



**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
FOR THE THREE- AND TWELVE-MONTH PERIODS ENDED DECEMBER 31, 2011**

The following management's discussion and analysis of financial condition and results of operations ("MD&A"), dated February 15, 2012, of Supremex Inc. (the "Company") should be read together with the accompanying audited consolidated financial statements and related notes of the Company for the year ended December 31, 2011. These consolidated financial statements of the Company have been prepared by management in accordance with International Financial Reporting Standards. 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 twelve-month periods ended December 31, 2011.

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 IFRS, 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.

Financial statements and adoption of IFRS

This MD&A should be read in conjunction with the accompanying consolidated financial statements and related notes. In February 2008, the Canadian Accounting Standards Board confirmed that IFRS would replace Canadian GAAP for publicly accountable enterprises for fiscal years beginning on and after January 1, 2011. The accompanying consolidated financial statements for the year ended December 31, 2010 have been restated to reflect our adoption of IFRS and were prepared in accordance with IFRS 1, *First-time adoption of International Financial Reporting Standards*. Periods prior to the transition date have not been restated. Our consolidated financial statements subsequent to this report will be prepared in accordance with IFRS.

Note 25 in the accompanying consolidated financial statements contain a detailed description of our conversion to IFRS, including reconciliations and descriptions of the effect of the transition from Canadian GAAP to IFRS on equity, net earnings and comprehensive income. It also includes reconciliations of the consolidated statements of financial position as at January 1, 2010 and December 31, 2010, as well as the consolidated statements of earnings and the consolidated statements of comprehensive income for the year ended December 31, 2010.

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. Comparative figures presented in the consolidated financial statements and the MD&A of the Company include all amounts previously reported by 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

EBITDA before restructuring expenses for the fourth quarter of 2011 was \$7.8 million compared with EBITDA before restructuring expenses of \$8.4 million recorded for the fourth quarter of 2010. Revenue in the fourth quarter of 2011 amounted to \$36.7 million compared with \$40.2 million in the fourth quarter of 2010, representing a decrease of \$3.5 million or 8.8%. In the fourth quarter, total volume was down by 13.6%, due to lower volume in both Canada and the US. The Canadian volume was down 12.1%, with a significant reduction of volume from the government and form resellers. The fourth quarter of 2010 saw exceptional demand from form resellers due to the restocking of products before the end of the year. The US volume was down by 22.4% mainly due to specific orders done in the fourth quarter of 2010 that were not repeated and the high volume related to the Buffalo partnership started at the end of the third quarter of 2010.

In the fourth quarter of 2011, restructuring expenses of \$0.4 million were recorded mainly in relation with the previously announced merger of the two Montreal facilities into the LaSalle facility. The Notre-Dame facility lease expired on October 31, 2011 and the integration of the two facilities is now fully completed.

The Company renewed its credit agreement on November 4, 2011 for a period of 4 years. The total credit facilities of \$95 million consist of a term credit facility of \$50 million, a revolving facility of \$20 million and an acquisition/capital expenditures facility of \$25 million. The Company's total secured credit facilities net of cash amounted to \$51.6 million as at December 31, 2011, which represents a reduction of \$7.6 million in the fourth quarter of 2011 and \$17.4 million during the year.

For the year ended December 31, 2011, EBITDA before acquisition costs and restructuring expenses was \$29.5 million or 20.5% of revenues compared with \$33.2 million or 21.7% of revenues in 2010.

Key Factors Affecting the Business

The Company's operating results and financial condition are subject to a number of risks and uncertainties, and are affected by a number of factors outside management's control. See "Risk Factors" for a discussion of these risks.

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 January 1, 2010 to December 31, 2011. The Company adopted IFRS on January 1, 2011, effective January 1, 2010 and therefore comparative figures for 2010 are presented under IFRS.

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

	Dec. 31, 2011	Sept. 30, 2011	June 30, 2011	Mar. 31, 2011	Dec. 31, 2010	Sept. 30, 2010	June 30, 2010	Mar. 31, 2010
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	36,699	34,024	34,068	39,101	40,246	36,407	35,231	41,241
EBITDA ⁽¹⁾	7,432	6,486	6,638	7,893	7,839	7,215	6,008	9,920
Earnings before income taxes	3,960	1,520	2,037	3,995	3,614	3,461	137	5,568
Net earnings	2,950	1,040	1,452	2,873	2,910	2,692	143	4,073
Net earnings per share/unit	0.1007	0.0355	0.0496	0.0980	0.0993	0.0919	0.0049	0.1390

Notes

⁽¹⁾ 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. The lower earnings before income taxes and net earnings for the three-month period ended June 30, 2010 is explained by the restructuring expenses and the additional amortization expense recorded following the announcement of the restructuring of the Toronto operations.

Selected Consolidated Financial Information

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

	Three-month periods ended December 31,		Twelve-month periods ended December 31,	
	2011 \$	2010 \$	2011 \$	2010 \$
Revenue	36,699	40,246	143,892	153,125
Operating expenses	24,069	27,470	96,209	102,936
Selling, general and administrative expenses	4,826	4,441	18,145	17,001
Acquisition costs ⁽¹⁾	—	(16)	—	152
Restructuring expenses ⁽²⁾	372	512	1,089	2,054
EBITDA ⁽³⁾	7,432	7,839	28,449	30,982
Amortization and write-down of property, plant and equipment	853	1,432	4,398	6,662
Amortization of intangible assets	1,541	1,541	6,164	6,164
Amortization of deferred compensation	—	—	—	315
Loss on disposal of property, plant and equipment	86	94	400	340
Operating earnings	4,952	4,772	17,487	17,501
Financing charges	992	1,158	5,975	4,721
Earnings before income taxes	3,960	3,614	11,512	12,780
Income taxes expenses	1,010	704	3,197	2,962
Net earnings	2,950	2,910	8,315	9,818
Basic and diluted net earnings per share/unit	0.1007	0.0993	0.2838	0.3351
Dividend/distribution declared per share/unit	0.0300	0.0300	0.0900	0.1200
Total assets	166,841	176,990	166,841	176,990
Secured credit facilities	54,177	69,070	54,177	69,070

⁽¹⁾ Acquisition costs represent the Pioneer Envelopes Ltd. (“Pioneer”) acquisition related costs.

⁽²⁾ Restructuring expenses are mainly related to the restructuring and improvement initiatives to reduce the Company’s operating costs.

⁽³⁾ See “Definition of EBITDA.”

Results of Operations

Three-month period ended December 31, 2011 compared with three-month period ended December 31, 2010

Revenue

Revenue for the three-month period ended December 31, 2011 amounted to \$36.7 million compared with \$40.2 million for the three-month period ended December 31, 2010, a decrease of \$3.5 million or 8.8%. The decrease in revenue is mainly attributable to the lower number of units sold in Canada.

Sales revenue in Canada decreased by \$3.1 million or 8.4%, from \$37.0 million to \$33.9 million, and sales revenue in the United States decreased by \$0.4 million or 12.5%, from \$3.2 million to \$2.8 million.

The decrease in sales revenue in Canada was driven by a 12.1% decrease in the number of units sold, partially offset by a 4.1% increase in the average selling price. The decrease in the number of units sold was mainly seen in the government and form resellers markets.

The decrease in sales revenue in the United States was due to a 22.4% decrease in the number of units sold partially offset by a 13.2% increase in the average selling price. The decrease in the number of units sold is mainly attributable to specific orders done in the fourth quarter of 2010 that were not repeated and the high volume related to the Buffalo partnership started at the end of the third quarter of 2010 partially offset by the increase in the average selling price resulting from the change in the product mix.

Operating expenses

Operating expenses for the three-month period ended December 31, 2011 amounted to \$24.1 million compared with \$27.5 million for the same period in 2010, a decrease of \$3.4 million or 12.4%. The impact of the reduced volume mainly explains the decrease in operating expenses.

Gross profit (revenue less operating expenses excluding amortization and write-down of property, plant and equipment) was \$12.6 million for the three-month period ended December 31, 2011 compared with \$12.8 million for the comparable period in 2010, a decrease of \$0.2 million or 1.1%. As a percentage of sales, gross profit increased by 2.7% in 2011 to reach 34.4% compared with 31.7% in 2010.

Selling, general and administrative expenses

Selling, general and administrative expenses totalled \$4.8 million for the three-month period ended December 31, 2011 compared with \$4.4 million for the same period in 2010, an increase of \$0.4 million or 8.7% mainly due to increased compensation.

Acquisition costs and restructuring expenses

Restructuring expenses of \$0.4 million for the three-month period ended December 31, 2011 compared with \$0.5 million for the same period in 2010 are mainly related to the restructuring and improvement initiatives to reduce the Company's operating costs.

EBITDA

As a result of the changes described above, EBITDA was \$7.4 million for the three-month period ended December 31, 2011 compared with \$7.8 million for the same period in 2010, a decrease of \$0.4 million or 5.2%.

Amortization

Aggregate amortization expense for the three-month period ended December 31, 2011 amounted to \$2.4 million compared with \$2.9 million for the comparable period in 2010 representing a decrease of \$0.5 million or 19.5%. The decrease is mainly related to the review of the useful lives of some manufacturing equipment which have been extended to at least five years considering their condition.

Financing charges

Financing charges for the three-month period ended December 31, 2011 amounted to \$1.0 million compared with \$1.2 million for the same period in 2010, representing a decrease of \$0.2 million or 14.3%, resulting from the impact of the reduced level of debt and lower interest rates.

Earnings before income taxes

Due to the changes in revenue and expenses described herein, the earnings before income taxes totalled \$4.0 million for the three-month period ended December 31, 2011 compared with \$3.6 million for the same period in 2010, an increase of \$0.4 million or 9.6%.

Provision for income taxes

During the three-month period ended December 31, 2011, the Company recorded a provision for income taxes of \$1.0 million compared with \$0.7 million for the three-month period ended December 31, 2010. For the three-month period ended December 31, 2010, the income taxes at statutory rate were reduced by the impact of the interest paid by the Company to the Fund.

Net earnings

As a result of the changes described above, net earnings amounted to \$3.0 million for the three-month period ended December 31, 2011 compared with \$2.9 million for the same period in 2010, an increase of \$0.1 million or 1.4%.

Other comprehensive loss

The lower than expected return on plan assets of the Company's defined benefit pension plans as well as the decrease of the discount rate for accrued benefit obligation negatively impacted the net actuarial losses by \$7.4 million. These variations significantly impacted the Company's comprehensive loss and the deficit.

Twelve-month period ended December 31, 2011 compared with twelve-month period ended December 31, 2010

Revenue

Revenue for the twelve-month period ended December 31, 2011 totalled \$143.9 million compared with \$153.1 million for the twelve-month period ended December 31, 2010, a decrease of \$9.2 million or 6.0%. The decrease in revenue is mainly attributable to a lower number of units sold in Canada partially offset by the increased volume sold in the United States.

Sales revenue in Canada decreased by \$10.2 million or 7.2%, from \$142.5 million to \$132.3 million, and sales revenue in the United States increased by \$1.0 million or 9.4%, from \$10.6 million to \$11.6 million.

The decrease in sales revenue in Canada was driven by an 8.1% decrease in the number of units sold offset by a 1.0% increase in the average selling price. The decrease in the number of units sold was seen in most markets.

The increase in sales revenue in the United States was due to a 19.2% increase in the number of units sold partially offset by an 8.5% decrease in the average selling price. The increase in the number of units sold is mainly attributable to the US partnership in Buffalo signed late in the third quarter of 2010 and the decrease in the average selling price resulting from the change in the product mix.

Operating expenses

Operating expenses for the twelve-month period ended December 31, 2011 amounted to \$96.2 million compared with \$102.9 million for the same period in 2010, a decrease of \$6.7 million or 6.5%. The impact of the strengthening of the Canadian dollar, the lower volume and the reduction in labour costs mainly explain the decrease in operating expenses.

Gross profit (revenue less operating expenses excluding amortization of property, plant and equipment) was \$47.7 million for the twelve-month period ended December 31, 2011 compared with \$50.2 million for the comparable period in 2010, a decrease of \$2.5 million or 5.0%. As a percentage of sales, gross profit increased by 0.3% in 2011 to reach 33.1% compared with 32.8% in 2010.

Selling, general and administrative expenses

Selling, general and administrative expenses totalled \$18.1 million for the twelve-month period ended December 31, 2011 compared with \$17.0 million for the same period in 2010, an increase of \$1.1 million or 6.7% mainly due to increased compensation.

Acquisition costs and restructuring expenses

Acquisition costs of \$0.2 million represent the Pioneer acquisition related costs incurred in September 2010. Restructuring expenses of \$1.1 million for the twelve-month period ended December 31, 2011 compared with \$2.1 million for the same period in 2010 are mainly related to the restructuring and improvement initiatives to reduce the Company's operating costs.

EBITDA

As a result of the changes described above, EBITDA was \$28.4 million for the twelve-month period ended December 31, 2011 compared with \$31.0 million for the same period in 2010, a decrease of \$2.6 million or 8.2%.

Amortization

Aggregate amortization expense for the twelve-month period ended December 30, 2011 amounted to \$10.6 million compared with \$13.1 million for the comparable period in 2010, representing a decrease of \$2.5 million or 19.6%. The decrease is attributable to a write-down of \$1.5 million on the Markham building and \$0.7 million on various manufacturing equipment recorded in the twelve-month period ended December 31, 2010, the amortization of deferred compensation for which no equivalent charge has been booked in 2011 and the review of the useful lives of some manufacturing equipment which have been extended to at least five years considering their condition.

Financing charges

Financing charges for the twelve-month period ended December 31, 2011 amounted to \$6.0 million compared with \$4.7 million for the same period in 2010, representing an increase of \$1.3 million or 26.6%, resulting from the loss on valuation of derivative financial instruments offset by the impact of the reduced level of debt and the lower interest rate.

Earnings before income taxes

Due to the changes in revenue and expenses described herein, the earnings before income taxes stood at \$11.5 million for the twelve-month period ended December 31, 2011 compared with \$12.8 million for the same period in 2010, a decrease of \$1.3 million or 9.9%.

Provision for income taxes

During the twelve-month period ended December 31, 2011, the Company recorded a provision for income taxes of \$3.2 million compared with \$3.0 million for the twelve-month period ended December 31, 2010. For the twelve-month period ended December 31, 2010, the income taxes at statutory rate were reduced by the impact of the interest paid by the Company to the Fund.

