Superior Plus

2010 Annual Report

# Capturing

## Market Opportunities

# Optimizing

## Business Efficiencies

# Financial Highlights

## Financial Results

| (millions of dollars) | 2010 | 2009 |
|---|---|---|
| Revenues | **3,529.2** | 2,246.7 |
| Gross profit | **787.6** | 653.4 |
| EBITDA from operations [1] | **216.7** | 213.4 |
| Adjusted operating cash flow [1] | **136.1** | 163.9 |
| Net earnings (loss) | **(47.0)** | 68.3 |
| Dividends | **171.2** | 148.2 |
| **(dollar per basic share except shares outstanding)** | | |
| EBITDA from operations [1] | **2.05** | 2.35 |
| Adjusted operating cash flow [1] | **1.29** | 1.80 |
| Net earnings (loss) | **(0.45)** | 0.75 |
| Dividends | **1.62** | 1.62 |
| Weighted average shares outstanding (millions) | **105.6** | 91.0 |

## Financial Position

| (millions of dollars except debt ratios) | 2010 | 2009 |
|---|---|---|
| Total assets | **2,449.6** | 2,274.0 |
| Total liabilities | **1,999.5** | 1,689.5 |
| Net capital expenditures | **44.3** | 134.5 |
| Acquisitions | **171.4** | 322.0 |
| Senior debt [2] [3] | **670.3** | 738.1 |
| Total debt [2] [3] | **1,309.9** | 1,054.8 |
| Senior debt to Compliance EBITDA [4] | **3.1x** | 2.8x |
| Total debt to Compliance EBITDA [4] | **6.2x** | 3.9x |

[1] Earnings before interest, taxes, depreciation and amortization (EBITDA), EBITDA from operations and adjusted operating cash flow are not recognized financial measures under Canadian generally accepted accounting principles (GAAP). See Superior's Management's Discussion and Analysis, "Non-GAAP Financial Measures" for additional details.
[2] Includes off-balance sheet accounts receivable securitization program.
[3] Senior debt and total debt are stated before deferred issue costs.
[4] See Superior's Management's Discussion and Analysis for additional details and Superior's Consolidated Financial Statements for the calculation of Compliance EBITDA.

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Superior Plus

# Three Businesses
# One Goal
# Value Creation

**Three businesses with strong market positions focused on operational excellence, quality services and high safety standards. The businesses operate in mature industries and have modest ongoing capital requirements. Each business generates free cash flow and has future growth opportunities.**

## Energy Services

**Employees:**
2,810 people

**EBITDA from Operations:**
$91.1 million

**Fuel Distribution**
The largest retail supplier of propane, heating oil and other refined fuels in Canada and a growing retailer in the northeast United States.

**Supply and Portfolio Management**
A leader in natural gas liquids marketing.

**Fixed-Price Energy Services**
One of the largest Canadian energy marketers with commercial customers in Ontario, Quebec and British Columbia.

## Specialty Chemicals

**Employees:**
516 people

**EBITDA from Operations:**
$100.9 million

**A Leading Supplier of Specialty Chemicals and Technology-Related Services**

The second largest producer of sodium chlorate worldwide and the third largest producer of potassium chloralkali products in North America.

Specialty Chemicals' nine manufacturing facilities in North and South America produce chloralkali products, sodium chlorate and sodium chlorite.

## Construction Products Distribution

**Employees:**
1,451 people

**EBITDA from Operations:**
$24.7 million

**A Foremost Specialty Construction and Insulation Materials Distributor in Canada and the United States**

Leading distributor of walls and ceiling products and commercial and industrial insulation to commercial, residential and industrial markets. Productivity partner for customers.

Operational capacity includes 115 distribution centers in six provinces and 30 states.

# Letter to Shareholders

## A Year of Positioning

For Superior, 2010 was focused on adjusting our businesses for the impacts of the recession and integrating the significant growth initiatives undertaken in 2009 and early 2010.

These initiatives have positioned our overall business to profitably grow into the future. During 2009, Superior was very active in growing each of our three businesses, which included the Energy Services business's acquisition of three U.S. refined fuels businesses, the Specialty Chemicals business's successful start-up of its Port Edwards chemical facility and the Construction Products Distribution business's acquisition of Specialty Products and Insulation Inc. Although the initial phase of these growth initiatives was completed in 2009, in 2010 it was important that these significant initiatives be integrated and optimized within Superior's existing operations despite the significant costs and short-term challenges, in order to ensure that these key positioning moves will generate profitable growth in 2011 and beyond.

Significant integration and business optimization activities undertaken by Superior in 2010 included:

- Completion of a comprehensive systems upgrade at our Canadian propane business;
- Successful integration of our three U.S. refined fuels acquisitions into one business unit;
- Development and refinement of our sales and marketing strategy in our Energy Services business;
- Optimization of production and successful marketing of product from the Port Edwards chemical facility;
- Successful integration and restructuring of the Construction Products Distribution business; and
- Enhanced financial flexibility by extending our banking facility and the issue of convertible debentures.

## General Economic and Business Environment

The full impact of the recession hit in 2010 with a more challenging business environment than in 2009. Our businesses were impacted by the economic recession and, as a result, Superior acted by making structural adjustments to reduce costs and reposition sales efforts. It appears that the worst of the financial turmoil and resulting economic recession is behind us as we enter 2011, and we see positive economic indicators within our businesses. Certain structural challenges such as the current state of the U.S. economic recovery and the U.S. housing situation continue to present significant uncertainties. Superior continues to take steps to mitigate certain of these risks and position its businesses to grow in this environment of slow overall economic improvement. Despite the uncertainties and slower economic growth, the initiatives over the last three years have positioned us for growth in 2011 and beyond.

**The combination of the growth opportunities over the last few years and the integration and restructuring activities undertaken in 2010 have created the foundation for our future success.**

## Financial Performance

In 2010 Superior generated adjusted operating cash flow of $136.1 million or $1.29 per share, compared to $163.9 million or $1.80 per share in the prior year. Operating results in 2010 were impacted by the weak U.S. economy and a mixed performance within the Canadian economy, the record or near-record warm temperatures experienced across Canada and the northeast United States in the first quarter and one-time integration costs related to Superior's integration and restructuring activities throughout 2010. We are confident that the activities undertaken in 2010 and the continuation of our diversification strategy will result in an improvement in our financial performance in 2011 and beyond.

## Superior's Strategy Moving Forward

Superior believes that the combination of the growth initiatives initiated over the last few years and the integration and restructuring activities undertaken in 2010 have created the foundation for our future success. Superior remains committed to growing its three businesses in a profitable and sustainable manner, forming a strong foundation for Superior's long-term financial sustainability and its ability to continue to execute future growth initiatives. We foresee our future growth being generated by taking advantage of additional consolidation opportunities within our existing businesses while remaining committed to optimizing our existing businesses through the execution of internal growth projects and executing ongoing operational improvements.

Superior anticipates that the initiatives completed throughout 2010, normalized weather and the gradual continued improvement in the overall economy will drive improved operating results in 2011. Superior anticipates that its 2011 adjusted operating cash flow per share will be between $1.40 and $1.75 per share.

## Long-Term Dividend Strategy

As a result of the slow economic recovery, weaker than anticipated financial performance in 2010 and the outlook for slow economic growth in 2011 and beyond, Superior has determined that a reduction to its dividend is required. The reduction is necessary to better match the dividend with the current level of sustainable cash flows of the businesses in addition to allowing for potential variability of those cash flows. Superior has determined that its monthly dividend will be revised to $0.10 per share or $1.20 on an annualized basis, effective with the March 2011 dividend. Although it is a difficult decision to reduce the dividend, the reduction will support the long-term stability of Superior's business model which continues to be to provide our shareholders with a sustainable dividend, representing a significant portion of Superior's free cash flow, while balancing the need to fund ongoing maintenance and growth capital expenditures and the repayment of debt.

## Acknowledgements

Superior continues to execute its strategy and achieve success thanks to the hard work and dedication of our more than 4,700 employees. I would like to thank each of our employees for your commitment to your respective businesses. I also welcome every new employee to the Superior organization. In addition, I would like to thank each of our directors for your guidance, stewardship and efforts in ensuring the success of Superior. Finally, on behalf of the entire organization, I would like to thank our securityholders for your continued support and confidence in Superior.

On behalf of the Board of Directors,

**Grant D. Billing**
Chairman and Chief Executive Officer
February 28, 2011

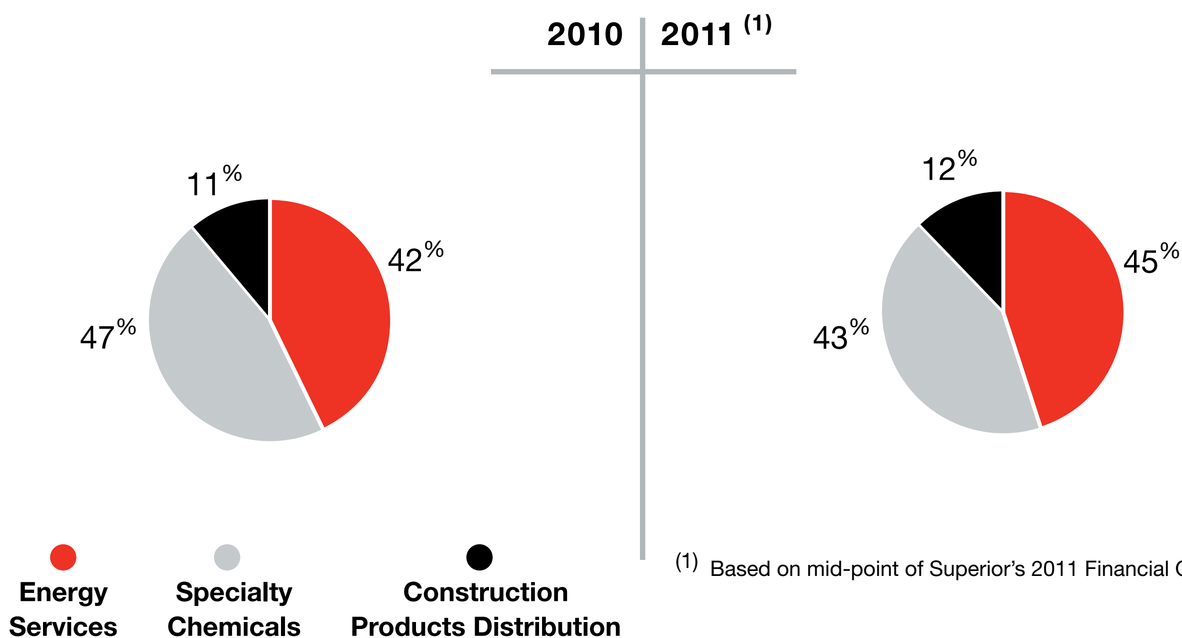
# 2011 Financial Outlook

## 2011 Financial Outlook [1]

| (millions of dollars except per share amounts) | 2011 Outlook |
|---|---|
| EBITDA from operations: | |
| Energy Services | 100 – 120 |
| Specialty Chemicals | 100 – 115 |
| Construction Products Distribution | 25 – 35 |
| Adjusted operating cash flow per share | $1.40 – $1.75 |

(1) The assumptions, definitions, risk factors, and comparison to the prior 2011 Financial Outlook relating to the current 2011 Financial Outlook are discussed in Superior's Management's Discussion and Analysis.

## EBITDA From Operations




(1) Based on mid-point of Superior's 2011 Financial Outlook.

# Energy Services

**Superior's Energy Services business provides distribution, supply portfolio management and related services covering propane, heating oil and other refined fuels throughout Canada and the northeast United States. Energy Services also provides fixed-price natural gas supply services in Ontario, Quebec and British Columbia and fixed-price electricity supply services in Ontario.**

Superior's Energy Services business's EBITDA from operations for 2010 was $91.1 million compared to $97.6 million in the prior year. The business's EBITDA from operations is calculated as follows:

| (millions of dollars) | 2010 | 2009 |
|---|---|---|
| Gross profit summary | | |
| Canadian propane distribution | **215.4** | 236.4 |
| U.S. refined fuels [1] | **130.1** | 15.3 |
| Other services | **44.4** | 29.0 |
| Supply portfolio management | **15.9** | 27.9 |
| Fixed-price energy services | **29.1** | 31.6 |
| | **434.9** | 340.2 |
| Operating expenses | **(343.8)** | (242.6) |
| **EBITDA from operations** | **91.1** | 97.6 |

(1) Superior's northeast U.S. refined fuels business was acquired in the third and fourth quarters of 2009 and first quarter of 2010.

Energy Services' results in 2010 were adversely affected by the record warm temperatures experienced in most of Canada and the northeast United States during the first quarter and the ongoing impact of the economic recession which reduced sales volumes and sales margins within the Canadian propane distribution and U.S. refined fuels business. These effects were partially offset by the full-year benefit of the U.S. refined fuels businesses acquired in the first quarter of 2010 and the fourth quarter of 2009. Supply portfolio management results in 2010 were affected by the absence of volatility in the wholesale cost of propane and reduced overall sales volumes.

## 2010 Key Initiatives

Superior continued to position its Energy Services business for the new economic environment, with the Canadian propane business completing a comprehensive systems upgrade that will ultimately provide enhanced customer interaction and service levels, in addition to further enhancing the on-board truck computer and logistical routing software that was introduced in prior years. The northeast U.S. refined fuels business completed the integration of the original three acquisitions into one business while establishing a new organizational structure. The Canadian propane and the northeast U.S. refined fuels business both continued to focus on sales and marketing functions throughout the year.

## 2011 Financial Outlook

Superior Energy Services' 2011 EBITDA from operations is expected to increase to $100-$120 million compared to $91.1 million in 2010. The expected increase is primarily due to the assumption of normalized weather in Canada and the northeast U.S., plus a modest improvement in Canadian propane volumes and sales margins due to improving economic conditions.

## Strategy Moving Forward

Superior will continue to position its Energy Services business to allow it to grow in a profitable and sustainable manner. The Energy Services business will strive to provide sustainable, long-term cash flow through the following measures:

- Continued investment in new technologies and optimization of the technologies introduced over the last several years;
- Integration of refined fuels into one business, providing a platform for improved operational performance and financial results;
- Completion of strategic acquisitions, which will allow for improved utilization of the existing business platform;
- Continued expansion of sales and marketing programs;
- Cross-selling of complementary product offerings amongst Superior's existing customer base; and
- Optimization of storage and delivery capacity for propane and refined fuels, which will provide the supply portfolio management business with increased market opportunities.

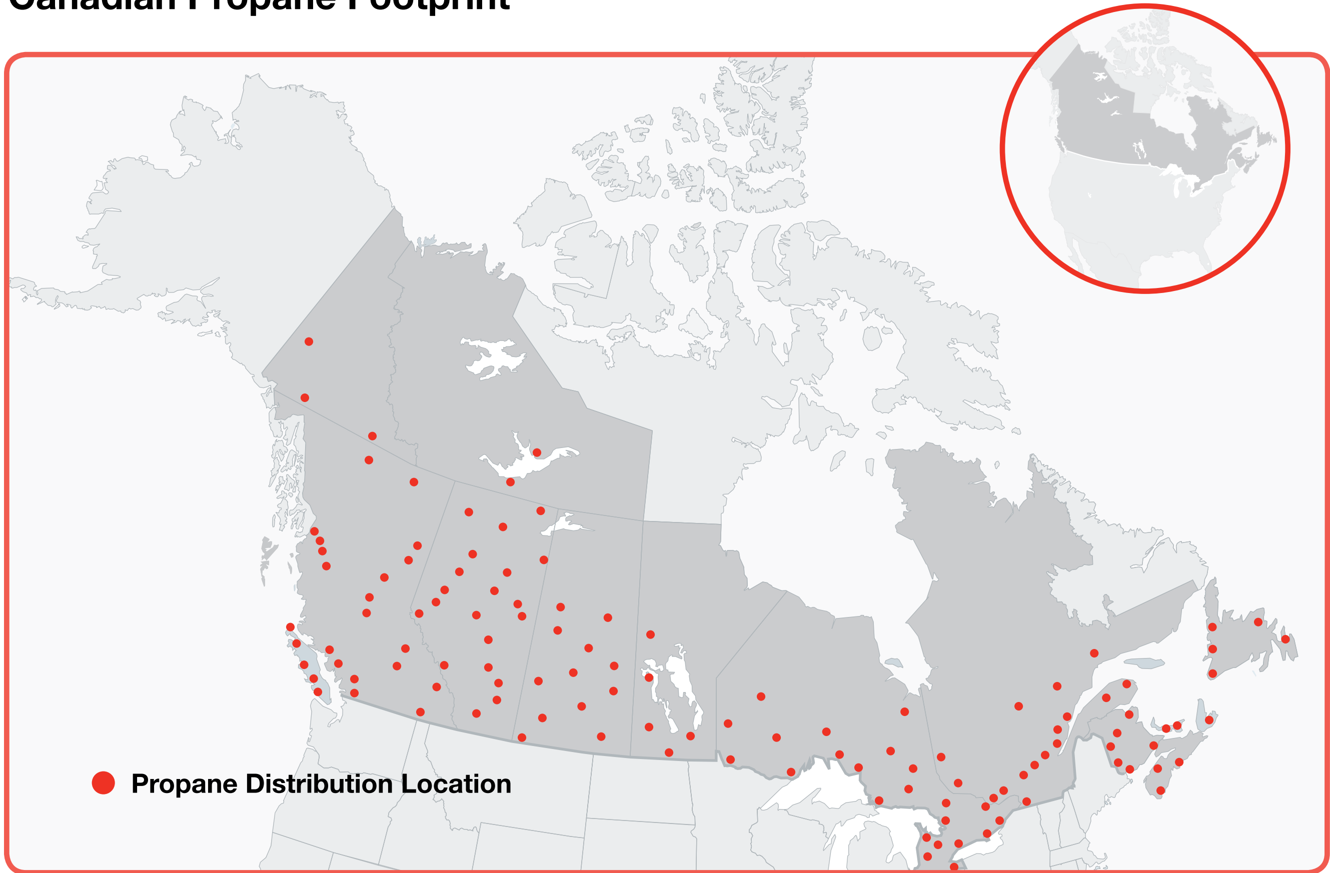
## Energy Services at a Glance [1]

The acquisition of the northeast United States refined fuels and propane assets has provided the Energy Services business with a large diversified customer base.

| | Canadian Propane Distribution | U.S. Refined Fuels | Fixed-Price Energy Services | Total |
|---|---|---|---|---|
| Customers | 160,000 | 224,000 | 130,422 | 514,422 |
| Sales volumes (millions of litres) | 1,235 | 1,702 | n/a | 2,937 |
| Fleet (number of vehicles) | 779 | 1,042 | n/a | 1,821 |
| Employees | 1,549 | 1,196 | 51 | 2,796 |

(1) Excludes the operations of the supply portfolio management business.

## Canadian Propane Footprint




## Northeast U.S. Refined Fuels Footprint

# Specialty Chemicals

**Superior's Specialty Chemicals business is a leading supplier of sodium chlorate and technology to the pulp and paper industries, and a regional supplier in the midwest United States of potassium and chloralkali products.**

Specialty Chemicals' EBITDA from operations for 2010 was $100.9 million compared to $93.0 million in the prior year. The business's EBITDA from operations is calculated as follows:

| (millions of dollars) | 2010 | 2009 |
|---|---|---|
| Gross profits | **220.0** | 210.0 |
| Operating expenses | **(119.1)** | (117.0) |
| **EBITDA from operations** | **100.9** | 93.0 |
| **Chemical sales volumes** (thousands of metric tonnes) | **735** | 634 |

Specialty Chemicals' 2010 operating results were a significant improvement over the prior year due principally to the increase in sales throughout 2010 from the Port Edwards, Wisconsin facility which was commissioned in the fourth quarter of 2009, in addition to improved chemical sales volumes due to the ongoing improvement in the general economy.

Gross profits from sodium chlorate sales volumes improved in 2010 over the prior year due to strong demand for pulp. Historically high selling prices for pulp throughout 2010 resulted in a strong market for pulp, which resulted in the restart of a number of pulp mills in North America. Although pulp demand and pricing moderated in the second half of 2010, the overall market continues to be strong, providing demand and pricing stability for sodium chlorate.

Gross profits from chloralkali sales volumes were higher in 2010 than in the prior year due to additional sales volumes associated with the start-up of the Port Edwards facility, as noted above, which was operating at, or near capacity, by the end of 2010. As a result of marketing efforts during 2009 and 2010, sales volumes accelerated throughout 2010, positioning the facility for improved results in 2011. Sales prices of chloralkali products in 2010 were stronger than in 2009 due to general economic improvements, which improved supply/demand fundamentals.

## Ongoing Investments in our Facilities

The Specialty Chemicals business continued to invest in capital efficiency projects during 2010. The focus of these projects was on improving the electrical efficiency of the chemical facilities and exploring uses for hydrogen, a by-product of the chemical manufacturing process. By reducing electrical consumption by the facilities, the Specialty Chemicals business is able to reduce its operating costs, thereby increasing the competitiveness of these facilities in the North American market place.

## Specialty Chemicals Manufacturing Facilities

An additional benefit is that reduced electrical consumption also results in reduced greenhouse gas emissions. The Specialty Chemicals business also completed an arrangement with CMPC Celulosa S.A., the strategic partner at its Chilean operations, with respect to ownership of electrical generation at CMPC's pulp facility, providing enhanced returns at the Chilean facility.

## 2011 Financial Outlook

Specialty Chemicals' 2011 EBITDA from operations is expected to increase to $100-$115 million compared to $100.9 million in 2010. The expected increase is primarily due to higher EBITDA resulting from a full year contribution at full operating capacity at the Port Edwards facility, as well as an expected increase in contribution from the sodium chlorate operations due to continued improvements in economic conditions.

## Strategy Moving Forward

The strategy of the Specialty Chemical's business for 2011 is consistent with prior years:

- Optimize the operating efficiency at existing chemical facilities' by continuing to invest in projects that reduce operating costs to ensure the business's facilities remain competitive over the long term;
- Continue to leverage proprietary chlorine dioxide technology and strategic partnerships by exploring international expansion opportunities, particularly in South America, similar to that of the business's Chilean operations;
- Explore opportunities over the long-term to expand into additional inorganic chemicals that are a strategic fit to the existing business; and
- Explore opportunities to attract new customers with adjacent land at the newly expanded Port Edwards facility.

# Construction Products Distribution

**Superior's Construction Products Distribution business is one of North America's leading distributors of commercial and industrial insulation and specialty walls and ceiling products. It is the largest distributor of specialty construction products to the walls and ceilings industry in Canada.**

Construction Products Distribution's EBITDA from operations for 2010 was $24.7 million compared to $22.8 million in the prior year. The business's EBITDA from operations is calculated as follows:

| (millions of dollars) | 2010 | 2009 |
|---|---|---|
| Gross profit | **172.3** | 122.3 |
| Operating expenses | **(147.6)** | (99.5) |
| **EBITDA from operations** | **24.7** | 22.8 |

The 2010 operating results were negatively affected by the ongoing weakness in the U.S. economy and, in particular, the U.S. housing and construction markets, reducing average selling prices and sales volumes. The ongoing economic weakness, particularly in the U.S., impacted new home residential housing starts and commercial building activity across most of North America, which in turn resulted in reduced demand and selling prices for architectural products and commercial and industrial insulation. Operating expenses were higher than the prior year due to the full year contribution from Specialty Products and Insulation Inc., which was acquired in the third quarter of 2009 and one-time restructuring and integration costs of approximately $4.1 million, offset in part by aggressive cost reduction programs.

## 2010 Initiatives

In light of continued economic weakness, particularly in the U.S. markets, the Construction Products Distribution business initiated and completed aggressive cost reduction programs. Although these restructuring activities had a negative impact on costs in 2010, they have left the business well positioned to take advantage of the recovery in the U.S. construction market. Additionally, Construction Products Distribution began integrating its walls and ceilings business with the commercial and industrial insulation business acquired in 2009. The integration is focused on achieving long-term cost reductions while immediately improving the full service complement to our customers. In 2010 the Construction Products Distribution business also entered the Canadian commercial and industrial insulation market with the acquisition of Burnaby Insulation. Burnaby Insulation serves the western

Canada market, including the oil sands. Most importantly, it provides a strong foundation to expand the commercial and industrial insulation business throughout Canada, similar to Superior's existing commercial and industrial insulation business in the U.S.

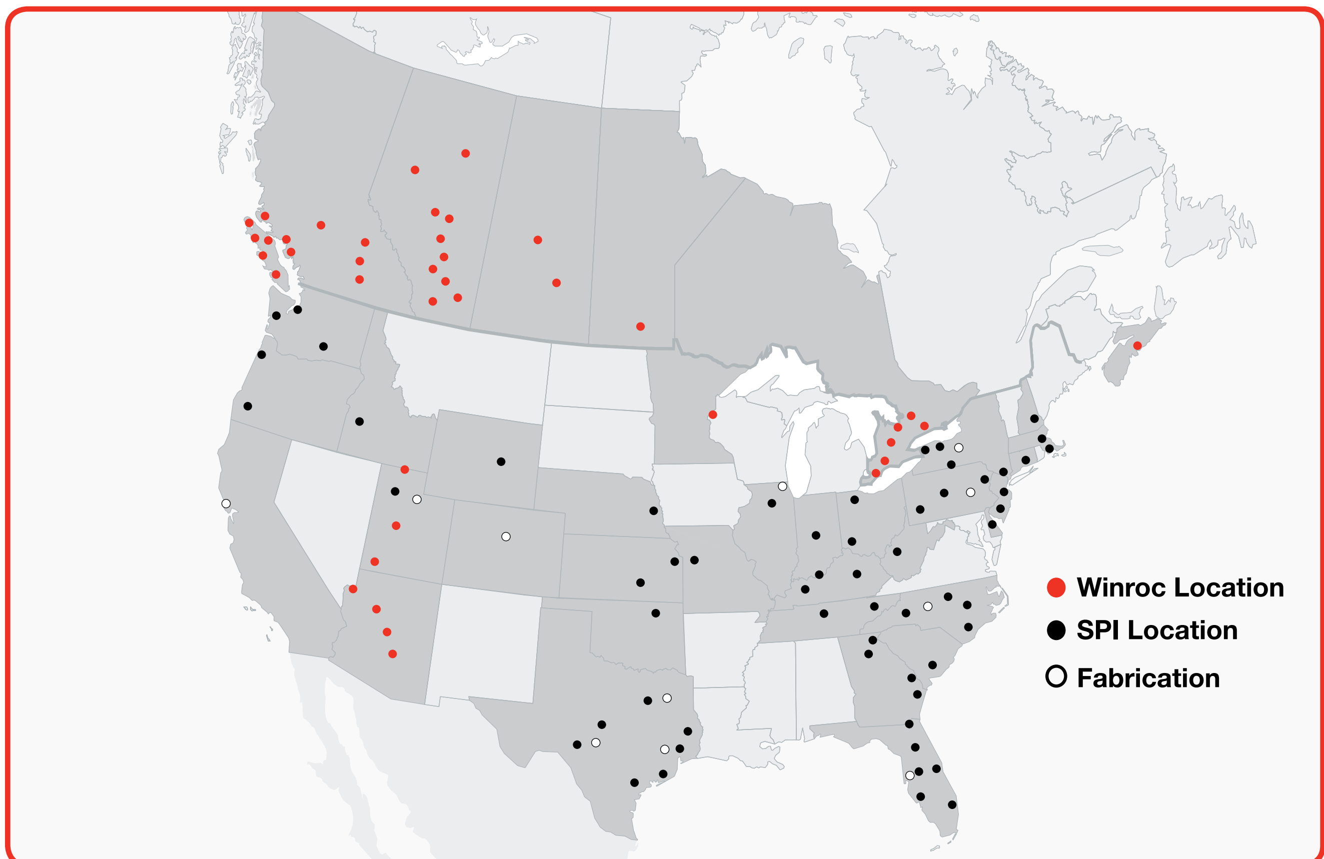
## 2011 Financial Outlook

Construction Products Distribution's 2011 EBITDA from operations is expected to be $25-$35 million compared to $24.7 million in 2010. The expected increase is due to the anticipated improvement in sales volumes as a result of a strengthening U.S. economy as well as a general increase in market share for the business, improved sales margins and the full-year benefit of cost reduction programs.

## Strategy Moving Forward

- Continue to integrate walls and ceilings product offerings with commercial and industrial insulation product offerings across the business's North American footprint to take advantage of supplier relationships and provide customers with a full-service product offering; and
- Selectively explore opportunities to continue to consolidate the highly fragmented construction products distribution market throughout North America, in addition to exploring opportunities for greenfield expansion.

## Construction Products Distribution in Canada and United States



# Management Team

**GRANT D. BILLING**
Chairman &
Chief Executive Officer

Mr. Billing has served as a Director of Superior since 1994. He assumed the role of Executive Chairman in 1998. In 2006, Mr. Billing assumed the dual role of Chairman and CEO to focus on maximizing shareholder value and long-term value growth. Mr. Billing has extensive strategic and business experience and is a Chartered Accountant.

**WAYNE M. BINGHAM**
Executive Vice-President &
Chief Financial Officer

Mr. Bingham joined Superior in 2006. He previously was Chief Financial Officer at Finning International Inc. and Ontario Power Generation. He has extensive experience in financial reporting, strategy, compliance, risk management, treasury and supply chain operations. Mr. Bingham holds a B. Comm. (Honours) and is a Chartered Accountant.

**DOUGLAS ELLIOTT**
President,
Superior Propane

President of Superior Propane since January 1, 2011 and various positions with Superior and its predecessor since November, 2006. Prior thereto, Mr. Elliott held a number of leadership positions in sales & marketing, supply, and enterprise development with Labatt Breweries.

**GREG L. MCCAMUS**
President,
U.S. Refined Fuels and
Superior Energy Management

Mr. McCamus was appointed as President of the U.S. Refined Fuels business in late 2009. He joined Superior in 2005 as President of Superior Energy Management. He previously was President of Sprint Canada Business Solutions and held various executive positions within the deregulated telecom industry over a 20-year period. Mr. McCamus holds B.A. and M.B.A. degrees.

**ERIC MCFADDEN**
Executive Vice-President,
Business Development

Mr. McFadden joined Superior in 2008. Prior to joining Superior, he was CEO of a company which developed, constructed, and operated a number of wind power projects. He also spent 14 years in investment banking at a major Canadian bank developing expertise in capital markets and acquisitions. Mr. McFadden holds B.A. and M.B.A. degrees.

**DAVE TIMS**
Senior Vice President,
Commodity Portfolio
Management

Mr. Tims joined Superior in 2009. Prior to joining Superior Plus he was CEO of a natural gas storage development company. He has extensive energy marketing, trading and risk management experience as a Managing Director with BMO Nesbitt Burns and prior to that as Director of Supply Services with TransCanada. Mr. Tims holds a B.A. from the University of Calgary and an M.B.A. in Finance from the Simon School of Business at the University of Rochester.

**PAUL S. TIMMONS**
President,
Specialty Chemicals

Mr. Timmons has been with the Specialty Chemicals business or its predecessor organization, ERCO Worldwide, for 29 years, and was appointed as President in 2001. Mr. Timmons holds an Engineering Diploma from St. Francis Xavier University and a degree in Metallurgical Engineering from Technical University of Nova Scotia.

**PAUL J. VANDERBERG**
President,
Construction Products
Distribution

Mr. Vanderberg has been President of the Building Products Distribution business or its predecessor organization, Winroc, since 2000. He previously held various executive positions in general management and business development at USG Corporation, a leading building products manufacturer. Mr. Vanderberg holds B.A. and M.B.A. degrees.

# Board of Directors

### Grant D. Billing

Chairman and CEO of Superior Plus since July 2006; Executive Chairman since 1998 and Director since 1994; Director of Provident Energy Ltd.; previously, President and CEO of Norcen Energy Resources Limited.

### Catherine (Kay) Best [1]

Director since July 2007; Corporate Director and Consultant; former Executive Vice-President, Risk Management and Chief Financial Officer of the Calgary Health Region; previous partner with Ernst & Young; Director of Canadian Natural Resources Limited and Enbridge Income Fund Holdings. Member of the Audit Committee.

### Robert J. Engbloom, Q.C. [2]

Director since 1996; Partner of Macleod Dixon LLP; Director of Parex Resources Inc.; Corporate Secretary of Vermilion Energy Inc. and CE Franklin Ltd.; Member of the Governance and Nominating Committee.

### Randall J. Findlay [2]

Director since March 2007; Corporate Director of Provident Energy Ltd., Canadian Helicopters Group Inc. and Pembina Pipelines Ltd.; Member of the Governance and Nominating Committee.

### Norman R. Gish [3]

Director since 2003; Director of Provident Energy Ltd.; Chairman and Director of Quadrise Canada Corporation; previous Chairman, President and CEO of Alliance Pipeline Ltd. and Aux Sable Liquid Products Inc.; past director of Noranda Inc. and Falconbridge Limited; Chairman of ICG Propane Inc. from 1998 to 2000; Chair of the Compensation Committee.

### Peter A.W. Green [1] [2]

Lead Director since 2003; Director since 1996 and Chairman and Trustee of the Corporation from 1996 to 2003; Chairman of Frog Hollow Group Inc.; Director of Gore Mutual Insurance Company; Chair of the Governance and Nominating Committee and member of the Audit Committee.

### James S.A. MacDonald [3]

Director in 1998 and since 2000; Corporate Director and Chairman of Cormark Securities Inc.; Director of ICG Propane Inc. from 1998 to 2000; former Chairman and Managing Partner of Enterprise Capital Management Inc.; Trustee and Director of Cinram International Income Fund; Director of Cymbria Inc.; Member of the Compensation Committee.

### Walentin (Val) Mirosh [3]

Director since March 2007; Corporate Director and President of Mircan Resources Ltd.; former Vice-President and Special Advisor to the President and Chief Operating Officer of NOVA Chemicals Corp.; former partner at Macleod Dixon LLP; Director of TC Pipelines LP and Chairman of the Advisory Council to the Faculty of Social Sciences and Director of Latin American Research Center, University of Calgary; Member of the Compensation Committee.

### David P. Smith [1]

Director since 1998; Corporate Director; former Managing Partner of Enterprise Capital Management Inc.; Director of Xinergy Ltd.; Chair of the Audit Committee.

### Peter Valentine [1]

Director since 2004; Corporate Director and Consultant; past Senior Advisor to the President and CEO of the Calgary Health Region and to the Dean of Medicine of the University of Calgary; Governor of the Canada School for Public Service (a Federal Crown Corporation); Director of Calgary Health Trust; past Auditor General of Alberta; Member of the Audit Committee.

COMMITTEE

[1] Audit Committee
[2] Governance and Nominating Committee
[3] Compensation Committee

# Corporate Governance

The Board of Directors ("Board") and senior management of Superior Plus Corp. ("Superior") consider good corporate governance to be central to the effective and efficient operation of Superior.

