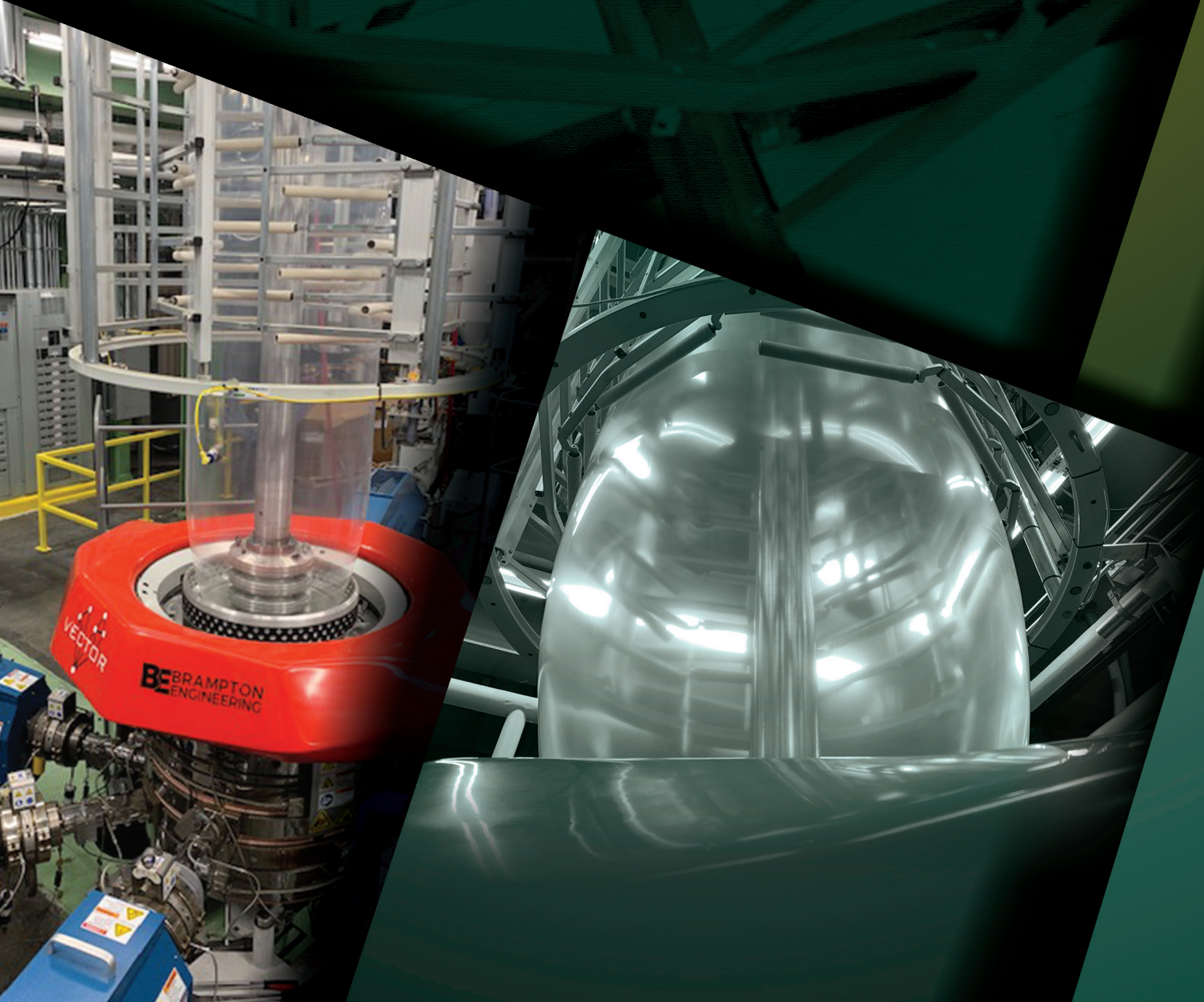
IMAFLEX INC.



ANNUAL REPORT 2019

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, 2019 and 2018. Unless otherwise indicated, the terms "Imaflex", "Company", "Corporation", "we", "our", and "us" all refer to Imaflex Inc., together with its divisions Canguard Packaging and Canslit, 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, 2019 and 2018.

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 16, 2020. 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, 2019 and 2018.

IFRS 16, Leases

Effective January 1, 2019, Imaflex adopted IFRS 16, Leases, ("IFRS 16") as described in note 2.18 to the audited consolidated financial statements for the year ended December 31, 2019 and 2018. Under IFRS 16, which replaces IAS 17, lessees are required to account for leases on their balance sheet by recognizing a "right of use" asset and a lease liability, essentially removing the distinction between an operating and finance lease. Certain exemptions exist for short-term leases and leases of low value assets. Imaflex applied the modified retrospective method of application and as such, **comparative prior-year information has not been restated.**

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, the length and severity of an economic downturn, management of credit, market dynamics, liquidity, funding and operational risks; the

FORWARD LOOKING STATEMENTS (continued)

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 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 16, 2020.

COMPANY OVERVIEW

lmaflex 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 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 to end-users by lmaflex. They are available in a variety of formats and include both metalized and non-metalized films. Our portfolio includes common mulch and fumigant barrier films, which are also available in a compostable plastic, as well as innovative 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 23,412 square meters or 252,000 square feet. lmaflex and lmaflex 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 believes 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.

GROWTH STRATEGY (continued)

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.

Grow the Agriculture Business
We will continue to build-out our agriculture business, driving awareness and exposure for our advanced crop protection products, particularly our unique film, Shine N' Ripe XL and our patented film, ADVASEAL® (under development). Our crop protection films are mulch films surface coated with either metallic aluminum and/or chemical/biological active substances 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.

Shine N' Ripe XL – Citrus Film
Shine N' Ripe XL is a long-lasting, heavy-duty, highly-reflective metalized mulch film designed specifically to fight citrus greening (HLB), a bacterial disease transmitted by the Asian Citrus Psyllid (ACP). HLB has devastated the global citrus industry, causing deformed off-flavored fruits, low yields and inevitably early tree death. Common insecticides have proven to be ineffective in preventing HLB infestation in newly planted citrus groves.

Shine N' Ripe XL's unique ability to reflect up to 80% of solar ultraviolet (UV) light intercepts the ACP and hence helps deter HLB infestation in young citrus trees. In addition, Shine N' Ripe XL significantly increases tree growth and yield by providing more sunlight to the lower tree parts, usually hidden in the canopy's shadow. Importantly, Shine N' Ripe XL also significantly suppresses weeds and reduces water and fertilizer consumption compared to traditional growing methods. The film's proprietary anti-corrosion coating has also been shown to maintain its initial high UV reflectivity for at least 3 years, making it one of the most environmentally-friendly and economically-viable tools for coping with citrus greening.

A multi-year trial conducted by the Florida Research Centre for Agricultural Sustainability (FLARES), repeatedly found that Shine N' Ripe XL demonstrated clear benefits over conventional production practices. In their January 2018 Florida Citrus Show presentation, FLARES reported that although approximately four years had passed since the trial began, trees planted with Shine N' Ripe XL continued to show less impact from citrus greening ("HLB") versus other treatments. As well, material on-going benefits continued in crop yields, resulting in a significantly shorter pay-back time for citrus growers. In both year three and year four, crops using Imaflex's film remained the only ones in the comparative group with a positive net return on invested capital. This ensued despite the higher initial investment costs for land preparation and installation associated with the metalized film's use.

Imaflex is dedicated to the film's success given the proven benefits it offers growers worldwide in crop protection, tree growth and yield enhancement. This said, uncertainties on the timing of its buildout exist as the take-up rate to date has been lower than expected.

ADVASEAL®
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 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.

The original U.S. Environmental Protection Agency (EPA) approved ADVASEAL® (ADVASEAL® HSM) contained only an herbicide for weed control. The new enhanced ADVASEAL®, which is under development, also includes three fungicides and a nematicide to control soil borne pathogens, thus becoming a complete non-fumigant alternative for soil disinfestation. With ADVASEAL®, these modern non-volatile crop protection products can be applied more effectively and safely than with fumigants. The crop protection products are incorporated into a coating, which is then applied to a mulch

GROWTH STRATEGY (continued)

Grow the Agriculture Business (continued)

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. The underlying technology is patent-protected in the top 20 major vegetable and fruit producing countries worldwide until 2028.

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, which should improve crop quality and yields. 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 teams use the fields in which they have core-competencies in order to identify innovative improvements and solutions where chemicals and polymers can offer added-value.

