



**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
FOR THE THREE AND SIX-MONTH PERIODS ENDED JUNE 30, 2012**

*The following management's discussion and analysis of financial condition and results of operations ("MD&A"), dated July 31, 2012, of Supremex Inc. (the "Company") should be read together with the accompanying unaudited interim condensed consolidated financial statements and related notes of the Company for the three and six-month periods ended June 30, 2012. These 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, 2011. 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 shares outstanding for the three and six-month periods ended June 30, 2012. The consolidated financial statements for the three and six-month periods ended June 30, 2012 have not been audited or reviewed by the Company's auditors.*

*This MD&A contains forward-looking statements. Please see "Forward-Looking Statements" for a discussion of the risks, uncertainties and assumptions relating to these statements. In addition to our results reported in accordance with IAS 34, the MD&A may contain other non-IFRS financial measures. Terms by which non-IFRS financial measures are identified include, but are not limited to, "EBITDA" or other similar expressions. 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 "Definition of EBITDA and Non-IFRS Measures" and "Selected Consolidated Financial Information" for the reconciliation of EBITDA to net earnings.*

**Conversion to a Corporation**

On January 1, 2011 (the "Effective Date"), Supremex Income Fund (the "Fund") completed its conversion from an income trust structure to a corporation. On May 7, 2010, the unitholders of the Fund approved the plan of arrangement (the "Arrangement") pursuant to which the Fund will convert from an income trust structure to a public corporation named Supremex Inc. The final order of the Superior Court of Québec with respect to the Arrangement was obtained on May 10, 2010.

Under the Arrangement, unitholders of the Fund received, for each unit of the Fund held, one common share of Supremex.

The Arrangement has been accounted for as a continuity of interests of the Fund since Supremex continues to operate the business of the Fund and there were no ownership changes. Under the continuity of interests' method of accounting, the transfer of the assets, liabilities and equity of the Fund to Supremex is recorded at the net book value as at the Effective Date of the transaction. As a result, for accounting purposes, the transaction is required to be accounted for as though the Company was a continuation of the Fund but with its capital reflecting the exchange of Fund units for Supremex common shares. Therefore, certain terms such as shareholder/unitholder, dividend/distribution and share/unit may be used interchangeably throughout this MD&A. For the periods reported up to the Effective Date of the conversion, all payments to unitholders were in the form of fund unit distributions, and after that date all payments to shareholders were in the form of dividends.

Any references to the Fund for periods after January 1, 2011 shall mean Supremex Inc. as the successor of the Fund. References to "company", "share", "dividends" and "shareholders" means "fund", "unit", "distributions" and "unitholders" for transactions that occurred before the conversion of the Fund to a corporation.

Pursuant to the Arrangement, the stated capital for the common shares was reduced to an amount of \$10 million as of the Effective Date.

## **Overview**

Supremex is Canada's leading manufacturer and marketer of a broad range of stock and custom envelopes and related products. Supremex employs approximately 600 people and is the only national envelope manufacturer in Canada, with seven manufacturing facilities across six provinces. This national presence allows Supremex to meet the manufacturing needs of large national customers, such as large Canadian corporations, nationwide resellers and government bodies, as well as paper merchants and solution and process providers.

## **Overall Performance**

Revenue in the second quarter of 2012 amounted to \$31.8 million compared with \$34.1 million in the second quarter of 2011, representing a decrease of \$2.3 million or 6.6%. In the second quarter, total volume was down by 5.7% mainly due to the lower volume in Canada and in the United States. The Canadian volume was down 4.9% and was generally spread in all accounts with bigger decline seen in large corporation and in the public sector. The US volume was down by 10.4% mainly due to 2011 orders not repeated in 2012 due to the softness of the market.

EBITDA for the second quarter of 2012 was \$5.2 million compared with \$6.6 million for the same period in 2011, representing a decrease of \$1.4 million or 21.0%. EBITDA margin was 16.5% compared with 19.5% in the second quarter of 2011. Excluding non-recurring items incurred in the second quarter of 2012, the EBITDA margin would have been 17.8%. The margin erosion is attributable to reduction of average selling price due to competitive pressure and increase of raw material costs.

During the second quarter of 2012, total debt decreased by \$0.3 million. The cash generated during the second quarter has been used mainly to pay 2011 income tax. The Total Debt to EBITDA ratio at the end of the second quarter of 2012 was below 2 times, which is in accordance with the Company's goal.

During the second quarter, the Company announced the establishment of an automatic securities purchase plan for its common shares under its normal course issuer bid, beginning July 3, 2012.

## Summary of Quarterly Results

Supremex's revenue is subject to the seasonal advertising and mailing patterns of its customers. The number of units 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, and the holiday and tax seasons. The number of units sold by Supremex is generally lower during spring and summer in anticipation of a slowdown in mailing activities of businesses during the summer. As a result, Supremex's 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 utilizes warehouse capabilities to inventory envelopes as required to counter these predictable seasonal variations in sales volume.

The following table presents a summary of operating results of the Company on a quarterly basis from July 1, 2010 to June 30, 2012.

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

	<b>June 30, 2012</b>	Mar. 31, 2012	Dec. 31, 2011	Sept. 30, 2011	June 30, 2011	Mar. 31, 2011	Dec. 31, 2010	Sept. 30, 2010
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	<b>31,831</b>	35,604	36,699	34,024	34,068	39,101	40,246	36,407
EBITDA <sup>(1)</sup>	<b>5,247</b>	6,413	7,432	6,486	6,638	7,893	7,839	7,215
Earnings before income taxes	<b>1,915</b>	3,755	3,960	1,520	2,037	3,995	3,614	3,461
Net earnings	<b>1,402</b>	2,716	2,950	1,040	1,452	2,873	2,910	2,692
Net earnings per share/unit	<b>0.0478</b>	0.0927	0.1007	0.0355	0.0496	0.0980	0.0993	0.0919

### Notes

<sup>(1)</sup> See "Definition of EBITDA." EBITDA is not a recognized measure under IFRS and does not have a standardized meaning prescribed by IFRS. EBITDA may not be comparable to similar measures presented by other issuers.

Excluding the seasonal patterns of the business, revenue has decreased over the last eight quarters mainly due to the decrease in volume sold in Canada following softness in the envelope market and the strength of the Canadian dollar.

