Supremex

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
FOR THE THREE AND SIX-MONTH PERIODS ENDED JUNE 30, 2021**

The following management's discussion and analysis of financial condition and results of operations ("MD&A"), dated August 11, 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 and six-month periods ended June 30, 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 and six-month periods ended June 30, 2021. The consolidated financial statements for the three and six-month periods ended June 30, 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 11 manufacturing facilities across four provinces in Canada and three manufacturing facilities in the United States employing approximately 845 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 Envirologix Inc.

Second Quarter Financial Highlights and Recent Events

- Total revenue increased by 8.7% to $51.8 million, from $47.7 million in the second quarter of 2020.
- Envelope segment revenue was up 7.6% to $35.2 million, from $32.8 million in the second quarter of 2020.
- Packaging and specialty products segment revenue increased by 11.1% to $16.6 million, from $14.9 million in the second quarter of 2020.
- EBITDA[3] at $8.6 million, up 24.1%, from $6.9 million in the second quarter of 2020. EBITDA margins stood at 16.5%, up from 14.5%.
- Net Earnings at $3.4 million (or $0.12 per share), up from $1.9 million (or $0.07 per share) in the second quarter of 2020.
- Recorded $0.8 million of assistance from the Canada Emergency Wage Subsidy ("CEWS") program.
- Purchased 488,100 shares for total consideration of $1.1 million as part of the Company's Normal Course Issuer Bid (''NCIB'').
- Mary Chronopoulos was appointed CFO and Corporate Secretary effective May 31, 2021.

CAPITAL ALLOCATION

Normal Course Issuer Bid ("NCIB")

During the second quarter of 2021, the Company purchased 488,100 common shares, for cancellation under its NCIB program for a total consideration of $1,106,683. Year-to-date, the Company purchased 710,000 common shares for a total consideration of $1,580,570. Subsequent to the end of the period, an additional 128,100 shares were purchased for cancellation for total consideration of $301,820.

The Company intends to renew its normal course issuer bid expiring on August 16, 2021.

CORPORATE

Appointment of Chief Financial Officer

Effective May 31, 2021, Mary Chronopoulos was appointed CFO and Corporate Secretary of Supremex. Mrs. Chronopoulos is a highly accomplished financial executive with over 20 years of experience in finance with large private and public companies. Before joining Supremex, she was Chief Financial Officer of Energir, a diversified energy company with over $2.5 billion in sales. Mrs. Chronopoulos also held various executive roles in finance with several leading retail and consumer packaged goods companies including Group BMR, Aldo Group and Saputo. Mrs. Chronopoulos holds the CPA, CMA designation and earned an MBA from the John Molson School of Business.

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 a robust business continuity plan 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.

Although Supremex experienced a COVID-19 related incident in one of its location in early May 2021, production was reallocated and inventory was moved to other facilities. The situation has since been resolved without significant impact to the Company or its customers.

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[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.

Following recent improvements in the epidemiological situation, federal, provincial, state and local governments across North America have gradually started lifting public health measures. Although these recent developments are very encouraging, uncertainty still remains with regards to the duration and impact of the COVID-19 pandemic on the Company's activities and on the global economic landscape. 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 June 30		Six-month periods ended June 30	
	2021	**2020**	**2021**	**2020**
Revenue	**51,801**	47,662	**105,404**	100,078
Operating expenses	**36,692**	34,699	**74,206**	74,109
Selling, general and administrative expenses	**6,552**	6,068	**13,252**	11,388
Operating earnings before depreciation and amortization	**8,557**	6,895	**17,946**	14,581
Depreciation of property, plant and equipment	**1,356**	1,315	**2,721**	2,504
Depreciation of right-of-use assets	**1,205**	1,382	**2,382**	2,651
Amortization of intangible assets	**845**	881	**1,659**	1,589
Operating earnings	**5,151**	3,317	**11,184**	7,837
Net financing charges	**556**	883	**1,099**	1,760
Earnings before income taxes	**4,595**	2,434	**10,085**	6,077
Income tax expense	**1,206**	569	**2,593**	1,624
Net earnings	**3,389**	1,865	**7,492**	4,453
Basic and diluted net earnings per share	**0.12**	0.07	**0.27**	0.16
Dividend declared per share	**—**	—	**—**	0.065

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

	Three-month periods ended June 30		Six-month periods ended June 30	
	2021	**2020**	**2021**	**2020**
Net Earnings	**3,389**	1,865	**7,492**	4,453
Income tax expense	**1,206**	569	**2,593**	1,624
Net financing charges	**556**	883	**1,099**	1,760
Depreciation of property, plant and equipment	**1,356**	1,315	**2,721**	2,504
Depreciation of right-of-use assets	**1,205**	1,382	**2,382**	2,651
Amortization of intangible assets	**845**	881	**1,659**	1,589
EBITDA[(1)]	**8,557**	6,895	**17,946**	14,581
Acquisition costs related to business combinations	**5**	—	**164**	97
Value adjustment on acquired inventory through the business combination	**—**	—	**—**	555
Adjusted EBITDA[(1)]	**8,562**	6,895	**18,110**	15,233
Adjusted EBITDA Margin (%)	**16.5%**	14.5%	**17.2%**	15.2%

