



MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2020

The following management's discussion and analysis of financial condition and results of operations ("MD&A"), dated November 12, 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 and nine-month periods ended September 30, 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 and nine-month periods ended September 30, 2020. The consolidated financial statements for the three and nine-month periods ended September 30, 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 850 people. Supremex' growing footprint allows it to efficiently manufacture and distribute envelope 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.

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.

Third Quarter Financial Highlights and Recent Event

- Total revenue increased by 10.4% to \$49.9 million, from \$45.2 million in the third quarter of 2019.
- EBITDA⁴ was up 49.3% to \$8.1 million, an increase of \$2.7 million, from \$5.4 million in the third quarter of 2019. EBITDA includes \$0.9 million of assistance from the Canadian Emergency Wage Subsidy (“CEWS”) program.
- Net Earnings increased to \$2.7 million (or \$0.10 per share), from \$1.2 million (or \$0.04 per share) in the third quarter of 2019.
- Packaging and Specialty Products segment revenue increased by 18.9% to \$15.8 million, up from \$13.3 million in the third quarter of 2019.
- Envelope segment revenue increased by 6.9% to \$34.1 million, up from \$31.9 million in the third quarter of 2019.
- Net cash flows from operating activities increased to \$7.2 million, up from \$3.7 million in the third quarter of 2019.
- The TSX approved the renewal of the Company’s NCIB allowing for the purchase, for cancellation, of up to 5.0% of its issued and outstanding common shares for a period of twelve months. During the third quarter, the Company purchased 152,900 shares under this program for a total consideration of \$200,841.

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	
	2020	2019	2020	2019
Revenue	49,890	45,184	149,968	142,481
Operating expenses	35,125	34,388	109,234	106,477
Selling, general and administrative expenses	6,700	5,395	18,088	17,351
Operating earnings before depreciation, amortization and other items	8,065	5,401	22,646	18,653
Depreciation of property, plant and equipment	1,243	1,046	3,747	3,737
Depreciation of right-of-use assets	1,379	1,182	4,030	3,525
Amortization of intangible assets	882	546	2,471	1,636
Loss on disposal of property, plant and equipment	—	—	—	174
Operating earnings	4,561	2,627	12,398	9,581
Net financing charges	694	844	2,454	2,619
Earnings before income taxes	3,867	1,783	9,944	6,962
Income tax expense	1,134	607	2,758	2,163
Net earnings	2,733	1,176	7,186	4,799
Basic and diluted net earnings per share	0.10	0.04	0.26	0.17
Dividend declared per share	—	0.065	0.065	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”.

Reconciliation of Net Earnings to Adjusted EBITDA

(In thousands of dollars)

	Three-month periods ended September 30		Nine-month periods ended September 30	
	2020	2019	2020	2019
Net Earnings	2,733	1,176	7,186	4,799
Income tax expense	1,134	607	2,758	2,163
Net financing charges	694	844	2,454	2,619
Depreciation of property, plant and equipment	1,243	1,046	3,747	3,737
Depreciation of right-of-use assets	1,379	1,182	4,030	3,525
Amortization of intangible assets	882	546	2,471	1,636
EBITDA⁽¹⁾	8,065	5,401	22,646	18,479
Loss on disposal of property, plant and equipment	—	—	—	174
Value adjustment on acquired inventory	—	—	555	—
Adjusted EBITDA⁽¹⁾	8,065	5,401	23,201	18,653
Adjusted EBITDA Margin (%)	16.2%	12.0%	15.5%	13.1%

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

Revenue Information

(In millions of dollars)

	Three-month periods ended September 30		Nine-month periods ended September 30	
	2020	2019	2020	2019
Canadian Envelope	21.7	20.3	70.1	67.8
Volume change	13.4%	-14.0%	9.4%	-12.0%
Average selling price change	-5.7%	11.1%	-5.4%	11.5%
Total change	6.9%	-4.5%	3.5%	-1.9%
U.S. Envelope	12.4	11.6	35.9	33.6
Volume change	15.0%	1.5%	9.0%	-1.0%
Average selling price change (in CAD)	-7.1%	4.5%	-2.1%	10.2%
Total change	6.8%	6.1%	6.8%	9.1%
Packaging & Specialty Products				
Canada & U.S.	15.8	13.3	44.0	41.1
Total change	18.9%	2.4%	6.9%	0.1%
Total Revenue	49.9	45.2	150.0	142.5
Revenue change	10.4%	0.1%	5.3%	1.1%

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 31.6% of its revenue in the third 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		Nine-month periods ended	
	September 30		September 30	
	2020	2019	2020	2019
Segmented Revenue				
Envelope	34,136	31,932	106,035	101,380
Packaging & specialty products	15,754	13,252	43,933	41,101
Total revenue	49,890	45,184	149,968	142,481
Segmented Adjusted EBITDA⁽¹⁾				
Envelope	5,762	5,204	18,431	16,586
% of segmented revenue	16.9%	16.3%	17.4%	16.4%
Packaging & specialty products	2,919	597	6,215	3,840
% of segmented revenue	18.5%	4.5%	14.1%	9.3%
Corporate and unallocated costs	(616)	(400)	(1,445)	(1,773)
Total Adjusted EBITDA⁽¹⁾	8,065	5,401	23,201	18,653
% of total revenue	16.2%	12.0%	15.5%	13.1%

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

Results of Operations

Three-month period ended September 30, 2020, compared with the three-month period ended September 30, 2019

Revenue

Total revenue for the three-month period ended September 30, 2020, was \$49.9 million, representing an increase of 10.4% from the equivalent quarter of 2019.

