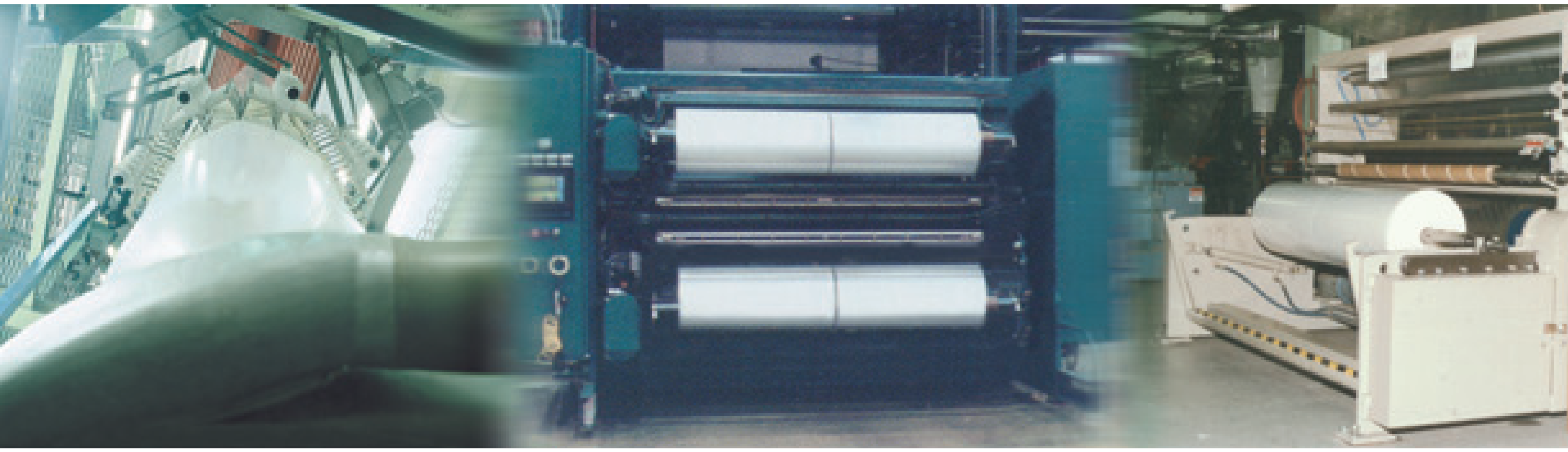
ANNUAL REPORT
2014

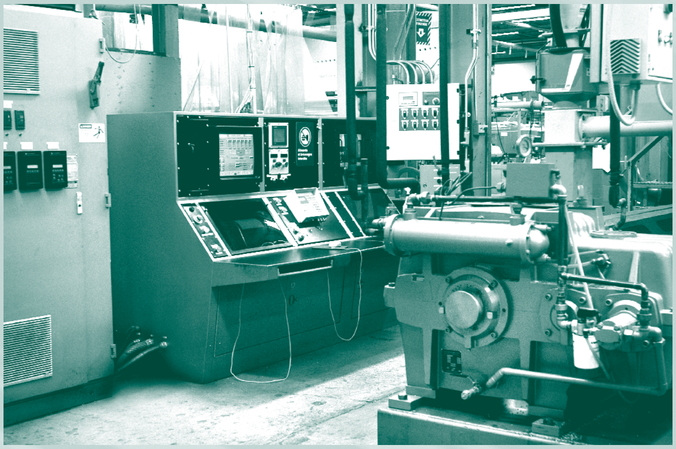
IMAFLEX
Committed to Excellence

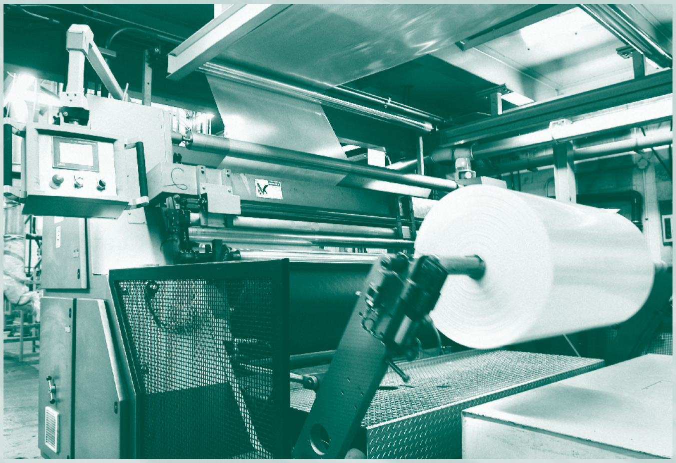


IN ALL SUCCESSFUL BUSINESSES THE KEY TO SUCCESS RELIES ON MANAGEMENT'S ABILITY TO MASTER THREE FUNDAMENTALS:

> 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.
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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 audited consolidated financial statements for the years ended December 31, 2014 and 2013 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 21, 2015.

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 Parent 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 for the analysis of the performance of the Company's financial results, EBITDA is determined 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.

Reconciliation of EBITDA to net income:

($ thousands, except per share data)	**Three months ended**		**Years ended**	
	December 31, 2014	December 31, 2013	**December 31, 2014**	December 31, 2013
Net (loss) income	**$ 231**	$ (184)	**$ (7)**	$ 207
Plus:				
Income taxes	**380**	135	**682**	469
Finance costs	**193**	116	**577**	444
Depreciation and amortization	**414**	330	**1,416**	1,222
Change in fair value of derivative financial instrument	**-**	-	**-**	(10)
EBITDA	**$ 1,218**	$ 397	**$ 2,668**	$ 2,332
Basic and diluted EBITDA per share *	**$ 0.027**	$ 0.009	**$ 0.060**	$ 0.053

*Basic weighted average number of shares outstanding of 44,245,359 for the quarter ended December 31, 2014 (44,201,276 in 2013) and 44,212,387 for the year ended December 31, 2014 (43,644,564 in 2013). Diluted weighted average number of shares outstanding of 44,333,959 for the quarter ended December 31, 2014 (44,279,934 in 2013) and 44,276,296 for the year ended December 31, 2014 (43,714,686 in 2013).

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 Environmental Protection Agency ("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

The price of polyethylene resins decreased at the end of the fourth quarter of 2014 as well as the beginning of the first quarter of 2015, mostly due to the decrease in the price of crude oil. This had a negative impact on the general demand for polyethylene products as participants are not increasing inventory levels in order to benefit from anticipated further reductions. Prices are expected to increase in the near future, which would stimulate purchases of polyethylene products.

LOSS OF BUSINESS FROM A SIGNIFICANT CUSTOMER

One of our business practices has been to limit the purchases by 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

Some products produced in our Victoriaville and Thomasville facilities 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

The Company’s borrowing costs have increased following financings that closed in January and October of 2014. However, the Company’s financial situation has led to a lower interest rate on its short term borrowings and the recent financing should decrease the usage of the line of credit in order to obtain more flexibility in the usage of its funds.

