



MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2021

The following management's discussion and analysis of financial condition and results of operations ("MD&A"), dated May 12, 2021, 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, 2021. 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, 2020. 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, 2021. The consolidated financial statements for the three-month period ended March 31, 2021 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 31, 2021. 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", "Adjusted EBITDA" and "Adjusted Net Earnings". Non-IFRS financial measures are used to provide management and investors with additional measures of performance. However, non-IFRS financial measures do not have standard meanings prescribed by IFRS and therefore may not be directly comparable to similar measures used by other companies and should not be viewed as alternatives to measures of financial performance prepared in accordance with IFRS. See "Non IFRS measures: Definition of EBITDA, Adjusted EBITDA and Adjusted Net Earnings" and "Reconciliation of Net Earnings to Adjusted EBITDA" and "Reconciliation of Net Earnings to Adjusted Net Earnings."

Business Overview

Supremex is a leading North American manufacturer and marketer of envelopes and a growing provider of paper-based packaging solutions. Supremex operates 12 manufacturing facilities across five provinces in Canada and three manufacturing facilities in the United States employing approximately 865 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, premium 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 and Enviro-logiX^{®2}.

¹ Conformer[®] is a registered trademark of Conformer Products, Inc.

² Enviro-logiX[®] is a registered trademark of Enviroligix Inc.

First Quarter Financial Highlights and Recent Events

- Total revenue increased by 2.3% to \$53.6 million, from \$52.4 million in the first quarter of 2020.
- Envelope segment revenue was down 2.3% to \$38.3 million, from \$39.1 million in the first quarter of 2020.
- Packaging and specialty products segment revenue increased by 15.6% to \$15.3 million, from \$13.3 million in the first quarter of 2020.
- EBITDA³ increased by 22.1% to \$9.4 million, up from \$7.7 million in the first quarter of 2020 resulting primarily from growing packaging and specialty sales and operational efficiencies.
- Adjusted EBITDA³ was up by 14.5% to \$9.5 million, from \$8.3 million in the first quarter of 2020.
- Net Earnings at \$4.1 million (or \$0.15 per share), up from \$2.6 million (or \$0.09 per share) in the first quarter of 2020.
- Adjusted Net Earnings³ at \$4.2 million (or \$0.15 per share), up from \$3.1 million (or \$0.11 per share) in the first quarter of 2020.
- Recorded \$0.6 million of assistance from the Canada Emergency Wage Subsidy (“CEWS”) program.
- Acquired Vista Graphic Communications, LLC, a print and folding carton supplier that brings the Company’s manufacturing closer to its American e-commerce packaging customers.
- Purchased 221,900 shares for total consideration of \$473,887 as part of the Company’s Normal Course Issuer Bid (“NCIB”) program.

Key Events

Focus on Folding Carton and E-Commerce Packaging

On March 8, 2021, the Company acquired substantively all of the assets of Vista Graphic Communications, LLC (“Vista”), for a cash consideration of \$2,666,790 (\$2,100,000 US). Vista is an Indianapolis, Indiana-based provider of print and folding carton packaging. In addition to the consideration paid, the Company has a contingent consideration payable to the previous owner on the realization of certain financial targets over the first 24 months after the acquisition date in the amount of \$774,846 (\$625,000 US). The fair value of the contingent consideration payable as at March 31, 2021 is \$767,445.

This acquisition brings the Company’s manufacturing closer to its growing e-commerce customer base in the U.S. and provides it with much needed print and converting capacity to meet existing and growing demand for its packaging solutions.

Corporate Update

Effective March 19, 2021, Guy Prenevost, CFO and Corporate Secretary of Supremex, resigned from his position to pursue another opportunity. The Company has commenced an executive search process to identify potential candidates for this role.

COVID-19

As 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, Supremex has remained in operation since the start of the COVID-19 pandemic. The Company quickly put in place robust business continuity plans which include enhanced safety measures for its employees and customers and various other initiatives aimed at preserving the Company’s balance sheet and cash flow, including limiting capital expenditures and suspending its regular quarterly dividend starting in May 2020. The Company was recently made aware that some employees working in production facilities have tested positive for COVID-19. Although the situation is under

³ Refer to the definition of EBITDA, Adjusted EBITDA and Adjusted Net Earnings in the section describing Non-IFRS Measures and to the reconciliation of Net Earnings to Adjusted EBITDA and of Net Earnings to Adjusted Net Earnings in the Summary of Financial Information and Non-IFRS Measures.

control, in the abundance of caution and in consultation with Toronto Public Health, the Corporation has implemented health and safety measures, including reducing one production shift for a certain period of time and implementing an extensive and comprehensive business continuity plan to, among other things, reallocate production and move plain stock and customer inventory to other facilities.