Revenue from the envelope segment increased by 6.9% to \$34.1 million compared to \$31.9 million in the equivalent quarter of 2019.

- Revenue from the Canadian envelope market was \$21.7 million, up 6.9% or \$1.4 million from \$20.3 million in the third quarter of 2019. Volume increased by 13.4% primarily from the acquisition of Royal Envelope which more than compensated for the effect of the secular decline on the Company's legacy envelope sales and from the effect of the COVID-19 pandemic on non-essential envelope demand. Average selling prices were lower by 5.7% from last year's comparable period primarily as a result of changes in the envelope mix sold during the COVID-19 pandemic. On a pro-forma basis, the combined Q3 2019 Canadian envelope revenue of Supremex and pre-acquisition Royal Envelope were \$27.1 million versus \$21.7 million in Q3 2020, a decline of 20.0%. Canada Post's latest published financial results indicated that Transaction Mail volumes were down 14.7% during their second quarter ended June 27, 2020⁵ due to the COVID-19 pandemic.
- Revenue from the U.S. envelope market was \$12.4 million, an increase of 6.8% or \$0.8 million from \$11.6 million in the third quarter of 2019. The volume of units sold increased by 15.0% from market share gains and to a lesser extent demand related to the vote-by-mail initiative ahead of the 2020 U.S. elections, while average selling prices decreased by 7.1% primarily as a result of changes in the product mix sold during the COVID-19 pandemic. Average selling prices include a positive foreign exchange translation effect of 0.8%. For comparison, the U.S. Postal Service's last published results indicated that the First Class Mail volumes were down 8.4% during their third quarter ended June 30, 2020⁶ due to the COVID-19 pandemic.

Revenue from the packaging and specialty products segment was \$15.8 million, an increase of 18.9% or \$2.5 million compared to the equivalent quarter of 2019. Revenue growth came from the Company's e-commerce packaging business which on boarded new customer accounts in 2020. Packaging and specialty products represented 31.6% of the Company's revenue in the quarter, up from 29.3% during the equivalent period of last year.

Operating Expenses

Operating expenses for the three-month period ended September 30, 2020, were \$35.1 million compared with \$34.4 million in the equivalent period of 2019, an increase of \$0.7 million or 2.1%. The increase is mainly attributable to the unit volume growth from the Royal Envelope acquisition and was mitigated by synergies and tight control over operating expenses to manage the effects of the COVID-19 pandemic, operational improvements at the Folding Carton division and \$0.6 million from the CEWS program. On a percentage of revenue basis, operating expenses decreased from 76.1% to 70.4% versus the equivalent period of 2019. Excluding the CEWS, operating expenses were 71.6%.

Selling, General and Administrative Expenses

Selling, general and administrative expenses totalled \$6.7 million for the three-month period ended September 30, 2020, compared with \$5.4 million during the same period of 2019, representing an increase of \$1.3 million. The increase is mainly attributable to the acquisition of Royal Envelope and to a loss on foreign exchange translation versus a gain in the

⁵ [Canada Post Second Quarter Results Press Release dated August 21, 2020](#)

⁶ [U.S. Postal Service Reports Third Quarter 2020 Results Press Release dated August 7, 2020](#)

comparable period of 2019 partially offset by synergies as well as a tight control over SG&A expenses in the context of the COVID-19 pandemic and \$0.3 million from the CEWS program.

EBITDA and Adjusted EBITDA⁷

EBITDA and Adjusted EBITDA was \$8.1 million, compared with \$5.4 million in the equivalent period of last year, representing an increase of 49.3% primarily from the contribution from the Royal Envelope acquisition, higher e-commerce sales, growth in the U.S. envelope businesses and \$0.9 million from the CEWS program. Adjusted EBITDA margins increased to 16.2% of revenue compared to 12.0% in the equivalent quarter of 2019. Excluding the contribution of the CEWS, Adjusted EBITDA margins were at 14.3% of revenue.

- Envelope segment Adjusted EBITDA was \$5.8 million, up \$0.6 million from \$5.2 million in the third 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 higher sales volume, provided synergies in production efficiencies and procurement. On a percentage of segmented revenue, Adjusted EBITDA from the envelope segment was 16.9%, up from 16.3% in the equivalent period of 2019.
- Packaging and specialty products segment Adjusted EBITDA was \$2.9 million, up \$2.3 million from \$0.6 million in the third quarter of 2019 primarily from higher e-commerce sales and efficiency gains in the folding carton division. On a percentage of segmented revenue, Adjusted EBITDA from the packaging and specialty operations was 18.5% compared with 4.5% in the equivalent period of 2019.
- The balance of the variance results primarily from an unfavorable adjustment on foreign exchange translation in the third quarter versus a gain in the comparable period of 2019, and higher non-allocated corporate expenses which were offset by the contribution of the CEWS.

Depreciation and Amortization

Aggregate depreciation and amortization expenses for the three-month period ended September 30, 2020, amounted to \$3.5 million compared with \$2.8 million in the third quarter of 2019 resulting from the acquisition of Royal Envelope.

