MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2020

The following management's discussion and analysis of financial condition and results of operations ("MD&A"), dated May 14, 2020, of Supremex Inc. ("Supremex" or the "Company") should be read together with the accompanying unaudited interim consolidated financial statements and related notes of the Company for the three-month period ended March 31, 2020. 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, 2019. The fiscal year of the Company ends on December 31. *The Company's reporting currency is the Canadian dollar. Per share amounts are calculated using the weighted average number of common shares outstanding for the three-month period ended March 31, 2020. The consolidated financial statements for the three-month period ended March 31, 2020 have not been audited or reviewed by the Company's auditors.*

The Company's common shares are traded on the Toronto Stock Exchange (the "TSX") 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. For a description of risks relating to Supremex, please see "Risk Factors" of this MD&A and "Risk Factors" of the Annual Information Form dated March 30, 2020. This MD&A contains certain other non-IFRS financial measures. Terms by which non-IFRS financial measures are identified include, but are not limited to "EBITDA" and "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 13 facilities across six provinces in Canada and three facilities in the United States employing approximately 935 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 RFID 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, Inc.

First Quarter Financial Highlights and Recent Events

- Net Earnings of $2.6 million (or $0.09 per share), up from $1.8 million (or $0.06 per share) in the first quarter of 2019.
- EBITDA[4] was $7.7 million, up $1.3 million from $6.4 million in the first quarter of 2019. Adjusted EBITDA[4] was $8.2 million, up $1.7 million from $6.5 million in the first quarter of 2019.
- Total revenue increased 5.6% to $52.4 million from $49.7 million in the first quarter of 2019.
- Envelope segment revenue increased by 10.3% to $39.1 million from $35.5 million in the first quarter of 2019.
- Packaging and Specialty Products segment revenue was down by 6.3% to $13.3 million from $14.2 million in the first quarter of 2019.
- Acquired Royal Envelope on February 18, 2020, a leading envelope manufacturer and printer, for a total purchase price of $27.4 million. Integration plan executing as expected at time of acquisition.
- Hired Robert B. Young, an industry veteran, to the newly created position of President, Supremex Packaging to drive future profitable growth in the segment.
- Suspended the regular quarterly dividend as a prudent and preventative measure as a result of the COVID-19 pandemic.

Recent Events

On March 26, 2020, Supremex provided a corporate update on its operations and measures taken to safeguard its employees, customers, the community and to ensure the continuity of its business given the COVID-19 pandemic. Supremex is a provider of envelopes to government entities, financial institutions, utilities and other large organizations, and a provider of packaging solutions to essential businesses operating in the pharmaceutical, food and e-commerce industries. As such, the Company remained in operation and activated a Business Continuity Plan which includes enhanced safety measures for employees and ensures operations are maintained at all 16 North American facilities to supply such customers which were considered essential businesses. Management also announced it was limiting capital expenditures to critical projects and was tightly managing working capital and expenses.

During the first quarter of 2020, the Company's operations and financial results were not materially affected by the pandemic in Canada and the United States. Given the Company's geographical and product diversification and its exposure to various industries, many of which are considered essential businesses, the Company expects the demand for its products to vary greatly by product category and customer. At this time, it is not possible for the Company to estimate the duration or scope of the adverse economic conditions resulting from the COVID-19 outbreak and its negative impact on the Company's financial results for the upcoming quarters.

On May 8, 2020, the Company is at an advanced stage of discussion with its lenders to obtain a more favorable Debt to EBITDA covenant ratio for the remainder of 2020.

Growing Packaging Capabilities

On May 15, 2020, the Company announces the appointment of Robert B. Young as President of the Supremex Packaging Division. Mr. Young has over 40 years of experience in the printing, digital communications and packaging industries, most recently as Executive Vice President, Operations of Pollard Banknote Limited. He previously held the positions of CEO of Western Concord Manufacturing, President of Transcontinental Direct and various executive and sales positions at Cenveo Inc. As President of the Supremex Packaging Division, a newly created position, Mr. Young will be in charge of leveraging the Supremex platform and packaging capabilities to lead its profitable expansion.

In the first quarter of 2020, Supremex received its second industry leading BRC Certification after a rigorous auditing process, in recognition of the compliance of its corrugate box manufacturing facility, in Lachine, Quebec, accomplishing

[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 highest AA grade status. This certification is a symbol for best practices in the retail supply chain and an important recognition of Supremex high standards in product safety and reliability, a key value proposition for the premium segment of the food and beverage industry.

Strengthening of the Envelope Platform

On February 18, 2020, Supremex announced the acquisition of substantially all of the assets of Royal Envelope Ltd and Envelope Royal Inc. (together "Royal Envelope"), a leading Eastern Canada based envelope manufacturer and printer, for a total purchase price of $27.4 million. This transaction was financed through the existing secured credit facility. Founded in 1989, Royal Envelope generated approximately $30 million of revenue during their most recent fiscal year mainly from the direct sale of envelopes and printing services.

Summary of Financial Information and Non-IFRS Measures

Selected Consolidated Financial Information
(In thousands of dollars, except for per share amounts)

	Three-month periods ended March 31	
	2020	**2019**
Revenue	**52,416**	49,655
Operating expenses	**39,410**	37,184
Selling, general and administrative expenses	**5,320**	5,994
Operating earnings before depreciation, amortization and other items	**7,686**	6,477
Depreciation of property, plant and equipment	**1,189**	1,409
Depreciation of right-of-use assets	**1,269**	1,173
Amortization of intangible assets	**708**	546
Loss on disposal of property, plant and equipment	**—**	36
Operating earnings	**4,520**	3,313
Financing charges, net	**877**	833
Earnings before income taxes	**3,643**	2,480
Income tax expense	**1,055**	672
Net earnings	**2,588**	1,808
Basic and diluted net earnings per share	**0.09**	0.06
Dividend declared per share	**0.065**	0.065

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

	Three-month periods ended March 31	
	2020	**2019**
Net Earnings	**2,588**	1,808
Income tax expense	**1,055**	672
Financing charges, net	**877**	833
Depreciation of property, plant and equipment	**1,189**	1,409
Depreciation of right-of-use assets	**1,269**	1,173
Amortization of intangible assets	**708**	546
EBITDA(1)	**7,686**	6,441
Value adjustment on acquired inventory	**555**	—
Loss on disposal of property, plant and equipment	**—**	36
Adjusted EBITDA(1)	**8,241**	6,477
Adjusted EBITDA Margin (%)	**15.7%**	13.0%

