Supremex

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE AND TWELVE-MONTH PERIODS ENDED DECEMBER 31, 2008

The following management's discussion and analysis of financial condition and results of operations ("MD&A"), dated February 17, 2009 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, 2008. 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, 2008.

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, Adjusted EBITDA, Distributable cash and Non-GAAP Measures" and "Selected Consolidated Financial Information" for the reconciliation of EBITDA to net (loss) earnings.

The Fund

The Fund is an unincorporated, open-ended trust established under the laws of the Province of Quebec by a Fund Declaration of Trust dated February 10, 2006 and amended and restated as of March 31, 2006. The Fund was established to acquire and hold the common shares of Supremex Inc. ("Supremex").

The Fund's units trade on the Toronto Stock Exchange under the symbol SXP.UN. Additional information relating to the Fund can be found at www.sedar.com.

Acquisition of Montreal Envelope

On September 16, 2008, the Fund acquired substantially all the assets of Montreal Envelope Inc. and some related entities ("Montreal") for a consideration of $13.2 million, subject to a working capital adjustment. The acquisition was funded with funds raised from the existing revolving credit facility.

Montreal was a significant envelope manufacturer in Eastern Canada with approximately $13.0 million in revenue and 85 employees. The Montreal acquisition is consistent with the Fund's acquisition strategy to identify strategic opportunities within its existing core business segment and acquire well-established companies with complementary strengths and significant opportunities to achieve meaningful synergies. Corporate synergies are expected to consist primarily of cost savings relating to raw materials and reduction of overhead expenses. This strategy is intended to assist the Fund in achieving its goals and demonstrate its commitment to the future of its industry. Up to December 31, 2008, the Fund incurred $0.8 million of restructuring costs which form part of the Montreal purchase price allocation. However, the amount of these restructuring costs is subject to modification as management completes a detailed assessment of the assets and liabilities pursuant to the Montreal acquisition and changes may be made as more information becomes available.

Acquisition of NPG Envelope

On August 9, 2007, the Fund acquired substantially all the assets of NPG Envelope ("NPG") for a cash payment of $25.6 million. The cash payment was funded with a combination of funds raised from the existing revolving credit facility and cash on hand.

Up to December 31, 2008, the Fund has incurred $4.1 million of restructuring costs of which $3.0 million form part of the NPG purchase price allocation.

Overview of the Fund

Supremex is Canada's leading manufacturer and marketer of a broad range of stock and custom envelopes and related products. Supremex employs approximately 750 people and is the only national envelope manufacturer in Canada, with 10 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.

Supremex has the largest share of the Canadian envelope manufacturing industry. This leading market share is due to Supremex's unparalleled ability to successfully compete both on a local and national basis across Canada.

Overall Performance

Payout ratio for the fourth quarter of 2008 was 100.6% compared with 76.7% for the fourth quarter of 2007, and full-year 2008 payout ratio was 92.7% compared with 92.8% in 2007. EBITDA for the fourth quarter of 2008 was $10.6 million, a decrease of $2.8 million compared with EBITDA for the fourth quarter of 2007. EBITDA margin was 21.8% in the fourth quarter of 2008 compared with 26.8% in the fourth quarter of 2007. The Fund's full-year 2008 EBITDA margin remained stable at 23.9%.

Revenue in the fourth quarter of 2008 was $48.5 million compared with $49.7 million in the fourth quarter of 2007, a decrease of $1.2 million, or 2.4%. If Montreal sales were excluded, fourth quarter 2008 revenue would have been down approximately 8.5%.

The Fund experienced a 4% sales volume reduction in the Canadian market (approximately 8% on a pro-forma basis taking the Montreal acquisition into consideration) and a 40% volume reduction in the US market. The US market decline started last fall and accelerated with the termination in March 2008 of the supply agreement with Cenveo (the former Supremex shareholder). However, the volume has been stable at current levels for most of 2008 and we foresee a slight increase in US volume in 2009 due to the weak Canadian dollar.

In the Canadian market, volume is affected by the following factors:

- The economic slowdown impacts overall volume, but particularly direct mail volume which is closely tied to the overall economy. Direct mail represents about 20% of Supremex sales;
- Volume losses to large US manufacturers competing in the Canadian market due to the slow US market. This volume loss is mainly in transactional business with large Canadian customers;

- With a view to cost savings, our customers are promoting more actively the electronic substitutions to the end-users. The trend to electronic solutions has been a factor for a number of years, but given the economic slowdown, our customers are actively seeking cost saving by promoting more actively the use of electronic substitutions;
- The resale market is still under pressure from large US stationers like Staples, Office Depot, etc.

In the fourth quarter of 2008, the average selling price of envelopes rose 3% in the Canadian market and 34% in the US market, due mainly to the 23% foreign exchange gain during the period.

The 3% increase in the Canadian market would normally be acceptable, but with the falling Canadian dollar and higher raw materials prices in the last six months of the year, the 3% increase was not enough to cover net raw materials price increases in the fourth quarter. Net paper expense was almost 30% higher in the fourth quarter of 2008 compared with the fourth quarter of 2007, due to increases in the cost of paper in 2008 and the impact of the exchange rate in the fourth quarter of 2008.

We announced a general increase in envelope prices in the Canadian market, but we faced a lot of pressure from customers to avoid this increase, given the difficult economic conditions in North America. This makes it very difficult to raise prices to offset rising costs.

With respect to controllable costs, the Fund acted rapidly to integrate the operations of Montreal into Supremex during the fourth quarter, and we can report that their facilities are no longer in operation which permitted the reduction of 40 employees in the Eastern region.

Across Canada, we are implementing cost reduction measures. In the fourth quarter, we incurred approximately $300,000 in termination costs.

In light of the above, on December 16, 2008, the Fund announced a reduction in the distribution rate from $1.15 per year to $0.60 commencing with the January 2009 distribution payable on February 15, 2009. This decision was based on a number of factors, including current market conditions, increased raw material costs due to the falling Canadian dollar and the tightened credit market.

Finally, the Fund conducted its annual goodwill impairment test as at year end in light of the recent economy slowdown, expected future cash flows based on its plans and the increased cost of capital in the market. Using the discounted cash flows method, the Fund concluded that the carrying value of goodwill was greater than its estimated fair value. Goodwill impairment of $147.8 million was therefore recorded in the fourth quarter. A charge of $475,000 was also recorded to eliminate the intangible asset related to the customer relationship with Cenveo, due to the loss of almost all sales to Cenveo. The total charge of $148.3 million is a non-cash charge to income and will not affect the Fund's liquidity, cash flows from operating activities or debt covenants, or have any impact on future operations.

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 (loss) 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,**	
	2008	**2007**	**2008**	**2007**
	$	**$**	**$**	**$**
Cash flows related to operating activities	**15,719**	13,802	**44,694**	39,425
Capital adjustment				
Capital expenditures(1)	**(650)**	(538)	**(1,460)**	(1,867)
Non-recurring adjustment				
Growth capital expenditures(1)	—	—	—	(125)
Other adjustments				
Net change in non-cash working capital balances(2)	**(6,751)**	(1,400)	**(6,666)**	1,497
Change in other post-retirement benefits obligation and change in accrued pension benefit assets	**55**	(373)	**(176)**	(340)
Distributable cash(3)	**8,373**	11,491	**36,392**	38,590
Distribution declared	**8,422**	8,813	**33,740**	35,810
Weighted average number of units outstanding	**29,307**	30,933	**29,364**	31,216
Distributable cash per unit	**0.2857**	0.3715	**1.2393**	1.2362
Distribution per unit	**0.2874**	0.2849	**1.1490**	1.1472
Payout ratio	**100.6%**	76.7%	**92.7%**	92.8%

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

	Three-month periods Ended December 31,		**Twelve-month periods ended December 31,**	
	2008	**2007**	**2008**	**2007**
	$	**$**	**$**	**$**
Maintenance capital expenditures	**1,206**	567	**3,938**	2,379
Growth capital expenditures	—	—	—	(125)
Proceeds from disposal of assets	**(556)**	(29)	**(2,478)**	(387)
Capital expenditures	**650**	538	**1,460**	1,867

(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, Adjusted EBITDA, Distributable Cash and Non-GAAP Measures".

The Fund generated $8.4 million or $0.2857 per unit and $36.4 million or $1.2393 per unit of distributable cash for the three and twelve-month periods ended December 31, 2008 compared with $11.5 million or $0.3715 per unit and $38.6 million or $1.2362 per unit for the comparable periods in 2007. More information on cash flow related to operating activities is provided under "Liquidity and Capital Resources."

The Fund declared distributions of $8.4 million or $0.2874 per unit and $33.7 million or $1.1490 per unit for the three and twelve-month periods ended December 31, 2008, funded by distributable cash generated during the period and cash on hand, compared with $8.8 million or $0.2849 per unit and $35.8 million or $1.1472 per unit for the comparable periods in 2007.

For the three-month period ended December 31, 2008, actual distributions exceed distributable cash generated by $0.1 million. For the twelve-month period then ended, distributable cash generated exceeds actual distributions by $2.7 million. As a result, the Fund's payout ratio, defined as distributions declared as a percentage of distributable cash generated, was 100.6% and 92.7% respectively for the three and twelve-month periods ended December 31, 2008. Since inception of the Fund, the payout ratio is 90.2%.

