Supremex Income Fund Annual Report

2009

Financial Highlights

Fiscal years ended December 31 (in thousands of Canadian dollars, except otherwise indicated)	**2009**	2008
Operating results[1]		
Revenu	**166,233**	182,553
EBITDA[2]	**37,941**	43,640
EBITDA margin[2]	**22.8%**	23.9%
Net earnings before impact of impairment of goodwill	**15,135**	22,840
Net loss	**(27,148)**	(122,688)
Financial position[1]		
Property, plant and equipment, net	**40,056**	44,621
Secured credit facilities	**91,879**	110,752
Unitholders' equity	**73,346**	110,298
Distributable cash[1][2]		
Distributable cash	**31,180**	36,392
Distribution declared	**17,579**	33,740
Distributable cash per unit (in dollars)	**1.0642**	1.2393
Distribution per unit (in dollars)	**0.6000**	1.1490
Payout ratio	**56.4%**	92.7%

1. Derived from audited consolidated financial statements of the Fund for the years ended December 31, 2009 and 2008.
2. See "Definition of EBITDA, Distributable cash and Non-GAAP Measures".

Corporate Profile

Our Core Values as an Organization are the Following:

/ Simplicity, which consists in doing only what is worthwhile;

/ Integrity, whereby compromise is not tolerated at Supremex;

/ Respect in all our relationships with our colleagues, our customers, our suppliers, our unitholders and the communities in which we do business;

/ Open, two-way communication, with an open-door policy of accessibility and great transparency from management;

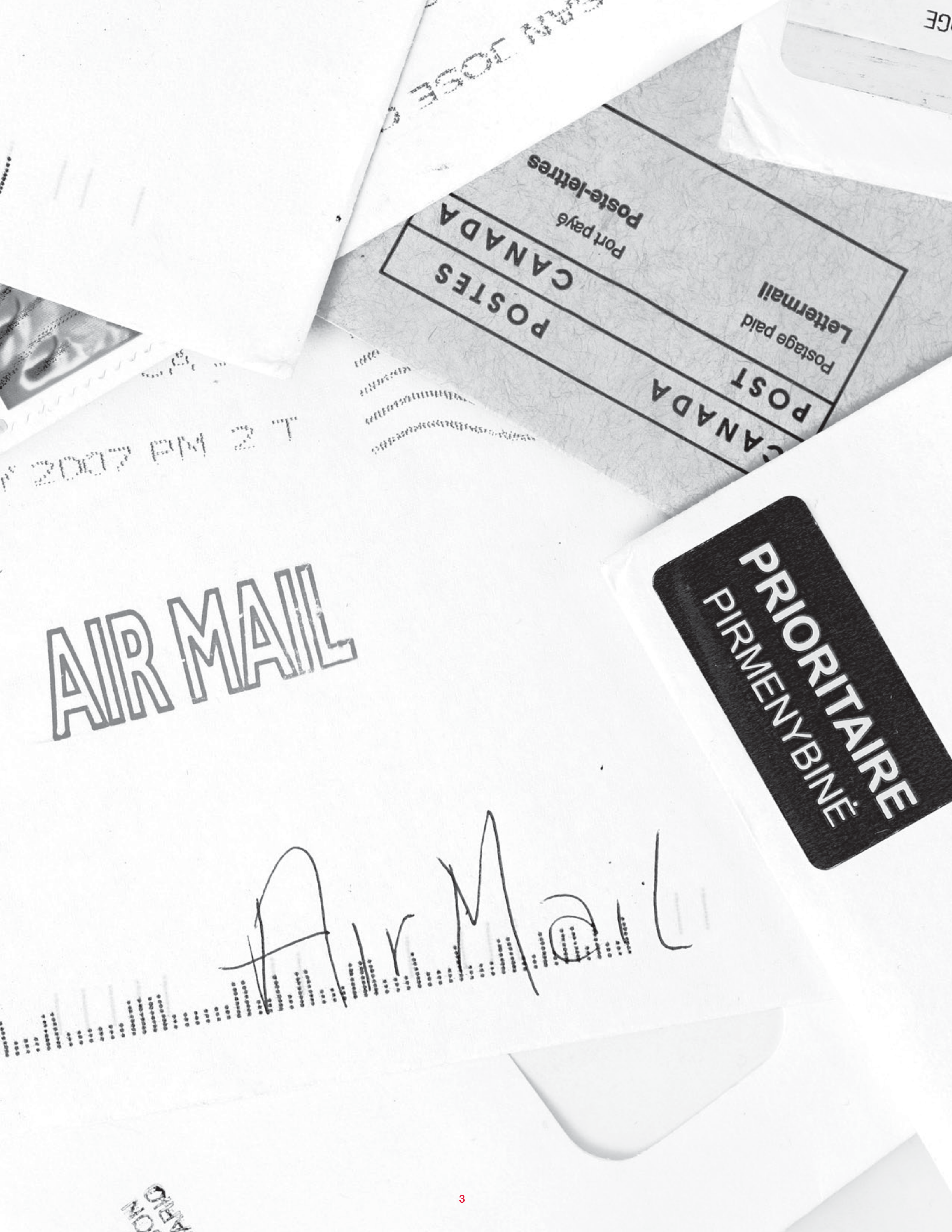
/ The search for excellence, which leads us to constantly seek ways to do more and better with less; and

/ Sharing, which recognizes that it takes teamwork to succeed. This value is showcased by our profit-sharing programs.

Our Mission

Supremex aims to become the best-managed company in the North American fine paper conversion industry by focusing on the manufacture, sale and distribution of envelopes and related products in high potential markets.

Supremex will continue to grow by leveraging the flexibility of its production capabilities through an interrelated plant network in order to offer a complete variety of value added products on a timely basis.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Our Environmental Policy

Supremex is committed to conducting its business and manufacturing operations in an environmentally sensitive and responsible manner in order to sustain environmental resources for present and future generations:

We commit to:

/ Ensure full compliance with applicable laws and regulations with emphasis on pollution prevention and minimizing adverse environmental impacts.

/ Measure and monitor our environmental impact by establishing benchmarks and taking steps to demonstrably reduce our environmental impact year over year. For example, we will promote the use of eco-friendly raw materials such as recycled paper or environmentally certified paper from sustainable and well-managed forests.

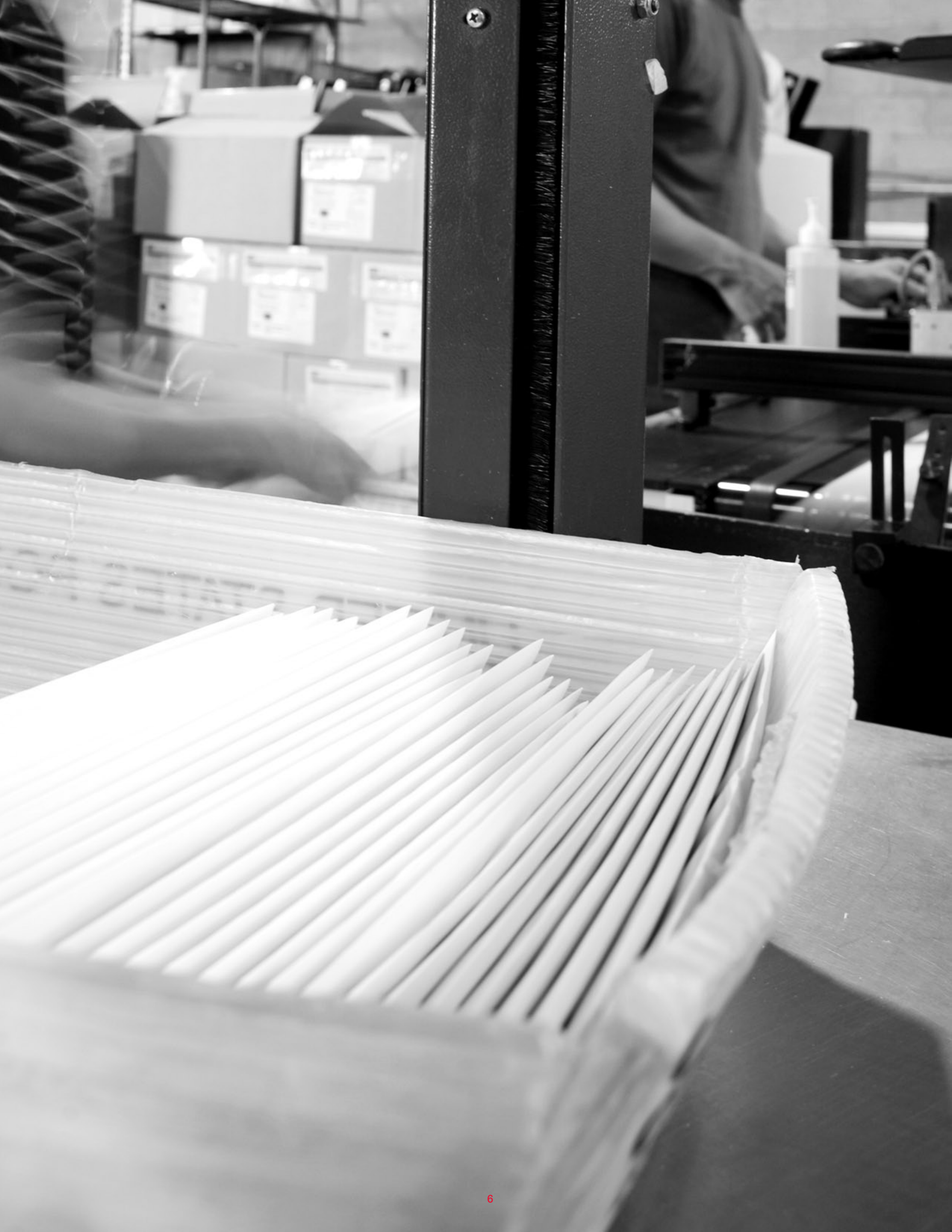
/ Undergo third party environmental audits of our operations to confirm that our practices meet or exceed our objectives.

