8% during their first quarter ended December 31, 2018³.

Revenue from packaging products stood at \$14.2 million, an increase of 10.0% or \$1.3 million from \$12.9 million in the equivalent quarter of the prior year, primarily from the contribution of the acquisition of G2 Printing and Pharmaflex, concluded on April 30, 2018.

Operating Expenses

Operating expenses for the three-month period ended March 31, 2019 stood at \$37.2 million compared with \$36.5 million for the same period in 2018, an increase of \$0.7 million or 1.8%. The increase is in large part attributable to the acquisitions of G2 Printing and Pharmaflex concluded on April 30, 2018, inflationary pressure on input costs and additional costs related to the commissioning delays and inefficiencies associated with the transition to the new Durabox facility, partially offset by the reduction of \$1.3 million in operating lease expenses from the adoption of IFRS 16.

Selling, General and Administrative Expenses

Selling, general and administrative expenses totalled \$6.0 million for the three-month period ended March 31, 2019, in-line with the equivalent quarter in 2018. Excluding the \$0.3 million provision for contingent remuneration in the first quarter of 2018, SG&A expenses were \$0.3 million higher in Q1 2019.

EBITDA, Adjusted EBITDA and Adjusted EBITDA Margins

EBITDA stood at \$6.4 million for the first quarter of 2019. Excluding the impact of IFRS 16, the EBITDA would have been at \$5.1 million compared with \$6.4 million during the first quarter of 2018. The adoption of IFRS 16 had a material impact on the Company's statement of financial position and its statement of earnings as nearly all operating leases were capitalized with a corresponding liability, while operating expenses were reduced by \$1.3 million. The decrease, net of the IFRS 16 impact, is mainly attributable to additional costs related to the start-up of the new Durabox facility, to the reduced contribution on volume decline and the effects of inflationary pressures on input costs. Adjusted EBITDA stood at \$6.4 million. Excluding the impact of IFRS 16, the adjusted EBITDA would have been \$5.1 million or 10.4% of revenue, compared with \$6.6 million in the first quarter of 2018 where adjusted EBITDA represented 13.5% of revenue.

Depreciation and Amortization

Depreciation and amortization expenses for the three-month period ended March 31, 2019, amounted to \$3.1 million, compared with \$1.4 million in the equivalent quarter of 2018. The adoption of IFRS 16 resulted in a depreciation charge for the right-of-use assets equivalent to \$1.2 million in the first quarter of 2019 compared to nil in 2018. Under the adopted modified retrospective method permitted under the IFRS 16, 2018 comparative figures are not being restated. Additionally, higher depreciation of property, plant and equipment and amortization of intangible assets are related to the Durabox project and to the acquisitions of G2 Printing and Pharmaflex.

Financing Charges

Financing charges for the three-month period ended March 31, 2019 were \$0.8 million, compared to \$0.4 million during the equivalent quarter of the prior year, primarily from the higher debt used to finance the packaging acquisitions, the Durabox project and \$0.2 million related to the incremental interest accretion on lease liabilities from the adoption of the IFRS 16.

³ [USPS 2019 First Quarter Results Form 10-Q](#)

Earnings Before Income Taxes

As a result of the fluctuation in revenue and expenses described above, earnings before income taxes amounted to \$2.5 million during the three-month period ended March 31, 2019 compared with earnings before income taxes of \$4.6 million during the equivalent period of 2018.

Income Tax Expense

Income taxes amounted to \$0.7 million during the three-month period ended March 31, 2019, compared with \$1.2 million in the equivalent quarter of last year, resulting from lower earnings before income taxes.

Net Earnings and Adjusted Net Earnings

Due to the explanations mentioned above, net earnings stood at \$1.8 million (or \$0.06 per share) for the three-month period ended March 31, 2019, compared with net earnings of \$3.3 million (or \$0.12 per share) in the equivalent period in 2018. Adjusted net earnings stood at \$1.8 million (or \$0.06 per share) in the first quarter of 2019, compared with \$3.6 million (or \$0.13 per share) for the equivalent period in 2018.