Net Financing Charges

Net financing charges for the three-month period ended September 30, 2020, were \$0.7 million, down from \$0.8 million in the equivalent period 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 \$3.9 million during the three-month period ended September 30, 2020, compared with \$1.8 million during the equivalent period of 2019.

Income Tax Expense

Income taxes amounted to \$1.1 million during the three-month period ended September 30, 2020, compared with \$0.6 million in the equivalent quarter of last year due to higher earnings before income taxes.

Net Earnings

Net Earnings were \$2.7 million (or \$0.10 per share) for the three-month period ended September 30, 2020, compared with \$1.2 million (or \$0.04 per share) for the equivalent period in 2019.

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

Other Comprehensive Income

The discount rate used to calculate the accrued plan benefit obligations remained stable at 2.70% as at September 30, 2020 and June 30, 2020. A better than expected return on assets resulted in a net actuarial gain of \$1.7 million during the third quarter of 2020.

Nine-month period ended September 30, 2020, compared with the nine-month period ended September 30, 2019

Revenue

Total revenue for the nine-month period ended September 30, 2020 reached \$150.0 million, a 5.3% increase from \$142.5 million for the nine-month period ended September 30, 2019.

Revenue from the envelope segment increased by 4.6% to \$106.0 million, from \$101.4 million in the comparable period of 2019.

- Revenue from the Canadian envelope market was \$70.1 million, an increase of 3.5% or \$2.3 million from \$67.8 million recorded during the nine-month period ended September 30, 2019. Volume increased by 9.4% primarily from the acquisition of Royal envelope which more than compensated for the effect of the secular decline on the Company's legacy envelope sales and from the effect of the COVID-19 pandemic on non-essential envelope demand in the second and third quarters of 2020. Average selling prices decreased by 5.4% as a result of changes in the envelope mix sold during the COVID-19 pandemic. On a pro-forma basis, the combined 2019 Canadian envelope revenue of Supremex and pre-acquisition Royal Envelope were \$90.4 million versus \$70.1 million in 2020, a decline of 22.4%.
- Revenue from the U.S. envelope market was \$35.9 million, representing an increase of 6.8% or \$2.3 million from \$33.6 million in the equivalent period of 2019, resulting from market share gains and to a lesser extent demand related to the vote-by-mail initiative ahead of the 2020 U.S. elections. The volume of units sold increased by 9.0% and average selling prices decreased by 2.1% primarily as a result of changes in the product mix sold during the COVID-19 pandemic. Average selling prices include a positive foreign exchange translation effect of 1.9%.

Revenue from packaging and specialty products was \$44.0 million, an increase of 6.9% or \$2.9 million from \$41.1 million in the equivalent period of the prior year and result from higher e-commerce packaging sales during the second and third quarters of 2020.

Operating Expenses

Operating expenses for the nine-month period ended September 30, 2020 were \$109.2 million compared with \$106.5 million for the same period in 2019, an increase of \$2.7 million or 2.6%. The variance is in large part attributable to the unit volume growth from the Royal Envelope acquisition, offset in part by synergies and cost mitigation measures in the context of the COVID-19 pandemic, operational improvements at the Folding Carton division and \$0.6 million from the CEWS program in the third quarter of 2020. On a percentage of revenue basis, operating expenses decreased from 74.7% to 72.8% versus the equivalent period of 2019. Excluding the CEWS program, operating expenses were 73.3%.

Selling, General and Administrative Expenses

Selling, general and administrative expenses totaled \$18.1 million for the nine-month period ended September 30, 2020, up \$0.7 million from \$17.4 million. The variance is mainly attributable to the acquisition of Royal Envelope in the first quarter of 2020 which was partially offset by synergies and cost mitigation measures in the context of the COVID-19 pandemic, a gain on foreign exchange translation versus a loss in 2019, \$0.3 million from the CEWS program in the third quarter of 2020 and an expense recovery from the change in mark-to-market value of the Deferred Share Units (DSUs).

EBITDA and Adjusted EBITDA⁸

EBITDA increased by 22.5% or \$4.1 million, to \$22.6 million in the first nine-months of 2020, up from \$18.5 million in the equivalent period of 2019 primarily from the acquisition of Royal Envelope, higher e-commerce sales, growth of the U.S. envelope businesses and \$0.9 million from the CEWS program. Adjusted EBITDA was \$23.2 million compared with \$18.7 million during the first three quarters of 2019. Adjusted EBITDA margins stood at 15.5% of revenues, up from 13.1% in the equivalent period of 2019. Excluding the contribution of the CEWS, Adjusted EBITDA margins stood at 14.9% of revenue.

- Envelope segment Adjusted EBITDA was \$18.4 million, up \$1.8 million from \$16.6 million in the equivalent period 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 17.4%, up from 16.4% in the equivalent period of 2019.
- Packaging and specialty products segment Adjusted EBITDA increased to \$6.2 million, up \$2.4 million from \$3.8 million in the comparable period of 2019 primarily from higher e-commerce sales in the second and third quarters and efficiency gains in the folding carton division. On a percentage of segmented revenue, Adjusted EBITDA from the packaging and specialty operations increased to 14.1% compared with 9.3% in the equivalent period of 2019.
- The variance in corporate and unallocated expenses is the result of a gain on foreign exchange translation in the first nine months of 2020 compared with a loss in the equivalent period of 2019, the contribution of the CEWS in the third quarter of 2020 and, to a lesser extent, a positive adjustment for the mark-to-market value of the Deferred Share Units (DSUs) which are partially offset by a decrease in the corporate expenses allocated to the segments.