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 2008 per unit rate was $0.0958 per month. Distributions for the period January 1, 2008 to December 31, 2008 were as follows:

Period	**Record date**	**Payment date**	**Per unit $**	**Distribution $**
January 2008	January 31, 2008	February 15, 2008	0.0958	2,832,630
February 2008	February 29, 2008	March 17, 2008	0.0958	2,829,345
March 2008	March 31, 2008	April 15, 2008	0.0958	2,808,058
April 2008	April 30, 2008	May 15, 2008	0.0958	2,808,058
May 2008	May 31, 2008	June 16, 2008	0.0958	2,808,058
June 2008	June 30, 2008	July 15, 2008	0.0958	2,808,058
July 2008	July 31, 2008	August 15, 2008	0.0958	2,808,058
August 2008	August 31, 2008	September 15, 2008	0.0958	2,808,058
September 2008	September 30, 2008	October 15, 2008	0.0958	2,808,058
October 2008	October 31, 2008	November 17, 2008	0.0958	2,808,058
November 2008	November 30, 2008	December 15, 2008	0.0958	2,807,273
December 2008	December 31, 2008	January 15, 2009	0.0958	2,806,726
Total			1.1496	33,740,438

The December distribution in the amount of $2,806,726 was declared and accrued in December 2008 and paid to unitholders on January 15, 2009. The tax allocation of distributions for 2008 is 100% return on capital and distributions are therefore treated as income for unitholders.

On December 16, 2008, the Fund announced its decision to reduce the monthly distribution from $0.0958 per unit to $0.05 per unit, commencing for the month of January 2009. While Supremex's operations are still sound, in view of the recent rapid and drastic decrease of the Canadian dollar, deteriorating economic conditions and heightened credit market risk, Management and the Board of Trustees believe it prudent to reduce the distribution. The reduction is effected in order to improve Supremex's balance sheet and allow the Fund to position itself for further growth through accretive acquisitions. Management and the Board believe this new distribution level is sustainable for the foreseeable future.

Overall, it is still the intention of the Fund to pursue consolidation of the Canadian envelope industry and reducing distributions will give the Fund some flexibility in this regard.

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, 2008 **$**	**Twelve-month period ended December 31, 2008** **$**	**Since inception** **$**
Distributable cash	**8,373**	**36,392**	107,089
Cash flows from operating activities	**15,719**	**44,694**	126,321
Net loss	**(140,352)**	**(122,688)**	(74,544)
Actual cash distributions paid or payable relating to the period	**8,422**	**33,740**	96,548
(Shortfall) excess of distributable cash over cash distribution	**(49)**	**2,652**	10,541
Excess of cash flows from operating activities over cash distribution	**7,297**	**10,954**	29,773
Shortfall of net earnings over cash distribution	**(148,774)**	**(156,428)**	(171,092)

The shortfalls of net earnings over cash distribution for the three and twelve-month periods ended December 31, 2008 and since inception are mainly related to the impairment of goodwill 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, 2007 to December 31, 2008.

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

	Dec. 31, 2008 $	Sept. 30, 2008 $	June 30, 2008 $	Mar. 31, 2008 $	Dec. 31, 2007 $	Sept. 30, 2007 $	June 30, 2007 $	Mar. 31, 2007 $
Revenue	**48,453**	42,935	43,620	47,545	49,731	46,394	43,727	47,710
EBITDA (1)	**10,563**	10,842	10,920	11,315	13,337	10,876	9,463	11,295
Adjusted EBITDA[(1)]	**10,659**	10,954	11,043	11,683	13,755	10,876	9,463	11,295
(Loss) earnings before income taxes	**(143,576)**	5,359	4,940	5,940	7,907	5,769	4,647	6,726
Net (loss) earnings	**(140,352)**	5,762	5,570	6,332	9,554	6,446	5,825	6,888
Net (loss) earnings per unit	**(4.7890)**	0.1966	0.1900	0.2145	0.3089	0.2059	0.1860	0.2200

Notes

(1) See "Definition of EBITDA, Adjusted EBITDA, Distributable Cash and Non-GAAP Measures". EBITDA and Adjusted EBITDA are not recognized measures under GAAP and do not have standardized meanings prescribed by GAAP. EBITDA and Adjusted EBITDA may not be comparable to similar measures presented by other issuers.

The period from July 1, 2007 to December 31, 2008 includes results of operations of the NPG business for the period from August 9, 2007 to December 31, 2008. The period from July 1, 2008 to December 31, 2008 includes results of operations of the Montreal business for the period from September 16, 2008 to December 31, 2008.

Excluding the seasonal patterns of the business, revenue has decreased over the last eight quarters mainly due to the decrease in volume sold in the United States as a result of the strengthening of the Canadian dollar and the softness of the US market. The increased volume sold in Canada following the recent acquisitions has partially offset the decrease in the United States. In addition, the fourth quarter 2008 loss is attributable to the recording of the goodwill impairment. Adjusted EBITDA for the second quarter of 2007 has also been affected by the decrease in the average selling price due to a more competitive marketplace.

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,	
	2008	**2007**	**2008**	**2007**
	$	**$**	**$**	**$**
Revenue	**48,453**	49,731	**182,553**	187,562
Cost of goods sold, selling, general and administrative expenses	**37,794**	35,976	**138,214**	142,173
Adjusted EBITDA(1)	**10,659**	13,755	**44,339**	45,389
Non Recurring Item:				
Restructuring expenses(2)	**96**	418	**699**	418
EBITDA (1)	**10,563**	13,337	**43,640**	44,971
Amortization of property, plant and equipment	**1,213**	1,205	**5,089**	4,215
Amortization of intangible assets	**1,541**	1,501	**6,059**	5,782
Amortization of deferred compensation	**1,440**	1,324	**5,445**	5,368
Impairment of goodwill	**148,275**	**—**	**148,275**	—
Loss on disposal of property, plant and equipment	**80**	52	**148**	49
Net financing charges	**1,590**	1,348	**5,960**	4,508
(Loss) earnings before income taxes	**(143,576)**	7,907	**(127,336)**	25,049
Income taxes recovery	**(3,224)**	(1,647)	**(4,648)**	(3,664)
Net (loss) earnings	**(140,352)**	9,554	**(122,688)**	28,713
Basic net (loss) earnings per unit	**(4.7890)**	0.3089	**(4.1782)**	0.9198
Distribution declared per unit	**0.2874**	0.2849	**1.1490**	1.1472
Total assets			**262,669**	404,780
Secured credit facilities			**110,752**	100,588

(1) See “Definition of EBITDA, Adjusted EBITDA, Distributable Cash and Non-GAAP Measures”.

(2) Restructuring expenses are related to the plan adopted to integrate and restructure NPG and Montreal following their acquisition. Any costs incurred relating to employees and facilities previously part of the Fund are charged to restructuring expenses as incurred.

Results of Operations

Three-month period ended December 31, 2008 compared with three-month period ended December 31, 2007

Revenue

Revenue for the three-month period ended December 31, 2008 was $48.5 million compared with $49.7 million for the three-month period ended December 31, 2007, a decrease of $1.2 million or 2.4%. The decrease in revenue is attributable to a reduction of sales in Canada and in the United States.

Sales revenue in Canada decreased by $0.4 million, or 0.1%, from $45.2 million to $44.8 million, and sales revenue in the United States decreased by $0.8 million or 17.8%, from $4.5 million to $3.7 million.

The decrease in sales revenue in Canada was driven by a 4.0% decrease in the number of units sold, offset by a 3.3% increase in the average selling price. The decrease in the number of units sold is explained by the softness of the market and the economy in general.

The decrease in sales revenue in the United States was due to a 40.4% decrease in the number of units sold, offset by a 34.3% increase in the average selling price given the weakening of the Canadian dollar. The weak US market and the reduction of sales to Cenveo were the major factors affecting sales in the United States.

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, 2008 was $37.8 million compared with $36.0 million for the three-month period ended December 31, 2007, an increase of $1.8 million or 5.0%.

Cost of goods sold for the three-month period ended December 31, 2008 was $32.8 million compared with $31.3 million for the same period in 2007, an increase of $1.5 million or 4.8%. The rising cost of raw materials, including the effect of the weakening Canadian dollar, offset by the decrease in units sold, explains the increase in cost of goods.

Gross profit (revenue less cost of goods sold excluding amortization of property, plant and equipment) was $15.7 million for the three-month period ended December 31, 2008 compared with gross profit of $18.4 million for the comparable period in 2007, a decrease of $2.7 million or 14.7%. As a percentage of sales, gross profit fell by 4.8% in 2008 compared with 2007.

Selling, general and administrative expenses were $4.9 million for the three-month period ended December 31, 2008 compared with $4.7 million for the same period in 2007, an increase of $0.2 million or 4.3%. The increase is mainly attributable to one-time costs for termination of staff and bad debt expenses partially offset by a lower profit sharing expense.

Adjusted EBITDA

As a result of the changes described above, Adjusted EBITDA was $10.7 million for the three-month period ended December 31, 2008 compared with $13.8 million for the same period in 2007, a decrease of $3.1 million or 22.5%.

Non-recurring item

Restructuring expenses are related to the plan adopted to integrate and restructure NPG and Montreal following their acquisition. Any costs incurred relating to employees and facilities previously part of the Fund are charged to restructuring expenses as incurred.

EBITDA

As a result of the changes described above, EBITDA was $10.6 million for the three-month period ended December 31, 2008 compared with $13.3 million for the same period in 2007, a decrease of $2.7 million or 20.3%.

Amortization

Aggregate amortization expense for the three months ended December 31, 2008 amounted to $4.2 million compared with $4.0 million for the same period in 2007, an increase of $0.2 million or 5.0%. This increase is attributable to additional amortization of deferred compensation following the departure of employees.

Impairment of goodwill

An impairment of goodwill charge has been recorded in the amount of $147.8 million. In addition, an impairment of the intangible assets related to the customer relationship with Cenveo in the amount of $0.5 million has also been recorded.

Net financing charges

Net financing charges amounted to $1.6 million for the three months ended December 31, 2008 compared with $1.3 million for the same period in 2007, representing an increase of $ 0.3 million or 23.1%, mainly related to the financing of acquisitions and the purchase of Fund units for cancellation, offset by a lower interest rate on the revolving credit facility.

