Supremex

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE AND SIX-MONTH PERIODS ENDED JUNE 30, 2011

The following management's discussion and analysis of financial condition and results of operations ("MD&A"), dated August 4, 2011, of Supremex Inc. (the "Company") should be read together with the accompanying unaudited interim condensed consolidated financial statements and related notes of the Company for the three and six-month periods ended June 30, 2011. These consolidated financial statements of the Company have been prepared by management in accordance with IAS 34, Interim Financial Reporting and IFRS 1, First-time adoption of International Financial Reporting Standards. Certain information and disclosures have been omitted or condensed. The accounting principles are consistent with those set out in the Company's unaudited interim condensed consolidated financial statements for the three-month period ended March 31, 2011. In addition, the unaudited interim condensed consolidated financial statements for the three-month period ended March 31, 2011 contain incremental annual International Financial Reporting Standards ("IFRS") disclosures not included in the annual consolidated financial statements of Supremex Income Fund (the "Fund") for the year ended December 31, 2010 prepared in accordance with previous Canadian generally accepted accounting principles ("GAAP"). Accordingly, the unaudited interim condensed consolidated financial statements the three and six-month periods ended June 30, 2011 and the notes thereto should be read in conjunction with the unaudited interim consolidated financial statements for the three-month period ended March 31, 2011 and the audited consolidated financial statements of the Fund for the year ended December 31, 2010. The fiscal year of the Company ends on December 31. The Company's reporting currency is the Canadian dollar. Per share amounts are calculated using the weighted average number of shares outstanding for the three and six-month periods ended June 30, 2011. The consolidated financial statements for the three and six-month periods ended June 30, 2011 have not been audited or reviewed by the Company's auditors.

This MD&A contains forward-looking statements. Please see "Forward-Looking Statements" for a discussion of the risks, uncertainties and assumptions relating to these statements. In addition to our results reported in accordance with 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 unaudited interim condensed 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 unaudited interim condensed consolidated financial statements for the three and six-months ended June 30, 2010 have been restated to reflect our adoption of IFRS and which were prepared in accordance with IAS 34, *Interim Financial Reporting* and IFRS 1, *First-time adoption of International Financial Reporting Standards* and using the policies that we expect to adopt in our consolidated financial statements as at and for this year ended December 31, 2011. 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 23 in the unaudited interim condensed consolidated financial statements for the three-month period ended March 31, 2011 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 income and comprehensive income. It also includes reconciliations of: the consolidated balance sheets as at January 1, 2010, March 31, 2010 and December 31, 2010; the consolidated statements of earnings and the consolidated statements of comprehensive income for the three-month period ended March 31, 2010 and the twelve-month period ended December 31, 2010

Note 13 in the accompanying unaudited interim condensed consolidated financial statements contains 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 income and comprehensive income. It also includes reconciliations of: the consolidated balance sheet as at June 30, 2010; the consolidated statement of earnings and the consolidated statement of comprehensive income for the three and six-month periods ended June 30, 2010.

Conversion to a Corporation

On January 1, 2011 (the “Effective Date”), the Fund completed its conversion from an income trust structure into 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 will continue 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 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 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 will be in the form of dividends.

Any reference 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. Reference 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.

Overview

Supremex is Canada’s leading manufacturer and marketer of a broad range of stock and custom envelopes and related products. Supremex employs approximately 650 people and is the only national envelope manufacturer in Canada, with eight manufacturing facilities across seven 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 second quarter of 2011 was $7.0 million compared with EBITDA before restructuring expenses of $7.3 million recorded for the second quarter of 2010. Revenue in the second quarter of 2011 was $34.1 million compared with $35.2 million in the second quarter of 2010, representing a decrease of $1.1 million or 3.1%, of which, $0.7 million is explained by the negative impact of foreign exchange. In the second quarter, there was a slight decrease of total volume of 1.8%, coming from the reduce volume in Canada, offset by the increased volume in the US. The US sale volume was up by 42.0% and the Canadian volume was down by 8.4%. The Canadian volume was slightly impacted in the second quarter by the Canada Post work stoppage in June. On the long term, the work stoppage at Canada Post will probably have a negative impact on volume, mainly in the transactional market, as more people decided to register to receive their bills on-line during the work stoppage. At this point of time, it is not possible to quantify that impact with certainty, but we are closely monitoring the situation and have yet to notice any major reduction of volume.

In the second quarter of 2011, restructuring expenses of $0.3 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 expires October 31, 2011 and will not be renewed. Capital expenditures estimated at $1.5 million will be required in order to merge these two plants. The estimated payback is about 1 year.

The Company reduced its debt by $1.9 million in the second quarter of 2011. As of June 30, 2011, the total leverage ratio, as defined in the credit agreement, was 1.94. The Company is actually in its process to renew its banking agreement and it is expected to be renewed by the end of the third quarter.

Summary of Quarterly Results

Supremex's revenue is subject to the seasonal advertising and mailing patterns of its customers. The number of products 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 products sold by Supremex is generally lower during spring and summer in anticipation of a slowdown in mailing activities of businesses during the summer. As a result, Supremex's revenue and financial performance for any single quarter may not be indicative of revenue and financial performance which may be expected for the full year. To maintain production efficiencies, Supremex utilizes warehouse capabilities to inventory envelopes as required to counter these predictable seasonal variations in sales volume.

The following table presents a summary of operating results of the Company on a quarterly basis from July 1, 2009 to June 30, 2011. The Company adopted IFRS on January 1, 2011, effective January 1, 2010 and therefore comparative figures for 2010 are presented under IFRS, and figures for 2009 are presented under previous GAAP.