Other Comprehensive Income

The discount rate used to calculate the accrued plan benefit obligations decreased to 3.25% as at March 31, 2019, from 3.8% as at December 31, 2018. This decrease combined with higher than expected return on assets generated a net actuarial loss of \$0.1 million during the first quarter ended March 31, 2019.

Segment Information

The Company currently operates in one reporting segment: the manufacturing and sale of envelopes, packaging and specialty products. The Company's non-current assets amounted to \$113.2 million in Canada and \$18.3 million in the United States as at March 31, 2019, compared with \$94.5 million and \$11.9 million respectively as at December 31, 2018.

For the three-month period ended March 31, 2019, the Company's revenue in Canada was \$33.8 million, up 5.2% from \$32.1 million in the equivalent period of 2018 and stood at \$15.9 million in the United States, a decrease of 5.6% from \$16.8 million in the equivalent period of 2018.

For the three-month period ended March 31, 2019, the Company's revenue from envelopes was \$35.5 million, a decrease of 1.6% from \$36.0 million in the equivalent period of 2018. Revenue from packaging and specialty products was \$14.2 million, an increase of 10.0% from \$12.9 million in the equivalent period of 2018.

Summary of Quarterly Operating Results from April 1, 2017 to March 31, 2019

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

	Mar. 31	Dec. 31	Sep. 30	June 30	Mar. 31	Dec. 31	Sep. 30	June 30
	2019	2018	2018	2018	2018	2017	2017	2017
Revenue	49,655	54,150	45,158	46,845	48,933	49,350	43,424	41,147
Adjusted EBITDA ⁽¹⁾	6,441	8,148	5,328	6,727	6,614	7,967	6,279	5,398
Earnings (loss) before income taxes	2,480	(11,819)	1,995	4,527	4,579	3,277	4,238	4,017
Net earnings (loss)	1,808	(12,426)	1,153	3,135	3,345	2,262	3,214	2,833
Net earnings (loss) per share	0.06	(0.44)	0.04	0.11	0.12	0.08	0.11	0.10
Adjusted net earnings	1,808	4,746	2,264	3,391	3,601	4,420	3,399	2,833
Adjusted net earnings per share	0.06	0.17	0.08	0.12	0.13	0.16	0.12	0.10

⁽¹⁾ Refer to "Definition Adjusted EBITDA, Adjusted Net Earnings in section non-IFRS measures"

Seasonality

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

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

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

Financial Position and Capital Resources

Financial Position Highlights

(In thousands of dollars)

	March 31, 2019	December 31, 2018
Working capital	28,733	30,620
Total assets	184,239	159,703
Secured credit facility	55,488	53,894
Total equity	75,172	75,661

The decrease in working capital results mainly from an increase in the current portion of lease liabilities. The increase in total assets at March 31, 2019, when compared to December 31, 2018, is mainly driven by the recognition of a right-of-use assets from the implementation of IFRS 16.

Summary of Cash Flows

(In thousands of dollars)

	Three-month periods ended March 31	
	2019	2018
Operating activities	3,040	3,168
Investing activities	(1,443)	(1,251)
Financing activities	(1,184)	(1,185)
Net foreign exchange difference	(101)	100
Net change in cash	312	832

Cash Flows from Operating Activities

Net cash flows from operating activities stood at \$3.0 million during the three-month period ended March 31, 2019. Excluding the impact of IFRS 16, the operating activities would have generated cash of \$2.1 million compared with \$3.2 million in the equivalent period of 2018, resulting from lower net earnings.

Cash Flows used in Investing Activities

Net cash flows used in investing activities amounted to \$1.4 million during the three-month period ended March 31, 2019, compared with \$1.3 million used in the equivalent period of 2018.

Cash Flows used in Financing Activities

Net cash flows used in financing activities were at \$1.2 million during the three-month period ended March 31, 2019, in line with the equivalent period of 2018.

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

Upon adoption of IFRS 16 on January 1, 2019, commitments under operating leases previously disclosed in note 20 of the audited consolidated financial statements of the Company for the year ended December 31, 2018 are now largely recorded on balance sheet as right-of-use assets and lease liabilities. As of March 31, 2019, the balance of lease liabilities for the related operating leases was \$26.3 million.

