

**Deloitte.**

**TO THE SHAREHOLDERS OF IMAFLEX INC.**

**Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of Imaflex Inc., which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of operations and retained earnings, comprehensive loss and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

**Management's Responsibility for the Consolidated Financial Statements**

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

**Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Imaflex Inc. and its subsidiaries as at December 31, 2010 and 2009, and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



Montreal, Canada

April 26, 2011

Chartered accountant permit No. 13556

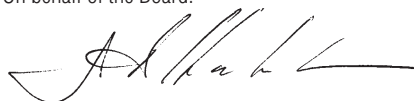
## CONSOLIDATED BALANCE SHEETS

Years ended December 31, 2010 and 2009

	2010	2009
<b>Assets</b>		
Current assets:		
Cash	\$ 82,031	\$ 964,188
Accounts receivable (Note 2)	8,284,584	7,066,890
Inventories (Note 3)	8,962,205	10,833,855
Prepaid expenses	13,536	18,788
	<b>17,342,356</b>	18,883,721
Capital assets (Note 4)	<b>15,662,776</b>	16,631,471
	<b>\$ 33,005,132</b>	\$ 35,515,192
<b>Liabilities</b>		
Current liabilities:		
Bank indebtedness (Note 5)	\$ 6,338,764	\$ 5,959,204
Accounts payable and accrued liabilities	5,941,714	5,151,104
Income taxes payable	39,242	328,423
Current portion of long-term debt (Note 7)	2,409,829	2,922,419
Current portion of obligations under capital leases (Note 6)	12,462	53,686
	<b>14,742,011</b>	14,414,836
Obligations under capital leases (Note 6)	42,512	48,829
Long-term debt (Note 7)	3,107,757	4,171,296
Future income taxes (Note 8)	1,087,004	936,252
	<b>18,979,284</b>	19,571,213
Commitments and contingencies (Note 11)		
<b>Shareholders' equity:</b>		
Share capital (Note 9)	7,829,165	7,829,165
Contributed surplus (Note 9)	322,500	322,500
	<b>8,151,665</b>	8,151,665
Accumulated other comprehensive loss	(411,705)	(244,090)
Retained earnings	6,285,888	8,036,404
	<b>5,874,183</b>	7,792,314
	<b>14,025,848</b>	15,943,979
	<b>\$ 33,005,132</b>	\$ 35,515,192

See accompanying notes to consolidated financial statements.

On behalf of the Board:



Director



Director

## CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

Years ended December 31, 2010 and 2009

	2010	2009
Sales	\$ 46,488,527	\$ 48,189,969
Cost of sales	41,594,518	40,539,278
Amortization of production equipment	987,111	2,817,230
Gross profit	3,906,898	4,833,461
Expenses:		
Selling and administrative	4,163,825	3,485,635
Interest (Note 7)	517,132	464,316
Foreign exchange loss	212,805	522,246
Amortization of capital assets	359,905	275,245
Other	327,594	130,422
	5,581,261	4,877,864
Loss before income taxes	(1,674,363)	(44,403)
Provision for income taxes (Note 8)	76,153	358,870
Net loss	(1,750,516)	(403,273)
Retained earnings, beginning of year (Note 1)	8,036,404	8,439,677
Retained earnings, end of year	\$ 6,285,888	\$ 8,036,404
Basic and diluted loss per share (Note 9)	\$ (0.044)	\$ (0.010)

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

Years ended December 31, 2010 and 2009

	2010	2009
Net loss	\$ (1,750,516)	\$ (403,272)
Other comprehensive loss:		
Change in unrealized losses of translation of financial statements of self-sustaining foreign operations (net of taxes of nil in 2010 and \$173,286 in 2009)	(167,615)	(769,032)
Comprehensive loss	(1,918,131)	(1,172,304)