(1) Refer to the definition of EBITDA and Adjusted EBITDA in section Non-IFRS measures

Revenue Information
(In millions of dollars)

	Three-month periods ended March 31	
	2020	**2019**
Canadian Envelope	**$26.2**	$24.2
Volume change	**8.5%**	-13.8%
Average selling price change	**0.0%**	8.4%
Total change	**8.5%**	-6.6%
U.S. Envelope	**$12.9**	$11.3
Volume change	**14.6%**	-2.5%
Average selling price change (in CAD)	**-0.5%**	14.2%
Total change	**14.0%**	11.3%
Packaging & Specialty Products		
Canada & U.S.	**$13.3**	$14.2
Total change	**-6.3%**	10.0%
Total Revenue	**$52.4**	$49.7
Revenue change	**5.6%**	1.5%

Segmented Information

The Company currently operates in two reporting segments: the manufacturing and sale of envelopes and the manufacturing and sale of paper-based packaging solutions and specialty products. The new segmentation was completed during the fourth quarter of 2019 as of which the Company started reporting its consolidated financial results on a segmented basis. For over 40 years, Supremex has developed its core paper substrate and converting expertise to become one of the largest manufacturers and distributors of envelopes in North America. In 2014, the Company implemented a growth and diversification strategy aimed at expanding its paper-based packaging offering into folding carton and corrugate to serve several value-added markets in Eastern Canada. The Company's packaging and specialty products revenue now accounts for 25.3% of its revenue for the first quarter of 2020.

The Envelope Segment

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. Products are designed to the specifications of major national and multinational corporations, resellers, government entities, SMEs and solutions providers.

The Packaging and Specialty Products Segment

The Company also manufactures and distributes a diverse range of paper-based packaging solutions and specialty products, including corrugated boxes, high-quality folding carton packaging, e-commerce solutions and labels. The corrugated box offering is mainly aimed at the food industry (pizza, meat and vegetable boxes) and internal procurement for the e-commerce offering and envelope box requirements. The folding carton offering is primarily aimed at corporations in the health, beauty, pharmaceutical and food-at-home markets. E-commerce solutions are designed and manufactured to optimize shipping and reduce over-packaging for small and international e-tailers. The label offering primarily serves the Company's existing envelope and packaging customers with complementary label solutions and is an integral offering for the health, beauty and pharmaceutical customers. Other packaging and specialty products include the Conformer Products®, polyethylene bags for courier applications, bubble mailers, Enviro-logiX® and Tyvek® and other related products such as RFID protective envelopes, X-ray envelopes, medical and file folders, repositionable notes, membership cards as well as labelling products.

Segmented Information
(In thousands of dollars)

	Three-month periods ended March 31	
	2020	**2019**
Segmented Revenue		
Envelope	**39,149**	35,502
Packaging & specialty products	**13,267**	14,153
Total revenue	**52,416**	49,655
Segmented Adjusted EBITDA[(1)]		
Envelope	**6,942**	6,137
% of segmented revenue	**17.7%**	17.3%
Packaging & specialty products	**1,307**	1,256
% of segmented revenue	**9.9%**	8.9%
Corporate and unallocated costs	**(8)**	(916)
Total Adjusted EBITDA(1)	**8,241**	6,477
% of total revenue	**15.7%**	13.0%

(1) Refer to the definition of EBITDA and Adjusted EBITDA in section Non-IFRS measures

Results of Operations

Three-month period ended March 31, 2020, compared with the three-month period ended March 31, 2019

Revenue

Total revenue for the three-month period ended March 31, 2020, was $52.4 million, representing a 5.6% increase from $49.7 million in the first quarter of 2019.

Revenue from the envelope segment increased to $39.1 million, up 10.3% or $3.6 million compared to the first quarter of 2019.

- Canadian envelope revenue was $26.2 million, up 8.5% or $2.0 million from $24.2 million in the first quarter of 2019. Canadian envelope volume increased by 8.5% from the contribution of the acquisition of Royal Envelope concluded on February 18, 2020 which compensated for the effects of the industry-wide secular decline on Supremex' legacy Canadian envelope business. Average selling prices remained unchanged from last year's comparable period. As a basis of comparison, Canada Post last published results indicated that the Transactional Mail volumes were down 11.3% during their third quarter ended September 28, 2019[5].

- Revenue from the U.S. envelope market was $12.9 million, representing an increase of 14.0% from $11.3 million in the first quarter of 2019. The volume of units sold increased by 14.6% from this business unit's continued growth while average selling prices decreased by 0.5%. For comparison, U.S. Postal Service last published results indicated that the First Class Mail volumes were down 0.2% during their second quarter fiscal 2020[6].

Revenue from the packaging and specialty products segment was $13.3 million, a decrease of 6.3% or $0.9 million compared to the equivalent quarter of 2019. Weaker revenue was experienced across all three packaging business lines, more noticeably in folding carton where growing demand from the pharmaceutical industry was mitigated by slower demand from the cosmetics and beauty industry. Packaging and specialty products represented 25.3% of the Company's revenue in the quarter, down from 28.5% during the equivalent period of last year.

Operating Expenses

Operating expenses for the three-month period ended March 31, 2020, were $39.4 million compared with $37.2 million for the equivalent period in 2019, representing an increase of $2.2 million or 6.0%. The increase is mainly attributable to the acquisition of Royal Envelope.

Selling, General and Administrative Expenses

Selling, general and administrative expenses totalled $5.3 million for the three-month period ended March 31, 2020, compared with $6.0 million during the same period in 2019, representing a decrease of $0.7 million. The decrease is mostly attributable to a gain on foreign exchange translation in the three-month period of 2020 versus a loss in the comparable period of 2019 and to a lesser extent, a positive adjustment for the mark-to-market value of the Deferred Share Units (DSUs) recorded in the three-month period of 2020 compared to a negative adjustment in the comparable period in 2019.