Maintain Efficiency of 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 approximately US $29 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 2019, Imaflex was once again ranked in the top 100 North American film and sheet manufacturers by sales.

The total addressable global agriculture mulch film market, excluding silage and green house films, is valued at approximately US $3.5 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 crop protection and yield enhancement products, 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 increasingly turning to other industries to help them do more with less.

ADVASEAL® COMMERCIALIZATION

Imaflex successfully completed the design of a new coating line, customized specifically for the cost effective production of ADVASEAL®. In addition, the Company sourced all the active ingredients (herbicide, nematicide and fungicides) to be coated on the film.

In order to obtain sufficient quantities of ADVASEAL® film for field trials, the Company also worked closely with FUJIFILM Manufacturing U.S.A. Inc. (FUJIFILM) on the development of the coating process for the active ingredient mixture. In February 2020, Imaflex obtained sufficient quantities of ADVASEAL and subsequently commenced an Efficacy Field Trial. The trial is evaluating ADVASEAL®'s ability to release its crop protection products into the soil and achieve soil disinfestation, prior to planting tomato seedlings. Concurrently, the trial is monitoring plant growth, yield and quality, compared to a crop grown under the current best Florida grower standard for fresh tomato production using fumigants. The tomato plant was chosen as a model crop, because it is one of the most widely grown vegetables in the world. Furthermore, if high yields can be achieved using ADVASEAL® with tomato plants, it can likely be used to produce 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. Full trial results, including plant growth, yield and quality for both the ADVASEAL® test crop and grower reference will be released once the growing season is complete and the independent report is available.

Given the positive interim results, the Corporation intends to continue its pre-registration meetings with the EPA and will meet them to discuss results and next steps for the timely registration of ADVASEAL® as a new pesticide. The will include discussions on the design of a trial to determine the exact timing for the complete release of each active ingredient used with ADVASEAL®. This is required to show compliance with the pre-harvest interval legally established by the EPA for each pesticide used, which is essentially the wait time between ADVASEAL®'s application on the soil and when a crop can first be harvested for safe human consumption.

Management believes the trials and pesticide 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. Additionally, many of the Company's customers deal in food related products, which are somewhat recession resistant.

Imaflex believes it has a competitive edge since it is recognized as being an industry leader in the development of innovative solutions. The Company focuses on offering customers unique high quality products on a timely basis and at competitive prices. A key strength of ours is the ability to take on smaller orders with short lead times. Collectively, this 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

COMPETITIVE ENVIRONMENT (continued)

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 234 people in North America, including those at our 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 the effort of eliminating 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.

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: 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

Given the current geopolitical events surrounding oil, the impact of COVID-19 and expected capacity increases from new plants coming on stream, Imaflex expects resin prices to remain flat to down for the immediate future. However, any unexpected supply chain disruptions would give reason for resin producers to raise prices further. Since Imaflex does not have major long-term contracts with its customers, resin price fluctuations are typically passed along to them.

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.

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 that are 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 a finished product 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 profitability may vary from quarter to quarter, irrespective of quarterly sales. This is due to many factors, including and not limited to: competitive conditions in the businesses in which 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, including those seen in recent quarters, 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 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 December 31,		Years ended December 31,	
	2019	2018	**2019**	2018
Net income	**303**	**$ 556**	**$ 1,536**	**$ 3,550**
Plus:				
Income taxes	**79**	**411**	**678**	**1,477**
Finance costs	**187**	**170**	**729**	**571**
Depreciation and amortization	**895**	**657**	**3,330**	**2,201**
EBITDA[1]	**$ 1,464**	**$ 1,794**	**$ 6,273**	**$ 7,799**
Basic EBITDA per share[2]	**$ 0.03**	**$ 0.04**	**$ 0.13**	**$ 0.16**
Diluted EBITDA per share[2]	**$ 0.03**	**$ 0.04**	**$ 0.12**	**$ 0.15**

(1) Excluding the impact of IFRS 16 Leases, EBITDA was $1.2 million for the quarter and $5.1 million for the year ended December 31, 2019.

(2) Basic weighted average number of shares outstanding of 50,013,637 for the quarter and year ended December 31, 2019. This compares to basic weighted average number of shares outstanding of 50,013,637 for the three-month period ended December 31, 2018 and 49,915,829 for the year ended December 31, 2018. Diluted weighted average number of

NON-IFRS FINANCIAL MEASURES (continued)

shares outstanding of 50,563,269 for the quarter ended December 31, 2019 (51,031,396 in 2018) and 50,684,870 for the year ended December 31, 2019 (51,067,300 in 2018).

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

During 2019, Imaflex continued to attract and retain customers, albeit at lower than historical sales prices, due to a competitive pricing environment and decreased resin costs. Revenues, profitability and cash flows were respectable versus 2018, particularly given the impact of currency fluctuations on 2019 profitability compared to the prior year.

($ thousands)	**Three months ended December 31,**		**Years ended December 31,**	
	2019	2018	**2019**	2018
Sales	**$18,740**	**$22,472**	**$81,071**	**$86,332**

Revenues were $18.7 million for the fourth quarter of 2019, down 16.6% from $22.5 million in 2018. The decrease largely reflects the impact on product pricing resulting from competitive pressures and lower resin prices. As well, sales of the Corporation's high margin citrus film were $nil for the current quarter, versus $1.4 million in 2018. Excluding citrus film sales, revenues were down 11.1% versus 2018.

Fiscal 2019 sales totaled $81.1 million, down 6.1% from $86.3 million in the prior year. The decrease from 2018 was mainly due to the same variables outlined for the quarter, partially offset by favourable movements in foreign exchange. Citrus film sales totaled $0.9 million in 2019, down from $2.8 million in 2018. Excluding citrus film sales, revenues were down 4.0% year-over-year.

($ thousands)	**Three months ended December 31,**		**Years ended December 31,**	
	2019	2018	**2019**	2018
Gross Profit ($) before amortization of production equipment	**$3,449**	**$2,361**	**$14,008**	**$12,684**
Gross Profit before amortization of production equipment (%)	**18.4%**	**10.5%**	**17.3%**	**14.7%**
Amortization of production equipment	**802**	**589**	**3,056**	**1,920**
Gross profit ($)	**$2,647**	**$1,772**	**$10,952**	**$10,764**
Gross profit (%)	**14.1%**	**7.9%**	**13.5%**	**12.5%**

Gross profit before the amortization of production equipment was $3.4 million or 18.4% of sales in the fourth quarter of 2019, up from $2.4 million and 10.5% of sales in 2018. Similarly, the quarterly gross profit including amortization of production equipment, was up year-over-year, coming in at $2.6 million or 14.1% of sales for the current quarter, versus $1.8 million and 7.9% of sales in the fourth quarter of 2018. In the fourth quarter of 2018, the gross profit before and after amortization of production equipment, was particularly impacted by resin price fluctuations. Resin price decreases are normally reflected immediately in product pricing for Imaflex's customers, while increases usually take about 30 days to be priced in. As such the effect of a resin price decrease is that an immediate opportunity loss is incurred with respect to resin

RESULTS OF OPERATIONS (Continued)

inventory previously purchased when resin prices were higher. As well, the 2019 quarterly gross margin benefited from a year-over-year decrease in certain variable costs, such as transportation.

For fiscal 2019, the gross profit before amortization of production equipment was $14.0 million or 17.3% of sales, up from $12.7 million or 14.7% of sales in 2018. The corresponding gross profit including amortization expenses was $11.0 million or 13.5% of sales, versus $10.8 million and 12.5% of sales in 2018. The year-over-year improvement before and after amortization of production equipment is largely attributable to the aforementioned quarterly variance explanation relating to resin pricing.

($ thousands)	**Three months ended December 31,**		**Years ended December 31,**	
	2019	2018	**2019**	2018
Selling and administrative	**$1,676**	**$1,490**	**$7,042**	**$6,493**
As a % of sales	**8.9%**	**6.6%**	**8.7%**	**7.5%**

Selling and administrative expenses were $1.7 million or 8.9% of sales in the fourth quarter of 2019, up from $1.5 million and 6.6% of sales in 2018. Fiscal 2019 expenses came in at $7.0 million or 8.7% of sales, compared to $6.5 million and 7.5% of sales in the corresponding prior-year period. The year-over-year increases for the quarter and year-to-date were mainly driven by an expanded sales team to stimulate demand for Imaflex's products and new production equipment, namely the five layer extruder.

