



Supremex

Management's Discussion and Analysis

For the three-month periods ended March 31, 2022 and 2021

TABLE OF CONTENTS

1.	BASIS OF PRESENTATION	3
2.	FORWARD-LOOKING STATEMENTS	3
3.	KEY QUARTERLY HIGHLIGHTS	4
3.1	FINANCIAL HIGHLIGHTS TABLES	4
3.2	HIGHLIGHTS OF THE THREE-MONTH PERIOD ENDED MARCH 31, 2022	4
4.	NON-IFRS FINANCIAL MEASURES	4
5.	BUSINESS OVERVIEW	6
6.	OUTLOOK	7
7.	FOREIGN EXCHANGE RATES	7
7.1	FOREIGN EXCHANGE RATES	7
8.	SUMMARY OF FINANCIAL INFORMATION	8
8.1	SUMMARY OF FINANCIAL INFORMATION	8
9.	ANALYSIS OF RESULTS	9
9.1	RESULTS FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2022	9
9.2	GEOGRAPHICAL REVENUE AND ASSET DIVERSIFICATION	11
10.	SUMMARY OF RESULTS – SELECTED QUARTERLY FINANCIAL INFORMATION	12
11.	FINANCIAL POSITION	12
11.1	SUMMARY FINANCIAL POSITION HIGHLIGHTS	12
11.2	ASSETS	12
11.3	LIABILITIES	13
11.4	CONTRACTUAL OBLIGATIONS AND OFF-BALANCE SHEET ARRANGEMENTS	13
12.	LIQUIDITY AND CAPITAL RESOURCES	14
12.1	CASH FLOWS RELATED TO OPERATING ACTIVITIES	14
12.2	CASH FLOWS RELATED TO INVESTING ACTIVITIES	14
12.3	CASH FLOWS RELATED TO FINANCING ACTIVITIES	14
13.	SHARE CAPITAL	14
14.	SUBSEQUENT EVENTS	15
15.	RISK FACTORS	15
16.	DISCLOSURE CONTROLS AND PROCEDURES (“DC&P”) AND INTERNAL CONTROLS OVER FINANCIAL REPORTING (“ICFR”)	15

1. BASIS OF PRESENTATION

The following management's discussion and analysis of financial condition and results of operations ("MD&A"), dated May 11, 2022, 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, 2022. 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, 2021. 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, 2022. The consolidated financial statements for the three-month period ended March 31, 2022 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, including the Company's Annual Information Form, may be found on SEDAR at www.sedar.com and on the Company's website at www.supremex.com.

2. FORWARD-LOOKING STATEMENTS

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, Adjusted net earnings per share, Free Cash Flow, Total debt to Adjusted EBITDA ratio and future performance of Supremex and similar statements or information concerning anticipated future results, circumstances, performance or expectations. Forward-looking information may include words such as anticipate, assumption, believe, could, expect, goal, guidance, intend, may, objective, outlook, plan, seek, should, strive, target and will. Such information relates to future events or future performance and reflects current assumptions, expectations and estimates of management regarding growth, results of operations, performance, business prospects and opportunities, Canadian economic environment and liability to attract and retain customers. Such forward-looking information reflects current assumptions, expectations and estimates of management and is based on information currently available to Supremex as at the date of this MD&A. Such assumptions, expectations and estimates are discussed throughout the MD&A for the three-month period ended March 31, 2022 and, in the Company's Annual Information Form dated March 30, 2022. 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, decline in envelope consumption, increase of competition, economic cycles, key personnel, labor shortage, contributions to employee benefits plans, raw material price increases and availability, operational disruption, exchange rate fluctuation, growth by acquisitions, availability of capital, credit risks with respect to trade receivables, interest rate fluctuation, concerns about protection of the environment, potential risk of litigation, cyber security and data protection and 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 this MD&A for three-month period ended March 31, 2022 and, in the Company's Annual Information Form dated March 30, 2022 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.

3. KEY QUARTERLY HIGHLIGHTS

3.1 Financial Highlights Tables

Selected Consolidated Financial Information

(in thousands of dollars, except for per share amounts and margins)

	Three-month periods ended March 31	
	2022	2021
Statement of Earnings		
Revenue	63,269	53,603
Operating earnings	8,829	6,033
Adjusted EBITDA ⁽¹⁾	12,083	9,548
Adjusted EBITDA margin ⁽¹⁾	19.1%	17.8%
Net earnings	6,302	4,103
Basic and diluted net earnings per share	0.24	0.15
Adjusted Net earnings ⁽¹⁾	6,311	4,221
Adjusted Net earnings per share ⁽¹⁾	0.24	0.15
Cash Flow		
Free Cash Flow ⁽¹⁾	(104)	4,236

⁽¹⁾ This is a non-IFRS financial measure. Refer to the non-IFRS financial measures section for definitions and reconciliations.

3.2 Highlights of the three-month period ended March 31, 2022

- Total revenue increased by 18.0% to \$63.3 million, from \$53.6 million in the first quarter of 2021.
- Packaging and specialty products segment revenue increased by 21.5% to \$18.6 million, from \$15.3 million in the first quarter of 2021.
- Envelope segment revenue was up 16.7% to \$44.7 million, from \$38.3 million in the first quarter of 2021.
- Adjusted EBITDA¹ increased to \$12.1 million, from \$9.5 million in the first quarter of 2021.
- Net Earnings increased significantly to \$6.3 million, from \$4.1 million in the first quarter of 2021.
- Earnings per share increased significantly to \$0.24, up from \$0.15 in the first quarter of 2021.
- Recorded no assistance from the Canada Emergency Wage Subsidy (“CEWS”) and Canada Emergency Rent Subsidy (“CERS”) programs in the first quarter of 2022, compared to \$0.7 million in the first quarter of 2021.
- Purchased 106,000 shares for a total consideration of \$0.3 million as part of the Company’s NCIB program.
- On May 11, 2022, the Board of Directors declared a quarterly dividend of 0.025 per common share, payable on June 27, 2022, to the shareholders of record at the close of business on June 9, 2022.