EBITDA and Adjusted EBITDA[7]

EBITDA was $7.7 million, compared with an EBITDA of $6.4 million in the equivalent period of last year, representing an increase of 19.3% primarily resulting from a higher contribution of the Canadian envelope platform and a decrease of selling, general and administrative expenses. Adjusted EBITDA for the first quarter of 2020 was $8.2 million compared with $6.5 million in the equivalent quarter of 2019. Adjusted EBITDA margins increased to 15.7% of revenue compared with 13.0% in the equivalent quarter of 2019.

- Envelope segment Adjusted EBITDA was $6.9 million, up $0.8 million from $6.1 million in the first quarter of 2019. The operating profitability of the Canadian envelope operations improved with the acquisition of Royal Envelope on February 18, 2020, which, in addition to additional revenues, provided synergies in production efficiencies and procurement. On a percentage of segmented revenue, Adjusted EBITDA from the envelope operations was 17.7%, up from 17.3% in the equivalent period of 2019.

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[5] Canada Post Third Quarter Results Press Release dated November 22, 2019
[6] US Postal Service Second Quarter 2020 Press Release dated May 8, 2020
[7] Refer to definition of EBITDA and Adjusted EBITDA in section Non-IFRS measures

- Packaging and specialty products segment Adjusted EBITDA remained unchanged at $1.3 million. Operational efficiency gains in folding carton compensated for production inefficiencies and lower sales at the new Durabox facility and lower e-commerce sales. On a percentage of segmented revenue, Adjusted EBITDA from the packaging and specialty operations was 9.9% compared with 8.9% in the equivalent period of 2019.
- The balance of the variance results from improvements mostly attributable to a gain on foreign exchange translation in the three-month period ended March 31, 2020 versus a loss in the comparable period of 2019 and to a lesser extent, a positive adjustment for the mark-to-market value of the Deferred Share Units (DSUs) recorded in the three-month period ended March 31, 2020 compared to a negative adjustment in the comparable period in 2019.

Depreciation and Amortization

Depreciation and amortization expenses for the three-month period ended March 31, 2020, amounted to $3.2 million compared with $3.1 million in the first quarter of 2019.

Financing Charges

Financing charges for the three-month period ended March 31, 2020, were $0.9 million, compared to $0.8 million during the equivalent quarter of the prior year.

Earnings Before Income Taxes

As a result of the fluctuation in revenue and expenses described above, earnings before income taxes amounted to $3.6 million during the three-month period ended March 31, 2020, compared with $2.5 million during the equivalent period of 2019.

Income Tax Expense

Income taxes amounted to $1.1 million during the three-month period ended March 31, 2020, compared with $0.7 million in the equivalent quarter of last year.

Net Earnings

Net Earnings were $2.6 million (or $0.09 per share) for the three-month period ended March 31, 2020, compared with $1.8 million (or $0.06 per share) for the equivalent period in 2019.

Other Comprehensive Income

The discount rate used to calculate the accrued plan benefit obligations increased to 3.75% as at March 31, 2020 from 3.10% as at December 31, 2019. This increase was offset by a lower than expected return on assets resulted in a net actuarial loss of $2.3 million during the first quarter of 2020.

Geographical Revenue and Asset Diversification

The Company's non-current assets amounted to $131.2 million in Canada and $16.9 million in the United States as at March 31, 2020, compared with $114.5 million in Canada and $16.1 million in the United States as at December 31, 2019.

For the three-month period ended March 31, 2020, the Company's revenue in Canada was $35.8 million, an increase of 6.1% from $33.8 million in the equivalent period of 2019. In the United States, revenue stood at $16.6 million, representing an increase of 4.5% from $15.9 million in the equivalent period of 2019.

Summary of Quarterly Operating Results from April 1, 2018 to March 31, 2020
(In thousands of dollars, except for per share amounts)

	Mar. 31 2020	Dec. 31 2019	Sep. 30 2019	June 30 2019	Mar. 31 2019	Dec. 31 2018	Sep. 30 2018	June 30 2018
Revenue								
Envelope	**39,149**	35,744	31,932	33,945	35,502	38,332	32,211	31,595
Packaging	**13,267**	13,444	13,252	13,697	14,153	15,818	12,947	15,250
Total revenue	**52,416**	49,188	45,184	47,642	49,655	54,150	45,158	46,845
Adjusted EBITDA(1) (2)	**8,241**	6,695	5,401	6,775	6,477	8,148	5,125	6,140
Earnings (loss) before income taxes	**3,643**	3,183	1,783	2,699	2,480	(11,819)	1,995	4,527
Net earnings (loss)	**2,588**	2,289	1,176	1,815	1,808	(12,426)	1,153	3,135
Net earnings (loss) per share	**0.09**	0.08	0.04	0.06	0.06	(0.44)	0.04	0.11

(1) Refer to definition of Adjusted EBITDA in section non-IFRS measures
(2) 2018 quarters have not been restated for 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.

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)

	March 31, 2020	**December 31, 2019**
Working capital	**29,357**	24,140
Total assets	**208,139**	179,649
Secured credit facility	**75,862**	53,472
Total equity	**76,092**	76,473

The increase in total assets at March 31, 2020 when compared to December 31, 2019 is mainly driven by the acquisition of substantially all of the assets of Royal Envelope on February 18, 2020 for total consideration of $27.4 million. The outstanding amount on the secured credit facility increased by $22.4 million primarily as a result of the acquisition of Royal Envelope.

Summary of Cash Flows
(In thousands of dollars)

	Three-month periods ended March 31	
	2020	**2019**
Operating activities	**8,113**	3,040
Investing activities	**(28,039)**	(1,443)
Financing activities	**19,472**	(1,184)
Net foreign exchange difference	**302**	(101)
Net change in cash	**(152)**	312

Cash Flows from Operating Activities

Net cash flows from operating activities stood at $8.1 million during the three-month period ended March 31, 2020, compared with $3.0 million in the equivalent period of 2019. The improvement is mainly attributable to higher net earnings and to a positive net change in working capital adjustments.

Cash Flows used in Investing Activities

Net cash flows used in investing activities amounted to $28.0 million during the three-month period ended March 31, 2020, compared with $1.4 million used in the equivalent period of 2019. The increase reflects the acquisition of Royal Envelope in the first quarter of 2020 and to a lesser extent lower capital expenditures.

