Consolidated Financial Statements of

IMAFLEX INC.

Years ended December 31, 2023 and 2022

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, 2023 and 2022, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2023 and 2022, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standard Board (hereafter "IFRS Accounting Standards").

Basis for opinion

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

Key audit matters

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Raymond Chabot Grant Thornton LLP[1]

Montréal
April 25, 2024

[1] CPA auditor, public accountancy permit no. A121855

Consolidated statements of comprehensive income
(in Canadian dollars)

for the years ended		**December 31,**	
		2023	**2022**
Revenues	(Note 4.1)	**$ 93,593,448**	$ 111,534,272
Cost of sales		**82,588,313**	93,487,137
Gross profit		**11,005,135**	18,047,135
Expenses:			
Selling		**1,871,157**	1,902,257
Administrative		**6,167,461**	6,186,865
Finance costs	(Note 7)	**593,948**	449,349
Other losses (gains)	(Note 8)	**597,050**	(1,531,050)
Write-off of production equipment		**962,152**	-
		10,191,768	7,007,421
Income before income taxes		**813,367**	11,039,714
Income taxes	(Note 9)	**304,583**	1,914,291
NET INCOME		**508,784**	9,125,423
Other comprehensive income			
Item that will be reclassified subsequently to net income			
Exchange differences on translating foreign operations		**(317,686)**	764,762
COMPREHENSIVE INCOME		**$ 191,098**	$ 9,890,185
Earnings per share	(Note 10)		
Basic		**$ 0.010**	$ 0.177
Diluted		**$ 0.010**	$ 0.176

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, 2023**	**December 31, 2022**
Assets			
Current assets			
Cash		**$ 799,134**	$ 7,526,933
Trade and other receivables	(Note 11)	**12,551,945**	12,079,089
Current tax receivable		**1,563,532**	-
Inventories	(Note 12)	**13,168,311**	12,187,707
Prepaid expenses		**343,171**	235,643
Total current assets		**28,426,093**	32,029,372
Non-current assets			
Property, plant and equipment	(Note 13)	**47,769,440**	37,756,917
Intangible assets	(Note 14)	**2,254,158**	2,209,184
Total non-current assets		**50,023,598**	39,966,101
Total assets		**$ 78,449,691**	$ 71,995,473
Liabilities and equity			
Current liabilities			
Bank indebtedness and short-term borrowings	(Note 16)	**$ 2,894,326**	$ 2,360,306
Trade and other payables	(Note 15)	**8,503,361**	6,606,608
Current tax liabilities		**-**	104,469
Long-term debt, current portion	(Note 16)	**1,297,895**	1,803,894
Lease obligations, current portion	(Notes 16, 17)	**1,744,209**	886,050
Total current liabilities		**14,439,791**	11,761,327
Non-current liabilities			
Long-term debt	(Note 16)	**-**	1,735,115
Deferred tax liabilities	(Note 9)	**2,675,767**	2,108,852
Lease obligations	(Notes 16, 17)	**5,475,841**	1,244,319
Total non-current liabilities		**8,151,608**	5,088,286
Total liabilities		**22,591,399**	16,849,613
Equity			
Share capital	(Note 18)	**12,931,023**	12,633,523
Reserves	(Note 19)	**2,993,218**	3,087,070
Retained earnings		**39,934,051**	39,425,267
Total equity		**55,858,292**	55,145,860
Total liabilities and equity		**$ 78,449,691**	$ 71,995,473

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

(s) Joseph Abbandonato
Joseph Abbandonato
Director

(s) Roberto Longo
Roberto Longo
Director

Consolidated statements of changes in equity
For the years ended December 31, 2023 and 2022
(in Canadian dollars)

		Reserves					
	Share capital (a)	**Share-based compensation**	**Accumulated foreign currency translation**	**Warrants**	**Total reserves**	**Retained earnings**	**Total**
Balance at December 31, 2021	$ 12,559,023	$ 1,212,042	$ 537,425	$ 465,174	$ 2,214,641	$ 30,299,844	$ 45,073,508
Net income for the year	-	-	-	-	-	9,125,423	9,125,423
Exchange differences on translating foreign operations	-	-	764,762	-	764,762	-	764,762
Comprehensive income for the year	-	-	764,762	-	764,762	9,125,423	9,890,185
Transactions with owners:							
Issuance of share capital – stock options exercised (Note 18)	74,500	-	-	-	-	-	74,500
Share-based compensation (Note 19)	-	107,667	-	-	107,667	-	107,667
Balance at December 31, 2022	**12,633,523**	**1,319,709**	**1,302,187**	**465,174**	**3,087,070**	**39,425,267**	**55,145,860**
Net income for the year	**-**	**-**	**-**	**-**	**-**	**508,784**	**508,784**
Exchange differences on translating foreign operations	**-**	**-**	**(317,686)**	**-**	**(317,686)**	**-**	**(317,686)**
Comprehensive income for the year	**-**	**-**	**(317,686)**	**-**	**(317,686)**	**508,784**	**191,098**
Transactions with owners:							
Issuance of share capital – stock options exercised (Note 18)	**297,500**	**-**	**-**	**-**	**-**	**-**	**297,500**
Share-based compensation (Note 19)	**-**	**223,834**	**-**	**-**	**223,834**	**-**	**223,834**
Balance at December 31, 2023	**$ 12,931,023**	**$ 1,543,543**	**$ 984,501**	**$ 465,174**	**$ 2,993,218**	**$ 39,934,051**	**$ 55,858,292**

