Supremex

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE AND TWELVE-MONTH PERIODS ENDED DECEMBER 31, 2010

The following management's discussion and analysis of financial condition and results of operations ("MD&A"), dated February 16, 2011, of Supremex Income Fund (the "Fund") should be read together with the audited consolidated financial statements and related notes for the year ended December 31, 2010. The financial statements of the Fund are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The fiscal year of the Fund ends on December 31. The Fund's reporting currency is the Canadian dollar. Per unit amounts are calculated using the weighted average number of units outstanding for the three and twelve-month periods ended December 31, 2010.

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. This MD&A also makes reference to certain non-GAAP measures to assist in assessing the Fund's financial performance. Non-GAAP earnings measures do not have any standard meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers. See "Definition of EBITDA, Distributable cash and Non-GAAP Measures" and "Selected Consolidated Financial Information" for the reconciliation of EBITDA to net earnings.

Conversion of the Fund

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. ("Supremex"). The final order of the Superior Court of Québec with respect to the Arrangement was obtained on May 10, 2010. On January 1, 2011, the Fund completed its conversion into a corporation.

Under the Arrangement, unitholders of the Fund received, for each unit of the Fund held, one common share ("Common Share") of Supremex. The Common Shares are listed on the Toronto Stock Exchange as of January 1, 2011, under the symbol SXP.

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. Any reference to the Fund for periods after January 1, 2011, shall mean Supremex Inc. as a successor of the Fund.

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 nine 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 fourth quarter of 2010 was $8.4 million compared with EBITDA before restructuring of $11.2 million recorded for the fourth quarter of 2009. Revenue in the fourth quarter of 2010 was $40.2 million compared with $41.6 million in the fourth quarter of 2009, representing a decrease of $1.4 million or 3.4%, of which $0.6 million is explained by the impact of foreign exchange. In the fourth quarter, the total volume increased by 3.4%, coming from the acquisition of Pioneer Envelope made in September 2010, from the new US partnership in Buffalo and from contracts signed in the second half of 2010. The US sales volume was up by 52.1% and the Canadian volume was down by 1.9%. Since the third quarter of 2010, there was an increased demand in the direct mail market and the outlook is positive for 2011.

EBITDA before restructuring expenses margin was 21.0% compared with 27.0% in the fourth quarter of 2009. The fourth quarter margin of 2010 was affected by non-recurrent expenses of approximately $1 million or 2.5% of sales, related to the Toronto reorganization following the announced closure of the Markham facility, by higher raw material costs and by the adjustment to the pension expense to reflect the latest actuarial valuations received.

In the fourth quarter of 2010, a restructuring expense of $0.4 million was recorded in relation with the previously announced closure of the Markham facility. The restructuring plan is almost finished and the estimated saving is about $1.5 million for 2011. A binding agreement was signed for the sale of the Markham building and the sale will be closed in the first quarter of 2011. Finally, the manufacturing facility of Pioneer Envelope was integrated in the Supremex facility of British Columbia in December 2010, which will generate savings of about $600,000 in 2011.

Distributable cash was $4.8 million compared with $7.8 million for the fourth quarter of 2009 and was $23.8 million for 2010 compared with $31.2 million for 2009.

Supremex paid down its debt by $10.4 million in the fourth quarter, for a total of $23.5 million in 2010, representing $0.80 per unit. As of December 31, 2010, the debt to EBITDA ratio was 1.97, beating our objective of 2.0 by the end of 2010.

Key Factors Affecting the Business

The Fund'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.

Distributable Cash

Management believes that distributable cash is a useful supplemental measure of performance as it provides investors with an indication of the cash flows available for distribution to unitholders. Investors are cautioned, however, that distributable cash should not be construed as an alternative to net earnings as a measure of profitability or as an alternative to the statement of cash flows. Quarterly distributable cash is not necessarily indicative of expected distributable cash for a full year. Distributable cash is not a recognized measure under GAAP and may not be comparable to similar measures used by other issuers.

Determination of Distributable Cash
(In thousands of dollars, except for per unit amounts)

	Three-month periods ended December 31,		Twelve-month periods ended December 31,	
	2010	**2009**	**2010**	**2009**
	$	**$**	**$**	**$**
Cash flows related to operating activities	**12,941**	10,695	**33,042**	33,209
Capital adjustment				
Capital expenditures(1)	**(1,570)**	(336)	**(2,691)**	(397)
Other adjustments				
Net change in non-cash working capital balances(2)	**(6,990)**	(2,655)	**(6,795)**	(1,691)
Change in other post-retirement benefits obligation and change in accrued pension benefit assets	**383**	121	**282**	59
Distributable cash(3)	**4,764**	7,825	**23,838**	31,180
Distribution declared	**879**	4,395	**3,516**	17,579
Weighted average number of units outstanding	**29,298**	29,298	**29,298**	29,298
Distributable cash per unit	**0.1626**	0.2671	**0.8136**	1.0642
Distribution per unit	**0.0300**	0.1500	**0.1200**	0.6000
Payout ratio	**18.5%**	56.2%	**14.7%**	56.4%

(1) Capital expenditures refer to maintenance capital expenditures, net of proceeds from disposal of assets replaced.

	Three-month periods ended December 31,		Twelve-month periods ended December 31,	
	2010	**2009**	**2010**	**2009**
	$	**$**	**$**	**$**
Maintenance capital expenditures	**1,907**	372	**3,199**	814
Proceeds from disposal of assets	**(337)**	(36)	**(508)**	(417)
Capital expenditures	**1,570**	336	**2,691**	397

(2) Distributable cash excludes change in non-cash working capital as changes in working capital components are often temporary by nature and, if needed, can be financed with the Fund's revolving operating credit facility.

(3) See "Definition of EBITDA, Distributable Cash and Non-GAAP Measures".

The Fund generated $4.8 million or $0.1626 per unit and $23.8 million or $0.8136 per unit of distributable cash for the three and twelve-month periods ended December 31, 2010 compared with $7.8 million or $0.2671 per unit and $31.2 million or $1.0642 per unit for the comparable periods in 2009. The distributable cash before restructuring expenses was $5.2 million or $0.1764 per unit and $25.7 million or $0.8766 per unit for the three and twelve-month periods ended December 31, 2010. More information on cash flow related to operating activities is provided under "Liquidity and Capital Resources."

The Fund declared distributions of $0.9 million or $0.0300 per unit and $3.5 million or $0.1200 per unit for the three and twelve-month periods ended December 31, 2010, funded by distributable cash generated during the periods, compared with $4.4 million or $0.1500 per unit and $17.6 million or $0.6000 per unit for the comparable periods in 2009.

The distributable cash generated exceeds actual distributions by $3.9 million and $20.3 million for the three and twelve-month periods ended December 31, 2010. As a result, the Fund's payout ratio, defined as distributions declared as a percentage of distributable cash generated, was 18.5% and 14.7% for the three and twelve-month periods ended December 31, 2010. Since inception of the Fund, the payout ratio is 72.6%.

Distributions

The Fund makes monthly distributions to unitholders of record on the last business day of each month, payable on or about the 15th day of the following month. The per unit rate is $0.01 per month since the beginning of 2010. Distributions for the period from January 1, 2010 to December 31, 2010 were as follows:

Period	**Record date**	**Payment date**	**Per unit $**	**Distribution $**
January 2010	January 31, 2010	February 15, 2010	0.01	292,978
February 2010	February 28, 2010	March 15, 2010	0.01	292,978
March 2010	March 31, 2010	April 15, 2010	0.01	292,978
April 2010	April 30, 2010	May 17, 2010	0.01	292,978
May 2010	May 31, 2010	June 15, 2010	0.01	292,978
June 2010	June 30, 2010	July 15, 2010	0.01	292,978
July 2010	July 31, 2010	August 16, 2010	0.01	292,978
August 2010	August 31, 2010	September 15, 2010	0.01	292,978
September 2010	September 30, 2010	October 15, 2010	0.01	292,978
October 2010	October 31, 2010	November 15, 2010	0.01	292,978
November 2010	November 30, 2010	December 15,2010	0.01	292,978
December 2010	December 31, 2010	January 17, 2011	0.01	292,978
Total			0.12	3,515,736

The December distribution in the amount of $292,978 was declared and accrued in December 2010 and paid to unitholders on January 17, 2011. The tax allocation of distributions for 2010 is 100% return on capital and distributions are therefore treated as income for unitholders.

Following the conversion of the Fund into a corporation, Supremex will pay a quarterly dividend of $0.03 per common share (see "Conversion of the Fund").

Source of Funding

The source of funding for the above distributions to unitholders was cash generated by operations, existing cash balances and cash equivalents.

(In thousands of dollars)

	Three-month period ended December 31, 2010 $	**Twelve-month period ended December 31, 2010 $**	**Since inception $**
Distributable cash	**4,764**	**23,838**	162,107
Cash flows from operating activities	**12,941**	**33,042**	192,572
Net earnings (loss)	**3,051**	**8,994**	(92,698)
Actual cash distributions paid or payable relating to the period	**879**	**3,516**	117,642
Excess of distributable cash over cash distribution	**3,885**	**20,322**	44,465
Excess of cash flows from operating activities over cash distribution	**12,062**	**29,526**	74,930
Excess (shortfall) of net earnings over cash distribution	**2,172**	**5,478**	(210,340)

The shortfall of net earnings over cash distribution since inception is mainly related to the impairment of goodwill recorded in 2009 and 2008 and the various amortization charges recorded that have no impact on cash generated.

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 Fund on a quarterly basis from January 1, 2009 to December 31, 2010.