Cash Flows from (used in) Financing Activities

Net cash flows generated by financing activities stood at $19.5 million during the three-month period ended March 31, 2020, compared with a use of $1.2 million in the equivalent period of 2019. The variance results almost entirely from the increase in the credit facility to fund the acquisition of Royal Envelope.

Financial Position and Capital Resources Summary

In light of the recent COVID-19 pandemic, the Company expects its operations and financial results to be negatively affected, but it is not possible at this time for the Company to reliably estimate the duration and scope of the pandemic's ensuing economic impact. Although there was no material impact on demand in March, overall in April, including the effects of COVID19, Canadian Envelope secular decline and U.S. Envelope growth, the Company experienced a revenue decline of approximately 20% in its legacy businesses. Including Royal Envelope operations, sales were down approximately 6% in April. In order to mitigate the effect that this situation will have on the Company's operations and financial results, management is tightly controlling variable expenses and working capital and has reduced all non-critical capital expenditures. The Company is also at an advanced stage of discussion with its lenders to obtain a more favorable Debt to EBITDA covenant ratio for the remainder of fiscal year 2020. Furthermore, the Company's Board of Directors announced that it had decided to suspend the quarterly dividend until further notice. Based on current and anticipated market conditions and management's projections, the Company expects to have sufficient liquidity to meet its currently anticipated needs for the next twelve months. However, these projections are inherently uncertain due to the evolving impact of the COVID-19 pandemic.

The future negative impact of COVID-19 creates uncertainties which could generate, in future reporting periods, a significant risk of material adjustment to the carrying amounts of the following accounts: accounts receivable, inventories, intangible assets and goodwill impairment.

The accounts receivable and credit risk stems primarily from the potential inability of clients to discharge their obligations. While the Company had historically reported low bad debt expenses, COVID-19 increases the risk over certain customers that management is monitoring. As at March 31, 2020, the Company had not identified significant negative trend from its accounts receivable collection.

Even though the Company continues to operate during the COIVD-19 pandemic crisis, the Company holds inventories of envelopes, packaging and specialty products for a wide range of customers. COVID-19 had an impact on the level of customers' demand and future orders which was seen in reduced activities in the month of April 2020~~.~~ The Company reviewed its inventory levels and did not note significant excess inventories that could be subject to significant write-downs in the future.

Goodwill impairment test at December 31, 2019 was sensitive to the Company's assumptions. COVID-19 is a triggering event for an interim assessment of goodwill and intangible assets specifically for the cash generating units ("CGUs") of envelopes and packaging. An assessment of the recoverable amount of the Company's CGUs compared to their carrying values was performed based on updated cash flow projections in light of the current COVID-19 pandemic. The cash flows are management's best projections based on current and anticipated market conditions covering a four-year period. However, these projections are inherently uncertain due to the recent and fluidly evolving impact of the COVID-19 pandemic. It is possible that long-term underperformance to these projections could occur if the slowdown of activities the Company faced in April continues to prevail with duration beyond the end of the calendar year. Possible changes in projections have been considered in this evaluation but do not indicate that the carrying amounts exceed recoverable amounts. The COVID-19 pandemic and its impact on the economy is constantly evolving in an unpredictable manner and presents many variables and contingencies for modeling. In future periods, the effects of the pandemic may have material impacts on the Company's anticipated revenue levels and the recoverable amount of the CGUs.

Contractual Obligations and Off-Balance Sheet Arrangements

The Company has no other off-balance sheet 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

The Company has a secured credit facility consisting of a $80 million revolving facility [$80 million as at December 31, 2019] and a $32.3 million term credit facility [$33,3 million as at December 31, 2019] 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 availability of the credit facility is variable and dependant on respecting certain financial covenants. As of March 31, 2020, the credit facility stands at $75.9 million. 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 expenditures, acquisitions and other general corporate purpose. It is collateralized by hypothec and a security interest covering all assets of the Company and its subsidiaries and is subject to certain covenants, which the Company is required, among other conditions, to meet. The Company was in compliance with these covenants as at March 31, 2020 and had an additional borrowing capacity of $11 million while respecting said covenants. Further to the recent developments arising from the COVID-19 pandemic, Supremex assessed its financial and liquidity position and expects to remain in compliance with its financial covenants during fiscal year 2020. Furthermore, as stated earlier, the Company is at an advanced stage of discussion with its lenders to obtain a more favorable Debt to EBITDA covenant ratio for the remainder of 2020 and therefore increase its borrowing capacity.

As at March 31, 2020, the Company had outstanding letters of credit for a total of $10,000.

Dividends

Supremex' previous practice was to declare quarterly dividends. Dividends are subject to the discretion of the Board of Directors and may vary depending on, among other things, Supremex' earnings, financial requirements, compliance to the covenants of the Secured Credit Facility (the "Credit Agreement'') and the satisfaction of the solvency tests imposed by the CBCA for the declaration of dividends and other conditions existing at such future time. Due to the unpredictable impact of the COVID-19 pandemic and potential future impact on the Company's results and its available cash, the Company's Board of Directors announced that it had decided to suspend the Company's quarterly dividend until further notice.

Capitalization

As at May 14, 2020 and December 31, 2019, the Company had 28,130,469 common shares outstanding.

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, 2020 to March 31, 2020 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' disclosure controls and procedures (DC&P) and ICFR to exclude controls, policies and procedures of a business acquired not more than 365 days before March 31, 2020. The scope limitation is primarily due to the time required for Supremex' management to assess DC&P and ICFR in a manner consistent with Supremex' other operations.

The Company expects that its February 2020 business acquisition of Royal Envelope will be covered by its certification in the first quarter of 2021.

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 Annual Information Form, dated March 30, 2020 (which can be found at www.sedar.com). The following risk factors supplement those disclosed and described in the "Risk Factors" section of the Company's Annual Information Form, dated March 30, 2020 as a result of the continuing COVID-19 pandemic.

