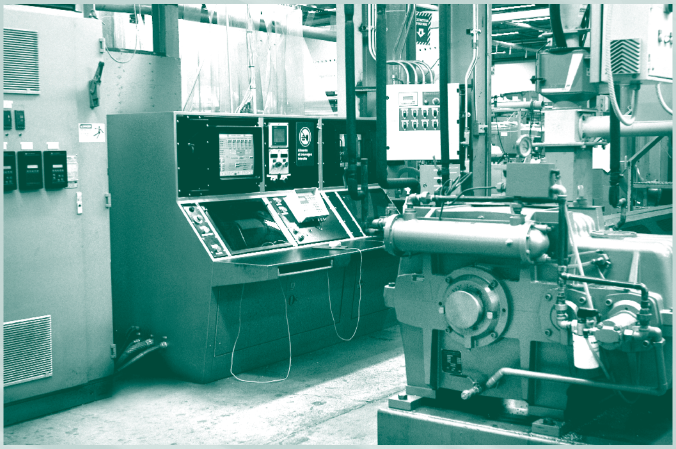
ANNUAL REPORT
2013

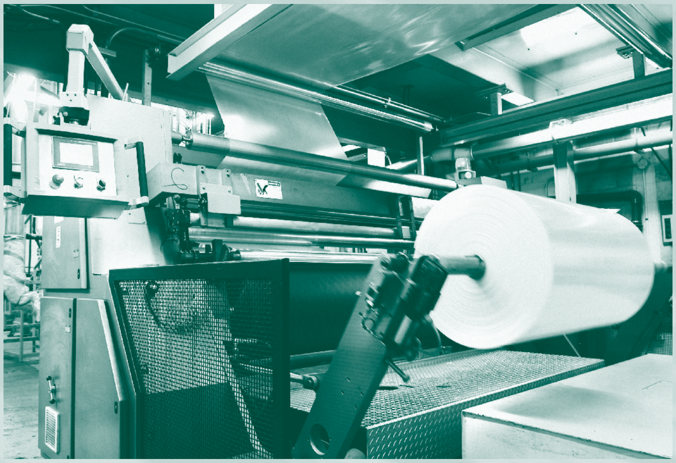
IMAFLEX
Committed to Excellence

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 CERTIFIED • CERTIFIÉ

Committed to Excellence

As required by regulators, the purpose of this MD&A is to explain management’s point of view on Imaflex Inc.’s (the “Parent Company”) 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 consolidated financial statements for the years ending December 31, 2013 and 2012 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. Differences may occur due to the rounding of amounts for the presentation in thousands of dollars. In this MD&A we also use financial measures that are not defined by IFRS. Please refer to the section entitled “Non-IFRS Financial 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. operations 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 16, 2014.

COMPANY OVERVIEW

The Company operates in one reportable segment being the development, manufacture and sale of packaging materials. The results herein 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 and bags 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 plastic film.

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

NON-IFRS FINANCIAL MEASURES

The Company's management uses a non-IFRS financial 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 net income (loss).

Reconciliation of EBITDA to net income (loss):

($ thousands, except per share data)	**Three months ended**		**Years ended**	
	December 31, 2013	December 31, 2012	**December 31, 2013**	December 31, 2012
Net income (loss)	**$ (184)**	$ (146)	**$ 207**	$ (568)
Plus:				
Income taxes	**135**	195	**469**	298
Finance expense	**116**	122	**444**	509
Depreciation and amortisation	**330**	313	**1,222**	1,261
Change in fair value of derivative financial instrument	**-**	(7)	**(10)**	(38)
EBITDA	**$ 397**	$ 477	**$ 2,332**	$ 1,462
Basic and diluted EBITDA per share *	**$ 0.009**	$ 0.011	**$ 0.053**	$ 0.034

*Basic weighted average number of shares outstanding of 44,201,276 for the quarter ended December 31, 2013 (42,601,276 in 2012) and 43,644,564 for the year ended December 31, 2013 (42,437,341 in 2012). Diluted weighted average number of shares outstanding of 44,279,934 for the quarter ended December 31, 2013 (42,649,519 in 2012) and 43,714,686 for the year ended December 31, 2013 (42,487,091 in 2012).

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 net income 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 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 that are sold for a variety of uses, including garbage bags. Additionally, the Company produces specialized metallized film for specific agricultural usage.

Imaflex operates four manufacturing facilities, two of which are located in the Province of Québec, in Montréal and in Victoriaville, and two others located in Thomasville, North Carolina, in the United States. The four facilities cover a total area of approximately 22,800 square meters or 228,000 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 to our customers 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.

In order to accelerate the commercial adoption of its existing US-EPA qualified ultrathin agricultural barrier films, Imaflex is ensuring that its internal sales organization is technically accomplished and can properly communicate the competitive advantages of its barrier films.

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. operations; 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 and 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.

GENERAL SITUATION OF THE POLYETHYLENE BLOWN FILM MARKET

Pricing for polyethylene increased slightly in the fourth quarter of 2013 and, as several other competitors have experienced, continued increases in the upcoming year may negatively impact our results given our limited ability to immediately pass on price increases to customers.

LOSS OF BUSINESS FROM A SIGNIFICANT CUSTOMER

One of our business strategies has been to limit the purchases of any particular customer to less than 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. 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 end-market peaks twice yearly. Inventory is managed in a way to optimize cash flow while remaining able to react to any market opportunities that present themselves. 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 experienced a significant increase in borrowing costs although additional long term financing, albeit at interest rates reflecting current market conditions, may lead to an increased interest expense. Although it is possible that a future increase in interest rates will impact our finance expense, payments on our current outstanding long term debt should offset the increase in interest rates in the medium term.

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. As the Company has grown, it has strengthened its 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. However management continuously monitors the Company’s foreign exchange exposure. The analysis of the Company’s exposure for the fourth quarter of 2013 has resulted in management deciding not to hedge the Company’s foreign exchange risk as the impact on the Company’s cash flow is sufficiently hedged through the Company’s operations.

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

Sales have continued to show improvements in the fourth quarter of 2013 compared to the same period in 2012. The sales of mulch film experienced double-digit growth in volume and revenue over the year notwithstanding the sharp rise in commodity prices. The additional sales generated by the assets acquired in 2012 also contributed to the improvement. Management made decisions that mitigated the positive effect that this growth could have had: production costs increased, as much due to the strengthening of the US dollar causing our raw material costs to increase, as to the increase in production salaries.

RESULTS OF OPERATIONS (continued)

Administrative and selling expenses also continued to increase in 2013 compared to the same period in 2012. The mulch film business required investments during 2013, mainly focused on the addition of new leadership, innovative product developments and creating additional support for the commercialisation of current product lines. Management anticipates that, driven by economic and environmental needs, the demand for its current mulch films in 2014 will remain similar to 2013: weather-related seasonal sales fluctuations, increasing raw material prices and, due to stronger competition, the limited ability to entirely pass on these increases to customers. To counter these threats, in 2014 Imaflex will focus on accelerating the adoption of its current mulch films, optimising product recipes and processes to reduce production costs without sacrificing product quality.

($ thousands)	**Three months ended**		**Years ended**	
	December 31, 2013	December 31, 2012	**December 31, 2013**	December 31, 2012
Sales	**$13,866**	$12,092	**$56,052**	$47,269

During the fourth quarter of 2013, sales increased by $ 1,774,000, or 14.7%, compared to 2012. This increase is mainly explained by additional sales from our operations in the United States, by increased sales of metallized mulch and packaging film and by a stronger US dollar.

Sales in fiscal 2013 increased by $ 8,783,000, or 18.6%, over fiscal 2012. This increase is mainly the result of management's efforts to grow the top line in order to gain new business and fill production capacity. Management's success is largely attributable to effectively implementing its recent focus on business development and the materializing of opportunities that were developed in the past in the markets that were deemed to be prioritized. The strengthening of the US dollar against the Canadian dollar also contributed to the increase in reported sales, although to a lesser extent.

($ thousands)	**Three months ended**		**Years ended**	
	December 31, 2013	December 31, 2012	**December 31, 2013**	December 31, 2012
Gross Profit ($) before amortisation of production equipment	**$1,416**	$1,555	**$6,893**	$5,843
(%)	**10.2%**	12.9%	**12.3%**	12.4%
Amortisation of production equipment	**305**	257	**1,130**	1,039
Gross profit ($)	**$1,111**	$1,298	**$5,763**	$4,804
Gross profit (%)	**8.0%**	10.7%	**10.3%**	10.2%

RESULTS OF OPERATIONS (continued)

The gross profit before amortisation of production equipment decreased by $ 139,000 due to a generally higher cost structure in the fourth quarter of 2013 compared to 2012. This was necessary in order to accommodate increased production that materialized as well as the increased production that is expected for 2014. Management believes that efficiency, and consequently profitability, will improve as sales are obtained. The Company was also negatively impacted by a stronger US dollar that put pressure on the gross margin. In order to improve its top line, management accepted to temporarily sacrifice profitability. As a percentage of sales, the gross margin also decreased from 12.9% to 10.2%. Due to new equipment, the amortization of production equipment increased from $ 257,000 in the fourth quarter of 2012 to $ 305,000 in the fourth quarter of 2013. The gross profit decreased from $ 1,298,000 in 2012 to $ 1,111,000 in 2013.

In fiscal 2013, the gross margin before the amortisation of production equipment increased by $ 1,050,000, while as a percentage of sales it remained fairly constant, going from 12.4% in 2012 to 12.3% in 2013. The increased profitability was attributed to the increase in sales. Profitability would have been much greater had management chose to delay the costs to enable the Company to position itself as an aggressive player in the agricultural film market. The medium term benefit of this strategy will benefit the Company via increased revenues on its existing product line. The potential long term greater benefits of its proprietary products will be realized in the long run. The purchase of additional machinery over the year increased the depreciation expense and the gross margin after the amortisation of production equipment increased by $ 959,000, while remaining fairly stable as a percentage of sales, from 10.2% in 2012 to 10.3% in 2013.

