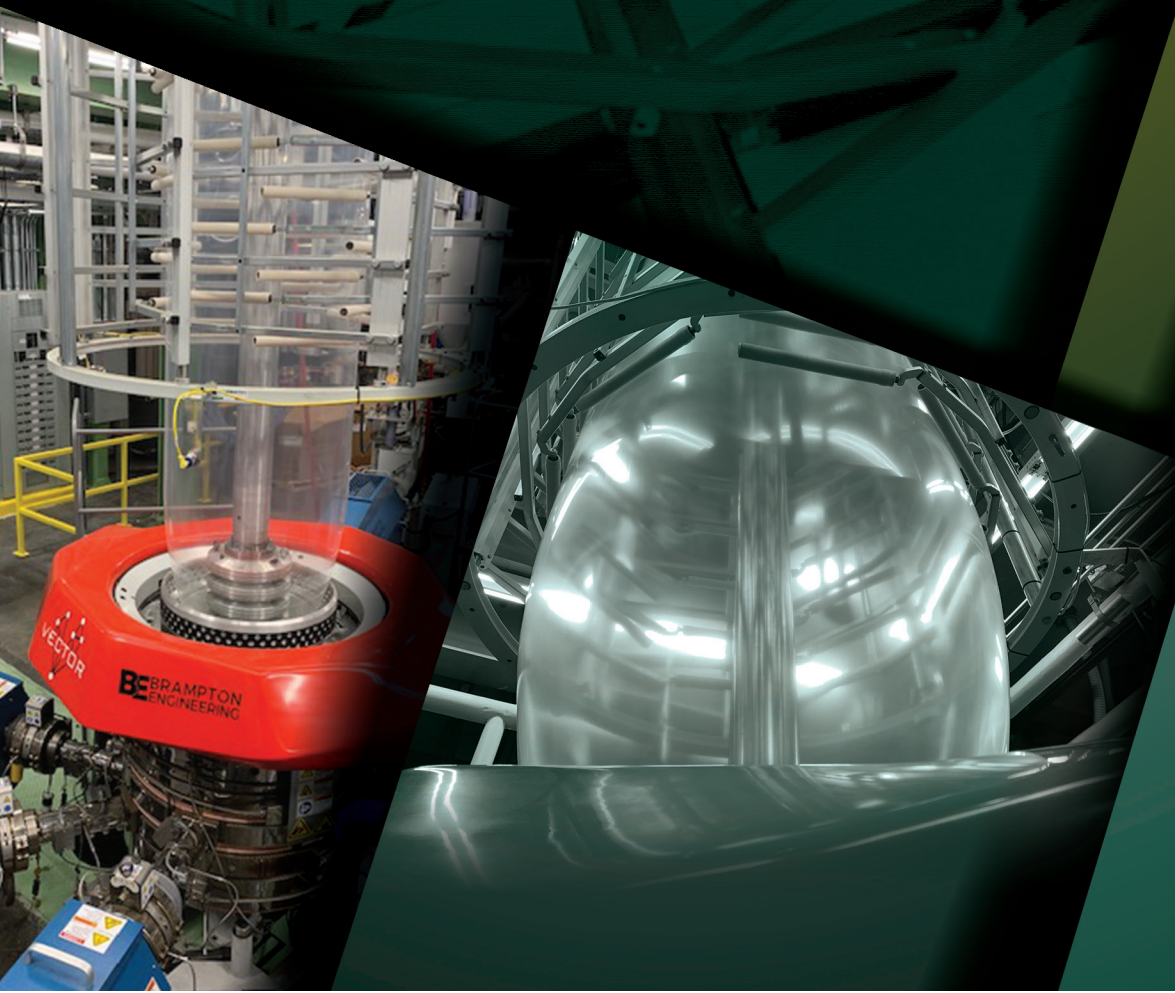


IMAFLEX INC.



**ANNUAL
REPORT
2021**

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
BUSINESS FUNDAMENTALS.

IMAFLEX INC.

MANAGEMENT DISCUSSION AND ANALYSIS

PREFACE

This Management Discussion and Analysis (MD&A) comments on Imaflex Inc.'s (the "Parent Company") operations, financial performance, financial condition, future outlook and other matters for the three-month periods and years ended December 31, 2021 and 2020. Unless otherwise indicated, the terms "Imaflex", "Company", "Corporation", "we", "our", and "us" all refer to Imaflex Inc., together with its divisions Canguard Packaging and Can slit, along with its wholly owned subsidiary, Imaflex USA Inc. All intercompany balances and transactions have been eliminated on consolidation.

This MD&A also provides information to improve the reader's understanding of the accompanying audited consolidated financial statements and related notes. It should be read together with our audited consolidated financial statements for the years ended December 31, 2021 and 2020.

Unless otherwise indicated, all financial data in this document was prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and all amounts in tables are expressed in thousands of Canadian dollars unless otherwise indicated. Differences may occur due to rounding of amounts. 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.

This MD&A was reviewed by Imaflex's Audit Committee and approved by the Board of Directors on April 13, 2022. Disclosure contained within it is current to that date, unless otherwise indicated.

Additional information on Imaflex is available on our website at www.imaflex.com and on SEDAR at www.sedar.com.

CRITICAL ACCOUNTING POLICIES

The Company's significant accounting policies, including the Company's accounting policies under IFRS, are disclosed in note 2, *Significant accounting policies* of the audited consolidated financial statements for the years ended December 31, 2021 and 2020.

FORWARD LOOKING STATEMENTS

From time to time, we make forward-looking statements within the meaning of Canadian 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, amongst 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, statements relating to the potential impacts on our business, financial condition, liquidity and financial results due to the COVID-19 pandemic, the length and severity of an 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; and other factors that 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

MANAGEMENT DISCUSSION AND ANALYSIS

FORWARD LOOKING STATEMENTS (continued)

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 previous 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 13, 2022.

COMPANY OVERVIEW

Imaflex is focused on the development and manufacturing of innovative solutions for the flexible packaging and agricultural markets. The Company's flexible packaging products are largely used to protect and preserve the integrity of products and consist primarily of polyethylene (plastic) films and bags, and metalized films. Our polyethylene films are mainly sold to printers known as "converters", who process the film into a finished product to meet their end-customer needs. Additionally, our films are sold directly to customers to protect and market their own products, or bought by distributors for re-sale.

Our agricultural films are finished products, predominantly sold directly by Imaflex to growers. They are available in a variety of formats and include both metalized and non-metalized films. Our portfolio includes common mulch, compostable and fumigant barrier films, as well as innovative metalized crop protection films, that add pest/weed control and/or accelerated growth benefits beyond those provided by our common mulch films.

Imaflex operates three manufacturing facilities. Two are located in the province of Quebec, including Montreal (Imaflex Inc.) and Victoriaville (Canguard and Canslit), and one is located in Thomasville, North Carolina, USA (Imaflex USA). The Company also has a warehouse in Thomasville. The four facilities cover a total area of approximately 25,084 square meters or 270,000 square feet. Imaflex and Imaflex USA specialize in the manufacturing and sale of custom-made polyethylene films and bags, along with non-metalized agricultural films. Canguard specializes in the manufacturing and sale of polyethylene garbage bags, while Canslit specializes in the metallization of plastic film. We believe that our manufacturing presence in both Canada and the United States provides a competitive advantage in terms of logistics, currency, manufacturing flexibility and cost leadership.

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

GROWTH STRATEGY

Imaflex's history attests to its management's ability to successfully adapt to prevailing and continuously changing market conditions. Management deems that success will also lie in the ability to properly manage future 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.

Management believes the following initiatives will contribute to Imaflex's long-term growth:

Strengthen and Grow the Core

We will continue to strengthen the core flexible packaging business. This includes revenue growth and margin expansion through higher production volumes geared towards the most profitable markets and products, along with a focus on lean operations (minimizing scrap, reducing production set-up times, etc.). In addition to growing organically, we will also consider strategic acquisitions that make sense in terms of complementary fit, cost and ease of integration.

MANAGEMENT DISCUSSION AND ANALYSIS

GROWTH STRATEGY (continued)

Grow the Agriculture Business

We will continue to build-out our agriculture business, driving awareness and exposure for our advanced crop protection films, particularly our metalized films and our patented active ingredient release film, ADVASEAL® (under development). Our metalized agriculture films are surface coated with aluminum aimed to protect plants from disease transmitting insects, to limit the growth of soil borne pests and weeds and/or to accelerate the growth and yield of plants.

ADVASEAL® (under development)

Today, agricultural films are used in the growing of fresh fruits and vegetables worldwide to cover soil treated with fumigants – volatile and toxic pesticides essential for reducing pests, weeds and fungi in the soil, thus supporting good growth of new crop seedlings. Currently, fumigants offer the greatest efficacy for pre-plant soil disinfection, but they also have the highest health and environmental risk due to their volatility, toxicity and required application rates that can run into the hundreds of pounds per acre.

The U.S. Environmental Protection Agency (EPA) originally approved ADVASEAL® (ADVASEAL® HSM), which contained only an herbicide for weed control. The new enhanced ADVASEAL®, which is under development, also includes three fungicides and a nematicide to control soil borne pathogens, thus becoming a complete non-fumigant alternative for pre-plant soil disinfection. With ADVASEAL®, these modern non-volatile crop protection products can be applied more effectively and safely than with fumigants. The crop protection products are incorporated into a coating, which is then applied to a mulch film. Once the coated film is applied to the ground, the active ingredients are released into the soil under controlled conditions, preventing the over/under-dosing found with current soil disinfection practices. This new technology dramatically reduces the amount of crop protection products required. The catalyst to trigger the release of the active ingredients is soil moisture. When the film is applied to the soil, the active ingredients are efficiently and safely discharged into the ground, resulting in heightened productivity, lower costs and notable environmental benefits. The underlying technology is patent-protected in the top 20 major vegetable and fruit producing countries worldwide.

ADVASEAL® is safe to transport, store and handle and its application is emission-free, eliminating the risk of inhalation and environmental damage present with the drift of fumigants under current agricultural practices. In addition to being environmentally friendly, management estimates that ADVASEAL® will provide significant savings to growers depending on the crop and fumigants currently being used. ADVASEAL® permits the precise application of a low dose of crop protection products. Management estimates that ADVASEAL® will reduce the chemicals required by over 95% and eliminate many of the costly work-steps currently being used. Collectively, this puts Imaflex in a good position to capture market share worldwide as ADVASEAL® is commercialized.