(Loss) earnings before income taxes

Due to the changes in revenue and expenses described herein, the loss before income taxes was $143.6 million for the three months ended December 31, 2008 compared with earnings before income taxes of $7.9 million for the same period in 2007, a decrease of $151.5 million.

Income taxes recovery

During the three months ended December 31, 2008, the Fund recorded income taxes recovery of $3.2 million. Income taxes recovery takes into consideration, in addition to income taxes recovery of $45.2 million at the statutory rate, a reduction of $2.6 million attributable to the impact of interest income earned by the Fund and paid by Supremex. This recovery was partially offset by an amount of $43.5 million related to the impairment of goodwill not deductible for tax purposes and an amount of $1.1 million mainly related to the non-deductible amortization of deferred compensation, the effect of a change in the enacted tax rate and other non-deductible expenses.

Net (loss) earnings

As a result of the changes described above, a $140.4 million loss was recognized for the three-month period ended December 31, 2008 compared to earnings of a $9.6 million for the same period in 2007, a decrease of $150.0 million.

Twelve-month period ended December 31, 2008 compared with twelve-month period ended December 31, 2007

Revenue

Revenue for the twelve-month period ended December 31, 2008 was $182.6 million compared with $187.6 million for the twelve-month period ended December 31, 2007, a decrease of $5.0 million or 2.7%. The decrease is mainly attributable to lower sales in the United States offset by higher sales in Canada.

Sales revenue in Canada increased by $4.3 million or 2.6%, from $164.2 million to $168.5 million, and sales revenue in the United States decreased by $9.3 million or 39.7%, from $23.4 million to $14.1 million.

The increase in sales revenue in Canada was due mainly to the contribution of activities acquired in fiscal 2008. This increase was partially offset by the softness of the market and the economy in general, resulting in a net increase of 1.7%.

The decrease in sales revenue in the United States was due to a 48.7% decrease in the number of units sold, partially offset by a 17.0% increase in the average selling price considering the product mix and the strengthening of the Canadian dollar of 0.7%. The softness of the US market and the reduction of sales to Cenveo were the principal factors affecting sales in the United States.

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, 2008 was $138.2 million compared with $142.2 million for the twelve-month period ended December 31, 2007, a decrease of $4.0 million or 2.8%.

Cost of goods sold for the twelve-month period ended December 31, 2008 was $119.7 million compared with $123.3 million for the same period in 2007, a decrease of $3.6 million or 2.9%. The decrease results from the variation in volume sold offset by the increased cost of raw materials.

Gross profit (revenue less cost of goods sold excluding amortization of property, plant and equipment) was $62.9 million for the twelve-month period ended December 31, 2008 compared with gross profit of $64.3 million for the comparable period in 2007, a decrease of $1.4 million or 2.2%. As a percentage of sales, gross profit increased by 0.1% in 2008 compared with 2007.

Selling, general and administrative expenses were $18.5 million for the twelve-month period ended December 31, 2008 compared with $18.9 million for the same period in 2007, a decrease of $0.4 million or 2.1%. The decrease is mainly attributable to lower capital tax expense and reduction in labour costs offset by bad debt expense.

Adjusted EBITDA

As a result of the changes described above, Adjusted EBITDA was $44.3 million for the twelve-month period ended December 31, 2008 compared with $45.4 million for the same period in 2007, a decrease of $1.1 million or 2.4%.

Non-recurring item

Restructuring expenses are related to the planned integration and restructuring of NPG and Montreal following their acquisition. Any costs incurred relating to employees and facilities previously part of the Fund are charged to restructuring expenses as incurred.

EBITDA

As a result of the changes described above, EBITDA was $43.6 million for the twelve-month period ended December 31, 2008 compared with $45.0 million for the same period in 2007, a decrease of $1.4 million or 3.1%.

Amortization

Aggregate amortization expense for the twelve months ended December 31, 2008 amounted to $16.6 million compared with $15.4 million for the same period in 2007, an increase of $1.2 million or 7.8%. This increase is attributable to the additional amortization of property, plant and equipment following the acquisitions including the write-down of $0.4 million on the Hamilton building and the additional amortization of intangible assets following the Montreal acquisition.

Impairment of goodwill

An impairment of goodwill charge has been recorded in the amount of $147.8 million. In addition, an impairment of intangible assets related to the customer relationship with Cenveo in the amount of $0.5 million has also been recorded.

Net financing charges

Net financing charges amounted to $6.0 million for the twelve months ended December 31, 2008 compared with $4.5 million for the same period in 2007, an increase of $1.5 million or 33.3%, mainly related to the financing of acquisitions and the purchase of Fund units for cancellation.

(Loss) earnings before income taxes

Due to the changes in revenue and expenses described herein, loss before income taxes was $127.3 million for the twelve months ended December 31, 2008 compared with earnings before income taxes of $25.0 million for the same period in 2007, a decrease of $152.3 million.

Income taxes recovery

During the twelve months ended December 31, 2008, the Fund recorded income taxes recovery of $4.6 million. Income taxes recovery takes into consideration, in addition to income taxes recovery of $40.1 million at the statutory rate, a reduction of $10.8 million attributable to the impact of interest income earned by the Fund and paid by Supremex. This recovery was partially offset by an amount of $43.5 million related to the impairment of goodwill not deductible for tax purposes and an amount of $2.8 million mainly related to the non-deductible amortization of deferred compensation, the impact of a change in the enacted tax rate and other non-deductible expenses.

Net (loss) earnings

As a result of the changes described above, a $122.7 million loss was recognized for the twelve-month period ended December 31, 2008 compared to earnings of $28.7 million for the same period in 2007, a decrease of $151.4 million.

Segmented Information

The Fund currently operates in one business segment; the manufacture and sale of envelopes. The Fund's net assets amounted to $109.0 million in Canada and $1.3 million in the United States as at December 31, 2008.

In Canada, the Fund's revenue amounted to $44.8 million and $168.5 million for the three and twelve-month periods ended December 31, 2008 compared with $45.2 million and $164.2 million for the same periods in 2007, respectively a decrease of $0.4 million, or 0.9%, and an increase of $4.3 million, or 2.6%. In the United States, the Fund's revenue amounted to $3.7 million and $14.1 million for the three and twelve-month periods ended December 31, 2008 compared with $4.5 million and $23.4 million for the same periods in 2007, respectively a decrease of $0.8 million or 17.8% and $9.3 million, or 39.7%.

Liquidity and Capital Resources

Cash flows from operating activities were $44.7 million for the twelve-month period ended December 31, 2008, primarily attributable to non-cash items including impairment of goodwill and various amortization charges offset by the loss generated in the period and future income taxes recovery.

Cash flows used in investing activities, amounting to $14.9 million for the twelve-month period ended December 31, 2008, are attributable to the acquisition of Montreal and to net additions to property, plant and equipment.

Cash flows used in financing activities were $25.3 million for the twelve-month period ended December 31, 2008, mainly related to the distribution paid on Fund units and the purchase of Fund units for cancellation offset by the amount drawn on the revolving credit facility.

The Fund is still generating a lot of free cash flow per year, before distributions. The reduction in distributions will allow the Fund to reduce its debt significantly over the next few years. The Fund has tax losses that can be used to reduce income tax that would otherwise be payable.

Contractual Obligations

The following chart outlines the Fund's contractual obligations as at December 31, 2008.

(In thousands of dollars)

		Payments due by fiscal year		
	Total	**2009**	**2010**	**2011 and thereafter**
Secured credit facilities	**111,000**	—	111,000	—
Operating leases	**7,252**	2,116	1,779	3,357
Total	**118,252**	2,116	112,779	3,357

Financing

During the third quarter of 2008, Supremex obtained an increase of $5.0 million in the amount available from the existing revolving credit facility.

Supremex has senior secured credit facilities consisting of a revolving operating credit facility of up to $45 million and a term credit facility of $75 million. As at December 31, 2008, Supremex had drawn $75 million on the term credit facility and $36 million on the revolving credit facility.

The revolving credit facility may be used for general corporate purposes, working capital requirements and permitted acquisitions. Both facilities mature on March 31, 2010 and no scheduled repayments of principal are required prior to maturity.

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, 2008, interest rates on the revolving and term credit facilities were 3.39% and 2.97% respectively. The Fund was in compliance with the covenants of its credit facilities as at December 31, 2008.

On April 3, 2006, the Fund entered into an interest rate swap agreement for the full amount of its term credit facility to pay a fixed rate of 5.426% until March 31, 2007, 5.538% from April 1, 2007 to March 31, 2008, 5.991% from April 1, 2008 to March 31, 2009 and 6.192% from April 1, 2009 to March 31, 2010. This interest rate swap was designated as a cash flow hedge against the fluctuation in interest expense due to changes in the interest rate of its variable interest term credit facility.

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

In the fourth quarter of 2008, the reduction of the interest rate did not have a significant impact on the cost of financing because the Fund had entered into a four-year interest rate SWAP agreement on its term credit facility in March 2006. However, the Fund benefited from the rate reduction on the revolving credit facility during the quarter. The Fund's credit facilities mature in March 2010. These credit facilities are syndicated with six major Canadian banks. The Fund expects to renew these facilities in the second half of 2009 and is also exploring financing alternatives. Given the current credit market, the Fund would likely have to pay a higher applicable margin, but LIBOR and banker's acceptance rates have decreased significantly, which overall leaves the total cost of financing about what the Fund has been paying for the last three years.

Capitalization

The following sets forth the capitalization of the Fund as at February 17, 2009:

	# issued	Amounts ($)
Units issued	29,297,767	282,798,322
Deferred compensation	—	(6,454,110)
	29,297,767	276,344,212

Units issued at the time of the initial public offering include 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. As these units vest over four years, subject to earlier vesting, the unamortized value of such units as at December 31, 2008, amounting to $6,454,110, is recorded as deferred compensation and is recorded as compensation expense over the vesting period. Employees are 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.