The Company continues to monitor its supply chain, customers' credit and collection risks and, although it has recently experienced a COVID-19 incident, the Company has not suffered yet a significant adverse effect from the COVID-19 pandemic. However, uncertainty about the return to normal post-pandemic remains high and the effects of a prolonged pandemic on the global commercial activities and the Company's activities are difficult to assess. Consequently, certain 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.

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	
	2021	2020
Revenue	53,603	52,416
Operating expenses	37,515	39,410
Selling, general and administrative expenses	6,699	5,320
Operating earnings before depreciation and amortization	9,389	7,686
Depreciation of property, plant and equipment	1,364	1,189
Depreciation of right-of-use assets	1,177	1,269
Amortization of intangible assets	815	708
Operating earnings	6,033	4,520
Net financing charges	543	877
Earnings before income taxes	5,490	3,643
Income tax expense	1,387	1,055
Net earnings	4,103	2,588
Basic and diluted net earnings per share	0.15	0.09
Dividend declared per share	—	0.065

Reconciliation of Net Earnings to Adjusted EBITDA

(In thousands of dollars)

	Three-month periods ended March 31	
	2021	2020
Net Earnings	4,103	2,588
Income tax expense	1,387	1,055
Net financing charges	543	877
Depreciation of property, plant and equipment	1,364	1,189
Depreciation of right-of-use assets	1,177	1,269
Amortization of intangible assets	815	708
EBITDA⁽¹⁾	9,389	7,686
Value adjustment on acquired inventory through the business acquisition	—	555
Acquisition costs	159	97
Adjusted EBITDA⁽¹⁾	9,548	8,338
Adjusted EBITDA Margin (%)	17.8%	15.9%

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

Reconciliation of Net Earnings to Adjusted Net Earnings

(In thousands of dollars)

	Three-month periods ended March 31	
	2021	2020
Net Earnings	4,103	2,588
Adjustments, net of income taxes		
Acquisition costs	118	72
Value adjustment on acquired inventory through the business acquisition	—	411
Adjusted Net Earnings⁽¹⁾	4,221	3,071

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

Revenue Information

(In millions of dollars)

	Three-month periods ended March 31	
	2021	2020
Canadian Envelope	\$26.2	\$26.2
Volume change	1.3%	8.5%
Average selling price change	-1.5%	0.0%
Total change	-0.2%	8.5%
U.S. Envelope	\$12.1	\$12.9
Volume change	-1.4%	14.6%
Average selling price change (in CAD)	-5.2%	-0.5%
Total change	-6.5%	14.0%
Packaging & Specialty Products		
Canada & U.S.	\$15.3	\$13.3
Total change	15.6%	-6.3%
Total Revenue	\$53.6	\$52.4
Revenue change	2.3%	5.6%

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. 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 2016, it initiated a growth and diversification strategy into packaging and specialty products.

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 high-quality folding carton packaging, e-commerce solutions, corrugated boxes and labels. The folding carton offering is primarily aimed at corporations in the health, beauty, pharmaceutical and food-at-home markets. E-commerce solutions are eco-friendly and are designed and manufactured to optimize shipping and reduce

over-packaging for small and international e-tailers. The corrugated box offering is primarily focused on at the food industry (pizza, meat and vegetable boxes) and internal procurement for the e-commerce offering and envelope box requirements. 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 and Enviro-logiX®.

Segmented Information

(In thousands of dollars)

	Three-month periods ended March 31	
	2021	2020
Segmented Revenue		
Envelope	38,265	39,149
Packaging & specialty products	15,338	13,267
Total revenue	53,603	52,416
Segmented Adjusted EBITDA⁽¹⁾		
Envelope	7,291	6,942
% of segmented revenue	19.1%	17.7%
Packaging & specialty products	2,465	1,307
% of segmented revenue	16.1%	9.9%
Corporate and unallocated costs	(208)	89
Total Adjusted EBITDA⁽¹⁾	9,548	8,338
% of total revenue	17.8%	15.9%

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

Results of Operations

Three-month period ended March 31, 2021, compared to the three-month period ended March 31, 2020

Revenue

Total revenue for the three-month period ended March 31, 2021, was \$53.6 million, representing an increase of 2.3% from the equivalent quarter of 2020.

Revenue from the envelope segment was \$38.3 million, representing a decrease of 2.3% or \$0.8 million, from \$39.1 million in the equivalent quarter of 2020.