Maintain focus on Research and Development

We will maintain our focus on enhancing the customer value proposition, while developing new capabilities and leading-edge products for highly profitable niche markets. This will help support the build-out of our core flexible packaging product portfolio. The Company's research team uses the fields in which they have core-competencies in order to identify innovative improvements and solutions where chemicals and polymers can offer added-value.

Continue Upgrading Equipment

Finally, we will focus on the efficiency of our equipment, making the required capital investments to maintain, upgrade and expand into new areas. Our commitment to make the required investments, and our ability to deliver customized solutions, on-time and at competitive prices should help to drive revenue and margin expansion, while allowing us to remain competitive in the marketplace.

MARKET OVERVIEW

The North American flexible packaging market is valued at more than US \$30 billion. Although this market is highly fragmented and commoditized in terms of pricing, there are niches within the space that offer opportunity for increased profitability. In 2021, Imaflex was once again ranked in the top 100 North American film and sheet manufacturers by sales.

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET OVERVIEW (continued)

The total addressable global mulch film market, excluding silage and greenhouse films, is valued at approximately US \$3.7 billion. The Company has and continues to develop innovative and proprietary solutions for this important market. Going forward, Imaflex hopes to capture a much larger share of the agriculture film market due to its advanced films, such as ADVASEAL®. Management believes the value of the global addressable market for an active ingredient release film like ADVASEAL® will be much larger than that for traditional mulch films. In the U.S. alone, the Company estimates that approximately 130 million pounds of mulch film is being used, resulting in an estimated total addressable market for ADVASEAL® of approximately US \$750 million.

With growing concerns over the scarcity of resources, the environment, lower crop yields due to disease, and a rising global population, the Company believes that the macro-environment is also working in its favour. Sustainability and intelligent farming are becoming increasingly important and growers are progressively turning to other industries to help them do more with less.

ADVASEAL® COMMERCIALIZATION PROCESS

Prior to commercializing ADVASEAL®, Imaflex needs to submit a registration package to the U.S. Environmental Protection Agency (EPA) for approval. As part of the process, the Company conducted two independent field trials (an Efficacy Trial and a Release Study) to test the efficacy of ADVASEAL® and to ensure the release times of the active ingredients (herbicide, nematicide and fungicides) coated on the film are in compliance with the pre-harvest intervals established by the EPA. In order to obtain sufficient quantities of ADVASEAL® film for these trials, the Company worked closely with FUJIFILM Manufacturing U.S.A. Inc. (FUJIFILM) to develop and optimize the coating process for the application of the active ingredient mixture.

The first of the two trials – the Efficacy Trial – commenced in February 2020. It was designed to evaluate ADVASEAL's® ability to release its crop protection products into the soil and achieve soil disinfestation, prior to planting tomato seedlings. Concurrently, the trial monitored plant growth, yield and quality, compared to a crop produced under the current best Florida grower standard for fresh tomato production using fumigants. The tomato plant was chosen as it is one of the most widely grown crops in the world. Furthermore, if high yields can be achieved using ADVASEAL® with tomato plants, it can likely be used to generate high yields for most other fruits and vegetables that require pre-plant soil disinfestation with fumigants.

On March 31, 2020, Imaflex announced positive interim results for the Efficacy Trial. Independent analytical lab results of ADVASEAL® samples collected at the trial site, in the three-week period following the film being laid on the ground, indicated that the active ingredients were being released into the soil in the desired manner. Subsequently, on September 10, 2020 the Corporation announced final independent results showing that ADVASEAL® was a viable soil fumigation alternative to the current best grower practice of using fumigants to improve yields of field grown vegetables. Plots using ADVASEAL® were shown to produce comparable marketable yields to the grower standard.

Based on these positive findings, in October 2020 the Corporation commenced a Release Study, the last and most comprehensive trial required for the U.S. Environmental Protection Agency (EPA) registration package. The Study was required to determine the exact timing each active ingredient coated on ADVASEAL® is released into the soil. This is needed to show compliance with the pre-harvest intervals established by the EPA, which is essentially the wait period required between the last application (release) of an active ingredient and when a crop can be harvested for safe human consumption.

On January 25, 2021, the Company subsequently announced positive independent final results for the Release Study. The release times of all five crop protection products coated on ADVASEAL® were in compliance with the pre-harvest intervals established by the EPA.

Imaflex has one remaining step before submitting the registration package to the EPA for approval of ADVASEAL® as a new physical pesticide formulation. Four of the five active ingredients used on the film come from Asia and are not yet

MANAGEMENT DISCUSSION AND ANALYSIS

ADVASEAL® COMMERCIALIZATION PROCESS (continued)

registered in the U.S. To simplify their registration as generic pesticides Imaflex has mandated a lab to prove their equivalence with active ingredients already registered and marketed in the U.S. Although the lab has made important progress in recent quarters, it has been slower than originally anticipated and there remains additional work. The Corporation remains focused on submitting the ADVASEAL® registration package to the U.S. Environmental Protection Agency (“EPA”) as soon as possible.

Once the registration package is submitted, the EPA review process can take up to a year to complete. Management believes the registration process will be positive as the generic active ingredients to be used with ADVASEAL® are effectively used by growers today. As well, the Company previously received EPA approval of its herbicidal active ingredient release film, ADVASEAL® HSM.

COMPETITIVE ENVIRONMENT

Although competition is high in all of our markets, Imaflex operates in a multi-billion-dollar industry with a multitude of product opportunities. Flexible packaging alone is used in almost every consumer market to protect and preserve the integrity of a product. Many customers also deal in food related goods, which are somewhat recession resistant.

Imaflex believes the Company’s ability to develop innovative solutions, while offering high quality products and services gives it a competitive edge. This combined with our ability to take on smaller orders with short lead times and at competitive prices helps create customer loyalty.

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. This strategy has been the backbone of our growth and it has served us well.

We employ a staff of chemical & polymer engineers and a chemist, which allows us to develop unique solutions. In our markets, we believe it is essential to sell value-added products and avoid producing highly commoditized offerings generating lower margins. The key to this strategy is identifying and building relationships with customers having specific needs and eventually developing products that address them. Our sales force is mandated to seek out such clients and the Company works to ensure its sales team is technically accomplished and equipped to properly communicate the advantages of all products.

EMPLOYEES AND CORPORATE OFFICE

Imaflex currently employs approximately 232 people in North America, including those at its corporate head office located in Montreal, Canada. The Company currently has no unionized employees.

OUTSOURCING

Our industry is capital intensive and labour is only a minor component in the total cost of production. As a result, outsourcing our manufacturing to countries with lower wages would not have a material impact on costs, especially when factoring in expenses related to freight and duty. Furthermore, the risks associated with relinquishing our control over quality and delays in delivery deadlines would far outweigh any minimal benefit that would be generated by lower labour costs.

However, in our effort to eliminate bottlenecks in our production process when our capacity usage is very high, management may consider the use of third-party (toll) manufacturers for certain activities in order to meet all production deadlines and ensure the best service to our customers.

MANAGEMENT DISCUSSION AND ANALYSIS

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, Imaflex continues to improve its operational, financial and management information systems, as well as its production procedures and controls. Our success is largely the result of the continued contributions of our employees and the Company's ability to attract and retain qualified management, sales and operational personnel.

The overall market we compete in has historically shown resiliency and growth, even during difficult economic times. Our customers predominantly operate in the food packaging and agriculture markets, which are somewhat resilient to recessionary and seasonal pressures. This fact, coupled with expanding product lines and the introduction of newer and faster equipment, should help Imaflex weather any potential volatility caused by uncertainty in the North American economic climate.

Factors which can impact the Company include, but are not limited to: the impact of the COVID-19 global pandemic on our current and future business, 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 from 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 – RESIN PRICING

In recent years, production disruptions, tight supplies and COVID-19 driven demand resulted in resin demand outstripping supplies. Resin input costs began to rise at the end of the second quarter of 2020 and this trend accelerated for much of 2021 before leveling off in the third quarter. Prices subsequently declined throughout the fourth quarter of 2021, before once again flattening at the beginning of 2022. This said, in March 2022 resin prices rose due largely to geopolitical events which caused supply chain disruptions, rapid increases in oil prices and heightened demand as market participants looked to secure supplies in an already tight market. While North American resin production is expected to improve going forward, global events and any production issues could put additional pressure on resin supplies and pricing.

Although the resin market is tight, Imaflex has so far avoided any material procurement issues. In addition, as the Corporation has no long term contracts with its customers, it is able to adjust product pricing as input costs change. There is usually a 30-day lag between a resin price increase and when customer product pricing can be revised. This said, resin price decreases are normally passed along to the customer immediately. Given that Imaflex is able to adjust product pricing, we do not expect it to have a material impact on our business.

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 10% of our revenues. This strategy helps ensure that our profitability and financial well-being are not dependent on any one client.

COMPETITION FROM OTHER COMPANIES

Imaflex operates in the highly competitive multi-billion-dollar flexible packaging and agricultural film markets. This said, we believe the Company has a competitive edge over the competition due to our highly skilled teams that are quick to respond to customer needs, a diversified manufacturing base and the fact that the bulk of our customers deal in food related products which are less subject to recessionary and seasonal pressures. It may not always translate into greater net profit, but it should result in customer loyalty if we decide to match our competitors' prices.

MANAGEMENT DISCUSSION AND ANALYSIS

SEASONALITY OF OPERATIONS

Certain products made at our Victoriaville and Thomasville facilities are subject to some seasonality due to the plant's partial manufacturing focus on the production of agriculture film for fruit and vegetable growers. Inventory is managed in a way to optimize cash flow, while also remaining capable to seize market opportunities that may arise. Since these locations also manufacture products destined for other markets, they are not overly affected by seasonal downturns.

EXPOSURE TO PRODUCT LIABILITY

Due to the nature of our operations, which consist primarily of manufacturing polyethylene film for converters, who process film into finished products for their end-customers, Imaflex's exposure to product liability is low. Furthermore, the Corporation is not exposed to liability for personal injury or death arising from negligence in the manufacturing of the films.

The only market segment that exposes the Company to potential product liability claims is the agriculture space. 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 quarterly profitability may vary, irrespective of quarterly sales. This is due to many factors, including and not limited to: competitive conditions in the businesses in which Imaflex participates; general economic environment and normal business uncertainty; product mix; fluctuations in foreign currency exchange rates; the availability and costs of raw materials; changes in Imaflex's relationship with its suppliers; planned plant shutdowns for preventative maintenance affecting production levels; and interest rate fluctuations along with other changes in borrowing costs.

