



**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
FOR THE THREE AND SIX-MONTH PERIODS ENDED JUNE 30, 2019**

*The following management's discussion and analysis of financial condition and results of operations ("MD&A"), dated August 1, 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 and six-month periods ended June 30, 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. 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 and six-month periods ended June 30, 2019. The consolidated financial statements for the three and six-month periods ended June 30, 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](http://www.sedar.com) and on the Company's website at [www.supremex.com](http://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 800 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<sup>1</sup>, polyethylene bags for courier applications, bubble mailers, Enviro-logiX<sup>2</sup> and Tyvek<sup>3</sup> and other related products such as protective envelopes, X-ray envelopes, medical and file folders, repositionable notes, membership cards as well as labelling products.

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<sup>1</sup> Conformer® is a registered trademark of Conformer Products, Inc.

<sup>2</sup> Enviro-logiX® is a registered trademark of Envirologix Inc.

<sup>3</sup> Tyvek® is a registered trademark of E.I. du Pont de Nemours and Company.

## Second Quarter Financial Highlights and Recent Events

- Revenue up by 1.7% to \$47.6 million, from \$46.8 million in the second quarter of 2018.
- Revenue from Canadian and U.S. envelope sales up by 7.4% to \$34.0 million from \$31.6 million.
- Revenue from packaging and specialty products down by 10.2% to \$13.6 million from \$15.2 million.
- Net Earnings of \$1.8 million (or \$0.06 per share) compared with Net Earnings of \$3.1 million (or \$0.11 per share).
- EBITDA<sup>4</sup> for the quarter was \$6.6 million compared to \$6.5 million in the previous year. 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. Supremex Adjusted EBITDA<sup>4</sup> was \$5.5 million compared to \$6.1 million in the second quarter of 2018.
- Purchased 115,762 shares for cancellation under the Company's Normal Course Issuer Bid, for total consideration of \$330,101.
- Concluded a new four-year senior secured credit facility of \$115 million with improved terms and conditions.
- Approval of a quarterly dividend of \$0.065 per share, equivalent to the same period of last year.

## Declaration of Dividend

On August 1, 2019, the Board of Directors declared a quarterly dividend of \$0.065 per common share, payable on October 16, 2019, to the shareholders of record at the close of business on September 30, 2019. This dividend is designated as an "eligible" dividend for the purpose of the Income Tax Act (Canada) and any similar provincial legislation.

## Summary of Financial Information and Non-IFRS Measures

### Selected Consolidated Financial Information

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

|   | Three-month periods<br>ended June 30 |        | Six-month periods<br>ended June 30 |        |
|---|--------------------------------------|--------|------------------------------------|--------|
|   | 2019                                 | 2018   | 2019                               | 2018   |
| <b>Revenue</b>  | <b>47,642</b>                        | 46,845 | <b>97,297</b>                      | 95,779 |
| Operating expenses  | <b>34,905</b>                        | 35,016 | <b>72,089</b>                      | 71,554 |
| Selling, general and administrative expenses                                    | <b>5,962</b>                         | 5,945  | <b>11,956</b>                      | 11,969 |
| <b>Operating earnings before depreciation,<br/>amortization and other items</b> | <b>6,775</b>                         | 5,884  | <b>13,252</b>                      | 12,256 |
| Depreciation of property, plant and equipment                                   | <b>1,282</b>                         | 1,007  | <b>2,691</b>                       | 1,974  |
| Depreciation of right-of-use assets   | <b>1,170</b>                         | —      | <b>2,343</b>                       | —      |
| Amortization of intangible assets   | <b>544</b>                           | 494    | <b>1,090</b>                       | 943    |
| Loss (gain) on disposal of property, plant and<br>equipment                     | <b>138</b>                           | (587)  | <b>174</b>                         | (574)  |
| <b>Operating earnings</b>   | <b>3,641</b>                         | 4,970  | <b>6,954</b>                       | 9,913  |
| Financing charges, net  | <b>942</b>                           | 443    | <b>1,775</b>                       | 807    |
| <b>Earnings before income taxes</b>   | <b>2,699</b>                         | 4,527  | <b>5,179</b>                       | 9,106  |
| Income tax expense  | <b>884</b>                           | 1,392  | <b>1,556</b>                       | 2,626  |
| <b>Net earnings</b>   | <b>1,815</b>                         | 3,135  | <b>3,623</b>                       | 6,480  |
| Basic and diluted net earnings per share  | <b>0.06</b>                          | 0.11   | <b>0.13</b>                        | 0.23   |
| Dividend declared per share   | <b>0.065</b>                         | 0.065  | <b>0.130</b>                       | 0.130  |

<sup>4</sup> Refer to the reconciliation of Net Earnings to Adjusted EBITDA and to the definition of EBITDA and Adjusted EBITDA 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.

## Revenue Information

(In millions of dollars)

|   | Three-month periods<br>ended June 30 |        | Six-month periods<br>ended June 30 |        |
|---|--------------------------------------|--------|------------------------------------|--------|
|   | 2019                                 | 2018   | 2019                               | 2018   |
| <b>Canadian Envelope</b>                  | <b>\$23.3</b>                        | \$21.9 | <b>\$47.5</b>                      | \$47.8 |
| Volume variation                          | -8.1%                                | -12.4% | -11.2%                             | -10.9% |
| Average selling price variation           | 15.5%                                | 1.8%   | 11.7%                              | 1.9%   |
| Total variation                           | 6.2%                                 | -10.9% | -0.7%                              | -9.2%  |
| <b>U.S. Envelope</b>                      | <b>\$10.7</b>                        | \$9.7  | <b>\$22.0</b>                      | \$19.9 |
| Volume variation                          | -1.9%                                | -6.5%  | -2.2%                              | -7.2%  |
| Average selling price variation (in CAD)  | 12.4%                                | -0.4%  | 13.3%                              | 0.0%   |
| Total variation                           | 10.2%                                | -6.9%  | 10.8%                              | -7.2%  |
| <b>Packaging &amp; Specialty Products</b> |                                      |        |                                    |        |
| Canada & U.S.                             | <b>\$13.6</b>                        | \$15.2 | <b>\$27.8</b>                      | \$28.1 |
| Total variation                           | -10.2%                               | 147.3% | -1.0%                              | 129.5% |
| <b>Total Revenue</b>                      | <b>\$47.6</b>                        | \$46.8 | <b>\$97.3</b>                      | \$95.8 |
| Revenue variation                         | 1.7%                                 | 13.8%  | 1.6%                               | 11.0%  |