- Revenue from the Canadian envelope market remained stable at \$26.2 million. Volume increased by 1.3% from the acquisition of Royal Envelope in February 2020, which compensated for the effect of the secular decline on the Company's legacy envelope sales and from the continued effect of the COVID-19 pandemic on non-essential envelope demand. Average selling prices were lower by 1.5% from last year's comparable period primarily resulting from changes in the envelope mix sold. Canada Post's latest published financial results indicated that Transaction Mail volumes were down 10.5% for the year ended December 31, 2020⁴ due to the COVID-19 pandemic.
- Revenue from the U.S. envelope market was \$12.1 million, representing a decrease of 6.5% or \$0.8 million from \$12.9 million in the first quarter of 2020. The volume of units sold decreased by 1.4% while average selling prices decreased by 5.2% mainly due to a negative foreign exchange translation effect of 6.0%. For comparison, the U.S. Postal Service's last published results indicated that the First-Class Mail volumes were down 7.9% during their second quarter ended March 31, 2021⁵ due to the COVID-19 pandemic.

⁴ [Canada Post press release dated April 30, 2021 on 2020 annual results.](#)

⁵ [U.S. Postal Service press release dated May 7, 2021 on second quarter 2021 results.](#)

Revenue from the packaging and specialty products segment was \$15.3 million, an increase of 15.6% or \$2.0 million, from the corresponding quarter of 2020. The increase was the result of e-commerce packaging new customer growth and organic growth with existing customers, the contribution of our Vista acquisition on March 8, 2021 and higher folding carton sales in the pharmaceutical market. Packaging and specialty products represented 28.6% of the Company's revenue in the quarter, up from 25.3% during the equivalent period of last year.

Operating Expenses

Operating expenses for the three-month period ended March 31, 2021, were \$37.5 million compared to \$39.4 million in the equivalent period of 2020, representing a decrease of \$1.9 million or 4.8%. This improvement results from the tight control of operating expenses to mitigate the effects of the COVID-19 pandemic, improving efficiency in folding carton, the gradual implementation of the cost optimization plan initiated on the envelope platform at the end of 2020, and from \$0.4 million recorded from the CEWS program. On a percentage of revenue basis, operating expenses decreased to 70.0% of revenues from 75.2% in the equivalent period of 2020. Excluding the CEWS, operating expenses were 70.7% of revenues.

Selling, General and Administrative Expenses

Selling, general and administrative expenses totalled \$6.7 million in the three-month period ended March 31, 2021, compared to \$5.3 million during the same period in 2020, representing an increase of \$1.4 million. The increase is largely attributable to a loss on foreign exchange in the first quarter of 2021 versus a gain in the comparable period of 2020, the acquisition of Royal Envelope and Vista and to a lesser extent, a negative adjustment for the mark-to-market value of the Deferred Share Units recorded in the first quarter of 2021 compared to a positive adjustment in the comparable period in 2020. The effect of which was partially mitigated by a contribution of \$0.2 million from the CEWS program.

EBITDA and Adjusted EBITDA⁶

EBITDA increased by 22.1% to \$9.4 million in the first quarter of 2021, up from \$7.7 million in the first quarter of 2020. Adjusted EBITDA increased by 14.5% to \$9.5 million, up from \$8.3 million in the equivalent quarter of last year as a result of higher packaging and specialty products sales, operational efficiencies derived from cost optimizations, improvements in folding carton manufacturing activities, and from the support of the CEWS. Adjusted EBITDA margins increased to 17.8% of revenue compared to 15.9% in the equivalent quarter of 2020. Excluding the contribution of the CEWS, Adjusted EBITDA margins stood at 16.7% of revenue in the first quarter of 2021.

- Envelope segment Adjusted EBITDA was \$7.3 million, up 5.0% or \$0.4 million, from \$6.9 million in the first quarter of 2020. 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 19.1%, up from 17.7% in the equivalent period of 2020.
- Packaging and specialty products segment Adjusted EBITDA was \$2.5 million, up 88.6% or \$1.2 million from \$1.3 million in the first quarter of 2020 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 16.1% compared to 9.9% in the equivalent period of 2020 which is in line with the gradual margin improvement lived throughout 2020 due to operational efficiencies.
- The balance of the variance is primarily from an unfavorable foreign exchange variance in the first quarter of 2021 compared to the equivalent quarter of 2020, which was partially offset by the contribution of the CEWS.

⁶ Refer to "Definition of EBITDA and Adjusted EBITDA" in section "Non-IFRS measures".

Depreciation and Amortization

Aggregate depreciation and amortization expenses for the three-month period ended March 31, 2021, amounted to \$3.4 million compared to \$3.2 million in the first quarter of 2020 resulting from the acquisition of Royal Envelope concluded in February 2020.

Net Financing Charges

Net financing charges for the three-month period ended March 31, 2021, were \$0.5 million, down from \$0.9 million in the equivalent period of the prior year resulting from a lower level of indebtedness and lower interest rates.

Earnings Before Income Taxes

As a result of the fluctuation in revenue and expenses described above, earnings before income taxes were \$5.5 million during the three-month period ended March 31, 2021, compared to \$3.6 million during the equivalent period of 2020.