Global Health Crisis

The Company is subject to epidemics and other public health crises, such as the recent COVID-19 pandemic. The transmission of the COVID-19 and efforts to contain its spread have recently resulted in international, national and local border closings, travel restrictions, significant disruptions to business operations, supply chains and customer activity and demand, service cancellations, reductions and other changes, significant challenges in healthcare service preparation and delivery, and quarantines, as well as considerable general concern and uncertainty, all of which have negatively affected the economic environment and may in the future have further and larger impacts. This has caused material disruption to businesses globally and created unprecedented economic slowdown and volatility in global financial markets. Governments have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The Company has implemented various measures in response to COVID-19 which include, among other things, diligently managing working capital, closely monitoring its account receivable credit risk, reviewing its inventory levels, suspending its regular quarterly dividend and implementing a Business Continuity Plan. Furthermore, the Company is at an advanced stage of discussion with its lenders to obtain a more favorable Debt to EBITDA covenant ratio. At this stage, it is not possible to predict what additional measures and restrictions will be imposed by governmental authorities, the period in time during which those measures and restrictions will apply and their full impact.

The COVID-19 outbreak could adversely affect, and possibly materially, the Company's business, financial condition, liquidity and future results of operations due to, among other factors: the significant impact on the prices of the Company's products in connection with an ensuing economic downturn, operating and supply shortages, delays or disruptions, trade disruption, temporary staff shortages, temporary closures of facilities in geographic locations more importantly impacted by the outbreak, action taken by governmental and non-governmental bodies to curtail activity in an effort to help slow the spread of COVID-19 which may cause significant business interruptions and restrict the Company's ability to deliver its services, and increased operating and non-compensable costs for specific needs in response to COVID-19. In addition, although Supremex has not yet experienced material employment-related issues due to the COVID-19 pandemic, Supremex' operations could nevertheless be adversely impacted if its employees (or third-party employees) are unable or restricted in their ability to work, including by reasons of being quarantined or becoming ill as a result of exposure to COVID-19, or if they are subject to government or other restrictions. Such adverse effects could be rapid and unexpected. Due to the speed with which the situation has been developing and the uncertainty of its magnitude, outcome and duration, the Company is not able at this time to estimate the future impact of the COVID-19 situation on its operations or its financial results; however, such adverse impact could be material. The Company cannot presently predict the scope and severity of potential business disruptions. Any prolonged restrictive measures put in place in order to contain the outbreak in any other jurisdictions where the Company operates or holds any assets, may have a material and adverse effect on the Company's financial and/or operating performance.

Supremex is actively monitoring the situation and will respond as the impact of the COVID-19 pandemic evolves, which will depend on a number of factors including the course of the virus, government actions, and passenger reaction, none of which can be predicted with any degree of certainty.

The COVID-19 pandemic may also have the effect of heightening other risks and uncertainties disclosed and described in the "Risk Factors" section of the Company's Annual Information Form, dated March 30, 2020. The adverse impacts of COVID-19 on the Company can be expected to increase the longer the pandemic and the related response measures persist.

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 this MD&A for the quarter ended March 31, 2020. Supremex cautions that such assumptions may not materialize and that current economic conditions, including all of the current uncertainty resulting from the ongoing COVID-19 health crisis and its broader repercussions on the global economy, render such assumptions, although believed reasonable at the time they were made, subject to greater uncertainty.

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: global health crisis, economic cycles, decline in envelope consumption, increase of competition, growth by acquisition, reliance on key personnel, raw material price increases, exchange rate fluctuation, concerns about protection of the environment, availability of capital, credit risks with respect to trade receivables, interest rate fluctuation, potential risk of litigation, contributions to employee benefits plans, cyber security and data protection, no guarantee to pay dividends and past cash payments. In addition, risks and uncertainties arising as a result of the COVID-19 pandemic that could cause results to differ from those expected include, but are not limited to: potential government actions, changes in consumer behaviors and demand, changes in customer requirements, disruptions of the Company's suppliers and supply chain, availability of personnel and uncertainty about the extent and duration of the pandemic. Such risks and uncertainties are discussed throughout the MD&A for the year ended December 31, 2019 and the Company's Annual Information Form dated March 30, 2020, and, in particular, in "Risk Factors" in both these documents. 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. 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, value adjustment on inventory acquired and losses (gains) on disposal of property, plant and equipment and right-of-use assets. Supremex believes that EBITDA and Adjusted EBITDA are measurements 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 the previous years.

EBITDA and Adjusted EBITDA are not recognized earnings measures under IFRS and do not have a standardized meaning prescribed by IFRS. Therefore, EBITDA and 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-month periods ended March 31, 2020 and 2019

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	March 31, 2020 $	December 31, 2019 $
ASSETS	**6**		
Current assets			
Cash		**2,071,825**	2,222,889
Accounts receivable		**29,073,419**	22,340,239
Income tax receivable		**1,456,628**	1,742,610
Inventories	**5**	**25,527,590**	21,080,346
Prepaid expenses and others		**1,966,768**	1,667,542
Total current assets		**60,096,230**	49,053,626
Property, plant and equipment		**41,635,924**	37,274,148
Right-of-use assets		**24,864,048**	23,333,921
Accrued pension benefit asset		**4,168,183**	7,270,807
Intangible assets		**28,429,100**	16,421,864
Goodwill		**48,884,694**	46,155,723
Other long-term asset		**60,801**	138,809
Total assets		**208,138,980**	179,648,898
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		**20,315,588**	15,470,329
Dividend payable	**8**	**1,828,481**	1,828,481
Provisions		**—**	7,821
Current portion of secured credit facility	**6**	**3,500,000**	3,500,000
Current portion of lease liabilities		**5,094,789**	4,106,902
Total current liabilities		**30,738,858**	24,913,533
Secured credit facility	**6**	**72,362,310**	49,972,422
Deferred income tax liabilities		**8,177,358**	8,187,623
Lease liabilities		**20,569,066**	19,891,021
Other post-retirement benefit obligations		**199,700**	211,200
Total liabilities		**132,047,292**	103,175,799
Equity			
Share capital	**7**	**9,601,576**	9,601,576
Contributed surplus	**7**	**277,348,798**	277,348,798
Deficit		**(212,172,119)**	(210,653,168)
Foreign currency translation reserve		**1,313,433**	175,893
Total equity		**76,091,688**	76,473,099
Total liabilities and equity		**208,138,980**	179,648,898

See accompanying notes

On behalf of the Directors:

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

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

Supremex Inc.