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

Reconciliation of Net Earnings to Adjusted Net Earnings

(In thousands of dollars)	Three-month periods ended June 30		Six-month periods ended June 30	
	2021	**2020**	**2021**	**2020**
Net Earnings	**3,389**	1,865	**7,492**	4,453
Adjustments, net of income taxes				
Acquisition costs related to business combinations	**4**	—	**122**	72
Value adjustment on acquired inventory through the business combination	**—**	—	**—**	411
Adjusted Net Earnings[(1)]	**3,393**	1,865	**7,614**	4,936

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

Revenue Information

(In millions of dollars)	Three-month periods ended June 30		Six-month periods ended June 30	
	2021	**2020**	**2021**	**2020**
Canadian Envelope	**$23.2**	$22.2	**$49.4**	$48.4
Volume change	**-4.5%**	6.7%	**-1.4%**	7.6%
Average selling price change	**9.4%**	-10.7%	**3.4%**	-5.2%
Total change	**4.5%**	-4.7%	**1.9%**	2.1%
U.S. Envelope	**$12.0**	$10.6	**$24.1**	$23.5
Volume change	**28.7%**	-3.5%	**11.8%**	5.9%
Average selling price change (in CAD)	**-11.3%**	2.6%	**-8.1%**	0.8%
Total change	**14.1%**	-1.0%	**2.8%**	6.7%
Packaging & Specialty Products				
Canada & U.S.	**$16.6**	$14.9	**$31.9**	$28.2
Total change	**11.1%**	8.9%	**13.2%**	1.2%
Total Revenue	**$51.8**	$47.7	**$105.4**	$100.1
Revenue change	**8.7%**	0.0%	**5.3%**	2.9%

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. 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 the food industry (pizza, meat and vegetable boxes), 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 June 30		Six-month periods ended June 30	
	2021	**2020**	**2021**	**2020**
Segmented Revenue				
Envelope	**35,230**	32,751	**73,495**	71,899
Packaging & specialty products	**16,571**	14,911	**31,909**	28,179
Total revenue	**51,801**	47,662	**105,404**	100,078
Segmented Adjusted EBITDA(1)				
Envelope	**6,334**	5,727	**13,625**	12,669
% of segmented revenue	**18.0%**	17.5%	**18.5%**	17.6%
Packaging & specialty products	**2,399**	1,989	**4,864**	3,296
% of segmented revenue	**14.5%**	13.3%	**15.2%**	11.7%
Corporate and unallocated costs	**(171)**	(821)	**(379)**	(732)
Total Adjusted EBITDA(1)	**8,562**	6,895	**18,110**	15,233
% of total revenue	**16.5%**	14.5%	**17.2%**	15.2%

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

Results of Operations

Three-month period ended June 30, 2021, compared to the three-month period ended June 30, 2020

Revenue

Total revenue for the three-month period ended June 30, 2021, was $51.8 million, representing an increase of $4.1 million or 8.7% from the equivalent quarter of 2020.

Revenue from the envelope segment was $35.2 million, representing an increase of 7.6% or $2.4 million, from $32.8 million in the equivalent quarter of 2020.

- Revenue from the Canadian envelope market grew by $1.0 million or 4.5% to $23.2 million. Average selling prices increased by 9.4% from last year's comparable period primarily resulting from price increases swiftly implemented to reflect rising input cost inflation and changes in the product mix; partially offset by a volume decrease of 4.5% from the secular decline affecting the envelope market. Canada Post's latest published financial results indicated that Transaction Mail volumes were down 6.9% year-over-year[4] due to the COVID-19 pandemic and businesses increasingly using digital alternatives.

[4] Canada Post press release dated May 21, 2021 reporting Q1 2021 results.

- Revenue from the U.S. envelope market was $12.0 million, representing an increase of $1.4 million or 14.1% from $10.6 million in the second quarter of 2020. The volume of units sold increased by 28.7% from efforts dedicated to increase penetration of the US envelope market and from the COVID-19 economic rebound. Average selling prices in Canadian dollars decreased by 11.3% mainly resulting from a negative foreign exchange translation effect. For comparison, the U.S. Postal Service's last published results indicated that the First-Class Mail volumes were up 1.1% during their third quarter ended June 30, 2021[5].

Revenue from the packaging and specialty products segment was $16.6 million, an increase of $1.7 million or 11.1% from the corresponding quarter of 2020. The increase resulted mainly from the contribution of the Vista Graphic Communications, LLC ("Vista"), acquisition concluded on March 8, 2021. Packaging and specialty products represented 32.0% of the Company's revenue in the quarter, up from 31.3% during the equivalent period of last year.

Operating Expenses

Operating expenses for the three-month period ended June 30, 2021, were $36.7 million compared to $34.7 million in the equivalent period of 2020, representing an increase of $2.0 million or 5.7%. This results primarily from higher volume of sales due in part to the Vista acquisition, mitigated by the cost optimization plan initiated on the envelope platform at the end of 2020 and by $0.6 million in subsidies from the Canada Emergency Wage Subsidy (CEWS) and Canada Emergency Rent Subsidy (''CERS'') programs. On a percentage of revenue basis, operating expenses decreased to 70.8% of revenues, down from 72.8% in the equivalent period of 2020. Excluding subsidies, operating expenses represented 72.0% of revenues.

