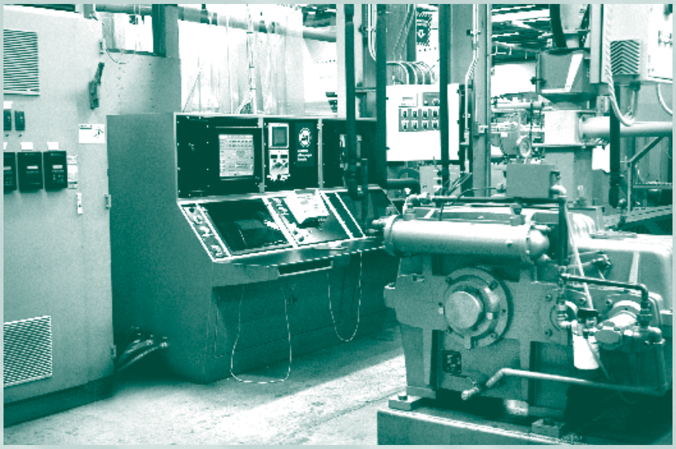
ANNUAL REPORT
2011

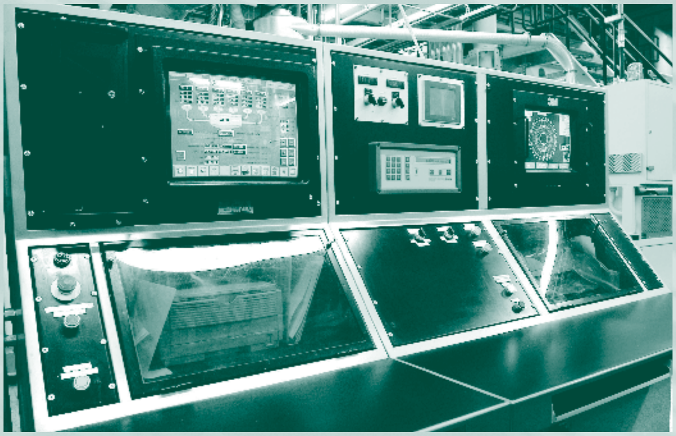
IMAFLEX
Committed to Excellence

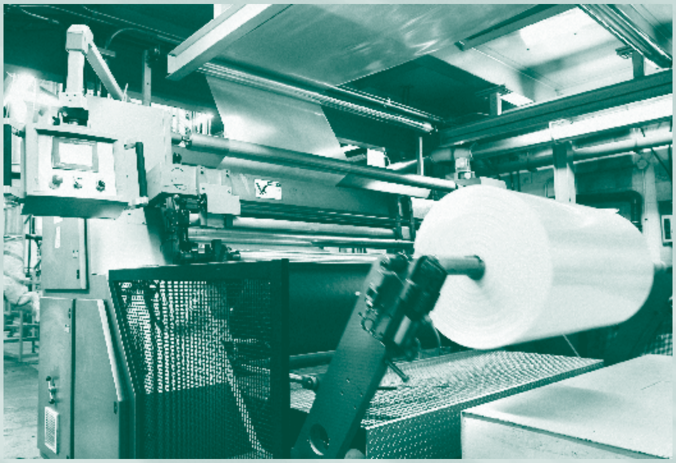
IN ALL SUCCESSFUL BUSINESSES THE KEY TO SUCCESS RELIES ON MANAGEMENT'S ABILITY TO MASTER THREE FUNDAMENTALS:

> COMMITMENT TO CUSTOMER
> CLEAR VISION OF GOALS
> CORRECT TIMING OF ACTIONS

OUR SENIOR MANAGEMENT TEAM KNOWS, UNDERSTANDS AND LIVES BY THESE PILLARS OF BUSINESS FUNDAMENTALS.







IMAFLEX inc. ISO 9001 2000
Committed to Excellence

REPORT TO SHAREHOLDERS

Management is pleased to report the rationalization of the company's production capacity to reduce costs has allowed the company to return to profitability in 2011 albeit in a modest fashion. This turnaround, coupled with the continued reduction of long term debt and the injection of capital through two private placements allowed our Imaflex USA subsidiary to acquire a going concern in the first quarter of the new year. This asset purchase alters the Imaflex USA business model vastly improving the Company's U.S. operations that have been a challenge thus far. We expect this acquisition will create profitability in the USA which has thus far eluded us. We finally have the model which permits management to plan for growth, in revenues and profits.

In conjunction with this business model change at Imaflex USA, management is pleased to report that its R&D expenses have culminated with the filing of a joint patent application. This patent is co-owned by Imaflex Inc. and Bayer Innovation GmbH of Germany. Though the initial filing is in the USA, the intent is to file for patent protection worldwide. With Bayer, we have developed a revolutionary multilayered film capable of releasing active ingredients, using only water as a catalyst, to grow crops in a safer and more sustainable manner. The active ingredients replace many chemicals now used to grow our food, and do it in a manner which benefits our world's resources; its water table, and its atmosphere. The product's uniqueness, and its ability to simultaneously reduce costs for the growers while helping our environment, practically ensures that its initial launch will be successful. Management is hopeful that it can market this film by year end, and is confident that once it is introduced in the marketplace, its adoption by growers will increase in an exponential fashion.

Management feels confident that going into the future our new film will be the driver which sees Imaflex Inc. become a major player in the worldwide segment of PlastiCulture market. It is a 3 trillion pound market as at 2007, and Management aspires to capitalize on the film's potential as quickly and as completely as it can. It will realize its vision via a combination of the strategic and geographical acquisitions of Companies who possess the equipment capable of manufacturing this soon to be patented product or by licensing the technology to companies which can produce it if Management feels that they do not make suitable acquisition targets.

Management's vision of creating a fast growing public company with a constant revenue stream and superior profitability has always been in place. However, monetary restraints, forced upon us by debt payments on machinery that was not contributing to profitability, and the recent recession simply did not permit Management to execute its plan.

Last year I stated that success was around the corner, and that I believed that the time had come. It has.

I extend special thanks to our polymer engineers, including those at Bayer who succeeded in creating this exciting "game changer". A special thanks to our suppliers and our employees for their dedication and support in helping us achieve our objectives. Lastly, I would like to thank our patient shareholders for their continued trust. Soon time will show that it was well founded. Management's focus , which was diverted for many reasons for many years, can now be focused on moving forward with confidence to create the Company that has always been envisioned.

FINANCIAL HIGHLIGHTS

($ thousands, except per share data)	**Year ended December 31, 2011**	Year ended December 31, 2010	Year ended December 31, 2009	Year ended December 31, 2008	Year ended December 31, 2007
Operating summary					
Sales	**$ 46,959**	$ 46,489	$ 48,190	$ 54,570	$ 46,840
Net profit (loss)	**74**	(1,751)	(403)	(2,091)	(56)
Profit (loss) per share	**0.002**	(0.044)	(0.010)	(0.056)	(0.002)
EBIT(1)	**832**	(1,158)	420	(495)	1,176
EBITDA(2)	**2,141**	189	3,512	2,901	3,822
EBITDA per share	**0.053**	0.005	0.089	0.078	0.102
Financial Position					
Working Capital	**1,748**	(550)	249	(2,419)	6,525
Capital assets	**14,602**	15,663	16,631	20,337	22,900
Total assets	**31,102**	33,005	35,515	39,468	39,301
Total long-term debt (including finance leases)	**3,133**	5,573	7,196	11,250	13,717
Shareholder's equity	**14,926**	14,026	15,944	16,591	18,130

(1) Earnings before interest and taxes

(2) Earnings before interest, taxes, depreciation and amortization

QUARTERLY FINANCIAL INFORMATION

	SALES		**NET PROFIT (LOSS)**	
	2011	2010	**2011**	2010
First Quarter	**$ 14,343**	$ 12,043	**$ 117**	$ 144
Second Quarter	**11,554**	11,747	**70**	(89)
Third Quarter	**10,461**	10,893	**82**	(834)
Fourth Quarter	**10,601**	11,806	**(195)**	(972)
	$ 46,959	$ 46,489	**$ 74**	$ (1,751)

	EBITDA		**PROFIT (LOSS) PER SHARE**	
	2011	2010	**2011**	2010
First Quarter	**$ 742**	$ 769	**$ 0.003**	$ 0.004
Second Quarter	**686**	392	**0.002**	(0.002)
Third Quarter	**615**	(448)	**0.002**	(0.021)
Fourth Quarter	**98**	(524)	**(0.005)**	(0.025)
	$ 2,141	$ 189	**$ 0.002**	$ (0.044)

As required by regulators, the purpose of this MD&A is to explain management's point of view on Imaflex Inc.'s (the "Company" or "Imaflex") past performance and future outlook. This report also provides information to improve the reader's understanding of the consolidated financial statements and related notes. Please refer to the audited consolidated financial statements for the period ending December 31, 2011 when reading this MD&A. Unless otherwise indicated, all financial data in this document is prepared in accordance with International Financial Reporting Standards ("IFRS" hereafter) and all amounts are expressed in Canadian dollars. In this MD&A we also use financial measures that are not defined by IFRS. Please refer to the section entitled "Non-IFRS Measures" for a complete description of these measures. The consolidated financial statements include the accounts of the Company, those of its wholly-owned subsidiary, Imaflex USA, Inc. ("Imaflex USA") and its divisions, Canguard Packaging ("Canguard") and Canslit ("Canslit"). To facilitate the reading of this report, the terms "Imaflex", "Company", "we", "our", "us" all refer to Imaflex Inc. together with its subsidiary. This MD&A is prepared in conformity with National Instrument 51-102 and Form 51-102F1 and has been approved by the board of directors prior to its release.

FORWARD LOOKING STATEMENTS

From time to time, we make forward-looking statements within the meaning of certain securities laws, including the "safe harbor" provisions of the Securities Act (Ontario). We may make such statements in this document, in other filings with Canadian regulators, in reports to shareholders or in other communications. These forward-looking statements include, among others, statements regarding the business and anticipated financial performance of the Company. The words "may", "could", "should", "would", "outlook", "believe", "plan", "anticipate", "expect", "intend", "objective," the use of the conditional tense and words and expressions of similar nature are intended to identify forward-looking statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, which give rise to the possibility that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution readers not to place undue reliance on these statements, as a number of important factors could cause our actual results to differ materially from the beliefs, plans, objectives, expectations, anticipations, estimates and intentions expressed in such forward-looking statements. These factors include, but are not limited to, the length and severity of the current economic downturn, management of credit, market dynamics, liquidity, funding and operational risks; the strength of the Canadian and U.S. economies in which we conduct business; the impact of the movement of the Canadian dollar relative to other currencies, particularly the U.S. dollar; the effects of changes in interest rates; the effects of competition in the markets in which we operate; our ability to successfully align our organization, resources, and processes; the availability and price of raw materials; failure to achieve planned growth associated with the U.S. expansion and future sales; changes in accounting policies and methods we use to report our financial condition, including uncertainties associated with critical accounting assumptions and estimates; operational and infrastructure risks; other factors may affect future results including, but not limited to, timely development and introduction of new products and services, changes in tax laws, technological changes, new regulations; the possible impact on our businesses from public-health emergencies, international conflicts and other developments; and our success in anticipating and managing the foregoing risks.

We caution our readers that the foregoing list of important factors that may affect future results is not exhaustive. When relying on our forward-looking statements to make decisions with respect to the Company, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. Unless otherwise required by the securities authorities, we do not undertake to update any forward-looking statement that may be made from time to time by us or on our behalf. The forward-looking statements contained herein are based on information available as of April 19, 2012.

COMPANY OVERVIEW

The Company operates in one reportable segment being the development, manufacture and sale of packaging materials. The results include those of Imaflex located in Montréal (Québec), its divisions Canguard and Canslit located in Victoriaville (Québec), and its wholly owned subsidiary, Imaflex USA, located in Thomasville (North Carolina). All intercompany balances and transactions have been eliminated on consolidation.

Imaflex and Imaflex USA specialize in the manufacture and sale of custom-made polyethylene films suited for various packaging needs of our customers. Canguard specializes in the manufacture and sale of polyethylene garbage bags for both the retail and industrial markets. Canslit specializes in the metallization of polyethylene film.

The Class A shares of the Company are listed for trading on the TSX Venture Exchange under the symbol "IFX.A". The Company's head office is located in Montréal (Québec).

NON-IFRS MEASURES

The Company's management uses a non-IFRS measure in this MD&A, namely EBITDA. Management wishes to specify that in the performance of the Company's financial results, EBITDA is shown as "Earnings before interest, taxes, depreciation and amortization". The reader may refer to the table below for the reconciliation of the EBITDA used by the Company to its reported profit (loss).

Reconciliation of EBITDA to profit (loss)

($ thousands, except per share data)	**Three months ended**		**Year ended**	
	December 31 2011	December 31 2010	**December 31 2011**	December 31 2010
Profit (loss)	**$ (195)**	$ (972)	**$ 74**	$ (1,751)
Plus:				
Income taxes	**(144)**	9	**264**	76
Finance expense	**122**	165	**556**	573
Depreciation and amortization	**329**	305	**1,309**	1,347
Change in fair value of derivative financial instrument	**(14)**	(26)	**(62)**	(51)
EBITDA	**$ 98**	$ (519)	**$ 2,141**	$ 194
Basic and diluted EBITDA per share *	**$ 0.002**	$ (0.013)	**$ 0.053**	$ 0.005

*(Basic and diluted weighted average number of shares outstanding for the quarter of 40,665,791 and 40,706,240 respectively (2010 - 39,350,002) and 40,103,426 and 40,127,696 respectively for the year (2010 - 39,350,002).