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Net loss	\$ (1,750,516)	\$ (403,273)
Adjustments for:		
Amortization	1,347,016	3,092,475
Future income taxes	150,752	(113,958)
Unrealized foreign exchange	32,265	(156,749)
Change in fair value of derivative financial instrument (Note 7a)	(51,236)	(104,699)
Other gains	(14,975)	—
Net change in non-cash operating working capital (Note 12)	1,330,613	(31,191)
	<b>1,043,919</b>	2,282,605
Cash flows from financing activities:		
Increase in bank indebtedness	379,560	1,132,539
Issuance of long-term debt	1,093,999	—
Repayment of long-term debt	(2,504,152)	(3,301,915)
Repayment of obligations under capital leases	(54,156)	(108,741)
	<b>(1,084,749)</b>	(2,278,117)
Cash flows from investing activities:		
Purchase of capital assets	(844,381)	(334,672)
Proceeds from disposal of capital assets	14,975	—
	<b>(829,406)</b>	(334,672)
Effect of exchange rate differences on cash	(11,921)	43,727
Net decrease in cash	(882,157)	(286,457)
Cash, beginning of year	964,188	1,250,645
Cash, end of year	\$ 82,031	\$ 964,188
Supplemental cash flow information:		
Interest paid	\$ 494,481	\$ 469,880
Income taxes paid	—	275,000
Utilization of deposits for the purchase of capital asset	31,687	394,239
Additions to capital assets included in accounts payable	—	238,257

See accompanying notes to consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2010 and 2009

Imaflex Inc. (the "Company") is incorporated under the *Canada Business Corporations Act*. The Company's principal business activity is the design, manufacture and sale of packaging materials.

### 1. Significant accounting policies:

#### (a) Basis of presentation:

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and include the accounts of the Company and those of its wholly-owned subsidiary, Imaflex USA, Inc. ("Imaflex USA"). During the course of the year, the previously wholly-owned Canadian subsidiary, Canslit Inc. ("Canslit"), was amalgamated with Imaflex Inc.

All intercompany balances and transactions have been eliminated.

#### (b) Future changes in accounting policies

International Financial Reporting Standards ("IFRS"):

The Canadian Accounting Standards Board ("AcSB") set January 1, 2011 as the date that IFRS replaced Canadian GAAP for publicly accountable enterprises, which includes Canadian reporting issuers. Imaflex Inc. will prepare its consolidated financial statements in accordance with IFRS for fiscal years commencing January 1, 2011.

#### (c) Revenue recognition:

Sales are recorded when persuasive evidence of an arrangement exists, delivery has occurred, the price to the buyer is fixed or determinable and collection is reasonably assured.

#### (d) Inventories:

Raw materials, work in process and finished goods are valued at the lower of cost and net realizable value. Cost is determined on the first in, first out basis. The cost of finished goods includes the cost of raw materials and the applicable share of the cost of labour and fixed and variable production overheads. Net realizable value is the estimated selling price less the estimated cost of completion and the estimated costs necessary to make the sale.

#### (e) Capital assets:

Capital assets are recorded at cost. Amortization is provided on a straight-line basis, net of an estimated salvage value:

Asset	Basis	Period
Production equipment	Straight-line	20 years
Office equipment	Straight-line	5 years
Computer software and equipment	Straight-line	3 years

Leasehold improvements are amortized on a straight-line basis over the terms of the leases, to a maximum of five years.

Effective January 1, 2009, the Company revised the estimated useful life for production equipment used by Imaflex USA from 10 to 15 years. Effective January 1, 2010, the Company revised the estimated useful life of its production equipment from 10 and 15 years to 20 years. The changes in estimate, which were applied prospectively, resulted in a reduction in amortization expense of approximately \$1,497,142 and \$380,000 for the years ended December 31, 2010 and 2009 respectively.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2010 and 2009

### 1. Significant accounting policies (continued):

(f) Impairment of long-lived assets:

The Company assesses long-lived assets for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognized on a long-lived asset to be held and used when its carrying value exceeds the total undiscounted cash flows expected from its use and eventual disposal. The amount of the loss is determined by deducting the asset's estimated fair value from its carrying value.

(g) Foreign exchange:

Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange at the balance sheet date. Other balance sheet items denominated in foreign currencies are translated at the rates prevailing at the respective transaction dates. Income and expenses denominated in foreign currencies are translated at average rates prevailing during the year. Gains or losses on foreign exchange are recorded in the statement of operations.