Selling, General and Administrative Expenses

Selling, general and administrative expenses totalled $6.6 million in the three-month period ended June 30, 2021, compared to $6.1 million during the same period in 2020, representing an increase of $0.5 million or 8.0%. The increase is largely attributable to the acquisition of Vista, a negative adjustment in the mark-to-market value of the Deferred Share Units ("DSU") and higher professional fees, mitigated by a positive foreign exchange adjustment and by $0.3 million from the CEWS program.

EBITDA[6] and Adjusted EBITDA[6]

EBITDA and Adjusted EBITDA at $8.6 million, up 24.1% and 24.2% respectively, from $6.9 million in the second quarter of 2020. This increase resulted from higher sales volumes in both segments, operational efficiencies derived from the cost optimizations plan and $0.9 million recorded in subsidies. Adjusted EBITDA margins increased to 16.5% of revenue compared to 14.5% in the equivalent quarter of 2020. Excluding the contribution of the subsidies, Adjusted EBITDA margins were at 14.9% of revenue in the second quarter of 2021.

- Envelope segment Adjusted EBITDA was $6.3 million, up 10.6% or $0.6 million, from $5.7 million in the second quarter of 2020. The operating profitability of the Canadian envelope operations improved with the operational efficiencies derived from the cost optimizations plan in addition to higher sales volume. On a percentage of segmented revenue, Adjusted EBITDA from the envelope segment was 18.0%, up from 17.5% in the equivalent period of 2020.
- Packaging and specialty products segment Adjusted EBITDA was $2.4 million, up 20.6% or $0.4 million from $2.0 million in the second quarter of 2020 primarily from the contribution of the Vista acquisition. On a percentage of segmented revenue, Adjusted EBITDA from the packaging and specialty operations was 14.5% compared to 13.3% in the equivalent period of 2020.
- The balance of the variance results primarily from the contribution of the CEWS.

[5] U.S. Postal Service press release dated August 6, 2021 on third quarter 2021 results.

[6] Refer to "Definition of EBITDA, Adjusted EBITDA and Adjusted Net Earnings" in section "Non-IFRS measures".

Depreciation and Amortization

Aggregate depreciation and amortization expenses for the three-month period ended June 30, 2021, amounted to $3.4 million compared to $3.6 million in the second quarter of 2020.

Net Financing Charges

Net financing charges for the three-month period ended June 30, 2021, were $0.6 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 $4.6 million during the three-month period ended June 30, 2021, compared to $2.4 million during the equivalent period of 2020.

Income Tax Expense

Income taxes were $1.2 million in the three-month period ended June 30, 2021, compared to $0.6 million in the equivalent quarter of last year due to higher earnings before income taxes in the current period.

Net Earnings and Adjusted Net Earnings[7]

Net Earnings and Adjusted Net Earnings were $3.4 million (or $0.12 per share) for the three-month period ended June 30, 2021, compared to $1.9 million (or $0.07 per share) for the equivalent period in 2020.

Other Comprehensive Income

The discount rate used to calculate the accrued plan benefit obligations decreased to 3.10% as at June 30, 2021 from 3.25% as at March 31, 2021. This decrease was offset by a better-than-expected return on assets resulted in a net actuarial gain of $0.8 million in the second quarter of 2021.

Six-month period ended June 30, 2021, compared with the six-month period ended June 30, 2020

Revenue

Total revenue for the six-month period ended June 30, 2021, reached $105.4 million, a 5.3% increase from $100.1 million for the six-month period ended June 30, 2020.

Revenue from the envelope segment increased by 2.2% to $73.5 million from $71.9 million in the comparable period of 2020.

- Revenue from the Canadian envelope market was $49.4 million, an increase of 1.9% or $1.0 million from $48.4 million during the six-month period ended June 30, 2020. Average selling prices increased by 3.4% primarily from price increases implemented in the second quarter of 2021 partially offset by a volume decrease of 1.4% driven by the long-term secular decline of the envelope market mitigated by the contribution of the acquisition of Royal envelope concluded in the first quarter of 2020.

- Revenue from the U.S. envelope market was $24.1 million, an increase of 2.8% or $0.6 million from $23.5 million in the equivalent period of 2020. The volume of units sold increased by 11.8% from efforts dedicated to increase the Company's market share in the US envelope market and the effect of the COVID-19 economic rebound in the second quarter of 2021, offset by the 8.1% decrease in average selling prices in Canadian dollars resulting mainly from a negative foreign exchange translation effect.

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

Revenue from packaging and specialty products was $31.9 million, an increase of 13.2% or $3.7 million from $28.2 million in the equivalent period of the prior year. Revenue growth came from the acquisition of Vista in March 2021 and higher folding carton and e-commerce sales.

Operating Expenses

Operating expenses for the six-month period ended June 30, 2021 were $74.2 million compared to $74.1 million for the equivalent period in 2020, representing an increase of $0.1 million or 0.1%. Operating expense increased from higher sales volumes due in parts to the acquisition of Vista, mitigated by improved efficiencies in folding carton, the gradual implementation of the cost optimization plan initiated on the envelope platform at the end of 2020, from tighter control of operating expenses to mitigate the effects of the COVID-19 pandemic and from $1.1 million recorded in subsidies. On a percentage of revenue basis, operating expenses decreased to 70.4% of revenues, down from 74.1% in the equivalent period of 2020. Excluding the subsidies, operating expenses were 71.5% of revenues.