## Reconciliation of Net Earnings to Adjusted EBITDA

(In thousands of dollars)

|   | Three-month periods<br>ended June 30 |       | Six-month periods<br>ended June 30 |        |
|---|--------------------------------------|-------|------------------------------------|--------|
|   | 2019                                 | 2018  | 2019                               | 2018   |
| <b>Net Earnings</b>   | <b>1,815</b>                         | 3,135 | <b>3,623</b>                       | 6,480  |
| Income tax expense  | 884                                  | 1,392 | 1,556                              | 2,626  |
| Financing charges, net  | 942                                  | 443   | 1,775                              | 807    |
| Depreciation of property, plant and equipment   | 1,282                                | 1,007 | 2,691                              | 1,974  |
| Depreciation of right-of-use assets   | 1,170                                | —     | 2,343                              | —      |
| Amortization of intangible assets   | 544                                  | 494   | 1,090                              | 943    |
| <b>EBITDA<sup>(1)</sup></b>   | <b>6,637</b>                         | 6,471 | <b>13,078</b>                      | 12,830 |
| Loss (gain) on disposal of property, plant and equipment                              | 138                                  | (587) | 174                                | (574)  |
| Expense for contingent remuneration related to business combination                   | —                                    | 256   | —                                  | 512    |
| Rent expenses included in the measurement of lease obligations (adjusted for IFRS 16) | (1,273)                              | —     | (2,557)                            | —      |
| <b>Adjusted EBITDA<sup>(1)</sup></b>  | <b>5,502</b>                         | 6,140 | <b>10,695</b>                      | 12,768 |
| <b>Adjusted EBITDA Margin (%)</b>   | <b>11.6</b>                          | 13.1  | <b>11.0</b>                        | 13.3   |

<sup>(1)</sup> 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<br>ended June 30 |              | Six-month periods<br>ended June 30 |              |
|---|--------------------------------------|--------------|------------------------------------|--------------|
|   | 2019                                 | 2018         | 2019                               | 2018         |
| <b>Net Earnings</b>   | <b>1,815</b>                         | <b>3,135</b> | <b>3,623</b>                       | <b>6,480</b> |
| Adjustment, net of income taxes   |                                      |              |                                    |              |
| Loss (gain) on disposal of property, plant and equipment, net of income taxes | 102                                  | (434)        | 129                                | (424)        |
| Expense for contingent remuneration related to business combination           | —                                    | 256          | —                                  | 512          |
| <b>Adjusted Net Earnings</b> <sup>(1)</sup>                                   | <b>1,917</b>                         | <b>2,957</b> | <b>3,752</b>                       | <b>6,568</b> |

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

## Results of Operations

### *Three-month period ended June 30, 2019, compared with the three-month period ended June 30, 2018*

#### *Revenue*

Revenue for the three-month period ended June 30, 2019, increased by 1.7% or \$0.8 million, reaching \$47.6 million compared with \$46.8 million during the three-month period ended June 30, 2018. Revenue growth comes from Canadian and U.S. Envelope sales. Revenue from packaging and specialty products was lower in the second quarter of 2019 and accounted for 28.7% of the Company's revenues in the quarter.

Revenue from the Canadian envelope market stood at \$23.3 million, an increase of 6.2% or \$1.4 million from \$21.9 million recorded during the second quarter of 2018. Higher average selling prices, which increased by 15.5% to offset inflationary pressures on input costs, more than compensated for the reduction in volume of 8.1%. For reference, Canada Post Transactional Mail volumes were down 8.1% during their first quarter ended March 31, 2019<sup>5</sup>.

Revenue from the U.S. envelope market stood at \$10.7 million, an increase of 10.2% or \$1.0 million from \$9.7 million in the second quarter of 2018. The volume of units sold was down by 1.9% while average selling prices increased by 12.4%, of which approximately 3.6% comes from a positive currency conversion and the balance from increased selling prices to offset input cost inflation and a more favourable mix. For reference, the U.S. Postal Service First Class Mail volumes were down 3.9% during their second quarter ended March 31, 2019<sup>6</sup>.

Revenue from packaging products was \$13.6 million, a decrease of 10.2% or \$1.6 million from \$15.2 million during the second quarter of the prior year. Greater than 100% of the revenue decline came from lower volume from a single e-commerce packaging customer depleting accumulated inventory to facilitate a packaging re-design slated to launch in August of 2019, which was in part mitigated by increased folding carton sales from the 2018 packaging acquisitions of G2 Printing Inc. and Pharmaflex Labels Inc. ("G2") in May 2018.

#### *Operating Expenses*

Operating expenses for the three-month period ended June 30, 2019 were \$34.9 million compared with \$35.0 million for the same period in 2018, representing a decrease of \$0.1 million or 0.3%. Higher costs associated with the acquisition of G2 concluded on April 30, 2018, higher input costs and costs related to inefficiencies associated with the ramp-up of the new Durabox facility were offset by the reduction of \$1.3 million in operating lease expenses from the adoption of IFRS 16.

<sup>5</sup> [Canada Post reports First Quarter 2019 results](#)

<sup>6</sup> [U.S. Postal Service Reports Second Quarter Fiscal 2019 Results](#)

### *Selling, General and Administrative Expenses*

Selling, general and administrative expenses totalled \$6.0 million for the three-month period ended June 30, 2019, an increase of \$0.3 million after exclusion of the provision for contingent remuneration related to the acquisition of Stuart Packaging in the second quarter of 2018. The variance is mostly attributable to a loss on foreign exchange translation in the second quarter of 2019 versus a gain in the comparable period of 2018.

### *EBITDA and Adjusted EBITDA<sup>7</sup>*

EBITDA was \$6.6 million, compared to \$6.5 million in the second quarter of 2018, an increase of \$0.1 million or 2.6%. 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 Adjusted EBITDA was \$5.5 million compared to \$6.1 million during the second quarter of 2018. The decrease of \$0.6 million in Adjusted EBITDA is mainly attributable to costs related to the start-up of the new Durabox facility and the reduced contribution from the lower sales volume in packaging and related products. Adjusted EBITDA margins stood at 11.6% of revenues, down from 13.1% in the equivalent quarter of 2018.

### *Depreciation and Amortization*

Depreciation and amortization expenses for the three-month period ended June 30, 2019, amounted to \$3.0 million, up from \$1.5 million in the second quarter of 2018. Higher depreciation of property, plant and equipment and amortization of intangible assets are related to the Durabox capital expenditure project and to the acquisition of G2. The adoption of IFRS 16 resulted in a depreciation charge for the right-of-use assets equivalent to \$1.2 million in the second 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.

### *Loss (gain) on disposal of property, plant and equipment*

The Company recognized a loss of \$0.1 million compared with a gain of \$0.6 million in the equivalent quarter of 2018 from the disposal of property, plant and equipment resulting from the sale of equipment to a commercial partner upon the end of a strategic production alliance in the U.S. envelope market during the second quarter of 2018.