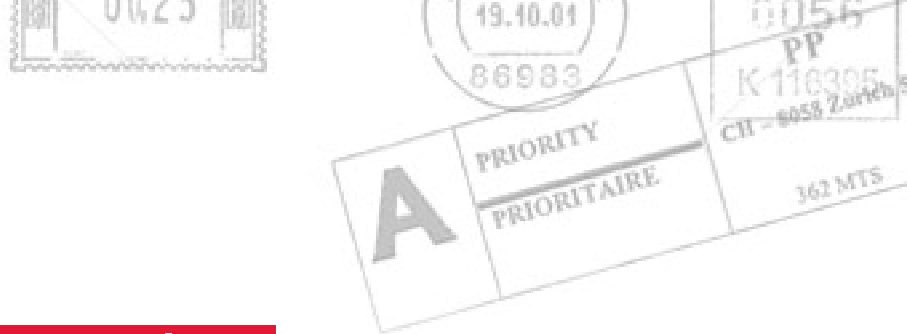
/ Maintain appropriate environmental accreditations such as the Forest Stewardship Council (FSC), Sustainable Forestry Initiative (SFI) and Environmental Choice accreditation in all of our manufacturing facilities.

/ Continue developing and implementing programs to reduce the use of materials, resources and energy in our products and services. For example, we will continue to promote reduced and reusable packaging solutions.

/ Openly communicating this policy and our environmental performance with our employees, customers, suppliers and shareholders and challenging them to share our commitment to the environment.

Reduce
Reuse
Recycle





Message from the President and Chairman

The business environment in which we operate evolved considerably in 2009. Numerous industries witnessed drastic and permanent changes in their markets. The envelope market definitely underwent a major transformation that will have an impact for many years to come.

Despite the decline in our profitability, our performance remained outstanding in an industry that has seen a reduction in volume of more than 20% since 2007. We achieved such a performance thanks to the solid fundamentals on which Supremex is built, which should enable it to continue growing despite many challenges lying ahead.

Decreased demand for our products, combined with tighter credit conditions, compelled us to lower our distribution to $0.12 per unit on an annualized basis. We believe this level reasonable, and we are solidly positioned to maintain this distribution in 2010 and beyond. Considering Supremex's conversion to a corporation, distributions will be replaced by a quarterly dividend of $0.03 per share as of 2011, which will be beneficial from a taxation perspective for unitholders who pay taxes on the distributions received.

In upcoming quarters, our primary objective will be to significantly reduce our indebtedness in order to ensure that we have the liquidity needed to sustain our long-term growth.

Not only a number of opportunities are available to us in the envelope industry in both North America and Europe, but opportunities to diversify our product offering in related areas of expertise also lie ahead.

As trustees, officers and unitholders, we are aware that the reduced distribution affected the return on investment of our unitholders. However, this decision was made to sustain our business over the long term in order to ensure that we can participate in the consolidation the industry will have to undergo, not only in North America, but almost everywhere worldwide.

We take this opportunity to thank all those who, from close or afar, contribute to Supremex's success despite a highly challenging context. From our investors who saw their distributions greatly reduced, our employees who made many sacrifices, our suppliers who agreed to help us lower our operating costs, and even our Board of Trustees who had to make difficult decisions, all were vital in enabling Supremex to continue prospering over the long term.

Gilles Cyr, CA
President and Chief Executive Officer

L.G. Serge Gadbois, FCA, MBA
Chairman of the Board of Trustees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Management's Discussion and Analysis

For the three and twelve-month periods ended December 31, 2009

The following management's discussion and analysis of financial condition and results of operations ("MD&A"), dated February 16, 2010, 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, 2009. 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, 2009.

This MD&A contains forward-looking statements. Please see "Forward-Looking Statements" for a discussion of the risks, uncertainties and assumptions relating to these statements. This MD&A also makes reference to certain non-GAAP measures to assist in assessing the Fund's financial performance. Non-GAAP earnings measures do not have any standard meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers. See "Definition of EBITDA, Distributable cash and Non-GAAP Measures" and "Selected Consolidated Financial Information" for the reconciliation of EBITDA to net earnings.

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.

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 650 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

The payout ratio for the fourth quarter was 56.2% compared with 100.6% for the comparable period in 2008. This significant change is explained by the reduction of the annual distribution the Fund paid to its unitholders since the beginning of 2009. For the full-year, the payout ratio was 56.4% compared with 92.7% in 2008. EBITDA for the fourth quarter of 2009 was $10.5 million, slightly below the EBITDA of $10.6 million in the fourth quarter of 2008. EBITDA margin was 25.3% in the fourth quarter of 2009 compared with 21.8% in the fourth quarter of 2008. The Fund's full-year EBITDA margin was 22.8% in 2009 compared with 23.9% in 2008.

Revenue in the fourth quarter of 2009 was $41.6 million compared with $48.5 million in the fourth quarter of 2008, a decrease of $6.9 million or 14.2%. The volume was down by 10.9% and the average selling price by 3.7% in the fourth quarter. For the full-year, the Fund's revenue was $166.2 million compared with $182.6 million in 2008, a decrease of $16.4 million or 9.0%. The volume was down by 11.9%, but the average selling price was up by 3.3%. The reduced volume in the fourth quarter and for the full-year in 2009 is mainly resulting from the Canadian market. This is attributable to the general economic slowdown having a strong impact on the direct mail, large corporations, financial institutions sales as well as on the resale segment. The US sales have been stable throughout the year at their actual level.

The strength of the Canadian dollar affects both Canadian and US sales. A strong Canadian dollar combined with the actual overcapacity of the US envelope market results in cheaper US envelope products in the Canadian market. This explains the reduction of the average selling price of 3.7% in the fourth quarter of 2009. Also, a strong Canadian dollar makes it more difficult to export profitably into the US market.

On the other hand, the strength of the Canadian dollar has reduced the raw material costs in the second half of 2009 and was the main reason behind the increased EBITDA margin in the fourth quarter, as these savings were greater than the impact of the reduced selling prices in the quarter. However, there is increased pressure coming from the Canadian customers asking for reduced price in this context.

In the fourth quarter, the credit facilities were renewed up to January 2012. The new facilities consist in a term credit facility of $75 million and a revolver credit facility of $35 million, for a total of $110 million. Quarterly repayments of $1.875 million are mandatory under the new term credit facility. In addition, 75% of the excess cash flow, as defined in the agreement, will be applied against the term credit facility until the ratio of debt to EBITDA reaches 2.25, and 50% thereafter. A $10 million permitted acquisition basket is allowed as per the new credit facilities. Normal Course Issuer Bid is not allowed under the new credit facilities. As part of the renewal, the applicable margin has increased by approximately 250 basis points overall.

On December 1, 2009, the Fund renewed its credit facilities with substantial modifications. As a result, in the fourth quarter the Fund recorded a loss on settlement of credit facilities of $808,652.

The excess cash from operations generated allowed the Fund to reduce its debt level in the fourth quarter by $4.7 million, for a total of $17.6 million in 2009, ahead of the expectation of $15 million. As of December 31, 2009, there was $93,449,181 drawn on the credit facilities.

On January 18, 2010, the Fund announced a reduction in the distribution rate from $0.60 to $0.12 per year, commencing with the January 2010 distribution payable on February 15, 2010. This decision was based on a number of factors, including the more restrictive conditions of the renewed credit facilities, the ongoing business challenges and the negative impact of the strength of the Canadian dollar over time. The Fund also announced its intention to convert to a corporation at the end of 2010 subject to approval of the Fund's unitholders at the next annual and special meeting of the Fund to be held on May 7, 2010.

Finally, the Fund conducted its annual goodwill impairment test as at year-end in light of the ongoing economic slowdown, expected future cash flows based on its plans and the actual 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. A goodwill impairment charge of $43 million was therefore recorded in the fourth quarter. This charge 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 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.

The Fund generated $7.8 million or $0.2671 per unit and $31.2 million or $1.0642 per unit of distributable cash for the three and twelve-month periods ended December 31, 2009 compared with $8.4 million or $0.2857 per unit and $36.4 million or $1.2393 per unit for the comparable periods in 2008. More information on cash flow related to operating activities is provided under "Liquidity and Capital Resources."

The Fund declared distributions of $4.4 million or $0.1500 per unit and $17.6 million or $0.6000 per unit for the three and twelve-month periods ended December 31, 2009, funded by distributable cash generated during the period, compared with $8.4 million or $0.2874 per unit and $33.7 million or $1.1490 per unit for the comparable period in 2008.

The distributable cash generated exceeds actual distributions by $3.4 million and $13.6 million for the three and twelve-month periods ended December 31, 2009. As a result, the Fund's payout ratio, defined as distributions declared as a percentage of distributable cash generated, was 56.2% and 56.4% for the three and twelve-month periods ended December 31, 2009. Since inception of the Fund, the payout ratio is 82.5%.

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,	
	2009	2008	**2009**	2008
	$	$	**$**	$
Cash flows related to operating activities	**10,695**	15,719	**33,209**	44,694
Capital adjustment				
Capital expenditures[1]	**(336)**	(650)	**(397)**	(1,460)
Other adjustments				
Net change in non-cash working capital balances[2]	**(2,655)**	(6,751)	**(1,691)**	(6,666)
Change in other post-retirement benefits obligation and change in accrued pension benefit assets	**121**	55	**59**	(176)
Distributable cash[3]	**7,825**	8,373	**31,180**	36,392
Distribution declared	**4,395**	8,422	**17,579**	33,740
Weighted average number of units outstanding	**29,298**	29,307	**29,298**	29,364
Distributable cash per unit	**0.2671**	0.2857	**1.0642**	1.2393
Distribution per unit	**0.1500**	0.2874	**0.6000**	1.1490
Payout ratio	**56.2 %**	100.6 %	**56.4 %**	92.7 %

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

	Three-month periods ended December 31,		Twelve-month periods ended December 31,	
	2009	2008	**2009**	2008
	$	$	**$**	$
Maintenance capital expenditures	**372**	1,206	**814**	3,938
Proceeds from disposal of assets	**(36)**	(556)	**(417)**	(2,478)
Capital expenditures	**336**	650	**397**	1,460

2. Distributable cash excludes change in non-cash working capital as changes in working capital components are often temporary by nature and, if needed, can be financed with the Fund's revolving operating credit facility.
3. See "Definition of EBITDA, Distributable Cash and Non-GAAP Measures".

Distributions

The Fund makes monthly distributions to unitholders of record on the last business day of each month, payable on or about the 15th day of the following month. The per unit rate has been $0.05 per month since the beginning of 2009. Distributions for the period January 1, 2009 to December 31, 2009 were shown in the chart "Distributions".

The December distribution in the amount of $1,464,888 was declared and accrued in December 2009 and paid to unitholders on January 15, 2010. The tax allocation of distributions for 2009 is 100% return on capital and distributions are therefore treated as income for unitholders.

