Supremex

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

The following management's discussion and analysis of financial condition and results of operations ("MD&A"), dated November 13, 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 nine-month periods ended September 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 nine-month periods ended September 30, 2019. The consolidated financial statements for the three and nine-month periods ended September 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 *and on the Company's website* at www.supremex.com.

This MD&A contains forward-looking information. Please see "Forward-Looking Information" for a discussion of the risks, uncertainties and assumptions relating to these statements. This MD&A contains certain other non-IFRS financial measures. Terms by which non-IFRS financial measures are identified include, but are not limited to "EBITDA" or "Adjusted EBITDA". 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 and Adjusted EBITDA and "Reconciliation of Net Earnings to Adjusted EBITDA".

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®[1], polyethylene bags for courier applications, bubble mailers, Enviro-logiX®[2] and Tyvek®[3] 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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1 Conformer® is a registered trademark of Conformer Products, Inc.

2 Enviro-logiX® is a registered trademark of Envirologix Inc.

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

Third Quarter Financial Highlights and Recent Events

- Revenue of $45.2 million, consistent with the third quarter of 2018.
- Revenue from Canadian envelope was down 4.5% to $20.3 million from $21.2 million in the third quarter of 2018.
- Revenue from U.S. envelope was up 6.1% to $11.6 million from $11.0 million in the third quarter of 2018.
- Revenue from packaging and specialty products was up 2.4% and now account for 29.3% of sales, up from 28.7% in the third quarter of 2018.
- Net Earnings of $1.2 million (or $0.04 per share), in line with the third quarter of 2018.
- EBITDA[4] stood at $5.4 million, up from $4.1 million in the third quarter of 2018. Excluding the impact of IFRS 16, Supremex Adjusted EBITDA[4] stood at $4.1 million, down from $5.1 million in the third quarter of 2018. IFRS 16 accounting standard was adopted on January 1, 2019 resulting in a reduction of $1.3 million in operating lease expenses for the quarter.
- Approved a quarterly dividend of $0.065 per share, equivalent to the same period of last year.
- Purchased 26,038 shares under the NCIB program for total considerations of $68,008.

Declaration of Dividend

On November 13, 2019, the Board of Directors declared a quarterly dividend of $0.065 per common share, payable on January 16, 2020, to the shareholders of record at the close of business on December 31, 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 ended September 30		Nine-month periods ended September 30	
	2019	**2018**	**2019**	**2018**
Revenue	**45,184**	45,158	**142,481**	140,937
Operating expenses	**34,388**	33,955	**106,477**	105,509
Selling, general and administrative expenses	**5,395**	7,342	**17,351**	19,311
Operating earnings before depreciation, amortization and other items	**5,401**	3,861	**18,653**	16,117
Depreciation of property, plant and equipment	**1,046**	1,035	**3,737**	3,009
Depreciation of right-of-use assets	**1,182**	—	**3,525**	—
Amortization of intangible assets	**546**	557	**1,636**	1,500
(Gain) loss on disposal of property, plant and equipment and right-of-use assets	—	(203)	**174**	(777)
Operating earnings	**2,627**	2,472	**9,581**	12,385
Financing charges, net	**844**	477	**2,619**	1,284
Earnings before income taxes	**1,783**	1,995	**6,962**	11,101
Income tax expense	**607**	842	**2,163**	3,468
Net earnings	**1,176**	1,153	**4,799**	7,633
Basic and diluted net earnings per share	**0.04**	0.04	**0.17**	0.27
Dividend declared per share	**0.065**	0.065	0.195	0.195

[4] 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 ended September 30		Nine-month periods ended September 30	
	2019	**2018**	**2019**	**2018**
Canadian Envelope	**$20.3**	$21.2	**$67.8**	$69.0
Volume variation	**-14.0%**	-14.6%	**-12.0%**	-12.1%
Average selling price variation	**11.1%**	3.6%	**11.5%**	2.5%
Total variation	**-4.5%**	-11.5%	**-1.9%**	-9.9%
U.S. Envelope	**$11.6**	$11.0	**$33.6**	$30.8
Volume variation	**1.5%**	-5.4%	**-1.0%**	-6.6%
Average selling price variation (in CAD)	**4.5%**	15.7%	**10.2%**	5.0%
Total variation	**6.1%**	9.4%	**9.1%**	-1.9%
Packaging & Specialty Products				
Canada & U.S.	**$13.3**	$13.0	**$41.1**	$41.1
Total variation	**2.4%**	37.7%	**0.1%**	89.7%
Total Revenue	**$45.2**	$45.2	**$142.5**	$140.9
Revenue variation	**0.1%**	4.0%	**1.1%**	8.7%

Reconciliation of Net Earnings to Adjusted EBITDA
(In thousands of dollars)