### *Financing Charges*

Financing charges for the three-month period ended June 30, 2019, were \$0.9 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 and the Durabox project combined with higher interest rates and a \$0.3 million related to the incremental interest accretion on lease liabilities from the adoption of the IFRS 16.

### *Earnings Before Income Taxes*

As a result of the fluctuation in revenue and expenses described above, earnings before income taxes decreased to \$2.7 million during the three-month period ended June 30, 2019, compared with \$4.5 million during the equivalent period of 2018.

### *Income Tax Expense*

Income taxes amounted to \$0.9 million during the three-month period ended June 30, 2019, compared with \$1.4 million in the equivalent quarter of last year, resulting from lower earnings before income taxes.

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<sup>7</sup> Refer to "Definition of EBITDA and Adjusted EBITDA in section Non-IFRS measures"

### *Net Earnings and Adjusted Net Earnings<sup>8</sup>*

Net Earnings amounted to \$1.8 million (or \$0.06 per share) for the three-month period ended June 30, 2019, compared with \$3.1 million (or \$0.11 per share) for the equivalent period in 2018. Adjusted Net Earnings reached \$1.9 million (or \$0.07 per share) for the three-month period ended June 30, 2019, compared with \$3.0 million (or \$0.10 per share) for the equivalent period in 2018.

### *Other Comprehensive Income*

The discount rate used to calculate the accrued plan benefit obligations decreased to 2.9% as at June 30, 2019, from 3.25% as at March 31, 2019. This decrease was partially offset by a better than expected return on assets and as a result, generated a net actuarial loss of \$2.1 million.

### ***Six-month period ended June 30, 2019, compared with the six-month period ended June 30, 2018***

#### *Revenue*

Revenue for the six-month period ended June 30, 2019 increased by 1.6% or \$1.5 million, reaching \$97.3 million compared to \$95.8 million during the six-month period ended June 30, 2018. Revenue growth from U.S. envelope sales was mitigated by lower packaging and specialty product sales and slightly lower Canadian envelope sales.

Revenue from the Canadian envelope market stood at \$47.5 million, a decrease of 0.7% or \$0.3 million from \$47.8 million recorded during the six-month period ended June 30, 2018. Volume declined by 11.2%, primarily from the combined effects of the industry-wide secular decline and first quarter 2019 customer and contract movements. Average selling prices increased by 11.7% to offset input cost inflation.

Revenue from the U.S. envelope market grew to \$22.0 million, an increase of 10.8% or \$2.1 million from revenue of \$19.9 million in the equivalent period of 2018. The volume of units sold decreased by 2.2% and average selling prices increased by 13.3%, of which approximately 4.4% comes from a positive currency conversion effect. The balance results from a combination of a more favourable product mix and increased customer selling prices implemented to mitigate rising input costs.

Revenue from packaging products stood at \$27.8 million, a decrease of 1.0% or \$0.3 million from \$28.1 million in the equivalent period of the prior year. The reduction in sales resulted from lower volume from a single e-commerce packaging customer depleting accumulated inventory to facilitate a packaging re-design slated to launch in August of 2019, which was in part mitigated by increased folding carton sales from the 2018 packaging acquisition of G2.

#### *Operating Expenses*

Operating expenses for the six-month period ended June 30, 2019 stood at \$72.1 million compared with \$71.6 million for the same period in 2018, an increase of \$0.5 million or 0.8%. The increase is in large part attributable to the acquisition of G2 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 \$2.6 million in operating lease expenses from the adoption of IFRS 16.

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<sup>8</sup> Refer to "Definition of EBITDA and Adjusted EBITDA in section Non-IFRS measures"

### *Selling, General and Administrative Expenses*

Selling, general and administrative expenses totalled \$12.0 million for the six-month period ended June 30, 2019, an increase of \$0.5 million after exclusion of the provision for contingent remuneration related to the acquisition of Stuart Packaging in the six-month period of 2018. The variance is mostly attributable to a loss on foreign exchange translation in the six-month period of 2019 versus a gain in the comparable period of 2018.

### *EBITDA and Adjusted EBITDA<sup>9</sup>*

EBITDA was \$13.1 million for the first six months of 2019 compared to \$12.8 million for the same period 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 \$2.6 million. The Adjusted EBITDA stood at \$10.7 million compared with \$12.8 million during the first half of 2018. The decrease of \$2.1 million in Adjusted EBITDA is mainly attributable to the start-up of the new Durabox facility and the reduced contribution from a single e-Commerce packaging customer. Adjusted EBITDA margins stood at 11.0% of revenues, down from 13.3% in the equivalent period of 2018.

### *Depreciation and Amortization*

Depreciation and amortization expenses for the six-month period ended June 30, 2019, amounted to \$6.1 million, compared with \$2.9 million in the equivalent period of 2018. The adoption of IFRS 16 resulted in a depreciation charge for the right-of-use assets equivalent to \$2.3 million in the second 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 acquisition of G2.

### *Financing Charges*

Financing charges for the six-month period ended June 30, 2019 were \$1.8 million, compared to \$0.8 million during the equivalent period of the prior year primarily from the higher debt used to finance the packaging acquisitions and the Durabox project, combined with higher interest rates and a \$0.6 million related to the incremental interest accretion on lease liabilities from the adoption of the IFRS 16.

### *Earnings Before Income Taxes*

As a result of the fluctuation in revenue and expenses described above, earnings before income taxes amounted to \$5.2 million during the six-month period ended June 30, 2019 compared with earnings before income taxes of \$9.1 million during the equivalent period of 2018.

### *Income Tax Expense*

Income taxes amounted to \$1.6 million during the six-month period ended June 30, 2019, compared with \$2.6 million in the equivalent period of last year, resulting from lower earnings before income taxes.

### *Net Earnings and Adjusted Net Earnings<sup>10</sup>*

Due to the explanations mentioned above, net earnings stood at \$3.6 million (or \$0.13 per share) for the six-month period ended June 30, 2019, compared with net earnings of \$6.5 million (or \$0.23 per share) in the

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<sup>9</sup> Refer to "Definition of EBITDA and Adjusted EBITDA in section Non-IFRS measures"

<sup>10</sup> Refer to "Definition of EBITDA and Adjusted EBITDA in section Non-IFRS measures"

equivalent period in 2018. Adjusted net earnings stood at \$3.8 million (or \$0.13 per share) in the first six months of 2019, compared with \$6.6 million (or \$0.23 per share) for the equivalent period in 2018.

#### *Other Comprehensive Income*

The discount rate used to calculate the accrued plan benefit obligations decreased to 2.9% as at June 30, 2019, from 3.8% as at December 31, 2018. This decrease was partially offset by a better than expected return on assets and as a result, generated a net actuarial loss of \$2.2 million during the six-month period ended June 30, 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 \$110.9 million in Canada and \$17.3 million in the United States as at June 30, 2019, compared with \$94.5 million and \$11.9 million respectively as at December 31, 2018.