($ thousands)	**Three months ended December 31,**		**Years ended December 31,**	
	2019	**2018**	**2019**	2018
Finance costs	**$187**	**$170**	**$729**	**$571**

Finance costs were $187 thousand for the current quarter, versus $170 thousand in 2018. For fiscal 2019, finance costs totaled $729 thousand, up from $571 thousand in calendar 2018. The aforesaid year-over-year increases were largely due to the incremental interest accretion on lease liabilities resulting from the adoption of IFRS 16 and increases in long term debt associated with major equipment purchases, namely the five layer extruder.

($ thousands)	**Three months ended December 31,**		**Years ended December 31,**	
	2019	**2018**	**2019**	2018
Foreign exchange losses/(gains)	**$374**	**($886)**	**$872**	**($1,340)**

Due to unfavourable currency fluctuations, Imaflex recorded a foreign exchange loss of $0.4 million in the fourth quarter of 2019, versus a $0.9 million gain in 2018. This resulted in a negative $1.3 million year-over-year variance.

For fiscal 2019, the Corporation similarly recorded a foreign exchange loss, versus a gain in 2018, resulting in a $2.2 million negative year-over-year variance. The 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.

RESULTS OF OPERATIONS (Continued)

($ thousands)	Three months ended December 31,		Years ended December 31,	
	2019	**2018**	**2019**	2018
Income taxes	**$79**	**$411**	**$678**	**$1,477**
As a % of income before taxes	**20.7%**	**42.5%**	**30.6%**	**29.4%**

Fourth quarter 2019 income tax expenses were $0.1 million or 20.7% of income before taxes. This compares to $0.4 million and 42.5% respectively in 2018.

For fiscal 2019, income taxes totaled $0.7 million, down from $1.5 million in 2018, reflecting the lower profitability in the current year. Income taxes as a percentage of income before taxes was 30.6% for calendar 2019, up slightly from 29.4% in 2018. The Corporation's statutory tax rate is currently 26.6%.

($ thousands, except per share data)	Three months ended December 31,		Years ended December 31,	
	2019	**2018**	**2019**	2018
Net income	**$303**	**$556**	**$1,536**	**$3,550**
Basic earnings per share	**$0.01**	**$0.01**	**$0.03**	**$0.07**
Diluted earnings per share	**$0.01**	**$0.01**	**$0.03**	**$0.07**

The Company recorded net income of $0.3 million in the fourth quarter of 2019, versus $0.6 million in the corresponding prior-year quarter. The decrease was largely due to unfavourable movements in foreign exchange and higher 2019 selling and administrative expenses, partially offset by the improved quarterly gross profit.

For calendar 2019, net income stood at $1.5 million, down from $3.6 million in the prior year. The decrease was largely due to unfavourable year-over-year movements in foreign exchange and higher 2019 selling and administrative expenses, partially offset by the higher gross profits in 2019 and lower income taxes versus 2018.

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):

	Q4/19	**Q3/19**	**Q2/19**	**Q1/19**	**Q4/18**	**Q3/18**	**Q2/18**	**Q1/18**
Revenues	**18,740**	**19,195**	21,269	$21,867	$22,472	$21,316	$21,927	$20,617
Net income	**303**	**470**	205	558	556	594	727	1,673
Earnings per share								
Basic	**0.006**	**0.009**	0.004	0.011	0.011	0.012	0.015	0.034
Diluted	**0.006**	**0.009**	0.004	0.011	0.011	0.012	0.014	0.033

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, 2019 vs. December 31, 2018

Working capital stood at $10.0 million as at December 31, 2019 ($11.0 million excluding the impact of IFRS 16), compared to $11.0 million as at December 31, 2018.

LIQUIDITY

Cash Flows from Operating Activities

In the fourth quarter of 2019, net cash generated by operating activities stood at $2.7 million, up from $0.6 million in the prior year. The $2.1 million increase over 2018 was largely due to favourable year-over-year movements in foreign exchange, trade & other receivables and inventories, partially offset by lower profits in the current quarter and a decrease in trade and other payables versus 2018.

For fiscal 2019, net cash generated by operating activities totaled $9.7 million, up from $1.1 million in the prior year. The $8.5 million increase over 2018 was largely driven by favourable year-over-year movements in operating activities (foreign exchange and depreciation and amortization) and working capital (trade & other receivables and inventories), partially offset by lower profits in 2019 and a decrease in trade and other payables versus 2018.

Cash Flows from Investing Activities

During the fourth quarter of 2019, Imaflex contributed $1.3 million towards capital assets, down slightly from $1.5 million in 2018. For fiscal year 2019, capital investments totaled $5.4 million, up from $3.7 million in the prior year. The year-over-year variances for the quarter and year largely relate to the timing of payments for a new five-layer extruder and other major equipment purchases. These investments were made to further enhance the Company's production capacity and capabilities in order to generate heightened sales and profitability.

Cash Flows from Financing Activities

During the fourth quarter of 2019, the Corporation had cash outflows from financing activities of $1.9 million, versus $0.9 million of inflows in the corresponding prior-year period. The year-over-year decrease is largely due to changes in bank indebtedness (reduction in the Company's line of credit versus an increase in 2018), and reimbursements of lease obligations versus 2018, partially offset by movements in long-term debt.

For calendar 2019, Imaflex had $4.5 million of cash outflows from financing activities, versus $2.8 million of cash inflows in the prior year. The $7.3 million year-over-year decrease was mainly driven by changes in bank indebtedness (reduction in the Company's line of credit versus an increase in 2018) and movements in lease obligations, partially offset by an increase in long-term debt versus 2018 resulting from funding for the major equipment projects.

CONTRACTUAL OBLIGATIONS

The contractual obligations as at December 31, 2019 were as follows:

($ thousands)	**Payments due by period**			
	Total	**Less than 1 year**	**1 to 5 years**	**After 5 years**
Long-term debt	**$ 9,130**	$ 2,235	$ 6,881	$ 14
Bank indebtedness	**4,538**	4,538	-	-
Leases*	**3,878**	1,273	2,587	18
Total contractual obligations	**$ 17,546**	**$ 8,046**	**$ 9,468**	**$ 32**

*Based on IFRS 16, commitments previously captured under operating leases are now largely recorded on the balance sheet as *lease obligations*.

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, 2019.

CAPITAL RESOURCES

The Company's $12 million operating line of credit, which is secured by trade receivables and inventories, bears interest at a premium of 0.40% over the Canadian prime rate. As at December 31, 2019, Imaflex was using approximately $4.5 million on its line of credit ($8.1 million as at December 31, 2018) and had cash outstanding of $0.1 million ($0.3 million as at December 31, 2018). Working capital stood at $10.0 million as at December 31, 2019 ($11.0 million excluding the impact of IFRS 16), versus $11.0 million as at December 31, 2018. 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.

EQUIPMENT LEASING FACILITY

In 2018, Imaflex entered into an equipment leasing facility of up to CDN $10.0 million with a leading global financial institution to fund business expansion. During the third quarter of 2019, all funds borrowed under this lease agreement were transferred to loan agreements, as described under note 15 (f and g) in the accompanying audited consolidated financial statements and related notes. This new equipment allows the Corporation to increase its scale, broaden its capabilities and drive revenue and margin expansion at attractive terms.

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, 2019 and 2018. For additional information, please refer to note 22, *Related party transactions* of the "Notes to the consolidated financial statements" for the years ended December 31, 2019 and 2018.

($ thousands)		**Three months ended December 31,**		**Years ended December 31,**	
		2019	2018	**2019**	2018
Professional fees and key management personnel services	(a)	**$ (4)**	**$ 19**	**$ 174**	**$ 216**
Rent	(b)	**$ 278**	**$ 336**	**$ 1,112**	**$ 975**
Remuneration	(c)	**$ 240**	**$ 252**	**$ 1,116**	**$ 1,142**

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

(b) Joseph Abbandonato, Imaflex's President, Chief Executive Officer and Chairman of the Board, is the controlling shareholder of Roncon Consultants Inc. ("Roncon"). The Company's production facilities at Imaflex, Canslit, and Imaflex USA are leased from Roncon and parties related to Roncon under long-term 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 20, *Financial instruments* of the consolidated financial statements for the years ended December 31, 2019 and 2018 for disclosure on the Company's financial instruments as well as note 21, *Risk management* for a discussion on the risks the Company is exposed to and how they are managed.

As at December 31, 2019, the Company was not using any swap, forward or hedge accounting and there were no warrants outstanding.