The Company has no other off-balance arrangements, except for the operating leases with terms of twelve months or less or leases of low-value assets which have not a current or future material effect on the Company's performance.

Financing

As at March 31, 2019, the Company had a \$75 million committed 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 plus an applicable margin that ranges between 0% and 0.50% or bankers' acceptance rates, plus an applicable margin that ranges between 1.50% and 2.00%.

The secured credit facility is used for working capital, capital expenditure and other general corporate purposes. It is collateralized by hypothec and security interests covering all assets of the Company and its subsidiaries and is subject to certain covenants, which the Company is required, among other conditions, to meet. The Company was in compliance with these covenants as at March 31, 2019.

Capitalization

As at May 7, 2019, the Company had 28,272,269 common shares outstanding, representing a reduction of 8,200 when compared to the 28,405,469 shares outstanding as at December 31, 2018.

Execution of Normal Course Issuer Bid ("NCIB")

The Company purchased 8,200 common shares for cancellation under its NCIB program for a total consideration of \$26,524 since January 1, 2019.

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

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

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

- i. material information relating to the Company is made known to the President and Chief Executive Officer and the Chief Financial Officer, particularly during the period in which interim filings are being prepared, and
- ii. information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

Management has also designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The control framework management used to design the Company's internal control over financial reporting is the Committee of Sponsoring Organizations (“COSO”).

There were no changes in the Company's internal controls over financial reporting that occurred during the period from January 1, 2019 to March 31, 2019 that have materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

In accordance with the provisions of National Instrument 52-109, Supremex has limited the scope of its design of Supremex's disclosure controls and procedures (DC&P) and ICFR to exclude controls, policies and procedures of a business acquired not more than 365 days before March 31, 2019. The scope limitation is primarily due to the time required for Supremex's management to assess DC&P and ICFR in a manner consistent with Supremex's other operations.

The Company expects that its April 2018 business acquisitions of G2 Printing and Pharmaflex will be covered by its certification in the second quarter of 2019.

New Accounting Standard adopted in the first quarter of 2019

The Company adopted the following new accounting standard effective January 1, 2019.

IFRS 16 Leases

Effective January 1, 2019, the Company adopted IFRS 16, leases, which supersedes IAS 17, leases and its related interpretations. IFRS 16 introduces a single lease accounting model under which most of lease-related assets and liabilities are recognized in the statement of financial position. The company has recognized an asset related to the right of use and a liability at the present value of future lease payments. Depreciation of the right-of-use asset and interest expense on the lease obligation have replaced rent expense related to operating leases. This applies to the lease contracts that convey the right to control the use of an identified asset for a period of time in exchange for consideration, except for short term leases (lease term of 12 months and less) and leases of low-value assets. The standard also specifies how to recognize, measure, present, and disclose leases. Prior to the adoption of IFRS 16, the Company recorded all leases, as either operating or finance, based on the substance of the transaction at the inception of the lease. The Company classified all leases as operating leases prior to January 1, 2019.

The Company adopted IFRS 16 using the modified retrospective method with the date of initial application of January 1, 2019. Under this method, the standard is applied retrospectively and the comparative figures from 2018 are not restated. Instead, the cumulative effect of initially applying the new standard is recognized as an adjustment to the opening balance of the deficit account in equity, if any. The Company also elected to apply the practical expedient to account for both lease and non-lease components as lease components.

The following describes the Company's accounting policy under IFRS 16, leases:

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The right-of-use asset and a lease liability are recognized at the lease commencement date.

Right-of-Use Asset

- The right-of-use asset is measured at cost. The cost is based on the initial amount of the lease liability plus initial direct costs incurred and estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located adjusted for any lease payments made at or before the commencement date, less any lease incentives received, if any.
- The cost of right-of-use asset is periodically reduced by depreciation expenses and impairment losses, if any, and adjusted for certain remeasurements of the lease liability. Right-of-use asset is amortized to the lesser of the useful life or the lease term using the straight line method as this reflects the expected pattern of consumption of the future economic benefits. The lease term includes the renewal option only if it is reasonably certain to exercise that option. Lease terms range from 2 to 12 years for buildings.
- The Company elected not to recognize right-of-use asset and liability for the leases where the total lease term is less than or equal to 12 months and for the leases of low valued assets in nature; such as but not limited to, office equipment.