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

Consolidated statements of cash flows
(in Canadian dollars)

for the years ended	**December 31,**	
	2023	**2022**
Operating activities:		
Net income for the year	**$ 508,784**	$ 9,125,423
Income tax expense	**304,583**	1,914,291
Write-off of production equipment	**962,152**	-
Loss on property, plant and equipment disposal	**166,176**	-
Depreciation and amortisation of non-current assets	**4,608,103**	4,130,715
Finance costs	**593,948**	449,404
Share-based compensation	**223,834**	107,667
Unrealized foreign exchange (gain) loss	**482,555**	(1,380,572)
	7,850,135	14,346,928
Net changes in working capital		
Decrease (increase) in trade and other receivables	**(591,824)**	3,434,085
Decrease (increase) in inventories	**(1,140,756)**	3,203,573
Increase in prepaid expenses	**(112,326)**	(23,478)
(Decrease) increase in trade and other payables	**843,064**	(1,926,166)
	(1,001,842)	4,688,014
Cash generated by operating activities	**6,848,293**	19,034,942
Net income taxes paid	**(1,405,669)**	(1,760,012)
Net cash generated by operating activities	**5,442,624**	17,274,930
Investing activities:		
Payments for property, plant and equipment and intangible assets	**(13,021,258)**	(14,601,635)
Net cash used in investing activities	**(13,021,258)**	(14,601,635)
Financing activities:		
Net change in bank indebtedness and short-term borrowing	**599,301**	(138,003)
Funds from lease agreements	**4,370,170**	-
Repayment of long-term debt	**(2,241,114)**	(1,953,913)
Repayment of lease obligations	**(1,604,124)**	(1,159,352)
Interest paid	**(561,816)**	(438,464)
Issuance of share capital – stock options exercised	**297,500**	74,500
Net cash used in financing activities	**859,917**	(3,615,232)
Net decrease in cash	**(6,718,717)**	(941,937)
Cash, beginning of the year	**7,526,933**	8,465,061
Effects of foreign exchange differences on cash	**(9,082)**	3,809
Cash, end of the year	**$ 799,134**	$ 7,526,933

Non-cash transactions (Note 20)

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. Summary of material 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 as issued by the International Accounting Standards Board ("IASB") ("IFRS Accounting Standards") The consolidated financial statements were approved by the board of directors and authorized for issue on April 25, 2024.

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.

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 recognized as Accumulated foreign currency translation within Reserves.

2. Summary of material 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 recognized 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 recognized for all taxable temporary differences. Deferred tax assets are generally recognized 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. Summary of material 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 recognized as an expense or income in net income, except when they relate to items that are recognized outside net income (whether in other comprehensive income or directly in equity), in which case the tax is also recognized 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, at amortized cost, fair value through earnings, or fair value through other comprehensive income.

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

Subsequent measurement

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

Impairment of financial assets

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

2. Summary of material accounting policies (continued)

2.8 Financial assets and financial liabilities (continued)

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

Classification and measurement of financial liabilities

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

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

2.9 Inventories

Inventories are stated at the lower of cost and net realizable value. Costs, including raw materials and an appropriate portion of fixed and variable overhead expenses, are assigned to inventories by the method most appropriate to the particular class of inventory, being valued on a first-in, first-out basis. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion necessary to make the sale and estimated selling expenses.

2.10 Property, plant and equipment

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

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

Asset	Period
Land	Indefinite
Building	20 years
Production equipment	10 - 20 years
Rolling stock	10 years
Office equipment	5 years
Computer equipment	3 years

2. Summary of material accounting policies (continued)

2.10 Property, plant and equipment (continued)

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

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

An item of property, plant and equipment is derecognized 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 recognized in net income, in Other in the consolidated statement of comprehensive income.

2.11 Leased assets

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

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

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

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

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

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

2. Summary of material accounting policies (continued)

2.11 Leased assets (continued)

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

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

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

2.12 Intangible assets other than goodwill

Customer relationships acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date, which is regarded as their cost. Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses. When intangible assets are purchased separately, as it was the case for patents, the cost comprises the purchase price and any directly attributable cost of preparing the asset for its intended use. When intangible assets are internally developed, as is the case with the Company's internally developed patents, the cost comprises the directly attributable costs in the development phase necessary to create, produce and prepare the patent for the Company to be able to operate it for its intended use.

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

The estimated useful lives, residual values and amortization 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.

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 recognized 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

2. Summary of material accounting policies (continued)

2.13 Impairment of property, plant and equipment and intangible assets other than goodwill (continued)

amount that would have been determined had no impairment loss been recognized for the assets in prior years. A reversal of an impairment loss is recognized 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 recognized directly in net income in the consolidated statement of comprehensive income. An impairment loss recognized for goodwill is not reversed in subsequent periods.

2.15 Provisions

Provisions are recognized 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 recognized 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. Summary of material accounting policies (continued)

2.18 New or revised Standards or Interpretations

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

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

3. Critical accounting judgments and key sources of estimation uncertainty

The preparation of these consolidated financial statements in conformity with IFRS Accounting Standards 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 recognized 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 recognized in the consolidated financial statements.