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

	Dec. 31, 2010 $	Sept. 30, 2010 $	June 30, 2010 $	Mar. 31, 2010 $	Dec. 31, 2009 $	Sept. 30, 2009 $	June 30, 2009 $	Mar. 31, 2009 $
Revenue	**40,244**	36,407	35,231	41,241	41,560	37,567	41,172	45,933
EBITDA [(1)]	**8,031**	7,088	6,069	9,961	10,503	8,389	9,032	10,017
Earnings (loss) before income taxes	**3,806**	3,334	197	4,664	(39,143)	3,047	3,407	4,638
Net earnings (loss)	**3,050**	2,595	192	3,155	(37,771)	3,072	3,345	4,207
Net earnings (loss) per unit	**0.1041**	0.0886	0.0066	0.1077	(1.2892)	0.1048	0.1142	0.1436

Notes

(1) See “Definition of EBITDA, Distributable Cash and Non-GAAP Measures”. EBITDA is not a recognized measure under GAAP and does not have standardized meanings prescribed by 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 and United States as a result of the softness of the envelope market and the fluctuations 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 unit amounts)

	Three-month periods ended December 31,		Twelve-month periods ended December 31,	
	2010	**2009**	**2010**	**2009**
	$	**$**	**$**	**$**
Revenue	**40,244**	41,560	**153,124**	166,233
Cost of goods sold, selling, general and administrative expenses	**31,809**	30,334	**120,129**	127,474
Restructuring expenses[(1)]	**404**	723	**1,846**	818
EBITDA [(2)]	**8,031**	10,503	**31,149**	37,941
Amortization of property, plant and equipment	**1,432**	1,158	**6,662**	4,668
Amortization of intangible assets	**1,541**	1,541	**6,164**	6,164
Amortization of deferred compensation	**—**	1,275	**1,261**	5,194
Impairment of goodwill	**—**	43,000	**—**	43,000
Loss on disposal of property, plant and equipment	**94**	169	**340**	293
Net financing charges	**1,158**	2,503	**4,721**	6,673
Earnings (loss) before income taxes	**3,806**	(39,143)	**12,001**	(28,051)
Provision for income taxes (recovery)	**756**	(1,372)	**3,009**	(903)
Net earnings (loss)	**3,050**	(37,771)	**8,992**	(27,148)
Basic net earnings (loss) per unit	**0.1041**	(1.2892)	**0.3070**	(0.9266)
Distribution declared per unit	**0.0300**	0.1500	**0.1200**	0.6000
Total assets			**182,899**	199,588
Secured credit facilities			**69,070**	91,879

(1) Restructuring expenses are mainly related to the restructuring and improvement initiatives to reduce the Fund's operating costs, especially the closure of the Markham facility.

(2) See "Definition of EBITDA, Distributable Cash and Non-GAAP Measures".

Results of Operations

Three-month period ended December 31, 2010 compared with three-month period ended December 31, 2009

Revenue

Revenue for the three-month period ended December 31, 2010 was $40.2 million compared with $41.6 million for the three-month period ended December 31, 2009, a decrease of $1.4 million or 3.4%. The decrease in revenue is mainly attributable to a reduction of the selling prices in Canada and in the United States.

Sales revenue in Canada decreased by $1.9 million or 4.9%, from $38.9 million to $37.0 million, and sales revenue in the United States increased by $0.5 million or 18.5%, from $2.7 million to $3.2 million.

The decrease in sales revenue in Canada was driven by a 3.0% decrease in the average selling prices combined to a 1.9% decrease in the number of units sold. The decrease in the number of units sold was seen mostly in the public sector market.

The increase in sales revenue in the United States was due to a 52.1% increase in the number of units sold offset by a reduction of 20.8% in the average selling prices. The increase in the number of units sold is mainly attributable to the new US partnership in Buffalo.

Cost of goods sold, selling, general and administrative expenses

Cost of goods sold, selling, general and administrative expenses for the three-month period ended December 31, 2010 was $31.8 million compared with $30.3 million for the three-month period ended December 31, 2009, representing an increase of $1.5 million or 5.0%.

Cost of goods sold for the three-month period ended December 31, 2010 was $27.4 million compared with $26.1 million for the same period in 2009, an increase of $1.3 million or 5.0%. The increase of raw material cost and labour offset by the impact of the strengthening of the Canadian dollar explain the increase in cost of goods sold.

Gross profit (revenue less cost of goods sold excluding amortization of property, plant and equipment) was $12.9 million for the three-month period ended December 31, 2010 compared with $15.5 million for the comparable period in 2009, a decrease of $2.6 million or 16.8%. As a percentage of sales, gross profit decreased by 5.3% in 2010 compared with 2009.

Selling, general and administrative expenses were $4.4 million for the three-month period ended December 31, 2010 compared with $4.3 million for the same period in 2009, an increase of $0.1 million or 2.3%.

Restructuring expenses

Restructuring expenses of $0.4 million are mainly related to the restructuring and improvement initiatives to reduce the Fund’s operating costs. During the second quarter of 2010, it was decided to close the Markham facility and move the production to the other two facilities located in Mississauga and Etobicoke, Ontario.

EBITDA

As a result of the changes described above, EBITDA was $8.0 million for the three-month period ended December 31, 2010 compared with $10.5 million for the same period in 2009, a decrease of $2.5 million or 23.8%.

Amortization

Aggregate amortization expense for the three months ended December 31, 2010 amounted to $3.0 million compared with $4.0 million for the same period in 2009, representing a decrease of $1.0 million or 25.0%. The decrease is mainly attributable to an amount of $1.3 million representing the amortization of deferred compensation in 2009; the deferred compensation having been totally amortized in the first quarter of 2010; no equivalent charge has been booked in the fourth quarter of 2010.

Impairment of goodwill

An impairment of goodwill charge has been recorded in 2009 in the amount of $43.0 million. No impairment charge was recorded in 2010.

Net financing charges

Net financing charges for the three months ended December 31, 2010 amounted to $1.2 million compared with $2.5 million for the same period in 2009, representing a decrease of $1.3 million or 52.0%, resulting from the loss on settlement of the credit facilities recorded in 2009 combined with the repayment of the credit facilities and the lower interest rate.

Earnings before income taxes

Due to the changes in revenue and expenses described herein, the earnings before income taxes were $3.8 million for the three months ended December 31, 2010 compared with a loss before income taxes of $39.1 million for the same period in 2009, an increase of $42.9 million.

Provision for income taxes

During the three months ended December 31, 2010, the Fund recorded a provision for income taxes of $0.8 million. Provision for income taxes takes into consideration an income taxes expense of $1.0 million at the statutory rate offset by an amount of $0.3 million attributable to the impact of interest income earned by the Fund and paid by Supremex.

Net earnings

As a result of the changes described above, net earnings were $3.1 million for the three-month period ended December 31, 2010 compared with a net loss of $37.8 million for the same period in 2009, an increase of $40.9 million.

Twelve-month period ended December 31, 2010 compared with twelve-month period ended December 31, 2009

Revenue

Revenue for the twelve-month period ended December 31, 2010 was $153.1 million compared with $166.2 million for the twelve-month period ended December 31, 2009, a decrease of $13.1 million or 7.9%.

Sales revenue in Canada decreased by $11.1 million or 7.2%, from $153.6 million to $142.5 million, and sales revenue in the United States decreased by $2.0 million or 15.9%, from $12.6 million to $10.6 million.

The decrease in sales revenue in Canada was driven by a 4.1% decrease in the number of units sold combined with a 3.3% decrease in the average selling price. The decrease in the number of units sold was seen in most of the business markets mainly due to the weakness of the envelope industry.

The decrease in sales revenue in the United States was due to a 3.6% decrease in the number of units sold combined with a 4.4% decrease in the average selling price given the strengthening of the Canadian dollar.

Cost of goods sold, selling, general and administrative expenses

Cost of goods sold, selling, general and administrative expenses for the twelve-month period ended December 31, 2010 was $120.1 million compared with $127.5 million for the twelve-month period ended December 31, 2009, representing a decrease of $7.4 million or 5.8%.

Cost of goods sold for the twelve-month period ended December 31, 2010 was $103.1 million compared with $110.9 million for the same period in 2009, a decrease of $7.8 million or 7.0%. The impact of the strengthening of the Canadian dollar combined with the decrease in units sold and lower labour cost explain the decrease in cost of goods sold.

Gross profit (revenue less cost of goods sold excluding amortization of property, plant and equipment) was $50.1 million for the twelve-month period ended December 31, 2010 compared with $55.3 million for the comparable period in 2009, a decrease of $5.2 million or 9.4%. As a percentage of sales, gross profit decreased by 0.6% in 2010 compared with 2009.

Selling, general and administrative expenses were $17.1 million for the twelve-month period ended December 31, 2010 compared with $16.6 million for the same period in 2009, an increase of $0.5 million or 3.0% mainly attributable to higher labour expense.

Restructuring expenses

Restructuring expenses of $1.8 million are mainly related to the restructuring and improvement initiatives to reduce the Fund's operating costs. During the second quarter of 2010, it was decided to close the Markham facility and move the production to the other two facilities located in Mississauga and Etobicoke, Ontario.

EBITDA

As a result of the changes described above, EBITDA was $31.1 million for the twelve-month period ended December 31, 2010 compared with $37.9 million for the same period in 2009, a decrease of $6.8 million or 17.9%.

Amortization

Aggregate amortization expense for the twelve months ended December 31, 2010 amounted to $14.1 million compared with $16.0 million for the same period in 2009, representing a decrease of $1.9 million or 11.9%. The decrease is attributable to an amount of $3.9 million representing the amortization of deferred compensation of three quarters since the deferred compensation was totally amortized as of March 31, 2010, offset by write-downs of $1.5 million on the Markham building and $0.7 million on various manufacturing equipment related to the restructuring of the Toronto operations.