Superior strives to conduct its business ethically and in conformance with applicable laws and regulations. As such, Superior has earned a well-deserved reputation for honesty, integrity and maintaining a high standard of business conduct. To preserve and build upon that reputation, Superior continues to strengthen its governance processes, and foster a good governance culture throughout the organisation.

The Board's fundamental objectives are to enhance Superior's investments and ensure that Superior meets its obligations and operates the businesses in a responsible, reliable and safe manner. The Board works with management of the businesses to identify business risks and to oversee the appropriate strategies to maximize shareholder value, while seeking to reduce the environmental impacts of our operations and products.

The Board is comprised of ten members, nine of whom are considered independent, with Grant Billing, Chairman and Chief Executive Officer, being the sole management director. Since 2003, Peter Green has served as Lead Director to strengthen the independence of the Board from management. The responsibilities of the Board are set forth in a written mandate of the Board which the Board reviews annually and changes as appropriate. Superior is governed by a Code of Business Conduct and Ethics, along with well defined policies and procedures such as the Communication and Disclosure, Insider Trading and Whistleblower policies, all designed to promote honesty and integrity throughout Superior.

To assist the Board with its fiduciary responsibilities, the Board is supported by an Audit Committee, a Compensation Committee and by a Governance and Nominating Committee. Only independent directors serve on Board committees. Each committee has a mandate that sets out its duties and responsibilities. Each committee makes regular reports to the Board. The Board reviews Superior's policies upon the recommendation of the Corporate Governance Committee. As we move forward, the Board will continue to be committed to a high standard in corporate governance and corporate conduct.

In further keeping with our commitment to high standards of corporate governance, Superior has formed Advisory Committees for each of Superior's businesses. The Advisory Committees are composed of three independent directors and senior corporate management. The Advisory Committees were formed with the intent of allowing for more detailed operational reviews at the different business levels which would result in a more focused strategic review at the Board level. In addition, each of Superior's businesses maintain appropriate programs and standards pertaining to quality, health and safety, while being committed to environmental and social responsibility and support for their local communities. These and other programs are also monitored through the Advisory Committees.

Although not formal Board committees, the Advisory Committee structure provides the directors with additional time to address social, environmental and regulatory matters, business opportunities, risks, strategies and challenges and allows the members of the Advisory Committee to provide advice where appropriate and act as the sounding board prior to bringing strategic matters and initiatives to the Board. Membership rotation for the Advisory Committees occurs from time to time in order to provide each Board member with maximum exposure to each of the businesses of Superior.

For complete information on our corporate governance practices, please read our 2010 Information Circular. All Committee mandates, including those for the Audit, Compensation and Governance and Nominating Committees, our Code of Business Conduct and Ethics and our corporate governance policies and categorical standards are available at www.superiorplus.com.

# Management's Discussion and Analysis

The following Management's Discussion and Analysis (MD&A) is a review of the financial performance and position of Superior Plus Corp. (Superior) for the years ended December 31, 2010 and 2009. The information in this MD&A is current to February 28, 2011. This discussion should be read in conjunction with Superior's audited Consolidated Financial Statements and notes to those statements, which have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and are expressed in Canadian dollars, except where otherwise noted. Tables throughout this MD&A labelled "2010", "2009" and "2008" cover the full-year periods ending December 31 of each year, and references in the text to "2010", "2009" and "2008" refer to the same full years. References in the text to "2011" refer to the full-year period ending December 31, 2011.

## Overview of Superior

Superior is a diversified business corporation. Superior holds 100% of Superior Plus LP (Superior LP), a limited partnership formed between Superior General Partner Inc. (Superior GP) as general partner and Superior as limited partner. Superior owns 100% of the shares of Superior GP. The cash flow of Superior is solely dependent on the results of Superior LP and is derived from the allocation of Superior LP's income to Superior by means of partnership allocations. Superior, through its ownership of Superior LP, has three operating segments: the Energy Services segment which includes a Canadian propane distribution business, a U.S. refined fuels distribution business, a fixed-price energy services business and a supply portfolio management business; the Specialty Chemicals segment; and the Construction Products Distribution segment.

## Summary of Adjusted Operating Cash Flow

| (millions of dollars except per share amounts) | **2010** | 2009 |
|---|---|---|
| EBITDA from operations: [1] | | |
| Energy Services | **91.1** | 97.6 |
| Specialty Chemicals | **100.9** | 93.0 |
| Construction Products Distribution | **24.7** | 22.8 |
| | **216.7** | 213.4 |
| Interest | **(68.1)** | (34.8) |
| Cash taxes | **(1.0)** | (1.1) |
| Corporate costs | **(11.5)** | (13.6) |
| Adjusted operating cash flow | **136.1** | 163.9 |
| Adjusted operating cash flow per share, basic [2] and diluted [3] | **$ 1.29** | $ 1.80 |

(1) EBITDA from operations and adjusted operating cash flow are not GAAP measures. See "Non-GAAP Financial Measures."

(2) The weighted average number of shares outstanding for the year ended December 31, 2010 was 105.6 million (2009 – 91.0 million).

(3) For the years ended December 31, 2010 and 2009, there were no dilutive instruments.

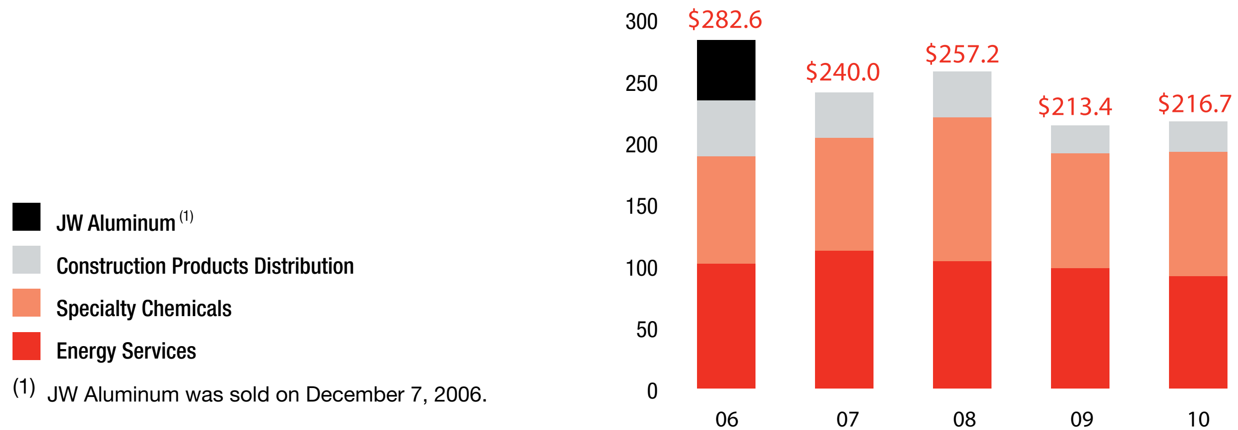
### Adjusted Operating Cash Flow Reconciled to Cash Flows from Operating Activities [1]

| (millions of dollars) | 2010 | 2009 |
|---|---|---|
| **Cash flows from operating activities** | **12.2** | 192.6 |
| Add: Customer contract-related-costs capitalized | **2.8** | 4.0 |
| Less: Increase (decrease) in non-cash working capital | **127.4** | (25.7) |
| Amortization of customer contract-related-costs | **(6.3)** | (7.0) |
| **Adjusted operating cash flow** | **136.1** | 163.9 |

(1) See the Consolidated Financial Statements for cash flows from operating activities, customer contract-related-costs and changes in non-cash working capital.

Adjusted operating cash flow for the year ended December 31, 2010 was $136.1 million, a decrease of $27.8 million or 17% from the prior year, as improved operating results at Specialty Chemicals and Construction Products Distribution were more than offset by higher interest costs and lower operating results at Energy Services. Adjusted operating cash flow was $1.29 per share, compared to $1.80 per share in the prior year due to a 17% decrease in the adjusted operating cash flow and a 16% increase in the weighted average number of shares outstanding. The average number of shares outstanding increased in 2010 partially as a result of the full-year impact of 11.5 million shares issued in 2009. These shares were issued to partially finance the acquisition of Specialty Products and Insulation Co. (SPI) on September 24, 2009, the acquisition of certain assets that comprise a U.S. heating oil and propane distribution business from Sunoco Inc. (Sunoco U.S. refined fuels assets) on September 30, 2009 and the acquisition of certain assets that comprise a retail heating oil, propane and motor fuels distribution business from Griffith Energy Services Inc. (Griffith CH U.S. refined fuels assets) on December 11, 2009 (all of which are collectively referred to as the "U.S. refined fuels assets"). In addition the average number of shares outstanding in 2010 increased as a result of 7.8 million shares issued to partially finance the acquisition of Griffith Holdings Inc. (Griffith) on January 20, 2010, the acquisition of certain assets of a Western Canadian commercial and industrial insulation distributor (the Burnaby Assets) by Construction Products Distribution on June 28, 2010, and the reinstatement of the dividend reinvestment plan effective for the payment of the May 2010 dividend.

As demonstrated in the following chart, Superior is well diversified with Energy Services, Specialty Chemicals and Construction Products Distribution contributing 42%, 47%, and 11% of EBITDA from operations in 2010, respectively.




Superior had a net loss of $47.0 million for 2010, compared to net earnings of $68.3 million for 2009. The change in net earnings to a net loss for 2010 as compared to 2009 is due principally to the non-cash impairment charge of $89.5 million recorded against Construction Products Distribution goodwill and intangible assets (see Note 8 to the Consolidated Financial Statements). Consolidated revenues of $3,529.2 million in 2010 were $1,282.5 million higher than in the prior year due principally to the full-year impact of the acquisition of U.S. refined fuels assets and Griffith within the Energy Services segment and the acquisition of SPI within the Construction Products Distribution segment. Gross profit of $787.6 million was $134.2 million higher than in the prior year, primarily due to the full-year contribution from the acquisition of SPI and the acquisition of the U.S. refined fuels assets and Griffith. Increased gross profit at Specialty Chemicals also contributed to the increase due to higher contributions from the Port Edwards expansion project.

Operating expenses of $624.4 million in 2010 were $148.3 million higher than in the prior year, due to the acquisitions completed during 2009 and 2010 along with one-time integration and general restructuring charges. Amortization was higher than in the prior year primarily due to increased amortization at Energy Services, as a result of the acquisitions completed in 2009 and 2010. Total interest expense of $71.0 million was $27.2 million higher than in the prior year due principally to higher debt levels related to financing the acquisitions noted above, the issuance of $322.5 million in convertible unsecured debentures and higher working capital. Unrealized gains on financial instruments were $2.2 million in 2010 compared to unrealized losses of $20.6 million in the prior year. The increase in unrealized gains from the prior year is primarily due to lower unrealized losses in the current year on Specialty Chemicals' fixed-price electricity contracts. Gains or losses on Superior's various financial instruments are without consideration of the fair value of the underlying customer or supplier commitment. Total income tax recovery was $18.1 million for 2010 compared to an expense of $12.7 million for 2009. Income taxes were impacted by a future income tax recovery associated with lower income and the impairment charge.

# Management's Discussion and Analysis

## Annual Financial Results of Superior's Operating Segments

### Energy Services

Energy Services' condensed operating results for 2010 and 2009 are provided in the following table.

| (millions of dollars) | **2010** | 2009 |
|---|---|---|
| Revenue [1] | **2,340.5** | 1,312.1 |
| Cost of sales [1] | **(1,905.6)** | (971.9) |
| Gross profit | **434.9** | 340.2 |
| Less: Cash operating and administration costs [1] | **(343.8)** | (242.6) |
| EBITDA from operations | **91.1** | 97.6 |

(1) In order to better reflect the results of its operations, Superior has reclassified certain amounts for purposes of this MD&A to present its results as if it had accounted for various transactions as accounting hedges. See "Reconciliation of Divisional Segmented Revenue and Cost of Sales to EBITDA" for detailed amounts.

Revenues were $2,340.5 million in 2010, an increase of $1,028.4 million from revenues of $1,312.1 million in 2009. The increase in revenues is primarily due to the full-year impact from the acquisition of the Sunoco U.S. refined fuels assets on September 30, 2009 and acquisition of the Griffith CH U.S. refined fuels assets on December 11, 2009 (collectively referred to as the "U.S. refined fuels assets") and the acquisition of Griffith Holdings Inc. (Griffith) on January 20, 2010. Total gross profit for 2010 was $434.9 million, an increase of $94.7 million over the prior year due to the contribution from the acquisition of U.S. refined fuels assets and Griffith, offset in part by reduced Canadian propane distribution and supply portfolio management gross profit from lower volumes, gross margin and market opportunities. A summary and detailed review of gross profit is provided below.

#### Gross Profit Detail

| (millions of dollars) | **2010** | 2009 |
|---|---|---|
| Canadian propane distribution | **215.4** | 236.4 |
| U.S. refined fuels | **130.1** | 15.3 |
| Other services | **44.4** | 29.0 |
| Supply portfolio management | **15.9** | 27.9 |
| Fixed-price energy services | **29.1** | 31.6 |
| Total gross profit | **434.9** | 340.2 |

#### Canadian Propane Distribution

Canadian propane distribution gross profit for 2010 was $215.4 million, a decrease of $21.0 million or 8% from 2009, primarily due to a reduction of 42 million litre or 3% in sales volumes and lower gross margin. Residential and commercial sales volumes in 2010 decreased by 44 million litres or 10% from the prior year primarily due to significantly warmer than average weather during the first quarter of 2010. Average weather across Canada for the year, as measured by degree days, was 10% warmer than in the prior year and 6% warmer than the five-year average. Agricultural volumes decreased by 15 million litres or 17%, due to an overall reduction in demand from Ontario as a result of a dry growing season. Industrial volumes increased by 27 million litres or 4%, due principally to the impact of increased activity levels in the oil and natural gas sector. Automotive propane volumes declined by 10 million litres or 10%, which was modestly below the historical decline trend in this end-use market due to a favourable pricing differential between propane and retail gasoline.

Average propane sales margins decreased to 17.4 cents per litre in 2010 from 18.5 cents per litre. The decline in average margins compared to the prior year is principally due to competitive pressures and product mix, offset in part by sales marketing efforts.

**Annual Canadian Propane Distribution Sales Volumes:**

**Volumes by End-Use Application**

| (millions of litres) | **2010** | 2009 |
|---|---|---|
| Residential | **135** | 151 |
| Commercial | **258** | 286 |
| Agricultural | **71** | 86 |
| Industrial | **678** | 651 |
| Automotive | **93** | 103 |
| | **1,235** | 1,277 |

**Volumes by Region** [1]

| (millions of litres) | **2010** | 2009 |
|---|---|---|
| Western Canada | **670** | 699 |
| Eastern Canada | **467** | 480 |
| Atlantic Canada | **98** | 98 |
| | **1,235** | 1,277 |

(1) **Regions:** Western Canada region consists of British Columbia, Alberta, Saskatchewan, Manitoba, Northwest Ontario, Yukon and Northwest Territories; Eastern Canada region consists of Ontario (except for Northwest Ontario) and Quebec; and Atlantic Canada consists of New Brunswick, Newfoundland & Labrador, Nova Scotia and Prince Edward Island.

## U.S. Refined Fuels Distribution

U.S. refined fuels gross profit for 2010 was $130.1 million, an increase of $114.8 million from 2009. The increase in gross profit is primarily due to the full year contribution from the acquisition of the U.S. refined fuels assets and Griffith. The gross profit was generated by the sale of heating oil, propane and other refined fuels throughout the northeast United States. Average U.S. refined fuels sales margins decreased to 7.6 cents per litre in 2010 from 10.0 cents per litre in the prior year. The decline in margins is principally due to product mix and the contribution of the acquisition of Griffith CH U.S. refined fuels assets and Griffith. Annual sales volumes of 1,702 million litres, increased by 1,549 million litres over the prior year due to the full year contribution from the acquisition of the U.S. refined fuels assets and Griffith. Sales volumes were negatively impacted by warm weather during the first quarter, as weather measured by heating degree days for the year was 7% warmer than the prior year and 5% warmer than the five-year average. The U.S. refined fuels business also offers a broad range of services including heating, ventilation and air conditioning repair, and other related services which contributed $23.8 million in gross profits included within the other services segment.

**Annual U.S. Refined Fuels Sales Volumes:**

**Volumes by End-Use Application** [1]

| (millions of litres) | **2010** | 2009 |
|---|---|---|
| Residential | **340** | 61 |
| Commercial | **904** | 74 |
| Automotive | **458** | 18 |
| | **1,702** | 153 |

**Volumes by Region** [2]

| (millions of litres) | **2010** | 2009 |
|---|---|---|
| Northeast United States | **1,702** | 153 |
| | **1,702** | 153 |

(1) **Volume:** Volume of heating oil, propane, diesel and gasoline sold.

(2) **Regions:** Northeast United States region consists of Pennsylvania, Connecticut, New York, and Rhode Island.

### Other Services

Other services gross profit was $44.4 million in 2010, an increase of $15.4 million or 53% from the prior year. The increase is due to the full-year contribution from the acquisition of U.S. refined fuels assets and Griffith, offset in part by lower demand for service and installations.

### Supply Portfolio Management

Supply portfolio management gross profit was $15.9 million in 2010, a decrease of $12.0 million or 43% from the prior year due to reduced volatility in the wholesale cost of propane and market-related opportunities along with lower sales volumes.

### Fixed-Price Energy Services

**Fixed-Price Energy Services Gross Profit**

| | **2010** | | | 2009 | | |
|---|---|---|---|---|---|---|
| (millions of dollars except volume and per unit amounts) | **Gross Profit** | **Volume** | **Per Unit** | Gross Profit | Volume | Per Unit |
| Natural Gas [(1)] | **25.0** | **27.4 GJ** | **91.2 ¢/GJ** | 29.6 | 32.8 GJ | 90.2 ¢/GJ |
| Electricity [(2)] | **4.1** | **366.6 KWh** | **1.12 ¢/KWh** | 2.0 | 193.0 KWh | 1.04 ¢/KWh |
| Total | **29.1** | | | 31.6 | | |

(1) Natural gas volumes are expressed in millions of gigajoules (GJ), while per unit amounts are expressed in gigajoules.

(2) Electricity volumes are expressed in millions of kilowatt hours (KWh), while per unit amounts are expressed in KWh.

Fixed-price energy services gross profit was $29.1 million in 2010, a decrease of $2.5 million (8%) from $31.6 million in 2009. Natural gas gross profit was $25.0 million, a decrease of $4.6 million from the prior year due to lower volumes offset in part by higher liquidated damages. Gross profit per unit of 91.2 cents per gigajoule (GJ) was consistent with the prior year primarily due to the contribution of liquidated damages offset in part by higher risk reserve funding requirements. Excluding liquidated damages, natural gas gross margin was 59.5 cents per GJ due to a higher proportion of lower-margin commercial volumes and an increase in risk reserve funding requirements of approximately $4.0 million due to historically low natural gas prices and warm weather. Sales volumes of natural gas were 27.4 million GJ, 5.4 million GJ (16%) lower than in the prior year as reduced residential volumes were partially offset by higher commercial volumes. Natural gas sales volumes declined due to Superior's decision to exit the Ontario and B.C. direct residential natural markets over the last 24 months offset in part by continued marketing focus on commercial volumes. Superior made the determination to exit the Ontario-based direct residential natural gas and electricity markets in the first quarter of 2009 and the B.C. market in the third quarter of 2010. Superior is now focused on developing its customer base in the Ontario commercial natural gas and electricity markets. The change in fixed-price energy's strategy has improved the cost structure and the segment remains scalable if additional market opportunities develop. Electricity gross profit in 2010 was $4.1 million, an increase of $2.1 million from the prior year due to the aggregation of additional commercial customers over the past year, higher volumes and gross margins.

### Operating Costs

Cash operating and administrative costs were $343.8 million in 2010, an increase of $101.2 million or 42% from 2009. The increase in expenses was primarily due to one-time integration and restructuring costs of $4.1 million, the full contribution from the acquisition of the U.S. refined fuels assets and Griffith, offset in part by lower Canadian propane distribution and fixed-price energy services operating costs. The decrease in Canadian propane distribution operating costs is due to the implementation of cost reduction plans and lower administration costs offset in part by restructuring costs and a higher bad debt provision due to the increase in receivables as a result of invoicing issues associated with the system upgrade completed in the second quarter. The decrease in fixed-price energy services operating costs was due to exiting the B.C. residential natural gas market earlier in the year and overall reduction in staff to the current level of business.

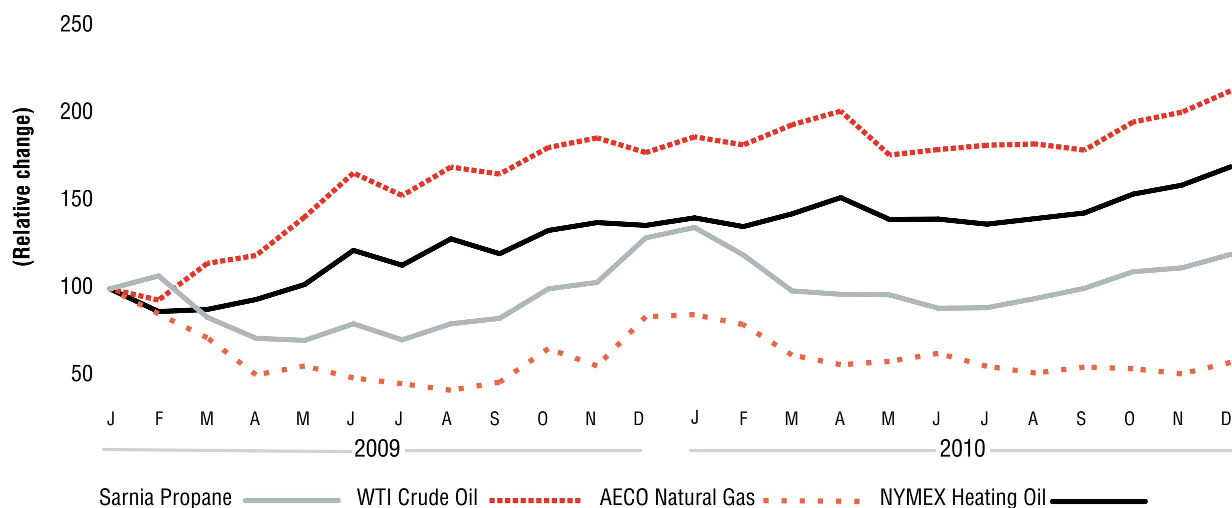
### System Upgrade

During the second quarter of 2010, Superior's Canadian propane distribution business upgraded their JD Edwards enterprise system to the most recent version in order to enhance efficiencies and core business functions. As a result of the upgrade, Superior experienced complications with processing certain sales transactions and producing accurate invoices which delayed customer collections and increased net working capital. As at December 31, 2010, net working capital was approximately $100 million higher than the prior year due to the system upgrade complications. The delay in customer collections has resulted in significantly higher past due receivables which Superior has provided for through an increase to the allowance for doubtful accounts. Throughout the third and fourth quarters of 2010, Superior has continued to resolve implementation issues and has substantially increased customer collection efforts in order to reduce working capital. Superior expects net working capital to return to historical levels by mid 2011.

Overall, Energy Services' operations benefit from its leading market share in the Canadian propane distribution market and considerable operational and customer diversification throughout Canada and the Northeast United States through Superior's U.S. refined fuels assets. Energy Services' customer base is well diversified geographically and across end-use applications and its largest customer contributed approximately 3% of gross profits in 2010.

As shown in the chart on page 22, wholesale propane and heating oil prices fluctuated throughout 2010. Approximately 31% of Superior's fuel distribution sales volumes are due to heating-related applications and 69% to general economic activity levels.

# Management's Discussion and Analysis




### Acquisition of U.S. Refined Fuels Assets and Griffith

On September 30, 2009, Superior acquired certain assets which make up a U.S. retail heating oil and propane distribution business (Sunoco U.S. refined fuels assets) from Sunoco, Inc. (R&M), and Sunoco, Inc., both of which are Pennsylvania corporations, for an aggregate purchase price of $96.7 million (US$90.2 million), inclusive of transaction-related costs. The Sunoco U.S. refined fuels assets distribute a broad range of liquid fuels and propane gas and related services, serving markets in Pennsylvania and New York.

On December 11, 2009, Superior acquired certain assets which make up a retail heating oil, propane and motor fuels distributions business (Griffith CH U.S. refined fuels assets) from Griffith Energy Services Inc., for an aggregate purchase price of $82.5 million (US$77.9 million), inclusive of working capital adjustments and transaction related costs. The Griffith CH U.S. refined fuels assets distribute a broad range of liquid fuels and propane gas, serving markets in Connecticut, Pennsylvania and Rhode Island.

On January 20, 2010, Superior completed its acquisition of the shares of Griffith Holdings, Inc. (Griffith) for consideration of approximately $147.4 million (US$140.6 million), inclusive of working capital adjustments and transaction costs. Griffith is a retail and wholesale distributor of retail propane, heating oil and motor fuels in upstate New York. The completion of this acquisition, along with the U.S. refined fuels assets acquired during the prior year, form the foundation for Superior’s U.S. refined fuels distribution platform.

On October 26, 2010, Superior acquired certain assets which make up a U.S. retail heating oil and propane distribution business (KW heating oil assets) from KW Oil & Propane (KW), for an aggregate purchase price of approximately $4.9 million including adjustments for working capital. The KW heating oil assets distribute a broad range of liquid fuels and propane gas and related services, serving markets in Pennsylvania. The acquisition was partially financed by deferred consideration of approximately $0.5 million and the remaining acquisition cost has been financed through borrowings from Superior’s existing revolving term bank credits and term loans.

The acquisitions are complementary to Superior's existing Energy Services segment and will expand Energy Services' customer base and product diversification.

### Outlook

Energy Services expects EBITDA from operations for 2011 to be between $100 million and $120 million. Energy Services previous outlook as provided in the 2010 third quarter MD&A was $120 million to $140 million. The revised outlook for 2011 provides a more conservative view of the assumed improvements in the general economy and resulting improvements in sales volumes and margins. Significant assumptions underlying its current outlook are:

- Average temperatures across Canada and the northeast United States are expected to return to the most recent five-year average;
- Total propane and U.S. refined fuels-related sales volumes in 2011 compared to 2010 are anticipated to increase due to colder average weather, economic improvement, and sales and marketing initiatives;
- Wholesale propane, and U.S. refined fuels-related prices are not anticipated to significantly impact demand for propane, refined fuels and related services;
- Supply portfolio management market opportunities are expected to return to historic levels beginning in 2011;
- Fixed price energy services is expected to be able to access sales channel agents on acceptable contract terms and expects gross profit to remain consistent with 2010 results. The financial benefit from entering the retail electricity and natural gas markets in the northeast U.S. in 2011 is expected to be offset by reduced customer aggregation estimates due to the exit of the B.C. residential natural gas market in 2010 and difficult natural gas markets; and
- The commercial electricity market in Ontario is expected to provide growth opportunities in 2011.

Energy Services' EBITDA from operations of $91.1 million for 2010 was lower than the outlook provided in Superior's 2010 third quarter MD&A of $100 million to $115 million due to reduced Canadian propane distribution gross profits and volumes throughout the fourth quarter as a result of competitive pressures and lower-than-expected wholesale market opportunities.

In addition to the significant assumptions detailed above, refer to "Risk Factors to Superior" for a detailed review of significant business risks affecting Energy Services' businesses.

# Management's Discussion and Analysis

## Specialty Chemicals

Specialty Chemicals' condensed operating results for 2010 and 2009 are provided in the following table.

| (millions of dollars except per metric tonne (MT) amounts) | **2010** | | 2009 | |
|---|---|---|---|---|
| Revenue | | **$/MT** | | $/MT |
| Chemicals [1] [2] | **481.4** | **655** | 456.8 | 720 |
| Cost of sales | | | | |
| Chemicals [1] [2] | **(261.4)** | **(356)** | (246.8) | (389) |
| Gross profit | **220.0** | **299** | 210.0 | 331 |
| Less: cash operating and administration costs | **(119.1)** | **(162)** | (117.0) | (184) |
| EBITDA from operations | **100.9** | **137** | 93.0 | 147 |
| Chemical volumes sold (thousands of MT) | **735** | | 634 | |

(1) In order to better reflect the results of its operations, Superior has reclassified certain amounts for purposes of this MD&A related to derivative financial instruments, non-cash amortization and foreign currency translation losses/gains related to U.S.-denominated working capital. See "Reconciliation of Divisional Segmented Revenue and Cost of Sales to EBITDA" for detailed amounts.

(2) Certain reclassifications of prior-period amounts have been made to conform to current-year presentation. Specifically, for the year ended December 31, 2009, $8.2 million has been reclassified to chemical revenue from technology revenue to provide comparative presentation of Specialty Chemicals' revenue. Also for the year ended December 31, 2009, $2.9 million has been reclassified to chemical cost of sales from technology cost of sales to provide comparative presentation of Specialty Chemicals' cost of sales.

Chemicals and technology revenues were $481.4 million in 2010, $24.6 million or 5% higher than in the prior year, due to increased sales volumes offset in part by slightly lower average chemical sales prices.

Gross profit of $220.0 million in 2010 increased by $10.0 million or 5% from 2009 due to higher contribution from all product lines. Sodium chlorate gross profit increased by $6.8 million or 5%, as an increase in volumes and technology gross profits more than offset the impact of lower gross margins. Sodium chlorate sales volumes increased by 42,000 tonnes (10%) due principally to increased sales volumes in North America and offshore markets as a result of increased demand for pulp. During 2010 the demand for pulp and therefore sodium chlorate in North America and offshore markets has improved over the prior year, when demand was lower due to the general economic slowdown.

Average selling prices for sodium chlorate were 3% higher than the prior year principally due to higher North American price levels and the favourable impact of U.S. dollar forward exchange contract settlements on U.S. dollar-denominated sales. See "Financial Instruments – Risk Management" for a discussion of hedge positions. Sodium chlorate market conditions strengthened through 2010 in North America and internationally as a result of increased demand for pulp.

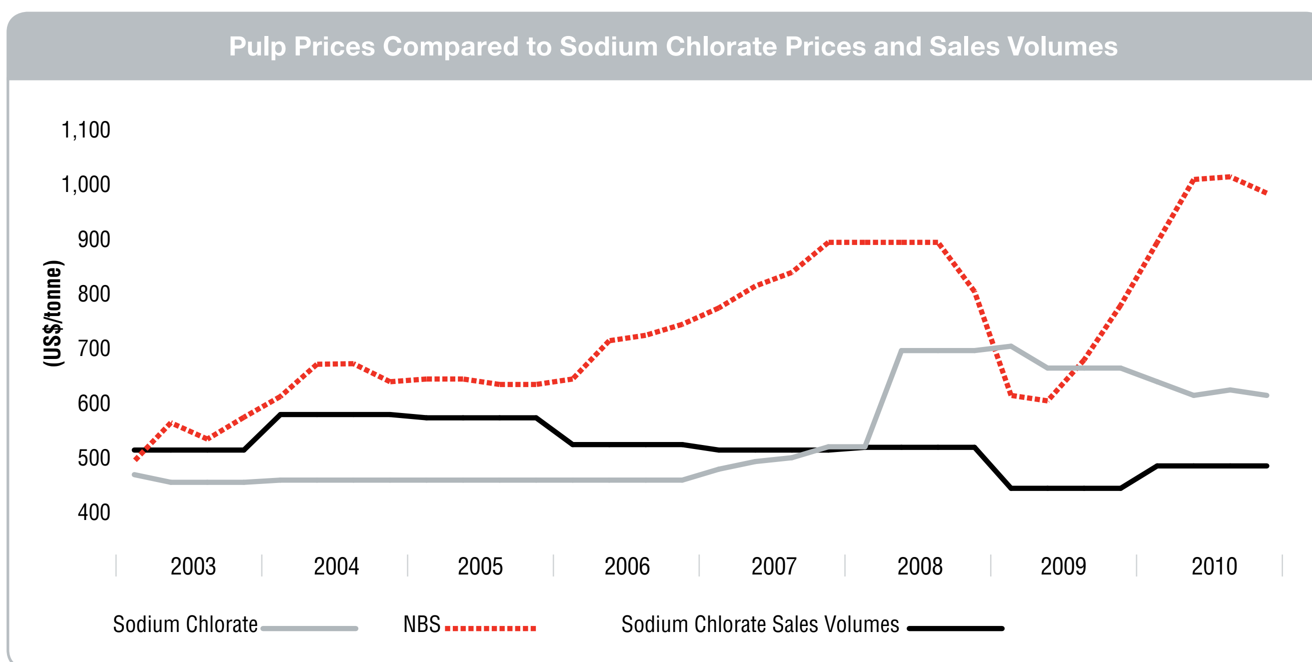
Cost of sales for sodium chlorate was higher than in the prior year due to higher electrical input costs and external product purchases as a result of temporary production lines issues. Electrical costs, which represent approximately 70% to 85% of the variable costs of the production of sodium chlorate, were higher than in the prior year as upward pressure on overall electricity pricing more than offset production management activities at facilities where the cost of electricity is subject to market fluctuations.

Chloralkali/potassium gross profits increased by $1.0 million or 1%, as an increase in sales volumes was more than offset by higher electrical input and production costs. Chloralkali/potassium sales volumes increased by 61,000 tonnes (30%) due principally to the contribution of the Port Edwards conversion project, which was completed in the fourth quarter of 2009. Overall average selling prices were lower than in 2009, which experienced cyclically higher pricing in the first half of 2009. Cost of sales was negatively impacted by increased electrical input costs and higher transportation costs.

Total chemical sales volumes were 735,000 tonnes in 2010, an increase of 101,000 tonnes or 16% from the prior year, due to higher sales volumes of sodium chlorate and chloralkali/potassium as noted above. Average chemical revenue was $655 per MT in 2010 compared to $720 per MT in 2009, a decrease of 9%, reflecting lower overall average pricing on chloralkali/potassium products. Sodium chlorate and chloralkali/potassium production capacity utilization averaged 94% (2009 – 85%) and 92% (2009 – 82%), respectively.

Cash operating and administration costs were $119.1 million in 2010, an increase of $2.1 million or 2% from the prior year. Operating expenses were impacted by higher salary and maintenance costs, partially offset by lower provisions for bad debts.

Sodium chlorate sales in 2010 represented 61% of Specialty Chemicals EBITDA from operations, a decrease of 2% from the 63% contribution in 2009. Sodium chlorate is principally sold to bleached pulp manufacturers, as it is a required input to generate chlorine dioxide, which is in turn used to bleach pulp. Sodium chlorate represents approximately 5% of the variable cost to manufacture bleached pulp. As a result, sodium chlorate sales volumes and prices tend to be stable over time despite the volatility of bleached pulp prices (see the following chart). Chloralkali/potassium sales in 2010 contributed 39% of EBITDA from operations, an increase of 2% from the 37% contribution in 2009. Specialty Chemicals' top 10 customers comprised approximately 51% of its revenues in 2010, with its largest customer representing 8% of its revenues.