Effective January 1, 2009, the Company classified its foreign subsidiary Imaflex USA, Inc., previously considered an integrated foreign operation, as a self-sustaining foreign operation. This change in classification is a result of changes in circumstances concerning Imaflex USA's operations, including its ability to conduct its financial activities and grow its business on a stand alone basis, following its start-up period.

The financial statements of Imaflex USA are, as of January 1, 2009, translated using the current rate method, under which assets and liabilities are translated at the exchange rate in effect at the balance sheet date and revenues and expenses are translated at the exchange rates in effect on the dates on which such items are recognized into income during the period. Exchange gains or losses arising from the translation of Imaflex USA's financial statements are recognized in other comprehensive income.

As a result of this change, an adjustment to accumulated other comprehensive income in the amount of \$524,942 was made on January 1, 2009, to record previously unrecognized translation gains.

#### Accumulated other comprehensive income

	<b>For the year ended December 31 2009</b>
Opening Balance	\$ -
Change in status of Imaflex USA	\$524,942
Change in unrealized loss on translation of financial statements of self-sustaining foreign operations	(\$769,032)
Ending balance	(\$244,090)

(h) Income taxes:

The asset and liability method is used for determining income taxes. Under this method, future income taxes are recognized for temporary differences between the financial statement carrying amounts and their respective income tax basis. Future income tax assets and liabilities are measured using substantially enacted income tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is included in income in the period in which the change occurs. The amount of future income tax assets recognized is limited to the amount that is more likely than not to be realized. A valuation allowance is recorded for the portion of the future income tax assets when its realization is not considered more likely than not.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2010 and 2009

### 1. Significant accounting policies (continued):

(i) Stock-based compensation plans:

The Company follows the fair value method for stock option awards. Under the fair value based method, the compensation cost is measured at fair value at the date of grant and is expensed over the award's vesting period.

(j) Financial instruments:

Financial assets and liabilities are initially recorded at fair value. Subsequently, financial instruments classified as financial assets available for sale, held for trading, and derivative financial instruments, part of a hedging relationship or not, are measured at fair value on the balance sheet at each reporting date, whereas other financial instruments are measured at amortized cost using the effective interest method.

The following is a summary of the accounting model the company applies to each of its significant categories of financial instruments outstanding:

Cash	Held for trading
Accounts receivable	Loans and receivables
Bank indebtedness	Other financial liabilities
Accounts payable and accrued liabilities	Other financial liabilities
Long term debt	Other financial liabilities

(k) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year.

Significant areas requiring the use of management estimates include the provision for doubtful accounts receivable, the evaluation of the net realizable value of inventories, the useful life of assets for amortization purposes and evaluation of their net recoverable amount, the fair value of derivative instruments and future income taxes. Actual results could differ from those estimates.

(l) Earnings per share:

Basic earnings per share are based on the weighted average number of shares outstanding during the period. Diluted earnings per share is determined using the treasury stock method to evaluate the dilutive effect of stock options.

### 2. Accounts receivable:

	2010	2009
Trade receivables, net of allowance for doubtful accounts	\$ 8,246,220	\$ 6,576,547
Other	38,364	490,343
	<b>\$ 8,284,584</b>	<b>\$ 7,066,890</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2010 and 2009

### 3. Inventories:

	2010	2009
Raw materials and supplies	\$ 4,794,647	\$ 6,500,191
Finished goods	4,167,558	4,333,664
	<b>\$ 8,962,205</b>	<b>\$ 10,833,855</b>

The cost of inventory recorded in the cost of sales represented \$28,629,206 for the year ended December 31, 2010 (\$27,063,116 in 2009).

### 4. Capital assets:

	2010		
	Cost	Accumulated amortization	Net book value
Production equipment	\$ 36,070,537	\$ 20,903,639	\$ 15,166,898
Leasehold improvements	1,304,142	1,062,073	242,069
Office equipment	40,987	18,397	22,590
Computer equipment and software	384,733	193,464	191,269
Assets under capital lease:			
Lift trucks	70,500	30,550	39,950
	<b>\$ 37,870,899</b>	<b>\$ 22,208,123</b>	<b>\$ 15,662,776</b>

The Company's production equipment is pledged as collateral for the Company's operating line of credit and long-term debt.