Lease Liabilities

- At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.
- In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Significant judgement in determining the lease term of contracts with renewal options

- The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. After

the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

Impact on transition to IFRS 16, leases:

- Total right-of-use assets and lease liabilities of \$27,475,507 were recorded as of January 1, 2019, with no impact on the deficit as at January 1, 2019.
- Instead of recognizing monthly rent expenses, the Company starts to recognize interest expense for lease liabilities and depreciation expense for the right-of-use assets from January 1, 2019.

During the three-month period ended March 31, 2019, the depreciation of right-of-use assets amounted to \$1.2 million. The following table presents the movement of the lease liabilities for the Company from January 1, 2019 to March 31, 2019:

	March 31, 2019
	\$
At January 1, 2019	27,475,507
Lease payments	(1,283,937)
Interest expense on lease liabilities	306,634
Translation adjustment	(152,114)
At March 31, 2019	26,346,090

Recent Events

On May 8, 2019, the Company announced the closing of a new four-year senior secured credit facility of \$115 million composed of an \$80 million line of credit and \$35 million term loan. This facility will replace the existing \$75 million revolving credit facility with improved terms and conditions.

On May 7, 2019, the Board of Directors declared a quarterly dividend of \$0.065 per common share, payable on July 16, 2019 to shareholders of record at the close of business on June 28, 2019.

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 2018 Annual Information Form, dated March 29, 2019 (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, Adjusted EBITDA and future performance of Supremex and similar statements or information concerning anticipated future results, circumstances, performance or expectations. Forward-looking information may include words such as anticipate, assumption, believe, could, expect, goal, guidance, intend, may, objective, outlook, plan, seek, should, strive, target and will. Such information relates to future events or future performance and reflects current assumptions, expectations and estimates of management regarding growth, results of operations, performance, business prospects and opportunities, Canadian economic environment and liability to attract and retain customers. Such forward-looking information reflects current assumptions, expectations and estimates of management and is based on

information currently available to Supremex as at the date of this MD&A. Such assumptions, expectations and estimates are discussed throughout the MD&A for the year ended December 31, 2018.

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, interest rates fluctuations and potential risk of litigation. Such risks and uncertainties are discussed throughout this MD&A for the year ended December 31, 2018, 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.

Non-IFRS measures: Definition of EBITDA, Adjusted EBITDA and Adjusted Net Earnings

References to "EBITDA" are to earnings before financing charges, income tax expense, depreciation of property, plant and equipment and right-of-use assets and amortization of intangible assets. References to "Adjusted EBITDA" are to EBITDA adjusted to remove special non-recurring items. These special items include, but are not limited to, charges for impairment of assets, restructuring expenses, contingent remuneration expenses in connection with business combinations and new facility start-up costs. Supremex believes that EBITDA or Adjusted 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. Adjusted EBITDA allows readers to appreciate the Company's earnings without effect of non-recurring items making it valuable to assess ongoing operations.

References to "Adjusted net earnings" are to net earnings adjusted to remove the special non-recurring items as mentioned above, net of income taxes.

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

Additional Information

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

Interim Condensed Consolidated Financial Statements

Supremex Inc.

Unaudited

For the three-month periods ended March 31, 2019 and 2018

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		March 31, 2019	December 31, 2018
[Unaudited]	Notes	\$	\$
ASSETS	4		
Current assets			
Cash		622,231	308,941
Accounts receivable		24,007,212	26,518,240
Income tax receivable		1,642,564	1,248,918
Inventories	3	24,634,172	23,561,672
Prepaid expenses and others		1,828,637	1,656,993
Total current assets		52,734,816	53,294,764
Property, plant and equipment		36,820,932	36,965,022
Right-of-use assets		26,150,092	—
Accrued pension benefit asset		4,251,507	4,427,607
Intangible assets		17,594,652	18,133,648
Goodwill		46,290,503	46,390,779
Other long-term asset		396,909	490,802
Total assets		184,239,411	159,702,622
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		17,477,240	19,807,079
Dividend payable	6	1,837,697	1,838,230
Provisions		672,082	1,029,173
Current portion of lease liabilities		4,015,239	—
Total current liabilities		24,002,258	22,674,482
Secured credit facility	4	55,488,123	53,894,196
Deferred income tax liabilities		7,037,112	7,273,250
Lease liabilities		22,330,851	—
Other post-retirement benefit obligations		209,000	199,400
Total liabilities		109,067,344	84,041,328
Equity			
Share capital	5	9,649,975	9,652,774
Contributed surplus	5	277,698,508	277,722,233
Deficit		(212,732,661)	(212,589,405)
Foreign currency translation reserve		556,245	875,692
Total equity		75,172,067	75,661,294
Total liabilities and equity		184,239,411	159,702,622