On January 18, 2010, the Fund announced its decision to reduce the monthly distribution from $0.05 per unit to $0.01 per unit, commencing for the month of January 2010. The Board of Trustees has determined it is prudent and in the best interest of the Fund and its unitholders to reduce further the distributions in order to reduce the debt, preserve cash and increase capital flexibility.

Source of Funding

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

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

Distributions

Period	Record date	Payment date	Per unit $	Distribution $
January 2009	January 31, 2009	February 16, 2009	**0.05**	**1,464,888**
February 2009	February 28, 2009	March 16, 2009	**0.05**	**1,464,888**
March 2009	March 31, 2009	April 15, 2009	**0.05**	**1,464,888**
April 2009	April 30, 2009	May 15, 2009	**0.05**	**1,464,888**
May 2009	May 31, 2009	June 15, 2009	**0.05**	**1,464,888**
June 2009	June 30, 2009	July 15, 2009	**0.05**	**1,464,888**
July 2009	July 31, 2009	August 17, 2009	**0.05**	**1,464,888**
August 2009	August 31, 2009	September 15, 2009	**0.05**	**1,464,888**
September 2009	September 30, 2009	October 15, 2009	**0.05**	**1,464,888**
October 2009	October 31, 2009	November 16, 2009	**0.05**	**1,464,888**
November 2009	November 30, 2009	December 15, 2009	**0.05**	**1,464,888**
December 2009	December 31, 2009	January 15, 2010	**0.05**	**1,464,888**
Total			**0.60**	**17,578,656**

Source of Funding

(In thousands of dollars)

	Three-month period ended December 31, 2009 $	Twelve-month period ended December 31, 2009 $	Since inception $
Distributable cash	**7,825**	**31,180**	**138,269**
Cash flows from operating activities	**10,695**	**33,209**	**159,530**
Net loss	**(37,771)**	**(27,148)**	**(101,692)**
Actual cash distributions paid or payable relating to the period	**4,395**	**17,579**	**114,127**
Excess of distributable cash over cash distribution	**3,430**	**13,601**	**24,142**
Excess of cash flows from operating activities over cash distribution	**6,300**	**15,630**	**45,403**
Shortfall of net earnings over cash distribution	**(42,166)**	**(44,727)**	**(215,819)**

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, 2008 to December 31, 2009.

The period from July 1, 2008 to December 31, 2009 includes results of operations of the Montreal Envelope Inc. ("Montreal") business for the period from September 16, 2008 to December 31, 2009.

Excluding the seasonal patterns of the business, revenue has decreased over the last eight quarters mainly due to the decrease in volume sold in Canada and United States as a result of the softness of the US market and the fluctuations of the Canadian dollar. The fourth quarter 2009 and 2008 losses are attributable to the recording of goodwill impairments.

Summary of Quarterly Results

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

	Dec 31, 2009 $	**Sept. 30, 2009 $**	**June 30, 2009 $**	**Mar. 31, 2009 $**	Dec. 31, 2008 $	Sept. 30, 2008 $	June 30, 2008 $	Mar. 31, 2008 $
Revenue	**41,560**	**37,567**	**41,172**	**45,933**	48,453	42,935	43,620	47,545
EBITDA[1]	**10,503**	**8,389**	**9,032**	**10,017**	10,563	10,842	10,920	11,315
(Loss) earnings before income taxes	**(39,143)**	**3,047**	**3,407**	**4,638**	(143,576)	5,359	4,940	5,940
Net (loss) earnings	**(37,771)**	**3,072**	**3,345**	**4,207**	(140,352)	5,762	5,570	6,332
Net (loss) earnings per unit	**(1.2892)**	**0.1048**	**0.1142**	**0.1436**	(4.7890)	0.1966	0.1900	0.2145

1. See "Definition of EBITDA, Distributable Cash and Non-GAAP Measures". EBITDA is not a recognized measure under GAAP and does not have standardized meanings prescribed by GAAP. EBITDA may not be comparable to similar measures presented by other issuers.

Selected Consolidated Financial Information

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

	Three-month periods ended December 31, 2009 $	2008 $	Twelve-month periods ended December 31, 2009 $	2008 $
Revenue	**41,560**	48,453	**166,233**	182,553
Cost of goods sold, selling, general and administrative expenses	**30,334**	37,794	**127,474**	138,214
Restructuring expenses[1]	**723**	96	**818**	699
EBITDA[2]	**10,503**	10,563	**37,941**	43,640
Amortization of property, plant and equipment	**1,158**	1,213	**4,668**	5,089
Amortization of intangible assets	**1,541**	1,541	**6,164**	6,059
Amortization of deferred compensation	**1,275**	1,440	**5,194**	5,445
Impairment of goodwill	**43,000**	148,275	**43,000**	148,275
Loss on disposal of property, plant and equipment	**169**	80	**293**	148
Net financing charges	**2,503**	1,590	**6,673**	5,960
Loss before income taxes	**(39,143)**	(143,576)	**(28,051)**	(127,336)
Income taxes recovery	**(1,372)**	(3,224)	**(903)**	(4,648)
Net loss	**(37,771)**	(140,352)	**(27,148)**	(122,688)
Basic net loss per unit	**(1.2892)**	(4.7890)	**(0.9266)**	(4.1782)
Distribution declared per unit	**0.1500**	0.2874	**0.6000**	1.1490
Total assets			**199,588**	262,669
Secured credit facilities			**91,879**	110,752

1. Restructuring expenses are related to the restructuring and improvement initiatives to reduce the Fund's operating costs as well as to the integration and restructuring of NPG Envelope ("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.
2. See "Definition of EBITDA, Distributable Cash and Non-GAAP Measures".

Results of Operations

Three-month period ended December 31, 2009 compared with three-month period ended December 31, 2008

Revenue

Revenue for the three-month period ended December 31, 2009 was $41.6 million compared with $48.5 million for the three-month period ended December 31, 2008, a decrease of $6.9 million or 14.2%. The decrease in revenue is mainly attributable to a reduction of sales in Canada.

Sales revenue in Canada decreased by $5.9 million or 13.2%, from $44.8 million to $38.9 million, and sales revenue in the United States decreased by $1.0 million or 27.0%, from $3.7 million to $2.7 million.

The decrease in sales revenue in Canada was driven by a 11.0% decrease in the number of units sold combined with a 2.5% decrease in the average selling price. The decrease in the number of units sold is mainly explained by the softness of the market, especially the direct mail market.

The decrease in sales revenue in the United States was due to a 10.0% decrease in the number of units sold combined with a 18.1% decrease in the average selling price given the strengthening of the Canadian dollar. The weak US market was the major factor 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, 2009 was $30.3 million compared with $37.8 million for the three-month period ended December 31, 2008, representing a decrease of $7.5 million or 19.8%.

Cost of goods sold for the three-month period ended December 31, 2009 was $26.1 million compared with $32.9 million for the same period in 2008, a decrease of $6.8 million or 20.7%. The decrease in units sold, the lower labour cost and the effect of the strengthening of the Canadian dollar explain the decrease in cost of goods sold.

Gross profit (revenue less cost of goods sold excluding amortization of property, plant and equipment) was $15.5 million for the three-month period ended December 31, 2009 compared with $15.6 million for the comparable period in 2008, a decrease of $0.1 million or 0.6%. As a percentage of sales, gross profit increased by 5.0% in 2009 compared with 2008.

Selling, general and administrative expenses were $4.3 million for the three-month period ended December 31, 2009 compared with $4.9 million for the same period in 2008, a decrease of $0.6 million or 12.2%. The decrease is mainly attributable to lower salary and bad debt expenses.

Restructuring expenses

Restructuring expenses are related to the restructuring and improvement initiatives to reduce the Fund's operating costs as well as to the 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 $10.5 million for the three-month period ended December 31, 2009 compared with $10.6 million for the same period in 2008, a decrease of $0.1 million or 0.9%.

Amortization

Aggregate amortization expense for the three months ended December 31, 2009 amounted to $4.0 million compared with $4.2 million for the same period in 2008, a decrease of $0.2 million or 4.8%. This decrease is mainly attributable to additional amortization of deferred compensation recorded in 2008 following the departure of employees.

Impairment of goodwill

An impairment of goodwill charge has been recorded in the amount of $43.0 million compared with $147.8 million for the same period in 2008.

Net financing charges

Net financing charges for the three months ended December 31, 2009 amounted to $2.5 million compared with $1.6 million for the same period in 2008, representing an increase of $0.9 million or 56.3%, mainly due to the loss on settlement of the credit facilities following its renewal on December 1, 2009.

Loss before income taxes

Due to the changes in revenue and expenses described herein, the loss before income taxes was $39.1 million for the three months ended December 31, 2009 compared with $143.6 million for the same period in 2008, a decrease of $104.5 million or 72.8%.

Income taxes recovery

During the three months ended December 31, 2009, the Fund recorded income taxes recovery of $1.4 million. Income taxes recovery takes into consideration, in addition to income taxes recovery of $12.2 million at statutory rate, reductions of $1.4 million attributable to the impact of interest income earned by the Fund and paid by Supremex, and of $0.7 million related to the impact of a change in the enacted tax rate and the non-deductible expenses. This recovery was partially offset by an amount of $12.5 million related to the impairment of goodwill not deductible for tax purposes and an amount of $0.4 million related to the non-deductible amortization of deferred compensation.

Net loss

As a result of the changes described above, net loss was $37.8 million for the three-month period ended December 31, 2009 compared with $140.4 million for the same period in 2008, a decrease of $102.6 million or 73.1%.

Twelve-month period ended December 31, 2009 compared with twelve-month period ended December 31, 2008

Revenue

Revenue for the twelve-month period ended December 31, 2009 was $166.2 million compared with $182.6 million for the twelve-month period ended December 31, 2008, a decrease of $16.4 million or 9.0%. The decrease in revenue is mainly attributable to a reduction of sales in Canada.

Sales revenue in Canada decreased by $14.9 million or 8.8%, from $168.5 million to $153.6 million, and sales revenue in the United States decreased by $1.5 million or 10.6%, from $14.1 million to $12.6 million.

The decrease in sales revenue in Canada was driven by an 11.1% decrease in the number of units sold offset by a 2.5% increase in the average selling price. The decrease in the number of units sold is explained by the softness of the market.