	2009		
	Cost	Accumulated amortization	Net book value
Production equipment	\$ 35,823,589	\$ 20,011,764	\$ 15,811,825
Leasehold improvements	1,127,157	734,151	393,006
Office equipment	2,642	2,642	-
Computer equipment	251,071	188,871	62,200
Assets under capital lease:			
Computer software and equipment	371,635	61,245	310,390
Lift trucks	70,500	16,450	54,050
	<b>\$ 37,646,594</b>	<b>\$ 21,015,123</b>	<b>\$ 16,631,471</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2010 and 2009

### 5. Bank indebtedness:

The Company has an operating line of credit with its bankers to a maximum of \$8,500,000, bearing interest at a Canadian Chartered Bank's prime rate plus 1.3%. The line of credit is secured by accounts receivable, inventories and capital assets. The line of credit may be reviewed periodically by the bank and is payable on demand. As at December 31, 2010, the Company had drawn \$6,338,764 (2009 - \$5,959,204) on its line of credit.

The operating line of credit was subject to working capital and debt to equity covenants. As at December 31, 2010, the Company was in breach of certain covenants related to its line of credit of \$6,338,764 and term debt totalling \$696,000 (see Note 7).

On April 21, 2011, the Company renewed its credit facilities and modified certain terms to the following:

- interest bearing at a Canadian Chartered bank's prime rate plus 2.3%; and maintaining, on a 12-month rolling basis, working capital, debt to equity, fixed charge coverage and interest bearing debt to EBITDA covenants, as defined in the agreement, as well as maintaining a cumulative EBITDA (as defined) in 2011 at levels agreed upon by both parties.

### 6. Obligations under capital leases:

The Company has financed certain assets by entering into capital lease arrangements for lift trucks expiring on October 28, 2013 and August 18, 2013. Capital lease payments are due as follows:

2011	\$	17,699
2012		17,699
2013		28,209
Total minimum lease payments		63,607
Less amount representing interest at approximately 8.7 %		8,633
Present value of minimum lease payments		54,974
Less current portion		12,462
		<b>\$ 42,512</b>

Interest expense includes interest on capital lease obligations of approximately \$5,286 in 2010 and \$11,600 in 2009.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2010 and 2009

### 7. Long-term debt:

	2010	2009
Loan (2010 US\$1,689,286, 2009 US\$2,303,618), bearing interest at the 30-day LIBOR rate (0.25% as at December 31, 2010), reset monthly, plus 1.24%, repayable in monthly principal installments of \$50,914 (US\$51,190) up to September 2013. The loan is secured by production equipment and a full corporate guarantee from Imaflex Inc. (a)	<b>\$ 1,680,164</b>	\$ 2,421,103
Loan, bearing interest at prime plus 0.50%, repayable in monthly principal installments of \$50,000 to January 2012, secured by a first ranking hypothec of \$3,000,000 on all present and future properties of the Canslit division of the Company, movables and immovable, corporeal and incorporeal. Pursuant to the renewal of the credit facilities described in Note 5, the interest rate was modified to the prime rate of a Canadian Chartered bank plus a prime rate of 1.5%.	<b>650,000</b>	1,250,000
Loan, bearing interest at the lender's base rate (5.00% as at December 31, 2010) plus 0.25%, repayable in monthly principal installments of \$43,460 to September 2015, secured by production equipment	<b>2,477,220</b>	—
Loans, bearing interest at rates varying between prime plus 0.50% and 2.00%, retired or refinanced during the year	—	1,911,602
Loan (2010 US\$540,027, 2009 US\$1,046,647), bearing interest at the 30-day LIBOR rate, reset monthly, plus 2.00%, repayable in blended monthly installments of \$46,279 (US\$46,530) up to December 2011. The loan is secured by production equipment and a corporate guarantee from Imaflex Inc.	<b>537,111</b>	1,100,026
Loan, bearing interest at prime plus 0.75%, repayable in monthly principal installments of \$11,500 to April 2011, secured by production equipment. (b)	<b>46,000</b>	184,000
Loan (2010 US\$127,782, 2009 US\$215,970), bearing interest at the 30-day LIBOR rate, reset monthly, plus 2.00%, repayable in blended monthly installments of \$8,329 (US\$8,374) up to April 2012. The loan is secured by production equipment and a full corporate guarantee from Imaflex Inc.	<b>127,091</b>	226,984
	<b>5,517,586</b>	7,093,715
Current portion of long-term debt	<b>2,409,829</b>	2,922,419
	<b>\$ 3,107,757</b>	\$ 4,171,296