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 research and development, 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 USD. A portion of the revenue stream in USD acts as a natural hedge to cover expenses denominated in USD. The Company has increased its debt in USD to obtain additional revenue streams in USD. Should this additional business materialize, the Company’s exposure to foreign currency will be managed naturally. Management continuously assesses its exposure to such risk and the Company does not currently use any financial instruments to hedge its foreign currency position.

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 little risk, they are handled in a manner that fully complies with existing safety regulations.

RESULTS OF OPERATIONS

The polyethylene market is showing signs of recovery; however resin price decreases at the end of the year and expected decreases for the first quarter of 2015 have had a negative impact on demand, as customers are waiting before replenishing inventory levels. Despite this, Imaflex was able to improve compared to the fourth quarter of 2013, mainly as a result of increased sales in packaging film. The continued appreciation of the USD against the CAD increased the cost of raw materials but the improvements in operational efficiency offset part of these cost increases.

RESULTS OF OPERATIONS (continued)

($ thousands)	**Three months ended**		**Years ended**	
	December 31, 2014	December 31, 2013	**December 31, 2014**	December 31, 2013
Sales	**$ 15,857**	$ 13,866	**$ 60,861**	$ 56,052

Sales increased $ 1,991,000 in the fourth quarter of 2014 compared to the fourth quarter of 2013, an increase of 14.4%, mainly due to the increase in packaging film sales in both the US and the Canadian operations as well as the increase in sales of garbage bags. The higher foreign exchange rate throughout the quarter also had a positive impact on sales denominated in USD. The Company has commercialized a new product destined to the citrus industry and increases in the sales of this product will be a growth factor in 2015.

Sales increased by $ 4,809,000 or 8.6% in 2014 compared to 2013. This increase is mainly explained by the higher average selling price of film, due to the product mix sold and the appreciation of the USD against the CAD over the year. Despite considerably lower mulch film sales for the 2014 spring season, the Company was able to recover and complete the year on a positive trend. Management is focusing on properly communicating the advantages of its mulch films in order to further increase sales for these products.

($ thousands)	**Three months ended**		**Years ended**	
	December 31, 2014	December 31, 2013	**December 31, 2014**	December 31, 2013
Gross Profit ($) before amortization of production equipment	**$ 1,939**	$ 1,416	**$ 6,848**	$ 6,893
(%)	**12.2%**	10.2%	**11.3%**	12.3%
Amortization of production equipment	**358**	305	**1,284**	1,130
Gross profit ($)	**$ 1,581**	$ 1,111	**$ 5,564**	$ 5,763
Gross profit (%)	**10.0%**	8.0%	**9.1%**	10.3%

Gross profit before amortization of production equipment increased by $ 523,000, or 36.9%, in the fourth quarter of 2014 compared to 2013 and, as a percentage of sales, the gross margin increased from 10.2% to 12.2%. This improvement is attributable to an increase in sales and the increased efficiency in the US operations. Management believes there are additional improvements to achieve, however the initial efforts were successful and the possibility of increasing production without sacrificing profitability should lead to further improvements in 2015. Due to investments in assets over the course of the year, the amortization of production equipment also increased, generating a net increase in gross profit of $ 470,000 and, as a percentage of sales, from 8.0% to 10.0%.

The gross margin as a percentage of sales decreased from 12.3% in 2013 to 11.3% in 2014. During the year, the Company continually faced increasing raw material costs due to the appreciation of the USD against the CAD and the decreases of polyethylene resin prices at the end of the year negatively impacted sales produced with inventory from previous months. Despite this, management managed to keep its gross profit relatively stable by improving efficiency in its operations and focusing marketing strategies on key products. Due to the investment in capital assets throughout the year, the amortization of production equipment increased by $ 154,000 and the gross profit consequently decreased by $ 199,000 or, as a percentage of sales, from 10.3% to 9.1%.

RESULTS OF OPERATIONS (continued)

($ thousands)	Three months ended		Years ended	
	December 31, 2014	December 31, 2013	**December 31, 2014**	December 31, 2013
Selling and administrative	**$ 1,210**	$ 1,316	**$ 5,165**	$ 5,035
As a % of sales	**7.6%**	9.5%	**8.5%**	9.0%

Selling and administrative expenses decreased by $ 106,000 during the fourth quarter of 2014 compared to 2013 and, as a percentage of sales, from 9.5% of sales to 7.6%. Part of this decrease is due to the timing of certain expenses that were incurred earlier in the year compared to the fourth quarter of 2013. However, the current cost structure can support the current level of production and management believes that further growth can be achieved without the need to increase administrative expenses, although certain projects may require a one-time increase in expenses. For the year 2014, selling and administrative expenses increased compared to 2013, from $ 5,035,000 to $ 5,165,000 but decreased from 9.0% of sales to 8.5% in 2014. The appreciation of the USD against the CAD increased costs denominated in USD and the increase in sales led to an increase in commission expenses, however the cost structure remained similar from one year to the other.

($ thousands)	Three months ended		Years ended	
	December 31, 2014	December 31, 2013	**December 31, 2014**	December 31, 2013
Finance costs	**$ 193**	$ 116	**$ 577**	$ 444

The increase of finance costs in the fourth quarter of 2014 compared to 2013 is due to additional long term indebtedness obtained at the beginning of the first quarter of 2014 and in the fourth quarter of 2014 as well as to a new capital asset acquisition by way of a finance lease in the first quarter of 2014. Finance costs on short term borrowings remained constant as the important decrease in borrowings on the line of credit only occurred late in the fourth quarter. For similar reasons, in addition to increased borrowings on the line of credit throughout the period, finance costs increased by $ 133,000 over the twelve-month period.

($ thousands)	Three months ended		Years ended	
	December 31, 2014	December 31, 2013	**December 31, 2014**	December 31, 2013
Foreign exchange gain	**$ (404)**	$ (302)	**$ (894)**	$ (529)

The continuing appreciation of the USD against the CAD resulted in foreign exchange gains of $ 404,000 in the fourth quarter of 2014 and, with the increases earlier in the year, the foreign exchange gain for the year amounted to $ 894,000. In 2013, the similar currency trends led to a gain of $ 302,000 in the fourth quarter of 2013 and $ 529,000 for the year. The positive impact on the Company's income in 2014 compared to 2013 amounts to $ 102,000 for the fourth quarter of 2014 and $ 365,000 for the year.

RESULTS OF OPERATIONS (continued)

($ thousands)	**Three months ended**		**Years ended**	
	December 31, 2014	December 31, 2013	**December 31, 2014**	December 31, 2013
Income taxes	**$ 380**	$135	**$ 682**	$ 469
As a % of income before taxes	**62.1 %**	(275.5)%	**101.1 %**	69.4%

The income tax expense amounted to $ 380,000 for the fourth quarter of 2014 and $ 682,000 for the year ended December 31, 2014. The income tax expense as a percentage of the consolidated income before income taxes varies greatly due to losses being incurred by an entity for which no income tax benefit is recorded.