# Management's Discussion and Analysis

## Port Edwards Conversion Project Completion

Specialty Chemicals' project to convert its Port Edwards, Wisconsin chloralkali facility from mercury-based technology to membrane technology was completed and fully commissioned in the fourth quarter of 2009. Throughout 2010 production has increased each quarter as the operating rates have improved. Production exceeded 91,000 electrochemical units during 2010, representing an 85% increase over the prior year which was negatively impacted by the membrane conversion and the general economic slowdown.

## Outlook

Superior expects 2011 EBITDA from operations from its Specialty Chemicals segment to be between $100 million and $115 million, consistent with the previous outlook provided in the 2010 third quarter MD&A. Significant assumptions underlying the current outlook are:

- Supply and demand fundamentals for sodium chlorate are expected to remain strong in 2011, resulting in increased sales volumes as compared to 2010. Pricing is expected to remain consistent or slightly improved as compared to 2010 levels;
- Chloralkali revenues in 2011 are expected to increase due to higher selling prices and higher sales volumes and favourable product mix from the Port Edwards facility; and
- Average plant utilization will approximate 95% in 2011.

Specialty Chemicals EBITDA from operations of $100.9 million for 2010 was consistent with the outlook provided in Superior's 2010 third quarter MD&A of $95 million to $105 million.

In addition to the significant assumptions detailed above, refer to "Risk Factors to Superior" for a detailed review of the significant business risks affecting Superior's Specialty Chemicals' segment.

## Construction Products Distribution

Construction Products Distribution's condensed operating results for 2010 and 2009 are provided in the following table.

| (millions of dollars) | 2010 | 2009 |
|---|---|---|
| Revenue | | |
| Gypsum Specialty Distribution (GSD) revenue [1] [2] | **483.7** | 405.5 |
| Commercial and Industrial Insulation (C&I) revenue [2] | **233.9** | 64.0 |
| Cost of sales | | |
| GSD cost of sales [2] | **(373.3)** | (299.5) |
| C&I cost of sales [2] | **(172.0)** | (47.7) |
| Gross profit | **172.3** | 122.3 |
| Less: cash operating and administrative costs | **(147.6)** | (99.5) |
| EBITDA from operations | **24.7** | 22.8 |

(1) In order to better reflect the results of its operations, Superior has reclassified certain amounts for purposes of this MD&A to present its results as if it had accounted for various transactions as accounting hedges. See "Reconciliation of Divisional Segmented Revenue and Cost of Sales to EBITDA" for detailed amounts.

(2) Certain reclassifications of 2009 amounts have been made to conform to current presentation. Specifically, for the year ended December 31, 2009, $405.5 million has been reclassified to GSD revenue from distribution and direct sales revenue to provide comparative presentation of Construction Products Distribution's revenue. For the year ended December 31, 2009, $64.0 million has been reclassified to C&I revenue from distribution and direct sales revenue to provide comparative presentation of Construction Products Distribution's revenue. For the year ended December 31, 2009, $299.5 million has been reclassified to GSD cost of sales from distribution and direct cost of sales to provide comparative presentation of Construction Products Distribution cost of sales. For the year ended December 31, 2009, $47.7 million has been reclassified to C&I cost of sales from distribution and direct cost of sales to provide comparative presentation of Construction Products Distribution's cost of sales.

GSD and C&I revenues of $717.6 million were $248.1 million (53%) higher than in the prior year. The increase in sales revenue is primarily due to the contribution from the acquisition of SPI on September 24, 2009 and the Burnaby Assets on June 28, 2010, offset in part by lower revenue across all lines of business. The decrease in revenue was primarily due to competitive pressures across most regions.

Gross profit was $172.3 million in 2010, an increase of $50.0 million or 41% from 2009, due principally to the full-year contribution of the acquisition of SPI and the Burnaby Assets, offset in part by lower percentage sales margins. GSD gross profits increased by $4.4 million or 4%, due to the contribution of the acquisition of SPI and the Burnaby Assets, offset in part by lower gross margins due to competitive pressures and write down of obsolete and slow moving inventory of $1.2 million. C&I gross profits increased by $45.6 million or 280%, due to the contribution of the acquisition of SPI and the Burnaby Assets along with higher gross margins due to product mix, offset in part by competitive pressures primarily in the U.S.

Cash operating and administration costs were $147.6 million for 2010, an increase of $48.1 million or 48% from 2009 due to the full-year contribution of the acquisition of SPI and one-time restructuring and integration costs of approximately $4.1 million, offset in part by aggressive cost reduction programs. Construction Products Distribution continues to actively manage its cost structure in response to the ongoing economic slowdown in the U.S.

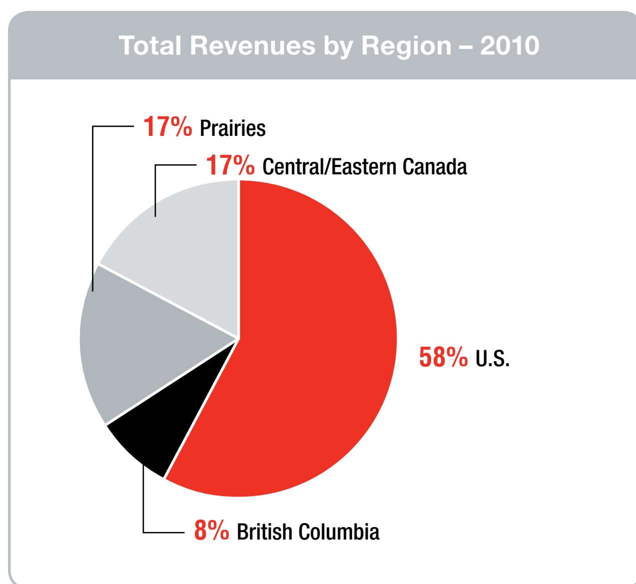
# Management's Discussion and Analysis

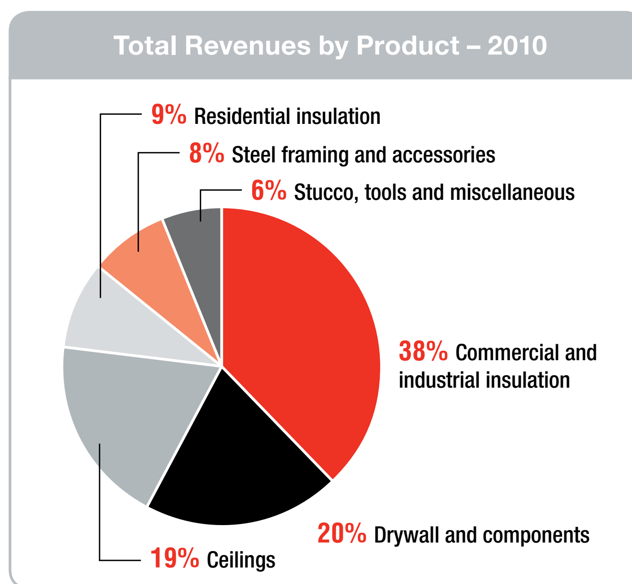
### Acquisition of Specialty Products & Insulation Co. (SPI)

On September 24, 2009, Superior completed its acquisition of the shares of SPI for consideration of approximately $142.1 million (US$132.1 million), inclusive of transaction-related costs. SPI is a U.S. national distributor of insulation and architectural products in the commercial and industrial markets. The acquisition of SPI further diversifies Superior's Construction Products Distribution segment through SPI's leading market position in 27 states, served by its 68 operation centres and 11 primary fabrication facilities.

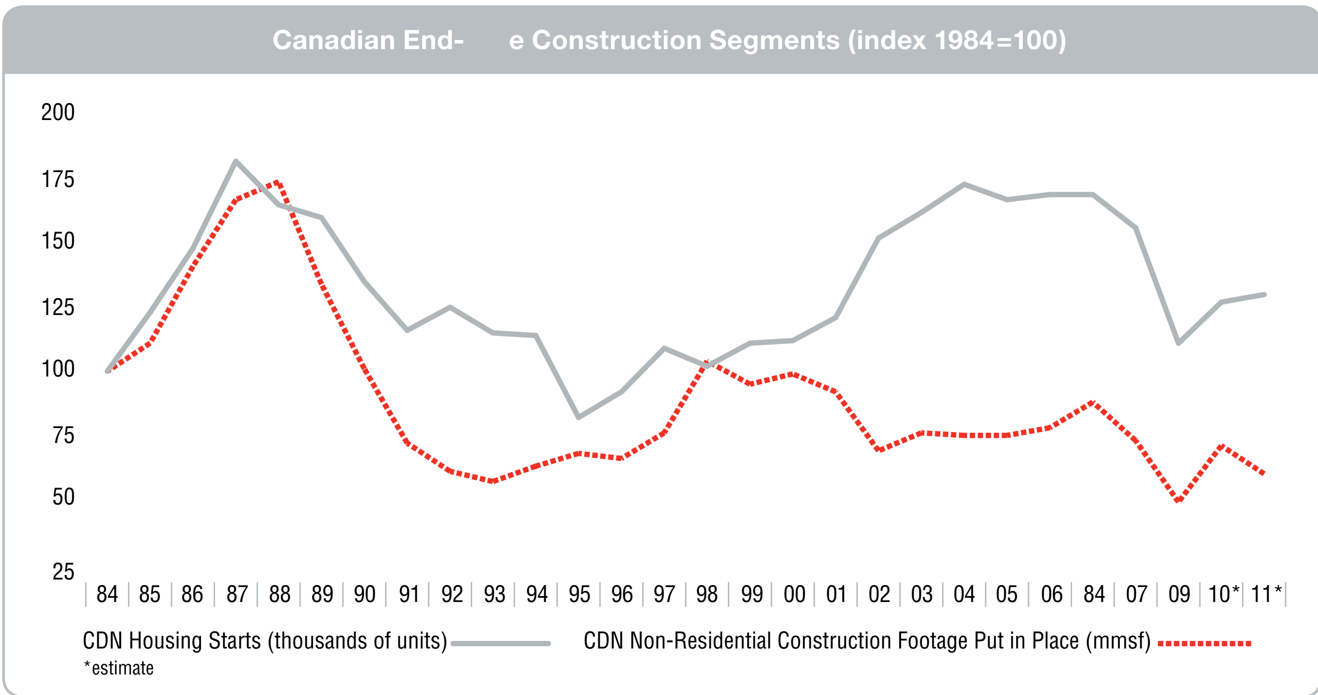
On June 28, 2010, Construction Products Distribution completed the acquisition of certain assets of a Western Canadian commercial and industrial insulation distributor (the Burnaby Assets) for an aggregate purchase price of $18.1 million including transaction related costs. The assets acquired consist of three operating branches in Alberta and British Columbia and allows Construction Products Distribution to expand its commercial and industrial distribution business in Canada.

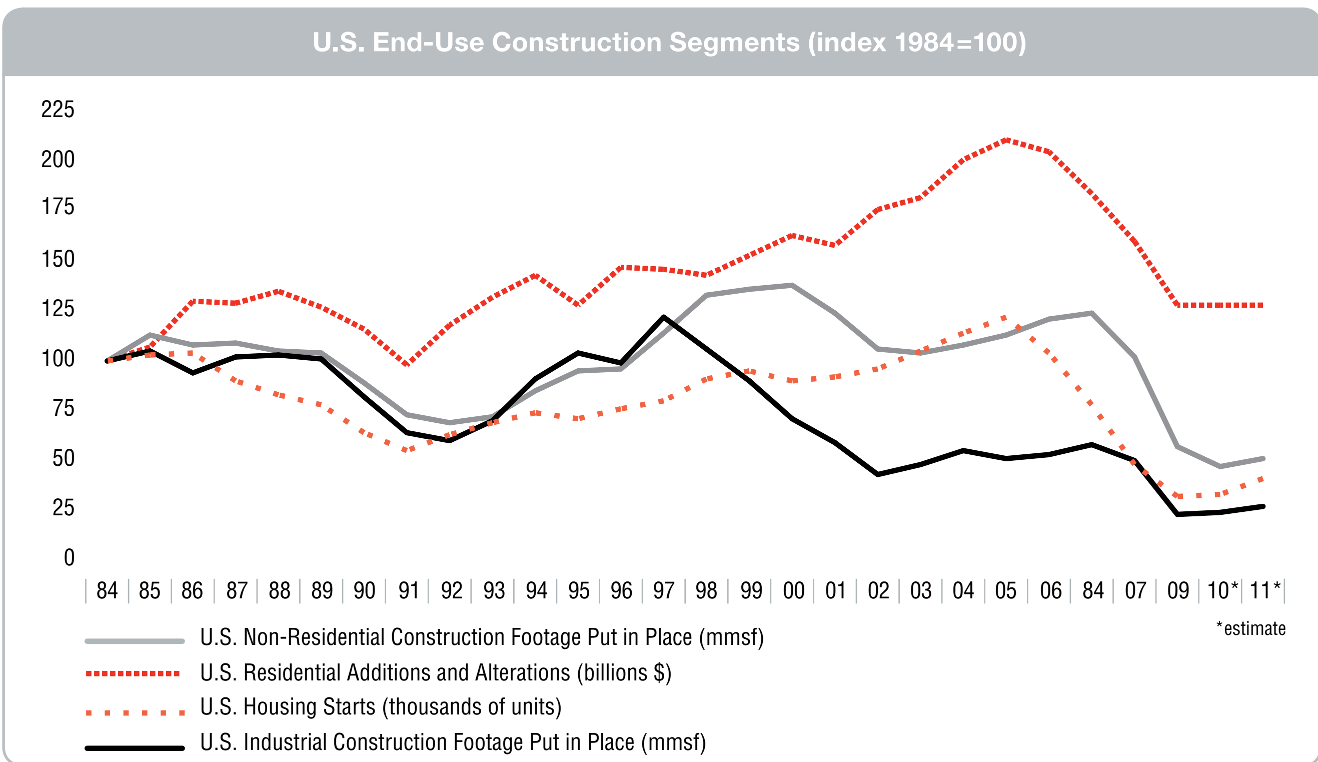
Construction Products Distribution enjoys considerable geographical and customer diversification, servicing over 18,000 customers from 115 distribution branches. (See "Total Revenues by Product – 2010" pie chart.) Construction Products Distribution's 10 largest customers represent approximately 8% of its annual distribution sales with the largest customer representing approximately 1% of annual distribution sales. Construction Products Distribution enjoys a strong position in the distribution markets where it operates, supported by its complete walls, ceilings, residential insulation, commercial and industrial insulation product lines, and by its procurement capabilities. (See "Total Revenues by Product – 2010" pie chart)



Sales to commercial and industrial builders and contractors are comprised of Construction Products Distribution's full product line, whereas sales to residential builders and contractors are principally comprised of drywall and components, insulation and plaster products. Demand for walls and ceiling construction products is influenced by overall economic conditions with approximately 56% of sales from servicing commercial new construction and remodelling activity, 28% from servicing residential new construction and remodelling activity and 16% of sales from servicing industrial activity. New commercial construction and industrial demand trends have historically lagged new residential construction. (See "U.S. and Canadian End-Use Construction Segments" chart.)



# Management's Discussion and Analysis

## Outlook

Superior expects Construction Products Distribution's EBITDA from operations for 2011 to be between $25 million and $35 million. Construction Products Distributions' previous outlook as provided in the 2010 third quarter MD&A was $25 million to $40 million. The reduction in the top end of Construction Products Distributions' outlook reflects ongoing uncertainty within end-use markets as major projections continue to change significantly from quarter to quarter. Superior's outlook for 2011 is based on current estimates and market data. Significant assumptions underlying its current outlook are:

- GSD sales revenue from Canada is expected to decline from 2010 levels due to competitive conditions in the market. GSD sales revenue from the U.S. is expected to increase from 2010 due to higher pricing and the expansion of existing product lines into U.S. branches. C&I sales revenue is expected to increase from 2010 due to growth in the industrial market and higher pricing as well as contribution from new programs and initiatives. Also contributing to the increase is the full year contribution from the acquisition of the Burnaby Assets; and
- Sales margin for GSD as compared to 2010 is expected to increase slightly due to volume improvement in some markets offset in part by competitive pressures. C&I sales margin is expected to be consistent with 2010 levels.

Construction Products Distribution's EBITDA from operations of $24.7 million for 2010 was consistent with the outlook provided in Superior's 2010 third quarter MD&A of $18 million to $25 million.

In addition to the Construction Products Distribution segment's significant assumptions detailed above, refer to "Risk Factors to Superior" for a detailed review of the significant business risks affecting Superior's Construction Products Distribution segment.

## Consolidated Capital Expenditure Summary

| (millions of dollars) | **2010** | 2009 |
| --- | --- | --- |
| Efficiency, process improvement and growth-related | **19.9** | 22.9 |
| Other capital | **16.9** | 9.9 |
| Port Edwards conversion project | **–** | 106.5 |
| | **36.8** | 139.3 |
| Acquisition of Griffith | **147.4** | – |
| Acquisition of the Burnaby Assets | **18.1** | – |
| Acquisition of U.S. refined fuels assets | **–** | 178.5 |
| Acquisition of SPI [1] | **–** | 142.1 |
| Other acquisitions | **5.9** | 0.8 |
| Earn-out payment on prior acquisition | **–** | 0.6 |
| Investment in finance leases | **10.3** | – |
| Proceeds on disposition of capital | **(2.8)** | (4.8) |
| Total net capital expenditures | **215.7** | 456.5 |
| Capital-equivalent of operating leases [2] | **13.9** | 8.2 |
| Total capital including operating leases | **229.6** | 464.7 |

(1) Includes the issuance of $32.6 million of common shares that were issued by way of private placement at a deemed price of $11.63 per share.

(2) Capital-equivalent of operating leases reflects the total dollar value of capital items that have been acquired through operating leases.

Efficiency, process improvement and growth related expenditures were $19.9 million in 2010 compared to $22.9 million in 2009. These were principally incurred in relation to Specialty Chemicals' electrical cell replacement programs, hydrogen capture and purchase of rail cars and Construction Products Distribution and Energy Services' system conversion projects. Other capital expenditures were $16.9 million in 2010 compared to $9.9 million in the prior year, consisting primarily of required maintenance and general capital. The increase is primarily due to maintaining a larger asset base in 2010 due to the acquisitions completed in 2009 and 2010.

Acquisition costs for 2010 totalled $171.4 million and were comprised of the acquisition of Griffith for total consideration of $147.4 million, as discussed in the review of Energy Services, the acquisition of the Burnaby Assets for $18.1 million, as discussed in the review of Construction Products Distribution and the acquisition of KW heating oil assets for $4.9 million, as discussed in the review of Energy Services. Also included in other acquisitions is the purchase price adjustments associated with acquisitions completed over the past 12-months. Acquisition costs for 2009 totalled $320.6 million and were comprised of the acquisition of SPI for total consideration of $142.1 million, as discussed in the review of Construction Products Distribution, the acquisition of Sunoco U.S. refined fuels assets for $96.5 million and the acquisition of Griffith U.S. refined fuels assets for $82.0 million, as discussed in the review of Energy Services.

During the fourth quarter, Specialty Chemicals invested $10.3 million into capital assets related to a finance lease arrangement it executed with a customer. The finance lease arrangement is related to capital assets used to produce electricity at Specialty Chemicals' sodium chlorate facility in Chile. The lease contract term is for ten years and contains an early termination option for the customer after five years.

Proceeds on the disposal of capital were $2.8 million in 2010 compared to $4.8 million in the prior year. Proceeds consisted principally of Energy Services' surplus tanks and cylinders.

Capital expenditures were funded from a combination of operating cash flow, the issuance of common shares, the issuance of convertible unsecured subordinated debentures ("Debentures" includes all series of convertible unsecured subordinated debentures) and revolving term bank credit facilities.

## Corporate and Interest Costs

Cash corporate and administrative costs were $11.5 million in 2010, a decrease of $2.1 million from 2009. The decrease was primarily related to the one-time benefit of $2.7 million in gains from the early termination of foreign currency forward contracts, as well as to reduced short term incentive bonus and long term incentive plan costs offset in part by $1.2 million in corporate development activities not eligible for capitalization.

Interest expense on Superior's revolving term bank credits and term loans was $42.8 million for 2010, an increase of $24.8 million from $18.0 million incurred in the prior year. Excluding $3.9 million in capitalized interest cost related to the Port Edwards expansion, $9.0 million in realized gains on interest rate swaps and the early termination of those contracts from 2009 interest expense, the increase in interest expense was due to higher average interest rates and higher average debt in 2010 due to funding requirements for acquisitions and net working capital.

# Management's Discussion and Analysis

Interest on Superior's Debentures was $25.3 million for 2010, an increase of $8.5 million from 2009. The increase in Debentures is due to the issuance of $172.5 million in 5.75% convertible unsecured subordinated debentures during the first quarter of 2010 and $150.0 million in 6.00% convertible unsecured subordinated debentures during the fourth quarter of 2010. The 5.75% debentures mature on June 30, 2017 and the 6.00% debentures mature on June 20, 2018.

## Income Taxes

Consistent with prior periods, Superior recognizes a provision for income taxes for its subsidiaries that are subject to current and future income taxes, including United States income tax, United States non-resident withholding tax and Chilean income tax.

Total income tax recovery for 2010 was $18.1 million, comprised of $1.0 million in cash income taxes and $19.1 million in future income tax recoveries, compared to a total income tax expense of $12.7 million in the prior year, comprised of $1.1 million in cash income taxes and an $11.6 million future income tax expense.

Cash income, withholding and capital taxes for the year ended 2010 were $1.0 million, consisting of cash expense in the United States of $0.8 million, withholding taxes of $nil million and capital taxes of $0.2 million (2009 – $0.5 million in U.S. cash recoveries, $0.5 million in withholding taxes, and $1.1 million in capital taxes). The increase in United States cash income taxes was primarily due to an increase in the amount of U.S. based taxable income due to the contribution from acquisitions completed over the last 15 months.

Future income tax recoveries for the year ended 2010 totalled $19.1 million (2009 – $11.6 million future income tax expense), resulting in a corresponding net future income tax asset of $168.4 million as at December 31, 2010 and a net deferred credit of $247.8 million. The change in future income taxes and the deferred credit is principally the result of Superior utilizing capital and non-capital losses during 2010 and the normal amortization of the deferred credit.

As at December 31, 2010, Superior had the following tax pools available to be used in future years:

| Canada | (millions of dollars) |
|---|---|
| Tax basis | **479.4** |
| Non-capital losses | **15.6** |
| Capital losses | **600.3** |
| Canadian scientific research expenditures | **587.4** |
| Investment tax credits | **172.2** |
| **United States** | |
| Tax basis | **240.9** |
| Capital loss carry-forwards | **46.1** |
| Non-capital losses | **76.7** |
| **Chile** | |
| Tax basis | **28.6** |
| Non-capital loss carry-forwards | **27.9** |

See the audited consolidated financial statements for the year ended December 31, 2010 for a summary of the expiration of the non-capital loss carry-forwards and investment tax credits. Capital loss carry-forwards, Canadian scientific research expenditures and Chilean non-capital losses are eligible to be carried forward indefinitely.

## Consolidated Outlook

Superior expects adjusted cash flow from operations for 2011 to be between $1.40 and $1.75 per share. Superior's previous outlook provided in the third quarter was $1.75 million to $2.00 per share. Superior's consolidated adjusted operating cash flow outlook is dependent on the operating results of its three operating segments. See the discussion of operating results by segment for additional details on Superior's 2011 guidance. In addition to the operating results of Superior's three operating segments, significant assumptions underlying Superior's current 2011 outlook are:

- The slow economic recovery in Canada and the United States is expected to continue in 2011;
- Superior is expected to continue to attract capital and obtain financing on acceptable terms;
- The foreign currency exchange rate between the Canadian and U.S. dollar is expected to average par in 2011 on all unhedged foreign currency transactions;
- Financial and physical counterparties are expected to continue fulfilling their obligations to Superior;
- Regulatory authorities are not expected to impose any new regulations impacting Superior;
- Superior's average interest rate on floating-rate debt is expected to increase modestly throughout 2011;
- The per share outlooks for 2011 include the impact of Superior's dividend reinvestment program (DRIP) which was restarted effective the payment of the May 2010 dividend; and
- U.S. based cash taxes are expected to be minimal in 2011 and have been based on existing statutory income tax rates.

Consolidated adjusted operating cash flow for 2010 of $1.29 per share which was slightly lower than Superior's outlook provided in its 2010 third quarter MD&A of $1.30 to $1.50 per share. Refer to Superior's segments for a detailed review of operating results.

In addition to Superior's significant assumptions detailed above, refer to "Risk Factors to Superior" for a detailed review of Superior's significant business risks.

## Liquidity and Capital Resources

Superior's total and available sources of credit are detailed in the chart below:

| **Available Credit Facilities** | **As at December 31, 2010** | | | |
|---|---|---|---|---|
| (millions of dollars) | Total Amount | Borrowings | Letters of Credit Issued | Amount Available |
| Revolving term bank credit facilities [1] | 450.0 [2] | 273.9 | 28.6 | 147.5 |
| Term loans [1] | 306.3 | 306.3 | – | – |
| Accounts receivable sales program | 90.1 | 90.1 | – | – |
| Total | 846.4 | 670.3 | 28.6 | 147.5 |

(1) Revolving term bank credit facilities and term loan balances are presented before deferred financing fees.

(2) On January 27, 2010 Superior expanded the secured revolving syndicated bank credit facility to $600 million and subsequently reduced the credit facility to $450 million on June 25, 2010; see "Expansion of Superior's Credit Facility".

As at December 31, 2010, Superior had a secured revolving syndicated bank facility (Credit Facility) of $450 million with a syndicate of ten banks. The Credit Facility matures on June 28, 2013 and can be expanded to $750 million.

Superior's Credit Facility and term loans before deferred financing fees, including $90.1 million related to Superior's accounts receivable securitization program, totalled $670.3 million as at December 31, 2010, a decrease of $67.8 million from December 31, 2009. The decrease in revolving term bank credits and term loans is predominately due to the issuance of $172.5 million in convertible debentures on March 16, 2010, issuance of $150.0 million in convertible debentures on December 23, 2010, the issuance of equity during the first and second quarters offset in part by the acquisition of Griffith and the Burnaby Assets along with higher net working capital requirements. The increase in net working capital is primarily due to higher than normal accounts receivable within the Canadian propane distribution business due to delayed invoicing associated with a system upgrade (refer to "System Upgrade" for additional details). On June 25, 2010, Superior completed an extension of its Credit Facility with ten lenders and reduced the facility from $600 million to $450 million. The Credit Facility matures on June 28, 2013 and can be expanded up to $750 million. See "Summary of Cash Flows" for details on Superior's sources and uses of cash.

As at December 31, 2010, Debentures before deferred issue costs issued by Superior totalled $639.6 million, $322.9 million higher than the balance as at December 31, 2009. The increase in Debentures is due to the issuance of $172.5 million in 5.75% convertible unsecured subordinated debentures during the first quarter and $150.0 million in 6.00% convertible unsecured subordinated debentures during the fourth quarter.

As at December 31, 2010, $147.5 million was available under the Credit Facility and accounts receivable sales program, which is considered sufficient to meet Superior's net working capital requirements and expected capital expenditures. Principal covenants are described in "Contractual Obligations and Other Commitments."

Consolidated net working capital was $303.9 million as at December 31, 2010, an increase of $120.1 million from net working capital of $183.8 million as at December 31, 2009. The increase in net working capital was primarily due to delayed invoicing and cash collections associated with the system upgrade completed in the second quarter at Canadian propane distribution which contributed approximately $100 million of the net working capital increase (refer to "System Upgrade" for additional details). Also contributing to the increase was higher net working capital requirements at U.S. refined fuels due to the acquisition of Griffith and higher net working capital at Specialty Chemicals due to lower payables associated with the Port Edwards conversion which was completed during the fourth quarter of 2009. Superior's net working capital requirements are financed from revolving term bank credit facilities and by proceeds raised from a trade accounts receivable sales program.

In May 2010, Superior reestablished its DRIP, commencing with the payment of the May 2010 dividend. The DRIP provides shareholders with the opportunity to reinvest their cash dividends at a 5% discount to the market price of Superior's shares. Proceeds received from the DRIP were $17.2 million for 2010 and $nil million for 2009.

## Expansion of Superior's Credit Facility

On January 27, 2010, Superior and its subsidiaries, Superior LP and Superior Plus U.S. Holdings Inc., completed an expansion of the Credit Facility from $570 million to $600 million. The Credit Facility was subsequently reduced to $450 million on June 25, 2010, as noted above. In addition, certain debt definitions used in the calculation of Superior's financial covenant ratios in the Credit Facility have been amended, together with corresponding amendments to the related financial covenant ratios. The previous consolidated senior debt coverage ratio requirement has been replaced with a Consolidated Secured Debt (as defined in the Credit Facility) coverage ratio requirement. The new definition of Consolidated Secured Debt under the Credit Facility excludes the $150 million of senior unsecured debentures of Superior Plus LP issued on October 27, 2009, which are included in the calculation of Consolidated Debt for the purposes of the Consolidated Debt coverage ratio requirement.

As a result of the new definition of Consolidated Secured Debt, Superior must maintain a Consolidated Secured Debt to Compliance EBITDA ratio of not more than 3.0 to 1.0 compared to the previous senior debt to Compliance EBITDA ratio of 3.5 to 1.0. Superior's Consolidated Debt, excluding convertible unsecured subordinated debentures, to Compliance EBITDA coverage ratio requirement for compliance purposes is unchanged at not more than 5.0 to 1.0. Effective March 25, 2010, Superior and Superior LP amended certain financial covenant ratios in their U.S. Note Purchase Agreement dated October 29, 2003 (Note Agreement) to make them consistent with the financial covenant ratios under their existing Credit Facility other than the exclusion of any borrowings from the accounts receivable securitization program from the calculation of Consolidated Secured Debt for purposes of the Consolidated Secured Debt to Compliance EBITDA ratio calculation.

At December 31, 2010, the Consolidated Secured Debt to Compliance EBITDA ratio when calculated in accordance with Superior's Credit Facility was 2.4 to 1.0 (December 31, 2009 – 2.2 to 1.0) and the Consolidated Debt to Compliance EBITDA ratio when calculated in accordance with Superior's Credit Facility was 3.1 to 1.0 (December 31, 2009 – 2.8 to 1.0). As noted above for both of these Debentures are not considered. These ratios are within the requirements contained in Superior's debt covenants, which restrict its ability to pay dividends. In accordance with Superior's Credit Facility, Superior must maintain a Consolidated Secured Debt to Compliance EBITDA ratio of not more than 3.0 to 1.0 and not more than 3.5 to 1.0 as a result of acquisitions. In addition, Superior must maintain a Consolidated Debt to Compliance EBITDA ratio of not more than 5.0 to 1.0, excluding convertible unsecured subordinated debentures. Distributions (including payments to Debenture holders) cannot exceed Compliance EBITDA less cash income taxes, plus $35.0 million on a trailing 12-month rolling basis.

Superior has entered into an agreement to sell, with limited recourse, certain accounts receivable on a 30-day revolving basis to an entity sponsored by a Canadian chartered bank to finance a portion of its working capital requirements, which represents an off-balance-sheet obligation. The receivables are sold at a discount to face value based on prevailing money market rates. As at December 31, 2010, proceeds of $90.1 million (December 31, 2009 – $92.7 million) had been raised from this program and were used to repay revolving term bank debt (See Note 4 to the Consolidated Financial Statements). Superior is able to adjust the size of the sales program on a seasonal basis in order to match the fluctuations of its accounts receivable funding requirements. This program requires Superior to maintain a minimum secured credit rating of BB. Also Superior is required to maintain certain collection performance standards and due to accounts receivable collection issues associated with a system upgrade at Energy Services those performance standards were not met as at December 31, 2010. Superior has received a waiver related to certain collection performance standards from the accounts receivable securitization lenders and expects the issue to be resolved in due course. Superior's liquidity is not expected to be impacted by the collections issue and credit capacity is considered sufficient to meet net working capital and expected capital expenditure funding requirements. Effective July 2, 2010, Superior extended the maturity of its accounts receivable securitization program until June 29, 2011.

On January 20, 2010, DBRS confirmed Superior LP's senior secured notes and senior unsecured debenture ratings at BBB(low) and BB(high), respectively, both with stable trends. On July 29, 2010, Standard and Poor's confirmed that Superior LP's senior secured long-term debt credit rating at BBB- and its senior unsecured rating at BB-, Superior's corporate credit rating was revised to BB (stable) from BB+(negative watch). On September 9, 2010, DBRS confirmed Superior LP's senior secured long-term debt credit rating at BBB(low) and its senior unsecured rating at BB(high), but changed the trend of both from stable to negative.

## Contractual Obligations and Other Commitments

| | | | Payments Due In | | | |
|---|---|---|---|---|---|---|
| (millions of dollars) | Notes [1] | Total | 2011 | 2012-2013 | 2014-2015 | Thereafter |
| Revolving term bank credits and term loans | 9 | 580.2 | 32.2 | 338.4 | 59.6 | 150.0 |
| Debentures | 10 | 641.4 | – | 174.9 | 144.0 | 322.5 |
| Operating lease and capital commitments [2] | 19 (i) | 215.3 | 53.8 | 80.7 | 46.7 | 34.1 |
| Cdn$ equivalent of US$ foreign currency forward purchase contracts | 13 | 5.4 | 5.4 | – | – | – |
| US$ foreign currency forward sales contracts (US$) | 13 | 499.0 | 162.5 | 288.5 | 48.0 | – |
| Euro€foreign currency forward sales contracts (US$) | 13 | 0.5 | 0.5 | – | – | – |
| Fixed-price electricity purchase commitments | 13 | 130.3 | 24.1 | 35.4 | 35.4 | 35.4 |
| Natural gas, propane, butane, heating oil, and electricity purchase commitments [3] [4] | 13 | 74.8 | 59.5 | 15.3 | – | – |
| Future employee benefits [5] | 12 | 20.5 | 5.9 | 12.0 | 2.6 | – |
| Total contractual obligations | | 2,167.4 | 344.0 | 945.2 | 336.3 | 542.0 |

(1) Notes to the Consolidated Financial Statements.

(2) Operating lease and capital commitments together with the accounts receivable sales program comprise Superior's off balance sheet obligations.

(3) Superior, with respect to its natural gas and propane commitments, is similarly committed to long-term natural gas and propane customer sales commitments.

(4) Does not include the impact of financial derivatives. See Note 13 to the Consolidated Financial Statements.