For the three-month period ended June 30, 2019, the Company's revenue in Canada was \$33.2 million, up 8.5% from \$30.6 million in the equivalent period of 2018 and stood at \$14.4 million in the United States, a decrease of 11.1% from \$16.2 million in the equivalent period of 2018.

For the six-month period ended June 30, 2019, the Company's revenue in Canada stood at \$67.0 million, up 6.8% from \$62.8 million in the equivalent period of 2018 and stood at \$30.3 million in the United States, a decrease of 8.3% from \$33.0 million in the equivalent period of 2018.

For the three-month period ended June 30, 2019, the Company's revenue from envelopes was \$33.9 million, an increase of 7.4% from \$31.6 million in the equivalent period of 2018. Revenue from packaging and specialty products was \$13.7 million, a decrease of 10.2% from \$15.2 million in the equivalent period of 2018.

For the six-month period ended June 30, 2019, the Company's revenue from envelopes was \$69.5 million, an increase of 2.6% from \$67.7 million in the equivalent period of 2018. Revenue from packaging and specialty products was \$27.8 million, a decrease of 1.0% from \$28.1 million in the equivalent period of 2018.

#### **Summary of Quarterly Operating Results from July 1, 2017 to June 30, 2019**

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

|   | <b>June 30<br/>2019</b> | Mar. 31<br>2019 | Dec. 31<br>2018 | Sep. 30<br>2018 | June 30<br>2018 | Mar. 31<br>2018 | Dec. 31<br>2017 | Sep. 30<br>2017 |
|---|-------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Revenue                                 | <b>47,642</b>           | 49,655          | 54,150          | 45,158          | 46,845          | 48,933          | 49,350          | 43,424          |
| Adjusted EBITDA <sup>(1)</sup>          | <b>5,502</b>            | 5,193           | 8,148           | 5,125           | 6,140           | 6,628           | 8,007           | 6,355           |
| Earnings (loss) before<br>income taxes  | <b>2,699</b>            | 2,480           | (11,819)        | 1,995           | 4,527           | 4,579           | 3,277           | 4,238           |
| Net earnings (loss)                     | <b>1,815</b>            | 1,808           | (12,426)        | 1,153           | 3,135           | 3,345           | 2,262           | 3,214           |
| Net earnings (loss) per<br>share        | <b>0.06</b>             | 0.06            | (0.44)          | 0.04            | 0.11            | 0.12            | 0.08            | 0.11            |
| Adjusted net<br>earnings <sup>(1)</sup> | <b>1,917</b>            | 1,835           | 4,746           | 2,264           | 2,957           | 3,611           | 4,449           | 3,456           |
| Adjusted net earnings<br>per share      | <b>0.07</b>             | 0.06            | 0.17            | 0.08            | 0.10            | 0.13            | 0.16            | 0.12            |

<sup>(1)</sup> Refer to "Definition of 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 is 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)*

|                         | June 30,<br>2019 | December 31,<br>2018 |
|-------------------------|------------------|----------------------|
| Working capital         | 23,198           | 30,620               |
| Total assets            | 178,827          | 159,703              |
| Secured credit facility | 55,232           | 53,894               |
| Total equity            | 72,448           | 75,661               |

The decrease in working capital results mainly from an increase in the current portion of secured credit facility and of lease liabilities. The increase in total assets at June 30, 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<br>ended June 30 |          | Six-month periods<br>ended June 30 |          |
|---------------------------------|--------------------------------------|----------|------------------------------------|----------|
|                                 | 2019                                 | 2018     | 2019                               | 2018     |
| Operating activities            | 5,271                                | 4,164    | 8,618                              | 7,332    |
| Investing activities            | (1,914)                              | (15,888) | (3,357)                            | (17,139) |
| Financing activities            | (3,734)                              | 10,764   | (5,224)                            | 9,579    |
| Net foreign exchange difference | (101)                                | 70       | (202)                              | 171      |
| Net change in cash              | (478)                                | (890)    | (165)                              | (57)     |

#### *Cash Flows from Operating Activities*

Net cash flows from operating activities increased to \$8.6 million during the six-month period ended June 30, 2019, up from \$7.3 million in the equivalent period of 2018. Excluding the impact of IFRS 16, net cash flows from operating activities would have been \$6.0 million, a \$1.3 million decrease when compared to the equivalent period in 2018.

### *Cash Flows used in Investing Activities*

Net cash flows used in investing activities amounted to \$3.4 million during the six-month period ended June 30, 2019, compared with \$17.1 million in the equivalent period of 2018, from cash used in business combinations (acquisitions of G2 Printing and Pharmaflex).

### *Cash Flows used in Financing Activities*

Net cash flows used in financing activities were at \$5.2 million during the six-month period ended June 30, 2019, compared with \$9.6 million generated in the equivalent period of 2018, from the increased use of the secured credit facility in connexion with the business combinations.

### *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 June 30, 2019, the balance of lease liabilities for the related operating leases was \$25.5 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 do not have a current or future material effect on the Company's performance.

### **Financing**

On May 7, 2019, the Company entered into a four-year senior secured credit facility of \$115 million composed of an \$80 million revolving facility and a \$35 million term facility. No principal repayments are required on the revolving facility prior to maturity. The term facility is repayable in quarterly principal installments of \$875,000. The credit facility replaces Supremex' pre-existing \$75 million revolving credit facility. This facility bears interest at a floating rate based on the Canadian prime rate, plus an applicable margin that ranges between 0% and 1.00% or bankers' acceptance rates, plus an applicable margin that ranges between 1.25% and 2.25%.

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 June 30, 2019.

### **Capitalization**

As at July 31, 2019, the Company had 28,130,469 common shares outstanding, representing a reduction of 141,800 when compared to the 28,272,269 shares outstanding as at May 7, 2019.

### **Execution of Normal Course Issuer Bid ("NCIB")**

During the second quarter of 2019, the Company purchased 115,762 common shares under its NCIB program for a total consideration of \$330,101. The Company purchased 150,000 common shares for cancellation under its NCIB program for a total consideration of \$424,633 from January 1, 2019 to July 31, 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 June 30, 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 June 30, 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's certification in the second quarter of 2019 now includes its previous business acquisitions of G2 Printing Inc. and Pharmaflex Labels Inc.

### **New Accounting Standard**

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 lease liability are recognized at the lease commencement date.