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

	June 30, 2011 $	Mar. 31, 2011 $	Dec. 31, 2010 $	Sept. 30, 2010 $	June 30, 2010 $	Mar. 31, 2010 $	Dec. 31, 2009 $	Sept. 30, 2009 $
Revenue	**34,068**	39,101	40,244	36,407	35,231	41,241	41,560	37,567
EBITDA (1)	**6,638**	7,893	7,670	7,383	6,008	9,920	10,503	8,389
Earnings (loss) before income taxes	**2,037**	3,995	3,613	3,461	137	5,568	(39,143)	3,047
Net earnings (loss)	**1,452**	2,873	2,910	2,692	143	4,073	(37,771)	3,072
Net earnings (loss) per share/unit	**0.0496**	0.0980	0.0993	0.0919	0.0049	0.1390	(1.2892)	0.1048

Notes

(1) See "Definition of EBITDA". EBITDA is not a recognized measure under IFRS and GAAP and does not have standardized meanings prescribed by IFRS or GAAP. 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 as a result of the softness of the envelope market and the strength of the Canadian dollar. The fourth quarter 2009 loss is attributable to the recording of goodwill impairments. 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 June 30,		Six-month periods ended June 30,	
	2011	**2010**	**2011**	**2010**
	$	**$**	**$**	**$**
Revenue	**34,068**	35,231	**73,169**	76,472
Operating expenses	**23,013**	23,993	**48,853**	50,641
Selling, general and administrative expenses	**4,075**	3,981	**9,224**	8,657
Restructuring expenses(1)	**342**	1,249	**561**	1,246
EBITDA (2)	**6,638**	6,008	**14,531**	15,928
Amortization of property, plant and equipment	**1,189**	3,020	**2,351**	4,176
Amortization of intangible assets	**1,541**	1,541	**3,082**	3,082
Amortization of deferred compensation	**—**	—	**—**	315
Loss on disposal of property, plant and equipment	**227**	181	**253**	194
Operating income	**3,681**	1,266	**8,845**	8,161
Financing charges	**1,644**	1,129	**2,813**	2,456
Earnings before income taxes	**2,037**	137	**6,032**	5,705
Income taxes expenses (recovery)	**585**	(6)	**1,707**	1,489
Net earnings	**1,452**	143	**4,325**	4,216
Basic net earnings per share/unit	**0.0496**	0.0049	**0.1476**	0.1439
Dividend/distribution declared per share/unit	**0.0300**	0.0300	**0.0600**	0.0600
Total assets	**170,988**	179,460	**170,988**	179,460
Secured credit facilities	**64,155**	82,194	**64,155**	82,194

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

(2) See “Definition of EBITDA”.

Results of Operations

Three-month period ended June 30, 2011 compared with three-month period ended June 30, 2010

Revenue

Revenue for the three-month period ended June 30, 2011 was $34.1 million compared with $35.2 million for the three-month period ended June 30, 2010, a decrease of $1.1 million or 3.1%. The decrease in revenue is mainly attributable to a reduction in the number of units sold in Canada.

Sales revenue in Canada decreased by $2.0 million or 6.0%, from $33.1 million to $31.1 million, and sales revenue in the United States increased by $0.9 million or 42.9%, from $2.1 million to $3.0 million.

The decrease in sales revenue in Canada was driven by 8.4% decrease in the number of units sold offset by a 2.4% increase in the average selling price. The decrease in the number of units sold was mainly seen in the corporate and form resellers markets.

The increase in sales revenue in the United States was due to a 76.0% increase in the number of units sold offset by a 19.3% decrease in the average selling price. The increase in the number of units sold is mainly attributable to the new US partnership in Buffalo and new contracts signed in the second half of 2010 and the decrease in the average selling price reflects the change in the product mix.

Operating expenses

Operating expenses for the three-month period ended June 30, 2011 was $23.0 million compared with $24.0 million for the same period in 2010, a decrease of $1.0 million or 4.2%. The impact of the strengthening of the Canadian dollar and the reduced volume mainly explains the decrease in operating expenses.

Gross profit (revenue less operating expenses excluding amortization of property, plant and equipment) was $11.1 million for the three-month period ended June 30, 2011 compared with $11.2 million for the comparable period in 2010, a decrease of $0.1 million or 0.9%. As a percentage of sales, gross profit increased by 0.4% in 2011 compared with 2010.

Selling, general and administrative expenses

Selling, general and administrative expenses were $4.1 million for the three-month period ended June 30, 2011 compared with $4.0 million for the same period in 2010, an increase of $0.1 million or 2.5% mainly due to increased compensation.

Restructuring expenses

Restructuring expenses of $0.3 million 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 $6.6 million for the three-month period ended June 30, 2011 compared with $6.0 million for the same period in 2010, an increase of $0.6 million or 10.0%.

Amortization

Aggregate amortization expense for the three-month period ended June 30, 2011 amounted to $2.7 million compared with $4.6 million for the comparable period in 2010 representing a decrease of $1.9 million or 41.0%. The decrease is attributable to a write-down of $1.4 million on the Markham building and $0.5 million on various manufacturing equipment recorded in the three-month period ended June 30, 2010.

Financing charges

Financing charges for the three months ended June 30, 2011 amounted to $1.6 million compared with $1.1 million for the same period in 2010, representing an increase of $0.5 million or 45.5%, resulting from the loss on valuation of derivative financial instrument incurred during this quarter.

Earnings before income taxes

Due to the changes in revenue and expenses described herein, the earnings before income taxes were $2.0 million for the three months ended June 30, 2011 compared with $0.1 million for the same period in 2010, an increase of $1.9 million.

Provision for income taxes

During the three months ended June 30, 2011, the Company recorded a provision for income taxes of $0.6 million. For the three months ended June 30, 2010, the income taxes at statutory rate was 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 were $1.5 million for the three-month period ended June 30, 2011 compared with $0.1 million for the same period in 2010, an increase of $1.4 million.

Six-month period ended June 30, 2011 compared with six-month period ended June 30, 2010

Revenue

Revenue for the six-month period ended June 30, 2011 was $73.2 million compared with $76.5 million for the six-month period ended June 30, 2010, a decrease of $3.3 million or 4.3%. The decrease in revenue is mainly attributable to a reduction in the number of units sold in Canada.

Sales revenue in Canada decreased by $4.3 million or 6.0%, from $71.6 million to $67.3 million, and sales revenue in the United States increased by $1.0 million or 20.4%, from $4.9 million to $5.9 million.

The decrease in sales revenue in Canada was driven by 6.2% decrease in the number of units sold. 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 43.7% increase in the number of units sold offset by a 16.2% decrease in the average selling price. The increase in the number of units sold is mainly attributable to the new US partnership in Buffalo and new contracts signed in the second half of 2010 and the decrease in the average selling price reflects the change in the product mix.

Operating expenses

Operating expenses for the six-month period ended June 30, 2011 was $48.9 million compared with $50.6 million for the same period in 2010, a decrease of $1.7 million or 3.4%. The impact of the strengthening of the Canadian dollar and the reduced volume mainly explains the decrease in operating expenses.

Gross profit (revenue less operating expenses excluding amortization of property, plant and equipment) was $24.3 million for the six-month period ended June 30, 2011 compared with $25.8 million for the comparable period in 2010, a decrease of $1.5 million or 5.8%. As a percentage of sales, gross profit decreased by 0.7% in 2011 compared with 2010.