## 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,	
	2012 \$	2011 \$	2012 \$	2011 \$
<b>Revenue</b>	<b>31,831</b>	34,068	<b>67,435</b>	73,169
Operating expenses	<b>22,312</b>	23,013	<b>46,918</b>	48,853
Selling, general and administrative expenses	<b>4,272</b>	4,075	<b>8,858</b>	9,224
Restructuring expenses <sup>(1)</sup>	—	342	—	561
<b>EBITDA</b> <sup>(2)</sup>	<b>5,247</b>	6,638	<b>11,659</b>	14,531
Amortization of property, plant and equipment	<b>848</b>	1,189	<b>1,693</b>	2,351
Amortization of intangible assets	<b>1,541</b>	1,541	<b>3,082</b>	3,082
Loss on disposal of property, plant and equipment	<b>12</b>	227	<b>21</b>	253
<b>Operating earnings</b>	<b>2,846</b>	3,681	<b>6,863</b>	8,845
Financing charges	<b>931</b>	1,644	<b>1,193</b>	2,813
<b>Earnings before income taxes</b>	<b>1,915</b>	2,037	<b>5,670</b>	6,032
Income taxes expenses	<b>513</b>	585	<b>1,553</b>	1,707
<b>Net earnings</b>	<b>1,402</b>	1,452	<b>4,117</b>	4,325
Basic and diluted net earnings per share	<b>0.0478</b>	0.0496	<b>0.1405</b>	0.1476
Dividend declared per share	<b>0.0300</b>	0.0300	<b>0.0600</b>	0.0600
Total assets	<b>159,920</b>	170,988	<b>159,920</b>	170,988
Secured credit facilities	<b>53,242</b>	64,155	<b>53,242</b>	64,155

<sup>(1)</sup> Restructuring expenses are mainly related to the restructuring and improvement initiatives to reduce the Company's operating costs.

<sup>(2)</sup> See "Definition of EBITDA."

## Results of Operations

### *Three-month period ended June 30, 2012 compared with three-month period ended June 30, 2011*

#### *Revenue*

Revenue for the three-month period ended June 30, 2012 amounted to \$31.8 million compared with \$34.1 million for the three-month period ended June 30, 2011, a decrease of \$2.3 million or 6.6%. The decrease in revenue is mainly attributable to the lower number of units sold in Canada and in the United States.

Revenue in Canada decreased by \$2.0 million or 6.3%, from \$31.1 million to \$29.1 million, and revenue in the United States decreased by \$0.3 million or 9.2%, from \$3.0 million to \$2.7 million.

The decrease in revenue in Canada was driven by a 4.9% decrease in the number of units sold combined with a 1.5% decrease in the average selling price. The decrease in the number of units sold was generally spread over all accounts with bigger decline seen in large corporation and in the public sector.

The decrease in revenue in the United States was due to a 10.4% decrease in the number of units sold partially offset by a 1.3% increase in the average selling price. The decrease in the number of units sold was attributable to 2011 orders not repeated in 2012 due to the softness of the market. The increase in the average selling price is mainly due to a different product mix.

#### *Operating expenses*

Operating expenses for the three-month period ended June 30, 2012 amounted to \$22.3 million compared with \$23.0 million for the same period in 2011, a decrease of \$0.7 million or 3.1%. The impact of the reduced volume mainly explains the decrease in operating expenses.

Gross profit (revenue less operating expenses excluding amortization of property, plant and equipment) was \$9.5 million for the three-month period ended June 30, 2012 compared with \$11.1 million for the comparable period in 2011, a decrease of \$1.6 million or 13.9%. As a percentage of sales, gross profit decreased by 2.5% in 2012 to reach 29.9% compared with 32.4% in 2011. The margin erosion is attributable to reduction of average selling price due to competitive pressure and increase of raw material costs.

#### *Selling, general and administrative expenses*

Selling, general and administrative expenses totalled \$4.2 million for the three-month period ended June 30, 2012 compared with \$4.1 million for the same period in 2011, an increase of \$0.1 million or 4.9%. The increase is mainly attributable to non-recurring expenses of \$0.4 million offset by decreased compensation and bad debt expenses.

#### *EBITDA*

As a result of the changes described above, EBITDA was \$5.2 million for the three-month period ended June 30, 2012 compared with \$6.6 million for the same period in 2011, a decrease of \$1.4 million or 21.0%.

#### *Amortization*

Aggregate amortization expense for the three-month period ended June 30, 2012 amounted to \$2.4 million compared with \$2.7 million for the comparable period in 2011 representing a decrease of \$0.3 million or 12.5%. The decrease is mainly related to the review of the useful lives of some manufacturing equipment which have been extended since October 1, 2011.

#### *Financing charges*

Financing charges for the three-month period ended June 30, 2012 amounted to \$0.9 million compared with \$1.6 million for the same period in 2011, representing a decrease of \$0.7 million or 43.3%, resulting from the decreased loss on valuation of derivative financial instruments, the lower amortization of deferred financing costs following the credit facilities renewal and the impact of the reduced level of debt.

#### *Earnings before income taxes*

Due to the changes in revenue and expenses described herein, the earnings before income taxes totalled \$1.9 million for the three-month period ended June 30, 2012 compared with \$2.0 million for the same period in 2011, a decrease of \$0.1 million or 6.0%.

#### *Provision for income taxes*

During the three-month period ended June 30, 2012, the provision for income taxes remained stable at \$0.6 million.

#### *Net earnings*

As a result of the changes described above, net earnings amounted to \$1.4 million for the three-month period ended June 30, 2012 compared with \$1.5 million for the same period in 2011, a decrease of \$0.1 million or 3.5%.

#### *Other comprehensive loss*

The lower than expected return on assets of the Company's defined benefit pension plan combined with the decrease of the discount rate for accrued plan benefit obligation have generated net actuarial losses of \$3.7 million. These variations impacted the Company's other comprehensive loss and deficit.

#### ***Six-month period ended June 30, 2012 compared with six-month period ended June 30, 2011***

##### *Revenue*

Revenue for the six-month period ended June 30, 2012 amounted to \$67.4 million compared with \$73.2 million for the six-month period ended June 30, 2011, a decrease of \$5.8 million or 7.8%. The decrease in revenue is mainly attributable to the lower number of units sold in Canada.