	Three-month periods ended September 30		Nine-month periods ended September 30	
	2019	**2018**	**2019**	**2018**
Net Earnings	**1,176**	1,153	**4,799**	7,633
Income tax expense	**607**	842	**2,163**	3,468
Financing charges, net	**844**	477	**2,619**	1,284
Depreciation of property, plant and equipment	**1,046**	1,035	**3,737**	3,009
Depreciation of right-of-use assets	**1,182**	—	**3,525**	—
Amortization of intangible assets	**546**	557	**1,636**	1,500
EBITDA[1]	**5,401**	4,064	**18,479**	16,894
(Gain) loss on disposal of property, plant and equipment and right-of-use assets	—	(203)	**174**	(777)
New Durabox facility start-up costs	—	153	—	153
Expense for contingent remuneration related to business combination	—	1,111	—	1,623
Rent expenses included in the measurement of lease obligations (adjusted for IFRS 16)	**(1,290)**	—	**(3,847)**	—
Adjusted EBITDA[1]	**4,111**	5,125	**14,806**	17,893
Adjusted EBITDA Margin (%)	9.1%	11.4%	10.4%	12.7%

[1] Refer to “Definition of EBITDA and Adjusted EBITDA in section Non-IFRS measures”

Results of Operations

Three-month period ended September 30, 2019, compared with the three-month period ended September 30, 2018

Revenue

Revenue for the three-month period ended September 30, 2019, reached $45.2 million and in-line with the three-month period ended September 30, 2018. Packaging and specialty products now represent 29.3% of the Company's revenues in the quarter.

Revenue from the Canadian envelope market was $20.3 million, a decrease of 4.5% or $0.9 million from $21.2 million in the third quarter of 2018. Volume declined by 14.0%, primarily as a result of the combined effects of industry-wide secular decline, customer movement and the Company's strategy to maintain a disciplined market approach with price leadership and differentiation. Average selling prices increased by 11.1% to mitigate the effect of significant input cost inflation that occurred throughout 2018 and in the first half of 2019. For reference, Canada Post Transactional Mail volumes were down 5.7% during their second quarter ended June 29, 2019[5].

Revenue from the U.S. envelope market was $11.6 million, an increase of 6.1% or $0.6 million from revenue of $11.0 million in the third quarter of 2018. The volume of units sold increased by 1.5% while average selling prices increased by 4.5%. Average selling prices were positively impacted by a foreign exchange translation effect of approximately 1.0% from a weaker Canadian dollar when compared to the equivalent period of last year. For reference, the U.S. Postal Service First Class Mail volumes were down 2.7% during their third quarter ended June 30, 2019[6].

Revenue from packaging products was $13.3 million, an increase of 2.4% or $0.3 million compared to the equivalent quarter of the prior year. This variance comes from growth in specialty products which offset weaker revenue in folding carton.

Operating Expenses

Operating expenses for the three-month period ended September 30, 2019, stood at $34.4 million compared with $34.0 million for the same period in 2018, representing an increase of $0.4 million or 1.3%. In the third quarter of 2019, operating expenses exclude $1.3 million in operating lease expenses from the adoption of IFRS 16. Excluding this effect, operating expenses would have been $35.7 million representing an increase of $1.7 million. The increase is primarily attributable to inflationary pressure on input costs and outsourcing costs associated with the commissioning of the new folding carton printing press.

Selling, General and Administrative Expenses

Selling, general and administrative expenses totalled $5.4 million for the three-month period ended September 30, 2019, compared with $7.3 million for the same period in 2018. This decrease of $1.9 million is primarily due to the $1.1 million expense in connection with the contingent remuneration (or "earnout") related to Stuart Packaging recorded in Q3 2018, a positive foreign exchange translation effect of $0.3 million and from lower compensation related expenses.

EBITDA and Adjusted EBITDA[7]

EBITDA stood at $5.4 million, compared with $4.1 million in the third quarter of 2018, representing an increase of $1.3 million. In the third quarter of 2018, EBITDA included a $1.1 million provision for contingent remuneration. 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

[5] Canada Post Reports 2019 Second Quarter Results

[6] US Postal Service Reports Third Quarter Fiscal 2019 Results

[7] Refer to "Definition of EBITDA and Adjusted EBITDA in section Non-IFRS measures"

million in the third quarter of 2019. Adjusted EBITDA for the third quarter of 2019 stood at $4.1 million compared with $5.1 million in the equivalent quarter of 2018. The decrease of $1.0 million in Adjusted EBITDA stems from lower contribution from the envelope business and underperformance of packaging. Third quarter 2019 Adjusted EBITDA margins stood at 9.1% of revenues compared with 11.4% in the equivalent quarter of 2018.

Depreciation and Amortization

Depreciation and amortization expenses for the three-month period ended September 30, 2019, amounted to $2.8 million compared with $1.6 million in the third quarter of 2018. The adoption of IFRS 16 resulted in a depreciation charge for the right-of-use assets equivalent to $1.2 million in the third 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.

Gain on Disposal of Property, Plant and Equipment

The Company recognized a gain of $0.2 million on the disposal of property, plant and equipment from the sale of a building in Mississauga, Ontario and Printer Gateway's manufacturing equipment during the third quarter of 2018. There was no gain, or loss, on disposal of property, plant and equipment in the third quarter of 2019.

Financing Charges

Financing charges for the three-month period ended September 30, 2019, were $0.8 million, compared to $0.5 million during the equivalent quarter of the prior year, primarily from the interest expense on lease liabilities from the implementation of IFRS 16 of $0.3 million and higher debt used to finance the capital expenditure projects.

