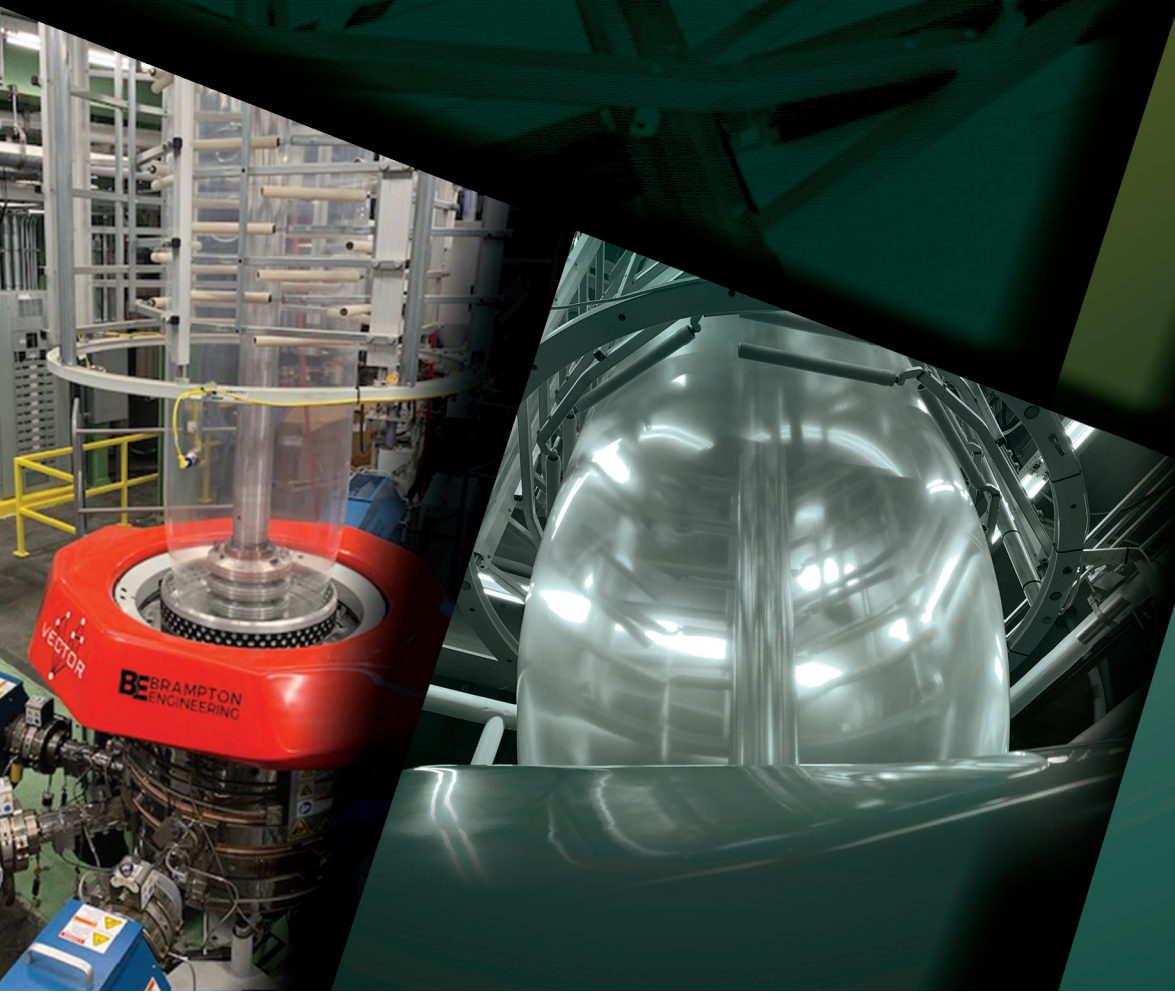


IMAFLEX INC.



**ANNUAL
REPORT
2022**

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, 2022 and 2021. 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, 2022 and 2021.

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 18, 2023. 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, 2022 and 2021.

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 18, 2023.

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® (EPA approval pending). 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 HG® (EPA approval pending)

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 disinfestation, 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. To address this, Imaflex developed ADVASEAL HG® (ADVASEAL®) to be used in preplant soil disinfestation as an alternative to fumigants in minor use crop production.

Originally, the U.S. Environmental Protection Agency (EPA) approved ADVASEAL® HSM, which contained only an herbicide for weed control. The new enhanced ADVASEAL HG® (ADVASEAL®), which still requires EPA approval, also includes three fungicides and a nematicide to control soil borne pathogens. With ADVASEAL®, 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 disinfestation 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.

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 2022, 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

As part of the commercialization process, Imaflex 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.

Upon successful completion of the two independent field trials, Imaflex mandated an independent lab to prove the equivalence of the generic active ingredients being used on ADVASEAL® with active ingredients already registered and marketed in the U.S., thus simplifying their registration as generic pesticides. Four of the five active ingredients used on the film come from Asia and are not yet registered in the U.S. Following the successful completion of the lab's work Imaflex

MANAGEMENT DISCUSSION AND ANALYSIS

ADVASEAL® COMMERCIALIZATION PROCESS (continued)

subsequently announced on November 7, 2022 that it had submitted the ADVASEAL® registration package to the U.S. Environmental Protection Agency (EPA) for approval as a new physical pesticide formulation. In conjunction with this, the Corporation announced that it had submitted the required active ingredient registrations for approval as generic pesticides for use in the manufacturing of ADVASEAL®. 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 237 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, COVID-19 driven demand and geopolitical events resulted in resin demand outstripping supplies as market participants looked to secure stock in an already tight market. This resulted in a higher resin pricing environment for much of 2020 and into 2021. Prices were relatively flat in 2022, with price increases registered in the first half offset by slightly higher decreases in the latter six months of the year. Prices for 2023 are expected to lean towards the upside, with some price increases already seen in the first quarter. This said, these increases largely relate to suppliers curtailing production levels as well as a moderate return of the export market. Over the longer term, North American resin production is expected to increase which should have a positive impact on pricing. However, global events and any production issues could put additional pressure on resin supplies and pricing.