As at December 31, 2019, 2,725,000 options to purchase shares of the Company were outstanding at a weighted average strike price of $0.521 of which 2,587,500 were exercisable.

As at December 31, 2018, 2,625,000 options to purchase shares of the Company were outstanding at a weighted average strike price of $0.520 of which 2,400,000 were exercisable.

IMPACT OF CORONAVIRUS (COVID-19) – Imaflex considered an essential vendor

To date, Imaflex's three plants in Canada and the U.S.A. have remained open, fully operational and running at normal business levels. The Corporation is considered an essential vendor in both countries due to the important role its products play in protecting and preserving food and consumer products. Presently, all manufacturing facilities have the ability to take on more volume should it be required due to business interruption at another plant or heightened order flow. Furthermore, Imaflex is not experiencing any delays with its suppliers. The Corporation believes it has sufficient capital to fund its operations and grow the business, assuming business levels remain the same. Despite this, Imaflex has and will utilize any available capital payment moratoriums on long term debt payments to maximize cash flows throughout the crisis. We are monitoring developments closely and taking all necessary steps to protect our employees, customers and business. For additional information see note 23, *Subsequent Events*, of the attached consolidated financial statements.

MANAGEMENT OUTLOOK

We continue to operate in a dynamic pricing environment, while resin prices also remain lower than historical levels. This said, our strategy remains the same. We will continue to differentiate ourselves in advanced extrusion and innovative crop protection films, building out our addressable markets with innovative products. With the investments in new production equipment brought online in 2019, most notably the five-layer extruder, we are well positioned to do better in 2020.

Longer term, our next generation agriculture film, ADVASEAL®, offers some exciting opportunities for growth. We achieved some important milestones in recent months, including positive interim results for our Efficacy Trial. This said, some key milestones remain. If successful, the benefits of ADVASEAL ® for growers, the environment and shareholders, should justify the wait.

We operate in an ever changing business environment, but we are well positioned to drive profitable growth and are excited about our future potential. We look forward to providing updates on ADVASEAL® and our overall business as we progress throughout the year.

OUTSTANDING SHARE DATA

As at December 31, 2019, the Company had 50,013,637 common shares outstanding, unchanged from 50,013,637 December 31, 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

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

(s) Joe Abbandonato	***(s) Giancarlo Santella***
Joe Abbandonato	Giancarlo Santella, CPA, CA
President and Chief Executive Officer	Chief Financial Officer

April 16, 2020

For investor information, contact

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Consolidated Financial Statements of

IMAFLEX INC.

Years ended December 31, 2019 and 2018

Raymond Chabot Grant Thornton

Independent Auditor's Report

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To the Shareholders of
Imaflex Inc.

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, 2019 and 2018, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the 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, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

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

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

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

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

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

– Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

– Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;

– Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

– Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern;

– Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

– Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Raymond Chabot Grant Thornton LLP[1]

Montréal
April 16, 2020

[1] CPA auditor, CA public accountancy permit no. A119564

Consolidated statements of comprehensive income

(in Canadian dollars)

for the years ended		**December 31,**	
		2019	**2018**
Revenues	(Note 4.1)	**$ 81,070,541**	$ 86,332,093
Cost of sales		**70,118,437**	75,568,464
Gross profit		**10,952,104**	10,763,629
Expenses:			
Selling		**1,616,422**	1,605,374
Administrative		**5,425,689**	4,887,531
Finance costs	(Note 7)	**729,343**	571,487
Foreign exchange losses (gains)		**872,048**	(1,340,813)
Other		**95,158**	13,266
		8,738,660	5,736,845
Income before income taxes		**2,213,444**	5,026,784
Income taxes	(Note 8)	**677,773**	1,476,852
NET INCOME		**1,535,671**	3,549,932
Other comprehensive income			
Item that will be reclassified subsequently to net income			
Exchange differences on translating foreign operations		**(131,042)**	263,803
COMPREHENSIVE INCOME		**$ 1,404,629**	$ 3,813,735
Earnings per share	(Note 9)		
Basic		**$ 0.031**	$ 0.071
Diluted		**$ 0.030**	$ 0.070

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, 2019**	**December 31, 2018**
Assets			
Current assets			
Cash		**$ 60,942**	$ 310,874
Trade and other receivables	(Note 10)	**11,520,049**	15,922,044
Inventories	(Note 11)	**11,751,039**	14,656,483
Prepaid expenses		**236,528**	220,500
Total current assets		**23,568,558**	31,109,901
Non-current assets			
Property, plant and equipment	(Note 12)	**28,573,231**	21,183,335
Intangible assets	(Note 13)	**1,219,813**	1,345,038
Total non-current assets		**29,793,044**	22,528,373
Total assets		**$ 53,361,602**	$ 53,638,274
Liabilities and equity			
Current liabilities			
Bank indebtedness and short-term borrowings	(Note 15)	**4,538,393**	8,918,137
Trade and other payables	(Note 14)	**5,921,319**	9,190,309
Current tax liabilities		**125,725**	498,463
Long-term debt, current portion	(Note 15)	**1,922,849**	1,432,505
Lease obligations, current portion	(Notes 15, 16)	**1,103,729**	89,517
Total current liabilities		**13,612,015**	20,128,931
Non-current liabilities			
Long-term debt	(Note 15)	**6,441,665**	2,138,759
Deferred tax liabilities	(Note 8)	**1,221,657**	1,468,329
Lease obligations	(Notes 15, 16)	**2,413,825**	1,478,906
Total non-current liabilities		**10,077,147**	5,085,994
Total liabilities		**23,689,162**	25,214,925
Equity			
Share capital	(Note 17)	**11,875,023**	11,875,023
Reserves	(Note 18)	**2,212,177**	2,268,171
Retained earnings		**15,585,240**	14,280,155
Total equity		**29,672,440**	28,423,349
Total liabilities and equity		**$ 53,361,602**	$ 53,638,274

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

(s) Joseph Abbandonato
Joseph Abbandonato
Director

(s) Mario Settino
Mario Settino
Director

Consolidated statements of changes in equity
For the years ended December 31, 2019 and 2018
(in Canadian dollars)

		Reserves					
	Share capital (a)	Share-based compensation	Accumulated foreign currency translation	Warrants	Total reserves	Retained earnings	Total
Balance at January 1, 2018	$ 11,815,023	$ 951,536	$ 464,826	$ 465,174	$ 1,881,536	$ 10,730,223	$ 24,426,782
Net income for the year	-	-	-	-	-	3,549,932	3,549,932
Exchange differences on translating foreign operations	-	-	263,803	-	263,803	-	263,803
Comprehensive income for the year	-	-	263,803	-	263,803	3,549,932	3,813,735
Transactions with owners:							
Issuance of share capital (Note 17)	60,000	-	-	-	-	-	60,000
Share-based compensation (Note 18)	-	122,832	-	-	122,832	-	122,832
Balance at December 31, 2018	**$11,875,023**	**$ 1,074,368**	**$ 728,629**	**$ 465,174**	**$ 2,268,171**	**$ 14,280,155**	**$ 28,423,349**
Impact of IFRS 16 Adoption	**-**	**-**	**-**	**-**	**-**	**(230,586)**	**(230,586)**
Balance at January 1, 2019	**11,875,023**	**1,074,368**	**728,629**	**465,174**	**2,268,171**	**14,049,569**	**28,192,763**
Net income for the year	**-**	**-**	**-**	**-**	**-**	**1,535,671**	**1,535,671**
Exchange differences on translating foreign operations	**-**	**-**	**(131,042)**	**-**	**(131,042)**	**-**	**(131,042)**
Comprehensive income for the year	**-**	**-**	**(131,042)**	**-**	**(131,042)**	**1,535,671**	**1,404,629**
Transactions with owners:							
Share-based compensation (Note 18)	**-**	**75,048**	**-**	**-**	**75,048**	**-**	**75,048**
Balance at December 31, 2019	**$11,875,023**	**$ 1,149,416**	**$ 597,587**	**$ 465,174**	**$ 2,212,177**	**$ 15,585,240**	**$ 29,672,440**