Impairment of goodwill

An impairment of goodwill charge has been recorded in 2009 in the amount of $43.0 million. No impairment chase was recorded in 2010.

Net financing charges

Net financing charges for the twelve months ended December 31, 2010 amounted to $4.7 million compared with $6.7 million for the same period in 2009, representing a decrease of $2.0 million or 29.9% resulting from the loss on settlement of the credit facilities recorded in 2009 combined with the repayment of the credit facilities and the lower interest rate.

Earnings before income taxes

Due to the changes in revenue and expenses described herein, the earnings before income taxes were $12.0 million for the twelve months ended December 31, 2010 compared with a loss before income taxes of $28.1 million for the same period in 2009, an increase of $40.1 million.

Provision for income taxes

During the twelve months ended December 31, 2010, the Fund recorded a provision for income taxes of $3.0 million. Provision for income taxes takes into consideration, in addition to income taxes expense of $3.5 million at the statutory rate, an amount of $0.5 million related to the non-deductible amortization of deferred compensation and the non-deductible expenses offset by an amount of $1.3 million attributable to the impact of interest income earned by the Fund and paid by Supremex.

Net earnings

As a result of the changes described above, net earnings were $9.0 million for the twelve-month period ended December 31, 2010 compared with a new loss of $27.1 million for the same period in 2009, an increase of $36.1 million.

Segmented Information

The Fund currently operates in one business segment; the manufacture and sale of envelopes. The Fund's net assets amounted to $78.0 million in Canada and $2.1 million in the United States as at December 31, 2010.

In Canada, the Fund's revenue amounted to $37.0 million and $142.5 million for the three and twelve-month periods ended December 31, 2010 compared with $38.9 million and $153.6 million for the same periods in 2009, representing a decrease of $1.9 million or 4.9% and of $11.1 million or 7.2%. In the United States, the Fund's revenue amounted to $3.2 million and $10.6 million for the three and twelve-month periods ended December 31, 2010, compared with $2.7 million and $12.6 million for the same periods in 2009, representing an increase of $0.5 million or 13.5% and a decrease of $2.0 million or 15.9%.

Liquidity and Capital Resources

Cash flows from operating activities were $33.0 million for the twelve-month period ended December 31, 2010, primarily attributable to earnings generated in the period, non-cash items including various amortization charges, future income taxes expense and increase in non-cash working capital balances.

Cash flows used in investing activities, amounting to $4.6 million for the twelve-month period ended December 31, 2010, are attributable to the acquisition of the assets of an envelope manufacturer in Western Canada for $1.9 million and the net additions to property, plant and equipment of $2.7 million.

Cash flows used in financing activities were $28.3 million for the twelve-month period ended December 31, 2010, mainly related to the distribution paid on Fund units and the repayment of the revolving and term credit facilities.

Contractual Obligations

The following chart outlines the Fund's contractual obligations as at December 31, 2010.

(In thousands of dollars)

		Payments due by fiscal year		
	Total	**2011**	**2012**	**2013 and thereafter**
Secured credit facilities	**69,915**	14,415	55,500	—
Operating leases	**9,183**	2,267	1,490	5,426
Total	**79,098**	16,682	56,990	5,426

Financing

The Fund's credit facilities consist of a $35 million revolving facility and a $65.6 million term credit facility. As at December 31, 2010, Supremex had drawn $4.3 million on the revolving credit facility and $65.6 million on the term credit facility.

The revolving credit facility may be used for general corporate purposes, working capital requirements and permitted acquisitions. Both facilities mature on January 4, 2012. The term credit facility is repayable in quarterly instalments of $1.9 million, principal only. In addition, 75% of the excess cash flow, as defined in the agreement, will be applied against the term credit facility until the ratio of debt to EBITDA reaches 2.25, and 50% thereafter. A $10 million permitted acquisition basket is allowed as per these facilities.

Both facilities bear interest at a floating rate based on the Canadian prime rate, the US base rate, LIBOR or bankers' acceptance rates, plus an applicable margin on those rates. As at December 31, 2010, interest rates on the revolving and term credit facilities were 4.9% and 5.25% respectively. The Fund was in compliance with the covenants of its credit facilities as at December 31, 2010.

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

Capitalization

As at February 16, 2011, Supremex had 29,297,767 common shares outstanding (see "Conversion of the Fund").

Financial Instruments

Interest rate and foreign exchange risk

The Fund'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 Fund 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. In the past, purchases and capital expenditures in US dollars were similar to revenue earned in US dollars, which mitigated the Fund's foreign exchange exposure. However, its exposure has increased over the last two years (see "Risk Factors"). Cash and cash equivalents, 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 Fund's financial instruments is indicated in note 19 to the Fund's audited consolidated financial statements for the year ended December 31, 2010.

Off-Balance Sheet Arrangements

The Fund has no other off-balance sheet arrangements.

Financial Position Highlights

(In thousands of dollars except for ratio)

	December 31, 2010 $	**December 31, 2009 $**
Working capital	**1,560**	11,015
Total assets	**182,899**	199,588
Total secured credit facilities	**69,070**	91,879
Unitholders' equity	**80,084**	73,346

The Fund was in compliance with the covenants of its credit facilities as at December 31, 2010.

Disclosure Controls and Internal Controls over Financial Reporting

The implementation of Canadian Securities Administrators Multilateral Instrument 52-109 represents a continuous improvement process, which has prompted the Fund to formalize existing processes and control measures and to introduce new ones.

In accordance with this instrument, the Fund has filed certificates 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 controls over financial reporting.

Management has designed disclosure controls and procedures to provide reasonable assurance that material information relating to the Fund 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.

These two certifying officers evaluated the effectiveness of the Fund's disclosure controls and procedures as of December 31, 2010, and based on their evaluation, concluded that these controls and procedures were adequate and effective.

Management has also designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. The President and Chief Executive Officer and the Vice-President and Chief Financial Officer have evaluated the design and effectiveness of the Fund's internal controls over financial reporting as of the end of the period covered by the annual filings and believe the design and effectiveness to be adequate to provide such reasonable assurance using 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 Fund's internal controls over financial reporting during the year ended December 31, 2010 that materially affected, or is likely to materially affect, the Fund's internal controls over financial reporting.

Critical Accounting Policies and Estimates

The Fund prepares its financial statements in conformity with GAAP, 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 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 Fund are described in note 3 to the Fund's audited consolidated financial statements for the year ended December 31, 2010.

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

Goodwill

At the time of acquisition, goodwill is determined and recorded as the excess of purchase price over fair value of identifiable tangible and intangible assets acquired. The Fund performs an impairment test for goodwill at least once annually using the discounted cash flows method to determine the fair value of its business. As at December 31, 2010, the Fund performed a goodwill impairment test using the discounted cash flows method based upon management's best estimates which reflects the Fund's planned course of action in light of market evolution. The Fund concluded that there was no impairment in the carrying amount of its goodwill.

Intangible assets

The Fund has recognized intangible assets comprised of customer relationships and non-compete agreements. These intangible assets have definite lives and are amortized on a straight-line basis over ten years. Management's judgment is required to determine the useful life of intangible assets and, where it is believed to be required, an impairment provision is recorded.

Inventory

Raw materials, consisting of paper, window film, boxes, adhesives and ink are carried at the lower of cost, determined on a first-in first-out basis, and net realizable value. Work in process and finished goods are carried at the lower of cost, including labour and overhead, determined on a first-in first-out basis, and net realizable value. Supremex regularly assesses the level of slow moving or obsolete inventory and estimates the provision required based on several factors including time. Estimates could therefore vary from actual experience.

Impairment of long-lived assets

Long-lived assets of the Fund, 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 undiscounted 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 Fund periodically reviews the estimated useful lives of all long-lived assets and revises them if necessary.

Foreign currency

The Fund follows the temporal method to translate its foreign currency balances and transactions, including its integrated foreign subsidiary. Under this method, monetary assets and liabilities are translated at the rates of exchange in effect at the balance sheet date and the other items in the balance sheet and statement of earnings are translated at the exchange rates in effect at the transaction date. Exchange gains and losses are included in net earnings for the year.

Revenue recognition

The Fund recognizes revenue when persuasive evidence of an arrangement exists, product delivery has occurred, pricing is fixed or determinable, and collection is reasonably assured. In circumstances where the customer requests that we bill and hold, revenue is recognized when the customer is invoiced for goods that have been produced, packaged and prepared for shipment.

Income taxes

The Fund's corporate subsidiaries are subject to corporate income taxes and use the liability method of accounting for income taxes. Under the liability method, future income tax assets and liabilities are determined based on temporary differences between the financial reporting and tax bases of assets and liabilities and are measured using tax rates substantially enacted at the balance sheet date. The effect of changes in income tax rates on future income tax assets and liabilities is recognized in net earnings in the year that the change becomes substantially enacted.

As Supremex operates in Canada and the United States across jurisdictions with different statutory tax rates, the determination of future income tax assets and liabilities is also subject to Supremex's estimates as to any future changes in the proportion of its business in each jurisdiction. These estimates could therefore vary materially from actual experience. The Fund is not subject to income taxes to the extent that its taxable income in a year is paid or payable to a unitholder. Accordingly, no provision for current income taxes for the Fund is made (see "Recent Events").

Employee future benefits

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

The Fund accrues its obligations for the defined benefit component of its pension plans and other post-retirement and post-employment benefits and related costs, net of plan assets. The cost of pensions and other retirement benefits earned by employees is actuarially determined, at least every three years, using the projected benefit method prorated on service and management's best estimate of plan investment performance, salary escalation, employee retirement age and estimated health care costs. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. The fair value is market value. The most recent actuarial valuations were performed on December 31, 2009 for the three plans. The Fund expects to perform actuarial valuations on December 31, 2010 for two of its pension plans and on December 31, 2012 for the third one.