Pursuant to the normal course issuer bid (NCIB) which began on November 8, 2007, the Fund could have purchased for cancellation 2,000,000 units until November 7, 2008. During the first quarter of 2008, the Fund purchased for cancellation 256,500 units at prices ranging from $5.60 to $5.80 per unit and thus completed its normal course issuer bid.

On November 18, 2008, the Fund announced its intention to renew its NCIB and purchase for cancellation a number of its units through the facilities of the Toronto Stock Exchange, beginning November 21, 2008 and ending November 20, 2009.

Under the NCIB, the Fund could repurchase for cancellation up to 1,800,000 units. This represents approximately 9.4% of its public float of 19,077,367 units as of November 18, 2008. As at the same date, 29,311,667 units were outstanding. The average daily trading volume of the Fund's units over the six most recently completed calendar months was 40,651. Accordingly, the Fund is entitled to purchase up to 10,162 units on any trading day. The cash consideration that the Fund will pay for any units acquired by it under the NCIB will be the market price of such Units at the time of the acquisition. Up to December 31, 2008, the Fund purchased for cancellation 13,900 units at an average price of $3.63 for a total of $50,482.

Financial Instruments

Interest rate and foreign exchange risk

The Fund's credit facilities bear interest at a floating rate which give rises to the risk that its earnings and cash flows may be adversely impacted by fluctuations in interest rates. On April 3, 2006, the Fund entered into an interest rate swap agreement for the full amount of its term credit facility to pay a fixed rate of 5.426% until March 31, 2007, 5.538% from April 1, 2007 to March 31, 2008, 5.991% from April 1, 2008 to March 31, 2009 and 6.192% from April 1, 2009 to March 31, 2010. This interest rate swap was designated as a cash flow hedge against the fluctuation in interest expense due to changes in the interest rate of its variable interest term credit facility.

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 in 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 21 to the Fund's audited consolidated financial statements for the year ended December 31, 2008.

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, 2008 $	December 31, 2007 $
Working capital	**19,042**	22,161
Total assets	**262,669**	404,780
Total secured credit facilities	**110,752**	100,588
Unitholders' equity	**110,298**	264,802

Following the Montreal acquisition, the Fund has secured an additional $5 million of revolving credit facility from the $15 million accordion previously allowed by the banking syndicate. As a result, the Fund has senior secured credit facilities consisting of a revolving credit facility of up to $45 million and a term credit facility of $75 million. The Fund was in compliance with the covenants of its credit facilities as at December 31, 2008.

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, 2008, 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, 2008 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 assets. 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, 2008.

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, 2008, 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 slowdown and the recently increased cost of capital. The Fund concluded that its carrying value was greater than its estimated fair value and recorded a goodwill impairment charge of $147.8 million.

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 (loss) earnings are translated at the exchange rates in effect at the transaction date. Exchange gains and losses are included in net loss 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 (loss) earnings in the period 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.

The Fund is contractually committed to distribute to its unitholders all or virtually all taxable income and taxable capital gains that would otherwise be taxable in the Fund. The Fund intends to continue to meet *Income Tax Act* (Canada) requirements applicable to such trusts, and there is no indication that the Fund will fail to meet those requirements.

On October 31, 2006, the Minister of Finance (Canada) announced proposed changes to the taxation of publicly traded income trusts. The changes were enacted in 2007 and will result in the taxation, at the rate of 29.5%, of distributions made by the Fund beginning in 2011.

Employee future benefits

The Fund maintains three registered defined benefit pension plans covering substantially 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, 2006 for two plans, and on December 31, 2005 for the other. The Fund expects to perform actuarial valuations every three years.

Financial instruments

The Fund uses interest rate swaps to hedge interest rate exposures on the term credit facility. The Fund's objective is to offset gains and losses resulting from interest rate exposure with losses and gains on the derivative contracts used to hedge it. The Fund does not use derivative contracts for speculative purposes. To qualify as a hedge, the hedge relationship is designated and formally documented at inception detailing the particular risk management objective and strategy for the hedge, which includes the item and risk being hedged, as well as how effectiveness is assessed. The derivative used must be highly effective in accomplishing the objective of offsetting either changes in fair value or cash flows for the risk being hedged. If a hedge relationship is found to be ineffective, it no longer qualifies as a hedge and any excess gain or loss attributable to such ineffectiveness, as well as subsequent changes in fair value, are recognized in the results.

The Fund has designated its interest rate swap on its variable interest term credit facility as a hedge against fluctuations in interest expense due to changes in the interest rate. Accordingly, the fair value of this financial instrument and any changes thereto are recorded in the consolidated financial statements. These derivatives are marked-to-market at each period end and resulting gains or losses are recognized in comprehensive (loss) income to the extent the hedging relationship is effective.

Recent Accounting Pronouncements

Adopted in 2008

On January 1, 2008, the Fund adopted retroactively, without restating prior year figures, the following new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA"):

Section 1535, *Capital Disclosures*, establishes standards for disclosing information about an entity's capital and how it is managed. These standards require an entity to disclose the following:

- Its objectives, policies and processes for managing capital;
- Summary quantitative data about what it manages as capital;
- Whether during the period it complied with any externally imposed capital requirements to which it is subject;

- When the entity has not complied with such requirements, the consequences of such non-compliance.

Section 3862, *Financial Instruments – Disclosures*, modifies the disclosure requirements for financial instruments that were included in Section 3861 *"Financial Instruments - Disclosure and Presentation"*. The new standards require entities to provide disclosures in their financial statements that enable users to evaluate:

- The significance of financial instruments for the entity's financial position and performance;
- The nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks.

Section 3863, *Financial Instruments –Presentation*, carries forward unchanged the presentation requirements of the old Section 3861 *"Financial Instruments – Disclosure and Presentation"*.

Section 3031, *Inventories*, prescribes measurement of inventories at the lower of cost and net realizable value. It provides guidance on the determination of cost, allows the use of the retail method, prohibits use in the future of the last-in, first-out (LIFO) method, and requires reversal of previous write-downs when there is a subsequent increase in the value of inventories. It also requires greater disclosure regarding inventories and the cost of sales.

Section 1400, "*General Standards of Financial Statement Presentation*" provides additional guidance related to management's assessment of the Fund's ability to continue as a going concern.

Recently issued

In February 2008, CICA announced that Canadian public companies will 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 is developing a plan to convert its consolidated financial statements to IFRS. The plan will address the impact IFRS has on:

- accounting policies and implementation decisions;
- information technology and data systems;
- financial statement presentation and disclosure options available upon initial changeover to IFRS;
- internal controls over financial reporting;
- disclosure controls and procedures; and
- business activities, including impact on debt covenants.

The Fund is currently in the process of assessing the preliminary differences between IFRS and the Fund's current accounting policies, as well as the alternatives available upon adoption, and has not quantified the effect of adopting IFRS on its financial statements, systems and business activities. This will be an ongoing process as the IASB and the Accounting Standards Board issue new standards and recommendations in the coming months. We will focus our efforts on completing the identification of the key impact areas including the effect on information technology and data systems, internal controls and financial reporting and disclosure controls.

In February 2008, CICA *Handbook* Section 3064, *Goodwill and Intangible Assets*, replaces Section 3062, *Goodwill and Other Intangible Assets*, and Section 3450, *Research and Development Costs*. It establishes financial reporting for recognition, measurement, presentation and disclosure of goodwill and intangible assets. This standard applies to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Fund will adopt this new section for its fiscal year beginning January 1, 2009. The Fund is currently assessing the impact of the adoption of this standard on the consolidated financial statements.

Risk Factors

The results of operations, business prospects and financial condition of Supremex are subject to a number of risks and uncertainties, and are affected by a number of factors outside the control of Supremex's management.

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, the volume affected is primarily direct mail volume. There is a direct correlation between growth in the gross domestic product and direct mail volume. In current economic conditions, we expect direct mail volume to decline. For Supremex, the impact is mitigated as direct mail represents approximately 20% of the total annual volume. For transactional mail, which represents about 50% of annual volume, economic cycles have less impact as businesses still have to send bills to their customers. But, for many years, transactional volume has been declining by 1% to 4% a year. In contrast to other markets, we do not foresee a significant reduction in transactional mail volume and past trends should prevail. The Fund is a leader in its market, with a solidly diversified customer base and long-standing relationships with a number of key customers.

Availability of capital

The acquisitions contemplated by the Fund will require additional financing. The global financial market crisis and the anticipated 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.

Credit facilities totalling $120 million are maturing in March 2010 of which an amount of $111 million was used at the end of fiscal 2008. The Fund expects to renew these facilities in the second half of 2009 but is also examining financing alternatives to ensure adequate capital is available upon maturity and to finance future capital requirements. At this time, we believe sufficient capital will be available. However, the cost of this capital is unknown. We expect credit spreads to be much higher but benchmark rates should be lower, resulting in a total cost of capital similar to what has been paid by the Fund in the last three years.

Decline in Envelope Consumption

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

The North American envelope manufacturing and mailing industries are not expected to grow at all 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 direct mail industry has been experiencing growth in envelope volumes which has partially offset declines in the transactional mail industry in the past years, there is no assurance that the direct mail industry will grow in the future and sufficiently offset any declines in transactional mail. The direct mail sector is not forecasted to grow in 2009. 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 8% 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 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.