EXPOSURE TO INTEREST RATE FLUCTUATIONS

The Company's borrowings, which bear interest at a variable rate, have some interest rate risk. Management assesses its exposure to interest rate fluctuations and decides whether it may be favourable to enter into contracts to hedge this risk based on expected future movements and available economic data. Interest rate hikes may affect the Company's future cost of borrowing. However, management is currently not hedging its interest rate exposure and expects this exposure to lessen as the outstanding balance on its long-term borrowings decreases.

ABILITY TO ATTRACT AND RETAIN QUALIFIED PERSONNEL

Imaflex's core operational management team has been historically stable and the Company was able to keep key competencies within the firm. This includes its three founders, who have more than 100 years of combined experience in management and research and development. As Imaflex has grown, it has also strengthened its team, adding individuals having a variety of competencies, such as accounting, operations, or engineering.

Management promotes a work environment that allows for the free exchange of ideas in an effort to ensure that the Company remains at the forefront of its industry. Management is confident that it can retain and, if need be, attract qualified individuals that will contribute to its on-going goal of building shareholder value.

FOREIGN EXCHANGE FLUCTUATIONS

Some of the Company's sales and expenses, as well as accounts receivable and payable, are denominated in US dollars. A portion of the revenue stream in US dollars acts as a natural hedge to cover US denominated expenses. Imaflex can also

MANAGEMENT DISCUSSION AND ANALYSIS

FOREIGN EXCHANGE FLUCTUATIONS (continued)

borrow funds on its line of credit in US dollars. The Company has increased its debt in US dollars in order to obtain additional revenues in US dollars. As this additional U.S. business fully materializes, the Company's exposure to foreign currency should 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 handling are controlled. Though these products actually pose little risk, they are handled in a manner that fully complies with existing safety regulations.

NON-IFRS FINANCIAL MEASURES

The Company's management uses a non-IFRS financial measure in this MD&A, namely EBITDA, to assess its performance. EBITDA is determined as "Earnings before interest, taxes, depreciation and amortization". The reader may refer to the following table for the reconciliation of the Company's EBITDA to its reported net income.

Reconciliation of EBITDA to net income:

(\$ thousands, except per share data)	Three months ended		Years ended	
	December 31,		December 31,	
	2021	2020	2021	2020
Net income	\$ 1,640	\$ 1,679	\$ 8,365	\$ 6,349
Plus:				
Income taxes	395	239	1,433	1,862
Finance costs	99	116	412	545
Depreciation and amortization	1,087	773	3,811	3,593
EBITDA ¹	\$ 3,221	\$ 2,807	\$ 14,021	\$ 12,349
Basic EBITDA per share ²	\$ 0.06	\$ 0.06	\$ 0.28	\$ 0.25
Diluted EBITDA per share ²	\$ 0.06	\$ 0.06	\$ 0.27	\$ 0.24

(1) Basic weighted average number of shares outstanding of 51,638,637 for the quarter and 50,659,253 for the year ended December 31, 2021. This compares to basic weighted average number of shares outstanding of 50,063,637 for the quarter and 50,040,823 for the year ended December 31, 2020. Diluted weighted average number of shares outstanding of 51,888,917 for the quarter ended December 31, 2021 (50,971,441 in 2020) and 51,553,615 for the year ended December 31, 2021 (50,704,888 in 2020).

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 and accordingly it should not be considered in isolation.

RESULTS OF OPERATIONS

Imaflex closed 2021 with another strong quarter. In turn, the Company reported its second consecutive fiscal year of record net income and solid cash flows. The balance sheet remained healthy and the Company ended 2021 with approximately \$18.0 million of cash available for operating activities, including a cash balance of \$8.5 million and another \$9.5 million under its \$12.0 million revolving line of credit.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS (continued)

(\$ thousands)	Three months ended December 31,		Years ended December 31,	
	2021	2020	2021	2020
Sales	\$25,707	\$21,940	\$107,477	\$86,682

Revenues were \$25.7 million for the current quarter, up 17.2% over 2020. Growth was driven by product pricing, which rose in-line with higher year-over-year resin costs, partially offset by unfavourable movements in foreign exchange. Overall sales volumes were down modestly year-over-year due mainly to timing differences. The Corporation expects first quarter 2022 sales volumes to surpass levels reached in the fourth quarter of 2021.

For calendar 2021, sales were up 24% to \$107.5 million, driven by product pricing and stronger sales volumes for higher margin products and garbage bags, partially offset by unfavourable movements in foreign exchange.

As Imaflex has no long-term customer contracts, it is able to adjust product pricing in accordance with resin input costs. However, there is usually a 30-day lag between a resin price increase and when customer pass-through adjustments are made. This can temporarily impact margins, particularly in a rising raw material pricing environment.

(\$ thousands)	Three months ended December 31,		Years ended December 31,	
	2021	2020	2021	2020
Gross Profit (\$) before amortization of production equipment	\$4,917	\$5,214	\$21,003	\$19,901
Gross Profit before amortization of production equipment (%)	19.1%	23.8%	19.5%	23.0%
Amortization of production equipment	1,014	703	3,602	3,335
Gross profit (\$)	\$3,903	\$4,511	\$17,401	\$16,566
Gross profit (%)	15.2%	20.6%	16.2%	19.1%

Gross profit before amortization of production equipment was \$4.9 million (19.1% of sales) for the fourth quarter of 2021, down slightly from \$5.2 million (23.8%) of sales in 2020. The gross profit including amortization of production equipment came in at \$3.9 million (15.2% of sales) for the current quarter versus \$4.5 million (20.6% of sales) in the prior year.

For calendar 2021, the gross profit before amortization of production equipment stood at \$21.0 million (19.5% of sales), up 5.5% from \$19.9 million (23.0% of sales) in 2020. Similarly, the gross profit including amortization of production equipment was up 5.0% year-over-year, coming in at \$17.4 million (16.2% of sales) versus \$16.6 million (19.1% of sales) in 2020.

During 2021, the gross margin was impacted by the rapid rise in resin input costs, which also resulted in a higher revenue base due to the associated increases in product pricing. In addition, foreign exchange fluctuations were unfavourable year-over-year. This said, margins remained stronger than historical norms, reflecting the sale of higher value added products. Imaflex is also benefitting from its increasing scale, whereby incremental revenues lessen the impact of labor and overhead costs relative to sales.

(\$ thousands)	Three months ended December 31,		Years ended December 31,	
	2021	2020	2021	2020
Selling and administrative	\$1,673	\$1,452	\$6,940	\$7,149
As a % of sales	6.5%	6.6%	6.5%	8.2%

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS (continued)

Selling and Administrative expenses came in at \$1.7 million for the current quarter, up slightly from \$1.5 million in 2020. However, as a percentage of sales they were essentially the same in both years, coming in at 6.5% in the fourth quarter of 2021, versus 6.6% in 2020. For fiscal 2021, Selling and Administrative expenses came in at \$6.9 million (6.5% of sales) down from \$7.1 million (8.2% of sales) in 2020. The higher revenue base for the current quarter and year, along with ongoing cost controls, reduced the impact of SG&A expenses as a percent of sales in 2021.

(\$ thousands)	Three months ended December 31,		Years ended December 31,	
	2021	2020	2021	2020
Finance costs	\$99	\$116	\$412	\$545

Finance costs totaled \$99 thousand in the current quarter, down slightly from \$116 thousand in 2020. This decrease was largely due to a reduction in long-term debt, partially offset by higher bank indebtedness relating to the Company's line of credit. For fiscal 2021, finance costs totaled \$412 thousand, down approximately \$133 thousand versus 2020 mainly due to reduced overall debt levels year-over-year.

(\$ thousands)	Three months ended December 31,		Years ended December 31,	
	2021	2020	2021	2020
Foreign exchange & other losses	68	\$965	165	\$533

Due to the depreciation of the US dollar against the Canadian dollar, Imaflex recorded a foreign exchange loss of \$0.1 million in the fourth quarter of 2021. This compares to a loss of \$1.0 million in 2020, resulting from movements in foreign exchange and the disposition of assets. Collectively, this resulted in a \$0.9 million favourable year-over-year variance. For calendar 2021, Imaflex had a foreign exchange loss of \$0.2 million, down from a \$0.5 million loss in the prior year, resulting in a favourable year-over-year variance. A majority of the Corporation's foreign exchange gains and losses are non-cash impacting and largely relate to intercompany balances for which Imaflex can control the time of settlement.

(\$ thousands)	Three months ended December 31,		Years ended December 31,	
	2021	2020	2021	2020
Income taxes	\$395	\$239	\$1,433	\$1,862
As a % of income before taxes	19.4%	12.5%	14.6%	22.7%

Income taxes were \$0.4 million or 19.4% of income before taxes for the fourth quarter of 2021, versus \$0.2 million and 12.5% respectively in the corresponding prior-year period. For fiscal 2021, income taxes stood at \$1.4 million or 14.6% of income before taxes, versus \$1.9 million and 22.7% respectively in 2020. An increasing share of profits is being generated by Imaflex's US subsidiary due to multi-year capital investments to strengthen operations. At the same time, the Company is benefitting from prior year tax losses at its US subsidiary, which reduced income taxes for the year. The Corporation's statutory tax rate is currently 26.5%.

(\$ thousands, except per share data)	Three months ended December 31,		Years ended December 31,	
	2021	2020	2021	2020
Net income	\$1,640	\$1,679	\$8,365	\$6,349
Basic earnings per share	\$0.03	\$0.03	\$0.17	\$0.13
Diluted earnings per share	\$0.03	\$0.03	\$0.16	\$0.13

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS (continued)

Net income stood at \$1.6 million for the fourth quarter of 2021, relatively unchanged from the \$1.7 million recorded in the prior year. For fiscal 2021, net income came in at \$8.4 million, up 31.8% over the \$6.3 million achieved in calendar 2020. The increase was largely due to the higher gross profit and lower foreign exchange loss in 2021, along with lower selling and administrative and finance expenses.