Imaflex has no long-term customer contracts and consequently it can adjust product pricing as resin costs change. As such, we do not expect resin pricing changes to have a material impact on the business. This said, there is usually a 30-day lag between a resin price increase and when our customer product pricing can be revised. To the contrary, resin price decreases are normally passed along to the customer immediately.

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,	
	2022	2021	2022	2021
Net income	\$ 500	\$ 1,640	\$ 9,125	\$ 8,365
Plus:				
Income taxes	484	395	1,915	1,433
Finance costs	117	99	449	412
Depreciation and amortization	1,038	1,087	4,131	3,811
EBITDA ¹	\$ 2,139	\$ 3,221	\$ 15,620	\$ 14,021
Basic EBITDA per share ²	\$ 0.04	\$ 0.06	\$ 0.30	\$ 0.28
Diluted EBITDA per share ²	\$ 0.04	\$ 0.06	\$ 0.30	\$ 0.27

(1) Basic weighted average number of shares outstanding of 51,738,637 for the quarter and 51,700,418 for the year ended December 31, 2022. This compares to basic weighted average number of shares outstanding of 51,638,637 for the quarter and 50,659,253 for year ended December 31, 2021. Diluted weighted average number of shares outstanding of 51,996,330 for the quarter ended December 31, 2022 (51,888,917 in 2021) and 51,906,884 for fiscal 2022 (51,553,615 in 2021).

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

Results for the fourth quarter of 2022 were impacted by economic headwinds, the temporary delay of sales to an important customer requiring a product redesign and a COVID outbreak at the Company's Montreal plant. Despite this, Imaflex delivered another profitable quarter and record profitability for the year.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS (continued)

(\$ thousands)	Three months ended		Years ended	
	December 31,		December 31,	
	2022	2021	2022	2021
Sales	\$21,778	\$25,707	\$111,534	\$107,477

Revenues were \$21.8 million for the fourth quarter of 2022, down 15.3% from \$25.7 million in 2021. The decrease was driven by lower volumes and product pricing, which came down year-over-year in line with lower resin costs. This was partially offset by favourable year-over-year movements in foreign exchange and a notable sales increase in metalized films, garbage bags and bags on rolls. During the quarter, revenues also continued to be impacted by economic headwinds, a temporary slowdown resulting from a large customer who asked for an unexpected product redesign and a COVID outbreak at Imaflex's Montreal plant that started in September 2022 and continued into the fourth quarter.

For fiscal 2022, revenues came in at \$111.5 million, up 3.8% from \$107.5 million in 2021. Growth was driven by product pricing, which largely rose in line with increased sales of higher margin offerings. Sales of metalized films were particularly strong, reflecting the strength of Imaflex's diversified line-up of products. This strong performance was partially offset by the reduced volumes seen in the second half of 2022, resulting from economic headwinds and other aforementioned factors outlined for the current quarter.

As Imaflex has no long-term contracts, it can adjust product pricing in accordance with resin input costs and the marketplace.

(\$ thousands)	Three months ended		Years ended	
	December 31,		December 31,	
	2022	2021	2022	2021
Gross Profit (\$) before amortization of production equipment	\$4,295	\$4,917	\$21,937	\$21,003
Gross Profit before amortization of production equipment (%)	19.7%	19.1%	19.7%	19.5%
Amortization of production equipment	965	1,014	3,890	3,602
Gross profit (\$)	\$3,330	\$3,903	\$18,047	\$17,401
Gross profit (%)	15.3%	15.2%	16.2%	16.2%

Gross profit before the amortization of production equipment was \$4.3 million (19.7% of sales) for the current quarter, versus \$4.9 million (19.1% of sales) in 2021. Gross profit including amortization of production equipment came in at \$3.3 million (15.3% of sales) for the current quarter, versus \$3.9 million (15.2% of sales) in the prior year. Although the quarterly gross profit, before and after amortization of production equipment, came in lower versus 2021, the gross margin was slightly higher in 2022. This is largely due to the lower sales base, along with favourable year-over-year movements in foreign exchange and Imaflex's on-going efforts to drive sales of higher value products.

For fiscal 2022, the gross profit before amortization of production equipment was \$21.9 million (19.7% of sales), up 4.4% from \$21.0 million (19.5% of sales) in 2021. Similarly, the gross profit including amortization of production equipment was up 3.7% year-over-year, coming in at \$18.0 million (16.2% of sales) versus \$17.4 million (16.2% of sales) in 2021. As in the current quarter, results for the full year were positively impacted by favourable year-over-year movements in foreign exchange and the company's continuing shift to higher value business segments. In addition, the Corporation benefited from its ongoing initiatives to drive operating efficiencies and enhance production capabilities throughout the business. This was partially offset by inflationary pressures, such as fuel surcharges from carriers and some suppliers and higher product packaging and other costs.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS (continued)

(\$ thousands)	Three months ended		Years ended	
	December 31,		December 31,	
	2022	2021	2022	2021
Selling and administrative	\$2,024	\$1,673	\$8,003	\$6,940
As a % of sales	9.3%	6.5%	7.2%	6.5%

Selling and Administrative expenses were \$2.0 million for the quarter, up 21% from \$1.7 million in 2021, largely due to new employee hires and other miscellaneous one-time expenses. Selling and Administrative expenses as a percentage of sales were also higher, coming in at 9.3% for the current quarter versus 6.5% in 2021. The variance is mainly due to the aforementioned expense increases, along with the lower revenue base in the current quarter.

For fiscal 2022, Selling and Administrative expenses came in at \$8.0 million (7.2% of sales) versus \$6.9 million (6.5% of sales) in 2021. The year-over-year increases are largely due to the same factors outlined for the current quarter, along with some non-recurring expenses incurred in the first quarter of 2022. These expenses include the new operations managers, hired early in 2022, along with some salary increases to remain competitive in the market.