(5) Does not include Energy Services' or Specialty Chemical defined benefit pension asset.

Revolving term bank credits and term loans are secured by a general charge over the assets of Superior and certain of its subsidiaries. As at December 31, 2010, Superior's senior debt to bank Compliance EBITDA ratio (see Compliance EBITDA in "Non-GAAP Financial Measures") was 3.0 to 1.0 after taking into account the impact of the off-balance sheet receivable sales program and the impact of cash on hand (December 31, 2009 – 2.7 to 1.0).

Debentures are obligations of Superior and consist of $174.9 million in Series I, 5.75% Debentures maturing on December 31, 2012, $75.0 million in Series I, 5.85% Debentures maturing on October 31, 2015, $69.0 million in Series I, 7.50% Debentures maturing on December 31, 2014, $172.5 million in 5.75% Debentures maturing on June 30, 2017 and $150.0 million in Debentures maturing on June 30, 2018. The 5.75% Series I, 5.85% Series I, 7.50%, 5.75% and 6.00% Debentures are convertible at the option of the holder into common shares at $36.00, $31.25, $13.10, $19.00 and $15.10 per common share, respectively. Superior may elect to satisfy interest and principal Debenture obligations by the issuance of common shares or cash.

As at December 31, 2010, approximately 47% of Superior's revolving term bank credits and term loans and Debenture obligations were not repayable for at least five years and approximately 72% of Superior's total debt obligations (including accounts receivable sales program) are subject to fixed interest rates. Superior's policy is to target a fixed-to-floating interest rate profile of approximately 50%.

Operating leases consist of rail cars, distribution/delivery fleet, other vehicles, premises and other equipment. Rail car leases at December 31, 2010 comprised 17% (2009 – 19%) of total operating lease commitments and are used to transport Specialty Chemicals' finished product to its customers' locations and by Energy Services to transport propane from supply sources to its branch distribution locations. Distribution/delivery operating leases at December 31, 2010 comprised 34% (2009 – 28%) of total operating lease commitments and are used by Energy Services and Construction Products Distribution to deliver product to customers.

Natural gas and propane fixed-price supply commitments are used to resource similar volume and term fixed-price sales commitments to customers of Energy Services. Specialty Chemicals has entered into fixed-price electricity contracts for a term of up to seven years, representing 100% of its annual power requirements in deregulated jurisdictions.

Superior's operating lease and capital commitments, natural gas, propane and electricity purchase commitments and future employee benefits are normal course operating commitments. Superior expects to fund these commitments through a combination of cash flow from operations, proceeds on revolving term bank credits and proceeds on the issuance of common share equity.

At December 31, 2010, Superior had an estimated defined benefit pension solvency deficiency of approximately $21.5 million (December 31, 2009 – $23.7 million) and a going concern solvency deficiency of approximately $13.6 million (December 31, 2009 – $17.7 million). Funding requirements required by applicable pension legislation are based upon going concern and solvency actuarial assumptions. These assumptions differ from the going concern actuarial assumptions used in Superior's financial statements. Superior has sufficient liquidity through existing revolving term bank credits and anticipated future operating cash flow to fund this deficiency over the prescribed funding period.

In the normal course of business, Superior is subject to lawsuits and claims. Superior believes the resolution of these matters will not have a material adverse effect, individually or in the aggregate, on Superior's liquidity, consolidated financial position or results of operations. Superior records costs as they are incurred or when they become determinable.

## Shareholders' Capital

The weighted average number of common shares outstanding was 105.6 million in 2010 compared to 91.0 million in 2009, an increase of 16% due to the issuance of 7,771,701 common shares during the year and the resulting impact on weighted average number of shares outstanding. The following table provides a detailed summary of the common shares issued over the last 12 months:

| | Closing Date | Issuance Price per Share | Issued Number of Common Shares (Millions) |
|---|---|---|---|
| **As at December 31, 2009** | | | **99.9** |
| Issuance of common shares to partially finance the acquisition of Griffith Holdings Inc. | February 10, 2010 | $ 13.85 | 5.0 |
| Issuance of common shares to partially finance the acquisition of the Burnaby Assets | June 28, 2010 | $ 13.27 | 1.2 |
| Issuance of common shares under Superior's DRIP | June 15, 2010 through December 15, 2010 | $ 11.49 | 1.6 |
| **As at December 31, 2010** | | | **107.7** |

The quoted market value of Superior's share capital and debentures was $1,193.2 million and $629.5 million, respectively, based on closing prices on December 31, 2010 on the Toronto Stock Exchange.

As at December 31, 2010 and December 31, 2009, the following common shares and securities convertible into common shares were outstanding:

| | **February 28, 2011** | | **December 31, 2010** | | December 31, 2009 | |
|---|---|---|---|---|---|---|
| (millions) | **Convertible Securities** | **Shares** | **Convertible Securities** | **Shares** | Convertible Securities | Shares |
| Common shares outstanding [1] | | **108.0** | | **107.7** | | 99.9 |
| 5.75% Debentures [2] | **$ 174.9** | **4.9** | **$ 174.9** | **4.9** | $ 174.9 | 4.9 |
| 5.85% Debentures [3] | **$ 75.0** | **2.4** | **$ 75.0** | **2.4** | $ 75.0 | 2.4 |
| 7.50% Debentures [4] | **$ 69.0** | **5.3** | **$ 69.0** | **5.3** | $ 69.0 | 5.3 |
| 5.75% Debentures [5] | **$ 172.5** | **9.1** | **$ 172.5** | **9.1** | – | – |
| 6.00% Debentures [6] | **$ 150.0** | **9.9** | **$ 150.0** | **9.9** | – | – |
| Shares outstanding and issuable upon conversion of Debentures | | **139.6** | | **139.3** | | 112.5 |

(1) Common shares outstanding as at February 28, 2011, includes 290,975 common shares issued under Superior's DRIP program.
(2) Convertible at $36.00 per share.
(3) Convertible at $31.25 per share.
(4) Convertible at $13.10 per share.
(5) Convertible at $19.00 per share.
(6) Convertible at $15.10 per share.

## Dividends Paid to Shareholders

Superior's dividends paid to its shareholders are dependent on its cash flow from operating activities with consideration for changes in working capital requirements, investing activities and financing activities of Superior. See "Summary of Adjusted Operating Cash Flow" and "Summary of Cash Flows" for additional details on the sources and uses of Superior's cash flow.

Dividends paid to shareholders for 2010 were $171.2 million (before DRIP proceeds of $17.2 million) or $1.62 per share compared to $148.2 million or $1.62 per share in 2009. The increase in dividends paid to shareholders over the prior year resulted from the issuance of approximately 7.8 million shares over the course of the year to partially finance acquisitions and the DRIP program. Superior has revised its dividend to $0.10 per share per month or $1.20 per share on an annualized basis from the prior level of $0.135 per share per month or $1.62 per share on an annualized basis effective with Superior's March 2011 dividend.

For income tax purposes, dividends paid in 2010 of $1.62 per share are classified as eligible dividends for Canadian income tax purposes. A summary of cash dividends since inception and related tax information is posted under the "Investor Information" section of Superior's website at www.superiorplus.com.

Superior's primary sources and uses of cash are detailed below:

| **Summary of Cash Flows** [1] (millions of dollars) | **2010** | 2009 |
|---|---|---|
| **Cash flows from operating activities** | **12.2** | 192.6 |
| Investing activities: | | |
| Purchase of property, plant and equipment [2] | **(36.8)** | (139.3) |
| Proceeds on disposal of property, plant and equipment | **2.8** | 4.8 |
| Investment in finance leases | **(10.3)** | – |
| Acquisition of Griffith | **(147.4)** | – |
| Acquisition of the Burnaby Assets | **(18.1)** | – |
| Acquisition of SPI | **–** | (109.5) |
| Acquisition of U.S. refined fuels assets | **–** | (178.5) |
| Other acquisitions | **(5.9)** | (0.8) |
| Earn-out payment on prior acquisition | **–** | (0.6) |
| **Cash flows used in investing activities** | **(215.7)** | (423.9) |
| Financing activities: | | |
| Dividends to shareholders | **(171.2)** | (148.2) |
| Proceeds from dividend reinvestment plan | **17.2** | – |
| Revolving term bank credits and term loans | **(49.0)** | 63.1 |
| Issuance of 6.00% convertible debentures | **144.4** | – |
| Issuance of 5.75% convertible debentures | **165.6** | – |
| Issuance of 7.5% convertible debentures | **–** | 65.8 |
| Issuance of 8.25% senior unsecured debentures | **–** | 147.0 |
| Issuance of common shares | **82.5** | 97.8 |
| Net proceeds (repayment) of accounts receivable securitization program | **(2.6)** | (7.3) |
| Realized gain on financial instruments | **–** | 7.7 |
| Other | **1.3** | 14.9 |
| **Cash flows from financing activities** | **188.2** | 240.8 |
| Effect of translation of foreign denominated cash and cash equivalents | **(0.1)** | (1.3) |
| Net (decrease) increase in cash and cash equivalents | **(15.4)** | 8.2 |
| Cash and cash equivalents, beginning of period | **24.3** | 16.1 |
| **Cash and cash equivalents, end of period** | **8.9** | 24.3 |

(1) See the Consolidated Statements of Cash Flows for additional details.
(2) See "Consolidated Capital Expenditure Summary" for additional details.

## Financial Instruments – Risk Management

Derivative and non-financial derivatives are used by Superior to manage its exposure to fluctuations in foreign currency exchange rates, interest rates and commodity prices. Superior assesses the inherent risks of these instruments by grouping derivative and non-financial derivatives related to the exposures these instruments mitigate. Superior's policy is not to use derivative or non-financial derivative instruments for speculative purposes. Superior does not formally designate its derivatives as hedges and, as a result, Superior does not apply hedge accounting and is required to designate its derivatives and non-financial derivatives as held for trading.

Effective 2008, Energy Services entered into natural gas financial swaps primarily with Macquarie Cook Energy Canada Ltd. (formerly, Constellation Energy Commodities Group Inc.) for distributor-billed natural gas business in Canada to manage its economic exposure of providing fixed-price natural gas to its customers. Additionally, Energy Services maintains its natural gas swap positions with seven additional counterparties. Energy Services monitors its fixed-price natural gas positions on a daily basis to evaluate compliance with established risk management policies. Superior maintains a substantially balanced fixed-price natural gas position in relation to its customer supply commitments.

Energy Services entered into electricity financial swaps with three counterparties to manage the economic exposure of providing fixed-price electricity to its customers. Energy Services monitors its fixed-price electricity positions on a daily basis to evaluate compliance with established risk management policies. Energy Services maintains a substantially balanced fixed-price electricity position in relation to its customer supply commitments.

Energy Services entered into various propane forward purchase and sale agreements with more than 20 counterparties to manage the economic exposure of its wholesale customer supply contracts. Energy Services monitors its fixed-price propane positions on a daily basis to monitor compliance with established risk management policies. Energy Services maintains a substantially balanced fixed-price propane gas position in relation to its wholesale customer supply commitments.

Specialty Chemicals has entered into fixed-price electricity purchase agreements to manage the economic exposure of certain of its chemical facilities to changes in the market price of electricity, in markets where the price of electricity is not fixed. Substantially all of the fair value with respect to these agreements is with a single counterparty.

Superior, on behalf of its operating segments, entered into foreign currency forward contracts with 12 counterparties to manage the economic exposure of Superior's operations to movements in foreign currency exchange rates. Energy Services contracts a portion of its fixed-price natural gas, propane and heating oil purchases and sales in U.S. dollars and enters into forward U.S.-dollar purchase contracts to create an effective Canadian-dollar fixed-price purchase cost. Specialty Chemicals enters into U.S.-dollar forward sales contracts on an ongoing basis to mitigate the impact of foreign exchange fluctuations on sales margins on production from its Canadian plants that is sold in U.S. dollars. Interest expense on Superior's U.S.-dollar debt is also used to mitigate the impact of foreign exchange fluctuations.

As at December 31, 2010, Energy Services had hedged over 100% of its U.S. dollar natural gas and propane purchase (sales) obligations for 2011 and had hedged approximately 99% and 97% of its estimated U.S. dollar exposure for 2011 and 2012. Specialty Chemicals had hedged approximately 61% and 49% of its estimated U.S. dollar exposure for 2011 and 2012, respectively. Construction Products Distribution had hedged approximately 84% and 85& of its exposure for 2011 and 2012, respectively. The estimated sensitivity on adjusted operating cash flow for Superior, including divisional U.S. exposures and the impact on U.S.-denominated debt with respect to a $0.01 change in the Canadian to United States exchange rate for 2011 is $0.7 million, respectively after giving effect to United States forward contracts for 2011, as shown in the table below. Superior's sensitivities and guidance are based on an anticipated average Canadian to U.S. dollar foreign currency exchange rate for 2011 of par.

| (US$ millions except exchange rates) | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 and Thereafter | Total |
|---|---|---|---|---|---|---|---|
| Energy Services – US$ forward purchases [1] | (5.4) | – | – | – | – | – | (5.4) |
| Energy Services – US$ forward purchases (sales) | 44.0 | 44.0 | 44.0 | – | – | – | 132.0 |
| Construction Products Distribution – US$ forward sales | 18.0 | 24.0 | 24.0 | – | – | – | 66.0 |
| Specialty Chemicals – US$ forward sales | 100.5 | 80.5 | 72.0 | 48.0 | – | – | 301.0 |
| Net US$ forward sales | 157.1 | 148.5 | 140.0 | 48.0 | – | – | 493.6 |
| | | | | | | | |
| Energy Services – Average US$ forward purchase rate [1] | 1.11 | – | – | – | – | – | 1.11 |
| Energy Services – Average US$ forward sales rate | 1.06 | 1.06 | 1.06 | – | – | – | 1.06 |
| Construction Products Distribution – Average US$ forward sales rate | 1.06 | 1.06 | 1.07 | – | – | – | 1.06 |
| Specialty Chemicals – US$ forward sales rate | 1.14 | 1.08 | 1.07 | 1.07 | – | – | 1.10 |
| Net average external US$/Cdn$ exchange rate | 1.11 | 1.07 | 1.07 | 1.07 | – | – | 1.09 |
| | | | | | | | |
| Specialty Chemicals – Euro forward sales | 0.3 | – | – | – | – | – | 0.3 |
| Specialty Chemicals – Average Euro forward sales rate | 1.58 | – | – | – | – | – | 1.58 |

(1) Energy services is now sourcing its fixed-price natural gas requirements in Canadian dollars, as such, it will no longer be required to use U.S.-dollar forward contracts to fix its Canadian-dollar exposure.

Superior manages its overall liquidity risk in relation to its general funding requirements by utilizing a mix of short-term and longer-term debt instruments. Superior reviews it mix of short-term and longer-term debt instruments on an ongoing basis to ensure it is able to meet its liquidity requirements.

Superior has interest rate swaps with four counterparties to manage the interest rate mix of its total debt portfolio and related overall cost of borrowing. Superior manages its overall liquidity risk in relation to its general funding requirements by utilizing a mix of short-term and longer-term maturity debt instruments. Superior reviews its mix of short-term and longer-term debt instruments on an ongoing basis to ensure it is able to meet its liquidity requirements.

Superior utilizes a variety of counterparties in relation to its derivative and non-financial derivative instruments in order to mitigate its counterparty risk. Superior assesses the credit-worthiness of its significant counterparties at the inception and throughout the term of a contract. Superior is also exposed to customer credit risk. Energy Services and Construction Products Distribution deal with a large number of small customers, thereby reducing this risk. Specialty Chemicals, due to the nature of its operations, sells its products to a relatively small number of customers. Specialty Chemicals mitigates its customer credit risk by actively monitoring the overall credit-worthiness of its customers. Energy Services fixed-price energy services business has minimal exposure to customer credit risk as local natural gas and electricity distribution utilities have been mandated, for a nominal fee, to provide invoicing, collection and the assumption of bad debts risk for residential and small commercial customers. The fixed-price energy services segment actively monitors the credit-worthiness of its direct bill industrial customers. All of Superior's business segments have credit risk policies in place in order to minimize credit exposures.

For additional details on Superior's derivative financial instruments, including the amount and classification of gains and losses recorded in Superior's Consolidated Financial Statements, and summary of fair values, notional balances, effective rates and terms, and significant assumptions used in the calculation of the fair value of Superior's financial instruments, see Note 13 to the Consolidated Financial Statements.

## Sensitivity Analysis

Superior's estimated cash flow sensitivity in 2010 to the following changes is provided below:

| | Change | Change | Impact on Adjusted Operating Cash Flow | Per Share |
|---|---|---|---|---|
| **Energy Services** | | | | |
| Change in propane sales margin | $0.005/litre | 4% | $6.2 million | $0.06 |
| Change in propane sales volume | 50 million litres | 4% | $6.5 million | $0.06 |
| Change in U.S. refined fuels sales margin | $0.005/litre | 6% | $8.5 million | $0.08 |
| Change in U.S. refined fuels sales volume | 85 million litres | 5% | $6.0 million | $0.06 |
| Change in natural gas sales margin | $0.02/GJ | 2% | $0.5 million | $0.01 |
| Change in natural gas sales volume | 2 million GJ | 7% | $1.6 million | $0.02 |
| **Specialty Chemicals** | | | | |
| Change in sales price | $10.00/tonne | 2% | $7.4 million | $0.07 |
| Change in sales volume | 15,000 metric tonnes | 2% | $3.8 million | $0.04 |
| **Construction Products Distribution** | | | | |
| Change in sales margin | 1% point change in average gross margin | 4% | $6.6 million | $0.06 |
| Change in sales volume | 5% change in sales volume | 5% | $4.4 million | $0.04 |
| **Corporate** | | | | |
| Change in Cdn$/US$ exchange rate [1] | $0.01 | 1% | $0.1 million | $nil |
| Corporate change in interest rates | 0.5% | 17% | $1.4 million | $0.01 |

(1) After giving effect to US$ forward sales contracts for 2010. See "Financial Instruments – Risk Management".

## Critical Accounting Estimates

Superior's significant accounting policies are contained in Note 2 to the Consolidated Financial Statements. Certain of these policies involve critical accounting estimates because they require Superior to make particularly subjective or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts could be reported under different conditions or using different assumptions. Superior constantly evaluates these estimates and assumptions.

### Allowance for Doubtful Accounts

Superior expects that a certain portion of required customer payments will not be made and maintains an allowance for these doubtful accounts. This allowance is based on Superior's estimate of the likelihood of recovering its accounts receivable. It incorporates current and expected collection trends. If economic conditions change, actual results or specific industry trends differ from Superior's expectations, Superior will adjust its allowance for doubtful accounts and its bad debts expense accordingly.

### Employee Future Benefits

The accrued benefit obligation is determined by independent actuaries using the projected benefit method prorated on service and based on management's best economic and demographic estimates. The benefit relates to Superior's defined benefit plans. The expected return on plan assets is determined by considering long-term historical returns, future estimates of long-term investment returns and asset allocations.

### Asset Impairment

Superior reviews long-lived assets and intangible assets with finite lives whenever events or changes in circumstances indicate that the carrying amounts of such assets may not be fully recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows, and measurement of an impairment loss is based on the fair value of the assets.

Goodwill is not amortized, but is assessed for impairment at the reporting unit level annually, or sooner if events or changes in circumstances indicate that the carrying amount could exceed fair value. Goodwill is assessed for impairment using a two-step approach, with the first step being to assess whether the fair value of the reporting unit to which the goodwill is assigned is less than its carrying value. If this is the case, a second impairment test is performed which requires a comparison of the fair value of goodwill to its carrying amount. If fair value is less than the carrying value, goodwill is considered to be impaired and an impairment charge would be recognized immediately.

### Valuation of Derivatives and Non-Financial Derivatives

The valuation of derivatives and non-financial derivatives is determined by reference to quoted bid or asking prices, as appropriate, in the most advantageous active market for that instrument to which Superior has immediate access. Where bid and ask prices are unavailable, Superior uses the closing price of the most recent transaction of the instrument. In the absence of an active market, Superior determines fair value based on prevailing market rates (bid and ask prices, as appropriate) for instruments with similar characteristics and risk profiles or internal or external valuation models, such as discounted cash flow analysis, using observable market-based inputs.

Fair values determined using valuation models require the use of assumptions concerning the amount and timing of estimated future cash flows and discount rates. In determining these assumptions, Superior looks primarily to external readily observable market inputs including interest rate yield curves, currency rates, and price and rate volatilities as applicable. With respect to the valuation of Specialty Chemicals' fixed-price electricity agreements, Superior makes assumptions about the long-term price of electricity in electricity markets for which active market information is not available. This assumption has a material impact on the fair value of these agreements. Any changes in the fair values of financial instruments classified or designated as held-for-trading are measured at fair value and are recognized in net income.

## Future Accounting Changes

### International Financial Reporting Standards (IFRS)

The Accounting Standards Board of Canada (AcSB) has announced plans that will require the convergence of GAAP with IFRS for publicly accountable enterprises, including Superior. The changeover date from GAAP to IFRS is for annual and interim financial statements relating to fiscal years beginning on or after January 1, 2011.

During 2008, Superior formed an IFRS project team to develop an IFRS transition plan. Superior's approach was to assess and coordinate ongoing training requirements in conjunction with the development of a comprehensive diagnostic/planning document throughout the first, second and third quarters of 2009. Superior's diagnostic plan was substantially completed in the fourth quarter of 2009 and includes the assessment of differences between GAAP and IFRS, options available under IFRS, potential system requirements as a result of the adoption of IFRS, and the impact on internal controls and other business activities. Superior continues to execute its detailed IFRS transition plan and remains on-track to issue its IFRS-based financial statements for the period ended March 31, 2011.

The initial adoption of IFRS has required Superior to review each of its accounting policies and determine whether or not a change is required or permitted under IFRS and whether any amended policy is required to be applied on a retrospective or prospective basis. This review was performed in accordance with IFRS 1 *First-time Adoption of International Financial Reporting Standards* which provides guidance for initial adoption, policy choice option and exemptions available.

The table below summarizes some of the choices available concerning certain exemptions from retrospective application of IFRS standards at the time of changeover that are provided by IFRS 1. Superior's intentions upon transition as at January 1, 2010 are summarized below:

| **Optional Exemption** | **Exemption and Intention** |
|---|---|
| Business combinations | Under this exemption, Superior may elect not to apply IFRS 3 *Business Combinations* retrospectively to prior business combinations. This standard may be applied prospectively from the date of the opening IFRS balance sheet. Superior intends to use this exemption upon transition to IFRS. |
| Fair value or revaluation as deemed cost | This exemption allows Superior to initially measure an item of property, plant and equipment upon transition to IFRS at fair value or a previous GAAP valuation method such as historical cost. Superior intends to utilize this exemption to the extent possible upon transition to IFRS. |
| Employee benefits | This exemption permits Superior to reset the cumulative actuarial gains and losses to zero by recognizing the full amount in retained earnings of the opening IFRS balance sheet. Superior intends to use this exemption upon transition to IFRS. The financial statement impact upon transition to IFRS is an estimated decrease in the accrued pension asset of approximately $20 million and an increase in opening deficit of approximately $20 million. |
| Cumulative translation differences | This exemption permits Superior to reset the cumulative translation differences to zero by recognizing the full amount in retained earnings of the opening IFRS balance sheet. Superior intends to use this exemption upon transition to IFRS. The financial statement impact upon transition to IFRS is an estimated decrease in accumulated other comprehensive loss of approximately $23 million and a decrease in opening deficit of approximately $23 million. |
| Share-based payment transactions | A first-time adopter is encouraged, but not required, to apply IFRS 2 *Shared-Based Payment* to equity instruments that were granted after November 7, 2002 and vested before the later of the date of transition to IFRS and January 1, 2005. Superior intends to apply this exemption upon transition to IFRS and will apply IFRS 2 on a prospective basis. |
| Leases | This exemption permits Superior to comply with IFRS Interpretations Committee (IFRIC) 4 *Determining whether an Arrangement contains a Lease* on a prospective basis to all outstanding arrangements as at the date of transition to IFRS. Superior intends to use this exemption upon transition to IFRS and will apply IFRIC 4 on a prospective basis. |
| Decommissioning liabilities included in the cost of property, plant and equipment | This exemption permits Superior not to comply with IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities,* which requires changes in a decommissioning, restoration or similar liability to be applied retrospectively and to be added to or deducted from the cost of the asset to which it relates. Superior intends to use this exemption upon transition to IFRS. |

In addition to the optional exemptions under IFRS 1, Superior has applied the mandatory exceptions to retrospectively applying the following IFRS standards: Derecognizing of financial assets and financial liabilities, Hedge accounting, Estimates and Non-controlling interests.

# Management's Discussion and Analysis

At this time, Superior is able to reasonably estimate the impact that the adoption of IFRS may have on its opening January 1, 2010 IFRS balance sheet based on IFRS standards currently effective. Superior's assessments of the areas which are expected to have a significant impact upon adoption of IFRS are summarized in the table below but should not be viewed as all-encompassing.

| Standards | Comparison between IFRS and GAAP | Findings | Estimated financial impact on Superior's January 1, 2010 opening IFRS balance sheet |
|---|---|---|---|
| International Accounting Standards (IAS) 16 *Property, plant and equipment* | **Componentization**<br><br>IFRS: Property, plant and equipment have to be recorded and amortized based on material components.<br><br>GAAP: Component identification rules are less stringent.<br><br>**Major inspections and overhauls**<br><br>IFRS: Costs related to major inspections and overhauls required at regular intervals over the life of an item of property, plant and equipment are capitalized if the recognition criteria are met.<br><br>GAAP: Only costs meeting the criteria to be classified as betterment are capitalized. | **Componentization**<br><br>Superior has identified several new material component categories under IAS 16. This will result in reclassification of some property, plant and equipment into the new categories. This will result in changes to the useful lives of some components of property, plant and equipment.<br><br>**Major inspections and overhauls**<br><br>Superior has identified some major inspections and overhauls which meet the recognition criteria under IFRS. Superior retroactively applied IAS 16 to previously expensed major inspection and overhauls costs. This will result in the capitalization of previously expensed major inspection and overhaul costs. | **Componentization**<br><br>The expected impact upon transition to IFRS is an estimated decrease in accumulated amortization of various property, plant and equipment components of approximately $37 million and a decrease in opening deficit of approximately $37 million.<br><br>**Major inspections and overhauls**<br><br>The expected impact upon transition to IFRS is an estimated net increase in property, plant and equipment of approximately $32 million and a decrease in opening deficit of approximately $32 million. |
| IAS 39 *Derecognizing Financial Assets and Financial Liabilities* | IFRS: Various criteria much be met in order to derecognize financial assets and financial liabilities from the balance sheet.<br><br>GAAP: Criteria for derecognizing financial assets and financial liabilities from the balance sheet are less stringent than IFRS. | Based on an analysis of IAS 39, Superior's accounts receivable securitization program would not qualify for derecognition. As such, the related accounts receivable balance and obligation would also be recorded on the balance sheet. | The expected impact upon transition to IFRS is an estimated increase of approximately $93 million to accounts receivable and an increase of approximately $93 million to revolving term bank credits and term loans. |

| Standards | Comparison between IFRS and GAAP | Findings | Estimated financial impact on Superior's January 1, 2010 opening IFRS balance sheet |
|---|---|---|---|
| IAS 17 *Leases* | IFRS: The criteria for determining whether a lease is considered to be a finance (capital) or operating lease are based on a number of indicators however, quantitative thresholds are not offered as an indicator as under GAAP.<br><br>GAAP: The criteria for determining whether a lease is considered to be a finance (capital) lease or operating lease are based on a number of indicators and quantitative thresholds. | In applying IFRS, Superior has developed internal indicators for assessing the classification of leases under IFRS. As a result of these indicators, Superior will be classifying those leases meeting the criteria set out in IAS 17 as finance (capital) leases under IFRS. This will result in an increase in property, plant and equipment and associated lease obligations. | The expected impact upon transition to IFRS is an estimated increase in property, plant and equipment of between $70 million and $75 million. Also an increase in the lease obligations of between $55 million and $60 million is expected to be recognized upon transition. |
| IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* | **Post-closure remediation costs**<br><br>IFRS: Under IFRS, a provision for post-closure remediation costs may arise from either a legal or constructive obligation.<br><br>GAAP: The only criteria relates to legal obligations. | Under IFRS, Superior will recognize a provision for post-closure remediation costs associated with Specialty Chemicals various plants. Currently under GAAP, Superior does not have any provision for these costs in the Specialty Chemicals segment. | The expected impact upon transition to IFRS is an estimated net increase in property, plant and equipment of approximately $4 million, an increase in liabilities of approximately $6 million and an increase in opening deficit of approximately $2 million. |

| Standards | Comparison between IFRS and GAAP | Findings | Estimated financial impact on Superior's January 1, 2010 opening IFRS balance sheet |
|---|---|---|---|
| IAS 12 *Income Taxes* | **Deferred credit**<br><br>IFRS: Any amounts relating to deferred credits are recognized immediately in net earnings.<br><br>GAAP: Recognition of deferred credits on the balance sheet are specifically addressed under Emerging Issues Committee (EIC) – 110 *Accounting for Acquired Future Tax Benefits in Certain Purchase Transactions that are not Business Combinations*. Under EIC – 110, any deferred credits are amortized into net earnings as the related assets are utilized. | Based on an analysis of IAS 12, Superior will adjust the deferred credit liability to zero upon transition to IFRS. | The expected impact upon transition to IFRS is an estimated decrease to the deferred credit of approximately $271 million and an increase to opening deficit of approximately $271 million.<br><br>Superior is still evaluating the qualitative and quantitative impact of IAS 12 and further adjustments may be required once completed. |
| IAS 36 *Impairment of Assets* | **Reversing Impairment Losses**<br><br>IFRS: An impairment loss recognized in prior periods for an asset other than goodwill is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized.<br><br>GAAP: Impairment losses are not reversed. | Superior has reviewed prior impairment of assets and determined that a reversal should be recognized. The impairment charged recognized in 2005 on Specialty Chemicals' Valdosta facility will be reversed based on the estimated net book value of the related assets as at January 1, 2010. | The expected impact upon transition to IFRS is an estimated net increase to property, plant and equipment of approximately $54 million and a decrease of approximately $54 million to opening deficit. |

Superior will continue to assess the impact of changes to IFRS on the expected opening balance sheet adjustments summarized above. The actual adjustments recorded in Superior's opening balance sheet as at January 1, 2010 may differ significantly from these estimates and may include other areas Superior is still assessing at this time.

## Selected Financial Information

| (millions of dollars except per share amounts) | **2010** | 2009 | 2008 |
|---|---|---|---|
| Total assets (as at December 31) | **2,449.6** | 2,274.0 | 2,026.9 |
| Total revenues | **3,529.2** | 2,246.7 | 2,487.3 |
| Gross profit | **787.6** | 653.4 | 669.1 |
| Net earnings (loss) | **(47.0)** | 68.3 | 67.7 |
| Per share, basic and diluted | **$ (0.45)** | $ 0.75 | $ 0.77 |
| Cash flow from operating activities | **12.2** | 191.3 | 207.6 |
| Adjusted operating cash flow | **136.1** | 163.9 | 192.3 |
| Per share, basic and diluted | **$ 1.29** | $ 1.80 | $ 2.18 |
| Cash dividends per share [1] | **$ 1.62** | $ 1.62 | $ 1.61 |
| Current and long-term debt [2] (as at December 31) | **580.2** | 645.4 | 477.7 |

(1) Cash dividends per share paid in fiscal 2010 and 2009 and distributions per share paid in fiscal years 2008.

(2) Current and long-term debt before deferred financing fees, accounts receivable securitization and convertible unsecured subordinated debentures.

## Fourth Quarter Results

Fourth quarter 2010 adjusted operating cash flow was $55.8 million, a decrease of $8.6 million or 13% from the prior year quarter, as reduced operating results at Energy Services and Construction Products Distribution along with higher interest costs were offset in part by higher operating results at Specialty Chemicals. Adjusted operating cash flow was $0.52 per share, compared to $0.65 per share in the prior year quarter. The reduction was due to an 8% decrease in the adjusted operating cash flow and a 9% increase in the weighted average number of shares outstanding. The average number of shares outstanding increased in 2010 as a result of shares issued to partially finance the acquisition of Griffith CH U.S. refined fuels assets, the acquisition of Griffith, the acquisition of the Burnaby Assets and the reinstatement of the DRIP effective for the payment of the May 2010 dividend.

Net losses for the fourth quarter were $33.6 million, compared to net earnings of $17.4 million in the prior year quarter. The change in net loss is due principally to the non-cash impairment charge of $89.5 million recorded against Construction Products Distribution's goodwill and intangible assets. Net earnings were impacted by $29.0 million in unrealized gains on financial instruments in the current quarter, compared to unrealized losses of $0.2 million in the prior year quarter. The change in the unrealized gains and losses on financial instruments was due principally to gains in the current quarter on Superior's natural gas financial derivatives compared to losses in the prior year as a result of fluctuations in the spot and forward price for natural gas and gains on foreign currency financial derivatives due to fluctuations in forward exchange rates. Revenues of $1,009.2 million were $261.7 million higher than the prior year quarter due principally to higher Energy Services revenue from the acquisitions of U.S. refined fuels assets and Griffith and higher Specialty Chemicals revenue from the contribution of the Port Edwards expansion completed in December of 2009. Gross profit of $225.5 million was $22.2 million higher than the prior year quarter due principally to contribution of the acquisitions completed over the past twelve months and Port Edwards expansion contribution, offset in part by lower Canadian propane distribution and supply portfolio management gross profits. Total income tax for the fourth quarter was a recovery of $0.6 million compared to an income tax expense of $21.0 million in the prior year quarter. The income tax recovery in 2010 was impacted by lower net earnings before taxes due in part to the impairment of goodwill and intangible assets.

# Management's Discussion and Analysis

## Subsequent Event

During January 2011, Specialty Chemicals became aware that TransAlta Corporation (TransAlta) issued a force majeure notice to TransCanada Corporation (TransCanada) under the Sundance Power Purchase Agreement (PPA) between the two entities. TransCanada Energy Ltd. a subsidiary of TransCanada, supplies Specialty Chemicals with fixed-priced electricity from the PPA under an Electrical Sales Agreement (ESA). On February 8, 2011, TransAlta issued a news release stating "notice of termination for destruction on its Sundance 1 and 2 coal-fired generation units under the terms of the PPA" and "determined that the units cannot be economically restored to service". On February 9, 2011, TransCanada issued a news release stating "it has received from TransAlta notice under the PPA" and "has not received any information that would validate TransAlta's determination that the units cannot be economically restored to service". If TransAlta is successful in terminating the agreement, Specialty Chemicals may be entitled to recover certain accrued amounts under the ESA. Superior had a net unrealized derivative gain of $5.3 million as at December 31, 2010, related to the ESA with TransCanada Energy Ltd. There is currently no interruption of the ESA according to TransCanada as it has disputed the TransAlta force majeure and has not yet responded to TransAlta.