($ thousands)	**Three months ended**		**Years ended**	
	December 31, 2013	December 31, 2012	**December 31, 2013**	December 31, 2012
Selling and administrative	**$1,316**	$1,090	**$5,035**	$4,266
As a % of sales	**9.5%**	9.0%	**9.0%**	9.0%

Selling and administrative expenses increased by $226,000 in the fourth quarter of 2013 compared to 2012. As a percentage of sales, these expenses also increased from 9.0% in 2012 to 9.5% in 2013. This increase is mainly attributable to an additional management position as well as additional expenses relating to the development of Imaflex’s new proprietary product. Additional professional services and the increase in sales, generating higher commission expenses, also explain a portion of the increase.

Over the year, selling and administrative expenses increased by approximately $ 769,000, but remained stable as a percentage of sales at 9.0%. This is mainly attributable to the additional expenses and professional fees the Company incurred in order to pursue the development of new products that are to be introduced to the market, as well as new management, administrative and sales salaries. Higher sales leading to increased commission expenses also had an impact of approximately $100,000 on selling expenses. To a lesser extent, foreign exchange and additional professional service fees also contributed to this increase. These expenses permitted management to continue implementing its strategy in order to build strong foundations for growth.

RESULTS OF OPERATIONS (continued)

($ thousands)	**Three months ended**		**Years ended**	
	December 31, 2013	December 31, 2012	**December 31, 2013**	December 31, 2012
Finance expense	**$116**	$122	**$444**	$509

During the fourth quarter of 2013, the decrease in the finance expense is mainly attributable to a lower interest rate paid on short term debt. The Company also decreased the interest payments on long term debt due to generally lower balances outstanding.

During the twelve month period, the finance expense decreased by approximately $ 65,000, mainly because the balance outstanding on the Company’s long term debts decreased throughout the year and the overall expense on short term bank borrowings also decreased due to lower interest rates and a lower average balance outstanding.

($ thousands)	**Three months ended**		**Years ended**	
	December 31, 2013	December 31, 2012	**December 31, 2013**	December 31, 2012
Foreign exchange (gain)/loss	**$(302)**	$(94)	**$(529)**	$231

For both the three- and twelve-month periods, the foreign exchange gain is due to the appreciation of the US dollar against the Canadian dollar over the periods. Namely, the important increase over the fourth quarter led to a sizeable gain in the latter part of the year. An important portion of this gain is due to the foreign exchange movements on intercompany advances. The depreciation of the US dollar during the twelve month period in 2012 led to a $ 231,000 loss, creating a $ 760,000 swing year over year.

($ thousands)	**Three months ended**		**Years ended**	
	December 31, 2013	December 31, 2012	**December 31, 2013**	December 31, 2012
Income taxes	**$135**	$195	**$469**	$298
As a % of profit before taxes	**(275.5)%**	396.9%	**69.4%**	(110.6)%

The provision for income taxes, mainly representing the current and future taxes payable by the Canadian entity, totaled $ 135,000 for the fourth quarter of 2013. The implied effective rate of (275.5)% is explained by the fact that the Company incurred, on a consolidated basis, a very low pretax loss which includes a loss incurred for the US entity for which a taxable benefit is not recorded. In 2012, for reasons similar to the fourth quarter of 2013, the consolidated pretax income was low in comparison to the income tax provision, which included mainly the Canadian entity’s tax expense.

The income tax expense recorded for the 2013 fiscal year was $ 469,000 and represents an effective income tax rate of 69.4%. This effective rate is greater than the Company’s statutory tax rate because no taxable benefit was recorded for the losses incurred in the US entity. In 2012, the income tax expense was $ 298,000 and represented (110.6)% of pretax income because the Company incurred a loss before income taxes, although the Canadian entity generated taxable income.

RESULTS OF OPERATIONS (continued)

($ thousands, except per share data)	**Three months ended**		**Years ended**	
	December 31, 2013	December 31, 2012	**December 31, 2013**	December 31, 2012
Net (Loss) / income	**$ (184)**	$ (146)	**$ 207**	$ (568)
Basic and diluted earnings per share	**$ (0.004)**	$ (0.003)	**$ 0.005**	$ (0.013)

The increase in operating costs as well as selling and administrative expenses in order to plan for future growth did put pressure on earnings, however these measures were necessary in order to implement a strategy aimed at growing the business and developing new markets. The foreign exchange gain partially offset these increases such that the overall net loss for the quarter was $ 184,000 compared to a net loss of $ 146,000 during the fourth quarter of 2012.

For the year ended December 31, 2013, the Company's net profit was $ 207,000 as opposed to a loss of $ 568,000 in fiscal 2012. The increase in the gross margin, coupled with a decrease in the interest expense and the foreign exchange gains all had very positive impacts on overall profitability, despite increases in production costs. These improvements were partially offset by the increase in selling and administrative expenses. The Company's top line is headed in the right direction and is following management's strategy. As new products are introduced and additional sales generated in all of the Company's locations, the additional expenses will be offset by improved profitability. However, these results will not take place immediately.

Financial Position

December 31, 2013 vs. December 31, 2012

From December 31, 2012 to December 31, 2013, the Company's cash increased by $ 1,002,897 in order to be able to cover payments that are coming due early in 2014 for the business acquisition. The Company's short term assets also increased following the increase in sales, trade and other receivables by $ 131,436 and inventories by $ 307,764, while prepaid expenses decreased by $ 24,376 for a total increase in short term assets of $ 1,417,721. Non-current assets increased mainly as a result of continued investments.

Bank indebtedness increased by $ 1,334,806 as a result of the cash flow management, although a portion of it was offset by the increase in the Company's cash balance. Trade and other payables increased by $ 718,162 due to the growth the Company experienced. Given the Company was in breach of two financial covenants of its banking agreement, all long term debt and finance lease obligations were classified as current. However, the Company did obtain a tolerance for these breaches after December 31, 2013. IFRS requires that a Company obtain a waiver before the date of the statement of financial position in order to be able to classify debt in current and non-current liabilities. Nonetheless, having obtained a tolerance, management expects to repay its debt as it comes due. Excluding the impact of the classification of long term debt as current liabilities, the current portion of long term debt increased by $ 475,094, mainly due to the inclusion of the balance of sale in short term liabilities. Accordingly, the non-current portion of long term debt decreased by $ 1,459,425 and overall long term indebtedness decreased over the period.

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):

	Q4/13	Q3/13	Q2/13	Q1/13	Q4/12	Q3/12	Q2/12	Q1/12
Sales	13,866	15,203	14,186	12,797	12,092	11,157	12,202	11,818
Net income (loss)	(184)	(235)	396	230	(146)	(467)	149	(104)
Earnings (loss) per share:								
Basic and diluted	(0.004)	(0.005)	0.009	0.005	(0.003)	(0.011)	0.003	(0.002)

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, 2013 was $ 143,234 compared to $ 2,303,260 as at December 31, 2012, mostly due to the fact that all long term debt as well as the balance of sale for the business acquisition were classified as current liabilities on December 31, 2013. Had long term debt been classified according to the repayment schedule, working capital would have been $ 1,130,528. The Company's growth in 2013 required working capital investments, namely in inventories and trade receivables, which is why bank indebtedness and trade payables increased as well. Management closely manages capital requirements to ensure sufficient working capital. The Company obtained a waiver for the breach in covenants as at December 31, 2013 and therefore although working capital as per the statements of financial position is only $ 143,234, management does not expect to have any liquidity issues.

Cash Flows from Operating Activities

During the fourth quarter of 2013, cash inflows from operating activities, before changes in working capital and income tax payments, were $ 14,985, as the net loss of $ 184,395 was offset by adjustments for non-cash items and items excluded from operating activities totaling $ 199,380. Changes in working capital generated cash outflows of $ 30,532, mainly due to an important decrease in trade payables, which was offset by decreases in trade and other receivables and inventory. After the net income taxes paid of $ 9,339, operating activities generated cash outflows of $ 24,886. In 2012, cash inflows before changes in working capital were $ 362,257.

For the year ended December 31, 2013, net income was $ 206,802 and, after eliminating non-cash items and cash flow excluded from operating activities, such as the depreciation of non-current assets of $ 1,221,970 and the unrealized foreign exchange gain of $ 702,800, operating cash flow before movements in working capital was $ 1,663,277. Movements in working capital consisted of increases in current assets totaling $ 469,528 and an increase in trade and other payables of $ 613,876 for a total impact on cash flow of $ 144,348. Net of the payment of income taxes of $ 302,127, operating activities generated cash flows of $ 1,505,498. Cash flow from operating activities for the year ended 2012 were $ 1,597,601 before movements in working capital. After considering the changes in working capital and the income taxes paid, operating activities generated cash flows of $ 1,698,018.

LIQUIDITY (continued)

Cash Flows from Financing Activities

During the fourth quarter of 2013, cash inflows from financing activities totaled $ 704,226 and represented short term borrowings of $ 959,293, net of payments on long term debts and capital lease obligations of $ 130,280 and $ 21,418 respectively, as well as interest payments of $ 103,269. In 2012, cash flow from financing activities were composed of payments on long term debts of $ 149,776, as well as payments relating to capital lease obligations and interest, which were offset by a $ 363,706 increase in short-term borrowings.

During the year ended December 31, 2013, the Company made payments of $ 1,114,633 on its long term debts and $ 45,964 on its finance leases. Moreover, the Company paid $ 393,014 of interest on its borrowings. Cash flow generated by financing activities represented $ 800,000 through the issuance of shares of the Company and $ 1,334,806 through additional short term borrowings. In fiscal 2012, the Company repaid $ 739,642 on long term debt, $ 17,274 on finance leases and paid $ 470,120 in interest on its borrowings. It received $ 485,484 from the issuance of shares and warrants as well as $ 476,628 from short term borrowings.