Cash-generating units

Management has identified only one cash-generating unit ("CGU") for the Company. Revenue generated by the Company's various product lines and facilities are generated through a single sales force whose ability to cross sell products influences the level of sale for each product line. Management has determined that the cash flows of the Company's production facilities are closely interrelated and not independent.

3.2 Key sources of estimation uncertainty

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

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

3.2 Key sources of estimation uncertainty (continued)

Allowance for expected credit losses

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

Useful lives of depreciable and amortisable assets

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

Impairment of long-lived assets

If required, the Company performs impairment tests on its long-lived assets by comparing the carrying amount of the assets to their recoverable amount, which is calculated as the higher of the asset's fair value less costs to sell and its value in use. Value in use is calculated based on a discounted cash flow analysis, which requires the use of estimates of future cash flow and discount rates. The Company uses judgment to determine whether it identifies any triggering event that may indicate that the long-lived assets have been impaired.

Income taxes

Management uses estimates in determining the appropriate rates and amounts in recording deferred income taxes, giving consideration to timing and probability of realization. Actual taxes could significantly vary from these estimates as a result of a variety of factors including future events, changes in income tax laws or the outcome of reviews by tax authorities and related appeals. The resolution of these uncertainties and the associated final taxes payable may result in adjustments to the Company's deferred and current tax assets and liabilities.

Warrants and share-based compensation

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

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, 2023	**December 31, 2022**
Canada	**$ 32,417,878**	$ 41,631,779
United States	**61,175,570**	69,902,493
Other	**-**	-
Total	**$ 93,593,448**	$ 111,534,272

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

	December 31, 2023	**December 31, 2022**
Canada	**$ 22,714,015**	$ 14,790,278
United States	**27,309,583**	25,175,823
Total	**$ 50,023,598**	$ 39,966,101

5. Additional information on the consolidated statements of comprehensive income

The Company's consolidated statements of comprehensive income include depreciation of production equipment of $4,356,510 for the year ended December 31, 2023 ($3,890,958 in 2022) classified in Cost of sales, which includes the depreciation for right-of-use assets of $832,935 for the year ended December 31, 2023 ($1,057,801 in 2022). Depreciation of other property, plant and equipment and amortisation of intangible assets amounting to $251,593 for the year ended December 31, 2023 ($239,757 in 2022) is included in Administrative expenses.

The Company's consolidated statements of comprehensive income include salaries paid to its employees of $12,548,281 for the year ended December 31, 2023 ($10,705,920 in 2022) classified in Cost of sales. Administrative expenses include salaries paid to employees of $2,181,647 for the year ended December 31, 2023 ($2,094,359 in 2022) and Selling expenses include salaries paid to employees of $520,753 for the year ended December 31, 2023 ($447,782 in 2022).

6. Employee benefits

The Company contributes to state-run pension plans, employment insurance, group insurance and social security for its employees. The costs incurred for the employee benefits noted above amounted to $3,152,975 during the year ended December 31, 2023 ($3,290,356 in 2022). These payments are expensed as incurred and the Company does not recognize any gains or losses subsequent to the payment of these benefits.

The Company offered a defined contribution employee benefit plan to its employees located in North Carolina, USA. For the year ended December 31, 2023, the Company did not contribute to this plan ($0 in 2022).

7. Finance costs

	Year ended December 31, 2023	Year ended December 31, 2022
Interest on bank indebtedness and long-term debt	**$ 293,211**	$ 335,417
Interest on finance lease obligations	**300,737**	113,932
	$ 593,948	$ 449,349

8. Other losses (gains)

	Year ended December 31, 2023	Year ended December 31, 2022
Foreign exchange losses (gains)	**$ 586,455**	$ (1,490,541)
Loss on property, plant and equipment disposal	**166,176**	-
Interest income	**(155,581)**	(40,509)
Other losses (gains)	**$ 597,050**	$ (1,531,050)

9. Income taxes

9.1 Income tax recognized in net income

	Year ended December 31, 2023	Year ended December 31, 2022
Income tax expense comprises:		
Current tax expense	**$ (262,331)**	$ 1,195,000
Deferred tax expense relating to the origination and reversal of temporary differences	**566,914**	719,291
Total income tax expense	**$ 304,583**	$ 1,914,291

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

	Year ended December 31, 2023	Year ended December 31, 2022
Income before income taxes	**$ 813,367**	$ 11,039,714
Income tax expense calculated at 26.5% (26.5% in 2021)	**215,542**	2,925,524
Permanent differences	**156,185**	(9,088)
Variation of valuation allowance	**25,223**	(995,616)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**3,430**	(151,506)
Prior tax expense prior year adjustment	**(133,713)**	-
Other	**37,916**	144,977
Income tax expense recognized in net income	**$ 304,583**	$ 1,914,291

The tax rate used for the 2023 and 2022 reconciliation above is the corporate tax rate of 26.5% payable by corporate entities in Quebec, Canada on taxable income under tax law in those jurisdictions.