## Quarterly Financial and Operating Information

Quarterly financial and operating information for 2010 and 2009 is provided in the table below. Superior's overall adjusted operating cash flow and working capital funding requirements are modestly seasonal. Approximately 80% of Energy Services' fuel distribution-related operating cash flow is generated during the first and fourth quarters of each year as approximately 31% of its sales are generated from space heating end-uses. Net working capital funding requirements follow a similar seasonal trend, peaking during the first quarter of each year and declining to seasonal lows during the third quarter. The seasonality of Construction Products Distribution's operating cash flow and working capital funding requirements is modestly complementary to Energy Services' seasonality as new construction and remodeling activity both typically peak during the second and third quarters of each year. Specialty Chemicals' and fixed-price energy services' operating cash flow and net working capital requirements do not have significant seasonal fluctuations.

| | **2010 Quarter** | | | | 2009 Quarter | | | |
|---|---|---|---|---|---|---|---|---|
| | **Fourth** | **Third** | **Second** | **First** | Fourth | Third | Second | First |
| Canadian propane sales volumes (millions of litres) | **372** | **234** | **249** | **380** | 373 | 224 | 249 | 431 |
| U.S. refined fuels sales volumes (millions of litres) | **499** | **331** | **403** | **469** | 153 | – | – | – |
| Natural gas sales volumes (millions of GJs) | **6** | **7** | **7** | **7** | 8 | 8 | 8 | 8 |
| Electricity sales volumes (millions of KwH) | **133** | **86** | **73** | **74** | 68 | 56 | 38 | 31 |
| Chemical sales volumes (thousands of MT) | **193** | **189** | **183** | **170** | 160 | 163 | 155 | 155 |
| Revenues (millions of dollars) | **1,009.2** | **767.0** | **788.4** | **964.6** | 747.5 | 441.3 | 454.4 | 603.5 |
| Gross profit (millions of dollars) | **225.5** | **176.0** | **167.5** | **218.6** | 203.3 | 126.9 | 134.9 | 188.3 |
| Net earnings (loss) (millions of dollars) | **(33.6)** | **(4.0)** | **(18.6)** | **9.2** | 17.4 | 33.0 | 23.4 | (5.5) |
| Per share, basic | **$ (0.31)** | **$ (0.04)** | **$ (0.18)** | **$ 0.09** | $ 0.18 | $ 0.37 | $ 0.26 | $ (0.06) |
| Per share, diluted | **$ (0.31)** | **$ (0.04)** | **$ (0.18)** | **$ 0.09** | $ 0.18 | $ 0.37 | $ 0.26 | $ (0.06) |
| Adjusted operating cash flow (millions of dollars) | **55.8** | **20.5** | **5.1** | **54.7** | 64.4 | 19.3 | 18.9 | 61.3 |
| Per share, basic | **$ 0.52** | **$ 0.19** | **$ 0.05** | **$ 0.53** | $ 0.65 | $ 0.22 | $ 0.21 | $ 0.69 |
| Per share, diluted | **$ 0.52** | **$ 0.19** | **$ 0.05** | **$ 0.53** | $ 0.65 | $ 0.22 | $ 0.21 | 0.69 |
| Net working capital [1] (millions of dollars) | **303.9** | **210.6** | **201.3** | **138.9** | 183.8 | 132.0 | 72.0 | 83.7 |

[1] Net working capital reflects amounts as at the quarter-end and is comprised of cash and cash equivalents, accounts receivable and inventories, less bank indebtedness, accounts payable and accrued liabilities.

## Reconciliation of Net Earnings (Loss) to EBITDA from Operations [1][2]

| **2010** (millions of dollars) | **Energy Services** | **Specialty Chemicals** | **Construction Products Distribution** |
|---|---|---|---|
| Net earnings (loss) | **18.0** | **43.2** | **(73.7)** |
| Add: Amortization of property, plant and equipment, intangible assets and accretion of convertible debenture issue costs | **46.7** | **7.5** | **8.9** |
| Amortization included in cost of sales | **–** | **44.9** | **–** |
| Impairment of goodwill and intangible assets | **–** | **–** | **89.5** |
| Unrealized losses on financial instruments | **26.4** | **5.3** | **–** |
| **EBITDA from operations** | **91.1** | **100.9** | **24.7** |

| 2009 (millions of dollars) | Energy Services | Specialty Chemicals | Construction Products Distribution |
|---|---|---|---|
| Net earnings | 53.1 | 19.6 | 17.0 |
| Add: Amortization of property, plant and equipment, intangible assets and accretion of convertible debenture issue costs | 19.9 | 4.8 | 5.8 |
| Amortization included in cost of sales | – | 37.5 | – |
| Energy Services non-cash pension expense | 1.7 | – | – |
| Unrealized losses on financial instruments | 22.9 | 31.1 | – |
| EBITDA from operations | 97.6 | 93.0 | 22.8 |

(1) See the Consolidated Financial Statements for net earnings (loss), amortization of property, plant and equipment, intangible assets and accretion of convertible debenture issue costs, tax expense (recovery), non-cash pension expense and unrealized (gains) losses on financial instruments.

(2) See “Non-GAAP Financial Measures” for additional details.

## Reconciliation from the Financial Statement Segmented Note to the MD&A's Divisional Segmented Revenue, Cost of Sales and Cash Operating and Administrative Costs

| (millions of dollars) | 2010 Energy Services | 2010 Specialty Chemicals | 2010 Construction Products Distribution | 2009 Energy Services | 2009 Specialty Chemicals | 2009 Construction Products Distribution |
|---|---|---|---|---|---|---|
| **Revenue per Financial Statements** | **2,338.3** | **474.6** | **716.3** | 1,312.1 | 465.6 | 469.0 |
| Realized foreign currency gains (losses) | **1.4** | **7.2** | **1.3** | 0.1 | (6.2) | 0.5 |
| Foreign currency gains (losses) related to working capital | **0.8** | **(0.4)** | **–** | (0.1) | (2.6) | – |
| **Revenue per MD&A** | **2,340.5** | **481.4** | **717.6** | 1,312.1 | 456.8 | 469.5 |
| **Cost of products sold per Financial Statements** | **(1,810.0)** | **(306.0)** | **(545.3)** | (863.7) | (284.4) | (347.2) |
| Realized foreign currency gains (losses) | **(7.5)** | **–** | **–** | (6.6) | – | – |
| Foreign currency gains (losses) related to working capital | **–** | **–** | **–** | 1.0 | – | – |
| Realized fixed price electricity gains (losses) | **–** | **(0.3)** | **–** | – | 0.1 | – |
| Realized gains (losses) on propane and heating oil purchase contracts | **(1.5)** | **–** | **–** | – | – | – |
| Natural gas commodity realized fixed price gains (losses) | **(86.6)** | – | – | (102.6) | – | – |
| Non-cash amortization | **–** | **44.9** | **–** | – | 37.5 | – |
| **Cost of products sold per MD&A** | **(1,905.6)** | **(261.4)** | **(545.3)** | (971.9) | (246.8) | (347.2) |
| **Gross profit** | **434.9** | **220.0** | **172.3** | 340.2 | 210.0 | 122.3 |
| **Cash operating and administrative costs per Financial Statements** | **(343.0)** | **(119.5)** | **(147.6)** | (243.4) | (119.6) | (99.5) |
| Non-cash pension expense | **–** | **–** | **–** | 1.7 | – | – |
| Reclassification of foreign currency (gains) and losses related to working capital | **(0.8)** | **0.4** | **–** | (0.9) | 2.6 | – |
| **Cash operating and administrative costs per MD&A** | **(343.8)** | **(119.1)** | **(147.6)** | (242.6) | (117.0) | (99.5) |

## Reconciliation of Net Earnings (Loss) to Compliance EBITDA [1] [2]

| (millions of dollars) | **2010** | 2009 |
|---|---|---|
| Net earnings (loss) | **(47.0)** | 68.3 |
| Adjusted for: | | |
| Interest on revolving term bank credits and term loans | **42.8** | 27.0 |
| Interest on convertible unsecured subordinated debentures | **28.2** | 16.8 |
| Accretion of convertible debenture issue costs | **2.9** | 1.4 |
| Amortization of property, plant and equipment | **37.7** | 22.6 |
| Amortization included in cost of sales | **44.9** | 37.5 |
| Amortization of intangible assets | **25.0** | 7.9 |
| Impairment of goodwill and intangible assets | **89.5** | – |
| Income tax expense (recovery) | **(18.1)** | 12.7 |
| Unrealized losses on financial instruments | **2.2** | 20.6 |
| Energy Services non-cash pension expense | **–** | 1.7 |
| Pro-forma impact of acquisitions | **4.8** | 51.4 |
| Compliance EBITDA | **212.9** | 267.9 |

(1) See the Consolidated Financial Statements for additional details.

(2) See "Non-GAAP Financial Measures" for additional details.

## Disclosure Controls and Procedures and Internal Controls Over Financial Reporting

Disclosure controls and procedures are designed by or designed under the supervision of Superior's Chairman and Chief Executive Officer (CEO) and the Executive Vice President and Chief Financial Officer (CFO) in order to provide reasonable assurance that all material information relating to Superior is communicated to them by others in the organization as it becomes known and is appropriately disclosed as required under the continuous disclosure requirements of securities legislation and regulation. In essence, these types of controls are related to the quality and timeliness of financial and non-financial information in securities filings. The CEO and CFO are assisted in this responsibility by a Disclosure Committee (DC), which is composed of senior managers of Superior. The DC has established procedures so that it can be aware of any material information affecting Superior in order to evaluate and discuss this information and determine the appropriateness and timing of its public releases. An evaluation of the effectiveness of the design and operation of Superior's disclosure controls and procedures was conducted as at December 31, 2010 by and under the supervision of Superior's management, including the CEO and CFO. Based on this evaluation, the CEO and CFO have concluded that Superior's disclosure controls and procedures, as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, are effective to ensure that information required to be disclosed in reports that are filed or submitted under Canadian securities legislation and regulation is recorded, processed, summarized and reported within the times specified in those rules and forms.

Superior's management, including the CEO and CFO, is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian Generally Accepted Accounting Principles (GAAP).

The evaluation of the design of Superior's internal controls over financial reporting was conducted as at December 31, 2010 by and under the supervision of Superior's management, including the CEO and CFO. Based on this evaluation, the CEO and CFO have concluded that the design of Superior's internal control over

financial reporting, as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings provides reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with GAAP.

The evaluation of effectiveness of Superior's internal controls over financial reporting was conducted as at December 31, 2010 by and under the supervision of Superior's management, including the CEO and CFO. Based on this evaluation, the CEO and CFO have concluded that Superior's internal controls over financial reporting, as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings were effective at December 31, 2010.

During 2010, the Canadian propane distribution business completed a system upgrade of their JD Edwards enterprise system to the most recent version. Superior has experienced improvements in areas such as process efficiency and certain internal controls as a result of the upgrade. Management has concluded that the upgrade did not materially affect Superior's internal controls over financial reporting and has not reported a material weakness, however, a number of significant issues did occur as a direct result of the upgrade. The Canadian propane distribution management team is focused on stabilizing the system with direct oversight of the CEO and CFO. Refer to "System Upgrade" which discusses the impact on the business. The continued issues resulting from the system upgrade at the Canadian propane distribution business led to an increased inherent risk assessment in 2010. As a result, management initiated additional monitoring controls to strengthen the overall control environment.

No changes have been made in Superior's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, Superior's internal control over financial reporting in the quarter ended December 31, 2010.

## Forward-Looking Information

Certain information included or incorporated by reference herein is forward-looking, within the meaning of applicable Canadian securities laws. Forward-looking information includes, without limitation, statements regarding the future financial position, business strategy, budgets, litigation, projected costs, capital expenditures, financial results, adjusted operating cash flow, EBITDA from operations, taxes, and plans and objectives of or involving Superior or Superior LP. Much of this information can be identified by looking for words such as "anticipate", "believe", "expect", "plan", "intend", "forecast", "target", "project", "guidance", "may", "will", "should", "could", "estimate", "predict" or similar words suggesting future outcomes or language suggesting an outlook. Forward-looking information in this MD&A includes but is not limited to future economic conditions, financial positions, business strategy and objectives, benefits and synergies resulting from our corporate and asset acquisitions, capital expenditures, development plans and programs, tax horizon, future income taxes, the impact of proposed changes to Canadian tax legislation or U.S. tax legislation, exchange rates, dividend strategy, adverse weather conditions, commodity prices and costs, the impact of contracts for commodities, sodium chlorate demand, regulatory compliance costs, operational and technological improvements, the impact of ongoing legal proceedings, impact of accounts receivable collection delay, net working capital and capital expenditure requirements and acquisition criteria and integration plans. Specifically, under the heading "Outlook" for each operating business and corporate, Superior has disclosed certain forward-looking information. Superior and Superior LP believe the expectations reflected in such forward-looking information are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements should not be unduly relied upon.

Forward-looking information is based on various assumptions. Those assumptions are based on information currently available to Superior, including information obtained from third party industry analysts and other third party sources concerning the historic performance of Superior's businesses, anticipated financial performance, current business and economic trends, the amount of future dividends paid by Superior, business prospects, availability and utilization of tax basis, regulatory developments, currency, exchange and interest rates, trading data, cost estimates, our ability to obtain financing on acceptable terms, and the other assumptions set forth under the Outlook sections contained in this MD&A. Readers are cautioned that the preceding list of assumptions is not exhaustive.

By it's very nature, forward-looking information involves inherent risks and uncertainties, both general and specific, and risks that predictions, forecasts, projections and other forward-looking information will not be achieved. Superior's or Superior LP's actual performance and financial results in future periods may differ materially from any projections of future performance or results expressed or implied by such forward-looking information. We caution readers not to place undue reliance on this information as a number of important factors could cause the actual results to differ materially from the beliefs, plans, objectives, expectations and anticipations, estimates and intentions expressed in such forward-looking information. These risks and uncertainties include but are not limited to incorrect assessments of value when making acquisitions; increases in debt service charges; the loss of key personnel; fluctuations in foreign currency and exchange rates; inadequate insurance coverage; counterparty risk; compliance with environmental laws and regulations; our ability to access external sources of debt and equity capital and the implementation of International Financial Reporting Standards ("IFRS").

These risks and uncertainties include but are not limited to the risks referred to under "Risk Factors to Superior", and the risks identified in Superior's 2010 Annual Information Form under "Risk Factors". Any forward-looking information is made as of the date hereof and, except as required by law, Superior does not undertake any obligation to publicly update or revise such information to reflect new information, subsequent or otherwise. Any forward-looking information is expressly qualified by this cautionary statement.

## Non-GAAP Financial Measures

### Adjusted Operating Cash Flow

Adjusted operating cash flow is equal to cash flow from operating activities as defined by GAAP, adjusted for changes in non-cash working capital and customer contract related costs. Superior may deduct or include additional items to its calculation of adjusted operating cash flow; these items would generally, but not necessarily, be items of a non-recurring nature. Adjusted operating cash flow is the main performance measure used by management and investors to evaluate the performance of Superior. Readers are cautioned that adjusted operating cash flow is not a defined performance measure under GAAP and that adjusted operating cash flow cannot be assured. Superior's calculation of adjusted operating cash flow may differ from similar calculations used by comparable entities. Adjusted operating cash flow represents cash flow generated by Superior that is available for, but not necessarily limited to, changes in working capital requirements, investing activities and financing activities of Superior.

The seasonality of Superior's individual quarterly results must be assessed in the context of annualized adjusted operating cash flow. Adjustments recorded by Superior as part of its calculation of adjusted operating cash flow include, but are not limited to, the impact of the seasonality of Superior's businesses, principally the Energy Services segment, by adjusting for non-cash working capital items, thereby eliminating the impact of the timing between the recognition and collection/payment of Superior's revenues and expense, which can differ significantly from quarter to quarter. Adjustments are also made to reclassify the cash flows related to natural gas and electricity customer contract related costs in a manner consistent with the income statement recognition of these costs. Adjusted operating cash flow is reconciled to cash flows from operating activities on page 16.

### EBITDA

EBITDA represents earnings before interest, taxes, depreciation, amortization and other non-cash expenses, and is used by Superior to assess its consolidated results and the results of its operating segments. EBITDA is not a defined performance measure under GAAP. Superior's calculation of EBITDA may differ from similar calculations used by comparable entities. EBITDA of Superior's operating segments may be referred to as EBITDA from operations. Net earnings are reconciled to EBITDA from operations on page 51.

### Compliance EBITDA

Compliance EBITDA represents earnings before interest, taxes, depreciation, amortization and other non-cash expenses calculated on a 12 month trailing basis giving pro forma effect to acquisitions and divestitures, and is used by Superior to calculate its debt covenants and other credit information. Compliance EBITDA is not a defined performance measure under GAAP. Superior's calculation of Compliance EBITDA may differ from similar calculations used by comparable entities. See Note 15 to the Consolidated Financial Statements for a reconciliation of net earnings (loss) to Compliance EBITDA.

### Risk Factors to Superior

The risk factors and uncertainties detailed below are a summary of Superior's assessment of its material risk factors as identified in Superior's 2010 Annual Information Form under "Risk Factors". For a detailed discussion of these risks, along with additional information related to Superior, see Superior's 2011 Annual Information Form, filed on the Canadian Securities Administrators' website, www.sedar.com and Superior's website, www.superiorplus.com.

## Risks to Superior

Superior is entirely dependent upon the operations and assets of Superior LP. Superior's ability to make dividend payments to shareholders is dependent upon the ability of Superior LP to make distributions on its outstanding limited partnership units as well as the operations and business of Superior LP.

There is no assurance regarding the amounts of cash to be distributed by Superior LP or generated by Superior LP and therefore funds available for dividends to shareholders. The actual amount distributed in respect of the limited partnership units will depend on a variety of factors including, without limitation, the performance of Superior LP's operating businesses, the effect of acquisitions or dispositions on Superior LP, and other factors that may be beyond the control of Superior LP or Superior. In the event significant sustaining capital expenditures are required by Superior LP or the profitability of Superior LP declines, there would be a decrease in the amount of cash available for dividends to shareholders and such decrease could be material.

Superior's dividend policy and the distribution policy of Superior LP are subject to change at the discretion of the Board of Directors of Superior or the Board of Directors of Superior General Partner Inc., as applicable. Superior's dividend policy and the distribution policy of Superior LP are also limited by contractual agreements including agreements with lenders to Superior and its affiliates and by restrictions under corporate law.

The credit facilities of Superior LP contain covenants that require Superior LP to meet certain financial tests and that restrict, among other things, the ability of Superior LP to incur additional debt, dispose of assets or pay dividends/distributions in certain circumstances. These restrictions may preclude Superior LP from returning capital or making distributions on the limited partnership units.

The payout by Superior LP of substantially all of its available cash flow means that capital expenditures to fund growth opportunities can only be made in the event that other sources of financing are available. Lack of access to such additional financing could limit the future growth of the business of Superior LP and, over time, have a material adverse effect on the amount of cash available for dividends to shareholders.

To the extent that external sources of capital, including public and private markets, become limited or unavailable, Superior's and Superior LP's ability to make the necessary capital investments to maintain or expand the current business and to make necessary principal payments under its term credit facilities may be impaired.

Superior maintains a substantial floating interest rate exposure through a combination of floating interest rate borrowings and the use of derivative instruments. Demand levels for approximately half of Energy Services' sales and substantially all of Specialty Chemicals' and Construction Products Distribution's sales are affected by general economic trends. Generally speaking, when the economy is strong, interest rates increase as does sales demand from Superior's customers, thereby increasing Superior's ability to pay higher interest costs and vice versa. In this way, there is a common relationship between economic activity levels, interest rates and Superior's ability to pay higher or lower rates.

A portion of Superior's net cash flows is denominated in U.S. dollars. Accordingly, fluctuations in the Canadian/ U.S. dollar exchange rate can impact profitability. Superior attempts to mitigate this risk by hedging.

The timing and amount of capital expenditures incurred by Superior LP or by its subsidiaries will directly affect the amount of cash available to Superior for dividends to shareholders. Dividends may be reduced, or even eliminated, at times when significant capital expenditures are incurred or other unusual expenditures are made.

If the Board of Directors of Superior decides to issue additional common shares, preferred shares or securities convertible into common shares, existing shareholders may suffer significant dilution.

There can be no assurances that income tax laws in the numerous jurisdictions in which Superior operates will not be changed, interpreted or administered in a manner which adversely affects Superior and its shareholders. In addition, there can be no assurance that the Canada Revenue Agency (or provincial tax agency), U.S. Internal Revenue Service (or a state or local tax agency), or the Chilean Internal Revenue Service (collectively the "Tax Agencies") will agree with how Superior calculates its income for tax purposes or that the various Tax Agencies will not change their administrative practices to the detriment of Superior or its shareholders.

Without limiting the generality of the foregoing, since the beginning of 2010, the Canada Revenue Agency has requested and reviewed information from Superior relating to the plan of arrangement (Arrangement) involving the Fund and Ballard Power Systems Inc. and the conversion of the Fund to a corporation (Conversion). While Superior is confident in the appropriateness of its tax filing position and the expected tax consequences of the Arrangement and the Conversion transaction, there remains a possibility that, if the Canada Revenue Agency elects to challenge Superior's tax filing and such challenge is successful, it could potentially affect the availability or quantum of the tax basis or other tax accounts of Superior. Although it is difficult to quantify the potential impact of any such outcome, it could be materially adverse to Superior.

## Risks to Superior's Segments

### Energy Services

#### Canadian Propane Distribution and U.S. Refined Fuels

Propane is sold in competition with other energy sources such as fuel oil, electricity and natural gas, along with alternative energy sources that are currently under development. In addition to competition from other energy sources, Superior competes with other retail marketers. Superior's ability to remain an industry leader depends on its ability to provide reliable service at competitive selling prices.

Competition in the U.S. refined fuels business markets generally occurs on a local basis between large full service, multi-state marketers and smaller local independent marketers. Although the industry has seen a continued trend of consolidation over the past several years, the top ten multi-state marketers still generate only one-third of total retail sales in the United States. Marketers primarily compete based upon price and service and tend to operate in close proximity to customers, typically within a 35-mile marketing radius from a central depot, to lower delivery costs and provide prompt service.

Weather and general economic conditions affect propane and refined fuels market volumes. Weather influences the demand for propane and heating oil used primarily for space heating uses and also for agricultural applications.

The trend towards increased conservation measures and technological advances in energy efficiency may have a detrimental effect on propane demand and Superior's sales. Further, increases in the cost of propane encourage customers to conserve fuel and to invest in more energy-efficient equipment, reducing demand. Changes in propane supply costs are normally passed through to customers, but timing lags (the time between when Superior purchases the propane and when the customer purchases the propane) may result in positive or negative gross margin fluctuations.

Superior offers its customers various fixed-price propane and heating oil programs. In order to mitigate the price risk from offering these services, Superior uses its physical inventory position, supplemented by forward commodity transactions with various third parties having terms and volumes substantially the same as its customers' contracts. In periods of high propane price volatility the fixed price programs create exposure to over or under supply positions as the demand from customers may significantly exceed or fall short of supply procured. In addition, if propane prices decline significantly subsequent to customers signing up for a fixed price program there is a risk that customers will default on their commitments.

Superior's operations are subject to the risks associated with handling, storing and transporting propane in bulk. Slight quantities of propane may also be released during transfer operations. To mitigate risks, Superior has established a comprehensive program directed at environmental, health and safety protection. This program consists of an environmental policy, codes of practice, periodic self-audits, employee training, quarterly and annual reporting and emergency prevention and response.

The U.S. refined fuels business, through a centralized safety and environment management system, ensures that safety practices and regulatory compliance are an important part of its business. The storage and delivery of refined fuels poses the potential for spills which impact the soils and water of storage facilities and customer properties.

Superior's fuel distribution businesses are based and operate in Canada and the United States, and, as a result, such operations could be affected by changes to laws, rules or policies which may either be more favourable to competing energy sources or increase costs or otherwise negatively affect the operations of Energy Services in comparison to such competing energy sources. Any such changes could have an adverse effect on the operations of Energy Services.

Approximately 14% of Superior's Canadian propane distribution and U.S. refined fuels distribution businesses employees are unionized. Collective bargaining agreements are renegotiated in the normal course of business. While labour disruptions are not expected, there is always risk associated with the renegotiation process that could have an adverse impact to Superior.

### Fixed-Price Energy Services Business

New entrants in the energy retailing business may enter the market and compete directly for the customer base that Superior targets, slowing or reducing its market share.

Fixed-price energy services purchases natural gas to meet its estimated commitments to its customers based upon their historical consumption. Depending on a number of factors, including weather, customer attrition and poor economic conditions affecting commercial customers' production levels, customers' combined natural gas consumption may vary from the volume purchased. This variance must be reconciled and settled at least annually and may require Superior to purchase or sell natural gas at market prices, which may have an adverse impact on the results of this business. To mitigate balancing risk, Superior closely monitors its balancing position and takes measures such as adjusting gas deliveries and transferring gas between pools of customers, so that imbalances are minimized. In addition, Superior maintains a reserve for potential balancing costs. The reserve is reviewed on a monthly basis to ensure that it is sufficient to absorb any losses that might arise from balancing.

Fixed-price energy services matches its customers' estimated electricity requirements by entering into electricity swaps in advance of acquiring customers. Depending on several factors, including weather, customer energy consumption may vary from the volumes purchased by Superior. Superior is able to invoice existing commercial electricity customers for balancing charges when the amount of energy used is greater than or less than the tolerance levels set initially. In certain circumstances, there can be balancing issues for which Superior is responsible when customer aggregation forecasts are not realized.

Fixed-price energy services resources its fixed-price term natural gas sales commitments by entering into various physical natural gas and U.S. dollar foreign exchange purchase contracts for similar terms and volumes to create an effective Canadian dollar fixed-price cost of supply. Superior transacts with nine financial and physical natural gas counterparties. There can be no assurance that any of these counterparties will not default on any of their obligations to Superior. However, the financial condition of each counterparty is evaluated and credit limits are established to minimize Superior's exposure to this risk. There is also a risk that supply commitments and foreign exchange positions may become unmatched; however, this is monitored daily in compliance with Superior's risk management policy.

Fixed-price energy services must retain qualified sales agents in order to properly execute its business strategy. The continued growth of fixed-price energy services is reliant on the services of agents to sign up new customers. There can be no assurance that competitive conditions will allow these agents to achieve these customer additions. Lack of success in the marketing programs of fixed-price energy services would limit future growth of cash flow.

Fixed-price energy services operates in the highly regulated energy industry in Ontario and Quebec. Changes to existing legislation could impact this business' operations. As part of the current regulatory framework, local delivery companies are mandated to perform certain services on behalf of fixed-price energy services, including invoicing, collection, assuming specific bad debt risks and storage and distribution of natural gas. Any elimination or changes to these rules could have a significant adverse effect on the results of this business.

The Ontario Energy Board issued an update to the revised Codes of Conduct supporting the Energy Consumer Protection Act. Although the industry had anticipated automatic renewal of natural gas accounts on a month-to-month basis, the OEB has confirmed that the automatic renewal of natural gas contracts will be allowed for a period of one year capped at the customer's existing rate. Only one automatic renewal will be allowed emphasizing the need to positively convert automatic renewals to other products before the customer is returned to the utility at the end of the renewal term. Renewal notifications will require a standard disclosure form and a price comparison between Energy Services' renewal price and the utility default rate.

## Specialty Chemicals

Specialty Chemicals competes with sodium chlorate, chloralkali and potassium producers on a worldwide basis. Key competitive factors include price, product quality, logistics capability, reliability of supply, technical capability and service. The end-use markets for products are correlated to the general economic environment and the competitiveness of customers, all of which are outside of its control.

Specialty Chemicals chlorine dioxide generators and the related technology are protected by patents and patent applications. Over time, patents expire and, as Specialty Chemicals employs new technology, new patent applications are made and in certain cases new patents are obtained protecting such technology. However, in the case of expired patents or applications that are not granted, Specialty Chemicals would no longer have the exclusive right to use the subject of the patent, and as a result, such technology may be available to be utilized by a competitor which could have an adverse effect on Superior.

Specialty Chemicals has long-term electricity contracts or electricity contracts that renew automatically with power producers in each of the jurisdictions where its plants are located. There is no assurance that Specialty Chemicals will continue to be able to secure adequate supplies of electricity at reasonable prices or on acceptable terms.

Potassium chloride (KCL) is a major raw material used in the production of potassium hydroxide at the Port Edwards, Wisconsin facility. Substantially all of Specialty Chemicals KCL is received from Potash Corporation of Saskatchewan (Potash). Specialty Chemicals currently has a limited ability to source KCL from additional suppliers.

Specialty Chemicals is exposed to fluctuations in the U.S. dollar and the euro versus the Canadian dollar. Specialty Chemicals manages its exposure to fluctuations between the United States and Canadian dollar by entering into hedge contracts with external third parties and internally with other Superior businesses.

Specialty Chemicals' operations involve the handling, production, transportation, treatment and disposal of materials that are classified as hazardous and are regulated by environmental and health and safety laws, regulations and requirements. The potential exists for the release of highly toxic and lethal substances, including chlorine. Equipment failure could result in damage to facilities, death or injury and liabilities to third parties. If at any time the appropriate regulatory authorities deem any of the facilities unsafe, they may order that such facilities be shut down.

Specialty Chemicals' operations and activities in various jurisdictions require regulatory approvals for the handling, production, transportation and disposal of chemical products and waste substances. The failure to obtain or comply fully with such applicable regulatory approvals may materially adversely affect Specialty Chemicals.

Approximately 25% of Specialty Chemicals' employees are unionized. Collective bargaining agreements are renegotiated in the normal course of business. While labour disruptions are not expected, there is always risk associated with the renegotiation process that could have an adverse impact to Superior.

## Construction Products Distribution

Activity in the Construction Products Distribution segment is subject to changes in the level of general economic activity and in particular to the level of activity in residential and non-residential construction subsectors. New construction in residential markets is subject to such factors as household income, employment levels, customer confidence, population changes and the supply of residential units in any local area. Non-residential activity can be subdivided into commercial, industrial and institutional. New construction activity in these sectors is subject to many of the same general economic factors as for residential activity. In the industrial and institutional subsectors, government and regulatory programs can also have a significant impact on the outlook for product distribution, particularly as related to our insulation businesses. As a result, changes to the level of general economic activity or any of the above mentioned factors that affect the amount of construction or renovations in residential and non-residential markets can have an adverse effect on the CPD business and Superior.

Construction Products Distribution competes with other specialty construction distributors servicing the builder/contractor market, in addition to big-box home centres and independent lumber yards. The ability to remain competitive depends on its ability to provide reliable service at competitive prices.

The gypsum specialty distributor (GSD) market is driven largely by residential and non-residential construction. Demand for wall and ceiling building materials is affected by changes in general and local economic factors including demographic trends, employment levels, interest rates, consumer confidence and overall economic growth. These factors in turn impact the level of existing housing sales, new home construction, new non-residential construction, and office/commercial space turnover, all of which are significant factors in the determination of demand for products and services.

# Management's Discussion and Analysis

The commercial & industrial (C&I) market is driven largely by C&I construction spending and economic growth. Sectors within the C&I market that are particularly influential to demand include commercial construction and renovation, construction or expansion of industrial process facilities, such as oil refineries and petrochemical plants, as well as institutional facilities (e.g., government, health care and schools).

The distribution of walls and ceilings and C&I products involves risks, including the failure or substandard performance of equipment, human error, natural disasters, suspension of operations and new governmental statutes, regulations, guidelines and policies. Operations are also subject to various hazards incidental to the handling, processing, storage and transportation of certain hazardous materials, including industrial chemicals. The business maintains safe working practices through proper procedures and direction and utilization of equipment such as forklifts, boom trucks, fabrication equipment and carts/dollies. The business handles and stores a variety of construction materials and maintains appropriate material handling compliance programs in accordance with local, state/provincial and federal regulations.

Approximately 4% of Construction Products Distribution's employees are unionized. Collective bargaining agreements are renegotiated in the normal course of business. While labour disruptions are not expected, there is always risk associated with the renegotiation process that could have an adverse impact to Superior.

# Management's Report

## Management's Responsibility for Financial Reporting

The accompanying Consolidated Financial Statements of Superior Plus Corp. (Superior) and all of the information in this annual report are the responsibility of management and have been approved by the Board of Directors.

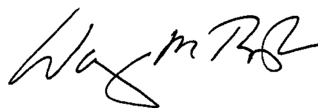
The Consolidated Financial Statements have been prepared by management in accordance with Canadian generally accepted accounting principles and include certain estimates that are based on management's best judgments. Actual results may differ from these estimates and judgments. Management has ensured that the Consolidated Financial Statements are presented fairly in all material respects.

Management has developed and maintains a system of internal controls to provide reasonable assurance that Superior's assets are safeguarded, transactions are accurately recorded, and the financial statements report Superior's operating and financial results in a timely manner. Financial information presented elsewhere in this annual report has been prepared on a basis consistent with that in the Consolidated Financial Statements.

The Board of Directors of Superior is responsible for reviewing and approving the financial statements and primarily through its Audit Committee ensures that management fulfills its responsibilities for financial reporting. The Audit Committee meets with management and Superior's external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities and to review the annual report, the financial statements and the external auditors' report. The Committee reports its findings to the Board for the Board's consideration in approving the financial statements for issuance to the shareholders. The Committee also considers, for review by the Board and approval by the shareholders, the engagement or re-appointment of the external auditor's.

Deloitte & Touche LLP, an independent firm of chartered accountants, was appointed at Superior's last annual meeting to audit Superior's Consolidated Financial Statements in accordance with Canadian generally accepted auditing standards. The firm's auditors have provided an independent professional opinion. Deloitte & Touche LLP has full and free access to the Audit Committee.