Revenue in Canada decreased by \$5.8 million or 7.8%, from \$67.3 million to \$61.5 million, and revenue in the United States remained stable at \$5.9 million.

The decrease in revenue in Canada was driven by a 7.7% decrease in the number of units sold combined with a 0.9% decrease in the average selling price. The decrease in the number of units sold was generally spread in all accounts with bigger decline seen in large corporations, public and form resellers markets.

Revenue in the United States was impacted by a 4.8% decrease in the number of units sold offset by a 4.7% increase in the average selling price. The decrease in the number of units sold was attributable to 2011 orders not repeated in 2012 due to the softness of the market. The increase in the average selling price is mainly due to a different product mix.

##### *Operating expenses*

Operating expenses for the six-month period ended June 30, 2012 amounted to \$46.9 million compared with \$48.9 million for the same period in 2011, a decrease of 2.0 million or 4.0%. The impact of the reduced volume mainly explains the decrease in operating expenses.

Gross profit (revenue less operating expenses excluding amortization of property, plant and equipment) was \$20.5 million for the six-month period ended June 30, 2012 compared with \$24.3 million for the comparable period in 2011, a decrease of \$3.8 million or 15.6%. As a percentage of sales, gross profit decreased by 2.8% in 2012 to reach 30.4% compared with 33.2% in 2011. The margin erosion is attributable to reduction of average selling price due to competitive pressure and increase of raw material costs.

### *Selling, general and administrative expenses*

Selling, general and administrative expenses totalled \$8.9 million for the six-month period ended June 30, 2012 compared with \$9.2 million for the same period in 2011, a decrease of \$0.3 million or 4.0%. The decrease was mainly attributable to decreased compensation and bad debt expenses of \$0.5 million offset by non-recurring expenses of \$0.4 million incurred during the second quarter of 2012.

### *EBITDA*

As a result of the changes described above, EBITDA was \$11.7 million for the six-month period ended June 30, 2012 compared with \$14.5 million for the same period in 2011, a decrease of \$2.8 million or 19.8%.

### *Amortization*

Aggregate amortization expense for the six-month period ended June 30, 2012 amounted to \$4.8 million compared with \$5.4 million for the comparable period in 2011 representing a decrease of \$0.6 million or 12.1%. The decrease is mainly related to the review of the useful lives of some manufacturing equipment which have been extended since October 1, 2011.

### *Financing charges*

Financing charges for the six-month period ended June 30, 2012 amounted to \$1.2 million compared with \$2.8 million for the same period in 2011, representing a decrease of \$1.6 million or 57.6%, resulting from the gain on valuation of derivative financial instruments, as compared to a loss on valuation of derivative financial investments on 2011, the lower amortization of deferred financing costs following the credit facilities renewal and the impact of the reduced level of debt.

### *Earnings before income taxes*

Due to the changes in revenue and expenses described herein, the earnings before income taxes totalled \$5.7 million for the six-month period ended June 30, 2012 compared with \$6.0 million for the same period in 2011, a decrease of \$0.3 million or 6.0%.

### *Provision for income taxes*

During the six-month period ended June 30, 2012, the Company recorded a provision for income taxes of \$1.6 million compared with \$1.7 million for the six-month period ended June 30, 2011, a decrease of \$0.1 million or 9.0% due to the lower earnings.

### *Net earnings*

As a result of the changes described above, net earnings amounted to \$4.1 million for the six-month period ended June 30, 2012 compared with \$4.3 million for the same period in 2011, a decrease of \$0.2 million or 4.8%.

### *Other comprehensive loss*

The decrease of the discount rate for accrued benefit obligations of the Company's defined benefit pension plans combined with the lower than expected return on plan assets have generated net actuarial losses by \$3.9 million. These variations impacted the Company's other comprehensive loss and deficit.

## **Segmented Information**

The Company currently operates in one business segment: the manufacture and sale of envelopes. The Company's non-current assets amounted to \$127.4 million in Canada and \$0.9 million in the United States as at June 30, 2012 as compared to \$130.9 million and \$1.0 million as at December 31, 2011, respectively.

In Canada, the Company's revenue amounted to \$29.1 million and \$61.5 million for the three and six-month periods ended June 30, 2012 compared with \$31.1 million and \$67.3 million for the same periods in 2011, representing a decrease of \$2.0 million or 6.3% and \$5.8 million or 7.8%. In the United States, the Company's revenue amounted to \$2.7 million and \$5.9 million for the three and six-month periods ended June 30, 2012 compared with \$3.0 million and \$5.9 million for the same periods in 2011, representing a decrease of \$0.3 million or 9.2% for the three-month period ended June 30, 2011.

## **Liquidity and Capital Resources**

### *Operating activities*

Cash of \$3.0 million was generated from operating activities during the six-month period ended June 30, 2012 compared with cash generated of \$2.6 million during the same period of 2011. The increase in net cash flows from operating activities is primarily due to an increase in net change in non-cash working capital balances offset by lower earnings before non-cash items. The higher non-cash working capital level as at June 30, 2012, as compared to December 31, 2011, resulted mainly from the decrease in accounts payable and accrued liabilities, following the payment of the annual incentive programs and other payments, including income taxes payable, partially offset by the decrease of accounts receivable.

### *Investing activities*

Cash used in investing activities of \$1.2 million during the six-month period ended June 30, 2012 was mainly related to the acquisition of property, plant and equipment. In the prior-year period, cash of \$3.8 million was generated by the sale of the Markham facility partially offset by acquisition of property, plant and equipment.

### *Financing activities*

In the six-month period ended June 30, 2012, cash of \$2.8 million was used in financing activities for the repayment of the credit facilities and the payment of dividends. Similarly, in prior-year period, \$6.5 million was used in financing activities for repayments on the credit facilities, payment of dividends and the payment of distributions on Fund units.

### *Liquidity and capital resources summary*

Our ability to generate cash flows from operations combined with our availability under our existing credit facilities are expected to provide sufficient liquidity to meet anticipated needs for existing and future projects.

## **Off-Balance Sheet Arrangements**

Operating lease commitments have been disclosed in the Company's audited consolidated financial statements as at December 31, 2011 and did not significantly change since that date.