9. Income taxes (continued)

9.3 Deferred tax balances

2023	Opening balance	Recognized in income	Closing balance
Assets			
Non-capital losses	**$ 2,692,347**	**$ (2,692,347)**	**$ -**
Lease obligations	**511,031**	**1,362,457**	**1,873,488**
Advance	**18,713**	**3,003,255**	**3,021,968**
Other assets	**137,034**	**(3,444)**	**133,590**
	3,359,125	**1,669,921**	**5,029,046**
Liabilities			
Property, plant and equipment	**(5,467,977)**	**(2,236,835)**	**(7,704,812)**
	(5,467,977)	**(2,236,835)**	**(7,704,812)**
Deferred tax liabilities	**$ (2,108,852)**	**$ (566,914)**	**$ (2,675,766)**

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

9.4 Unrecognized deferred tax assets

The Company's subsidiary, Imaflex USA, has non-capital losses available to carry forward to reduce future taxable income of $14,415,718 in 2023 and $21,029,387 in 2022, for part of which a deferred tax asset has not been recognized ($1,627,920 in 2023 and $6,905,092 in 2022), that expire as follows:

Expiring in	December 31, 2023	December 31, 2022
2028	**$ -**	$ 281,107
2029	**-**	3,164,375
2030	**1,779,349**	4,643,716
2031	**1,935,726**	1,982,267
2032	**2,717,259**	2,782,830
2033	**2,721,259**	2,786,687
2034	**2,482,470**	2,542,157
2035	**1,428,760**	1,463,112
2036	**813,295**	832,849
Indefinite	**537,367**	550,287
	$ 14,415,485	$ 21,029,387

10. Earnings per share

	Year ended	
	December 31, 2023	**December 31, 2022**
Net income for basic and diluted earnings per share	**$ 508,784**	$ 9,125,423
Weighted average number of common shares outstanding	**51,905,349**	51,700,418
Dilutive effect of share purchase options	**136,596**	206,466
Diluted weighted average common shares outstanding	**52,041,945**	51,906,884
Basic earnings per common share	**$ 0.010**	$ 0. 177
Diluted earnings per common share	**$ 0.010**	$ 0. 176

No stock options outstanding as at December 31, 2023 and 2022 were excluded from the calculation of earnings per share because they were antidilutive.

11. Trade and other receivables

	December 31, 2023	**December 31, 2022**
Trade receivables	**$ 12,640,497**	$ 13,201,867
Allowance for expected credit losses	**(670,564)**	(1,366,087)
	11,969,933	11,835,780
Other receivables	**582,012**	243,309
Total trade and other receivables	**$ 12,551,945**	$ 12,079,089

Movement in the allowance for expected credit losses

	Year ended	
	December 31, 2023	**December 31, 2022**
Balance, beginning of year	**$ (1,366,087)**	$ (995,745)
Write-offs on trade receivables	**727,676**	-
Expected credit losses recognized on trade receivables	**(41,532)**	(333,271)
Foreign exchange	**9,379**	(37,071)
Balance, end of year	**$ (670,564)**	$ (1,366,087)

<u>Credit risk</u>
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.

11. Trade and other receivables (continued)

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

For trade receivables, the Company uses an external credit service to assess the potential customer's credit quality and uses this information to define the allowed credit limits by customer. Moreover, the Company uses credit insurance to mitigate credit risk. As at December 31, 2023, $5,463,467 ($5,600,231 as at December 31, 2022) of the total trade receivables are insured. The Company's management considers that all receivables that are not impaired for each reporting date are of good credit quality.

Expected credit losses
The Company's allowance for expected credit losses reflects expected credit losses using a provision matrix model, supplemented by an allowance for individually impaired trade receivables. The provision matrix is based on the Company's historic credit loss experience, adjusted for any change in risk of the trade receivable population based on credit monitoring indicators, and expectations of general economic conditions that might affect the collection of trade receivables. The provision matrix applies fixed provision rates depending on the number of days that a trade receivable is past due, with higher rates applied the longer a balance is past due. Trade receivables outstanding longer than the agreed upon payment terms are considered past due. The Company determines its allowance for individually impaired trade receivables by considering a number of factors, including notices of liquidation, information provided by credit monitoring services, the length of time trade receivables are past due, the customer's current ability to pay its obligation to the Company, the customer's history of paying balances when they are past due, historical results and the condition of the general economy and the industry as a whole. After considering the factors above, at December 31, 2023 and at December 31, 2022, the Company has determined there is no significant increase or decrease in its trade receivable credit risk since its initial recognition. The Company writes off trade receivables when they are determined to be uncollectible and any payments subsequently received on such trade receivables are credited to the allowance for expected credit loss.

12. Inventories

	December 31, 2023	**December 31, 2022**
Raw materials and supplies	**$ 10,302,866**	$ 9,574,976
Finished goods	**2,507,427**	2,383,603
Work in process	**358,018**	229,128
Total	**$ 13,168,311**	$ 12,187,707

The cost of inventories recognized as an expense during the year was $73,357,539 ($84,297,189 in 2022). During the fiscal year ended on December 31, 2023, the Company decreased the provision for inventory obsolescence by $149,088 ($362,646 in 2022). The total provision for inventory obsolescence stood at $684,036 as at December 31, 2023 ($833,124 as at December 31, 2022)