4. NON-IFRS FINANCIAL MEASURES

Non-IFRS financial measures do not have any standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other companies and should not be viewed as alternatives to measures of financial performance prepared in accordance with IFRS. Management considers these metrics to be information which may assist investors in evaluating the Company’s profitability and enable better comparability of the results from one period to another.

¹ This is a non-IFRS financial measure. Refer to the non-IFRS financial measures section for definitions and reconciliations.

These Non-IFRS Financial Measures are defined as follows:

Non-IFRS Measure	Definition
EBITDA	Earnings before financing charges, income tax expense, depreciation of property, plant and equipment and right-of-use assets and amortization of intangible assets.
Adjusted EBITDA	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 and acquisition costs.
EBITDA and Adjusted EBITDA margins	EBITDA or Adjusted EBITDA margin is a percentage corresponding to the ratio of EBITDA or Adjusted EBITDA to revenue.
Adjusted Net Earnings	Net Earnings excluding items of significance listed above under Adjusted EBITDA, net of income taxes.
Adjusted Net earnings per share	Diluted earnings per share calculated on the basis of Adjusted Net Earnings.
Free Cash Flow	Net Cash flows related to operating activities according to the consolidated statements of cash flows less net additions to property, plant and equipment and intangible assets.
Total debt to Adjusted EBITDA ratio	Total debt comprised of revolving facility and term facility divided by Adjusted EBITDA.

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.

Supremex considers free cash flow to be a good indicator of financial strength and profitability because it shows how much of the cash generated by operations is available for distribution, to repay debt or fund other investments.

The following tables provide the reconciliation of Non-IFRS Financial Measures:

Reconciliation of Net earnings to Adjusted EBITDA

(in thousands of dollars, except for margins)

	Three-month periods ended March 31	
	2022	2021
Net earnings	6,302	4,103
Income tax expense	2,084	1,387
Net financing charges	443	543
Depreciation of property, plant and equipment	1,250	1,364
Depreciation of right-of-use assets	1,084	1,177
Amortization of intangible assets	908	815
EBITDA	12,071	9,389
Acquisition costs related to business combinations	12	159
Adjusted EBITDA	12,083	9,548
<i>Adjusted EBITDA Margin (%)</i>	<i>19.1%</i>	<i>17.8%</i>

Reconciliation of Net earnings to Adjusted net earnings and of Net earnings per share to Adjusted net earnings per share

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

	Three-month periods ended March 31	
	2022	2021
Net earnings	6,302	4,103
Adjustment, net of income taxes		
Acquisition costs related to business combinations	9	118
Adjusted net earnings	6,311	4,221
Net earnings per share	0.24	0.15
Adjustment, net of income taxes, in dollar per share	—	—
Adjusted net earnings per share	0.24	0.15

Reconciliation of Cash flows related to operating activities to Free Cash Flow

(in thousands of dollars)

	Three-month periods ended March 31	
	2022	2021
Cash flows related to operating activities	211	4,532
Net acquisitions of property, plant and equipment	(206)	(289)
Net acquisitions of intangible assets	(109)	(7)
Free Cash Flow	(104)	4,236

5. BUSINESS OVERVIEW

Supremex is a leading North American manufacturer and marketer of envelopes and a growing provider of paper-based packaging solutions. Supremex operates ten manufacturing facilities across four provinces in Canada and four manufacturing facilities in the United States employing approximately 825 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 Products², polyethylene bags for courier applications, bubble mailers and Enviro-logiX³.

Reporting Segments

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.

² Conformer® is a registered trademark of Conformer Products, Inc.

³ Enviro-logiX® is a registered trademark of Envirologix Inc.

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®.

In the longer term, Supremex' strategy is to leverage its Canadian Envelope capacity, knowhow and cash flow to fund a pivot to Packaging and Specialty Products. The Company's objective is to achieve an equal revenue split between the Envelope Segment and the Packaging and Specialty Products Segment. To accelerate this shift, Supremex plans to make strategic acquisitions

6. OUTLOOK

The Company has solid backlogs and is currently operating at full capacity given current labor shortages and its teams continue to successfully pass through input cost inflation. However, the Company is faced with increasingly challenging supply chain issues, primarily related to paper procurement, which is forcing it to reduce or push-out delivery orders creating missed sales opportunities. The envelope acquisition in New York recently completed should help to mitigate this impact in the short term.

The Company's plan to move its folding carton plant in Town Mount Royal, Quebec necessitated by the expropriation of its facility will be delayed to 2023 following a one-year lease extension.

The Company is committed to efficiently deploy its capital in 2022 with the expected payment of quarterly dividends, the repurchase of common shares in line with its NCIB and investments in capital expenditures. The Company also continues to look for strategic acquisitions in the packaging segment.

7. FOREIGN EXCHANGE RATES

7.1 Foreign Exchange Rates

The following table shows average and closing exchange rates applicable to Supremex' first quarters of 2022 and 2021. Average rates are used to translate sales and expenses for the periods mentioned, while closing rates translate assets and liabilities of foreign operations and monetary assets and liabilities of the Canadian operations denominated in U.S. dollars.