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):

	Q4/21	Q3/21	Q2/21	Q1/21	Q4/20	Q3/20	Q2/20	Q1/20
Revenues	25,707	29,459	27,391	24,920	21,940	22,904	20,807	21,031
Net income	1,640	2,774	1,999	1,952	1,679	1,236	342	3,092
Earnings per share								
Basic	0.032	0.055	0.040	0.039	0.034	0.025	0.007	0.062
Diluted	0.032	0.054	0.039	0.038	0.033	0.024	0.007	0.061

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; planned plant shutdowns for preventative maintenance affecting production levels; along with interest rate fluctuations and other changes in borrowing costs.

FINANCIAL POSITION

December 31, 2021 vs. December 31, 2020

Working capital stood at \$24.4 million as at December 31, 2021, up \$7.6 million from the \$16.8 million recorded for the corresponding prior-year period. The year-over-year improvement was largely due to increases in cash, trade and other receivables and inventories, partially offset by increases in bank indebtedness, along with trade and other payables.

LIQUIDITY

Cash Flows from Operating Activities

Cash flows generated by operating activities, before movements in working capital and taxes paid, stood at \$3.4 million for the fourth quarter of 2021, down modestly from \$3.8 million in 2020. Including movements in working capital and taxes paid, net cash generated by operating activities was \$1.4 million for the current quarter, versus \$2.2 million in 2020. The year-over-year decrease for the quarter was largely due to movements in inventories, foreign exchange and income taxes paid, partially offset by movements in trade and other receivables.

For calendar 2021, cash flows generated by operating activities, before movements in working capital and taxes paid, stood at \$14.2 million, up from \$12.8 million at the end of 2020, due largely to the heightened profitability in 2021. Including movements in working capital and taxes paid, net cash generated by operating activities stood at \$8.0 million for the current year, down from \$12.0 million in 2020. The decrease was largely driven by movements in trade & other receivables resulting from higher product pricing and stronger sales volumes in 2021. Inventory levels also fluctuated versus 2020, reflecting higher resin input costs and additional raw material purchases to accommodate stronger customer orders and ensure resin inventory in a tight market. As well, income taxes paid in 2021 were also higher. This was partially offset by the aforesaid profit increase in 2021, along with movements in trade and other payables.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY (continued)

Cash Flows from Investing Activities

Net cash used in investing activities was essentially in line year-over-year, coming in at \$0.7 million for the fourth quarter of 2021, versus \$0.6 million in 2020. For fiscal 2021, capital investments totaled \$2.5 million, up from \$1.6 million in the prior year. The higher outflows for 2021 went largely towards initiatives to further enhance the Company's production capacity and capabilities in order to heighten sales and profitability. As well, the Corporation incurred some additional payments related to the EPA registration of ADVASEAL®.

Cash Flows from Financing Activities

The Corporation recorded net cash outflows from financing activities of \$0.3 million for the current quarter, versus cash outflows of \$0.6 million in the corresponding prior-year quarter. The lower outflows in 2021 largely relate to an increase in bank indebtedness (revolving line of credit) in the fourth quarter of 2021 versus nil in 2020, partially offset by net year-over-year movements in long-term debt.

For calendar 2021, Imaflex recorded net cash outflows from financing activities of \$0.3 million, down significantly from \$7.2 million of outflows in 2020. The year-over-year reduction is predominantly due to \$2.5 million of inflows in 2021 resulting from an increase in bank indebtedness, versus \$4.5 million of outflows in 2020 to reduce bank indebtedness, resulting in a year-over-year variance of \$7.0 million. The Company also generated \$0.6 million more of cash flows through the issuance of share capital in 2021, although this was offset by net year-over-year movements in long term debt, including a \$0.8 million increase in long-term debt in 2020 versus nil in 2021.

CONTRACTUAL OBLIGATIONS

The contractual obligations as at December 31, 2021 were as follows:

(\$ thousands)	Payments due by period			
	Total	Less than 1 year	1 to 5 years	After 5 years
Long-term debt	\$ 5,840	\$ 2,175	\$ 3,601	\$ 64
Bank indebtedness	2,498	2,498	-	-
Leases	1,668	925	743	-
Total contractual obligations	\$ 10,006	\$ 5,598	\$ 4,344	\$ 64

These contractual obligations are sensitive to the fluctuation of interest rates. They are based on interest and foreign exchange rates effective as at December 31, 2021.

CAPITAL RESOURCES

The Company's \$12 million operating line of credit, which is secured by trade receivables and inventories, bears interest at a premium of 0.40% over the Canadian prime rate. As at December 31, 2021, Imaflex had \$2.5 million outstanding on its line of credit (versus nil on December 31, 2020) and had cash outstanding of \$8.5 million (\$3.2 million as at December 31, 2020). Working capital stood at \$24.4 million at the end of 2021, up from \$16.8 million at the end of 2020. The Company controls its financial leverage, ensuring that its borrowings reflect the asset base against which funds are borrowed as well as the profitability that is generated through the operations.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

RELATED PARTY TRANSACTIONS (continued)

The following table reflects the related party transactions recorded for the periods ended December 31, 2021 and 2020. For additional information, please refer to note 23, *Related party transactions* of the “Notes to the consolidated financial statements” for the years ended December 31, 2021 and 2020.

(\$ thousands)		Three months ended		Years ended	
		December 31,		December 31,	
		2021	2020	2021	2020
Professional fees and key management personnel services	(a)	\$ 18	\$ 12	\$ 133	\$ 133
Rent	(b)	\$ 285	\$ 277	\$ 1,135	\$ 1,118
Remuneration	(c)	\$ 308	\$ 250	\$ 1,097	\$ 1,059

(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 self-employed tax lawyer.

(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 lease agreements. The majority of these payments are recorded as a lease obligation on the balance sheet, while the remainder covers the applicable interest and is recorded under finance costs as an expense.

(c) Includes salaries, benefits and fees paid to key management personnel and directors.

FINANCIAL INSTRUMENTS

Please refer to note 21, *Financial instruments* of the consolidated financial statements for the years ended December 31, 2021 and 2020 for disclosure on the Company’s financial instruments as well as note 22, *Risk management* for a discussion on the risks the Company is exposed to and how they are managed.

As at December 31, 2021, the Company was not using any swap, forward or hedge accounting and there were no warrants outstanding.

As at December 31, 2021, 650,000 options to purchase shares of the Company were outstanding at a weighted average strike price of \$0.822 of which 612,500 were exercisable.

As at December 31, 2020, 2,225,000 options to purchase shares of the Company were outstanding at a weighted average strike price of \$0.536 of which 2,087,500 were exercisable.

MANAGEMENT OUTLOOK

Although market forces remain competitive, we are well positioned to deliver continued profitable growth. Customer demand remains solid and we expect first quarter 2022 sales volumes to surpass levels reached in the fourth quarter of 2021. In turn, our strong financial underpinning and cash flow generation provides a solid backbone to further build out the business, thus assuring continued success. Barring any unforeseen events, we believe Imaflex is in the early stages of a multi-year growth cycle. This is an exciting time for the Corporation and its shareholders.

To date, the impact of COVID-19 and geopolitical unrest on Imaflex’s operations, financial situation and results has not been material. This said, any viral outbreaks, raw material supply constraints or resin pricing pressures could affect the business. Fortunately, the Corporation has no long-term contracts and as such it is able to adjust product pricing, helping to mitigate business risks. Furthermore, with a strong balance sheet and dynamic team it is well positioned to meet any challenges ahead.

MANAGEMENT DISCUSSION AND ANALYSIS

OUTSTANDING SHARE DATA

As at December 31, 2021, the Company had 51,638,637 common shares outstanding, up from 50,063,637 as at December 31, 2020. The increase follows the issuance of shares under Imaflex's stock option plan.

Additional information on Imaflex, including quarterly and Annual Reports, can be found on SEDAR at www.sedar.com.

(s) Joe Abbandonato

Joe Abbandonato
President and Chief Executive Officer

(s) Giancarlo Santella

Giancarlo Santella, CPA, CA
Chief Financial Officer

April 13, 2022

For investor information, contact

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Consolidated Financial Statements of

IMAFLEX INC.

Years ended December 31, 2021 and 2020

Independent Auditor's Report

To the Shareholders of
Imaflex Inc.

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

T 514-878-2691

Opinion

We have audited the consolidated financial statements of Imaflex Inc. (hereafter the "Company"), which comprise the consolidated statements of financial position as at December 31, 2021 and 2020, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information other than the consolidated financial statements and the auditor's report thereon

Management is responsible for the other information. The other information comprises the information, other than the consolidated financial statements and our auditor's report thereon, included in the Management's Discussion and Analysis and the Annual Report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis and the Annual Report prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communication with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Antonia Psyharis.

Raymond Chabot Grant Thornton LLP¹

Montréal
April 13, 2022

¹ CPA auditor, CA public accountancy permit no. A119564

Consolidated statements of comprehensive income
(in Canadian dollars)

for the years ended		December 31,	
		2021	2020
Revenues	(Note 4.1)	\$ 107,477,226	\$ 86,682,163
Cost of sales		90,075,943	70,115,883
Gross profit		17,401,283	16,566,280
Expenses:			
Selling		1,729,872	1,808,784
Administrative		5,210,439	5,339,846
Finance costs	(Note 7)	411,363	544,928
Other losses	(Note 8)	165,266	533,558
Other		86,457	127,781
		7,603,397	8,354,897
Income before income taxes		9,797,886	8,211,383
Income taxes	(Note 9)	1,432,584	1,862,081
NET INCOME		8,365,302	6,349,302
Other comprehensive income			
Item that will be reclassified subsequently to net income			
Exchange differences on translating foreign operations		52,851	(113,013)
COMPREHENSIVE INCOME		\$ 8,418,153	\$ 6,236,289
Earnings per share	(Note 10)		
Basic		\$ 0.165	\$ 0.127
Diluted		\$ 0.162	\$ 0.125

The accompanying notes are an integral part of these consolidated financial statements and note 5 presents additional information on consolidated comprehensive income.