INTERIM CONSOLIDATED STATEMENTS OF EARNINGS

For the three-month periods ended March 31 [Unaudited]	Notes	2020 $	2019 $
Revenue		**52,415,933**	49,654,631
Operating expenses	**5**	**39,410,594**	37,183,483
Selling, general and administrative expenses		**5,319,671**	5,994,267
Operating earnings before depreciation, amortization and other items		**7,685,668**	6,476,881
Depreciation of property, plant and equipment		**1,188,618**	1,408,801
Depreciation of right-of-use assets		**1,269,103**	1,173,317
Amortization of intangible assets		**708,064**	546,213
Loss on disposal of property, plant and equipment		**—**	36,480
Operating earnings		**4,519,883**	3,312,070
Financing charges, net	**6**	**876,536**	832,943
Earnings before income taxes		**3,643,347**	2,479,127
Income tax expense		**1,055,357**	671,573
Net earnings		**2,587,990**	1,807,554
Basic and diluted net earnings per share		**0.0920**	0.0639
Weighted average number of shares outstanding		**28,130,469**	28,280,013

See accompanying notes

Supremex Inc.

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the three-month periods ended March 31 [Unaudited]	**Notes**	**2020 $**	**2019 $**
Net earnings		**2,587,990**	1,807,554
Other comprehensive loss			
Other comprehensive income (loss) to be reclassified to earnings in subsequent periods			
Foreign currency translation adjustments		**1,137,540**	(319,447)
Net other comprehensive income (loss) to be reclassified to earnings in subsequent periods		**1,137,540**	(319,447)
Items not to be reclassified to earnings in subsequent periods			
Recognized actuarial loss on defined benefit pension plans, net of income tax recovery of $801,598 [2019 – $ 37,289]		**(2,286,902)**	(106,011)
Recognized actuarial gain (loss) on other post-retirement benefit, net of income tax expense of $2,959 [2019 – recovery of $2,498]		**8,441**	(7,102)
Net other comprehensive loss not being reclassified to earnings in subsequent periods		**(2,278,461)**	(113,113)
Other comprehensive loss		**(1,140,921)**	(432,560)
Total comprehensive income		**1,447,069**	1,374,994

See accompanying notes

Supremex Inc.

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

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

	Share capital $	Contributed surplus $	Deficit $	Foreign currency translation reserve $	Total equity $
As at December 31, 2018	9,652,774	277,722,233	(212,589,405)	875,692	75,661,294
Net earnings	—	—	1,807,554	—	1,807,554
Other comprehensive income	—	—	(113,113)	(319,447)	(432,560)
Total comprehensive income	—	—	1,694,441	(319,447)	1,374,994
Dividends declared [*note 8*]	—	—	(1,837,697)	—	(1,837,697)
Shares repurchased and cancelled [*note 7*]	(2,799)	(23,725)	—	—	(26,524)
As at March 31, 2019	**9,649,975**	**277,698,508**	**(212,732,661)**	**556,245**	**75,172,067**

	Share capital $	Contributed surplus $	Deficit $	Foreign currency translation reserve $	Total equity $
As at December 31, 2019	9,601,576	277,348,798	(210,653,168)	175,893	76,473,099
Net earnings	—	—	2,587,990	—	2,587,990
Other comprehensive loss	—	—	(2,278,461)	1,137,540	(1,140,921)
Total comprehensive income	—	—	309,529	1,137,540	1,447,069
Dividends declared [*note 8*]	—	—	(1,828,480)	—	(1,828,480)
Shares repurchased and cancelled [*note 7*]	—	—	—	—	—
As at March 31, 2020	**9,601,576**	**277,348,798**	**(212,172,119)**	**1,313,433**	**76,091,688**

See accompanying notes

Supremex Inc.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three-month periods ended March 31 [Unaudited]	Notes	2020 $	2019 $
OPERATING ACTIVITIES			
Net earnings		**2,587,990**	1,807,554
Non-cash adjustment to reconcile net earnings to net cash flows			
Depreciation of property, plant and equipment		**1,188,618**	1,408,801
Depreciation of right-of-use assets		**1,269,103**	1,173,317
Amortization of intangible assets		**708,064**	546,213
Amortization of deferred financing costs	6	**25,701**	17,157
Loss on disposal of property, plant and equipment		**—**	36,480
Deferred income tax expense (recovery)		**748,247**	(177,247)
Change in employee benefits		**5,024**	17,600
		6,532,747	4,829,875
Working capital adjustments			
Variation in accounts receivable		**(1,288,702)**	2,511,028
Variation in income tax receivable		**285,982**	(393,646)
Variation in inventories		**(226,632)**	(1,072,500)
Variation in prepaid expenses and others		**(212,283)**	(163,085)
Variation in accounts payable and accrued liabilities		**3,021,017**	(2,329,839)
Variation in provisions		**(7,821)**	(357,091)
Change in employee benefits		**9,000**	15,200
Net cash flows from operating activities		**8,113,308**	3,039,942
INVESTING ACTIVITIES			
Business combination, net of cash acquired	4	**(27,400,000)**	—
Acquisition of property, plant and equipment		**(513,492)**	(1,405,780)
Acquisition of intangible assets		**(125,349)**	(44,440)
Proceeds from disposal of property, plant and equipment		**—**	8,026
Net cash flows used in investing activities		**(28,038,841)**	(1,442,194)
FINANCING ACTIVITIES			
Increase of secured credit facility		**22,364,187**	1,576,770
Repayment of lease liabilities		**(1,147,861)**	(977,303)
Dividends paid		**(1,828,481)**	(1,838,230)
Purchase of share capital for cancellation	7	**—**	(26,524)
Change in other long-term asset		**84,353**	81,757
Net cash flows from (used in) financing activities		**19,472,198**	(1,183,530)
Net change in cash		**(453,335)**	414,218
Net foreign exchange difference		**302,271**	(100,928)
Cash, beginning of period		**2,222,889**	308,941
Cash, ending of period		**2,071,825**	622,231
Supplemental information (1)			
Interest paid		**957,089**	740,471
Interest received		**2,275**	13,518
Income taxes paid		**—**	1,561,413
Income taxes received		**—**	308,360

(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.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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, 2019, prepared in accordance with International Financial Reporting Standards ("IFRS"). Accordingly, these unaudited interim condensed consolidated financial statements and the notes thereto should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2019.

These unaudited interim condensed consolidated financial statements were approved by the Company's Board of Directors on May 14, 2020 and have not been audited or reviewed by the Company's auditors.