Subsequent events [note 8]

See accompanying notes

On behalf of the Directors:

By: signed (Robert B. Johnston)
Director

By: signed (Steven P. Richardson)
Director

Supremex Inc.

INTERIM CONSOLIDATED STATEMENTS OF EARNINGS

For the three-month periods ended March 31 [Unaudited]	Notes	2019 \$	2018 \$
Revenue		49,654,631	48,933,924
Operating expenses	3	37,183,483	36,538,114
Selling, general and administrative expenses		5,994,267	6,023,865
Operating earnings before depreciation, amortization and other items		6,476,881	6,371,945
Depreciation of property, plant and equipment		1,408,801	967,008
Depreciation of right-of-use assets		1,173,317	—
Amortization of intangible assets		546,213	449,213
Loss on disposal of property, plant and equipment		36,480	13,156
Operating earnings		3,312,070	4,942,568
Financing charges, net	4	832,943	363,344
Earnings before income taxes		2,479,127	4,579,224
Income tax expense		671,573	1,234,028
Net earnings		1,807,554	3,345,196
Basic and diluted net earnings per share		0.0639	0.1178
Weighted average number of shares outstanding		28,280,013	28,405,469

See accompanying notes

Supremex Inc.

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the three-month periods ended March 31 [Unaudited]	Notes	2019 \$	2018 \$
Net earnings		1,807,554	3,345,196
Other comprehensive (loss) income			
<i>Other comprehensive (loss) income to be reclassified to earnings in subsequent periods</i>			
Foreign currency translation adjustments		(319,447)	383,700
Net other comprehensive (loss) income to be reclassified to earnings in subsequent periods		(319,447)	383,700
<i>Items not to be reclassified to earnings in subsequent periods</i>			
Recognized actuarial (loss) gain on defined benefit pension plans, net of income tax recovery of \$37,289 [2018 – expense of \$ 99,527]		(106,011)	281,673
Recognized actuarial (loss) gain on other post-retirement benefit, net of income tax recovery of \$2,498 [2018 – expense of \$496]		(7,102)	1,404
Net other comprehensive (loss) income not being reclassified to earnings in subsequent periods		(113,113)	283,077
Other comprehensive (loss) income		(432,560)	666,777
Total comprehensive income		1,374,994	4,011,973

See accompanying notes

Supremex Inc.

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

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

	Share capital \$	Contributed surplus \$	Deficit \$	Foreign currency translation reserve \$	Total equity \$
As at December 31, 2017	9,695,439	278,111,408	(200,939,855)	(347,859)	86,519,133
Net earnings	—	—	3,345,196	—	3,345,196
Other comprehensive income	—	—	283,077	383,700	666,777
Total comprehensive income	—	—	3,628,273	383,700	4,011,973
Dividends declared [note 6]	—	—	(1,846,355)	—	(1,846,355)
Shares repurchased and cancelled [note 5]	—	—	—	—	—
As at March 31, 2018	9,695,439	278,111,408	(199,157,937)	35,841	88,684,751
As at December 31, 2018	9,652,774	277,722,233	(212,589,405)	875,692	75,661,294
Net earnings	—	—	1,807,554	—	1,807,554
Other comprehensive loss	—	—	(113,113)	(319,447)	(432,560)
Total comprehensive income (loss)	—	—	1,694,441	(319,447)	1,374,994
Dividends declared [note 6]	—	—	(1,837,697)	—	(1,837,697)
Shares repurchased and cancelled [note 5]	(2,799)	(23,725)	—	—	(26,524)
As at March 31, 2019	9,649,975	277,698,508	(212,732,661)	556,245	75,172,067