(a) Additional detail of share capital is provided in Note 17
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,**	
	2019	**2018**
Operating activities:		
Net income for the year	**$ 1,535,671**	$ 3,549,932
Income tax expense	**677,773**	1,476,852
Depreciation and amortisation of non-current assets	**3,330,140**	2,201,037
Finance costs	**729,343**	571,487
Share-based compensation	**75,048**	122,832
Unrealized foreign exchange loss (gain)	**849,393**	(1,239,319)
	7,197,368	6,682,821
Net changes in working capital		
Decrease (increase) in trade and other receivables	**4,228,629**	(3,251,978)
Decrease (increase) in inventories	**2,650,392**	(2,105,325)
(Increase) decrease in prepaid expenses	**(20,774)**	304,371
(Decrease) increase in trade and other payables	**(3,093,639)**	1,293,777
	3,764,608	(3,759,155)
Cash generated by operating activities	**10,961,976**	2,923,666
Net income taxes paid	**(1,297,182)**	(1,789,845)
Net cash generated by operating activities	**9,664,794**	1,133,821
Investing activities:		
Payments for property, plant and equipment	**(5,408,742)**	(3,692,883)
Net cash used in investing activities	**(5,408,742)**	(3,692,883)
Financing activities:		
Net change in bank indebtedness	**(3,575,325)**	2,268,100
Interest paid	**(749,560)**	(574,237)
(Decrease) increase in short-term borrowings	**(804,419)**	804,419
Increase in long-term debt	**3,748,245**	1,761,200
Repayment of long-term debt	**(2,061,900)**	(2,629,503)
Net proceeds from issuance of share capital	**-**	60,000
Increase in lease obligations	**-**	1,288,400
Repayment of lease obligations	**(1,060,887)**	(200,813)
Net cash (used in) generated by financing activities	**(4,503,846)**	2,777,566
Net (decrease) increase in cash	**(247,794)**	218,504
Cash, beginning of the year	**310,874**	87,140
Effects of foreign exchange differences on cash	**(2,138)**	5,230
Cash, end of the year	**$ 60,942**	$ 310,874

Non-cash transactions (Note 19)

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

1. General information

Imaflex Inc. (the "Parent Company") is incorporated under the Canada Business Corporations Act. Its registered office and headquarters are located at 5710 Notre-Dame Street West, Montreal, Quebec, Canada. The principal activities of the Parent Company and its subsidiary (together referred to as the "Company") consist in the manufacture and sale of products for the flexible packaging industry, including polyethylene film and bags, as well as the metallization of plastic film for the 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, 2019. The consolidated financial statements were approved by the board of directors and authorized for issue on April 16, 2020.

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, 2019 and 2018, 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.

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.

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 a 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.

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 10 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, 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
Office equipment	5 years
Computer equipment	3 years

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 exercice 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

The Company has applied IFRS 16 using the modified retrospective approach and therefore comparative information has not been restated. This means comparative information is still reported under IAS 17 and IFRIC 4.

Accounting policy applicable from January 1, 2019

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.

2. Significant accounting policies (continued)

2.11 Leased assets (continued)

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.

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.

Accounting policy applicable before 1 January 2019

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

Assets held under finance leases are initially recognised as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation. Leases are initially recognised on the date from which the Company is entitled to exercise its right to use the leased asset, referred to as the commencement of the lease term, which corresponds to the date on which the equipment is received. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in net income. Contingent rental payments are recognised as expenses in the periods in which they are incurred.

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

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.

2. Significant accounting policies (continued)

2.12 Intangible assets other than goodwill (continued)

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.

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. Significant accounting policies (continued)

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.

2.18 Adoption of new accounting standards

IFRS 16 – Leases

IFRS 16 – *Leases* replaces IAS 17 – *Leases* and related interpretations. IFRS 16 eliminates the classification as an operating lease and requires lessees to recognise a right-of-use asset and a lease obligation in the statement of financial position for all leases, with exemptions permitted for short-term leases and leases of low value assets.

Transition to IFRS 16

IFRS 16 has been applied with a date of initial application being January 1, 2019, using the modified retrospective approach, with the cumulative effect of adopting IFRS 16 being recognized in equity as an adjustment of the opening balance of retained earnings for the current period. Prior periods have not been restated. For leases in existence at the date of initial application, the Company has elected not to include direct costs in the measurement of the right-of-use asset. The Company has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease and the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered or modified before January 1, 2019 ("the date of application"). Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Company has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

2. Significant accounting policies (continued)

2.18 Adoption of new accounting standards (continued)

The Company has applied the optional exemptions not to recognize right-of-use assets for leases with a term of less than 12 months and for leases of low-value assets and opted to account for these leases on a straight-line basis over the remaining lease term. For leases previously classified as finance leases, the right-of-use asset and lease liability are measured at the date of initial application at the same amounts as under IAS 17 immediately before the date of initial application. The Company elected not to separate non-lease components from lease components in lease payments to determine the lease obligation under IFRS 16. Finally, the Company also used hindsight in determining the term of the leases accounted for under IFRS 16 which resulted in the extension of the term of certain leases for which the Company was reasonably certain to prevail itself of its extension option. The Company also eliminated some non-cash accrued amounts that were being amortized over the remaining term of some leases.

As a result of the adoption of IFRS 16, the Company recorded a lease liability of $4,293,815, right-of-use assets totalling $3,992,922 and a $230,586 reduction in retained earnings, which is net of the $ 70,307 reversal of accrued expenses. On transition, the weighted average incremental borrowing rate applied to lease liabilities applied under IFRS 16 was 5.6%.

Total operating lease commitment disclosed as at December 31, 2018	**$ 4,669,269**
Other adjustments relating to commitment disclosures	**212,397**
Leases of low value	**(36,441)**
Operating lease liabilities before discounting	**4,845,225**
Discounting using incremental borrowing rates	**(551,410)**
Operating lease liability	**4,293,815**
Finance lease obligations recorded as at December 31, 2018	**1,568,423**
Total lease liabilities recognised under IFRS 16 as at January 1, 2019	**$ 5,862,238**

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

3.2 Key sources of estimation uncertainty

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

Allowance for expected credit losses

During each reporting period, the Company makes an assessment of whether trade accounts receivable are collectible from customers. Accordingly, management establishes an allowance for estimated losses arising from non-payment. The Company's allowance for expected credit loss reflects expected credit losses using a provision matrix model, supplemented by an allowance for individually impaired trade receivables. The provision matrix is based on the Company's historic credit loss experience, adjusted for any change in risk of the trade receivable population based on credit monitoring indicators, and expectations of general economic conditions that might affect the collection of trade receivables. The provision matrix applies fixed provision rates depending on the number of days that a trade receivable is past due, with higher rates applied the longer a balance is past due. Refer to Note 10 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.

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, 2019	**December 31, 2018**
Canada	**$ 33,219,527**	$ 30,718,578
United States	**47,785,702**	55,350,220
Other	**65,312**	263,295
Total	**$ 81,070,541**	$ 86,332,093

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

	December 31, 2019	**December 31, 2018**
Canada	**$ 9,037,306**	$ 9,197,143
United States	**20,755,738**	13,331,230
Total	**$ 29,793,044**	$ 22,528,373

5. Additional information on the consolidated statements of comprehensive income

The Company's consolidated statements of comprehensive income include depreciation of production equipment of $3,056,781 for the year ended December 31, 2019 ($1,920,732 in 2018) classified in Cost of sales, which includes the depreciation for right-of-use assets of $1,034,135 for the year ended December 31, 2019. Depreciation of other property, plant and equipment and amortisation of intangible assets amounting to $273,359 for the year ended December 31, 2019 ($280,305 in 2018) is included in Administrative expenses.

The Company's consolidated statements of comprehensive income include salaries paid to its employees of $10,174,103 for the year ended December 31, 2019 ($9,865,338 in 2018) classified in Cost of sales. Administrative expenses include salaries paid to employees of $1,972,610 for the year ended December 31, 2019 ($1,841,908 in 2018) and Selling expenses include salaries paid to employees of $435,924 for the year ended December 31, 2019 ($405,393 in 2018).

6. Employee benefits

The Company contributes to state-run pension plans, employment insurance, group insurance and social security for its employees. The costs incurred for the employee benefits noted above amounted to $2,678,442 during the year ended December 31, 2019 ($2,538,987 in 2018). These payments are expensed as incurred and the Company does not recognise any gains or losses subsequent to the payment of these benefits.

The Company also offers a defined contribution employee benefit plan to its employees located in North Carolina, USA. For the year ended December 31, 2019, the Company contributed $31,329 to this plan ($27,477 in 2018).