**Grant D. Billing**
Chairman and Chief Executive Officer
Superior Plus Corp.



**Wayne M. Bingham**
Executive Vice-President and Chief Financial Officer
Superior Plus Corp.

Calgary, Alberta
February 17, 2011

# Independent Auditor's Report

**To the Shareholders of Superior Plus Corp.**

We have audited the accompanying consolidated financial statements of Superior Plus Corp. which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of net earnings (loss), comprehensive income (loss) and deficit and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

## Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

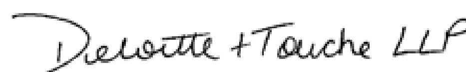
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain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

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

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

## Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Superior Plus Corp. as at December 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



February 17, 2011
Calgary, Alberta

**Deloitte & Touche LLP**
Chartered Accountants

# Consolidated Balance Sheets

| As at December 31 (millions of dollars) | **2010** | 2009 |
|---|---|---|
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents | **8.9** | 24.3 |
| Accounts receivable and other (Notes 4 and 13) | **471.8** | 313.8 |
| Inventories (Note 5) | **173.3** | 145.7 |
| Future income tax asset (Note 14) | **48.6** | 59.0 |
| Current portion of unrealized gains on derivative financial instruments (Note 13) | **31.4** | 22.2 |
| | **734.0** | 565.0 |
| Property, plant and equipment (Note 7) | **687.7** | 668.0 |
| Intangible assets (Note 7) | **181.0** | 180.0 |
| Goodwill (Note 8) | **478.7** | 528.4 |
| Accrued pension asset (Note 12) | **21.0** | 18.2 |
| Long-term portion of notes and finance lease receivable (Note 6) | **12.1** | – |
| Future income tax asset (Note 14) | **191.1** | 165.7 |
| Investment tax credits (Note 14) | **117.4** | 120.2 |
| Long-term portion of unrealized gains on derivative financial instruments (Note 13) | **26.6** | 28.5 |
| | **2,449.6** | 2,274.0 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| **Current Liabilities** | | |
| Accounts payable and accrued liabilities | **302.4** | 280.7 |
| Unearned revenue | **6.8** | 5.8 |
| Current portion of term loans (Note 9) | **32.2** | 5.1 |
| Dividends and interest payable to shareholders and debenture holders | **15.5** | 14.2 |
| Current portion of deferred credit (Note 14) | **18.2** | 24.5 |
| Future income tax liability (Note 14) | **1.3** | – |
| Current portion of unrealized losses on derivative financial instruments (Note 13) | **78.6** | 77.8 |
| | **455.0** | 408.1 |
| Revolving term bank credits and term loans (Note 9) | **540.9** | 633.2 |
| Convertible unsecured subordinated debentures (Note 10) | **621.7** | 309.0 |
| Employee future benefits (Note 12) | **19.2** | 17.2 |
| Asset retirement obligations and environmental liabilities (Note 11) | **7.1** | 0.9 |
| Future income tax liability (Note 14) | **70.0** | 22.1 |
| Deferred credit (Note 14) | **229.6** | 246.4 |
| Long-term portion of unrealized losses on derivative financial instruments (Note 13) | **56.0** | 52.6 |
| **Total Liabilities** | **1,999.5** | 1,689.5 |
| **Shareholders' Equity** | | |
| Shareholders' capital (Note 15) | **1,601.2** | 1,502.0 |
| Contributed surplus (Note 15) | **5.5** | 5.3 |
| Deficit | **(1,101.3)** | (883.3) |
| Accumulated other comprehensive loss (Note 15) | **(55.3)** | (39.5) |
| | **(1,156.6)** | (922.8) |
| **Total Shareholders' Equity** | **450.1** | 584.5 |
| | **2,449.6** | 2,274.0 |

(See Notes to the Consolidated Financial Statements)

**Grant D. Billing**
Director

**Peter Valentine**
Director

# Consolidated Statements of Net Earnings (Loss), Comprehensive Income (Loss) and Deficit

| Years ended December 31 (millions of dollars except per share amounts) | **2010** | 2009 |
|---|---|---|
| **Revenues** | **3,529.2** | 2,246.7 |
| Cost of products sold | **(2,661.3)** | (1,495.3) |
| Realized losses on derivative financial instruments (Note 13) | **(80.3)** | (98.0) |
| Gross profit | **787.6** | 653.4 |
| **Expenses** | | |
| Operating and administrative | **624.4** | 476.1 |
| Amortization of property, plant and equipment | **37.7** | 22.6 |
| Amortization of intangible assets | **25.0** | 7.9 |
| Interest on revolving term bank credits and term loans | **42.8** | 27.0 |
| Interest on convertible unsecured subordinated debentures | **28.2** | 16.8 |
| Accretion of convertible debenture issue costs and asset retirement obligations | **2.9** | 1.4 |
| Impairment of goodwill and intangible assets (Note 8) | **89.5** | – |
| Unrealized losses on derivative financial instruments (Note 13) | **2.2** | 20.6 |
| | **852.7** | 572.4 |
| Net earnings (loss) before income taxes | **(65.1)** | 81.0 |
| Income tax recovery (expense) (Note 14) | **18.1** | (12.7) |
| **Net Earnings (Loss)** | **(47.0)** | 68.3 |
| Net earnings (loss) | **(47.0)** | 68.3 |
| Other comprehensive income (loss), net of tax: | | |
| Unrealized foreign currency gains (losses) on translation of self-sustaining foreign operations | **(25.0)** | (39.4) |
| Reclassification of derivative gains and (losses) previously deferred | **9.2** | (1.7) |
| **Comprehensive Income (Loss)** | **(62.8)** | 27.2 |
| **Deficit, beginning of year** | **(883.3)** | (803.4) |
| Impact from acquisition estimates (Note 3) | **0.2** | – |
| Net earnings (loss) | **(47.0)** | 68.3 |
| Dividends to shareholders | **(171.2)** | (148.2) |
| **Deficit, end of year** | **(1,101.3)** | (883.3) |
| Net earnings (loss) per share, basic and diluted (Note 16) | **$ (0.45)** | $ 0.75 |

# Consolidated Statements of Cash Flows

| Years ended December 31 (millions of dollars) | **2010** | 2009 |
|---|---|---|
| **Operating Activities** | | |
| Net earnings (loss) | **(47.0)** | 68.3 |
| Items not affecting cash: | | |
| Amortization of property, plant and equipment, intangible assets and accretion | **65.6** | 31.9 |
| Amortization of customer contract related costs | **6.3** | 7.0 |
| Amortization included in cost of products sold | **44.9** | 37.5 |
| Pension expense | **–** | 1.7 |
| Unrealized losses on derivative financial instruments | **2.2** | 20.6 |
| Impairment of goodwill and intangible assets (Note 7 and 8) | **89.5** | – |
| Future income tax (recovery) expense | **(19.1)** | 11.6 |
| Customer contract related costs | **(2.8)** | (4.0) |
| Realized gain on derivative financial instruments | **–** | (7.7) |
| (Increase) decrease in non-cash operating working capital items (Note 18) | **(127.4)** | 25.7 |
| Cash flows from operating activities | **12.2** | 192.6 |
| **Investing Activities** | | |
| Purchase of property, plant and equipment | **(36.8)** | (139.3) |
| Proceeds on disposal of property, plant and equipment | **2.8** | 4.8 |
| Investment in finance lease | **(10.3)** | – |
| Acquisition of Griffith (Note 3) | **(147.4)** | – |
| Acquisition of the Burnaby Assets (Note 3) | **(18.1)** | – |
| Acquisition of SPI (Note 3) | **–** | (109.5) |
| Acquisition of U.S. refined fuels assets (Note 3) | **–** | (178.5) |
| Other acquisitions and earn-out payment on prior acquisition (Note 3) | **(5.9)** | (1.4) |
| Cash flows used in investing activities | **(215.7)** | (423.9) |
| **Financing Activities** | | |
| Revolving term bank credits and term loans | **(49.0)** | 63.1 |
| Net repayment of accounts receivable sales program | **(2.6)** | (7.3) |
| Dividends to shareholders | **(171.2)** | (148.2) |
| Proceeds from dividend reinvestment plan | **17.2** | – |
| Issuance of common shares (Note 15) | **82.5** | 97.8 |
| Issuance of 6.0% convertible debentures (Note 10) | **144.4** | – |
| Issuance of 5.75% convertible debentures (Note 10) | **165.6** | – |
| Issuance of 7.50% convertible debentures (Note 10) | **–** | 65.8 |
| Issuance of 8.25% senior unsecured debentures (Note 9) | **–** | 147.0 |
| Realized gain on derivative financial instruments | **–** | 7.7 |
| Decrease in non-cash working capital | **1.3** | 14.9 |
| Cash flows from financing activities | **188.2** | 240.8 |
| Effect of translation of foreign-denominated cash and cash equivalents | **(0.1)** | (1.3) |
| **Net increase (decrease) in cash and cash equivalents** | **(15.4)** | 8.2 |
| **Cash and cash equivalents, beginning of year** | **24.3** | 16.1 |
| **Cash and cash equivalents, end of year** | **8.9** | 24.3 |
| **Supplementary cash flow information:** | | |
| Cash income taxes paid | **2.1** | 1.1 |
| Cash interest paid | **68.3** | 40.8 |

(See Notes to the Consolidated Financial Statements)

# Notes to the Consolidated Financial Statements

(Tabular amounts in Canadian millions of dollars, unless noted otherwise, except per share amounts. Tables labelled “2010” and “2009” are for the full years ended December 31)

## 1. Organization

Superior Plus Corp. (Superior) is a diversified business corporation, incorporated under the Canada Business Corporations Act. Superior indirectly holds 100% of Superior Plus LP (Superior LP), a limited partnership formed between Superior General Partner Inc. (Superior GP), as general partner and Superior as limited partner. Superior holds 100% of the shares of Superior GP. Superior does not conduct active business operations but rather distributes to shareholders the income it receives from Superior LP in the form of partnership allocations, net of expenses and interest payable on the convertible unsecured subordinated debentures (the Debentures). Superior’s investments in Superior LP are financed by share capital and Debentures.

### Business Segments

Superior operates three distinct operating segments: Energy Services, Specialty Chemicals and Construction Products Distribution. Superior’s Energy Services operating segment provides distribution, wholesale procurement and related services in relation to propane, heating oil and other refined fuels. Energy Services also provides fixed-price natural gas and electricity supply services. Superior’s Specialty Chemicals operating segment is a leading supplier of sodium chlorate and technology to the pulp and paper industries and is a regional supplier of potassium and chloralkali products to the U.S. Midwest. Superior’s Construction Products Distribution operating segment is one of North America’s leading distributors of commercial and industrial insulation and specialty walls and ceiling products. It is the largest distributor of specialty construction products to the walls and ceilings industry in Canada (see Note 20).

## 2. Accounting Policies

### (a) Basis of Presentation

The accompanying Consolidated Financial Statements have been prepared according to Canadian generally accepted accounting principles (GAAP), applied on a consistent basis, and include the accounts of Superior and its wholly-owned subsidiaries. The accounting principles applied are consistent with those as set out in Superior’s annual financial statements for the year ended December 31, 2009. All significant transactions and balances between Superior and Superior’s subsidiaries have been eliminated on consolidation.

### (b) Future Accounting Changes

#### International Financial Reporting Standards (IFRS)

The Accounting Standards Board of Canada (AcSB) has announced plans that will require the convergence of Canadian GAAP with IFRS for publicly accountable enterprises, including Superior. The changeover date from Canadian GAAP to IFRS is for annual and interim financial statements relating to fiscal years beginning on or after January 1, 2011. Superior is currently assessing the future impact of these new standards on its future consolidated financial statements.

### Business Combinations

In January 2009, the Canadian Institute of Chartered Accountants (CICA) issued Handbook Section 1582, Business Combinations, which will replace CICA Handbook Section 1581 of the same name. Under this guidance, the purchase price used in a business combination is based on the fair value of shares exchanged at their market price at the date of the exchange. Currently the purchase price used is based on the market price of the shares for a reasonable period before and after the date the acquisition is agreed upon and announced. This new guidance generally requires all acquisition costs to be expensed, which currently are capitalized as part of the purchase price. Contingent liabilities are to be recognized at fair value at the acquisition date and re-measured at fair value through earnings each period until settled. Currently only contingent liabilities that are resolved and payable are included in the cost to acquire the business. In addition, negative goodwill is required to be recognized immediately in earnings, unlike the current requirement to eliminate it by deducting it from non-current assets in the purchase price allocation. Section 1582 is effective for Superior on January 1, 2011 with prospective application and early adoption permitted. The adoption of this standard will impact the accounting treatment of future business combinations.

### Consolidated Financial Statements

In January 2009, the CICA issued Handbook Section 1601, Consolidated Financial Statements, which will replace CICA Handbook Section 1600 of the same name. This guidance requires uniform accounting policies to be consistent throughout all consolidated entities, which is not explicitly required under the current standard. Section 1601 is effective for Superior on January 1, 2011 with early adoption permitted. The adoption of this standard should not have a material impact on Superior's future consolidated financial statements.

### Non-Controlling Interests

In January 2009, the CICA issued Handbook Section 1602, Non-controlling Interests, which will replace CICA Handbook Section 1600, Consolidated Financial Statements. Minority interest is now referred to as non-controlling interest ("NCI"), and is presented within equity. Under this new guidance, when there is a loss or gain of control the Company's previously held interest is revalued at fair value. Currently an increase in an investment is accounted for using the purchase method and a decrease in an investment is accounted for as a sale resulting in a gain or loss in earnings. In addition, NCI may be reported at fair value or at the proportionate share of the fair value of the acquired net assets and allocation of the net income to the NCI will be on this basis. Currently, NCI is recorded at the carrying amount and can only be in a deficit position if the NCI has an obligation to fund the losses. Section 1602 is effective for Superior on January 1, 2011 with early adoption permitted. The adoption of this standard should not have a material impact on Superior's future consolidated financial statements.

## (c) Cash and Cash Equivalents

Cash and cash equivalents include cash and highly liquid short-term investments which, on acquisition, have a term to maturity of three months or less.

## (d) Accounts Receivable Sales Program

Superior has a revolving trade accounts receivable sales program under which all transactions are accounted for as sales. Losses on sales depend in part on the previous carrying amount of trade accounts receivable involved in the sales and have been included in interest on revolving term bank credits and term loans. The carrying amount is allocated between the assets sold and retained interests based on their relative fair value at the date of the sale, which is calculated by discounting expected cash flows at prevailing money market rates.

# Notes to the Consolidated Financial Statements

## (e) Inventories

### Energy Services

Energy Services inventories are valued at the lower of weighted average cost and market determined on the basis of estimated net realizable value. Appliances, materials, supplies and other inventories are stated at the lower of cost and market determined on the basis of estimated replacement cost or net realizable value, as appropriate.

### Specialty Chemicals

Inventories are valued at the lower of cost and net realizable value. The cost of chemical inventories is determined on a first-in, first-out basis. Stores and supply inventories are costed on an average basis. Transactions are entered into from time to time with other companies to exchange chemical inventories in order to minimize working capital requirements and to facilitate distribution logistics. Balances related to quantities due to or payable by Specialty Chemicals are included in accounts receivable.

### Construction Products Distribution

Inventories of building products are valued at the lower of cost and net realizable value. Cost is calculated on a weighted average cost basis.

## (f) Financial Instruments and Derivative Financial Instruments

### Financial Instruments

Financial instruments are recognized at fair value upon their initial recognition. Measurement in subsequent periods is dependent on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities. After initial recognition, items classified as held-for-trading or available-for-sale are revalued at fair values, while items classified as held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method. Transaction costs are expensed as incurred for financial instruments classified or designated as held-for-trading. For other financial instruments, transaction costs are recorded as part of the underlying financial instrument and are amortized or accreted into net income.

### Derivative Financial Instruments

Financial and non-financial derivatives, including derivatives that are embedded in financial or non-financial contracts that are considered to be derivatives, are recognized at fair value upon their initial recognition. Measurement in subsequent periods is at fair value with changes in fair value recorded to net income. Superior does not formally designate and document economic hedges in accordance with the requirements of applying hedge accounting under GAAP.

## (g) Property, Plant and Equipment

### Cost

Property, plant and equipment is recorded at cost less accumulated amortization. Major renewals and improvements which extend the useful lives of equipment are capitalized, while repair and maintenance expenses are charged to operations as incurred. Disposals are removed at carrying costs less accumulated amortization with any resulting gain or loss reflected in operations.

## Interest Capitalization

Interest costs relating to major capital projects are capitalized as part of property, plant and equipment. Capitalization of interest ceases when the related asset is substantially complete and ready for its intended use. During 2010 $nil million was capitalized (2009 – $3.9 million).

## Amortization

### Energy Services and Construction Products Distribution

Property, plant and equipment assets are amortized over their respective estimated useful lives using the straight-line method except for loaned propane dispensers, which use the declining balance method at an annual rate of 10%. The estimated useful lives of major classes of property, plant and equipment are:

| | |
|---|---|
| Buildings | 20 to 40 years |
| Tanks and cylinders | 20 years |
| Truck tank bodies, chassis and other Construction Products Distribution products | 7 to 10 years |

### Specialty Chemicals

Property, plant and equipment assets are amortized on a straight-line basis. The estimated useful lives of major classes of property, plant and equipment are:

| | |
|---|---|
| Furniture and fixtures | 3 to 5 years |
| Plant and equipment | 15 to 30 years |

## Asset Retirement Obligations

### Specialty Chemicals

Certain of Specialty Chemicals' assets are subject to what is commonly referred to as asset retirement obligations as Specialty Chemicals is required to remove or remedy the effect of its activities on the environment at its operating sites by dismantling and removing production facilities at the end of a respective plant's operating life. Specialty Chemicals' asset retirement obligations could also be impacted by interpretation and changes to environmental laws and regulations in the countries in which it operates. The obligation is recorded as a liability on a discounted basis when incurred using Superior's average credit-adjusted risk-free rate, with a corresponding increase to the carrying amount of the related asset. The capitalized costs are depleted on a straight-line basis over the life of the asset. The liability is adjusted each reporting period to reflect the passage of time, with the accretion charged to earnings, and for revisions to the estimated future cash flows. Actual costs incurred upon settlement of the obligation are charged against the liability. Differences between the actual costs incurred upon settlement and the liability are recognized in earnings in the period in which the settlement occurs.

# Notes to the Consolidated Financial Statements

### Energy Services

Energy Services recognizes the fair value of an asset retirement obligation in the period in which it is incurred or when a reasonable estimate of the fair value can be made. The obligation is recorded as a liability on a discounted basis when incurred using Superior's average credit-adjusted risk-free rate, with a corresponding increase to the carrying amount of the related asset. The capitalized costs are depleted on a straight-line basis over the life of the asset. The liability is adjusted each reporting period to reflect the passage of time, with the accretion charged to earnings, and for revisions to the estimated future cash flows. Actual costs incurred upon settlement of the obligation are charged against the liability. Differences between the actual costs incurred upon settlement and the liability are recognized in earnings in the period in which the settlement occurs.

### Impairment

Superior reviews long-lived assets and intangible assets with finite lives whenever events or changes in circumstances indicate that the carrying amounts of such assets may not be fully recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows, and measurement of an impairment loss is based on the fair value of the assets.

## (h) Intangible Assets and Customer Contract Related Costs

### Energy Services and Construction Products Distribution

The value of intangible assets such as trademarks, customer base and non-compete agreements is amortized on a straight-line basis over their estimated useful lives. The estimated useful lives of the major classes of intangibles are:

| | |
|---|---|
| Trademarks | 10 to 15 years |
| Customer base | 10 to 15 years |
| Non-compete agreements | 3 to 5 years |

Costs incurred by Energy Services to acquire natural gas and electricity customer contracts are capitalized as deferred costs at the time a cost is incurred. The costs are recognized into net earnings as an operating and administrative expense over the term of the underlying contracts. The contracts range from one to five years with the average remaining life approximately two years.

### Specialty Chemicals

The value of acquired royalty assets is amortized over the remaining term of the royalty agreements up to 10 years. The costs of patents are amortized on a straight-line basis over their estimated useful lives.

## (i) Goodwill

All business combinations are accounted for using the purchase method. Goodwill is carried at cost, is not amortized and represents the excess of the purchase price and related costs over the fair value assigned to the net assets of businesses acquired. Goodwill is tested for impairment on an annual basis using a two-step approach, with the first being to assess whether the fair value of the reporting unit with which goodwill is associated is less than its carrying value. If this is the case, a second impairment test is performed which requires a comparison of the fair value of goodwill to its carrying amount. If the fair value is less than the carrying value, goodwill is considered to be impaired and an impairment charge would be recognized immediately.

## (j) Revenue Recognition

### Energy Services

Revenues from sales are recognized at the time of delivery, or when related services are performed and there is evidence of an arrangement at a fixed or determinable price and the collectability of the sale is assured.

Natural gas revenues are recognized as gas is delivered to local natural gas distribution companies and when there is evidence of an arrangement at a fixed or determinable price and the collectability of the sale is assured. Costs associated with balancing the amount of gas used by Energy Services customers with the volumes delivered by Energy Services to the local distribution companies are recognized as period costs. Electricity revenues are recognized as the electricity is consumed by the end-use customer or sold to third parties.

### Specialty Chemicals

Revenues from chemical sales are recognized at the time of delivery and when there is evidence of an arrangement at a fixed or determinable price and the collectability of the sale is assured. Revenues associated with the construction of chlorine dioxide generators are recognized using the percentage-of-completion method based on cost incurred compared to the total estimated cost.

### Construction Products Distribution

Revenue is recognized when products are delivered to the customer and when there is evidence of an arrangement at a fixed or determinable price and the collectability of the sale is assured. Revenue is stated net of discounts and rebates granted.

## (k) Rebates – Construction Products Distribution

Purchase rebates are recognized as a reduction of cost of products sold when the related performance is completed and the inventory is sold. Vendor rebates that are contingent upon completing a specified level of purchases are recognized as a reduction of cost of products sold based on a systematic and rational allocation of the cash consideration to each of the underlying transactions that results in progress toward earning that rebate or refund, assuming that the rebate can be reasonably estimated and it is probable that the specified target will be obtained. Otherwise, the rebate is recognized as the milestone is achieved and the inventory is sold.

## (l) Employee Future Benefits

Superior has a number of defined benefit and defined contribution plans providing pension and other post-employment benefits to most of its employees, and accrues its obligations under the plans and the related costs, net of plan assets. Past service costs and actuarial gains and losses in excess of 10% of the greater of the accrued benefit obligation and the fair value of the plan assets are amortized into income over the expected average remaining life of the active employees participating in the plans.

# Notes to the Consolidated Financial Statements

## (m) Income Taxes

Current income taxes are recorded based on the estimated income taxes payable on taxable income for the current year. Future income tax assets and liabilities are determined based on differences between the accounting and tax basis of assets and liabilities, and are measured using substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. A future tax asset is recognized if it is more likely than not to be realized. The effect of a change in tax rates on future income tax assets and liabilities is recorded in the period in which the change is substantively enacted.

## (n) Foreign Currency Translation

The accounts of the operations of Energy Services, Specialty Chemicals and Construction Products Distribution in the United States and the operations of Specialty Chemicals operations in Chile are considered to be self-sustaining foreign operations and are translated using the current rate method, under which all assets and liabilities are translated at the exchange rate prevailing at the balance sheet date, and revenues and expenses at average rates of exchange during the period. Exchange gains and losses arising from this translation, representing the net unrealized foreign currency translation gain or loss on Superior's net investment in these foreign operations, are recorded as a component of accumulated other comprehensive income. Other monetary assets and liabilities held by Superior are translated using the current rate method.

Transactions denominated in a foreign currency, other than the translation of self-sustaining operations, are translated into the functional currency at rates in effect at the date of the transaction. At the balance sheet date, monetary foreign currency assets and liabilities are translated at exchange rates then in effect. The resulting translation gains or losses are recognized in the determination of earnings.

## (o) Share-Based Compensation

Superior has established share-based compensation plans whereby restricted shares and/or performance shares may be granted to employees. The fair value of these shares is estimated and recorded as an expense and accrued liabilities, with the payments settled in cash.

## (p) Net Earnings per Share

Basic net earnings per share is calculated by dividing the net earnings by the weighted average number of shares outstanding during the period. The weighted average number of shares outstanding during the year is calculated using the number of shares outstanding at the end of each month during the year. Diluted net earnings per share is calculated by factoring in the dilutive impact of the dilutive instruments, including the conversion of debentures to shares using the "if-converted" method to assess the impact of dilution. Superior uses the treasury stock method to determine the impact of dilutive options, which assumes that the proceeds from in-the-money share options are used to repurchase shares at the average market price during the period.

## (q) Use of Estimates and Assumptions

The preparation of Superior's Consolidated Financial Statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, net income and related disclosures. Certain estimates, including the calculation of the fair value of various financial instruments, the allowance for doubtful accounts, employee future benefits, future income tax assets and liabilities and asset impairments, require management to make subjective or complex judgments. Accordingly, actual results could differ from these and other estimates, thereby impacting Superior's Consolidated Financial Statements.

## 3. Acquisitions

On October 25, 2010, Superior completed the acquisition of certain assets which make up a U.S. retail heating oil and propane distribution business (KW Assets) for an aggregate purchase price of $4.9 million including adjustments for working capital. The assets provide a broad range of services, including heating, ventilation and air conditioning repair and other related services.

On June 28, 2010, Superior completed the acquisition of certain assets of a Western Canadian commercial and industrial insulation distributor (Burnaby Assets) for an aggregate purchase price of $18.1 million, inclusive of transaction costs. The assets acquired consist of three operating branches in Alberta and British Columbia and allow Construction Products Distribution to expand its commercial and industrial distribution business in Canada.

On January 20, 2010, Superior completed its acquisition of the shares of Griffith Holdings, Inc. (Griffith) for an aggregate purchase price of $147.4 million (US$140.6 million), inclusive of working capital adjustments and transaction costs. Griffith is a retail and wholesale distributor of retail propane, heating oil and motor fuels in upstate New York.

On December 11, 2009, Superior acquired certain assets that comprise a retail heating oil, propane and motor fuels distribution business (Griffith CH U.S. refined fuels assets) from Griffith Energy Services, Inc. for an aggregate purchase price of $82.5 million (US$77.9 million), inclusive of transaction-related costs. Griffith CH U.S. refined fuels assets distribute a broad range of liquid fuels and propane gas, serving markets in Connecticut, Pennsylvania and Rhode Island. In addition Griffith CH U.S. refined fuels assets also provides a broad range of services, including heating, ventilation and air conditioning repair and other related services.

On September 30, 2009, Superior acquired certain assets which make up a U.S. retail heating oil and propane distribution business (Sunoco U.S. refined fuels assets) from Sunoco, Inc. (R&M), and Sunoco, Inc., both of which are Pennsylvania corporations, for an aggregate purchase price of $96.7 million (US$90.2 million), inclusive of transaction-related costs. The heating oil assets distributes a broad range of liquid fuels and propane gas and provide service, serving markets in Pennsylvania and New York.

On September 24, 2009, Superior acquired the shares of Specialty Products & Insulation Co. (SPI) for an aggregate purchase price of $142.1 million (US$132.1 million), inclusive of transaction-related costs. SPI is a leading U.S. national distributor of insulation and architectural named brand products focused on the commercial and industrial markets.

Using the purchase method of accounting for acquisitions, Superior consolidated the assets and liabilities from the acquisitions and included earnings as of the respective closing date. The acquisitions completed in 2010 are subject to change pending finalization of the allocation of assets and liabilities.

# Notes to the Consolidated Financial Statements

The allocation of the consideration paid for these acquisitions is as follows:

| | 2010 | | | |
|---|---|---|---|---|
| | **Acquisition of KW Assets** | **Acquisition of Burnaby Assets** | **Acquisition of Griffith Holdings Inc.** | **Total** |
| Cash consideration paid | **4.9** | **2.0** | **142.6** | **149.5** |
| Transaction costs | **–** | **0.1** | **4.8** | **4.9** |
| Total cash consideration | **4.9** | **2.1** | **147.4** | **154.4** |
| Common shares issued to former owners of the Burnaby Assets [1] | **–** | **16.0** | **–** | **16.0** |
| Total consideration | **4.9** | **18.1** | **147.4** | **170.4** |
| | | | | |
| Working capital, net | **(0.5)** | **8.3** | **33.0** | **40.8** |
| Property, plant and equipment | **3.3** | **0.5** | **84.2** | **88.0** |
| Intangible assets | **2.1** | **–** | **53.0** | **55.1** |
| Goodwill [2] | **–** | **9.3** | **22.9** | **32.2** |
| Assumed deferred consideration obligations | **–** | **–** | **(0.6)** | **(0.6)** |
| Future income tax liability | **–** | **–** | **(41.5)** | **(41.5)** |
| Asset retirement obligations and environmental liabilities | **–** | **–** | **(3.6)** | **(3.6)** |
| | **4.9** | **18.1** | **147.4** | **170.4** |

(1) Relates to the issuance of 1,205,728 common shares for gross consideration of $16.0 million or $13.27 per common share.
(2) The amount of goodwill that is expected to be deductible for tax purposes is approximately $7.0 million.

The allocation of consideration paid for these acquisitions to intangibles is as follows;

| | Acquisition of KW Assets | Acquisition of Burnaby Assets | Acquisition of Griffith Holdings Inc. | Total |
|---|---|---|---|---|
| Trademarks | – | – | 17.8 | 17.8 |
| Customer base | 1.6 | – | 33.5 | 35.1 |
| Restrictive covenants and other assets | 0.5 | – | 1.7 | 2.2 |
| **Total intangible assets** | **2.1** | **–** | **53.0** | **55.1** |

Additionally, during the first quarter of 2010, Construction Products Distribution acquired the assets of a small construction product distributor for consideration of $0.3 million.

| | 2009 | | | |
|---|---|---|---|---|
| | Acquisition of SPI [3] | Acquisition of Sunoco [4] | Acquisition of Griffith CH [5] | Total |
| Cash consideration paid | 107.0 | 91.6 | 79.3 | 277.9 |
| Transaction costs | 2.5 | 4.9 | 2.7 | 10.1 |
| Total cash consideration | 109.5 | 96.5 | 82.0 | 288.0 |
| Common shares issued to former shareholders of SPI [1] | 32.6 | – | – | 32.6 |
| Total consideration | 142.1 | 96.5 | 82.0 | 320.6 |
| | | | | |
| Working capital, net | 55.6 | 3.0 | 1.7 | 60.3 |
| Property, plant and equipment | 3.7 | 52.5 | 12.2 | 68.4 |
| Intangible assets | 43.6 | 34.9 | 63.5 | 142.0 |
| Goodwill [2] | 45.0 | 8.6 | 4.6 | 58.2 |
| Future income tax liability | (5.8) | (1.7) | 0.1 | (7.4) |
| Asset retirement obligations | – | (0.8) | (0.1) | (0.9) |
| | 142.1 | 96.5 | 82.0 | 320.6 |

(1) Relates to the issuance of 2,803,135 common shares for gross consideration of $32,607,000 or $11.63 per common share.

(2) The amount of goodwill that is expected to be deductible for tax purposes is approximately $58.2 million.

(3) The SPI purchase price allocation was adjusted in the third quarter of 2010 due to the reclassification of previously recognized customer base fair value to goodwill of $26.5 million, an adjustment to future income taxes of $8.4 million and a reduction to goodwill of $9.8 million as compared to the preliminary purchase equation as at September 30, 2009. A total adjustment to deficit of $0.2 million was recorded in the third quarter of 2010 due to the amortization and future income taxes recorded in the fourth quarter of 2010 related to the original purchase equation. The reclassification was recorded due to changes in the accounting assumptions based on the facts and circumstances at date of acquisition utilized for the application of CICA Handbook Section 1582, *Business Combinations.*

(4) The Sunoco purchase price allocation was adjusted during 2010 due to an increase in transaction costs of $0.2 million which was allocated to goodwill.

(5) The Griffith CH purchase price allocation was adjusted during 2010 due to additional transaction costs incurred and changes to net working capital, intangible assets, and property, plant and equipment. During 2010 an additional $0.2 million in transaction costs were incurred along with $0.3 million in consideration paid. The increase in total consideration paid and other adjustment resulted in the recognition of an increase of $0.6 million to net working capital, $0.7 million to property, plant and equipment, a reduction of $0.7 million to goodwill and $0.1 million to intangible assets.

The allocation of consideration paid for these acquisitions to intangibles is as follows;

| | Acquisition of SPI | Acquisition of Sunoco | Acquisition of Griffith CH | Total |
|---|---|---|---|---|
| Trademarks | 20.7 | 4.5 | 21.5 | 46.7 |
| Customer base | 22.9 | 18.7 | 41.4 | 83.0 |
| Restrictive covenants | – | 11.7 | 0.6 | 12.3 |
| **Total intangible assets** | **43.6** | **34.9** | **63.5** | **142.0** |

Additionally, during the third quarter of 2009, Energy Services acquired the assets of two small propane distributors for consideration of $0.8 million.

## 4. Accounts Receivable and Other

Superior sells, with limited recourse, certain trade accounts receivable on a revolving basis to an entity sponsored by a Canadian chartered bank. The accounts receivable are sold at a discount to face value based on prevailing money market rates. Superior has retained the servicing responsibility for the accounts receivable sold and has therefore recognized a servicing liability. The level of accounts receivable sold under the program fluctuates seasonally with the level of accounts receivable. As at December 31, 2010, proceeds of $90.1 million (December 31, 2009 – $92.7 million) had been received. Superior is required to maintain certain collection performance standards and due to accounts receivable collection issues associated with a system conversion at Energy Services those performance standards were not met as at December 31, 2010. Superior has received a waiver related to certain collection performance standards from the accounts receivable securitization lenders and expects the issue to be resolved in due course. Superior's liquidity is not expected to be impacted by the collections issue and credit capacity is considered sufficient to meet net working capital and expected capital expenditure funding requirements. The existing accounts receivable securitization program matures on June 29, 2011.

Included in accounts receivable and other as at December 31, 2010 is $23.4 million (December 31, 2009 – $21.4 million) of prepaid expenses.

A summary of accounts receivable and other is as follows:

| December 31, | **2010** | 2009 |
|---|---|---|
| Accounts receivable trade | **416.9** | 270.4 |
| Accounts receivable other | **30.9** | 22.0 |
| Current portion of finance lease receivable (Note 6) | **0.6** | – |
| Prepaid expenses | **23.4** | 21.4 |
| Accounts receivable and other | **471.8** | 313.8 |

## 5. Inventories

For the year ended December 31, 2010 inventories of $2,356.6 million were expensed through cost of products sold (2009 – $1,206.7 million). No write-downs of inventory or reversals of write-downs were recorded during the years ended December 31, 2010 and 2009.

| December 31, | **2010** | 2009 |
|---|---|---|
| Propane, heating oil and other refined fuels | **69.3** | 55.0 |
| Energy Services retailing materials, supplies, appliances and other | **10.1** | 3.8 |
| Chemical finished goods and raw materials | **16.5** | 12.3 |
| Chemical stores, supplies and other | **11.9** | 11.3 |
| Walls, ceilings and insulation construction products | **65.5** | 63.3 |
| | **173.3** | 145.7 |

## 6. Finance Lease

In November 2010, Superior entered into a finance lease arrangement with a customer from the Specialty Chemical segment. The finance lease arrangement is related to capital assets used to produce electricity at a Specialty Chemicals sodium chlorate facility in Chile. The lease contract term is ten years and contains an early termination option for the customer after five years.

| | Minimum Lease Payments | | Present Value of Minimum Lease Payments | |
|---|---|---|---|---|
| **Amounts receivable under finance leases** | **2010** | 2009 | **2010** | 2009 |
| Current portion | **1.6** | – | **0.6** | – |
| Long term portion | **13.8** | – | **9.2** | – |
| | **15.4** | – | **9.8** | – |
| Less unearned finance income | **(5.6)** | – | **–** | – |
| Present value of minimum lease payments | **9.8** | – | **9.8** | – |

The interest rate inherent in the lease is fixed at a constant rate for the entire lease term. The effective interest rate contracted is 10% per year.