Income Tax Expense

Income taxes was \$1.4 million in the three-month period ended March 31, 2020, compared to \$1.1 million in the equivalent quarter of last year due to higher earnings before income taxes.

Net Earnings and Adjusted Net Earnings

Net Earnings were \$4.1 million (or \$0.15 per share) for the three-month period ended March 31, 2021, compared to \$2.6 million (or \$0.09 per share) for the equivalent period in 2020. Adjusted Net Earnings were \$4.2 million (or \$0.15 per share) for the three-month period ended March 31, 2021, compared to \$3.1 million (or \$0.11 per share) for the equivalent period in 2020.

Other Comprehensive Income

The discount rate used to calculate the accrued plan benefit obligations increased to 3.25% as at March 31, 2021 from 2.50% as at December 31, 2020. This increase combined with a better than expected return on assets resulted in a net actuarial gain of \$5.4 million in the first quarter of 2021.

Geographical Revenue and Asset Diversification

The Company's non-current assets were \$123.5 million in Canada and \$19.9 million in the United States as at March 31, 2021, compared to \$118.9 million in Canada and \$14.4 million in the United States as at December 31, 2020.

For the three-month period ended March 31, 2021, the Company's revenue in Canada was \$36.1 million, an increase of 0.6% from \$35.8 million in the equivalent quarter of 2020. In the United States, revenue was \$17.5 million, an increase of 5.8% from \$16.6 million in 2020.

Summary of Quarterly Operating Results from April 1, 2019 to March 31, 2021

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

	Mar. 31 2021	Dec. 31 2020	Sep. 30 2020	June 30 2020	Mar. 31 2020	Dec. 31 2019	Sep. 30 2019	June 30 2019
Revenue								
Envelope	38,265	40,465	34,136	32,751	39,149	35,744	31,932	33,945
Packaging	15,338	14,171	15,754	14,911	13,267	13,444	13,252	13,697
Total revenue	53,603	54,636	49,890	47,662	52,416	49,188	45,184	47,642
Adjusted EBITDA ⁽¹⁾	9,548	9,206	8,065	6,895	8,338	6,751	5,401	6,775
Earnings Before Income Taxes	5,490	340	3,867	2,434	3,643	3,183	1,783	2,699
Net Earnings	4,103	309	2,733	1,865	2,588	2,289	1,176	1,815
Net Earnings per share	0.15	0.01	0.10	0.07	0.09	0.08	0.04	0.06
Adjusted Net Earnings ⁽¹⁾	4,221	3,719	2,733	1,865	3,071	2,232	1,176	1,917
Adjusted Net Earnings ⁽¹⁾ per share	0.15	0.13	0.10	0.07	0.11	0.08	0.04	0.07

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

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, 2021	December 31, 2020
Working capital	22,718	20,937
Total assets	195,927	186,551
Secured credit facility	54,935	56,750
Total equity	87,783	78,961

The increase in total assets as at March 31, 2021, when compared to December 31, 2020, is mainly the result of the increase of the accrued pension benefit asset and from the acquisition of Vista concluded on March 8, 2021, for a total consideration of \$2.7 million. The Company continued to focus on reimbursing its credit facility. Total net debt remained stable at \$53.7 million despite the amount used to acquire Vista during the quarter.

Summary of Cash Flows

(In thousands of dollars)

	Three-month periods ended March 31	
	2021	2020
Operating activities	4,532	8,113
Investing activities	(2,963)	(28,039)
Financing activities	(3,371)	19,472
Net foreign exchange difference	(89)	302
Net change in cash	(1,891)	(152)

Cash Flows Related to Operating Activities

Net cash flows from operating activities were \$4.5 million during the three-month period ended March 31, 2021, compared to \$8.1 million in the equivalent period of 2020. The variation is attributable to a negative net change in working capital adjustments.

Cash Flows Related to Investing Activities

Net cash flows used in investing activities amounted to \$3.0 million during the three-month period ended March 31, 2021, compared to \$28.0 million in the equivalent period of 2020 primarily to fund the acquisition of Royal Envelope in the amount of \$27.4 million.

Cash Flows Related to Financing Activities

Net cash flows used by financing activities were \$3.4 million during the three-month period ended March 31, 2021, compared to \$19.5 million generated in the equivalent period of 2020. The variance is almost entirely from the increase in the credit facility to fund the acquisition of Royal Envelope concluded on February 18, 2020.

Financial Position and Capital Resources Summary

In light of the ongoing 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 continued to tightly control its operating expenses and working capital. Taking a prudent approach, the Company's Board of Directors announced on May 15, 2020 the suspension of the quarterly dividend until further notice. In the first quarter 2021, the Company recorded a \$0.6 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.

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 may increase the risk over certain customers that management is monitoring. As at March 31, 2021, 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.