Net earnings

As a result of the changes described above, net earnings totalled \$8.3 million for the twelve-month period ended December 31, 2011 compared with \$9.8 million for the same period in 2010, a decrease of \$1.5 million or 15.3%.

Other comprehensive loss

The lower than expected return on plan assets of the Company's defined benefit pension plans as well as the decrease of the discount rate for accrued benefit obligation negatively impacted the net actuarial losses by \$11.8 million. These variations significantly impacted the Company's comprehensive loss and the 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 \$130.9 million in Canada and \$1.0 million in the United States as at December 31, 2011.

In Canada, the Company's revenue amounted to \$33.9 million and \$132.3 million for the three- and twelve-month periods ended December 31, 2011 compared with \$37.0 million and \$142.5 million for the same periods in 2010, representing a decrease of \$3.1 million or 8.4% and of \$10.2 million or 7.2% respectively. In the United States, the Company's revenue amounted to \$2.8 million and \$11.6 million for the three- and twelve-month periods ended December 31, 2011 compared with \$3.2 million and \$10.6 million for the same periods in 2010, representing a decrease of \$0.4 million or 12.5% and an increase of \$1.0 million or 9.4% respectively.

Liquidity and Capital Resources

Operating activities

Cash of \$19.0 million was generated from operating activities during the twelve-month period ended December 31, 2011 compared with \$32.9 million during the same period of 2010. The decrease in net cash flows from operating activities is primarily due to a decrease in net earnings, net change in non-cash working capital balances, deferred income tax recovery and the change in accrued pension benefit liability. The lower working capital level as at December 31, 2011, excluding cash, assets held for sale and current portion of the secured credit facilities, resulted mainly from the increase in income tax payable.

Investing activities

Cash generated from investing activities of \$2.2 million during the twelve-month period ended December 31, 2011 is mainly related to the sale of the Markham facility partially offset by acquisition of property, plant and equipment. In the prior-year period, cash of \$4.5 million was used in investing activities related to business acquisition and the acquisition of property, plant and equipment.

Financing activities

In the twelve-month period ended December 31, 2011, cash of \$18.7 million was used in financing activities for the repayment of the term credit facilities and the payment of dividends. Similarly, in prior-year period, \$28.3 million was used in financing activities for repayments on the revolving and term credit facilities and the payment of distributions on Fund units.

Liquidity and capital resources summary

Our ability to generate cash flows from operations combined with our ability to obtain debt financing are expected to provide sufficient liquidity to meet anticipated needs for existing and future projects.

Contractual Obligations

The following chart outlines the Company's contractual obligations as at December 31, 2011.

(in thousands of dollars)

	Payments due by fiscal year			
	Total	2012	2013	2014 and thereafter
Secured credit facilities	55,000	5,000	5,000	45,000
Operating leases	7,615	1,683	1,390	4,542
Total	62,615	6,683	6,390	49,542

Financing

On November 4, 2011, the Company renewed and amended its credit agreement. The renewed credit facilities consist of a \$20 million revolving facility, a \$50 million term credit facility and a \$25 million acquisition/capital expenditures facility. As at December 31, 2011, Supremex had drawn \$5.0 million on the revolving credit facility and \$50.0 million on the term credit facility.

The revolving credit facility may be used to refinance existing credit facilities, finance working capital requirements and for other general corporate purposes. The acquisition/capital expenditures facility may be used to finance permitted acquisitions and permitted capital expenditures. The revolving and term credit facilities mature on November 4, 2015. The acquisition/capital expenditures credit facility matures on November 4, 2013 with the option to extend up to November 4, 2015. The term credit facility is repayable in quarterly principal instalments of \$1,250,000. In addition, 50% of the annual excess cash flow, as defined in the credit agreement, will be applied against the term credit facility if the debt to EBITDA ratio rises above 2.50, or 25% if the debt to EBITDA ratio falls between 2.50 and 2.00. No cash flow sweep are required if the debt to EBITDA ratio falls below 2.00 which was the case in 2011.

The facilities bear interest at a floating rate based on the Canadian prime rate or bankers' acceptance rate, plus an applicable margin on those rates. As at December 31, 2011, the interest rate on the revolving and term credit facilities was 3.53 %. The Company was in compliance with the covenants of its credit facilities as at December 31, 2011.

As at January 14, 2011, Supremex Inc. 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 all applicable margins.

The credit facilities are collateralized by a hypothec and security interests covering all present and future assets of the Company and its subsidiaries.

Capitalization

As at February 15, 2012, the Company had 29,297,767 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 year ended December 31, 2011, the Company did not purchase any units for cancellation.

Financial Instruments

Interest rate and foreign exchange risk

The Company's credit facilities bear interest at a floating rate which give rise to the risk that its earnings and cash flows may be adversely impacted by fluctuations in interest rates. As at January 14, 2011, Supremex Inc. 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.

The Company operates in Canada and the United States, which gives rise to a risk that its earnings and cash flows may be adversely impacted by fluctuations in the exchange rate between the US and Canadian dollar. A portion of Supremex's revenue is earned in US dollars while a large portion of its expenses, including most of its paper and other raw materials costs as well as certain capital expenditures, are incurred in US dollars. Supremex also derives a portion of its revenue from Canadian dollar sales to certain customers for whom the selling price is sensitive to US competition. Net exposure to the US dollar decreased in 2011 due to increased US sales and lower US dollar purchases (see "Risk Factors"). Cash, accounts receivable and accounts payable and accrued liabilities include balances denominated in US dollars at the end of the year.

Fair value

The fair value of the Company's financial instruments is indicated in note 23 to the Company's audited consolidated financial statements for the year ended December 31, 2011.

Off-Balance Sheet Arrangements

The Company has no other off-balance sheet arrangements.

Financial Position Highlights

(In thousands of dollars except for ratio)

	December 31, 2011	December 31, 2010
	\$	\$
Working capital	5,825	1,180
Total assets	166,841	176,990
Total secured credit facilities	54,177	69,070
Equity	64,667	70,829

Supremex pays quarterly dividends to shareholders at the discretion of the Board of Directors. No dividend was declared in the third quarter of 2011 as the Board of Directors decided in June 2011 that all decisions pertaining to the dividend policy will be made at its quarterly Board meeting which usually takes place 30 to 45 days after the end of each quarter. A dividend of \$878,933 or \$0.03 per share was declared in the fourth quarter of 2011.

Disclosure Controls and Internal Controls over Financial Reporting

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 Vice-President and 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.

Management has designed disclosure controls and procedures to provide reasonable assurance that material information relating to the Company is made known to the President and Chief Executive Officer and the Vice-President and Chief Financial Officer, particularly during the period in which annual filings are being prepared. The President and Chief Executive Officer and the Vice-President and Chief Financial Officer evaluated the effectiveness of the Company's disclosure controls and procedures and concluded, based on their evaluation, that such disclosure controls and procedures were effective as of December 31, 2011.

Management has also designed internal control 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 Canadian GAAP. The President and Chief Executive Officer and the Vice-President and Chief Financial Officer evaluated the effectiveness of the Company's internal control over financial reporting and concluded, based on their evaluation, that such internal control over financial reporting was effective as of December 31, 2011. In making their evaluation, the President and Chief Executive Officer and the Vice-President and Chief Financial Officer used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control – Integrated Framework.

Finally, there has been no change in the Company's internal control over financial reporting during the year ended December 31, 2011 that materially affected, or is likely to materially affect, the Company's internal control over financial reporting.

Significant accounting policies and estimates

The Company prepares its financial statements in conformity with IFRS, which requires management to make estimates, judgments and assumptions that management believes are reasonable based upon the information available. These estimates, judgments and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant areas requiring the use of management estimates relate to implied fair value of goodwill, determination of fair value of assets acquired and liabilities assumed in business combinations, determination of pension and other employee benefits, useful life of certain assets for amortization and evaluation of net recoverable amount, income taxes and determination of fair value of financial instruments. Management bases its estimates on historical experience and other assumptions, which it believes are reasonable under the circumstances. Management also assesses its estimates on an ongoing basis. The effect on the financial statements of changes in such estimates in future periods could be material and would be accounted for in the period a change occurs.

The significant accounting policies of the Company are described in note 2 to the Company's audited consolidated financial statements for the year ended December 31, 2011.

The policies the Company believes are most critical to assist in fully understanding and evaluating its reported results include the following:

Intangible assets and goodwill

Intangible assets and goodwill arise out of business combinations for which the Company has applied the purchase method of accounting. The purchase method involves the allocation of the cost of an acquisition to the underlying net assets acquired based on their respective estimated fair value. As part of this allocation process, the Company must identify and attribute values and estimated lives to the intangible assets acquired. These determinations involve significant estimates and assumptions regarding cash flow projections, economic risk and weighted average cost of capital.

These estimates and assumptions determine the amount allocated to other identifiable intangible assets and goodwill as well as the amortization period for identifiable intangible assets with finite lives. If future events or results differ adversely from these estimates and assumptions, the Company could record increased amortization or impairment charges in the future.

As at December 31, 2011, the Company performed a goodwill impairment test using the discounted cash flows method based upon management's best estimates which reflect the Company's planned course of action in light of market conditions. The Company concluded that there was no impairment in the carrying amount of its goodwill. The Company will continue to monitor the resulting impact of market changes.

Valuation technique

The Company uses the discounted cash flows ("DCF") method to determine the value in use of its cash-generating unit and has not made any changes to the valuation methodology used to assess goodwill impairment since the last annual impairment test.

Significant assumptions

The income approach is predicated upon the value of the future cash flows that a business will generate going forward. The DCF method which was used as at December 31, 2011 involves projecting cash flows and converting them into a present value equivalent through discounting. The discounting process uses a rate of return that is commensurate with the risk associated with the business or asset and the time value of money. This approach requires assumptions about revenue growth or decline rates, operating margins, tax rate and discount rate.

Growth or decline of revenue

The assumptions used were based on the Company's internal budget. The Company projected revenue, operating margins and cash flows for a period of four years that reflect lower demand and applied a perpetual long-term growth rate for the period thereafter. In arriving at its forecasts, the Company considered past experience, economic trends as well as industry and market trends.

Discount rate

The Company assumed a pre-tax discount rate to calculate the present value of its projected cash flows. The discount rate represented a weighted average cost of capital ("WACC") for comparable companies operating in a similar industry. The WACC is an estimate of the overall required rate of return on an investment for both debt and equity owners and serves as the basis for developing an appropriate discount rate. Determination of the WACC requires separate analysis of the cost of equity and debt, and considers a risk premium based on an assessment of risks related to the projected cash flows.

The key assumptions used in performing the impairment test were as follows:

	Assumptions
Pre-tax discount rate	15.8%
Tax rate	25.7%
Perpetual growth rate	0.0%

Sensitivity to changes in assumptions

Management believes that an increase of 2% of the pre-tax discount rate or a decrease of 3% of the perpetual growth rate, in isolation, would decrease the recoverable amount equivalent to the carrying value.

Income taxes

The Company computes an income tax provision in each of the jurisdictions in which it operates. However, the actual amount of the income tax expense becomes final only upon filing and acceptance of the tax return by the relevant authorities, which take place subsequent to the issuance of the financial statements. Additionally, estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the ability to use the underlying future tax deductions against future taxable income before they expire. The assessment is based upon existing tax laws and estimates of future taxable income. To the extent estimates differ from the final tax return, earnings would be affected in a subsequent period.

The Company is subject to taxation in numerous jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain during the normal course of business. The Company maintains provisions for uncertain tax positions that it believes appropriately reflect its risk with respect to tax matters under active discussion, audit, dispute or appeal with tax authorities, or which are otherwise considered to involve uncertainty. These provisions are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

The Company's 2011 effective tax rate was 27.8% of earnings before income tax. A 1% increase in the effective tax rate would have increased the 2011 income tax expense by approximately \$115,000.

Employee future benefits

The Company sponsors defined benefit plans providing pension and other post-employment benefits to covered employees. The determination of expense and obligations associated with employee future benefits requires the use of assumptions such as the expected return on assets available to fund pension obligations, the discount rate to measure obligations, the expected mortality, the expected retirement age, the expected rate of future compensation increase and the expected healthcare cost trend rate. Because the determination of the cost and obligations associated with employee future benefits requires the use of various assumptions, there is measurement uncertainty inherent in the actuarial valuation. Actual results will differ from estimated results which are based on assumptions.

Significant assumptions:

Discount rate for accrued benefit obligation	4.50%
Discount rate for net pension cost	5.50%
Expected return on plan assets	6.25%
Rate of compensation increase	3.50%

Discount rate

As at December 31, 2011, we used the *Natcan's CIA Method Accounting Discount Rate Curve* which follows the methodology suggested in the CIA Education Note on *Accounting Discount Rate Assumption for Pension and Post-employment Benefit Plans*. For the Company, a 0.25% increase or decrease in the discount rate would have decreased or increased the defined benefit obligation by approximately \$3.8 million as at December 31, 2011.

Expected rate or return

The expected rate of return on assets is based on the expected rate of return on each asset class category using a stochastic projecting tool that generates multiple expected-return scenarios over long periods of time for different asset classes. Expected fees payable by the plan are deducted from this expected rate of return. For the Company, a 0.25% increase or decrease in the expected rate of return would have decreased or increased pension expense by approximately \$0.2 million as at December 31, 2011.

Rate of compensation

Future salary increases are based on expected future inflation rates.

Medical cost trend

The medical cost trend is based on our actuarial medical claims experience and future projections of medical costs. The average medical cost trend rate used was 6.7% for 2011, which is expected to decline to 2.5% in 2024. A one-percentage-point change in assumed health care cost trend rates would have no material impact.

Impairment of long-lived assets

Long-lived assets of the Company, including property, plant and equipment, are tested for impairment whenever events or changes in circumstances indicate that the carrying value of the assets may not be fully recoverable. Impairment is assessed when the discounted expected future cash flows derived from an asset are less than its carrying amount. Impairment losses are recognized for the amount by which the carrying value of an asset exceeds its fair value. The Company periodically reviews the estimated useful lives of all long-lived assets and revises them if necessary.