Consolidated statements of financial position
(in Canadian dollars)

As at		December 31, 2021	December 31, 2020
Assets			
<i>Current assets</i>			
Cash		\$ 8,465,061	\$ 3,219,258
Trade and other receivables	(Note 11)	15,072,610	11,522,262
Inventories	(Note 12)	14,919,901	11,650,539
Prepaid expenses		204,811	238,922
Total current assets		38,662,383	26,630,981
<i>Non-current assets</i>			
Property, plant and equipment	(Note 13)	24,507,190	25,862,617
Intangible assets	(Note 14)	1,822,391	1,568,474
Total non-current assets		26,329,581	27,431,091
Total assets		\$ 64,991,964	\$ 54,062,072
Liabilities and equity			
<i>Current liabilities</i>			
Bank indebtedness and short-term borrowings	(Note 16)	2,498,309	-
Trade and other payables	(Note 15)	8,285,886	6,115,366
Current tax liabilities		669,481	996,539
Long-term debt, current portion	(Note 16)	1,994,463	1,881,689
Lease obligations, current portion	(Notes 16, 17)	850,804	824,092
Total current liabilities		14,298,943	9,817,686
<i>Non-current liabilities</i>			
Long-term debt	(Note 16)	3,498,459	5,492,921
Deferred tax liabilities	(Note 9)	1,389,561	1,185,977
Lease obligations	(Notes 16, 17)	731,493	1,587,320
Total non-current liabilities		5,619,513	8,266,218
Total liabilities		19,918,456	18,083,904
<i>Equity</i>			
Share capital	(Note 18)	12,559,023	11,901,023
Reserves	(Note 19)	2,214,641	2,142,603
Retained earnings		30,299,844	21,934,542
Total equity		45,073,508	35,978,168
Total liabilities and equity		\$ 64,991,964	\$ 54,062,072

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

(s) Joseph Abbandonato
Joseph Abbandonato
Director

(s) Roberto Longo
Roberto Longo
Director

Consolidated statements of changes in equity
For the years ended December 31, 2021 and 2020
(in Canadian dollars)

	Reserves						
	Share capital (a)	Share-based compensation	Accumulated foreign currency translation	Warrants	Total reserves	Retained earnings	Total
Balance at December 31, 2019	\$ 11,875,023	\$ 1,149,416	\$ 597,587	\$ 465,174	\$ 2,212,177	\$ 15,585,240	\$ 29,672,440
Net income for the year	-	-	-	-	-	6,349,302	6,349,302
Exchange differences on translating foreign operations	-	-	(113,013)	-	(113,013)	-	(113,013)
Comprehensive income for the year	-	-	(113,013)	-	(113,013)	6,349,302	6,236,289
Transactions with owners:							
Issuance of share capital (Note 18)	26,000	-	-	-	-	-	26,000
Share-based compensation (Note 19)	-	43,439	-	-	43,439	-	43,439
Balance at December 31, 2020	\$ 11,901,023	\$ 1,192,855	\$ 484,574	\$ 465,174	\$ 2,142,603	\$ 21,934,542	\$ 35,978,168
Net income for the year	-	-	-	-	-	8,365,302	8,365,302
Exchange differences on translating foreign operations	-	-	52,851	-	52,851	-	52,851
Comprehensive income for the year	-	-	52,851	-	52,851	8,365,302	8,418,153
Transactions with owners:							
Issuance of share capital (Note 18)	658,000	-	-	-	-	-	658,000
Share-based compensation (Note 19)	-	19,187	-	-	19,187	-	19,187
Balance at December 31, 2021	\$ 12,559,023	\$ 1,212,042	\$ 537,425	\$ 465,174	\$ 2,214,641	\$ 30,299,844	\$ 45,073,508

(a) Additional detail of share capital is provided in Note 18
The accompanying notes are an integral part of these consolidated financial statements.

**Consolidated statements of cash flows
(in Canadian dollars)**

for the years ended	December 31,	
	2021	2020
Operating activities:		
Net income for the year	\$ 8,365,302	\$ 6,349,302
Income tax expense	1,432,584	1,862,081
Depreciation and amortisation of non-current assets	3,811,084	3,592,699
Finance costs	411,363	544,928
Share-based compensation	19,187	43,439
Loss on disposition of property, plant and equipment	-	113,804
Unrealized foreign exchange loss	157,949	341,096
	14,197,469	12,847,349
Net changes in working capital		
Increase in trade and other receivables	(3,541,810)	(153,237)
(Increase) decrease in inventories	(3,259,118)	37,835
Decrease (increase) in prepaid expenses	33,837	(937)
Increase in trade and other payables	2,171,307	255,508
	(4,595,784)	139,169
Cash generated by operating activities	9,601,685	12,986,518
Net income taxes paid	(1,556,058)	(1,026,958)
Net cash generated by operating activities	8,045,627	11,959,560
Investing activities:		
Payments for property, plant and equipment and intangible assets	(2,467,812)	(1,660,381)
Proceeds from disposition of property, plant and equipment	-	50,266
Net cash used in investing activities	(2,467,812)	(1,610,115)
Financing activities:		
Net change in bank indebtedness	2,498,309	(4,538,393)
Interest paid	(411,363)	(544,928)
Increase in long-term debt	-	750,000
Repayment of long-term debt	(1,881,688)	(1,739,904)
Net proceeds from issuance of share capital	658,000	26,000
Repayment of lease obligations	(1,167,314)	(1,114,871)
Net cash used in financing activities	(304,056)	(7,162,096)
Net increase in cash	5,273,759	3,187,349
Cash, beginning of the year	3,219,258	60,942
Effects of foreign exchange differences on cash	(27,956)	(29,033)
Cash, end of the year	\$ 8,465,061	\$ 3,219,258

Non-cash transactions (Note 20)

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

Notes to the consolidated financial statements for the years ended December 31, 2021 and 2020

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 agriculture 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, unless specifically stated.

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, 2021. The consolidated financial statements were approved by the board of directors and authorized for issue on April 13, 2022.

2.2 Basis of measurement

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

2.3 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, 2021 and 2020, Imaflex USA, the Company’s wholly owned subsidiary, manufactured flexible packaging and plastic film out of its two North Carolina, USA plants.

2.4 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 the 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.

Notes to the consolidated financial statements for the years ended December 31, 2021 and 2020

2. Significant accounting policies (continued)

2.4 Foreign currencies (continued)

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency are recorded at the exchange rates in effect on the date of the transactions. Monetary items denominated in foreign currencies are translated at the exchange rate prevailing at the end of the reporting period. Resulting gains and losses on foreign exchange are recorded in the consolidated statement of comprehensive income.

The foreign exchange gains and losses arising on inter-company monetary non-trade advances totalling US\$4,000,000, for which settlement is determined to be neither planned nor likely in the foreseeable future and are therefore accounted for as forming part of the Company's net investment in its foreign subsidiary, are recognized in Accumulated foreign currency translation within reserves. The foreign exchange gains or losses on trade receivables and other monetary advances continue to be included in Other gains and losses in the consolidated statement of comprehensive income.

2.5 Revenue recognition

Revenues are generated almost exclusively from the sale of goods. Revenue is recognized when the control of a product is transferred to a customer, which is typically when the customer takes possession of the goods, and there are no other performance obligations to be completed under the contract.

Revenue is measured based on the consideration that has been agreed upon by all parties and that the Company expects to be entitled to receive from the customer, net of variable considerations, including all returns, rebates and discounts agreed to by all parties concerned and the information available relative to each customer.

Revenue recognition is based on the following steps:

- identification of the contract with the customer;
- identification of the performance obligations in the contract;
- determination of the transaction price;
- allocation of the transaction price to the performance obligations in the contract; and
- recognition of revenue when the Company satisfies a performance obligation.

2.6 Income Tax

Income tax expense comprises both current and deferred tax. Current tax is based on taxable income for the year. Taxable income differs from net income as reported in the consolidated statement of comprehensive income 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.

Notes to the consolidated financial statements for the years ended December 31, 2021 and 2020

2. Significant accounting policies (continued)

2.6 Income Tax (continued)

Deferred tax assets and liabilities are calculated using the tax rates and laws enacted or substantively 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.

2.7 Earnings per share

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

2.8 Financial assets and financial liabilities

Financial assets and liabilities are recognized when the Company becomes party to the contractual provisions of the financial instrument. Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled or expired.

Classification and initial measurement of financial assets

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through earnings, or fair value through other comprehensive income.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component, the Company initially measures financial assets at fair value plus, in the case of financial assets not at fair value through earnings, transaction costs. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through earnings are recognized immediately in earnings. Trade receivables that do not contain a significant financing component are measured at the transaction price determined in accordance with IFRS 15.

Subsequent measurement

After initial recognition, cash and trade and other receivables (excluding sales taxes) are measured at amortized cost using the effective interest method. The expense relating to the allowance for expected credit loss is recognized in earnings in Administrative expenses in the statement of comprehensive income.

Impairment of financial assets

The Company recognizes a loss allowance for expected credit losses arising from financial assets. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

Notes to the consolidated financial statements for the years ended December 31, 2021 and 2020

2. Significant accounting policies (continued)

2.8 Financial assets and financial liabilities (continued)

The Company applies a simplified approach for calculating expected credit losses for trade and other receivables (excluding sales taxes). The Company recognizes a loss allowance based on lifetime expected credit losses at each reporting date. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the Company uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix. Note 11 provides a detailed analysis of how the impairment requirements of IFRS 9 are applied.

Classification and measurement of financial liabilities

The Company's financial liabilities include bank indebtedness and short-term borrowings, trade and other payables (excluding employee benefits), and long-term debt. Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs. Subsequently, financial liabilities are measured at amortized cost using the effective interest method.

All interest related charges for financial liabilities measured at amortized cost are recognized in the consolidated statement of comprehensive income under Finance costs.

2.9 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.

2.10 Property, plant and equipment

The Company's building, land, production equipment, rolling stock, 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 them 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
Land	Indefinite
Building	20 years
Production equipment	10 - 20 years
Rolling stock	10 years
Office equipment	5 years
Computer equipment	3 years

Notes to the consolidated financial statements for the years ended December 31, 2021 and 2020

2. Significant accounting policies (continued)

2.10 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).

In the case of right-of-use assets, expected useful lives are determined by reference to comparable owned assets or the lease term, if shorter, when the lease does not transfer ownership of the asset or the Company does not expect to exercise a purchase option.

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, in Other in the consolidated statement of comprehensive income.

2.11 Leased assets

At inception of a contract, the Company identifies whether it is or contains a lease based on whether the contract, or part of the contract, conveys the right to control the use of an identified asset (the “underlying asset”) for a period of time in exchange for consideration. To apply this definition the Company assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Company
- the Company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract
- the Company has the right to direct the use of the identified asset throughout the period of use. The Company assesses whether it has the right to direct ‘how and for what purpose’ the asset is used throughout the period of use

The Company recognizes a right-of-use asset on the balance sheet at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial measurement of the lease liability, any lease payments made before the commencement date, any initial indirect costs incurred by the Company, an estimate of any costs to dismantle and remove the asset at the end of the lease, less any lease incentives received.