($ thousands, except per share data)	**Three months ended**		**Years ended**	
	December 31, 2014	December 31, 2013	**December 31, 2014**	December 31, 2013
Net (loss) income	**$ 231**	$(184)	**$ (7)**	$207
Basic and diluted earnings per share	**$ 0.005**	$(0.004)	**$ (0.0002)**	$0.005

Net income increased in the fourth quarter of 2014 compared to 2013 mainly due to the improvement of the efficiency of the operations as well as a reduction of the administrative and selling expenses and the positive impact of foreign exchange movements. Results were, however, negatively impacted by the income tax expense as well as the increase in finance costs. Management is focusing on improving profitability following the encouraging results that were achieved in the fourth quarter of 2014.

Over the year, net income decreased, mainly as a result of higher amortization of production equipment, selling and administrative expenses, finance costs and income taxes. The increase in these expenses was partially offset by the positive impact of foreign exchange movements. The Company has managed to keep its income before taxes stable despite a difficult first quarter and continuous movements in raw material costs. As raw material costs stabilize and growth is achieved in the US operations while maintaining productivity, management believes that results can further improve.

Financial Position

December 31, 2014 vs. December 31, 2013

From December 31, 2013 to December 31, 2014, the Company’s cash decreased by $ 184,147, the Company’s trade receivables increased by $ 701,821 and inventory increased by $ 2,644,258. The preparation for sales of agricultural mulch films as well as the increase in the price of raw material led to this investment in working capital.

Bank indebtedness decreased by $ 2,283,812 following the closing of a private placement at the end of the year as well as the closing of two debt financings which all led to a decrease in the Company’s bank indebtedness. The increase in the price of raw materials as well as the general increase in sales led to a $ 1,627,101 increase in trade payables. Given the debt is presented in current and non-current liabilities as at December 31, 2014 whereas all debt was included in current liabilities at December 31, 2013, the current portion of long-term debt decreased by $ 1,561,452. The Company entered into a new finance lease during the course of 2014 which led to a $ 26,265 increase in the short term portion of finance lease obligations.

SUMMARY OF QUARTERLY RESULTS

Summary financial data derived from the Company’s unaudited quarterly 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):

	Q4/14	Q3/14	Q2/14	Q1/14	Q4/13	Q3/13	Q2/13	Q1/13
Sales	15,857	15,314	15,267	14,423	13,866	15,203	14,186	12,797
Net income (loss)	231	174	(355)	(57)	(184)	(235)	396	230
Income (loss) per share:								
Basic and diluted	0.005	0.004	(0.008)	(0.001)	(0.004)	(0.005)	0.009	0.005

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

The Company’s working capital position as at December 31, 2014 was $ 5,493,261 compared to $ 143,234 as at December 31, 2013, which is mainly explained by the presentation of long term debt in current and non-current liabilities in 2014 whereas IFRS required that long term debt be presented entirely in current liabilities in 2013. The closing of a financing early in 2014 and another in October 2014 as well as the issuance of shares and warrants in December of 2014 also solidified the Company’s working capital position.

Cash Flows from Operating Activities

Operating activities generated cash outflows of $ 3,417 in the fourth quarter of 2014 compared to outflows of $ 24,866 in 2013. Before movements in working capital, operating activities generated inflows of $ 557,180 in 2014 compared to $ 14,985 in 2013, mainly as a result of increased pre-tax income, which was partially offset by a greater non-cash impacting unrealized gains on foreign exchange. The decrease in accounts receivable generated inflows of $ 1,247,394, whereas the increase in inventories and the decrease in trade payables generated outflows of $ 637,325 and $ 1,066,191 respectively. The decrease in prepaid expenses led to inflows of $ 229,108. The Company paid $ 333,582 of income taxes during the fourth quarter of 2014 compared to net income taxes paid of $ 9,339 in the fourth quarter of 2013.

Over the year, operating activities generated an outflow of $ 559,755 compared to an inflow of $ 1,505,498 in 2013. Before movements in working capital, operating activities generated inflows of $ 1,433,202 in 2014 compared to $ 1,663,277 in 2013. Pre-tax income remained relatively constant; however the greater unrealized foreign exchange gain caused the cash flow to decrease. This was partially offset by the increase in non-cash impacting expenses, such as amortization and depreciation. Movements in working capital generated an outflow of $ 1,439,668 in 2014 compared to inflows of $144,348 in 2013 and income taxes paid amounted to $ 553,289 compared to $ 302,127 in 2013.

LIQUIDITY (continued)

Cash Flows from Investing Activities

In anticipation of and following the closing of the debt financing obtained in the fourth quarter of 2014, the Company made investments in capital assets over the year in order to increase the efficiency of its operations as well as payments for leasehold improvements in order to improve its current plant locations. Also, the Company acquired from Bayer AG the patents relating to active ingredient-releasing mulch films in order to add to its current product offering, to better control the products it was intending to bring to market and to position the Company as the sole owner of the technology it is looking to develop for these products. Over the course of the 2014 year, the Company invested $ 1,234,222 in machinery, equipment and leasehold improvements as well as $ 681,320 in intangible assets.

In 2013, payments for investing activities amounted to $ 1,112,892 to improve and upgrade existing machinery and equipment in order to increase efficiency as well as leasehold improvements.

Cash Flows from Financing Activities

During the fourth quarter, the Company closed a debt financing from which it drew $ 2,746,777 as well as a private placement which generated net proceeds of $ 1,689,672. The debt financing enabled the Company to invest in equipment and machinery whereas the funds from the private placement were raised primarily to improve working capital. In anticipation of the exercise of options in 2015, the Company received a deposit of funds totaling $ 296,053 and also received $ 203,947 from a shareholder and director. The Company paid $ 2,910,540 on its bank indebtedness, $ 125,320 in interest, $ 125,730 on its long term borrowings and $ 31,234 on its finance-leases.

Additionally, earlier in the year, the Company refinanced a long term loan and closed a new financing agreement, obtaining additional funds amounting to $ 4,312,597 for the year. Over the twelve-month period, the Company paid $ 2,283,812 on its bank indebtedness, $ 500,941 in interest, $ 1,396,950 on its long term loans and $ 104,551 on its finance-leases. During the year ended December 31, 2013, the Company made payments of $ 1,114,633 on long term debts, $ 45,964 on finance leases and $ 393,014 in interest. The Company also closed a non-brokered private placement for net proceeds of $ 800,000 and borrowed additional funds totaling $ 1,334,806 on its line of credit.

CONTRACTUAL OBLIGATIONS

The contractual obligations as at December 31, 2014 were as follows:

($ thousands)	**Payments due by period**			
	Total	Less than 1 year	1 – 5 years	After 5 years
Long-term debt	$ 6,438	$ 1,227	$ 4,857	$ 354
Finance leases	593	150	443	-
Operating leases	5,250	951	2,619	1,680
Bank Indebtedness	5,155	5,155	-	-
Total contractual obligations	**$ 17,436**	**$ 7,483**	**$ 7,919**	**$ 2,034**

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, 2014.