New Accounting Policies

Recent Accounting Pronouncements

International Financial Reporting Standards

In February 2008, the Accounting Standards Board (“AcSB”) confirmed that IFRS will be mandatory in Canada for profit-oriented publicly accountable entities for fiscal periods beginning on or after January 1, 2011. Our first annual IFRS consolidated financial statements are prepared for the year ended December 31, 2011 and include the comparative period of 2010. Starting with the 2011 first quarter report, we have provided unaudited consolidated quarterly financial information in accordance with IFRS, including comparative figures for 2010. Please refer to Note 25 of our 2011 consolidated financial statements for a summary of the differences between our consolidated financial statements previously prepared under Canadian GAAP and those under IFRS.

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, the IASB has recently issued a proposal to postpone 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.

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’s management.

Decline in Envelope Consumption

Supremex’s envelope manufacturing business is highly dependent upon the demand for envelopes sent through the mail. Supremex may compete with product substitutes, which can impact demand for its products. Usage of the Internet and other electronic media continues to grow. Consumers use these media to purchase goods and services, and for other purposes such as paying utility and credit card bills. Advertisers use the Internet and electronic media for targeted campaigns directed at specific electronic user groups. Large and small businesses use electronic media to conduct business, send invoices and collect bills. The demand for envelopes and other printed materials for transactional purposes is expected to decline in the future.

The North American envelope manufacturing and mailing industries are expected to decline in the foreseeable future, due to a general progressive decline in the use of traditional paper-based products. The business depends on transactional mail and direct mail activities. Transactional mail volumes are thought to have declined in the last few years due in part to the increasing use of non-traditional means of communication and information transfer, such as facsimile machines, electronic mail and the Internet. While management believes that the significant decline experienced in the direct mail volume in 2009 and 2008 was more related to the economic conditions, there is no assurance that the direct mail industry will regain its level prior to the latest recession and that it will offset any decline in transactional mail. As a result, there can be no assurance that Supremex will be able to grow or even maintain historical sales levels.

Postal Services

Because the majority of envelopes consumed in Canada and the United States are mailed, any strike or other work stoppage by unionized postal workers would result in a temporary suspension of the mail activities of most of Supremex's customers and could have a material adverse effect on Supremex. In the summer of 2011, there was a work stoppage at Canada Post that lasted about 3 weeks. During that period, envelope shipments to customers were slightly affected and some direct mail orders were cancelled. Adoption of e-billing also increased during that period. Many large corporations used the work stoppage at Canada Post to promote the advantages of e-billing. It is impossible to quantify, at this time, the impact of the work stoppage due to its long-term potential effect.

In addition, postal rates are a significant factor affecting envelope usage and any increases in postal rates, relative to changes in the cost of alternative delivery means or advertising media, could result in reductions in the volume of mail sent. No assurance can be provided that future increases in postal rates will not have a negative effect on the level of mail sent or the volume of envelopes purchased.

Finally, there has been growing talk of "do-not-mail" legislation in the US with respect to the direct marketing industry. "Do-not-mail" legislation is instituted at the state level. In 2008, such legislation was introduced but not passed in some states. That being said, if such legislation were to be passed, it would have a negative impact on the Company's sales volume.

Relation with customers

Supremex typically does not enter into long-term, written agreements with customers. As a result, there is a risk that customers may, without notice or penalty, terminate their relationship with Supremex at any time. In addition, even if customers decide to continue their relationship with Supremex, there can be no guarantee that they will purchase the same amount as in the past, or that purchases will be on similar terms. Supremex's customer base is solidly diversified with no single account representing more than 10% of sales, thus reducing dependence on any given single customer.

Environment

The Company operates in an industry which uses large quantities of paper in its day-to-day operations. With society's mounting concern over the protection of the environment and sustainable development, Supremex's products and services are under pressure to be more environmentally friendly. For instance, the growing concern over the environment could change the consumption habits of consumers and new regulations could force the Company to use more expensive environmentally friendly materials in its production process. To mitigate this risk, the Company tries to be at the forefront of its industry in terms of commitment to the environment and, in collaboration with its suppliers, seeks on an ongoing basis to reduce its impact on the environment. Supremex is also a leader in the Canadian envelope market in the marketing of environmental friendly products, such as 100% recycled paper.

Economic Cycles

A significant risk that Supremex faces and over which it has no control is related to economic cycles. In a soft economy, the market most affected at Supremex is its direct mail market. There is a direct correlation between growth/decline in the gross domestic product and direct mail volume. Because of the economic conditions faced recently, we have experienced a significant direct mail volume decline. For Supremex, such impact is partially mitigated as direct mail represents approximately 20% of Supremex's total annual volume. For transactional mail, which represents about 50% of Supremex's annual volume, economic cycles had a lesser impact than on direct mail since businesses must still mail out bills to their customers, and the online billing penetration is fairly low in this segment. For many years, transactional volume has been declining by 1% to 4% a year.

Competition

Despite Supremex's leading market position in Canada, new entrants into the Canadian envelope market may have an impact on sales and margins. The strengthening of the Canadian dollar against the US dollar created an incentive for US-based competitors to increase market penetration in Canada in the last five years. The large US envelope manufacturers are using their excess capacity to penetrate the Canadian envelope market. As long as the US market stays relatively soft, there will be pricing pressure in the Canadian market. This phenomenon has been amplified since April 2008, coinciding with the termination of the non-solicitation agreement with Cenveo. In the fall of 2008, the Canadian dollar weakened by almost 25% easing the pressure on the Canadian envelope market. Since then, the dollar has recovered most of its losses and has been trading close to parity with the US dollar, creating pressure on pricing in Canada. However, the costs of freight, coupled with the efficiency of delivery are barriers to servicing any significant customer volume from a distance.

In the current market, the Canadian envelope manufacturers are more aggressive on pricing in order to generate new sales to replace their lost sales. Given the Company's large market share in Canada, most of the gains of our smaller competitors in Canada are made in Supremex's accounts.

Nonetheless, to mitigate this risk, the Company continues to focus on continuous improvement programs, cost reduction initiatives and development of value-added services and products around its core businesses, and still believes in the value of having local service and representation in all the major Canadian markets.

Exchange Rate

A portion of Supremex's revenue is earned in US dollars while a large portion of its expenses, including most of its paper and other raw materials costs as well as certain capital expenditures are incurred in US dollars. Supremex also derives a portion of its revenue from Canadian dollar sales to certain customers for whom selling price is sensitive to US competition.

Net exposure to the US dollar has decreased in 2011 due to the increased US sales and lower US dollar purchases. Revenue generated in the United States represented 8.1% of consolidated revenue in fiscal 2011, up from 6.9% in fiscal 2010.

Availability of Capital

In 2011, the Company completed the refinancing of its credit facilities totalling \$95 million consisting of a \$20 million revolving facility, a \$50 million term credit facility and a \$25 million acquisition/capital expenditures facility. The revolving and term credit facilities mature on November 4, 2015. The acquisition/capital expenditures facility matures on November 4, 2013 with the option to extend up to November 4, 2015. Although the Company carried out this refinancing successfully, there is no guarantee that additional funds will be available in the future, and if they are, that they will be provided in a timeframe and under conditions acceptable to the Company.

The acquisitions contemplated by the Company will require additional financing. The global financial market crisis and the global economic slowdown may extend further and constrain the Company's ability to meet its future financing requirements, increase its weighted average cost of capital and cause other cost increases from counterparties also faced with liquidity problems and higher cost of capital. Risk factors such as disruptions in capital markets could reduce the amount of capital available or increase the cost of capital and there can be no assurance that additional financing would be available to the Company or, if available, that it can be obtained on a timely basis and on acceptable terms. Failure to obtain additional financing, when and if required, could have a material adverse effect on the Company's future growth by limiting acquisitions. This risk is mitigated by the fact that the Company has a solid financial position and generates significant cash flow from operations.

Raw Material Price Increases

The primary raw materials the Company uses are paper, window material, glue and ink. Fluctuations in raw material and energy prices affect our operations.

First, the current tightening in the paper market, due to paper mill closures, has resulted in a decrease in the supply of paper which could in turn lead to paper price increases. While paper costs were generally a pass through in the past, an increase in the price of paper can negatively affect our operations if it changes the purchasing habits of our customers, especially in the current economic conditions. Moreover, an increase in the price of paper negatively affects Supremex's profitability if the increases cannot be passed on to the customer. To mitigate this risk, the Company does not rely on any one supplier and is generally disciplined in passing on any raw material increases to its customers.

Fluctuations in the price of oil, a core ingredient in the composition of window material, glue and ink have a direct impact on their price. An increase in the price of oil can have a negative effect on our operations if it changes the purchasing habits of our customers.

Credit

The Company is exposed to credit risk with respect to trade receivables. To mitigate this risk, the Company analyzes and reviews the financial health of its current customers on an ongoing basis. A specific credit limit is established for each customer and reviewed periodically by the Company. Supremex is protected against any concentration of credit risk through its clientele and geographic diversity. No single customer accounts for more than 10% of consolidated accounts receivable. Supremex's customer base is solidly diversified and consists mainly of large national customers, such as large Canadian corporations, nationwide resellers and governmental bodies, as well as paper merchants and solution and process providers. Historically, the level of bad debt has been low given the nature of the customers. As at December 31, 2011, the maximum credit risk exposure for receivables corresponds to their carrying value.

Employee future benefits

The Company maintains three registered defined benefit pension plans substantially covering all of its employees. Two of these plans are hybrid and include a defined contribution component. In the past, the Company has also provided post-retirement and post-employment benefits, including health care, dental care and life insurance, to a limited number of employees.

The most recent actuarial valuations for funding purposes were made as at December 31, 2010 for two of the pension plans and as at December 31, 2009 for the third plan and showed the registered retirement plans to be in a solvency deficit position of \$12.2 million. Given cash flows generated from operations, the Company has the financial flexibility to pay this additional annual contribution.

The level of these contributions may vary depending on pension fund performance and the discount rate, which could affect the financial condition of Supremex.

Interest Rate

The Company is exposed to market risks related to interest rate fluctuations. On January 14, 2011, a \$30 million interest swap was contracted. The Company's policy is to fix a portion of its long-term debt. Under this swap, the fixed-rate portion represented 43% at the time it was entered into. The floating-rate portion of long-term debt increased in 2007 and 2008 following the two acquisitions and the normal course issuer bid, but has decreased since 2009 mainly due to the reduction in distributions since January 2009. Floating-rate debt bears interest rates based on bankers' acceptances rate. This swap converts the variable interest rate, based on bankers' acceptance rate, to an average fixed interest rate of 2.84% until January 14, 2016, excluding an applicable margin, which is 225 basis points as at December 31, 2011.

To mitigate this risk, the Company tries to maintain a good balance of fixed versus floating rate debt.

The Canadian central bank has reduced its rates since the second quarter of fiscal 2008. The Company benefits partially from the resulting reductions in its floating rate debt.

Litigation

Supremex, like other manufacturing and sales organizations, is subject to potential liabilities connected with its business operations, including expenses associated with product defects, performance, reliability or delivery delays. Supremex is from time to time threatened with, or named as a defendant in, legal proceedings, including lawsuits based on product liability, personal injury, breach of contract and lost profits or other consequential damages claims, in the ordinary course of conducting its business. A significant judgment against Supremex or the imposition of a significant fine or penalty, as a result of a finding that Supremex failed to comply with laws or regulations, or being named as a defendant on multiple claims could have a material adverse effect on Supremex's business, financial condition, results of operations and cash available for distributions.

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 taxes, amortization and write-down of property, plant and equipment, intangible assets and deferred compensation and loss on disposal of property, plant and equipment.

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

Consolidated Financial Statements

Supremex Inc.
(Formerly Supremex Income Fund)

December 31, 2011 and 2010

All amounts expressed in Canadian dollars

INDEPENDENT AUDITORS' REPORT

To the shareholders of

Supremex Inc.

We have audited the accompanying consolidated financial statements of Supremex Inc, which comprise the consolidated statements of financial position as at December 31, 2011 and 2010, and January 1, 2010, and the consolidated statements of earnings, comprehensive income, changes in equity and cash flow for the years ended December 31, 2011 and 2010, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards ["IFRS"], and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Supremex Inc. as at December 31, 2011 and 2010, and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and 2010 in accordance with IFRS.

Ernst & Young LLP¹

Chartered accountants

Montreal, Canada

February 15, 2012

¹CA auditor permit No. 19483

Supremex Inc.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at	Notes	December 31, 2011 \$	December 31, 2010 \$	January 1, 2010 \$
ASSETS				
Current assets				
Cash		2,606,332	148,874	38,962
Accounts receivable	6	18,740,499	19,595,945	21,092,867
Inventories	7	13,103,192	11,939,720	13,921,726
Prepaid expenses		512,584	425,193	1,429,144
Assets held for sale	8	—	5,568,000	—
Total current assets		34,962,607	37,677,732	36,482,699
Assets held for sale	8	—	348,048	—
Property, plant and equipment	9	29,528,673	30,449,945	40,056,241
Intangible assets	10	26,599,029	32,762,929	38,926,829
Goodwill	11	75,751,125	75,751,125	75,501,125
Total assets		166,841,434	176,989,779	190,966,894
LIABILITIES AND EQUITY				
Current liabilities				
Accounts payable and accrued liabilities	12	19,990,280	20,111,812	18,534,512
Provisions	13	656,567	931,297	795,018
Income tax payable		3,490,996	745,683	—
Distribution payable	14	—	292,978	1,464,888
Current portion of secured credit facilities	15	5,000,000	14,415,489	7,500,000
Current portion of derivative financial liability		—	—	808,652
Total current liabilities		29,137,843	36,497,259	29,103,070
Secured credit facilities	15	49,176,934	54,654,387	84,379,377
Deferred income tax liabilities	16	2,182,392	7,376,780	5,665,294
Accrued pension benefit liability	17	19,251,100	6,984,300	5,487,500
Other post-retirement benefit obligations	17	649,600	648,300	657,000
Derivative financial liability	15	1,776,293	—	—
Equity				
Share capital	18	10,000,000	—	—
Fund units	18	—	282,798,322	282,798,322
Contributed surplus		280,423,746	7,625,424	7,625,424
Deferred compensation		—	—	(315,079)
Deficit		(225,680,313)	(219,511,314)	(224,364,863)
Accumulated other comprehensive loss	19	(76,161)	(83,679)	(69,151)
Total equity		64,667,272	70,828,753	65,674,653
Total liabilities and equity		166,841,434	176,989,779	190,966,894

Commitment, contingencies and guarantees [note 21]

See accompanying notes

On behalf of the Directors:

By: (Signed) L.G. Serge Gadbois
Director

By: (Signed) Gilles Cyr
Director

Supremex Inc.