(\$ thousands)	Three months ended		Years ended	
	December 31,		December 31,	
	2022	2021	2022	2021
Finance costs	\$117	\$99	\$449	\$412

Finance costs were up modestly over 2021, coming in at \$117 thousand for the quarter (\$99 thousand in 2021) and \$449 thousand for the year (\$412 thousand in 2021). Although higher interest rates have impacted Imaflex's variable rate loans outstanding, the Company has successfully reduced debt levels year-over-year, resulting in a modest impact to finance costs.

(\$ thousands)	Three months ended		Years ended	
	December 31,		December 31,	
	2022	2021	2022	2021
Other (gains)/losses	\$189	\$68	(\$1,531)	\$165

Imaflex recorded other losses of \$189 thousand for the quarter, including \$230 thousand of foreign exchange losses, partially offset by \$41 thousand of interest income. This compares to a foreign exchange loss of \$68 thousand in 2021.

For fiscal 2022, Imaflex recorded other gains of \$1.5 million, versus a \$165 thousand loss in 2021, resulting in a \$1.7 million favourable year-over-year variance. The gain for 2022 was driven by foreign exchange movements resulting from the appreciation of the US dollar against the Canadian dollar, along with the aforementioned interest income recorded in the current quarter. 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		Years ended	
	December 31,		December 31,	
	2022	2021	2022	2021
Income taxes	\$484	\$395	\$1,915	\$1,433
As a % of income before taxes	49.2%	19.4%	17.3%	14.6%

Income taxes were \$0.5 million or 49.2% of income before taxes for the current quarter, up from \$0.4 million and 19.4% respectively in 2021. For fiscal 2022, income taxes totalled \$1.9 million or 17.3% of income before taxes, versus \$1.4 million and 14.6%, respectively in 2021. The Corporation's statutory tax rate is currently 26.5%.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS (continued)

(\$ thousands, except per share data)	Three months ended		Years ended	
	December 31,		December 31,	
	2022	2021	2022	2021
Net income	\$500	\$1,640	\$9,125	\$8,365
Basic earnings per share	\$0.01	\$0.03	\$0.18	\$0.17
Diluted earnings per share	\$0.01	\$0.03	\$0.18	\$0.16

Net income was \$0.5 million for the current quarter, down from \$1.6 million in the fourth quarter of 2021. The year-over-year decrease was driven by the lower gross profit and higher selling and administrative expenses.

For fiscal 2022, net income came in at \$9.1 million, up 9.1% from \$8.4 million in 2021. The increase was largely due to foreign exchange gains and the larger gross profit, partially offset by higher selling and administrative 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):

	Q4/22	Q3/22	Q2/22	Q1/22	Q4/21	Q3/21	Q2/21	Q1/21
Revenues	21,778	26,569	32,123	31,064	25,707	29,459	27,391	24,920
Net income	500	3,123	3,419	2,083	1,640	2,774	1,999	1,952
Earnings per share								
Basic	0.010	0.060	0.066	0.040	0.032	0.055	0.040	0.039
Diluted	0.010	0.060	0.066	0.040	0.032	0.054	0.039	0.038

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, 2022 vs. December 31, 2021

Working capital stood at \$20.3 million as at December 31, 2022, down \$4.1 million from \$24.4 million as at December 31, 2021. The year-over-year decrease was largely due to lower trade and other receivables, reduced inventories and a lower cash balance, partially offset by lower trade and other payables and a decrease in current tax liabilities. During the fourth quarter of 2022 Imaflex continued to invest for the future, making \$4.7 million of additional payments largely towards the previously announced capital asset purchases. This included new extrusion equipment, a metallizer and other ancillary flexible packaging equipment.

LIQUIDITY

Cash Flows from Operating Activities

Net cash flows generated by operating activities stood at \$4.7 million for the quarter, up significantly from \$1.4 million in the fourth quarter of 2021. The year-over-year increase was driven by movements in working capital, namely relating to

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY (continued)

Cash Flows from Operating Activities (continued)

inventories, along with trade and other receivables. This was partially offset by the lower profit in the current quarter, versus the corresponding prior year period.

For fiscal 2022, cash flows generated by operating activities came in at \$17.3 million, up notably from \$8.0 million in fiscal 2021. The increase was due to the same factors outlined for the quarter, partially offset by movements in trade and other payables, as well as movements in foreign exchange.

Cash Flows from Investing Activities

During the fourth quarter of 2022, Imaflex contributed \$4.7 million largely towards capital assets, up from \$0.7 million in 2021. The higher outflows went largely towards the major equipment purchases announced in Q2 2022, including new extrusion equipment, a metallizer and other ancillary flexible packaging equipment. These investments further enhance the Company's production capacity and capabilities in order to heighten sales and profitability.

For fiscal 2022, capital investments totaled \$14.6 million, up significantly from \$2.5 million in fiscal 2021. The increase was due to the same factors outlined for the quarter. As well, the Corporation incurred some additional charges related to the EPA registration of ADVASEAL®.

Cash Flows from Financing Activities

The Corporation recorded net cash inflows from financing activities of \$0.6 million for the current quarter, versus \$0.3 million of outflows in the corresponding prior-year period. There was a larger increase in bank indebtedness during the fourth quarter of 2022, resulting in the positive variance over 2021.

For fiscal 2022, the Corporation recorded net cash outflows from financing activities of \$3.6 million, versus outflows of \$0.3 million in 2021. The higher outflows in 2022 largely result from payments to decrease bank indebtedness (revolving line of credit) in the current year, versus an increase in bank indebtedness in the prior year. In addition, 2021 was positively impacted by \$0.7 million due to the issuance of share capital (\$75 thousand for fiscal 2022).