Cash Flows from Investing Activities

During the fourth quarter of 2013, the Company made payments for property, plant and equipment of $ 472,626, representing mainly improvements to existing machinery as well as deposits on equipment that is to be received at a later date. These investments should enable the Company to improve efficiency in the medium term. In the fourth quarter of 2012, the Company incurred cash outflows for investing activities mainly for leasehold improvements.

During the year ended December 31, 2013, cash outflow from investing activities totaled $ 1,112,892. Mainly, the Company improved and upgraded existing machinery in order to increase efficiency. The Company also invested in leasehold improvements for its premises and made deposits on equipment to be shipped in the next fiscal year. In 2012, the Company incurred cash outflows related to a business acquisition of $ 989,500 as well as $ 558,489 related to leasehold improvements and other pieces of equipment.

CONTRACTUAL OBLIGATIONS

The contractual obligations as at December 31, 2013 were as follows:

($ thousands)	**Payments due by period**			
	Total	Less than 1 year	1 – 5 years	After 5 years
Long-term debt	$ 2,604	$ 1,647	$ 957	$ -
Finance leases	111	30	81	-
Operating leases	2,716	707	1,564	445
Bank Indebtedness	7,439	7,439	-	-
Total contractual obligations	**$ 12,870**	**$ 9,823**	**$ 2,602**	**$ 445**

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, 2013.

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 1.85%. The line of credit is secured by trade receivables and inventories. As at December 31, 2013, the Company had drawn $ 7,438,682 on its line of credit ($ 6,103,876 as at December 31, 2012). The Company's working capital decreased since December 31, 2012, going from $ 2,303,260 to $ 143,234, mostly due to the inclusion of all long term debt and the balance of sale on the business acquisition in current liabilities. Management believes it has sufficient capital to continue operating efficiently through the liquidity available in its working capital and the liquidity that will be generated by its operations and, given it obtained a tolerance for having breached its covenants, it does not believe that it will suffer liquidity problems due to the presentation of its long term debt in current liabilities. One long term loan came to maturity during the year and only one long term bank loan along with the balance of sale of the business acquisition were outstanding as at December 31, 2013. During the year, the Company managed liquidity in order to match its short term obligations, thus avoiding potential liquidity issues. In the second quarter of 2013, the Company issued $ 800,000 of shares and in January of 2014, the Company increased its long term borrowings. These measures were taken in order to decrease financial risk and avoid any potential liquidity issues.

PROPOSED TRANSACTION

The Company is currently considering a potential business acquisition aimed to increase the Company's profitability. There are no agreements currently signed and the Company has no commitment to complete this transaction. Management is still in the process of determining if the target is a proper fit for the Company's operations and any closing is conditional upon obtaining the required financing to complete the transaction.

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 recorded for the periods ended December 31, 2013 and 2012. For additional information, please refer to note 25, *Related party transactions* of the "Notes to the consolidated financial statements" for the years ended December 31, 2013 and 2012.

($ thousands)		**Three months ended**		**Years ended**	
		December 31, 2013	December 31, 2012	**December 31, 2013**	December 31, 2012
Professional fees	**(a)**	**$ 29**	$101	**$305**	$359
Rent	**(b)**	**$231**	$218	**$795**	$798

(a) Professional fees include transactions with Polytechnomics Inc., of which Gerald R. Phelps, Imaflex's Vice-President – Operations, is the controlling shareholder and with Philip Nolan, a director of Imaflex, who is also a partner at Lavery de Billy L.L.P.

(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 years ended December 31, 2013 and 2012. This note explains the Company’s accounting policies under IFRS and all changes in accounting policies since the Company’s last annual financial statements.

FINANCIAL INSTRUMENTS

Please refer to note 22, *Financial instruments* of the consolidated financial statements for the years ended December 31, 2013 and 2012 for disclosure on the Company’s financial instruments as well as note 24, *Risk management* for a discussion on the risks the Company is exposed to and how they are managed.

As at December 31, 2013, the fair value of the interest rate swap was $ nil (December 31, 2012 – $ 9,745) given it came to maturity during the year, and a charge to the income statement under other gains and losses was recorded for all movements in the fair value of the swap since the last reporting period. As at December 31, 2013, the Company is not using any swap, forward or hedge accounting.

During the first quarter of 2013, the Company issued 100,000 options to purchase common shares of the Company to a provider of professional services. As a continuity of the same service contract, the Company issued another 100,000 options in the third quarter of 2013. As at December 31, 2013, 300,000 options to purchase shares of the Company were outstanding, 100,000 at a strike price of $0.125, 100,000 at a strike price of $ 0.36 and 100,000 at a strike price of $0.40. Of these 300,000 options, 250,000 were exercisable. As at December 31, 2013, 3,251,274 warrants entitling the owner to purchase common shares at $0.45 were outstanding. A maximum of 1,000,000 shares can be issued if the balance of sale of the business acquisition is settled in shares as the implied value of the settlement is USD$ 1 per share.

MANAGEMENT OUTLOOK

During the year, management continued to implement its plan of growing revenues in its legacy business in order to generate increased profitability to cope with required future investments in product developments: growing sales and purchasing more efficient equipment to generate more profitability. To date, our results reflect the partial accomplishment of the plan. The part of the plan that depends on more productive equipment will be completed as they are received in the first half of 2014.

Management’s decision to effectuate this plan of growing its legacy business is necessitated by the ever increasing needs of providing the future funds necessary to achieve its objectives of registering the patent and launching its proprietary product.

OUTSTANDING SHARE DATA

As at the date of this report, the Company had 44,201,276 common shares outstanding (42,601,276 as at December 31, 2012).

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 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.

(s) Joseph Abbandonato	***(s) Giancarlo Santella***
Joseph Abbandonato	Giancarlo Santella, CPA, CA
President and Chief Executive Officer	Corporate Controller

April 16, 2014

Consolidated Financial Statements of

IMAFLEX INC.

Years ended December 31, 2013 and 2012

Raymond Chabot Grant Thornton

Raymond Chabot Grant Thornton LLP
Suite 2000
National Bank Tower
600 De La Gauchetière Street West
Montréal, Quebec H3B 4L8

Telephone: 514-878-2691
Fax: 514-878-2127
www.rcgt.com

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 statement of financial position as at December 31, 2013 and the consolidated statements of comprehensive income (loss), changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) 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 audit. We conducted our audit 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 audit 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, 2013 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Other matters

The consolidated financial statements of Imaflex Inc. as at and for the year ended December 31, 2012 were audited by another auditor who expressed an unmodified opinion on those statements on April 16, 2013.

Raymond Chabot Grant Thornton LLP[1]

Montreal
April 16, 2014

[1] CPA auditor, CA public accountancy permit No. A105359

Consolidated statements of comprehensive income (loss)

for the years ended		December 31,	
(in Canadian dollars)		**2013**	**2012**
Revenues	(Note 5.1)	**$ 56,051,618**	$ 47,268,941
Cost of sales		**50,288,863**	42,464,524
Gross profit		**5,762,755**	4,804,417
Expenses:			
Selling		**1,384,124**	1,207,676
Administrative		**3,650,636**	3,058,410
Finance costs	(Note 8)	**443,708**	509,179
Other gains and losses	(Note 9)	**(538,588)**	192,768
Other		**147,288**	106,137
		5,087,168	5,074,170
Income (loss) before income taxes		**675,587**	(269,753)
Income taxes	(Note 10)	**468,785**	298,458
NET INCOME (LOSS)		**206,802**	(568,211)
Other comprehensive income (loss), net of income taxes			
Item that will be reclassified subsequently to net income (loss)			
Exchange differences on translating foreign operations		**142,811**	(72,013)
COMPREHENSIVE INCOME (LOSS)		**$ 349,613**	$(640,224)
Earnings (loss) per share			
Basic and diluted	(Note 11)	**$ 0.005**	$ (0.013)

The accompanying notes are an integral part of these consolidated financial statements and note 6 presents additional information on consolidated comprehensive income (loss)

Consolidated statements of financial position

As at (in Canadian dollars)		December 31, 2013	December 31, 2012
Assets			
Current assets			
Cash		**$ 1,129,891**	$ 126,994
Trade and other receivables	(Note 12)	**8,876,749**	8,745,313
Inventories	(Note 13)	**7,183,738**	6,875,974
Prepaid expenses		**88,801**	113,177
Total current assets		**17,279,179**	15,861,458
Non-current assets			
Property, plant and equipment	(Note 14)	**16,131,997**	15,493,915
Intangible assets	(Note 15)	**713,030**	640,920
Other receivables	(Note 12)	**321,038**	-
Total non-current assets		**17,166,065**	16,134,835
Total assets		**$ 34,445,244**	$ 31,996,293
Liabilities and equity			
Current liabilities			
Bank indebtedness	(Note 17)	**7,438,682**	6,103,876
Trade and other payables	(Note 16)	**6,851,670**	6,133,508
Derivative financial instrument		**-**	9,745
Current tax liabilities		**255,757**	173,268
Long-term debt, current portion	(Note 17)	**2,489,179**	1,101,425
Finance lease obligations, current portion	(Notes 17, 18)	**100,657**	36,376
Total current liabilities		**17,135,945**	13,558,198
Non-current liabilities			
Long-term debt	(Note 17)	**-**	2,372,085
Deferred tax liabilities	(Note 10)	**1,353,259**	1,269,090
Finance lease obligations	(Notes 17, 18)	**-**	25,263
Total non-current liabilities		**1,353,259**	3,666,438
Total liabilities		**18,489,204**	17,224,636
Equity			
Share capital	(Note 19)	**9,368,452**	8,568,452
Reserves		**833,548**	655,967
Retained earnings		**5,754,040**	5,547,238
Total equity		**15,956,040**	14,771,657
Total liabilities and equity		**$ 34,445,244**	$ 31,996,293