Selling, General and Administrative Expenses

Selling, general and administrative expenses amounted to $13.3 million for the six-month period ended June 30, 2021, compared to $11.4 million in the equivalent period of 2020, representing an increase of $1.9 million or 16.4%. The increase is largely attributable to a negative foreign exchange adjustment, the acquisition of Vista, a negative adjustment for the mark-to-market value of the DSU and higher professional fees mitigated by a contribution of $0.5 million from CEWS.

EBITDA[8] and Adjusted EBITDA[8]

EBITDA increased by 23.1% to $17.9 million in six-month period ended June 30, 2021, up from $14.6 million in the equivalent period of 2020. Adjusted EBITDA increased by 18.9% to $18.1 million, up from $15.2 million in the first half of last year, resulting from higher sales volumes in both segments, operational efficiencies derived from cost optimizations, improvements in folding carton manufacturing activities and $1.6 million recorded in subsidies. Adjusted EBITDA margins increased to 17.2% of revenue compared to 15.2% in the equivalent period of 2020. Excluding the contribution of the subsidies, Adjusted EBITDA margins were at 15.7% of revenue.

- Envelope segment Adjusted EBITDA was $13.6 million, up 7.6% or $0.9 million, from $12.7 million in the equivalent period of 2020. The operating profitability of the Canadian envelope operations improved with the operational efficiencies derived from the cost optimizations plan in addition to higher sales volume. On a percentage of segmented revenue, Adjusted EBITDA from the envelope segment was 18.5%, up from 17.6% in the equivalent period of 2020.
- Packaging and specialty products segment Adjusted EBITDA was $4.9 million, up 47.5% or $1.6 million from $3.3 million in comparable period of 2020 primarily from efficiency gains in the folding carton division combined with the contribution of the Vista acquisition. On a percentage of segmented revenue, Adjusted EBITDA from the packaging and specialty operations was 15.2% compared to 11.7% 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 the contribution of the CEWS which was offset by an unfavorable foreign exchange variance in the first half of 2021 compared to the equivalent period of 2020.

Depreciation and Amortization

Aggregate depreciation and amortization expenses for the six-month period ended June 30, 2021, amounted to $6.8 million compared to $6.7 million last year, resulting from the acquisition of Vista.

[8] Refer to “Definition of EBITDA, Adjusted EBITDA and Adjusted Net Earnings” in section “Non-IFRS measures”

Net Financing Charges

Net financing charges for the six-month period ended June 30, 2021, were $1.1 million, down from $1.8 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 $10.1 million during the six-month period ended June 30, 2021, compared to $6.1 million during the equivalent period of 2020.

Income Tax Expense

Income taxes were $2.6 million in the six-month period ended June 30, 2021, compared to $1.6 million in the equivalent period of last year resulting from higher earnings before income taxes in the current period.

Net Earnings and Adjusted Net Earnings[9]

Net Earnings were $7.5 million (or $0.27 per share) for the six-month period ended June 30, 2021, compared to $4.5 million (or $0.16 per share) for the equivalent period in 2020. Adjusted Net Earnings were $7.6 million (or $0.27 per share) for the six-month period ended June 30, 2021, compared to $4.9 million (or $0.18 per share) for the equivalent period in 2020.

Other Comprehensive Income

The discount rate used to calculate the accrued plan benefit obligations increased to 3.10% as at June 30, 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 $6.2 million in the first half of 2021.

Geographical Revenue and Asset Diversification

The Company's non-current assets were $122.0 million in Canada and $21.4 million in the United States as at June 30, 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 June 30, 2021, the Company's revenue in Canada was $32.9 million, an increase of 4.7% from $31.4 million in the equivalent quarter of 2020. In the United States, revenue was $18.9 million, an increase of 16.3% from $16.2 million in 2020.

For the six-month period ended June 30, 2021, the Company's revenue in Canada was $69.0 million, an increase of 2.5% from $67.3 million in the equivalent period of 2020. In the United States, revenue was at $36.4 million, representing an increase of 11.0% from $32.8 million in the equivalent period of 2020.

[9] Refer to "Definition of EBITDA, Adjusted EBITDA and Adjusted Net Earnings" in section "Non-IFRS measures"

Summary of Quarterly Operating Results from July 1, 2019 to June 30, 2021
(In thousands of dollars, except for per share amounts)

	June 30 2021	Mar. 31 2021	Dec. 31 2020	Sep. 30 2020	June 30 2020	Mar. 31 2020	Dec. 31 2019	Sep. 30 2019
Revenue								
Envelope	**35,230**	38,265	40,465	34,136	32,751	39,149	35,744	31,932
Packaging	**16,571**	15,338	14,171	15,754	14,911	13,267	13,444	13,252
Total revenue	**51,801**	53,603	54,636	49,890	47,662	52,416	49,188	45,184
Adjusted EBITDA(1)	**8,562**	9,548	9,206	8,065	6,895	8,338	6,751	5,401
Earnings Before Income Taxes	**4,595**	5,490	340	3,867	2,434	3,643	3,183	1,783
Net Earnings	**3,389**	4,103	309	2,733	1,865	2,588	2,289	1,176
Net Earnings per share	**0.12**	0.15	0.01	0.10	0.07	0.09	0.08	0.04
Adjusted Net Earnings(1)	**3,393**	4,221	3,719	2,733	1,865	3,071	2,232	1,176
Adjusted Net Earnings(1) per share	**0.12**	0.15	0.13	0.10	0.07	0.11	0.08	0.04

(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)	**June 30, 2021**	**December 31, 2020**
Working capital	**24,782**	20,937
Total assets	**198,922**	186,551
Secured credit facility	**53,975**	56,750
Total equity	**90,629**	78,961

The increase in total assets as at June 30, 2021, when compared to December 31, 2020, is mainly the result of the increase of $8.3 million in the accrued pension benefit asset and from the acquisition of Vista concluded on March 8, 2021, for a total consideration of $2.7 million.