Earnings Before Income Taxes

As a result of the fluctuation in revenue and expenses described above, earnings before income taxes amounted to $1.8 million during the three-month period ended September 30, 2019, compared with $2.0 million during the equivalent period of 2018.

Income Tax Expense

Income taxes amounted to $0.6 million during the three-month period ended September 30, 2019, compared with $0.8 million in the equivalent quarter of last year, resulting from lower earnings before income taxes.

Net Earnings

Net Earnings were $1.2 million (or $0.04 per share) for the three-month period ended September 30, 2019, in line with $1.2 million (or $0.04 per share) for the equivalent period in 2018.

Other Comprehensive Income

The discount rate used to calculate the accrued plan benefit obligations remained stable at 2.9% as at September 30, 2019. A better than expected return on assets combined with experience gains resulted in a net actuarial gain of $1.1 million during the third quarter ended September 30, 2019.

Nine-month period ended September 30, 2019, compared with the nine-month period ended September 30, 2018

Revenue

Revenue for the nine-month period ended September 30, 2019, increased by 1.1% or $1.6 million, reaching $142.5 million compared to $140.9 million during the nine-month period ended September 30, 2018. Revenue growth comes from U.S. envelope sales.

Revenue from the Canadian envelope market was $67.8 million, a decrease of 1.9% or $1.2 million from $69.0 million during the nine-month period of 2018. This variance comes from a reduction of 12.0% in the volume of units sold primarily from the combined effects of industry-wide secular decline, customer movement and the Company's strategy to maintain a disciplined market approach with price leadership and differentiation. Average selling prices increased by 11.5% in order to mitigate input cost inflation.

Revenue from the U.S. envelope market stood at $33.6 million, an increase of 9.1% or $2.8 million from revenue of $30.8 million recorded during the equivalent nine-month period of 2018. The volume of units sold decreased by 1.0% while average selling prices increased by 10.2% to offset rising input costs. Average selling prices were impacted by a positive foreign exchange translation effect of approximately 3.2% from a weaker Canadian dollar when compared to the equivalent period of last year.

Revenue from packaging products stood at $41.1 million, an increase of 0.1% compared to the prior year. Higher folding carton sales from the acquisition of G2 Printing and organic growth of the Company's other packaging offering was mitigated by the negative effect of the loss of volume from a single e-commerce packaging customer.

Operating Expenses

Operating expenses for the nine-month period ended September 30, 2019, stood at $106.5 million compared with $105.5 million for the same period in 2018, an increase of $1.0 million or 0.9%. Higher costs associated with the acquisition of G2 Printing concluded on April 30, 2018, higher input costs, outsourcing costs associated with the commissioning of the new folding carton printing press and costs related to the new Durabox facility were partly offset by the reduction of $3.8 million in operating lease expenses from the adoption of IFRS 16.

Selling, General and Administrative Expenses

Selling, general and administrative expenses totalled $17.4 million for the nine-month period ended September 30, 2019, compared with $19.3 million for the same period in 2018, representing a decrease of $1.9 million or 10.2%. The variance is mainly attributable to the $1.1 million expense, recorded in the third quarter 2018, in connection with the contingent remuneration (or "earnout") related to the acquisition of Stuart Packaging and to compensation related expenses.

EBITDA and Adjusted EBITDA[8]

EBITDA stood at $18.5 million for the nine-month period ended September 30, 2019, compared with $16.9 million for the equivalent period in 2018, representing an increase of 9.4%. 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 $3.8 million. Adjusted EBITDA stood at $14.8 million compared with $17.9 million during the equivalent period of 2018. The decrease of $3.1 million in Adjusted EBITDA is mainly attributable to higher costs and inefficiencies related to the new Durabox facility, loss of volume with an e-commerce customer, operating inefficiencies in folding carton and from the effect of the secular decline affecting the envelope business. Adjusted EBITDA margins stood at 10.4% of revenues, down from 12.7% in the equivalent period of 2018.

[8] Refer to "Definition of EBITDA and Adjusted EBITDA in section Non-IFRS measures"

Depreciation and Amortization

Aggregate depreciation and amortization expense for the nine-month period ended September 30, 2019, amounted to $8.9 million, compared with $4.5 million in the comparable period 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 acquisitions of G2 Printing and Stuart Packaging. The adoption of IFRS 16 also resulted in a depreciation charge for the right-of-use assets equivalent to $3.5 million year-to-date 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 $0.2 million on the disposal of property, plant and equipment compared with a gain of $0.8 million in the equivalent period of last year, from the disposal of a building in Mississauga, Ontario and Printer Gateway's manufacturing equipment in the third quarter of 2018.

Financing Charges

Financing charges for the nine-month period ended September 30, 2019, stood at $2.6 million, compared to $1.3 million during the equivalent period of the prior year, primarily from the higher debt used to finance the G2 Printing acquisition and the Durabox project combined with $0.9 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 $7.0 million during the nine-month period ended September 30, 2019, compared with $11.1 million during the equivalent period of 2018.

Income Tax Expense

Income taxes amounted to $2.2 million during the nine-month period ended September 30, 2019 compared with $3.5 million in the equivalent nine-month period of last year.