See accompanying notes

Supremex Inc.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three-month periods ended March 31 [Unaudited]	Notes	2019 \$	2018 \$
OPERATING ACTIVITIES			
Net earnings		1,807,554	3,345,196
Non-cash adjustment to reconcile net earnings to net cash flows			
Depreciation of property, plant and equipment		1,408,801	967,008
Depreciation of right-of-use assets		1,173,317	—
Amortization of intangible assets		546,213	449,213
Amortization of deferred financing costs	4	17,157	17,157
Loss on disposal of property, plant and equipment		36,480	13,156
Deferred income tax recovery		(177,247)	(174,997)
Change in employee benefits		17,600	(5,400)
		4,829,875	4,611,333
Working capital adjustments			
Variation in accounts receivable		2,511,028	2,005,252
Variation in income tax receivable		(393,646)	(1,784,887)
Variation in inventories		(1,072,500)	(351,058)
Variation in prepaid expenses and others		(163,085)	(937,388)
Variation in accounts payable and accrued liabilities		(2,329,839)	(17,404)
Variation in provisions		(357,091)	(470,188)
Change in other long-term liability		—	256,250
Change in employee benefits		15,200	(143,275)
Net cash flows from operating activities		3,039,942	3,168,635
INVESTING ACTIVITIES			
Acquisition of property, plant and equipment		(1,405,780)	(1,244,836)
Acquisition of intangible assets		(44,440)	(54,990)
Proceeds from disposal of property, plant and equipment		8,026	48,480
Net cash flows used in investing activities		(1,442,194)	(1,251,346)
FINANCING ACTIVITIES			
Increase of secured credit facility		1,576,770	661,497
Payment of lease liabilities		(977,303)	—
Dividends paid		(1,838,230)	(1,846,355)
Purchase of share capital for cancellation	5	(26,524)	—
Change in other long-term asset		81,757	—
Net cash flows used in financing activities		(1,183,530)	(1,184,858)
Net change in cash		414,218	732,431
Net foreign exchange difference		(100,928)	100,274
Cash, beginning of period		308,941	706,190
Cash, ending of period		622,231	1,538,895
Supplemental information ⁽¹⁾			
Interest paid		359,096	372,459
Interest received		13,518	40
Income taxes paid		1,561,413	1,867,287
Income taxes received		308,360	66,826

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

See accompanying notes

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2019 and 2018

[Unaudited]

1. CORPORATE INFORMATION

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

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

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

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

These unaudited interim condensed consolidated financial statements were approved by the Company’s Board of Directors on May 7, 2019 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, 2018, prepared in accordance with International Financial Reporting Standards (“IFRS”) except for the adoption of new standard effective as of January 1, 2019. 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, 2018.

2. SIGNIFICANT ACCOUNTING POLICIES

The notes presented in these interim condensed consolidated financial statements include only significant changes occurring for the three-month period since the year ended December 31, 2018.

New Accounting Standard

The Company adopted the following new accounting standard effective January 1, 2019.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2019 and 2018

[Unaudited]

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

IFRS 16 Leases

Effective January 1, 2019, the Company adopted IFRS 16, leases, which supersedes IAS 17, leases and its related interpretations. IFRS 16 introduces a single lease accounting model under which most of lease-related assets and liabilities are recognized in the statement of financial position. The company has recognized an asset related to the right of use and a liability at the present value of future lease payments. Depreciation of the right-of-use asset and interest expense on the lease obligation have replaced rent expense related to operating leases. This applies to the lease contracts that convey the right to control the use of an identified asset for a period of time in exchange for consideration, except for short term leases (lease term of 12 months and less) and leases of low-value assets. The standard also specifies how to recognize, measure, present, and disclose leases. Prior to the adoption of IFRS 16, the Company recorded all leases, as either operating or finance, based on the substance of the transaction at the inception of the lease. The Company classified all leases as operating leases prior to January 1, 2019.