US\$/CDN\$ Rate

	Three-month periods ended March 31	
	2022	2021
USD Average	1.266	1.266
USD Closing	1.250	1.258

8. SUMMARY OF FINANCIAL INFORMATION

8.1 Summary of Financial Information

Selected Consolidated Financial Information

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

	Three-month periods ended March 31	
	2022	2021
Revenue	63,269	53,603
Operating expenses	43,069	37,515
Selling, general and administrative expenses	8,316	6,699
Operating earnings before depreciation, amortization and other items	11,884	9,389
Depreciation of property, plant and equipment	1,250	1,364
Depreciation of right-of-use assets	1,084	1,177
Amortization of intangible assets	908	815
Gain on disposal of property, plant and equipment	(187)	—
Operating earnings	8,829	6,033
Net financing charges	443	543
Earnings before income taxes	8,386	5,490
Income tax expense	2,084	1,387
Net earnings	6,302	4,103
Basic and diluted net earnings per share	0.24	0.15
Dividend declared per share	0.05	—

Revenue Information

(in thousands of dollars)

	Three-month periods ended March 31	
	2022	2021
Envelope	44,639	38,265
Volume change	2.2%	0.2%
Average selling price change	14.2%	(2.5%)
Total change	16.7	(2.3%)
Packaging & Specialty Products		
Canada & U.S.	18,630	15,338
Total change	21.5%	15.6%
Total Revenue	63,269	53,603
Revenue change	18.0%	2.3%

Segmented Information
(in thousands of dollars)

	Three-month periods ended March 31	
	2022	2021
Segmented Revenue		
Envelope	44,639	38,265
Packaging & Specialty Products	18,630	15,338
Total Revenue	63,269	53,603
Segmented Adjusted EBITDA⁽¹⁾		
Envelope	9,981	7,291
% of segmented revenue	22.4%	19.1%
Packaging & Specialty Products	4,188	2,465
% of segmented revenue	22.5%	16.1%
Corporate and unallocated costs	(2,086)	(208)
Total Adjusted EBITDA⁽¹⁾	12,083	9,548
% of total revenue	19.1%	17.8%

⁽¹⁾ This is a non-IFRS financial measure. Refer to the non-IFRS financial measures section for definitions and reconciliations.

9. ANALYSIS OF RESULTS

9.1 Results for the three-month period ended March 31, 2022

Revenue

Total revenue for the three-month period ended March 31, 2022, was \$63.3 million, representing an increase of \$9.7 million, or 18.0%, from the equivalent quarter of 2021.

Envelope Segment (Canada and U.S.)

Revenue was \$44.7 million, representing an increase of \$6.4 million, or 16.7%, from \$38.3 million in the first quarter of 2021. Envelope represented 70.6% of the Company's revenue in the quarter, down from 71.4% during the equivalent period of last year. The increase in average selling prices was 14.2% from last year's comparable period, primarily resulting from price increases swiftly implemented to reflect rising input cost inflation. The volume of units sold increased by 2.2% from efforts dedicated to increase penetration of the U.S. envelope market and from the rebound in demand in recent quarters from certain channels that were more affected by the pandemic and lockdown measures. The Company's strong supply chain and dedicated workforce also played in its favor.

Packaging & Specialty Products Segment

Revenue was \$18.6 million, an increase of \$3.3 million, or 21.5%, from \$15.3 million in the corresponding quarter of 2021. The increase resulted mainly from the contribution of the Vista acquisition concluded on March 8, 2021, coupled with organic growth across all lines of the packaging business. Packaging & Specialty Products represented 29.4% of the Company's revenue in the quarter, up from 28.6% during the equivalent period of last year.

Operating Expenses

Operating expenses for the three-month period ended March 31, 2022, were \$43.1 million, compared to \$37.5 million in the equivalent period of 2021, representing an increase of \$5.6 million, or 14.8%. The increase is mainly due to a higher volume of sales, due in part to the Vista acquisition, higher cost of materials and phasing out the CEWS and CERS programs (\$0.5 million of subsidies recorded for the same period last year). On a percentage of revenue basis, operating expenses decreased to 68.1% of revenue, down from 70.0% in the equivalent period of 2021.

Selling, General and Administrative Expenses

Selling, general and administrative expenses totalled \$8.3 million in the three-month period ended March 31, 2022, compared to \$6.7 million during the same period in 2021, representing an increase of \$1.6 million, or 24.1%. The increase is attributable to higher remuneration related expenses, severances, the negative variation of DSUs and the phasing out of the subsidy programs (\$0.2 million of subsidies recorded for the same period last year).

EBITDA⁴ and Adjusted EBITDA⁴

Consolidated EBITDA and Adjusted EBITDA

EBITDA was \$12.1 million, up \$2.7 million, from \$9.4 million in the first quarter last year. Adjusted EBITDA was \$12.1 million, up \$2.6 million, or 26.6%, from \$9.5 million in the first quarter of 2021. This increase resulted from higher revenue in both segments, driven by increased volume and sales prices. It was partially offset by the higher cost of materials and the phasing out of the CEWS and CERS programs (no subsidies recorded in the first quarter ended March 31, 2022 compared to \$0.7 million of subsidies recorded for the same period last year). Adjusted EBITDA margins increased to 19.1% of revenue, compared to 17.8% in the equivalent quarter of 2021.