Net Earnings

Net Earnings stood at $4.8 million (or $0.17 per share) for the nine-month period ended September 30, 2019, compared with $7.6 million (or $0.27 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 September 30, 2019, from 3.8% as at December 31, 2018. This decrease was partially offset by the higher than expected return on assets resulting of a net actuarial loss of $1.1 million.

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 $111.2 million in Canada and $17.0 million in the United States as at September 30, 2019, compared with $94.5 million in Canada and $11.9 million in the United States as at December 31, 2018.

For the three-month period ended September 30, 2019, the Company's revenue in Canada was $29.5 million, a decrease of 3.3% from $30.5 million in the equivalent period of 2018. In the United States, revenue stood at $15.7 million, representing an increase of 7.0% from $14.7 million in the equivalent period of 2018.

For the nine-month period ended September 30, 2019, the Company's revenue in Canada was $96.5 million, an increase of 3.5% from $93.2 million in the equivalent period of 2018. In the United States, revenue stood at $46.0 million, representing a decrease of 3.6% from $47.7 million in the equivalent period of 2018.

For the three-month period ended September 30, 2019 the Company's revenue from envelopes was $31.9 million, a decrease of 0.9% from $32.2 million in the equivalent period of 2018. Revenue from packaging and specialty products was $13.3 million, an increase of 2.4% from $12.9 million in the equivalent period of 2018.

For the nine-month period ended September 30, 2019 the Company's revenue from envelopes was $101.4 million, an increase of 1.5% from $99.9 million in the equivalent period of 2018. Revenue from packaging and specialty products was stable at $41.1 million.

Summary of Quarterly Operating Results from October 1, 2017 to September 30, 2019
(In thousands of dollars, except for per share amounts)

	Sep. 30 2019	June 30 2019	Mar. 31 2019	Dec. 31 2018	Sep. 30 2018	June 30 2018	Mar. 31 2018	Dec. 31 2017
Revenue	**45,184**	47,642	49,655	54,150	45,158	46,845	48,933	49,350
Adjusted EBITDA(1)	**4,111**	5,502	5,193	8,148	5,125	6,140	6,628	8,007
Earnings (loss) before income taxes	**1,783**	2,699	2,480	(11,819)	1,995	4,527	4,579	3,277
Net earnings (loss)	**1,176**	1,815	1,808	(12,426)	1,153	3,135	3,345	2,262
Net earnings (loss) per share	**0.04**	0.06	0.06	(0.44)	0.04	0.11	0.12	0.08

(1) Refer to "Definition of Adjusted EBITDA 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)

	September 30, 2019	December 31, 2018
Working capital	**24,843**	30,620
Total assets	**179,197**	159,703
Secured credit facility	**55,942**	53,894
Total equity	**72,969**	75,661

The increase in total assets at September 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. Lower working capital stems primarily from the current portion of the new credit facility and the effect of IFRS 16.

Summary of Cash Flows

(In thousands of dollars)

	Three-month periods ended September 30		Nine-month periods ended September 30	
	2019	**2018**	**2019**	**2018**
Operating activities	**4,004**	1,697	**12,621**	9,030
Investing activities	**(1,824)**	2,910	**(5,181)**	(14,229)
Financing activities	**(2,423)**	(4,947)	**(7,647)**	4,632
Net foreign exchange difference	**56**	(71)	**(145)**	99
Net change in cash	**(187)**	(411)	**(352)**	(468)

Cash Flows from Operating Activities

Net cash flows from operating activities stood at $12.6 million during the nine-month period ended September 30, 2019, compared with $9.0 million in the equivalent period of 2018. The variance is mainly attributable to the impact of IFRS 16 where repayment of lease liabilities is now presented under financing activities.

Cash Flows used in Investing Activities

Net cash flows used in investing activities amounted to $5.2 million during the nine-month period ended September 30, 2019, compared with $14.2 million used in the equivalent period of 2018. The reduction is mainly resulting from lower cash used in business combinations.

Cash Flows from Financing Activities

Net cash flows used by financing activities stood at $7.6 million during the nine-month period ended September 30, 2019, compared with $4.6 million generated in the equivalent period of 2018. The $12.2 million variance results primarily from a lower draw of the credit facility of $8.2 million and $3.8 million associated with lease liability repayments.

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 September 30, 2019, the balance of lease liabilities for the related operating leases was $25.0 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. As of September 30, 2019, the term facility stands at $34.1 million. 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 September 30, 2019.

Capitalization

As at November 13, 2019, the Company had 28,130,469 common shares outstanding, equivalent to the shares outstanding as at August 1, 2019.

Execution of Normal Course Issuer Bid ("NCIB")

During the third quarter of 2019, the Company purchased 26,038 common shares under its NCIB program for a total consideration of $68,008. 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 August 7, 2019. The NCIB program was in effect until August 7, 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 September 30, 2019 that have materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

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 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.

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)**
Lease liabilities as at January 1, 2019	**27,475,507**

Recent Events

On October 16, 2019, the Company concluded the acquisition of substantially all of the assets of the pizza box and related food product division of Lovepac Inc. The transaction was concluded for a total cash consideration of $399,854.