Total net debt was $54.0 million, down from $56.8 million at the start of fiscal 2021, in spite of the above mentioned acquisition.

Summary of Cash Flows
(In thousands of dollars)

	Three-month periods ended June 30		Six-month periods ended June 30	
	2021	**2020**	**2021**	**2020**
Operating activities	**4,904**	10,739	**9,436**	18,852
Investing activities	**(449)**	(318)	**(3,412)**	(28,357)
Financing activities	**(3,225)**	(7,804)	**(6,596)**	11,668
Net foreign exchange difference	**(121)**	(318)	**(210)**	(15)
Net change in cash	**1,109**	2,299	**(782)**	2,148

Cash Flows Related to Operating Activities

Net cash flows from operating activities were $9.4 million during the six-month period ended June 30, 2021, compared to $18.9 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 $3.4 million during the six-month period ended June 30, 2021, compared to $28.4 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 $6.6 million during the six-month period ended June 30, 2021, compared to $11.7 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

Following recent improvements in the epidemiological situation, federal, provincial, state and local governments across North America have gradually started lifting public health measures. Although these recent developments are very encouraging, uncertainty still remains with regards to the duration and impact of the COVID-19 pandemic on the Company's activities and on the global economic landscape.

In the second quarter of 2021, the Company experienced a rebound in demand from certain channels that were more affected by the COVID-19 pandemic and lockdown measures in previous quarters. However, it remains impossible at this time for the Company to estimate the duration and scope of the pandemic and its ensuing economic impact. In order to continue mitigating any lingering effect of the COVID-19 pandemic on the Company's operations and financial results, management continues to tightly control its operating expenses and working capital. In addition to these cost and liquidity preservation measures, the Company recorded a total of $1.6 million in subsidies from the CEWS and CERS programs in the first half of 2021.

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 $28.0 million term facility ($29.8 million as at December 31, 2020). No principal repayments are required on the revolving facility prior to maturity. The term facility is repayable in quarterly principal installments of $875,000. The availability of the secured credit facility is variable and dependant on respecting certain financial covenants. As at June 30, 2021, the total amount outstanding on the secured credit facility was $54.0 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 this secured credit facility matures 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 June 30, 2021 and had an additional borrowing capacity of $44.7 million over and above the current 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.

Capitalization

As at August 11, 2021, the Company had 27,001,169 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, 2021 to June 30, 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 June 30, 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 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 in the Company's Annual Information Form dated March 31, 2021. 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 and six-month periods ended June 30, 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 [Unaudited]	Notes	June 30, 2021 $	December 31, 2020 $
ASSETS	**6**		
Current assets			
Cash		**2,254,034**	3,035,999
Accounts receivable		**26,427,304**	26,855,191
Income tax receivable		**—**	352,234
Inventories	**5**	**24,933,560**	21,738,367
Prepaid expenses		**1,873,633**	1,315,580
Total current assets		**55,488,531**	53,297,371
Property, plant and equipment		**36,305,532**	37,131,393
Right-of-use assets		**21,236,780**	18,120,369
Accrued pension benefit net assets		**12,752,100**	4,449,600
Intangible assets		**23,829,384**	24,446,150
Goodwill		**49,309,587**	49,105,826
Total assets		**198,921,914**	186,550,709
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		**18,887,122**	22,418,282
Income tax payable		**2,319,264**	—
Provisions		**1,010,326**	1,578,406
Current portion of lease liabilities		**4,385,574**	4,863,402
Current portion of secured credit facility	**6**	**3,500,000**	3,500,000
Current portion of contingent consideration payable	**4**	**603,895**	—
Total current liabilities		**30,706,181**	32,360,090
Secured credit facility	**6**	**50,217,243**	52,942,668
Contingent consideration payable	**4**	**157,368**	—
Deferred income tax liabilities		**8,871,874**	7,689,813
Lease liabilities		**18,130,208**	14,375,795
Other post-retirement benefit obligations		**209,900**	221,000
Total liabilities		**108,292,774**	107,589,366
Equity			
Share capital	**7**	**9,254,895**	9,497,234
Contributed surplus	**7**	**275,690,855**	277,029,086
Deficit		**(193,338,383)**	(207,071,737)
Foreign currency translation reserve		**(978,227)**	(493,240)
Total equity		**90,629,140**	78,961,343
Total liabilities and equity		**198,921,914**	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