New Accounting Policies

International Financial Reporting Standards

In February 2008, CICA announced that Canadian public companies would adopt International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") effective January 1, 2011. As a result of this announcement, the Fund developed a work plan whose phases are outlined in the following table, with actions, timetable and progress.

Phase I: Preliminary Study and Diagnostic

Actions:	Identification of the IFRS standards that will require changes with regard to measurement in consolidated financial statements and disclosure. The Fund identified the following list of International Accounting Standards ("IAS") that differ from Canadian GAAP and could impact the Fund's consolidated financial statements: ➢ First-time adoption of IFRS: IFRS 1 ➢ Business combinations: IFRS 3 ➢ Presentation of financial statements: IAS 1 ➢ Income taxes: IAS 12 ➢ Property, plant and equipment: IAS 16 ➢ Leases: IAS 17 ➢ Employee benefits: IAS 19 ➢ Impairment of assets: IAS 36 ➢ Provision, contingent liabilities and contingent assets: IAS 37
Timetable:	Q3 2009
Progress:	Completed

Phase II: Standards Analysis

Actions:	Analysis of the differences between GAAP and IFRS. Selection of the accounting policies that the Fund will apply on an ongoing basis. Fund's selection of IFRS 1 exemptions at the date of transition. Calculation of the quantitative impact on the consolidated financial statements. Disclosure analysis. Preparation of draft consolidated financial statements and notes. Identification of the collateral impact in the following areas: ➢ Information technology ➢ Internal control over financial reporting ➢ Disclosure controls and procedures ➢ Contracts ➢ Compensation ➢ Taxation ➢ Training
Timetable:	Q3 2010
Progress:	Completed.

Phase III: Implementation

Actions:	Preparation of the opening balance sheet at the date of transition. Compilation of the comparative financial data. Production of the interim consolidated financial statements and the associated disclosure. Production of the annual consolidated financial statements and the associated disclosure. Implementation of changes regarding collateral impact.
Progress:	• At the end of fiscal 2010, the opening balance sheet, comparative financial data under IFRS and changes regarding collateral impacts are completed. • We have prepared a preliminary version of the interim and annual financial statements according to IFRS standards.

We have made choices concerning certain exemptions from retrospective application at the time of changeover provided by IFRS 1. The exemptions that will result in impacts for the Fund are as follows:

Exemption	**Application of exemption**
Business Combinations	The Fund elects not to restate any business combinations that occurred prior to January 1, 2010.
Employee Benefits	The Fund elects to recognize cumulative actuarial gains and losses and past service cost arising from all of its defined benefit plans in opening retained earnings on transition.

Management quantified the expected material differences between IFRS and the current accounting treatment under Canadian GAAP. Differences with respect to recognition, measurement, presentation and disclosure of financial information are in the following key accounting areas:

Key accounting area	**Differences with impact for the Fund**	**Impact on equity January 1, 2010**
Presentation of Financial Statements	• Additional disclosures in the notes to financial statements.	—
Business Combinations	• Acquisition-related and restructuring costs are expensed as incurred.	—
Income Taxes	• The opening balance sheet will also be adjusted for deferred tax consequences on IFRS differences arising from the conversion of other accounting standards.	2,645,022
Employee Benefits	• Immediate recognition of vested past service costs to opening retained earnings at transition and to income subsequent to transition. • Immediate recognition of cumulative actuarial gains and losses to opening retained earnings at transition. After transition, the Fund will recognize actuarial gains and losses, as they occur, in Other Comprehensive Income (OCI), with no impact to income. • The limit to which a net benefit asset can be recognized under certain circumstances ("asset ceiling") under IFRS is calculated differently and may have a material impact at the date an actuarial valuation is performed. • This change in accounting policy will result in the recognition of pension costs potentially different than otherwise recognized under Canadian GAAP.	(10,316,000)
Deferred Compensation	• A different amortization method will be used for deferred compensation. As a result, depreciation expense will differ under IFRS.	(945,433)

This is not an exhaustive list of all the significant impacts that could occur during the conversion to IFRS.

Additionally, the Fund is preparing a preliminary IFRS financial statement format in accordance with IAS 1, *Presentation of Financial Statements*, and is in the process of analysing the contractual implications of the new policy choices on financing arrangements and similar obligations. The effects on information technology, data systems, and internal controls have been analysed and did not required significant modification.

The Fund continues to monitor and assess the impact of evolving differences between Canadian GAAP and IFRS, since the IASB is expected to continue issuing new accounting standards during the transition period. As a result, the final impact of IFRS on the Fund's consolidated financial statements can only be measured once all the applicable IFRS at the conversion date are known.

The Fund's IFRS conversion project is progressing well. As the project advances, the Fund could alter its intentions and the milestones communicated at the time of reporting as a result of changes to international standards currently in development or in light of new information or other external factors that could arise from now until the changeover has been completed.

At December 31, 2010, based on the Fund's non-exhaustive preliminary assessment of the main differences that may have some impact on its consolidated financial statements, following the change from Canadian GAAP to IFRS, the Fund's management estimated the potential effect to represent a negative impact of about 10% and 14% on the Fund's consolidated equity as at January 1, 2010, and December 31, 2010, respectively. The impact on consolidated EBITDA before restructuring and transaction expenses for the current fiscal year is marginal.

While we have not yet fully completed our conversion plan, we are not aware, at the present time, of any matter that would prevent Supremex from meeting its full requirements for its first IFRS interim consolidated financial report.

Recent Events

As of January 1, 2011, the Fund has completed the plan of arrangement providing for the reorganization of the Fund's income trust structure into a corporation named Supremex Inc. The business of the Fund continues to be carried on by Supremex Inc. Under the plan of arrangement, unitholders of the Fund received, for each unit of the Fund held, one common share of Supremex Inc.

As of 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.

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 purpose 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 not expected to grow 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 been declining 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 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 from before 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.

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 should decide to continue their relationship with Supremex, there can be no guarantee that customers 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.

The Fund 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 Fund to use more expensive environmentally friendly materials in its production process. To mitigate this risk, the Fund 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 a 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, or a recession similar to the one faced recently, 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. However, in 2010, the direct mail market improved due to the rebound in the economy. 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. The Fund is a leader in its market, with a solidly diversified customer base and long-standing relationships with a number of key customers.

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 three 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 regained most of its loss and has been trading close to parity with the US dollar, creating pressure on pricing in Canada. However, the cost 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 large market share of Supremex in Canada, most of the gains of our smaller competitors in Canada are done at Supremex's accounts.

Nonetheless, to mitigate this risk, the Fund 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 and a large portion of Supremex's 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 with whom selling price is sensitive to US competition.

Net exposure to the US dollar has increased over the last three years: due to lower sales volume, revenue generated in the United States represented 6.9% of consolidated revenue in fiscal 2010, down from 7.6% in fiscal 2009, while US dollar purchases remained stable over the last three years as most of our large suppliers are US-based.

Availability of Capital

In 2009, the Fund completed the refinancing of its credit facilities totalling $110 million consisting of a $35 million revolving facility and $75 million term credit facility. Both facilities mature on January 4, 2012. Although the Fund carried out this refinancing activity during an economic crisis, this is not a 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 Fund. On January 18, 2010, the Board of Trustees believed it was prudent to reduce the monthly distribution from $0.05 per unit to $0.01 per unit, commencing in the month of January 2010, in order to reduce the Fund's debt, preserve cash and increase capital flexibility. The $0.01 monthly distribution per unit has been converted into a quarterly dividend of $0.03 in 2011 as part of the conversion of the Fund to a publicly traded corporation as of January 1, 2011.

The acquisitions contemplated by the Fund will require additional financing. The global financial market crisis and the global economic slowdown may extend further and constrain the Fund'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 Fund 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 Fund's future growth by limiting acquisitions. This risk is mitigated by the fact that the Fund has a solid financial position and generates significant cash flow from operations.

Raw Materials Price Increases

The primary raw materials the Fund 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 such as the one announced during the spring of 2010. While paper costs were generally a pass through in the past, an increase in the price of paper can negatively effect 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 the profitability of Supremex if the increases cannot be passed on to the customer. To mitigate this risk, the Fund does not rely on any one supplier and is generally disciplined in passing on any raw material increases to its customers.

Second, 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 Fund is exposed to credit risk with respect to trade receivables. To mitigate this risk, the Fund 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 Fund. 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, 2010, the maximum credit risk exposure for receivables corresponds to their carrying value.

Employee future benefits

The Fund maintains three registered defined benefit pension plans substantially covering all of its employees. Two of these plans are hybrid, including a defined contribution component. In the past, the Fund 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 the three pension plans for funding purposes was made as at December 31, 2009 and showed the registered retirement plans to be in a solvency deficit position of 12.7 million. This deficit will then be paid over 5 years starting in January 2011. The Fund has elected to use the funding relief allowed by law and defer for one year the start of deficiency payment for two of its pension plans totalling 12.1 million of deficit. The Fund has the financial flexibility due to cash flow generated from operations to pay this additional annual contribution.

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

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 effectively 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 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. Canada Post renewed its bargaining agreement with the majority of its employees in the past year, reducing the risk of a strike.

Finally, there has been growing talk of "do-not-mail" legislation in the US with respect to the direct marketing industry. The Fund does not believe that such legislation would be passed in Congress as it would have a detrimental impact on the United Stated Postal Service, the country's largest employer. "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 Fund's sales volume.