While EBITDA is not a standard IFRS measure, management, analysts, investors and others use it as an indicator of the Company's financial and operating management and performance. EBITDA should not be construed as an alternative to profit (loss) determined in accordance with IFRS as an indicator of the Company's performance. The Company's method of calculating EBITDA may be different from those used by other companies.

BUSINESS OVERVIEW

Imaflex is primarily a provider of polyethylene films to converters, who process our film into a finished product. The converting process involves printing the required information on the film that Imaflex supplies them based on their end-customer's needs. Imaflex also manufactures bags on rolls that are sold for a variety of uses, including garbage bags. Additionally, the Company produces specialized metallized film for specific agricultural usage.

Imaflex operates three manufacturing facilities, two of which are located in the Province of Quebec, in Montreal and in Victoriaville, and one is located in Thomasville, North Carolina, in the United States. The three facilities cover a total area of approximately 20,000 square meters or 200,000 square feet.

MARKET OPPORTUNITY

The North American flexible packaging market is valued at approximately $25 billion. Although this market is highly fragmented and commoditized in terms of pricing, there are niches within this larger market that offer the opportunity of increased profitability.

Management believes that four factors will contribute to Imaflex's long term growth and its ability to properly position itself within the industry in which it operates.

The first is continued investment in research and development efforts allowing our research teams to develop on a timely basis new products for highly profitable niche markets as the older niches gradually become price sensitive with the entry of new participants.

The second is the efficiency of our equipment, and our commitment to sustain this efficiency with the required capital investments. This will allow us to remain cost competitive in the marketplace.

The third is our access to capital. Being a publicly traded company we have the ability to tap into the equity markets if the right opportunity comes along. This is in addition to the credit facilities currently provided to the Company by its banks.

The fourth is our manufacturing presence in both Canada and the United States which confers to the Company a competitive advantage in terms of logistics, currency, and manufacturing flexibility.

OUTSOURCING

Our industry is capital intensive. Labour is only a minor component in the total cost of production. As a result, outsourcing production to countries with lower wages would not have a material impact on the cost of production, especially when factoring in expenses related to freight and duty.

Furthermore the risks associated with quality and on-time delivery would far outweigh any minimal benefit that would be generated by lower labour costs. Accordingly, management does not currently contemplate the establishment of an outsourcing strategy.

BUSINESS STRATEGY

Imaflex is focused on providing its customers the highest quality products on a timely basis and at competitive prices. This strategy has been the backbone of our growth and it has served us well.

Some competitors, experiencing idle operations or producing at below average capacity levels, may attempt to gain market share through reduced pricing, particularly during difficult economic times.

Imaflex still believes that maintaining its focus on the quality of its products and the excellence of its customer service remains its best long term strategy, as these two characteristics define our position and reputation in the market, and this regardless of the fluctuations in the economic cycle.

GROWING CUSTOMER BASE

In our market it becomes essential to sell value-added products and avoid producing highly commoditized products generating lower margins. The key to the success of this strategy is to identify and build relationships with customers having specific needs and eventually develop products that address their customized specifications.

Our sales force's primary mandate is to find such clients.

RISK FACTORS

The Company is involved in a competitive industry and marketplace in which there are a number of participants. To accommodate and effectively manage future growth, the Company continues to improve its operational, financial and management information systems, as well as its production procedures and controls. The Company's success is largely the result of the continued contributions of its employees and the Company's ability to attract and retain qualified management, sales and operational personnel.

The market the Company competes in has historically shown resiliency and growth even at the worst economic times. The Company's customers operate predominantly in the food packaging and agriculture markets. This fact, coupled with the expanding product lines and reliance on newer and faster equipment should help it weather the potential volatility caused by uncertainty in the North American economic climate.

Factors which can impact the Company include, but are not limited to: management of credit, market dynamics, liquidity, funding and operational risks; the strength of the Canadian and U.S. economies in which we conduct business; the impact of the movement of the Canadian dollar relative to other currencies, particularly the U.S. dollar; the effects of changes in interest rates; the effects of competition in the markets in which we operate; our ability to successfully align our organization, resources, and processes; the availability and price of raw materials; failure to achieve planned growth associated with the U.S. expansion; changes in accounting policies and methods we use to report our financial condition, including uncertainties associated with critical accounting assumptions and estimates; operational and infrastructure risks; other factors may affect future results including, but not limited to, timely development and introduction of new products and services, changes in tax laws, technological changes, new regulations; the possible impact on our businesses from public-health emergencies, international conflicts and other developments; and our success in anticipating and managing the foregoing.

GENERAL SITUATION OF THE POLYETHYLENE BLOWN FILM MARKET

The latter part of 2011 was impacted by a decrease in the price of resin, which came close to the pricing in late 2010. The increased competition in the market kept margins low, and the industry experienced slow sales in many sectors of the market.

LOSS OF BUSINESS FROM A SIGNIFICANT CUSTOMER

One of our business strategies has been to limit the purchases of any particular customer to 15% of our revenues. This strategy ensures us that our profitability and financial well-being are not dependent on any one client.

COMPETITION FROM OTHER COMPANIES

Competition in our market is at the moment quite intense due to the imbalance between supply and demand. Nevertheless, because we are dealing in a $25 billion market; because we have highly skilled teams that are quick to respond to customer needs; because we have a diversified manufacturing base; and because the bulk of our customers deal in food related products, we believe that we have a competitive edge. It may not always translate into a greater net profit, but it certainly does translate into customer loyalty should we decide to match our competitors' prices.

SEASONALITY OF OPERATIONS

Our operations in Victoriaville and in Thomasville are subject to seasonality as a result of their partial manufacturing focus in the production of agricultural film products sold to fruit and vegetable growers. Customer demand in this market segment peaks twice yearly. It is imperative to build inventory during the low seasons to be in a position to respond to customer demand when it peaks. We believe to have sufficient finished goods in inventory to respond to the near term demand of our customers.

However, because these locations also manufacture products that are destined for other markets which are not affected by seasonal downturns, these two plants are still able to operate all year, albeit at lower capacity levels.

EXPOSURE TO PRODUCT LIABILITY

Due to the nature of its operations, which consist of manufacturing polyethylene films transformed by our customers for their end-customers, Imaflex's exposure to product liability is low. Imaflex is not exposed to liability for personal injury or death arising from negligence in the manufacturing of the films either.

The only market segment that exposes the Company to potential product liability claims is the agricultural market. In this market, proof of negligence in our manufacturing process could entail some form of compensation in the event that the expected crop yields do not materialize.

Although the likelihood of a claim in this market is low, we are nonetheless covered by a product liability insurance policy in the amount of $25,000,000.

FLUCTUATIONS IN OPERATING RESULTS

It is important to note that profitability may vary from quarter to quarter, irrespective of quarterly sales. This is due to many factors, including and not limited to: competitive conditions in the businesses in which the Company participates; general economic conditions and normal business uncertainty; product mix; fluctuations in foreign currency exchange rates; the availability and costs of raw materials; changes in the Company's relationship with its suppliers; and interest rate fluctuations and other changes in borrowing costs.

EXPOSURE TO INTEREST RATE FLUCTUATIONS

We have not, nor do we expect to have, a significant increase in borrowing costs. Although the expected increase in interest rates will impact our interest expense, the decrease in our outstanding long term debt should offset the increase in interest rates.

ABILITY TO ATTRACT AND RETAIN QUALIFIED PERSONNEL

Imaflex's core operational management team has been stable over the past years and was able to keep key competencies within the Company. This is because the three founders, who have more than 100 years of combined experience in management and R & D, were and remain at the core of its management team. However as the Company has grown, we have strengthened our team with the addition of individuals having a variety of competencies, be it accounting, operations, or engineering.

This has resulted in a work environment that allows for the free exchange of ideas in an effort to ensure that the Company remains at the forefront of our industry. We are confident that we can retain and, if need be, attract qualified individuals that will contribute to our quest of building shareholder value.

MANAGEMENT OF GROWTH

Imaflex's history attests to its management's ability to create and manage growth and to successfully adapt to prevailing and continuously changing market conditions. Management believes that future success will also lie in the ability to properly manage growth whether it comes from new markets and products, acquisitions, mergers, or a combination of any or all three. This success will depend on the Company's ability to seek out new opportunities and to position itself such that it will be able to take advantage of them when they present themselves. Past decisions have been made bearing this in mind and the Company is now in a better position to make this happen.

FOREIGN EXCHANGE FLUCTUATIONS

A portion of the Company's sales and expenses as well as accounts receivable and payable are denominated in US dollars. A portion of the revenue stream in US dollars acts as a natural hedge to cover expenses denominated in US dollars. The Company does not use forward foreign exchange contracts to manage its residual foreign exchange exposure.

ENVIRONMENTAL HAZARDS

The company's raw materials, processes and finished goods do not have any hazardous implications. However we do buy a few items which are used in our production equipment such as cooling products which may be hazardous, but their use and manipulation are controlled. Though these products actually pose very little risk, they are handled in a manner that fully complies with existing safety regulations.

RESULTS OF OPERATIONS (CONTINUED)

Quarterly Review

Overall, the profitability of the sales was much greater in 2011 than it was in 2010, due in part to the gross margin on the products sold and in part to a lower cost of production. Administrative expenses increased mainly due to an adjustment of the provision for doubtful accounts in 2010.

Management's outlook for 2012 remains positive, as new products developed in 2010 and 2011 will start contributing to sales, movements in the commodity markets should tend to stabilize and the Company's customer base is expected to grow.

($ thousands)	Three months ended		Year ended	
	December 31 2011	December 31 2010	**December 31 2011**	December 31 2010
Sales	**$ 10,601**	$ 11,806	**$ 46,959**	$ 46,489

In the fourth quarter, sales continued to struggle and decreased over 2010, mainly due to the decrease in sales of polyester and garbage bags, offset by the increase in sales of agricultural mulch film. The Company is slowly regaining the sales of garbage bags lost in the third and fourth quarters in order to return to the sales level experienced in the first and second quarters. Moreover, the current stability in the pricing of polyester indicates that the Company can regain part of those sales as well in 2012, which should enable sales to grow in 2012.

Over the twelve month period, sales increased slightly over 2010, as lower sales in the second half of the year were offset by a much stronger first half of the year. Sales of polyethylene film increased and sales of metallized polyester decreased due to market conditions varying considerably throughout the year in the polyester market. As the Company is replacing normal customer attrition that occurred during the year and as new products are being commercialized, management expects to return to the sales levels experienced during the first half of the year in 2011.

RESULTS OF OPERATIONS (continued)

($ thousands)	Three months ended		Year ended	
	December 31 2011	December 31 2010	**December 31 2011**	December 31 2010
Gross Profit ($) before amortization of production equipment	**$ 1,202**	$ 773	**$ 6,093**	$ 4,894
%	**11.3%**	6.5%	**13.0%**	10.5%
Amortization of production equipment	**$ 264**	$ 225	**$ 992**	$ 987
Gross profit ($)	**$ 938**	$ 548	**$ 5,101**	$ 3,907
Gross profit (%)	**8.8%**	4.6%	**10.9%**	8.4%

Gross profit before amortization

Gross profit before amortization of production equipment increased by $429,000 in the fourth quarter of 2011 compared to 2010, going from $773,000 to $1,202,000. This increase is mainly attributable to higher profit margins on the products sold as well as increased production efficiencies due to a lighter cost structure. The Company's gross margin before amortization of production equipment increased from 6.5% in 2010 to 11.3% in 2011, reflecting the considerable improvement in operations.

Over the twelve month period, the gross profit before amortization of production equipment increased by $1,199,000, to $6,093,000 up from $4,894,000 in 2010. The improvement in profitability is due to more efficient operations and better cost control. The sales mix was also more favourable as the sale of mulch film increased in 2011, regaining part of the sales lost in 2010.

($ thousands)	Three months ended		Year ended	
	December 31 2011	December 31 2010	**December 31 2011**	December 31 2010
Selling and administrative	**$ 978**	$ 934	**$ 4,005**	$ 4,164
As a % of sales	**9.2 %**	7.9 %	**8.5%**	9.0%

Selling and administrative expenses remained fairly stable over the three and twelve month periods. The selling and administrative expenses in the fourth quarter increased in 2011 mainly due to the release of the provision for doubtful accounts in 2010. In 2010, the Company's exposure had decreased throughout the year requiring a lower provision whereas the Company's exposure remained relatively constant in 2011.

Over the twelve month period, despite the release in provision in 2010, selling and administrative expenses decreased compared to 2010 due to the rationalization of the selling costs and administrative expenses.

($ thousands)	Three months ended		Year ended	
	December 31 2011	December 31 2010	**December 31 2011**	December 31 2010
Amortization – excluding production equipment	**$ 66**	$ 80	**$ 318**	$ 360

Amortization of assets not used in production remained fairly constant for the three months ended December 31, 2011 but decreased slightly due to the decrease of the depreciable asset base during the course of 2011.