7. Finance costs

	Year ended	
	December 31, 2019	**December 31, 2018**
Interest on bank indebtedness and long-term debt	**$ 514,254**	$ 590,866
Interest on finance lease obligations	**299,417**	27,821
Capitalized interest	**(84,328)**	(47,200)
	$ 729,343	$ 571,487

8. Income taxes

8.1 Income tax recognised in net income

	Year ended	
	December 31, 2019	**December 31, 2018**
Income tax expense comprises:		
Current tax expense	**$ 924,445**	$ 1,419,309
Deferred tax expense relating to the origination and reversal of temporary differences	**(246,672)**	57,543
Total income tax expense	**$ 677,773**	$ 1,476,852

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

	Year ended	
	December 31, 2019	**December 31, 2018**
Income before income taxes	**$ 2,213,444**	$ 5,026,785
Income tax expense calculated at 26.6% (26.7% in 2018)	**588,776**	1,342,152
Permanent differences	**149,737**	(102,820)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**28,938**	14,978
Other	**(89,678)**	222,542
Income tax expense recognised in net income	**$ 677,773**	$ 1,476,852

The tax rate used for the 2019 reconciliation above is the corporate tax rate of 26.6% (26.7% in 2018) payable by corporate entities in Quebec, Canada on taxable income under tax law in those jurisdictions.

8. Income taxes (continued)

8.3 Deferred tax balances

	Opening balance	Impact of IFRS 16	Recognised in income	Closing balance
2019				
Assets				
Non-capital losses	**$ 1,246,548**	**$ (14,875)**	**$ (119,670)**	**$ 1,112,003**
Lease obligations	**(57,313)**	**1,050,275**	**(2,338)**	**990,624**
Advance	**(15,546)**	**-**	**82,265**	**66,719**
Other assets	**77,945**	**-**	**(4,672)**	**73,273**
Inventory	**112,184**	**-**	**(112,184)**	**-**
	1,363,818	**1,035,400**	**(156,599)**	**2,242,619**
Liabilities				
Property, plant and equipment	**(2,832,147)**	**(1,035,400)**	**403,271**	**(3,464,276)**
	(2,832,147)	**(1,035,400)**	**403,271**	**(3,464,276)**
Deferred tax liabilities	**$(1,468,329)**	**$ -**	**$ 246,672**	**$(1,221,657)**

	Opening balance	Recognised in income	Closing balance
2018			
Assets			
Non-capital losses	$ 1,217,286	$ 29,262	$ 1,246,548
Inventory	111,379	805	112,184
Advance	51,303	(51,303)	-
Other assets	132,900	(54,955)	77,945
	1,512,868	(76,191)	1,436,677
Liabilities			
Finance leases	(71,785)	14,472	(57,313)
Property, plant and equipment	(2,845,355)	13,208	(2,832,147)
Advance	-	(15,546)	(15,546)
Investment tax credits	(6,514)	6,514	-
	(2,923,654)	18,648	(2,905,006)
Deferred tax liabilities	$(1,410,786)	$ (57,543)	$(1,468,329)

8. Income taxes (continued)

8.4 Unrecognised deferred tax assets

The Company's subsidiary, Imaflex USA, has non-capital losses available to carry forward to reduce future taxable income of $25,580,528 in 2019 and $26,042,515 in 2018, for part of which a deferred tax asset has not been recognised ($4,697,336 in 2019 and $4,743,231 in 2018), that expire as follows:

Expiring in	December 31, 2019	December 31, 2018
2026	**1,816,477**	1,393,466
2027	**1,297,289**	1,362,613
2028	**2,801,240**	2,942,294
2029	**3,034,473**	3,187,272
2030	**4,453,085**	4,677,317
2031	**1,900,893**	1,996,610
2032	**2,668,591**	2,802,966
2033	**2,672,290**	2,806,851
2034	**2,437,798**	2,560,552
2035	**1,403,049**	1,473,699
2036	**798,659**	838,875
2038	**296,684**	-
	$25,580,528	$26,042,515

9. Earnings per share

	Year ended	
	December 31, 2019	**December 31, 2018**
Net income for basic and diluted earnings per share	**$ 1,535,671**	$ 3,549,932
Weighted average number of common shares outstanding	**50,013,637**	49,915,829
Dilutive effect of share purchase options	**671,233**	1,151,471
Diluted weighted average common shares outstanding	**50,684,870**	51,067,300
Basic earnings per common share	**$ 0.031**	$ 0.071
Diluted earnings per common share	**$ 0.030**	$ 0.070

450,000 stock options outstanding as at December 31, 2019 were not included in the calculation of earnings per share because they were antidilutive (200,000 in 2018).

10. Trade and other receivables

	December 31, 2019	December 31, 2018
Trade receivables	**$ 12,186,862**	$ 15,874,079
Allowance for expected credit losses	**(785,676)**	(584,410)
	11,401,186	15,289,669
Other receivables	**118,863**	632,375
Total trade and other receivables	**$ 11,520,049**	$ 15,922,044

Movement in the allowance for expected credit losses

	Year ended	
	December 31, 2019	December 31, 2018
Balance, beginning of year	**$ (584,410)**	$ (1,125,559)
Expected credit losses losses recognised on trade receivables	**(216,458)**	(21,827)
Release of allowance for expected credit losses	**-**	47,284
Account write-offs during the year	**86**	561,189
Foreign exchange	**15,106**	(45,497)
Balance, end of year	**$ (785,676)**	$ (584,410)

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, 2019, $6,200,071 ($8,280,051 as at December 31, 2018) 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.

10. Trade and other receivables (continued)

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, 2019 and at December 31, 2018, 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.

11. Inventories

	December 31, 2019	December 31, 2018
Raw materials and supplies	**$ 7,108,673**	$ 8,913,092
Finished goods	**4,122,254**	5,298,178
Work in process	**520,112**	445,213
Total	**$ 11,751,039**	$ 14,656,483

The cost of inventories recognised as an expense during the year was $63,334,593 ($69,525,363 in 2018). There were no write-downs of inventory recognised in the fiscal year ended on December 31, 2019 or 2018.

12. Property, plant and equipment

	Land	Building	Production equipment	Leasehold improvements	Office equipment	Computer equipment	Equipment under finance lease	Total
Cost								
January 1, 2018	$ 21,508	$ 107,284	$ 48,087,161	$ 2,482,340	$ 44,615	$ 514,335	$ 1,328,519	$ 52,585,762
Additions	-	-	2,492,775	247,698	-	6,435	945,975	3,692,883
Foreign exchange	1,881	9,381	1,743,346	97,275	1,531	3,089	76,387	1,932,890
December 31, 2018	23,389	116,665	52,323,282	2,827,313	46,146	523,859	2,350,881	58,211,535
Accumulated depreciation								
January 1, 2018	-	(8,471)	(30,991,431)	(2,106,298)	(44,615)	(492,333)	(351,041)	(33,994,189)
Additions	-	(5,840)	(1,826,649)	(160,146)	-	(23,347)	(86,988)	(2,102,970)
Foreign exchange	-	(1,040)	(831,286)	(71,676)	(1,531)	(3,162)	(22,346)	(931,041)
December 31, 2018	-	(15,351)	(33,649,366)	(2,338,120)	(46,146)	(518,842)	(460,375)	(37,028,200)
Net book value	$ 23,389	$ 101,314	$ 18,673,916	$ 489,193	$ -	$ 5,017	$ 1,890,506	$ 21,183,335

12. Property, plant and equipment (continued)

	Land	Building	Production equipment	Leasehold improvements	Office equipment	Computer equipment	Rolling Stock	Total
Cost								
January 1, 2019	23,389	116,665	$ 54,674,163	$ 2,827,313	$ 46,146	$ 523,859	$ -	$ 58,211,535
IFRS 16 Impact	-	3,656,434	67,891	-	40,779	-	227,818	3,992,922
Additions	-	-	7,133,966	87,484	7,570	33,688	37,580	7,300,288
Disposals	-	-	(15,608)	-	-	-	-	(15,608)
Foreign exchange	(1,121)	(33,240)	(1,174,763)	(60,371)	(913)	(1,841)	(1,097)	(1,273,346)
December 31, 2019	$ 22,268	$3,739,859	$ 60,685,649	$ 2,854,426	$ 93,582	$ 555,706	$ 264,301	$ 68,215,791
Accumulated depreciation								
January 1, 2019	-	(15,351)	(34,109,741)	(2,338,120)	(46,146)	(518,842)	-	(37,028,200)
Additions	-	(934,606)	(2,063,335)	(162,056)	(9,233)	(20,020)	(42,030)	(3,231,280)
Disposals	-	-	2,096	-	-	-	-	2,096
Foreign exchange	-	6,786	558,984	45,786	913	2,194	161	614,824
December 31, 2019	-	(943,171)	(35,611,996)	(2,454,390)	(54,466)	(536,668)	(41,869)	(39,642,560)
Net book value, as at								
December 31, 2019	$ 22,268	$2,796,688	$ 25,073,653	$ 400,036	39,116	19,038	222,432	28,573,231