Interest Rate

The Fund is exposed to market risks related to interest rate fluctuations. At the end of fiscal 2010, all of the Fund's long-term debt was at floating-rate, following the swap expiration in March 2010. As interest rates were low at that time, and no increases of rates were forecasted short term, the Fund did not renew its swap until January 2011. On January 14th, 2011, a $30 million interest swap was contracted. The Fund's policy is to fix a portion of its long-term debt. Considering the swap taken right after year-end, the fixed portion represented 43% at the time of the swap contract. The floating-rate portion of long-term debt increased in 2007 and 2008 following the two acquisitions and the normal course issuer bid, but it decreased in 2009 mainly due to the reduction in distributions since January 2009. Floating-rate debt bears interest rates based on bankers' acceptances. 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 275 basis points as at December 31, 2010.

To mitigate this risk the Fund 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 Fund benefits partially from such reductions in its floating rate debt. The Fund believes that Canadian interest rates are likely to increase in the next years, thus the reason of the swap taken in January 2011.

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 the fiscal year 2010 and, in particular, in "Risk Factors". Consequently, we can not guarantee that any forward-looking statements will materialize. Readers should not place any undue reliance on such forward-looking statements. Supremex disclaims any intention or obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

Definition of EBITDA, Distributable Cash and Non-GAAP 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.

Management views distributable cash as an operating performance measure, as it is a measure generally used by Canadian income funds as an indicator of financial performance. Distributable cash is defined as cash flow related to operating activities adjusted for the net change in non-cash working capital balances, change in post-retirement benefits obligation, change in accrued pension benefit assets and maintenance capital expenditures. Distributable cash is important as it summarizes the funds available for distribution to unitholders. As the Fund will distribute substantially all of its cash on an ongoing basis and since EBITDA is a metric used by many investors to compare issuers on the basis of the ability to generate cash from operations, management believes that in addition to net earnings, EBITDA is a useful supplementary measure from which to make adjustments to determine distributable cash.

EBITDA and Distributable cash are not earnings measures recognized under GAAP and do not have standardized meanings prescribed by GAAP. Therefore, EBITDA and Distributable cash may not be comparable to similar measures presented by other entities. Investors are cautioned that EBITDA and Distributable cash should not be construed as an alternative to net earnings determined in accordance with GAAP as indicators of the Fund's performance or to cash flows from operating, investing and financing activities as measures of liquidity and cash flows.

Additional Information

Additional information relating to the Fund is available on SEDAR at www.sedar.com

Consolidated Financial Statements

Supremex Income Fund

December 31, 2010 and 2009

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 Income Fund** which comprised the consolidated balance sheets as at December 31, 2010 and 2009 and the consolidated statements of earnings (loss) and deficit, cash flows, and comprehensive income (loss) for the years then ended, 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 Canadian generally accepted accounting principles, 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 Income Fund** as at December 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP[1]

Chartered Accountants[1]

Montréal, Canada,
February 16, 2011.

[1] CA auditor permit No. 19483

Supremex Income Fund

CONSOLIDATED BALANCE SHEETS

As at December 31,	**2010** **$**	**2009** **$**
ASSETS ***[note 11]***		
Current		
Cash	**148,874**	38,962
Accounts receivable *[note 4]*	**19,595,945**	21,092,867
Inventories *[note 5]*	**11,939,720**	13,921,726
Prepaid expenses	**425,193**	1,429,144
Assets held for sale *[note 15]*	**5,568,000**	—
Future income tax *[note 12]*	**379,410**	3,635,038
Total current assets	**38,057,142**	40,117,737
Assets held for sale *[note 15]*	**348,048**	—
Property, plant and equipment, net *[note 6]*	**30,449,945**	40,056,241
Accrued pension benefit asset *[note 7]*	**5,222,600**	4,985,800
Intangible assets, net *[note 8]*	**32,762,929**	38,926,829
Goodwill *[note 2]*	**76,058,491**	75,501,125
	182,899,155	199,587,732
LIABILITIES AND UNITHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities *[note 9]*	**20,111,811**	18,534,512
Accrued restructuring provision *[note 10]*	**931,297**	795,018
Income tax payable	**745,683**	—
Distribution payable *[note 14]*	**292,978**	1,464,888
Current portion of secured credit facilities *[note 11]*	**14,415,489**	7,500,000
Current portion of derivative liability	**—**	808,652
Total current liabilities	**36,497,258**	29,103,070
Secured credit facilities *[note 11]*	**54,654,387**	84,379,377
Future income tax *[note 12]*	**10,894,031**	11,945,354
Other post-retirement benefits obligation *[note 7]*	**769,200**	814,300
Unitholders' equity		
Fund units *[notes 13 and 21]*	**282,798,322**	282,798,322
Contributed surplus	**7,625,424**	7,625,424
Deferred compensation *[note 13]*	**—**	(1,260,512)
Deficit	**(210,339,467)**	(215,817,603)
	80,084,279	73,345,631
	182,899,155	199,587,732

Commitments, contingencies and guarantees *[note 17]*
Subsequent events *[note 21]*

See accompanying notes

On behalf of the Trustees:

By: (Signed) L.G. Serge Gadbois	By: (Signed) Gilles Cyr
Trustee	Trustee

Supremex Income Fund

CONSOLIDATED STATEMENTS OF EARNINGS (LOSS) AND DEFICIT

Years ended December 31,	2010 $	2009 $
Revenue	**153,124,398**	166,233,035
Cost of goods sold, selling, general and administrative expenses *[note 5]*	**120,128,914**	127,473,515
Earnings before the following	**32,995,484**	38,759,520
Amortization and write-down of property, plant and equipment *[note 15]*	**6,661,624**	4,668,196
Amortization of intangible assets	**6,163,900**	6,163,900
Amortization of deferred compensation	**1,260,512**	5,193,598
Impairment of goodwill *[note 9]*	**—**	43,000,000
Loss on disposal of property, plant and equipment	**340,169**	293,373
Net financing charges *[note 11]*	**4,720,981**	6,672,629
Restructuring expenses *[note 10]*	**1,845,676**	818,452
	20,992,862	66,810,148
Earnings (loss) before income taxes	**12,002,622**	(28,050,628)
Provision for income taxes (recovery) *[note 12]*	**3,008,750**	(902,854)
Net earnings (loss)	**8,993,872**	(27,147,774)
Deficit, beginning of year	**(215,817,603)**	(171,091,173)
Distribution declared *[note 14]*	**(3,515,736)**	(17,578,656)
Deficit, end of year	**(210,339,467)**	(215,817,603)
Basic net earnings (loss) per unit	**0.3070**	(0.9266)
Weighted average number of units outstanding	**29,297,767**	29,297,767

See accompanying notes

Supremex Income Fund

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31,

	2010 $	2009 $
OPERATING ACTIVITIES		
Net earnings (loss)	**8,993,872**	(27,147,774)
Items not affecting cash and cash equivalents		
Amortization and write-down of property, plant and equipment	**6,661,624**	4,668,196
Amortization of intangible assets	**6,163,900**	6,163,900
Amortization of deferred compensation	**1,260,512**	5,193,598
Amortization of deferred financing costs	**851,105**	313,612
Impairment of goodwill *[note 9]*	**—**	43,000,000
Loss on disposal of property, plant and equipment	**340,169**	293,373
Future income taxes expense (recovery)	**2,257,852**	(907,646)
Change in post-retirement benefits obligation	**(45,100)**	(47,400)
Change in accrued pension benefit assets	**(236,800)**	(11,900)
Net change in non-cash working capital balances	**6,794,565**	1,690,548
Cash flows related to operating activities	**33,041,699**	33,208,507
INVESTING ACTIVITIES		
Business acquisitions *[note 2]*	**(1,891,990)**	344,257
Additions to property, plant and equipment	**(3,199,390)**	(814,381)
Proceeds from disposal of property, plant and equipment	**507,845**	417,330
Cash flows related to investing activities	**(4,583,535)**	(52,794)
FINANCING ACTIVITIES		
Revolving credit facility	**(16,033,295)**	(15,675,819)
Term credit facility	**(7,500,000)**	(1,875,000)
Distributions paid on Fund units	**(4,687,646)**	(18,920,494)
Financing costs incurred	**(127,311)**	(1,635,213)
Cash flows related to financing activities	**(28,348,252)**	(38,106,526)
Net change in cash and cash equivalents	**109,912**	(4,950,813)
Cash and cash equivalents, beginning of year	**38,962**	4,989,775
Cash and cash equivalents, ending of year	**148,874**	38,962
Supplemental information		
Interest paid	**4,564,161**	4,900,407
Income taxes paid	**7,579**	4,697

See accompanying notes

Supremex Income Fund

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Years ended December 31,

	2010 $	2009 $
Net earnings (loss)	**8,993,872**	(27,147,774)
Other comprehensive income (loss)		
Change in fair value of derivative designated as cash flow hedge net of income taxes	—	(198,846)
Reclassification adjustment for loss on derivative designated as cash flow hedge transferred to net loss, net of income taxes	—	2,779,572
Comprehensive income (loss)	**8,993,872**	(24,567,048)

See accompanying notes

1. NATURE OF BUSINESS AND BASIS OF PRESENTATION

Supremex Income Fund (the "Fund") is an unincorporated open-ended trust established under the laws of the Province of Québec pursuant to a Declaration of Trust dated February 10, 2006, as may be amended, supplemented or restated from time to time and began its operations on March 31, 2006. The Fund owns Supremex Inc. ("Supremex"), a manufacturer and marketer of a broad range of stock and custom envelopes and related products.

The business of Supremex follows seasonal patterns with the highest revenue occurring from August to February due to the seasonal advertising and mailing patterns of its customers whereby the highest number of mailings related to events including the return to school, fundraising and the holiday and tax seasons occurs during that period.

On January 1, 2011, the Fund has completed the plan of arrangement providing for the reorganization of the Fund's income trust structure into a corporation named Supremex Inc (see note 21).