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, 2020) and a \$28.9 million term credit facility (\$29.8 million as at December 31, 2020). 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, 2021, the total amount outstanding on the credit facility was \$54.9 million. This facility bears interest at a floating rate based on the Canadian prime rate, plus an applicable margin that ranges between 0% and 2.00% or bankers' acceptance rates, plus an applicable margin that ranges between 1.25% and 3.25%. These credit facilities mature in May 2023.

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 March 31, 2021 and had an additional borrowing capacity of \$36.8 million over and above the outstanding amount while respecting its covenants. Further to the 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 2021.

Normal Course Issuer Bid ("NCIB")

During the first quarter of 2021, the Company purchased 221,900 common shares, for cancellation under its NCIB program for a total consideration of \$473,887. Subsequent to the end of the period, an additional 191,900 shares were purchased for cancellation for total consideration of \$429,093.

Capitalization

As at May 12, 2021, the Company had 27,457,369 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 Corporate Controller acting as 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 Corporate Controller acting as 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, 2021 to March 31, 2021 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, 2021. 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's certification on the first quarter of 2021 now includes its previous business acquisition of Royal Envelope.

The Company expects that its March 2021 business acquisition of Vista will be covered by its certification in the first quarter of 2022.

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 31, 2021, which can be found on www.sedar.com.

Forward-Looking Information

This MD&A contains "forward-looking information" within the meaning of applicable Canadian securities laws, including (but not limited to) statements about the EBITDA, Adjusted EBITDA, Adjusted Net Earnings and future performance of Supremex and similar statements or information concerning anticipated future results, circumstances, performance or expectations. Forward-looking information may include words such as anticipate, assumption, believe, could, expect, goal, guidance, intend, may, objective, outlook, plan, seek, should, strive, target and will. Such information relates to future events or future performance and reflects current assumptions, expectations and estimates of management regarding growth, results of operations, performance, business prospects and opportunities, Canadian economic environment and liability to attract and retain customers. Such forward-looking information reflects current assumptions, expectations and estimates of management and is based on information currently available to Supremex as at the date of this MD&A. Such assumptions, expectations and estimates are discussed throughout the MD&A for year ended December 31, 2020 and updated in this MD&A. 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. 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, 2020 and in particular, in “Risk Factors”. 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, Adjusted EBITDA and Adjusted Net Earnings

References to “EBITDA” are to earnings before financing charges, income tax expense, depreciation of property, plant and equipment and right-of-use assets and amortization of intangible assets. References to “Adjusted EBITDA” are to EBITDA adjusted to remove items of significance that are not in the normal course of operations. These items of significance include, but are not limited to, charges for impairment of assets, restructuring expenses, value adjustment on inventory acquired, acquisition costs and losses (gains) on disposal of property, plant and equipment and right-of-use assets. Adjusted Net Earnings refers to Net Earnings to which the items listed above have been removed, net of income taxes. Supremex believes that EBITDA, Adjusted EBITDA and Adjusted Net Earnings 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, Adjusted EBITDA and Adjusted Net Earnings are not recognized earnings measures under IFRS and do not have a standardized meaning prescribed by IFRS. Therefore, EBITDA, Adjusted EBITDA and Adjusted Net Earnings may not be comparable to similar measures presented by other entities. Investors are cautioned that EBITDA, Adjusted EBITDA and Adjusted Net Earnings should not be construed as an alternative to net earnings determined in accordance with IFRS as an indicator of the Company’s performance.

Additional Information

Additional information relating to the Company, including the Company’s Annual Information Form, is available on SEDAR at www.sedar.com.

Interim Condensed Consolidated Financial Statements

Supremex Inc.

Unaudited

For the three-month periods ended March 31, 2021 and 2020

All amounts expressed in Canadian dollars

NOTICE

The Company's independent auditors have not reviewed these Interim Condensed Consolidated Financial Statements in accordance with the standard established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

Supremex Inc.

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at		March 31, 2021	December 31, 2020
[Unaudited]	Notes	\$	\$
ASSETS			
Current assets			
Cash		1,145,515	3,035,999
Accounts receivable		25,679,636	26,855,191
Income tax receivable		—	352,234
Inventories	5	24,248,209	21,738,367
Prepaid expenses		1,523,430	1,315,580
Total current assets		52,596,790	53,297,371
Property, plant and equipment		37,336,431	37,131,393
Right-of-use assets		20,308,204	18,120,369
Accrued pension benefit net assets		11,709,600	4,449,600
Intangible assets		24,654,898	24,446,150
Goodwill		49,321,504	49,105,826
Total assets		195,927,427	186,550,709
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		19,702,793	22,418,282
Income tax payable		989,409	—
Provisions		1,217,415	1,578,406
Current portion of lease liabilities		4,469,550	4,863,402
Current portion of secured credit facility	6	3,500,000	3,500,000
Total current liabilities		29,879,167	32,360,090
Secured credit facility	6	51,175,937	52,942,668
Contingent consideration payable	4	767,445	—
Deferred income tax liabilities		9,072,521	7,689,813
Lease liabilities		17,041,863	14,375,795
Other post-retirement benefit obligations		207,300	221,000
Total liabilities		108,144,233	107,589,366
Equity			
Share capital	7	9,421,494	9,497,234
Contributed surplus	7	276,630,939	277,029,086
Deficit		(197,564,101)	(207,071,737)
Foreign currency translation reserve		(705,138)	(493,240)
Total equity		87,783,194	78,961,343
Total liabilities and equity		195,927,427	186,550,709