On November 13, 2019, the Board of Directors declared a quarterly dividend of $0.065 per common share, payable on January 16, 2020 to shareholders of record at the close of business on December 31, 2019.

Risk Factors

The results of operations, business prospects and financial condition of Supremex are subject to a number of risks and uncertainties, and are affected by a number of factors, outside the control of Supremex' management. Details are provided in the "Risk Factors" section of the Company's 2018 Annual Information Form, dated March 29, 2019 (which can be found at www.sedar.com).

Forward-Looking Information

This MD&A contains "forward-looking information" within the meaning of applicable Canadian securities laws, including (but not limited to) statements about the EBITDA, Adjusted EBITDA and future performance of Supremex and similar statements or information concerning anticipated future results, circumstances, performance or expectations. Forward-looking information may include words such as anticipate, assumption, believe, could, expect, goal, guidance, intend, may, objective, outlook, plan, seek, should, strive, target and will. Such information relates to future events or future performance and reflects current assumptions, expectations and estimates of management regarding growth, results of operations, performance, business prospects and opportunities, Canadian economic environment and liability to attract and retain customers. Such forward-looking information reflects current assumptions, expectations and estimates of management and is based on information currently available to Supremex as at the date of this MD&A. Such assumptions, expectations and estimates are discussed throughout the MD&A for the year ended December 31, 2018.

Forward-looking information is subject to certain risks and uncertainties, and should not be read as a guarantee of future performance or results and actual results may differ materially from the conclusion, forecast or projection stated in such forward-looking information. These risks and uncertainties include but are not limited to the following: economic cycles, availability of capital, decline in envelope consumption, increase of competition, exchange rate fluctuations, raw material increases, credit risks with respect to trade receivables, interest rates fluctuations and potential risk of litigation. Such risks and uncertainties are discussed throughout this MD&A for the year ended December 31, 2018, and, in particular, in "Risk Factors". Consequently, we cannot guarantee that any forward-looking information will materialize. Readers should not place any undue reliance on such forward-looking information unless otherwise required by applicable securities legislation. The Company expressly disclaims any intention and assumes no obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise.

Non-IFRS measures: Definition of EBITDA and Adjusted EBITDA

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 on lease liabilities and amortization of the right-of-use assets while the lease repayments on lease liabilities are now excluded from EBITDA. These items of significance include, but are not limited to, charges for impairment of assets, restructuring expenses, contingent remuneration expenses in connection with certain business combinations, new facility start-up costs and losses (gains) on disposal of property, plant and equipment and right-of-use assets. 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.

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

Additional Information

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

Interim Condensed Consolidated Financial Statements

Supremex Inc.

Unaudited
For the three and nine-month periods ended September 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 [Unaudited]	Notes	September 30, 2019 $	December 31, 2018 $
ASSETS	**4**		
Current assets			
Cash		**—**	308,941
Accounts receivable		**21,764,665**	26,518,240
Income tax receivable		**2,465,435**	1,248,918
Inventories	**3**	**24,670,959**	23,561,672
Prepaid expenses and others		**2,052,697**	1,656,993
Total current assets		**50,953,756**	53,294,764
Property, plant and equipment		**37,977,818**	36,965,022
Right-of-use assets		**24,385,893**	—
Accrued pension benefit asset		**2,840,907**	4,427,607
Intangible assets		**16,565,414**	18,133,648
Goodwill		**46,247,373**	46,390,779
Other long-term asset		**225,891**	490,802
Total assets		**179,197,052**	159,702,622
LIABILITIES AND EQUITY			
Current liabilities			
Bank overdraft		**43,055**	—
Accounts payable and accrued liabilities		**16,484,821**	19,807,079
Dividend payable	**6**	**1,828,481**	1,838,230
Provisions		**166,676**	1,029,173
Current portion of secured credit facility	**4**	**3,500,000**	—
Current portion of lease liabilities		**4,087,767**	—
Total current liabilities		**26,110,800**	22,674,482
Secured credit facility	**4**	**52,441,701**	53,894,196
Deferred income tax liabilities		**6,593,160**	7,273,250
Lease liabilities		**20,867,690**	—
Other post-retirement benefit obligations		**215,000**	199,400
Total liabilities		**106,228,351**	84,041,328
Equity			
Share capital	**5**	**9,601,576**	9,652,774
Contributed surplus	**5**	**277,348,798**	277,722,233
Deficit		**(214,405,171)**	(212,589,405)
Foreign currency translation reserve		**423,498**	875,692
Total equity		**72,968,701**	75,661,294
Total liabilities and equity		**179,197,052**	159,702,622

Subsequent events [*note 8*]

See accompanying notes

On behalf of the Directors:

By: *signed (Robert B. Johnston)*
Director

By: *signed (Steven P. Richardson)*
Director

Supremex Inc.