CONTRACTUAL OBLIGATIONS

The contractual obligations as at December 31, 2022 were as follows:

(\$ thousands)	Payments due by period			
	Total	Less than 1 year	1 to 5 years	After 5 years
Long-term debt	\$ 3,760	\$ 1,931	\$ 1,829	\$ -
Bank indebtedness	2,360	2,360	-	-
Leases	2,272	937	1,335	-
Total contractual obligations	\$ 8,392	\$ 5,228	\$ 3,164	\$ -

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, 2022.

CAPITAL RESOURCES

The Company's \$12 million operating line of credit, which is secured by trade receivables and inventories, bears interest at the Canadian prime rate. As at December 31, 2022, Imaflex had used \$2.4 million on its line of credit (versus \$2.5 million on December 31, 2021) and had cash of \$7.5 million (\$8.5 million as at December 31, 2021). Working capital stood at \$20.3 million at the end of 2022, versus \$24.4 million on December 31, 2021. 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.

MANAGEMENT DISCUSSION AND ANALYSIS

PROPOSED TRANSACTION

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

RELATED PARTY TRANSACTIONS

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

The following table reflects the related party transactions recorded for the periods ended December 31, 2022 and 2021. 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, 2022 and 2021.

(\$ thousands)		Three months ended		Years ended	
		December 31,		December 31,	
		2022	2021	2022	2021
Professional fees and key management personnel services	(a)	\$ 31	\$ 18	\$ 163	\$ 133
Rent	(b)	\$ 293	\$ 285	\$ 1,152	\$ 1,135
Remuneration	(c)	\$ 232	\$ 308	\$ 1,098	\$ 1,097

(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, 2022 and 2021 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, 2022, the Company was not using any swap, forward or hedge accounting and there were no warrants outstanding.

As at December 31, 2022, 800,000 options to purchase shares of the Company were outstanding at a weighted average strike price of \$0.957 of which 650,000 were exercisable.

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.

MANAGEMENT OUTLOOK

The operating environment remained challenging as Imaflex entered 2023. This said, order levels have been more robust recently and we are seeing a notable uptick in sales to some key customer accounts. We are optimistic this will translate into increasing strength moving forward, particularly for the second half of 2023. Additionally, the major equipment purchases announced in 2022 are beginning to arrive, bringing new capabilities and capacity to drive revenues and profitability. The first of three extruders and a metalizer are now being installed at our Victoriaville facility and the

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT OUTLOOK (continued)

remaining extruders will arrive in the third and fourth quarter of 2023. We are excited about our future and encouraged by the growth platform we have built in recent years. With a solid foundation, impressive cash flows and a clear roadmap for continued success, Imaflex has the financial flexibility to pursue its growth initiatives, while navigating in today's uncertain economic environment.

OUTSTANDING SHARE DATA

As at December 31, 2022, the Company had 51,738,637 common shares outstanding, up from 51,638,637 shares outstanding as at December 31, 2021. 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 18, 2023

For investor information, contact

JOHN RIPPLINGER

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Consolidated Financial Statements of

IMAFLEX INC.

Years ended December 31, 2022 and 2021

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, Quebec
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, 2022 and 2021, 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, 2022 and 2021, 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.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined that there are no key audit matters to communicate in our report.

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 communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are, therefore, the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Raymond Cholet Grant Thornton LLP¹

Montréal

April 18, 2023

¹ CPA auditor, public accountancy permit no. A119564

Consolidated statements of comprehensive income
(in Canadian dollars)

for the years ended		December 31,	
		2022	2021
Revenues	(Note 4.1)	\$ 111,534,272	\$ 107,477,226
Cost of sales		93,487,137	90,075,943
Gross profit		18,047,135	17,401,283
Expenses:			
Selling		1,765,913	1,729,872
Administrative		6,237,329	5,210,439
Finance costs	(Note 7)	449,404	411,363
Other (gains) losses	(Note 8)	(1,531,400)	165,266
Other		86,175	86,457
		7,007,421	7,603,397
Income before income taxes		11,039,714	9,797,886
Income taxes	(Note 9)	1,914,291	1,432,584
NET INCOME		9,125,423	8,365,302
Other comprehensive income			
Item that will be reclassified subsequently to net income			
Exchange differences on translating foreign operations		764,762	52,851
COMPREHENSIVE INCOME		\$ 9,890,185	\$ 8,418,153
Earnings per share	(Note 10)		
Basic		\$ 0.177	\$ 0.165
Diluted		\$ 0.176	\$ 0.162

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, 2022	December 31, 2021
Assets		
<i>Current assets</i>		
Cash	\$ 7,526,933	\$ 8,465,061
Trade and other receivables (Note 11)	12,079,089	15,072,610
Inventories (Note 12)	12,187,707	14,919,901
Prepaid expenses	235,643	204,811
Total current assets	32,029,372	38,662,383
<i>Non-current assets</i>		
Property, plant and equipment (Note 13)	37,756,917	24,507,190
Intangible assets (Note 14)	2,209,184	1,822,391
Total non-current assets	39,966,101	26,329,581
Total assets	\$ 71,995,473	\$ 64,991,964
Liabilities and equity		
<i>Current liabilities</i>		
Bank indebtedness and short-term borrowings (Note 16)	2,360,306	2,498,309
Trade and other payables (Note 15)	6,606,608	8,285,886
Current tax liabilities	104,469	669,481
Long-term debt, current portion (Note 16)	1,803,894	1,994,463
Lease obligations, current portion (Notes 16, 17)	886,050	850,804
Total current liabilities	11,761,327	14,298,943
<i>Non-current liabilities</i>		
Long-term debt (Note 16)	1,735,115	3,498,459
Deferred tax liabilities (Note 9)	2,108,852	1,389,561
Lease obligations (Notes 16, 17)	1,244,319	731,493
Total non-current liabilities	5,088,286	5,619,513
Total liabilities	16,849,613	19,918,456
<i>Equity</i>		
Share capital (Note 18)	12,633,523	12,559,023
Reserves (Note 19)	3,087,070	2,214,641
Retained earnings	39,425,267	30,299,844
Total equity	55,145,860	45,073,508
Total liabilities and equity	\$ 71,995,473	\$ 64,991,964