A portion of the Company's production equipment with a carrying amount of approximately $ 15,000,000 (approximately $18,400,000 as at December 31, 2018) 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, 2019 are right-of-use assets as follows

	December 31, 2019
Buildings	$ 2,706,076
Production equipment	333,733
Rolling stock	218,201
Office equipment	31,546
Total right-of-use asset	$ 3,289,556

13. Intangible assets

	Goodwill	Customer relationships	Patents	Total
January 1, 2018	$ 471,009	$ 101,926	$ 822,622	$ 1,395,557
Amortisation	-	(48,603)	(49,464)	(98,067)
Foreign exchange	41,189	6,359	-	47,548
December 31, 2018	512,198	59,682	773,158	1,345,038
Amortisation	-	(49,756)	(49,104)	(98,860)
Foreign exchange	(24,555)	(1,810)	-	(26,365)
December 31, 2019	$ 487,643	$ 8,116	$ 724,054	$ 1,219,813

14. Trade and other payables

	December 31, 2019	December 31, 2018
Trade payables	**$ 4,113,657**	$ 6,950,121
Other payables and accrued liabilities	**1,807,662**	2,240,188
	$ 5,921,319	$ 9,190,309

15. Borrowings

	December 31, 2019	December 31, 2018
Bank indebtedness (a)	**$ 4,538,393**	$ 8,113,718
Short-term borrowings (b)	**-**	804,419
Total bank indebtedness and short term borrowings	**$ 4,538,393**	$ 8,918,137
Long-term debt		
Loan, bearing interest at the lender's base rate minus 0.5% (effective rate of 5.55% as at December 31, 2018 and 2019), secured by production equipment having a net book value of approximately $6,000,000. (c)	**1,419,250**	1,905,850
Loan, bearing interest at the lender's base rate plus 0.67%, (effective rate of 6.72% as at December 31, 2018 and 2019) secured by the same production equipment as the loan above. (d)	**222,080**	250,000
Loan, bearing interest at the lender's base rate minus 1.0%, (effective rate of 5.05% as at December 31, 2018 and 2019) secured by production equipment having a net book value of approximately $650,000. (e)	**308,210**	408,170
Loan, bearing interest at a fixed rate of 3.746% secured by a $3.6 million hypothec on a piece of equipment. (f)	**3,334,085**	-
Loan, bearing interest at a fixed rate of 3.75% secured by a $3.3 million hypothec on a piece of equipment. (g)	**3,080,889**	-
Loan (US$730,334 as at December 31, 2018), bearing interest at the US prime rate, reset monthly, plus 3.00% (effective rate of 8.50% as at December 31, 2018) secured by the production equipment of the subsidiary having a net book value of approximately $10,700,000 and a corporate guarantee from the Parent Company. (h)	**-**	1,007,244
Total long-term debt	**8,364,514**	3,571,264
Lease obligations (Note 16)	**3,517,554**	1,568,423
Total borrowings	**16,420,461**	14,057,824

15. Borrowings (continued)

	December 31, 2019	December 31, 2018
Current		
Bank indebtedness	**$ 4,538,393**	$ 8,113,718
Short-term borrowings	**-**	804,419
Long-term debt, current portion	**1,922,849**	1,432,505
Lease obligations, current portion	**1,103,729**	89,517
	7,564,971	10,440,159
Non-current		
Long-term debt	**6,441,665**	2,138,759
Lease obligations	**2,413,825**	1,478,906
	8,855,490	3,617,665
Total borrowings	**$ 16,420,461**	$ 14,057,824

The interest expense on long-term debt amounted to $265,849 for the year ended December 31, 2019 ($260,440 in 2018).

(a) The Company has an operating line of credit with its bankers for a maximum of $12,000,000, bearing interest at prime plus 0.40% as at December 31, 2019 and 2018 for an effective interest rate of 4.35% at December 31, 2019 and 2018. 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, 2019 and 2018 and during the years ended December 31, 2019 and 2018. As at December 31, 2019, the Company had drawn $4,538,393 ($8,113,718 as at December 31, 2018) on the line of credit.

(b) The Company borrowed by way of a three-month bankers' acceptance at an annualized rate of 2.32% to make a down payment on a piece of equipment. This down payment is guaranteed by a letter of credit issued by the supplier's financial institution. During the course of the 2019 fiscal year, when the equipment was received and the long term loan related to this piece of equipment was funded, the banker's acceptance was fully reimbursed.

(c) The loan is repayable in monthly instalments of $40,550 until November 2022.

(d) The loan is repayable in one instalment of $3,630 in May 2019 followed by 71 monthly instalments of $3,470 until April 2025.

(e) The loan is repayable in one instalment of $8,530 followed by 59 monthly instalments of $8,330 through January 2023.

(f) The Company borrowed $3,609,480 for payments towards a piece of equipment through a loan which is repayable in blended monthly instalments of $66,072 through July 2024. This loan is secured by a hypothec on a specific piece of equipment of the Company. The progressive payments made to the supplier for this piece of equipment were initially borrowed under a lease agreement and all amounts were transferred to this loan when the equipment was fully delivered.

(g) The Company borrowed $3,280,940 for payments towards a piece of equipment that was received during the course of the 2019 fiscal year. This loan is repayable in blended monthly instalments of $60,061 through August 2024. This loan is secured by a hypothec on a specific piece of equipment of the Company. The banker's acceptance that was outstanding as at December 31, 2018 was reimbursed with the proceeds of this loan.

15. Borrowings (continued)

(h) This loan, initially repayable in 20 equal quarterly instalments through January 2020, was reimbursed in full, including all interest due at the payment date, without incurring any penalties. This loan was recorded at the effective interest rate method, net of all incremental transaction costs directly attributable to the transaction. This loan is subject to certain covenants that were respected as at December 31, 2018.

During the year ended December 31, 2018, the Company received an amount of $1,261,200 to finance the purchase of production equipment. This amount was reimbursed in full with no penalty during the course of the year.

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

Not later than one year	**$ 1,922,849**
Later than one year and not later than five years	**6,427,785**
Later than 5 years	**13,880**
	$ 8,364,514

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, 2018	$ 5,827,182	$ 4,345,367	$ 475,062	$ 10,647,611
Cash flows:				
Proceeds	6,572,519	1,761,200	1,288,400	9,622,119
Repayments	(3,500,000)	(2,629,503)	(200,813)	(6,330,316)
Non-cash:				
Amortization of debt issuance costs	-	(4,875)	-	(4,875)
Foreign exchange and other	18,436	99,075	5,774	123,285
Balance as of December 31, 2018	8,918,137	3,571,264	1,568,423	14,057,824
Cash flows:				
Proceeds	16,990,385	3,748,245	-	20,738,630
Repayments	(21,371,968)	(2,061,900)	(1,060,887)	(24,494,755)
Non-cash:				
Impact of IFRS 16 adoption	-	-	4,293,815	4,293,815
New leases or advances	-	-	1,891,546	1,891,546
Amortization of debt issuance costs	-	(6,966)	-	(6,966)
Foreign exchange and other	1,839	(28,304)	(33,168)	(59,633)
Conversion to debt	-	3,142,175	(3,142,175)	-
Balance as of December 31, 2019	$ 4,538,393	$ 8,364,514	$ 3,517,554	$ 16,420,461

16. Lease obligations

The Company has entered into certain finance lease agreements relating to their manufacturing plants, vehicles and other machinery and equipment (see note 12). Finance lease payments are due as follows:

Not later than one year	**$ 1,272,855**
Later than one year and not later than five years	**2,587,128**
Later than five years	**18,049**
Total minimum lease payments	**3,878,032**
Less amount representing interest at approximately 5.4%	**(360,478)**
Present value of minimum lease payments	**3,517,554**
Less the long-term portion	**(1,103,729)**
Current portion of lease obligations	**$ 2,413,825**

These balances also include the lease obligations recognized on January 1, 2019 following the adoption of IFRS 16, as explained in note 2 of these consolidated financial statements.

During the year ended December 31, 2018, the Company received $1,288,400 under a finance lease agreement for interim payments made to a supplier for a piece of machinery.

