Years ended December 31, 2011 and 2010 (In thousands of Canadian dollars, except share and per share information)

	2011	2010
Reconciliation of effective tax rate		
Combined Canadian federal and provincial income tax rates	26.8%	29.1%
The income tax expense on the Company's earnings differs from the amount determined by the Company's statutory rates as follows:		
Net earnings for the year	$ 84,126	$ 71,093
Add income tax expense	33,846	28,268
Deduct earnings in equity accounted investments	1,224	496
Earnings before income tax and equity accounted investments	116,748	98,865
Income tax using the Company's domestic combined Canadian federal and provincial income tax rates	31,288	28,770
Effect of tax rates in foreign jurisdictions	1,770	(994)
Impact of tax rate reduction	(39)	508
Capital gain offset against losses	1,361	1,894
Recognition of previously unrecognized tax losses and deductible temporary differences	(195)	(3,160)
Losses for which no deferred tax asset was recognized	4,849	3,254
Impact of favourable tax settlements from prior years	(1,200)	(800)
Non-deductible expenses and other items	(3,988)	(1,204)
	$ 33,846	$ 28,268
Income tax recognized directly in other comprehensive income		
Derivatives	$ (2,097)	$ 1,129
Actuarial gains and losses	(618)	(2)
Total income tax recognized directly in equity	$ (2,715)	$ 1,127

The Company is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. If the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

25. SHARE-BASED PAYMENTS

At December 31, 2011, the Company had three share-based compensation plans, which are described below:

(i) Employee stock option plan

Under the employee stock option plan, the Company may grant options to employees, officers and inside directors of the Company for up to 4,500,000 Class B non-voting shares. The Company does not grant options to outside directors. The exercise price of each option equals the market price of the Company's stock on the date of grant, and an option's maximum term is 10 years. Before December 2003, options vested 20% on the grant date and 20% each year following the grant date. The term of these options was 5 or 10 years. Beginning December 2003, options granted began to vest a year from grant date, with 25% vesting one year from grant date and 25% each subsequent year. The term of these options is five years from the grant date. In general, the grants are conditional upon continued employment. No market conditions affect vesting. Granted options are not entitled to dividends and may not be transferred or assigned by the option holder.

There are several exceptions to the above vesting schedule. In 2008, an option grant of 25,000 shares was made upon the acquisition of Clear Image Labels Pty. Ltd. by the Company. These options vest after three years and expire after five years. In 2007 and 2008, options were granted for 125,000 shares as part of the Company's long-term incentive plan. They vest based on 2008-2010 Company performance and continued employment, and expire in 2013. Of these options, 25,000 have been forfeited and, of the remaining 100,000 options, 50% vested in 2011. The other 50% will vest in 2012.