Selling, general and administrative expenses

Selling, general and administrative expenses were $9.2 million for the six-month period ended June 30, 2011 compared with $8.7 million for the same period in 2010, an increase of $0.5 million or 5.7% mainly due to increased compensation.

Restructuring expenses

Restructuring expenses of $0.6 million 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 $14.5 million for the six-month period ended June 30, 2011 compared with $15.9 million for the same period in 2010, a decrease of $1.4 million or 8.8%.

Amortization

Aggregate amortization expense for the six-month period ended June 30, 2011 amounted to $5.4 million compared with $7.6 million for the comparable period in 2010 representing a decrease of $2.2 million or 28.9%. The decrease is attributable to a write-down of $1.4 million on the Markham building and $0.5 million on various manufacturing equipment recorded in the six-month period ended June 30, 2010 and the amortization of deferred compensation for which no equivalent charge has been booked in 2011.

Financing charges

Financing charges for the six months ended June 30, 2011 amounted to $2.8 million compared with $2.5 million for the same period in 2010, representing an increase of $0.3 million or 12.0%, resulting from the loss on valuation of derivative financial instruments offset by the partial repayment of the credit facilities.

Earnings before income taxes

Due to the changes in revenue and expenses described herein, the earnings before income taxes were $6.0 million for the six months ended June 30, 2011 compared with $5.7 million for the same period in 2010, an increase of $0.3 million or 5.3%.

Provision for income taxes

During the six months ended June 30, 2011, the Company recorded a provision for income taxes of $1.7 million. For the six months ended June 30, 2010, the income taxes at statutory rate was 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 were $4.3 million for the six-month period ended June 30, 2011 compared with $4.2 million for the same period in 2010, an increase of $0.1 million or 2.4%.

Segmented Information

The Company currently operates in one business segment; the manufacture and sale of envelopes. The Company's non-current assets amounted to $134.3 million in Canada and $1.0 million in the United States as at June 30, 2011.

In Canada, the Company's revenue amounted to $31.1 million and $67.3 million for the three and six-month periods ended June 30, 2011 compared with $33.1 million and $71.6 million for the same periods in 2010, representing a decrease of $2.0 million or 6.0% and of $4.3 million or 6.0%. In the United States, the Company's revenue amounted to $3.0 million and $5.9 million for the three and six-month periods ended June 30, 2011 compared with $2.1 million and $4.9 million for the same periods in 2010, representing an increase of $0.9 million or 42.9% and $1.0 million or 20.4%.

Liquidity and Capital Resources

Operating activities

Cash of $2.6 million was generated in operating activities during the six-month period ended June 30, 2011 compared with $13.5 million during the same period of 2010. The decrease in net cash flows from operating activities is primarily due to a decrease in net change in non-cash working capital balances and deferred income tax expense. Higher working capital level at June 30, 2011, excluding assets held for sale and current portion of the secured credit facilities, resulted mainly from a decrease in accounts payable and accrued liabilities combined with an increase in inventories which is typical for this period of the year due to the seasonal pattern.

Investing activities

Cash generated from investing activities was $3.8 million during the six-month period ended June 30, 2011 mainly related to the sale of the Markham facility offset by acquisition of property, plant and equipment. In the prior-year quarter, cash of $0.5 million was used in investing activities related to acquisition of property, plant and equipment.

Financing activities

In the six-month period ended June 30, 2011, cash of $6.5 million was used in financing activities related to the repayment of the revolving and term credit facilities and dividends paid. Similarly, in prior-year period, $13.0 million was used in financing activities for repayment of the revolving and term credit facilities and distribution paid on Fund units.

Liquidity and capital resources summary

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

Off-Balance Sheet Arrangements

The Company has no other off-balance sheet arrangements.

Financial Position Highlights

(In thousands of dollars except for ratio)

	June 30, 2011	December 31, 2010
	$	$
Working capital (deficiency)	**(48,319)**	1,180
Total assets	**170,988**	176,990
Total secured credit facilities	**64,155**	69,070
Equity	**73,403**	70,829

The Company was in full compliance with the covenants of its credit facilities as at June 30, 2011. The secured credit facilities, which mature on January 4, 2012, have been classified as current liabilities and resulted in a working capital deficiency as of June 30, 2011.

On an informal basis, many discussions are taking place with financial institutions and preliminary indications point to a favourable debt market. With the reduction of the total leverage ratio the Company achieved in the last year, the renewal of the credit facilities should be executed at better terms and conditions than the actual ones.

On January 14, 2011, the Company entered into an interest rate swap agreement for an amount of $30 million at a fixed rate of 2.84% until January 14, 2016, excluding the applicable margin.

Supremex pays quarterly dividends to shareholders at the discretion of the Board of Directors. Dividend declared in the second quarter of 2011 was $878,933 or $0.03 per share.

Capitalization

As at August 4, 2011, the Company had 29,297,767 common shares outstanding.

Disclosure Controls and Internal Controls over Financial Reporting

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

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

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

As at June 30, 2011, the Company's CEO and CFO have certified that the disclosure controls and procedures are effective and that during the six-month period ended June 30, 2011 Supremex did not make any material changes in the internal controls over financial reporting that materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

Significant accounting policies and estimates

In our 2010 annual audited consolidated financial statements and notes thereto, as well as in our 2010 annual MD&A, we have identified the accounting policies and estimates that are critical to the understanding of our business operations and our results of operations. On January 1, 2011, with the adoption of IFRS, the critical accounting policies and estimates have been updated to conform with the accounting policies we expect to adopt in the preparation of the consolidated financial statements as at and for the year ended December 31, 2011. Please refer to Notes 2 and 3 of our first quarter 2011 unaudited interim condensed consolidated financial statements for our adoption of IFRS and a detailed discussion regarding our significant accounting policies, application of critical accounting estimates and judgments, and recent accounting pronouncements.

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 will be for the year ending December 31, 2011 and will include the comparative period of 2010. Starting with the first quarter 2011 report, we have provided unaudited consolidated quarterly financial information in accordance with IFRS including comparative figures for 2010. Please refer to Note 13 of our second quarter 2011 unaudited interim condensed consolidated financial statements and Note 23 of our first quarter 2011 unaudited interim consolidated financial statements for a summary of the differences between our consolidated financial statements previously prepared under Canadian GAAP and to 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 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.

These new standards are effective for the Company's interim and annual consolidated financial statements commencing January 1, 2013. The Company is assessing the impact of these new standards on its consolidated financial statements.

Risk Factors

As a result of operations, business prospects and financial condition, the Company is subject to a number of risks and uncertainties, and is affected by a number of factors outside the control of the management. Details are provided in the "Risk Factors" section of the Company's 2010 Annual Information Form, dated March 22, 2011 (which can be found at www.sedar.com).