2. BUSINESS ACQUISITION

On September 16, 2010, the Fund acquired substantially all the assets of Pioneer Envelopes Ltd. ("Pioneer") for a cash consideration of $1.8 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 Fund's earnings from the date of acquisition. The preliminary purchase price allocation is as follows:

	$
Accounts receivable	578,098
Inventories	483,823
Prepaid expenses	27,021
Future income tax assets	53,547
Property, plant and equipment	620,000
Goodwill	557,366
Accounts payable and accrued liabilities	(328,645)
Accrued restructuring provision	(208,843)
Net assets acquired	1,782,367
Consideration	
Cash	1,891,990
Balance of sale receivable	(109,623)

Estimated liabilities of $208,843 have been included in the preliminary purchase price allocation of Pioneer, relating to estimated costs associated with exit costs. Management is currently carrying out detailed assessments of the assets acquired, liabilities assumed and the integration plan. Changes will be made to the preliminary purchase price allocation when more information becomes available.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") which require management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant areas requiring the use of management estimates relate to the implied fair value of goodwill, the determination of fair value of assets acquired and liabilities assumed in business combinations, determination of pension and other employee benefits, the useful life of assets for amortization and evaluation of net recoverable amount, income taxes and the determination of the fair value of financial instruments. By their nature, these estimates are subject to measurement uncertainty. 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 the change occurs.

The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below:

Principles of consolidation

The consolidated financial statements include the accounts of the Fund and its subsidiaries. All significant intercompany accounts and transactions are eliminated upon consolidation.

Net earnings per unit

Net earnings per unit is calculated by dividing net earnings by the weighted average number of units outstanding during the year. For the purpose of the weighted average number of units outstanding, units are determined to be outstanding from the date they are issued or acquired.

Cash and cash equivalents

Cash and cash equivalents include cash and highly liquid investments with an initial term of three months or less and are stated at cost, which approximates market value.

Inventories

Raw materials are carried at the lower of cost, determined on a first-in, first-out basis, and net realizable value. Work in process and finished goods are carried at the lower of cost, including labour and overhead, determined on a first-in, first-out basis, and net realizable value.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

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 and building improvements	10 to 40 years
Leasehold improvements	Over the terms of the leases
Machinery and equipment	Seven to 15 years
Office equipment	Three to five years
Computer equipment	Three years

Long-lived assets

Long-lived assets, 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 undiscounted 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 estimated useful lives of all long-lived assets are periodically reviewed and revised if necessary.

Intangible assets

Intangible assets are assets acquired that lack physical substance and that meet the specified criteria for recognition apart from goodwill. Intangible assets acquired are comprised of customer relationships and non-compete agreements which are amortized on a straight-line basis over ten years.

Intangible assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying value may not be recoverable. When the carrying value of customer relationships and the non-compete agreements is less than its net recoverable value as determined on an undiscounted basis, an impairment loss is recognized to the extent that fair values, measured as the discounted cash flows over the life of the asset when quoted market prices are not readily available, are below the carrying value of the asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Goodwill

Goodwill represents the excess of acquisition cost over fair value of the net assets of the business acquired. Goodwill is tested for impairment annually on 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 fair value of the reporting 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 year in which the impairment occurs. The Fund uses the discounted cash flows method to determine the fair value of its reporting unit.

Revenue recognition

The Fund recognizes revenue when persuasive evidence of an arrangement exists, product delivery has occurred, pricing is fixed or determinable, and collection is reasonably assured. In addition, when the customer requests 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 inventory which is available for sale, 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.

The Fund has rebate agreements with certain customers. These rebates are recorded as reductions of revenue and are accrued using revenue data and rebate percentages specific to each customer agreement.

Employee future benefits

The Fund maintains three defined benefit pension plans, two of which are hybrid, by also having 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.

The Fund accrues its obligations for the defined benefit component of its pension plans and other post-retirements and post-employment benefits and related costs, net of plan assets. The cost of pensions and other retirement benefits earned by employees is actuarially determined, at least every three years, using the projected benefit method prorated on service and management's best estimate of plan investment performance, salary escalation, retirement age and estimated health care costs. For the purpose of calculating the expected return on plan assets, those assets are valued at fair market value. The Fund uses a measurement date of December 31. The most recent actuarial valuations were performed on December 31, 2009. The Fund expects to perform actuarial valuations on December 31, 2010 for two of its pension plans and on December 31, 2012 for the third one.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Past service costs are amortized on a straight-line basis over the remaining service period of active employees ("EARSL"), which is between 11 and 14 years depending on the plan. The excess of net actuarial gain or loss over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the EARSL.

Income taxes

The Fund's corporate subsidiaries are subject to corporate income taxes and use the liability method of accounting for income taxes. Under the liability method, future income tax assets and liabilities are determined based on temporary differences between the financial reporting and tax bases of assets and liabilities and are measured using tax rates substantially enacted at the balance sheet date. The effect of changes in income tax rates on future income tax assets and liabilities is recognized in net earnings in the year that the change becomes substantially enacted.

Under the current terms of the *Income Tax Act* (Canada), the Fund is not subject to income taxes to the extent that its taxable income in a year is paid or payable to a unitholder. Accordingly, no provision for current income taxes for the Fund is made. The Fund is contractually committed to distribute to its unitholders all or virtually all of its taxable income and taxable capital gains that would otherwise be taxable in the Fund (see note 21).

Foreign currency

The Fund uses the temporal method to translate its foreign currency balances and transactions including its integrated foreign subsidiary. Under this method, monetary assets and liabilities are translated at the rates of exchange in effect at balance sheet date and the other items in the consolidated balance sheets and statements of earnings are translated at the exchange rates in effect at the date of transaction. Exchange gains and losses are included in net earnings for the year.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Financial instruments

The Fund classifies financial instruments as follows:

- Cash is classified as "Financial Assets Held for Trading". These financial assets are marked-to-market through net earnings at each year end.
- Accounts receivable are classified as "Loans and Receivables". After their initial fair value measurement, they are measured at amortized cost using the effective interest method. For the Fund, the measured amount generally corresponds to cost.
- Accounts payable and accrued liabilities, accrued restructuring provision, distribution payable, and secured credit facilities and are classified as "Other Financial Liabilities". After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method. For the Fund, the measured amount generally corresponds to cost.
- Derivative financial instruments are measured at fair value. The change in fair value of the effective portion of the hedge is recognized in other comprehensive loss, net of income taxes.

Transaction costs are capitalized to the cost of financial assets and liabilities not classified as held for trading. Thus, deferred financing costs related to long-term debt are classified as reduction of long-term debt and amortized using the effective interest rate method.

The Fund categorizes its financial assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs used in the measurement.

- Level 1: This level includes assets and liabilities measured at fair value based on unadjusted quoted prices for identical assets and liabilities in active markets that are accessible at the measurement date.
- Level 2: This level includes valuations determined using directly or indirectly observable inputs other than quoted prices included within Level 1. Derivative financial instruments in this category are valued using models or other industry standard valuation technique derived from observable market inputs.
- Level 3: This level includes valuations based on inputs which are less observable, unavailable or where the observable data does not support a significant portion of the instruments' fair value.

4. ACCOUNTS RECEIVABLE

	2010	**2009**
	$	**$**
Trade receivables	**18,376,475**	19,649,384
Others	**1,109,847**	1,443,483
Balance of sale receivable *[note 2]*	**109,623**	—
	19,595,945	21,092,867

5. INVENTORY AND COST OF GOOD SOLD

	2010	**2009**
	$	**$**
Raw materials	**3,309,476**	3,386,049
Work in process	**217,681**	365,755
Finished goods	**8,412,563**	10,169,922
	11,939,720	13,921,726

The cost of inventories recognized as an expense in 2010 is $109,458,910 [2009 – $115,303,577].

6. PROPERTY, PLANT AND EQUIPMENT

	Cost	**Accumulated amortization**	**Net book value**
	$	**$**	**$**
2010			
Land	**3,578,895**	—	**3,578,895**
Buildings and building improvements	**9,326,515**	**1,394,183**	**7,932,332**
Leasehold improvements	**876,434**	**508,860**	**367,574**
Machinery and equipment	**33,434,176**	**15,203,247**	**18,230,929**
Office equipment	**386,323**	**281,238**	**105,085**
Computer equipment	**945,520**	**710,390**	**235,130**
	48,547,863	**18,097,918**	**30,449,945**

	Cost	**Accumulated amortization**	**Net book value**
	$	**$**	**$**
2009			
Land	7,517,895	—	7,517,895
Buildings and building improvements	12,713,422	1,435,932	11,277,490
Leasehold improvements	891,106	406,849	484,257
Machinery and equipment	33,231,440	12,770,804	20,460,636
Office equipment	370,453	233,008	137,445
Computer equipment	784,015	605,497	178,518
	55,508,331	15,452,090	40,056,241

7. POST-RETIREMENT BENEFITS OBLIGATION

(a) Pension Plans

The Fund 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.

The defined benefit and defined contribution plans expenses are as follows:

	2010 **$**	**2009** **$**
Defined benefit plans		
Current service costs	**2,431,700**	1,920,000
Interest expense	**4,404,100**	4,232,100
Actual return on plan assets	**(4,641,900)**	(8,261,800)
Past service costs	**5,000**	—
Actuarial loss on benefit obligation	**4,496,100**	11,250,600
Difference between expected return and actual return on plan assets for the year	**476,300**	4,412,000
Difference between actuarial loss recognized for the year and actual actuarial loss on benefit obligation for the year	**(4,349,400)**	(11,250,600)
Difference between amortization of past service costs for the year and actual plan amendments for the year	**21,100**	21,100
Curtailment loss	**162,200**	—
Defined benefit plans expense	**3,005,200**	2,323,400
Defined contribution plan expense	**477,000**	484,000
Pension plans expense	**3,482,200**	2,807,400

Total cash payments contributed by the Fund for its defined benefit and defined contribution plans were approximately $3,723,000 (2009 - $2,801,000).