Competition

Despite Supremex's leading market position in Canada, new entrants in 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 2008. 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, which we expect through 2009, we will experience pricing pressure in the Canadian market. This phenomenon has been amplified since April 2008, which coincided with the termination of the non-solicitation agreement with Cenveo. In August 2007, Cenveo purchased one of the largest US envelope manufacturers (Commercial Envelope) which gave Cenveo the capacity they were lacking in the Northeastern US market. This transaction was finalized just before the US market slowdown, stemming mainly from the reduction in direct mail purchased by the US banking system for credit card solicitation. These two factors resulted in excess capacity for Cenveo, which they are trying to sell in the Canadian market. The recent weakness in the Canadian dollar will make it more difficult for Cenveo to export profitably to the Canadian market. The cost of freight coupled with the efficiency of delivery are barriers to servicing any significant customer volume from a distance.

Nonetheless, to mitigate this risk, the Fund continues to focus on continuous improvement programs, cost reduction initiatives and the development of value-added services and products around its core businesses and it 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 two years: due to lower sales volume, revenue generated in the United States represented 7.7% of consolidated revenue in fiscal 2008, down from 12.5% in fiscal 2007, while US dollar purchases have risen over the last two years as most of our large suppliers are US-based. Late in 2008, the sharp decrease of the Canadian dollar compared with the US dollar resulted in an increase in our net raw material costs, which should be passed on to our customers over time.

Raw Materials Increases

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

First, the current tightening in the paper market, due to paper mill closures, has resulted in a decrease in the supply of paper which could in turn lead to paper price increases. While paper costs are generally a pass through, an increase in the price of paper can have a negative effect on our operations if it changes the purchasing habits of our customers. 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.

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 8% 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 very low given the nature of the customers. As at December 31, 2008, the maximum credit risk exposure for receivables corresponds to their carrying value.

Pension Plans

Pension funding is based on actuarial estimates and is subject to limitations under applicable income tax and other regulations. Actuarial estimates prepared during the year were based on assumptions related to projected employee compensation levels to retirement and the anticipated long-term rate of return on pension plan assets. Accrued benefit obligations, fair value of plan assets and plan asset composition are measured at the date of the annual financial statements. The most recent actuarial valuation for one pension plan for funding purposes was made as at December 31, 2005 for which the next required valuation will be performed as of December 31, 2008. The most recent actuarial valuation for the other two pension plans for funding purposes was made as at December 31, 2006 for which the next required valuation will be as of December 31, 2009, at the latest. The actuarial funding valuation report determines the amount of cash the Fund is required to contribute to the registered retirement plans. The last funding report showed the registered retirement plans to be in a solvency surplus position. As the pension fund assets consist of a mix of bonds and equities, recent market conditions have reduced the market value of pension fund assets. This reduced level of pension fund assets will likely require the Fund to increase its cash funding contributions. As at December 31, 2007, the Fund had close to $70 million in assets and a surplus of approximately $500,000. With the market decrease in 2008, we expect a negative return on assets in the range of approximately 15%, thus resulting in a decrease of the pension assets value of approximately $10 million. With the proposed new federal and provincial legislation, the period to refund the deficit is extended from five years to ten years, representing a potential additional annual cash contribution to the pension plans of up to $1.5 million per year. The Fund has the financial flexibility due to cash flow generated from operations to pay this potential additional annual contribution.

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 2008, the floating-rate portion of the Fund's long-term debt represented 32% of total long-term debt, while the fixed-rate portion represented 68% in view of the the interest rate swap. The floating-rate portion of long-term debt increased in the past two years following the two acquisitions and the normal course issuer bid. Floating-rate debt bears interest rates based on bankers' acceptance. The Fund was party to an interest rate swap of $75 million on its term credit facility to mitigate this risk. This swap converts the variable interest rate, based on bankers' acceptance rate, to an average fixed interest rate of 5.991% until March 31, 2009 and 6.192% from April 1, 2009 to March 31, 2010, including an applicable margin.

To mitigate this risk the Fund tries to keep 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 remain fairly low in fiscal 2009.

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.

One of the predecessor companies of Supremex could be a the target of a potential inquiry by the Competition Bureau with respect to alleged price maintenance offences under Section 61 of the *Competition Act* and management understands that Supremex may become the subject of further inquiries by the Competition Bureau regarding price fixing or market sharing activities in connection with the sale of envelopes, contrary to Section 45 of the *Competition Act*.

If Supremex is found guilty of the alleged price maintenance offences under Section 61 of the *Competition Act* or as a result of any inquiry into price fixing or market sharing activities contrary to Section 45 of the *Competition Act*, the resulting fines and negative publicity could be substantial and could have a material adverse effect on the business, results of operation and financial condition of Supremex, and on cash available for distributions. In addition, Supremex could be the target of class action lawsuits in such circumstances.

Forward-Looking Statements

This MD&A contains forward-looking statements relating to the future performance of the Fund. A statement is forward-looking when it uses what the Fund 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 ability 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 the Fund as at the date of this document.

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. Consequently, we cannot guarantee that any forward-looking statements will materialize. Such assumptions, expectations, estimates, risks and uncertainties are discussed throughout our MD&A for the fiscal year 2008 and, in particular, in “Risk Factors”. Consequently, readers should not place any undue reliance on such forward-looking statements. The Fund 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, Adjusted EBITDA, Distributable Cash and Non-GAAP Measures

References to “EBITDA” are to (loss) earnings before net financing charges, income taxes, amortization of property, plant and equipment, intangible assets, deferred compensation, impairment of goodwill and loss on disposal of machinery and equipment.

“Adjusted EBITDA” is EBITDA adjusted to take into consideration the restructuring expenses.

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 distributes substantially all of its cash on an on-going basis and since EBITDA and Adjusted EBITDA are metrics 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 (loss) earnings, EBITDA and Adjusted EBITDA are useful supplementary measures from which to make adjustments to determine distributable cash.

EBITDA, Adjusted EBITDA and Distributable cash are not earnings measures recognized under GAAP and do not have standardized meanings prescribed by GAAP. Therefore, EBITDA, Adjusted EBITDA and Distributable cash may not be comparable to similar measures presented by other entities. Investors are cautioned that EBITDA, Adjusted EBITDA and Distributable cash should not be construed as an alternative to net (loss) 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, 2008 and 2007

All amounts expressed in Canadian dollars

AUDITORS' REPORT

To the Unitholders of
Supremex Income Fund

We have audited the consolidated balance sheets of **Supremex Income Fund** [the "Fund"] as at December 31, 2008 and 2007 and the consolidated statements of (loss) earnings and deficit, cash flows and comprehensive (loss) income for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2008 and 2007 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

Montréal, Canada
February 6, 2009

[1] CA auditor permit No. 11782

Supremex Income Fund

CONSOLIDATED BALANCE SHEETS

As at December 31	**2008** **$**	**2007** **$**
ASSETS ***[note 13]***		
Current		
Cash	**4,989,775**	442,509
Accounts receivable *[note 5]*	**24,949,289**	27,947,811
Income taxes receivable	**16,654**	462
Inventories *[note 6]*	**17,327,065**	15,575,227
Prepaid expenses	**1,211,788**	1,808,112
Future income tax *[note 14]*	**1,133,356**	—
Total current assets	**49,627,927**	45,774,121
Property, plant and equipment, net *[note 7]*	**44,620,759**	46,450,563
Accrued pension benefit asset *[note 8]*	**4,973,900**	5,286,000
Intangible assets, net *[notes 9 and 10]*	**45,090,729**	50,054,657
Goodwill *[notes 2 and 10]*	**118,356,050**	257,215,080
	262,669,365	404,780,421
LIABILITIES AND UNITHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities *[note 11]*	**23,610,131**	19,474,707
Accrued restructuring provision *[note 12]*	**1,327,080**	1,042,136
Distribution payable *[note 17]*	**2,806,726**	2,832,630
Current portion of derivative liability *[note 21]*	**2,842,065**	263,306
Total current liabilities	**30,586,002**	23,612,779
Secured credit facilities *[note 13]*	**110,751,797**	100,588,056
Future income tax *[note 14]*	**9,470,216**	14,341,083
Derivative liability *[note 21]*	**701,913**	520,395
Other post-retirement benefits obligation *[note 8]*	**861,700**	916,600
Unitholders' equity		
Fund units *[note 15]*	**282,798,322**	285,408,373
Contributed surplus *[note 16]*	**7,625,424**	6,525,689
Deferred compensation *[note 15]*	**(6,454,110)**	(11,899,000)
Deficit	**(171,091,173)**	(14,662,862)
Accumulated other comprehensive loss *[note 18]*	**(2,580,726)**	(570,692)
	110,297,737	264,801,508
	262,669,365	404,780,421

Commitments, contingencies and guarantees *[note 19]*

See accompanying notes

On behalf of the Trustees:

By: (Signed) L.G. Serge Gadbois — Trustee

By: (Signed) Gilles Cyr — Trustee

Supremex Income Fund

CONSOLIDATED STATEMENTS OF (LOSS) EARNINGS AND DEFICIT

Years ended December 31

	2008 $	2007 $
Revenue	**182,552,864**	187,561,997
Cost of good sold, selling, general and administrative expenses	**138,213,571**	142,172,772
Earnings before the following	**44,339,293**	45,389,225
Amortization of property, plant and equipment	**5,088,712**	4,214,698
Amortization of intangible assets	**6,059,233**	5,782,375
Amortization of deferred compensation	**5,444,890**	5,367,761
Impairment of goodwill *[note 10]*	**148,274,695**	—
Loss on disposal of property, plant and equipment	**148,300**	49,444
Net financing charges *[note 13]*	**5,960,478**	4,507,388
Restructuring expenses *[note 12]*	**698,748**	418,635
	171,675,056	20,340,301
(Loss) earnings before income taxes	**(127,335,763)**	25,048,924
Income taxes recovery *[note 14]*	**(4,647,890)**	(3,664,330)
Net (loss) earnings	**(122,687,873)**	28,713,254
Deficit, beginning of year	**(14,662,862)**	(7,565,709)
Distribution declared *[note 17]*	**(33,740,438)**	(35,810,407)
Deficit, end of year	**(171,091,173)**	(14,662,862)
Basic net (loss) earnings per unit	**(4.1782)**	0.9198
Weighted average number of units outstanding	**29,363,615**	31,216,108