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 1.25%. The line of credit is secured by trade receivables and inventories. As at December 31, 2014, the Company had drawn $ 5,154,870 on its line of credit ($ 7,438,682 as at December 31, 2013). The Company’s working capital was $ 5,493,261 as at December 31, 2014 compared to $ 143,234 as at December 31, 2013, mainly because the long term borrowings were classified as current and non-current. During the year, the Company obtained new financing by entering into two new long term borrowing arrangements, the first consisting in refinancing a debt in the first quarter of 2014 and the second by entering into a new financing agreement in the fourth quarter of 2014. Moreover, on December 31, 2014, the Company closed a private placement obtaining net proceeds of $ 1,689,672. This was completed with the goals of strengthening the Company’s liquidity position and providing capital to fund the Company’s future growth. During the course of the year, the Company also repaid the balance of purchase price of the business acquisition.

PROPOSED TRANSACTION

The Company is not currently contemplating any business acquisition or merger.

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 years ended December 31, 2014 and 2013. 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, 2014 and 2013.

($ thousands)		**Three months ended**		**Years ended**	
		December 31, 2014	December 31, 2013	**December 31, 2014**	December 31, 2013
Professional fees	**(a)**	**$ 7**	$ 29	**$ 274**	$ 305
Rent	**(b)**	**$ 190**	$ 231	**$ 755**	$ 795

(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, 2014 and 2013. 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, 2014 and 2013 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, 2014, the Company is not using any swap, forward or hedge accounting.

As at December 31, 2014, 300,000 options to purchase shares of the Company were outstanding and exercisable at a weighted average strike price of $0.295. As at December 31, 2014, 4,206,058 warrants entitling the owner to purchase common shares at a weighted average price of $0.56 were outstanding. During the year ended December 31, 2014, 1,315,789 warrants expired and 2,270,573 warrants were issued as part of a private placement that closed on December 31, 2014.

MANAGEMENT OUTLOOK

The fourth quarter proved that the efforts made by management over the last few years should materialize into results. The productivity of the operations increased, but mostly products that were several years in the making have begun being commercialized. This speaks loudly of Imaflex’s capacity to find innovative solutions to problems that our customers and partners are faced with.

As early as the summer of 2015, Imaflex will introduce a new product on the agricultural market after several years of investments, while the Company has already started selling, in the fourth quarter of 2014, the film for the citrus industry. The Company can now also rely on its legacy business to maintain a strong position in the market which is waiting for these new products to be adopted in large quantities.

OUTSTANDING SHARE DATA

As at December 31, 2014, the Company had 48,256,942 common shares outstanding (44,201,276 as at December 31, 2013).

EVENTS SUBSEQUENT TO THE REPORTING PERIOD

On February 2, 2015 the Company issued 1,381,695 common shares following the exercise of warrants that entitled the holders to purchase shares of the Company at $ 0.45 per share. These warrants were issued as part of a private placement that closed on February 1, 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.

RISK FACTORS (continued)

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, 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 21, 2015

Consolidated Financial Statements of

IMAFLEX INC.

Years ended December 31, 2014 and 2013

Raymond Chabot Grant Thornton LLP
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Independent Auditor's Report

To the Shareholders of
Imaflex Inc.

We have audited the accompanying consolidated financial statements of Imaflex Inc., which comprise the consolidated statements of financial position as at December 31, 2014 and 2013 and the consolidated statements of comprehensive income, changes in equity and cash flows for the years 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 audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Imaflex Inc. as at December 31, 2014 and 2013 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Raymond Chabot Grant Thornton LLP[1]

Montreal
April 21, 2015

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

Consolidated statements of comprehensive (loss) income

for the years ended		December 31,	
(in Canadian dollars)		2014	2013
Revenues	(Note 5.1)	$ 60,861,309	$ 56,051,618
Cost of sales		55,297,419	50,288,863
Gross profit		5,563,890	5,762,755
Expenses:			
Selling		1,369,502	1,384,124
Administrative		3,795,683	3,650,636
Finance costs	(Note 8)	576,521	443,708
Other gains	(Note 9)	(893,559)	(538,588)
Other		41,606	147,288
		4,889,753	5,087,168
Income before income taxes		674,137	675,587
Income taxes	(Note 10)	681,579	468,785
NET (LOSS) INCOME		(7,442)	206,802
Other comprehensive income, net of income taxes			
Item that will be reclassified subsequently to net income			
Exchange differences on translating foreign operations		48,327	142,811
COMPREHENSIVE INCOME		$ 40,885	$ 349,613
(Loss) earnings per share			
Basic and diluted	(Note 11)	$ (0.0002)	$ 0.005

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

Consolidated statements of financial position

As at **(in Canadian dollars)**		**December 31, 2014**	**December 31, 2013**
Assets			
Current assets			
Cash		$ 945,744	$ 1,129,891
Trade and other receivables	(Note 12)	9,578,570	8,876,749
Inventories	(Note 13)	9,827,996	7,183,738
Prepaid expenses		205,868	88,801
Total current assets		20,558,178	17,279,179
Non-current assets			
Property, plant and equipment	(Note 14)	17,419,808	16,131,997
Intangible assets	(Note 15)	1,399,280	713,030
Other receivables	(Note 12)	80,685	321,038
Total non-current assets		18,899,773	17,166,065
Total assets		$ 39,457,951	$ 34,445,244
Liabilities and equity			
Current liabilities			
Bank indebtedness	(Note 17)	5,154,870	7,438,682
Trade and other payables	(Note 16)	8,478,772	6,851,670
Current tax liabilities		376,626	255,757
Long-term debt, current portion	(Note 17)	927,727	2,489,179
Finance lease obligations, current portion	(Notes 17, 18)	126,922	100,657
Total current liabilities		15,064,917	17,135,945
Non-current liabilities			
Long-term debt	(Note 17)	4,632,710	-
Deferred tax liabilities	(Note 10)	1,318,859	1,353,259
Finance lease obligations	(Notes 17, 18)	412,978	-
Total non-current liabilities		6,364,547	1,353,259
Total liabilities		21,429,464	18,489,204
Equity			
Share capital	(Note 19)	10,945,614	9,368,452
Reserves		1,336,275	833,548
Retained earnings		5,746,598	5,754,040
Total equity		18,028,487	15,956,040
Total liabilities and equity		$ 39,457,951	$ 34,445,244

Non-cancellable 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, 2014 and 2013
(in Canadian dollars)

	Share capital (a)	Reserves: Share-based compensation	Reserves: Accumulated foreign currency translation	Reserves: Warrants	Reserves: Other	Total reserves	Retained earnings	Total
Balance at January 1, 2013	$ 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 and January 1, 2014	$ 9,368,452	$ 367,669	$ (30,318)	$ 496,197	$ -	$ 833,548	$ 5,754,040	$ 15,956,040
Net loss for the year	-	-	-	-	-	-	(7,442)	(7,442)
Exchange differences on translating foreign operations	-	-	48,327	-	-	48,327	-	48,327
Comprehensive income for the year	-	-	48,327	-	-	48,327	(7,442)	40,885
Transactions with owners:								
Issuance of share capital and warrants net of transaction costs and taxes (Note 19)	1,577,162	-	-	154,124	-	154,124	-	1,731,286
Share-based compensation (Note 20)	-	4,223	-	-	-	4,223	-	4,223
Deposit on future exercise of warrants (Note 19)	-	-	-	-	296,053	296,053	-	296,053
Balance at December 31, 2014	$10,945,614	$ 371,892	$ 18,009	$ 650,321	$ 296,053	$ 1,336,275	$ 5,746,598	$ 18,028,487