## Financial Position Highlights

(In thousands of dollars except for ratio)

	June 30, 2012	December 31, 2011
	\$	\$
Working capital	8,977	5,825
Total assets	159,920	166,841
Total secured credit facilities	53,242	54,177
Equity	63,068	64,667

The Company was in compliance with the covenants of its credit facilities as at June 30, 2012.

Supremex pays quarterly dividends to shareholders at the discretion of the Board of Directors. A dividend of \$878,933 or \$0.03 per share was declared and paid in the second quarter of 2012.

### Capitalization

As at July 31, 2012, the Company had 29,292,767 common shares outstanding.

Pursuant to the normal course issuer bid, which began on December 5, 2011, the Company could purchase for cancellation up to 1,500,000 shares until December 4, 2012. During the three and six-month periods ended June 30, 2012, the Company purchased 5,000 shares for cancellation at a price of \$1.61 per common share.

On June 27, 2012, the Company has established an automatic securities purchase plan (the "Plan") for its common shares. The Plan was established to provide standard instructions regarding how the Company's common shares are to be purchased under the Company's normal course issuer bid for the common shares announced on December 1, 2011. Accordingly, the Company may purchase its common shares in accordance with the Plan on any trading day during the normal course issuer bid period, including during self-imposed trading blackout periods. The Plan is effective July 3, 2012 and will terminate concurrently with the issuer bid on December 4, 2012.

### Disclosure Controls and Internal Controls over Financial Reporting

The Company's disclosure controls and procedures are designed to ensure that all important information about Supremex, including operating and financial activities, is communicated fully, accurately and in a timely manner and that they provide Supremex with assurance that the financial reporting is accurate.

Internal control over financial reporting means a process designed by or under the supervision of the Chief Executive Officer (CEO), acting also as Chief Financial Officer (CFO), to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The internal controls are not expected to prevent and detect all misstatements due to error or fraud.

As at June 30, 2012, the Company's CEO, acting also as CFO, has certified that the disclosure controls and procedures are effective and that, during the six-month period ended June 30, 2012, Supremex did not make any material changes in the internal controls over financial reporting that materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

## **New Accounting Policies**

### ***Recent Accounting Pronouncements***

#### *IFRS 9, Financial Instruments*

In October 2010, the International Accounting Standards Board (“IASB”) issued IFRS 9, *Financial Instruments* (“IFRS 9”). IFRS 9, which replaces IAS 39, *Financial Instruments: Recognition and Measurement*, establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity’s future cash flows.

#### *IFRS 10, Consolidated Financial Statements*

In May 2011, the IASB issued IFRS 10, *Consolidated Financial Statements* (“IFRS 10”). IFRS 10, which replaces SIC-12, *Consolidation – Special Purpose Entities* and part of IAS 27, *Consolidated and Separate Financial Statements*, provides additional guidance regarding the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company.

#### *IFRS 12, Disclosure of Interests in Other Entities*

In May 2011, the IASB issued IFRS 12, *Disclosure of Interests in Other Entities* (“IFRS 12”). IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.

#### *IFRS 13, Fair Value Measurement*

In May 2011, the IASB issued IFRS 13 *Fair Value Measurement* (“IFRS 13”). IFRS 13 will improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS.

#### *IAS 1, Financial Statement Presentation*

In June 2011, the IASB issued amendments to IAS 1, *Financial Statement Presentation* (“IAS 1”). This amendment to IAS 1 will improve the presentation of the components of other comprehensive income.

#### *IAS 19, Employee Benefits*

In June 2011, the IASB issued amendments to IAS 19, *Employee Benefits* (“IAS 19”). This amendment to IAS 19 will improve the recognition and disclosure requirements for defined benefits plans.

These new standards are effective for the Company’s interim and annual consolidated financial statements commencing January 1, 2013. However, in December 2011, the IASB has postponed the mandatory application of IFRS 9, *Financial Instruments*, to January 1, 2015. The Company is assessing the impact of these new standards on its consolidated financial statements.

## **Recent Events**

On July 1, 2012, the Company converted, for future service, its defined benefit pension plans into defined contributions plans, for substantially all of its employees.

On July 31, 2012, the Board of Directors has declared a quarterly dividend of \$0.03 per common share, payable on September 17, 2012 to shareholders of record at the close of business on August 31, 2012.

## **Risk Factors**

As a result of operations, business prospects and financial condition, the Company is subject to a number of risks and uncertainties, and is affected by a number of factors outside the control of the management. Details are provided in the “Risk Factors” section of the Company’s 2011 Annual Information Form, dated March 22, 2012 (which can be found at [www.sedar.com](http://www.sedar.com))

## **Forward-Looking Statements**

This MD&A contains “forward-looking statements” within the meaning of applicable Canadian securities laws, including (but not limited to) statements about the EBITDA projection, future performance of Supremex and similar statements concerning anticipated future results, circumstances, performance or expectations. A statement is forward-looking when it uses what Supremex knows and expects today to make a statement about the future. Forward-looking statements may include words such as anticipate, assumption, believe, could, expect, goal, guidance, intend, may, objective, outlook, plan, seek, should, strive, target and will. These statements relate to future events or future performance and reflect 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 statements reflect current assumptions, expectations and estimates of management and are based on information currently available to Supremex as at the date of this MD&A.

Forward-looking statements are subject to certain risks and uncertainties, and should not be read as guarantees of future performance or results and actual results may differ materially from the conclusion, forecast or projection stated in such forward-looking statements. These risks, uncertainties and other factors include but are not limited to the following: economic cycles, availability of capital, decline in envelope consumption, increase of competition, exchange rate fluctuation, raw material increases, credits risks with respect to trade receivables, increase in funding of pension plans, postal services deficiencies, interest rates fluctuation and potential risk of litigation. Such assumptions, expectations, estimates, risks and uncertainties are discussed throughout our MD&A for fiscal 2011 and, in particular, in “Risk Factors”. Consequently, we cannot guarantee that any forward-looking statements will materialize. Readers should not place any undue reliance on such forward-looking statements.

## **Definition of EBITDA and Non-IFRS Measures**

References to “EBITDA” are to earnings before financing charges, income tax expense, amortization of property, plant and equipment and of intangible assets and loss on disposal of property, plant and equipment. Supremex believes that EBITDA is a measurement commonly used by readers of financial statements to evaluate a company’s operational cash-generating capacity and ability to discharge its financial expenses.