13. Property, plant and equipment

	Land	Building	Production equipment	Leasehold improvements	Office equipment	Computer equipment	Rolling Stock	Total
Cost								
January 1, 2022	$ 21,736	$ 4,071,427	$ 62,783,703	$ 3,080,032	$ 93,150	$ 675,277	$ 262,896	$ 70,988,221
Additions	-	1,598,020	13,627,581	530,451	-	-	47,893	15,803,945
Foreign exchange	1,485	185,286	2,443,862	96,070	1,208	2,925	7,398	2,738,234
December 31, 2022	**23,221**	**5,854,733**	**78,855,146**	**3,706,553**	**94,358**	**678,202**	**318,187**	**89,530,400**
Transfers and disposals		**(21,179)**	**(16,320)**	**(329,019)**	**(33,466)**	**(40,295)**	**318,868**	**(121,411)**
Additions	**-**	**1,985,868**	**14,013,400**	**171,684**	**4,087**	**145,824**	**381,804**	**16,702,667**
Disposals							**(297,132)**	**(297,132)**
Investment and other tax credits			**(284,608)**					**(284,608)**
Derecognition of expired leases	**-**	**(2,566,776)**	**-**	**-**	**-**	**-**	**(83,744)**	**(2,650,520)**
Write-off of obsolete production equipment		**-**	**(1,752,391)**	**-**	**-**	**-**	**-**	**(1,752,391)**
Foreign exchange	**(545)**	**(123,747)**	**(1,033,881)**	**(35,182)**	**(444)**	**(1,074)**	**(1,619)**	**(1,196,492)**
December 31, 2023	**22,676**	**5,128,899**	**89,781,346**	**3,514,036**	**64,535**	**782,657**	**636,364**	**99,930,513**
Accumulated depreciation								
January 1, 2022	-	(2,859,213)	(40,128,265)	(2,684,430)	(72,500)	(601,366)	(135,257)	(46,481,031)
Depreciation	-	(983,818)	(2,843,495)	(142,045)	(9,233)	(46,851)	(55,989)	(4,081,431)
Foreign exchange	-	(76,056)	(1,053,718)	(73,452)	(1,208)	(3,664)	(2,923)	(1,211,021)
December 31, 2022	**-**	**(3,919,087)**	**(44,025,478)**	**(2,899,927)**	**(82,941)**	**(651,881)**	**(194,169)**	**(51,773,483)**
Transfers and disposals		**20,671**	**269,023**	**26,938**	**22,049**	**20,161**	**(237,431)**	**121,411**
Depreciation	**-**	**(682,048)**	**(3,611,612)**	**(164,197)**	**(409)**	**(30,491)**	**(70,062)**	**(4,558,819)**
Disposal	**-**	**-**	**(1)**	**-**	**-**	**-**	**180,715**	**180,714**
Derecognition of expired leases	**-**	**2,514,823**	**-**	**-**	**-**	**-**	**85,939**	**2,600,762**
Write-off of obsolete production equipment	**-**		**790,239**					**790,239**
Foreign exchange	**-**	**15,986**	**430,665**	**28,593**	**444**	**1,074**	**1,341**	**478,103**
December 31, 2023	**-**	**(2,049,655)**	**(46,147,164)**	**(3,008,593)**	**(60,857)**	**(661,137)**	**(233,667)**	**(52,161,073)**
Net book value as at								
December 31, 2022	$ 23,221	$ 1,935,646	$ 34,829,668	$ 806,626	$ 11,417	$ 26,321	$ 124,018	$ 37,756,917
December 31, 2023	**$ 22,676**	**$ 3,079,244**	**$ 43,634,182**	**$ 505,443**	**$ 3,678**	**$ 121,520**	**$ 402,697**	**$ 47,769,440**

A portion of the Company's production equipment with a carrying amount of approximately $14,584,948 (approximately $23,056,000 as at December 31, 2022) is pledged as collateral for the Company's long-term debt.

The Company has $12,768,130 as equipment in progress included in production equipment as at December 31, 2023. ($10,920,563 as at December 2022)

Additions of property, plant and equipment amounting to $1,151,264 as at December 31, 2023 (none as at December 31, 2022) are included in trade and other payables.

13. Property, plant and equipment (continued)

Included in the net carrying amount of property, plant and equipment as at December 31, 2023 and 2022 are right-of-use assets as follows :

	December 31, 2023	December 31, 2022
Buildings	**$ 3,011,279**	$ 1,859,444
Production equipment	**4,260,917**	198,100
Rolling stock	**395,256**	78,931
Office equipment	**-**	3,847
Total right-of-use assets	**$ 7,667,452**	$ 2,140,322

Additions for the year ended December 31, 2023 include non-cash right-of-use assets amounting to $2,351,733 ($1,605,873 during December 31, 2022).

14. Intangible assets

	Goodwill	Patents	Total
January 1, 2022	$ 476,003	$ 1,346,388	$ 1,822,391
Additions	-	403,563	403,563
Amortisation	-	(49,284)	(49,284)
Foreign exchange	32,514	-	32,514
December 31, 2022	**508,517**	**1,700,667**	**2,209,184**
Additions	**-**	**106,197**	**106,197**
Amortisation	**-**	**(49,284)**	**(49,284)**
Foreign exchange	**(11,939)**	**-**	**(11,939)**
December 31, 2023	**$ 496,578**	**$ 1,757,580**	**$ 2,254,158**

15. Trade and other payables

	December 31, 2023	December 31, 2022
Trade payables	**$ 6,371,916**	$ 3,362,569
Other payables and accrued liabilities	**2,131,445**	3,244,039
	$ 8,503,361	$ 6,606,608