RESULTS OF OPERATIONS (continued)

($ thousands)	Three months ended		Year ended	
	December 31 2011	December 31 2010	**December 31 2011**	December 31 2010
Finance expense	**$ 122**	$ 165	**$ 556**	$ 573

Finance expense, excluding the revaluation of the interest rate swap, decreased for the three month period ending December 31, 2011 due to a lower usage of the line of credit as well as lower balances in the long term debt.

For the twelve month period ending December 31, 2011, finance expense decreased due to a lower usage of the line of credit in the latter part of the year and lower outstanding balances of long term borrowings. This was offset by a higher usage of the line of credit early in 2011 and the issuance of long term borrowings late in 2010.

($ thousands)	Three months ended		Year ended	
	December 31 2011	December 31 2010	**December 31 2011**	December 31 2010
Foreign exchange loss (gain)	**$ 193**	$ 182	**$ (95)**	$ 213

Foreign exchange movements in the quarter remained fairly constant as the Canadian dollar weakened against the US dollar causing a foreign exchange loss for the Company. Over the twelve month period, movements in foreign exchange amounted to only a $95,000 gain in 2011 compared to a $213,000 loss in 2010.

($ thousands)	Three months ended		Year ended	
	December 31 2011	December 31 2010	**December 31 2011**	December 31 2010
Income taxes	**$ (144)**	$ 9	**$ 264**	$ 76
As a % of profit (loss) before taxes	**42.6%**	(0.9)%	**78.2%**	(4.5)%

The losses incurred in the fourth quarter resulted in an income tax recovery in 2011 whereas low taxable income in 2010 resulted in a $9,000 income tax provision in 2010, for a net variance of $153,000 year over year. For the twelve months ended December 31, 2011 the expenses for future income tax as well as positive net income in the Canadian entity required an income tax expense of $264,000. In 2010, the Company's losses resulted in an income tax recovery, which was more than offset by the deferred tax expense for a net expense of $76,000.

RESULTS OF OPERATIONS (continued)

($ thousands)	Three months ended		Year ended	
	December 31 2011	December 31 2010	**December 31 2011**	December 31 2010
Profit (loss)	**$ (195)**	$ (972)	**$ 74**	$ (1,751)
Basic and diluted earnings (loss) per share	**$ (0.005)**	$ (0.025)	**$ 0.002**	$ (0.044)

The loss in the fourth quarter improved from a loss of $972,000 in 2010 to a loss of $195,000 in 2011. This is mainly explained by improvements in the Company's gross profit and a lower provision for income taxes offset by increased selling and administrative expenses of approximately $44,000. Despite lower sales in 2011, the Company was able to decrease its loss due to more efficient operations.

For the twelve month period ending December 31, 2011, the loss decreased from $1,751,000 in 2010 to a profit of $74,000 in 2011. This improvement is mainly explained by the reduction of operating costs in Imaflex USA enabling the Company to achieve a much lighter cost structure. In the Canadian operations, operating efficiencies were achieved by reallocating production in order to produce at a lower cost. Although the Company faced challenges through the loss of sales of garbage bags and polyester, the increased sales of agricultural film and polyethylene contributed to increased profitability.

The Company's current plan to regain the market share that it lost in 2011 coupled with the increased sales of agricultural film should yield better results in 2012.

Financial Position

December 31, 2011 vs. December 31, 2010

From December 31, 2010 to December 31, 2011, current assets decreased by $842,530 mainly due to a decrease in inventories, offset by an increase in trade receivables and cash balances. The Company has sold inventory that it kept for its agricultural film business and has optimized cash flow by keeping the level of resin inventory as low as possible. The increase in receivables is mainly explained by the higher sales late in the quarter as well as extended terms given to certain customers.

Current liabilities decreased by $3,140,791 during the period mainly due to long term debt decreasing by a total of $2,385,009 and bank indebtedness decreasing by $711,516, for a total decrease of $3,096,525. Trade and other payables remained fairly stable and the balance for finance leases decreased by $13,356. The current tax liability increased by $111,145 due to a higher profit in 2011 compared to 2010.

The inclusion of the portion of long term debt not payable within the next twelve months in current liabilities is due to the Company not respecting its interest bearing debt to EBITDA covenant under its banking agreement. Although the Company's profitability improved considerably in 2011, its profitability is still under what it could be making if all revenue streams had materialized over the year and with the production assets it has. As profitability increases and long term borrowings decrease, the Company should come closer to meeting the covenants included in its banking agreement at the end of 2012. Given the improvement in profitability in 2011, the Company does not believe it will be required to pay back the portion of the long term borrowings not payable within the next twelve months, despite the presentation in current liabilities. Management's expectations of revenue streams would bring profitability closer to what the Company is able of achieving.

SUMMARY OF QUARTERLY RESULTS

Summary financial data derived from the Company's unaudited quarterly financial statements and audited financial statements for each of the eight most recently completed quarters are as follows:

For the quarters ending March, June, September and December

($ thousands, except per share data)

	Q4/11	Q3/11	Q2/11	Q1/11	Q4/10	Q3/10	Q2/10	Q1/10
Sales	10,601	10,461	11,554	14,343	11,806	10,893	11,747	12,043
Profit (loss)	(195)	82	70	117	(972)	(834)	(89)	144
Earnings (loss) per share:								
Basic and diluted	(0.005)	0.002	0.002	0.003	(0.025)	(0.021)	(0.002)	0.004

It is important to note that profitability may vary from quarter to quarter, irrespective of quarterly sales due to many factors. These factors include and are not limited to: competitive conditions in the businesses in which the Company participates; general economic conditions and normal business uncertainty; product mix; fluctuations in foreign currency rates; the availability and costs of raw materials; changes in the Company's relationship with its suppliers; and interest rate fluctuations and other changes in borrowing costs.

LIQUIDITY

Working capital as at December 31, 2011 was $1,748,337 compared with working capital of ($549,924) at December 31, 2010. IFRS standards required all debt to be presented as short term in the statements of financial position as at December 31, 2011 and 2010 as well as for January 1, 2010. However, management does not believe that the Company will be required to pay the portion of its borrowings not due within the next twelve months in 2012. If the non-current portion of long term debt would have been presented as non-current liabilities, working capital would have been $4,129,123 in 2011 compared to $2,600,345 in 2010. The improvement in working capital is mainly attributable to the decreased long term debt and bank indebtedness. The increased profitability in 2011 enabled the Company to cover repayments on long term borrowings through operating cash flow. Liquidity was also improved due to the issuance of 1,315,789 units for a total consideration of $500,000 in June 2011, each unit consisting of one Class A share and a warrant entitling the holder to purchase an additional Class A share for $0.45 within three years after the closing of the transaction. The Company also received $250,000 in advance for an issuance of shares that closed in February of 2012 and issued $165,000 of subordinated debt.

Cash Flows from Operating Activities

Cash flows from operating activities were $786,196 in the fourth quarter of 2011, down from a cash inflow of $1,980,184 in 2010. For the twelve month period ended December 31 2011, cash flow from operating activities increased from $1,043,919 to $2,458,313. Whereas cash flow was mostly generated through working capital management in 2010, $1,392,184, only $1,049,037 was generated through working capital management in 2011, the remainder being mostly attributable to increased profitability. Inventory levels decreased as the Company is selling the inventory of agricultural film. Trade receivables have increased mainly due to extended terms agreed to with certain customers.

LIQUIDITY (CONTINUED)

Cash Flows from Financing Activities

During the three month period ending December 31, 2011, the Company had cash outflows from financing activities of $494,921 for 2011 compared to cash outflows of $1,868,905 in 2010, the variance being mainly explained by an amount of $250,000 received in December of 2011 for a share issuance that was closed on February 1, 2012, the issuance of $165,000 in subordinated debt in the fourth quarter of 2011 as well as the lower repayment on the line of credit in 2011. During the quarter the company reimbursed $550,226 on its existing long term debt, $2,778 on its finance leases and indebtedness on its line of credit decreased by $356,918.

For the twelve month period ended December 31, 2011, the Company had cash outflows of $2,212,611 compared to cash outflows of $1,084,749 in 2010. The Company repaid $2,403,711 on its borrowings, $13,105 on its finance leases and decreased borrowings from the line of credit by $710,795. The cash outflows were offset by the issuance of shares and warrants for $500,000, the receipt in advance of funds for the share issuance closed in February and the issuance of subordinated debt. In 2010, the Company issued long term debt for $1,093,999 for small equipment originally financed by working capital and repaid $2,504,152 on its borrowings, $54,156 on its finance leases and increased borrowings from its line of credit by $379,560.

Cash Flows from Investing Activities

During the quarter ended December 31, 2011, the Company incurred cash outflows of $47,465 for minor improvements to equipment and incurred cash outflows of $81,441 for the twelve months ending December 31, 2011. In 2010, the Company invested $96,846 during the quarter and $829,406 for the twelve months. The level of activity in 2011 did not require important investments in capital assets, the cash outflows mainly representing adjustments and installation of machinery already purchased in 2010.

CONTRACTUAL OBLIGATIONS

The contractual obligations as at December 31, 2011 were as follows:

($ thousands)	**Payments due by period**			
	Total	Less than 1 year	1 – 5 years	After 5 years
Long-term debt	$ 3,610	$ 865	$ 2,745	$ -
Finance leases	46	18	28	-
Operating leases	3,676	741	2,120	815
Bank Indebtedness	5,627	5,627	-	-
Interest rate swap	51	41	10	-
Total contractual obligations	**$ 13,010**	**$ 7,292**	**$ 4,903**	**$ 815**

These contractual obligations are sensitive to the fluctuation of interest rates. These obligations are based on interest rates and foreign exchange rates effective as at December 31, 2011.

CAPITAL RESOURCES

The Company has an operating line of credit with its bankers to a maximum of $8,500,000 bearing interest at a rate of prime plus 2.30%. The line of credit is secured by trade receivables, inventories and property plant and equipment. At December 31, 2011, the Company had drawn $5,627,248 on its line of credit ($6,338,764 as at December 31 2010 and $5,959,204 as at January 1 2010). The Company's working capital position improved during the course of 2011 due to its increased profitability. During the second quarter, it issued 1,315,789 units, each comprising of one class A share and one class A share purchase warrant entitling the holder to acquire one additional common share for $0.45, for a consideration of $500,000 to an insider of the Company. During the fourth quarter, the Company received $250,000 in advance for a share issuance that closed on February 1, 2012 and issued subordinated debt for $165,000. Management believes that the Company will have sufficient liquidity to fund its operations in the short term. In order to improve its working capital position further, management continuously monitors its capital structure in order to optimize the level of borrowings and equity, managing risk and cost of capital. During the fourth quarter of 2011, a long term note came to term, with two more maturing in the first two quarters of 2012. This will slowly bring the Company's indebtedness to levels closer to what its past earnings would justify and to a low level based on the earnings management expects. Moreover, it will increase the free cash flow the Company generates through operations.

RELATED PARTY TRANSACTIONS

In the normal course of operations, the Company had routine transactions with related parties. These transactions are measured at fair value, which is the amount of consideration established and agreed to by the related parties.

The following table reflects the related party transactions as disclosed in note 25, *Related party transactions,* of the "Notes to the consolidated financial statements".

($ thousands)		**Three months ended**		**Year ended**	
		December 31 2011	December 31 2010	**December 31 2011**	December 31 2010
Management fees	**(a)**	**$ 51**	$ 45	**$ 177**	$ 158
Rent	**(b)**	**$ 182**	$ 181	**$ 724**	$ 727

(a) Gerald R. Phelps, Imaflex's Vice-President – Operations, is the controlling shareholder of Polytechnomics Inc. ("Polytech"). The Company has an agreement with Polytech for the provision of consulting, management, and technical services. The agreement is presented to and approved by the Company's Board of Directors on an annual basis.

(b) Joseph Abbandonato, Imaflex's President, Chief Executive Officer and Chairman of the Board, is the controlling shareholder of Roncon Consultants Inc. ("Roncon"). The Company's production facilities at Imaflex, Canslit, and Imaflex USA are leased from Roncon and parties related to Roncon under long-term operating lease agreements (see "Contractual Obligations").

CRITICAL ACCOUNTING POLICIES

The Company's significant accounting policies are disclosed in note 2, *Significant accounting policies,* of the consolidated financial statements for the period ended December 31, 2011. This note explains the Company's accounting policies under IFRS. Note 28, *Adoption and transition to International Financial Reporting Standards,* of its consolidated financial statements explains the impact of the transition from Canadian Generally Accepted Accounting Principles to International Financial Reporting Standards ("IFRS"). These are the Company's first annual financial statements prepared in accordance with IFRS.

FINANCIAL INSTRUMENTS

Please refer to note 21, *Financial instruments,* of the consolidated financial statements for the year ended December 31, 2011 for disclosure on the Company's financial instruments as well as note 23, *Risk management,* for a discussion on the risks the Company is exposed to and how they are managed.

As at December 31, 2011, the fair value of the interest rate swap was $49,068 (December 31 2010 – $110,781) has been recorded on the consolidated statement of financial position under derivative financial instrument, with a charge to the consolidated statement of comprehensive income under other gains and losses for all movements in the fair value of the swap since December 31, 2010. As at December 31, 2011, the Company is not using any other swap, forward or hedge accounting.

During the second quarter, the Company issued 100,000 share options to purchase Class A shares of the Company. These options have been recorded in reserves in equity.

MANAGEMENT OUTLOOK

During the course of 2011, management addressed the issue of low profitability and brought the Company back to a positive net profit in order to plan for growth.