EBITDA is not an earnings measure recognized under IFRS and does not have a standardized meaning prescribed by IFRS. Therefore, EBITDA may not be comparable to similar measures presented by other entities. Investors are cautioned that EBITDA should not be construed as an alternative to net earnings determined in accordance with IFRS as an indicator of the Company's performance.

**Additional Information**

Additional information relating to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com).

Interim Condensed Consolidated Financial Statements

**Supremex Inc.**

Unaudited

For the three and six-month periods ended June 30, 2012 and 2011

All amounts expressed in Canadian dollars

**NOTICE**

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

**Supremex Inc.**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

As at		June 30, 2012	December 31, 2011
[Unaudited]	Notes	\$	\$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		1,575,738	2,606,332
Accounts receivable		15,642,285	18,740,499
Inventories	3	13,504,107	13,103,192
Prepaid expenses		920,347	512,584
<b>Total current assets</b>		<b>31,642,477</b>	<b>34,962,607</b>
Property, plant and equipment	4	29,008,901	29,528,673
Intangible assets		23,517,079	26,599,029
Goodwill		75,751,125	75,751,125
<b>Total assets</b>		<b>159,919,582</b>	<b>166,841,434</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		16,966,729	19,990,280
Provisions	5	442,550	656,567
Income tax payable		256,186	3,490,996
Current portion of secured credit facilities	6	5,000,000	5,000,000
<b>Total current liabilities</b>		<b>22,665,465</b>	<b>29,137,843</b>
Secured credit facilities	6	48,241,881	49,176,934
Deferred income tax liabilities		524,155	2,182,392
Accrued pension benefit liability	8	23,266,000	19,251,100
Other post-retirement benefit obligations		635,700	649,600
Derivative financial liability		1,518,492	1,776,293
<b>Equity</b>			
Share capital	9	9,998,293	10,000,000
Contributed surplus		280,417,403	280,423,746
Deficit		(227,273,097)	(225,680,313)
Accumulated other comprehensive loss		(74,710)	(76,161)
<b>Total equity</b>		<b>63,067,889</b>	<b>64,667,272</b>
<b>Total liabilities and equity</b>		<b>159,919,582</b>	<b>166,841,434</b>

Subsequent events (note 11)

*See accompanying notes*

On behalf of the Directors:

By: (Signed) Michael Rapps \_\_\_\_\_  
Director

By: (Signed) Gilles Cyr \_\_\_\_\_  
Director

Supremex Inc.

CONSOLIDATED STATEMENTS OF EARNINGS

[Unaudited]	Notes	Three-month periods ended June 30,		Six-month periods ended June 30,	
		2012 \$	2011 \$	2012 \$	2011 \$
<b>Revenue</b>		<b>31,831,312</b>	34,068,214	<b>67,435,053</b>	73,168,801
Operating expenses	<b>3</b>	<b>22,312,140</b>	23,013,129	<b>46,918,003</b>	48,852,813
Selling, general and administrative expenses		<b>4,272,632</b>	4,074,934	<b>8,857,770</b>	9,224,422
<b>Operating earnings before amortization, loss on disposal of property, plant and equipment and restructuring expenses</b>		<b>5,246,540</b>	6,980,151	<b>11,659,280</b>	15,091,566
Amortization of property, plant and equipment		<b>847,401</b>	1,188,812	<b>1,692,727</b>	2,350,998
Amortization of intangible assets		<b>1,540,975</b>	1,540,975	<b>3,081,950</b>	3,081,950
Loss on disposal of property, plant and equipment	<b>4</b>	<b>11,329</b>	227,005	<b>20,798</b>	253,186
Restructuring expenses		—	342,555	—	560,984
<b>Operating earnings</b>		<b>2,846,835</b>	3,680,804	<b>6,863,805</b>	8,844,448
Financing charges	<b>6</b>	<b>931,379</b>	1,643,641	<b>1,192,995</b>	2,812,679
<b>Earnings before income taxes</b>		<b>1,915,456</b>	2,037,163	<b>5,670,810</b>	6,031,769
Income tax expense		<b>513,591</b>	584,694	<b>1,553,324</b>	1,707,005
<b>Net earnings</b>		<b>1,401,865</b>	1,452,469	<b>4,117,486</b>	4,324,764
<b>Basic and diluted net earnings per share</b>		<b>0.0478</b>	0.0496	<b>0.1405</b>	0.1476
<b>Weighted average number of shares outstanding</b>		<b>29,297,108</b>	29,297,767	<b>29,297,437</b>	29,297,767

See accompanying notes

**Supremex Inc.**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME**

[Unaudited]	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2012 \$	2011 \$	2012 \$	2011 \$
<b>Net earnings</b>	<b>1,401,865</b>	1,452,469	<b>4,117,486</b>	4,324,764
<b>Other comprehensive loss</b>				
Recognized actuarial (loss) gain on defined benefit pension plans, net of income tax recovery of \$1,332,313 and of \$1,402,758 [2011 – expense of \$621,052 and \$4,923]	<b>(3,741,587)</b>	1,801,148	<b>(3,945,142)</b>	14,277
Recognized actuarial loss on other post-retirement benefit, net of income tax recovery of \$93 and \$2,638 [2011 – recovery of \$2,385]	<b>93</b>	(6,915)	<b>(7,262)</b>	—
Foreign currency translation adjustments	<b>9,235</b>	(1,719)	<b>1,451</b>	(7,236)
Other comprehensive (loss) income	<b>(3,732,259)</b>	1,792,514	<b>(3,950,953)</b>	7,041
<b>Total comprehensive (loss) income</b>	<b>(2,330,394)</b>	3,244,983	<b>166,533</b>	4,331,805