Operating lease commitments (Note 23.3)

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
For the years ended December 31, 2013 and 2012
(in Canadian dollars)

		Reserves						
	Share capital (a)	Share-based compensation	Accumulated foreign currency translation	Warrants	Other	Total Reserves	Retained earnings	Total
Balance at January 1, 2012	$ 8,092,323	$ 332,899	$ (101,116)	$ 236,842	$ 250,000	$ 718,625	$ 6,115,449	$ 14,926,397
Net loss for the year	-	-	-	-	-	-	(568,211)	(568,211)
Exchange differences on translating foreign operations	-	-	(72,013)	-	-	(72,013)	-	(72,013)
Comprehensive loss for the year	-	-	(72,013)	-	-	(72,013)	(568,211)	(640,224)
Transactions with owners:								
Issuance of share capital and warrants (Note 19)	476,129	-	-	259,355	(250,000)	9,355	-	485,484
Balance at December 31, 2012	$ 8,568,452	$ 332,899	$ (173,129)	$ 496,197	$ -	$ 655,967	$ 5,547,238	$ 14,771,657
Net income for the year	-	-	-	-	-	-	**206,802**	**206,802**
Exchange differences on translating foreign operations	-	-	**142,811**	-	-	**142,811**	-	**142,811**
Comprehensive income for the year	-	-	**142,811**	-	-	**142,811**	**206,802**	**349,613**
Transactions with owners:								
Issuance of share capital (Note 19)	**800,000**	-	-	-	-	-	-	**800,000**
Share-based compensation (Note 20)	-	**34,770**	-	-	-	**34,770**	-	**34,770**
Balance at December 31, 2013	**$9,368,452**	**$ 367,669**	**$ (30,318)**	**$ 496,197**	**$ -**	**$ 833,548**	**$ 5,754,040**	**$ 15,956,040**

(a) Additional detail of share capital is provided in Note 19
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, 2013	2012
Operating activities:		
Net income (loss) for the year	**$ 206,802**	$ (568,211)
Income tax expense	**468,785**	298,458
Change in fair value of derivative financial instrument	**(9,958)**	(38,441)
Depreciation and amortisation of non-current assets	**1,221,970**	1,261,483
Finance costs	**443,708**	509,179
Share-based compensation	**34,770**	-
Unrealized foreign exchange (gain) loss	**(702,800)**	135,133
	1,663,277	1,597,601
Net changes in working capital		
(Increase) decrease in trade and other receivables	**(374,940)**	228,238
(Increase) decrease in inventories	**(123,853)**	291,745
Decrease (increase) in prepaid expenses	**29,265**	(101,174)
Increase (decrease) in trade and other payables	**613,876**	(52,512)
	144,348	366,297
Cash generated by operations	**1,807,625**	1,963,898
Net income taxes paid	**(302,127)**	(265,880)
Net cash generated by operating activities	**1,505,498**	1,698,018
Investing activities:		
Business acquisition (Note 26)	**-**	(989,500)
Payments for property, plant and equipment and intangible assets	**(1,112,892)**	(558,489)
Net cash used in investing activities	**(1,112,892)**	(1,547,989)
Financing activities:		
Increase in bank indebtedness	**1,334,806**	476,628
Interest paid	**(393,014)**	(470,120)
Repayment of long-term debt	**(1,114,633)**	(739,642)
Issuance of share capital and warrants (Note 19)	**800,000**	485,484
Repayment of finance leases	**(45,964)**	(17,274)
Net cash generated by (used in) financing activities	**581,195**	(264,924)
Net increase (decrease) in cash	**973,801**	(114,895)
Cash, beginning of the year	**126,994**	243,808
Effects of foreign exchange differences on cash	**29,096**	(1,919)
Cash, end of the year	**$ 1,129,891**	$ 126,994

Non cash transactions (Note 21)

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

1. General information

Imaflex Inc. (“the Parent 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 Parent Company and its subsidiary (together referred to as the “Company”) consist in the manufacture and sale of products for the flexible packaging industry, including polyethylene film and bags, as well as the metallization of plastic film for the plasticulture and packaging industries. The common shares of the Parent Company are listed for trading on the TSX Venture Exchange under the symbol “IFX”.

2. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

2.1 Basis of presentation and statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) in effect on December 31, 2013. The consolidated financial statements were approved by the board of directors and authorized for issue on April 16, 2014.

2.2 Basis of measurement

The consolidated financial statements have been prepared using the historical cost basis except for certain derivative financial instruments for which the measurement basis is detailed in the respective accounting policy.

2.3 Changes in accounting policies

Presentation of items of other comprehensive income (loss)

Effective January 1, 2013, Amended IAS 1 – *Presentation of Financial Statements*, requires entities to group items presented in other comprehensive income (loss) (“OCI”) into those that, in accordance with other IFRS, will be reclassified subsequently to net income (loss) and those that will not be reclassified subsequently to net income (loss) when specific conditions are met. The existing option to present items of OCI either before tax or net of tax remains unchanged; however, if items are presented before tax then amended IAS 1 requires that tax related to each of the two groups of OCI be shown separately. The application of this amendment did not have a significant impact on the Company’s financial statements. During the year, the Company also decided to reclassify the interest paid shown in the consolidated statements of cash flows from operating activities to financing activities (including comparative information).

Consolidation

Effective January 1, 2013, IFRS 10 – *Consolidated Financial Statements* and IFRS 12 – *Disclosure of Interests in Other Entities* provide a single consolidated model that identifies control as the basis for consolidation for all types of entities. IFRS 10 replaces IAS 27 – *Consolidated and Separate Financial Statements* and SIC-12 – *Consolidation – Special Purpose Entities*. IFRS 12 combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. As a consequence of these new IFRS disclosure requirements, the IASB also issued amended and retitled IAS 27 – *Separate Financial Statements*. IAS 28 – *Investments in Associates and Joint Ventures* has been amended to include joint ventures in its scope and to address the changes in IFRS 10 to IFRS 12. These new standards had no impact on the Company’s consolidated financial statements.

2. Significant accounting policies (continued)

2.3 Changes in accounting policies (continued)

<u>Fair value measurements</u>

Effective January 1, 2013, IFRS 13 – *Fair Value Measurement* clarifies the definition of fair value and provides related guidance and enhanced disclosure about fair value measurements. IFRS 13 applies when other IFRS standards require or permit fair value measurements. It does not introduce any new requirements to measure an asset or a liability at fair value, change what is measured at fair value in IFRS standards or address how to present changes in fair value. The new requirements apply prospectively. The application of this new standard had no impact on the Company's current fair value measurement accounting practices.

<u>Impairment of assets</u>

In May 2013, the IASB issued amendments to IAS 36 – *Impairment of assets* requiring additional disclosures about the recoverable amount of impaired non-financial assets if that amount is based on fair value less costs to sell. These amendments are effective for annual periods beginning on or after January 1, 2014 with early adoption permitted. The Company early adopted this amendment.

<u>Offsetting Financial Assets and Financial Liabilities and the related disclosures</u>

New disclosure requirements, set out in *Disclosures-Offsetting Financial Assets and Financial Liabilities* as amendments to IFRS 7, are intended to help investors and other users better assess the effects or potential effects of offsetting arrangements on a company's statement of financial position. These amendments are effective for annual reporting periods beginning on or after January 1, 2013. The application of IFRS 7 did not have a material impact on amounts reported in the Company's consolidated financial statements.

2.4 Basis of consolidation

The consolidated financial statements include the accounts of the Parent Company and its subsidiary Imaflex USA Inc. ("Imaflex USA"), a wholly owned entity, which both have a reporting period of December 31. Imaflex Inc. is the Company's ultimate parent. The Parent Company controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. All intercompany transactions and balances are eliminated on consolidation.

As at December 31, 2013 and 2012, Imaflex USA, the Company's wholly owned subsidiary, manufactured flexible packaging and plastic film out of its two North Carolina, USA, plants.

2.5 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 recognised in net income (loss) as incurred. At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value.

2. Significant accounting policies (continued)

2.5 Business combinations (continued)

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. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and, if applicable, the fair value of the acquirer's previously held interest in the acquiree, the excess is recognised immediately in profit or loss as a bargain purchase gain.

2.6 Foreign currencies

The functional currency is the currency of the primary economic environment in which an entity operates. The financial statements of the Parent Company and its subsidiary that are consolidated into the Company's financial statements are prepared in their individual functional currency. The consolidated financial statements are expressed in Canadian dollars ("CAD"), which is also the functional currency of the Parent Company as well as the Company's presentation currency.

The assets and liabilities of the Company's foreign subsidiary, Imaflex USA, whose functional currency is the US dollar ("USD"), are translated at the exchange rate in effect at the date of the consolidated statement of financial position. Revenues and expenses are translated at monthly average exchange rates over the reporting period. Exchange gains or losses arising from the translation of Imaflex USA's financial statements are recognised as accumulated foreign currency translation within Reserves.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency are recorded at the average exchange rate during the year. If exchange rates fluctuated significantly within these periods, exchange rates in effect on the date of the transactions are used. Monetary items denominated in foreign currencies are translated at the exchange rate prevailing at the end of the reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rate prevailing at the date when the fair value was determined.

2.7 Revenue recognition

Revenues are generated almost exclusively from the sale of goods. Revenue is measured at the fair value of the consideration received or receivable, net of estimated returns, rebates and discounts, and is recognised when all the following conditions are satisfied:

- The Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Company 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.

Revenue is recognised in accordance with the terms of sale, generally when received by external customers.

2. Significant accounting policies (continued)

2.8 Income Tax

Income tax expense comprises both current and deferred tax. Current tax is based on taxable income for the year. Taxable income differs from net income as reported in the consolidated statement of comprehensive income (loss) because of items of revenue 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 at the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated statements of financial position and the corresponding tax basis used in the computation of taxable income. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that future taxable income will be available against which the underlying tax loss or deductible temporary difference can be utilized.