(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, 2014	2013
Operating activities:		
Net (loss) income for the year	$ (7,442)	$ 206,802
Income tax expense	681,579	468,785
Change in fair value of derivative financial instrument	-	(9,958)
Depreciation and amortisation of non-current assets	1,415,703	1,221,970
Finance costs	576,521	443,708
Share-based compensation	4,223	34,770
Unrealized foreign exchange gain	(1,237,382)	(702,800)
	1,433,202	1,663,277
Net changes in working capital		
Increase in trade and other receivables	(261,224)	(374,940)
Increase in inventories	(2,373,185)	(123,853)
(Increase) decrease in prepaid expenses	(81,159)	29,265
Increase in trade and other payables	1,275,900	613,876
	(1,439,668)	144,348
Cash (used in) generated by operations	(6,466)	1,807,625
Net income taxes paid	(553,289)	(302,127)
Net cash (used in) generated by operating activities	(559,755)	1,505,498
Investing activities:		
Payments for property, plant and equipment	(1,234,222)	(1,045,155)
Payments for intangible assets	(681,320)	(67,737)
Net cash used in investing activities	(1,915,542)	(1,112,892)
Financing activities:		
Net change in bank indebtedness	(2,283,812)	1,334,806
Interest paid	(500,941)	(393,014)
Increase in long term debt	4,312,597	-
Repayment of long-term debt	(1,396,950)	(1,114,633)
Net proceeds from issuance of share capital and warrants	1,689,672	800,000
Due to a shareholder and director (Note 16)	203,947	-
Deposit on future exercise of warrants (Note 19)	296,053	-
Repayment of finance leases	(104,551)	(45,964)
Net cash generated by financing activities	2,216,015	581,195
Net (decrease) increase in cash	(259,282)	973,801
Cash, beginning of the year	1,129,891	126,994
Effects of foreign exchange differences on cash	75,135	29,096
Cash, end of the year	$ 945,744	$ 1,129,891

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, 2014. The consolidated financial statements were approved by the board of directors and authorized for issue on April 21, 2015.

2.2 Basis of measurement

The consolidated financial statements have been prepared using the historical cost basis.

2.3 Changes in accounting policies

<u>Offsetting financial assets and financial liabilities</u>

Effective January 1, 2014, the amendments to IAS 32 – *Financial Instruments* - *Presentation* clarifies the definition of certain criteria required to offset financial assets and financial liabilities. The adoption of this standard did not have any impact on the Company's 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, 2014 and 2013, Imaflex USA, the Company's wholly owned subsidiary, manufactured flexible packaging and plastic film out of its two North Carolina, USA, plants.

2. Significant accounting policies (continued)

2.5 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 respective functional currencies. 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 monthly 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. Resulting gains and losses on foreign exchange are recorded in the consolidated statement of comprehensive (loss) income.

2.6 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.

2.7 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 (loss) income 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.

2. Significant accounting policies (continued)

2.7 Income Tax (continued)

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, except when they relate to items that are recognised outside net income (whether in other comprehensive income or directly in equity), in which case the tax is also recognised outside net income.

2.8 Earnings per share

Earnings per share are calculated by dividing net (loss) 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.

2.9 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.

<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.

<u>Impairment of financial assets</u>

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.

2. Significant accounting policies (continued)

2.9 Financial assets and financial liabilities (continued)

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 net income. The expense relating to the allowance for doubtful accounts is recognised in Administrative expenses in the statement of comprehensive (loss) income.

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. Discounting is omitted where the effect of discounting is immaterial.

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 (loss) income under Finance costs.

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

2.10 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.

2.11 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

2. Significant accounting policies (continued)

2.11 Property, plant and equipment (continued)

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, with Other gains in the consolidated statement of comprehensive (loss) income.

2.12 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. Contingent rentals are recognised as expenses in the periods in which they are incurred.

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.

2.13 Intangible assets other than goodwill

Customer relationships 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. When intangible assets are purchased separately, as it was the case for patents, the cost comprises its purchase price and any directly attributable cost of preparing the asset for its intended use. When intangible assets are internally developed, as is the case with the Company's internally developed patents, the cost comprises the directly attributable costs in the development phase necessary to create, produce and prepare the patent for the Company to be able to operate it for its intended use.

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 when the asset is derecognised. The amortisation of intangible assets, if any, is recognised in Administrative expenses in the consolidated statement of comprehensive (loss) income over the useful life of the intangible asset. Customer relationships are amortised on a straight-line basis over 8 years and patents are amortised as of the moment they can be used over the life of the patent (14 years).

2. Significant accounting policies (continued)

2.14 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, 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, 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.

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

2.16 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. Significant accounting policies (continued)

2.17 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.

2.18 Share capital and reserves

Share capital represents the nominal value of shares that have been issued. Proceeds, net of transactions costs after taxes, 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 2.17);
- Accumulated foreign currency translation (see 2.5);
- Warrants – comprises the value of outstanding and expired warrants;
- Other (see Note 19).

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 recently released IFRS 9 – *Financial intruments*, representing the completion of its project to replace IAS 39 – *Financial Instruments: Recognition and Measurement*. This IFRS includes a revised model for the classification and measurement of financial assets and liabilities, a single 'expected credit loss' impairment model and a reformed approach to hedge-accounting. This IFRS is effective for periods starting on or after January 1, 2018, although earlier application is permitted. Management is currently evaluating the impact of this new standard on the Company's consolidated financial statements.

Revenues from contracts

IFRS 15 – *Revenue from Contracts with Customers* will replace IAS 18 – *Revenue*, IAS 11 – *Construction Contracts* and other revenue-related interpretations and will be effective for periods beginning on or after January 1, 2017 although earlier application is permitted. It provides more detailed guidance on the basis for deciding when to recognise revenue related to a contract with a customer as well as the relevant disclosures that need to be presented in the financial statements. Management is currently evaluating the impact of this new standard but does not expect it to have a material impact on its 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.

4.2 Key sources of estimation uncertainty

The following are the 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

If required, 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.

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

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 equity instruments from time to time, which are comprised of options to purchase common shares as well as common shares and warrants (units). 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, 2014	December 31, 2013
Canada	$ 25,874,706	$ 22,254,188
United States	34,881,603	33,515,234
Other	105,000	282,196
Total	$ 60,861,309	$ 56,051,618

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

	December 31, 2014	December 31, 2013
Canada	$ 6,752,362	$ 6,244,399
United States	12,066,726	10,600,628
Total	$ 18,819,088	$ 16,845,027

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

The Company's consolidated statement of comprehensive (loss) income includes depreciation of production equipment of $ 1,283,665 for the year ended December 31, 2014 ($ 1,130,509 in 2013) classified in Cost of sales. Depreciation of other property, plant and equipment and amortisation of intangible assets amounting to $ 132,038 for the year ended December 31, 2014 ($ 91,461 in 2013) is included in Administrative expenses.