CONSOLIDATED STATEMENTS OF EARNINGS

Years ended December 31	Notes	2011 \$	2010 \$
Revenue		143,892,199	153,124,398
Operating expenses	7, 20	96,209,379	102,935,634
Selling, general and administrative expenses	20	18,144,751	17,000,754
Operating earnings before amortization, write-down, loss on disposal of property, plant and equipment, acquisition costs and restructuring expenses		29,538,069	33,188,010
Amortization and write-down of property, plant and equipment	8, 9	4,397,561	6,661,624
Amortization of intangible assets	10	6,163,900	6,163,900
Amortization of deferred compensation		—	315,079
Loss on disposal of property, plant and equipment		400,165	340,169
Acquisition costs	5	—	152,070
Restructuring expenses	13	1,089,401	2,054,519
Operating earnings		17,487,042	17,500,649
Financing charges	15	5,974,751	4,720,981
Earnings before income taxes		11,512,291	12,779,668
Income tax expense	16	3,197,417	2,961,850
Net earnings		8,314,874	9,817,818
Basic and diluted net earnings per share/unit		0.2838	0.3351
Weighted average number of shares/units outstanding		29,297,767	29,297,767

See accompanying notes

Supremex Inc.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

Years ended December 31	Notes	2011	2010
		\$	\$
Net earnings		8,314,874	9,817,818
Other comprehensive loss			
Recognized actuarial loss on defined benefit pension plans, net of income tax recovery of \$4,091,882 [2010 - \$492,185]	17	(11,818,418)	(1,427,415)
Recognized actuarial loss on other post-retirement benefit, net of income tax recovery of \$9,944 [2010 - \$7,282]	17	(28,656)	(21,118)
Foreign currency translation adjustments		7,518	(14,528)
Other comprehensive loss		(11,839,556)	(1,463,061)
Total comprehensive (loss) income		(3,524,682)	8,354,757

See accompanying notes

Supremex Inc.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Year ended December 31

	Share capital [notes 1 and 18] \$	Fund units [notes 1 and 18] \$	Contributed surplus [note 1] \$	Deferred compensation \$	Deficit \$	Accumulated other comprehensive loss [note 19] \$	Total equity \$
As at December 31, 2010	—	282,798,322	7,625,424	—	(219,511,314)	(83,679)	70,828,753
Net earnings	—	—	—	—	8,314,874	—	8,314,874
Other comprehensive loss	—	—	—	—	(11,847,074)	7,518	(11,839,556)
Total comprehensive loss	—	—	—	—	(3,532,200)	7,518	(3,524,682)
Conversion into a corporation	282,798,322	(282,798,322)	—	—	—	—	—
Reduction of stated capital	(272,798,322)	—	272,798,322	—	—	—	—
Dividends declared [note 14]	—	—	—	—	(2,636,799)	—	(2,636,799)
As at December 31, 2011	10,000,000	—	280,423,746	—	(225,680,313)	(76,161)	64,667,272
As at January 1, 2010	—	282,798,322	7,625,424	(315,079)	(224,364,863)	(69,151)	65,674,653
Net earnings	—	—	—	—	9,817,818	—	9,817,818
Other comprehensive loss	—	—	—	—	(1,448,533)	(14,528)	(1,463,061)
Total comprehensive income	—	—	—	—	8,369,285	(14,528)	8,354,757
Amortization of deferred compensation	—	—	—	315,079	—	—	315,079
Distributions declared [note 14]	—	—	—	—	(3,515,736)	—	(3,515,736)
As at December 31, 2010	—	282,798,322	7,625,424	—	(219,511,314)	(83,679)	70,828,753

See accompanying notes

Supremex Inc.

CONSOLIDATED STATEMENTS OF CASH FLOW

Years ended December 31	Notes	2011 \$	2010 \$
OPERATING ACTIVITIES			
Net earnings		8,314,874	9,817,818
Non-cash adjustment to reconcile net earnings to net cash flows			
Amortization and write-down of property, plant and equipment	9	4,397,561	6,661,624
Amortization of intangible assets	10	6,163,900	6,163,900
Amortization of deferred compensation		—	315,079
Amortization of deferred financing costs	15	881,796	851,105
Loss on disposal of property, plant and equipment		400,165	340,169
Loss on valuation of derivative financial instruments	15	1,776,293	—
Deferred income tax (recovery) expense	16	(1,092,562)	2,210,953
Working capital adjustments			
Variation in accounts receivable		745,823	2,184,643
Variation in inventories		(1,163,472)	2,465,829
Variation in prepaid expenses		(87,391)	1,030,972
Variation in accounts payable and accrued liabilities		(121,532)	1,248,655
Variation in provisions		(274,730)	136,279
Variation in income tax payable		2,745,313	745,683
Variation in derivative liability		—	(808,652)
Change in accrued pension benefit liability		(3,643,500)	(422,800)
Change in other post-retirement benefit obligation		(37,300)	(37,100)
Net cash flows from operating activities		19,005,238	32,904,157
INVESTING ACTIVITIES			
Business acquisition	5	109,623	(1,739,920)
Acquisition of property, plant and equipment	9	(3,998,290)	(3,234,037)
Proceeds from sale of property, plant and equipment		336,611	507,847
Proceeds from sale of assets held for sale	8	5,727,170	—
Net cash flows from (used in) investing activities		2,175,114	(4,466,110)
FINANCING ACTIVITIES			
Proceeds (repayment of) from revolving credit facility		709,114	(16,033,295)
Repayment of term credit facility		(15,625,000)	(7,500,000)
Dividends paid	14	(2,636,799)	—
Distributions paid on Fund units	14	(292,978)	(4,687,646)
Financing cost incurred		(858,852)	(127,311)
Net cash flows used in financing activities		(18,704,515)	(28,348,252)
Net change in cash		2,475,837	89,795
Net foreign exchange difference		(18,379)	20,117
Cash, beginning of period		148,874	38,962
Cash, ending of period		2,606,332	148,874
Supplemental information ⁽¹⁾			
Interest paid		3,135,932	4,564,161
Interest received		5,679	5,895
Income taxes paid		1,523,427	7,579
Income taxes received		29,370	34,108

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

See accompanying notes

Supremex Inc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011 and 2010

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. Comparative figures presented in the consolidated financial statements of the Company include all amounts previously reported by 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 patters 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011 and 2010

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

These consolidated financial statements were approved by the Company's Board of Directors on February 15, 2012.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation and statement of compliance

These consolidated financial statements represent the first annual financial statements of the Company and its subsidiaries prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") applicable for periods beginning on or after January 1, 2011, as described in the accounting policies. The Company adopted IFRS in accordance with IFRS 1, *First-time Adoption of International Reporting Standards*. The first date at which IFRS was applied was January 1, 2010 (the "transition date").

The Company's consolidated financial statements for all periods up to and including the year ended December 31, 2010 were previously prepared in accordance with accounting principles generally accepted in Canada ("Canadian GAAP"). Canadian GAAP differs in some areas from IFRS. In preparing these consolidated financial statements, management has amended certain accounting, measurement and consolidation methods previously applied in the Canadian GAAP consolidated financial statements to comply with IFRS. Reconciliations and descriptions of the effect of transition from Canadian GAAP to IFRS on the Company's consolidated financial statements are provided in note 25.

These consolidated financial statements were prepared on a going concern basis, under the historical cost convention, except for derivative financial instruments and assets held for sale that have been measured at fair value.

Principles of consolidation

The consolidated financial statements comprise the financial statements of Supremex Inc. and its subsidiaries, Buffalo Envelope Inc., Montreal Envelope (2008) Inc. and Quebec Envelope Inc., as at December 31, 2011.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011 and 2010

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at the fair value at the date of the acquisition. Acquisition costs incurred are expensed.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred over the Company's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Segment reporting

The Company operates in one reporting segment: the manufacturing and sale of a broad range of stock and custom envelopes and related products.

Foreign currency translation

Supremex's consolidated financial statements are presented in Canadian dollars, which is also its functional currency. Supremex and its subsidiaries each determine their own functional currency and items included in each of their financial statements are measured using that functional currency.

Transactions and balances

Transactions in foreign currencies are initially recorded by the entities at their respective functional currency rates prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. All differences are taken to the consolidated statement of earnings.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Subsidiaries

The assets and liabilities of foreign operations are translated into Canadian dollars at the rate of exchange prevailing at the reporting date and their statements of earnings are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation are recognized in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognized in the statement of earnings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011 and 2010

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, net of estimated returns and discounts, and after eliminating intercompany sales.

Revenue from the sale of goods is recognized when the following criteria are met:

- The risks and rewards of ownership, including managerial involvement, have been transferred to the buyer;
- The amount of revenue can be measured reliably;
- The receipt of economic benefits is probable; and
- Costs incurred or to be incurred can be measured reliably.

In addition to the above general principles, the Company applies specific revenue recognition for bill and hold transactions. When customers request a bill and hold, revenue is recognized when the customer is invoiced for goods that have been produced, packaged and made ready for shipment. These goods are shipped within a specified period of time and are segregated from other inventory, the risk of ownership of the goods is assumed by the customer, and the terms and collection experience on the related billings are consistent with all other sales.

Taxation

Tax expense comprises current and deferred tax. Tax is recognized in the consolidated statement of earnings except to the extent it is related to items recognized in other comprehensive income or directly in equity.

Current tax

Current tax expense is based on the results for the year as adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax

Deferred tax is recognized, using the liability method, on temporary differences at the reporting date arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated statement of financial position. Deferred tax is calculated using tax rates and laws that have been enacted or substantively enacted at the end of the reporting period, and which are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011 and 2010

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Deferred tax liabilities:

- Are generally recognized for all taxable temporary differences;
- Are recognized for taxable temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- Are not recognized on temporary differences that arise from goodwill which is not deductible for tax purposes.

Deferred tax assets:

- Are recognized to the extent it is probable that taxable profits will be available against which the deductible temporary differences (carry-forward of unused tax credits and unused tax losses) can be utilized ; and
- Are reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are not recognized in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination. The transaction does not affect accounting profit or taxable profit upon completion. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Sales tax

Revenues, expenses and assets are recognized net of the amount of sales tax, except:

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable;
- Accounts receivables and trade payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of the accounts payable and accrued liabilities in the consolidated statement of financial position.

Employee future benefits

The Company maintains three defined benefit pension plans, two of which are hybrid as they also have a defined contribution component, substantially covering all of its employees. In the past, the acquired businesses have also provided post-retirement and post-employment benefits plans to a limited number of employees covering health care, dental care and life insurance. These benefits are unfunded.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011 and 2010

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

For defined benefit pension plans and other post-employment benefits, the net periodic pension expense is actuarially determined on an annual basis by independent actuaries using the projected unit credit method. The determination of the net periodic pension expense requires assumptions such as the expected return on assets available to fund pension obligations, the discount rate to measure obligations, the expected mortality, the expected retirement age, the expected rate of future compensation increase and the expected healthcare cost trend rate. The assets are valued at fair value. Actual results will differ from estimated results which are based on assumptions. The vested portion of past service cost arising from plan amendments is recognized immediately in the consolidated statement of earnings. The unvested portion is amortized on a straight-line basis over the average remaining period until the benefits become vested.

The asset or liability recognized in the consolidated statement of financial position is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The present value of the defined benefit obligation for service accrued at calculation date is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. All actuarial gains and losses that arise in calculating the present value of the defined benefit obligation and the fair value of plan assets are recognized immediately in other comprehensive income. For funded plans, surpluses are recognized only to the extent that the surplus is considered recoverable taking into account future contributions for unfunded liability. Recoverability is primarily based on the extent to which the Company can unilaterally reduce future contributions to the plan.

Payments to defined contribution plans are expensed as incurred, i.e., as the related employee service is rendered.

Share-based compensation plan

The Company operates a cash-settled share-based compensation plan under which it receives services from employees as consideration. The cost of the cash-settled share-based plan is measured initially at fair value at grant date. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is re-measured to fair value at each reporting date up to and including the settlement date, with changes in fair value recognized in employee benefits expense.

Termination benefits

Termination benefits are generally payable when employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without realistic possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011 and 2010

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Basic and diluted net earnings per share

The Company presents basic net earnings per share for its common shares, calculated by dividing the net earnings attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the first-in, first-out method. The cost of finished goods and work-in-progress comprises raw materials, direct labour, other direct costs and related production overheads. Net realizable value is the estimated selling price in the normal course of business, less applicable variable selling expenses.

Property, plant and equipment

Property, plant and equipment are recorded at cost. Amortization is calculated using the straight-line method over the following estimated useful lives:

Buildings	10 to 40 years
Leasehold improvements	Lease term
Machinery and equipment	Seven to 15 years
Office equipment	Three to five years
Computer equipment	Three years

Residual values, method of amortization and useful lives are reviewed annually prior to year-end and adjusted if appropriate.

Intangible assets

Upon acquisition, identifiable intangible assets are recorded at fair value if they result from a business acquisition, if not, at cost and are carried at cost less accumulated amortization. Intangible assets acquired are comprised of customer relationships and non-compete agreements which are amortized on a straight-line basis over ten years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011 and 2010

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Impairment of non financial assets

Impairments are recorded when the recoverable amount of assets are less than their carrying amounts. The recoverable amount is the higher of an asset's fair value less cost to sell or its value in use. Impairment losses, other than those relating to goodwill, are evaluated for potential reversals when events or changes in circumstances warrant such consideration.

The carrying values of all intangible assets and property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. The Company bases its impairment calculation on detailed budgets and forecast calculations, which generally cover a period of four years.

Impairment testing of goodwill

Goodwill is tested for impairment annually as at December 31 or more often if events or changes in circumstances indicate that it might be impaired. The impairment test consists of a comparison of the recoverable amount of the cash-generating unit to which goodwill is assigned with its carrying amount. Any impairment loss in the carrying amount compared with the fair value is charged to earnings in the period in which the impairment occurs.