Deferred tax assets and liabilities are calculated using the tax rates and laws enacted or substantially enacted at the reporting date and which are expected to apply in the period in which the liability is settled or the asset realized.

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

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

2.9 Earnings per share

Earnings per share are calculated by dividing net income available for common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated by taking into consideration potentially issuable shares that would have a dilutive effect on earnings per share.

2.10 Financial assets and financial liabilities

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument. On initial recognition, financial instruments are measured at fair value adjusted for transaction costs except if directly attributable to the acquisition of financial assets or liabilities at fair value through profit or loss, in which case they are recognised immediately in net income (loss).

<u>Financial assets</u>

For the purposes of subsequent measurement, financial assets are classified, upon initial recognition, in the different categories depending on their nature and purpose.

The Company's cash as well as trade and other receivables (excluding sales taxes) are classified as loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest method, less any impairment. Discounting is omitted where the effect of discounting is immaterial.

2. Significant accounting policies (continued)

2.10 Financial assets and financial liabilities (continued)

Impairment of financial assets

Financial assets are assessed for indications of impairment at least at each reporting period. 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 and other 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 recognised in profit or loss. The expense relating to the allowance for doubtful accounts is recognised in Administrative expenses in the statement of comprehensive income (loss).

Financial liabilities

For the purpose of subsequent measurement, financial liabilities are classified in the following categories, upon initial recognition:

- at fair value through profit and loss (“FVTPL “)
- at amortised cost

Financial liabilities are measured subsequently at amortised cost using the effective interest rate method, except for financial liabilities designated at FVTPL, which are subsequently carried at fair value with gains and losses recognised in net income (loss). Discounting is omitted where the effect of discounting is immaterial. All derivative financial instruments that are not designated as hedging instruments are accounted for at FVTPL.

The Company’s bank indebtedness, trade and other payables (excluding employee benefits) and long-term debt are classified as financial liabilities measured at amortised cost. All interest-related charges are recognised in the consolidated statement of comprehensive income (loss) under Finance costs.

The Company derecognises financial liabilities when, and only when, the Company’s obligations are extinguished, discharged, cancelled or expired.

Derivative Financial Instruments

The Company may use derivative financial instruments to manage financial risk, namely it previously used an interest rate swap to manage interest rate risk. However, the Company does not use derivative financial instruments for speculative or trading purposes. The interest rate swap was initially recognised at fair value at the date the derivative contract was entered into and was subsequently remeasured to fair value at the end of each reporting period. The resulting gain or loss is recognised in net income (loss) immediately. At the reporting date, the interest rate swap came to maturity, but for comparative information, the derivative financial instrument is recognised as a financial asset when it has a positive fair value and as a financial liability when it has a negative fair value.

2. Significant accounting policies (continued)

2.11 Inventories

Inventories are stated at the lower of cost and net realizable value. Costs, including raw materials and 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 necessary to make the sale and estimated selling expenses.

2.12 Property, plant and equipment

Production equipment, office equipment and computer equipment are stated at cost, including any costs directly attributable to bringing the assets to the location and condition necessary for it to be capable of operating in the manner intended by the Company's management, less accumulated depreciation and accumulated impairment losses.

Depreciation is recognised so as to write down the cost of assets less their residual values over their useful lives, as outlined below, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed and adjusted, if necessary, at each reporting date, with the effect of any changes in estimate accounted for on a prospective basis.

Asset	Period
Production equipment	20 years
Office equipment	5 years
Computer equipment	3 years

Leasehold improvements are amortised on a straight-line basis over the lesser of the terms of the leases or their useful lives (5 years).

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 from 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 recognised in net income (loss), with Other gains and losses in the consolidated statement of comprehensive of income (loss).

2.13 Leased assets

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.

Assets held under finance leases are initially recognised 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. Leases are initially recognised on the date from which the Company is entitled to exercise its right to use the leased asset, referred to as the commencement of the lease term, which corresponds to the date on which the equipment is received. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets (between 3 and 5 years) or, where shorter, the term of the relevant lease.

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 recognised immediately in net income (loss). Contingent rentals are recognised as expenses in the periods in which they are incurred.

2. Significant accounting policies (continued)

2.13 Leased assets (continued)

Operating lease payments are recognised 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 recognised as an expense in the period in which they are incurred.

2.14 Intangible assets

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date, which is regarded as their cost. Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from its use or disposal. Gains or losses arising from the derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in net income (loss) when the asset is derecognised. The amortisation of intangible assets, if any, is recognised in Administrative expenses in the consolidated statement of comprehensive income (loss) over the useful life of the intangible asset. Customer relationships are amortised on a straight-line basis over 8 years and internally developed patents are amortised as of the moment they can be used over the life of the patent (20 years).

2.15 Impairment of property, plant and equipment and intangible assets other than goodwill

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 property, plant and equipment and intangible assets, to determine whether there is any indication that they 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. When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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 asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an assets is estimated to be less than their carrying amount, the carrying amount is reduced to the recoverable amount. An impairment loss is recognised immediately in net income (loss), unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When 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 recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in net income (loss), unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

2. Significant accounting policies (continued)

2.16 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 recognised directly in net income (loss) in the consolidated statement of comprehensive income (loss). An impairment loss recognised for goodwill is not reversed in subsequent periods.

2.17 Provisions

Provisions are recognised 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 recognised as a provision is the best estimate of the consideration required to settle the present obligation based on the most reliable evidence available at the reporting date, taking into account the risks and uncertainties surrounding the obligation.

2.18 Share-based compensation

The Company uses equity-settled share-based compensation plans for its employees and for one consultant. None of the Company’s plans are cash-settled. Equity-settled share-based compensation is measured at the fair value of the services received at the grant date indirectly by reference to the fair value of the equity instruments granted, estimated using the Black-Scholes option pricing model.

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

2.19 Share capital and reserves

Share capital represents the nominal value of shares that have been issued. Proceeds from the issuance of units consisting of shares and purchase warrants are allocated based on the relative fair values of each instrument. The fair value of the shares is based on the TSX share price at the time of the issuance and the fair value of the warrants is determined using a Black & Scholes valuation model.

Reserves include the following:

- Share-based compensation (see 2.18);
- Accumulated foreign currency translation (see 2.6);
- Warrants – comprises the value of outstanding and expired warrants.

Upon the exercise of options and warrants, the proceeds received less the transaction costs attributable to the limit of the nominal value of shares issued are credited to share capital.

3. Future accounting changes

Certain new standards as well as amendments and improvements to existing standards have been published by the IASB but are not yet effective and have not been adopted early by the Company. Management anticipates that all of the relevant pronouncements will be adopted in the first reporting date following the date of application. The information on new standards as well as amendments and improvements to existing standards that may impact the Company's consolidated financial statements are as follows:

Financial instruments

The IASB aims to replace IAS 39 – *Financial Instruments: Recognition and Measurement* in its entirety with IFRS 9. To date, the chapters relating to recognition, classification, measurement and derecognition of financial assets and liabilities as well as the chapter relating to hedge accounting have been published. The chapter relating to impairment methodology is still being developed. In November 2013, the IASB decided to defer the implementation of IFRS 9 to a date to be announced. Management has yet to assess the impact of this new standard on the Company's consolidated financial statements and does not expect to implement IFRS 9 until it has been completed and its overall impact can be assessed.

Other new standards and interpretations have been issued but are not expected to have a material impact on the Company's consolidated financial statements.

4. Critical accounting judgments and key sources of estimation uncertainty

The preparation of these consolidated financial statements in conformity with IFRS and the application of the Company's accounting policies described in note 2, required management to make judgments, 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 recognised 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 judgments in applying accounting policies

The following are the critical judgments, 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 recognised in the consolidated financial statements.

Cash-generating units

Management has identified only one cash-generating unit ("CGU") for the Company. 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. Management has determined that the cash flows of the Company's production facilities are closely interrelated and not independent.

4. Critical accounting judgments 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 recognised on these assets is based on historical experience and management's best estimate of the recoverability of the account receivable.

Inventory

The Company estimates the net realizable values of inventories taking into account the most reliable evidence available at each reporting date. This assessment is based on management's knowledge of the market and experience regarding obsolescence and valuation of inventory.

Useful lives of depreciable assets

The Company reviews the estimated useful lives of property, plant and equipment and intangible assets other than goodwill at the end of each annual reporting period in order to ensure that the amortisation method used is appropriate.

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. The Company uses judgment to determine whether it identifies any triggering event that may indicate that the long-lived assets have been impaired.

Income taxes

Management uses 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 and share-based compensation

The Company issues from time to time equity instruments, comprised of options to purchase common shares as well as common shares and warrants. The Company uses the Black and Scholes pricing model in order to determine the value of these instruments or how proceeds are allocated between the instruments. These methods require estimates based on market inputs.

5. Segment information

The Company operates in one reportable segment, comprising the development, manufacture and sale of flexible packaging material in the form of film or bags, for various uses.

5.1 Revenues by geographical end market

The Company's revenues by geographical end market are as follows:

	Year ended December 31, 2013	Year ended December 31, 2012
Canada	**$ 22,254,188**	$ 24,179,722
United States	**33,515,234**	22,803,435
Other	**282,196**	285,784
Total	**$ 56,051,618**	$ 47,268,941

5.2 Property, plant and equipment and intangible assets per geographic location

	December 31, 2013	December 31, 2012
Canada	**$ 6,244,399**	$ 6,214,416
United States	**10,600,628**	9,920,419
Total	**$ 16,845,027**	$ 16,134,835

6. Additional information on the consolidated statements of comprehensive income (loss)

The Company's consolidated statement of comprehensive income (loss) includes depreciation of production equipment of $ 1,130,509 for the year ended December 31, 2013 ($ 1,039,086 in 2012) classified in Cost of sales. Depreciation of other property, plant and equipment and amortisation of intangible assets amounting to $ 91,461 for the year ended December 31, 2013 ($ 222,397 in 2012) is included in Administrative expenses.