The decrease in sales revenue in the United States was due to an 18.1% decrease in the number of units sold offset by a 9.7% increase in the average selling price given the weakening of the Canadian dollar in 2009. The weak US market was the major factor 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, 2009 was $127.5 million compared with $138.2 million for the twelve-month period ended December 31, 2008, representing a decrease of $10.7 million or 7.7%.

Cost of goods sold for the twelve-month period ended December 31, 2009 was $110.9 million compared with $119.7 million for the same period in 2008, a decrease of $8.8 million or 7.4%. The decrease in units sold and lower labour cost offset by the rising cost of raw materials, including the effect of the weakening Canadian dollar, explain the decrease in cost of goods sold.

Gross profit (revenue less cost of goods sold excluding amortization of property, plant and equipment) was $55.3 million for the twelve-month period ended December 31, 2009 compared with $62.8 million for the comparable period in 2008, a decrease of $7.5 million or 11.9%. As a percentage of sales, gross profit fell by 1.1% in 2009 compared with 2008.

Selling, general and administrative expenses were $16.6 million for the twelve-month period ended December 31, 2009 compared with $18.5 million for the same period in 2008, a decrease of $1.9 million or 10.3%. The decrease is mainly attributable to a general reduction of expenses.

Restructuring expenses

Restructuring expenses are related to the restructuring and improvement initiatives to reduce the Fund's operating costs as well as to the 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 $37.9 million for the twelve-month period ended December 31, 2009 compared with $43.6 million for the same period in 2008, a decrease of $5.7 million or 13.1%.

Amortization

Aggregate amortization expense for the twelve months ended December 31, 2009 amounted to $16.0 million compared with $16.6 million for the same period in 2008, representing a decrease of $0.6 million or 3.6%. The decrease is mainly attributable to the write-down of $0.4 million on the Hamilton building and the additional amortization of deferred compensation following departure of employees, both recorded in 2008.

Impairment of goodwill

An impairment of goodwill charge has been recorded in the amount of $43.0 million for the twelve-month period ended December 31, 2009 compared with $147.8 million for the same period in 2008.

Net financing charges

Net financing charges for the twelve months ended December 31, 2009 amounted to $6.7 million compared with $6.0 million for the same period in 2008, representing an increase of $0.7 million or 11.7%, mainly due to the loss on settlement of the credit facility following its renewal on December 1, 2009.

Loss before income taxes

Due to the changes in revenue and expenses described herein, the loss before income taxes was $28.1 million for the twelve months ended December 31, 2009 compared with a loss of $127.3 million for the same period in 2008, a decrease of $99.2 million or 77.9%.

Income taxes recovery

During the twelve months ended December 31, 2009, the Fund recorded income taxes recovery of $0.9 million. Income taxes recovery takes into consideration, in addition to income taxes recovery of $8.7 million at statutory rate, reductions of $5.7 million attributable to the impact of interest income earned by the Fund and paid by Supremex, and of $0.6 million related to the impact of a change in the enacted tax rate and the non-deductible expenses. This recovery was partially offset by an amount of $12.5 million related to the impairment of goodwill not deductible for tax purposes and an amount of $1.6 million related to the non-deductible amortization of deferred compensation.

Net loss

As a result of the changes described above, net loss was $27.1 million for the twelve-month period ended December 31, 2009 compared with $122.7 million for the same period in 2008, a decrease of $95.6 million or 77.9%.

Segmented Information

The Fund currently operates in one business segment; the manufacture and sale of envelopes. The Fund's net assets amounted to $72.3 million in Canada and $1.1 million in the United States as at December 31, 2009.

In Canada, the Fund's revenue amounted to $38.9 million and $153.6 million for the three and twelve-month periods ended December 31, 2009 compared with $44.8 million and $168.5 million for the same periods in 2008, representing a decrease of $5.9 million or 13.2% and of $14.9 million or 8.8%. In the United States, the Fund's revenue amounted to $2.7 million and $12.6 million for the three and twelve-month periods ended December 31, 2009, compared with $3.7 million and $14.1 million for the same periods in 2008, representing a decrease of $1.0 million or 27.0% and $1.5 million or 10.6%.

Liquidity and Capital Resources

Cash flows from operating activities were $33.2 million for the twelve-month period ended December 31, 2009, primarily attributable to non-cash items including impairment of goodwill, various amortization charges and an increase in non-cash working capital balances offset by the loss generated in the year and future income taxes recovery.

Cash flows from investing activities were minimal for the twelve-month period ended December 31, 2009.

Cash flows used in financing activities were $38.1 million for the twelve-month period ended December 31, 2009, mainly related to the distribution paid on Fund units, the amount paid on the term and revolving credit facilities and the financing costs incurred.

The reduction in distributions at the beginning of 2010 will allow the Fund to continue to reduce its debt 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, 2009.

Contractual Obligations

(In thousands of dollars)

		Payments due by fiscal year		
	Total	2010	2011	2012 and thereafter
Secured credit facilities	**93,449**	7,500	7,500	78,449
Operating leases	**9,471**	2,192	1,694	5,585
Total	**102,920**	9,692	9,194	84,034

Financing

In December 2009, the Fund renewed and amended its credit agreement. The renewed secured credit facilities consist of a $35 million revolving facility ($45 million up to the renewal) and a $75 million term credit facility. As at December 31, 2009, Supremex had drawn $73.1 million on the term credit facility and $20.3 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 January 4, 2012. The term credit facility is repayable in quarterly instalments of $1.9 million, principal only. In addition, 75% of the excess cash flow, as defined in the agreement, will be applied against the term credit facility until the ratio of debt to EBITDA reaches 2.25, and 50% thereafter. A $10 million permitted acquisition basket is allowed as per the new credit facilities. Normal Course Issuer Bid is not allowed under the new credit facilities. As part of the renewal, the applicable margin has increased by approximately 250 basis points overall.

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, 2009, interest rates on the revolving and term credit facilities were 4.85% and 4.76% respectively. The Fund was in compliance with the covenants of its credit facilities as at December 31, 2009.

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 4.413% from April 1, 2007 to March 31, 2008, 4.616% from April 1, 2008 to March 31, 2009 and 4.817% from April 1, 2009 to March 31, 2010 plus applicable margin which is 425 basis points as at December 31, 2009. As a result of the substantial modifications of its renewed credit facilities as at December 1, 2009, the Fund concluded that the change should be accounted for as an extinguishment of the original financial liabilities. Therefore, the amount of $808,652 in the accumulated other comprehensive loss relating to the interest swap was transferred into the net loss as a loss on settlement of credit facilities during the fourth quarter.

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

Capitalization

The following sets forth the capitalization of the Fund as at February 16, 2010:

	# issued	Amounts $
Units issued	29,297,767	282,798,322
Deferred compensation	—	(1,260,512)
	29,297,767	281,537,810

Units issued at the time of the initial public offering included 2,364,228 units valued at $23,642,280 issued to employees for a cash consideration of $23,642 to amend the then existing management profit sharing plan. As these units vest over four years, subject to earlier vesting, the unamortized value of such units as at December 31, 2009, amounting to $1,260,512, 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 21, 2008, the Fund could have purchased for cancellation 1,800,000 units until November 20, 2009. During the year ended December 31, 2009, the Fund did not purchase any units for cancellation and thus completed its normal course issuer bid.

Financial Instruments

Interest rate and foreign exchange risk

The Fund's credit facilities bear interest at a floating rate which give rise to the risk that its earnings and cash flows may be adversely impacted by fluctuations in interest rates. 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 4.413% from April 1, 2007 to March 31, 2008, 4.616% from April 1, 2008 to March 31, 2009 and 4.817% from April 1, 2009 to March 31, 2010 plus applicable margin which is 425 basis points as at December 31, 2009. The amount in the accumulated other comprehensive loss relating to the interest rate swap previously designated as a cash flow hedge against the fluctuation in interest rate has been charged to the net loss as a loss on settlement of the credit facilities during the fourth quarter of 2009 following the renewal of the credit facilities as at December 1, 2009.

The Fund operates in Canada and the United States, which gives rise to a risk that its earnings and cash flows may be adversely impacted by fluctuations in the exchange rate between the US and Canadian dollar. In the past, purchases and capital expenditures in US dollars were similar to revenue earned in US dollars, which mitigated the Fund's foreign exchange exposure. However, its exposure has increased over the last two years (see "Risk Factors"). Cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities include balances denominated in US dollars at the end of the year.

Fair value

The fair value of the Fund's financial instruments is indicated in note 21 to the Fund's audited consolidated financial statements for the year ended December 31, 2009.

Off-Balance Sheet Arrangements

The Fund has no other off-balance sheet arrangements.

Financial Position Highlights

(In thousands of dollars)

	December 31, 2009 $	December 31, 2008 $
Working capital	**11,015**	19,042
Total assets	**199,588**	262,669
Total secured credit facilities	**91,879**	110,752
Unitholders' equity	**73,346**	110,298

The Fund was in compliance with the covenants of its credit facilities as at December 31, 2009.

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, 2009, 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, 2009 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, 2009.

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, 2009 and 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 $43.0 million (2008 — $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 are translated at the exchange rates in effect at the transaction date. Exchange gains and losses are included in net earnings for the year.

Revenue recognition

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

Income taxes

The Fund's corporate subsidiaries are subject to corporate income taxes and use the liability method of accounting for income taxes. Under the liability method, future income tax assets and liabilities are determined based on temporary differences between the financial reporting and tax bases of assets and liabilities and are measured using tax rates substantially enacted at the balance sheet date. The effect of changes in income tax rates on future income tax assets and liabilities is recognized in earnings (loss) 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 28.4%, of distributions made by the Fund beginning in 2011.

Employee future benefits

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

The Fund accrues its obligations for the defined benefit component of its pension plans and other post-retirement and post-employment benefits and related costs, net of plan assets. The cost of pensions and other retirement benefits earned by employees is actuarially determined, at least every three years, using the projected benefit method prorated on service and management's best estimate of plan investment performance, salary escalation, employee retirement age and estimated health care costs. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. The fair value is market value. The most recent actuarial valuations were performed on December 31, 2006 for two plans, and on December 31, 2008 for the other. The Fund expects to perform actuarial valuations every three years.

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 earnings (loss) for the year.

The Fund had 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 were recorded in the consolidated financial statements. Gains and losses were recognized in comprehensive loss. Following the renewal of its credit facilities with substantial modifications, the Fund recorded a loss on settlement of credit facilities in the last quarter of 2009.