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	2021 \$	2020 \$
Revenue		53,603,013	52,415,933
Operating expenses	5	37,514,687	39,410,594
Selling, general and administrative expenses		6,699,480	5,319,671
Operating earnings before depreciation and amortization		9,388,846	7,685,668
Depreciation of property, plant and equipment		1,364,494	1,188,618
Depreciation of right-of-use assets		1,177,167	1,269,103
Amortization of intangible assets		814,773	708,064
Operating earnings		6,032,412	4,519,883
Net financing charges	6	542,868	876,536
Earnings before income taxes		5,489,544	3,643,347
Income tax expense		1,386,966	1,055,357
Net earnings		4,102,578	2,587,990
Basic and diluted net earnings per share		0.1478	0.0920
Weighted average number of shares outstanding		27,764,652	28,130,469

See accompanying notes

Supremex Inc.

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the three-month periods ended March 31 [Unaudited]	2021 \$	2020 \$
Net earnings	4,102,578	2,587,990
Other comprehensive income (loss)		
<i>Other comprehensive (loss) income to be reclassified to earnings in subsequent periods</i>		
Foreign currency translation adjustments	(211,898)	1,137,540
Net other comprehensive (loss) income to be reclassified to earnings in subsequent periods	(211,898)	1,137,540
<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 \$1,894,881 [2020 – recovery of \$ 801,598]	5,394,919	(2,286,902)
Recognized actuarial gain on other post-retirement benefit, net of income tax expense of \$3,561 [2020 – \$2,959]	10,139	8,441
Net other comprehensive income (loss) not being reclassified to earnings in subsequent periods	5,405,058	(2,278,461)
Other comprehensive income (loss)	5,193,160	(1,140,921)
Total comprehensive income	9,295,738	1,447,069

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, 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) income	—	—	(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)
As at March 31, 2020	9,601,576	277,348,798	(212,172,119)	1,313,433	76,091,688
As at December 31, 2020	9,497,234	277,029,086	(207,071,737)	(493,240)	78,961,343
Net earnings	—	—	4,102,578	—	4,102,578
Other comprehensive income (loss)	—	—	5,405,058	(211,898)	5,193,160
Total comprehensive income (loss)	—	—	9,507,636	(211,898)	9,295,738
Shares repurchased and cancelled [note 7]	(75,740)	(398,147)	—	—	(473,887)
As at March 31, 2021	9,421,494	276,630,939	(197,564,101)	(705,138)	87,783,194

See accompanying notes

Supremex Inc.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three-month periods ended March 31 [Unaudited]	Notes	2021 \$	2020 \$
OPERATING ACTIVITIES			
Net earnings		4,102,578	2,587,990
Non-cash adjustment to reconcile net earnings to net cash flows			
Depreciation of property, plant and equipment		1,364,494	1,188,618
Depreciation of right-of-use assets		1,177,167	1,269,103
Amortization of intangible assets		814,773	708,064
Amortization of deferred financing costs	6	48,157	25,701
Interest on contingent consideration payable		166	—
Deferred income tax (recovery) expense		(511,014)	748,247
Change in employee benefits		31,200	5,024
		7,027,521	6,532,747
Working capital adjustments			
Variation in accounts receivable		1,700,806	(1,288,702)
Variation in income tax receivable or payable		1,341,643	285,982
Variation in inventories		(2,003,198)	(226,632)
Variation in prepaid expenses		(188,930)	(212,283)
Variation in accounts payable and accrued liabilities		(2,983,473)	3,021,017
Variation in provisions		(360,991)	(7,821)
Change in employee benefits		(1,400)	9,000
Net cash flows related to operating activities		4,531,978	8,113,308
INVESTING ACTIVITIES			
Business combinations	4	(2,666,790)	(27,400,000)
Acquisition of property, plant and equipment and right-of use assets		(289,939)	(513,492)
Acquisition of intangible assets		(7,327)	(125,349)
Proceeds from disposal of property, plant and equipment		836	—
Net cash flows related to investing activities		(2,963,220)	(28,038,841)
FINANCING ACTIVITIES			
Net change in revolving credit facility		(939,888)	23,239,187
Repayment of term facility		(875,000)	(875,000)
Repayment of lease liabilities		(1,081,970)	(1,147,861)
Dividends paid		—	(1,828,481)
Purchase of share capital for cancellation	7	(473,887)	—
Change in other long-term asset		—	84,353
Net cash flows related to financing activities		(3,370,745)	19,472,198
Net change in cash during the period		(1,801,987)	(453,335)
Net foreign exchange difference		(88,497)	302,271
Cash, beginning of period		3,035,999	2,222,889
Cash, end of period		1,145,515	2,071,825
Supplemental information ⁽¹⁾			
Interest paid		506,296	957,089
Interest received		853	2,275
Income taxes paid		577,634	—
Income taxes received		21,282	—