[Unaudited]	Notes	Three-month periods ended June 30 2021 $	2020 $	Six-month periods ended June 30 2021 $	2020 $
Revenue		**51,800,669**	47,662,153	**105,403,682**	100,078,086
Operating expenses	**5**	**36,691,698**	34,698,992	**74,206,385**	74,109,586
Selling, general and administrative expenses		**6,552,375**	6,067,843	**13,251,855**	11,387,514
Operating earnings before depreciation and amortization		**8,556,596**	6,895,318	**17,945,442**	14,580,986
Depreciation of property, plant and equipment		**1,356,082**	1,315,614	**2,720,576**	2,504,232
Depreciation of right-of-use assets		**1,204,796**	1,382,356	**2,381,963**	2,651,459
Amortization of intangible assets		**844,712**	880,726	**1,659,485**	1,588,790
Operating earnings		**5,151,006**	3,316,622	**11,183,418**	7,836,505
Net financing charges	**6**	**555,675**	883,147	**1,098,543**	1,759,683
Earnings before income taxes		**4,595,331**	2,433,475	**10,084,875**	6,076,822
Income tax expense		**1,206,345**	568,740	**2,593,311**	1,624,097
Net earnings		**3,388,986**	1,864,735	**7,491,564**	4,452,725
Basic and diluted net earnings per share		**0.1236**	0.0663	**0.2716**	0.1583
Weighted average number of shares outstanding		**27,410,287**	28,130,469	**27,586,491**	28,130,469

See accompanying notes

Supremex Inc.

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

[Unaudited]	Three-month periods ended June 30 2021 $	Three-month periods ended June 30 2020 $	Six-month periods ended June 30 2021 $	Six-month periods ended June 30 2020 $
Net earnings	**3,388,986**	1,864,735	**7,491,564**	4,452,725
Other comprehensive income (loss)				
Other comprehensive (loss) income to be reclassified to earnings in subsequent periods				
Foreign currency translation adjustments	**(273,089)**	(689,546)	**(484,987)**	447,994
Net other comprehensive (loss) income to be reclassified to earnings in subsequent periods	**(273,089)**	(689,546)	**(484,987)**	447,994
Items not to be reclassified to earnings in subsequent periods				
Recognized actuarial gain (loss) on defined benefit pension plans, net of income tax expense of $283,381 and $2,178,262 [2020 – recovery of $940,557 and $1,742,155]	**838,719**	(2,683,343)	**6,233,638**	(4,970,245)
Recognized actuarial (loss) gain on other post-retirement benefit, net of income recovery of $713 and expense of $2,848 [2020 – recovery of $4,698 and $1,739]	**(1,987)**	(13,402)	**8,152**	(4,961)
Net other comprehensive income (loss) not being reclassified to earnings in subsequent periods	**836,732**	(2,696,745)	**6,241,790**	(4,975,206)
Other comprehensive income (loss)	**563,643**	(3,386,291)	**5,756,803**	(4,527,212)
Total comprehensive income (loss)	**3,952,629**	(1,521,556)	**13,248,367**	(74,487)

See accompanying notes

Supremex Inc.

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the six-month periods ended June 30
[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	—	—	4,452,725	—	4,452,725
Other comprehensive (loss) income	—	—	(4,975,206)	447,994	(4,527,212)
Total comprehensive (loss) income	—	—	(522,481)	447,994	(74,487)
Dividends declared [*note 8*]	—	—	(1,828,481)	—	(1,828,481)
As at June 30, 2020	**9,601,576**	**277,348,798**	**(213,004,130)**	**623,887**	**74,570,131**
As at December 31, 2020	9,497,234	277,029,086	(207,071,737)	(493,240)	78,961,343
Net earnings	—	—	7,491,564	—	7,491,564
Other comprehensive income (loss)	—	—	6,241,790	(484,987)	5,756,803
Total comprehensive income (loss)	—	—	13,733,354	(484,987)	13,248,367
Shares repurchased and cancelled [*note 7*]	(242,339)	(1,338,231)	—	—	(1,580,570)
As at June 30, 2021	**9,254,895**	**275,690,855**	**(193,338,383)**	**(978,227)**	**90,629,140**