#### *Right-of-Use Assets*

- The right-of-use assets are 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 the right-of-use assets is periodically reduced by depreciation expenses and impairment losses, if any, and adjusted for certain remeasurements of the lease liabilities. The right-of-use assets are 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 a 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 recognizes 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 recognized as an expense in the period in 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 and termination 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 or terminate (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)          |
| <b>Lease liabilities as at January 1, 2019</b>   | <b>27,475,507</b> |

### **Recent Event**

On August 1, 2019, the Board of Directors declared a quarterly dividend of \$0.065 per common share, payable on October 16, 2019 to shareholders of record at the close of business on September 30, 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](http://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 items of significance that are not in the normal course of operations and to exclude the impact of IFRS 16, where rent expense was replaced by an interest charge and amortization of the right-of-use assets while the lease payments on lease liabilities are excluded from standard EBITDA. These items of significance include, but are not limited to, charges for impairment of assets, restructuring expenses, contingent remuneration expenses in connection with business combinations, new facility start-up costs and losses (gains) on disposal of property, plant and equipment. 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 and to better evaluate the Company’s operating profitability when compared to previous year since 2018 comparatives were not restated under the adopted modified retrospective approach permitted by IFRS 16.

References to “Adjusted net earnings” are to net earnings adjusted to remove the items of significance that are not in the normal course of operations, 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](http://www.sedar.com).

Interim Condensed Consolidated Financial Statements

**Supremex Inc.**

Unaudited

For the three and six-month periods ended June 30, 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                                      |       | June 30,<br>2019   | December 31,<br>2018 |
|--|-------|--------------------|----------------------|
| [Unaudited]                                | Notes | \$                 | \$                   |
| <b>ASSETS</b>                              |       |                    |                      |
| <b>Current assets</b>                      |       |                    |                      |
| Cash                                       |       | 144,397            | 308,941              |
| Accounts receivable                        |       | 21,631,473         | 26,518,240           |
| Income tax receivable                      |       | 1,120,956          | 1,248,918            |
| Inventories                                | 3     | 25,627,830         | 23,561,672           |
| Prepaid expenses and others                |       | 2,058,654          | 1,656,993            |
| <b>Total current assets</b>                |       | <b>50,583,310</b>  | <b>53,294,764</b>    |
| Property, plant and equipment              |       | 38,178,862         | 36,965,022           |
| Right-of-use assets                        |       | 25,091,919         | —                    |
| Accrued pension benefit asset              |       | 1,414,607          | 4,427,607            |
| Intangible assets                          |       | 17,061,009         | 18,133,648           |
| Goodwill                                   |       | 46,191,305         | 46,390,779           |
| Other long-term asset                      |       | 306,177            | 490,802              |
| <b>Total assets</b>                        |       | <b>178,827,189</b> | <b>159,702,622</b>   |
| <b>LIABILITIES AND EQUITY</b>              |       |                    |                      |
| <b>Current liabilities</b>                 |       |                    |                      |
| Accounts payable and accrued liabilities   |       | 17,481,070         | 19,807,079           |
| Dividend payable                           | 6     | 1,830,173          | 1,838,230            |
| Provisions                                 |       | 556,390            | 1,029,173            |
| Current portion of secured credit facility | 4     | 3,500,000          | —                    |
| Current portion of lease liabilities       |       | 4,017,344          | —                    |
| <b>Total current liabilities</b>           |       | <b>27,384,977</b>  | <b>22,674,482</b>    |
| Secured credit facility                    | 4     | 51,732,034         | 53,894,196           |
| Deferred income tax liabilities            |       | 5,587,065          | 7,273,250            |
| Lease liabilities                          |       | 21,459,998         | —                    |
| Other post-retirement benefit obligations  |       | 215,100            | 199,400              |
| <b>Total liabilities</b>                   |       | <b>106,379,174</b> | <b>84,041,328</b>    |
| <b>Equity</b>                              |       |                    |                      |
| Share capital                              | 5     | 9,610,463          | 9,652,774            |
| Contributed surplus                        | 5     | 277,407,919        | 277,722,233          |
| Deficit                                    |       | (214,830,700)      | (212,589,405)        |
| Foreign currency translation reserve       |       | 260,333            | 875,692              |
| <b>Total equity</b>                        |       | <b>72,448,015</b>  | <b>75,661,294</b>    |
| <b>Total liabilities and equity</b>        |       | <b>178,827,189</b> | <b>159,702,622</b>   |

Subsequent event [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

| [Unaudited]   | Notes | Three-month periods<br>ended June 30 |            | Six-month periods<br>ended June 30 |            |
|---|-------|--------------------------------------|------------|------------------------------------|------------|
|   |       | 2019<br>\$                           | 2018<br>\$ | 2019<br>\$                         | 2018<br>\$ |
| <b>Revenue</b>  |       | <b>47,642,867</b>                    | 46,844,916 | <b>97,297,498</b>                  | 95,778,840 |
| Operating expenses  | 3     | <b>34,905,631</b>                    | 35,015,927 | <b>72,089,114</b>                  | 71,554,041 |
| Selling, general and administrative expenses                                    |       | <b>5,961,611</b>                     | 5,944,665  | <b>11,955,878</b>                  | 11,968,530 |
| <b>Operating earnings before depreciation,<br/>amortization and other items</b> |       | <b>6,775,625</b>                     | 5,884,324  | <b>13,252,506</b>                  | 12,256,269 |
| Depreciation of property, plant and equipment                                   |       | <b>1,282,318</b>                     | 1,007,195  | <b>2,691,119</b>                   | 1,974,203  |
| Depreciation of right-of-use assets   |       | <b>1,169,198</b>                     | —          | <b>2,342,515</b>                   | —          |
| Amortization of intangible assets   |       | <b>544,281</b>                       | 494,361    | <b>1,090,494</b>                   | 943,574    |
| Loss (gain) on disposal of property, plant and<br>equipment                     |       | <b>137,961</b>                       | (587,370)  | <b>174,441</b>                     | (574,214)  |
| <b>Operating earnings</b>   |       | <b>3,641,867</b>                     | 4,970,138  | <b>6,953,937</b>                   | 9,912,706  |
| Financing charges, net  | 4     | <b>942,319</b>                       | 443,521    | <b>1,775,262</b>                   | 806,865    |
| <b>Earnings before income taxes</b>   |       | <b>2,699,548</b>                     | 4,526,617  | <b>5,178,675</b>                   | 9,105,841  |
| Income tax expense  |       | <b>884,086</b>                       | 1,392,041  | <b>1,555,659</b>                   | 2,626,069  |
| <b>Net earnings</b>   |       | <b>1,815,462</b>                     | 3,134,576  | <b>3,623,016</b>                   | 6,479,772  |
| <b>Basic and diluted net earnings per share</b>                                 |       | <b>0.0643</b>                        | 0.1104     | <b>0.1282</b>                      | 0.2282     |
| <b>Weighted average number of shares<br/>outstanding</b>                        |       | <b>28,253,047</b>                    | 28,396,678 | <b>28,266,456</b>                  | 28,401,049 |