Segment EBITDA and Adjusted EBITDA

Envelope Segment

Adjusted EBITDA was \$10.0 million, up 36.9%, or \$2.7 million, from \$7.3 million in the first quarter of 2021. This increase was primarily due to higher revenue, driven by an increase in the average selling price, partially offset by an unfavorable product mix. On a percentage of segmented revenue, Adjusted EBITDA from the envelope segment was 22.4%, up from 19.1% in the equivalent period of 2021.

Packaging & Speciality Products Segment

Adjusted EBITDA was \$4.2 million, up 69.9% or \$1.7 million, from \$2.5 million in the first quarter of 2021. This significant increase is mainly explained by higher revenue, driven by increased volume and the average selling price. On a percentage of segmented revenue, Adjusted EBITDA from the packaging and speciality operations was 22.5%, compared to 16.1% in the equivalent period of 2021.

Corporate and unallocated costs

The Corporate and unallocated costs was \$2.1 million compared to \$0.2 million in the first quarter of 2021 which includes the contribution of \$0.7 million from the CEWS and CERS programs. Excluding the subsidies, corporate and unallocated costs in the first quarter of 2021 would have been \$0.9 million. The increase of \$1.2 million resulted mainly from severances and unfavorable adjustment of the DSUs due to share price appreciation.

Depreciation and Amortization

Aggregate depreciation and amortization expenses for the three-month period ended March 31, 2022, amounted to \$3.2 million, compared to \$3.4 million in the first quarter of 2021.

⁴ This is a non-IFRS financial measure. Refer to the non-IFRS financial measures section for definitions and reconciliations.

Net Financing Charges

Net financing charges for the three-month period ended March 31, 2022 were \$0.4 million, compared to \$0.5 million for the equivalent period of the prior year.

Earnings Before Income Taxes

As a result of the fluctuation in revenue and expenses described above, earnings before income taxes were \$8.4 million, or 13.3% of revenue, during the three-month period ended March 31, 2022, compared to \$5.5 million, or 10.2% of revenue, during the equivalent period of 2021.

Income Tax Expense

Income taxes were \$2.1 million, or an effective tax rate of 24.9%, in the three-month period ended March 31, 2022, compared to \$1.4 million in the equivalent quarter of last year. The absolute dollar increase is due to higher earnings before income taxes in the current period.

Net Earnings and Adjusted Net Earnings⁵

Net Earnings were \$6.3 million (or \$0.24 per share) for the three-month period ended March 31, 2022, compared to \$4.1 million (or \$0.15 per share) for the equivalent period last year. Adjusted Net Earnings were \$6.3 million (or \$0.24 per share) for the three-month period ended March 31, 2022, compared to \$4.2 million (or \$0.15 per share) for the equivalent period in 2021.

Other Comprehensive Income

The discount rate used to calculate the accrued plan benefit obligations increased to 4.0% as at March 31, 2022 from 3.0% as at December 31, 2021. This increase was partially offset by a lower-than-expected return on assets resulting in a net actuarial gain of \$1.3 million in the first quarter of 2022.

9.2 Geographical Revenue and Asset Diversification

Revenue by Geography

(in thousands of dollars)

	Three-month periods ended March 31	
	2022	2021
Canada	37,788	36,057
U.S.	25,481	17,546
Total Revenue	63,269	53,603

For the three-month period ended March 31, 2022, the Company's revenue in Canada was \$37.8 million, an increase of 4.8% from \$36.1 million in the equivalent quarter of 2021. In the United States, revenue was \$25.5 million, an increase of 45.2% from \$17.5 million in 2021 explained by increased activities in U.S. including Vista combined with an increase in average selling prices.

The Company's non-current assets were \$118.4 million in Canada and \$22.1 million in the United States as at March 31, 2022, compared to \$118.4 million in Canada and \$22.3 million in the United States as at December 31, 2021.

⁵ This is a non-IFRS financial measure. Refer to the non-IFRS financial measures section for definitions and reconciliations.

10. SUMMARY OF RESULTS – SELECTED QUARTERLY FINANCIAL INFORMATION

Supremex' revenue is subject to some seasonal patterns, mainly driven by the Envelope segment. This segment is subject to the seasonal advertising and mailing patterns of its customers which is generally higher during the fall and winter months. The first and fourth quarters have a higher number of mailings related to specific events (i.e. return to school, fund-raising, the holidays and tax seasons) than the spring and summer months. As a result, the second and third quarters tend to have less activity. To maintain production efficiencies, Supremex uses warehouse capabilities to stock envelopes as required and thereby counter predictable seasonal variations in sales volume. Only a small portion of the Packaging and Specialty Products segment 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). Therefore, Supremex' revenue and financial performance for any single quarter may not be extrapolated for the full year.

The following table sets forth selected financial information for the Company's past eight quarters.

Selected Quarterly Operating Results

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

	Mar. 31 2022	Dec. 31 2021	Sep. 30 2021	June 30 2021	Mar. 31 2021	Dec. 31 2020	Sep. 30 2020	June 30 2020
Envelope	44,639	46,650	37,050	35,230	38,265	40,465	34,136	32,751
Packaging	18,630	19,553	17,773	16,571	15,338	14,171	15,754	14,911
Total Revenue	63,269	66,203	54,823	51,801	53,603	54,636	49,890	47,662
Adjusted EBITDA ⁽¹⁾	12,083	12,218	8,714	8,562	9,548	9,206	8,065	6,895
Earnings before income taxes	8,386	6,259	4,709	4,595	5,490	340	3,867	2,434
Net Earnings	6,302	4,896	3,364	3,389	4,103	309	2,733	1,865
Net Earnings per share	0.24	0.18	0.13	0.12	0.15	0.01	0.10	0.07
Adjusted Net Earnings ⁽¹⁾	6,311	6,431	3,364	3,393	4,221	3,719	2,733	1,865
Adjusted Net Earnings ⁽¹⁾ per share	0.24	0.24	0.13	0.12	0.15	0.13	0.10	0.07

⁽¹⁾ This is a non-IFRS financial measure. Refer to the non-IFRS financial measures section for definitions and reconciliations.