See accompanying notes

Supremex Inc.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

[Unaudited]	Notes	For the three-month periods ended June 30 2021 $	2020 $	For the six-month periods ended June 30 2021 $	2020 $
OPERATING ACTIVITIES					
Net earnings		**3,388,986**	1,864,735	**7,491,564**	4,452,725
Non-cash adjustment to reconcile net earnings to net cash flows					
Depreciation of property, plant and equipment		**1,356,082**	1,315,614	**2,720,576**	2,504,232
Depreciation of right-of-use assets		**1,204,796**	1,382,356	**2,381,963**	2,651,459
Amortization of intangible assets		**844,712**	880,726	**1,659,485**	1,588,790
Amortization of deferred financing costs	6	**42,262**	29,451	**90,419**	55,152
Interest on contingent consideration payable		**4,797**	—	**4,963**	—
Deferred income tax (recovery) expense		**(479,874)**	(60,945)	**(990,887)**	687,302
Change in employee benefits		**81,000**	976	**112,200**	6,000
		6,442,761	5,412,913	**13,470,283**	11,945,660
Working capital adjustments					
Variation in accounts receivable		**(747,668)**	5,691,009	**953,138**	4,402,307
Variation in income tax receivable or payable		**1,329,855**	740,493	**2,671,498**	1,026,475
Variation in inventories		**(685,351)**	1,424,479	**(2,688,549)**	1,197,847
Variation in prepaid expenses		**(352,432)**	(201,933)	**(541,362)**	(414,216)
Variation in accounts payable and accrued liabilities		**(874,127)**	(2,336,623)	**(3,857,600)**	684,394
Variation in provisions		**(207,089)**	—	**(568,080)**	(7,821)
Change in employee benefits		**(1,500)**	8,400	**(2,900)**	17,400
Net cash flows related to operating activities		**4,904,449**	10,738,738	**9,436,428**	18,852,046
INVESTING ACTIVITIES					
Business combinations	4	**—**	—	**(2,666,790)**	(27,400,000)
Acquisition of property, plant and equipment		**(417,869)**	(211,859)	**(707,808)**	(725,351)
Acquisition of intangible assets		**(51,838)**	(105,984)	**(59,165)**	(231,333)
Proceeds from disposal of property, plant and equipment		**20,272**	—	**21,108**	—
Net cash flows related to investing activities		**(449,435)**	(317,843)	**(3,412,655)**	(28,356,684)
FINANCING ACTIVITIES					
Net change in revolving credit facility		**(85,022)**	(3,891,608)	**(1,024,910)**	19,347,579
Repayment of term loan		**(875,000)**	(875,000)	**(1,750,000)**	(1,750,000)
Repayment of lease liabilities		**(1,117,233)**	(1,245,290)	**(2,199,203)**	(2,393,151)
Dividends paid	8	**—**	(1,828,481)	**—**	(3,656,962)
Financing costs incurred		**(40,934)**	(22,500)	**(40,934)**	(22,500)
Purchase of share capital for cancellation	7	**(1,106,683)**	—	**(1,580,570)**	—
Change in other long-term asset		**—**	58,871	**—**	143,224
Net cash flows related to financing activities		**(3,224,872)**	(7,804,008)	**(6,595,617)**	11,668,190
Net change in cash during the period		**1,230,142**	2,616,887	**(571,844)**	2,163,552
Net foreign exchange difference		**(121,623)**	(317,886)	**(210,121)**	(15,615)
Cash, beginning of period		**1,145,515**	2,071,825	**3,035,999**	2,222,889
Cash, ending of period		**2,254,034**	4,370,826	**2,254,034**	4,370,826
Supplemental information [(1)]					
Interest paid		**546,292**	865,057	**1,052,588**	1,822,146
Interest received		**8,426**	4,930	**9,279**	7,205
Income taxes paid		**565,113**	1,504	**1,142,747**	1,504
Income taxes received		**252,090**	101,625	**273,372**	101,625

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

See accompanying notes

1. CORPORATE INFORMATION

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The unaudited interim condensed consolidated financial statements include the accounts of the Company and its subsidiaries. They have been prepared by management in accordance with IAS 34, Interim Financial Reporting. Therefore, certain information and disclosures have been omitted or condensed. The accounting principles are consistent with those set out in the Company's audited consolidated financial statements for the year ended December 31, 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 August 11, 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 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.

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 June 30, 2021 is $761,263.

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.

The Company's consolidated statement of earnings for the six-month period ended June 30, 2021 includes revenue and net earnings from Vista of $2,184,607 and $97,333 (after acquisition costs of $123,623, net of income tax), 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 June 30, 2021 would have been approximately $3,250,000 and $335,000, 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 $333,244.

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 June 30, 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	333,244	3,213,418
Total assets	**7,021,695**	**31,334,551**
Accounts payable and accrued liabilities	326,439	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	**164,831**	**154,084**

5. INVENTORIES

	June 30, 2021 $	December 31, 2020 $
Raw materials	**9,485,906**	7,834,431
Work in progress	**1,180,897**	832,245
Finished goods	**14,266,757**	13,071,691
	24,933,560	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 and six-month periods ended June 30, 2021 are $36,907,895 and $74,586,035 respectively [2020 - $35,554,826 and $75,431,067 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, 2020] and a $28.0 million term facility [$29.8 million as at December 31, 2020]. No principal repayments are required on the revolving facility prior to maturity. The term facility is repayable in quarterly principal installments of $875,000. The availability of the secured credit facility is variable and dependant on respecting certain financial covenants. As at June 30, 2021, the total amount outstanding on the secured credit facility was $54.0 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 this secured credit facility 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 June 30, 2021 and had an additional borrowing capacity of $44.7 million, over and above the current outstanding amount, while respecting said covenants.

Amounts owed under the secured credit facility are as follows:

	June 30, 2021 $	December 31, 2020 $
Revolving facility	**25,975,090**	27,000,000
Term facility	**28,000,000**	29,750,000
Less: deferred financing costs	**(257,847)**	(307,332)
	53,717,243	56,442,668
Current portion	**(3,500,000)**	(3,500,000)
Long-term portion of secured credit facility	**50,217,243**	52,942,668

The Company had outstanding letters of credit for a total of $10,000 as at June 30, 2021 [$10,000 as at December 31, 2020].

The effective variable interest rate on the secured credit facility was 2.03% as at June 30, 2021 [1.99% as at December 31, 2020].