The Company adopted IFRS 16 using the modified retrospective method with the date of initial application of January 1, 2019. Under this method, the standard is applied retrospectively and the comparatives figures from 2018 are not restated. Instead, the cumulative effect of initially applying the new standard is recognized as an adjustment to the opening balance of the deficit account in equity, if any. The Company also elected to apply the practical expedient to account for both lease and non-lease components as lease components.

The following describes the Company's accounting policy under IFRS 16, leases:

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The right-of-use asset and a lease liability are recognized at the lease commencement date.

Right-of-Use Asset

- The right-of-use asset is measured at cost. The cost is based on the initial amount of the lease liability plus initial direct costs incurred and estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located adjusted for any lease payments made at or before the commencement date, less any lease incentives received, if any.
- The cost of right-of-use asset is periodically reduced by depreciation expenses and impairment losses, if any, and adjusted for certain remeasurements of the lease liability. Right-of-use asset is amortized to the lesser of the useful life or the lease term using the straight line method as this reflects the expected pattern of consumption of the future economic benefits. The lease term includes the renewal option only if it is reasonably certain to exercise that option. Lease terms range from 2 to 12 years for buildings.
- The Company elected not to recognize right-of-use asset and liability for the leases where the total lease term is less than or equal to 12 months and for the leases of low valued assets in nature; such as but not limited to, office equipment.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2019 and 2018

[Unaudited]

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Lease Liabilities

- At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.
- In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Significant judgement in determining the lease term of contracts with renewal options

- The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

Impact on transition to IFRS 16, leases:

- Total right-of-use assets and lease liabilities of \$27,475,507 were recorded as of January 1, 2019, with no impact on the deficit as at January 1, 2019.
- Instead of recognizing monthly rent expenses, the Company starts to recognize interest expense for lease liabilities and depreciation expense for the right-of-use assets from January 1, 2019.

The following table presents the reconciliation of the operating lease commitments as of December 31, 2018 to the lease liabilities as at January 1, 2019:

	\$
Operating lease commitments as at December 31, 2018	25,298,109
Discounted operating lease commitments as at January 1, 2019	(5,160,232)
Commitments relating to the change in the lease term assumptions and inclusion of non-lease components	7,377,767
Commitments relating to short-term and low-value assets	(40,137)
Lease liabilities as at January 1, 2019	27,475,507

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2019 and 2018

[Unaudited]

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

The following table presents the right-of-use assets for the Company as of March 31, 2019:

	Buildings \$	Manufacturing equipment \$	Office equipment \$	Vehicles \$	Total \$
Cost:					
At January 1, 2019	27,261,213	147,056	32,924	34,314	27,475,507
Translation adjustment	(151,968)	(52)	(180)	—	(152,200)
At March 31, 2019	27,109,245	147,004	32,744	34,314	27,323,307
Accumulated depreciation:					
At January 1, 2019	—	—	—	—	—
Depreciation	1,154,319	8,349	4,451	6,198	1,173,317
Translation adjustment	(102)	—	—	—	(102)
At March 31, 2019	1,154,217	8,349	4,451	6,198	1,173,215
Net book value:					
At March 31, 2019	25,955,028	138,655	28,293	28,116	26,150,092

The following table presents the lease liabilities for the Company as of March 31, 2019:

	March 31, 2019 \$
At January 1, 2019	27,475,507
Lease payments	(1,283,937)
Interest expense on lease liabilities	306,634
Translation adjustment	(152,114)
At March 31, 2019	26,346,090

3. INVENTORIES

	March 31, 2019 \$	December 31, 2018 \$
Raw materials	7,991,854	8,987,542
Work in progress	921,859	978,561
Finished goods	15,720,459	13,595,569
	24,634,172	23,561,672

The cost of inventories recognized as an expense and included in operating expenses, including the related depreciation of property, plant and equipment and depreciation of right-of-use assets allocated to inventories, during the three-month period ended March 31, 2019 is \$37,987,168 [2018 - \$35,790,822].

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2019 and 2018

[Unaudited]

4. SECURED CREDIT FACILITY

As at March 31, 2019, the Company had a committed \$75 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, plus an applicable margin that ranges between 0% and 0.50% or bankers' acceptance rates, plus an applicable margin that ranges between 1.50% and 2.00%.