Disposal of long-lived assets and discontinued operations

Long-lived assets are classified as held for sale if the carrying amount will be recovered principally through a sale transaction rather than through continued use and such sale is considered highly probable with the asset available for immediate sale in its present condition. The criteria for classification as held for sale includes a firm decision by management or the board of directors to dispose of a business or a group of selected assets and the expectation that such disposal will be completed within a 12 month-period. Assets held for sale are measured at the lower of their carrying amounts or their fair value less costs to sell and are no longer amortized. Assets held for sale are classified as discontinued operations if the operations and cash flows can be clearly distinguished, operationally and for financial reporting purposes from the rest of the Company and they:

- Represent a separate major line of business or geographical area of operations;
- Are part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- Are a subsidiary acquired exclusively with a view to resale.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011 and 2010

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at the present value of the expected expenditures to settle the obligation using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as financing charge.

Restructuring provisions

Restructuring provisions are only recognized when general recognition criteria for provisions are fulfilled. Additionally, the Company needs to follow a detailed formal plan about the business or part of the business concerned, the location and number of employees affected, a detailed estimate of the associated costs and appropriate time-line. The people affected must also have a valid expectation that the restructuring is being carried out or the implementation has been initiated already.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a financing charge.

Leases

Leases are classified as either operating or finance, based on the substance of the transaction at the inception of the lease. Classification is re-assessed if the terms of the lease are changed.

Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments under an operating lease are recognized in the consolidated statement of earnings on a straight-line basis over the period of the lease.

Finance lease

Leases in which substantially all the risks and rewards of ownership are transferred to the Company are classified as finance leases. Assets meeting finance lease criteria are capitalized at the lower of the present value of the related lease payments or the fair value of the leased asset at the inception of the lease. Minimum lease payments are apportioned between the finance charges and the liability. The finance charges are allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Financial instruments

The Company classifies its financial assets in the following categories: at fair value through earnings or loans and receivables. The classification depends on the purpose for which the financial assets were acquired. The Company determines the classification of its financial assets at initial recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011 and 2010

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Fair value through earnings

Classification

Financial assets are classified at fair value through earnings if acquired principally for the purpose of selling in the short-term, such as financial assets held for trading, or if so designated by the Company. Assets in this category principally include derivatives which do not qualify for hedge accounting and cash.

Recognition and measurement

Financial assets carried at fair value through earnings are initially recognized, and subsequently carried, at fair value, with changes recognized in the consolidated statement of earnings. Transaction costs are expensed.

Loans and receivables

Classification

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Company's loans and receivables comprise accounts receivable in the consolidated statement of financial position.

Recognition and measurement

Loans and receivables are initially recognized at fair value plus transaction costs and subsequently carried at amortized cost using the effective interest method.

Impairment of financial assets

At the end of each reporting period, the Company assesses whether there is objective evidence that a financial asset is impaired. Impairments are measured as the excess of the carrying amount over the fair value and are recognized in the consolidated statement of earnings.

Financial liabilities

Accounts payable and accrued liabilities, provisions, dividends payable and secured credit facilities are classified as financial liabilities. They are initially recognized at fair value and are subsequently carried at amortized cost using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011 and 2010

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Derivative financial instruments and hedging

Derivatives are initially recognized at fair value on the date a contract is entered into and are subsequently re-measured at their fair value.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the Company's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

The 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 within the next financial year are discussed below:

Intangible assets and goodwill

Intangible assets and goodwill arise out of business combinations for which the Company has applied the purchase method of accounting. The purchase method involves the allocation of the cost of an acquisition to the underlying net assets acquired based on their respective estimated fair value. As part of this allocation process, the Company must identify and attribute values and estimated lives to the intangible assets acquired. These determinations involve significant estimates and assumptions regarding cash flow projections, economic risk and weighted average cost of capital.

These estimates and assumptions determine the amount allocated to other identifiable intangible assets and goodwill as well as the amortization period for identifiable intangible assets with finite lives. If future events or results differ adversely from these estimates and assumptions, the Company could record increased amortization or impairment charges in the future.

As at December 31, 2011, the Company performed a goodwill impairment test using the discounted cash flows method based upon management's best estimates which reflect the Company's planned course of action in light of market conditions. The Company concluded that there was no impairment in the carrying amount of its goodwill. The Company will continue to monitor the resulting impact of market changes [see note 11].

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011 and 2010

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS [Cont'd]

Employee future benefits

The Company sponsors defined benefit plans providing pension and other post-employment benefits to covered employees. The determination of expense and obligations associated with employee future benefits requires the use of assumptions such as the expected return on assets available to fund pension obligations, the discount rate to measure obligations, the expected mortality, the expected retirement age, the expected rate of future compensation increase and the expected healthcare cost trend rate. Because the determination of the cost and obligations associated with employee future benefits requires the use of various assumptions, there is measurement uncertainty inherent in the actuarial valuation process [see note 17]. Actual results will differ from estimated results which are based on assumptions.

Income taxes

The Company computes an income tax provision in each of the jurisdictions in which it operates. However, actual amounts of income tax expense only become final upon filing and acceptance of the tax return by the relevant authorities, which occur subsequent to the issuance of the financial statements. Additionally, estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the ability to use the underlying future tax deductions against future taxable income before they expire. The assessment is based upon existing tax laws and estimates of future taxable income. To the extent estimates differ from the final tax return, earnings would be affected in a subsequent period.

The Company is subject to taxation in numerous jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain during the normal course of business. The Company maintains provision for uncertain tax positions that it believes appropriately reflect its risk with respect to tax matters under active discussion, audit, dispute or appeal with tax authorities, or which are otherwise considered to involve uncertainty. These provisions are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

Impairment of long-lived assets

Long-lived assets of the Company, including property, plant and equipment, are tested for impairment whenever events or changes in circumstances indicate that the carrying value of the assets may not be fully recoverable. Impairment is assessed when the discounted expected future cash flows derived from an asset are less than its carrying amount. Impairment losses are recognized for the amount by which the carrying value of an asset exceeds its fair value. The Company periodically reviews the estimated useful lives of all long-lived assets and revises them if necessary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011 and 2010

4. 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.
- *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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011 and 2010

4. RECENT ACCOUNTING PRONOUNCEMENTS [Cont'd]

These new standards are effective for the Company's interim and annual consolidated financial statements commencing January 1, 2013. However, the IASB has recently issued a proposal to postpone 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.

5. BUSINESS ACQUISITION

On September 16, 2010, the Company acquired substantially all the assets of Pioneer Envelopes Ltd. ("Pioneer") for a cash consideration of \$1.6 million using cash generated from the Company's operations. The acquisition costs related to this transaction amounted to \$152,070 and have been accounted as such in the consolidated statement of earnings in 2010.

The acquisition has been accounted for using the purchase method with operating results included in the Company's earnings from the date of acquisition. The purchase price allocation is as follows:

	\$
Accounts receivable	578,098
Inventories	483,823
Prepaid expenses	27,021
Property, plant and equipment	620,000
Goodwill	250,000
Accounts payable and accrued liabilities	(328,645)
Net assets acquired	1,630,297
Consideration	
Cash	1,739,920
Balance of sale receivable	(109,623)

The acquisition of the Pioneer's assets is consistent with Supremex's acquisition strategy to identify strategic opportunities within its existing core business segment and acquire well-established companies with complementary strengths and significant opportunities to achieve meaningful synergies. The synergies are expected to consist primarily of cost savings relating to raw materials and reduction of overhead expenses, and represent the goodwill.

Supremex Inc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011 and 2010

6. ACCOUNTS RECEIVABLE

	December 31, 2011 \$	December 31, 2010 \$	January 1, 2010 \$
Trade receivables	17,727,394	18,439,189	19,694,737
Less: Allowance for doubtful accounts	(237,360)	(62,714)	(45,353)
Trade receivables - net	17,490,034	18,376,475	19,649,384
Other receivables	1,250,465	1,219,470	1,443,483
	18,740,499	19,595,945	21,092,867

Trade receivables are non-interest bearing and are generally on 30-60 days terms.

The aging analysis of trade receivables at each reporting date was as follows:

	December 31, 2011 \$	December 31, 2010 \$	January 1, 2010 \$
Current	11,990,422	12,724,734	13,603,619
31 – 60 days	4,411,804	4,083,148	4,973,185
61 – 90 days	910,264	1,277,228	979,059
91 – 120 days	203,123	298,281	115,850
Over 120 days	211,781	55,798	23,024
	17,727,394	18,439,189	19,694,737

Allowance for doubtful accounts

The changes in the allowance for doubtful accounts were as follows:

	December 31, 2011 \$	December 31, 2010 \$
Balance, beginning of year	62,714	45,353
Charge for the year	235,527	108,245
Pioneer acquisition [note 5]	—	19,271
Utilized	(61,109)	(109,981)
Impact of foreign exchange gains (losses)	228	(174)
Balance, end of year	237,360	62,714

The Company is exposed to normal credit risk with respect to its accounts receivable and maintains provisions for potential credit losses. Potential for such losses is mitigated because there is no significant exposure to any single customer and because customer credit worthiness is evaluated before credit is extended.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011 and 2010

7. INVENTORIES

	December 31, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
Raw materials	3,060,489	3,309,476	3,386,049
Work in progress	227,185	217,681	365,755
Finished goods	9,815,518	8,412,563	10,169,922
	13,103,192	11,939,720	13,921,726

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 year ended December 31, 2011 is \$100,403,733 [2010 - \$107,192,467].

8. ASSETS HELD FOR SALE

Pursuant to the restructuring of the Toronto operations, the following items were reclassified as assets held for sale. The Company has sold all the items during the year ended December 31, 2011.

	December 31, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
Land and buildings	—	5,568,000	—
Machinery and equipment	—	348,048	—
	—	5,916,048	—
Current portion	—	5,568,000	—
Long-term portion of assets held for sale	—	348,048	—

An impairment loss of \$2.2 million on the measurement of these assets to the lower of its carrying amount and its fair value less costs to sell was recognized as amortization and write-down expense in fiscal 2010.

Supremex Inc

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December 31, 2011 and 2010

9. PROPERTY, PLANT AND EQUIPMENT

	Land, buildings and leasehold improvements \$	Machinery and equipment \$	Office and computer equipment \$	Total \$
Cost:				
At January 1, 2010	21,122,423	33,231,440	1,154,468	55,508,331
Acquisition	249,895	2,816,947	167,195	3,234,037
Pioneer acquisition [note 5]	—	605,000	15,000	620,000
Disposals	(14,021)	(2,235,239)	(1,118)	(2,250,378)
Transfer to assets held for sale [note 8]	(7,575,803)	(945,496)	—	(8,521,299)
Translation adjustment	(650)	(38,476)	(3,702)	(42,828)
At December 31, 2010	13,781,844	33,434,176	1,331,843	48,547,863
Acquisition	1,743,492	2,104,479	150,319	3,998,290
Disposals	(343,129)	(1,337,413)	(28,831)	(1,709,373)
Transfer from assets held for sale	—	34,937	—	34,937
Translation adjustment	259	32,118	1,290	33,667
At December 31, 2011	15,182,466	34,268,297	1,454,621	50,905,384
Amortization and impairment:				
At January 1, 2010	1,842,781	12,770,804	838,505	15,452,090
Amortization	539,776	3,776,135	157,447	4,473,358
Write-down [note 8]	1,542,809	645,457	—	2,188,266
Disposals	(14,021)	(1,387,223)	(1,118)	(1,402,362)
Transfer to assets held for sale [note 8]	(2,007,803)	(597,448)	—	(2,605,251)
Translation adjustment	(499)	(4,478)	(3,206)	(8,183)
At December 31, 2010	1,903,043	15,203,247	991,628	18,097,918
Amortization	455,863	3,777,012	164,686	4,397,561
Disposals	(343,129)	(776,155)	(28,831)	(1,148,115)
Transfer from assets held for sale	—	21,577	—	21,577
Translation adjustment	267	6,017	1,486	7,770
At December 31, 2011	2,016,044	18,231,698	1,128,969	21,376,711
Net book value:				
At January 1, 2010	19,279,642	20,460,636	315,963	40,056,241
At December 31, 2010	11,878,801	18,230,929	340,215	30,449,945
At December 31, 2011	13,166,422	16,036,599	325,652	29,528,673

During the fourth quarter, effective October 1, 2011, the Company reviewed the useful lives of its main manufacturing equipment and determined that an adjustment was needed. The useful lives have been extended to at least five years considering their condition, which resulted in a decreased amortization charge of approximately \$357,000 for the fourth quarter of 2011. The expected impacts of this charge are: a decrease in the amortization charge of approximately \$1.3 million in 2012, \$0.2 million in 2013 and a total increase of \$1.8 million for the years thereafter up to 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011 and 2010

10. INTANGIBLE ASSETS

	Customer relationships \$	Non-compete agreements \$	Total \$
Cost	60,884,000	755,000	61,639,000
Accumulated amortization:			
At January 1, 2010	22,428,839	283,332	22,712,171
Amortization	6,088,400	75,500	6,163,900
At December 31, 2010	28,517,239	358,832	28,876,071
Amortization	6,088,400	75,500	6,163,900
At December 31, 2011	34,605,639	434,332	35,039,971
Net book value:			
At January 1, 2010	38,455,161	471,668	38,926,829
At December 31, 2010	32,366,761	396,168	32,762,929
At December 31, 2011	26,278,361	320,668	26,599,029

11. GOODWILL

	\$
Cost:	
At January 1, 2010	75,501,125
Acquisition of Pioneer [note 5]	250,000
At December 31, 2010	75,751,125
At December 31, 2011	75,751,125

Impairment test of goodwill

The Company conducted its annual impairment test as at December 31, 2011, in accordance with its policy described in note 2. The recoverable amount of the cash-generating unit exceeded its carrying values. As a result, no goodwill impairment was recorded.

Valuation technique

The Company uses the discounted cash flows ("DCF") method to determine the value in use of its cash-generating unit and has not made any changes to the valuation methodology used to assess goodwill impairment since the last annual impairment test.

Significant assumptions

The income approach is predicated upon the value of the future cash flows that a business will generate going forward. The DCF method which was used as at December 31, 2011 involves projecting cash flows and converting them into a present value equivalent through discounting. The discounting process uses a rate of return that is commensurate with the risk associated with the business or asset and the time value of money. This approach requires assumptions about revenue growth or decline rates, operating margins, tax rate and discount rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011 and 2010

11. GOODWILL [Cont'd]

Growth or decline of revenue

The assumptions used were based on the Company's internal budget. The Company projected revenue, operating margins and cash flows for a period of four years that reflect lower demand and applied a perpetual long-term growth rate for the period thereafter. In arriving at its forecasts, the Company considered past experience, economic trends as well as industry and market trends.