Management believes that the asset purchase of the going concern in Imaflex USA should resolve the challenging issues of profitability in this subsidiary. There exists one more challenge, the return to profitability for our Canslit division, which is a goal management has set for 2012.

With the introduction of new products on the market after several years of research, the Company will finally reap the benefits of its past investments in research and development.

OUTSTANDING SHARE DATA

As of the date of this report, the Company had 40,665,791 Class A shares outstanding.

EVENTS AFTER THE REPORTING PERIOD

On February 1st, 2012, the Company announced that it completed a non-brokered private placement of 1,935,485 Units at a price of $0.38 per Unit for gross proceeds of $735,484. Each Unit is comprised of one Class A share and one Class A share purchase warrant entitling its holder to acquire one additional Class A share of Imaflex at a price of $0.45 per Class A share until February 1, 2015.

On February 29 2012, the Company, through its wholly owned subsidiary Imaflex USA, completed a $1,883,596 asset purchase of production equipment that will enable partial vertical integration of its activities. This acquisition will permit a higher usage of the Company's extrusion equipment in its Thomasville, North Carolina plant and will generate savings to the acquired assets' production. The acquisition of these assets was strategically important in order to compete in the southern United States and permit the Thomasville plant to increase its production capacity usage. Please refer to Note 26, *Subsequent events,* of the consolidated financial statements, for more information on this acquisition.

RISK FACTORS

The Company is involved in a competitive industry and marketplace in which there are a number of participants. To effectively manage future growth, the Company continues to improve its operational, financial and management information systems, procedures and controls. The Company's success is largely the result of the continued contributions of its employees and the Company's ability to attract and retain qualified management, sales and operational personnel.

The 25 billion dollar market the Company competes in has historically shown resiliency and growth even at the worst economic times. The Company's customers operate predominantly in the food packaging and agricultural markets. This fact, coupled with the expanding product lines and reliance on newer and faster equipment should help it weather the potential volatility caused by uncertainty in the North American economic climate.

Factors which can impact the Company include, but are not limited to: management of credit, market dynamics, liquidity, funding and operational risks; the strength of the Canadian and U.S. economies in which we conduct business; the impact of the movement of the Canadian dollar relative to other currencies, particularly the U.S. dollar; the effects of changes in interest rates; the effects of competition in the markets in which we operate; our ability to successfully align our organization, resources, and processes; the availability and price of raw materials; failure to achieve planned growth associated with the U.S. expansion; changes in accounting policies and methods we use to report our financial condition, including uncertainties associated with critical accounting assumptions and estimates; operational and infrastructure risks; other factors may affect future results including, but not limited to, timely development and introduction of new products and services, changes in tax laws, technological changes, new regulations; the possible impact on our businesses from public-health emergencies, international conflicts and other developments; and our success in anticipating and managing the foregoing risks.

Additional information relating to our Company, including our Annual Report, can be found on SEDAR at www.sedar.com.

Joseph Abbandonato	**Giancarlo Santella, CA**
President and Chief Executive Officer	Corporate Controller

April 19, 2012

For investor information, contact

JOSEPH ABBANDONATO
President and Chief Executive Officer

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Consolidated Financial Statements of

IMAFLEX INC.

Years ended December 31, 2011 and 2010

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Imaflex Inc.

We have audited the accompanying consolidated financial statements of Imaflex Inc., which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, and the consolidated statements of comprehensive income (loss), consolidated statements of changes in equity and consolidated statements of cash flows for the years ended December 31, 2011 and December 31, 2010, 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 International Financial Reporting Standards, 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 auditor's 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 Imaflex Inc. as at December 31, 2011, December 31, 2010 and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

Deloitte & Touche LLP[1]

[1] Chartered accountant auditor permit No. 13556

April 19, 2012

Consolidated statements of comprehensive income (loss)

for the years ended **December 31,**

(in Canadian dollars)

		2011	**2010**
Revenue	(Note 5.1)	**$ 46,958,781**	$ 46,488,527
Cost of sales		**41,857,705**	42,581,629
Gross profit		**5,101,076**	3,906,898
Expenses:			
Selling		**1,232,916**	1,664,642
Administrative		**3,089,853**	2,859,088
Finance	(Note 8)	**555,875**	573,055
Other gains and losses	(Note 9)	**(156,889)**	161,669
Other expenses		**41,843**	322,807
		4,763,598	5,581,261
Profit (loss) before income tax		**337,478**	(1,674,363)
Income taxes	(Note 10)	**263,827**	76,153
PROFIT (LOSS)		**73,651**	(1,750,516)
Other comprehensive income			
Exchange differences on translating foreign operation		**66,499**	(167,615)
TOTAL COMPREHENSIVE INCOME (LOSS)		**$140,150**	$ (1,918,131)
Earnings per share			
Basic and diluted	(Note 11)	**$ 0.002**	$ (0.044)

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statements of financial position

As at (in Canadian dollars)		December 31, 2011	December 31, 2010	January 1, 2010
Assets				
Current assets				
Cash		**$ 243,808**	$ 82,031	$ 964,188
Trade and other receivables	(Note 12)	**9,351,624**	8,284,584	7,066,890
Inventories	(Note 13)	**6,891,805**	8,962,205	10,833,855
Prepaid expenses		**12,589**	13,536	18,788
Total current assets		**16,499,826**	17,342,356	18,883,721
Non-current assets				
Property, plant and equipment	(Notes 14, 5.2)	**14,602,453**	15,662,776	16,631,471
Total assets		**$ 31,102,279**	$ 33,005,132	$ 35,515,192
Equity and liabilities				
Current liabilities				
Bank Indebtedness	(Note 16)	**5,627,248**	$ 6,338,764	$ 5,959,204
Trade and other payables	(Note 15)	**5,750,591**	5,715,933	4,982,341
Derivative financial instrument	(Note 16)	**49,068**	110,781	168,763
Current tax liabilities		**150,387**	39,242	328,423
Long-term debt, current portion	(Note 16)	**3,132,577**	5,517,586	7,093,715
Finance leases, current portion	(Note 17)	**41,618**	54,974	102,515
Provisions		**-**	115,000	-
Total current liabilities		**14,751,489**	17,892,280	18,634,961
Non-current liabilities				
Deferred tax liabilities	(Note 10)	**1,259,393**	1,087,004	936,252
Long-term debt, non-current portion	(Note 16)	**165,000**	-	-
Total liabilities		**16,175,882**	18,979,284	19,571,213
Capital and reserves				
Share capital	(Note 18)	**8,092,323**	7,829,165	7,829,165
Reserves	(Note 19)	**718,625**	154,885	322,500
Retained earnings		**6,115,449**	6,041,798	7,792,314
Total equity		**14,926,397**	14,025,848	15,943,979
Total equity and liabilities		**$ 31,102,279**	$ 33,005,132	$ 35,515,192

The accompanying notes are an integral part of these consolidated financial statements.

(s) Joseph Abbandonato

Joseph Abbandonato
Director

(s) Gilles Émond

Gilles Émond
Director

Consolidated statements of changes in equity

(in Canadian dollars)

		Reserves							
	Share capital	**Share-based compensation**	**Accumulated Foreign currency translation**	**Warrants**	**Other**	**Total Reserves**	**Retained Earnings**	**Total**
Balance at January 1, 2010	$7,829,165	$ 322,500	$ -	$ -	$ -	$322,500	$ 7,792,314	$15,943,979
Net loss for the year	-	-	-	-	-	-	(1,750,516)	(1,750,516)
Exchange differences on translating foreign operation	-	-	(167,615)	-	-	(167,615)	-	(167,615)
Total comprehensive (loss)	-	-	(167,615)	-	-	(167,615)	(1,750,516)	(1,918,131)
Balance at December 31, 2010	7,829,165	322,500	(167,615)	-	-	154,885	6,041,798	14,025,848
Profit for the year	-	-	-	-	-	-	**73,651**	**73,651**
Exchange differences on translating foreign operation	-	-	**66,499**	-	-	**66,499**	-	**66,499**
Total comprehensive income	-	-	**66,499**	-	-	**66,499**	**73,651**	**140,150**
Issuance of share capital (Note 18)	**263,158**	-	-	-	-	-	-	**263,158**
Issuance of warrants (Note 18)	-	-	-	**236,842**	-	**236,842**	-	**236,842**
Share-based compensation (Note 19)	-	**10,399**	-	-	-	**10,399**	-	**10,399**
Future issuance of shares and warrants (Note 20)	-	-	-	-	**250,000**	**250,000**	-	**250,000**
Balance at December 31, 2011	**$8,092,323**	**$ 332,899**	**$(101,116)**	**$ 236,842**	**$250,000**	**$718,625**	**$6,115,449**	**$14,926,397**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statements of cash flows

for the years ended (in Canadian dollars)	December 31, 2011	2010
Cash flows from operating activities:		
Profit (loss) for the period	**$ 73,651**	$ (1,750,516)
Deferred income tax expense	**172,389**	150,752
Change in fair value of derivative financial instrument	**(62,352)**	(51,136)
Depreciation of property, plant and equipment	**1,309,689**	1,347,016
Interest expense	**555,875**	573,055
Share-based compensation	**10,399**	-
Profits on disposal of assets and other gains	**-**	(14,975)
Unrealized foreign exchange (gain) loss	**(134,500)**	32,165
	1,925,151	286,361
Movements in working capital		
(Increase) in trade and other receivables	**(1,032,073)**	(1,217,694)
Decrease in inventories	**2,127,925**	1,634,691
Decrease in prepaid expenses	**1,711**	5,251
Increase (decrease) in current income tax liabilities	**76,700**	(39,262)
(Decrease) increase in trade payables and provisions	**(125,226)**	1,009,198
	1,049,037	1,392,184
Cash generated by operations	**2,974,188**	1,678,545
Interest paid	**(550,980)**	(494,481)
Net income taxes received (paid)	**35,105**	(140,145)
Net cash generated by operating activities	**2,458,313**	1,043,919
Cash flows from investing activities:		
Payments for property, plant and equipment	**(69,206)**	(844,381)
Increase in deposits for property and equipment	**(12,235)**	-
Proceed from disposal of property and equipment	**-**	14,975
Net cash used in investing activities	**(81,441)**	(829,406)
Cash flows from financing activities:		
(Decrease) increase in bank indebtedness	**(710,795)**	379,560
Increase in long-term debt	**165,000**	1,093,999
Repayment of long-term debt	**(2,403,711)**	(2,504,152)
Issuance of share capital	**263,158**	-
Issuance of warrants	**236,842**	-
Future issuance of shares and warrants	**250,000**	-
Repayment of finance leases	**(13,105)**	(54,156)
Net cash (used in) financing activities	**(2,212,611)**	(1,084,749)
Net increase (decrease) in cash	**164,261**	(870,236)
Cash, beginning of the year	**82,031**	964,188
Effects of exchange rate changes on the balance of cash held in foreign currencies	**(2,484)**	(11,921)
Cash, end of the year	**$ 243,808**	$ 82,031

The accompanying notes are an integral part of these consolidated financial statements.

1. General information

Imaflex Inc. ("Imaflex" or "the Company") is incorporated under the Canada Business Corporations Act. Its registered office and headquarters are located at 5710 Notre-Dame Street West, Montreal, Quebec, Canada. The principal activities of the Company and its subsidiary are described in note 5. The Class A shares of the Company are listed for trading on the TSX Venture Exchange under the symbol "IFX.A".

2. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements. They also have been applied in preparing an opening IFRS consolidated statement of financial position as at January 1, 2010 for the purposes of the transition to International Financial Reporting Standards ("IFRS"), as required by IFRS 1, *First Time Adoption of International Financial Reporting Standards* ("IFRS 1"). The impact of the transition from Canadian Generally Accepted Accounting Principles ("GAAP") to IFRS is explained in Note 28.

2.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Account Standards Board ("IASB"). The designation IFRS also includes the revised International Accounting Standards ("IAS") and the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

2.2 Basis of preparation

The consolidated financial statements have been prepared using the historical cost basis except for the revaluation of certain financial instruments at their fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets. The Company elected to present the statement of income and the statement of comprehensive income in the same statement and chose to present expenses by function, which is how information is presented for internal reporting purposes and is consistent with how management views and manages expenses in its operations. The statement of cash flows has been prepared using the indirect method. The principal accounting policies are set out below.

2.3 Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiary Imaflex USA Inc. ("Imaflex USA"), a wholly owned entity. All intercompany transactions and balances are eliminated on consolidation.

2.4 Foreign currencies

The individual financial statements of each entity of the Company and its subsidiary are prepared in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position are expressed in Canadian dollars ("CAD"), which is the functional currency of Imaflex Inc. and the presentation currency for the consolidated financial statements.

2. Significant accounting policies (continued)

2.4 Foreign currencies (continued)

The functional currency of the Company's foreign subsidiary, Imaflex USA, is the US dollar (USD). The financial statements of Imaflex USA are translated as follows: assets and liabilities are translated at the exchange rate in effect at the date of the consolidated statement of financial position and revenues and expenses are translated at the exchange rates in effect on the dates on which such items are recognized into income during the period. Exchange gains or losses arising from the translation of Imaflex USA's financial statements are recognized in other comprehensive income.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency are recognized at the average exchange rates for the periods during the year, unless exchange rates fluctuated significantly during those periods, in which case the exchange rates at the dates of the transactions are used. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined.