*See accompanying notes*



**Supremex Inc.**

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

**For the six-month periods ended June 30**

**[Unaudited]**

	Share capital [notes 1 & 9] \$	Fund units [notes 1 & 9] \$	Contributed surplus [note 1] \$	Deficit \$	Foreign currency translation reserve \$	Total equity \$
<b>As at December 31, 2011</b>	10,000,000	—	280,423,746	(225,680,313)	(76,161)	64,667,272
Net earnings	—	—	—	4,117,486	—	4,117,486
Other comprehensive loss	—	—	—	(3,952,404)	1,451	(3,950,953)
Total comprehensive income	—	—	—	165,082	1,451	166,533
Dividends declared [note 7]	—	—	—	(1,757,866)	—	(1,757,866)
Shares repurchased and cancelled [note 9]	(1,707)	—	(6,343)	—	—	(8,050)
<b>As at June 30, 2012</b>	<b>9,998,293</b>	<b>—</b>	<b>280,417,403</b>	<b>(227,273,097)</b>	<b>(74,710)</b>	<b>63,067,889</b>
<b>As at December 31, 2010</b>	—	282,798,322	7,625,424	(219,511,314)	(83,679)	70,828,753
Net earnings	—	—	—	4,324,764	—	4,324,764
Other comprehensive loss	—	—	—	14,277	(7,236)	7,041
Total comprehensive income	—	—	—	4,339,041	(7,236)	4,331,805
Conversion into a corporation	282,798,322	(282,798,322)	—	—	—	—
Reduction of stated capital	(272,798,322)	—	272,798,322	—	—	—
Dividends declared	—	—	—	(1,757,866)	—	(1,757,866)
<b>As at June 30, 2011</b>	<b>10,000,000</b>	<b>—</b>	<b>280,423,746</b>	<b>(216,930,139)</b>	<b>(90,915)</b>	<b>73,402,692</b>

*See accompanying notes*

**Supremex Inc.**

**CONSOLIDATED STATEMENTS OF CASH FLOW**

[Unaudited]	Notes	Three-month periods ended June 30,		Six-month periods ended June 30,	
		2012 \$	2011 \$	2012 \$	2011 \$
<b>OPERATING ACTIVITIES</b>					
Net earnings		1,401,865	1,452,469	4,117,486	4,324,764
Non-cash adjustment to reconcile net earnings to net cash flows					
Amortization of property, plant and equipment		847,401	1,188,812	1,692,727	2,350,998
Amortization of intangible assets		1,540,975	1,540,975	3,081,950	3,081,950
Amortization of deferred financing costs	6	59,665	211,503	115,838	423,005
Loss on disposal of property, plant and equipment	4	11,329	227,005	20,798	253,186
Loss (gain) on valuation of derivative financial instruments	6	195,827	606,091	(257,801)	665,061
Deferred income tax recovery		(198,716)	(427,878)	(252,841)	(395,059)
Working capital adjustments					
Variation in accounts receivable		1,965,097	46,609	3,098,214	(1,073,699)
Variation in inventories		(370,599)	(482,557)	(400,915)	(1,747,526)
Variation in prepaid expenses		(12,694)	(90,285)	(407,763)	(819,509)
Variation in accounts payable and accrued liabilities		1,321,973	(498,304)	(3,023,551)	(3,403,964)
Variation in provisions		(14,788)	(110,928)	(214,017)	(415,086)
Variation in income tax payable		(4,054,468)	690,420	(3,234,810)	935,794
Change in accrued pension benefit liability		(752,700)	(797,600)	(1,333,000)	(1,595,700)
Change in other post-retirement benefit obligation		(12,100)	(11,600)	(23,800)	(23,300)
<b>Net cash flows from operating activities</b>		<b>1,928,067</b>	<b>3,544,732</b>	<b>2,978,515</b>	<b>2,560,915</b>
<b>INVESTING ACTIVITIES</b>					
Acquisition of property, plant and equipment	4	(838,227)	(902,312)	(1,212,311)	(1,958,746)
Proceeds from sale of property, plant and equipment	4	8,839	114,127	18,839	146,689
Proceeds from sale of assets held for sale		—	58,068	—	5,606,068
<b>Net cash flows (used in) from investing activities</b>		<b>(829,388)</b>	<b>(730,117)</b>	<b>(1,193,472)</b>	<b>3,794,011</b>
<b>FINANCING ACTIVITIES</b>					
Proceeds from revolving credit facility		1,000,000	6,868,897	1,500,000	5,327,627
Repayment of term credit facility		(1,250,000)	(8,790,489)	(2,500,000)	(10,665,489)
Dividends paid	7	(878,933)	(878,933)	(1,757,866)	(878,933)
Financing cost incurred		(26,940)	—	(50,891)	—
Purchase of share capital for cancellation	9	(8,050)	—	(8,050)	—
Distributions paid on Fund units		—	—	—	(292,978)
<b>Net cash flows used in financing activities</b>		<b>(1,163,923)</b>	<b>(2,800,525)</b>	<b>(2,816,807)</b>	<b>(6,509,773)</b>
Net change in cash		(65,244)	14,090	1,031,764	(154,847)
Net foreign exchange difference		(11,346)	4,396	1,170	24,459
Cash, beginning of period		1,652,328	—	2,606,332	148,874
<b>Cash, ending of period</b>		<b>1,575,738</b>	<b>18,486</b>	<b>1,575,738</b>	<b>18,486</b>
<b>Supplemental information <sup>(1)</sup></b>					
Interest paid		680,069	805,861	1,316,052	1,826,892
Interest received		983	894	2,675	4,377
Income taxes paid		4,636,451	240,424	4,910,715	1,084,654
Income taxes received		96	—	96	—

<sup>(1)</sup> 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

## Supremex Inc

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2012 and 2011

[Unaudited]

#### 1. CORPORATE INFORMATION AND BASIS OF PREPARATION

Supremex Inc. (the “Company” or “Supremex”) was incorporated on March 31, 2006 under the *Canadian Business Corporation Act*. The common shares (“common share”) of the Company are listed on the Toronto Stock Exchange (“TSX”) under the symbol SXP. The registered office is located at 7213 Cordner Street in LaSalle, Quebec. The Company is the successor to Supremex Income Fund (the “Fund”) following the completion of the conversion of the Fund from an income trust to a corporation, on January 1, 2011 (the “Effective Date”).

On May 7, 2010, the unitholders of the Fund approved the plan of arrangement (the “Arrangement”) pursuant to which the Fund converted from an income trust structure to a public corporation named Supremex Inc. The final order of the Superior Court of Québec with respect to the Arrangement was obtained on May 10, 2010.

Under the Arrangement, unitholders of the Fund received, for each unit of the Fund held, one common share of Supremex.