The Company's consolidated statement of comprehensive income (loss) includes salaries paid to its employees of $ 6,417,472 for the year ended December 31, 2013 ($ 5,643,441 in 2012) classified in Cost of sales. Administrative expenses include salaries paid to employees of $ 1,138,766 for the year ended December 31, 2013 ($ 986,030 in 2012) and Selling expenses include salaries paid to employees of $ 428,361 for the year ended December 31, 2013 ($ 360,178 in 2012).

7. Employee benefits

The Company contributes to state-run pension plans, employment insurance, group insurance and social security for its employees. The costs incurred for the employee benefits noted above amounted to $ 1,909,847 during the year ended December 31, 2013 ($ 1,594,401 in 2012). These payments are expensed as incurred and the Company does not recognise 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.

The Company also offers a defined contribution employee benefit plan to its employees located in North Carolina, USA. For the year ended December 31, 2013, the Company contributed $ 14,458 to this plan ($ 11,851 in 2012).

8. Finance costs

	Year ended December 31, 2013	Year ended December 31, 2012
Interest on bank indebtedness and long term debt	**$ 437,816**	$ 505,559
Interest on obligations under finance leases	**5,892**	3,620
	$ 443,708	$ 509,179

9. Other gains and losses

	Year ended December 31, 2013	Year ended December 31, 2012
Foreign exchange (gain) loss	**$ (528,630)**	$ 231,209
Change in fair value of derivative financial instrument	**(9,958)**	(38,441)
	$ (538,588)	$ 192,768

10. Income taxes

10.1 Income tax recognised in net income (loss)

	Year ended December 31, 2013	Year ended December 31, 2012
Income tax expense comprises:		
Current tax expense in respect of the current year	**$ 335,410**	$ 227,704
Adjustments recognised in the current year relating to prior years	**49,206**	61,057
Deferred tax expense relating to the origination and reversal of temporary differences	**84,169**	9,697
Total income tax expense	**$ 468,785**	$ 298,458

10.2 Reconciliation between the income tax expense and the statutory income tax rate

	Year ended December 31, 2013	Year ended December 31, 2012
Income (loss) before income taxes	**$ 675,587**	$ (269,753)
Income tax expense (recovery) calculated at 26.9%	**181,733**	(72,564)
Permanent differences	**(79,803)**	53,409
Effect of unrecognised benefit of Imaflex USA's losses	**479,424**	374,570
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(148,745)**	(102,247)
Other	**36,176**	45,290
Income tax expense recognised in net income (loss)	**$ 468,785**	$ 298,458

The tax rate used for the 2013 reconciliation above is the corporate tax rate of 26.9% (26.9% in 2012) payable by corporate entities in Quebec, Canada on taxable income under tax law in those jurisdictions.

10. Income taxes (continued)

10.3 Deferred tax balances

	Opening balance	Recognised in income (loss)	Adjustment to prior year balance	Closing balance
2013				
Assets				
Non-capital losses	**$ 2,438,833**	**$ 15,729**	**$ -**	**$ 2,454,562**
Finance leases	**10,251**	**5,732**	**-**	**15,983**
Inventory	**-**	**223,932**	**-**	**223,932**
Other assets	**7,221**	**83,694**	**(565)**	**90,350**
	2,456,305	**329,087**	**(565)**	**2,784,827**
Liabilities				
Advance	**-**	**(80,516)**	**-**	**(80,516)**
Property, plant and equipment	**(3,718,976)**	**(334,699)**	**1,485**	**(4,052,190)**
Investment tax credits	**(6,419)**	**(242)**	**1,281**	**(5,380)**
	(3,725,395)	**(415,457)**	**2,766**	**(4,138,086)**
Deferred tax liabilities	**$(1,269,090)**	**$ (86,370)**	**$ 2,201**	**$(1,353,259)**

	Opening balance	Recognised in income (loss)	Adjustment to prior year balance	Closing balance
2012				
Assets				
Non-capital losses	$ 1,057,664	$ 1,381,169	$ -	$ 2,438,833
Finance leases	11,007	(756)	-	10,251
Financing costs	-	565	-	565
Intangible assets	7,157	(501)	-	6,656
	1,075,828	1,380,477	-	2,456,305
Liabilities				
Property, plant and equipment	(2,319,251)	(1,394,833)	(4,892)	(3,718,976)
Investment tax credits	(15,970)	9,551	-	(6,419)
	(2,335,221)	(1,385,282)	(4,892)	(3,725,395)
Deferred tax liabilities	$(1,259,393)	$ (4,805)	$ (4,892)	$(1,269,090)

10. Income taxes (continued)

10.4 Unrecognised deferred tax assets

The Company's subsidiary, Imaflex USA, has non-capital losses available to carry forward to reduce future taxable income of $ 16,868,259 in 2013 and $ 13,470,882 in 2012 for part of which a deferred tax asset has not been recognised ($ 4,124,059 in 2013 and $ 2,565,541 in 2012) that expire as follows:

Expiring in	December 31, 2013	December 31, 2012
2025	**$ 92,212**	$ 86,256
2026	**1,545,505**	1,445,678
2027	**1,062,363**	993,743
2028	**2,293,963**	2,145,791
2029	**2,484,960**	2,324,452
2030	**3,646,675**	3,301,393
2031	**1,556,659**	1,456,112
2032	**2,207,521**	1,717,457
2033	**1,978,401**	-
	$16,868,259	$13,470,882

Additionally, the Company has not recognised a deferred tax asset on its Canadian capital losses in the amount of $ 128,288 which can be used indefinitely.

11. Earnings (loss) per share

	Year ended	
	December 31, 2013	December 31, 2012
Income (loss) for basic and diluted earnings (loss) per share	**$ 206,802**	$ (568,211)
Weighted average number of common shares outstanding	**43,644,564**	42,437,341
Dilutive effect of share purchase options	**70,122**	-
Diluted weighted average common shares outstanding	**43,714,686**	42,437,341
Basic and diluted earnings/(loss) per common share	**$ 0.005**	$ (0.013)

12. Trade and other receivables

	December 31, 2013	December 31, 2012
Trade receivables	**$ 9,322,425**	$ 8,933,296
Allowance for doubtful accounts	**(620,539)**	(570,400)
	8,701,886	8,362,896
Other receivables	**495,901**	382,417
Total receivables	**9,197,787**	8,745,313
Non-current other receivables	**321,038**	-
Current trade and other receivables	**$ 8,876,749**	$ 8,745,313

Movement in the allowance for doubtful accounts

	Year ended	
	December 31, 2013	December 31, 2012
Balance, beginning of year	**$ (570,400)**	$ (527,876)
Release of allowance for doubtful accounts	**55,000**	397,741
Impairment losses and adjustments recognised on trade receivables	**(78,433)**	(473,083)
Amounts written off during the year as uncollectible	**-**	30,935
Foreign exchange	**(26,706)**	1,883
Balance, end of year	**$ (620,539)**	$ (570,400)

Credit risk

Credit risk is the risk that a counterparty fails to discharge an obligation to the Company. The Company's maximum exposure to credit risk is limited to the carrying amount the financial assets, net of any provisions for losses recorded on the Company's consolidated statements of financial position.

Credit risk management

Credit risk associated with cash is substantially mitigated by ensuring that these financial assets are primarily placed with major American and Canadian financial institutions that have been accorded grade ratings by a primary rating agency and qualify as creditworthy counterparties. The Company performs an ongoing review and evaluation of the possible risks associated with cash.

For trade receivables, the Company uses an external credit service to assess the potential customer's credit quality and uses this information to define the allowed credit limits by customer. The Company uses Export Development Canada to insure trade receivables. As at December 31 2013, $ 4,069,180 ($ 4,009,259 as at December 31, 2012) of the total trade receivables are insured. The Company's management considers that all receivables that are not impaired or past due for each reporting dates are of good credit quality.

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 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 $ 1,841,664 of past due trade receivables that were not impaired ($ 1,951,000 in 2012). Of that amount, $ 826,141 was over 90 days ($ 832,016 as at December 31, 2012).

12. Trade and other receivables (continued)

Aging of total receivables

	Year ended December 31, 2013	Year ended December 31, 2012
Current	**$ 3,756,814**	$ 3,501,492
31 days to 60 days	**3,325,812**	3,161,599
61 days to 90 days	**1,139,164**	1,118,984
Over 90 days	**975,997**	963,238
Total	**$ 9,197,787**	$ 8,745,313

13. Inventories

	December 31, 2013	December 31, 2012
Raw materials and supplies	**$ 4,233,033**	$ 3,997,193
Finished goods	**2,603,107**	2,771,312
Work in process	**347,598**	107,469
Total	**$ 7,183,738**	$ 6,875,974

The cost of inventories recognised as an expense during the year was $ 33,145,289 ($ 27,286,421 in 2012). There were no write-downs of inventory recognised in the fiscal year ended on December 31, 2013 or 2012.