Discount rate

The Company assumed a pre-tax discount rate in order to calculate the present value of its projected cash flows. The discount rate represented a weighted average cost of capital ("WACC") for comparable companies operating in a similar industry. The WACC is an estimate of the overall required rate of return on an investment for both debt and equity owners and serves as the basis for developing an appropriate discount rate. Determination of the WACC requires separate analysis of the cost of equity and debt, and considers a risk premium based on an assessment of risks related to the projected cash flows.

The key assumptions used in performing the impairment test were as follows:

	2011	2010
Pre-tax discount rate	15.8%	16.3%
Tax rate	25.7%	25.6%
Perpetual growth rate	0.0%	0.0%

Sensitivity to changes in assumptions

Management believes that an increase of 2% of the pre-tax discount rate or a decrease of 3% of the perpetual growth rate, in isolation, would decrease the recoverable amount equivalent to the carrying value.

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
Trade payables	9,947,326	11,363,273	10,043,239
Accrued liabilities	10,042,954	8,748,539	8,491,273
	19,990,280	20,111,812	18,534,512

Trade payables are non-interest bearing and are normally settled on 20 to 60 day terms.

Supremex Inc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011 and 2010

13. PROVISIONS

In connection with the acquisitions of NPG Envelope (“NPG”) in 2007, Montreal Envelope Inc. (“Montreal”) in 2008 and Pioneer [see note 5], 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 December 31, 2011, the amount of the remaining accrued restructuring provision was \$0.5 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 and 2010 in the form of severances and other costs as a result of the restructuring of the Toronto and Montreal operations. The balance of the accrued restructuring provision relating to the restructuring of the Toronto and Montreal operations as at December 31, 2011 was \$0.2 million and is expected to be paid during the first quarter of 2012.

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

	2011	2010
	\$	\$
Balance, beginning of year	931,297	795,018
Restructuring expenses charged against earnings	1,089,401	2,054,519
Cash payments	(1,364,131)	(1,918,240)
Balance, end of year	656,567	931,297

14. DIVIDENDS AND DISTRIBUTIONS PAYABLE

Dividends declared from January 1, 2011 to December 31, 2011 were as follows:

Declaration date	Record date	Payment date	Per share	Dividend
			\$	\$
March 18, 2011	March 31, 2011	April 15, 2011	0.03	878,933
June 17, 2011	June 30, 2011	July 15, 2011	0.03	878,933
November 8, 2011	November 30, 2011	December 15, 2011	0.03	878,933
Total				2,636,799

Prior to the conversion of the Fund to a corporate structure [see note 1], Supremex Income Fund made monthly distributions of \$292,978 on its available cash to unitholders of record on the last business day of each month, payable on or about the 15th day of the following month. Distributions for the period from January 1, 2010 to December 31, 2010 amounted to \$3,515,736. The December distribution was declared and accrued in December 2010 and paid to unitholders on January 17, 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011 and 2010

15. SECURED CREDIT FACILITIES

On November 4, 2011, the Company renewed and amended its credit agreement. The renewed secured credit facilities consist of a \$20 million revolving facility (\$35 million before the renewal), a \$50 million term credit facility (\$65.6 million and \$73.1 million as at December 31, 2010 and January 1, 2010, respectively) and a \$25 million acquisition/capital expenditures facility (none before the renewal). The facilities bear interest at a floating rate based on the Canadian prime rate or bankers' acceptance rates, plus an applicable margin on those rates.

The revolving credit facility may be used to refinance existing credit facilities, finance working capital requirements and for other general corporate purposes. The acquisition/capital expenditures facility may be used to finance permitted acquisitions and permitted capital expenditures.

The revolving and term credit facilities mature on November 4, 2015. The acquisition/capital expenditures credit facility matures on November 4, 2013 with the option to extend up to November 4, 2015. The term credit facility is repayable in quarterly principal instalments of \$1,250,000. In addition, 50% of the annual excess cash flow, as defined in the credit agreement, will be applied against the term credit facility if the debt to EBITDA ratio rises above 2.50, or 25% if the debt to EBITDA ratio falls between 2.50 and 2.00. No cash flow sweep are required if the debt to EBITDA ratio falls below 2.00, which was the case in 2011.

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

	December 31, 2011 \$	December 31, 2010 \$	January 1, 2010 \$
Revolving credit facility	5,000,000	4,290,886	20,324,181
Term credit facility	50,000,000	65,625,000	73,125,000
Less: deferred financing costs, net	(823,066)	(846,010)	(1,569,804)
	54,176,934	69,069,876	91,879,377
Current portion	(5,000,000)	(14,415,489)	(7,500,000)
Long-term portion of secured credit facilities	49,176,934	54,654,387	84,379,377

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 December 31, 2011. 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	5,000,000
2013	5,000,000
2014	5,000,000
2015	40,000,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011 and 2010

15. SECURED CREDIT FACILITIES [Cont'd]

As at December 31, 2011, the interest rate on the revolving and term credit facilities was 3.53% (4.90% and 5.25% respectively as at December 31, 2010, and 4.85% and 4.76% respectively as at January 1, 2010). As of 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:

	2011 \$	2010 \$
Interest on secured credit facilities	3,304,402	3,856,920
Other interest	12,260	12,956
Amortization of deferred financing costs	881,796	851,105
Loss on valuation of derivative financial instrument	1,776,293	—
	5,974,751	4,720,981

16. INCOME TAXES

Income tax expense

The major components of income tax expense recognized in the consolidated statement of earnings were as follows:

	2011 \$	2010 \$
Current income tax:		
Current income tax expense	4,289,979	750,897
Deferred income tax:		
Origination and (reversal) of temporary differences	(1,092,562)	2,210,953
Income tax expense	3,197,417	2,961,850

Income taxes on items recognized in other comprehensive income were as follows:

	2011 \$	2010 \$
Deferred income tax related to items credited directly to equity during the year:		
Deferred tax benefit on recognized actuarial loss on defined benefit pension plans	(4,091,882)	(492,185)
Deferred tax benefit on recognized actuarial loss on other post-retirement benefit	(9,944)	(7,282)
Income tax benefit charged to other comprehensive income	(4,101,826)	(499,467)

Supremex Inc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011 and 2010

16. INCOME TAXES [Cont'd]

The income tax expense differs from the expense that would be obtained by applying the combined Canadian income tax (federal and provincial) as follows:

	2011 \$	2010 \$
Earnings before income taxes	11,512,291	12,779,668
Income tax expense at combined federal and provincial statutory rate of 27.40% [2010 – 29.23%]	3,154,368	3,735,497
Effect of change in enacted tax rates	88,245	280,364
Impact of interest expense of Supremex paid to the Fund (prior to conversion into corporate structure), eliminated on consolidation	—	(1,270,246)
Impact of amortization of deferred compensation not deductible for tax purposes	—	92,098
Non-deductible expenses and other	(45,196)	124,137
Income tax expense	3,197,417	2,961,850

Changes in statutory rate mainly result from the reduction in the federal and Ontario corporation tax rate, as well as a change in the proportion of the Company's earnings in the two jurisdictions, which have different tax rates.

Deferred income tax

Deferred income tax relates to the following:

	Consolidated statement of financial position			Consolidated statement of earnings	
	December 31, 2011 \$	December 31, 2010 \$	January 1, 2010 \$	2011 \$	2010 \$
Deferred tax assets					
Accrued pension benefit liability	4,950,263	1,790,470	1,406,756	932,089	108,471
Goodwill	1,625,168	1,839,833	2,037,010	214,665	197,177
Other	502,940	489,577	433,544	(3,419)	—
Derivative financial liability	456,759	—	—	(456,759)	—
Non-capital losses	162,123	173,744	4,185,320	11,621	4,011,576
Initial public offering expenses	—	211,362	1,033,315	211,362	821,953
	7,697,253	4,504,986	9,095,945	909,559	5,139,177
Deferred tax liabilities					
Intangible assets	5,891,375	7,363,061	8,848,543	1,471,686	1,485,482
Property, plant and equipment	3,448,338	3,819,238	4,987,876	370,900	1,168,637
Other	539,932	699,467	924,820	159,535	274,105
	9,879,645	11,881,766	14,761,239	2,002,121	2,928,224
Deferred tax (recovery) expense				(1,092,562)	2,210,953
Net deferred income tax liabilities	2,182,392	7,376,780	5,665,294		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011 and 2010

16. INCOME TAXES [Cont'd]

Reconciliation of net deferred tax liabilities

	2011 \$	2010 \$
Balance – beginning of the year	7,376,780	5,665,294
Tax (recovery) expense during the year recognized in the consolidated statement of earnings	(1,092,562)	2,210,953
Tax benefit recognized in other comprehensive income	(4,101,826)	(499,467)
Balance – end of year	2,182,392	7,376,780

17. EMPLOYEE DEFINED BENEFIT PLANS

(a) Pension Plans

The Company maintains three defined benefit pension plans covering certain salaried and hourly employees. Two of these pension plans are hybrid because they also have a defined contribution component. All defined benefit pension plans are funded.

The defined benefit and defined contribution plans expenses included in operating, selling, general and administrative expenses are as follows:

	2011 \$	2010 \$
Defined benefit plans		
Current service costs	2,399,700	2,431,700
Interest expense on benefit obligation	4,258,000	4,404,100
Expected return on plan assets	(4,613,000)	(4,165,600)
Past service costs	—	5,000
Settlement	—	144,000
Defined benefit plans expense	2,044,700	2,819,200
Defined contribution plan expense	496,600	477,000
Pension plans expense	2,541,300	3,296,200

Supremex Inc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011 and 2010

17. EMPLOYEE DEFINED BENEFIT PLANS [Cont'd]

The following table presents the changes in the accrued benefit obligation and the fair value of plan assets, as well as the funded status of the defined benefit plans.

	December 31, 2011 \$	December 31, 2010 \$
Change in accrued benefit obligation		
Benefit obligation, beginning of the year	78,380,400	71,445,600
Current service cost	2,399,700	2,431,700
Interest cost	4,258,000	4,404,100
Employees contribution	606,100	639,600
Actuarial losses on obligation	10,885,200	4,352,100
Benefits paid	(4,932,300)	(5,041,700)
Settlement	—	144,000
Past service cost	—	5,000
Benefit obligation, end of year	91,597,100	78,380,400
Change in plan assets		
Fair value of plan assets, beginning of the year	73,126,800	67,231,400
Expected return on plan assets	4,613,000	4,165,600
Actuarial losses	(6,755,800)	2,889,900
Employees contribution	606,100	639,600
Employer contribution	5,688,200	3,242,000
Benefits paid	(4,932,300)	(5,041,700)
Fair value of plan assets, end of year	72,346,000	73,126,800
Funded status – Plan deficit	(19,251,100)	(5,253,600)
Asset limit and minimum funding adjustment	—	(1,730,700)
Net amount recognized as accrued pension benefit liability	(19,251,100)	(6,984,300)

The defined benefit plans amount recognized in other comprehensive loss, before taxation, is as follows:

	2011 \$	2010 \$
Actuarial losses	(17,641,000)	(188,900)
Asset limit and minimum funding adjustment	1,730,700	(1,730,700)
	(15,910,300)	(1,919,600)

The cumulative amount of actuarial losses recognized in the consolidated statement of comprehensive income is \$17,829,900 as at December 31, 2011 [2010 - \$188,900].

Supremex Inc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011 and 2010

17. EMPLOYEE DEFINED BENEFIT PLANS [Cont'd]

The Company expects to contribute approximately \$6.1 million to its defined benefit and defined contribution pension plans in 2012.

The assumptions used in computing the net pension cost were as follows:

	2011	2010
	%	%
Discount rate for accrued benefit obligation	4.50	5.50
Discount rate for net pension cost	5.50	6.25
Expected return on plan assets	6.25	6.25
Rate of compensation increase	3.50	3.50

The expected rate of return on assets is based on the expected rate of return on each asset class category using a stochastic projection tool that generates multiple expected-return scenarios over long periods of time for different asset classes. Expected fees payable by the plan are deducted from this expected rate of return. The actual return on plan assets was a loss of \$2,142,800 for the year ended December 31, 2011 [2010 - gain of \$7,055,500].

The weighted average allocation of plan assets as at December 31 is as follows:

	2011	2010
	%	%
Equity securities	62.0	61.4
Debt	31.7	33.9
Cash and short-term securities	6.3	4.7
Total	100.00	100.0

The pension plans have an investment policy with the following target asset allocations: 57% equity securities, 42% debt securities and 1% short-term securities with a tolerable deviation of such allocation.

As of December 31, 2011 and 2010, there were no Supremex shares held in the Company's pension plans.

Sensitivity analysis

For the Company, a 0.25% increase or decrease in the discount rate would have decreased or increased the defined benefit obligation by approximately \$3.8 million as at December 31, 2011. A 0.25% increase or decrease in the expected rate of return would have decreased or increased the pension expense by approximately \$0.2 million as at December 31, 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011 and 2010

17. EMPLOYEE DEFINED BENEFIT PLANS [Cont'd]

(b) Post-retirement benefits other than pension

The following tables provide a reconciliation of the change in the accrued benefit obligation of the plans.

	December 31, 2011 \$	December 31, 2010 \$
Change in accrued benefit obligation		
Benefit obligation, beginning of year	648,300	657,000
Interest cost	33,600	38,700
Benefits paid	(70,900)	(75,800)
Actuarial losses	38,600	28,400
Benefit obligation, end of year	649,600	648,300

Post-employment and other retirement benefits plan are not funded.

The other post-retirement benefit cost included in operating, selling, general and administrative expenses is composed of the interest cost on liability of \$33,600 for the year ended December 31, 2011 [2010 - \$38,700].

The other post-retirement benefits amount recognized in other comprehensive loss, before taxation, consists of actuarial losses of \$38,600 [2010 - \$28,400]. The cumulative amount of actuarial losses recognized in the consolidated statement of comprehensive income is \$67,000 as at December 31, 2011 [2010 - \$28,400].