See accompanying notes

## Supremex Inc.

## INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| [Unaudited]   | Three-month periods<br>ended June 30 |           | Six-month periods<br>ended June 30 |            |
|---|--------------------------------------|-----------|------------------------------------|------------|
|   | 2019                                 | 2018      | 2019                               | 2018       |
|   | \$                                   | \$        | \$                                 | \$         |
| <b>Net earnings</b>   | <b>1,815,462</b>                     | 3,134,576 | <b>3,623,016</b>                   | 6,479,772  |
| <b>Other comprehensive (loss) income</b>  |                                      |           |                                    |            |
| <i>Other comprehensive (loss) income to be reclassified to earnings in subsequent periods</i>   |                                      |           |                                    |            |
| Foreign currency translation adjustments  | <b>(295,912)</b>                     | 298,652   | <b>(615,359)</b>                   | 682,352    |
| Net other comprehensive (loss) income to be reclassified to earnings in subsequent periods  | <b>(295,912)</b>                     | 298,652   | <b>(615,359)</b>                   | 682,352    |
| <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 \$726,666 and \$763,955<br>[2018 – expense of \$1,299,018 and \$1,398,545] | <b>(2,078,734)</b>                   | 3,692,982 | <b>(2,184,745)</b>                 | 3,974,655  |
| Recognized actuarial (loss) gain on other post-retirement benefit, net of income tax recovery of \$1,606 and \$4,104<br>[2018 – expense of \$468 and \$964]                 | <b>(4,594)</b>                       | 1,332     | <b>(11,696)</b>                    | 2,736      |
| Net other comprehensive (loss) income not being reclassified to earnings in subsequent periods  | <b>(2,083,328)</b>                   | 3,694,314 | <b>(2,196,441)</b>                 | 3,977,391  |
| Other comprehensive (loss) income   | <b>(2,379,240)</b>                   | 3,992,966 | <b>(2,811,800)</b>                 | 4,659,743  |
| <b>Total comprehensive (loss) income</b>  | <b>(563,778)</b>                     | 7,127,542 | <b>811,216</b>                     | 11,139,515 |

See accompanying notes

## Supremex Inc.

## INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the six-month periods ended June 30  
[Unaudited]

|   | Share capital<br>\$ | Contributed surplus<br>\$ | Deficit<br>\$        | Foreign currency<br>translation reserve<br>\$ | Total equity<br>\$ |
|---|---------------------|---------------------------|----------------------|---|--------------------|
| <b>As at December 31, 2017</b>            | 9,695,439           | 278,111,408               | (200,939,855)        | (347,859)                                     | 86,519,133         |
| Net earnings                              | —                   | —                         | 6,479,772            | —   | 6,479,772          |
| Other comprehensive income                | —                   | —                         | 3,977,391            | 682,352                                       | 4,659,743          |
| Total comprehensive income                | —                   | —                         | 10,457,163           | 682,352                                       | 11,139,515         |
| Dividends declared [note 6]               | —                   | —                         | (3,686,211)          | —   | (3,686,211)        |
| Shares repurchased and cancelled [note 5] | (34,133)            | (315,201)                 | —                    | —   | (349,334)          |
| <b>As at June 30, 2018</b>                | <b>9,661,306</b>    | <b>277,796,207</b>        | <b>(194,168,903)</b> | <b>334,493</b>                                | <b>93,623,103</b>  |
| <b>As at December 31, 2018</b>            | 9,652,774           | 277,722,233               | (212,589,405)        | 875,692                                       | 75,661,294         |
| Net earnings                              | —                   | —                         | 3,623,016            | —   | 3,623,016          |
| Other comprehensive loss                  | —                   | —                         | (2,196,441)          | (615,359)                                     | (2,811,800)        |
| Total comprehensive income (loss)         | —                   | —                         | 1,426,575            | (615,359)                                     | 811,216            |
| Dividends declared [note 6]               | —                   | —                         | (3,667,870)          | —   | (3,667,870)        |
| Shares repurchased and cancelled [note 5] | (42,311)            | (314,314)                 | —                    | —   | (356,625)          |
| <b>As at June 30, 2019</b>                | <b>9,610,463</b>    | <b>277,407,919</b>        | <b>(214,830,700)</b> | <b>260,333</b>                                | <b>72,448,015</b>  |