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, 2022 and 2021
(in Canadian dollars)

	Reserves						
	Share capital (a)	Share-based compensation	Accumulated foreign currency translation	Warrants	Total reserves	Retained earnings	Total
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
Net income for the year	-	-	-	-	-	9,125,423	9,125,423
Exchange differences on translating foreign operations	-	-	764,762	-	764,762	-	764,762
Comprehensive income for the year	-	-	764,762	-	764,762	9,125,423	9,890,185
Transactions with owners:							
Issuance of share capital (Note 18)	74,500	-	-	-	-	-	74,500
Share-based compensation (Note 19)	-	107,667	-	-	107,667	-	107,667
Balance at December 31, 2022	\$ 12,633,523	\$ 1,319,709	\$ 1,302,187	\$ 465,174	\$ 3,087,070	\$ 39,425,267	\$ 55,145,860

(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,	
	2022	2021
Operating activities:		
Net income for the year	\$ 9,125,423	\$ 8,365,302
Income tax expense	1,914,291	1,432,584
Depreciation and amortisation of non-current assets	4,130,715	3,811,084
Finance costs	449,404	411,363
Share-based compensation	107,667	19,187
Unrealized foreign exchange (gain) loss	(1,380,572)	157,949
	14,346,928	14,197,469
Net changes in working capital		
Decrease (increase) in trade and other receivables	3,434,085	(3,541,810)
Decrease (increase) in inventories	3,203,573	(3,259,118)
(Increase) decrease in prepaid expenses	(23,478)	33,837
(Decrease) increase in trade and other payables	(1,926,166)	2,171,307
	4,688,014	(4,595,784)
Cash generated by operating activities	19,034,942	9,601,685
Net income taxes paid	(1,760,012)	(1,556,058)
Net cash generated by operating activities	17,274,930	8,045,627
Investing activities:		
Payments for property, plant and equipment and intangible assets	(14,601,635)	(2,467,812)
Net cash used in investing activities	(14,601,635)	(2,467,812)
Financing activities:		
Net change in bank indebtedness	(138,003)	2,498,309
Interest paid	(438,464)	(411,363)
Repayment of long-term debt	(1,953,913)	(1,881,688)
Net proceeds from issuance of share capital	74,500	658,000
Repayment of lease obligations	(1,159,352)	(1,167,314)
Net cash used in financing activities	(3,615,232)	(304,056)
Net (decrease) increase in cash	(941,937)	5,273,759
Cash, beginning of the year	8,465,061	3,219,258
Effects of foreign exchange differences on cash	3,809	(27,956)
Cash, end of the year	\$ 7,526,933	\$ 8,465,061

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, 2022 and 2021

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, 2022. The consolidated financial statements were approved by the board of directors and authorized for issue on April 18, 2023.

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, 2022 and 2021, 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, 2022 and 2021

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, 2022 and 2021

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, 2022 and 2021

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, 2022 and 2021

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, 2022 and 2021

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, 2022 and 2021

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, 2022 and 2021

2. Significant accounting policies (continued)

2.18 New or revised Standards or Interpretations

At the date of authorisation of these consolidated financial statements, several new, but not yet effective, Standards and amendments to existing Standards, and Interpretations have been published by the IASB or IFRIC. None of these Standards or amendments to existing Standards have been adopted early by the Company and no Interpretations have been issued that are applicable and need to be taken into consideration by the Company at either reporting date.

Management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement. New Standards, amendments and Interpretations not adopted in the current year have not been disclosed as they are not expected to have a material impact on the Company's consolidated financial statements.

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:

Notes to the consolidated financial statements for the years ended December 31, 2022 and 2021

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

3.2 Key sources of estimation uncertainty (continued)

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.

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.

**Notes to the consolidated financial statements
for the years ended December 31, 2022 and 2021**

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, 2022	December 31, 2021
Canada	\$ 41,631,779	\$ 37,294,723
United States	69,902,493	70,180,963
Other	-	1,540
Total	\$ 111,534,272	\$ 107,477,226

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

	December 31, 2022	December 31, 2021
Canada	\$ 14,790,278	\$ 8,219,158
United States	25,175,823	18,110,423
Total	\$ 39,966,101	\$ 26,329,581

5. Additional information on the consolidated statements of comprehensive income

The Company's consolidated statements of comprehensive income include depreciation of production equipment of \$3,890,958 for the year ended December 31, 2022 (\$3,602,138 in 2021) classified in Cost of sales, which includes the depreciation for right-of-use assets of \$1,057,801 for the year ended December 31, 2022 (\$1,080,538 in 2021). Depreciation of other property, plant and equipment and amortisation of intangible assets amounting to \$239,757 for the year ended December 31, 2022 (\$208,946 in 2021) is included in Administrative expenses.

The Company's consolidated statements of comprehensive income include salaries paid to its employees of \$10,705,920 for the year ended December 31, 2022 (\$9,896,662 in 2021) classified in Cost of sales. Administrative expenses include salaries paid to employees of \$2,094,359 for the year ended December 31, 2022 (\$1,877,345 in 2021) and Selling expenses include salaries paid to employees of \$447,782 for the year ended December 31, 2022 (\$431,111 in 2021).

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 \$3,290,356 during the year ended December 31, 2022 (\$2,749,973 in 2021). 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 offered a defined contribution employee benefit plan to its employees located in North Carolina, USA. For the year ended December 31, 2022, the Company did not contribute to this plan (\$8,220 in 2021).