Recent Accounting Pronouncements

Adopted in 2009

In the first quarter of 2009, the Fund adopted the new standard issued by the Canadian Institute of Chartered Accountants (CICA): Section 3064, "*Goodwill and Intangible Assets*". This new standard establishes financial reporting for recognition, measurement, presentation and disclosure of goodwill and intangible assets. The application of this new standard had a negligible effect on the Fund's financial statements and financial position.

International Financial Reporting Standard

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

Phase I: Preliminary Study and Diagnostic

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

Phase II: Standards Analysis

Actions:	Analysis of the differences between GAAP and IFRS. Selection of the accounting policies that the Fund will apply on an ongoing basis. Fund's selection of IFRS 1 exemptions at the date of transition. Calculation of the quantitative impact on the consolidated financial statements. Disclosure analysis. Preparation of draft consolidated financial statements and notes. Identification of the collateral impact in the following areas. › Information technology › Internal control over financial reporting › Disclosure controls and procedures › Contracts › Compensation › Taxation › Training
Timetable:	Q1 2010
Progress:	We are analyzing the IFRS standards and interpretation that may have an impact on the Fund.

Phase III: Implementation

Actions:	Preparation of the opening balance sheet at the date of transition. Compilation of the comparative financial data. Production of the interim consolidated financial statements and the associated disclosure. Production of the annual consolidated financial statements and the associated disclosure. Implementation of changes regarding collateral impact.
Timetable:	At the end of fiscal 2010, the opening balance sheet, comparative financial data under IFRS and changes regarding collateral impacts will be completed. In fiscal 2011, we will produce our interim and annual consolidated financial statements and disclosure in accordance with IFRS.
Progress:	Preliminary work done.

Throughout our IFRS transition project, we will provide update reports on our work plan. We will also explain the main differences between our existing accounting policies and those we will be implementing under IFRS (both narrative and quantitative information), as well as our selection of IFRS 1 exemptions available at the date of transition.

Recent Events

On January 18, 2010, the Fund announced its intention to reduce the monthly distribution from $0.05 per unit to $0.01 per unit, commencing in the month of January 2010. The Fund also announced its intention to convert to a corporation at the end of 2010.

Risk Factors

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

Decline in Envelope Consumption

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

The North American envelope manufacturing and mailing industries are not expected to grow 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 decline experienced in the direct mail volume in 2009 was more related to the economic conditions, there is no assurance that the direct mail industry will regain its level from before the latest recession and that it will offset any decline in transactional mail. As a result, there can be no assurance that Supremex will be able to grow or even maintain historical sales levels.

Supremex typically does not enter into long-term, written agreements with customers. As a result, there is a risk that customers may, without notice or penalty, terminate their relationship with Supremex at any time. In addition, even if customers should decide to continue their relationship with Supremex, there can be no guarantee that customers will purchase the same amount as in the past, or that purchases will be on similar terms. Supremex's customer base is solidly diversified with no single account representing more than 9% of sales, thus reducing dependence on any given single customer.

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

Economic Cycles

A significant risk that Supremex faces and over which it has no control is related to economic cycles. In a soft economy, or a recession similar to the one faced over the last 18 months, the market most affected at Supremex is its direct mail market. There is a direct correlation between growth/decline in the gross domestic product and direct mail volume. Because of the economic conditions of the last 18 months, we have experienced a significant direct mail volume decline. For Supremex, such impact is partially mitigated as direct mail represents approximately 20% of Supremex's total annual volume. For transactional mail, which represents about 50% of Supremex's annual volume, economic cycles had a lesser impact than on direct mail since businesses must still mail out bills to their customers, and the online billing penetration is fairly low in this segment. For many years, transactional volume has been declining by 1% to 4% a year. The Fund is a leader in its market, with a solidly diversified customer base and long-standing relationships with a number of key customers.

Competition

Despite Supremex's leading market position in Canada, new entrants into the Canadian envelope market may have an impact on sales and margins. The strengthening of the Canadian dollar against the US dollar created an incentive for US-based competitors to increase market penetration in Canada in the last two years. The large US envelope manufacturers are using their excess capacity to penetrate the Canadian envelope market. As long as the US market stays relatively soft, which we expect will continue through 2010, we will experience pricing pressure in the Canadian market. This phenomenon has been amplified since April 2008, coinciding with the termination of the non-solicitation agreement with Cenveo. In the fall of 2008, the Canadian dollar weakened by almost 25%, easing the pressure on the Canadian envelope market. Since then, the dollar has regained most of its loss and has been trading close to parity with the US dollar, creating pressure on pricing in Canada. However, the cost of freight coupled with the efficiency of delivery are barriers to servicing any significant customer volume from a distance.

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

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

Exchange Rate

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

Net exposure to the US dollar has increased over the last two years: due to lower sales volume, revenue generated in the United States represented 7.6% of consolidated revenue in fiscal 2009, down from 10.1% in fiscal 2008, while US dollar purchases have risen over the last two years as most of our large suppliers are US-based.

Availability of Capital

In 2009, the Fund has completed the refinancing of its credit facilities totalling $110 million consisting of a $35 million revolving facility and $75 million term credit facility. Both facilities mature on January 4, 2012. Although the Fund has carried out this refinancing activity during an economic crisis, this is not a guarantee that additional funds will be available in the future, and if they are, that they will be provided in a timeframe and under conditions acceptable to the Fund. On January 18, 2010, the Board of Trustees believed it was prudent to reduce the monthly distribution from $0.05 per unit to $0.01 per unit, commencing in the month of January 2010, in order to reduce the Fund's debt, preserve cash and increase capital flexibility.

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

Raw Materials Price Increases

The primary raw materials the Fund uses are paper, window material, glue and ink. Fluctuations in raw material and energy prices 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 such as the one announced during the fall of 2009. While paper costs were generally a pass through in the past, an increase in the price of paper can negatively effect our operations if it changes the purchasing habits of our customers, especially in the current economic conditions. Moreover, an increase in the price of paper negatively affects the profitability of Supremex if the increases cannot be passed on to the customer. To mitigate this risk, the Fund does not rely on any one supplier and is generally disciplined in passing on any raw material increases to its customers.

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

Credit

The Fund is exposed to credit risk with respect to trade receivables. To mitigate this risk, the Fund analyzes and reviews the financial health of its current customers on an ongoing basis. A specific credit limit is established for each customer and reviewed periodically by the Fund. Supremex is protected against any concentration of credit risk through its clientele and geographic diversity. No single customer accounts for more than 9% of consolidated accounts receivable. Supremex's customer base is solidly diversified and consists mainly of large national customers, such as large Canadian corporations, nationwide resellers and governmental bodies, as well as paper merchants and solution and process providers. Historically, the level of bad debt has been low given the nature of the customers. As at December 31, 2009, 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, 2008 and showed the registered retirement plans to be in a solvency deficit position. 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.

The actuarial funding valuation report determines the amount of cash the Fund is required to contribute to the registered retirement plans. The last funding reports showed the registered retirement plans to be in a solvency surplus position, which will not be the case as at December 31, 2009. 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. With the market volatility in 2008 and 2009 and the low level of interest rates, we expect a deficit of the pension plans of $10 to $15 million at the end of 2009. 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 $2 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 2009, the floating-rate portion of the Fund's long-term debt represented 20% of total long-term debt, while the fixed-rate portion represented 80% in view of the interest rate swap. The floating-rate portion of long-term debt increased in 2007 and 2008 following the two acquisitions and the normal course issuer bid, but it decreased in 2009 mainly due to the reduction in distributions since January 2009. Floating-rate debt bears interest rates based on bankers' acceptances. 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 4.817% until March 31, 2010, excluding an applicable margin which is 425 basis points as at December 31, 2009. Following the renewal of its credit facilities, the Fund is currently assessing the conditions for a new swap for the period after March 31, 2010.

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

The Canadian central bank has reduced its rates since the second quarter of fiscal 2008. The Fund benefits partially from such reductions in its floating rate debt. The Fund believes that Canadian interest rates are likely to remain low in fiscal 2010.

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

Forward-looking statements are subject to certain risks and uncertainties, and should not be read as guarantees of future performance or results and actual results may differ materially from the conclusion, forecast or projection stated in such forward-looking statements. These risks, uncertainties and other factors include but are not limited to the following: economic cycles, availability of capital, decline in envelope consumption, increase of competition, exchange rate fluctuation, raw material increases, credits risks with respect to trade receivables, increase in funding of pension plans, postal services deficiencies, interest rates fluctuation and potential risk of litigation. Such assumptions, expectations, estimates, risks and uncertainties are discussed throughout our MD&A for the fiscal year 2009 and, in particular, in "Risk Factors". Consequently, we can not guarantee that any forward-looking statements will materialize. Readers should not place any undue reliance on such forward-looking statements. Supremex disclaims any intention or obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