INTERIM CONSOLIDATED STATEMENTS OF EARNINGS

[Unaudited]	Notes	Three-month periods ended September 30 2019 $	2018 $	Nine-month periods ended September 30 2019 $	2018 $
Revenue		**45,183,650**	45,158,229	**142,481,148**	140,937,069
Operating expenses	**3**	**34,387,686**	33,955,289	**106,476,800**	105,509,330
Selling, general and administrative expenses		**5,394,716**	7,341,613	**17,350,594**	19,310,143
Operating earnings before depreciation, amortization and other items		**5,401,248**	3,861,327	**18,653,754**	16,117,596
Depreciation of property, plant and equipment		**1,045,805**	1,035,254	**3,736,924**	3,009,457
Depreciation of right-of-use assets		**1,182,337**	—	**3,524,852**	—
Amortization of intangible assets		**546,315**	557,402	**1,636,809**	1,500,976
(Gain) loss on disposal of property, plant and equipment and right-of-use assets		**(38)**	(203,526)	**174,403**	(777,740)
Operating earnings		**2,626,829**	2,472,197	**9,580,766**	12,384,903
Financing charges, net	**4**	**843,786**	477,394	**2,619,048**	1,284,259
Earnings before income taxes		**1,783,043**	1,994,803	**6,961,718**	11,100,644
Income tax expense		**606,917**	841,442	**2,162,576**	3,467,511
Net earnings		**1,176,126**	1,153,361	**4,799,142**	7,633,133
Basic and diluted net earnings per share		**0.0418**	0.0407	**0.1701**	0.2691
Weighted average number of shares outstanding		**28,132,733**	28,304,110	**28,221,392**	28,368,381

See accompanying notes

Supremex Inc.

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

[Unaudited]	Three-month periods ended September 30 2019 $	Three-month periods ended September 30 2018 $	Nine-month periods ended September 30 2019 $	Nine-month periods ended September 30 2018 $
Net earnings	**1,176,126**	1,153,361	**4,799,142**	7,633,133
Other comprehensive income (loss)				
Other comprehensive income (loss) to be reclassified to earnings in subsequent periods				
Foreign currency translation adjustments	**163,165**	(248,921)	**(452,194)**	433,431
Net other comprehensive income (loss) to be reclassified to earnings in subsequent periods	**163,165**	(248,921)	**(452,194)**	433,431
Items not to be reclassified to earnings in subsequent periods				
Recognized actuarial gain (loss) on defined benefit pension plans, net of income tax expense of $377,817 and recovery of $386,139 [2018 income tax expense – $513,908 and $1,912,453]	**1,077,884**	1,460,992	**(1,106,861)**	5,435,647
Recognized actuarial (loss) gain on other post-retirement benefit, net of income tax recovery of $0 and of $4,104 [2018 income tax expense – $1,432 and $2,396]	**—**	4,068	**(11,696)**	6,804
Net other comprehensive income (loss) not being reclassified to earnings in subsequent periods	**1,077,884**	1,465,060	**(1,118,557)**	5,442,451
Other comprehensive income (loss)	**1,241,049**	1,216,139	**(1,570,751)**	5,875,882
Total comprehensive income	**2,417,175**	2,369,500	**3,228,391**	13,509,015

Supremex Inc.

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the nine-month periods ended September 30
[Unaudited]

	Share capital $	Contributed surplus $	Deficit $	Foreign currency translation reserve $	Total equity $
As at December 31, 2017	9,695,439	278,111,408	(200,939,855)	(347,859)	86,519,133
Net earnings	—	—	7,633,133	—	7,633,133
Other comprehensive income	—	—	5,442,451	433,431	5,875,882
Total comprehensive income	—	—	13,075,584	433,431	13,509,015
Dividends declared [*note 6*]	—	—	(5,524,441)	—	(5,524,441)
Shares repurchased and cancelled [*note 5*]	(42,665)	(389,175)	—	—	(431,840)
As at September 30, 2018	**9,652,774**	**277,722,233**	**(193,388,712)**	**85,572**	**94,071,867**
As at December 31, 2018	9,652,774	277,722,233	(212,589,405)	875,692	75,661,294
Net earnings	—	—	4,799,142	—	4,799,142
Other comprehensive loss	—	—	(1,118,557)	(452,194)	(1,570,751)
Total comprehensive income (loss)	—	—	3,680,585	(452,194)	3,228,391
Dividends declared [*note 6*]	—	—	(5,496,351)	—	(5,496,351)
Shares repurchased and cancelled [*note 5*]	(51,198)	(373,435)	—	—	(424,633)
As at September 30, 2019	**9,601,576**	**277,348,798**	**(214,405,171)**	**423,498**	**72,968,701**