Forward-Looking Statements

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

Forward-looking statements are subject to certain risks and uncertainties, and should not be read as guarantees of future performance or results and actual results may differ materially from the conclusion, forecast or projection stated in such forward-looking statements. These risks, uncertainties and other factors include but are not limited to the following: economic cycles, availability of capital, decline in envelope consumption, increase of competition, exchange rate fluctuation, raw material increases, credits risks with respect to trade receivables, increase in funding of pension plans, postal services deficiencies, interest rates fluctuation and potential risk of litigation. Such assumptions, expectations, estimates, risks and uncertainties are discussed throughout our MD&A for the fiscal year 2010 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 net financing charges, income taxes, amortization of property, plant and equipment, intangible assets and deferred compensation, impairment of goodwill and loss (gain) on disposal of property, plant and equipment.
EBITDA is not earning measure recognized under IFRS and does not have standardized meanings 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

Interim Condensed Consolidated Financial Statements

Supremex Inc.
(Formerly Supremex Income Fund)

Unaudited
For the three and six-month periods ended June 30, 2011 and 2010

All amounts expressed in Canadian dollars

Supremex Inc.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at **[Unaudited]**	**Notes**	**June 30, 2011** **$**	**December 31, 2010** **$**	**January 1, 2010** **$**
ASSETS	**8**			
Current assets				
Cash		**18,486**	148,874	38,962
Accounts receivable		**20,669,644**	19,595,945	21,092,867
Inventories	**4**	**13,687,246**	11,939,720	13,921,726
Prepaid expenses		**1,244,702**	425,193	1,429,144
Assets held for sale		**—**	5,568,000	—
Total current assets		**35,620,078**	37,677,732	36,482,699
Assets held for sale	**5**	**230,489**	348,048	—
Property, plant and equipment	**5**	**29,705,614**	30,449,945	40,056,241
Intangible assets		**29,680,979**	32,762,929	38,926,829
Goodwill		**75,751,125**	75,751,125	75,501,125
Total assets		**170,988,285**	176,989,779	190,966,894
LIABILITIES AND EQUITY				
Current liabilities				
Accounts payable and accrued liabilities		**16,707,848**	20,111,812	18,534,512
Provisions	**6**	**516,211**	931,297	795,018
Income tax payable		**1,681,477**	745,683	—
Dividends payable	**7**	**878,933**	—	—
Distribution payable	**7**	**—**	292,978	1,464,888
Current portion of secured credit facilities	**8**	**64,155,019**	14,415,489	7,500,000
Current portion of derivative financial liability		**—**	—	808,652
Total current liabilities		**83,939,488**	36,497,259	29,103,070
Secured credit facilities	**8**	**—**	54,654,387	84,379,377
Deferred income tax liabilities	**9**	**6,986,644**	7,376,780	5,665,294
Accrued pension benefit liability		**5,369,400**	6,984,300	5,487,500
Other post-retirement benefit obligations		**625,000**	648,300	657,000
Derivative financial liability	**8**	**665,061**	—	—
Equity				
Share capital		**10,000,000**	—	—
Fund units		**—**	282,798,322	282,798,322
Contributed surplus		**280,423,746**	7,625,424	7,625,424
Deferred compensation		**—**	—	(315,079)
Deficit		**(215,495,883)**	(218,062,781)	(224,364,863)
Accumulated other comprehensive loss	**11**	**(1,525,171)**	(1,532,212)	(69,151)
Total equity		**73,402,692**	70,828,753	65,674,653
Total liabilities and equity		**170,988,285**	176,989,779	190,966,894

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

[Unaudited]	Notes	Three-month periods ended June 30, 2011 $	Three-month periods ended June 30, 2010 $	Six-month periods ended June 30, 2011 $	Six-month periods ended June 30, 2010 $
Revenue		**34,068,214**	35,231,457	**73,168,801**	76,472,529
Operating expenses	**4**	**23,013,129**	23,993,109	**48,852,813**	50,641,243
Selling, general and administrative expenses		**4,074,934**	3,980,269	**9,224,422**	8,656,745
Operating earnings before amortization, loss on disposal of property, plant and equipment and restructuring expenses		**6,980,151**	7,258,079	**15,091,566**	17,174,541
Amortization of property, plant and equipment	**5**	**1,188,812**	3,020,041	**2,350,998**	4,176,171
Amortization of intangible assets		**1,540,975**	1,540,975	**3,081,950**	3,081,950
Amortization of deferred compensation		**—**	—	**—**	315,079
Loss on disposal of property, plant and equipment		**227,005**	181,308	**253,186**	193,791
Restructuring expenses	**6**	**342,555**	1,249,829	**560,984**	1,246,202
Operating earnings		**3,680,804**	1,265,926	**8,844,448**	8,161,348
Financing charges	**8**	**1,643,641**	1,129,248	**2,812,679**	2,456,317
Earnings before income taxes		**2,037,163**	136,678	**6,031,769**	5,705,031
Income taxes expense (recovery)	**9**	**584,694**	(6,107)	**1,707,005**	1,488,940
Net earnings		**1,452,469**	142,785	**4,324,764**	4,216,091
Basic and diluted net earnings per share/unit		**0.0496**	0.0049	**0.1476**	0.1439
Weighted average number of shares/units outstanding		**29,297,767**	29,297,767	**29,297,767**	29,297,767

See accompanying notes

Supremex Inc.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

[Unaudited]	**Three-month periods ended June 30,**		**Six-month periods ended June 30,**	
	2011	**2010**	**2011**	**2010**
	$	**$**	**$**	**$**
Net earnings	**1,452,469**	142,785	**4,324,764**	4,216,091
Other comprehensive income				
Recognized actuarial gain (loss) on defined benefit pension plans, net of income taxes expense of $621,052 and $4,923 [2010 – recovery of $1,582,654 and $891,682]	**1,801,148**	(4,589,946)	**14,277**	(2,586,018)
Recognized actuarial loss on other post-retirement benefit, net of income taxes recovery of $2,385 [2010 – recovery of $1,821 and $3,641]	**(6,915)**	(5,279)	**—**	(10,559)
Foreign currency translation adjustments	**(1,719)**	18,028	**(7,236)**	5,887
Other comprehensive income (loss)	**1,792,514**	(4,577,197)	**7,041**	(2,590,690)
Total comprehensive income	**3,244,983**	(4,434,412)	**4,331,805**	1,625,401

See accompanying notes

Supremex Inc.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the six-month periods ended June 30
[Unaudited]