See accompanying notes

Supremex Income Fund

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31

	2008 $	2007 $
OPERATING ACTIVITIES		
Net (loss) earnings	**(122,687,873)**	28,713,254
Items not affecting cash and cash equivalents		
Amortization of property, plant and equipment	**5,088,712**	4,214,698
Amortization of intangible assets	**6,059,233**	5,782,375
Amortization of deferred compensation	**5,444,890**	5,367,761
Amortization of deferred financing costs	**175,426**	148,185
Impairment of goodwill *[note 10]*	**148,274,695**	—
Loss on disposal of property, plant and equipment	**148,300**	49,444
Future income taxes recovery	**(4,651,823)**	(3,692,863)
Change in post-retirement benefits obligation	**(135,800)**	(98,100)
Change in accrued pension benefit assets	**312,100**	437,700
Net change in non-cash working capital balances	**6,666,069**	(1,497,324)
Cash flows related to operating activities	**44,693,929**	39,425,130
INVESTING ACTIVITIES		
Business acquisitions, net of cash acquired *[note 2]*	**(13,398,411)**	(25,437,582)
Additions to property, plant and equipment	**(3,937,943)**	(2,253,687)
Proceeds from disposal of property, plant and equipment	**2,478,034**	387,127
Cash flows related to investing activities	**(14,858,320)**	(27,304,142)
FINANCING ACTIVITIES		
Purchase of Fund units for cancellation	**(1,510,316)**	(10,303,543)
Revolving credit facility	**10,043,049**	25,956,951
Distributions paid on Fund units	**(33,766,342)**	(35,977,435)
Financing costs incurred	**(54,734)**	(96,966)
Repayment of amounts payable to Cenveo	—	(5,509,045)
Cash flows related to financing activities	**(25,288,343)**	(25,930,038)
Net change in cash and cash equivalents	**4,547,266**	(13,809,050)
Cash and cash equivalents, beginning of year	**442,509**	14,251,559
Cash and cash equivalents, ending of year	**4,989,775**	442,509
Supplemental information		
Interest paid	**5,325,336**	5,035,218
Income taxes paid	**—**	330,363

See accompanying notes

Supremex Income Fund

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

Years ended December 31

	2008 $	2007 $
Net (loss) earnings	**(122,687,873)**	28,713,254
Other comprehensive (loss) income		
Change in fair value of derivative designated as cash flow hedge net of income taxes	**(2,400,034)**	172,501
Reclassification adjustment for loss (gain) on derivative designated as cash flow hedge transferred to net (loss) earnings net of income taxes	**390,000**	(113,782)
Comprehensive (loss) income	**(124,697,907)**	28,771,973

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 highest number of mailings related to events including the return to school, fund-raising and the holiday and tax seasons occurs during that period.

2. BUSINESS ACQUISITIONS

On September 16, 2008, the Fund acquired substantially all the assets of Montreal Envelope ("Montreal") for $13.2 million, subject to a working capital adjustment. The cash payment was funded with funds raised from the existing revolving credit facility.

On August 9, 2007, the Fund also acquired substantially all the assets of NPG Envelope ("NPG") for $25.6 million. The cash payment was funded with a combination of funds raised from the existing revolving credit facility and cash on hand.

The acquisitions have been accounted using the purchase method with operating results included in the Fund's (loss) earnings from the date of acquisition. The purchase price allocation, which is preliminary for Montreal, is as follows:

	Montreal 2008 $	**NPG 2007 $**
Accounts receivable	1,731,851	3,597,155
Inventories	1,589,619	2,079,691
Prepaid expenses	52,823	7,131
Property, plant and equipment	1,947,299	6,984,638
Future income tax assets	231,129	892,612
Intangible assets	1,570,000	3,849,000
Goodwill	7,931,936	13,160,393
Accounts payable and accrued liabilities	(1,053,082)	(1,686,067)
Accrued restructuring provision	(769,463)	(3,005,578)
Post-retirement benefits obligation	(80,900)	(278,500)
Net assets acquired	13,151,212	25,600,475
Consideration		
Cash	13,235,518	25,452,566
Balance of sale (receivable) payable	(84,306)	147,909

2. BUSINESS ACQUISITIONS [Cont'd]

Estimated liabilities of $769,463 have been included in the preliminary purchase price allocation of Montreal, relating to estimated costs associated with severance and 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 (loss) earnings per unit

Net (loss) earnings per unit are calculated by dividing net (loss) 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.

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

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.

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.

Deferred financing costs

Financing costs related to secured credit facilities are capitalized and amortized on a straight-line basis over the four-year term of the secured credit facilities.

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 mainly of customer relationships and non-compete agreements which are amortized on a straight-line basis over ten years.

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

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.

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 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, that cover substantially all of its employees. In addition, the Fund had a defined contribution plan which was terminated in 2008. 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.

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

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, 2006 for two plans and on December 31, 2005 for the other. The Fund expects to perform actuarial valuations every three years.

Past service costs are amortized on a straight-line basis over the remaining service period of active employees ("EARSL"), which is between 12 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 (loss) earnings in the period 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. The Fund intends to continue to meet the requirements under the *Income Tax Act* (Canada) applicable to such trusts, and there is no indication that the Fund will fail to meet those requirements.

On October 31, 2006, the Minister of Finance (Canada) announced proposed changes to the taxation of publicly traded income trusts. The changes were enacted in 2007 and will result in the taxation, at the rate of 29.5%, of distributions made by the Fund beginning in 2011. The impact of the legislation has been taken into consideration in the year-end review for impairment of goodwill.

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

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 (loss) earnings are translated at the exchange rates in effect at the date of transaction. Exchange gains and losses are included in net (loss) earnings for the year.

Financial instruments

The Fund uses an interest rate swap to hedge interest rate exposure. The Fund's objective is to offset gains and losses resulting from interest rate exposure with losses and gains on the derivative contract used to hedge it. The Fund does not use derivative contracts for speculative purposes. To qualify as a hedge, the hedge relationship is designated and formally documented at inception detailing the particular risk management objective and strategy for the hedge, which includes the item and risk being hedged, as well as how effectiveness is assessed. The derivative used must be highly effective in accomplishing the objective of offsetting changes in cash flows for the risk being hedged. If a hedge relationship is found to be ineffective, it no longer qualifies as a hedge and any excess gain or loss attributable to such ineffectiveness, as well as subsequent changes in fair value, are recognized in (loss) earnings for the year.

The Fund has designated its interest rate swap on its variable interest term credit facility as a hedge against the fluctuation in interest expense due to changes in the interest rate. Accordingly, the fair value of this financial instrument and any changes thereto are recorded in the consolidated financial statements. Gains and losses are recognized in comprehensive (loss) income to the extent that the hedging relationship is effective.

The fair value of this financial instrument is disclosed in note 21. Such fair value estimates are not necessarily indicative of the amounts the Fund might pay or receive in actual market transactions. Potential transaction costs have also not been considered in estimating fair value.

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 period 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.

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

- Accounts payable and accrued liabilities, accrued restructuring provision, distribution payable, credit facilities and other post-retirement benefits obligation 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 income (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 financial expenses related to long-term debt are classified as reduction of long-term debt and amortized using the effective rate method.

4. NEW ACCOUNTING POLICIES

Adopted in 2008

On January 1, 2008, the Fund adopted retroactively, without restating prior year figures, the following new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA"):

Section 1535 *"Capital Disclosures"* establishes standards for disclosing information about an entity's capital and how it is managed. These standards require an entity to disclose the following:

- Its objectives, policies and processes for managing capital;
- Summary quantitative data about what it manages as capital;
- Whether during the period it complied with any externally imposed capital requirements to which it is subject;
- When the entity has not complied with such requirements, the consequences of such non-compliance.

Section 3862 *"Financial Instruments - Disclosures"* modifies the disclosure requirements for financial instruments that were included in Section 3861 *"Financial Instruments - Disclosure and Presentation"*. The new standards require entities to provide disclosures in their financial statements that enable users to evaluate:

- The significance of financial instruments for the entity's financial position and performance;
- The nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks.

4. NEW ACCOUNTING POLICIES [Cont'd]

Section 3863 *"Financial Instruments – Presentation"* carries forward unchanged the presentation requirements of the old Section 3861 *"Financial Instruments – Disclosure and Presentation"*.

Section 3031 "*Inventories*" prescribes measurement of inventories at the lower of cost and net realizable value. It provides guidance on the determination of cost, allows the use of the retail method, prohibits use in the future of the last-in, first-out (LIFO) method, and requires reversal of previous write-downs when there is a subsequent increase in the value of inventories. It also requires greater disclosure regarding inventories and the cost of sales.

Section 1400 *"General Standards of Financial Statement Presentation"* provides additional guidance related to management's assessment of the Fund's ability to continue as a going concern.

The adoption of these guidelines did not have any material effect on the Fund's results, financial position or cash flows.

In February 2008, CICA *Handbook* Section 3064, *Goodwill and Intangible Assets*, replaces Section 3062, *Goodwill and Other Intangible Assets*, and Section 3450, *Research and Development Costs*. It establishes financial reporting for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. This standard applies to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Fund will adopt this new section for its fiscal year beginning January 1, 2009. The Fund is currently assessing the impact of the adoption of this standard on the consolidated financial statements.