See accompanying notes

Supremex Inc.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

[Unaudited]	Notes	For the three-month periods ended September 30 2019 $	2018 $	For the nine-month periods ended September 30 2019 $	2018 $
OPERATING ACTIVITIES					
Net earnings		**1,176,126**	1,153,361	**4,799,142**	7,633,133
Non-cash adjustment to reconcile net earnings to net cash flows					
Depreciation of property, plant and equipment		**1,045,805**	1,035,254	**3,736,924**	3,009,457
Depreciation of right-of-use assets		**1,182,337**	—	**3,524,852**	—
Amortization of intangible assets		**546,315**	557,402	**1,636,809**	1,500,976
Amortization of deferred financing costs	**4**	**26,273**	17,157	**162,933**	51,471
(Gain) loss on disposal of property, plant and equipment and right-of-use assets		**(38)**	(203,526)	**174,403**	(777,740)
Interest on lease liabilities	**4**	**291,132**	—	**892,908**	—
Deferred income tax expense (recovery)		**620,115**	(107,516)	**(264,736)**	(221,063)
Change in employees benefit		**17,600**	22,000	**52,800**	31,200
		4,905,665	2,474,132	**14,716,035**	11,227,434
Working capital adjustments					
Variation in accounts receivable		**(133,192)**	67,626	**4,753,575**	4,742,686
Variation in income tax receivable		**(1,344,479)**	(368,912)	**(1,216,517)**	(499,046)
Variation in inventories		**956,871**	(1,657,901)	**(1,109,287)**	(4,070,956)
Variation in prepaid expenses and others		**(2,298)**	267,356	**(378,274)**	(219,509)
Variation in accounts payable and accrued liabilities		**(967)**	(26,139)	**(3,322,258)**	(3,314,841)
Variation in provisions		**(389,714)**	(167,933)	**(862,497)**	(290,864)
Variation in other long-term liability		—	1,110,500	**—**	1,623,000
Change in employee benefits		**11,700**	(1,600)	**40,700**	(168,300)
Net cash flows from operating activities		**4,003,586**	1,697,129	**12,621,477**	9,029,604
INVESTING ACTIVITIES					
Business combination, net of cash acquired		**—**	—	**—**	(11,475,726)
Adjustments to consideration paid for previous business combinations		**—**	4,655	**—**	4,655
Acquisition of property, plant and equipment		**(1,792,936)**	(1,249,954)	**(5,443,649)**	(6,841,698)
Acquisition of intangible assets		**(31,118)**	—	**(122,294)**	(121,930)
Proceeds from the disposal of property, plant and equipment		—	4,155,356	**385,182**	4,205,836
Net cash flows (used in) from investing activities		**(1,824,054)**	2,910,057	**(5,180,761)**	(14,228,863)
FINANCING ACTIVITIES					
Increase (repayment) of secured credit facility		**697,121**	(3,104,205)	**2,295,789**	10,490,179
Repayment of lease liabilities		**(1,290,286)**	—	**(3,847,528)**	—
Dividends paid		**(1,830,173)**	(1,839,856)	**(5,506,100)**	(5,532,566)
Financing costs incurred		**(13,727)**	—	**(411,217)**	—
Purchase of share capital for cancellation	**5**	**(68,008)**	(82,506)	**(424,633)**	(431,840)
Change in other long-term asset		**82,049**	79,589	**246,653**	106,151
Net cash flows (used in) from financing activities		**(2,423,024)**	(4,946,978)	**(7,647,036)**	4,631,924
Net change in cash		**(243,492)**	(339,792)	**(206,320)**	(567,335)
Net foreign exchange difference		**56,040**	(71,453)	**(145,676)**	99,189
Cash, beginning of period		**144,397**	649,289	**308,941**	706,190
(Bank overdraft) Cash, ending of period		**(43,055)**	238,044	**(43,055)**	238,044
Supplemental information [(1)]					
Interest paid		**552,823**	605,620	**1,583,592**	1,432,972
Interest received		**4,989**	7,040	**22,022**	9,098
Income taxes paid		**1,652,554**	1,918,351	**4,095,549**	4,707,747
Income taxes received		**335,478**	603,249	**643,838**	670,075

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

See accompanying notes

1. CORPORATE INFORMATION

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

Supremex 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 November 13, 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 three and nine-month periods since the year ended December 31, 2018.

New Accounting Standard

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

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.

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)**
Lease liabilities as at January 1, 2019	**27,475,507**

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

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

	Buildings $	Manufacturing equipment $	Office equipment $	Vehicles $	Total $
Cost:					
At January 1, 2019	27,261,213	147,056	32,924	34,314	27,475,507
Additions	—	—	4,857	—	4,857
Disposals	—	—	(4,213)	—	(4,213)
Reassessments of lease terms and non-lease components	648,518	—	1,902	(4,531)	645,889
Translation adjustment	(216,355)	(74)	(299)	—	(216,728)
At September 30, 2019	**27,693,376**	**146,982**	**35,171**	**29,783**	**27,905,312**
Accumulated depreciation:					
At January 1, 2019	—	—	—	—	—
Disposals	—	—	(951)	—	(951)
Depreciation	3,470,450	25,041	13,679	15,682	3,524,852
Translation adjustment	(4,456)	(8)	(18)	—	(4,482)
At September 30, 2019	**3,465,994**	**25,033**	**12,710**	**15,682**	**3,519,419**
Net book value:					
At September 30, 2019	**24,227,382**	**121,949**	**22,461**	**14,101**	**24,385,893**

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

	September 30, 2019 $
At January 1, 2019	**27,475,507**
Additions	**4,857**
Disposals	**(3,299)**
Reassessments of lease terms and non-lease components	**645,889**
Lease payments	**(3,847,528)**
Interest expense on lease liabilities	**892,908**
Translation adjustment	**(212,877)**
At September 30, 2019	**24,955,457**

3. INVENTORIES

	September 30, 2019 $	December 31, 2018 $
Raw materials	**7,879,639**	8,987,542
Work in progress	**933,888**	978,561
Finished goods	**15,857,432**	13,595,569
	24,670,959	23,561,672

The cost of inventories recognized as an expense and included in operating expenses, including the related depreciation of property, plant and equipment and depreciation of right-of-use assets allocated to inventories, during the three and nine-month periods ended September 30, 2019 are $34,863,367 and $108,248,001, respectively [2018 - $34,908,930 and $108,258,172, respectively].