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

See accompanying notes

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2021 and 2020

[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. 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, 2020, 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, 2020.

These unaudited interim condensed consolidated financial statements were approved by the Company’s Board of Directors on May 12, 2021 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, especially given the continued COVID-19

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2021 and 2020

[Unaudited]

pandemic, 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, 2020.

In light of the ongoing 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 continued to tightly control its operating expenses and working capital. 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.

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 may increase the risk over certain customers that management is monitoring. As at March 31, 2021, 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.

4. BUSINESS COMBINATIONS

2021 Business Combination

On March 8, 2021, the Company acquired substantively all of the assets of Vista Graphic Communications, LLC ("Vista"), for a cash consideration of \$2,666,790 (\$2,100,000 US). Vista is an Indianapolis, Indiana-based provider of print and folding carton packaging. In addition to the consideration paid, the Company has a contingent consideration payable to the previous owner on the realization of certain financial targets over the first 24 months after the acquisition date in the amount of \$774,846 (\$625,000 US). The fair value of the contingent consideration payable as at March 31, 2021 is \$767,445.

This acquisition brings the Company's manufacturing closer to its growing e-commerce customer base in the U.S. and provides it with much needed print and converting capacity to meet existing and growing demand for its packaging solutions.

Supremex Inc.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2021 and 2020

[Unaudited]

The Company's consolidated statement of earnings for the period ended March 31, 2021 includes revenue and net earnings from Vista of \$490,314 and \$99,688, respectively, since the acquisition date. The fair value of the receivables acquired of \$525,251 of which no amount was considered uncollectible at the acquisition date, is included in the total current assets in the table below. If the acquisition had occurred on January 1, 2021, revenue and net earnings for the full period ended March 31, 2021 would have been approximately \$1,432,000 and \$229,120, respectively.

The goodwill related to the acquisition is composed of expected growth and operational synergies and is allocated to the packaging cash-generating unit. Goodwill deductible for tax purposes amounts to \$274,789.

2020 Business Combination

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.

Purchase Price Allocation

As at March 31, 2021, the Company had not finalized the allocation of the consideration paid for the Vista acquisition. 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, in the table below. The Company will finalize the allocation as it obtains further information on the fair value of certain assets and liabilities. The following purchase price allocation for the Royal Envelope acquisition is final as presented in the Company's audited consolidated financial statements for the year ended December 31, 2020.

	2021 Preliminary purchase price allocation Vista \$	2020 Final purchase price allocation Royal Envelope \$
Net assets acquired		
Accounts receivable	525,251	5,368,954
Inventories	506,644	3,934,613
Prepaid expenses	18,920	92,691
Total current assets	1,050,815	9,396,258
Property and equipment	1,342,698	4,313,230
Right-of-use assets	3,253,620	1,958,645
Software	—	53,000
Customer relationships	1,041,318	12,400,000
Goodwill	274,789	3,213,418
Total assets	6,963,240	31,334,551
Accounts payable and accrued liabilities	267,984	1,975,906
Lease liabilities	3,253,620	1,958,645
Net assets acquired	3,441,636	27,400,000
Less: contingent consideration payable	774,846	—
Cash consideration	2,666,790	27,400,000
Acquisition-related costs recognized as an expense	159,431	154,084

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2021 and 2020

[Unaudited]

5. INVENTORIES

	March 31, 2021 \$	December 31, 2020 \$
Raw materials	8,604,476	7,834,431
Work in progress	989,424	832,245
Finished goods	14,654,309	13,071,691
	24,248,209	21,738,367

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, 2021 is \$37,678,140 [2020 - \$39,876,240].

6. SECURED CREDIT FACILITY

The Company has a secured credit facility consisting of a \$80 million revolving facility [\$80 million as at December 31, 2020] and a \$28.9 million term credit facility [\$29.8 million as at December 31, 2020]. 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, 2021, the total amount outstanding on the credit facility was \$54.9 million. This facility bears interest at a floating rate based on the Canadian prime rate, plus an applicable margin that ranges between 0% and 2.00% or bankers' acceptance rates, plus an applicable margin that ranges between 1.25% and 3.25%. The agreement for those credit facilities matures in May 2023.