There is no allowance for doubtful accounts, as the maximum exposure to credit risk of finance lease receivables is the carrying amount of the receivables. The finance lease receivables are neither past due nor impaired.

## 7. Property, Plant and Equipment and Intangible Assets

| December 31, | | **2010** | | | 2009 | |
|---|---|---|---|---|---|---|
| | **Cost** | **Accumulated Amortization** | **Net Book Value** | Cost | Accumulated Amortization | Net Book Value |
| Land | **37.1** | **–** | **37.1** | 22.2 | – | 22.2 |
| Buildings | **122.3** | **41.2** | **81.1** | 110.2 | 35.1 | 75.1 |
| Specialty Chemicals plant and equipment | **666.6** | **264.8** | **401.8** | 669.4 | 229.7 | 439.7 |
| Energy Services retailing equipment | **439.2** | **288.1** | **151.1** | 386.2 | 275.3 | 110.9 |
| Construction Products Distribution equipment | **34.8** | **19.4** | **15.4** | 37.2 | 17.4 | 19.8 |
| Leasehold improvements | **3.3** | **2.1** | **1.2** | 0.3 | – | 0.3 |
| Property, plant and equipment | **1,303.3** | **615.6** | **687.7** | 1,225.5 | 557.5 | 668.0 |
| Customer contract related costs | **38.2** | **27.0** | **11.2** | 36.5 | 21.8 | 14.7 |
| Specialty Chemicals royalty assets and patents | **65.4** | **52.5** | **12.9** | 51.1 | 35.7 | 15.4 |
| Energy Services trademarks, customer base and non-compete agreements | **164.3** | **25.0** | **139.3** | 108.3 | 2.0 | 106.3 |
| Construction Products Distribution intangible assets [(1)] | **23.1** | **5.5** | **17.6** | 45.6 | 2.0 | 43.6 |
| Intangible assets | **291.0** | **110.0** | **181.0** | 241.5 | 61.5 | 180.0 |
| Total property, plant and equipment and intangible assets | **1,594.3** | **725.6** | **868.7** | 1,467.0 | 619.0 | 848.0 |

(1) Based on the estimated fair value, it was determined that the intangible assets within the Construction Products Distribution segment were impaired and an impairment charge of $1.0 million was recognized in the fourth quarter of 2010.

# Notes to the Consolidated Financial Statements

As at December 31, 2010 Superior held capital work in progress not subject to amortization of $17.2 million (December 31, 2009 – $14.7 million) included in Specialty Chemicals plant and equipment and $6.9 million (December 31, 2009 – $nil million) included in Energy Services retailing equipment.

## 8. Goodwill

| December 31, | **2010** | 2009 |
| --- | --- | --- |
| Goodwill, opening balance | **528.4** | 472.7 |
| Acquisition of Griffith Holdings Inc. | **20.9** | – |
| Acquisition of the Burnaby Assets | **9.3** | – |
| Acquisition of SPI | **13.6** | 44.5 |
| Acquisition of Sunoco | **–** | 12.5 |
| Acquisition of Griffith CH | **–** | 0.5 |
| Other acquisitions | **–** | 1.0 |
| Impairment of goodwill | **(88.5)** | – |
| Foreign currency impact | **(5.0)** | (2.8) |
| Goodwill, closing balance | **478.7** | 528.4 |

Superior assesses goodwill for impairment using a two-step process, with the first step being to assess whether the fair value of a reporting unit to which goodwill is assigned is less than its carrying value as at December 31, 2010 and 2009. If this is the case, a second impairment test is performed which requires a comparison of the fair value of goodwill to its carrying value. During the 2010 annual impairment assessment it was determined that the Construction Products Distribution segment had indication of impairment within the Winroc reporting unit. Superior completed a detailed assessment of Winroc's operations, the fair value of Winroc was estimated using various valuation methods based on current market assumptions surrounding the construction products industry which had been negatively impacted by the recent economic slowdown across North America, the reduction in new home residential housing starts and ongoing weakness in commercial construction markets. Based on the estimated fair value, it was determined that the goodwill and a portion of intangible assets in the Construction Products Distribution segment was impaired and a goodwill impairment charge of $88.5 million and a intangible assets impairment charge of $1.0 million was required during the fourth quarter of 2010.

## 9. Revolving Term Bank Credits and Term Loans

| | Year of Maturity | Effective Interest Rate | **December 31, 2010** | December 31, 2009 |
|---|---|---|---|---|
| **Revolving Term Bank Credits** [1] | | | | |
| Bankers' acceptances (BA) | 2013 | Floating BA rate plus applicable credit spread | **100.8** | 174.6 |
| LIBOR loans (US$174.0 million; 2009 – US$145.5 million) | 2013 | Floating LIBOR rate plus applicable credit spread | **173.1** | 152.4 |
| | | | **273.9** | 327.0 |
| **Other Debt** | | | | |
| Notes payable | 2010 | Prime | **–** | 0.6 |
| Deferred consideration | 2011-2012 | Non-interest-bearing | **1.2** | 2.4 |
| | | | **1.2** | 3.0 |
| **Senior Secured Notes** | | | | |
| Senior secured notes subject to fixed interest rates (US$156.0 million; 2009 – US$158.0 million) [2] | 2010-2015 | 6.65% | **155.1** | 165.4 |
| | | | **155.1** | 165.4 |
| **Senior Unsecured Debentures** | | | | |
| Senior unsecured debentures | 2016 | 8.25% | **150.0** | 150.0 |
| Total revolving term bank credits and term loans before deferred financing fees | | | **580.2** | 645.4 |
| Deferred financing fees | | | **(7.1)** | (7.1) |
| Revolving term bank credits and term loans | | | **573.1** | 638.3 |
| Current maturities | | | **(32.2)** | (5.1) |
| Revolving term bank credits and term loans | | | **540.9** | 633.2 |

(1) Superior and its wholly-owned subsidiaries, Superior Plus U.S. Holdings Inc. and Commercial e Industrial (Chile) Limitada, have revolving term bank credit borrowing capacity of $450.0 million. The credit facilities mature on June 28, 2013. These facilities are secured by a general charge over the assets of Superior and certain of its subsidiaries. As at December 31, 2010, Superior had $28.6 million of outstanding letters of credit (December 31, 2009 – $19.4 million). The fair value of Superior's revolving term bank credits and other debt approximates its carrying value as a result of the market based interest rates and the short-term nature of the underlying debt instruments.

(2) Senior secured notes (the Notes) totaling US$156.0 million and US$158.0 million, respectively (Cdn$155.1 million at December 31, 2010 and Cdn$165.4 million at December 31, 2009) are secured by a general charge over the assets of Superior and certain of its subsidiaries. Principal repayments began in the fourth quarter of 2009. Management has estimated the fair value of the Notes based on comparisons to treasury instruments with similar maturities, interest rates and credit risk profiles. The estimated fair value of the Notes at December 31, 2010 was Cdn$156.6 million (December 31, 2009 – Cdn$161.5 million).

Repayment requirements of the revolving term bank credits and term loans are as follows:

| | |
|---|---|
| Current Maturities | 32.2 |
| Due in 2012 | 32.7 |
| Due in 2013 | 305.7 |
| Due in 2014 | 29.8 |
| Due in 2015 | 29.8 |
| Subsequent to 2015 | 150.0 |
| Total | 580.2 |

## 10. Convertible Unsecured Subordinated Debentures

Superior has issued five series of debentures as follows:

| Maturity<br>Interest rate<br>Conversion price per share | December 2012<br>5.75%<br>$36.00 | October 2015<br>5.85%<br>$31.25 | December 2014<br>7.50%<br>$13.10 | June 2017 [1]<br>5.75%<br>$19.00 | June 2018 [2]<br>6.0%<br>$15.10 | Total Carrying Value |
|---|---|---|---|---|---|---|
| Face value, December 31, 2009 | 174.9 | 75.0 | 69.0 | – | – | 318.9 |
| Debentures issued | – | – | – | 172.5 | 150.0 | 322.5 |
| Face value, December 31, 2010 | 174.9 | 75.0 | 69.0 | 172.5 | 150.0 | 641.4 |
| Issue costs, December 31, 2009 | (3.2) | (1.3) | (3.2) | – | – | (7.7) |
| Issue costs incurred | – | – | – | (6.9) | (5.6) | (12.5) |
| Amortization of issue costs | 0.8 | 0.3 | 0.6 | 0.6 | – | 2.3 |
| Issue costs, December 31, 2010 | (2.4) | (1.0) | (2.6) | (6.3) | (5.6) | (17.9) |
| Discount value, December 31, 2009 | (1.3) | (0.4) | (0.5) | – | – | (2.2) |
| Recognized discount value | – | – | – | (0.2) | – | (0.2) |
| Accretion of discount value | 0.4 | 0.1 | 0.1 | – | – | 0.6 |
| Discount value, December 31, 2010 | (0.9) | (0.3) | (0.4) | (0.2) | – | (1.8) |
| Debentures outstanding as at December 31, 2009 | 170.4 | 73.3 | 65.3 | – | – | 309.0 |
| **Debentures outstanding as at December 31, 2010** | **171.6** | **73.7** | **66.0** | **166.0** | **144.4** | **621.7** |
| Quoted market value as at December 31, 2009 | 177.1 | 74.4 | 78.3 | – | – | 329.8 |
| **Quoted market value as at December 31, 2010** | **175.8** | **74.9** | **71.6** | **162.9** | **144.6** | **629.5** |

(1) Superior issued $172.5 million in 5.75% convertible unsecured subordinated debentures during the first quarter of 2010. In conjunction with the issuance of these debentures, Superior swapped $150 million of the fixed rate obligation into a floating-rate obligation of floating BA rate plus 2.65%.

(2) Superior issued $150.0 million in 6.0% convertible unsecured subordinated debentures during the fourth quarter of 2010.

The debentures may be converted into shares at the option of the holder at any time prior to maturity and may be redeemed by Superior in certain circumstances. Superior may elect to pay interest and principal upon maturity or redemption by issuing shares to a trustee in the case of interest payments, and to the debenture holders in the case of payment of principal. The number of any shares issued will be determined based on market prices for the shares at the time of issuance.

## 11. Asset Retirement Obligations and Environmental Liabilities

The asset retirement obligations result from ownership of various assets associated with Superior's Energy Services operating segment and production facilities within the Specialty Chemicals segment. Superior estimates the total undiscounted amount of expenditures required to settle its asset retirement obligations to be approximately $24.1 million which will be paid out over the next 20 to 25 years. An average credit-adjusted free-risk rate of 6.9% was used to calculate the present value of the estimated cash flows.

A reconciliation of the asset retirement obligations is provided as follows:

| | **2010** | 2009 |
|---|---|---|
| Asset retirement obligations, beginning of year | **0.9** | – |
| Liabilities associated with the acquisitions (see Note 3) | **1.1** | 0.9 |
| Environmental liabilities associated with acquisitions (see Note 3) | **2.5** | – |
| Additions due to the recognition of an asset retirement obligation for Specialty Chemicals | **2.6** | – |
| Accretion expense | **0.3** | – |
| Revisions in timing and amount of estimated cash flows | **0.4** | – |
| Total asset retirement obligations and environmental liabilities, as at December 31 | **7.8** | 0.9 |
| Less current portion of environmental liabilities | **0.7** | – |
| Asset retirement obligations and environmental liabilities, as at December 31 | **7.1** | 0.9 |

(1) Specialty Chemicals recognized an asset retirement obligation during the fourth quarter, the liability is related to the estimated removal or remediation costs associated with dismantling and removing production facilities at the end of their respective plant's operating life.

## 12. Employee Future Benefits

Energy Services and Specialty Chemicals have defined benefit (DB) and defined contribution (DC) pension plans covering most employees. The benefits provided under DB pension plans are based on each employee's years of service and on the highest average earnings for a specified number of consecutive years. Information about Superior's DB and other post-retirement benefit plans as at December 31, 2010 and 2009 in aggregate is as follows:

# Notes to the Consolidated Financial Statements

| | Energy Services Pension Benefit Plans | | Specialty Chemicals Pension Benefit Plans | | Other Benefit Plans | |
|---|---|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 |
| Accrued benefit obligation, beginning of year | **45.0** | 41.9 | **68.1** | 53.1 | **27.9** | 22.8 |
| Current service cost | **0.1** | 0.1 | **2.2** | 1.7 | **0.1** | 0.6 |
| Past service cost | **–** | – | **–** | 0.4 | **–** | – |
| Interest cost | **2.6** | 2.9 | **4.2** | 4.0 | **1.7** | 1.8 |
| Benefits paid | **(5.1)** | (4.0) | **(2.5)** | (2.5) | **(1.3)** | (1.1) |
| Actuarial loss | **3.8** | 4.1 | **8.5** | 11.4 | **1.8** | 3.8 |
| Accrued benefit obligation, end of year | **46.4** | 45.0 | **80.5** | 68.1 | **30.2** | 27.9 |
| Fair value of plan assets, beginning of year | **43.2** | 42.5 | **60.0** | 50.3 | **–** | – |
| Actual return on plan assets | **1.5** | 5.0 | **3.0** | 7.3 | **–** | – |
| Transfers to DC plan | **–** | (0.3) | **–** | – | **–** | – |
| Employer contributions | **1.7** | – | **4.9** | 4.9 | **1.3** | 1.1 |
| Benefits paid | **(5.1)** | (4.0) | **(2.5)** | (2.5) | **(1.3)** | (1.1) |
| Fair value of plan assets, end of year | **41.3** | 43.2 | **65.4** | 60.0 | **–** | – |
| Funded status – plan (deficit) | **(5.1)** | (1.8) | **(15.1)** | (8.1) | **(30.2)** | (27.9) |
| Unamortized net actuarial loss | **24.4** | 20.0 | **16.7** | 7.0 | **11.5** | 10.1 |
| Unamortized past service costs | **–** | – | **0.2** | 0.4 | **(1.8)** | (2.0) |
| Accrued net pension asset | **19.3** | 18.2 | **1.8** | – | **–** | – |
| Accrued net benefit obligation | **–** | – | **–** | (0.7) | **(20.5)** | (19.8) |
| Current portion of accrued net benefit obligation recorded in accounts and payable accrued liabilities | **–** | – | **(0.1)** | (2.2) | **(1.3)** | (1.1) |
| Long-term accrued net benefit asset (obligation) (2010 – $17.7 million; 2009 – $17.2 million) | **19.3** | 18.2 | **1.7** | 1.5 | **(19.2)** | (18.7) |

The accrued net pension asset related to Energy Services' pension benefit plan as at December 31, 2010 was $19.3 million (December 31, 2009 – $18.2 million), and the expense for 2010 was $0.6 million (2009 – $1.4 million). The accrued net pension asset related to Specialty Chemicals' pension benefit plan as at December 31, 2010 was $1.8 million (December 31, 2009 – $0.7 million net benefit obligation), and the expense for 2010 was $2.1 million (2009 – $2.3 million).

The accrued net benefit obligation related to the total other benefit plans of Energy Services and Specialty Chemicals as at December 31, 2010 was $20.5 million (December 31, 2009 – $19.8 million), and the expense for 2010 was $2.1 million (2009 – $2.3 million).

Superior's DC pension plans are fully funded by their nature. Accordingly, DC pension plan assets equal the related obligation. The total cost of Superior's DC plans in 2010 was $6.4 million (2009 – $5.9 million).

The significant actuarial assumptions adopted in measuring accrued benefit obligations are as follows:

| | DB Plans | | Other Benefit Plans | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| Discount rate | **5.25%** | 6.00% | **5.25%** | 6.00% |
| Expected long-term rate-of-return on plan assets [1] | **7.00%** | 7.00% | **–%** | –% |
| Rate of compensation increase | **3.25%** | 3. 25% | **3.25%** | 3.25% |

(1) Based on market-related values of high-quality long-term corporate bonds.

The weighted average annual assumed health care cost inflation trend used in the calculation of accrued other benefit plan obligations is 10% initially, decreasing gradually to 5% in 2019 and thereafter. A 1% change in the health care trend rate would result in a change to the accrued benefit obligation of $2.4 million and a change to the current service expense of $0.2 million.

The most recent funding valuation dates for Superior's DB plans range from January 1, 2006 to December 1, 2010. The next funding valuations are scheduled between January 1, 2011 and January 1, 2013. Superior's pension plans were measured as at November 30, 2010 and other benefits plans were measured as at December 31, 2010.

The fair values of DB plan assets at December 31, 2010 are comprised of the following major investment categories: cash and cash equivalents 2% (December 31, 2009 – 2%); bonds 40% (December 31, 2009 – 41%); equities 58% (December 31, 2009 – 57%).

The net benefit plan expense for Superior's defined benefit plan, defined contribution pension plan and other post-retirement benefit plans is as follows:

| | **2010** | 2009 |
|---|---|---|
| Current service costs | **2.2** | 2.3 |
| Interest costs | **8.3** | 8.3 |
| Defined contribution plan payments | **0.1** | (0.2) |
| Expected return on plan assets | **(7.2)** | (5.8) |
| Amortization of net actuarial losses | **1.6** | 1.1 |
| Amortization of past service costs | **(0.1)** | 1.0 |
| Net benefit cost recognized | **4.9** | 6.7 |

## 13. Financial Instruments

GAAP requires disclosure around fair value and specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect Superior's market assumptions. These two types of inputs create the following fair value hierarchy:

- Level 1 – quoted prices in active markets for identical instruments.
- Level 2 – quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

- Level 3 – valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

The fair value of a financial instrument is the amount of consideration that would be estimated to be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair values are determined by reference to quoted bid or asking prices, as appropriate, in the most advantageous active market for that instrument to which Superior has immediate access. Where bid and ask prices are unavailable, Superior uses the closing price of the most recent transaction of the instrument. In the absence of an active market, Superior estimates fair values based on prevailing market rates (bid and ask prices, as appropriate) for instruments with similar characteristics and risk profiles or internal or external valuation models, such as discounted cash flow analysis using, to the extent possible, observable market-based inputs.

Fair values determined using valuation models require the use of assumptions concerning the amount and timing of estimated future cash flows and discount rates. In determining those assumptions, Superior looks primarily to available readily observable external market inputs including factors such as forecast commodity price curves, interest rate yield curves, currency rates, and price and rate volatilities as applicable. With respect to the valuation of Specialty Chemicals' fixed-price electricity agreement, the valuation of this agreement requires Superior to make assumptions about the long-term price of electricity in electricity markets for which active market information is not available. The impact of the assumption for the long-term forward price curve of electricity has a material impact on the fair value of this agreement. A $1/MWh change in the forecast price of electricity would result in a change in the fair value of this agreement of $1.4 million, with a corresponding impact to net income before income taxes. Any changes in the fair values of derivative financial instruments classified or designated as held-for-trading are recognized in net income.

| Description | Notional [1] | Term | Effective Rate | Fair Value Input | **Asset (Liability) as at Dec. 31, 2010** | Asset (Liability) as at Dec. 31, 2009 |
|---|---|---|---|---|---|---|
| Natural gas financial swaps – NYMEX | 1.9 GJ [2] | 2010-2011 | US$8.33/GJ | Level 1 | **(101.1)** | (22.2) |
| Natural gas financial swaps – AECO | 38.4 GJ [2] | 2010-2015 | Cdn$6.881/GJ | Level 1 | **(2.9)** | (69.3) |
| Foreign currency forward contracts, net sale | US$493.6 [3] | 2011-2014 | 1.09 | Level 1 | **33.8** | 12.5 |
| Foreign currency forward contracts | EURO€0.3 [3]) | 2011 | 1.58 | Level 1 | **0.1** | 0.4 |
| Interest rate swaps – Cdn$ | US$150 [3] | 2011-2017 | Six month BA rate plus 2.65% | Level 2 | **1.6** | – |
| Energy Services' propane wholesale purchase and sale contracts, net sale | 0.86 USG [4] | 2010-2011 | $1.26/USG | Level 2 | **(1.6)** | (2.2) |
| Energy Services' butane wholesale purchase and sale contracts, net sale | 0.70 USG [4] | 2010-2011 | $0.65/USG | Level 2 | **–** | (0.2) |
| Energy Services' electricity swaps | 1.1 MWh [5] | 2010-2014 | $27.44/MWh | Level 2 | **(13.0)** | (9.3) |
| Energy Services' heating oil swaps and option purchase and sale contracts | 13.7 Gallons [4] | 2010-2011 | US$2.07 /Gallon | Level 2 | **1.2** | 0.1 |
| Specialty Chemicals' fixed-price electricity purchase agreement | 12-45 MW [6] | 2010-2017 | $37-$59/MWh | Level 3 | **5.3** | 10.5 |

(1) Notional values as at December 31, 2010.
(2) Millions of gigajoules purchased.
(3) Millions of dollars/euros purchased.
(4) Millions of United States gallons purchased.
(5) Millions of megawatt hours (MWh).
(6) Megawatts (MW) on a 24/7 continual basis per year purchased.

All financial and non-financial derivatives are designated as held for trading upon their initial recognition

| Description | Current Assets | Long-term Assets | Current Liabilities | Long-term Liabilities |
|---|---|---|---|---|
| Natural gas financial swaps – NYMEX and AECO | 8.3 | 2.1 | 68.3 | 46.1 |
| Energy Services' electricity swaps | 0.1 | 0.1 | 5.7 | 7.5 |
| Foreign currency forward contracts, net | 17.7 | 16.8 | 0.6 | – |
| Interest rate swaps | 2.2 | 1.8 | – | 2.4 |
| Energy Services' propane wholesale purchase and sale contracts | 1.5 | – | 3.1 | – |
| Energy Services' butane wholesale purchase and sale contracts | 0.3 | – | 0.3 | – |
| Energy Services' heating oil purchase and sale contracts | 1.3 | – | 0.1 | – |
| Specialty Chemicals' fixed-price power purchase agreements | – | 5.8 | 0.5 | – |
| **As at December 31, 2010** | **31.4** | **26.6** | **78.6** | **56.0** |
| As at December 31, 2009 | 22.2 | 28.5 | 77.8 | 52.6 |

| | **2010** | | 2009 | |
|---|---|---|---|---|
| Description | **Realized gain (loss)** | **Unrealized gain (loss)** | Realized gain (loss) | Unrealized gain (loss) |
| Natural gas financial swaps – NYMEX and AECO | **(82.2)** | **(23.4)** | (96.7) | (15.3) |
| Energy Services' electricity swaps | **(4.4)** | **(3.7)** | (4.8) | (8.4) |
| Foreign currency forward contracts, net | **5.2** | **19.7** | (12.2) | 17.4 |
| Interest rate swaps | **2.9** | **1.6** | 9.0 | (12.4) |
| Foreign currency forward contracts – balance sheet-related | **–** | **–** | 7.7 | – |
| Energy Services' propane wholesale purchase and sale contracts | **–** | **0.5** | – | 3.4 |
| Energy Services' butane wholesale purchase and sale contracts | **–** | **0.4** | – | (4.5) |
| Energy Services' heating oil purchase and sale contracts | **(1.5)** | **(0.2)** | (1.1) | 1.8 |
| Specialty Chemicals' fixed-price power purchase agreements | **(0.3)** | **(5.3)** | 0.1 | (31.1) |
| Total realized and unrealized gains (losses) on financial and non-financial derivatives | **(80.3)** | **(10.4)** | (98.0) | (49.1) |
| Foreign currency translation of senior secured notes | **–** | **8.2** | – | 28.5 |
| Total realized and unrealized gains (losses) | **(80.3)** | **(2.2)** | (98.0) | (20.6) |

# Notes to the Consolidated Financial Statements

## Non-Derivative Financial Instruments

Superior's accounts receivable have been designated as available for sale due to Superior's accounts receivable securitization program, while Superior's accounts payable, dividends and interest payable to shareholders and debenture holders, revolving term bank credits and term loans and debentures have been designated as other liabilities. The carrying value of Superior's cash, accounts receivable, accounts payable, and dividends and interest payable to shareholders and debenture holders approximates their fair value due to the short-term nature of these amounts. The carrying value and the fair value of Superior's revolving term bank credits and term loans, and debentures, is provided in Notes 9 and 10.

## Financial Instruments – Risk Management

Derivative and non-financial derivatives are used by Superior to manage its exposure to fluctuations in foreign currency exchange rates, interest rates and commodity prices. Superior assesses the inherent risks of these instruments by grouping derivative and non-financial derivatives related to the exposures these instruments mitigate. Superior's policy is not to use derivative or non-financial derivative instruments for speculative purposes. Superior does not formally designate its derivatives as hedges; as a result, Superior does not apply hedge accounting and is required to designate its derivatives and non-financial derivatives as held for trading.

Effective 2008, Energy Services enters into natural gas financial swaps primarily with Macquarie Cook Energy Canada Ltd. (formerly, Constellation Energy Commodities Group Inc.) for distributor-billed natural gas business in Canada to manage its economic exposure of providing fixed-price natural gas to its customers. Additionally, Energy Services continues to maintain natural gas swap positions with seven additional counterparties. Energy Services monitors its fixed-price natural gas positions on a daily basis to monitor compliance with established risk management policies. Energy Services maintains a substantially balanced fixed-price natural gas position in relation to its customer supply commitments.

Energy Services enters into electricity financial swaps with three counterparties to manage the economic exposure of providing fixed-price electricity to its customers. Energy Services monitors its fixed-price electricity positions on a daily basis to monitor compliance with established risk management policies. Energy Services maintains a substantially balanced fixed-price electricity position in relation to its customer supply commitments.

Specialty Chemicals has entered into a fixed-price electricity purchase agreement to manage the economic exposure of certain of its chemical facilities to changes in the market price of electricity, in a market where the price of electricity is not fixed. The fair value with respect to this agreement is with a single counterparty.

Energy Services also enters into various propane forward purchase and sale agreements with more than 20 counterparties to manage the economic exposure of its wholesale customer supply contracts. Energy Services monitors its fixed-price propane positions on a daily basis to monitor compliance with established risk management policies. Energy Services maintains a substantially balanced fixed-price propane gas position in relation to its wholesale customer supply commitments.

Superior, on behalf of its operating divisions, enters into foreign currency forward contracts with 12 counterparties to manage the economic exposure of Superior's operations to movements in foreign currency exchange rates. Energy Services contracts a portion of its fixed-price natural gas and propane purchases and sales in U.S. dollars and enters into forward U.S. dollar purchase contracts to create an effective Canadian dollar fixed-price purchase cost. Specialty Chemicals enters into U.S. dollar forward sales contracts on an ongoing basis to mitigate the impact of foreign exchange fluctuations on sales margins on production from its Canadian plants that is sold in U.S. dollars. Interest expense on Superior's U.S. dollar-denominated debt is also used to mitigate the impact of foreign exchange fluctuations.

Superior has interest rate swaps with four counterparties to manage the interest rate mix of its total debt portfolio and related overall cost of borrowing. Superior manages its overall liquidity risk in relation to its general funding requirements by utilizing a mix of short-term and longer-term maturity debt instruments. Superior reviews its mix of short-term and longer-term debt instruments on an ongoing basis to ensure it is able to meet its liquidity requirements.

Superior utilizes a variety of counterparties in relation to its derivative and non-financial derivative instruments in order to mitigate its counterparty risk. Superior assesses the credit-worthiness of its significant counterparties at the inception and throughout the term of a contract. Superior is also exposed to customer credit risk. Energy Services and Construction Products Distribution deal with a large number of small customers, thereby reducing this risk. Specialty Chemicals, due to the nature of its operations, sells its products to a relatively small number of customers. Specialty Chemicals mitigates its customer credit risk by actively monitoring the overall credit-worthiness of its customers. Energy Services has minimal exposure to customer credit risk as local natural gas and electricity distribution utilities have been mandated, for a nominal fee, to provide Energy Services with invoicing, collection and the assumption of bad debts risk for residential customers. Energy Services actively monitors the credit-worthiness of its commercial customers.

Allowance for doubtful accounts and past due receivables is reviewed by Superior at each balance sheet reporting date. Superior updates its estimate of the allowance for doubtful accounts based on the evaluation of the recoverability of accounts receivable balances of each customer, taking into account historical collection trends of past due accounts and current economic conditions. Accounts receivable are written-off once it is determined they are not collectable. Superior's maximum amount of credit risk is approximately $518.5 million and includes cash and cash equivalents, accounts receivable trade, other receivables and unrealized gains on derivative financial instruments.

Pursuant to their respective terms, trade accounts receivable, before deducting an allowance for doubtful accounts, are aged as follows:

| December 31, | **2010** | 2009 |
|---|---|---|
| Current | **248.0** | 214.8 |
| Past due less than 90 days | **146.8** | 55.6 |
| Past due over 90 days | **36.1** | 10.2 |
| Trade accounts receivable, total | **430.9** | 280.6 |

# Notes to the Consolidated Financial Statements

Superior's trade accounts receivable are stated after deducting an allowance for doubtful accounts of $14.0 million as at December 31, 2010 (December 31, 2009 – $10.2 million). The movement in the provision for doubtful accounts was as follows:

| December 31, | **2010** | 2009 |
|---|---|---|
| Allowance for doubtful accounts, opening | **(10.2)** | (9.3) |
| Opening adjustment due to acquisitions (Note 3) | **(1.0)** | – |
| Bad debt expense, net of recoveries | **(6.3)** | (7.5) |
| Written-off | **3.5** | 6.6 |
| Allowance for doubtful accounts, ending | **(14.0)** | (10.2) |

Superior's contractual obligations associated with its financial liabilities are as follows:

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 and Thereafter | Total |
|---|---|---|---|---|---|---|---|
| Revolving term bank credits and term loans (1) | 32.2 | 32.7 | 305.7 | 29.8 | 29.8 | 150.0 | 580.2 |
| Convertible unsecured subordinated debentures | – | 174.9 | – | 69.0 | 75.0 | 322.5 | 641.4 |
| US$ foreign currency forward purchase contracts | 5.4 | – | – | – | – | – | 5.4 |
| US$ foreign currency forward sales contracts (US$) | 162.5 | 148.5 | 140.0 | 48.0 | – | – | 499.0 |
| Euro€ foreign currency forward sales contracts (Euro€) | 0.5 | – | – | – | – | – | 0.5 |
| Fixed-price electricity purchase commitments | 24.1 | 17.7 | 17.7 | 17.7 | 17.7 | 35.4 | 130.3 |
| Cdn$ natural gas purchases | 27.9 | 9.3 | 6.0 | – | – | – | 43.2 |
| US$ natural gas purchases (US$) | 1.5 | – | – | – | – | – | 1.5 |
| US$ heating oil purchases (US$) | 23.5 | – | – | – | – | – | 23.5 |
| US$ propane purchases (US$) | 6.1 | – | – | – | – | – | 6.1 |
| US$ butane purchases (US$) | 0.5 | – | – | – | – | – | 0.5 |

(1) Balance of term bank credits and term loans does not include deferred financing fees.

Superior's contractual obligations are considered to be normal course operating commitments and do not include the impact of mark-to-market fair values on financial and non-financial derivatives. Superior expects to fund these obligations through a combination of cash flow from operations, proceeds on revolving term bank credits and proceeds on the issuance of share capital.

Superior's financial instruments' sensitivities to changes in foreign currency exchange rates, interest rates and various commodity prices and the impact to net earnings are detailed below:

| | **2010** |
|---|---|
| Increase (decrease) to net earnings of a $0.01 increase in the Cdn$ to the US$ | **(3.6)** |
| Increase (decrease) to net earnings of a 0.5% increase in interest rates | **(2.1)** |
| Increase (decrease) to net earnings of a $0.40/GJ increase in the price of natural gas | **14.1** |
| Increase (decrease) to net earnings of a $0.04/litre increase in the price of propane | **0.2** |
| Increase (decrease) to net earnings of a $0.10/gallon increase in the price of heating oil | **1.0** |
| Increase (decrease) to net earnings of a $1.00/KwH increase in the price of electricity | **2.4** |
| Increase (decrease) to net earnings of a $0.40/litre increase in the price of butane | **–** |

The calculation of Superior's sensitivity to changes in foreign currency exchange rates, interest rates and various commodity prices represents the change in fair value of the financial instrument without consideration of the value of the underlying variable, for example, the underlying customer contracts. The recognition of the sensitivities identified above would have impacted Superior's unrealized gain or loss on financial instruments and would not have a material impact on Superior's cash flow from operations.

## 14. Income Taxes of Superior

Superior recognizes a provision for income taxes for its subsidiaries that are subject to current and future income taxes, including United States income tax, United States non-resident withholding tax and Chilean income tax.

Total income taxes are different from the amount computed by applying the corporate Canadian enacted statutory rate for 2010 of 29.6% (2009 – 31.0%). The reduction in statutory rates reflects previously enacted federal tax rate reductions. The reasons for these differences are as follows:

| | **2010** | 2009 |
|---|---|---|
| Net (Loss) earnings | **(47.0)** | 68.3 |
| Income tax (recovery) expense of Superior | **(18.1)** | 12.7 |
| (Loss) Earnings of Superior before taxes | **(65.1)** | 81.0 |
| Computed income tax (recovery) expense as a corporate entity | **(19.2)** | 25.1 |
| Higher effective foreign tax rates | **(3.1)** | 1.4 |
| Changes in future income tax rates | **5.9** | 18.0 |
| Non-deductible costs and other | **14.4** | 3.2 |
| Valuation allowance | **–** | (2.5) |
| Amortization of deferred credit | **(16.6)** | (26.6) |
| Non-taxable earnings | **0.5** | (5.9) |
| Income tax expense (recovery) of Superior | **(18.1)** | 12.7 |

Income tax expense or recovery of Superior for the years ended December 31, 2010 and 2009 is comprised of the following:

| | **2010** | 2009 |
|---|---|---|
| Current income tax expense | **0.5** | 1.1 |
| Capital tax expense (recovery) | **0.5** | – |
| Future income tax expense (recovery) | **(19.1)** | 11.6 |
| Total income tax expense (recovery) | **(18.1)** | 12.7 |

# Notes to the Consolidated Financial Statements

The components of the net future income tax asset as at December 31, 2010 and 2009 are as follows:

| December 31, | **2010** | 2009 |
|---|---|---|
| Tax values over carrying value of tangible assets | **(64.8)** | (36.3) |
| Accounting reserves, deductible when paid | **19.1** | 12.8 |
| Benefit of capital and non-capital tax loss carry-forwards | **293.2** | 304.9 |
| Unrealized gains/losses on financial instruments | **19.8** | 22.0 |
| Capitalized customer acquisition costs | **(2.9)** | (4.1) |
| Other | **1.0** | 1.1 |
| Total future income tax asset | **265.4** | 300.4 |
| Less: | | |
| Valuation allowance – Canadian capital loss carry-forwards | **(76.7)** | (76.4) |
| Valuation allowance – United States capital loss carry-forwards | **(18.4)** | (19.4) |
| Valuation allowance – Canadian non-capital loss carry-forwards | **(0.8)** | (0.8) |
| Valuation allowance – United States non-capital loss carry-forwards | **(1.1)** | (1.2) |
| Future income tax asset [1] | **168.4** | 202.6 |

[1] As at December 31, 2010, Superior had a total deferred credit of $247.8 million.