	Share Capital [note 1] $	Fund Units [note 1] $	Contributed Surplus $	Deferred compensation $	Deficit $	Total Accumulated other comprehensive income [note 11] $	Total equity $
As at December 31, 2010	—	282,798,322	7,625,424	—	(218,062,781)	(1,532,212)	70,828,753
Net earnings	—	—	—	—	4,324,764	—	4,324,764
Other comprehensive loss	—	—	—	—	—	7,041	7,041
Total comprehensive income	—	—	—	—	4,324,764	7,041	4,331,805
Conversion into a corporation	282,798,322	(282,798,322)	—	—	—	—	—
Reduction of stated capital	(272,798,322)	—	272,798,322	—	—	—	—
Dividends declared	—	—	—	—	(1,757,866)	—	(1,757,866)
As at June 30, 2011	**10,000,000**	**—**	**280,423,746**	**—**	**(215,495,883)**	**(1,525,171)**	**73,402,692**
As at January 1, 2010	—	282,798,322	7,625,424	(315,079)	(224,364,863)	(69,151)	65,674,653
Net earnings	—	—	—	—	4,216,091	—	4,216,091
Other comprehensive income	—	—	—	—	—	(2,590,690)	(2,590,690)
Total comprehensive income	—	—	—	—	4,216,091	(2,590,690)	1,625,401
Amortization of deferred compensation	—	—	—	315,079	—	—	315,079
Distributions declared	—	—	—	—	(1,757,868)	—	(1,757,868)
As at June 30, 2010	—	282,798,322	7,625,424	—	(221,906,640)	(2,659,841)	65,857,265

See accompanying notes

Supremex Inc.

CONSOLIDATED STATEMENTS OF CASH FLOW

[Unaudited]		Three-month periods ended June 30,		Six-month periods ended June 30,	
		2011	2010	2011	2010
	Notes	$	$	$	$
OPERATING ACTIVITIES					
Net earnings		**1,452,469**	142,785	**4,324,764**	4,216,091
Non-cash adjustment to reconcile net earnings to net cash flows					
Amortization of property, plant and equipment	5	**1,188,812**	3,020,041	**2,350,998**	4,176,171
Amortization of intangible assets		**1,540,975**	1,540,975	**3,081,950**	3,081,950
Amortization of deferred compensation		**—**	—	**—**	315,079
Amortization of deferred financing costs	8	**211,503**	226,630	**423,005**	428,098
Loss on disposal of property, plant and equipment		**227,005**	181,308	**253,186**	193,791
Loss on valuation of derivative financial instruments	8	**606,091**	—	**665,061**	—
Deferred income tax (recovery) expense	9	**(427,878)**	(6,320)	**(395,059)**	1,488,727
Working capital adjustments					
Variation in accounts receivable		**46,609**	1,512,052	**(1,073,699)**	3,586,362
Variation in inventories		**(482,557)**	688,376	**(1,747,526)**	1,172,677
Variation in prepaid expenses		**(90,285)**	(237,134)	**(819,509)**	(194,695)
Variation in accounts payable and accrued liabilities		**(498,304)**	(704,594)	**(3,403,964)**	(4,837,609)
Variation in provisions		**(110,928)**	998,175	**(415,086)**	853,970
Variation in income tax payable		**690,420**	—	**935,794**	—
Variation in derivative liability		**—**	(808,652)	**—**	(808,652)
Change in accrued pension benefit liability		**(797,600)**	132,900	**(1,595,700)**	(120,000)
Change in other post-retirement benefit obligation		**(11,600)**	(2,500)	**(23,300)**	(5,000)
Net cash flows from operating activities		**3,544,732**	6,684,042	**2,560,915**	13,546,960
INVESTING ACTIVITIES					
Acquisition of property, plant and equipment	5	**(902,312)**	(314,495)	**(1,958,746)**	(535,818)
Proceeds from sale of property, plant and equipment	5	**114,127**	42,105	**146,689**	56,382
Proceeds from sale of assets held for sale	5	**58,068**	—	**5,606,068**	—
Net cash flows from investing activities		**(730,117)**	(272,390)	**3,794,011**	(479,436)
FINANCING ACTIVITIES					
Proceed from (repayment of) revolving credit facility	8	**6,868,897**	(3,540,791)	**5,327,627**	(6,236,350)
Repayment of term credit facility	8	**(8,790,489)**	(1,875,000)	**(10,665,489)**	(3,750,000)
Dividends paid	7	**(878,933)**	—	**(878,933)**	—
Distributions paid on Fund units	7	**—**	(878,934)	**(292,978)**	(2,929,778)
Financing cost incurred	8	**—**	(94,546)	**—**	(127,311)
Net cash flows from financing activities		**(2,800,525)**	(6,389,271)	**(6,509,773)**	(13,043,439)
Net change in cash		**14,090**	22,381	**(154,847)**	24,085
Net foreign exchange difference		**4,396**	15,212	**24,459**	5,377
Cash, beginning of period		**—**	30,831	**148,874**	38,962
Cash, ending of period		**18,486**	68,424	**18,486**	68,424
Supplemental information (1)					
Interest paid		**805,861**	1,904,031	**1,826,892**	3,207,545
Interest received		**894**	714	**4,377**	3,649
Income taxes paid		**240,424**	932	**1,084,654**	5,809

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

See accompanying notes

1. CORPORATE INFORMATION

Supremex Inc. (the "Company" or "Supremex") was incorporated on March 31, 2006 under the *Canadian Business Corporation Act.* The common shares ("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 into 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 will continue 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 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 will be in the form of dividends.

Any reference 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. Reference 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 whereby the highest number of mailings related to events including the return to school, fund-raising and the holiday and tax seasons occurs during that period. As a result, revenue and financial performance for the three and six-month periods ended June 30, 2011 are not necessarily indicative of the revenue and financial performance that may be expected for a full year.

1. CORPORATE INFORMATION [Cont'd]

These unaudited interim condensed consolidated financial statements were approved by the Company's Board of Directors on August 4, 2011 and have not been audited or reviewed by the Company's auditors. The unaudited interim condensed consolidated financial statements include the accounts of the Company and its subsidiaries. They have been prepared by management in accordance with IAS 34 *Interim Financial Reporting* and IFRS 1 *First-time adoption of International Financial Reporting Standards*. Certain information and disclosures have been omitted or condensed. The accounting principles are consistent with those set out in the Company's unaudited interim condensed consolidated financial statements for the three-month period ended March 31, 2011. In addition, the unaudited interim condensed consolidated financial statements for the three-month period ended March 31, 2011 contain incremental annual International Financial Reporting Standards ("IFRS") disclosures not included in the annual consolidated financial statements of Supremex Income Fund (the "Fund") for the year ended December 31, 2010 prepared in accordance with the previous Canadian generally accepted accounting principles ("GAAP"). Accordingly, these unaudited interim condensed consolidated financial statements and the notes thereto should be read in conjunction with the unaudited interim consolidated financial statements for the three-month period ended March 31, 2011 and the audited consolidated financial statements of the Fund for the year ended December 31, 2010.