Depreciation and Amortization

Aggregate depreciation and amortization expenses for the nine-month period ended September 30, 2020, amounted to \$10.2 million, compared with \$8.9 million in the equivalent period of 2019 from the acquisition of Royal Envelope.

Net Financing Charges

Net financing charges for the nine-month period ended September 30, 2020 amounted to \$2.5 million, down from \$2.6 million in the equivalent period of last year.

Earnings Before Income Taxes

As a result of the fluctuation in revenue and expenses described above, earnings before income taxes amounted to \$9.9 million during the nine-month period ended September 30, 2020 compared with earnings before income taxes of \$7.0 million during the equivalent period of 2019.

Income Tax Expense

Income taxes amounted to \$2.8 million during the nine-month period ended September 30, 2020, up from \$2.2 million in the equivalent period of the prior year due to higher earnings before income taxes.

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

Net Earnings

Net earnings stood at \$7.2 million (or \$0.26 per share) for the nine-month period ended September 30, 2020, compared with net earnings of \$4.8 million (or \$0.17 per share) in the equivalent period in 2019.

Other Comprehensive Income

The discount rate used to calculate the accrued plan benefit obligations decreased to 2.70% as at September 30, 2020, from 3.10% as at December 31, 2019. This decrease was partially offset by a better than expected return on assets resulting in a net actuarial loss of \$3.3 million during the nine-month period ended September 30, 2020.

Geographical Revenue and Asset Diversification

The Company's non-current assets amounted to \$125.1 million in Canada and \$15.0 million in the United States as at September 30, 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 September 30, 2020, the Company's revenue in Canada was \$32.1 million, an increase of 8.8% from \$29.5 million in the equivalent period of 2019. In the United States, revenue stood at \$17.8 million, representing an increase of 13.4% from \$15.7 million in the equivalent period of 2019.

For the nine-month period ended September 30, 2020, the Company's revenue in Canada was \$99.4 million, an increase of 3.0% from \$96.5 million in the equivalent period of 2019. In the United States, revenue stood at \$50.6 million, representing an increase of 10.1% from \$46.0 million in the equivalent period of 2019.

Summary of Quarterly Operating Results from October 1, 2018 to September 30, 2020

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

	Sep. 30 2020	June 30 2020	Mar. 31 2020	Dec. 31 2019	Sep. 30 2019	June 30 2019	Mar. 31 2019	Dec. 31 2018
Revenue								
Envelope	34,136	32,751	39,149	35,744	31,932	33,945	35,502	38,332
Packaging	15,754	14,911	13,267	13,444	13,252	13,697	14,153	15,818
Total revenue	49,890	47,662	52,416	49,188	45,184	47,642	49,655	54,150
Adjusted EBITDA ^{(1) (2)}	8,065	6,895	8,241	6,695	5,401	6,775	6,477	8,148
Earnings (loss) before income taxes	3,867	2,434	3,643	3,183	1,783	2,699	2,480	(11,819)
Net earnings (loss)	2,733	1,865	2,588	2,289	1,176	1,815	1,808	(12,426)
Net earnings (loss) per share	0.10	0.07	0.09	0.08	0.04	0.06	0.06	(0.44)

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

(2) 2018 quarters have not been restated for IFRS 16 where rent expenses were replaced by an interest charge on lease liabilities and amortization of the right-of-use assets while the lease payments 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)

	September 30, 2020	December 31, 2019
Working capital	27,608	24,140
Total assets	196,279	179,649
Secured credit facility	67,172	53,815
Total equity	78,408	76,473

The increase in total assets at September 30, 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 \$13.4 million primarily resulting from the increase in borrowings made in the first quarter of 2020 to finance the acquisition of Royal Envelope, net of reimbursements made during the period.

Summary of Cash Flows

(In thousands of dollars)

	Three-month periods ended September 30		Nine-month periods ended September 30	
	2020	2019	2020	2019
Operating activities	7,208	3,712	26,060	11,728
Investing activities	(730)	(1,824)	(29,087)	(5,181)
Financing activities	(5,782)	(2,131)	5,886	(6,753)
Net foreign exchange difference	(162)	56	(177)	(146)
Net change in cash	534	(187)	2,682	(352)

Cash Flows from Operating Activities

Net cash flows from operating activities stood at \$26.1 million during the nine-month period ended September 30, 2020, compared with \$11.7 million in the equivalent period of 2019. The improvement is mainly attributable to higher net earnings and to a \$7.6 million positive net change in working capital adjustments.

Cash Flows used in Investing Activities

Net cash flows used in investing activities amounted to \$29.1 million during the nine-month period ended September 30, 2020, compared with \$5.2 million used in the equivalent period of 2019. The increase reflects the acquisition of Royal Envelope in the first quarter of 2020 and lower capital expenditures during the nine-month period ended September 30, 2020.