16. Borrowings

	December 31, 2023	December 31, 2022
Bank indebtedness (a)	**$ 2,894,326**	$ 2,360,306
Long-term debt		
Loan, bore interest at the lender's base rate minus 0.75% (effective rate of 7.80% as at December 31, 2022), matured in 2023	**-**	243,300
Loan, bearing interest at a fixed rate of 3.746% secured by a $3.6 million hypothec on a piece of equipment. (b)	**649,486**	1,402,671
Loan, bearing interest at a fixed rate of 3.75% secured by a $3.3 million hypothec on a piece of equipment. (c)	**648,409**	1,330,898
Loan, bore interest at the lender's base rate plus 0.4% (effective rate of 8.95% as at December 31, 2022), repaid in 2023	**-**	562,140
Total long-term debt	**1,297,895**	3,539,009
Lease obligations (Note 17)	**7,220,050**	2,130,369
Total borrowings	**$ 11,412,271**	$ 8,029,684

	December 31, 2023	December 31, 2022
Current		
Bank indebtedness	**$ 2,894,326**	$ 2,360,306
Long-term debt, current portion	**1,297,895**	1,803,894
Lease obligations, current portion	**1,744,209**	886,050
	5,936,430	5,050,250
Non-current		
Long-term debt	**-**	1,735,115
Lease obligations	**5,475,841**	1,244,319
	5,475,841	2,979,434
Total borrowings	**$ 11,412,271**	$ 8,029,684

The interest expense on long-term debt amounted to $91,246 for the year ended December 31, 2023 ($210,318 in 2022).

(a) The Company has an operating line of credit with its bankers for a maximum of $12,000,000, bearing interest at prime rate as at December 31, 2023 (prime rate as at December 31, 2022) for an effective interest rate of 7,20% at December 31, 2023 and 6.45% at December 31, 2022. 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, 2023 and 2022 and during the years ended December 31, 2023 and 2022. As at December 31, 2023, the Company was borrowing $2,894,326 on its line of credit ($2,360,306 as at December 31, 2022).

16. Borrowings (continued)

(b) The loan is repayable in blended monthly instalments of $66,072 through October 2024. This loan is secured by a hypothec on a specific piece of equipment of the Company.

(c) The loan is repayable in blended monthly instalments of $60,061 through November 2024. This loan is secured by a hypothec on a specific piece of equipment of the Company.

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

Not later than one year	**$ 1,297,895**
Later than one year and not later than five years	**-**
Later than 5 years	**-**
	$ 1,297,895

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, 2022	$ 2,498,309	$ 5,492,922	$ 1,582,297	$ 9,573,528
Cash flows:				
Proceeds	55,873,304	-	-	55,873,304
Repayments	(56,149,267)	(1,953,913)	(1,159,352)	(59,262,532)
Realized foreign exchange	137,960	-	-	137,960
Non-cash:				
New capital leases	-	-	1,605,873	1,605,873
Accrued interest	-	-	4,695	4,695
Foreign exchange and other	-	-	96,856	96,856
Balance as of December 31, 2022	2,360,306	3,539,009	2,130,369	8,029,684
Cash flows:				
Proceeds	54,459,716	-	-	54,459,716
New capital leases			4,370,170	4,370,170
Repayments	(53,456,905)	(2,241,114)	(1,604,124)	(57,302,143)
Realized foreign exchange	(403,510)	-	-	(403,510)
Non-cash:				
New capital leases	-	-	2,351,733	2,351,733
Foreign exchange and other	(65,281)	-	(28,098)	(93,379)
Balance as of December 31, 2023	$ 2,894,326	$ 1,297,895	$ 7,220,050	$ 11,412,271

17. Lease obligations

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

Not later than one year	$ 2,127,114
Later than one year and not later than five years	5,783,241
Later than five years	-
Total minimum lease payments	7,910,355
Less amount representing interest at approximately 5.4%	(690,305)
Present value of minimum lease payments	7,220,050
Less the long-term portion	(5,475,841)
Current portion of lease obligations	$ 1,744,209

During the year ended December 31, 2023, the Company renewed a lease for a production facility located in the Victoriaville, Québec and concluded new leases for production equipment and rolling stock. This resulted in an increase to lease obligations and right-of-use assets of $6,721,903 at the inception of these leases.

During the year ended December 31, 2022, the Company renewed a lease for a production facility located in the United States. This resulted in an increase to lease obligations and right-of-use assets of $1,605,873 at the inception of the lease.

Total cash outflow for leases for the years ended December 31, 2023 and 2022 was $1.6 million and $1.2 million, respectively.

18. Share capital

The Company's authorized share capital consists of an unlimited number of common shares, voting, participating, without par value. At December 31, 2023, there were 52,088,637 common shares outstanding (51,738,637 as at December 31, 2022).

During the year ended December 31, 2023, the Company issued 100,000 shares for cash consideration of $55,000 following the exercise of options issued on September 10, 2019, another 100,000 for cash consideration of $76,000 following the exercise of options issued on November 29, 2018, along with an additional 150,000 for cash consideration of $166,500 following the exercise of options issued on November 28, 2017.