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. As of September 30, 2019, the term facility stands at $34.1 million. 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 September 30, 2019.

Amounts owed under secured credit facility are as follows:

	September 30, 2019 $	December 31, 2018 $
Revolving operating credit facility	**22,185,083**	54,014,291
Term facility	**34,125,000**	—
Less: deferred financing costs, net	**(368,382)**	(120,095)
	55,941,701	53,894,196
Current portion	**(3,500,000)**	—
Long-term portion of secured credit facility	**52,441,701**	53,894,196

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

As at September 30, 2019, the effective variable interest rate on the secured credit facility was 3.49% [4.01% as at December 31, 2018].

4. SECURED CREDIT FACILITY [Cont'd]

Financing charges are as follows:

	Three-month periods ended September 30, 2019 $	Three-month periods ended September 30, 2018 $	Nine-month periods ended September 30, 2019 $	Nine-month periods ended September 30, 2018 $
Interest on secured credit facility	**566,924**	503,447	**1,692,171**	1,342,932
Interest expense on lease liabilities	**291,132**	—	**892,908**	—
Interest income on defined benefit plans obligations	**(39,900)**	(37,000)	**(119,700)**	(105,800)
Other interest income	**(643)**	(6,210)	**(9,264)**	(4,344)
Amortization of deferred financing costs	**26,273**	17,157	**162,933**	51,471
	843,786	477,394	**2,619,048**	1,284,259

5. SHARE CAPITAL

The change in share capital was as follows:

	Number of common shares	Share capital $
Balance, as of December 31, 2017	28,405,469	9,695,439
Purchase of share capital for cancellation	(125,000)	(42,665)
Balance, as of September 30, 2018	**28,280,469**	**9,652,774**
Balance, as of December 31, 2018	28,280,469	9,652,774
Purchase of share capital for cancellation	(150,000)	(51,198)
Balance, as of September 30, 2019	**28,130,469**	**9,601,576**

During the three and nine-month periods ended September 30, 2019, the Company repurchased 26,038 and 150,000 common shares, respectively, for cancellation through a normal course issuer bid in consideration of $68,008 and $424,633, respectively. The excess of the purchase price over the carrying value in the amount of $59,121 and $373,435, respectively, was recorded as a reduction of contributed surplus [2018 – 25,000 and 125,000 common shares purchased for cancellation in consideration of $82,506 and $431,840, respectively, which resulted in an excess of the carrying value of $73,974 and $389,175, respectively].

Deferred Share Unit Plan (DSU)

The financial liability resulting from the DSU plan of $537,928 [December 31, 2018 - $305,647] is presented under "*Accounts payable and accrued liabilities*".

The compensation (income) expense for the DSU plan during the three-month and nine-month periods ended September 30, 2019 amounted to $(18,880) and $106,110 respectively [2018 – $67,366 and $86,891] and is recognized under selling, general and administrative expenses.

6. DIVIDENDS

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

Declaration date	Record date	Payment date	Per share $	Dividend $
February 20, 2019	March 29, 2019	April 12, 2019	0.065	1,837,697
May 7, 2019	June 28, 2019	July 16, 2019	0.065	1,830,173
August 1, 2019	September 30, 2019	October 16, 2019	0.065	1,828,481
Total				**5,496,351**

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

Declaration date	Record date	Payment date	Per share $	Dividend $
February 20, 2018	March 29, 2018	April 13, 2018	0.065	1,846,355
May 8, 2018	June 29, 2018	July 17, 2018	0.065	1,839,856
August 2, 2018	September 28, 2018	October 12, 2018	0.065	1,838,230
Total				**5,524,441**

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 $111,246,348 in Canada and $16,996,948 in the United States as at September 30, 2019 [$94,532,165 and $11,875,693, respectively, as at December 31, 2018]. The Company's revenue amounted to $29,474,863 and $96,479,236, in Canada and $15,708,787 and $46,001,912, in the United States for the three and nine-month periods ended September 30, 2019 based on the customer's locations [2018 - $30,482,562 and $93,239,573, in Canada and $14,675,667 and $47,697,496, in the United States].

For the three and nine-month periods ended September 30, 2019, the Company's revenue from envelopes amounted to $31,931,557 and $101,379,842 and those from packaging and specialty products amounted to $13,252,093 and $41,101,306, based on product classification [2018 - $32,211,027 and $99,868,489 from envelopes and $12,947,202 and $41,068,580 from packaging and specialty products].

8. SUBSEQUENT EVENTS

On October 16, 2019, the Company concluded the acquisition of substantially all of the assets of the pizza box and related food product division of Lovepac Inc. The transaction was concluded for a total cash consideration of $399,854.

On November 13, 2019, the Board of Directors declared a quarterly dividend of $0.065 per common share, payable on January 16, 2020 to shareholders of record at the close of business on December 31, 2019.