See accompanying notes

Supremex Inc.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

| [Unaudited]   | Notes | For the three-month periods<br>ended June 30 |                     | For the six-month periods<br>ended June 30 |                     |
|---|-------|--|---------------------|--|---------------------|
|   |       | 2019<br>\$                                   | 2018<br>\$          | 2019<br>\$                                 | 2018<br>\$          |
| <b>OPERATING ACTIVITIES</b>                                     |       |  |                     |  |                     |
| Net earnings  |       | 1,815,462                                    | 3,134,576           | 3,623,016                                  | 6,479,772           |
| Non-cash adjustment to reconcile net earnings to net cash flows |       |  |                     |  |                     |
| Depreciation of property, plant and equipment                   |       | 1,282,318                                    | 1,007,195           | 2,691,119                                  | 1,974,203           |
| Depreciation of right-of-use assets                             |       | 1,169,198                                    | —                   | 2,342,515                                  | —                   |
| Amortization of intangible assets                               |       | 544,281                                      | 494,361             | 1,090,494                                  | 943,574             |
| Amortization of deferred financing costs                        | 4     | 119,503                                      | 17,157              | 136,660                                    | 34,314              |
| Loss (gain) on disposal of property, plant and equipment        |       | 137,961                                      | (587,370)           | 174,441                                    | (574,214)           |
| Interest on leases liabilities                                  |       | 295,142                                      | —                   | 601,776                                    | —                   |
| Deferred income tax (recovery) expense                          |       | (707,604)                                    | 61,450              | (884,851)                                  | (113,547)           |
| Change in employee benefits                                     |       | 17,600                                       | 14,600              | 35,200                                     | 9,200               |
|   |       | 4,673,861                                    | 4,141,969           | 9,810,370                                  | 8,753,302           |
| Working capital adjustments                                     |       |  |                     |  |                     |
| Variation in accounts receivable                                |       | 2,375,739                                    | 2,669,808           | 4,886,767                                  | 4,675,060           |
| Variation in income tax receivable                              |       | 521,608                                      | 340,054             | 127,962                                    | (130,134)           |
| Variation in inventory  |       | (993,658)                                    | (628,168)           | (2,066,158)                                | (2,413,055)         |
| Variation in prepaid expenses and others                        |       | (212,891)                                    | (135,807)           | (375,976)                                  | (486,865)           |
| Variation in accounts payable and accrued liabilities           |       | (991,452)                                    | (2,351,314)         | (3,321,291)                                | (3,288,702)         |
| Variation in provisions   |       | (115,692)                                    | (105,527)           | (472,783)                                  | (122,931)           |
| Change in other long-term liability                             |       | —  | 256,250             | —  | 512,500             |
| Change in employee benefits                                     |       | 13,800                                       | (23,425)            | 29,000                                     | (166,700)           |
| <b>Net cash flows from operating activities</b>                 |       | <b>5,271,315</b>                             | <b>4,163,840</b>    | <b>8,617,891</b>                           | <b>7,332,475</b>    |
| <b>INVESTING ACTIVITIES</b>                                     |       |  |                     |  |                     |
| Business combination, net of cash acquired                      |       | —  | (11,475,726)        | —  | (11,475,726)        |
| Acquisition of property, plant and equipment                    |       | (2,244,933)                                  | (4,346,908)         | (3,650,713)                                | (5,591,744)         |
| Acquisition of intangible assets                                |       | (46,736)                                     | (66,940)            | (91,176)                                   | (121,930)           |
| Proceeds from disposal of property, plant and equipment         |       | 377,156                                      | 2,000               | 385,182                                    | 50,480              |
| <b>Net cash flows used in investing activities</b>              |       | <b>(1,914,513)</b>                           | <b>(15,887,574)</b> | <b>(3,356,707)</b>                         | <b>(17,138,920)</b> |
| <b>FINANCING ACTIVITIES</b>                                     |       |  |                     |  |                     |
| Increase of secured credit facility                             |       | 21,898                                       | 12,932,887          | 1,598,668                                  | 13,594,384          |
| Payment of lease liabilities                                    |       | (1,273,305)                                  | —                   | (2,557,242)                                | —                   |
| Dividends paid  |       | (1,837,697)                                  | (1,846,355)         | (3,675,927)                                | (3,692,710)         |
| Financing costs incurred  |       | (397,490)                                    | —                   | (397,490)                                  | —                   |
| Purchase of share capital for cancellation                      | 6     | (330,101)                                    | (349,334)           | (356,625)                                  | (349,334)           |
| Change in other long-term asset                                 |       | 82,847                                       | 26,562              | 164,604                                    | 26,562              |
| <b>Net cash flows (used in) from financing activities</b>       |       | <b>(3,733,848)</b>                           | <b>10,763,760</b>   | <b>(5,224,012)</b>                         | <b>9,578,902</b>    |
| Net change in cash  |       | (377,046)                                    | (959,974)           | 37,172                                     | (227,543)           |
| Net foreign exchange difference                                 |       | (100,788)                                    | 70,368              | (201,716)                                  | 170,642             |
| Cash, beginning of period                                       |       | 622,231                                      | 1,538,895           | 308,941                                    | 706,190             |
| <b>Cash, ending of period</b>                                   |       | <b>144,397</b>                               | <b>649,289</b>      | <b>144,397</b>                             | <b>649,289</b>      |
| <b>Supplemental information <sup>(1)</sup></b>                  |       |  |                     |  |                     |
| Interest paid   |       | 596,932                                      | 454,893             | 1,030,769                                  | 827,352             |
| Interest received   |       | 3,515  | 2,018               | 17,033                                     | 2,058               |
| Income taxes paid   |       | 881,582                                      | 922,109             | 2,442,995                                  | 2,789,396           |
| 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

June 30, 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 is 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 August 1, 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 a 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 six-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

June 30, 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 lease liability are recognized at the lease commencement date.

#### *Right-of-Use Assets*

- The right-of-use assets are 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 the right-of-use assets is periodically reduced by depreciation expenses and impairment losses, if any, and adjusted for certain remeasurements of the lease liabilities. The right-of-use assets are 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 a 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

June 30, 2019 and 2018

[Unaudited]

## 2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

*Lease Liabilities*

- At the commencement date of the lease, the Company recognizes 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 recognized as an expense in the period in 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 and termination 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 or terminate (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)          |
| <b>Lease liabilities as at January 1, 2019</b>   | <b>27,475,507</b> |

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2019 and 2018

[Unaudited]

## 2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

The following table presents the right-of-use assets for the Company as of June 30, 2019:

|   | Buildings<br>\$   | Manufacturing<br>equipment<br>\$ | Office<br>equipment<br>\$ | Vehicles<br>\$ | Total<br>\$       |
|---|-------------------|----------------------------------|---------------------------|----------------|-------------------|
| <b>Cost:</b>  |                   |                                  |                           |                |                   |
| At January 1, 2019                                      | 27,261,213        | 147,056                          | 32,924                    | 34,314         | 27,475,507        |
| Reassessments of lease term<br>and non-lease components | 254,265           | —                                | (4,199)                   | —              | 250,066           |
| Translation adjustment                                  | (302,301)         | (103)                            | (427)                     | —              | (302,831)         |
| <b>At June 30, 2019</b>                                 | <b>27,213,177</b> | <b>146,953</b>                   | <b>28,298</b>             | <b>34,314</b>  | <b>27,422,742</b> |
| <b>Accumulated depreciation:</b>                        |                   |                                  |                           |                |                   |
| At January 1, 2019                                      | —                 | —                                | —                         | —              | —                 |
| Depreciation  | 2,305,027         | 16,698                           | 8,394                     | 12,396         | 2,342,515         |
| Translation adjustment                                  | (11,622)          | (20)                             | (50)                      | —              | (11,692)          |
| <b>At June 30, 2019</b>                                 | <b>2,293,405</b>  | <b>16,678</b>                    | <b>8,344</b>              | <b>12,396</b>  | <b>2,330,823</b>  |
| <b>Net book value:</b>                                  |                   |                                  |                           |                |                   |
| <b>At June 30, 2019</b>                                 | <b>24,919,772</b> | <b>130,275</b>                   | <b>19,954</b>             | <b>21,918</b>  | <b>25,091,919</b> |

The following table presents the lease liabilities for the Company as of June 30, 2019:

|  | June 30,<br>2019<br>\$ |
|--|------------------------|
| At January 1, 2019                                   | 27,475,507             |
| Reassessments of lease term and non-lease components | 250,066                |
| Lease payments                                       | (2,557,242)            |
| Interest expense on lease liabilities                | 601,776                |
| Translation adjustment                               | (292,765)              |
| <b>At June 30, 2019</b>                              | <b>25,477,342</b>      |

## 3. INVENTORIES

|                  | June 30,<br>2019<br>\$ | December 31,<br>2018<br>\$ |
|------------------|------------------------|----------------------------|
| Raw materials    | 7,621,270              | 8,987,542                  |
| Work in progress | 1,149,018              | 978,561                    |
| Finished goods   | 16,857,542             | 13,595,569                 |
|                  | <b>25,627,830</b>      | <b>23,561,672</b>          |

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 and six-month periods ended June 30, 2019 are \$35,551,913 and \$73,384,634 respectively [2018 - \$35,930,725 and \$73,349,242 respectively].



## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2019 and 2018

[Unaudited]

## 4. SECURED CREDIT FACILITY

On May 7, 2019, the Company entered into a four-year senior secured credit facility of \$115 million composed of an \$80 million revolving operating facility and a \$35 million term facility. No principal repayments are required on the revolving operating facility prior to maturity. The term facility is repayable in quarterly principal installments of \$875,000. The credit facility replaces Supremex' pre-existing \$75 million revolving credit facility. This facility bears interest at a floating rate based on the Canadian prime rate, plus an applicable margin that ranges between 0% and 1.00% or bankers' acceptance rates, plus an applicable margin that ranges between 1.25% and 2.25%.

The secured credit facility is used for working capital, capital expenditure and other general corporate purpose. It is collateralized by hypothec and a security interest covering all assets of the Company and its subsidiaries and is subject to certain covenants, which the Company is required, among other conditions, to meet. The Company was in compliance with these covenants as at June 30, 2019.

Amounts owed under secured credit facility are as follows:

|  | June 30,<br>2019 | December 31,<br>2018 |
|--|------------------|----------------------|
|  | \$               | \$                   |
| Revolving operating credit facility          | 20,612,959       | 54,014,291           |
| Term facility                                | 35,000,000       | —                    |
| Less: deferred financing costs, net          | (380,925)        | (120,095)            |
|  | 55,232,034       | 53,894,196           |
| Current portion                              | (3,500,000)      | —                    |
| Long-term portion of secured credit facility | 51,732,034       | 53,894,196           |

As at June 30, 2019, the Company had outstanding letters of credit for a total of \$10,000 [\$10,000 as at December 31, 2018].

As at June 30, 2019, the effective variable interest rate on the secured credit facility was 3.55% [4.01% as at December 31, 2018].

Financing charges are as follows:

|  | Three-month periods<br>ended June 30, |          | Six-month periods<br>ended June 30, |          |
|--|---------------------------------------|----------|-------------------------------------|----------|
|  | 2019                                  | 2018     | 2019                                | 2018     |
|  | \$                                    | \$       | \$                                  | \$       |
| Interest on secured credit facility                  | 569,827                               | 464,331  | 1,125,247                           | 839,485  |
| Interest expense on lease liabilities                | 295,142                               | —        | 601,776                             | —        |
| Interest income on defined benefit plans obligations | (39,900)                              | (37,000) | (79,800)                            | (68,800) |
| Other interest                                       | (2,253)                               | (967)    | (8,621)                             | 1,866    |
| Amortization of deferred financing costs             | 119,503                               | 17,157   | 136,660                             | 34,314   |
|  | 942,319                               | 443,521  | 1,775,262                           | 806,865  |

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2019 and 2018

[Unaudited]

## 5. SHARE CAPITAL

The change in share capital was as follows:

|  | Number of<br>common<br>shares | Share<br>capital<br>\$ |
|--|-------------------------------|------------------------|
| Balance, as of December 31, 2017           | 28,405,469                    | 9,695,439              |
| Purchase of share capital for cancellation | (100,000)                     | (34,133)               |
| <b>Balance, as of June 30, 2018</b>        | <b>28,305,469</b>             | <b>9,661,306</b>       |
| Balance, as of December 31, 2018           | 28,280,469                    | 9,652,774              |
| Purchase of share capital for cancellation | (123,962)                     | (42,311)               |
| <b>Balance, as of June 30, 2019</b>        | <b>28,156,507</b>             | <b>9,610,463</b>       |

During the three and six-month periods ended June 30, 2019, the Company repurchased 115,762 and 123,962 common shares for cancellation through a normal course issuer bid ("NCIB") in consideration of \$330,101 and \$356,625 respectively. The excess of the purchase price over the carrying value in the amount of \$290,589 and \$314,314, respectively, was recorded as a reduction of contributed surplus [2018 - 100,000 common shares purchased for cancellation in consideration of \$349,334 which resulted in an excess of the carrying value of \$315,201 during the three and six-month periods ended June 30, 2018].

**Deferred Share Unit Plan (DSU)**

The financial liability resulting from the DSU plan of \$556,808 (December 31, 2018 - \$305,647) is presented under "Accounts payable and accrued liabilities".

The compensation (income) expense for the DSU plan during the three and six-month periods ended June 30, 2019 amounted to \$(47,432) and \$124,990 respectively [2018 - \$(57,641) and \$19,525] and is recognized under selling, general and administrative expenses.

## 6. DIVIDENDS

Dividends declared from January 1, 2019 to June 30, 2019 were as follows:

| Declaration date  | Record date    | Payment date   | Per share<br>\$ | Dividend<br>\$   |
|-------------------|----------------|----------------|-----------------|------------------|
| February 20, 2019 | March 29, 2019 | April 12, 2019 | 0.065           | 1,837,697        |
| May 7, 2019       | June 28, 2019  | July 16, 2019  | 0.065           | 1,830,173        |
| <b>Total</b>      |                |                |                 | <b>3,667,870</b> |

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2019 and 2018

[Unaudited]

## 6. DIVIDENDS [Cont'd]

Dividends declared from January 1, 2018 to June 30, 2018 were as follows:

| <b>Declaration date</b> | <b>Record date</b> | <b>Payment date</b> | <b>Per share<br/>\$</b> | <b>Dividend<br/>\$</b> |
|-------------------------|--------------------|---------------------|-------------------------|------------------------|
| February 20, 2018       | March 29, 2018     | April 13, 2018      | 0.065                   | 1,846,355              |
| May 8, 2018             | June 29, 2018      | July 17, 2018       | 0.065                   | 1,839,856              |
| <b>Total</b>            |                    |                     |                         | <b>3,686,211</b>       |

## 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 \$110,945,905 in Canada and \$17,297,974 in the United States as at June 30, 2019 [\$94,532,165 and \$11,875,693, respectively, as at December 31, 2018]. The Company's revenue amounted to \$33,216,558 and \$67,004,373 in Canada and \$14,426,309 and \$30,293,125 in the United States for the three and six-month periods ended June 30, 2019 based on the customer's locations [2018 - \$30,623,159 and \$62,757,011 in Canada and \$16,221,757 and \$33,021,829 in the United States].

For the three and six-month periods ended June 30, 2019, the Company's revenue from envelopes amounted to \$33,946,633 and \$69,448,285 and those from packaging and specialty products amounted to \$13,696,234 and \$27,849,213, based on product classification [2018 - \$31,595,229 and \$67,657,461 from envelopes and \$15,249,687 and \$28,121,379 from packaging and specialty products].

## 8. SUBSEQUENT EVENT

On August 1, 2019, the Board of Directors declared a quarterly dividend of \$0.065 per common share, payable on October 16, 2019 to shareholders of record at the close of business on September 30, 2019.