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

19. Share-based compensation

Pursuant to the Stock Option Plan (the "Plan") of the Company, 4,973,860 of the common shares are reserved for options. The Plan provides that the term of the options shall be fixed by directors. Officers and employees of the Company are eligible to receive options. Options are granted at an exercise price of not less than the fair value of the Company's shares on the date the options are granted. Options may be exercisable for a period no longer than five (5) years and the exercise price must be paid in full upon exercise of the option.

During the year ended December 31, 2023 the Company granted 1,650,000 options to two employees of the Corporation at an exercise price of $1.25. 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. One employee receiving 1,500,000 options subsequently resigned, triggering the expiration of 375,000

19. Share-based compensation (continued)

options and automatic termination of the remaining 1,125,000 options in accordance with the Stock Option Plan. This resulted in 150,000 net options granted for the remaining employee.

During the year ended December 31, 2022, the Company granted 300,000 options to an employee and a member of the Board of directors at an exercise price of $1.19. The options are convertible into an equal number of shares with one quarter of the options vesting immediately at issuance and an additional quarter vesting every six-month period thereafter.

The expense relating to the issue of option grants totalled $223,834 for the year ended December 31, 2023 and $107,667 for the year ended December 31, 2022.

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

	30/05/2023	26/05/2022	26/08/2020	10/09/2019	29/11/2018	28/11/2017	Total 2023	Total 2022
Outstanding – opening balance	-	300,000	100,000	100,000	150,000	150,000	800,000	650,000
Granted	1,650,000	-	-	-	-	-	1,650,000	300,000
Exercised [(1)]	-	-	-	(100,000)	(100,000)	(150,000)	(350,000)	(100,000)
Terminated or Cancelled	(1,125,000)	-	(50,000)	-	-	-	(1,175,000)	-
Expired	(375,000)	-	-	-	(50,000)	-	(425,000)	(50,000)
Outstanding – ending balance	150,000	300,000	50,000	-	-	-	500,000	800,000
Exercisable – ending balance	75,000	300,000	50,000	-	-	-	425,000	650,000
Exercisable – opening balance	-	150,000	100,000	100,000	150,000	150,000	650,000	612,500
Remaining life of options (yrs)	4.42	3.40	1.65	-	-	-		
Fair value assumptions :								
Expected life of options (yrs)	2.5 to 3.25	2.5 to 3.25	2.5 to 3.25	2.5 to 3.25	2.5 to 3.25	2.5 to 3.25		
Expiry[(2)]	30/05/2028	26/05/2027	26/08/2025	10/09/2024	29/11/2023	29/11/2022		
Expected share price volatility	47.94% - 56.39%	58.83% - 59.93%	57.82% - 60.98%	61.21% - 64.47%	67.14% - 70.41%	79.13% - 80.17%		
Dividend yield	0%	0%	0%	0%	0%	0%		
Risk free rate	3.44%	2.62%	0.41%	1.44%	2.23%	1.62%		
Exercise price	$ 1.25	$ 1.19	$ 0.73	$ 0.55	$ 0.76	$ 1.11		
Share price on grant date	$ 1.25	$ 1.19	$ 0.73	$ 0.55	$ 0.76	$ 1.11		
Fair value of option at grant	$ 0.45	$ 0.48	$ 0.28	$ 0.30	$ 0.35	$ 0.57		

[(1)]The fair value of the shares at the exercise date was $1.69 per share for options issued on September 10, 2019, $0.77 per share for options issued on November 29, 2018 and $1.28 for the options issued on November 28, 2017.

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

20. Non-cash transactions

During the year ended December 31, 2022, the Company renewed a lease for a production facility, increasing its lease obligations by $1,605,873 on January 1, 2022. During the year ended December 31, 2023, the Company renewed a lease for a production facility, which came to term on April 2023 and concluded new leases for production equipment and rolling stock, increasing its lease obligations by $2,351,733.

21. Financial instruments

21.1 Fair value and classification of financial instruments

	Carrying amount		Fair value	
	December 31, 2023	December 31, 2022	December 31, 2023	December 31, 2022
Financial assets				
Amortized cost				
Cash	**$ 799,134**	$ 7,526,933	**$ 799,134**	$ 7,526,933
Trade and other receivables (1)	**11,965,728**	11,856,997	**11,965,728**	11,856,997
	$ 12,764,862	$ 19,383,930	**$ 12,764,862**	$ 19,383,930
Financial liabilities				
Financial liabilities, at amortized cost				
Bank indebtedness	**$ 2,894,326**	$ 2,360,306	**$ 2,894,326**	$ 2,360,306
Trade and other payables (2)	**7,207,773**	4,698,570	**7,207,773**	4,698,570
Long-term debt	**1,297,895**	3,539,009	**1,297,895**	3,484,061
	$ 11,399,994	$ 10,597,885	**$ 11,399,994**	$ 10,542,937

(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.

21.2 Fair value hierarchy

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

Level–1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level–2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices);

21. Financial instruments (continued)

21.2 Fair value hierarchy (continued)

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, 2023 and 2022, the fair values of long-term debt are categorised as Level 2.

22. Risk management

22.1 Capital management

The Company's objective in managing capital is to ensure sufficient liquidity to pursue its growth while at the same time taking a conservative approach towards financial leverage and financial risk.

The Company's capital is composed of net debt and shareholders' equity. Net debt consists of interest-bearing debt less cash. The Company's primary uses of capital are to finance increases in non-cash working capital and capital expenditures for capacity expansion and integration.