Definition of EBITDA, Distributable Cash and Non-GAAP Measures

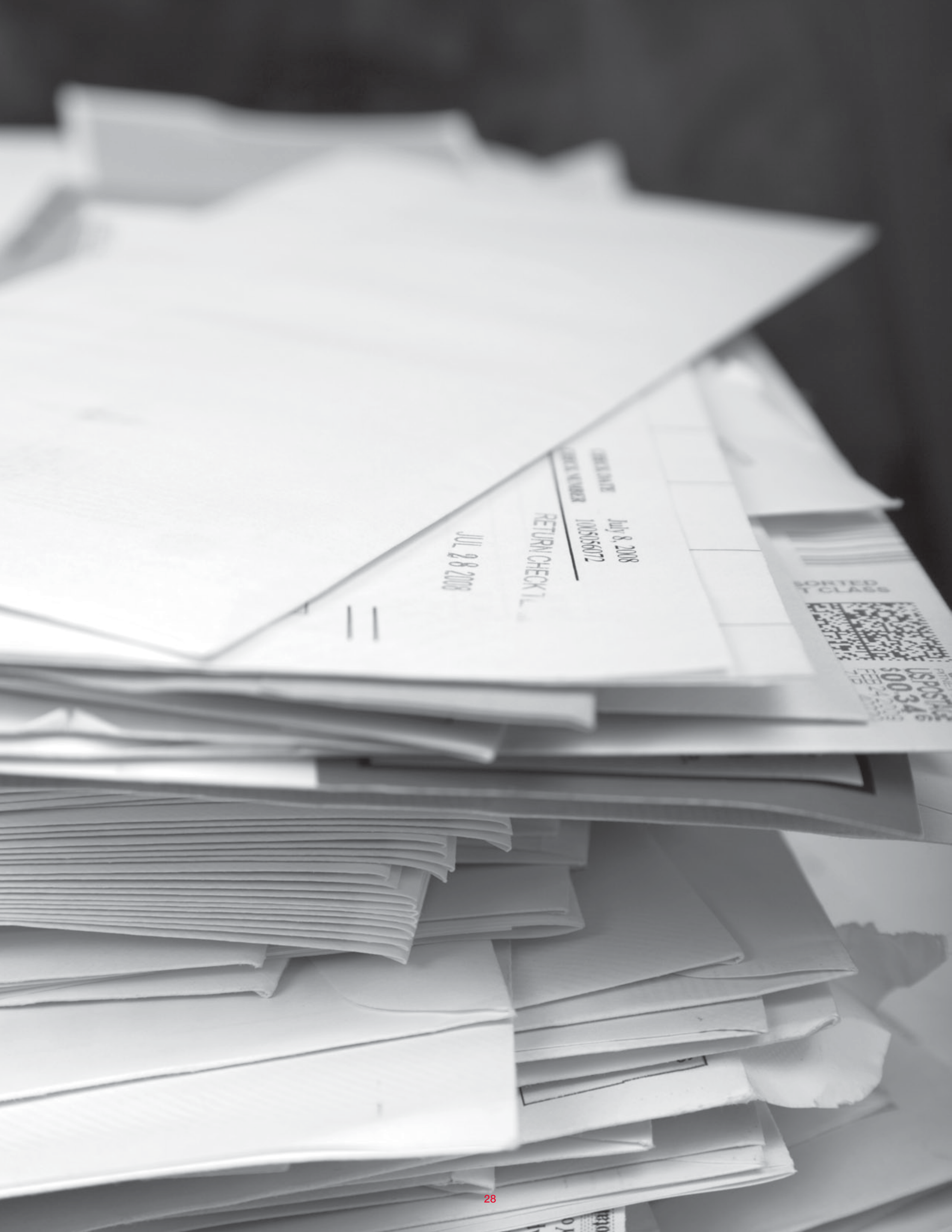
References to "EBITDA" are to loss before net financing charges, income taxes, amortization of property, plant and equipment, intangible assets, deferred compensation, impairment of goodwill and loss on disposal of property, plant and equipment.

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

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


July 8, 2008
RETURN CHECK
JUL 28 2008
SORTED
$00.34

Consolidated Financial Statements

Supremex Income Fund
December 31, 2009 and 2008 – All amounts expressed in Canadian dollars

Management's Report

for Financial Statements

The preparation and presentation of the consolidated financial statements of Supremex Income Fund and the other financial information contained in this Annual Report are the responsibility of management. This responsibility is based on a judicious choice of appropriate accounting principles and methods, the application of which requires making estimates and informed judgements. It also includes ensuring that the financial information in the Annual Report is consistent with the consolidated financial statements. The consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles and were approved by the Board of Trustees.

Supremex Income Fund maintains accounting systems and internal controls over the financial reporting process which, in the opinion of management, provide reasonable assurance regarding the accuracy, relevance and reliability of financial information and the well-ordered, efficient management of the Fund's affairs.

The Board of Trustees fulfills its duty, to oversee management in the performance of its financial reporting responsibilities and to review the consolidated financial statements and Annual Report, principally through its Audit Committee. This Committee is comprised solely of trustees who are independent of the Fund and is also responsible for making recommendations for the nomination of external auditors. Also, it holds periodic meeting with members of management as well as external auditors, to discuss internal controls, auditing matters and financial reporting issues. The external auditors have access to the Committee without management. The Audit Committee has reviewed the consolidated financial statements and Annual Report of Supremex Income Fund and recommended their approval to the Board of Trustees.

The enclosed consolidated financial statements were audited by Ernst & Young LLP, Chartered Accountants, and their report indicates the extent of their audit and their opinion on the consolidated financial statements.

Gilles Cyr, CA
President and Chief Executive Officer

Stéphane Lavigne, CA
Vice-President and Chief Financial Officer

February 5, 2010

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, 2009 and 2008 and the consolidated statements of loss and deficit, cash flows and comprehensive loss 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, 2009 and 2008 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 5, 2010

1. CA auditor permit No. 11782

Consolidated Balance Sheets

As at December 31	**2009** **$**	2008 $
ASSETS (note 13)		
Current		
Cash	**38,962**	4,989,775
Accounts receivable (note 5)	**21,092,867**	24,965,943
Inventories (note 6)	**13,921,726**	17,327,065
Prepaid expenses	**1,429,144**	1,211,788
Future income tax (note 14)	**3,635,038**	1,133,356
Total current assets	**40,117,737**	49,627,927
Property, plant and equipment, net (note 7)	**40,056,241**	44,620,759
Accrued pension benefit asset (note 8)	**4,985,800**	4,973,900
Intangible assets, net (note 9)	**38,926,829**	45,090,729
Goodwill (notes 2 and 10)	**75,501,125**	118,356,050
	199,587,732	262,669,365
LIABILITIES AND UNITHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities (note 11)	**18,534,512**	23,610,131
Accrued restructuring provision (note 12)	**795,018**	1,327,080
Distribution payable (note 17)	**1,464,888**	2,806,726
Current portion of secured credit facilities (note 13)	**7,500,000**	—
Current portion of derivative liability (note 21)	**808,652**	2,842,065
Total current liabilities	**29,103,070**	30,586,002
Secured credit facilities (note 13)	**84,379,377**	110,751,797
Future income tax (note 14)	**11,945,354**	9,470,216
Derivative liability (note 21)	**—**	701,913
Other post-retirement benefits obligation (note 8)	**814,300**	861,700
Unitholders' equity		
Fund units (note 15)	**282,798,322**	282,798,322
Contributed surplus (note 16)	**7,625,424**	7,625,424
Deferred compensation (note 15)	**(1,260,512)**	(6,454,110)
Deficit	**(215,817,603)**	(171,091,173)
Accumulated other comprehensive loss (note 18)	**—**	(2,580,726)
	73,345,631	110,297,737
	199,587,732	262,669,365

Commitments, contingencies and guarantees (note 19)
Subsequent event (note 23)

See accompanying notes.

On behalf of the Trustees:

L.G. Serge Gadbois
Trustee

Gilles Cyr
Trustee

Consolidated Statements of Loss and Deficit

Years ended December 31,	2009 $	2008 $
Revenue	**166,233,035**	182,552,864
Cost of goods sold, selling, general and administrative expenses	**127,473,515**	138,213,571
Earnings before the following	**38,759,520**	44,339,293
Amortization of property, plant and equipment	**4,668,196**	5,088,712
Amortization of intangible assets	**6,163,900**	6,059,233
Amortization of deferred compensation	**5,193,598**	5,444,890
Impairment of goodwill (note 10)	**43,000,000**	148,274,695
Loss on disposal of property, plant and equipment	**293,373**	148,300
Net financing charges (note 13)	**6,672,629**	5,960,478
Restructuring expenses (note 12)	**818,452**	698,748
	66,810,148	171,675,056
Loss before income taxes	**(28,050,628)**	(127,335,763)
Income taxes recovery (note 14)	**(902,854)**	(4,647,890)
Net loss	**(27,147,774)**	(122,687,873)
Deficit, beginning of year	**(171,091,173)**	(14,662,862)
Distribution declared (note 17)	**(17,578,656)**	(33,740,438)
Deficit, end of year	**(215,817,603)**	(171,091,173)
Basic net loss per unit	**(0.9266)**	(4.1782)
Weighted average number of units outstanding	**29,297,767**	29,363,615

See accompanying notes

Consolidated Statements of Cash Flows

Years ended December 31,	**2009** **$**	2008 $
OPERATING ACTIVITIES		
Net loss	**(27,147,774)**	(122,687,873)
Items not affecting cash and cash equivalents		
Amortization of property, plant and equipment	**4,668,196**	5,088,712
Amortization of intangible assets	**6,163,900**	6,059,233
Amortization of deferred compensation	**5,193,598**	5,444,890
Amortization of deferred financing costs	**313,612**	175,426
Impairment of goodwill (note 10)	**43,000,000**	148,274,695
Loss on disposal of property, plant and equipment	**293,373**	148,300
Future income taxes recovery	**(907,646)**	(4,651,823)
Change in post-retirement benefits obligation	**(47,400)**	(135,800)
Change in accrued pension benefit assets	**(11,900)**	312,100
Net change in non-cash working capital balances	**1,690,548**	6,666,069
Cash flows related to operating activities	**33,208,507**	44,693,929
INVESTING ACTIVITIES		
Business acquisitions, net of cash acquired (note 2)	**344,257**	(13,398,411)
Additions to property, plant and equipment	**(814,381)**	(3,937,943)
Proceeds from disposal of property, plant and equipment	**417,330**	2,478,034
Cash flows related to investing activities	**(52,794)**	(14,858,320)
FINANCING ACTIVITIES		
Revolving credit facility	**(15,675,819)**	10,043,049
Term credit facility	**(1,875,000)**	—
Distributions paid on Fund units	**(18,920,494)**	(33,766,342)
Financing costs incurred	**(1,635,213)**	(54,734)
Purchase of Fund units for cancellation	**—**	(1,510,316)
Cash flows related to financing activities	**(38,106,526)**	(25,288,343)
Net change in cash and cash equivalents	**(4,950,813)**	4,547,266
Cash and cash equivalents, beginning of year	**4,989,775**	442,509
Cash and cash equivalents, ending of year	**38,962**	4,989,775
Supplemental information		
Interest paid	**4,900,407**	5,325,336
Income taxes paid	**4,697**	—

See accompanying notes

Consolidated Statements of Comprehensive Loss

Years ended December 31,	**2009** **$**	2008 $
Net loss	**(27,147,774)**	(122,687,873)
Other comprehensive income (loss)		
Change in fair value of derivative designated as cash flow hedge net of income taxes	**(198,846)**	(2,400,034)
Reclassification adjustment for loss on derivative designated as cash flow hedge transferred to net loss, net of income taxes	**2,779,572**	390,000
Comprehensive loss	**(24,567,048)**	(124,697,907)

See accompanying notes

Note 1

Nature of Business and Basis of Presentation

Supremex Income Fund (the "Fund") is an unincorporated open-ended trust established under the laws of the Province of Québec pursuant to a Declaration of Trust dated February 10, 2006, as may be amended, supplemented or restated from time to time and began its operations on March 31, 2006.