14. Property, plant and equipment

	Production equipment	Leasehold improvements	Office equipment	Computer equipment	Equipment under finance lease	Total
At cost,						
January 1, 2012	$ 36,378,217	$1,325,393	$ 41,300	$ 384,993	$ 70,500	$ 38,200,403
Additions	849,775	308,714	-	-	37,633	1,196,122
Business acquisition	1,088,450	-	-	-	-	1,088,450
Foreign exchange	(231,301)	(8,698)	(308)	(257)	(264)	(240,828)
December 31, 2012	38,085,141	1,625,409	40,992	384,736	107,869	40,244,147
Additions	**1,010,681**	**77,645**	**-**	**6,325**	**83,290**	**1,177,941**
Foreign exchange	**895,742**	**38,141**	**959**	**797**	**2,568**	**938,207**
December 31, 2013	**$ 39,991,564**	**$1,741,195**	**$ 41,951**	**$391,858**	**$ 193,727**	**$ 42,360,295**
Accumulated depreciation						
January 1, 2012	$(21,969,122)	$ (1,234,540)	$ (27,747)	$(321,891)	$ (44,650)	$(23,597,950)
Depreciation expense	(1,039,086)	(100,424)	(9,036)	(63,007)	(18,839)	(1,230,392)
Foreign exchange	72,406	5,224	308	162	10	78,110
December 31, 2012	(22,935,802)	(1,329,740)	(36,475)	(384,736)	(63,479)	(24,750,232)
Depreciation expense	**(1,100,789)**	**(47,204)**	**(4,518)**	**(1,054)**	**(29,720)**	**(1,183,285)**
Foreign exchange	**(273,885)**	**(18,758)**	**(958)**	**(796)**	**(384)**	**(294,781)**
December 31, 2013	**$(24,310,476)**	**$ (1,395,702)**	**$ (41,951)**	**$(386,586)**	**$ (93,583)**	**$(26,228,298)**

14. Property, plant and equipment (continued)

Net book value, as at

December 31, 2012	$ 15,149,339	$ 295,669	$ 4,517	$ -	$ 44,390	$ 15,493,915
December 31, 2013	**$ 15,681,088**	**$ 345,493**	**$ -**	**$ 5,272**	**$ 100,144**	**$ 16,131,997**

The Company's production equipment with a carrying amount of approximately $ 3,800,000 (approximately $ 7,000,000 as at December 31, 2012) is pledged as collateral for the Company's operating line of credit and long-term debt. The Company has a contractual commitment to acquire production equipment of $ 587,107, through a finance lease, in 2014. Details are provided in Note 18.

15. Intangible assets

	Goodwill	Customer relationships	Patent costs	Total
January 1, 2012	$ -	$ -	$ -	$ -
Additions (Note 26)	371,513	296,850	-	668,363
Amortisation	-	(31,091)	-	(31,091)
Foreign exchange	2,028	1,620	-	3,648
December 31, 2012	373,541	267,379	-	640,920
Additions	**-**	**-**	**67,737**	**67,737**
Amortisation	**-**	**(38,685)**	**-**	**(38,685)**
Foreign exchange	**25,794**	**17,264**	**-**	**43,058**
December 31, 2013	**$ 399,335**	**$ 245,958**	**$ 67,737**	**$ 713,030**

16. Trade and other payables

	December 31, 2013	December 31, 2012
Trade payables	**$ 5,184,430**	$ 4,820,870
Other payables and accrued liabilities	**1,667,240**	1,312,638
	$ 6,851,670	$ 6,133,508

17. Credit facilities

	December 31, 2013	December 31, 2012
Bank indebtedness (a)	**$ 7,438,682**	$ 6,103,876
Long term debt		
Loan, bearing interest at the lender's base rate (5.00% as at December 31, 2013) plus 0.25%, repayable in monthly principal installments of $43,460 to September 2016, secured by production equipment. (b)	**1,434,180**	1,912,240
Loan (US$ 460,714), bearing interest at the 30-day LIBOR rate, reset monthly, plus 1.24%.	**-**	458,364
Subordinated debt, not interest-bearing, repayed in full during the course of 2013 (c)	**-**	165,000
Balance of purchase price on business acquisition (US$ 991,913 as at December 31, 2013, US$ 942,714 as at December 31, 2012) (d)	**1,054,999**	937,906
Total long term debt	**2,489,179**	3,473,510
Finance leases (Note 18) (b)	**100,657**	61,639
Total borrowings	**10,028,518**	9,639,025
Current		
Bank indebtedness	**7,438,682**	6,103,876
Long-term debt, current portion	**2,489,179**	1,101,425
Finance leases	**100,657**	36,376
	10,028,518	7,241,677
Non-current		
Long-term debt	**-**	2,372,085
Finance leases	**-**	25,263
	-	2,397,348
Total borrowings	**$ 10,028,518**	$ 9,639,025

Interest on long-term debt amounted to $ 154,251 for the year ended December 31, 2013 ($ 191,870 in 2012).

(a) The Company has an operating line of credit with its bankers to a maximum of $8,500,000, bearing interest at prime plus 1.85% (4.85% effective interest rate at December 31, 2013). The line of credit is secured by trade receivables and inventories. 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 defined in the lending agreement). As at December 31, 2013, the Company had drawn $ 7,438,682 ($ 6,103,876 as at December 31, 2012) on its line of credit and was not in compliance with two financial covenants. Subsequently to year-end, the Company obtained a waiver from its financial institution confirming tolerance for this breach of covenants until January 1, 2015.

17. Credit facilities (continued)

(b) As at December 31, 2013, the Company was in breach of the interest bearing debt to EBITDA and minimum EBITDA covenants under its operating line of credit (see (a)). All of the Company's credit agreements, with the exception of the balance of purchase price on business acquisition, include cross default provisions which give the right to the creditor to demand repayment of the loan prior to the scheduled maturity. As such, the balance of bank loans and finance lease obligations were reclassified as current as at December 31, 2013.

(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 was repaid in full during the course of 2013.

(d) During the year ended December 31, 2012, the Company completed a business acquisition and assumed a non-interest bearing balance of purchase price which was recorded at the discounted value of $894,096 (USD$904,584). This debt was reimbursed on February 26, 2014. The initially recorded discounted value is recorded at amortised cost using the effective interest method with an effective rate of 5.2%.

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

Not later than one year	$ 1,576,519
Later than one year and not later than five years	912,660
	$ 2,489,179

18. Obligations under finance leases

The Company has entered into certain finance lease agreements. Finance lease payments are as follows, without taking into consideration the right of repayment on demand (Note 17 (b)) :

Not later than one year	$ 30,447
Later than one year and not later than five years	80,733
Later than five years	-
Total minimum lease payments	111,180
Less amount representing interest at approximately 6.4%	(10,523)
Present value of minimum lease payments	100,657

During the year ended December 31, 2013, the Company signed a non-cancellable finance lease agreement for production equipment worth $ 587,107 that is expected to be received in the first quarter of 2014. As part of this lease agreement, the Company also entered into a demand promissory note, under which terms it assumes the liability for any funds disbursed on its behalf. This promissory note, provided that the Company is in compliance with all the provisions of the agreements entered into, will be converted to the lease on the commencement of the lease term. Based on the terms of the promissory note and the present probability of having to assume any liability under the demand promissory note, no amounts were recognised in the consolidated financial statements as at December 31, 2013, except for the recording of a deposit totalling $ 118,999 relating to this lease that was paid during the year ended December 31, 2013 and included under the caption Property, plant and equipment in the consolidated statement of financial position.

19. Share capital

The Company's outstanding share capital consists of an unlimited number of common shares, voting, participating, without par value. At December 31, 2013, there were 44,201,276 common shares outstanding (42,601,276 common shares at December 31, 2012).

During the year ended December 31, 2013, the Company issued, through a non-brokered private placement, 1,600,000 common shares for total cash proceeds of $ 800,000.

During the year ended December 31, 2012, the Company issued, through a non-brokered private placement, 1,935,485 Units for proceeds of $ 735,484, of which $ 250,000 had been received in 2011 in contemplation of this transaction. Each Unit is comprised of one common share and one common share purchase warrant entitling its holder to acquire one additional common share at a price of $ 0.45 per share until February 1, 2015.

Each share issued was attributed a value of $ 0.246 and each warrant issued was attributed a value of $ 0.134. Of the $ 250,000 received in 2011 and included in Other reserves as at December 31, 2011, $ 161,842 was reclassed to share capital and $ 88,158 was reclassed to warrants. Of the $ 485,484 received in 2012, $ 314,287 was attributed to the shares issued and $ 171,197 was attributed to the warrants issued.

As at December 31, 2013, 3,251,274 warrants entitling the owner to purchase common shares at $0.45 per share were outstanding.

20. Share-based compensation

Pursuant to the Stock Option Plan (the "Plan") of the Company, 3,735,000 of the common shares are reserved for options. The Plan provides that the term of the options shall be fixed by directors. Officers and employees of the Company 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.

On January 15, 2013, the Company granted 100,000 options to acquire common shares to a counterparty who is not an employee for services rendered. These options vest in 4 tranches, the first vesting immediately at issuance, and the others vesting at every following quarter. Share-based compensation expense relating to this issuance amounted to $ 20,182 during the year ended December 31, 2013.

On July 15, 2013, the Company granted 100,000 options to acquire common shares to a counterparty who is not an employee for services rendered as agreed to in a contract entered into on January 15, 2013. These options vest in 4 tranches, the first vesting immediately at issuance, and the others vesting at every following quarter. Share-based compensation expense relating to this issuance amounted to $ 14,588 during the year ended December 31, 2013.

20. Share-based compensation (continued)

The following are the assumptions used in order to value the options as well as general information on each outstanding option grant:

Fair value assumptions	**July 15, 2013 grant**	**January 15, 2013 grant**	**May 27, 2011 grant**
Outstanding as at January 1, 2012 and December 31, 2012	-	-	100,000
Granted in 2013	100,000	100,000	-
Outstanding as at December 31, 2013	100,000	100,000	100,000
Exercisable as at December 31, 2013	50,000	100,000	100,000
Exercisable as at December 31, 2012	-	-	100,000
Remaining life of options	1.54 years	1.04 years	2.41 years
Expected life of options	From 0.99 to 1.37 years	From 0.99 to 1.37 years	2.5 years
Expiry	July 15, 2015	January 15, 2015	May 27, 2016
Expected share price volatility	106.54% to 125.9%	134.8% to 191.1 %	172.86%
Dividend yield	0%	0%	0%
Risk free rate	1.27%	1.18%	1.67%
Exercise price	$ 0.40	$0.36	$0.125
Share price on grant date	$ 0.40	$0.32	$0.125

Expected volatility was calculated using the average closing price change of the Company’s shares on the TSX over the expected life of the options.