2. RECENT ACCOUNTING PRONOUNCEMENTS

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the International Accounting Standards Board ("IASB") or International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for accounting periods beginning after January 1, 2012 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.

2. RECENT ACCOUNTING PRONOUNCEMENTS [Cont'd]

- IFRS 13, *Fair Value Measurement*
  In May 2011, the IASB issued IFRS 13 *Fair Value Measurement*. 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.

These new standards are effective for the Company's interim and annual consolidated financial statements commencing January 1, 2013. The Company is assessing the impact of these new standards on its consolidated financial statements.

3. 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 which was funded from the cash generated from the operations.

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 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.

4. INVENTORIES

	June 30, 2011 $	**December 31, 2010** $	**January 1, 2010** $
Raw materials	**3,352,462**	3,309,476	3,386,049
Work in progress	**245,487**	217,681	365,755
Finished goods	**10,089,297**	8,412,563	10,169,922
	13,687,246	11,939,720	13,921,726

4. INVENTORIES [Cont'd]

The cost of inventories recognized as an expense and included in operating expenses, including the related amortization of property, plant and equipment allocated to inventories, during the three and six-month periods ended June 30, 2011 are $24,152,980 and $51,102,440 [2010 - $26,905,962 and $54,659,302].

5. PROPERTY, PLANT AND EQUIPMENT

During the three and six-month periods ended June 30, 2011, the Company acquired property, plant and equipment with a cost of $902,312 and of $1,958,746 (2010 – $314,495 and $535,818, respectively).

Assets (other than those classified as assets held for sale) with a net book value of $294,000 and of $332,743 were disposed of by the Company during the three and six months ended June 30, 2011 (2010 – $223,414 and $250,173, respectively), resulting in a net loss on disposal of $179,873 and $186,054 (2010 – $181,308 and $193,791, respectively).

Assets held for sale with a net book value of $105,200 and of $5,673,200 were disposed by the Company during the three and six months ended June 30, 2011 resulting in a net loss on disposal of $47,132 and of $67,132. An impairment loss of $1.9 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 expenses in the three and six-month periods ended June 30, 2010.

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

6. PROVISIONS

In connection with the acquisitions of NPG Envelope ("NPG") in 2007, Montreal Envelope Inc. ("Montreal") in 2008 and Pioneer [see note 3], the Company adopted a plan for the integration and restructuring of the acquired businesses. As a result, the Company recognized a provision for severance, relocation and exit costs relating to certain employees and facilities of the acquired businesses. As at June 30, 2011, the amount of the remaining accrued restructuring provision was $0.5 million.

The Company incurred additional restructuring expenses during 2011 and 2010 in the form of severances and other restructuring costs as a result of the restructuring of the Toronto and Montreal operations. The amount of the remaining accrued restructuring provision in connection of the restructuring of the Toronto and Montreal operations as at June 30, 2011 was nil. The restructuring is expected to be completed by the end of 2011.

6. PROVISIONS [Cont'd]

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

	June 30, 2011 $	December 31, 2010 $
Balance, beginning of period	**931,297**	795,018
Restructuring expenses charged against earnings	**560,984**	2,054,519
Cash payments	**(976,070)**	(1,918,240)
Balance, end of period	**516,211**	931,297

7. DIVIDENDS AND DISTRIBUTIONS PAYABLE

Dividends declared from January 1, 2011 to June 30, 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

Prior to the conversion of the Fund to a corporate structure [see note 1], Supremex Income Fund made monthly distributions of $292,978 of 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 June 30, 2010 amounted to $1,757,868.

8. SECURED CREDIT FACILITIES

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

	June 30, 2011 $	December 31, 2010 $	January 1, 2010 $
Revolving credit facility	**9,618,513**	4,290,886	20,324,181
Term credit facility	**54,959,511**	65,625,000	73,125,000
Less: deferred financing costs, net	**(423,005)**	(846,010)	(1,569,804)
	64,155,019	69,069,876	91,879,377
Current portion	**(64,155,019)**	(14,415,489)	(7,500,000)
Long-term portion of secured credit facilities	**—**	54,654,387	84,379,377

Both facilities mature on January 4, 2012 and therefore they were included in the current liabilities of the Company as of June 30, 2011.

Under the terms of the secured credit facilities, the Company is required, among other conditions, to meet certain covenants. The Company was in compliance with these covenants as at June 30, 2011. The secured credit facilities are collateralized by hypothec and security interest covering all present and future assets of the Company and its subsidiaries.

8. SECURED CREDIT FACILITIES [Cont'd]

Minimum required payments on secured credit facilities are as follows:

	$
2011	3,750,000
2012	60,828,024

As at June 30, 2011, the interest rates on the revolving and term credit facilities were 4.28% and 4.01%, respectively (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

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2011	**2010**	**2011**	**2010**
	$	**$**	**$**	**$**
Interest on secured credit facilities	**822,777**	899,080	**1,720,352**	2,023,536
Other interest	**3,270**	3,538	**4,261**	4,683
Amortization of deferred financing costs	**211,503**	226,630	**423,005**	428,098
Loss on valuation of derivative financial instrument	**606,091**	—	**665,061**	—
	1,643,641	1,129,248	**2,812,679**	2,456,317

9. INCOME TAXES

Income tax expense

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

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2011	**2010**	**2011**	**2010**
	$	**$**	**$**	**$**
Current income tax:				
Current income tax expense	**1,012,572**	213	**2,102,064**	213
Deferred income tax:				
Origination and reversal of temporary differences	**(427,878)**	(6,320)	**(395,059)**	1,488,727
Income tax expense (recovery)	**584,694**	(6,107)	**1,707,005**	1,488,940

9. INCOME TAXES [Cont'd]

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

	Three-month periods ended June 30, 2011 $	Three-month periods ended June 30, 2010 $	Six-month periods ended June 30, 2011 $	Six-month periods ended June 30, 2010 $
Deferred income tax related to items charged or credited directly to equity during the period:				
Deferred tax expense (benefit) on recognized actuarial gain (loss) on defined benefit pension plans	**621,052**	(1,582,654)	**4,923**	(891,682)
Deferred tax benefit on recognized actuarial loss on other post-retirement benefit	**(2,385)**	(1,821)	**—**	(3,641)
Income tax expense (benefit) charged to other comprehensive income	**618,667**	(1,584,475)	**4,923**	(895,323)