At the commencement date, the Company recognises the lease liability measured at the present value of the lease payments that are not paid at that date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company’s incremental borrowing rate.

Lease payments include fixed payments and in-substance fixed payments, variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date of the lease, amounts expected to be paid by the Company under residual value guarantees, purchase options if the Company is reasonably certain to exercise that option and penalties for terminating the lease if the lease term reflects the Company using an option to terminate the lease.

Subsequent to initial measurement, the lease liability is reduced for payments and increased for interest. It can be remeasured by discounting the revised lease payments using a revised discount rate if there is a change in the lease term or in the assessment of an option to purchase the underlying asset. The lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate if there is a change in the amount payable under a residual value guarantee or if future lease payments are modified resulting from a change in an index or rate used to determine those payments.

Notes to the consolidated financial statements for the years ended December 31, 2021 and 2020

2. Significant accounting policies (continued)

2.11 Leased assets (continued)

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or directly in profit and loss if the right-of-use asset is already reduced to zero.

The Company has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and a lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, right-of-use assets have been included in property, plant and equipment.

2.12 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 the 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 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).

2.13 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 the 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.

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 assets in prior years. A reversal of an impairment loss is recognised immediately in net income.

Notes to the consolidated financial statements for the years ended December 31, 2021 and 2020

2. Significant accounting policies (continued)

2.14 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 group 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 prorated over 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 income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

2.15 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.

2.16 Share-based compensation

The Company uses equity-settled share-based compensation plans for its employees and consultants. 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.

2.17 Share capital and reserves

Share capital represents the amount received upon issuance of shares, net of transaction costs. Proceeds from the issuance of units consisting of shares and purchase warrants are allocated based on the relative fair values of each instrument. The fair value of the shares is based on the TSX share price at the time of the issuance and the fair value of the warrants is determined using a Black-Scholes valuation model.

Reserves include the following:

- Share-based compensation (see 2.16);
- Accumulated foreign currency translation (see 2.4);
- Warrants – comprises the value of outstanding and expired warrants;

Upon the exercise of options and warrants, the proceeds received less the transaction costs are credited to share capital.

Notes to the consolidated financial statements for the years ended December 31, 2021 and 2020

3. 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.

3.1 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.

3.2 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 expected credit losses

During each reporting period, the Company makes an assessment of whether trade accounts receivable are collectible from customers. Accordingly, management establishes an allowance for estimated losses arising from non-payment. The Company's allowance for expected credit loss reflects expected credit losses using a provision matrix model, supplemented by an allowance for individually impaired trade receivables. The provision matrix is based on the Company's historic credit loss experience, adjusted for any change in risk of the trade receivable population based on credit monitoring indicators, and expectations of general economic conditions that might affect the collection of trade receivables. The provision matrix applies fixed provision rates depending on the number of days that a trade receivable is past due, with higher rates applied the longer a balance is past due. Refer to Note 11 for more information regarding the allowance for expected credit losses.

Useful lives of depreciable and amortisable 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 depreciation and amortisation methods used are appropriate.

**Notes to the consolidated financial statements
for the years ended December 31, 2021 and 2020**

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

3.2 Key sources of estimation uncertainty (continued)

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.

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-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.

4. 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.

4.1 Revenues by geographical end market

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

	Year ended	
	December 31, 2021	December 31, 2020
Canada	\$ 37,294,723	\$ 30,500,829
United States	70,180,963	56,181,334
Other	1,540	-
Total	\$ 107,477,226	\$ 86,682,163

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

	December 31, 2021	December 31, 2020
Canada	\$ 8,219,158	\$ 8,088,548
United States	18,110,423	19,342,543
Total	\$ 26,329,581	\$ 27,431,091

**Notes to the consolidated financial statements
for the years ended December 31, 2021 and 2020**

5. Additional information on the consolidated statements of comprehensive income

The Company's consolidated statements of comprehensive income include depreciation of production equipment of \$3,602,138 for the year ended December 31, 2021 (\$3,334,585 in 2020) classified in Cost of sales, which includes the depreciation for right-of-use assets of \$1,080,538 for the year ended December 31, 2021 (\$1,027,799 in 2020). Depreciation of other property, plant and equipment and amortisation of intangible assets amounting to \$208,946 for the year ended December 31, 2021 (\$258,114 in 2020) is included in Administrative expenses.

The Company's consolidated statements of comprehensive income include salaries paid to its employees of \$9,896,662 for the year ended December 31, 2021 (\$9,928,051 in 2020) classified in Cost of sales. Administrative expenses include salaries paid to employees of \$1,877,345 for the year ended December 31, 2021 (\$1,841,872 in 2020) and Selling expenses include salaries paid to employees of \$431,111 for the year ended December 31, 2021 (\$470,112 in 2020).

6. 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 \$2,749,973 during the year ended December 31, 2021 (\$2,600,436 in 2020). These payments are expensed as incurred and the Company does not recognise any gains or losses subsequent to the payment of these benefits.

The Company also offers a defined contribution employee benefit plan to its employees located in North Carolina, USA. For the year ended December 31, 2021, the Company contributed \$8,220 to this plan (\$25,473 in 2020).

7. Finance costs

	Year ended	
	December 31, 2021	December 31, 2020
Interest on bank indebtedness and long-term debt	\$ 290,758	\$ 370,571
Interest on finance lease obligations	120,605	174,357
	\$ 411,363	\$ 544,928

8. Other losses

	Year ended	
	December 31, 2021	December 31, 2020
Foreign exchange losses	\$ 165,266	\$ 419,754
Loss on disposition of property, plant and equipment	-	113,804
Other losses	\$ 165,266	\$ 533,558

**Notes to the consolidated financial statements
for the years ended December 31, 2021 and 2020**

9. Income taxes

9.1 Income tax recognised in net income

	Year ended	
	December 31, 2021	December 31, 2020
Income tax expense comprises:		
Current tax expense	\$ 1,229,000	\$ 1,897,761
Deferred tax expense relating to the origination and reversal of temporary differences	203,584	(35,680)
Total income tax expense	\$ 1,432,584	\$ 1,862,081

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

	Year ended	
	December 31, 2021	December 31, 2020
Income before income taxes	\$ 9,797,886	\$ 8,211,383
Income tax expense calculated at 26.5% (26.5% in 2020)	2,596,440	2,176,016
Permanent differences	11,070	(5,161)
Variation of valuation allowance	(967,996)	(305,505)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(147,304)	(46,490)
Other	(59,626)	43,221
Income tax expense recognised in net income	\$ 1,432,584	\$ 1,862,081

The tax rate used for the 2021 and 2020 reconciliation above is the corporate tax rate of 26.5% payable by corporate entities in Quebec, Canada on taxable income under tax law in those jurisdictions.

9.3 Deferred tax balances

	Opening balance	Recognised in income	Closing balance
2021			
Assets			
Non-capital losses	\$ 679,568	\$ 2,015,775	\$ 2,695,343
Lease obligations	640,348	(567,176)	73,172
Advance	40,564	376,323	416,887
Other assets	116,049	12,223	128,272
	1,476,529	1,837,145	3,313,674
Liabilities			
Property, plant and equipment	(2,662,506)	(2,040,729)	(4,703,235)
	(2,662,506)	(2,040,729)	(4,703,235)
Deferred tax liabilities	\$(1,185,977)	\$ (203,584)	\$(1,389,561)

**Notes to the consolidated financial statements
for the years ended December 31, 2021 and 2020**

9. Income taxes (continued)

9.3 Deferred tax balances (continued)

	Opening balance	Recognised in income	Closing balance
2020			
Assets			
Non-capital losses	\$ 1,112,003	\$ (432,435)	\$ 679,568
Lease obligation	990,624	(350,276)	640,348
Advance	66,719	(26,155)	40,564
Other assets	73,273	42,776	116,049
	2,242,619	(766,090)	1,476,529
Liabilities			
Property, plant and equipment	(3,464,276)	801,770	(2,662,506)
	(3,464,276)	801,770	(2,662,506)
Deferred tax liabilities	\$(1,221,657)	35,680	\$(1,185,977)

9.4 Unrecognised deferred tax assets

The Company's subsidiary, Imaflex USA, has non-capital losses available to carry forward to reduce future taxable income of \$25,704,331 in 2021 and \$23,043,920 in 2020, for part of which a deferred tax asset has not been recognised (\$3,142,111 in 2021 and \$4,553,706 in 2020), that expire as follows:

Expiring in	December 31, 2021	December 31, 2020
2027	-	793,528
2028	755,660	2,746,026
2029	2,962,046	2,974,662
2030	4,346,798	4,365,313
2031	1,855,522	1,863,425
2032	2,604,897	2,615,992
2033	2,608,507	2,619,618
2034	2,379,612	2,389,748
2035	1,369,561	1,375,395
2036	779,597	782,917
2038	289,602	290,836
Indefinite	5,752,529	226,460
	\$25,704,331	\$23,043,920

**Notes to the consolidated financial statements
for the years ended December 31, 2021 and 2020**

10. Earnings per share

	Year ended	
	December 31, 2021	December 31, 2020
Net income for basic and diluted earnings per share	\$ 8,365,302	\$ 6,349,302
Weighted average number of common shares outstanding	50,659,253	50,040,823
Dilutive effect of share purchase options	894,362	664,065
Diluted weighted average common shares outstanding	51,553,615	50,704,888
Basic earnings per common share	\$ 0.165	\$ 0.127
Diluted earnings per common share	\$ 0.162	\$ 0.125

No stock options outstanding as at December 31, 2021 were excluded from the calculation of earnings per share because they were antidilutive (200,000 in 2020).

11. Trade and other receivables

	December 31, 2021	December 31, 2020
Trade receivables	\$ 15,290,334	\$ 12,210,690
Allowance for expected credit losses	(995,745)	(936,959)
	14,294,589	11,273,731
Other receivables	778,021	248,531
Total trade and other receivables	\$ 15,072,610	\$ 11,522,262

Movement in the allowance for expected credit losses

	Year ended	
	December 31, 2021	December 31, 2020
Balance, beginning of year	\$ (936,959)	\$ (785,676)
Expected credit losses recognised on trade receivables	(60,854)	(159,093)
Foreign exchange	2,068	7,810
Balance, end of year	\$ (995,745)	\$ (936,959)

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.