The Fund owns Supremex Inc. ("Supremex"), a manufacturer and marketer of a broad range of stock and custom envelopes and related products.

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

Note 2

Business Acquisition

On September 16, 2008, the Fund acquired substantially all the assets of Montreal Envelope ("Montreal") for $12.9 million. The cash payment was funded with funds raised from the existing revolving credit facility.

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

	$
Accounts receivable	1,731,851
Inventories	1,329,668
Prepaid expenses	52,823
Property, plant and equipment	1,947,299
Future income tax assets	285,151
Intangible assets	1,570,000
Goodwill	8,077,011
Accounts payable and accrued liabilities	(1,053,082)
Accrued restructuring provision	(968,560)
Post-retirement benefits obligation	(80,900)
Net assets acquired	12,891,261
Consideration	
Cash	12,975,567
Balance of sale receivable	(84,306)

As a result of finalizing the integration plan, liabilities of $968,560 have been included in the purchase price allocation of Montreal, relating to estimated costs associated with severance and exit costs.

Note 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 per unit

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

Cash and cash equivalents

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

Inventories

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

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.

Note 3 | Summary of Significant Accounting Policies (cont'd)

Deferred financing costs

Financing costs related to secured credit facilities are capitalized and amortized using the effective interest rate method.

Intangible assets

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

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

Goodwill

Goodwill represents the excess of acquisition cost over fair value of the net assets of the business acquired. Goodwill is tested for impairment annually on December 31 or more often if events or changes in circumstances indicate that it might be impaired. The impairment test consists of a comparison of the fair value of the reporting unit to which goodwill is assigned with its carrying amount. Any impairment loss in the carrying amount compared with the fair value is charged to earnings in the year in which the impairment occurs. The Fund uses the discounted cash flows method to determine the fair value of its reporting unit.

Revenue recognition

The Fund recognizes revenue when persuasive evidence of an arrangement exists, product delivery has occurred, pricing is fixed or determinable, and collection is reasonably assured. In addition, when the customer requests a bill and hold, revenue is recognized when the customer is invoiced for goods that have been produced, packaged and made ready for shipment. These goods are shipped within a specified period of time and are segregated from inventory which is available for sale, the risk of ownership of the goods is assumed by the customer, and the terms and collection experience on the related billings are consistent with all other sales.

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

Employee future benefits

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

The Fund accrues its obligations for the defined benefit component of its pension plans and other post-retirements and post-employment benefits and related costs, net of plan assets. The cost of pensions and other retirement benefits earned by employees is actuarially determined, at least every three years, using the projected benefit method prorated on service and Management's best estimate of plan investment performance, salary escalation, retirement age and estimated health care costs. For the purpose of calculating the expected return on plan assets, those assets are valued at fair market value. The Fund uses a measurement date of December 31. The most recent actuarial valuations were performed on December 31, 2006 for two plans and on December 31, 2008 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 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 28.4%, 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.

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

The Fund 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 were recorded in the consolidated financial statements. Gains and losses were recognized in comprehensive loss to the extent that the hedging relationship is effective. On December 1, 2009, the Fund renewed its credit facilities with substantial modifications accounted for as an extinguishment of the original financial liabilities. As a result, the amount in the accumulated other comprehensive loss relating to the interest swap was transferred into the net loss as a loss on settlement of the credit facilities. Future change in the fair value of the interest rate swap will be charged to the net loss.

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.

Note 3 | Summary of Significant Accounting Policies (cont'd)

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 loss 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.
- 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 loss, net of income taxes.

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

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

Level 1: This level includes assets and liabilities measured at fair value based on unadjusted quoted prices for identical assets and liabilities in active markets that are accessible at the measurement date.

Level 2: This level includes valuations determined using directly or indirectly observable inputs other than quoted prices included within Level 1. Derivative financial instruments in this category are valued using models or other industry standard valuation technique derived from observable market inputs.

Level 3: This level includes valuations based on inputs which are less observable, unavailable or where the observable data does not support a significant portion of the instruments' fair value.

Note 4

New Accounting Policy

Adopted in 2009

In the first quarter of 2009, the Fund adopted the new accounting standard issued by the Canadian Institute of Chartered Accountants ("CICA"): Section 3064 "*Goodwill and Intangible Assets*". This new standard establishes financial reporting for the recognition, measurement, presentation and disclosure of goodwill and intangible assets.

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

Note 5

Accounts Receivable

	2009	2008
	$	$
Trade receivables	**19,649,384**	23,224,711
Others	**1,443,483**	1,656,926
Balance of sale receivable (note 2)	**—**	84,306
	21,092,867	24,965,943

Note 6
Inventories

	2009 $	2008 $
Raw materials	**3,386,049**	4,456,695
Work in process	**365,755**	359,069
Finished goods	**10,169,922**	12,511,301
	13,921,726	17,327,065

The cost of inventories recognized as an expense in 2009 is $115,303,577 (2008 – $124,477,093).

Note 7
Property, Plant and Equipment

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

	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

Note 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 the acquired business of NPG Envelope ("NPG") which was terminated in 2008.

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

	2009 **$**	2008 $
Defined benefit plans		
Current service costs	**1,920,000**	2,959,800
Interest expense	**4,232,100**	3,817,300
Actual return on plan assets	**(8,261,800)**	9,314,400
Actuarial loss (gain) on benefit obligation	**11,250,600**	(16,390,100)
Difference between expected return and actual return on plan assets for the year	**4,412,000**	(13,993,100)
Difference between actuarial (gain) loss recognized for the year and actual actuarial (gain) loss on benefit obligation for the year	**(11,250,600)**	16,390,100
Difference between amortization of past service costs for the year and actual plan amendments for the year	**21,100**	21,100
Defined benefit plans expense	**2,323,400**	2,119,500
Defined contribution plan expense	**484,000**	484,000
Pension plans expense	**2,807,400**	2,603,500

Total cash payments contributed by the Fund for its defined benefit and defined contribution plans were approximately $2,801,000 (2008 – $2,158,000).

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.

	2009 $	2008 $
Change in projected benefit obligation		
Benefit obligation, beginning of the year	**56,893,000**	69,345,200
Service cost	**2,599,700**	3,635,300
Interest cost	**4,232,100**	3,817,300
Actuarial losses (gains)	**11,250,600**	(16,390,100)
Benefits paid	**(3,529,800)**	(3,514,700)
Benefit obligation, end of year	**71,445,600**	56,893,000
Change in plan assets		
Fair value of plan assets, beginning of the year	**59,484,400**	69,830,600
Actual return on plan assets	**8,261,800**	(9,314,400)
Employees contribution	**679,700**	675,500
Employer contribution	**2,335,300**	1,807,400
Benefits paid	**(3,529,800)**	(3,514,700)
Fair value of plan assets, end of year	**67,231,400**	59,484,400
Funded status – Plan (deficit) surplus	**(4,214,200)**	2,591,400
Unrecognized actuarial loss	**9,016,700**	2,178,100
Unrecognized prior service cost	**183,300**	204,400
Net amount recognized as accrued pension benefit asset	**4,985,800**	4,973,900

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

	2009 %	2008 %
Discount rate for projected benefit obligation	**6.25**	7.50
Discount rate for net pension cost	**7.50**	5.50
Expected return on plan assets	**6.50**	6.75
Rate of compensation increase	**3.50**	3.50

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

	2009 %	2008 %
Equity securities	**54.5**	55.3
Debt	**36.9**	37.9
Cash and short-term securities	**8.6**	6.8
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.

Note 8 | Post-Retirement Benefits Obligation (cont'd)

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.

	2009 $	2008 $
Change in projected benefit obligation		
Benefit obligation, beginning of year	**687,300**	1,054,500
Increase in benefit obligation	**—**	80,900
Service cost	**—**	3,800
Interest cost	**48,200**	54,400
Benefits paid	**(86,000)**	(93,400)
Actuarial losses (gains)	**7,500**	(302,300)
Curtailment gain	**—**	(110,600)
Benefit obligation, end of year	**657,000**	687,300
Funded status		
Funded status – Plan deficit	**657,000**	687,300
Unrecognized net actuarial gains	**(157,300)**	(174,400)
Net liabilities	**814,300**	861,700

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

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

	2009 $	2008 $
Current service cost	**—**	3,800
Interest cost on liability	**48,200**	54,400
Actuarial loss (gain) on benefit obligation	**7,500**	(302,300)
Curtailment gain	**—**	(110,600)
Difference between actuarial (gain) loss recognized for the year and actual actuarial (gain) loss on benefit obligation for the year	**(17,100)**	312,300
Net periodic post-retirement benefit cost (revenue)	**38,600**	(42,400)

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

	2009 %	2008 %
Weighted-average assumptions		
Discount rate for benefit obligation	**6.25**	7.50
Discount rate for net periodic benefit cost	**7.50**	5.50

As at December 31, 2009, the assumed health care trend rate for 2009 was 6.7% progressively declining to 2.5% in 2024.

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

Note 9
Intangible Assets

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

	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

Note 10
Impairment of Goodwill

Under Canadian GAAP, goodwill is not amortized but is subject to an impairment test. As at December 31, 2009, 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 $43,000,000 was recorded in the fourth quarter of 2009 (2008 - $147,800,000). The contributing factors to the impairment of goodwill include reduced selling prices driven mainly by the strength of the Canadian dollar and lower volume due to the overall economic slowdown, all leading to a reduction in the value of companies in our industry.

Note 11

Accounts Payable and Accrued Liabilities

	2009 $	2008 $
Trade payables	**10,043,239**	12,799,213
Accrued liabilities	**8,491,273**	10,810,918
	18,534,512	23,610,131

Note 12

Accrued Restructuring Provision

In connection with the acquisition of NPG and Montreal, the Fund adopted a plan for the integration and restructuring of the acquired businesses. As a result, the Fund recognized a provision of $3,974,138 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 and deficit.

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

	2009 $	2008 $
Balance, beginning of year	**1,327,080**	1,042,136
Accrued restructuring included in purchase allocation	**199,097**	2,134,541
Restructuring expenses charged against earnings	**818,452**	698,748
Cash payments	**(1,549,611)**	(2,548,345)
Balance, end of year	**795,018**	1,327,080

Note 13

Secured Credit Facilities

In December 2009, the Fund renewed and amended its credit agreement. The renewed secured credit facilities consist of a $35 million revolving facility ($45 million before the renewal) and a $75 million term credit facility. Both facilities bear interest at a floating rate based on the Canadian prime rate, the US base rate, LIBOR or bankers' acceptance rates plus an applicable margin on those rates.