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

	Three-month periods ended June 30, 2011 $	Three-month periods ended June 30, 2010 $	Six-month periods ended June 30, 2011 $	Six-month periods ended June 30, 2010 $
Earnings before income taxes	**2,037,163**	136,678	**6,031,769**	5,705,031
Income tax expense at combined federal and provincial statutory rate of 27.16% [2010 – 31.1%]	**553,293**	46,283	**1,638,228**	1,774,265
Effect of change in enacted tax rates	**25,419**	184,393	**24,972**	136,025
Impact of interest expense of Supremex paid to the Fund (prior to conversion in corporate structure), eliminated on consolidation	**—**	(325,526)	**—**	(677,379)
Impact of amortization of deferred compensation not deductible for tax purposes	**—**	—	**—**	97,990
Non-deductible expenses and other	**5,982**	88,743	**43,805**	158,039
Income tax expense (recovery)	**584,694**	(6,107)	**1,707,005**	1,488,940

Reconciliation of net deferred tax liabilities

	June 30, 2011 $	December 31, 2010 $
Balance – beginning of the period	**7,376,780**	5,665,294
Tax (recovery) expense during the period recognized in the consolidated statement of earnings	**(395,059)**	2,210,953
Tax expense (recovery) recognized in other comprehensive income	**4,923**	(499,467)
Balance – end of period	**6,986,644**	7,376,780

10. EMPLOYEE DEFINED BENEFIT PLANS

The Company's total benefit cost for the pension plans was $488,100 and $1,095,000 for the three and six-month periods ended June 30, 2011 [2010 - $712,900 and $1,529,200].

11. ACCUMULATED OTHER COMPREHENSIVE LOSS

Changes in the accumulated other comprehensive loss were as follow:

	Defined Benefit Plan	Post-Retirement Benefits	Foreign Currency Translation	Total
Balance as at January 1, 2010	—	—	(69,151)	(69,151)
Change during the year	(1,427,415)	(21,118)	(14,528)	(1,463,061)
Balance as at December 31, 2010	(1,427,415)	(21,118)	(83,679)	(1,532,212)
Change during the period	14,277	—	(7,236)	7,041
Balance as at June 30, 2011	**(1,413,138)**	**(21,118)**	**(90,915)**	**(1,525,171)**

12. SEGMENTED INFORMATION

The Company currently operates in one business segment: the manufacturing and sale of envelopes. The Company's non-current assets amounted to $134,334,837 in Canada and $1,033,370 in the United States as at June 30, 2011 [at December 31, 2010 - $138,363,493 and $948,554, respectively]. The Company's revenue amounted to $31,072,515 and $67,260,771 in Canada and $2,995,699 and $5,908,030 in the United States for the three and six-month periods ended June 30, 2011 based on the location of the customers [2010 - $33,121,348 and $71,563,365 in Canada and $2,110,109 and $4,909,164 in the United States, respectively].

13. TRANSITION TO IFRS

The Company's consolidated financial statements for the year ending December 31, 2011 will be the first annual financial statements to comply with IFRS and these interim condensed consolidated financial statements were prepared in accordance with IAS 34, *Interim Financial Reporting* and 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 will be effective as at December 31, 2011, as required; and
- applied certain optional exemptions and certain mandatory exceptions as applicable for first time IFRS adopters.

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

13. TRANSITION TO IFRS [Cont'd]

Elected exemption from full retrospective application

In preparing these interim condensed 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 plan that existed at its Transition Date in opening deficit.

Mandatory exception to retrospective application

In preparing these interim condensed 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 converting 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 lines 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.

13. TRANSITION TO IFRS [Cont'd]

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

Reconciliation of Equity

As of	Note	June 30, 2010
Shareholders' equity under Canadian GAAP		76,195,610
Differences decreasing reported shareholders' equity:		
Employee benefits	A	(10,338,345)
Total equity under IFRS		**65,857,265**

Reconciliation of Net Earnings

	Note	Three-month period ended June 30, 2010	Six-month period ended June 30, 2010
Net earnings under Canadian GAAP		191,970	3,347,335
Differences increasing (decreasing) reported earnings:			
Employee benefits	A	(31,156)	(70,790)
Deferred compensation	B	—	945,433
Foreign currency translation	C	(18,029)	(5,887)
Net earnings under IFRS		**142,785**	**4,216,091**

Reconciliation of Comprehensive Income

	Note	Three-month period ended June 30, 2010	Six-month period ended June 30, 2010
Comprehensive income under Canadian GAAP		191,970	3,347,335
Differences increasing (decreasing) reported comprehensive income:			
Employee benefits	A	(4,626,382)	(2,667,367)
Deferred compensation	B	—	945,433
Comprehensive income under IFRS		**(4,434,412)**	**1,625,401**

13. 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 coverage remaining service life of the employees. At the date of transition, 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 date of transition 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 results in 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.

C. 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 INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011 **[Unaudited]**

13. 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 June 30, 2010

Canadian GAAP accounts	Canadian GAAP balance	IFRS adjustments	IFRS reclassifications	IFRS balance	IFRS accounts
ASSETS					
Cash	68,424	—	—	68,424	Cash
Accounts receivable	17,506,505	—	—	17,506,505	Accounts receivable
Inventories	12,749,049	—	—	12,749,049	Inventories
Prepaid expenses	1,623,839	—	—	1,623,839	Prepaid expenses
Future income tax	1,143,825	—	(1,143,825)	—	
Total current assets	**33,091,642**	**—**	**(1,143,825)**	**31,947,817**	**Total current assets**
Assets held for sale	6,796,538	—	—	6,796,538	Assets held for sale
Property, plant and equipment, net	29,369,687	—	—	29,369,687	Property, plant and equipment
Accrued pension benefit asset	5,197,000	(14,042,200)	8,845,200	—	
Intangible assets, net	35,844,879	—	—	35,844,879	Intangible assets
Goodwill	75,501,125	—	—	75,501,125	Goodwill
Total assets	**185,800,871**	**(14,042,200)**	**7,701,375**	**179,460,046**	**Total assets**
LIABILITIES AND EQUITY					
Accounts payable and accrued liabilities	13,696,903	—	—	13,696,903	Accounts payable and accrued liabilities
Accrued restructuring provision	1,648,988	—	—	1,648,988	Provisions
Distribution payable	292,978	—	—	292,978	Distribution payable
Current portion of secured credit facilities	7,500,000	—	—	7,500,000	Current portion of secured credit facilities
Total current liabilities	**23,138,869**	**—**	**—**	**23,138,869**	**Total current liabilities**
Secured credit facilities	74,693,814	—	—	74,693,814	Secured credit facilities
Future income tax	10,967,278	(3,564,755)	(1,143,825)	6,258,698	Deferred income tax liabilities
	—	—	8,845,200	8,845,200	Accrued pension benefit liability
Other post-retirement benefits obligation	805,300	(139,100)	—	666,200	Other post-retirement benefits obligations
Unitholder's Equity					**Equity**
Fund units	282,798,322	—	—	282,798,322	Fund units
Contributed surplus	7,625,424	—	—	7,625,424	Contributed surplus
Deficit	(214,228,136)	(7,678,504)	—	(221,906,640)	Deficit
	—	(2,659,841)	—	(2,659,841)	Accumulated other comprehensive loss
	76,195,610	**(10,338,345)**	**—**	**65,857,265**	**Total equity**
	185,800,871	**(14,042,200)**	**7,701,375**	**179,460,046**	**Total liabilities and equity**