Net financing charges are as follows:

	Three-month period ended June 30, 2021	Three-month period ended June 30, 2020	Six-month periods ended June 30, 2021	Six-month periods ended June 30, 2020
	$	**$**	**$**	**$**
Interest on secured credit facility	**314,221**	634,500	**627,670**	1,261,196
Interest expense on lease liabilities	**217,793**	276,771	**424,716**	556,958
Interest income on defined benefit plans obligations	**(26,400)**	(54,600)	**(52,800)**	(109,200)
Other net interest	**7,799**	(2,975)	**8,538**	(4,423)
Amortization of deferred financing costs	**42,262**	29,451	**90,419**	55,152
	555,675	883,147	**1,098,543**	1,759,683

7. SHARE CAPITAL

The change in share capital was as follows:

	Number of common shares	Share capital $
Balance, as of December 31, 2019 and June 30, 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	710,000	242,339
Balance, as of June 30, 2021	**27,114,769**	**9,254,895**

Pursuant to the normal course issuer bid ("NCIB"), which began on August 17, 2020 and will end on August 16, 2021, the Company repurchased 488,100 and 710,000 common shares for cancellation in consideration of $1,106,683 and $1,580,570, respectively, during the three and six-month periods ended June 30, 2021 [2020 - nil]. The excess of the purchase price over the carrying value in the amount of $940,084 and $1,338,231, respectively, was recorded as a reduction of contributed surplus.

Deferred Share Unit Plan (DSU)

The financial liability resulting from the DSU plan of $819,165 (December 31, 2020 - $571,641) is presented under "*Accounts payable and accrued liabilities*".

During the six-month period ended June 30, 2021, an amount of $145,214 [2020 - nil] of variable executive compensation was allocated in DSU. During the three and six-month periods ended June 30, 2021, the compensation expense for the DSU plan amounted to $68,998 and $102,310 [2020 – income of $59,664 and $218,400] and is recognized under selling, general and administrative expenses.

8. DIVIDENDS

There were no dividends declared from January 1, 2021 to June 30, 2021.

Dividends declared from January 1, 2020 to June 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**

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 tables provide the segmented Operating earnings before corporate and other non-allocated expenses, depreciation, amortization, and other items:

For the three-month periods ended June 30,

			2021 $			**2020 $**
	Envelope	**Packaging & Speciality Products**	**Total**	**Envelope**	**Packaging & Speciality Products**	**Total**
Revenue	35,230,119	16,570,550	**51,800,669**	32,750,733	14,911,420	**47,662,153**
Operating expenses	24,893,498	12,216,998	**37,110,496**	23,189,647	11,575,103	**34,764,750**
Selling, general and administrative expenses	4,002,168	1,954,590	**5,956,758**	3,834,174	1,346,925	**5,181,099**
Operating earnings before items listed below[(1)]	**6,334,453**	**2,398,962**	**8,733,415**	**5,726,912**	**1,989,392**	**7,716,304**
Corporate and other non-allocated expenses, net of CEWS[(2)]			**176,819**			**820,986**
Depreciation of property, plant and equipment			**1,356,082**			**1,315,614**
Depreciation of right-of-use assets			**1,204,796**			**1,382,356**
Amortization of intangible assets			**844,712**			**880,726**
Net financing charges			**555,675**			**883,147**
Earnings before income taxes			**4,595,331**			**2,433,475**

(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")

For the six-month periods ended June 30,

	2021 $			2020 $		
	Envelope	**Packaging & Speciality Products**	**Total**	**Envelope**	**Packaging & Speciality Products**	**Total**
Revenue	73,495,329	31,908,353	**105,403,682**	71,899,323	28,178,763	**100,078,086**
Operating expenses	51,689,008	23,552,832	**75,241,840**	51,290,172	22,386,021	**73,676,193**
Selling, general and administrative expenses	8,180,604	3,491,494	**11,672,098**	7,940,097	2,496,097	**10,436,194**
Operating earnings before items listed below(1)	**13,625,717**	**4,864,027**	**18,489,744**	**12,669,054**	**3,296,645**	**15,965,699**
Corporate and other non-allocated expenses, net of CEWS(2)			**544,302**			**1,384,713**
Depreciation of property, plant and equipment			**2,720,576**			**2,504,232**
Depreciation of right-of-use assets			**2,381,963**			**2,651,459**
Amortization of intangible assets			**1,659,485**			**1,588,790**
Net financing charges			**1,098,543**			**1,759,683**
Earnings before income taxes			**10,084,875**			**6,076,822**

(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'')

The Company's non-current assets amounted to $122,017,120 in Canada and $21,416,263 in the United States as at June 30, 2021 [$118,877,556 and $14,375,782, respectively, as at December 31, 2020]. Based on the customer's location, the Company's revenue amounted to $32,917,524 and $68,974,419 in Canada and $18,883,145 and $36,429,263 in the United States for the three and six-month periods ended June 30, 2021 [2020 - $31,426,791 and $67,261,284, in Canada and $16,235,362 and $32,816,802 in the United States].

Government assistance 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 and six-month periods ended June 30, 2021, the Company recorded a subsidy in the amount of $752,660 and $1,348,501, respectively, under the Canada Emergency Wage Subsidy (CEWS) program. Of these amounts, $509,626 and $913,070, respectively, were allocated against operating expenses while $243,034 and $435,431, respectively, were allocated against selling, general and administrative expenses. For the same periods, the Company also recorded a subsidy in the amounts of $104,982 and $203,910 under the Canada Emergency Rent Subsidy (CERS) program. These amounts were allocated against operating expenses.