3. SIGNIFICANT JUDGMENT AND ACCOUNTING ESTIMATES

The preparation of the Company's unaudited interim condensed consolidated financial statements requires management to make estimates, judgment and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

The areas involving key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are the same as those set out in the Company's audited consolidated financial statements for the year ended December 31, 2019.

However, these areas of critical accounting estimates were impacted by the outbreak of the coronavirus, specifically identified as COVID-19, characterized as a global pandemic in March 2020. The uncertainties around the COVID-19 pandemic required the use of judgments and estimates which resulted in no material impacts for the three-month period ended March 31, 2020. The future negative impact of COVID-19 creates uncertainties which could generate, in future reporting periods, a significant risk of material adjustment to the carrying amounts of the following accounts: accounts receivable, inventories, intangible assets and goodwill impairment.

Accounts receivable and credit risk: Credit risk stems primarily from the potential inability of clients to discharge their obligations. While the Company had historically reported low bad debt expenses, COVID-19 increases the risk over certain customers that management is monitoring. Accounts receivable credit risk is mitigated through established monitoring activities which were rigorously followed in light of the current environment, lack of customer concentration and the Company's diversified customer base and their sector diversification. As at March 31, 2020, the Company had not identified significant negative trend from its accounts receivable collection.

Inventories: Even though the Company continues to operate during the COVID-19 pandemic crisis, the Company holds inventories of envelopes, packaging and specialty products for a wide range of customers. COVID-19 had an impact on the level of customers' demand and future orders which was seen in reduced activities in the month of April 2020 and expected similar slowdown of activities for May 2020 due to the closure of many non-essential services and the gradual re-opening of businesses which had a negative effect on traffic. The Company reviewed its inventory levels and did not note significant excess inventories that could be subject to significant write-downs in the future.

Goodwill and intangible assets impairment: Goodwill impairment test at December 31, 2019 was sensitive to the Company's assumptions. COVID-19 is a triggering event for an interim assessment of goodwill and intangible assets specifically for the cash generating units ("CGUs") of envelopes and packaging. An assessment of the recoverable amount of the Company's CGUs compared to their carrying values was performed based on updated cash flow projections in light of the current COVID-19 pandemic. The cash flows are management's best projections based on current and anticipated market conditions covering a four-year period. However, these projections are inherently uncertain due to the evolving impact of the COVID-19 pandemic. It is possible that long-term underperformance to these projections could occur if the slowdown of activities the Company faced in April continues to prevail with duration beyond the end of the calendar year. Possible changes in projections have been considered in this evaluation but do not indicate that the carrying amounts exceed recoverable amounts. The COVID-19 pandemic and its impact on the economy is constantly evolving in an unpredictable manner and presents many variables and contingencies for modeling. In future periods, the effects of the pandemic may have material impacts on the Company's anticipated revenue levels and the recoverable amount of the CGUs.

Liquidity risk: The Company manages liquidity risk by maintaining adequate cash balances and by appropriately using the Company's secured credit facility. The Company continuously reviews both actual and forecasted cash flows to ensure that it has adequate credit facility capacity and reviews its exposure to interest rate fluctuations. In response to COVID-19 pandemic, the Company has updated its forecasted cash flows for the next twelve months and has taken the following actions to support its liquidity position and preserve cash:

- On May 14, 2020, Company's Board of Directors announced that it had decided to suspend the quarterly dividend until further notice.
- On May 8, 2020, the Company is at an advanced stage of discussion with its lenders to obtain a more favorable Debt to EBITDA covenant ratio for the remainder of fiscal year 2020.
- The Company is continuously seeking cost savings opportunities and will manage its capacity to respond to demand fluctuations, including workplace reductions if needed and enrolment to wage subsidy governmental programs when eligible.

4. BUSINESS COMBINATIONS

On February 18, 2020, the Company acquired substantively all of the assets of Royal Envelope Ltd and Envelope Royal Inc. (together "Royal Envelope"), for a cash consideration of $27,400,000. Royal Envelope is a leading Eastern Canada based envelope manufacturer and printer based in Ontario.

This acquisition aligns with the Company strategy to optimize the operations cost-base, enhance cash-flow generation capacity and provides the necessary capacity and capabilities to support our envelope growth strategy in the U.S.

The preliminary purchase price allocation that reflects the estimated fair value of assets acquired and liabilities assumed at the acquisition date, using the acquisition method, is as follows.

	Royal Envelope $
Net assets acquired	
Accounts receivable	5,444,478
Inventories	4,220,612
Prepaid expenses and others	99,301
Total current assets	**9,764,391**
Property and equipment	4,708,815
Right-of-use assets	1,958,645
Software	53,000
Customer relationships	12,400,000
Goodwill	2,298,036
Total assets	**31,182,887**
Accounts payable and accrued liabilities	1,824,242
Lease liabilities	1,958,645
Net assets acquired	**27,400,000**
Cash consideration, net of cash acquired	**27,400,000**
Acquisition-related costs recognized as an expense	97,265

The Company’s consolidated statement of earnings for the three-month period ended March 31, 2020 includes Royal Envelope revenue of $4,042,706 since the acquisition date. The fair value of the receivables acquired of $5,444,478 of which no amount was considered uncollectible at the acquisition date, is included in the current asset in the accounting of the business acquisition.

The Company will finalize the purchase price allocation over the coming quarters as soon as it has gathered all significant information available and considered necessary in order to finalize the fair value measurement of working capital, machinery and equipment and intangible assets, including customer relationships and goodwill.

If the acquisition had occurred on January 1, 2020, revenue for the three-month period from Royal Envelope would have been approximately $8,300,000. The Company has not disclosed consolidated pro-forma profit including the acquisition of Royal Envelope as though the acquisition date had occurred on January 1, 2020, or for the period from the acquisition date, as it is impracticable to do so given that the activities of the acquired business was rapidly integrated into the operations of the Company post-acquisition.

Goodwill deductible for tax purposes amount to $2,298,036. The goodwill related to the acquisition is composed of expected growth and operational synergies.

5. INVENTORIES

	March 31, 2020 $	December 31, 2019 $
Raw materials	**8,487,447**	6,942,380
Work in progress	**1,076,547**	678,784
Finished goods	**15,963,596**	13,459,182
	25,527,590	21,080,346

The cost of inventories recognized as an expense and included in operating expenses, including the related depreciation of property, plant and equipment and depreciation of right-of-use assets allocated to inventories, during the three-month period ended March 31, 2020 is $39,876,240 [2019 - $37,832,720].