**Notes to the consolidated financial statements
for the years ended December 31, 2021 and 2020**

11. Trade and other receivables (continued)

Credit risk management

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

For trade receivables, the Company uses an external credit service to assess the potential customer's credit quality and uses this information to define the allowed credit limits by customer. Moreover, the Company uses credit insurance to mitigate credit risk. As at December 31, 2021, \$6,411,038 (\$6,943,305 as at December 31, 2020) of the total trade receivables are insured. The Company's management considers that all receivables that are not impaired for each reporting date are of good credit quality.

Expected credit losses

The Company's allowance for expected credit losses reflects expected credit losses using a provision matrix model, supplemented by an allowance for individually impaired trade receivables. The provision matrix is based on the Company's historic credit loss experience, adjusted for any change in risk of the trade receivable population based on credit monitoring indicators, and expectations of general economic conditions that might affect the collection of trade receivables. The provision matrix applies fixed provision rates depending on the number of days that a trade receivable is past due, with higher rates applied the longer a balance is past due. Trade receivables outstanding longer than the agreed upon payment terms are considered past due. The Company determines its allowance for individually impaired trade receivables by considering a number of factors, including notices of liquidation, information provided by credit monitoring services, the length of time trade receivables are past due, the customer's current ability to pay its obligation to the Company, the customer's history of paying balances when they are past due, historical results and the condition of the general economy and the industry as a whole. After considering the factors above, at December 31, 2021 and at December 31, 2020, the Company has determined there is no significant increase or decrease in its trade receivable credit risk since its initial recognition. The Company writes off trade receivables when they are determined to be uncollectible and any payments subsequently received on such trade receivables are credited to the allowance for expected credit loss.

12. Inventories

	December 31, 2021	December 31, 2020
Raw materials and supplies	\$ 11,273,541	\$ 7,381,789
Finished goods	3,222,860	3,462,620
Work in process	423,500	806,130
Total	\$ 14,919,901	\$ 11,650,539

The cost of inventories recognised as an expense during the year was \$85,991,503 (\$66,158,542 in 2020). During the fiscal year ended on December 31, 2021, the Company increased the provision for inventory obsolescence by \$65,074 (\$137,060 in 2020).

**Notes to the consolidated financial statements
for the years ended December 31, 2021 and 2020**

13. Property, plant and equipment

	Land	Building	Production equipment	Leasehold improvements	Office equipment	Computer equipment	Rolling Stock	Total
Cost								
January 1, 2020	\$ 22,268	\$ 3,739,859	\$ 60,685,649	\$ 2,854,426	\$ 93,582	\$ 555,706	\$ 264,301	\$ 68,215,791
Additions	-	-	1,174,038	42,599	-	28,070	-	1,244,707
Disposals	-	-	(224,526)	-	-	-	-	(224,526)
Foreign exchange	(439)	(13,011)	(575,495)	(23,980)	(357)	(865)	(1,160)	(615,307)
December 31, 2020	21,829	3,726,848	61,059,666	2,873,045	93,225	582,911	263,141	68,620,665
Additions	-	348,584	1,857,229	212,807	-	92,548	-	2,511,168
Foreign exchange	(93)	(4,005)	(133,192)	(5,820)	(75)	(182)	(245)	(143,612)
December 31, 2021	21,736	4,071,427	62,783,703	3,080,032	93,150	675,277	262,896	70,988,221
Accumulated depreciation								
January 1, 2020	-	(943,171)	(35,611,996)	(2,454,390)	(54,466)	(536,668)	(41,869)	(39,642,560)
Depreciation	-	(938,067)	(2,372,511)	(143,299)	(9,233)	(26,358)	(45,705)	(3,535,173)
Disposals	-	-	60,456	-	-	-	-	60,456
Foreign exchange	-	20,851	314,630	21,750	357	1,084	557	359,229
December 31, 2020	-	(1,860,387)	(37,609,421)	(2,575,939)	(63,342)	(561,942)	(87,017)	(42,758,048)
Depreciation	-	(997,287)	(2,555,235)	(112,249)	(9,233)	(39,634)	(48,162)	(3,761,800)
Foreign exchange	-	(1,539)	36,391	3,758	75	210	(78)	38,817
December 31, 2021	-	(2,859,213)	(40,128,265)	(2,684,430)	(72,500)	(601,366)	(135,257)	(46,481,031)
Net book value as at								
December 31, 2020	\$ 21,829	\$ 1,866,461	\$ 23,450,245	\$ 297,106	\$ 29,883	\$ 20,969	\$ 176,124	\$ 25,862,617
December 31, 2021	\$ 21,736	\$ 1,212,214	\$ 22,655,438	\$ 395,602	\$ 20,650	\$ 73,911	\$ 127,639	\$ 24,507,190

A portion of the Company's production equipment with a carrying amount of approximately \$ 15,400,000 (approximately \$15,300,000 as at December 31, 2020) is pledged as collateral for the Company's long-term debt.

Included in the net carrying amount of property, plant and equipment as at December 31, 2021 and 2020 are right-of-use assets as follows :

	December 31, 2021	December 31, 2020
Buildings	\$ 1,135,178	\$ 1,783,367
Production equipment	262,372	293,266
Rolling stock	119,822	171,119
Office equipment	13,080	22,313
Total right-of-use assets	\$ 1,530,452	\$ 2,270,065

14. Intangible assets

	Goodwill	Customer relationships	Patents	Total
January 1, 2020	\$ 487,643	\$ 8,116	\$ 724,054	\$ 1,219,813
Additions	-	-	415,674	415,674
Amortisation	-	(8,242)	(49,284)	(57,526)
Foreign exchange	(9,613)	126	-	(9,487)
December 31, 2020	478,030	-	1,090,444	1,568,474
Additions	-	-	305,228	305,228
Amortisation	-	-	(49,284)	(49,284)
Foreign exchange	(2,027)	-	-	(2,027)
December 31, 2021	\$ 476,003	\$ -	\$ 1,346,388	\$ 1,822,391

**Notes to the consolidated financial statements
for the years ended December 31, 2021 and 2020**

15. Trade and other payables

	December 31, 2021	December 31, 2020
Trade payables	\$ 5,621,647	\$ 3,919,917
Other payables and accrued liabilities	2,664,239	2,195,449
	\$ 8,285,886	\$ 6,115,366

16. Borrowings

	December 31, 2021	December 31, 2020
Bank indebtedness (a)	\$ 2,498,309	\$ -
Long-term debt		
Loan, bearing interest at the lender's base rate minus 0.75% as at December 31, 2021 (effective rate of 3.80%) and minus 0.50% as at December 31, 2020 (effective rate of 4.05%), secured by production equipment having a net book value of approximately \$6,700,000. (b)	689,350	1,175,950
Loan, bearing interest at a fixed rate of 3.746% secured by a \$3.6 million hypothec on a piece of equipment. (c)	2,128,207	2,827,107
Loan, bearing interest at a fixed rate of 3.75% secured by a \$3.3 million hypothec on a piece of equipment. (d)	1,988,305	2,621,553
Loan, bearing interest at the lender's base rate plus 0.4% (effective rate of 4.95% as at December 31, 2021 and December 31, 2020), secured by production equipment having a net book value of approximately \$6,700,000. (e)	687,060	750,000
Total long-term debt	5,492,922	7,374,610
Lease obligations (Note 17)	1,582,297	2,411,412
Total borrowings	\$ 9,573,528	\$ 9,786,022
Current		
Bank indebtedness	\$ 2,498,309	\$ -
Long-term debt, current portion	1,994,463	1,881,689
Lease obligations, current portion	850,804	824,092
	5,343,576	2,705,781
Non-current		
Long-term debt	3,498,459	5,492,921
Lease obligations	731,493	1,587,320
	4,229,952	7,080,241
Total borrowings	\$ 9,573,528	\$ 9,786,022

**Notes to the consolidated financial statements
for the years ended December 31, 2021 and 2020**

16. Borrowings (continued)

The interest expense on long-term debt amounted to \$255,338 for the year ended December 31, 2021 (\$307,700 in 2020).

- (a) The Company has an operating line of credit with its bankers for a maximum of \$12,000,000, bearing interest at prime plus 0.40% as at December 31, 2021 and 2020 for an effective interest rate of 2.85% at December 31, 2021 and 2020. 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 and debt to equity covenants (as defined in the lending agreement), all of which were respected as at December 31, 2021 and 2020 and during the years ended December 31, 2021 and 2020. As at December 31, 2021, the Company was borrowing \$2,498,309 on its line of credit (nil as at December 31, 2020).
- (b) The loan is repayable in monthly instalments of \$40,550 until May 2023.
- (c) The loan is repayable in blended monthly instalments of \$66,072 through October 2024. This loan is secured by a hypothec on a specific piece of equipment of the Company.
- (d) The loan is repayable in blended monthly instalments of \$60,061 through November 2024. This loan is secured by a hypothec on a specific piece of equipment of the Company.
- (e) During the year ended December 31, 2020, the Company entered into a loan agreement for \$750,000 to finance research and development expenses related to Advaseal product. This loan bears interest at the lender's base rate plus 0.40% and is repayable in one payment of \$10,890 in July 2021 followed by 71 monthly payments of \$10,410 through July 2027.