11. FINANCIAL POSITION

11.1 Summary Financial Position Highlights

Selected Financial Position Information

(in thousands of dollars)

	As at March 31, 2022	As at December 31, 2021
Working capital	31,027	25,250
Total Assets	203,327	206,371
Total Liabilities	100,165	108,966
Total Equity	103,162	97,405

11.2 Assets

The decrease in total assets of \$3.0 million as at March 31, 2022, when compared to December 31, 2021, is mainly due to the decrease in cash.

11.3 Liabilities

Secured Credit Facility

The Company has a secured credit facility consisting of a \$80 million revolving facility (\$80 million as at December 31, 2021) and a \$25.4 million term facility (\$26.3 million as at December 31, 2021). 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 March 31, 2022, the total amount outstanding on the secured credit facility was \$44.9 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 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 March 31, 2022.

Amounts owed under secured credit facility:

(in thousands of dollars)

	As at March 31, 2022	As at December 31, 2021
Revolving facility	19,503	18,279
Term facility	25,375	26,250
Total Debt	44,878	44,529
Less: deferred financing costs	(141)	(178)
Less: current portion	(3,500)	(3,500)
Long-term portion of secured credit facility	41,237	40,851

The Company's total debt slightly increased to \$44.9 million as at March 31, 2022, compared to \$44.5 million as at December 31, 2021.

As at March 31, 2022 and as at December 31, 2021, the ratio of total debt to last twelve months Adjusted EBITDA⁶ was 1.1x.

11.4 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.

⁶ This is a non-IFRS financial measure. Refer to the non-IFRS financial measures section for definitions and reconciliations.

12. LIQUIDITY AND CAPITAL RESOURCES

The following table sets forth summarized cash flow components for the periods indicated.

Summary of cash flows

(in thousands of dollars)

	Three-month periods ended March 31	
	2022	2021
Operating activities	211	4,532
Investing activities	(1,220)	(2,963)
Financing activities	(2,243)	(3,371)
Net foreign exchange difference	(63)	(88)
Net change in cash	(3,315)	(1,890)

12.1 Cash Flows Related to Operating Activities

Net cash flows from operating activities were \$0.2 million during the three-month period ended March 31, 2022, compared to \$4.5 million in the equivalent period of 2021. The decrease is mainly attributable to the unfavorable movements in working capital partially offset by higher profitability.

12.2 Cash Flows Related to Investing Activities

Net cash flows used in investing activities amounted to \$1.2 million during the three-month period ended March 31, 2022, compared to \$3.0 million in the equivalent period of 2021, primarily used to acquire certain assets of Niagara Envelope Inc.

12.3 Cash Flows Related to Financing Activities

Net cash flows used by financing activities were \$2.2 million during the three-month period ended March 31, 2022, compared to \$3.4 million in the equivalent period of 2021, primarily used for the payment of capital on lease obligations, dividends paid and to buy back shares.

Free Cash Flow⁷

Free cash flow amounted to negative \$0.1 million in the first quarter of 2022, versus \$4.2 million for the same period last year, mainly attributable to investments in working capital partially offset by higher profitability.

Normal Course Issuer Bid ("NCIB")

During the three-month period ended March 31, 2022, the Company repurchased 106,000 common shares for cancellation under its NCIB program, in consideration of \$336,001.

Subsequent to the end of the period, an additional 105,100 shares were purchased for cancellation for total consideration of \$356,436.

13. SHARE CAPITAL

As at March 31, 2022 the capital stock issued and outstanding of the Company consisted of 26,309,469 common shares (26,415,469 as at December 31, 2021).

⁷ This is a non-IFRS financial measure. Refer to the non-IFRS financial measures section for definitions and reconciliations.

The following table presents the outstanding capital stock activity for the three-month period ended March 31, 2022:

Number of common shares

	Three-month period ended March 31, 2022
Balance – Beginning of period	26,415,469
Common shares purchased for cancellation	(106,000)
Balance – End of period	26,309,469

As at May 11, 2022, the Company had 26,204,369 common shares outstanding.

14. SUBSEQUENT EVENTS

- Recently, the Company announced the nomination of Mr. Murray Rundle as Vice President Marketing and Innovation. Mr. Rundle joined Supremex more than 30 years ago and brings extensive sales and sales management experience on the Envelope side and, more recently, in e-commerce.
- On April 25, 2022, Mr. Islem Yezza, Vice-President and General Manager, Folding Carton, announced he would be leaving the Company effective May 13, 2022.
- On May 11, 2022, the Board of Directors declared a quarterly dividend of \$0.025 per common share, payable on June 27, 2022, to the shareholders of record at the close of business on June 9, 2022. This dividend is designated as an “eligible” dividend for the purpose of the *Income Tax Act (Canada)* and any similar provincial legislation.

15. 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 date March 30, 2022, which can be found on www.sedar.com.

16. 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, 2022 to March 31, 2022 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, 2022. 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 2022 now includes its previous business acquisition of Vista.

The Company expects that its February 2022 business acquisition of Niagara Envelope will be covered by its certification no later than the first quarter of 2023.