**Notes to the consolidated financial statements
for the years ended December 31, 2022 and 2021**

7. Finance costs

	Year ended	
	December 31, 2022	December 31, 2021
Interest on bank indebtedness and long-term debt	\$ 335,472	\$ 290,758
Interest on finance lease obligations	113,932	120,605
	\$ 449,404	\$ 411,363

8. Other (gains) losses

	Year ended	
	December 31, 2022	December 31, 2021
Foreign exchange (gains) losses	\$ (1,490,541)	\$ 165,266
Interest income	(40,859)	-
Other losses	\$ (1,531,400)	\$ 165,266

9. Income taxes

9.1 Income tax recognised in net income

	Year ended	
	December 31, 2022	December 31, 2021
Income tax expense comprises:		
Current tax expense	\$ 1,195,000	\$ 1,229,000
Deferred tax expense relating to the origination and reversal of temporary differences	719,291	203,584
Total income tax expense	\$ 1,914,291	\$ 1,432,584

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

	Year ended	
	December 31, 2022	December 31, 2021
Income before income taxes	\$ 11,039,714	\$ 9,797,886
Income tax expense calculated at 26.5% (26.5% in 2021)	2,925,524	2,596,440
Permanent differences	(9,088)	11,070
Variation of valuation allowance	(995,616)	(967,996)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(151,506)	(147,304)
Other	144,977	(59,626)
Income tax expense recognised in net income	\$ 1,914,291	\$ 1,432,584

The tax rate used for the 2022 and 2021 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.

Notes to the consolidated financial statements
for the years ended December 31, 2022 and 2021

9. Income taxes (continued)

9.3 Deferred tax balances

	Opening balance	Recognised in income	Closing balance
2022			
Assets			
Non-capital losses	\$ 2,695,343	\$ (2,996)	\$ 2,692,347
Lease obligations	73,172	437,859	511,031
Advance	416,887	(398,174)	18,713
Other assets	128,272	8,762	137,034
	3,313,674	45,451	3,359,125
Liabilities			
Property, plant and equipment	(4,703,235)	(764,742)	(5,467,977)
	(4,703,235)	(764,742)	(5,467,977)
Deferred tax liabilities	\$(1,389,561)	\$ (719,291)	\$(2,108,852)
	Opening balance	Recognised in income	Closing balance
2021			
Assets			
Non-capital losses	\$ 679,568	\$ 2,015,775	\$ 2,695,343
Lease obligation	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, 2022 and 2021**

9. Income taxes (continued)

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 \$21,029,387 in 2022 and \$25,704,331 in 2021, for part of which a deferred tax asset has not been recognised (\$3,775,962 in 2022 and \$3,142,111 in 2021), that expire as follows:

Expiring in	December 31, 2022	December 31, 2021
2028	281,107	755,660
2029	3,164,375	2,962,046
2030	4,643,716	4,346,798
2031	1,982,267	1,855,522
2032	2,782,830	2,604,897
2033	2,786,687	2,608,507
2034	2,542,157	2,379,612
2035	1,463,112	1,369,561
2036	832,849	779,597
2038	309,384	289,602
Indefinite	240,903	5,752,529
	\$21,029,387	\$25,704,331

10. Earnings per share

	Year ended	
	December 31, 2022	December 31, 2021
Net income for basic and diluted earnings per share	\$ 9,125,423	\$ 8,365,302
Weighted average number of common shares outstanding	51,700,418	50,659,253
Dilutive effect of share purchase options	206,466	894,362
Diluted weighted average common shares outstanding	51,906,884	51,553,615
Basic earnings per common share	\$ 0.177	\$ 0.165
Diluted earnings per common share	\$ 0.176	\$ 0.162

No stock options outstanding as at December 31, 2022 and 2021 were excluded from the calculation of earnings per share because they were antidilutive.

11. Trade and other receivables

	December 31, 2022	December 31, 2021
Trade receivables	\$ 13,201,867	\$ 15,290,334
Allowance for expected credit losses	(1,366,087)	(995,745)
	11,835,780	14,294,589
Other receivables	243,309	778,021
Total trade and other receivables	\$ 12,079,089	\$ 15,072,610

**Notes to the consolidated financial statements
for the years ended December 31, 2022 and 2021**

11. Trade and other receivables (continued)

Movement in the allowance for expected credit losses

	Year ended	
	December 31, 2022	December 31, 2021
Balance, beginning of year	\$ (995,745)	\$ (936,959)
Expected credit losses recognised on trade receivables	(333,271)	(60,854)
Foreign exchange	(37,071)	2,068
Balance, end of year	\$ (1,366,087)	\$ (995,745)

Credit risk

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

Credit risk management

Credit risk associated with cash is 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, 2022, \$5,600,231 (\$6,411,038 as at December 31, 2021) 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, 2022 and at December 31, 2021, 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.

**Notes to the consolidated financial statements
for the years ended December 31, 2022 and 2021**

12. Inventories

	December 31, 2022	December 31, 2021
Raw materials and supplies	\$ 9,574,976	\$ 11,273,541
Finished goods	2,383,603	3,222,860
Work in process	229,128	423,500
Total	\$ 12,187,707	\$ 14,919,901

The cost of inventories recognised as an expense during the year was \$84,297,189 (\$85,991,503 in 2021). During the fiscal year ended on December 31, 2022, the Company increased the provision for inventory obsolescence by \$362,646 (\$65,074 in 2021). The total provision for inventory obsolescence stood at \$833,124 as at December 31, 2022 (\$468,746 as at December 31, 2021)

13. Property, plant and equipment

	Land	Building	Production equipment	Leasehold improvements	Office equipment	Computer equipment	Rolling Stock	Total
Cost								
January 1, 2021	\$ 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
Additions	-	1,598,020	13,627,581	530,451	-	-	47,893	15,803,945
Foreign exchange	1,485	185,286	2,443,862	96,070	1,208	2,925	7,398	2,738,234
December 31, 2022	23,221	5,854,733	78,855,146	3,706,553	94,358	678,202	318,187	89,530,400
Accumulated depreciation								
January 1, 2021	-	(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)
Depreciation	-	(983,818)	(2,843,495)	(142,045)	(9,233)	(46,851)	(55,989)	(4,081,431)
Foreign exchange	-	(76,056)	(1,053,718)	(73,452)	(1,208)	(3,664)	(2,923)	(1,211,021)
December 31, 2022	-	(3,919,087)	(44,025,478)	(2,899,927)	(82,941)	(651,881)	(194,169)	(51,773,483)
Net book value as at								
December 31, 2021	\$ 21,736	\$ 1,212,214	\$ 22,655,438	\$ 395,602	\$ 20,650	\$ 73,911	\$ 127,639	\$ 24,507,190
December 31, 2022	\$ 23,221	\$ 1,935,646	\$ 34,829,668	\$ 806,626	\$ 11,417	\$ 26,321	\$ 124,018	\$ 37,756,917