The Arrangement has been accounted for as a continuity of interests of the Fund since Supremex continues to operate the business of the Fund and there are no ownership changes. Under the continuity of interests method of accounting, the transfer of the assets, liabilities and equity of the Fund to Supremex is recorded at the net book value as at the Effective Date of transaction. As a result, for accounting purposes, the transaction is required to be accounted for as though the Company was a continuation of the Fund but with its capital reflecting the exchange of Fund units for Supremex common shares. Therefore, certain terms such as shareholder/unitholder, dividend/distribution and share/unit may be used interchangeably throughout these consolidated financial statements. For the periods reported up to the Effective Date of the conversion, all payments to unitholders were in the form of fund unit distributions, and after that date all payments to shareholders were in the form of dividends.

Any references to the Fund for periods after January 1, 2011, shall mean Supremex Inc. as a successor of the Fund. References to “Company”, “share”, “dividends” and “shareholders” means “fund”, “unit”, “distributions” and “unitholders” for transactions that occurred before the conversion of the Fund into a corporation.

Pursuant to the Arrangement, the stated capital for the common shares was reduced to an amount of \$10 million as of the Effective Date.

The business of Supremex follows seasonal patterns with the highest revenue occurring from August to February due to seasonal advertising and mailing patterns of its customers since the highest number of mailings related to events including the return to school, fund-raising and the holiday and tax seasons take place during that period. As a result, revenue and financial performance for the three and six-month periods ended June 30, 2012 are not necessarily indicative of the revenue and performance that may be expected for a full year.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2012 and 2011**

**[Unaudited]**

**1. CORPORATE INFORMATION AND BASIS OF PREPARATION [Cont'd]**

These unaudited interim condensed consolidated financial statements were approved by the Company's Board of Directors on July 31, 2012 and have not been audited or reviewed by the Company's auditors. 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, 2011, prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). 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, 2011.

**2. RECENT ACCOUNTING PRONOUNCEMENTS**

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the International Accounting Standards Board ("IASB") or International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for accounting periods beginning after January 1, 2013 or later periods. The standards impacted that are applicable to the Company are as follows:

- **IFRS 9, *Financial Instruments***  
In October 2010, the IASB issued IFRS 9, *Financial Instruments* ("IFRS 9"). IFRS 9, which replaces IAS 39, *Financial Instruments: Recognition and Measurement*, establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows.
- **IFRS 10, *Consolidated Financial Statements***  
In May 2011, the IASB issued IFRS 10, *Consolidated Financial Statements* ("IFRS 10"). IFRS 10, which replaces SIC-12, *Consolidation – Special Purpose Entities* and part of IAS 27, *Consolidated and Separate Financial Statements*, provides additional guidance regarding the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company.
- **IFRS 12, *Disclosure of Interests in Other Entities***  
In May 2011, the IASB issued IFRS 12, *Disclosure of Interests in Other Entities* ("IFRS 12"). IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.
- **IFRS 13, *Fair Value Measurement***  
In May 2011, the IASB issued IFRS 13, *Fair Value Measurement* ("IFRS 13"). IFRS 13 will improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS.

## Supremex Inc

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2012 and 2011

[Unaudited]

#### 2. RECENT ACCOUNTING PRONOUNCEMENTS [Cont'd]

- IAS 1, *Financial Statement Presentation*  
In June 2011, the IASB issued amendments to IAS 1, *Financial Statement Presentation* ("IAS 1"). This amendment to IAS 1 will improve the presentation of the components of other comprehensive income.
- IAS 19, *Employee Benefits*  
In June 2011, the IASB issued amendments to IAS 19, *Employee Benefits* ("IAS 19"). This amendment to IAS 19 will improve the recognition and disclosure requirements for defined benefits plans.

These new standards are effective for the Company's interim and annual consolidated financial statements commencing January 1, 2013. However, in December 2011, the IASB has postponed the mandatory application of IFRS 9, *Financial Instruments*, to January 1, 2015. The Company is assessing the impact of these new standards on its consolidated financial statements.

#### 3. INVENTORIES

	June 30, 2012	December 31, 2011
	\$	\$
Raw materials	3,367,501	3,060,489
Work in progress	257,687	227,185
Finished goods	9,878,919	9,815,518
	<b>13,504,107</b>	13,103,192

The cost of inventories recognized as an expense and included in operating expenses, including the related amortization of property, plant and equipment allocated to inventories, during the three and six-month periods ended June 30, 2012 are \$23,110,151 and \$48,510,372 [2011 - \$24,152,980 and \$51,102,440].

#### 4. PROPERTY, PLANT AND EQUIPMENT

During the three and six-month periods ended June 30, 2012, the Company acquired property, plant and equipment with a cost of \$838,227 and of \$1,212,311 [2011 - \$902,312 and \$1,958,746, respectively].

Assets (other than those classified as assets held for sale) with a net book value of \$20,168 and of \$39,637 were disposed of by the Company during the three and six-month periods ended June 30, 2012 [2011 - \$294,000 and \$332,743, respectively], resulting in a net loss on disposal of \$11,329 and \$20,798 [2011 - \$179,873 and \$186,054, respectively].

Assets held for sale with a net book value of \$105,200 and \$5,673,200 were disposed by the Company during the three and six-month periods ended June 30, 2011, resulting in a net loss on disposal of \$47,132 and of \$67,132.

Assets held for sale with a net book value of \$12,359 were reclassified as property, plant and equipment during the three and six-month periods ended June 30, 2011.

## Supremex Inc

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2012 and 2011

[Unaudited]

#### 5. PROVISIONS

In connection with the acquisitions of NPG Envelope (“NPG”) in 2007, Montreal Envelope Inc. (“Montreal”) in 2008 and Pioneer Envelopes Ltd. (“Pioneer”) in 2010, the Company adopted a plan for the integration and restructuring of the acquired businesses. As a result, the Company recognized a provision for severance, relocation and exit costs relating to certain employees and facilities of the acquired businesses. As at June 30, 2012 and December 31, 2011 the amount of the remaining accrued restructuring provision was \$0.4 million. This amount is related to deferred severance for employees on long-term disability and is payable on demand.