7. POST-RETIREMENT BENEFITS OBLIGATION [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.

	2010 **$**	**2009** **$**
Change in projected benefit obligation		
Benefit obligation, beginning of the year	**71,445,600**	56,893,000
Service cost	**3,071,300**	2,599,700
Interest cost	**4,404,100**	4,232,100
Actuarial losses	**4,496,100**	11,250,600
Benefits paid	**(5,041,700)**	(3,529,800)
Past service cost	**5,000**	—
Benefit obligation, end of year	**78,380,400**	71,445,600
Change in plan assets		
Fair value of plan assets, beginning of the year	**67,231,400**	59,484,400
Actual return on plan assets	**4,641,900**	8,261,800
Employees contribution	**639,600**	679,700
Employer contribution	**3,242,000**	2,335,300
Benefits paid	**(5,041,700)**	(3,529,800)
Fair value of plan assets, end of year	**70,713,200**	67,231,400
Funded status – Plan deficit	**(7,667,200)**	(4,214,200)
Unrecognized actuarial loss	**12,889,800**	9,016,700
Unrecognized prior service cost	—	183,300
Net amount recognized as accrued pension benefit asset	**5,222,600**	4,985,800

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

	2010 %	**2009** %
Discount rate for projected benefit obligation	**5.50**	6.25
Discount rate for net pension cost	**6.25**	7.50
Expected return on plan assets	**6.25**	6.50
Rate of compensation increase	**3.50**	3.50

7. POST-RETIREMENT BENEFITS OBLIGATION [Cont'd]

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

	2010 **%**	**2009** **%**
Equity securities	**61.4**	54.5
Debt	**33.9**	36.9
Cash and short-term securities	**4.7**	8.6
Total	**100.0**	100.0

The pension plans have an investment policy that targets asset allocations to be as follows: 57% of plan assets to equity securities, 42% to debt securities and 1% to short-term securities with a tolerable variation of that allocation.

(b) Post-retirement benefits other than pension

The following tables provide a reconciliation of the change in the benefit obligation and a statement of the funded status of the plans.

	2010 **$**	**2009** **$**
Change in projected benefit obligation		
Benefit obligation, beginning of year	**657,000**	687,300
Interest cost	**38,700**	48,200
Benefits paid	**(75,800)**	(86,000)
Actuarial losses	**28,400**	7,500
Benefit obligation, end of year	**648,300**	657,000
Funded status		
Funded status – Plan deficit	**(648,300)**	(657,000)
Unrecognized net actuarial gains	**(120,900)**	(157,300)
Net liabilities	**769,200**	814,300

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

7. POST-RETIREMENT BENEFITS OBLIGATION [Cont'd]

The components of other post-retirement benefit cost included in operating results were as follows:

	2010 $	**2009** $
Interest cost on liability	**38,700**	48,200
Actuarial loss on benefit obligation	**28,400**	7,500
Difference between actuarial loss recognized for the year and actual actuarial loss on benefit obligation for the year	**(36,400)**	(17,100)
Net periodic post-retirement benefit cost	**30,700**	38,600

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

	2010 %	**2009** %
Weighted-average assumptions		
Discount rate for benefit obligation	**5.50**	6.25
Discount rate for net periodic benefit cost	**6.25**	7.50

As at December 31, 2010, the assumed health care trend rate for 2010 was 6.4% progressively declining to 2.5% in 2024.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have no material impact.

8. INTANGIBLE ASSETS

	Cost $	Accumulated amortization $	Net book value $
2010			
Customer relationships	**60,884,000**	**28,517,239**	**32,366,761**
Non-compete agreements	**755,000**	**358,832**	**396,168**
	61,639,000	**28,876,071**	**32,762,929**

	Cost $	Accumulated amortization $	Net book value $
2009			
Customer relationships	60,884,000	22,428,839	38,455,161
Non-compete agreements	755,000	283,332	471,668
	61,639,000	22,712,171	38,926,829

9. IMPAIRMENT OF GOODWILL

Under Canadian GAAP, goodwill is not amortized but is subject to an impairment test. As at December 31, 2010 and 2009, the Fund conducted a goodwill impairment test and, as a result, management determined that the Fund’s carrying value was greater than its faire value in 2009. Therefore, the recorded value of goodwill exceeded the fair value and a goodwill impairment charge of $43,000,000 was recorded in the fourth quarter of 2009. The contributing factors to the impairment of goodwill include reduced selling prices driven mainly by the strength of the Canadian dollar and lower volume due to the overall economic slowdown, all leading to a reduction in the value of companies in our industry.

10. ACCRUED RESTRUCTURING PROVISION

In connection with the acquisition of NPG Envelope (“NPG”) in 2007, Montreal Envelope Inc. (“Montreal”) in 2008 and Pioneer (see note 2), the Fund adopted a plan for the integration and restructuring of the acquired businesses. As a result, the Fund recognized a provision for severance, relocation and exit costs relating to certain employees and facilities of the acquired businesses. As at December 31, 2010, the amount of the remaining accrued restructuring provision was $0.7 million.

The Fund incurred additional restructuring expenses during 2010 in the form of severances and other restructuring costs as a result of the restructuring of the Toronto operations (see note 15). The amount of the remaining accrued restructuring provision at December 31, 2010 was approximately $0.2 million.

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

	2010	**2009**
	$	**$**
Balance, beginning of year	**795,018**	1,327,080
Accrued restructuring included in purchase allocation (note 2)	**208,843**	199,097
Restructuring expenses charged against earnings	**1,845,676**	818,452
Cash payments	**(1,918,240)**	(1,549,611)
Balance, end of year	**931,297**	795,018

11. SECURED CREDIT FACILITIES

As at December 31, 2010, the Fund has secured credit facilities consisting of a $35 million revolving facility and a $65.6 million term credit facility ($73.1 million as at December 31, 2009). Both facilities bear interest at a floating rate based on the Canadian prime rate, the US base rate, LIBOR or bankers’ acceptance rates plus an applicable margin on those rates.

The revolving credit facility may be used for general corporate purposes, working capital requirements and permitted acquisitions. Both facilities mature on January 4, 2012. The term credit facility is repayable in quarterly instalments of $1,875,000, principal only. In addition, 75% of the excess cash flow, as defined in the agreement, will be applied against the term credit facility until the ratio of debt to EBIDTA reaches 2.25, and 50% thereafter. A $10 million permitted acquisition basket is allowed as per these credit facilities.

11. SECURED CREDIT FACILITIES [Cont'd]

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

	2010 $	2009 $
Revolving credit facility	**4,290,886**	20,324,181
Term credit facility	**65,625,000**	73,125,000
Less: deferred financing costs, net	**(846,010)**	(1,569,804)
	69,069,876	91,879,377
Current portion	**(14,415,489)**	(7,500,000)
Long-term portion of secured credit facilities	**54,654,387**	84,379,377

Under the terms of the secured credit facilities, the Fund is required, among other conditions, to meet certain covenants. The Fund was in compliance with these covenants as at December 31, 2010. The secured credit facilities are collateralized by a hypothec and security interest covering all present and future assets of the Fund and its subsidiaries.

Minimum required payments on secured credit facilities will be as follows:

	$
2011	14,415,489
2012	55,500,397

As at December 31, 2010, the interest rates on the revolving and term credit facilities were 4.90% and 5.25% respectively (4.85% and 4.76% as at December 31, 2009). The Fund had an interest swap for its term credit facilities up to March 31, 2010 at a fixed rate of 4.817% plus applicable margin of 425 basis points as at December 31, 2009. As a result of the substantial modifications of its renewed credit facilities as at December 31, 2009, the Fund concluded that the change should be accounted for as an extinguishment of the original liabilities. Therefore the amount of $808,652 in the accumulated other comprehensive loss related to the interest swap was transferred into the net loss as a loss on settlement of credit facilities in the fourth quarter of 2009. The interest rate swap matured on March 31, 2010.

Net financing charges:

	2010 $	2009 $
Interest on secured credit facilities	**3,856,920**	5,551,861
Loss on settlement of credit facilities	**—**	808,652
Other interest	**12,956**	(1,496)
Amortization of deferred financing costs	**851,105**	313,612
	4,720,981	6,672,629

12. INCOME TAXES

(a) Future income taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

The tax effects of temporary differences that give rise to significant portions of future tax assets and liabilities are as follows:

	2010 $	2009 $
Future income tax liabilities (assets)		
Intangible assets	**7,363,061**	8,848,543
Property, plant and equipment	**3,819,238**	4,987,876
Accrued pension benefit asset	**1,338,847**	1,278,142
Non-capital losses	**(173,744)**	(4,185,320)
Post-retirement benefits obligation	**(197,189)**	(208,751)
Initial public offering expenses	**(211,362)**	(1,033,315)
Other	**(1,424,230)**	(1,376,859)
	10,514,621	8,310,316
Current portion of future income tax assets	**379,410**	3,635,038
Long-term future income tax liabilities	**10,894,031**	11,945,354

Goodwill related to Supremex's acquisitions is not deductible for tax purposes.