A portion of the Company's production equipment with a carrying amount of approximately \$ 23,056,000 (approximately \$15,400,000 as at December 31, 2021) 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, 2022 and 2021 are right-of-use assets as follows :

	December 31, 2022	December 31, 2021
Buildings	\$ 1,859,444	\$ 1,135,178
Production equipment	198,100	262,372
Rolling stock	78,931	119,822
Office equipment	3,847	13,080
Total right-of-use assets	\$ 2,140,322	\$ 1,530,452

**Notes to the consolidated financial statements
for the years ended December 31, 2022 and 2021**

14. Intangible assets

	Goodwill	Patents	Total
January 1, 2021	\$ 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
Additions	-	403,563	403,563
Amortisation	-	(49,284)	(49,284)
Foreign exchange	32,514	-	32,514
December 31, 2022	\$ 508,517	\$ 1,700,667	\$ 2,209,184

15. Trade and other payables

	December 31, 2022	December 31, 2021
Trade payables	\$ 3,362,569	\$ 5,621,647
Other payables and accrued liabilities	3,244,039	2,664,239
	\$ 6,606,608	\$ 8,285,886

16. Borrowings

	December 31, 2022	December 31, 2021
Bank indebtedness (a)	\$ 2,360,306	\$ 2,498,309
Long-term debt		
Loan, bearing interest at the lender's base rate minus 0.75% (effective rate of 7.80% as at December 31, 2022 and 3.80% as at December 31, 2021), secured by production equipment having a net book value of approximately \$14,200,000. (b)	243,300	689,350
Loan, bearing interest at a fixed rate of 3.746% secured by a \$3.6 million hypothec on a piece of equipment. (c)	1,402,671	2,128,207
Loan, bearing interest at a fixed rate of 3.75% secured by a \$3.3 million hypothec on a piece of equipment. (d)	1,330,898	1,988,305
Loan, bearing interest at the lender's base rate plus 0.4% (effective rate of 8.95% as at December 31, 2022 and 4.95% as at December 31, 2021), secured by production equipment having a net book value of approximately \$14,200,000. (e)	562,140	687,060
Total long-term debt	3,539,009	5,492,922
Lease obligations (Note 17)	2,130,369	1,582,297
Total borrowings	\$ 8,029,684	\$ 9,573,528

**Notes to the consolidated financial statements
for the years ended December 31, 2022 and 2021**

16. Borrowings (continued)

	December 31, 2022	December 31, 2021
Current		
Bank indebtedness	\$ 2,360,306	\$ 2,498,309
Long-term debt, current portion	1,803,894	1,994,463
Lease obligations, current portion	886,050	850,804
	5,050,250	5,343,576
Non-current		
Long-term debt	1,735,115	3,498,459
Lease obligations	1,244,319	731,493
	2,979,434	4,229,952
Total borrowings	\$ 8,029,684	\$ 9,573,528

The interest expense on long-term debt amounted to \$210,318 for the year ended December 31, 2022 (\$255,338 in 2021).

- (a) The Company has an operating line of credit with its bankers for a maximum of \$12,000,000, bearing interest at prime as at December 31, 2022 and prime plus 0.40% as at December 31, 2021, for an effective interest rate of 6.45% at December 31, 2022 and 2.85% at December 31, 2021. 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, 2022 and 2021 and during the years ended December 31, 2022 and 2021. As at December 31, 2022, the Company was borrowing \$2,360,306 on its line of credit (\$2,498,309 as at December 31, 2021).
- (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	\$ 1,803,894
Later than one year and not later than five years	1,735,115
Later than 5 years	-
	\$ 3,539,009

**Notes to the consolidated financial statements
for the years ended December 31, 2022 and 2021**

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, 2021	\$ -	\$ 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)
Realized foreign exchange	(12,369)	-	-	(12,369)
Non-cash:				
New capital leases	-	-	348,584	348,584
Accrued interest	-	-	(3,521)	(3,521)
Foreign exchange and other	-	-	(6,864)	(6,864)
Balance as of December 31, 2021	2,498,309	5,492,922	1,582,297	9,573,528
Cash flows:				
Proceeds	55,873,304	-	-	55,873,304
Repayments	(56,149,267)	(1,953,913)	(1,159,352)	(59,262,532)
Realized foreign exchange	137,960	-	-	137,960
Non-cash:				
New capital leases	-	-	1,605,873	1,605,873
Accrued interest	-	-	4,695	4,695
Foreign exchange and other	-	-	96,856	96,856
Balance as of December 31, 2022	\$ 2,360,306	\$ 3,539,009	\$ 2,130,369	\$ 8,029,684

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	\$ 936,986
Later than one year and not later than five years	1,334,752
Later than five years	-
Total minimum lease payments	2,271,738
Less amount representing interest at approximately 5.4%	(141,369)
Present value of minimum lease payments	2,130,369
Less the long-term portion	(1,244,319)
Current portion of lease obligations	\$ 886,050

During the year ended December 31, 2022, 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 \$1,605,873 at the inception of the lease.

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, 2022 and 2021 was \$1.2 million and \$1.2 million, respectively.

**Notes to the consolidated financial statements
for the years ended December 31, 2022 and 2021**

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, 2022, there were 51,738,637 common shares outstanding (51,638,637 as at December 31, 2021). As at December 31, 2022 and 2021, there were no warrants outstanding.

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.

During the year ended December 31, 2022, the Company issued 50,000 shares for cash consideration of \$36,500 following the exercise of options issued on August 26, 2020 and another 50,000 shares for cash consideration of \$38,000 following the exercise of options issued on November 29, 2018.