Cash Flows from (used in) Financing Activities

Net cash flows generated by financing activities stood at \$5.9 million during the nine-month period ended September 30, 2020, compared with a use of \$6.8 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, it can be reasonably assumed that demand for certain of the Company's product categories will continue to be negatively affected. Furthermore, it is impossible at this time for the Company to estimate the duration and scope of the pandemic's ensuing economic impact. In order to mitigate the effect of the COVID-19 pandemic on the Company's operations and financial results, management tightly controlled its operating expenses and working capital and reduced all non-critical capital expenditures. Taking a prudent approach, the Company further negotiated and obtained a more favorable Debt to EBITDA covenant ratio for the second and third quarter of fiscal year 2020, and, on May 15, 2020, the Company's Board of Directors also announced the suspension of the quarterly dividend until further notice. In the third quarter of 2020, the Company recorded a \$0.9 million subsidy from the CEWS program. Based on current and anticipated market conditions and management's projections, the Company expects to have sufficient liquidity to meet its currently anticipated needs.

The future negative impact of COVID-19 creates uncertainties that 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 September 30, 2020, the Company had not identified significant negative trend from its accounts receivable collection.

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 has resulted in a lower level of activity primarily in its Canadian envelope business. At this current time, the Company reviewed its inventory levels and did not note significant excess inventories that could be subject to significant write-downs in the future.

The 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. 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 \$30.6 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 September 30, 2020, the credit facility stands at \$67.2 million. This facility bears interest at a floating rate based on the Canadian prime rate, plus an applicable margin that ranges between 0% and 2.00% or bankers' acceptance rates, plus an applicable margin that ranges between 1.25% and 3.25%.

The secured credit facility is used for working capital, capital expenditures, acquisitions and other general corporate purpose. It is collateralized by mortgage 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, 2020 and had an additional borrowing capacity of \$29.9 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.

As at September 30, 2020, the Company had outstanding letters of credit for a total of \$10,000.

Normal Course Issuer Bid ("NCIB")

On August 13, 2020, the Company announced the renewal of its NCIB after its approval by the TSX, to purchase for cancellation, up to 1,406,523 of its common shares, representing approximately 5.0% of its 28,130,469 issued and outstanding common shares as of August 12, 2020. Purchases under the NCIB are made through the facilities of the TSX or alternative trading facilities in Canada, if eligible, in accordance with applicable securities laws and regulations, over a maximum period of 12 months beginning on August 17, 2020 and ending on August 16, 2021.

During the third quarter of 2020, the Company purchased 152,900 shares, for a total consideration of \$200,841. As of November 11, 2020, an additional 85,900 shares were purchased for cancellation.

Capitalization

At the date hereof, the Company had 27,915,669 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 September 30, 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 September 30, 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 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. 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 and government actions, 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 September 30, 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, the Company 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, 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 and nine-month periods ended September 30, 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		September 30, 2020	December 31, 2019
[Unaudited]	Notes	\$	\$
ASSETS	6		
Current assets			
Cash		4,905,240	2,222,889
Accounts receivable		25,191,799	22,340,239
Income tax receivable		375,991	1,742,610
Inventories	5	23,881,344	21,080,346
Prepaid expenses and others		1,830,917	1,667,542
Total current assets		56,185,291	49,053,626
Property, plant and equipment		39,256,043	37,274,148
Right-of-use assets		21,748,662	23,333,921
Accrued pension benefit asset		2,767,707	7,270,807
Intangible assets		26,825,587	16,421,864
Goodwill		49,495,294	46,155,723
Other long-term asset		—	138,809
Total assets		196,278,584	179,648,898
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		20,091,378	15,470,329
Dividend payable	8	—	1,828,481
Provisions		—	7,821
Current portion of secured credit facility	6	3,500,000	3,500,000
Current portion of lease liabilities		4,986,212	4,106,902
Total current liabilities		28,577,590	24,913,533
Secured credit facility	6	63,340,855	49,972,422
Deferred income tax liabilities		7,952,919	8,187,623
Lease liabilities		17,781,577	19,891,021
Other post-retirement benefit obligations		217,500	211,200
Total liabilities		117,870,441	103,175,799
Equity			
Share capital	7	9,549,388	9,601,576
Contributed surplus	7	277,200,145	277,348,798
Deficit		(208,613,829)	(210,653,168)
Foreign currency translation reserve		272,439	175,893
Total equity		78,408,143	76,473,099
Total liabilities and equity		196,278,584	179,648,898

See accompanying notes

On behalf of the Directors:

By: _____
Director

By: _____
Director

Supremex Inc.

INTERIM CONSOLIDATED STATEMENTS OF EARNINGS

[Unaudited]	Notes	Three-month periods ended September 30		Nine-month periods ended September 30	
		2020 \$	2019 \$	2020 \$	2019 \$
Revenue		49,890,310	45,183,650	149,968,396	142,481,148
Operating expenses	5	35,125,014	34,387,686	109,234,600	106,476,800
Selling, general and administrative expenses		6,699,720	5,394,716	18,087,234	17,350,594
Operating earnings before depreciation, amortization and other items		8,065,576	5,401,248	22,646,562	18,653,754
Depreciation of property, plant and equipment		1,243,145	1,045,805	3,747,377	3,736,924
Depreciation of right-of-use assets		1,378,843	1,182,337	4,030,302	3,524,852
Amortization of intangible assets		882,136	546,315	2,470,926	1,636,809
(Gain) loss on disposal of property, plant and equipment and right-of-use assets		—	(38)	—	174,403
Operating earnings		4,561,452	2,626,829	12,397,957	9,580,766
Net financing charges	6	694,283	843,786	2,453,966	2,619,048
Earnings before income taxes		3,867,169	1,783,043	9,943,991	6,961,718
Income tax expense		1,134,235	606,917	2,758,332	2,162,576
Net earnings		2,732,934	1,176,126	7,185,659	4,799,142
Basic and diluted net earnings per share		0.0973	0.0418	0.2556	0.1701
Weighted average number of shares outstanding		28,080,198	28,132,733	28,113,590	28,221,392

See accompanying notes

Supremex Inc.