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

	2010 $	2009 $
Earnings (loss) before income taxes	**12,002,622**	(28,050,628)
Income taxes expense (recovery) at combined federal and provincial statutory rate	**3,508,366**	(8,723,745)
Impact of interest expense of Supremex paid to the Fund, eliminated on consolidation	**(1,270,246)**	(5,659,718)
Impact of amortization of deferred compensation not deductible for tax purposes	**368,448**	1,615,209
Effect of change in enacted tax rates	**274,319**	(948,182)
Impact of impairment of goodwill not deductible for tax purposes	—	12,502,845
Non deductible expenses and other	**127,863**	310,737
Provision for income taxes (recovery)	**3,008,750**	(902,854)

12. INCOME TAXES [Cont'd]

Provision for income taxes (recovery) is as follows:

	2010	**2009**
	$	**$**
Current	**750,898**	4,792
Future	**2,257,852**	(907,646)
Provision for income taxes (recovery)	**3,008,750**	(902,854)

13. UNITHOLDERS' EQUITY

Fund units

The Fund Declaration of Trust provides that an unlimited number of units may be issued. Each unit is transferable and represents an equal undivided beneficial interest in any distributions from the Fund and in the net assets of the Fund. All units are of the same class with equal rights and privileges. Each unit entitles 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 are 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 are subject to a maximum of $50,000 in cash redemptions by the Fund in any particular month. Redemptions in excess of this amount will be paid by way of a distribution *in specie* of the assets of the Fund.

As at December 31, 2010 and 2009, 29,297,767 units are issued. The Fund did not issue or purchase for cancellation any units during 2010 and 2009.

Employee 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 recorded 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.

14. DISTRIBUTION

The Fund makes monthly distributions 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 to unitholders are recorded on an accrual basis. The December distribution in the amount of $292,978 was declared and accrued in December 2010 and paid to unitholders on January 17, 2011. Distributions for the period from January 1, 2010 to December 31, 2010 are as follows:

Period	Record date	Payment date	Per unit	Distribution $
January 2010	January 31, 2010	February 15, 2010	0.01	292,978
February 2010	February 28, 2010	March 15, 2010	0.01	292,978
March 2010	March 31, 2010	April 15, 2010	0.01	292,978
April 2010	April 30, 2010	May 17, 2010	0.01	292,978
May 2010	May 31, 2010	June 15, 2010	0.01	292,978
June 2010	June 30, 2010	July 15, 2010	0.01	292,978
July 2010	July 31, 2010	August 16, 2010	0.01	292,978
August 2010	August 31, 2010	September 15, 2010	0.01	292,978
September 2010	September 30, 2010	October 15, 2010	0.01	292,978
October 2010	October 31, 2010	November 15, 2010	0.01	292,978
November 2010	November 30, 2010	December 15, 2010	0.01	292,978
December 2010	December 31, 2010	January 17, 2011	0.01	292,978
			0.12	3,515,736

15. ASSETS HELD FOR SALE

During the second quarter of 2010, the Fund announced a restructuring of its Toronto operations. Whereby the Markham facility was closed and its production moved into the other two facilities located in Mississauga and Etobicoke. Accordingly, as at December 31, 2010, the Fund has classified as assets held for sale some manufacturing equipment and a building located in Markham, Ontario. The equipment and the building are accounted for at the lower of their carrying amount or fair value less cost to sell, based on price for similar assets, resulting in a write-down of $2.2 million for the year ended December 31, 2010 included in the amortization of property, plant and equipment.

As at December 31, 2010, a binding agreement was signed for the sale of the Markham property. The sale will be closed in the first quarter of 2011 and therefore, the building and land have been reclassified as current asset.

16. ACCUMULATED OTHER COMPREHENSIVE LOSS

A derivative designated as a cash flow hedge constitutes the sole item in accumulated other comprehensive loss. Changes that occurred during the years ended December 31, 2010 and 2009 were as follows:

	2010	**2009**
	$	**$**
Opening balance, net of income taxes	—	(2,580,726)
Change in fair value of derivative designated as cash flow hedge, net of income taxes of $65,329 in 2009	—	(198,846)
Reclassification adjustment for loss on derivative designated as cash flow hedge transferred to net loss, net of income taxes of $1,028,581 in 2009	—	2,779,572
Accumulated other comprehensive loss	**—**	—

17. COMMITMENTS, CONTINGENCIES AND GUARANTEES

(a) Operating lease and other commitments

The Fund has entered into operating leases mainly for buildings. Minimum lease payments required under these leases are as follows:

	$
2011	2,266,891
2012	1,490,348
2013	1,193,040
2014	1,068,169
2015	936,244
2016 and thereafter	2,228,811
Total	9,183,503

(b) Contingencies

In the normal course of its operations, the Fund 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 Fund's financial position.

(c) Guarantees

In the normal course of business, the Fund has entered into agreements that contain features which meet the definition of a guarantee. These agreements may require the Fund 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:

17. COMMITMENTS, CONTINGENCIES AND GUARANTEES [Cont'd]

Operating leases

The Fund 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 Fund from estimating the total potential amount it would have to pay to lessors, if any. Historically, the Fund has not made any significant payments under such agreements, has insurance coverage for certain of the obligations undertaken, and, as at December 31, 2010, it has not recorded any liability associated with these indemnifications.

Business disposals

As a result of the sale of business operations, shares or net assets, the Fund may occasionally agree to provide indemnity against claims from previous business activities. The nature of these indemnifications prevents the Fund from estimating the maximum potential liability it could be required to pay to guarantee parties. Historically, the Fund has not made any significant indemnification payments, and, as at December 31, 2010, it has not recorded any liability associated with these indemnifications.

18. SEGMENTED INFORMATION

The Fund currently operates in one business segment: the manufacturing and sale of envelopes. The Fund's net assets amounted to $77,998,707 in Canada and $2,085,572 in the United States as at December 31, 2010 [2009 – $72,292,303 and $1,053,328, respectively]. The Fund's revenue amounted to $142,487,915 in Canada and $10,636,483 in the United States for the year ended December 31, 2010 [2009 – $153,626,947 in Canada and $12,606,088 in the United States respectively].

19. FINANCIAL INSTRUMENTS

Fair value

As at December 31, 2010 and 2009, the carrying amounts of financial assets designated as loans and receivables, consisting primarily of accounts receivable and short-term financial liabilities classified as other financial liabilities, approximate their fair value given that 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 long-term debt (classified as other financial liabilities) is estimated based on valuation models, using the discounted cash flows method in accordance with current financing arrangements. The discount rates used correspond to prevailing market rates for debt with similar terms and conditions.

19. FINANCIAL INSTRUMENTS [Cont'd]

Management of risks arising from financial instruments

In the normal course of business, the Fund 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 Fund can avail itself of various derivative financial instruments. The Fund'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

The use of financial instruments and derivatives may lead to credit risk that corresponds to the risk of financial loss resulting from a counterparty's inability or refusal to completely fulfill their obligations. The Fund's cash is invested with Canadian Schedule 1 banks.

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 Fund's diversified customer base. Historically, the Fund has never made any significant write-off of accounts receivable. As at December 31, 2010 and 2009, total trade accounts receivable over 90 days past due were less than 5%.

Liquidity risk

The Fund 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 Fund manages liquidity risk by maintaining adequate cash and cash equivalents balances and by appropriately using the Fund's revolving credit facilities. The Fund continuously reviews both actual and forecasted cash flows to ensure that it has adequate credit facility capacity.

As of December 31, 2010, material contractual obligations related to financial instruments included capital repayment and interest on long-term debt. These obligations and their maturities are as follows:

	Total **$**	**Less than 1 year** **$**	**1-3 years** **$**	**3-5 years** **$**	**5 years or more** **$**
Accounts payable and accrued liabilities	20,111,811	20,111,811	—	—	—
Accrued restructuring provision	931,297	931,297	—	—	—
Distribution payable	292,978	292,978	—	—	—
Secured credit facilities	69,069,876	14,415,489	54,654,387	—	—
Interest payment	3,186,907	3,157,614	29,293	—	—
	93,592,869	**38,909,189**	**54,683,680**	—	—

Estimate of interest to be paid on secured credit facilities is based on hedged and unhedged interest rates as of December 31, 2010 (see note 21).

19. 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 Fund'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 Fund is exposed to interest rate fluctuations on its secured credit facilities. Furthermore, interest rate fluctuations could have an impact on interest expense on its revolving credit facility and on income the Fund derives from cash and cash equivalents. The Fund invests its cash and cash equivalents in highly liquid investment instruments to safeguard its capital while generating a reasonable return.

On December 31, 2010, a 25 basis-point rise or fall in interest rates, assuming all other variables remained unchanged, would have resulted, respectively, in a $124,180 increase or decrease in the Fund's net earnings for the year ended December 31, 2010.

Foreign exchange risk

The Fund 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 done in US dollars. The Fund 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, 2010, net financial liabilities in Canadian dollars denominated in US dollars, totalled $2,437,236 (2009 – $2,135,833).

On December 31, 2010, 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 $121,862 increase or decrease in the Fund's net earnings for the year then ended, whereas other comprehensive income 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.

20. CAPITAL MANAGEMENT

The Fund's capital consists of unitholders' equity and secured credit facilities. The Fund 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 unit value.

20. CAPITAL MANAGEMENT [Cont'd]

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

The Fund's capital structure is composed of unitholders' equity, secured credit facilities, less cash and cash equivalents. The capital structure of continuing operations is as follows;

	2010	**2009**
	$	**$**
Secured credit facilities	**69,069,876**	91,879,377
Cash and cash equivalents	**(148,874)**	(38,962)
Net liabilities	**68,921,002**	91,840,415
Unitholders' equity	**80,084,279**	73,345,631

The Fund is not subject to any externally imposed capital requirements other than certain restrictions under the terms of its secured credit facilities, which relate to permitted acquisitions, normal cause issuer bid and payment of distributions.

21. SUBSEQUENT EVENTS

As of January 1, 2011, the Fund has completed the plan of arrangement providing for the reorganization of the Fund's income trust structure into a corporation named Supremex Inc. The business of the Fund continues to be carried on by Supremex Inc. Under the plan of arrangement, unitholders of the Fund received, for each unit of the Fund held, one common share of Supremex Inc.

As of 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.

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