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

The Company's consolidated statement of comprehensive (loss) income includes salaries paid to its employees of $ 6,813,329 for the year ended December 31, 2014 ($ 6,417,472 in 2013) classified in Cost of sales. Administrative expenses include salaries paid to employees of $ 1,383,269 for the year ended December 31, 2014 ($ 1,138,766 in 2013) and Selling expenses include salaries paid to employees of $ 430,301 for the year ended December 31, 2014 ($ 428,361 in 2013).

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 $ 2,117,133 during the year ended December 31, 2014 ($ 1,909,847 in 2013). 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, 2014, the Company contributed $ 15,130 to this plan ($ 14,458 in 2013).

8. Finance costs

	Year ended	
	December 31, 2014	December 31, 2013
Interest on bank indebtedness and long term debt	$ 515,158	$ 437,816
Interest on obligations under finance leases	24,973	5,892
Other interest	36,390	-
	$ 576,521	$ 443,708

9. Other gains

	Year ended	
	December 31, 2014	December 31, 2013
Foreign exchange gain	$ (893,559)	$ (528,630)
Change in fair value of derivative financial instrument	-	(9,958)
	$ (893,559)	$ (538,588)

10. Income taxes

10.1 Income tax recognised in net income

	Year ended	
	December 31, 2014	December 31, 2013
Income tax expense comprises:		
Current tax expense	$ 682,688	$ 384,616
Deferred tax expense relating to the origination and reversal of temporary differences	(1,109)	84,169
Total income tax expense	$ 681,579	$ 468,785

10. Income taxes (continued)

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

	Year ended	
	December 31, 2014	December 31, 2013
Income before income taxes	$ 674,137	$ 675,587
Income tax expense calculated at 26.9%	181,343	181,733
Permanent differences	(95,267)	(79,803)
Effect of unrecognised benefit of Imaflex USA's losses	634,703	479,424
Effect of different tax rates of subsidiaries operating in other jurisdictions	(166,294)	(148,745)
Other	127,094	36,176
Income tax expense recognised in net income	$ 681,579	$ 468,785

The tax rate used for the 2014 reconciliation above is the corporate tax rate of 26.9% (26.9% in 2013) payable by corporate entities in Quebec, Canada on taxable income under tax law in those jurisdictions.

10.3 Deferred tax balances

	Opening balance	Recognised in equity	Recognised in income	Adjustment to prior year balance	Closing balance
2014					
Assets					
Non-capital losses	$ 2,454,562	$ -	$ 138,249	$ -	$ 2,592,811
Finance leases	15,983	-	(4,503)	-	11,480
Inventory	223,932	-	21,290	-	245,222
Other assets	90,350	33,291	53,326	-	176,967
	2,784,827	33,291	208,362	-	3,026,480
Liabilities					
Advance	(80,516)	-	(51,276)	-	(131,792)
Property, plant and equipment	(4,052,190)	-	(155,606)	(371)	(4,208,167)
Investment tax credits	(5,380)	-	-	-	(5,380)
	(4,138,086)	-	(206,882)	(371)	(4,345,339)
Deferred tax liabilities	$(1,353,259)	$ 33,291	$ 1,480	$ (371)	$(1,318,859)

10. Income taxes (continued)

10.3 Deferred tax balances (continued)

	Opening balance	Recognised in equity	Recognised in income	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)

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 $ 20,651,478 in 2014 and $ 16,868,259 in 2013 for part of which a deferred tax asset has not been recognised ($ 4,934,653 in 2014 and $ 4,124,059 in 2013) that expire as follows:

Expiring in	December 31, 2014	December 31, 2013
2025	$ 100,578	$ 92,212
2026	1,685,728	1,545,505
2027	1,158,751	1,062,363
2028	2,502,093	2,293,963
2029	2,710,419	2,484,960
2030	3,977,536	3,646,675
2031	1,697,894	1,556,659
2032	2,383,876	2,207,521
2033	2,386,914	1,978,401
2034	2,047,689	-
	$20,651,478	$16,868,259

11. Earnings per share

	Year ended December 31, 2014	Year ended December 31, 2013
(Loss) income for basic and diluted earnings per share	$ (7,442)	$ 206,802
Weighted average number of common shares outstanding	44,212,387	43,644,564
Dilutive effect of share purchase options	-	70,122
Diluted weighted average common shares outstanding	44,212,387	43,714,686
Basic and diluted (loss) earnings per common share	$ (0.0002)	$ 0.005

12. Trade and other receivables

	December 31, 2014	December 31, 2013
Trade receivables	$ 9,915,500	$ 9,322,425
Allowance for doubtful accounts	(834,392)	(620,539)
	9,081,108	8,701,886
Other receivables	578,147	495,901
Total receivables	9,659,255	9,197,787
Non-current other receivables	80,685	321,038
Current trade and other receivables	$ 9,578,570	$ 8,876,749

Movement in the allowance for doubtful accounts

	Year ended December 31, 2014	Year ended December 31, 2013
Balance, beginning of year	$ (620,539)	$ (570,400)
Release of allowance for doubtful accounts	90,000	55,000
Impairment losses and adjustments recognised on trade receivables	(258,674)	(78,433)
Foreign exchange	(45,179)	(26,706)
Balance, end of year	$ (834,392)	$ (620,539)

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 of 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.

12. Trade and other receivables (continued)

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. Moreover, the Company uses credit insurance to mitigate credit risk. As at December 31 2014, $ 4,200,472 ($ 4,069,180 as at December 31, 2013) 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 $ 2,201,230 of past due trade receivables that were not impaired ($ 1,841,664 in 2013). Of that amount, $ 343,425 was over 90 days ($ 826,141 as at December 31, 2013).

Aging of total receivables

	Year ended	
	December 31, 2014	December 31, 2013
Current	$ 4,348,179	$ 3,756,814
31 days to 60 days	2,917,291	3,325,812
61 days to 90 days	1,857,804	1,139,164
Over 90 days	535,981	975,997
Total	$ 9,659,255	$ 9,197,787

13. Inventories

	December 31, 2014	December 31, 2013
Raw materials and supplies	$ 6,116,872	$ 4,233,033
Finished goods	3,284,600	2,603,107
Work in process	426,524	347,598
Total	$ 9,827,996	$ 7,183,738

The cost of inventories recognised as an expense during the year was $ 37,898,939 ($ 33,145,289 in 2013). There were no write-downs of inventory recognised in the fiscal year ended on December 31, 2014 or 2013.