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

[Unaudited]	Three-month periods ended September 30		Nine-month periods ended September 30	
	2020	2019	2020	2019
	\$	\$	\$	\$
Net earnings	2,732,934	1,176,126	7,185,659	4,799,142
Other comprehensive income (loss)				
<i>Other comprehensive (loss) income (to be reclassified to earnings in subsequent periods)</i>				
Foreign currency translation adjustments	(351,448)	163,165	96,546	(452,194)
Net other comprehensive (loss) income to be reclassified to earnings in subsequent periods	(351,448)	163,165	96,546	(452,194)
<i>Items not to be reclassified to earnings in subsequent periods</i>				
Recognized actuarial gain (loss) on defined benefit pension plans, net of income tax expense of \$580,033 and tax recovery of \$1,162,122 [2019 income tax expense – \$377,917 and tax recovery of \$386,139]	1,657,367	1,077,884	(3,312,878)	(1,106,861)
Recognized actuarial loss on other post-retirement benefit, net of income tax recovery of \$0 and of \$1,739 [2019 income tax recovery – \$0 and \$4,104]	—	—	(4,961)	(11,696)
Net other comprehensive income (loss) not being reclassified to earnings in subsequent periods	1,657,367	1,077,884	(3,317,839)	(1,118,557)
Other comprehensive income (loss)	1,305,919	1,241,049	(3,221,293)	(1,570,751)
Total comprehensive income	4,038,853	2,417,175	3,964,366	3,228,391

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, 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 8]	—	—	(5,496,351)	—	(5,496,351)
Shares repurchased and cancelled [note 7]	(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
As at December 31, 2019	9,601,576	277,348,798	(210,653,168)	175,893	76,473,099
Net earnings	—	—	7,185,659	—	7,185,659
Other comprehensive (loss) income	—	—	(3,317,839)	96,546	(3,221,293)
Total comprehensive income	—	—	3,867,820	96,546	3,964,366
Dividends declared [note 8]	—	—	(1,828,481)	—	(1,828,481)
Shares repurchased and cancelled [note 7]	(52,188)	(148,653)	—	—	(200,841)
As at September 30, 2020	9,549,388	277,200,145	(208,613,829)	272,439	78,408,143

See accompanying notes

Supremex Inc.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

[Unaudited]	Notes	For the three-month periods ended September 30		For the nine-month periods ended September 30	
		2020 \$	2019 \$	2020 \$	2019 \$
OPERATING ACTIVITIES					
Net earnings		2,732,934	1,176,126	7,185,659	4,799,142
Non-cash adjustment to reconcile net earnings to net cash flows					
Depreciation of property, plant and equipment		1,243,145	1,045,805	3,747,377	3,736,924
Depreciation of right-of-use assets		1,378,843	1,182,337	4,030,302	3,524,852
Amortization of intangible assets		882,136	546,315	2,470,926	1,636,809
Amortization of deferred financing costs	6	36,118	26,273	91,270	162,933
(Gain) loss on disposal of property, plant and equipment and right-of-use assets		—	(38)	—	174,403
Deferred income tax expense (recovery)		222,894	620,115	910,196	(264,736)
Change in employees benefits		3,000	17,600	9,000	52,800
		6,499,070	4,614,533	18,444,730	13,823,127
Working capital adjustments					
Variation in accounts receivable		(1,884,913)	(133,192)	2,517,394	4,753,575
Variation in income tax receivable		340,144	(1,344,479)	1,366,619	(1,216,517)
Variation in inventories		(64,232)	956,871	1,133,615	(1,109,287)
Variation in prepaid expenses and others		355,529	(2,298)	(58,687)	(378,274)
Variation in accounts payable and accrued liabilities		1,960,749	(967)	2,645,143	(3,322,258)
Variation in provisions		—	(389,714)	(7,821)	(862,497)
Change in employee benefits		1,300	11,700	18,700	40,700
Net cash flows from operating activities		7,207,647	3,712,454	26,059,693	11,728,569
INVESTING ACTIVITIES					
Business combination, net of cash acquired	4	—	—	(27,400,000)	—
Acquisition of property, plant and equipment		(583,411)	(1,792,936)	(1,308,762)	(5,443,649)
Acquisition of intangible assets		(146,306)	(31,118)	(377,639)	(122,294)
Proceeds from the disposal of property, plant and equipment		—	—	—	385,182
Net cash flows used in investing activities		(729,717)	(1,824,054)	(29,086,401)	(5,180,761)
FINANCING ACTIVITIES					
(Repayment) increase of secured credit facility		(4,240,416)	697,121	13,357,163	2,295,789
Repayment of lease liabilities		(1,282,931)	(999,154)	(3,676,082)	(2,954,620)
Dividends paid	8	—	(1,830,173)	(3,656,962)	(5,506,100)
Financing costs incurred		(57,500)	(13,727)	(80,000)	(411,217)
Purchase of share capital for cancellation	7	(200,841)	(68,008)	(200,841)	(424,633)
Change in other long-term asset		—	82,049	143,224	246,653
Net cash flows (used in) from financing activities		(5,781,688)	(2,131,892)	5,886,502	(6,754,128)
Net change in cash		696,242	(243,492)	2,859,794	(206,320)
Net foreign exchange difference		(161,828)	56,040	(177,443)	(145,676)
Cash, beginning of period		4,370,826	144,397	2,222,889	308,941
Cash (bank overdraft), end of period		4,905,240	(43,055)	4,905,240	(43,055)
Supplemental information ⁽¹⁾					
Interest paid		696,035	843,955	2,518,181	2,476,500
Interest received		3,536	4,989	10,741	22,022
Income taxes paid		387,429	1,652,554	388,933	4,095,549
Income taxes received		—	335,478	101,625	643,838