During the year ended December 31, 2019 the Company financed the acquisition of rolling stock for an amount of $37,771 by entering into a lease. During the year ended December 31, 2019, the Company received additional advances of $1,853,775 under a lease agreement. An amount of $3,142,175, including these advances as well as those received during the year ended December 31l 2019, was converted into a long term when the piece of equipment was received.

Total cash outflow for leases for the twelve months ended December 31, 2019 and 2018 was $1.3 million and $1.2 million, respectively.

17. Share capital

The Company's authorized share capital consists of an unlimited number of common shares, voting, participating, without par value. At December 31, 2019 and 2018, there were 50,013,637 common shares outstanding.

During the year ended December 31, 2018, the Company issued 150,000 shares for cash consideration totaling $60,000 following the exercise of options that were issued in 2016. As at December 31, 2018 and 2019, there were no warrants outstanding.

18. 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, 2019, the Company granted 100,000 options to a sales agent with an exercise price of $0.55. 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.

During the year ended December 31, 2018, the Company granted 250,000 options to directors of the Company to acquire an equal amount of shares at $0.76 for a period of 5 years. These options vest in 4 tranches over 18 months, the first vesting at issuance and the other tranches vest at six-month intervals.

The expense relating to the issue of option grants totalled $75,048 for the year ended December 31, 2019 and $122,832 for the year ended December 31, 2018.

18. Share-based compensation (continued)

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

Fair value assumptions	10/09/2019	29/11/2018	29/11/2017	22/06/2017	06/09/2016	21/06/2016	16/06/2015	Total
Outstanding as at 01/01/2018	-	-	150,000	50,000	500,000	1,175,000	650,000	2,525,000
Issued	-	250,000	-	-	-	-	-	250,000
Exercised	-	-	-	-	-	(150,000)[1]	-	(150,000)
Outstanding as at 31/12/2018	-	250,000	150,000	50,000	500,000	1,025,000	650,000	2,625,000
Exercised	-	-	-	-	-	-	-	-
Issued	100,000	-	-	-	-	-	-	100,000
Outstanding as at 31/12/2019	100,000	250,000	150,000	50,000	500,000	1,025,000	650,000	2,725,000
Exercisable as at 31/12/2018	-	62,500	112,500	50,000	500,000	1,025,000	650,000	2,400,000
Exercisable as at 31/12/2019	25,000	187,500	150,000	50,000	500,000	1,025,000	650,000	2,587,500
Remaining life of options (yrs)	4.70	3.92	2.92	2.48	1.69	1.48	0.46	
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	2.75 to 3.5	2.75 to 3.5	
Expiry	10/09/2024	29/11/2023	29/11/2022	22/06/2022	06/09/2021	21/06/2021	15/06/2020	
Expected share price volatility	61.21% - 64.47%	67.14% - 70.41%	79.13% - 80.17%	80.01% - 83.03%	76.59% - 79.60%	75.95% - 82.15%	83.19% - 98.85%	
Dividend yield	0%	0%	0%	0%	0%	0%	0%	

Fair value assumptions	10/09/2019	29/11/2018	29/11/2017	22/06/2017	06/09/2016	21/06/2016	16/06/2015	Total
Risk free rate	1.44%	2.23%	1.62%	1.15%	0.51%	0.50%	0.55% to 0.65%	
Exercise price	$ 0.55	$ 0.76	$ 1.11	$ 1.03	$ 0.42	$ 0.40	$ 0.52	
Share price on grant date	$ 0.55	$ 0.76	$ 1.11	$ 1.03	$ 0.42	$ 0.40	$ 0.52	
Fair value of option at grant	$ 0.30	$ 0.35	$ 0.57	$ 0.53	$ 0.21	$ 0.21	$ 0.30	

(1) The fair value of the common shares at the exercise date was $0.88 per share.

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.

19. Non-cash transactions

During the year ended December 31, 2019 the Company financed the acquisition of rolling stock for a value of $37,771 by entering into a finance lease. Moreover, the Company made payments totalling $1,853,775 to a supplier for a piece of machinery. Those amounts were advanced to the Company under a finance lease agreement and were transferred to a long term loan when the pieces of equipement were received.

20. Financial instruments

20.1 Fair value and classification of financial instruments

	Carrying amount and fair value	
	December 31, 2019	**December 31, 2018**
Financial assets		
Amortised cost		
Cash	**$ 60,942**	$ 310,874
Trade and other receivables [1]	**11,409,112**	15,293,902
	11,470,054	15,604,776
Financial liabilities		
Financial liabilities, at amortised cost		
Bank indebtedness	**4,538,393**	8,113,718
Short-term borrowings	**-**	804,419
Trade and other payables [2]	**4,685,742**	8,029,262
Long-term debt	**8,364,514**	3,571,264
	17,588,649	20,518,663

[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.

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.

20. Financial instruments (continued)

20.2 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, 2019 and 2018, the fair values of long-term debt are categorised as Level 2.

21. Risk management

21.1 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, 2019:
- 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;

21.2 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.

21. Risk management (continued)

21.2 Foreign currency risk management (continued)

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, 2019	December 31, 2018
Cash	**$ 38,968**	$ 6,481
Trade receivables	**3,032,910**	4,408,143
Trade payables	**(1,722,323)**	(3,233,428)
Bank indebtedness	**(36,519)**	(946,707)
Net financial position exposure	**$ 1,313,036**	$ 234,489

A $0.05 appreciation of the Canadian dollar against the USD would decrease its financial position by $126,068 as at December 31, 2019 (an increase of $48,568 as at December 31, 2018). 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 $7,452. Every $0.01 depreciation of the USD against the Canadian dollar would have the opposite effect.

21.3 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, 2019	December 31, 2018
Variable rate instruments		
Financial liabilities	**$ 6,487,933**	$ 12,973,383
Gross financial position exposure	**$ 6,487,933**	$ 12,973,383

Sensitivity analysis

A 100 basis point increase in interest rates at the reporting date would result in a decrease in income for the year ended December 31, 2019 of approximately $74,291 ($ 117,000 for 2018). Conversely a decrease in interest rates would have the opposite effect.

21.4 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.

21. Risk management (continued)

21.4 Liquidity risk management (continued)

The Company has an operating line of credit of up to $12,000,000, of which an amount of $4,538,393 was utilized as at December 31, 2019. 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, 2019, 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	$ 4,538,393	$ 4,538,393	$ 4,538,393	$ -	$ -
Long-term debt (1)	8,364,513	9,130,351	2,235,341	6,880,938	14,072
Lease obligations (2)	3,517,554	3,878,032	1,272,855	2,587,128	18,049
Trade and other payables (3)	4,685,742	4,685,742	4,685,742	-	-
	$21,106,202	$22,232,518	$12,732,331	$ 9,468,066	$ 32,121

(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

22. 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:

	Transactions for the year ended		Amounts owing as at		Non-secured commitments as at	
	December 31, 2019	December 31, 2018	**December 31, 2019**	December 31, 2018	**December 31, 2019**	December 31, 2018
Entities owned by key management personnel or their family members						
Rent	**$ -**	$ 975,471	**$ -**	$ -	**$ -**	$ 6,605,537
Lease liability payments	**1,111,683**	-	**-**	-	**-**	-
Interest expense included in lease payments above	**197,728**	-	**-**	-	**-**	-
Lease liability balance	**3,036,345**	-	**-**	-	**-**	
Key management personnel services	**142,245**	146,628	**13,773**	12,689	**-**	-
Entities over which key management personnel have significant influence						
Professional services	**31,400**	69,351	**31,400**	69,351	**-**	-

22. Related party transactions (continued)

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, 2019	**December 31, 2018**
Salaries	**$ 934,999**	$ 915,840
Director's fees	**41,000**	41,000
Short-term employee benefits	**13,298**	13,101
Post-employment benefits – State-run plans	**17,145**	14,788
Share-based compensation	**60,004**	112,193
Other benefits	**49,236**	44,972
	$ 1,115,682	$ 1,141,894

23. Subsequent events

Subsequent to year-end, a global pandemic caused by an outbreak of a new strain of coronavirus (COVID-19) resulted in a major global health crisis which continues to have impacts on the global economy and the financial markets at the date of completion of the financial statements.

These events may cause significant changes to the Company's assets or liabilities in the coming year, particularly to accounts receivables, although the Company's initial assessment did not identify customers with a great exposure to segments of the economy most impacted by the crisis. These events may also have an impact on future operations, although for the moment all of the Company's plants remain fully operational at normal business levels given it is considered an essential supplier. The Company has taken and will continue to take action to minimize the impact. However, it is impossible to determine the financial implications of these events for the moment.