2.5 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.
Revenue from the sale of goods is recognized when all the following conditions are satisfied:

- Imaflex has transferred to the buyer the significant risks and rewards of ownership of the goods;
- Imaflex retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Company; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

2.6 Income Tax

Income tax expense represents the sum of the tax currently payable and deferred tax.
The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

2. Significant accounting policies (continued)

2.6 Income Tax (continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred taxes are recognized as an expense or income in profit or loss, except when they relate to items that are recognized outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognized outside profit or loss.

2.7 Earnings per share

Earnings per share is calculated by dividing net earnings available for common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated taking into account the dilution that would occur if options, warrants or other agreements for the issuance of common shares were exercised or converted into common shares at the later of the beginning of the period or the issuance date.

2.8 Financial assets and financial liabilities

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets are classified into the following specified categories:

- fair value through profit or loss (FVTPL)
- available-for-sale (AFS)
- loans and receivables

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets are classified as FVTPL when the financial asset is either held for trading or it is designated as FVTPL. The Company’s cash and trade receivables are classified as loans and receivables. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment.

2. Significant accounting policies (continued)

2.8 Financial assets and financial liabilities (continued)

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment on a regular basis. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset have been affected.

Trade receivables that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in economic conditions that correlate with default on receivables.

The carrying amount for most financial assets is reduced by the impairment loss directly. For trade receivables, the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement. Financial liabilities are classified into the following specified categories:

- at FVTPL
- other financial liabilities

Other financial liabilities, including long term debt, are initially measured at fair value, net of transaction costs, and then decreased by any principal payment made.

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

The issuance cost of debt is included as part of long term debt and is recorded at amortized cost, using the effective interest method. The issuance cost of equity is presented in the statement of changes in equity as a reduction of the proceeds received.

2.9 Inventories

Inventories are stated at the lower of cost and net realizable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories by the method most appropriate to the particular class of inventory, being valued on a first-in-first-out basis. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and necessary to make the sale.

2.10 Property, plant and equipment

Production equipment, office equipment, computer software and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

2. Significant accounting policies (continued)

2.10 Property, plant and equipment (continued)

Depreciation is recognized so as to write off the cost of assets less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

Asset	Basis	Period
Production equipment	Straight-line	20 years
Office equipment	Straight-line	5 years
Computer software and equipment	Straight-line	3 years

Leasehold improvements are amortized on a straight-line basis over the lesser of the terms of the leases or their useful lives.

Effective January 1, 2010, the Company revised the estimated useful life of its production equipment from 10 and 15 years to 20 years. The changes in estimates, which were applied prospectively, resulted in a reduction in depreciation of $1,525,851 ($1,497,142 for the year ended December 31 2010).

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Assets under finance lease
Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

Impairment
At each reporting date, or sooner if there is an indication that an asset may be impaired, the Company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets for which the estimates of future cash flows have not been adjusted. If the recoverable amount of the assets is estimated to be less than their carrying amount, the carrying amount is reduced to the recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the assets is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

2. Significant accounting policies (continued)

2.11 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

2.12 Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Company, liabilities incurred by the Company to the former owners of the acquiree and the equity interests issued by the Company in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

When the consideration transferred by the Company in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates.

2. Significant accounting policies (continued)

2.13 Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Company's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognized for goodwill is not reversed in subsequent periods.

2.14 Derivative financial instruments

The interest rate swap is a derivative financial instrument which was initially recognized at fair value at the date the derivative contract was entered into and is subsequently remeasured to fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately.

When the derivative has a positive fair value it is recognized as a financial asset and when it has a negative fair value is recognized as a financial liability.

2.15 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Company as lessee

Assets held under finance leases are initially recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Company's general policy on borrowing costs. Contingent rentals are recognized as expenses in the periods in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

2. Significant accounting policies (continued)

2.16 Provisions

Provisions are recognized when the Company has a present obligation, legal or constructive, as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

2.17 Share-based compensation

Equity-settled share-based compensation to employees is measured at the fair value of the financial instruments at the grant date, using the Black-Scholes option pricing model. Details regarding the determination of the fair value of equity-settled share-based compensation are set out in note 19.

The fair value determined at the grant date of the equity-settled share-based compensation is expensed during the period with a corresponding increase in contributed surplus.

Imaflex did not issue any share-based compensation to non-employees nor did it issue any share-based compensation to be settled in cash.

3. Future accounting changes

The following new and revised IFRS have been issued but are not yet effective and are not yet applied by the Company.

Financial instruments

The amendments to IFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The Company does not anticipate that these amendments to IFRS 7 will have an effect on the Company's disclosures.

IFRS 9 issued in November 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 amended in October 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

IFRS 9 will be effective for our fiscal years beginning on January 1, 2015, with earlier application permitted. We have not yet assessed the impact of the adoption of this standard on our consolidated financial statements.

3. Future accounting changes (continued)

Consolidation

In May 2011, the IASB released IFRS 10, *Consolidated financial statements*, which replaces SIC-12, *Consolidation - special purpose entities*, and parts of IAS 27, *Consolidated and separate financial statements* related to the preparation and the presentation of consolidated financial statements. The new standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included in a company's consolidated financial statements. The standard provides additional guidance to assist in the determination of control where it is difficult to assess. IFRS 10 will be effective for our fiscal years beginning on January 1, 2013, with earlier application permitted. We do not expect this standard to have a material impact on our consolidated financial statements.

Joint arrangements

In May 2011, the IASB released IFRS 11, *Joint arrangements*, which supersedes IAS 31, *Interests in joint ventures,* and SIC-13, *Jointly controlled entities—non-monetary contributions by venturers*. IFRS 11 focuses on the rights and obligations of a joint arrangement, rather than its legal form as is currently the case under IAS 31. The standard addresses inconsistencies in the reporting of joint arrangements by requiring the equity method to account for interests in joint ventures. IFRS 11 will be effective for fiscal years beginning on January 1, 2013, with earlier application permitted. We do not expect this standard to have a material impact on our consolidated financial statements.

Disclosure of interests in other entities

In May 2011, the IASB released IFRS 12, *Disclosure of interests in other entities*. IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates, special purpose vehicles and other off-balance sheet vehicles. The standard requires an entity to disclose information regarding the nature and risks associated with its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

IFRS 12 will be effective for our fiscal years beginning on January 1, 2013, with earlier application permitted. We do not expect this standard to have a material impact on our consolidated financial statements.

Fair value measurement

In May 2011, the IASB released IFRS 13, *Fair value measurement*. IFRS 13 will improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. The standard will be effective for fiscal years beginning on January 1, 2013, with earlier application permitted. We have not yet assessed the impact of the adoption of this standard on our consolidated financial statements.

3. Future accounting changes (continued)

Financial statement presentation

In June 2011, the IASB amended IAS 1, *Presentation of financial statements*. The principal change resulting from the amendments to IAS 1 is a requirement to group together items within other comprehensive income ("OCI") that may be reclassified to the statement of income. The amendments also reaffirm existing requirements that items in OCI and net profit or loss should be presented as either a single statement or two consecutive statements. The amendment to IAS 1 will be effective for fiscal years beginning on January 1, 2013, with earlier application permitted. We do not expect any material changes to our consolidated financial statement presentation from this standard.

4. Critical accounting judgements and key sources of estimation uncertainty

The preparation of these financial statements in conformity with IFRS and the application of the Company's accounting policies described in note 2, required management to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

4.1 Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations, that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

Cash generating units

Management has identified only one cash generating unit ("CGU") for Imaflex. Revenue generated by the Company's various product lines and facilities are generated through a single sales force whose ability to cross sell products influences the level of sale for each product line.

4. Critical accounting judgements and key sources of estimation uncertainty (continued)

4.2 Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Allowance for doubtful accounts

The Company analyzes its trade receivables on an account by account basis and on a portfolio basis. Any impairment recognized on these assets is based on historical experience and management's best estimate of the recoverability of the account receivable.

Inventory

The Company analyzes its inventory in order to assess the carrying amount of inventory. This assessment is based on management's knowledge of the market and experience regarding obsolescence and valuation of inventory.

Useful lives of property, plant and equipment

The Company reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period. For the financial year 2010, management determined that the useful lives of all the production equipment should be extended from the estimates used in 2009.

Impairment of long-lived assets

The Company performs impairment tests on its long-lived assets by comparing the carrying amount of the assets to their recoverable amount, which is calculated as the higher of the asset's fair value less costs to sell and its value in use. Value in use is calculated based on a discounted cash flow analysis, which requires the use of estimates of future cash flow and discount rates.

Income taxes

Management uses judgment and estimates in determining the appropriate rates and amounts in recording deferred income taxes, giving consideration to timing and probability of realization. Actual taxes could significantly vary from these estimates as a result of a variety of factors including future events, changes in income tax laws or the outcome of reviews by tax authorities and related appeals. The resolution of these uncertainties and the associated final taxes payable may result in adjustments to the Company's deferred and current tax assets and liabilities.

Warrants

The company issues from time to time equity instruments, comprised of common shares and warrants. Estimates based on market inputs are required in determining the attribution of gross proceeds received between the different instruments issued.

5. Segment information

The Company operates in one reportable segment, comprising the development, manufacture and sale of packaging materials.

5. Segment Information (continued)

5.1 Revenues by geographical end market

The following is the Company's revenues by geographical end market.

	Year ended	
	December 31, 2011	**December 31, 2010**
Canada	**$ 27,453,846**	$ 28,289,038
United States	**19,098,568**	17,615,117
Other	**406,367**	584,372
Total	**$ 46,958,781**	$ 46,488,527

5.2 Property, plant and equipment, net, per geographic location

	December 31, 2011	**December 31, 2010**	**January 1, 2010**
Canada	**$ 6,816,452**	$ 7,562,029	$ 8,906,155
United States	**7,786,001**	8,100,747	7,725,316
Total	**$ 14,602,453**	$ 15,662,776	$ 16,631,471

6. Depreciation and amortization

The Company's consolidated statement of comprehensive income includes depreciation of production equipment of $991,819 for the year ended December 31, 2011 ($987,111in 2010) classified in cost of sales. Depreciation of other property, plant and equipment of $317,870 for the year ended December 31, 2011 ($359,905 in 2010) is included in administrative expenses.

7. Employee Benefits

The Company does not offer any employee benefit plan to its employees. The Company contributes to state-run pension plans, employment insurance, group insurance and social security. The costs incurred for the employee benefits noted above amounted to $1,291,115 during the year ended December 31, 2011 ($1,281,959 in 2010). These payments are expensed as incurred and the Company does not recognize any gains or losses subsequent to the payment of these benefits. These transactions do not result in any asset or liability on the consolidated statement of financial position.

8. Finance costs

	Year ended December 31, 2011	Year ended December 31, 2010
Interest on bank indebtedness and long term debt	**$ 551,775**	$ 567,125
Interest on obligations under finance leases	**4,100**	5,930
	$ 555,875	$ 573,055

9. Other gains and losses

	Year ended December 31, 2011	Year ended December 31, 2010
Foreign exchange (gain) loss	**$ (94,537)**	$ 212,805
Change in fair value of derivative financial instrument	**(62,352)**	(51,136)
	$ (156,889)	$ 161,669

10. Income taxes

10.1 Income tax recognized in profit or loss

	Year ended December 31, 2011	Year ended December 31, 2010
Tax expense comprises:		
Current tax expense (recovery) in respect of the current year	$ 136,617	$(107,476)
Adjustments recognized in the current year related to prior years	(45,179)	32,877
Deferred tax expense relating to the origination and reversal of temporary differences	170,904	150,752
	262,342	76,153
Effect of changes in tax rates and laws	1,485	-
Total tax expense	$ 263,827	$ 76,153

10. Income taxes (continued)

10.2 Reconciliation of the income tax rate

The expense for the year is reconciled as follows:

	Year ended December 31, 2011	Year ended December 31, 2010
Profit (loss) before taxes	**$ 337,478**	$ (1,674,363)
Income tax expense (recovery) calculated at 28.4% (30.9% - 2010)	**95,844**	(517,378)
Permanent differences	**(20,360)**	20,715
Effect of unrecognized benefit of Imaflex USA's losses	**251,800**	689,175
Adjustments to deferred income tax	**52,261**	(25,983)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(60,286)**	(133,764)
Non-taxable portion of income tax on investments	**-**	8,683
Other	**(55,432)**	34,705
Income tax expense recognized in profit or loss	**$ 263,827**	$ 76,153

The tax rate used for the 2011 reconciliations above is the corporate tax rate of 28.4% (30.9% in 2010) payable by corporate entities in Quebec, Canada on taxable profits under tax law in those jurisdictions.