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

See accompanying notes

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2020 and 2019

[Unaudited]

1. CORPORATE INFORMATION

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

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

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

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

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 November 12, 2020 and have not been audited or reviewed by the Company’s auditors.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2020 and 2019

[Unaudited]

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 nine-month period ended September 30, 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 September 30, 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 has resulted in a lower level of activity primarily in its Canadian envelope business. At this current time, 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. 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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[Unaudited]

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:

- The Company negotiated and obtained a more favorable Debt to EBITDA covenant ratio for the second and third quarter of fiscal year 2020.
- On May 14, 2020, Company's Board of Directors announced the suspension of the quarterly dividend until further notice.
- The Company is continuously seeking cost savings opportunities and will manage its capacity to respond to demand fluctuations and including workplace reductions if needed.

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 has been revised as of September 30, 2020. The adjustments are mainly related to the revised assessment of working capital, fixed assets and Goodwill.

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

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[Unaudited]

	Initial purchase price allocation	Adjustments	Total adjusted purchase price allocation
	\$	\$	\$
Net assets acquired			
Accounts receivable	5,444,478	(75,524)	5,368,954
Inventories	4,220,612	(285,999)	3,934,613
Prepaid expenses and others	99,301	(6,610)	92,691
Total current assets	9,764,391	(368,133)	9,396,258
Property and equipment	4,708,815	(395,585)	4,313,230
Right-of-use assets	1,958,645	—	1,958,645
Software	53,000	—	53,000
Customer relationships	12,400,000	—	12,400,000
Goodwill	2,298,036	915,382	3,213,418
Total assets	31,182,887	151,664	31,334,551
Accounts payable and accrued liabilities	1,824,242	151,664	1,975,906
Lease liabilities	1,958,645	—	1,958,645
Net assets acquired	27,400,000	—	27,400,000
Cash consideration, net of cash acquired	27,400,000	—	27,400,000
Acquisition-related costs recognized as an expense			154,084

The revised fair value of the receivables acquired of \$5,368,954 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 in the fourth quarter as it will have gathered all significant information available and considered necessary in order to finalize the fair value measurement of working capital, machinery and equipment and intangible assets, including customer relationships and goodwill.

The Company has not disclosed revenue from Royal Envelope operations or 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 were rapidly integrated into the operations of the Company post-acquisition. The Company is no longer able to track revenue from the Royal Envelope acquisition since July 1, 2020 as revenue has been entirely integrated to Supremex operations as of that date, while costs and expenses have been integrated as of the acquisition date.

Goodwill deductible for tax purposes amount to \$3,213,418. The goodwill related to the acquisition is composed of expected growth and operational synergies.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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[Unaudited]

5. INVENTORIES

	September 30, 2020 \$	December 31, 2019 \$
Raw materials	8,424,806	6,942,380
Work in progress	986,266	678,784
Finished goods	14,470,272	13,459,182
	23,881,344	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 and nine-month periods ended September 30, 2020 are \$35,055,176 and \$110,486,243, respectively [2019 - \$34,863,367 and \$108,248,001 respectively].

6. SECURED CREDIT FACILITY

The Company has a secured credit facility consisting of a \$80 million revolving facility [\$80 million as at December 31, 2019] and a \$30.6 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 September 30, 2020, the credit facility stands at \$67.2 million. This facility bears interest at a floating rate based on the Canadian prime rate, plus an applicable margin that ranges between 0% and 2.00% or bankers' acceptance rates, plus an applicable margin that ranges between 1.25% and 3.25%.

The secured credit facility is used for working capital, capital expenditure, acquisitions and other general corporate purpose. It is collateralized by mortgage 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, 2020 and had an additional borrowing capacity of \$29.9 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.

Amounts owed under secured credit facility are as follows:

	September 30, 2020 \$	December 31, 2019 \$
Revolving credit facility	36,547,265	20,565,102
Term facility	30,625,000	33,250,000
Less: deferred financing costs, net	(331,410)	(342,680)
	66,840,855	53,472,422
Current portion	(3,500,000)	(3,500,000)
Long-term portion of secured credit facility	63,340,855	49,972,422

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September 30, 2020 and 2019

[Unaudited]

As at September 30, 2020, the Company had outstanding letters of credit for a total of \$10,000 [\$10,000 as at December 31, 2019].

As at September 30, 2020 the effective variable interest rate on the secured credit facility was 2.30% [3.52% as at December 31, 2019].