The revolving credit facility may be used for general corporate purposes, working capital requirements and permitted acquisitions. Both facilities mature on January 4, 2012. The term credit facility is repayable in quarterly instalments of $1,875,000, principal only. In addition, 75% of the excess cash flow, as defined in the agreement, will be applied against the term credit facility until the ratio of debt to EBIDTA reaches 2.25, and 50% thereafter. A $10 million permitted acquisition basket is allowed as per the new credit facilities. Normal Course Issuer Bid is not allowed under the new credit facilities. As part of the renewal, the applicable margin has increased by approximately 250 basis points overall.

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

	2009 **$**	2008 $
Revolving credit facility	**20,324,181**	36,000,000
Term credit facility	**73,125,000**	75,000,000
Less: deferred financing costs, net	**(1,569,804)**	(248,203)
	91,879,377	110,751,797
Current portion	**(7,500,000)**	—
Long-term portion of secured credit facilities	**84,379,377**	110,751,797

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, 2009. The secured credit facilities are collateralized by hypothec and security interest covering all present and future assets of the Fund and its subsidiaries.

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

	$
2010	7,500,000
2011	7,500,000
2012	78,449,181

As at December 31, 2009, the interest rates on the revolving and term credit facilities were 4.85% and 4.76%, respectively. The Fund has an interest rate swap for its term credit facilities up to March 31, 2010 at a fixed rate of 4.817% plus applicable margin which is at 425 basis points as at December 31, 2009. As a result of the substantial modifications of its renewed credit facilities as at December 1, 2009, the Fund concluded that the change should be accounted for as an extinguishment of the original financial liabilities. Therefore the amount of $808,652 in the accumulated other comprehensive loss related to the interest swap was transferred into the net loss as a loss on settlement of credit facilities. The interest rate swap matures on March 31, 2010.

Net financing charges

	2009 **$**	2008 $
Interest on secured credit facilities	**5,551,861**	5,817,682
Loss on settlement of credit facilities	**808,652**	—
Other interest	**(1,496)**	(32,630)
Amortization of deferred financing costs	**313,612**	175,426
	6,672,629	5,960,478

Note 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:

	2009 **$**	2008 $
Future income tax liabilities (assets)		
Intangible assets	**8,848,543**	10,953,551
Property, plant and equipment	**4,987,876**	4,497,359
Accrued pension benefit asset	**1,278,142**	1,352,123
Post-retirement benefits obligation	**(208,751)**	(234,248)
Derivative liability	**—**	(963,409)
Initial public offering expenses	**(1,033,315)**	(1,967,350)
Other	**(1,376,859)**	(1,097,435)
Non-capital losses	**(4,185,320)**	(4,203,731)
	8,310,316	8,336,860
Current portion of future income tax assets	**3,635,038**	1,133,356
Long-term future income tax liabilities	**11,945,354**	9,470,216

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:

	2009 **$**	2008 $
Loss before income taxes	**(28,050,628)**	(127,335,763)
Income taxes recovery at combined federal and provincial statutory rate	**(8,723,745)**	(40,110,765)
Impact of interest expense of Supremex paid to the Fund, eliminated on consolidation	**(5,659,718)**	(10,825,873)
Impact of impairment of goodwill not deductible for tax purposes	**12,502,845**	43,523,913
Effect of change in enacted tax rates	**(948,182)**	740,369
Impact of amortization of deferred compensation not deductible for tax purposes	**1,615,209**	1,715,140
Non deductible expenses and other	**310,737**	309,326
Income taxes recovery	**(902,854)**	(4,647,890)

Income taxes recovery is as follows:

	2009 **$**	2008 $
Current	**4,792**	3,933
Future	**(907,646)**	(4,651,823)
Income taxes recovery	**(902,854)**	(4,647,890)

Note 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 21, 2008, the Fund could have purchased for cancellation up to 1,800,000 units until November 20, 2009. During the year ended December 31, 2009, the Fund did not purchase any units for cancellation.

	2009 Number	**2009** Amount $	2008 Number	2008 Amount $
Fund units				
Balances, beginning of year	**29,297,767**	**282,798,322**	29,568,167	285,408,373
Purchased units for cancellation	**—**	**—**	(270,400)	(2,610,051)
Balances, end of year	**29,297,767**	**282,798,322**	29,297,767	282,798,322

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 April 1, 2008 and 25% on April 1, 2009. The remaining units held in escrow will be released on April 1, 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.

Note 16

Contributed Surplus

	2009 $	2008 $
Contributed surplus, beginning of year	**7,625,424**	6,525,689
Purchased units for cancellation	**—**	1,099,735
Contributed surplus, end of year	**7,625,424**	7,625,424

Note 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 (see note 23). Distributions to unitholders are recorded on an accrual basis. The December distribution in the amount of $1,464,888 was declared and accrued in December 2009 and paid to unitholders on January 15, 2010. Distributions for the period from January 1, 2009 to December 31, 2009 are as follows:

Period	Record date	Payment date	Per unit	Distribution $
January 2009	January 31, 2009	February 16, 2009	0.05	1,464,888
February 2009	February 28, 2009	March 16, 2009	0.05	1,464,888
March 2009	March 31, 2009	April 15, 2009	0.05	1,464,888
April 2009	April 30, 2009	May 15, 2009	0.05	1,464,888
May 2009	May 31, 2009	June 15, 2009	0.05	1,464,888
June 2009	June 30, 2009	July 15, 2009	0.05	1,464,888
July 2009	July 31, 2009	August 17, 2009	0.05	1,464,888
August 2009	August 31, 2009	September 15, 2009	0.05	1,464,888
September 2009	September 30, 2009	October 15, 2009	0.05	1,464,888
October 2009	October 31, 2009	November 16, 2009	0.05	1,464,888
November 2009	November 30, 2009	December 15, 2009	0.05	1,464,888
December 2009	December 31, 2009	January 15, 2010	0.05	1,464,888
			0.60	**17,578,656**

Note 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, 2009 and 2008 were as follows:

	2009 $	2008 $
Opening balance, net of income taxes	**(2,580,726)**	(570,692)
Change in fair value of derivative designated as cash flow hedge, net of income taxes of $65,329 ($895,811 in 2008)	**(198,846)**	(2,400,034)
Reclassification adjustment for loss on derivative designated as cash flow hedge transferred to net loss, net of income taxes of $1,028,581 ($145,568 in 2008)	**2,779,572**	390,000
Accumulated other comprehensive loss	**—**	(2,580,726)

Note 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:

	$
2010	2,192,314
2011	1,694,008
2012	1,116,002
2013	821,812
2014	702,311
2015 and thereafter	2,944,476
Total	9,470,923

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:

Operating leases

The Fund has general indemnity clauses in many of its real estate leases whereby it, as lessee, indemnifies the lessor against liabilities related to the use of leased property. These leases mature at various dates through September 2019. The nature of the agreements varies based on individual contracts and this prevents the Fund from estimating the total potential amount it would have to pay to lessors. 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, 2009, 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, 2009, it has not recorded any liability associated with these indemnifications.

Note 20

Segmented Information

The Fund currently operates in one business segment: the manufacturing and sale of envelopes. The Fund's net assets amounted to $72,292,303 in Canada and $1,053,328 in the United States as at December 31, 2009 (2008 - $109,007,203 and $1,290,534, respectively). The Fund's revenue amounted to $153,626,947 in Canada and $12,606,088 in the United States for the year ended December 31, 2009 (2008 - $168,523,824 and $14,029,040, respectively).

Note 21

Financial Instruments

Fair value

As at December 31, 2009 and 2008, the carrying amounts of financial assets designated as loans and receivables, consisting primarily of accounts receivable and short-term financial liabilities classified as other financial liabilities, approximate their fair value given that they are expected to be realized or settled in the short term. The carrying amount of secured credit facilities approximates its fair value given its nature and floating interest rate.

The fair value of interest rate swap is measured using a generally accepted valuation technique and taking into consideration the Fund's credit risk.

The fair value and carrying amounts of the interest rate swap are as follows:

		Liabilities
	2009	2008
	$	$
Short-term	**808,652**	2,842,065
Long-term	**—**	701,913
	808,652	3,543,978

As the fair value of the derivative financial instruments is determined using a model derived from observable market inputs, the fair value hierarchy of this financial instrument would be Level 2.

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 the Fund's diversified customer base. Historically, the Fund has never made any significant write-off of accounts receivable. As at December 31, 2009 and 2008, 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, 2009, this agreement covers 80% (2008 – 68%) of the facilities outstanding.

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, 2009, a 25 basis-point rise or fall in interest rates, assuming all other variables remained unchanged, would have resulted, respectively, in a $52,107 increase or decrease in the Fund's net loss for the year ended December 31, 2009.

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, 2009, the Fund's contractual obligations for 2010 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.

Foreign exchange risk

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

As at December 31, 2009, net financial liabilities in Canadian dollars of the Fund, denominated in US dollars, totalled $2,135,833 (2008 – $761,561).

On December 31, 2009, 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 $106,792 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.

Note 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; 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. In January 2010, in light of a number of factors, including the more restrictive conditions of the renewed credit facilities and the current economic environment, the Fund decided to reduce annual distribution for 2010 to $0.12 per unit from $0.60, to preserve its financial flexibility to seize potential opportunities and adopt a prudent stance. The Fund also monitors its capital to ensure full adherence to the "secured credit facilities/EBIDTA ratio" as defined in the credit facilities agreement.

Note 23

Subsequent Event

On January 18, 2010, the Fund announced its intention to reduce the monthly distribution from $0.05 per unit to $0.01 per unit, commencing in the month of January 2010. The Fund also announced its intention to convert to a corporation at the end of 2010.

Note 24

Comparative Figures

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

Corporate Information

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Security Summary
Trading Symbol: SXP.UN
Exchange: TSX

Senior Management Team

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President and Chief Executive Officer
General Manager, Eastern Region

Manon Cloutier, CA
Corporate Controller

Stewart Emerson
Vice-President and General Manager, Central Region

Edward (Ed) Gauer
General Manager, Western Region

Stephane Lavigne, CA
Vice-President, Chief Financial Officer and Corporate Secretary

Annual General Meeting of Unitholders

May 7, 2010 at 10:00 a.m.
Supremex - Head Office
7213 Cordner
LaSalle, Québec, Canada H8N 2J7

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