Supremex Inc

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011 **[Unaudited]**

13. TRANSITION TO IFRS [Cont'd]

Reconciliation of Consolidated Statement of Earnings for the three-month period ended June 30, 2010

Canadian GAAP accounts	Canadian GAAP balance	IFRS adjustments	IFRS reclassifications	IFRS balance	IFRS accounts
Revenue	35,231,457	—	—	35,231,457	Revenue
Cost of goods sold, selling, general and administrative expenses	27,913,450	59,928	(3,980,269)	23,993,109	Operating expenses
	—	—	3,980,269	3,980,269	Selling, general and administrative expenses
Earnings before the following	7,318,007	(59,928)	—	7,258,079	**Operating earnings before amortization, loss on disposal of property, plant and equipment and restructuring expenses**
Amortization and of property, plant and equipment	3,020,041	—	—	3,020,041	Amortization of property, plant and equipment
Amortization of intangible assets	1,540,975	—	—	1,540,975	Amortization of intangible assets
Amortization of deferred compensation	—	—	—	—	Amortization of deferred compensation
Loss on disposal of property, plant and equipment	181,308	—	—	181,308	Loss on disposal of property, plant and equipment
Net financing charges	1,129,248	—	(1,129,248)	—	
Restructuring expenses	1,249,829	—	—	1,249,829	Restructuring expenses
	—	—	—	1,265,926	**Operating earnings**
	—	—	1,129,248	1,129,248	Financing charges
Earnings before income taxes	196,606	(59,928)	—	136,678	**Earnings before income taxes**
Provision for incomes taxes	4,636	(10,743)	—	(6,107)	Income taxes expense (recovery)
Net earnings	**191,970**	**(49,185)**	—	**142,785**	**Net earnings**

13. TRANSITION TO IFRS [Cont'd]

Reconciliation of Consolidated Statement of Earnings for the six-month period ended June 30, 2010

Canadian GAAP accounts	Canadian GAAP balance	IFRS adjustments	IFRS reclassifications	IFRS balance	IFRS accounts
Revenue	76,472,529	—	—	76,472,529	Revenue
Cost of goods sold, selling, general and administrative expenses	59,196,901	101,087	(8,656,745)	50,641,243	Operating expenses
	—	—	8,656,745	8,656,745	Selling, general and administrative expenses
Earnings before the following	17,275,628	(101,087)	—	17,174,541	**Operating earnings before amortization, loss on disposal of property, plant and equipment and restructuring expenses**
Amortization and of property, plant and equipment	4,176,171	—	—	4,176,171	Amortization of property, plant and equipment
Amortization of intangible assets	3,081,950	—	—	3,081,950	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	193,791	—	—	193,791	Loss on disposal of property, plant and equipment
Net financing charges	2,456,317	—	(2,456,317)	—	
Restructuring expenses	1,246,202	—	—	1,246,202	Restructuring expenses
	—	844,346	2,456,317	8,161,348	**Operating earnings**
	—	—	2,456,317	2,456,317	Financing charges
Earnings before income taxes	4,860,685	844,346	—	5,705,031	**Earnings before income taxes**
Provision for incomes taxes	1,513,350	(24,410)	—	1,488,940	Income taxes expense
Net earnings	**3,347,335**	**868,756**	—	**4,216,091**	**Net earnings**

13. TRANSITION TO IFRS [Cont'd]

Reconciliation of Consolidated Statement of Comprehensive Income (loss) for the three-month period ended June 30, 2010

Canadian GAAP accounts	Canadian GAAP balance	IFRS adjustments	IFRS reclassifications	IFRS Balance	IFRS accounts
Net earnings	191,970	(49,185)	—	142,785	**Net earnings**
Other comprehensive income (loss):					**Other comprehensive income (loss):**
	—	(4,589,946)	—	(4,589,946)	Recognized actuarial loss on defined benefit plan, net of a recovery of income taxes of $1,582,654
	—	(5,279)	—	(5,279)	Recognized actuarial loss on other post-retirement benefit, net of a recovery of income taxes of $1,821
	—	18,028	—	18,028	Foreign currency translation adjustments to earnings
Other comprehensive loss	—	(4,577,197)	—	(4,577,197)	Other comprehensive loss
Comprehensive income loss	**191,970**	**(4,626,382)**	—	**(4,434,412)**	**Total comprehensive loss**

13. TRANSITION TO IFRS [Cont'd]

Reconciliation of Consolidated Statement of Comprehensive Income for the six-month period ended June 30, 2010

Canadian GAAP accounts	Canadian GAAP balance	IFRS adjustments	IFRS reclassifications	IFRS Balance	IFRS accounts
Net earnings	3,347,335	868,756	—	4,216,091	**Net earnings**
Other comprehensive loss:					**Other comprehensive loss:**
	—	(2,586,018)	—	(2,586,018)	Recognized actuarial loss on defined benefit plan, net of a recovery of income taxes of $891,682
	—	(10,559)	—	(10,559)	Recognized actuarial loss on other post-retirement benefit, net of a recovery of income taxes of $3,641
	—	5,887	—	5,887	Foreign currency translation adjustments to earnings
Other comprehensive loss	—	(2,590,690)	—	(2,590,690)	Other comprehensive loss
Comprehensive income	**3,347,335**	**(1,721,934)**	—	**1,625,401**	**Total comprehensive income**