14. Property, plant and equipment

	Production equipment	Leasehold improvements	Office equipment	Computer equipment	Equipment under finance lease	Total
Cost,						
January 1, 2013	$ 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
Additions	907,732	131,218	-	27,318	657,466	1,723,734
Foreign exchange	1,318,364	57,093	1,347	1,120	33,664	1,411,588
December 31, 2014	$ 42,217,660	$1,929,506	$ 43,298	$420,296	$ 884,857	$ 45,495,617
Accumulated depreciation						
January 1, 2013	$(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)
Depreciation expense	(1,240,301)	(71,760)	-	(8,724)	(43,364)	(1,364,149)
Foreign exchange	(448,104)	(30,596)	(1,347)	(1,119)	(2,196)	(483,362)
December 31, 2014	$(25,998,881)	$ (1,498,058)	$ (43,298)	$(396,429)	$ (139,143)	$(28,075,809)
Net book value, as at						
December 31, 2013	$ 15,681,088	$ 345,493	$ -	$ 5,272	$ 100,144	$ 16,131,997
December 31, 2014	$ 16,218,779	$ 431,448	$ -	$ 23,867	$ 745,714	$ 17,419,808

A portion of the Company's production equipment with a carrying amount of approximately $ 13,600,000 (approximately $ 3,800,000 as at December 31, 2013) is pledged as collateral for the Company's operating line of credit and long-term debt.

15. Intangible assets

	Goodwill	Customer relationships	Patents	Total
January 1, 2013	$ 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
Additions	-	-	681,320	681,320
Amortisation	-	(41,441)	(10,113)	(51,554)
Foreign exchange	36,231	20,253	-	56,484
December 31, 2014	$ 435,566	$ 224,770	$ 738,944	$ 1,399,280

During the year ended December 31, 2014, the Company purchased the patents to ADVASEAL, a plastic film formulation for controlled release of plant protection products, including all the rights and intellectual property surrounding the co-extruded active ingredient-releasing agricultural film, which was co-developed by Imaflex. It also further invested in its existing patents in order to be able to be able to obtain all required registrations.

16. Trade and other payables

	December 31, 2014	December 31, 2013
Trade payables	$ 7,106,151	$ 5,184,430
Other payables and accrued liabilities	1,168,674	1,667,240
Due to a shareholder and director (a)	203,947	-
	$ 8,478,772	$ 6,851,670

(a) This loan does not bear interest and does not have any predetermined fixed repayment terms.

17. Credit facilities

	December 31, 2014	December 31, 2013
Bank indebtedness (a)	$ 5,154,870	$ 7,438,682
Long term debt		
Loan, refinanced during the course of the year ended December 31, 2014, bearing interest at the lender's base rate (5.00% as at December 31, 2014) plus 0.375%, repayable in monthly principal installments of $41,670 to May 2020, secured by production equipment. (b) (c)	2,708,550	1,434,180
Loan (US$ 2,458,311), bearing interest at the US prime rate, reset monthly, plus 3.00% (effective rate of 6.25% as at December 31, 2014) secured by the production equipment of the subsidiary and a corporate guarantee from the Parent Company. (d)	2,851,887	-
Balance of purchase price on business acquisition (US$ 991,913 as at December 31, 2013) (e)	-	1,054,999
Total long term debt	5,560,437	2,489,179
Finance leases (b) (Note 18)	539,900	100,657
Total borrowings	11,255,207	10,028,518
Current		
Bank indebtedness	5,154,870	7,438,682
Long-term debt, current portion	927,727	2,489,179
Finance leases	126,922	100,657
	6,209,519	10,028,518
Non-current		
Long-term debt	4,632,710	-
Finance leases	412,978	-
	5,045,688	-
Total borrowings	$ 11,255,207	$ 10,028,518

Interest on long-term debt amounted to $ 187,895 for the year ended December 31, 2014 ($ 154,251 in 2013).

(a) The Company has an operating line of credit with its bankers to a maximum of $8,500,000, bearing interest at prime plus 1.25% (4.25% effective interest rate at December 31, 2014). 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 and minimum EBITDA covenants (as defined in the lending agreement). As at December 31, 2014, the Company had drawn $ 5,154,870 ($ 7,438,682 as at December 31, 2013) on the line of credit and was not in compliance with its minimum EBITDA covenant. However, the Company obtained a waiver as at December 31, 2014 confirming tolerance for this breach until January 1, 2016. As at December 31 2013, the Company was not in compliance with two financial covenants on its line of credit and had obtained a waiver from its financial institution subsequent to year-end.

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 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) During the year ended December 31, 2014, the Company refinanced a loan in order to obtain additional financing to replenish working capital. The Company obtained $ 1,565,820 of additional funds, repayable in one monthly instalment of $ 41,430 and 71 monthly instalments of $ 41,670, starting on June 23, 2014 and ending on May 23, 2020. The interest applicable to the refinanced loan increased from a premium of 0.25% over the lender's base rate to 0.375% (effective rate of 5.375% as at December 31, 2014).

(d) During the year ended December 31, 2014, the Company entered into a credit agreement for a total of USD $3,000,000 at a rate of 3.00% over the US prime rate for an effective rate of 6.25% as at December 31, 2014 repayable in 20 equal quarterly instalments. The Company can draw on this loan for capital investments and working capital purposes for a period of 6 months following the date of the agreement. The first payment of interest is due on the third month following the first draw on the loan and the first payment of capital and interest is due 6 months after the date of the first draw. This loan was recorded at the effective interest rate method, net of all incremental transaction costs directly attributable to the transaction. As at December 31, 2014, the Company was not in compliance with its Interest-bearing-debt-to-EBITDA and fixed-charge-coverage ratio covenants. However, the Company obtained waivers as at December 31, 2014 confirming tolerance for these breaches for a period of more than one year.

(e) 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 during the course of the year ended December 31, 2014.

The aggregate scheduled repayment of long term debt is as follows :

Not later than one year	$ 927,727
Later than one year and not later than five years	4,281,154
Later than 5 years	350,912
	$ 5,559,793

18. Obligations under finance leases

The Company has entered into certain finance lease agreements. Finance lease payments are as follows :

Not later than one year	$ 149,768
Later than one year and not later than five years	444,465
Later than five years	-
Total minimum lease payments	594,233
Less amount representing interest at approximately 6.4%	(54,333)
Present value of minimum lease payments	539,900
Less the long term portion	(412,978)
Current portion of obligations under finance leases	126,922

During the year ended December 31, 2014, the Company entered into a finance lease agreement for $ 518,701 relating to production equipment worth $ 610,236. The lease is repayable over 5 years and the Company also made a down payment totalling $ 91,535.

19. Share capital

The Company's authorized share capital consists of an unlimited number of common shares, voting, participating, without par value. At December 31, 2014, there were 48,256,942 common shares outstanding (44,201,276 common shares at December 31, 2013).

During the year ended December 31, 2014, the Company issued, through a private placement, 4,055,666 Units for gross proceeds of $ 1,825,050. Each Unit is comprised of one common share and one half common share purchase warrant. Each full warrant entitles the holder thereof to purchase one additional common share at a price of $ 0.65 per share for a period of twelve months from the date of closing.