The components of investment tax credit as at December 31, 2010 and 2009 are as follows:

| December 31, | **2010** | 2009 |
|---|---|---|
| Canadian federal and provincial after-tax investment tax credits | **117.4** | 120.2 |

The net future income tax asset relates to the following tax jurisdictions as at December 31, 2010 and 2009:

| December 31, | **2010** | 2009 |
|---|---|---|
| Canada | **208.5** | 216.5 |
| United States | **(37.9)** | (12.0) |
| Chile | **(2.2)** | (1.9) |
| Total future income tax asset | **168.4** | 202.6 |

Superior has available to carry forward the following as at December 31, 2010 and 2009:

| December 31, | **2010** | 2009 |
|---|---|---|
| Canadian non-capital losses | **15.6** | 97.6 |
| Canadian scientific research expenditures | **587.4** | 585.9 |
| Canadian capital losses | **600.3** | 598.3 |
| United States non-capital losses | **76.7** | 50.0 |
| United States capital losses | **46.1** | 48.5 |
| Chilean non-capital losses | **27.9** | 22.9 |
| Canadian federal and provincial investment tax credits | **172.2** | 177.9 |

As at December 31, 2010, Superior had non-capital loss carry-forwards available to reduce future years' taxable income, which expire as follows:

| December 31, | U.S. | Canada |
|---|---|---|
| 2011 | – | – |
| 2012 | – | – |
| 2013 | – | – |
| 2014 | – | – |
| 2015 | – | – |
| Thereafter | **76.7** | **15.6** |

The Canadian scientific research expenditures, Canadian and United States capital losses and the Chilean non-capital losses may be carried forward indefinitely.

As at December 31, 2010, Superior had Canadian federal and provincial investment tax credits available to reduce future years' taxable income, which expire as follows:

| December 31, | |
|---|---|
| 2011 | **9.1** |
| 2012 | **6.1** |
| 2013 | **7.6** |
| 2014 | **5.6** |
| 2015 | **4.3** |
| Thereafter | **139.5** |
| | **172.2** |

## 15. Shareholders' Equity

Superior is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares. The holders of common shares are entitled to dividends if, as and when declared by the Board of Directors; to one vote per share at meetings of the holders of common shares; and upon liquidation, dissolution or winding up of Superior to receive pro rata the remaining property and assets of Superior, subject to the rights of any shares having priority over the common shares, of which none is outstanding.

# Notes to the Consolidated Financial Statements

Preferred shares are issuable in series with each class of preferred share having such rights as the Board of Directors may determine. Holders of preferred shares are entitled, in priority over holders of common shares, to be paid rateably with holders of each other series of preferred shares the amount of accumulated dividends, if any, specified to be payable preferentially to the holders of such series upon liquidation, dissolution or winding up of Superior to be paid rateably with holders of each other series of preferred shares the amount, if any, specified as being payable preferentially to holders of such series. Superior does not have any preferred shares outstanding.

| | Issued Number of Common Shares (Millions) [1] | Shareholders' Equity [1] |
|---|---|---|
| **Shareholders' equity, December 31, 2008** | 88.4 | 574.2 |
| Conversion feature on 7.50% convertible debentures | – | 0.5 |
| Cumulative impact of adopting new guidance on the valuation of financial instrument asset and liabilities | – | (0.3) |
| Net earnings | – | 68.3 |
| Other comprehensive loss | – | (41.1) |
| Issuance of common shares | 11.5 | 131.1 |
| Dividends to shareholders [2] | – | (148.2) |
| **Shareholders' equity, December 31, 2009** | 99.9 | 584.5 |
| Net loss | – | (47.0) |
| Other comprehensive loss | – | (15.8) |
| Issuance of common shares [1] | 6.2 | 82.0 |
| Option value associated with the issue of $172.5 million, 5.75% debentures | – | 0.2 |
| Dividends to shareholders [2] | – | (171.2) |
| Dividend reinvestment program | 1.6 | 17.2 |
| Impact from changing acquisition accounting estimates (Note 3) | – | 0.2 |
| **Shareholders' equity, December 31, 2010** | **107.7** | **450.1** |

(1) On June 28, 2010 Superior issued 1,205,728 common shares for net proceeds of $16.0 million to partially finance the acquisition of the Burnaby Assets. The number of common shares issued was based on a specified weighted average value of Superior's existing common shares. On February 10, 2010 Superior issued 5,002,500 common shares for gross proceeds of $69.3 million including the over-allotment option to partially finance the acquisition of Griffith. The number of common shares issued was based on a specified weighted average value of Superior's existing common shares.

(2) Dividends/distributions to shareholders are declared at the discretion of Superior.

Shareholders' capital, contributed surplus, deficit and accumulated other comprehensive income (loss) as at December 31, 2010 and December 31, 2009 consist of the following components:

| December 31, | **2010** | 2009 |
|---|---|---|
| **Shareholders' capital** | | |
| Balance at beginning of period | **1,502.0** | 1,370.9 |
| Issuance of common shares | **82.0** | 131.1 |
| Dividend reinvestment program | **17.2** | – |
| | **1,601.2** | 1,502.0 |
| **Contributed surplus** | | |
| Balance at beginning of period | **5.3** | 4.8 |
| Conversion feature on convertible debentures recognized | **0.2** | 0.5 |
| | **5.5** | 5.3 |
| **Deficit** | | |
| Retained earnings from operations | **600.8** | 532.5 |
| Accumulated dividends | **(1,484.1)** | (1,335.9) |
| Balance at beginning of period | **(883.3)** | (803.4) |
| Impact from acquisition estimates | **0.2** | – |
| Net (loss) earnings | **(47.0)** | 68.3 |
| Dividends to shareholders | **(171.2)** | (148.2) |
| | **(1,101.3)** | (883.3) |
| **Accumulated other comprehensive income (loss)** | | |
| Balance at beginning of period | **(39.5)** | 1.6 |
| Unrealized foreign currency gains (losses) on translation of self-sustaining foreign operations | **(25.0)** | (39.4) |
| Reclassification of derivative gains (losses) previously deferred [1] | **9.2** | (1.7) |
| | **(55.3)** | (39.5) |

(1) During the year ended December 31, 2010, Superior recorded a future income tax expense of $2.9 million (2009 – $nil million) against reclassified derivative gains previously deferred.

## Additional Capital Disclosures

Superior's objectives when managing capital are: (i) to maintain a flexible capital structure to preserve its ability to meet its financial obligations, including potential obligations from acquisitions; and (ii) to safeguard Superior's assets while maximizing the growth of its businesses and returns to its shareholders.

On February 17, 2011, Superior announced that it has revised its dividend to $0.10 per share per month or $1.20 per share on an annualized basis from the prior level of $0.135 per share per month or $1.62 per share on an annualized basis effective with Superior's March 2011 dividend.

In the management of capital, Superior includes shareholders' equity (excluding accumulated other comprehensive loss/income) (AOCI), current and long-term debt, convertible debentures, and securitized accounts receivable.

Superior manages its capital structure and makes adjustments in light of changes in economic conditions and nature of the underlying assets. In order to maintain or adjust the capital structure, Superior may adjust the amount of dividends to shareholders, issue additional share capital, issue new debt or convertible debentures, issue new debt or convertible debentures with different characteristics and/or increase or decrease the amount of securitized accounts receivable.

Superior monitors its capital based on the ratio of consolidated secured debt and consolidated debt outstanding to net earnings before interest, taxes, depreciation, amortization and other non-cash expenses (EBITDA), as defined by its revolving term credit facility (Credit Facility). Superior also monitors its total debt to EBITDA ratio in addition to its covenants. Superior's reference to EBITDA as defined by its revolving term credit facility may be referred to as Compliance EBITDA in other public reports of Superior.

Superior is subject to various financial covenants in its Credit Facility agreements, including consolidated secured debt and total consolidated debt to EBITDA ratios, which are measured on a quarterly basis. On January 27, 2010, Superior and its subsidiaries, Superior LP and Superior Plus U.S. Holdings Inc., completed an expansion of the Credit Facility from $570 million to $600 million. The Credit Facility was subsequently reduced to $450 million on June 25, 2010. In addition, certain debt definitions used in the calculation of Superior's financial covenant ratios in the Credit Facility were amended, together with corresponding amendments to the related financial covenant ratios. The new definition of Consolidated Secured Debt under the credit facility excludes the $150 million of senior unsecured debentures of Superior LP issued on October 27, 2009, which are still included in the calculation of Consolidated Debt for the purpose of the Consolidated Debt coverage ratio requirement. As a result of the new definition of Consolidated Secured Debt, Superior must maintain a Consolidated Secured Debt to Compliance EBITDA ratio of not more than 3.0 to 1.0 compared to the previous senior debt to Compliance EBITDA ratio of 3.5 to 1.0. Superior's Consolidated Debt, excluding convertible unsecured subordinated debentures, to Compliance EBITDA coverage ratio requirement for compliance purposes is unchanged at not more than 5.0 to 1.0. Effective March 25, 2010, Superior and Superior LP, amended certain financial covenant ratios in its U.S. Note Purchase Agreement dated October 29, 2003 (Note Agreement) to make them consistent with the financial covenant ratios under its existing Credit Facility other than the exclusion of any borrowings from the accounts receivable securitization program from the calculation of Consolidated Secured Debt for purposes of the Consolidated Secured Debt to Compliance EBITDA ratio calculation. Also Superior's distributions (including payments to debenture holders) cannot exceed Compliance EBITDA less cash income taxes, plus $35.0 million on a trailing 12-month rolling basis. As at December 31, 2010 and 2009, Superior was in compliance with all of its financial covenants.

Superior's financial objectives and strategy related to managing its capital as described above have remained unchanged from the prior fiscal year. Superior believes that its debt to EBITDA ratios are within reasonable limits, in light of Superior's size, the nature of its businesses and its capital management objectives.

The capital structure of Superior and the calculation of its key capital ratios are as follows:

| | **December 31, 2010** | December 31, 2009 |
|---|---|---|
| Total shareholders' equity | **450.1** | 584.5 |
| Exclude accumulated other comprehensive loss | **55.3** | 39.5 |
| Shareholders' equity (excluding AOCI) | **505.4** | 624.0 |
| Current portion of term loans | **32.2** | 5.1 |
| Revolving term bank credits and term loans [1] | **548.0** | 640.3 |
| Accounts receivable securitization program | **90.1** | 92.7 |
| Less: Senior unsecured debentures | **(150.0)** | (150.0) |
| Consolidated secured debt | **520.3** | 588.1 |
| Add: Senior unsecured debentures | **150.0** | 150.0 |
| Consolidated debt | **670.3** | 738.1 |
| Convertible unsecured subordinated debentures [1] | **639.6** | 316.7 |
| Total debt | **1,309.9** | 1,054.8 |
| Total capital | **1,815.3** | 1,678.8 |

| | **Year ended December 31, 2010** | Year ended December 31, 2009 |
|---|---|---|
| Net (loss) earnings | **(47.0)** | 68.3 |
| Adjusted for: | | |
| Interest on revolving term bank credits and term loans | **42.8** | 27.0 |
| Interest on convertible unsecured subordinated debentures | **28.2** | 16.8 |
| Accretion of convertible debenture issue costs and asset retirement obligations | **2.9** | 1.4 |
| Amortization of property, plant and equipment | **37.7** | 22.6 |
| Amortization included in cost of sales | **44.9** | 37.5 |
| Amortization of intangible assets | **25.0** | 7.9 |
| Impairment of goodwill and intangibles | **89.5** | – |
| Income tax expense (recovery) | **(18.1)** | 12.7 |
| Unrealized losses on derivative financial instruments | **2.2** | 20.6 |
| Non-cash pension expense | **–** | 1.7 |
| Pro-forma impact of acquisitions | **4.8** | 51.4 |
| Compliance EBITDA [2] | **212.9** | 267.9 |

| | **December 31, 2010** | December 31, 2009 |
|---|---|---|
| Consolidated secured debt to Compliance EBITDA ratio [2] | **2.4:1** | 2.2:1 |
| Consolidated debt to Compliance EBITDA ratio [2] | **3.1:1** | 2.8:1 |
| Total debt to Compliance EBITDA ratio [2] | **6.2:1** | 3.9:1 |

(1) Revolving term bank credits and term loans and convertible unsecured subordinated debentures are before deferred issue costs.

(2) Compliance EBITDA, as defined by Superior's revolving term credit facility, is calculated on a trailing 12-month basis taking into consideration the pro-forma impact of acquisitions and dispositions in accordance with the requirements of Superior's credit facility. Superior's calculation of Compliance EBITDA and debt to Compliance EBITDA ratios may differ from those of similar entities.

# Notes to the Consolidated Financial Statements

## 16. Net Earnings (Loss) per Share

| | 2010 | 2009 |
|---|---|---|
| Net earnings (loss) per share computation, basic and diluted [1] | | |
| Net earnings (loss) | **(47.0)** | 68.3 |
| Weighted average shares outstanding | **105.6** | 91.0 |
| Net earnings (loss) per share, basic and diluted | **$ (0.45)** | $ 0.75 |

[1] All outstanding debentures have been excluded from this calculation as they were anti-dilutive.

## 17. Share-Based Compensation

(i) Restricted/Performance Shares

Under the terms of Superior's long-term incentive program, restricted shares (RSs) and/or performance shares (PSs) can be granted to directors, senior officers and employees of Superior. Both types of units entitle the holder to receive cash compensation in relation to the value of a specified number of underlying notional shares. RSs vest evenly over a period of three years commencing on the date of grant, except for RSs issued to directors which vest three years from the date of grant. Payments are made on the anniversaries of the RSs to the holders entitled to receive them on the basis of a cash payment equal to the value of the underlying notional shares. PSs vest three years from the date of grant and their notional value is dependant on Superior's performance vis-à-vis other companies/trusts' performance based on certain benchmarks. As at December 31, 2010 there were 936,637 RSs outstanding (December 31, 2009 – 863,331 RSs) and 1,006,400 PSs outstanding (December 31, 2009 – 781,299 PSs). For the year ended December 31, 2010 total compensation expense related to RSs and PSs was $6.3 million (2009 – $8.4 million).

## 18. Supplemental Disclosure of Non-Cash Operating Working Capital Changes

| December 31, | 2010 | 2009 |
|---|---|---|
| Changes in non-cash working capital: | | |
| Accounts receivable and other | **(106.6)** | 24.9 |
| Inventories | **(1.3)** | 27.0 |
| Accounts payable and accrued liabilities | **(16.7)** | (16.7) |
| Other | **(2.8)** | (9.5) |
| | **(127.4)** | 25.7 |

## 19. Commitments

(i) Lease and capital commitments for rail cars, vehicles, premises and other equipment for the next five years and thereafter are as follows:

| | |
|---|---|
| 2011 | 53.8 |
| 2012 | 44.3 |
| 2013 | 36.4 |
| 2014 | 28.4 |
| 2015 | 18.3 |
| 2016 and thereafter | 34.1 |

(ii) Purchase commitments under long-term natural gas, propane and heating oil contracts for the next five years and thereafter are as follows:

| | Cdn$ (1) Natural Gas | US$ (1) Natural Gas | Cdn$ Propane | US$ Propane | Cdn$ Heating Oil | US$ Heating Oil |
|---|---|---|---|---|---|---|
| 2011 | 27.9 | 1.5 | – | 6.1 | – | 23.5 |
| 2012 | 9.3 | – | – | – | – | – |
| 2013 | 6.0 | – | – | – | – | – |
| 2014 | – | – | – | – | – | – |
| 2015 | – | – | – | – | – | – |
| 2016 and thereafter | – | – | – | – | – | – |

(1) Does not include the impact of financial derivatives. (See Note 13)

Superior is similarly committed to long-term natural gas and propane sales contracts to supply customers.

(iii) Specialty Chemicals has entered into a fixed-price electricity purchase contract for its Alberta power requirements, for nine years at an average cost of $37.00 to $59.00 per MWh. Commitments for the next five years and thereafter are as follows:

| | |
|---|---|
| 2011 | 24.1 |
| 2012 | 17.7 |
| 2013 | 17.7 |
| 2014 | 17.7 |
| 2015 | 17.7 |
| 2016 and thereafter | 35.4 |

## 20. Business Segments

Superior operates three distinct operating segments: Energy Services, Specialty Chemicals and Construction Products Distribution. Superior's Energy Services operating segment provides distribution, wholesale procurement and related services in relation to propane, heating oil and other refined fuels. Energy Services also provides fixed-price natural gas and electricity supply services. Superior's Specialty Chemicals operating segment is a leading supplier of sodium chlorate and technology to the pulp and paper industries and is a regional supplier of potassium and chloralkali products to the U.S. Midwest. Superior's Construction Products Distribution operating segment is one of the largest distributors of commercial and industrial insulation in North America and the largest distributor of specialty construction products to the walls and ceilings industry in Canada. Superior's corporate office arranges intersegment foreign exchange contracts from time to time for and among its business segments. Realized gains and losses pertaining to intersegment foreign exchange gains and losses are eliminated under the Corporate cost column.

## Notes to the Consolidated Financial Statements

| 2010 | Energy Services | Specialty Chemicals | Construction Products Distribution | Corporate | Total Consolidated |
|---|---|---|---|---|---|
| **Revenues** | **2,338.3** | **474.6** | **716.3** | **–** | **3,529.2** |
| Cost of products sold | **(1,810.0)** | **(306.0)** | **(545.3)** | **–** | **(2,661.3)** |
| Realized gains (losses) on derivative financial instruments | **(94.2)** | **6.9** | **1.3** | **5.7** | **(80.3)** |
| **Gross Profit** | **434.1** | **175.5** | **172.3** | **5.7** | **787.6** |
| **Expenses** | | | | | |
| Operating and administrative | **343.0** | **119.5** | **147.6** | **14.3** | **624.4** |
| Amortization of property, plant and equipment | **28.0** | **3.6** | **6.1** | **–** | **37.7** |
| Amortization of intangible assets | **18.5** | **3.7** | **2.8** | **–** | **25.0** |
| Interest on revolving term bank credits and term loans | **–** | **–** | **–** | **42.8** | **42.8** |
| Interest on convertible unsecured subordinated debentures | **–** | **–** | **–** | **28.2** | **28.2** |
| Accretion of convertible debenture issue costs and asset retirement obligations | **0.2** | **0.2** | **–** | **2.5** | **2.9** |
| Impairment of goodwill and intangible assets | **–** | **–** | **89.5** | **–** | **89.5** |
| Unrealized losses (gains) on derivative financial instruments | **26.4** | **5.3** | **–** | **(29.5)** | **2.2** |
| | **416.1** | **132.3** | **246.0** | **58.3** | **852.7** |
| Net earnings (loss) before income taxes | **18.0** | **43.2** | **(73.7)** | **(52.6)** | **(65.1)** |
| Income tax recovery | **–** | **–** | **–** | **18.1** | **18.1** |
| **Net Earnings (Loss)** | **18.0** | **43.2** | **(73.7)** | **(34.5)** | **(47.0)** |

| 2009 | Energy Services | Specialty Chemicals | Construction Products Distribution | Corporate | Total Consolidated |
|---|---|---|---|---|---|
| **Revenues** | 1,312.1 | 465.6 | 469.0 | – | 2,246.7 |
| Cost of products sold | (863.7) | (284.4) | (347.2) | – | (1,495.3) |
| Realized gains (losses) on derivative financial instruments | (109.1) | (6.1) | 0.5 | 16.7 | (98.0) |
| **Gross Profit** | 339.3 | 175.1 | 122.3 | 16.7 | 653.4 |
| **Expenses** | | | | | |
| Operating and administrative | 243.4 | 119.6 | 99.5 | 13.6 | 476.1 |
| Amortization of property, plant and equipment | 18.1 | – | 4.5 | – | 22.6 |
| Amortization of intangible assets | 1.8 | 4.8 | 1.3 | – | 7.9 |
| Interest on revolving term bank credits and term loans | – | – | – | 27.0 | 27.0 |
| Interest on convertible unsecured subordinated debentures | – | – | – | 16.8 | 16.8 |
| Accretion of convertible debenture issue costs | – | – | – | 1.4 | 1.4 |
| Unrealized losses (gains) on derivative financial instruments | 22.9 | 31.1 | – | (33.4) | 20.6 |
| | 286.2 | 155.5 | 105.3 | 25.4 | 572.4 |
| Net earnings (loss) before income taxes | 53.1 | 19.6 | 17.0 | (8.7) | 81.0 |
| Income tax expense | – | – | – | (12.7) | (12.7) |
| **Net Earnings (Loss)** | 53.1 | 19.6 | 17.0 | (21.4) | 68.3 |

## Total Assets, Net Working Capital, Acquisitions and Purchase of Property, Plant and Equipment

| | Energy Services | Specialty Chemicals | Construction Products Distribution | Corporate | Total Consolidated |
|---|---|---|---|---|---|
| **As at December 31, 2010** | | | | | |
| Net working capital [1] | **236.4** | **20.1** | **110.1** | **(62.7)** | **303.9** |
| Total assets | **1,214.2** | **573.9** | **259.1** | **402.4** | **2,449.6** |
| As at December 31, 2009 | | | | | |
| Net working capital [1] | 93.3 | 2.8 | 116.8 | (29.1) | 183.8 |
| Total assets | 930.6 | 597.1 | 369.1 | 377.2 | 2,274.0 |
| **Year ended December 31, 2010** | | | | | |
| Acquisitions | **153.0** | **0.3** | **18.1** | **–** | **171.4** |
| Purchase of property, plant and equipment | **16.9** | **15.6** | **2.8** | **1.5** | **36.8** |
| Year ended December 31, 2009 | | | | | |
| Acquisitions | 179.3 | – | 109.5 | – | 288.8 |
| Purchase of property, plant and equipment | 13.7 | 124.2 | 1.4 | – | 139.3 |

(1) Net working capital reflects amounts as at year end and is comprised of cash and cash equivalents, accounts receivable and inventories, less bank indebtedness, accounts payable and accrued liabilities, current portion of term loans and dividends and interest payable to shareholders and debentureholders.

## Geographic Information

| | Canada | United States | Other | Total Consolidated |
|---|---|---|---|---|
| Revenues for the year ended December 31, 2010 | **1,673.9** | **1,771.9** | **83.4** | **3,529.2** |
| Property, plant and equipment as at December 31, 2010 | **334.4** | **298.6** | **54.7** | **687.7** |
| Goodwill as at December 31, 2010 | **391.9** | **86.8** | **–** | **478.7** |
| Total assets as at December 31, 2010 | **1,575.1** | **798.6** | **75.9** | **2,449.6** |
| Revenues for the year ended December 31, 2009 | 1,638.9 | 526.7 | 81.1 | 2,246.7 |
| Property, plant and equipment as at December 31, 2009 | 365.8 | 243.7 | 58.5 | 668.0 |
| Goodwill as at December 31, 2009 | 470.7 | 57.7 | – | 528.4 |
| Total assets as at December 31, 2009 | 1,685.9 | 522.2 | 65.9 | 2,274.0 |

## 21. Comparative Figures

Certain reclassifications of prior year amounts have been made to conform to current-year presentation. Specifically, $0.8 million has been reclassified to unearned revenue from accounts payable to provide comparative presentation of certain of Energy Services current liabilities.

## 22. Subsequent Event

During January 2011, Specialty Chemicals became aware that TransAlta Corporation (TransAlta) issued a force majeure notice to TransCanada Corporation (TransCanada) under the Sundance Power Purchase Agreement (PPA) between the two entities. TransCanada Energy Ltd. a subsidiary of TransCanada, supplies Specialty Chemicals with fixed-priced electricity from the PPA under an Electrical Sales Agreement (ESA). On February 8, 2011, TransAlta issued a news release stating "notice of termination for destruction on its Sundance 1 and 2 coal-fired generation units under the terms of the PPA" and "determined that the units cannot be economically restored to service". On February 9, 2011, TransCanada issued a news release stating "it has received from TransAlta notice under the PPA" and "has not received any information that would validate TransAlta's determination that the units cannot be economically restored to service". If TransAlta is successful in terminating the agreement, Specialty Chemicals may be entitled to recover certain accrued amounts under the ESA. Superior had a net unrealized derivative gain of $5.3 million as at December 31, 2010, related to the ESA with TransCanada Energy Ltd. There is currently no interruption of the ESA according to TransCanada as it has disputed the TransAlta force majeure and has not yet responded to TransAlta.

# Selected Historical Information

## Energy Services

| (millions of dollars except where noted) | **2010** | Years Ended December 31<br>2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| Canadian propane distribution sales volumes (million of litres sold) | **1,235** | 1,277 | 1,377 | 1,429 | 1,386 |
| U.S. refined fuels sales volumes (millions of litres sold) [(1)] | **1,702** | 153 | – | – | – |
| Fixed-price natural gas volumes (millions of GJs sold) | **27** | 33 | 33 | 37 | 40 |
| Total Canadian propane distribution sales margin (cents per litre) | **17.4** | 18.5 | 18.4 | 17.2 | 15.1 |
| Total U.S. refined fuels sales margin (cents per litre) [(1)] | **7.6** | 10.0 | – | – | – |
| Natural gas sales margin (cents per GJ) | **91.2** | 90.2 | 80.5 | 84.1 | 54.3 |
| Gross profit | **434.9** | 340.2 | 331.9 | 325.3 | 294.6 |
| EBITDA from operations | **91.1** | 97.6 | 103.3 | 111.5 | 101.3 |

(1) U.S. Refined Fuels assets were purchased during 2009 and 2010.

## Specialty Chemicals

| (millions of dollars except where noted) | **2010** | Years Ended December 31<br>2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| Total chemical sales volume (MT) | **735** | 634 | 727 | 768 | 756 |
| Average chemical selling price (dollars per MT) | **655** | 720 | 633 | 557 | 540 |
| Gross profit | **220.0** | 210.0 | 235.3 | 205.2 | 204.1 |
| EBITDA from operations | **100.9** | 93.0 | 116.5 | 91.8 | 87.0 |

## Construction Products Distribution

| (millions of dollars except where noted) | **2010** | Years Ended December 31<br>2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| Gross profit | **172.3** | 122.3 | 140.7 | 129.8 | 132.2 |
| EBITDA from operations | **24.7** | 22.8 | 37.4 | 36.7 | 45.1 |

## Superior Plus Corp. Consolidated

| (millions of dollars except where noted) | **2010** | Years Ended December 31<br>2009 | 2008 | 2007 | 2006 [(1)] |
|---|---|---|---|---|---|
| Revenues | **3,529.2** | 2,246.7 | 2,487.3 | 2,355.4 | 2,264.3 |
| Gross profit | **787.6** | 653.4 | 669.1 | 661.8 | 630.9 |
| EBITDA from operations | **216.7** | 213.4 | 257.2 | 240.0 | 233.4 |
| Adjusted operating cash flow | **136.1** | 163.9 | 192.3 | 179.5 | 197.0 |
| Adjusted operating cash flow per share | **$1.29** | $1.80 | $2.18 | $2.08 | $2.30 |
| Average number of shares outstanding (millions) | **105.6** | 91.0 | 88.3 | 86.5 | 85.5 |
| Total assets | **2,449.6** | 2,274.0 | 2,026.9 | 1,542.8 | 1,536.9 |
| Senior debt [(2)] [(3)] | **670.3** | 738.1 | 577.7 | 441.0 | 441.7 |
| Total debt [(2)] [(3)] | **1,309.9** | 1,054.8 | 825.3 | 687.8 | 755.6 |

(1) Adjusted for discontinued operations.
(2) Includes off-balance sheet accounts receivable securitization program.
(3) Senior debt and total debt are stated before deferred issue costs.

# Corporate Information

## Board of Directors

Grant D. Billing
*Chairman and CEO*
*Calgary, Alberta*

Catherine (Kay) M. Best [1]
*Calgary, Alberta*

Robert J. Engbloom, Q.C. [2]
*Calgary, Alberta*

Randall J. Findlay [2]
*Calgary, Alberta*

Norman R. Gish [3]
*Calgary, Alberta*

Peter A.W. Green [1] [2]
*Lead Director*
*Campbellville, Ontario*

James S.A. MacDonald [3]
*Toronto, Ontario*

Walentin (Val) Mirosh [3]
*Calgary, Alberta*

David P. Smith [1]
*Toronto, Ontario*

Peter Valentine [1]
*Calgary, Alberta*

[1] Member of Audit Committee
[2] Member of Governance and Nominating Committee
[3] Member of Compensation Committee

## Corporate Officers and Senior Management

Grant D. Billing
*Chairman and CEO*

Jay Bachman
*Vice-President, Investor Relations and Treasurer*

Nick Beuglet
*Corporate Controller*

Wayne M. Bingham
*Executive Vice-President*
*and Chief Financial Officer*

Douglas Elliott
*President, Superior Propane*

Craig S. Flint
*Vice-President, Business Development*
*and Compliance*

Greg L. McCamus
*President, U.S. Refined Fuels*
*and Superior Energy Management*

Eric McFadden
*Executive Vice-President*
*Business Development*

Dave Tims
*Senior Vice-President, Commodity Portfolio Management*

Paul S. Timmons
*President, Specialty Chemicals*

Paul J. Vanderberg
*President, Construction Products Distribution*

# Businesses

## Energy Services

### Canadian Propane Distribution

***Superior Propane***

1111 – 49 Avenue NE
Calgary, Alberta T2E 8V2
Toll-free: 1-877-873-7467
Tel: 403-730-7500
Fax: 403-730-7512

### U.S. Refined Fuels

***Superior Energy Services***

6860 Century Avenue
East Tower, Suite 2001
Mississauga, Ontario L5N 2W5
Toll-free: 1-800-836-1836
Tel: 585-538-4418

### Supply Portfolio Management

***Superior Gas Liquids***

1400, 840 – 7 Avenue SW
Calgary, Alberta T2P 3G2
Toll-free: 1-888-849-3525
Fax: 403-883-6589

### Fixed-Price Energy Services

***Superior Energy Management***

6860 Century Avenue
East Tower, Suite 2001
Mississauga, Ontario L5N 2W5
Toll-free: 1-866-772-7727
Fax: 905-542-7715

## Construction Products Distribution

### Canadian Operations

4949 – 51 Street SE
Calgary, Alberta T2B 3S7
Toll-free: 1-800-668-1589
Tel: 403-236-5383
Fax: 403-279-0372

### U.S. Operations

PO Box 576
1097 Commercial Avenue
East Petersburg, Pennsylvania
17520-0576
Tel: 717-569-3900

## Specialty Chemicals

### ERCO Worldwide

200, 302 The East Mall
Toronto, Ontario M9B 6C7
Tel: 416-239-7111
Fax: 416-239-0235

# Shareholder Information

## Superior Plus Corp.

Suite 1400, 840 – 7 Avenue SW
Calgary, Alberta T2P 3G2
Telephone: 403-218-2970
Facsimile: 403-218-2973
Toll Free: 1-866-490-PLUS (7587)
E-mail: info@superiorplus.com
Website: www.superiorplus.com

## Trustee and Transfer Agent

Computershare Trust Company of Canada
Suite 600, 530 – 8 Avenue SW
Calgary, Alberta T2P 3S8
or:
9th Floor, 100 University Avenue
Toronto, Ontario M5J 2Y1
Toll Free: 1-800-564-6253
Website: www.computershare.com/services

## Auditors

Deloitte & Touche LLP
Chartered Accountants
700, 850 - 2nd Street SW
Calgary, Alberta T2P 0R8

## Annual Meeting of Shareholders

The Corporation's Annual Meeting of Shareholders will be held in the Lecture Theatre of The Metropolitan Centre, 333 – 4 Avenue SW, Calgary, Alberta on Wednesday, May 4, 2011 at 2:00 p.m. (MDT).

## Toronto Stock Exchange (TSX) Listings

SPB: Superior Plus Corp. shares

SPB.db.b: 5.75% Convertible Debentures, convertible at $36.00 per share
Maturity date: December 31, 2012

SPB.db.c: 5.85% Convertible Debentures, convertible at $31.25 per share
Maturity date: October 31, 2015

SPB.db.d: 7.5% Convertible Debentures, convertible at $13.10 per share
Maturity date: December 31, 2014

SPB.db.e: 5.75% Convertible Debentures, convertible at $19.00 per share
Maturity date: June 30, 2017

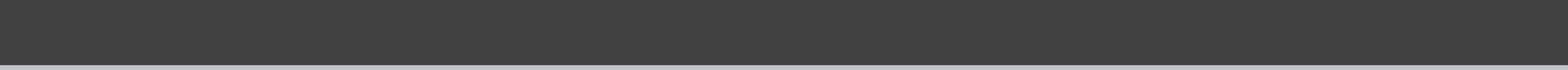
SPB.db.f: 6.00% Convertible Debentures, convertible at $15.10 per share
Maturity date: June 30, 2018

## Superior Plus Share Price and Volumes – TSX

**Quarterly high, low, close and volumes for 2009 and 2010.**

The table below sets forth the high and low prices, as well as the volumes, for the shares as traded on the TSX, on a quarterly basis.

| | **2010** | | | 2009 | | |
|---|---|---|---|---|---|---|
| | **High** | **Low** | **Volume** | High | Low | Volume |
| First quarter | **$ 14.99** | **$ 13.34** | **20,539,218** | $ 12.70 | $ 8.95 | 9,544,437 |
| Second quarter | **$ 14.50** | **$ 11.00** | **16,576,309** | $ 11.94 | $ 9.02 | 9,265,095 |
| Third quarter | **$ 13.82** | **$ 11.12** | **15,692,164** | $ 12.00 | $ 10.08 | 15,662,939 |
| Fourth quarter | **$ 12.34** | **$ 10.37** | **19,864,927** | $ 14.67 | $ 11.55 | 21,468,258 |
| Year | **$ 14.99** | **$ 10.37** | **72,672,618** | $ 14.67 | $ 8.95 | 55,940,729 |



Superior Plus

For more information about Superior Plus Corp.
send your enquiries to info@superiorplus.com

**Superior Plus Corp.**

Suite 1400, 840 – 7 Avenue SW
Calgary, Alberta T2P 3G2

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Toll-Free: 1.866.490.7587

**www.superiorplus.com**