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

Not later than one year	\$ 1,994,463
Later than one year and not later than five years	3,435,999
Later than 5 years	62,460
	\$ 5,492,922

**Notes to the consolidated financial statements
for the years ended December 31, 2021 and 2020**

16. Borrowings (continued)

The changes in the Company's liabilities arising from borrowings can be classified as follows:

	Short-term borrowings and bank indebtedness	Long-term debt	Lease obligations	Total
Balance as of January 1, 2020	\$ 4,538,393	\$ 8,364,514	\$ 3,517,554	\$ 16,420,461
Cash flows:				
Proceeds	14,524,147	750,000	-	15,274,147
Repayments	(19,081,249)	(1,739,904)	(1,114,871)	(21,936,024)
Non-cash:				
Accrued interest	-	-	(2,915)	(2,915)
Foreign exchange and other	18,709	-	11,644	30,353
Balance as of December 31, 2020	-	7,374,610	2,411,412	9,786,022
Cash flows:				
Proceeds	34,097,885	-	-	34,097,885
Repayments	(31,587,207)	(1,881,688)	(1,167,314)	(34,636,209)
Non-cash:				
New capital leases	-	-	348,584	348,584
Accrued interest	-	-	(3,521)	(3,521)
Foreign exchange and other	(12,369)	-	(6,864)	(19,233)
Balance as of December 31, 2021	\$ 2,498,309	\$ 5,492,922	\$ 1,582,297	\$ 9,573,528

17. Lease obligations

The Company has entered into certain finance lease agreements relating to their manufacturing plants, vehicles and other machinery and equipment (see note 13). Finance lease payments are due as follows:

Not later than one year	\$ 925,038
Later than one year and not later than five years	743,119
Later than five years	-
Total minimum lease payments	1,668,157
Less amount representing interest at approximately 5.4%	(85,860)
Present value of minimum lease payments	1,582,297
Less the long-term portion	(731,493)
Current portion of lease obligations	\$ 850,804

During the year ended December 31, 2021, the Company renewed a lease for a production facility located in the United States. This resulted in an increase to lease obligations and right-of-use assets of \$348,584 at the inception of the lease.

Total cash outflow for leases for the years ended December 31, 2021 and 2020 was \$1.2 million and \$1.1 million, respectively.

**Notes to the consolidated financial statements
for the years ended December 31, 2021 and 2020**

18. Share capital

The Company's authorized share capital consists of an unlimited number of common shares, voting, participating, without par value. At December 31, 2021, there were 51,638,637 common shares outstanding (50,063,637 as at December 31, 2020). As at December 31, 2021 and 2020, there were no warrants outstanding.

During the year ended December 31, 2020, the Company issued 50,000 shares for cash consideration totaling \$26,000 following the exercise of options that were issued in 2015.

During the year ended December 31, 2021, the Company issued 50,000 common shares following the exercise of options issued in 2018 for cash consideration of \$38,000, 150,000 shares for cash consideration of \$60,000 following the exercise of options issued in 2016, 500,000 shares for cash consideration of \$210,000 following the exercise of options issued in September of 2016 and 875,000 shares for cash consideration of \$350,000 following the exercise of options issued in June of 2016.

19. Share-based compensation

Pursuant to the Stock Option Plan (the "Plan") of the Company, 4,973,860 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.

During the year ended December 31, 2020, the Company granted 150,000 options to employees at an exercise price of \$0.73. The options are convertible into an equal number of shares with one quarter of the options vesting immediately at issuance and an additional quarter vesting every six-month period thereafter.

The expense relating to the issue of option grants totalled \$19,187 for the year ended December 31, 2021 and \$43,439 for the year ended December 31, 2020.

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

	26/08/2020	10/09/2019	29/11/2018	29/11/2017	22/06/2017	06/09/2016	21/06/2016	Total
Outstanding as at 31/12/2020	150,000	100,000	250,000	150,000	50,000	500,000	1,025,000	2,225,000
Exercised ⁽¹⁾	-	-	(50,000)	-	-	(500,000)	(1,025,000)	(1,575,000)
Outstanding as at 31/12/2021	150,000	100,000	200,000	150,000	50,000	-	-	650,000
Exercisable as at 31/12/2021	112,500	100,000	200,000	150,000	50,000	-	-	612,500
Exercisable as at 31/12/2020	37,500	75,000	250,000	150,000	50,000	500,000	1,025,000	2,087,500
Remaining life of options (yrs)	3.65	2.70	1.92	0.92	0.48	-	-	
Expected life of options (yrs)	2.5 to 3.25	2.5 to 3.25	2.5 to 3.25	2.5 to 3.25	2.5 to 3.25	2.5 to 3.25	2.75 to 3.5	
Expiry	26/08/2025	10/09/2024	29/11/2023	29/11/2022	22/06/2022	06/09/2021	21/06/2021	
Expected share price volatility	57.82 - 60.98%	61.21% - 64.47%	67.14% - 70.41%	79.13% - 80.17%	80.01% - 83.03%	76.59% - 79.60%	75.95% - 82.15%	
Dividend yield	0%	0%	0%	0%	0%	0%	0%	
Risk free rate	0.41%	1.44%	2.23%	1.62%	1.15%	0.51%	0.50%	
Exercise price	\$ 0.73	\$ 0.55	\$ 0.76	\$ 1.11	\$ 1.03	\$ 0.42	\$ 0.40	
Share price on grant date	\$ 0.73	\$ 0.55	\$ 0.76	\$ 1.11	\$ 1.03	\$ 0.42	\$ 0.40	
Fair value of option at grant	\$ 0.28	\$ 0.30	\$ 0.35	\$ 0.57	\$ 0.53	\$ 0.21	\$ 0.21	

- (1) The fair value of the shares at the exercise date was \$1.10 per share for the 50,000 options issued on November 29, 2018, \$1.38 for the 150,000 options issued on June 21, 2016, \$1.50 for the 500,000 options issued on September 6, 2016 and \$1.42 and \$1.35 for the 875,000 options issued on June 21, 2016 exercised on 2 dates.

**Notes to the consolidated financial statements
for the years ended December 31, 2021 and 2020**

19. Share-based compensation (continued)

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.

20. Non-cash transactions

During the year ended December 31, 2021, the Company renewed a lease for a production facility, increasing its lease obligations by \$348,584 on January 1, 2021.

21. Financial instruments

21.1 Fair value and classification of financial instruments

	Carrying amount			Fair value
	December 31, 2021	December 31, 2020	December 31, 2021	December 31, 2020
Financial assets				
Amortised cost				
Cash	\$ 8,465,061	\$ 3,219,258	\$ 8,465,061	\$ 3,219,258
Trade and other receivables ⁽¹⁾	14,300,736	11,281,501	14,300,736	11,281,501
	22,765,797	14,500,759	22,765,797	14,500,759
Financial liabilities				
Financial liabilities, at amortised cost				
Bank indebtedness	2,498,309	-	2,498,309	-
Trade and other payables ⁽²⁾	6,643,845	4,773,846	6,643,845	4,773,846
Long-term debt	5,492,922	7,374,610	5,495,668	7,469,667
	14,635,076	12,148,456	14,637,822	12,243,513

⁽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, bank indebtedness, short-term borrowings and trade and other payables 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 long-term debt that bears interest at floating and fixed 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. Over time, changes in market interest rates may cause a difference between the fair value and the carrying value of long-term debt that bears interest at fixed rates.

Notes to the consolidated financial statements for the years ended December 31, 2021 and 2020

21. Financial instruments (continued)

21.1 Fair value and classification of financial instruments (continued)

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.

21.2 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 (as prices) or indirectly (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, 2021 and 2020, the fair values of long-term debt are categorised as Level 2.

22. Risk management

22.1 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, 2021:

- 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 taxes divided by equity and deferred taxes less intangible assets of less than or equal to 2.50:1.00;

**Notes to the consolidated financial statements
for the years ended December 31, 2021 and 2020**

22. Risk management (continued)

22.2 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 debt in USD. The majority of the cash flows generated by the assets financed by these borrowings in USD are in USD.

The following is a summary of the Company's financial assets and liabilities that are denominated in USD, which is in a currency other than the Company's functional currency:

	December 31, 2021	December 31, 2020
Cash	\$ 779	\$ 112,595
Trade receivables	3,445,186	3,015,357
Trade payables	(2,103,457)	(1,620,508)
Bank indebtedness	(2,498,309)	-
Net financial position exposure	\$ (1,155,801)	\$ 1,507,444

A \$0.05 appreciation of the Canadian dollar against the USD would decrease its financial position by \$63,920 as at December 31, 2021 (an increase of \$139,259 as at December 31, 2020). Conversely a \$0.05 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 positive impact on the Company's results of approximately \$8,496. Every \$0.01 depreciation of the USD against the Canadian dollar would have the opposite effect.

22.3 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, 2021	December 31, 2020
Variable rate instruments		
Bank indebtedness	\$ 2,498,309	-
Financial liabilities	1,376,410	\$ 1,925,950
Gross financial position exposure	\$ 3,874,719	\$ 1,925,950

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, 2021 of approximately \$23,183 (\$ 27,104 for 2020). Conversely a decrease in interest rates would have the opposite effect.

**Notes to the consolidated financial statements
for the years ended December 31, 2021 and 2020**

22. Risk management (continued)

22.4 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 borrowings 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 \$12,000,000, of which \$2,498,309 was utilized as at December 31, 2021 (nil as at December 31, 2020). Borrowings under the Company's operating line of credit bear interest at the bank's prime rate plus 0.40%. In order to ensure that this line of credit is sufficient to fund the Company's cash requirements, management follows the movements in the collateral against which the line of credit is given.

As at December 31, 2021, 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	\$ 2,498,309	\$ 2,498,309	\$ 2,498,309	\$ -	\$ -
Long-term debt (1)	5,492,922	5,839,875	2,175,166	3,601,350	63,359
Lease obligations (2)	1,582,297	1,668,157	925,038	743,119	-
Trade and other payables (3)	6,643,845	6,643,845	6,643,845	-	-
	\$16,217,373	\$16,650,186	\$12,242,358	\$ 4,344,469	\$ 63,359

(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.

(3) Excludes employee benefits

23. Related party transactions

Entities in which key management personnel has an interest

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

Notes to the consolidated financial statements
for the years ended December 31, 2021 and 2020

23. Related party transactions (continued)

Entities in which key management personnel has an interest (continued)

	Transactions for the year ended		Amounts owing as at	
	December 31, 2021	December 31, 2020	December 31, 2021	December 31, 2020
Entities owned by key management personnel or their family members				
Lease liability payments	1,134,812	1,118,534	-	-
Interest expense included in lease payments above	97,730	139,371	-	-
Lease liability balance	1,348,128	2,041,754	-	-
Key management personnel services	121,841	132,598	10,744	10,163
Entities over which key management personnel have significant influence				
Professional services	11,650	-	11,650	-

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 marketing and innovation, the production director, the vice president of corporate affairs, the chief financial officer and members of the board of directors.

	Year ended	
	December 31, 2021	December 31, 2020
Salaries	\$ 958,333	\$ 924,474
Director's fees	45,750	41,000
Short-term employee benefits	6,282	13,094
Post-employment benefits – State-run plans	16,257	15,890
Share-based compensation	6,078	14,253
Other benefits	64,188	50,117
	\$ 1,096,888	\$ 1,058,828