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, 2022 and 2021

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, 2022	December 31, 2021
[Unaudited]	Notes	\$	\$
ASSETS			
Current assets			
Cash		3,049,887	6,364,662
Accounts receivable		30,703,199	32,982,719
Inventories	5	26,834,948	24,924,388
Prepaid expenses		2,209,579	1,368,046
Total current assets		62,797,613	65,639,815
Property, plant and equipment		33,519,045	34,141,450
Right-of-use assets		21,026,026	21,795,786
Accrued pension benefit net assets		14,175,400	12,440,500
Intangible assets		22,070,008	22,899,246
Goodwill		49,739,172	49,453,832
Total assets		203,327,264	206,370,629
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		21,235,934	27,449,300
Income tax payable		1,517,439	4,162,698
Dividend payable		658,494	—
Provisions		305,014	405,400
Current portion of contingent consideration payable		328,891	620,291
Current portion of lease liabilities		4,224,610	4,251,766
Current portion of secured credit facility	6	3,500,000	3,500,000
Total current liabilities		31,770,382	40,389,455
Secured credit facility	6	41,237,150	40,850,825
Contingent consideration payable	4	278,221	157,263
Deferred income tax liabilities		8,415,497	8,361,769
Lease liabilities		18,269,736	18,995,479
Other post-retirement benefit obligations		193,800	211,300
Total liabilities		100,164,786	108,966,091
Total equity		103,162,478	97,404,538
Total liabilities and equity		203,327,264	206,370,629

Subsequent event [note 11]

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	2022 \$	2021 \$
Revenue		63,268,821	53,603,013
Operating expenses	5	43,068,365	37,514,687
Selling, general and administrative expenses		8,316,168	6,699,480
Operating earnings before depreciation, amortization and other items		11,884,288	9,388,846
Depreciation of property, plant and equipment		1,249,623	1,364,494
Depreciation of right-of-use assets		1,083,843	1,177,167
Amortization of intangible assets		908,408	814,773
Gain on disposal of property, plant and equipment		(186,908)	—
Operating earnings		8,829,322	6,032,412
Net financing charges	6	443,619	542,868
Earnings before income taxes		8,385,703	5,489,544
Income tax expense		2,083,849	1,386,966
Net earnings		6,301,854	4,102,578
Basic and diluted net earnings per share		0.2390	0.1478
Weighted average number of shares outstanding		26,369,569	27,764,652

See accompanying notes

Supremex Inc.

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the three-month periods ended March 31 [Unaudited]	2022 \$	2021 \$
Net earnings	6,301,854	4,102,578
Other comprehensive income		
<i>Other comprehensive loss to be reclassified to earnings in subsequent periods</i>		
Foreign currency translation adjustments	(231,511)	(211,898)
Net other comprehensive loss to be reclassified to earnings in subsequent periods	(231,511)	(211,898)
<i>Items not to be reclassified to earnings in subsequent periods</i>		
Recognized actuarial gain on defined benefit pension plans, net of income tax expense of \$464,090 [2021 – \$1,894,881]	1,328,110	5,394,919
Recognized actuarial gain on other post-retirement benefit, net of income tax expense of \$4,506 [2021 – \$3,561]	12,894	10,139
Net other comprehensive income not to be reclassified to earnings in subsequent periods	1,341,004	5,405,058
Other comprehensive income	1,109,493	5,193,160
Total comprehensive income	7,411,347	9,295,738

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, 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
As at December 31, 2021	9,016,207	274,229,083	(185,280,855)	(559,897)	97,404,538
Net earnings	—	—	6,301,854	—	6,301,854
Other comprehensive income (loss)	—	—	1,341,004	(231,511)	1,109,493
Total comprehensive income (loss)	—	—	7,642,858	(231,511)	7,411,347
Dividends declared [note 8]	—	—	(1,317,406)	—	(1,317,406)
Shares repurchased and cancelled [note 7]	(36,180)	(299,821)	—	—	(336,001)
As at March 31, 2022	8,980,027	273,929,262	(178,955,403)	(791,408)	103,162,478

See accompanying notes

Supremex Inc.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three-month periods ended March 31 [Unaudited]	Notes	2022 \$	2021 \$
OPERATING ACTIVITIES			
Net earnings		6,301,854	4,102,578
Non-cash adjustments to reconcile net earnings to net cash flows			
Depreciation of property, plant and equipment		1,249,623	1,364,494
Depreciation of right-of-use assets		1,083,843	1,177,167
Amortization of intangible assets		908,408	814,773
Amortization of deferred financing costs	6	37,654	48,157
Gain on disposal of property, plant and equipment		(186,908)	—
Interest on contingent consideration payable		8,888	166
Deferred income tax recovery		(403,251)	(511,014)
Change in employee benefits		(37,300)	31,200
		8,962,811	7,027,521
Working capital adjustments			
Variation in accounts receivable		2,279,520	1,700,806
Variation in income tax receivable or payable		(2,645,259)	1,341,643
Variation in inventories		(1,325,110)	(2,003,198)
Variation in prepaid expenses		(841,533)	(188,930)
Variation in accounts payable and accrued liabilities		(6,213,366)	(2,983,473)
Variation in provisions		(100,386)	(360,991)
Change in employee benefits		94,500	(1,400)
Net cash flows related to operating activities		211,177	4,531,978
INVESTING ACTIVITIES			
Business combinations	4	(904,400)	(2,666,790)
Acquisition of property, plant and equipment and right-of-use assets		(396,376)	(289,939)
Acquisition of intangible assets		(109,467)	(7,327)
Proceeds from the disposal of property, plant and equipment		190,740	836
Net cash flows related to investing activities		(1,219,503)	(2,963,220)
FINANCING ACTIVITIES			
Net change in revolving credit facility		1,223,671	(939,888)
Repayment of term facility		(875,000)	(875,000)
Repayment of lease liabilities		(1,061,998)	(1,081,970)
Dividends paid		(658,912)	—
Purchase of share capital for cancellation	7	(336,001)	(473,887)
Payment of contingent consideration payable		(534,605)	—
Net cash flows related to financing activities		(2,242,845)	(3,370,745)
Net change in cash during the period		(3,251,171)	(1,801,987)
Net foreign exchange difference		(63,604)	(88,497)
Cash, beginning of period		6,364,662	3,035,999
Cash, end of period		3,049,887	1,145,515
Supplemental information ⁽¹⁾			
Interest paid		514,377	506,296
Interest received		9,556	853
Income taxes paid		5,142,578	577,634
Income taxes received		—	21,282