The assumptions used in the measurement of the Company's other post-retirement benefit cost were as follows:

	2011 %	2010 %
Weighted-average assumptions		
Discount rate for benefit obligation	4.50	5.50
Discount rate for net periodic benefit cost	5.50	6.25

As at December 31, 2011, the assumed health care trend rate for 2011 was 6.7%, progressively declining to 2.5% in 2024. A one-percentage-point change in assumed health care cost trend rates would have no material impact.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011 and 2010

18. SHARE CAPITAL / FUND UNITS

Share capital

An unlimited number of commons shares are issuable. Each common share represents a shareholder's proportionate undivided interest in the Company. Each common share confers to its holder the right to one vote at any meeting of shareholders and to participate equally and rateably in any dividends of the Company, if any, and, in the event of any required distribution of all of the property of the Company, in the net assets of the Company remaining after satisfaction of all liabilities.

Fund units

The Fund Declaration of Trust provided that an unlimited number of units may be issued. Each unit was transferable and represented an equal undivided beneficial interest in any distributions from the Fund and in the net assets of the Fund. All units were of the same class with equal rights and privileges. Each unit entitled the holder to participate equally in all allocations and distributions and to one vote at all meetings of unitholders for each whole unit held.

The Fund units were redeemable at any time at the option of the holder at the lesser of 90% of the weighted average price of the Fund unit during the last ten trading days of the units on an open market and the closing market price on the redemption date. All redemptions were subject to a maximum of \$50,000 in cash redemptions by the Fund in any particular month. Redemptions in excess of this amount would have been paid by way of a distribution *in specie* of the assets of the Fund.

Employees units

Units issued as of March 31, 2006, at the time of the initial public offering, included 2,364,228 units valued at \$23,642,280 issued to employees for a cash consideration of \$23,642 to amend the then existing management profit sharing plan. These units vested over four years and the unamortized value of such units was recorded as deferred compensation and recognized as compensation expense over the vesting period. Employees were entitled to distributions on these units. Each unit entitles the holder to participate equally in all allocations and distributions of the Fund and to one vote at all meetings of unitholders.

Supremex Inc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011 and 2010

18. SHARE CAPITAL / FUND UNITS [Cont'd]

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

	Supremex Income Fund		Supremex Inc.	
	Number of units	Fund units \$	Number of common shares	Share capital \$
Balance as of January 1, 2010	29,297,767	282,798,322	—	—
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

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 year ended December 31, 2011, the Company did not purchase any common shares for cancellation.

19. ACCUMULATED OTHER COMPREHENSIVE LOSS

Changes in the accumulated other comprehensive loss were as follows:

	Foreign Currency Translation
Balance as at January 1, 2010	(69,151)
Change during the year	(14,528)
Balance as at December 31, 2010	(83,679)
Change during the year	7,518
Balance as at December 31, 2011	(76,161)

20. OPERATING, SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	2011 \$	2010 \$
Wages and salaries	35,870,921	35,546,455
Social security costs	5,424,341	5,412,954
Pension costs [see note 17]	2,541,300	3,296,200
Post-employment benefits other than pensions [see note 17]	33,600	38,700
Share-based program expense	18,257	26,029
Employee benefits expenses	43,888,419	44,320,338
Raw materials and other purchases	53,728,406	56,860,804
Other	16,737,305	18,755,246
	114,354,130	119,936,388

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011 and 2010

21. COMMITMENTS, CONTINGENCIES AND GUARANTEES

Operating lease commitments

The Company has entered into operating leases mainly for buildings.

Future minimum rentals payable under non-cancellable operating leases are as follows:

	December 31, 2011 \$	December 31, 2010 \$
Within one year	1,682,755	2,266,891
After one year but not more than five years	4,418,416	4,687,801
More than five years	1,513,809	2,228,811
	7,614,980	9,183,503

Legal claim

In the normal course of its operations, the Company is exposed to various claims, disputes and legal proceedings. These disputes may involve numerous uncertainties and the outcome of individual cases is unpredictable. According to management, these disputes should not have a significant negative impact on the Company's financial position.

Guarantees

In the normal course of business, the Company has entered into agreements that contain features which meet the definition of a guarantee. These agreements may require the Company to compensate counterparties for costs and losses incurred as a result of various events including breaches of representations and warranties, loss of or damages to property, claims that may arise while providing services, and environmental liabilities. These agreements provide for indemnification and guarantees to counterparties as follows:

Operating leases

The Company has general indemnity clauses in many of its real estate leases whereby it, as lessee, indemnifies the lessor against liabilities related to the use of leased property. These leases mature at various dates through September 2019. The nature of the agreements varies based on individual contracts and this prevents the Company from estimating the total potential amount it would have to pay to lessors, if any. Historically, the Company has not made any significant payments under such agreements, has insurance coverage for certain of the obligations undertaken, and, as December 31, 2011, has not recorded any liability associated with these indemnifications.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011 and 2010

22. RELATED PARTY TRANSACTIONS

Compensation of key management personnel of Supremex is as follows:

	2011	2010
	\$	\$
Short-term employee benefits	1,933,249	1,413,939
Post-employment benefits	73,216	61,549
Share-based payment transactions	18,257	26,029
	2,024,722	1,501,517

The amounts disclosed in the table are the amounts recognized as an expense related to key management personnel during the reporting period.

23. FINANCIAL INSTRUMENTS

Financial assets and liabilities

Financial assets and liabilities in the statement of financial position were as follows:

December 31, 2011					
	Loans and receivables	Assets at fair value through earnings	Derivatives	Other financial liabilities	Total
	\$	\$	\$	\$	\$
Cash	—	2,606,332	—	—	2,606,332
Accounts receivable	18,740,499	—	—	—	18,740,499
Accounts payable and accrued liabilities	—	—	—	(19,990,280)	(19,990,280)
Provisions	—	—	—	(656,567)	(656,567)
Secured credit facilities	—	—	—	(55,000,000)	(55,000,000)
Derivative financial liability	—	—	(1,776,293)	—	(1,776,293)
Total	18,740,499	2,606,332	(1,776,293)	(75,646,847)	(56,076,309)

December 31, 2010					
	Loans and receivables	Assets at fair value through earnings	Derivatives	Other financial liabilities	Total
	\$	\$	\$	\$	\$
Cash	—	148,874	—	—	148,874
Accounts receivable	19,595,945	—	—	—	19,595,945
Accounts payable and accrued liabilities	—	—	—	(20,111,812)	(20,111,812)
Provisions	—	—	—	(931,297)	(931,297)
Distribution payable	—	—	—	(292,978)	(292,978)
Secured credit facilities	—	—	—	(69,915,886)	(69,915,886)
Total	19,595,945	148,874	—	(91,251,973)	(71,507,154)

Supremex Inc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011 and 2010

23. FINANCIAL INSTRUMENTS [Cont'd]

January 1, 2010	Loans and receivables \$	Assets at fair value through earnings \$	Derivatives \$	Other financial liabilities \$	Total \$
Cash	—	38,962	—	—	38,962
Accounts receivable	21,092,867	—	—	—	21,092,867
Accounts payable and accrued liabilities	—	—	—	(18,534,512)	(18,534,512)
Provisions	—	—	—	(795,018)	(795,018)
Distribution payable	—	—	—	(1,464,888)	(1,464,888)
Secured credit facilities	—	—	—	(93,449,181)	(93,449,181)
Derivative financial liability	—	—	(808,652)	—	(808,652)
Total	21,092,867	38,962	(808,652)	(114,243,599)	(93,920,422)

Fair values

The carrying value of financial assets designated as cash and accounts receivable and of financial liabilities designated as accounts payable and accrued liabilities, and provisions and distribution payable approximates their fair value since they are expected to be realized or settled in the short term.

The carrying amount of secured credit facilities approximates its fair value given its nature and floating interest rate.

The fair value of interest rate swap is measured using a generally accepted valuation technique, that is, the discounted value of the difference between the value of the swap based on variable interest rates (estimated using the yield curve for anticipated interest rates) and the value of the swap based on the swap's fixed interest rate. The Company's credit risk is also taken into consideration in determining fair value.

For the interest rate swap, the Company categorized the fair value measurement in Level 2, as it is primarily derived from observable market inputs, that is, interest rates.

Management of risks arising from financial instruments

In the normal course of business, the Company is exposed to a range of financial risks, which include credit risk, liquidity risk and market risk. To limit the effects of these risks on revenues, expenses and cash flows, the Company can avail itself of various derivative financial instruments. The Company's management is responsible for determining the acceptable level of risk and uses derivative financial instruments only to manage existing or anticipated risks, commitments or obligations based on past experience.

Credit risk

Credit risk arises from cash and accounts receivables. In order to minimize the credit exposure, the Company's cash is placed with Canadian Schedule 1 banks.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011 and 2010

23. FINANCIAL INSTRUMENTS [Cont'd]

Credit risk stems primarily from the potential inability of clients to discharge their obligations. Accounts receivable credit risk is mitigated through established monitoring activities, lack of customer concentration and the Company's diversified customer base. Historically, the Company has never made any significant write-off of accounts receivable. As at December 31, 2011 and 2010, total trade accounts receivable over 90 days past due amounted to less than 5% (see note 6). The Company does not hold collateral as security.

Liquidity risk

The Company is exposed to the risk of being unable to honour its financial commitments within the deadlines set out under the terms of such commitments and at a reasonable price. The Company manages liquidity risk by maintaining adequate cash balances and by appropriately using the Company's revolving credit facility. The Company continuously reviews both actual and forecasted cash flows to ensure that it has adequate credit facility capacity. The Company continuously reviews its exposure to interest rate fluctuations and has decided at this time to enter into a derivatives contract (see note 15).

The table below sets forth the contractual undiscounted cash flows of the non-derivative and derivative financial liabilities by maturity based on the remaining period from December 31, to the contractual maturity date.

December 31, 2011	Less than 3 months \$	3 to 12 months \$	1 to 5 years \$	Total \$
Accounts payable and accrued liabilities	19,990,280	—	—	19,990,280
Provisions	656,567	—	—	656,567
Secured credit facilities	1,250,000	3,750,000	50,000,000	55,000,000
Interest on secured credit facilities	572,487	1,840,633	5,272,358	7,685,478
Derivative financial liabilities	104,250	312,750	696,000	1,113,000
	22,573,584	5,903,383	55,968,358	84,445,325
December 31, 2010	Less than 3 months \$	3 to 12 months \$	1 to 5 years \$	Total \$
Accounts payable and accrued liabilities	20,111,812	—	—	20,111,812
Provisions	931,297	—	—	931,297
Distribution payable	292,978	—	—	292,978
Secured credit facilities	1,875,000	12,540,489	55,500,397	69,915,886
Interest on secured credit facilities	897,575	2,406,827	24,328	3,328,730
	24,108,662	14,947,316	55,524,725	94,580,703

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011 and 2010

23. FINANCIAL INSTRUMENTS [Cont'd]

Market risk

Market risk is the risk that changes in market prices due to foreign exchange rates and interest rates will affect the value of the Company's financial instruments. The objective of market and risk management is to mitigate and control exposures within acceptable parameters while optimizing the return on risk.

Interest rate risk

The Company is exposed to interest rate fluctuations on its secured credit facilities. The Company manages interest rate exposure by maintaining a balanced portfolio of fixed and variable loans and borrowings. Furthermore, interest rate fluctuations could have an impact on interest expense on its revolving credit facility and on income the Company derives from cash. The Company invests its cash in highly liquid investment instruments to safeguard its capital while generating a reasonable return.

On December 31, 2011, a 25 basis-point rise or fall in interest rates, assuming all other variables remained unchanged, would have resulted, respectively, in a \$64,690 increase or decrease in the Company's net earnings for the year ended December 31, 2011.

Foreign exchange risk

The Company is exposed to fluctuations in US exchange rates because a portion of its activities are conducted in the United States and a portion of its purchases and capital expenditures are made in US dollars. The Company continuously reviews its exposure to fluctuations in the US exchange rate and has decided at this time not to enter into derivatives as the exposure is not significant.

As at December 31, 2011, net financial liabilities of the Company in Canadian dollars, denominated in US dollars, totalled \$2,518,712 (2010 - \$2,437,236).

On December 31, 2011, a 5% rise or fall in the Canadian dollar against the US dollar, assuming all other variables remained unchanged, would have resulted, respectively, in a \$125,936 increase or decrease in the Company's net earnings for the year then ended, whereas other comprehensive loss would have remained unchanged. However, the above change in net earnings may have been offset by adjustments in Canadian pricing required to remain competitive with imports from the United States, mainly in commodity products.

Capital management

The Company's capital consists of equity and secured credit facilities. The Company maintains a capital level that enables it to meet several objectives:

- Assure the longevity of its capital to support continued operations;
- Satisfy certain financial covenants under the secured credit facilities;
- Preserve its financial flexibility to benefit from potential opportunities as they arise; and
- Sustain growth in share value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011 and 2010

23. FINANCIAL INSTRUMENTS [Cont'd]

The Company continually assesses the adequacy of its capital structure and capacity and makes adjustments in view of the Company's strategy, economic conditions and the risk characteristics of the business to achieve the above objectives. The Company also monitors its capital to ensure full adherence to the "secured credit facilities/EBITDA" and "fixed charge covenant" ratios as defined in the credit facilities agreement.

The Company's capital structure is composed of equity, secured credit facilities, less cash. The capital structure of continuing operations is as follows:

	December 31, 2011 \$	December 31, 2010 \$	January 1, 2010 \$
Secured credit facilities	55,000,000	69,915,886	93,449,181
Cash	(2,606,332)	(148,874)	(38,962)
Net debt	52,393,668	69,767,012	93,410,219
Equity	64,667,272	70,828,753	65,674,653

The Company is not subject to any externally imposed capital requirements other than certain restrictions under the terms of its secured credit facilities, which relate mainly to permitted acquisitions.

24. SEGMENTED INFORMATION

The Company currently operates in one reporting segment: the manufacturing and sale of envelopes. The Company's non-current assets amounted to \$130,876,557 in Canada and \$1,002,270 in the United States as at December 31, 2011 [\$138,363,493 and \$948,554, respectively, as at December 31, 2010]. The Company's revenue amounted to \$132,290,658 in Canada and \$11,601,541 in the United States for the year ended December 31, 2011 based on customer location [2010 - \$142,487,915 in Canada and \$10,636,483 in the United States, respectively].