10.3 Deferred tax balances

	Opening balance	Recognized in profit or loss	Adjustment to prior year balance	Closing balance
2011				
Temporary differences				
Assets				
Finance leases	$ 13,140	$ (2,128)	$ (5)	$ 11,007
Provisions	28,127	(26,642)	(1,485)	-
Other assets	7,695	(538)	-	7,157
	48,962	(29,308)	(1,490)	18,164
Liabilities				
Property, plant & equipment	(1,135,966)	(74,852)	(50,769)	(1,261,587)
ITCs used but taxed next year	-	(15,970)	-	(15,970)
	(1,135,966)	(90,822)	(50,769)	(1,277,557)
Deferred tax asset (liability)	$(1,087,004)	$ (120,130)	$ (52,259)	$(1,259,393)

10. Income taxes (continued)

10.3 Deferred tax balances (continued)

Temporary differences

2010
Assets

	Opening balance	Recognized in profit or loss	Adjustment prior year balance	Closing balance
Finance leases	$ (884,000)	$ 897,140	$ -	$ 13,140
Provisions	776,780	(710,288)	(38,365)	28,127
Other assets	12,918	2,473	(7,696)	7,695
Losses carried forward	116,000	(116,000)	-	-
	$ 21,698	$ 73,325	$ (46,061)	$ 48,962
Liabilities				
Property, plant & equipment	$ (954,135)	$ (253,874)	$ 72,043	$ (1,135,966)
Exchange difference on foreign operations	(3,815)	3,815	-	-
	(957,950)	(250,059)	72,043	(1,135,966)
Deferred tax asset (liability)	$ (936,252)	$ (176,734)	$ 25,982	$ (1,087,004)

10.4 Unrecognized deferred tax assets

The Company's subsidiary, Imaflex USA, has non-capital losses available to carry forward to reduce future taxable income of approximately $11,818,253 in 2011 and $10,643,295 in 2010 for which a deferred tax asset has not been recognized ($2,652,084 in 2011 and $2,522,916 in 2010) that expire as follows:

Expiring in	**December 31, 2011**	**December 31, 2010**	**January 1, 2010**
2025	**$ 88,172**	$ 86,230	$ 90,000
2026	**1,477,792**	1,445,242	1,432,000
2027	**1,015,817**	993,443	1,166,000
2028	**2,193,456**	2,145,144	2,414,000
2029	**2,376,085**	2,323,751	1,096,000
2030	**3,374,727**	3,649,485	-
2031	**1,292,204**	-	-
	$11,818,253	$10,643,295	$6,198,000

11. Earnings per share

	Year ended December 31, 2011	Year ended December 31, 2010
Profit (loss) for basic and diluted earnings per share	**$ 73,651**	$ (1,750,516)
Weighted average number of common shares outstanding	**40,103,426**	39,350,002
Dilutive effect of share-based compensation	**24,269**	-
Diluted weighted average common shares outstanding	**40,127,695**	39,350,002
Basic and diluted net earnings per common share	**$ 0.002**	**$ (0.044)**

12. Trade and other receivables

	December 31, 2011	December 31, 2010	January 1, 2010
Trade receivables	**$ 9,599,496**	$ 8,741,871	$ 7,482,898
Allowance for doubtful accounts	**(527,876)**	(495,651)	(906,351)
	9,071,620	8,246,220	6,576,547
Other	**280,004**	38,364	490,343
	$ 9,351,624	$ 8,284,584	$ 7,066,890

<u>Movement in the allowance for doubtful accounts</u>

	Year ended December 31, 2011	Year ended December 31, 2010
Balance, beginning of year	**$ (495,651)**	$ (906,351)
Impairment losses and adjustments recognized on trade receivables	**(40,290)**	327,648
Amounts written off during the year as uncollectible	**10,623**	81,758
Foreign exchange variance	**(2,558)**	1,294
Balance, end of year	**$ (527,876)**	$ (495,651)

12. Trade and other receivables (continued)

The Company's maximum exposure to credit risk is limited to the carrying amount of the receivable in the consolidated financial statements as the Company does not make any guarantees above the carrying value. When a counterparty is bankrupt, insolvent or placed under receivership, the allowance for doubtful accounts attributed to the customer is written-off against the account.

Credit risk management
In the Company's normal credit risk management process, the Company uses an external credit service to assess the potential customer's credit quality and defines credit limits by customer. The Company uses Export development Canada to insure trade receivables. As at December 31 2011, $4,065,338 ($4,309,883 as at December 31, 2010 and $3,754,720 as at January 1, 2010) of the total trade receivables is insured.

Concentration of credit risk management
Based on customers' ordering habits, seasonality of business and financial position, concentration of credit risk varies throughout the year. On December 31, 2011, the Company's two highest customer balances total $1,234,529, representing approximately 13.6% of the Company's trade receivables ($1,105,259 as at December 31 2010, representing 13.4% of total trade accounts receivable, and $952,734 as at January 1, 2010, representing 14.5% of total trade accounts receivable).

Trade receivables past due but not impaired
Trade receivables disclosed above include amounts that are past due at the end of the reporting period but not impaired, because the amounts are still considered recoverable based on the Company's analysis of the reasons for delay in payments and the customer's plans for reimbursements. In situations where the Company believes there may be increased credit risk, netting agreements are signed in order to be able to settle any payables to the same customer on a net basis. At the end of the reporting period, there were $2,678,238 of past due receivables that weren't impaired ($2,424,851 in 2010 and $1,583,030 as at January 1, 2010). Of that amount, $1,456,298 was over 90 days ($981,749 as at December 31, 2010 and $661,554 as at January 1, 2010).

The concentration of credit risk is limited due to the customer base being large and unrelated. Based on the status of the customer's plans of recapitalization, the Company does not believe that these accounts should be provisioned beyond what has been already provided for.

13. Inventories

	December 31, 2011	December 31, 2010	January 1, 2010
Raw materials and supplies	**$ 4,337,113**	$ 4,794,647	$ 6,500,191
Finished Goods	**2,554,692**	4,167,558	4,333,664
Total	**$ 6,891,805**	$ 8,962,205	$ 10,833,855

The cost of inventories recognized as an expense during the year was $28,400,577 ($28,629,206 in 2010). The cost of inventories recognized as an expense includes $64,493 (2010 - nil) in respect of write-downs of inventory to net realizable value.

14. Property, plant and equipment

	Production equipment	Leasehold improvement	Office equipment	Computer equipment	Equipment under finance lease	Total
At cost,						
January 1, 2010	$35,908,190	$1,278,960	$18,837	$ 39,197	$ 401,410	$ 37,646,594
Transfers	-	-	-	330,910	(330,910)	-
Additions	760,246	38,655	22,937	14,768	-	836,606
Foreign exchange	(597,899)	(13,473)	(787)	(142)	-	(612,301)
December 31, 2010	36,070,537	1,304,142	40,987	384,733	70,500	37,870,899
Additions	**65,541**	**15,900**	**-**	**-**	**-**	**81,441**
Foreign exchange	**242,139**	**5,351**	**313**	**260**	**-**	**248,063**
December 31, 2011	**$36,378,217**	**$1,325,393**	**$41,300**	**$384,993**	**$ 70,500**	**$ 38,200,403**
Accumulated depreciation						
January 1, 2010	$(20,054,065)	$ (867,816)	$ (12,906)	$ (8,734)	$ (71,602)	$(21,015,123)
Transfers	-	-	-	(55,152)	55,152	-
Depreciation expense	(987,111)	(209,789)	(6,243)	(129,773)	(14,100)	(1,347,016)
Foreign Exchange	137,538	15,532	751	195	-	154,016
December 31, 2010	(20,903,638)	(1,062,073)	(18,398)	(193,464)	(30,550)	(22,208,123)
Depreciation expense	**(991,819)**	**(166,634)**	**(9,036)**	**(128,100)**	**(14,100)**	**(1,309,689)**
Foreign exchange	**(73,665)**	**(5,833)**	**(313)**	**(327)**	**-**	**(80,138)**
December 31, 2011	**$(21,969,122)**	**$(1,234,540)**	**$ (27,747)**	**$(321,891)**	**$ (44,650)**	**$(23,597,950)**
Net book value, as at						
January 1, 2010	$ 15,854,125	$ 411,144	$ 5,931	$ 30,463	$ 329,808	$ 16,631,471
December 31, 2010	15,166,899	242,069	22,589	191,269	39,950	15,662,776
December 31, 2011	**$ 14,409,095**	**$ 90,853**	**$ 13,553**	**$ 63,102**	**$ 25,850**	**$ 14,602,453**

The Company’s production equipment with a carrying amount of approximately $12,043,929 (December 31, 2010: approximately $13,167,766, January 1, 2010: approximately $15,083,097) is pledged as collateral for the Company’s operating lines of credit and long-term debt.

15. Trade and other payables

	December 31, 2011	December 31, 2010	January 1, 2010
Trade payables	**$ 4,577,653**	$ 4,446,997	$ 3,775,246
Other payables and accrued liabilities	**1,172,938**	1,268,936	1,207,095
	$ 5,750,591	$ 5,715,933	$ 4,982,341

16. Credit facilities

	December 31, 2011	December 31, 2010	January 1, 2010
Bank indebtedness (a)	**$ 5,627,248**	$ 6,338,764	$ 5,959,204
Bank loans (b)	**3,132,577**	5,517,586	7,093,715
Subordinated debt (c)	**165,000**	-	-
Total long-term debt	**3,297,577**	5,517,586	7,093,715
Finance lease liabilities	**41,618**	54,974	102,515
Total borrowings	**8,966,443**	11,911,324	13,155,434
Current	**8,801,443**	11,911,324	13,155,434
Non-current	**165,000**	-	-
	$ 8,966,443	$11,911,324	$13,155,434

Interest on long-term debt amounted to $ 230,537 for the year ended December 31, 2011 (2010: $300,052).

(a) The Company has an operating line of credit with its bankers to a maximum of $8,500,000, bearing interest at prime plus 2.3% (5.3% effective interest rate at the end of the year). The line of credit is secured by trade receivables, inventories and property, plant and equipment. The line of credit may be reviewed periodically by the bank and is repayable on demand. The operating line of credit is subject to working capital, debt to equity, fixed coverage and interest bearing debt to EBITDA covenants. As at December 31, 2011, the Company had drawn $ 5,627,248 (2010 - $6,338,764) on its line of credit.

As at December 31, 2011, the Company was in breach of the interest bearing debt to EBITDA covenant related to credit facilities representing bank indebtedness of $ 5,627,248 and term debt of $ 50,000. Consequently, the utilization of the line of credit may be subject to limitations.

16. Credit facilities (continued)

(b) The Company's bank loans are comprised of the following :

	December 31, 2011	December 31, 2010	January 1, 2010
Loan (December 31 2011 US$1,075,000, December 31 2010 US$1,689,286, January 1 US$2,303,618), bearing interest at the 30-day LIBOR rate (0.26% as at December 31, 2011), reset monthly, plus 1.24%, repayable in monthly principal installments of $52,060 (US$51,190) up to September 2013 and secured by production equipment. (i)	**$ 1,093,275**	$ 1,680,164	$ 2,421,103
Loan, bearing interest at prime plus 1.50%, repayable in monthly principal installments of $50,000 to January 2012 and secured by production equipment. Furthermore, the loan is secured by an additional hypothec of $3,000,000 on all present and future properties of the Canslit division of the Company, movables and immovable, corporeal and incorporeal, including machinery, equipment, inventory and receivables.	**50,000**	650,000	1,250,000
Loan, bearing interest at the lender's base rate (5.00% as at December 31, 2011) plus 0.25%, repayable in monthly principal installments of $43,460 to September 2016, secured by production equipment.	**1,955,700**	2,477,220	-
Loans, bearing interest at rates varying between prime plus 0.50% and 2.00% and at the 30-day LIBOR rate plus 2.00%, retired or refinanced during the year.	**-**	583,111	3,195,628
Loan (December 31 2011 US$33,040, December 31 2010 US$127,782, January 1 US$215,970), bearing interest at the 30-day LIBOR rate, reset monthly, plus 2.00%, repayable in blended monthly installments of $8,520 (US$8,378) up to April 2012 and secured by production equipment and a full corporate guarantee from Imaflex Inc.	**33,602**	127,091	226,984
	3,132,577	5,517,586	7,093,715
Current portion of long-term debt (ii)	**(3,132,577)**	(5,517,586)	(7,093,715)
Long term portion of long-term debt	**$ -**	$ -	$ -

i. On September 28, 2006, the Company borrowed from Wachovia Corporation US$4,300,000 at a variable interest rate for seven years, as a result of a long-term debt facility entered into to fund its capital expenditures. The Company then entered into an interest rate swap for the same amount and maturity. Under the terms of this interest rate swap, the Company receives, on a monthly basis, a variable interest rate and pays a fixed interest rate of 6.54%. The Company uses this derivative financial instrument to manage the risk from fluctuations in interest rates. The intent is to fix the interest cost on this long-term debt.

ii. As at December 31, 2011, the Company was in breach of the interest bearing debt to EBITDA covenant relating to bank indebtedness of $5,627,248 and term debt totalling $50,000. All of the Company's credit agreements for term-debt and finance leases, with the exception of subordinated debt, include cross default provisions, giving the right to demand repayment of the loan prior to the scheduled maturity. Accordingly, the term debt, except subordinated debt, has been presented with the current portion of long-term debt. On December 31 2010 and on January 1, 2010, in addition to not respecting the interest bearing debt to EBITDA ratio, the Company did not respect the fixed charge ratio.

16. Credit Facilities (continued)

The aggregate scheduled repayment of long-term debt is as follows, without taking into consideration the right of repayment on demand:

Not later than one year	$ 751,791
Later than one year and not later than five years	2,380,786
Later than five years	-
	$ 3,132,577

c) On December 5, 2011, the Company received a subordinated loan of $165,000 from a significant shareholder and officer of the Company pursuant to the Company's agreement with a creditor. This loan does not bear interest and matures on June 30, 2013, and may be prepaid by the Company with no penalties subject to certain conditions.