The Company incurred additional expenses during 2011 in the form of severances and other costs as a result of the restructuring to the Toronto and Montreal operations. The remaining balance, as at December 31, 2011, of \$0.2 million of these expenses was paid during the first quarter of 2012.

The following is a summary of amounts accrued and paid relating to restructuring expenses.

	<b>June 30, 2012</b>	<b>December 31, 2011</b>
	\$	\$
Balance, beginning of period	<b>656,567</b>	931,297
Restructuring expenses charged against earnings	—	1,089,401
Cash payments	<b>(214,017)</b>	(1,364,131)
<b>Balance, end of period</b>	<b>442,550</b>	656,567

#### 6. SECURED CREDIT FACILITIES

Amounts owed under revolving and term credit facilities are as follows:

	<b>June 30, 2012</b>	<b>December 31, 2011</b>
	\$	\$
Revolving credit facility	<b>6,500,000</b>	5,000,000
Term credit facility	<b>47,500,000</b>	50,000,000
Less: deferred financing costs, net	<b>(758,119)</b>	(823,066)
	<b>53,241,881</b>	54,176,934
Current portion	<b>(5,000,000)</b>	(5,000,000)
<b>Long-term portion of secured credit facilities</b>	<b>48,241,881</b>	49,176,934

**Supremex Inc**

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2012 and 2011**

**[Unaudited]**

**6. SECURED CREDIT FACILITIES [Cont'd]**

Under the terms of the secured credit facilities, the Company is required, among other conditions, to meet certain covenants. The Company was in compliance with these covenants as at June 30, 2012. The secured credit facilities are collateralized by hypothec and security interests covering all present and future assets of the Company and its subsidiaries.

Minimum required payments on secured credit facilities are as follows:

	\$
2012	2,500,000
2013	5,000,000
2014	5,000,000
2015	41,500,000

As at June 30, 2012, the interest rate on the revolving and term credit facilities was 3.56% (3.53% as at December 31, 2011). On January 14, 2011, the Company entered into an interest rate swap agreement for an amount of \$30 million at a fixed rate of 2.84% until January 14, 2016, excluding the applicable margin.

Financing charges are as follows:

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2012	2011	2012	2011
	\$	\$	\$	\$
Interest on secured credit facilities	<b>670,311</b>	822,777	<b>1,325,294</b>	1,720,352
Other interest	<b>5,576</b>	3,270	<b>9,664</b>	4,261
Amortization of deferred financing costs	<b>59,665</b>	211,503	<b>115,838</b>	423,005
Loss (gain) on valuation of derivative financial instrument (interest rate swap)	<b>195,827</b>	606,091	<b>(257,801)</b>	665,061
	<b>931,379</b>	1,643,641	<b>1,192,995</b>	2,812,679

**Supremex Inc****NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****June 30, 2012 and 2011****[Unaudited]****7. DIVIDENDS**

Dividends declared from January 1, 2012 to June 30, 2012 were as follows:

<b>Declaration date</b>	<b>Record date</b>	<b>Payment date</b>	<b>Per share \$</b>	<b>Dividend \$</b>
February 15, 2012	February 29, 2012	March 15, 2012	0.03	878,933
May 7, 2012	May 31, 2012	June 15, 2012	0.03	878,933
<b>Total</b>				<b>1,757,866</b>

**8. EMPLOYEE DEFINED BENEFIT PLANS**

The Company's total benefit cost for the pension plans was \$646,800 and \$1,561,900 for the three and six-month periods ended June 30, 2012 [2011 - \$488,100 and \$1,095,000].

**9. SHARE CAPITAL**

The change in share capital and fund units was as follows:

	<b>Supremex Income Fund</b>		<b>Supremex Inc.</b>	
	<b>Number of units</b>	<b>Fund units \$</b>	<b>Number of common shares</b>	<b>Share capital \$</b>
Balance, as of December 31, 2010	29,297,767	282,798,322	—	—
Conversion into a corporation [note 1]	(29,297,767)	(282,798,322)	29,297,767	10,000,000
Balance, as of December 31, 2011	—	—	29,297,767	10,000,000
Purchase of share capital for cancellation	—	—	(5,000)	(1,707)
<b>Balance, as of June 30, 2012</b>	<b>—</b>	<b>—</b>	<b>29,292,767</b>	<b>9,998,293</b>

On January 1, 2011, all the outstanding units of the Fund were exchanged for common shares of Supremex on a one-for-one basis [see note 1].

Pursuant to the normal course issuer bid, which began on December 5, 2011, the Company could purchase for cancellation up to 1,500,000 common shares until December 4, 2012. During the three and six-month periods ended June 30, 2012, the Company purchased for cancellation 5,000 common shares at a price of \$1.61 per common share. The excess of the cost of the common shares over their average book value was accounted for as a reduction of contributed surplus.

On June 27, 2012, the Company has established an automatic securities purchase plan (the "Plan") for its common shares. The Plan was established to provide standard instructions regarding how the Company's common shares are to be purchased under the Company's normal course issuer bid for the common shares announced on December 1, 2011. Accordingly, the Company may purchase its common shares in accordance with the Plan on any trading day during the normal course issuer bid, including during self-imposed trading blackout periods. The Plan is effective July 3, 2012 and will terminate concurrently with the issuer bid on December 4, 2012.



**Supremex Inc**

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2012 and 2011**

**[Unaudited]**

**10. SEGMENTED INFORMATION**

The Company currently operates in one reporting segment: the manufacturing and sale of envelopes. The Company's non-current assets amounted to \$127,351,584 in Canada and \$925,521 in the United States as at June 30, 2012 [\$130,876,557 and \$1,002,270, respectively, as at December 31, 2011]. The Company's revenue amounted to \$29,111,313 and \$61,544,931 in Canada and \$2,719,999 and \$5,890,122 in the United States for the three and six-month periods ended June 30, 2012 based on customer location [2011 - \$31,072,515 and \$67,260,771 in Canada and \$2,995,699 and \$5,908,030 in the United States, respectively].

**11. SUBSEQUENT EVENTS**

On July 1, 2012, the Company converted, for future service, its defined benefit pension plans into defined contributions plans, for substantially all of its employees.

On July 31, 2012, the Board of Directors has declared a quarterly dividend of \$0.03 per common share, payable on September 17, 2012 to shareholders of record at the close of business on August 31, 2012.