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

See accompanying notes

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2022 and 2021

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 and statement of compliance

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, 2021, 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, 2021.

These unaudited interim condensed consolidated financial statements were approved by the Company’s Board of Directors on May 11, 2022 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, 2022 and 2021

pandemic, could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

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 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, 2021.

4. BUSINESS COMBINATIONS

2022 Business Combination

On February 4, 2022, the Company acquired the manufacturing assets and inventory of Niagara Envelope Inc. ("Niagara"), for a cash consideration of \$904,400 (US\$708,889). Niagara is a regional envelope manufacturer based in Niagara, New York. 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 a five-year period in the amount of \$363,492 (US\$284,913). The fair value of the contingent consideration payable as at March 31, 2022 is \$357,378 (US\$285,994), representing the maximum amount of the obligation. This acquisition will provide additional volume and support to two long-term strategic customers in the Western New York market.

The Company's consolidated statement of earnings includes revenue from Niagara of \$328,744 since the acquisition date. If the acquisition had occurred on January 1, 2022, revenue for the three-month period ended March 31, 2022 would have been approximately \$538,000. The Company has not disclosed net earnings for Niagara as it is impracticable to do so given that the activities of the acquired business have been integrated into the pre-existing operations of the Company.

The goodwill related to the acquisition is composed of expected growth and operational synergies and is allocated to the envelope cash-generating unit. Goodwill deductible for tax purposes is expected to be in the amount of US\$284,913.

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 \$2,756,295 (US\$2,170,481). 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 \$743,781 (US\$625,000).

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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2022 and 2021

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 US\$289,804.

Purchase Price Allocation

As at March 31, 2022, the Company had not finalized the allocation of the consideration paid for the Niagara 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. 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 Vista acquisition is final as presented in the Company's audited consolidated financial statements for the year ended December 31, 2021.

	2022 Preliminary purchase price allocation Niagara \$	2021 Final purchase price allocation Vista \$
Net assets acquired		
Accounts receivable	—	525,251
Inventories	585,450	503,417
Prepaid expenses	—	18,920
Total current assets	585,450	1,047,588
Property and equipment	318,950	1,115,607
Right-of-use assets	—	3,253,620
Customer relationships	—	1,295,298
Goodwill	363,492	368,022
Total assets	1,267,892	7,080,135
Accounts payable and accrued liabilities	—	326,439
Lease liabilities	—	3,253,620
Net assets acquired	1,267,892	3,500,076
Less: contingent consideration payable	363,492	743,781
Cash consideration	904,400	2,756,295
Acquisition-related costs recognized as an expense	11,675	164,831

5. INVENTORIES

	March 31, 2022 \$	December 31, 2021 \$
Raw materials	10,918,021	10,067,382
Work in progress	1,821,889	1,641,979
Finished goods	14,095,038	13,215,027
	26,834,948	24,924,388

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, 2022 is \$42,331,960 [2021 - \$37,678,140].

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2022 and 2021

6. SECURED CREDIT FACILITY

The Company has a secured credit facility consisting of a \$80 million revolving facility [\$80 million as at December 31, 2021] and a \$25.4 million term facility [\$26.3 million as at December 31, 2021]. 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 March 31, 2022, the total amount outstanding on the secured credit facility was \$44.9 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 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 March 31, 2022.

Amounts owed under secured credit facility are as follows:

	March 31, 2022 \$	December 31, 2021 \$
Revolving facility	19,502,817	18,279,146
Term facility	25,375,000	26,250,000
Less: deferred financing costs	(140,667)	(178,321)
	44,737,150	44,350,825
Current portion	(3,500,000)	(3,500,000)
Long-term portion of secured credit facility	41,237,150	40,850,825

The Company had outstanding letters of credit totalling \$10,000 as at March 31, 2022 [\$10,000 as at December 31, 2021].

The effective interest rate on the secured credit facility was 2.33% as at March 31, 2022 [2.01% as at December 31, 2021].

Net financing charges are as follows:

	Three-month periods ended March 31,	
	2022 \$	2021 \$
Interest on secured credit facility	280,214	313,449
Interest on lease liabilities	214,801	206,923
Interest income on defined benefit plan obligation	(89,900)	(26,400)
Other interest expense	850	739
Amortization of deferred financing costs	37,654	48,157
	443,619	542,868

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2022 and 2021

7. SHARE CAPITAL

The change in share capital was as follows:

	Number of common Shares	Share capital \$
Balance, as of December 31, 2020	27,824,769	9,497,234
Purchase of share capital for cancellation	(221,900)	(75,740)
Balance, as of March 31, 2021	26,602,869	9,421,494
Balance, as of December 31, 2021	26,415,469	9,016,207
Purchase of share capital for cancellation	(106,000)	(36,180)
Balance, as of March 31, 2022	26,309,469	8,980,027

On August 27, 2021, the Company announced that it had received approval from the TSX to purchase by way of a normal course issuer bid ("NCIB") for cancellation, up to 1,346,648 of its common shares, representing approximately 5.0% of its 26,932,969 issued and outstanding common shares as of August 18, 2021, for a period of twelve months, beginning on August 31, 2021.