5. ACCOUNTS RECEIVABLE

	2008 **$**	**2007** **$**
Trade receivables	**23,224,711**	22,124,762
Others	**1,640,272**	1,534,992
Balance of sale receivable *[note 2]*	**84,306**	—
Receivable from Cenveo	—	4,288,057
	24,949,289	27,947,811

6. INVENTORIES

	2008 $	2007 $
Raw materials	**4,456,695**	4,034,804
Work in process	**359,069**	160,868
Finished goods	**12,511,301**	11,379,555
	17,327,065	15,575,227

The cost of inventories recognized as an expense in 2008 is $124,477,093 [2007 – $127,233,908).

7. PROPERTY, PLANT AND EQUIPMENT

	Cost $	Accumulated Amortization $	Net book value $
2008			
Land	**7,517,895**	—	**7,517,895**
Buildings and building improvements	**12,611,712**	**1,004,375**	**11,607,337**
Leasehold improvements	**861,814**	**289,125**	**572,689**
Machinery and equipment	**33,657,988**	**9,046,161**	**24,611,827**
Office equipment	**303,433**	**182,278**	**121,155**
Computer equipment	**642,014**	**452,158**	**189,856**
	55,594,856	**10,974,097**	**44,620,759**

	Cost $	Accumulated Amortization $	Net book value $
2007			
Land	7,917,895	—	7,917,895
Buildings and building improvements	12,920,960	642,348	12,278,612
Leasehold improvements	614,816	157,808	457,008
Machinery and equipment	30,950,164	5,639,741	25,310,423
Office equipment	255,000	105,871	149,129
Computer equipment	586,472	248,976	337,496
	53,245,307	6,794,744	46,450,563

8. POST-RETIREMENT BENEFITS OBLIGATION

(a) Pension Plans

The Fund maintains three defined benefit pension plans covering certain salaried and hourly employees who have bargained for such benefits. Two of these pension plans are hybrid because they also have a defined contribution component. In addition, the Fund had a defined contribution plan related to NPG which has been terminated in 2008.

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

	2008	**2007**
	$	**$**
Defined benefit plans		
Current service costs	**2,959,800**	3,268,500
Past service costs	—	246,600
Interest expense	**3,817,300**	3,532,900
Actual return on plan assets	**9,314,400**	132,400
Actuarial gain on benefit obligation	**(16,390,100)**	(1,939,700)
Difference between expected return and actual return on plan assets for the year	**(13,993,100)**	(5,061,100)
Difference between actuarial gain recognized for the year and actual actuarial gain on benefit obligation for the year	**16,390,100**	1,939,700
Difference between amortization of past service costs for the year and actual plan amendments for the year	**21,100**	(225,500)
Defined benefit plans expense	**2,119,500**	1,893,800
Defined contribution plan expense	**484,000**	474,000
Pension plans expense	**2,603,500**	2,367,800

Total cash payments contributed by the Fund for its defined benefit and defined contribution plans were approximately $2,158,000 (2007 - $2,118,000).

8. 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.

	2008 $	2007 $
Change in projected benefit obligation		
Benefit obligation, beginning of the year	**69,345,200**	66,585,600
Past service cost	—	246,600
Service cost	**3,635,300**	3,922,600
Interest cost	**3,817,300**	3,532,900
Actuarial gains	**(16,390,100)**	(1,939,700)
Benefits paid	**(3,514,700)**	(3,002,800)
Benefit obligation, end of year	**56,893,000**	69,345,200
Change in plan assets		
Fair value of plan assets, beginning of the year	**69,830,600**	70,855,600
Actual return on plan assets	**(9,314,400)**	(132,400)
Employees contribution	**675,500**	654,100
Employer contribution	**1,807,400**	1,456,100
Benefits paid	**(3,514,700)**	(3,002,800)
Fair value of plan assets, end of year	**59,484,400**	69,830,600
Funded status – Plan surplus	**2,591,400**	485,400
Unrecognized actuarial loss	**2,178,100**	4,575,100
Unrecognized prior service cost	**204,400**	225,500
Net amount recognized as accrued pension benefit asset	**4,973,900**	5,286,000

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

	2008 %	2007 %
Discount rate for projected benefit obligation	**7.50**	5.50
Discount rate for net pension cost	**5.50**	5.25
Expected return on plan assets	**6.75**	7.00
Rate of compensation increase	**3.50**	3.50

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

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

	2008 %	2007 %
Equity securities	**57.0**	48.7
Debt	**42.0**	32.8
Cash and short-term securities	**1.0**	18.5
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. As at December 31, 2007, the cash position was exceptionally high due to the change of portfolio managers just before year-end.

(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.

	2008 $	2007 $
Change in projected benefit obligation		
Benefit obligation, beginning of year	**1,054,500**	898,100
Increase in benefit obligation	**80,900**	278,500
Service cost	**3,800**	3,900
Interest cost	**54,400**	50,800
Benefits paid	**(93,400)**	(107,300)
Actuarial gains	**(302,300)**	(4,200)
Curtailment gain	**(110,600)**	(65,300)
Benefit obligation, end of year	**687,300**	1,054,500
Funded Status		
Funded status – Plan deficit	**687,300**	1,054,500
Unrecognized net actuarial (gains) losses	**(174,400)**	137,900
Net liabilities	**861,700**	916,600

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

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

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

	2008 $	**2007** $
Current service cost	**3,800**	3,900
Interest cost on liability	**54,400**	50,800
Actuarial gain on benefit obligation	**(302,300)**	(4,200)
Curtailment gain	**(110,600)**	(56,900)
Difference between actuarial gain recognized for the year and actual actuarial gain on benefit obligation for the year	**312,300**	15,600
Net periodic post-retirement benefit cost (revenue)	**(42,400)**	9,200

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

	2008 %	**2007** %
Weighted-average assumptions		
Discount rate for benefit obligation	**7.50**	5.50
Discount rate for net periodic benefit cost	**5.50**	5.25

As at December 31, 2008, the assumed health care trend rate for 2008 was 8% progressively declining to 4% in 2012.

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.

9. INTANGIBLE ASSETS

	Cost $	Accumulated amortization $	Net book value $
2008			
Customer relationships	**60,884,000**	**16,340,439**	**44,543,561**
Non-compete agreements	**755,000**	**207,832**	**547,168**
	61,639,000	**16,548,271**	**45,090,729**

	Cost $	Accumulated amortization $	Net book value $
2007			
Customer relationships	59,314,000	9,882,011	49,431,989
Non-compete agreements	755,000	132,332	622,668
	60,069,000	10,014,343	50,054,657

10. IMPAIRMENT OF GOODWILL

Under Canadian GAAP, goodwill is not amortized but is subject to an impairment test. As at December 31, 2008, the Fund conducted a goodwill impairment test and, as a result, management determined that the Fund's carrying value was greater than its fair value. Therefore, the recorded value of goodwill exceeded the fair value and a goodwill impairment charge of $147,800,000 was recorded in the fourth quarter of 2008. The contributing factors to the impairment of goodwill include reduced operating margins and expected cash flows driven by increased input costs and increased pressure from the competition on selling prices, the overall recent economic slowdown and the increased cost of capital all leading to a reduction in the value of companies in our industry.

In addition, an impairment of intangible assets related to the customer relationships with Cenveo has been recorded in the amount of $474,695 following the expiry of the two-year supply contract and reduced sales volume since then.

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITES

	2008 $	2007 $
Trade payables	**12,799,213**	4,570,809
Accrued liabilities	**10,810,918**	14,745,394
Balance of sale payable	—	158,504
	23,610,131	19,474,707

12. ACCRUED RESTRUCTURING PROVISION

In connection with the acquisition of NPG and Montreal as described in note 2, the Fund adopted a plan for the integration and restructuring of the acquired businesses. As a result, the Fund recognized a provision of $3,775,041 for severance, relocation and exit costs relating to certain employees and facilities of the acquired businesses. The liabilities relating to these costs have been included in the allocation of the purchase price of NPG and Montreal.

Any costs incurred relating to employees or facilities previously part of the Fund are charged to restructuring expenses as incurred in the consolidated statements of (loss) earnings and deficit.

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

	2008 **$**	**2007** **$**
Balance, beginning of year	**1,042,136**	—
Accrued restructuring included in purchase allocation	**2,134,541**	1,640,500
Restructuring expenses charged against earnings	**698,748**	418,635
Cash payments	**(2,548,345)**	(1,016,999)
Balance, end of year	**1,327,080**	1,042,136

13. SECURED CREDIT FACILITIES

During the third quarter of 2008, the Fund obtained an increase of $5 million in the amount available from the existing revolving credit facility. As at December 31, 2008 the Fund has senior secured credit facilities consisting of a revolving operating credit facility of up to $45 million and a term credit facility of $75 million. 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 March 31, 2010 and there are no scheduled repayments of principal required prior to maturity.

13. SECURED CREDIT FACILITIES [Cont'd]

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

	2008 $	2007 $
Revolving credit facility	**36,000,000**	25,956,951
Term credit facility	**75,000,000**	75,000,000
Less: deferred financing costs, net	**(248,203)**	(368,895)
	110,751,797	100,588,056

As at December 31, 2008, the interest rates on the revolving and term credit facilities were 3.39% and 2.97%, respectively. The Fund entered into an interest rate swap agreement for its term credit facility at a fixed rate of 5.426% until March 31, 2007, 5.538% from April 1, 2007 to March 31, 2008, 5.991% from April 1, 2008 to March 31, 2009 and 6.192% from April 1, 2009 to March 31, 2010 *[note 21]*.

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, 2008.

The secured credit facilities are collateralized by hypothec and security interest covering all present and future assets of the Fund and its subsidiaries.