6. SECURED CREDIT FACILITY

The Company had a secured credit facility consisting of a $80 million revolving facility [$80 million as at December 31, 2019] and a $32.3 million term credit facility [$33,3 million as at December 31, 2019. 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 availability of the credit facility is variable and dependant on respecting certain financial covenants. As at March 31, 2020, the credit facility stands at $75.9 million. 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, acquisitions and other general corporate purpose. It is collateralized by hypothec and a security interest covering all assets of the Company and its subsidiaries and is subject to certain covenants, which the Company is required, among other conditions, to meet. The Company was in compliance with these covenants as at March 31, 2020 and had an additional borrowing capacity of $11 million while respecting said covenants. Further to the recent developments arising from the COVID-19 pandemic, Supremex assessed its financial and liquidity position and expects to remain in compliance with its financial covenants during fiscal 2020. Furthermore, as stated earlier, the Company is at an advanced stage of discussions with its lenders to obtain a more favorable Debt to EBITDA covenant ratio for the remainder of 2020 and therefore increase its borrowing capacity.

Amounts owed under the secured credit facility are as follows:

	March 31, 2020 $	December 31, 2019 $
Revolving credit facility	**43,804,289**	20,565,102
Term Facility	**32,375,000**	33,250,000
Less: deferred financing costs, net	**(316,979)**	(342,680)
	75,862,310	53,472,422
Current portion	**(3,500,000)**	(3,500,000)
Long-term portion of secured credit facility	**72,362,310**	49,972,422

As at March 31, 2020, the Company had outstanding letters of credit for a total of $10,000 [$10,000 as at December 31, 2019].

As at March 31, 2020, the effective variable interest rate on the secured credit facility was 3.42% [3.52% as at December 31, 2019].

Financing charges are as follows:

	Three-month periods ended March 31,	
	2020	**2019**
	$	**$**
Interest on secured credit facility	**626,696**	555,420
Interest expense on lease liabilities	**280,187**	306,634
Interest income on defined benefit plans obligations	**(54,600)**	(39,900)
Other interest income	**(1,448)**	(6,368)
Amortization of deferred financing costs	**25,701**	17,157
	876,536	832,943

7. SHARE CAPITAL

The change in share capital was as follows:

	Number of common shares	**Share capital $**
Balance, as of December 31, 2018	28,280,469	9,652,774
Purchase of share capital for cancellation	(8,200)	(2,799)
Balance, as of March 31, 2019	**28,272,269**	**9,649,975**
Balance, as of December 31, 2019	28,130,469	9,601,576
Purchase of share capital for cancellation	—	—
Balance, as of March 31, 2020	**28,130,469**	**9,601,576**

Pursuant to the normal course issuer bid (“NCIB”), which began on August 8, 2018 and ended on August 7, 2019, the Company repurchased 8,200 common shares for cancellation in consideration of $26,524, during the three-month period ended March 31, 2019. The excess of the purchase price over the carrying value in the amount of $23,725 was recorded as a reduction of contributed surplus.

Deferred Share Unit Plan (DSU)

The financial liability resulting from the DSU plan of $345,692 (December 31, 2019 - $504,428) is presented under "*Accounts payable and accrued liabilities*".

The compensation income for the DSU plan during the three-month period ended March 31, 2020 amounted to $158,736 [2019 – expense of $172,422] and is recognized under selling, general and administrative expenses.

8. DIVIDENDS

Dividends declared from January 1, 2020 to March 31, 2020 were as follows:

Declaration date	Record date	Payment date	Per share $	Dividend $
February 20, 2020	March 31, 2020	April 15, 2020	0.065	1,828,481
Total				**1,828,481**

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

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

9. SEGMENTED INFORMATION

The Company currently operates in two reporting segments: the manufacturing and sale of envelopes and the manufacturing and sale of paper-based packaging solutions and specialty products.

The segmented information is prepared using the accounting policies described in Note 2 – Significant accounting policies in the Company's audited consolidated financial statements for the year ended December 31, 2019, prepared in accordance with "IFRS".

The following table provides the segmented Operating earnings before depreciation, amortization, other items and unallocated corporate expenses and other:

			2020 $
	Envelope	**Packaging & Speciality Products**	**Total**
Revenue	39,148,590	13,267,343	52,415,933
Operating expenses	28,100,525	10,810,918	38,911,443
Selling, general and administrative expenses	4,105,923	1,149,172	5,255,095
Operating earnings before depreciation, amortization, other items and unallocated corporate expenses and other (1)	**6,942,142**	**1,307,253**	**8,249,395**
Corporate expenses and other non allocated expenses			563,727
Depreciation of property, plant and equipment			1,188,618
Depreciation of right-of-use assets			1,269,103
Amortization of intangible assets			708,064
Financing charges, net			876,536
Earnings before income taxes			**3,643,347**

			2019 **$**
	Envelope	**Packaging & Speciality Products**	**Total**
Revenue	35,501,652	14,152,979	49,654,631
Operating expenses	25,892,050	11,461,754	37,353,804
Selling, general and administrative expenses	3,472,855	1,434,945	4,907,800
Operating earnings before depreciation, amortization, other items and unallocated corporate expenses and other(1)	6,136,747	1,256,280	7,393,027
Corporate expenses and other non allocated expenses			916,146
Depreciation of property, plant and equipment			1,408,801
Depreciation of right-of-use assets			1,173,317
Amortization of intangible assets			546,213
Loss on disposal of property, plant and equipment			36,480
Financing charges, net			832,943
Earnings before income taxes			2,479,127

(1) The Chief Executive Officer uses Operating earnings before depreciation, amortization, other items and unallocated corporate expenses and other as a measure of financial performance for assessing the performance of each of the Corporation's segments.

The Company's non-current assets amounted to $131,160,436 in Canada and $16,882,314 in the United States as at March 31, 2020 [$114,529,278 and $16,065,994, respectively, as at December 31, 2019]. The Company's revenue amounted to $35,834,492, in Canada and $16,581,441, in the United States for the three-month period ended March 31, 2020 based on the customer's locations [2019 - $33,787,814 in Canada and $15,866,817 in the United States].