17. Obligations under finance leases

The Company has financed certain assets by entering into finance lease arrangements for lift trucks expiring on August 18, 2013 and October 28, 2013. Finance lease payments are as follows:

Not later than one year	$ 17,745
Later than one year and not later than five years	28,426
Later than five years	-
Total minimum lease payments	46,171
Less amount representing interest at approximately 9.1%	(4,553)
Present value of minimum lease payments	41,618
Less current portion (Note 16(b)ii)	(41,618)
	$ -

The fair value of the finance lease liabilities is approximately equal to their carrying amount.

18. Share Capital

The Company's outstanding share capital consists of an unlimited number of Class A shares, voting, participating, without par value; unlimited number of Class B shares, non-voting, participating, without par value, issuable at any time and in one or more series; and an unlimited number of Class B Series 1 shares, convertible at the option of the holder to Class A shares subject to the restriction that the percentage of Class A shares in the hands of public security holders following such conversion must not be less than 20% of the total issued and outstanding Class A shares.

At December 31 2011, there were 40,665,791 Class A shares outstanding (39,350,002 at December 31, 2010 and January 1, 2010).

During the year, the Company issued, through a non-brokered private placement, 1,315,789 units to a significant shareholder and officer of the Company for cash consideration of $500,000. Each unit consists of one Class A share and one Class A share purchase warrant, entitling the holder to acquire one additional Class A share of Imaflex at a price of $0.45 per Class A share until June 6, 2014.

18. Share Capital (continued)

Each share issued was attributed a value of $0.20, for a total consideration for shares of $263,158, which corresponds to the share price on the date of issuance. Each warrant issued was attributed a value of $0.18, for a total consideration for warrants of $236,842.

19. Share-based compensation

Pursuant to the Stock Option Plan (the "Plan") of the Company, ten percent (10%) of the Class A shares issued and outstanding from time to time are reserved for options. The Plan provides that the term of the options shall be fixed by directors. Officers and employees of the Company or its subsidiary are eligible to receive options. Options are granted at an exercise price of not less than the fair value of the Company's shares on the date the options are granted. Options may be exercisable for a period no longer than five (5) years and the exercise price must be paid in full upon exercise of the option.

The opening balance as at January 1, 2010 relates to stock options issued prior to 2009, which expired unexercised. On May 27 2011, the Company issued 100,000 options to an officer of the Company, each option entitling the holder to acquire, from the grant date, one Class A share of Imaflex at $0.125 for a period of 5 years. These options, none of which were exercised, are the only options outstanding as at December 31, 2011.

At the grant date, the fair value of the options was $10,399 ($0.10 per option) and was recognized as an expense with a corresponding increase to the share-based compensation reserve. Options were valued using the Black-Scholes option pricing model using assumptions based on management's best estimate of when the options are expected to be exercised. Expected volatility is based on the historic volatility of Imaflex's shares.

Fair value assumptions	**May 27, 2011 issue**
Expected life of options	2.5 years
Expected share price volatility	172.86%
Dividend yield	0%
Risk free rate	1.67%
Exercise price	$0.125
Share price on grant date	$0.125

20. Payment for future issuance of shares and warrants

On February 1, 2012, the Company announced it completed a non-brokered private placement (of 1,935,485 Units for proceeds of $735,484, of which $250,000 had been received in advance in contemplation of this transaction on December 30, 2011. Each Unit is comprised of one Class A share and one Class A share purchase warrant entitling its holder to acquire one additional Class A share at a price of $0.45 per Class A share until February 1, 2015.

21. Financial Instruments

21.1 Categories of financial instruments

	December 31, 2011	December 31, 2010	January 1, 2010
Financial assets			
Cash	**$ 243,808**	$ 82,031	$ 964,188
Trade and other receivables	**9,351,624**	8,284,584	7,066,890
Financial liabilities			
Derivative financial instrument (note 16)	**49,068**	110,781	168,763
Other financial liabilities			
Bank Indebtedness	**5,627,248**	6,338,764	5,959,204
Long term debt and finance leases	**3,339,195**	5,572,560	7,196,230
Trade and other payables and provisions	**$ 5,750,591**	$5,830,933	$4,982,341

21.2 Fair value of financial instruments

Fair value estimates are made as of the date of the consolidated statement of financial position, using available information about the financial instrument. These estimates are subjective in nature and often cannot be determined with precision. The Company has determined that the fair value of its current financial assets and liabilities approximates their respective carrying amounts as at the date of the consolidated statement of financial position because of the short-term maturity of those instruments. The fair value of the long-term debt and finance leases, which bear interest at floating rates, approximates their carrying amounts due to the nature of the financial liability and the Company's ability to contract debt with similar rates and conditions.

22. Operating lease arrangements

22.1 Leasing arrangements

The Company leases its premises for all three manufacturing locations from related parties under operating leases. Rent is paid monthly on a triple net basis. There are no restrictions imposed on the Company under these leasing arrangements. There is no contingent lease under those leasing agreements and no sublease payments received by the Company. The leases expire at various dates to August 2020, and include renewal provisions.

22.2 Payments recognized as an expense

	Year ended December 31, 2011	Year ended December 31, 2010
Minimum lease payments for premises	$ 724,129	$ 727,306
Office equipment	$ 6,688	$ 6,688

22. Operating lease arrangements (continued)

22.3 <u>Non-cancellable operating lease commitments</u>

	December 31, 2011	December 31, 2010
Not later than 1 year	**$ 741,186**	$ 733,407
Later than 1 year and not later than 5 years	**2,120,373**	2,532,454
Later than 5 years	**814,973**	1,092,705
	$ 3,676,532	$4,358,566

23. Risk management

23.1 Capital management

The Company's objective in managing capital is to ensure sufficient liquidity to pursue its growth while at the same time taking a conservative approach towards financial leverage and financial risk.

The Company's capital is composed of net debt and shareholders' equity. Net debt consists of interest-bearing debt less cash. The Company's primary uses of capital are to finance increases in non-cash working capital and capital expenditures for capacity expansion and integration.

The Company's primary measure to monitor financial leverage is Debt to Earnings before Interest, Taxes, Depreciation and Amortization ("EBITDA").

Credit facility arrangements require that the Company meet certain financial ratios at fixed points in time. The financial ratios are:
- Working capital ratio, defined as current assets to current liabilities, of at least 1.1 to 1;
- Debt to equity ratio, defined as total debt excluding deferred taxes to equity, of no more than 3 to 1;
- Fixed charge coverage ratio, including all capital and interest payments on borrowings, of more than 1.5 to 1; and
- Interest bearing debt to EBITDA ratio of less than 3 to 1.

At the end of the reporting period, the interest bearing debt to EBITDA ratio was not met.

23.2 Foreign currency risk management

The Company faces foreign currency risk, given the Company has a portion of sales denominated in CAD whereas an important portion of the costs of raw material for these sales are in USD. The Company's sales in USD act as a hedge against this risk reducing overall exposure.

The Company also faces foreign currency risk through its foreign subsidiary Imaflex USA, whose functional currency is the USD. Imaflex does not specifically hedge this foreign currency risk.

The Company also has a portion of its long term debt in USD. The majority of the cash flows generated by the assets financed by these borrowings in USD are in USD.

The Company's management has decided not to hedge its foreign currency risks. The decision of whether or not to hedge its foreign currency risk is determined by the Company's net exposure, expected movements in the main currencies in which the Company transacts, important changes in the mix of currencies in which the Company transacts, the expected net cash flow in foreign currencies as well as availability of derivative financial instruments or additional debt in foreign currency at reasonable terms.

23. Risk management (continued)

23.2 Foreign currency risk management (continued)

As at December 31, 2011, the Company had the following financial assets and liabilities denominated in currencies other than its functional currency in its statement of financial position:

	December 31, 2011	December 31, 2010	January 1, 2010
Cash	**$ 53,890**	$ 273,683	$ 1,046,288
Trade receivables	**4,043,946**	3,449,015	2,860,506
Trade payables	**(3,491,025)**	(2,980,227)	(2,583,745)
Derivative financial instrument	**(49,068)**	(110,781)	(168,763)
Long term debt	**(1,126,877)**	(2,344,366)	(3,748,113)
Gross financial position exposure	**$ (569,134)**	$(1,712,676)	$(2,593,827)

Foreign currency sensitivity analysis:

The Company is exposed to fluctuations in the USD. A 5% appreciation of the CAD against the USD would impact its financial position by $28,456 for December 31, 2011 (December 31, 2010 - $85,634, January 1, 2010 – $129,691). Conversely a 5% depreciation of the CAD against the USD would have the opposite effect.

The sensitivity analysis above does not take into account the full impact of a change in the exchange rate between the CAD and the USD. The Company's sales to the United States tend to increase with a strengthening of the USD because Canadian goods are relatively cheaper to American customers. Also, the market for mulch film is primarily located in the United States and, as a consequence, trade receivables in American dollars would be greater if sales to growers in the United States increase.

23.3 Interest rate risk management

The Company's exposure to interest rate fluctuations is with respect to its short-term and long-term financing, which bear interest at floating rates.

At the reporting date, the carrying value of the Company's interest-bearing financial liabilities was as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Variable rate instruments			
Financial liabilities	$ 8,924,825	$ 11,856,350	$ 13,052,919
Derivative financial instrument			
Interest rate swap	49,068	110,781	168,763
Gross financial position exposure	$ 8,973,893	$ 11,967,131	$ 13,221,682

Sensitivity analysis

The Company is exposed to interest rate risk with respect to its variable rate non-derivative financial instruments and its interest rate swap. A 100 basis point increase in interest rates at the reporting date would result in an increase in cash outflows for the year ended December 31 2012 of approximately $83,671. Conversely a decrease would have the opposite effect.

23. Risk management (continued)

23.4 Liquidity risk management

Liquidity risk, the risk that the Company will not be able to meet its financial obligations as they fall due, is managed through the Company's capital structure and financial leverage. The Company obtains financing through a mix of share issuance on the capital markets and borrowing from financial institutions. An analysis of financial leverage is used to determine the required mix between the different sources of liquidity offered to the Company while keeping an acceptable risk level in the Company's leverage.

The Company ensures that it maintains sufficient cash flow to pay its obligations within the next 12 months. Cash flows generated from operations are matched to the liquidity required to meet its financial obligations for the sources of financing used to generate that cash flow.

The Company has an operating line of credit of up to $8,500,000, of which an amount of $5,627,248 was utilized as at December 31, 2011. Borrowings under the Company's operating line of credit bear interest at the bank's prime rate plus 2.3%. In order to ensure that this line of credit is sufficient to fund the Company's obligations, management follows the movements in the collateral against which the line of credit is given.

As at December 31, 2011, the carrying amount and undiscounted contractual cash flows for the Company's financial liabilities are as follows:

	Carrying amount	Contractual cash flow	1 year or less	2-5 years	More than 5 years
Non-derivative financial liabilities					
Bank indebtedness	**$5,627,248**	**$ 5,627,248**	**$5,627,248**	**$ -**	**$ -**
Long term debt	**3,297,577**	**3,297,577**	**751,790**	**2,545,787**	**-**
Interest on borrowings (1)	**-**	**312,428**	**112,930**	**199,498**	**-**
Finance leases (2)	**41,618**	**46,171**	**17,745**	**28,426**	**-**
Trade Payables (3)	**5,750,591**	**5,750,591**	**5,750,591**	**-**	**-**
Derivative financial liabilities					
Interest rate swap (1,4)	**49,068**	**51,077**	**41,165**	**9,912**	**-**
	$14,766,102	**$15,085,092**	**$12,301,469**	**$ 2,783,623**	**$ -**

(1) The interest on the long term debt and derivative is based on prevailing interest rates at the date of the consolidated statement of financial position.
(2) The contractual cash flow for finance leases includes interest on the borrowings.
(3) The accounts payable exclude the interest rate swap, presented separately and with payments settled on a net basis.
(4) The interest rate swap's undiscounted contractual cash flow is based on net settlements and assumes that the derivative financial instrument will be held until maturity.

23. Risk management (continued)

23.5 Fair value hierarchy

Financial instruments recorded at fair value on the consolidated statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level–1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level–2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices);

Level–3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The Company has determined its interest rate swap using level 2 valuation techniques using forward interest rates.

24. Subsidiaries

Details of the Company's subsidiaries at January 1, 2010, December 31 2010 and 2011 are as follows.

Name of subsidiary	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held
Imaflex USA	Manufacturing of plastic film	North Carolina, USA	100%

25. Related party transactions

Transactions with related parties

During the year, in the normal course of business, the Company had routine transactions with entities owned by shareholders of the Company. These transactions are measured at fair value, which is the amount of consideration established and agreed to by the related parties. Details of these transactions not disclosed elsewhere in these financial statements, are as follows:

	Twelve months ended	
	December 31, 2011	**December 31, 2010**
Rent	**$ 724,129**	$ 727,306
Management fees	**177,251**	157,554
	$ 901,380	$ 884,860

Rent is paid on the first day of the month for the following month and the management fees are paid upon receipt of the invoice, therefore there are rarely any amounts outstanding to related parties.

25. Related party transactions (continued)

Compensation of key management personnel

The table below details the compensation paid to the four key members of management, which include the Company's chief executive officer, the vice-president of operations, the production director and the corporate controller.