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, 2022, the Company granted 300,000 options to an employee and a member of the Board of directors at an exercise price of \$1.19. 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 \$107,667 for the year ended December 31, 2022 and \$19,187 for the year ended December 31, 2021.

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

	26/05/2022	26/08/2020	10/09/2019	29/11/2018	29/11/2017	22/06/2017	Total
Outstanding as at 31/12/2021	-	150,000	100,000	200,000	150,000	50,000	650,000
Granted	300,000	-	-	-	-	-	300,000
Exercised ⁽¹⁾	-	(50,000)	-	(50,000)	-	-	(100,000)
Expired	-	-	-	-	-	(50,000)	(50,000)
Outstanding as at 31/12/2022	300,000	100,000	100,000	150,000	150,000	-	800,000
Exercisable as at 31/12/2022	150,000	100,000	100,000	150,000	150,000	-	650,000
Exercisable as at 31/12/2021	-	112,500	100,000	200,000	150,000	50,000	612,500
Remaining life of options (yrs)	4.40	2.65	1.70	0.91	-	-	
Fair value assumptions :							
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	
Expiry ⁽²⁾	26/05/2027	26/08/2025	10/09/2024	29/11/2023	29/11/2022	22/06/2022	
Expected share price volatility	58.83% - 59.93%	57.82% - 60.98%	61.21% - 64.47%	67.14% - 70.41%	79.13% - 80.17%	80.01% - 83.03%	
Dividend yield	0%	0%	0%	0%	0%	0%	
Risk free rate	2.62%	0.41%	1.44%	2.23%	1.62%	1.15%	
Exercise price	\$ 1.19	\$ 0.73	\$ 0.55	\$ 0.76	\$ 1.11	\$ 1.03	
Share price on grant date	\$ 1.19	\$ 0.73	\$ 0.55	\$ 0.76	\$ 1.11	\$ 1.03	
Fair value of option at grant	\$ 0.48	\$ 0.28	\$ 0.30	\$ 0.35	\$ 0.57	\$ 0.53	

**Notes to the consolidated financial statements
for the years ended December 31, 2022 and 2021**

19. Share-based compensation (continued)

(1) The fair value of the shares at the exercise date was \$1.13 per share for the 50,000 options issued on August 26, 2020 and \$1.15 for the 50,000 options issued on November 29, 2018 and exercised during the second quarter of 2022.

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. During the year ended December 31, 2022, the Company renewed a lease for a production facility, increasing its lease obligations by \$1,605,873 on January 1, 2022.

21. Financial instruments

21.1 Fair value and classification of financial instruments

	Carrying amount			Fair value
	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Financial assets				
Amortised cost				
Cash	\$ 7,526,933	\$ 8,465,061	\$ 7,526,933	\$ 8,465,061
Trade and other receivables ⁽¹⁾	11,856,997	14,300,736	11,856,997	14,300,736
	19,383,930	22,765,797	19,383,930	22,765,797
Financial liabilities				
Financial liabilities, at amortised cost				
Bank indebtedness	2,360,306	2,498,309	2,360,306	2,498,309
Trade and other payables ⁽²⁾	4,698,570	6,643,845	4,698,570	6,643,845
Long-term debt	3,539,009	5,492,922	3,484,061	5,495,668
	10,597,885	14,635,076	10,542,937	14,637,822

⁽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, 2022 and 2021

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, 2022 and 2021, 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, 2022:

- 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
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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, 2022	December 31, 2021
Cash	\$ 5,276	\$ 779
Trade receivables	1,998,746	3,445,186
Trade payables	(745,413)	(2,103,457)
Bank indebtedness	(2,360,306)	(2,498,309)
Net financial position exposure	\$ (1,101,697)	\$ (1,155,801)

A \$0.05 appreciation of the Canadian dollar against the USD would decrease its financial position by \$75,666 as at December 31, 2022 (an increase of \$63,920 as at December 31, 2021). 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 \$24,552. 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, 2022	December 31, 2021
Variable rate instruments		
Bank indebtedness	\$ 2,360,306	\$ 2,498,309
Long-term debt	805,440	1,376,410
Gross financial position exposure	\$ 3,165,746	\$ 3,874,719

Sensitivity analysis

A 100 basis point increase in interest rates throughout the reporting period would result in a decrease in income for the year ended December 31, 2022 of approximately \$26,128 (\$ 23,183 for 2021). Conversely a decrease in interest rates would have the opposite effect.

**Notes to the consolidated financial statements
for the years ended December 31, 2022 and 2021**

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 \$2,360,306 was utilized as at December 31, 2022 (\$2,498,309 as at December 31, 2021). 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, 2022, 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	\$ 2,360,306	\$ 2,360,306	\$ 2,360,306	\$ -	\$ -
Long-term debt (1)	3,539,009	3,760,013	1,931,211	1,828,802	-
Lease obligations (2)	2,130,369	2,271,738	936,986	1,334,752	-
Trade and other payables (3)	4,698,570	4,698,570	4,698,570	-	-
	\$12,728,254	\$13,090,627	\$ 9,927,073	\$ 3,163,554	\$ -

(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, 2022 and 2021

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, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Entities owned by key management personnel or their family members				
Lease liability payments	1,151,527	1,134,812	-	-
Interest expense included in lease payments above	106,636	97,730	-	-
Lease liability balance	2,006,614	1,348,128	-	-
Key management personnel services	158,685	121,841	10,518	10,744
Entities over which key management personnel have significant influence				
Professional services	3,875	11,650	3,875	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, 2022	December 31, 2021
Salaries	\$ 942,392	\$ 958,333
Director's fees	41,000	45,750
Short-term employee benefits	13,497	6,282
Post-employment benefits – State-run plans	18,701	16,257
Share-based compensation	18,158	6,078
Other benefits	64,317	64,188
	\$ 1,098,065	\$ 1,096,888