Net financing charges

	2008 $	2007 $
Interest on secured credit facilities	**5,817,682**	4,652,706
Other interest	**(32,630)**	(293,503)
Amortization of deferred financing costs	**175,426**	148,185
	5,960,478	4,507,388

14. 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:

	2008 $	**2007** $
Future income tax liabilities (assets)		
Intangible assets	**10,953,551**	12,626,549
Property, plant and equipment	**4,497,359**	4,271,625
Accrued pension benefit asset	**1,352,123**	1,436,966
Post-retirement benefits obligation	**(234,248)**	(249,172)
Derivative liability	**(963,409)**	(213,044)
Other	**(1,097,435)**	1,327,079
Initial public offering expenses	**(1,967,350)**	(2,838,959)
Non-capital losses	**(4,203,731)**	(2,019,961)
	8,336,860	14,341,083
Current portion	**(1,133,356)**	—
Long-term future tax liabilities	**9,470,216**	14,341,083

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:

	2008 $	**2007** $
(Loss) earnings before income taxes	**(127,335,763)**	25,048,924
Income taxes recovery at combined federal and provincial statuary rate	**(40,110,765)**	8,456,517
Impact of interest expense of Supremex paid to the Fund, eliminated on consolidation	**(10,825,873)**	(12,391,734)
Impact of impairment of goodwill not deductible for tax purposes	**43,523,913**	—
Effect of change in enacted tax rates	**740,369**	(1,994,437)
Impact of amortization of deferred compensation not deductible for tax purposes	**1,715,140**	1,812,156
Non deductible expenses and other	**309,326**	453,168
Provision for income taxes recovery	**(4,647,890)**	(3,664,330)

14. INCOME TAXES [Cont'd]

Income taxes recovery is as follows:

	2008	**2007**
	$	**$**
Current	**3,933**	19,291
Future	**(4,651,823)**	(3,683,621)
Income taxes recovery	**(4,647,890)**	(3,664,330)

15. 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.

Pursuant to the normal course issuer bid, which began on November 8, 2007, the Fund could have purchased for cancellation up to 2,000,000 units until November 7, 2008. During the first quarter of 2008, the Fund purchased for cancellation 256,500 units at prices ranging from $5.60 to $5.80 per unit and thus completed its normal course issuer bid.

On November 21, 2008, the Fund renewed its normal course issuer bid. The Fund may purchase for cancellation up to 1,800,000 units until November 20, 2009. Up to December 31, 2008, the Fund purchased for cancellation 13,900 units at prices ranging from $3.54 to $3.74 per unit.

15. UNITHOLDERS' EQUITY [Cont'd]

	2008		2007	
	Number	**Amount $**	**Number**	**Amount $**
Fund units				
Balances, beginning of the year	**29,568,167**	**285,408,373**	31,311,667	302,237,605
Purchased units for Cancellation	**(270,400)**	**(2,610,051)**	(1,743,500)	(16,829,232)
Balances, end of year	**29,297,767**	**282,798,322**	29,568,167	285,408,373

Employee units

As part of the acquisition of Supremex by the Fund on March 31, 2006, 2,364,228 units valued at $23,642,280 were issued to management employees for a cash consideration of $23,642 to amend the management profit sharing plan then in effect. These units are held in escrow and 50% were released on March 31, 2008. From the remaining units held in escrow, 25% will be released on March 31, 2009 and 25% on March 31, 2010, subject to earlier release under certain circumstances or sold to Supremex for a nominal consideration of $0.01 per unit in the event of the voluntary departure of the employee or termination for cause by Supremex prior the expiry of the four-year escrow period. Employees receive the distribution declared on these units. The initial value of such units, net of cash consideration received, is recorded as deferred compensation and is recognized as compensation expense over the vesting period.

16. CONTRIBUTED SURPLUS

	2008	2007
	$	**$**
Contributed surplus, beginning of year	**6,525,689**	—
Purchased units for cancellation	**1,099,735**	6,525,689
Contributed surplus, end of year	**7,625,424**	6,525,689

17. 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 $2,806,726 was declared and accrued in December 2008 and paid to unitholders on January 15, 2009. Distributions for the period from January 1, 2008 to December 31, 2008 are as follows:

Period	**Record date**	**Payment date**	**Per unit**	**Distribution $**
January 2008	January 31, 2008	February 15, 2008	0.0958	2,832,630
February 2008	February 29, 2008	March 17, 2008	0.0958	2,829,345
March 2008	March 31, 2008	April 15, 2008	0.0958	2,808,058
April 2008	April 30, 2008	May 15, 2008	0.0958	2,808,058
May 2008	May 31, 2008	June 16, 2008	0.0958	2,808,058
June 2008	June 30, 2008	July 15, 2008	0.0958	2,808,058
July 2008	July 31, 2008	August 15, 2008	0.0958	2,808,058
August 2008	August 31, 2008	September 15, 2008	0.0958	2,808,058
September 2008	September 30, 2008	October 15, 2008	0.0958	2,808,058
October 2008	October 31, 2008	November 17, 2008	0.0958	2,808,058
November 2008	November 30, 2008	December 15, 2008	0.0958	2,807,273
December 2008	December 31, 2008	January 15, 2009	0.0958	2,806,726
			1.1496	33,740,438

On December 16, 2008, the Fund announced a reduction in the monthly distribution from $0.0958 to $0.05 per unit, commencing in the month of January 2009.

18. 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, 2008 and 2007 were as follows:

	2008 $	**2007 $**
Opening balance, net of income taxes	**(570,692)**	(629,411)
Change in fair value of derivative designated as cash flow hedge, net of income taxes of $895,811 ($114,756 in 2007)	**(2,400,034)**	172,501
Reclassification adjustment for loss (gain) on derivative designated as cash flow hedge transferred to net (loss) earnings, net of income taxes of $145,568 ($42,468 in 2007)	**390,000**	(113,782)
Accumulated other comprehensive loss	**(2,580,726)**	(570,692)

19. 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:

	$
2009	2,115,851
2010	1,779,073
2011	1,265,133
2012	688,843
2013	391,841
2014 and thereafter	1,011,127
Total	7,251,868

(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.

One of the Fund's subsidiaries was advised a few years ago by the Competition Bureau of its interest in broadening the current inquiry, or opening a new inquiry, into whether price fixing or market sharing took place in the 1980s and 1990s in the envelope supply market in Canada. Management is not currently able to assess or predict the scope or outcome of the current Competition Board inquiry or of any new inquiry that may be undertaken or the impact, if any, of such proceedings 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:

19. 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 October 2017. 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. 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, 2008, 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, Supremex 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, 2008, it has not recorded any liability associated with these indemnifications.

20. SEGMENTED INFORMATION

The Fund currently operates in one business segment: the manufacturing and sale of envelopes. The Fund's net assets amounted to $109,007,203 in Canada and $1,290,534 in the United States as at December 31, 2008. The Fund's revenue amounted to $168,523,824 in Canada and $14,029,040 in the United States for the year ended December 31, 2008.

21. FINANCIAL INSTRUMENTS

Fair value

As at December 31, 2008 and 2007, the carrying amounts of financial assets designated as loans and receivables, consisting primarily of receivables 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 derivative financial instruments generally reflects estimates of the amounts the Fund would receive by way of settlement of favourable contracts or that it would pay to terminate unfavourable contracts at the balance sheet date. The fair values of interest rate swaps are calculated using quotes obtained from major financial institutions.

21. FINANCIAL INSTRUMENTS [Cont'd]

The fair value and carrying amounts of the interest rate swap designated as a cash flow hedge are as follows:

	Liabilities	
	2008	**2007**
	$	**$**
Short-term	**2,842,065**	263,306
Long-term	**701,913**	520,395
	3,543,978	783,701

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 and interest rate swap are placed 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 Supremex's diversified customer base. Historically, the Fund has never made any significant write-off of accounts receivables. As at December 31, 2008 and 2007, total trade accounts receivable over 90 days past due were less than 5%.

Interest rate risk

The Fund is exposed to interest rate fluctuations on its secured credit facilities. The Fund manages interest rate exposure by entering into a swap agreement for its term credit facility consisting in exchanging variable rates for fixed rates. As at December 31, 2008, this agreement covers 60% [2007 – 75%] of the facilities outstanding.

21. FINANCIAL INSTRUMENTS [Cont'd]

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, 2008, a 25 basis-point rise or fall in interest rates, assuming all other variables remained unchanged, would have resulted, respectively, in a $44,455 increase or decrease in the Fund's net loss for the year ended December 31, 2008, whereas other comprehensive loss would have increased or decreased respectively by approximately $140,000.

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 at December 31, 2008, the Fund's contractual obligations for 2009 include all current liabilities listed on the balance sheet, interest on secured credit facilities, and pension plan employee current service contribution, which may change in 2010 as a result of new actuarial valuations.

In addition to the above-mentioned obligations, the Fund's secured credit facilities mature in 2010 and the Fund expects to renew these facilities.

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. In the past, purchases and capital expenditures in US dollars were similar to revenue earned in US dollars which limited the Fund's foreign exchange exposure. 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, 2008, net financial liabilities in Canadian dollars of the Fund, denominated in US dollars, totalled $761,561.

On December 31, 2008, 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 $46,379 increase or decrease in the Fund's net loss for the year then ended, whereas other comprehensive loss would have remained unchanged. However, the above change in net loss may have been offset by adjustments in Canadian pricing required to remain competitive with imports from the United States, mainly in commodity products.

22. 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;
- Providing optimal unitholder returns in terms of distributable cash; and
- Sustain growth in unit value.

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. At the end of 2008, in view of the recent economic downturn, the Fund decided to reduce annual distribution for 2009 to $0.60 per unit from $1.15, to preserve its financial flexibility to seize potential opportunities and adopt a prudent stance in the current economic environment. The Fund also monitors its capital to ensure full adherence to the "secured credit facilities/EBITDA ratio" as defined in the credit facilities agreement.

Capital management objectives and strategies were changed at the end of 2008 to adapt to current economic environment by becoming more prudent on unitholder distributions to preserve the Fund's financial flexibility and longevity to support continued operations.

23. COMPARATIVE FIGURES

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

(This page has been left blank intentionally)