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 March 31, 2019.

Amounts owed under secured credit facility are as follows:

	March 31, 2019	December 31, 2018
	\$	\$
Revolving credit facility	55,591,061	54,014,291
Less: deferred financing costs, net	(102,938)	(120,095)
Long-term portion of secured credit facility	55,488,123	53,894,196

As at March 31, 2019, the Company had outstanding letters of credit for a total of \$10,000 [\$10,000 as at December 31, 2018].

As at March 31, 2019, the effective variable interest rate on the secured credit facility was 3.73% [4.01% as at December 31, 2018].

Financing charges are as follows:

	Three-month periods ended March 31,	
	2019	2018
	\$	\$
Interest on secured credit facility	555,420	375,154
Interest expense on lease liabilities	306,634	—
Interest income on defined benefit plans obligations	(39,900)	(31,800)
Other interest (income) expense	(6,368)	2,833
Amortization of deferred financing costs	17,157	17,157
	832,943	363,344

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2019 and 2018

[Unaudited]

5. SHARE CAPITAL

The change in share capital was as follows:

	Number of common shares	Share capital \$
Balance, as of December 31, 2017	28,405,469	9,695,439
Purchase of share capital for cancellation	—	—
Balance, as of March 31, 2018	28,405,469	9,695,439
Balance, as of December 31, 2018	28,280,469	9,652,774
Purchase of share capital for cancellation	(8,200)	(2,799)
Balance, as of March 31, 2019	28,272,269	9,649,975

During the three-month period ended March 31, 2019, the Company repurchased 8,200 common shares for cancellation through a normal course issuer bid ("NCIB") in consideration of \$26,524. The excess of the purchase price over the carrying value in the amount of \$23,725 was recorded as a reduction of contributed surplus. During the three-month period ended March 31, 2018, the Company did not repurchase common shares for cancellation through a NCIB.

Deferred Share Unit Plan (DSU)

The financial liability resulting from the DSU plan of \$604,241 (December 31, 2018 - \$305,647) is presented under "Accounts payable and accrued liabilities".

The compensation expense for the DSU plan during the three-month period ended March 31, 2019 amounted to \$298,594 [2018 - \$77,166] and is recognized under selling, general and administrative expenses.

6. DIVIDENDS

Dividends declared from January 1, 2019 to March 31, 2019 were as follows:

Declaration date	Record date	Payment date	Per share \$	Dividend \$
February 20, 2019	March 29, 2019	April 12, 2019	0.065	1,837,697
Total				1,837,697

Dividends declared from January 1, 2018 to March 31, 2018 were as follows:

Declaration date	Record date	Payment date	Per share \$	Dividend \$
February 20, 2018	March 29, 2018	April 13, 2018	0.065	1,846,355
Total				1,846,355

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2019 and 2018

[Unaudited]

7. SEGMENTED INFORMATION

The Company currently operates in one reporting segment: the manufacturing and sale of envelopes, paper-based packaging solutions and specialty products. The Company's non-current assets amounted to \$113,231,193 in Canada and \$18,273,402 in the United States as at March 31, 2019 [\$94,532,165 and \$11,875,693, respectively, as at December 31, 2018]. The Company's revenue amounted to \$33,787,814, in Canada and \$15,866,817, in the United States for the three-month period ended March 31, 2019 based on the customer's locations [2018 - \$32,133,851 in Canada and \$16,800,073 in the United States].

For the three-month period ended March 31, 2019, the Company's revenue from envelopes amounted to \$35,501,652 and those from packaging and specialty products amounted to \$14,152,979, based on product classification [2018 - \$36,062,232 from envelopes and \$12,871,692 from packaging and specialty products].

8. SUBSEQUENT EVENTS

On May 8, 2019, the Company announced the closing of a new four-year senior secured credit facility of \$115 million composed of an \$80 million line of credit and \$35 million term loan. This facility will replace the existing \$75 million revolving credit facility with improved terms and conditions.

On May 7, 2019, the Board of Directors declared a quarterly dividend of \$0.065 per common share, payable on July 16, 2019 to shareholders of record at the close of business on June 28, 2019.