25. TRANSITION TO IFRS

The Company's consolidated financial statements for the year ended December 31, 2011 are the first annual financial statements to comply with IFRS and these consolidated financial statements were prepared in accordance with IFRS 1, *First-time adoption of International Financial Reporting Standards*. The first date at which IFRS was applied was January 1, 2010 ("Transition Date"). In accordance with IFRS, the Company has:

- Provided comparative financial information;
- Applied the same accounting policies throughout all periods presented;
- Retrospectively applied all effective IFRS standards that are effective as at December 31, 2011, as required; and
- Applied certain optional exemptions and certain mandatory exceptions as applicable for first time IFRS adopters.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011 and 2010

25. TRANSITION TO IFRS [Cont'd]

The Company's consolidated financial statements were previously prepared in accordance with Canadian GAAP.

Elected exemption from full retrospective application

In preparing these consolidated financial statements in accordance with IFRS 1, the Company has applied certain of the optional exemptions from full retrospective application of IFRS. The optional exemptions applied are described below.

(a) Business combinations

The Company elected not to retrospectively apply IFRS 3R (revised), *Business Combinations*, to business combinations that occurred prior to its Transition Date and such business combinations have not been restated. Any goodwill arising on such business combinations before the Transition Date has not been adjusted from the carrying value previously determined under Canadian GAAP as a result of applying these exemptions and is their deemed cost at the date of the acquisition.

(b) Employee benefits

The Company elected to recognize all cumulative actuarial gains and losses and past service costs on defined benefit plans that existed at its Transition Date in opening deficit.

Mandatory exception to retrospective application

In preparing these consolidated financial statements in accordance with IFRS 1, the Company has applied a mandatory exception from full retrospective application of IFRS. The mandatory exception applied from full retrospective application of IFRS is described below.

(a) Estimates

Hindsight is not used to create or revise estimates. The estimates previously made by the Company under Canadian GAAP were not revised for application of IFRS except where necessary to reflect any difference in accounting policies.

Reconciliations of Canadian GAAP to IFRS

IFRS 1 requires an entity to reconcile equity, earnings, comprehensive income and cash flows for prior periods. The impact of conversion to IFRS on the Company's consolidated statements of cash flows compared with its previously released Canadian GAAP consolidated statements of cash flows is directly related to the impacts on the consolidated statements of earnings, consolidated statements of comprehensive income and the consolidated statements of financial position as described below. The items of the consolidated financial statements of cash flows most affected by the conversion to IFRS are: net earnings, amortization of deferred compensation, change in accrued pension benefit liability, business acquisition, deferred income tax expense and variation in provisions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011 and 2010

25. TRANSITION TO IFRS [Cont'd]

The following represents the reconciliation from Canadian GAAP to IFRS for the respective periods for equity, net earnings and comprehensive income:

Reconciliation of Equity

As of	Note	December 31, 2010	January 1, 2010
Shareholders' equity under Canadian GAAP		80,084,279	73,345,631
Differences decreasing reported shareholders' equity:			
Employee benefits	A	(8,987,151)	(7,670,978)
Business combinations	C	(268,375)	—
Total equity under IFRS		70,828,753	65,674,653

Reconciliation of Net Earnings

For the year ended	Note	December 31, 2010
Net earnings under Canadian GAAP		8,993,872
Differences increasing (decreasing) reported earnings:		
Employee benefits	A	132,361
Deferred compensation	B	945,433
Business combinations	C	(268,375)
Foreign currency translation	D	14,527
Net earnings under IFRS		9,817,818

Reconciliation of Comprehensive Income

For the year ended	Note	December 31, 2010
Comprehensive income under Canadian GAAP		8,993,872
Differences (decreasing) increasing reported comprehensive income:		
Employee benefits	A	(1,316,173)
Deferred compensation	B	945,433
Business combinations	C	(268,375)
Comprehensive income under IFRS		8,354,757

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011 and 2010

25. TRANSITION TO IFRS [Cont'd]

A. Employee benefits

- (i) Upon adoption of IFRS, actuarial gains and losses are recognized immediately in other comprehensive income, as permitted by IAS 19, *Employee Benefits* (“IAS 19”). Under previous Canadian GAAP, the Company used the corridor method to amortize actuarial gains or losses over the average remaining service life of the employees. At the Transition Date, all previously unrecognized cumulative actuarial gains and losses, including the unamortized transitional obligation, were recognized in deficit, resulting in an increase of deficit of \$6.6 million.
- (ii) In compliance with IAS 19, past service costs are recognized immediately if vested, or on a straight-line basis over the average remaining vesting period if unvested. Under Canadian GAAP, past service costs were recognized over the expected average remaining service period of active employees expected to receive benefits under the plan. At the Transition Date, all previously unrecognized past service costs amounting to \$0.1 million were fully vested and as such were recognized in the deficit.
- (iii) In addition, IAS 19 and IFRIC 14, *IAS 19, The Limit on a Defined Benefit Asset, Minimum Funding Requirement and their Interaction*, limit the amount that can be recognized as an asset on the statement of financial position on the present value of available contribution reductions or refunds plus unrecognized actuarial losses and unrecognized past service costs. This restriction has resulted in a limit on the asset that can be recorded for one of the Company’s defined benefit plans, which has led to a further reduction of \$1.0 million that has been recognized in deficit at the Transition Date.

B. Deferred compensation

The Company amortized the deferred compensation on a straight-line basis over 4 years under Canadian GAAP. Under IFRS, the deferred compensation should be amortized using the graded approach over the vesting period of the Supremex Income Fund units. The impact of this difference at the Transition Date was an increase of \$0.9 million to deficit.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011 and 2010

25. TRANSITION TO IFRS [Cont'd]

C. Business combinations

The Company included all acquisition-related and restructuring costs in goodwill under Canadian GAAP. Under IFRS, the acquisition-related and restructuring costs should be expensed as incurred. As a result, the acquisition costs of \$152,070 and the restructuring provision of \$208,843 related to the Pioneer acquisition in September 2010, previously included in goodwill, were expensed under IFRS.

D. Foreign currency translation

Under Canadian GAAP, the Company had determined that its US subsidiary was an integrated foreign operation and that the functional and reporting currency was the Canadian dollar. IFRS requires that the functional currency of each entity in a consolidated group be determined separately based on the currency of the primary economic environment in which the entity operates. Under IFRS, the functional currency of the US subsidiary is the US dollar.

Supremex Inc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011 and 2010

25. TRANSITION TO IFRS [Cont'd]

Restated Supremex consolidated financial statements

The following are reconciliations of the consolidated financial statements previously presented under Canadian GAAP to the amended consolidated financial statements prepared under IFRS.

Reconciliation of Consolidated Statement of Financial Position as of January 1, 2010

Canadian GAAP accounts	Canadian GAAP balance	IFRS adjustments	IFRS reclassifications	IFRS balance	IFRS accounts
ASSETS					
Cash	38,962	—	—	38,962	Cash
Accounts receivable	21,092,867	—	—	21,092,867	Accounts receivable
Inventories	13,921,726	—	—	13,921,726	Inventories
Prepaid expenses	1,429,144	—	—	1,429,144	Prepaid expenses
Future income tax	3,635,038	—	(3,635,038)	—	
Total current assets	40,117,737	—	(3,635,038)	36,482,699	Total current assets
Property, plant and equipment, net	40,056,241	—	—	40,056,241	Property, plant and equipment
Accrued pension benefit asset	4,985,800	(10,473,300)	5,487,500	—	
Intangible assets, net	38,926,829	—	—	38,926,829	Intangible assets
Goodwill	75,501,125	—	—	75,501,125	Goodwill
Total assets	199,587,732	(10,473,300)	1,852,462	190,966,894	Total assets
LIABILITIES AND EQUITY					
Accounts payable and accrued liabilities	18,534,512	—	—	18,534,512	Accounts payable and accrued liabilities
Accrued restructuring provision	795,018	—	—	795,018	Provisions
Distribution payable	1,464,888	—	—	1,464,888	Distribution payable
Current portion of secured credit facilities	7,500,000	—	—	7,500,000	Current portion of secured credit facilities
Current portion of derivative liability	808,652	—	—	808,652	Current portion of derivative financial liability
Total current liabilities	29,103,070	—	—	29,103,070	Total current liabilities
Secured credit facilities	84,379,377	—	—	84,379,377	Secured credit facilities
Future income tax	11,945,354	(2,645,022)	(3,635,038)	5,665,294	Deferred income tax liabilities
	—	—	5,487,500	5,487,500	Accrued pension benefit liability
Other post-retirement benefits obligation	814,300	(157,300)	—	657,000	Other post-retirement benefits obligations
Unitholders' equity					Equity
Fund units	282,798,322	—	—	282,798,322	Fund units
Contributed surplus	7,625,424	—	—	7,625,424	Contributed surplus
Deferred compensation	(1,260,512)	945,433	—	(315,079)	Deferred compensation
Deficit	(215,817,603)	(8,547,260)	—	(224,364,863)	Deficit
	—	(69,151)	—	(69,151)	Accumulated other comprehensive loss
	73,345,631	(7,670,978)	—	65,674,653	Total equity
	199,587,732	(10,473,300)	1,852,462	190,966,894	Total liabilities and equity

Supremex Inc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011 and 2010

25. TRANSITION TO IFRS [Cont'd]

Reconciliation of Consolidated Statement of Financial Position as of December 31, 2010

Canadian GAAP accounts	Canadian GAAP balance	IFRS adjustments	IFRS reclassifications	IFRS balance	IFRS accounts
ASSETS					
Cash	148,874	—	—	148,874	Cash
Accounts receivable	19,595,945	—	—	19,595,945	Accounts receivable
Inventories	11,939,720	—	—	11,939,720	Inventories
Prepaid expenses	425,193	—	—	425,193	Prepaid expenses
Assets held for sale	5,568,000	—	—	5,568,000	Assets held for sale
Future income tax	379,410	—	(379,410)	—	
Total current assets	38,057,142	—	(379,410)	37,677,732	Total current assets
Assets held for sale	348,048	—	—	348,048	Assets held for sale
Property, plant and equipment, net	30,449,945	—	—	30,449,945	Property, plant and equipment
Accrued pension benefit asset	5,222,600	(12,206,900)	6,984,300	—	
Intangible assets, net	32,762,929	—	—	32,762,929	Intangible assets
Goodwill	76,058,491	(307,366)	—	75,751,125	Goodwill
Total assets	182,899,155	(12,514,266)	6,604,890	176,989,779	Total assets
LIABILITIES AND EQUITY					
Accounts payable and accrued liabilities	20,111,812	—	—	20,111,812	Accounts payable and accrued liabilities
Accrued restructuring provision	931,297	—	—	931,297	Provisions
Income tax payable	745,683	—	—	745,683	Income tax payable
Distribution payable	292,978	—	—	292,978	Distribution payable
Current portion of secured credit facilities	14,415,489	—	—	14,415,489	Current portion of secured credit facilities
Total current liabilities	36,497,259	—	—	36,497,259	Total current liabilities
Secured credit facilities	54,654,387	—	—	54,654,387	Secured credit facilities
Future income tax	10,894,031	(3,137,841)	(379,410)	7,376,780	Deferred income tax liabilities
	—	—	6,984,300	6,984,300	Accrued pension benefit liability
Other post-retirement benefits obligation	769,200	(120,900)	—	648,300	Other post-retirement benefits obligations
Unitholders' equity					Equity
Fund units	282,798,322	—	—	282,798,322	Fund units
Contributed surplus	7,625,424	—	—	7,625,424	Contributed surplus
Deficit	(210,339,468)	(9,171,846)	—	(219,511,314)	Deficit
	—	(83,679)	—	(83,679)	Accumulated other comprehensive loss
	80,084,278	(9,255,525)	—	70,828,753	Total equity
	182,899,155	(12,514,266)	6,604,890	176,989,779	Total liabilities and equity

Supremex Inc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011 and 2010

25. TRANSITION TO IFRS [Cont'd]

Reconciliation of Consolidated Statement of Earnings for the year ended December 31, 2010

Canadian GAAP accounts	Canadian GAAP balance	IFRS adjustments	IFRS reclassifications	IFRS Balance	IFRS accounts
Revenue	153,124,398	—	—	153,124,398	Revenue
Cost of goods sold, selling, general and administrative expenses	120,128,914	(192,526)	(17,000,754)	102,935,634	Operating expenses Selling, general and administrative expenses
	—	—	17,000,754	17,000,754	
					Operating earnings before amortization, loss on disposal of property, plant and equipment, acquisition costs and restructuring expenses
Earnings before the following::	32,995,484	192,526	—	33,188,010	
Amortization and write-down of property, plant and equipment	6,661,624	—	—	6,661,624	Amortization and write-down of property, plant and equipment
Amortization of intangible assets	6,163,900	—	—	6,163,900	Amortization of intangible assets
Amortization of deferred compensation	1,260,512	(945,433)	—	315,079	Amortization of deferred compensation
Loss on disposal of property, plant and equipment	340,169	—	—	340,169	Loss on disposal of property, plant and equipment
Net financing charges	4,720,981	—	(4,720,981)	—	
Restructuring expenses	1,845,676	208,843	—	2,054,519	Restructuring expenses
	—	777,046	4,720,981	17,500,649	Operating earnings
	—	—	4,720,981	4,720,981	Financing charges
					Earnings before income taxes
Earnings before income taxes	12,002,622	777,046	—	12,779,668	
Provision for incomes taxes	3,008,750	(46,900)	—	2,961,850	Income taxes expense
Net earnings	8,993,872	823,946	—	9,817,818	Net earnings

Supremex Inc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011 and 2010

25. TRANSITION TO IFRS [Cont'd]

Reconciliation of Consolidated Statement of Comprehensive Income for the year ended December 31, 2010

Canadian GAAP accounts	Canadian GAAP balance	IFRS adjustments	IFRS reclassifications	IFRS Balance	IFRS accounts
Net earnings	8,993,872	823,946	—	9,817,818	Net earnings
Other comprehensive income (loss):					Other comprehensive income (loss):
	—	(1,427,415)	—	(1,427,415)	Recognized actuarial loss on defined benefit plan, net of an income tax recovery of \$492,185
	—	(21,118)	—	(21,118)	Recognized actuarial loss on other post-retirement benefit, net of an income tax recovery of \$7,282
	—	(14,528)	—	(14,528)	Foreign currency translation adjustments to earnings
Other comprehensive income	—	(1,463,061)	—	(1,463,061)	Other comprehensive income
Comprehensive income	8,993,872	(639,115)	—	8,354,757	Total comprehensive income

26. COMPARATIVE FIGURES

Certain comparative figures from the previous years were reclassified to conform to the presentation adopted for the current year.