The Company's primary measure to monitor financial leverage is Debt to Earnings before Interest, Taxes, Depreciation and Amortization ("EBITDA").

Credit facility arrangements require that the Company meet certain financial ratios at fixed points in time. The financial covenants are, as at December 31, 2023:
- 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;

22.2 Foreign currency risk management

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

The Company also faces foreign currency risk through its foreign subsidiary, Imaflex USA, whose functional currency is the USD. Imaflex does not specifically hedge this foreign currency risk.

The Company also has a portion of its debt in USD. The majority of the cash flows generated by the assets financed by these borrowings in USD are in USD.

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

	December 31, 2023	December 31, 2022
Cash	**$ -**	$ 5,276
Trade receivables	**7,830,194**	1,998,746
Trade payables	**(4,064,306)**	(745,413)
Bank indebtedness	**(2,894,326)**	(2,360,306)
Net financial position exposure	**$ 871,562**	$ (1,101,697)

22. Risk management (continued)

22.2 Foreign currency risk management (continued)

A $0.05 appreciation of the Canadian dollar against the USD would increase its financial position by $43,578 as at December 31, 2023 (a decrease of $75,666 as at December 31, 2022). Conversely a $0.05 depreciation of the Canadian dollar against the USD would have the opposite effect. Management estimates that every $0.01 appreciation of the USD against the Canadian dollar would have a positive impact on the Company's results of approximately $8,716. Every $0.01 depreciation of the USD against the Canadian dollar would have the opposite effect.

22.3 Interest rate risk management

The Company's exposure to interest rate fluctuations is with respect to its short-term and long-term financing, which bear interest at floating rates.

At the reporting date, the carrying value of the Company's interest-bearing financial liabilities was as follows:

	December 31, 2023	**December 31, 2022**
Variable rate instruments		
Bank indebtedness	**$ 2,894,326**	$ 2,360,306
Long-term debt	**-**	805,440
Gross financial position exposure	**$ 2,894,326**	$ 3,165,746

Sensitivity analysis

A 100-basis point increase in interest rates throughout the reporting period would result in a decrease in income and equity for the year ended December 31, 2023 of approximately $28,943 ($26,128 for 2022). Conversely a decrease in interest rates would have the opposite effect.

22.4 Liquidity risk management

Liquidity risk, the risk that the Company will not be able to meet its financial obligations as they fall due, is managed through the Company's capital structure and financial leverage. The Company obtains financing through a mix of share issuance on the capital markets and borrowings from financial institutions. An analysis of financial leverage is used to determine the required mix between the different sources of liquidity offered to the Company while keeping an acceptable risk level in the Company's leverage.

The Company ensures that it maintains sufficient cash flow to pay its obligations within the next 12 months. Cash flows generated from operations are matched to the liquidity required to meet its financial obligations for the sources of financing used to generate that cash flow.

The Company has an operating line of credit of up to $12,000,000, of which $2,894,326 was utilized as at December 31, 2023 ($2,360,306 as at December 31, 2022). 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.

22. Risk management (continued)

22.4 Liquidity risk management (continued)

As at December 31, 2023, the carrying amount and undiscounted contractual cash flows for the Company's liabilities are as follows:

	Carrying amount	Contractual cash flow	1 year or less	2-5 years	More than 5 years
Bank indebtedness	$ 2,894,326	$ 2,894,326	$ 2,894,326	$ -	$ -
Long-term debt (1)	1,297,895	1,321,393	1,321,393	-	-
Lease obligations (2)	7,220,050	7,910,355	2,127,114	5,783,241	-
Trade and other payables (3)	7,207,773	7,207,773	7,207,773	-	-
	$ 18,620,044	$ 19,333,847	$ 13,550,606	$ 5,783,241	$ -

(1) The interest on the long-term debt is based on prevailing interest rates at the date of the consolidated statement of financial position.
(2) The contractual cash flow for finance leases includes the interest on the borrowings.
(3) Excludes employee benefits

23. Related party transactions

Entities in which key management personnel has an interest

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

	Transactions for the year ended		Amounts owing as at	
	December 31, 2023	December 31, 2022	December 31, 2023	December 31, 2022
Entities owned by key management personnel or their family members				
Lease liability payments	**1,200,331**	1,151,527	**-**	-
Interest expense included in lease payments above	**127,298**	106,636	**12,122**	-
Lease liability balance	**2,925,356**	2,006,614	**2,925,356**	-
Key management personnel services	**152,881**	158,685	**13,790**	10,518

23. 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, 2023	**December 31, 2022**
Salaries	**$ 956,859**	$ 942,392
Director's fees	**41,000**	41,000
Short-term employee benefits	**17,549**	13,497
Post-employment benefits – State-run plans	**22,916**	18,701
Share-based compensation	**223,834**	18,158
Other benefits	**67,993**	64,317
	$ 1,330,151	$ 1,098,065

24. Subsequent event

Subsequent to year-end, the Company entered into a new lease agreement for the rental of production equipment commencing on March 15, 2024 for an amount totalling $3,745,885. The lease agreement has an initial term of 24 months with monthly payments of $64,310 terminating on February 15, 2026 and contains an option to purchase or enter into a second lease term of 48 months with monthly payments of $60,201 terminating on March 14, 2030.