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 March 31, 2021 and had an additional borrowing capacity of \$36.8 million, over and above the current outstanding amount, while respecting said covenants.

Amounts owed under the secured credit facility are as follows:

	March 31, 2021 \$	December 31, 2020 \$
Revolving credit facility	26,060,112	27,000,000
Term facility	28,875,000	29,750,000
Less: deferred financing costs	(259,175)	(307,332)
	54,675,937	56,442,668
Current portion	(3,500,000)	(3,500,000)
Long-term portion of secured credit facility	51,175,937	52,942,668

The Company had outstanding letters of credit for a total of \$10,000 as at March 31, 2021 [\$10,000 as at December 31, 2020].

The effective variable interest rate on the secured credit facility was 2.00% as at March 31, 2021 [1.99% as at December 31, 2020].

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2021 and 2020

[Unaudited]

Net financing charges are as follows:

	Three-month periods ended March 31,	
	2021	2020
	\$	\$
Interest on secured credit facility	313,449	626,696
Interest expense on lease liabilities	206,923	280,187
Interest income on defined benefit plans obligations	(26,400)	(54,600)
Other interest income	739	(1,448)
Amortization of deferred financing costs	48,157	25,701
	542,868	876,536

7. SHARE CAPITAL

The change in share capital was as follows:

	Number of common shares	Share capital \$
Balance, as at December 31, 2019 and March 31, 2020	28,130,469	9,601,576
Balance, as of December 31, 2020	27,824,769	9,497,234
Purchase of share capital for cancellation	221,900	75,740
Balance, as at March 31, 2021	27,602,869	9,421,494

Pursuant to the normal course issuer bid ("NCIB"), which began on August 13, 2020 and will end on August 13, 2021, the Company repurchased 221,900 common shares for cancellation in consideration of \$473,887, during the three-month period ended March 31, 2021. The excess of the purchase price over the carrying value in the amount of \$398,147 was recorded as a reduction of contributed surplus.

Deferred Share Unit Plan (DSU)

The financial liability resulting from the DSU plan of \$816,893 (December 31, 2020 - \$571,641) is presented under "Accounts payable and accrued liabilities".

During the three-month period ended March 31, 2021, an amount of \$211,940 of variable executive compensation was allocated in DSU. During the same period, the compensation expense for the DSU plan amounted to \$33,312 [2020 – income of \$158,736] and is recognized under selling, general and administrative expenses.

8. DIVIDENDS

There were no dividends declared from January 1, 2021 to March 31, 2021.

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	1,828,480
Total				1,828,480

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2021 and 2020

[Unaudited]

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, 2020, prepared in accordance with "IFRS".

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

	2021		
	\$		
	Envelope	Packaging & Speciality Products	Total
Revenue	38,265,210	15,337,803	53,603,013
Operating expenses	26,795,510	11,335,834	38,131,344
Selling, general and administrative expenses	4,178,436	1,536,904	5,715,340
Operating earnings before items listed below⁽¹⁾	7,291,264	2,465,065	9,756,329
Corporate and other non-allocated expenses, net of CEWS ⁽²⁾			367,483
Depreciation of property, plant and equipment			1,364,494
Depreciation of right-of-use assets			1,177,167
Amortization of intangible assets			814,773
Net financing charges			542,868
Earnings before income taxes			5,489,544

	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 items listed below⁽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
Net financing charges			876,536
Earnings before income taxes			3,643,347

(1) The Chief Executive Officer uses operating earnings before items listed below, as a measure of financial performance for assessing the performance of each of the Corporation's segments.

(2) Canada Emergency Wage Subsidy program ("CEWS")

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2021 and 2020

[Unaudited]

The Company's non-current assets amounted to \$123,468,870 in Canada and \$19,861,767 in the United States as at March 31, 2021 [\$118,877,556 and \$14,375,782, respectively, as at December 31, 2020]. The Company's revenue amounted to \$36,056,895, in Canada and \$17,546,118, in the United States for the three-month period ended March 31, 2021 based on the customer's locations [2020 - \$35,834,492 in Canada and \$16,581,441 in the United States].

Government assistance, which mainly relates to the CEWS 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. During the three-month period ended March 31, 2021, the Company recorded a subsidy in the amount of \$595,841 under the Canada Emergency Wage Subsidy (CEWS) program. Of this amount, \$403,444 was allocated against operating expenses while \$192,397 was allocated against selling, general and administrative expenses. The Company also recorded a subsidy in the amount of \$98,928 under the Canada Emergency Rent Subsidy (CERS) program. This amount was allocated against operating expenses.