Each share issued was attributed a value of $ 0.415 and each half warrant issued was attributed a value of $ 0.035. Transactions costs, net of income taxes, amounting to $ 113,183 were presented in equity against the gross proceeds of the private placement. As part of the costs of the transaction, the Company also issued 242,740 warrants. Each warrant entitles the holder thereof to purchase one common share of the Company at a price of $ 0.65 per share for a period of twelve months from the closing of the private placement. The value attributed to warrants amounted to $ 19,419 which was entirely recorded in Warrants in the Consolidated Statements of Changes in Equity. The following assumptions were used to determine the fair value of the warrants:

Dividend yield	0%
Risk free rate	1.01%
Expected life of warrant	1 year
Expected share price volatility	70.0%

The variations in the Consolidated statement of changes in equity are as follows:

	Share capital		Warrants		Total	
Gross proceeds	1,681,439	$	143,611	$	1 825,050	$
Transaction costs, net of taxes	(104,277)		(8,906)		(113,183)	
Issuance of warrants	-		19,419		19,419	
Total changes	1,577,162	$	154,124	$	1,731,286	$

During the year ending December 31, 2014, 1,315,789 warrants expired. As at December 31, 2014, 4,206,058 warrants entitling the owners to purchase common shares at an average weighted price of $0.56 per share were outstanding (3,251,274 warrants at a price of $0.45 as at December 31, 2013).

During the year ending December 31, 2014, the Company received an amount of $ 296,053 in anticipation of the exercise of warrants to purchase common shares of the Company (Note 26) at an exercise price of $0.45 per share.

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

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.

20. Share-based compensation (continued)

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 vested immediately at issuance, and the others vesting at every following quarter. The share-based compensation expense relating to this issuance amounted to $ 4,223 during the year ended December 31, 2014 ($ 14,588 in 2013).

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 vested immediately at issuance, and the others vesting at every following quarter. The share-based compensation expense relating to this issuance amounted to $ 20,182 during the year ended December 31, 2013 and no expense was recorded during the year ended December 31, 2014.

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	January 15, 2013	May 27, 2011	Total
Outstanding as at 31/12/2013 and 31/12/2014	100,000	100,000	100,000	300,000
Exercisable as at 31/12/2013	50,000	100,000	100,000	250,000
Exercisable as at 31/12/2014	100,000	100,000	100,000	300,000
Remaining life of options	0.54 years	0.04 years	1.41 years	
Expected life of options	0.99 to 1.37 years	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	

The 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, 2014, the Company financed the acquisition of certain operating assets of a value totalling $ 610,236 by entering into finance leases for an amount totalling $ 518,701. Additional information on finance leases is provided in Note 18.

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.

22. Financial instruments

22.1 Fair value and classification of financial instruments

	Carrying amount and fair value	
	December 31, 2014	**December 31, 2013**
Financial assets		
Loans and receivables		
Cash	$ 945,744	$ 1,129,891
Trade and other receivables [(1)]	9,273,665	8,848,549
Financial liabilities		
Financial liabilities, at amortised cost		
Bank indebtedness	5,154,870	7,438,682
Trade and other payables [(2)]	7,903,031	6,780,724
Long term debt	5,560,437	2,489,179
Other liabilities		
Finance lease obligations	539,900	100,657

[(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 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, 2014 and 2013, the fair values of bank indebtedness, other long-term debt and finance lease obligations are 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, 2014	Year ended December 31, 2013
Lease payments for premises	$ 876,640	$ 803,666
Vehicles	34,248	34,248
Office equipment	8,406	8,406

23.3 Non-cancellable operating lease commitments

	Year ended December 31, 2014	Year ended December 31, 2013
Not later than 1 year	$ 951,014	$ 706,514
Later than 1 year and not later than 5 years	2,619,272	1,564,079
Later than 5 years	1,679,851	445,117
	$ 5,250,137	$ 2,715,710

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, 2014:
- 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 6.00:1.00;
- Fixed charge coverage ratio calculated on a yearly basis equal to or greather than 1.10:1.00;
- To maintain a minimum EBITDA (as defined) of $ 1,900,000 for the fiscal year ended December 31, 2014.

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.

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

	December 31, 2014	December 31, 2013
Cash	$ 903,976	$ 1,062,082
Trade receivables	4,112,356	4,529,975
Trade payables	(6,187,526)	(4,511,646)
Long term debt	(2,851,887)	(1,096,276)
Gross financial position exposure	$ (4,023,081)	$ (15,865)

24. Risk management (continued)

A 5% appreciation of the Canadian dollar against the USD would impact its financial position by $ 201,154 as at December 31, 2014 (December 31, 2013 - $ 793). 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, 2014	December 31, 2013
Variable rate instruments		
Financial liabilities	$ 10,715,307	$ 8,872,862
Gross financial position exposure	$ 10,715,307	$ 8,872,862

Sensitivity analysis

A 100 basis point increase in interest rates at the reporting date would result in a decrease in income for the year ended December 31, 2015 of approximately $ 102,946 ($ 86,335 for 2014 as at December 31, 2013). Conversely a decrease would have the opposite effect.

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 $5,154,870 was utilized as at December 31, 2014. Borrowings under the Company's operating line of credit bear interest at the bank's prime rate plus 1.25%. 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.

24. Risk management (continued)

As at December 31, 2014, the carrying amount and undiscounted contractual cash flows for the Company's liabilities are as follows:

	Carrying amount	Contractual cash flow	1 year or less	2-5 years	More than 5 years
Bank indebtedness	$ 5,154,870	$ 5,154,870	$ 5,154,870	$ -	$ -
Long term debt	5,533,882	5,559,793	927,727	4,281,154	350,912
Interest on borrowings (1)	26,555	878,602	299,540	575,739	3,323
Finance leases (2)	539,900	594,233	149,768	444,465	-
Trade payables	8,478,772	8,478,772	8,478,772	-	-
	$19,733,979	$20,666,270	$15,010,677	$ 5,301,358	$ 354,235

(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, 2014	**December 31, 2013**
Rent	$ 755,050	$ 794,769
Professional fees	273,558	305,225
	$ 1,028,608	$ 1,099,994

Rent is paid on the first day of the month for the current month. During the year ending December 31, 2014 the Company renewed a lease with a related party for a duration of 10 years. These commitments are presented in Note 23.3 on non-cancellable operating lease commitments.

As at December 31, 2014, there was an amount of $ 114,000 recorded as payable to related parties for professional fees ($ 159,492 as at December 31, 2013).

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.

25. Related party transactions (continued)

	Year ended	
	December 31, 2014	December 31, 2013
Salaries	$ 639,126	$ 527,066
Management fees	173,558	160,866
Short-term employee benefits	3,985	5,365
Post-employment benefits – State-run plans	12,029	13,627
Other benefits	35,177	29,009
	$ 863,875	$ 735,933

26. Events subsequent to the reporting period

On February 2, 2015 the Company issued 1,381,695 shares following the exercise of warrants that entitled the holders to purchase shares of the Company at $ 0.45 per share. These warrants were issued as part of a private placement that closed on February 1, 2012.