During the three-month period ended March 31, 2022, the Company repurchased 106,000 common shares [2021 - 221,900] for cancellation in consideration of \$336,001 [2021 - \$473,887]. The excess of the purchase price over the carrying value in the amount of \$299,821 [2021 - \$398,147] was recorded as a reduction of contributed surplus.

Deferred Share Unit Plan (DSU)

The financial liability resulting from the DSU plan of \$1,617,501 [December 31, 2021 - \$1,086,300] is presented under "*Accounts payable and accrued liabilities*".

During the three-month period ended March 31, 2022, an amount of \$126,065 [2021 - \$211,940] of variable executive compensation was allocated in DSU. The compensation expense for the DSU plan amounted to \$405,137 [2021 - \$33,312] and is recognized under "*Selling, general and administrative expenses*".

Performance Share Unit Plan (PSU)

In February 2022, the Company adopted a PSU plan for its executive officers. Under the PSU plan, participants are entitled to receive an amount equivalent to the quoted price of the Company's common shares at the end of a three-year performance cycle for each vested PSU if pre-determined performance objectives are achieved. PSUs are expensed on an earned basis over the three-year performance cycle and their value is determined based on their underlying shares. All issued and outstanding PSUs are measured at each reporting period.

The financial liability resulting from the PSU plan of \$31,424 (December 31, 2021 - Nil) is presented under "*Accounts payable and accrued liabilities*". During the three-month period ended March 31, 2022, the compensation expense for the PSU plan amounted to \$31,424 (2021 - Nil) and is recognized under "*Selling, general and administrative expenses*".

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2022 and 2021

8. DIVIDENDS

Dividends declared from January 1, 2022 to March 31, 2022 were as follows:

Declaration date	Record date	Payment date	Per share \$	Dividend \$
January 5, 2022	January 31, 2022	February 15, 2022	0.025	658,912
February 23, 2022	March 24, 2022	April 8, 2022	0.025	658,494
Total				1,317,406

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

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, 2021, prepared in accordance with "IFRS".

The following table provides the segmented EBITDA before Corporate and other non-allocated expenses:

	2022 \$		
	Envelope	Packaging & Speciality Products	Total
Revenue	44,639,189	18,629,632	63,268,821
Operating expenses	30,642,683	12,432,623	43,075,306
Selling, general and administrative expenses	4,015,874	2,008,959	6,024,833
Segmented Adjusted EBITDA⁽¹⁾	9,980,632	4,188,050	14,168,682
Corporate and other non-allocated expenses			2,097,486
Depreciation of property, plant and equipment			1,249,623
Depreciation of right-of-use assets			1,083,843
Amortization of intangible assets			908,408
Net financing charges			443,619
Earnings before income taxes			8,385,703

⁽¹⁾ The Chief Executive Officer uses adjusted earnings before interest, taxes, depreciation and amortization ("Adjusted EBITDA"), as a measure of financial performance for assessing the performance of each of the Company's segments. Adjusted EBITDA equals EBITDA adjusted to remove items of significance that are not in the normal course of operations and corporate and other non-allocated expenses. These non recurring items of significance include, but are not limited to, charges for impairment of assets, restructuring expenses, value adjustment on inventory acquired and acquisition costs.

Supremex Inc.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2022 and 2021

			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
Segmented Adjusted EBITDA⁽¹⁾	7,291,264	2,465,065	9,756,329
Corporate and other non-allocated expenses, net of CEWS ⁽²⁾ and CERS ⁽³⁾			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

⁽¹⁾ The Chief Executive Officer uses adjusted earnings before interest, taxes, depreciation and amortization ("Adjusted EBITDA"), as a measure of financial performance for assessing the performance of each of the Company's segments. Adjusted EBITDA equals EBITDA adjusted to remove items of significance that are not in the normal course of operations and corporate and other non-allocated expenses, net of CEWS and CERS. These non recurring items of significance include, but are not limited to, charges for impairment of assets, restructuring expenses, value adjustment on inventory acquired and acquisition costs.

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

⁽³⁾ Canada Emergency Rent Subsidy program ("CERS")

The Company's non-current assets amounted to \$118,424,849 in Canada and \$22,104,802 in the United States as at March 31, 2022 [\$118,429,995 and \$22,300,819, respectively, as at December 31, 2021]. The Company's revenue amounted to \$37,787,499, in Canada and \$25,481,322, in the United States for the three-month period ended March 31, 2022 based on the customer's locations [2021 - \$36,056,895 in Canada and \$17,546,118 in the United States].

10. GOVERNMENT ASSISTANCE

During the three-month period ended March 31, 2022, the Company did not record any amount of subsidies. During the same period of 2021, the Company recorded subsidies in the amount of \$595,841 under the 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 CERS program. This amount was allocated against operating expenses.

11. SUBSEQUENT EVENT

On May 11, 2022, the Board of Directors declared a quarterly dividend of \$0.025 per common share, payable on June 27, 2022, to the shareholders of record at the close of business on June 9, 2022. This dividend is designated as an "eligible" dividend for the purpose of the *Income Tax Act* (Canada) and any similar provincial legislation.