	Twelve months ended	
	December 31, 2011	**December 31, 2010**
Salary	**$ 429,623**	$ 485,550
Management fees	**177,251**	157,554
Short-term employee benefits	**2,981**	2,944
Share based compensation	**10,399**	-
Post-employment benefits – State-run plans	**8,093**	9,137
Other benefits	**26,065**	21,787
	$ 654,412	$ 676,972

26. Subsequent events

On February 29 2012, Imaflex USA acquired the operations of a North Carolina-based converter through an asset purchase of production equipment that will enable partial vertical integration of its activities for a total consideration of $1,883,596 (USD$1,903,584). This acquisition is expected to permit a higher usage of the Company's extrusion equipment in its Thomasville, North Carolina plant and will generate savings to the acquired assets' production.

The acquisition is comprised of an immediate cash payment of $989,500 (USD$1,000,000), a non-interest bearing balance of sale of $894,096 (USD$904,584), payable on the two-year anniversary date of the acquisition. The balance of sale can be settled in cash or through the issuance of shares of the Company at a fixed value of $1 per share. Based on the Company's current trading price, it is currently estimated that the balance of sale will be recorded as a liability. The Company also repaid debt relating to the purchased equipment for a total of $27,820.

The purchase price was calculated as follows:

Immediate cash payment	$ 989,500
Balance of sale	894,096
	$1,883,596

The allocation of the purchase price to assets acquired, on a provisional basis, pending the completion of the valuation of assets acquired, is as follows:

Accounts receivable	$ 573,574
Inventory	330,076
Production equipment	1,088,450
Customer relationships	272,036
Goodwill	389,632
Liabilities assumed:	
Debt related to equipment	(27,820)
Accounts payable	(742,352)
	$1,883,596

26. Subsequent events (continued)

Based on the seller's past history in collecting accounts receivable, all acquired accounts receivable are expected to be collected. The Asset Purchase Agreemen ("PA") provides for a deduction from the balance of sale for any material amount of uncollectable accounts receivable. Based on the open orders on hand, the inventory is expected to be realizable in its entirety. The production equipment includes all the equipment that the seller was using at its production facility.

The customer relationships represent the value of the seller's current business which is expected to continue after the acquisition date. The goodwill includes the value of the assembled workforce, the current organization of the plant for which the Company does not have to incur any additional expenses and the synergies that can be created through the combination of the production assets through cost savings.

27. Approval of the consolidated financial statements

The consolidated financial statements were approved by the board of directors and authorized for issue on April 19, 2012.

28. Adoption and transition to International Financial Reporting Standards ("IFRS")

Standards and Interpretations affecting amounts reported

As a consequence of the replacement of GAAP by IFRS for publicly accountable enterprises, Imaflex's consolidated financial statements for the years ending December 31, 2011 and 2010 were prepared in accordance with applicable international accounting standards. These are the first annual consolidated financial statements prepared in accordance to IFRS. These consolidated financial statements have been prepared in accordance with IFRS 1 *First-time adoption of IFRS* and IAS 1 *Presentation of financial statements*.

IFRS 1 requires first-time adopters to retrospectively apply all IFRS effective at the end of the first annual financial statements under IFRS, which for Imaflex are those for the year ended December 31, 2011 after taking into consideration the applicable exemptions and exceptions to retrospective application. As a result, the accounting policies described in note 2 are based on IFRS effective as at December 31, 2011 and have been applied in preparing the consolidated financial statements for the year ended December 31, 2011, the comparative information for the year ended December 31, 2010 and the opening consolidated statement of financial position at January 1, 2010, our transition to IFRS.

Exemptions from full retrospective application of IFRS

Under IFRS 1, the Company elected to apply the following exemptions:

Business combinations – IFRS 3, Business Combinations:
Imaflex has elected to apply the requirements of IFRS 3, *Business Combinations* prospectively as of the transition date.

Cumulative translation differences
Retrospective application of IFRS would have required Imaflex to determine cumulative currency translation differences in accordance with IAS 21, *The Effects of Changes in Foreign Exchange Rates*, from the date a subsidiary was formed or acquired. IFRS 1 permits cumulative translation gains or losses to be reset to zero at the transition date. Imaflex elected to reset all cumulative translation gains and losses to zero as at January 1st 2010 through a reclassification to opening retained earnings at the transition date.

28. Adoption and transition to International Financial Reporting Standards ("IFRS") (continued)

Borrowing Costs
IAS 23 *Borrowing Costs* (Revised 2007) requires an entity to capitalize the borrowing costs related to all the qualifying assets for which the commencement date for capitalization is on or after January 1, 2009. Early adoption is permitted. IFRS 1 permits adoption of IAS 23 as of the transition date if later than January 1, 2009. Imaflex elected to use this option, thus borrowing costs related to the qualifying assets for which the commencement date is prior to January 1, 2010 are expensed, and those with a commencement date subsequent to January 1, 2010, are capitalized.

Fair value as deemed cost
IFRS 1 provides a choice between measuring property, plant and equipment at its fair value at the date of transition and using those amounts as deemed cost. Imaflex continued to apply the cost model for property, plant and equipment. As such, we did not restate property, plant and equipment to fair value under IFRS.

Mandatory Exceptions

Estimates
Hindsight is not used to create or revise estimates. The estimates previously made under GAAP cannot be revised for the application of IFRS except where necessary to reflect any difference in accounting policies.

Reconciliation of opening statement of financial position from GAAP to IFRS

Impact on consolidated statement of comprehensive income (loss) – The transition to IFRS did not have any material impact to the consolidated statement of comprehensive income (loss) for the year ended December 31, 2010 except for the presentation by function.

Impact on consolidated statement of cash flow – The transition to IFRS did not have a material impact on the Company's consolidated cash flow statement for the year ended December 31, 2010, with the exception of the current income tax expense, which is now included as an adjustment to the profit for the period, while it was previously included in the movements of non-cash working capital and with the exception of the interest paid, which is now presented separately in the cash flows from operating activities.

28. Adoption and transition to International Financial Reporting Standards (“IFRS”) (continued)

The following table provides details of the reconciliation of the opening financial position from GAAP to IFRS as at January 1, 2010.

	GAAP January 1, 2010	Adjustment	Note	IFRS January 1, 2010
Assets				
Current assets				
Cash and bank balances	$ 964,188	-		$ 964,188
Trade and other receivables	7,066,890	-		7,066,890
Inventories	10,833,855	-		10,833,855
Prepaid expenses	18,788	-		18,788
Total current assets	18,883,721	-		18,883,721
Non-current assets				
Property, plant and equipment	16,631,471	-		16,631,471
Total assets	$35,515,192			$35,515,192
Equity and liabilities				
Current liabilities				
Bank indebtedness	$ 5,959,204	-		$ 5,959,204
Trade and other payables	5,151,104	(168,763)	A	4,982,341
Derivative financial instrument		168,763	A	168,763
Current tax liabilities	328,423	-		328,423
Long-term debt, current portion	2,922,419	4,171,296	C	7,093,715
Finance leases, current portion	53,686	48,829	C	102,515
	14,414,836			18,634,961
Non-current liabilities				
Long-term debt, non-current portion	4,171,296	(4,171,296)	C	-
Finance leases, non-current portion	48,829	(48,829)	C	-
Deferred tax liabilities	936,252	-		936,252
Total non-current liabilities	5,156,377			936,252
Capital and reserves				
Share Capital	7,829,165	-		7,829,165
Contributed Surplus	322,500	(322,500)	E	-
Reserves	-	322,500	E	322,500
Accumulated other comprehensive loss	(244,090)	244,090	D	-
Retained earnings	8,036,404	(244,090)	D	7,792,314
Total equity	15,943,979			15,943,979
Total equity and liabilities	$ 35,515,192			$35,515,192

28. Adoption and transition to International Financial Reporting Standards ("IFRS") (continued)

The following table provides details of the reconciliation of the opening financial position from GAAP to IFRS as at December 31, 2010.

	GAAP December 31, 2010	Adjustment	Note	IFRS December 31, 2010
Assets				
Current assets				
Cash and bank balances	$ 82,031	-		$ 82,031
Trade and other receivables	8,284,584	-		8,284,584
Inventories	8,962,205	-		8,962,205
Prepaid expenses	13,536	-		13,536
Total current assets	17,342,356	-		17,342,356
Non-current assets				
Property, plant and equipment	15,662,776	-		15,662,776
Total assets	$33,005,132			$33,005,132
Equity and liabilities				
Current liabilities				
Bank Indebtedness	$ 6,338,764	-		$ 6,338,764
Trade and other payables	5,941,714	(110,781)	A	
		(115,000)	B	5,715,933
Derivative financial instrument	-	110,781	A	110,781
Income taxes payable	39,242	-		39,242
Long-term debt, current portion	2,409,829	3,107,757	C	5,517,586
Finance leases, current portion	12,462	42,512	C	54,974
Provisions	-	115,000	B	115,000
Total non-current liabilities	14,742,011			17,892,280
Non-current liabilities				
Long-term debt, non-current portion	3,107,757	(3,107,757)	C	-
Finance leases, non-current portion	42,512	(42,512)	C	-
Deferred tax liabilities	1,087,004	-		1,087,004
Total non-current liabilities	4,237,273			1,087,004
Capital and reserves				
Share Capital	7,829,165	-		7,829,165
Contributed Surplus	322,500	(322,500)	E	-
Reserves	-	322,500	E	154,885
		(167,615)	E	
Accumulated other comprehensive loss	(411,705)	244,090	D	-
		167,615	E	
Retained earnings	6,285,888	(244,090)	D	6,041,798
Total equity	14,025,848			14,025,848
Total equity and liabilities	$33,005,132			$33,005,132

28. Adoption and transition to International Financial Reporting Standards ("IFRS") (continued)

The following table reconciles total equity as at January 1, 2010 and December 31, 2010.

	Note	January 1, 2010	December 31, 2010
Total equity as reported under previous GAAP		$ 15,943,979	$ 14,025,848
Reclass of cumulative translation adjustments losses from accumulated other comprehensive income	D, E	244,090	411,705
Reclass of cumulative translation adjustments losses to retained earnings	D	(244,090)	(244,090)
Reclass from contributed surplus to reserves	E	(322,500)	(322,500)
Reclass of contributed surplus to reserves	E	322,500	322,500
Reclass of accumulated other comprehensive income to reserves	E	-	(167,615)
Total equity as reported under IFRS		$ 15,943,979	$ 14,025,848

A- The Company as at the date of transition recognized its financial derivative to a separate item in the consolidated statement of financial position, under GAAP, it was included in trade and other payables.

B- The Company as at the date of transition recognized the provision to a separate item in the consolidated statement of financial position, under GAAP, it was included in trade and other payables.

C– As at January 1, 2010, the Company was in breach of certain covenants relating to its credit facilities. IFRS requires a Company to have obtained, on or before the end of the reporting period, an unconditional right to defer settlement for at least twelve months after that date. The waiver covering fiscal 2009 was only obtained on March 3, 2010, after the January 1, 2010 reporting period. Consequently, all long term debt and obligations under capital leases were reclassed to current liabilities.

As at December 31, 2010, the Company was in breach of certain covenants relating to its credit facilities. On April 21, 2011, the Company renewed its credit facility under which terms the Company was not in breach. Consequently, the long term debt and obligations under capital leases that were presented as long term in the Company's consolidated financial statements for the year ended December 31, 2010 under GAAP were reclassed to short term liabilities.

D – In accordance with IFRS 1, Imaflex elected to reset all cumulative translation gains and losses to zero at the transition date. As a result, the balance of the cumulative translation losses was reclassed to retained earnings on January 1, 2010.

E- In accordance with IAS 1, Imaflex reclassed amounts presented as contributed surplus and accumulated other comprehensive income to various reserve accounts as at the date of transition.

OFFICERS

Joseph Abbandonato,
President and Chief Executive Officer

Tony Abbandonato,
Production Director and Secretary

Gerry Phelps,
Vice-President, Operations

Giancarlo Santella, CA
Corporate Controller

BOARD OF DIRECTORS

The Board of Directors establishes the objectives and the long-term direction of the Company. The Board meets regularly throughout the year to review progress towards achievement of the Company's goals and to recommend policies and procedures directed at optimizing performance.

Joseph Abbandonato,
Chairman and President

Consolato Gattuso,
Partner, Mitchell Gattuso, General Partnership

Camillo Lisio,
Corporate Director

Michel Baril,
Corporate Director

Philip Nolan,
Partner, Lavery, de Billy

Gerry Phelps,
Vice-President, Operations

Gilles Émond, CMA, CA
Corporate Director

SHAREHOLDER INFORMATION

Audit and Compensation Committee: Gilles Émond, CMA, CA, Chairman; Michel Baril; Philip Nolan

Auditors: Deloitte & Touche LLP, Montréal, Québec

Legal Counsel: Lavery, de Billy, Montréal, Québec

Listing: Imaflex Inc. shares are listed as IFX.A on the TSX Venture Exchange

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Website:	www.imaflex.com
Subsidiaries:	Imaflex USA, Inc.

ANNUAL MEETING OF SHAREHOLDERS

The Annual Meeting of Shareholders will be held on Thursday, June 21st, 2012 at 3 p.m. at the Hyatt Regency Montreal, Creation Room, level 6, 1255 Jeanne-Mance, Montreal, Quebec H5B 1E5