21. Non-cash transactions

During the year ended December 31, 2013, the Company financed the acquisition of certain operating assets by entering into finance leases for an amount totalling $ 83,290. The Company also financed the acquisition of equipment by issuing a credit note for goods shipped for approximately $ 50,000.

During the year ended December 31, 2012, the Company financed the acquisition of equipment through the issuance of a credit note of $600,000, decreasing its trade receivables. The Company also financed the business acquisition completed in 2012 by assuming debt towards the sellers for $894,096 and the Company acquired production and office equipment through capital leases. The amount of capital leases entered into during the year totaled $37,633.

22. Financial instruments

22.1 Fair value and classification of financial instruments

	Carrying amount and fair value	
	December 31, 2013	December 31, 2012
Financial assets		
Loans and receivables		
Cash	**$ 1,129,891**	$ 126,994
Trade and other receivables [1]	**8,848,549**	8,745,313
Financial liabilities		
Financial liabilities, at amortised cost		
Bank indebtedness	**7,438,682**	6,103,876
Trade and other payables [2]	**6,780,724**	6,133,508
Long term debt	**2,489,179**	3,473,510
Designated at FVTPL		
Derivative financial instrument	**-**	9,745
Other liabilities		
Finance lease obligations	**100,657**	61,639

[1] Excludes sales taxes
[2] Excludes employee benefits

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 following methods and assumptions were used to determine the estimated fair value of each class of financial instruments:

- The fair value of cash, trade and other receivables, trade and other payables and the balance of purchase price on business acquisition 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 bank indebtedness, long-term debts and finance lease obligations, which mainly bear interest at floating rates, is estimated using a discounted cash flows approach, which discounts the contractual cash flows using discount rates derived from observable market interest rates of similar loans with similar risks.

- The fair value of derivative financial instruments is estimated using observable interest rates corresponding to the maturity of the contract.

The Company ensures, to the extent possible, that its valuation techniques and assumptions incorporate all factors that market participants would consider in setting a price and that it is consistent with accepted economic methods for pricing financial instruments.

22. Financial instruments (continued)

22.2 Fair value hierarchy

The Company categorizes its financial instruments into a three-level fair value measurement hierarchy as follows:

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).

As at December 31, 2013 and 2012, the fair values of bank indebtedness, other long-term debt and finance lease obligations are categorised as Level 2. As at December 31, 2012, the fair value of derivative financial instruments was categorised as Level 2.

23. Operating lease arrangements

23.1 Leasing arrangements

The Company leases its premises for manufacturing locations from related parties under operating leases. Rent is paid monthly and 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.

23.2 Payments recognised as an expense

	Year ended	
	December 31, 2013	December 31, 2012
Lease payments for premises	**$ 803,666**	$ 850,967
Vehicles	**34,248**	21,105
Office equipment	**8,406**	6,702

23.3 Non-cancellable operating lease commitments

	Year ended	
	December 31, 2013	December 31, 2012
Not later than 1 year	**$ 706,514**	$ 844,530
Later than 1 year and not later than 5 years	**1,564,079**	1,920,125
Later than 5 years	**445,117**	668,287
	$ 2,715,710	$ 3,432,942

24. Risk management

24.1 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 covenants are, as at December 31, 2013:
- Working capital ratio, defined as current assets divided by current liabilities greater than or equal to 1.10:1.00;
- Debt to equity ratio, defined as total debt excluding deferred taxes divided by equity of less than or equal to 2.50:1.00;
- Interest bearing debt divided by EBITDA ratio (as defined) less than or equal to 4.00:1.00;
- To maintain a minimum EBITDA (as defined) of $ 1,900,000 for the fiscal year ended December 31, 2013.

As at December 31, 2013, the Company was not in compliance with two of these covenants. Subsequently to year-end, the Company obtained a waiver from its financial institution confirming tolerance for this breach of covenants until January 1, 2015.

24.2 Foreign currency risk management

The Company's Canadian operations face foreign currency risk as a result of a significant portion of the costs of raw material for these sales being in USD. The Company's sales in USD act as a hedge against this risk, mitigating the risk.

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.

24. Risk management (continued)

The following is the Company's financial assets and liabilities denominated in USD in its consolidated statement of financial position:

	December 31, 2013	December 31, 2012
Cash	**$ 1,062,082**	$ 103,181
Trade receivables	**4,529,975**	4,273,373
Trade payables	**(4,511,646)**	(4,110,600)
Derivative financial instrument	**-**	(9,745)
Long term debt	**(1,096,276)**	(1,419,921)
Gross financial position exposure	**$ (15,865)**	$ (1,163,712)

A 5% appreciation of the Canadian dollar against the USD would impact its financial position by $ 793 as at December 31, 2013 (December 31, 2012 - $ 58,186). Conversely a 5% depreciation of the Canadian dollar against the USD would have the opposite effect. Management estimates that every $ 0.01 appreciation of the USD against the Canadian dollar would have a negative impact on the Company's result of approximately $ 30,000. Every $ 0.01 depreciation of the USD against the Canadian dollar would have the opposite effect.

24.3 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, 2013	December 31, 2012
Variable rate instruments		
Financial liabilities	**$ 8,872,862**	$ 8,474,538
Derivative financial instrument		
Interest rate swap	**-**	9,745
Gross financial position exposure	**$ 8,872,862**	$ 8,484,283

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 income for the year ended December 31, 2014 of approximately $ 86,335 ($ 78,166 for 2013 as at December 31, 2012). Conversely a decrease would have the opposite effect.

24. Risk management (continued)

24.4 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 $7,438,682 was utilized as at December 31, 2013. Borrowings under the Company's operating line of credit bear interest at the bank's prime rate plus 1.85%. 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, 2013, 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	**$7,438,682**	**$ 7,438,682**	**$ 7,438,682**	**$ -**	**$ -**
Long term debt	**1,434,180**	**1,434,180**	**521,520**	**912,660**	**-**
Interest on borrowings (1)	**-**	**106,619**	**62,730**	**43,889**	**-**
Finance leases (2)	**100,657**	**111,180**	**30,447**	**80,733**	**-**
Trade payables	**6,851,670**	**6,851,670**	**6,851,670**	**-**	**-**
Balance of purchase price	**1,054,999**	**1,063,600**	**1,063,600**	**-**	**-**
	$16,880,188	**$17,005,931**	**$15,968,649**	**$ 1,037 ,282**	**$ -**

(1) The interest on the long term debt 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 the interest on the borrowings.

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 and with the Company's directors and entities in which they hold an interest. 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 consolidated financial statements, are as follows:

	Year ended	
	December 31, 2013	**December 31, 2012**
Rent	**$ 794,769**	$ 798,475
Professional fees	**305,225**	358,572
	$ 1,099,994	$ 1,157,047

Rent is paid on the first day of the month for the current month.

As at December 31, 2013, there was an amount of $ 159,492 recorded as payable to related parties for professional fees ($ 186,886 as at December 31, 2012).

Compensation of key management personnel

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

	Year ended	
	December 31, 2013	**December 31, 2012**
Salaries	**$ 527,066**	$ 422,103
Management fees	**160,866**	171,686
Short-term employee benefits	**5,365**	3,467
Post-employment benefits – State-run plans	**13,627**	9,050
Other benefits	**29,009**	22,667
	$ 735,933	$ 628,973

26. Business acquisition

On February 29, 2012, Imaflex USA acquired the operations of a North Carolina-based converter enabling partial vertical integration of its activities for a total consideration of $ 1,883,596 (USD$ 1,903,584). This acquisition benefits from synergies from the greater usage of the Company's extrusion equipment in its Thomasville, North Carolina plant as well as lower production costs for the acquired business.

The acquisition is comprised of an immediate cash payment of $ 989,500 (USD$ 1,000,000), a non-interest bearing balance of purchase price which was recorded at the discounted value of $ 894,096 (USD$ 904,584), payable on February 28, 2014, accounted for using the effective interest method. The balance of purchase price can be settled in cash or through the issuance of shares of the Company at a fixed value of USD$ 1 per share at the option of the seller. The balance of purchase price was recorded as a liability.

The purchase price was as follows:

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

26. Business acquisition (continued)

The final allocation of the purchase price to net assets acquired is as follows:

Accounts receivable	$ 573,574
Inventory	330,076
Production equipment	1,088,450
Customer relationships	296,850
Goodwill	371,513
Debt related to equipment	(50,806)
Accounts payable	(726,061)
	$1,883,596

Based on the seller's past history in collecting accounts receivable, all acquired accounts receivable were expected to be collected. The Asset Purchase Agreement ("APA") provides for a deduction from the balance of purchase price for any material amount of uncollectable accounts receivable. Based on the open orders on hand, the inventory was 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 relationships which are expected to continue after the acquisition date. During the year, following the finalization of the analysis of the useful life of the customer relationships, the Company revised the carrying value initially recognised at $ 272,036 (USD$ 274,923). During the year, the Company recorded amortisation of customer relationships of $ 31,091.

Goodwill includes the value of the assembled workforce, the current organization of the plant for which the Company did not have to incur any additional expenses and the synergies that can be created through the combination of the production assets through cost savings. The goodwill was recorded at an amount of $ 371,513 (USD$ 375,456) and was included in intangible assets in the consolidated statement of financial position. The goodwill did not have any tax impact at closing or on the reported income tax expense.

The Company did not have access to the information required to determine what sales or net income would have been had the transaction taken place on January 1, 2012. During the year ended December 31, 2012, the acquired business generated sales of $ 4,930,957 and a net income of $ 557,378.