Net financing charges are as follows:

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2020	2019	2020	2019
	\$	\$	\$	\$
Interest on secured credit facility	452,736	566,924	1,713,932	1,692,171
Interest expense on lease liabilities	263,202	291,132	820,160	892,908
Interest income on defined benefit plans obligations	(54,600)	(39,900)	(163,800)	(119,700)
Other interest income	(3,173)	(643)	(7,596)	(9,264)
Amortization of deferred financing costs	36,118	26,273	91,270	162,933
	694,283	843,786	2,453,966	2,619,048

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	(150,000)	(51,198)
Balance, as of September 30, 2019	28,130,469	9,601,576
Balance, as of December 31, 2019	28,130,469	9,601,576
Purchase of share capital for cancellation	(152,900)	(52,188)
Balance, as of September 30, 2020	27,977,569	9,549,388

On August 13, 2020, the Company announced that it has received approval from the TSX to purchase by a way of a normal course issuer bid ("NCIB") for cancellation, up to 1,406,523 of its common shares, representing approximately 5.0% of its 28,130,469 issued and outstanding common shares as of August 12, 2020, for a period of twelve months, beginning on August 17, 2020.

During the three and nine-month periods ended September 30, 2020, the Company repurchased 152,900 common shares for cancellation through the NCIB in consideration of \$200,841. The excess of the purchase price over the carrying value in the amount of \$148,653 was recorded as a reduction of contributed surplus [2019 – 26,038 and 150,000 common shares purchased for cancellation in consideration of \$68,008 and \$424,633, respectively, which resulted in an excess of the carrying value of \$59,121 and \$373,435, respectively].

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2020 and 2019

[Unaudited]

Deferred Share Unit Plan (DSU)

The financial liability resulting from the DSU plan of \$329,211 [December 31, 2019 - \$504,428] is presented under "Accounts payable and accrued liabilities".

The compensation expense (recovery) for the DSU plan during the three-month and nine-month periods ended September 30, 2020 amounted to \$43,184 and \$(175,216) respectively [2019 – recovery of \$18,880 and expense of \$106,110] and is recognized under selling, general and administrative expenses.

8. DIVIDENDS

Dividends declared from January 1, 2020 to September 30, 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 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

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:

Supremex Inc.

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September 30, 2020 and 2019

[Unaudited]

For the three-month periods ended September 30,

	2020			2019		
	\$			\$		
	Envelope	Packaging & Speciality Products	Total	Envelope	Packaging & Speciality Products	Total
Revenue	34,136,171	15,754,139	49,890,310	31,931,557	13,252,093	45,183,650
Operating expenses	24,385,670	11,345,960	35,731,630	23,181,331	11,445,326	34,626,657
Selling, general and administrative expenses	3,988,413	1,489,127	5,477,540	3,546,195	1,209,557	4,755,752
Operating earnings before depreciation, amortization, other items and unallocated corporate expenses and other⁽¹⁾	5,762,088	2,919,052	8,681,140	5,204,031	597,210	5,801,241
Corporate expenses and other non-allocated expenses			1,531,166			399,993
Government assistance			(915,602)			—
Depreciation of property, plant and equipment			1,243,145			1,045,805
Depreciation of right-of-use assets			1,378,843			1,182,337
Amortization of intangible assets			882,136			546,315
Gain on disposal of property, plant and equipment			—			(38)
Net financing charges			694,283			843,786
Earnings before income taxes			3,867,169			1,783,043

⁽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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2020 and 2019

[Unaudited]

For the nine-month periods ended September 30,

	2020 \$			2019 \$		
	Envelope	Packaging & Specialty Products	Total	Envelope	Packaging & Specialty Products	Total
Revenue	106,035,494	43,932,902	149,968,396	101,379,842	41,101,306	142,481,148
Operating expenses	75,675,842	33,731,981	109,407,823	73,862,596	33,291,545	107,154,141
Selling, general and administrative expenses	11,928,510	3,985,224	15,913,734	10,930,626	3,969,667	14,900,293
Operating earnings before depreciation, amortization, other items and unallocated corporate expenses and other⁽¹⁾	18,431,142	6,215,697	24,646,839	16,586,620	3,840,094	20,426,714
Corporate expenses and other non-allocated expenses			2,915,879			1,772,960
Government assistance			(915,602)			—
Depreciation of property, plant and equipment			3,747,377			3,736,924
Depreciation of right-of-use assets			4,030,302			3,524,852
Amortization of intangible assets			2,470,926			1,636,809
Loss on disposal of property, plant and equipment			—			174,403
Net financing charges			2,453,966			2,619,048
Earnings before income taxes			9,943,991			6,961,718

⁽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 \$125,087,945 in Canada and \$15,005,348 in the United States as at September 30, 2020 [\$114,529,278 and \$16,065,994, respectively, as at December 31, 2019]. The Company's revenue amounted to \$32,076,948 and \$99,336,331, in Canada and \$17,813,362 and \$50,632,065, in the United States for the three and nine-month periods ended September 30, 2020 based on the customer's locations [2019 - \$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, 2020, the Company's revenue from envelopes amounted to \$34,136,171 and \$106,035,494 and those from packaging and specialty products amounted to \$15,754,139 and \$43,932,902, based on product classification [2019 - \$31,931,557 and \$101,379,842 from envelopes and \$13,252,093 and \$41,101,306 from packaging and specialty products].

Government assistance, which mainly relates to the Canadian Emergency Wage Subsidy program, is recognized where there is reasonable assurance that the assistance will be received and all attached conditions will be complied with by the Company. The Company's assistance has been allocated to Operating expenses [\$619,954] and Selling, general and administrative expenses [\$295,648] respectively during the three months ended September 30, 2020.