(a) On September 28, 2006, the Company borrowed from Wachovia Corporation US\$4,300,000 at a variable interest rate for seven years, as a result of a long-term debt facility entered into to fund its capital expenditures. The Company then entered into an interest rate swap for the same amount and maturity. Under the terms of this interest rate swap, the Company receives, on a monthly basis, a variable interest rate and pays a fixed interest rate of 6.54%. The Company uses this derivative financial instrument to manage the risk from fluctuations in interest rates. The intent is to fix the interest cost on this long-term debt.

As at December 31, 2010, the fair value of the interest rate swap is a liability of \$110,718 (US\$111,319) (2009 \$168,763 (US\$161,249)) has been recorded on the balance sheet under accounts payable and accrued liabilities, with a charge to the statement of operations under interest expense for the change in fair value since December 31, 2009.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2010 and 2009

### 7. Long-term debt (continued):

(b) These loans are subject to the financial covenants described in Note 5.

Interest on long-term debt amounted to \$ 517,132 for the year ended December 31, 2010 (2009 - \$470,141).

The aggregate repayment of long-term debt for each of the four years subsequent to December 31, 2010 and thereafter, are as follows:

2011	2,409,829
2012	1,215,351
2013	979,746
2014	912,660
	<b>\$ 5,517,586</b>

### 8. Income taxes:

The provision for income taxes differs from the amount computed by applying the Canadian federal and provincial statutory tax rates to income before income taxes. The reasons for the difference and the related tax effects are as follows:

	2010	2009
Loss before income taxes	<b>\$ (1,674,363)</b>	\$ (44,403)
Statutory tax rate	<b>30.9%</b>	30.9%
Computed income taxes payable	<b>(517,378)</b>	(13,721)
Adjustments:		
Permanent differences	<b>20,715</b>	18,070
Temporary differences		
Unrecognized benefit of Imaflex USA's losses	<b>689,175</b>	513,396
Effect of foreign tax rate difference	<b>(133,764)</b>	(101,373)
Adjustment to income tax from prior years	<b>32,877</b>	-
Adjustment to future income tax	<b>(9,333)</b>	-
Valuation allowance adjustment	<b>(28,846)</b>	(37,480)
Non-taxable portion of income tax on investments	<b>8,683</b>	-
Other	<b>14,024</b>	(20,022)
Income tax expense	<b>\$ 76,153</b>	<b>\$ 358,870</b>
Represented by:		
Current	<b>\$ (74,599)</b>	\$ 472,828
Future	<b>150,752</b>	(113,958)
Income tax expense	<b>\$ 76,153</b>	<b>\$ 358,870</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2010 and 2009

### 8. Income taxes (continued):

The future income taxes are comprised of the following:

	2010	2009
Assets:		
Losses carried forward	\$ 2,522,916	\$ 2,369,000
Tax reserves	28,127	776,780
Capital assets	13,140	(884,000)
Unrealized foreign exchange	15,241	-
Other	7,695	12,918
Valuation allowance	(2,538,157)	(2,253,000)
	<b>48,962</b>	21,698
Liabilities:		
Capital assets	\$ (1,135,966)	\$ (954,135)
Unrealized foreign exchange gain	-	(3,815)
	<b>(1,135,966)</b>	(957,950)
Net future income tax liability	<b>\$ (1,087,004)</b>	<b>\$ (936,252)</b>

The Company's subsidiary, Imaflex USA, has non-capital losses available to carry forward, for which a valuation allowance has been recorded, to reduce future taxable income of approximately \$10,643,295, expiring as follows:

2025	\$ 86,230
2026	1,445,242
2027	993,443
2028	2,145,144
2029	2,323,751
2030	3,649,485
	<b>\$10,643,295</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2010 and 2009

### 9. Share capital:

Share capital consists of:

Authorized:

Unlimited number of Class A shares, voting, participating, without par value; unlimited number of Class B shares, non-voting, participating, without par value, issuable at any time and in one or more series; and unlimited number of Class B Series 1 shares, convertible at the option of the holder to Class A shares subject to the restriction that the percentage of Class A shares in the hands of public security holders following such conversion must not be less than 20% of the total issued and outstanding Class A shares

Issued:

A summary of shares outstanding is presented below:

	2010		2009	
	Shares	Book value	Shares	Book value
Issued and outstanding:				
Class A shares	39,350,002	\$ 7,829,165	39,350,002	\$ 7,829,165

Basic and Diluted earnings per share have been calculated on the basis of the weighted average number of shares outstanding during the year of 39,350,002 (2009 - 39,350,002).

### Stock option plan:

Pursuant to the Stock Option Plan (the "Plan") of the Company, ten percent (10%) of the Class A shares issued and outstanding from time to time are reserved for options. The Plan provides that the term of the options shall be fixed by the directors. Officers and employees of the Company or its subsidiaries 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. As at December 31, 2010 and December 31, 2009, there are no outstanding options under the Plan.

### 10. Related party transactions:

During the year, in the normal course of business, the Company had routine transactions with entities owned by shareholders and officers of the Company. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the parties. Details of these transactions are as follows:

	2010		2009	
Management fees	\$	157,554	\$	183,371
Rent	\$	727,306	\$	708,765

As at December 31, 2010, there were no outstanding amounts payable to related parties. In addition, and in connection with the credit facility described in Note 5, a significant shareholder of the Company has committed to curing the defaults of covenants, if any.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2010 and 2009

### 11. Commitments and contingencies:

a) The Company's future minimum lease payments under operating leases for facilities, all of which are leased from a related party, are approximately as follows:

2011	729,188
2012	736,967
2013	736,967
2014	577,717
2015	474,858
Thereafter	1,249,064
	<b>\$ 4,504,761</b>

b) The Company, in the normal course of business, is party to claims and litigation. Management believes that the resolution of these claims and litigation will not have a materially adverse effect on the financial conditions, earnings or cash flows.

### 12. Statements of cash flows:

The details of the net change in non-cash operating working capital are as follows:

	2010	2009
Accounts receivable	<b>\$ (1,217,694)</b>	\$ 3,608,869
Income taxes	<b>(179,407)</b>	(108,452)
Inventories	<b>1,634,691</b>	(3,746,924)
Prepaid expenses	<b>5,251</b>	4,653
Accounts payable and accrued liabilities	<b>1,087,772</b>	210,663
	<b>\$ 1,330,613</b>	<b>\$ (31,191)</b>

### 13. Financial instruments and risk management:

The Company is exposed to risk arising from the use of financial instruments, including foreign currency risk, credit risk, interest rate risk, and liquidity risk. The discussion below describes how the Company manages those risks and provides other required disclosures with respect to financial instruments.

(a) Foreign currency risk management:

A portion 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 expenses denominated in US dollars. The Company does not use forward foreign exchange contracts to manage its residual foreign exchange exposure. The Company's statement of operations includes foreign exchange losses of \$ 212,805 (2009 - loss of \$522,246) incurred as part of normal operations.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2010 and 2009

### 13. Financial instruments and risk management (continued):

(a) Foreign currency risk management (continued):

As at December 31, 2010, the Company had the following financial instruments denominated in foreign currencies:

<b>(in thousands)</b>	<b>2010</b>	<b>2009</b>
Trade receivables	\$ 3,449	\$ 2,861
Trade payables	(2,980)	(2,584)
Secured bank loans	(2,357)	(3,566)
Interest rate swap	(111)	(161)
Gross balance sheet exposure	\$ (1,999)	\$ (3,450)

Sensitivity analysis:

As at December 31, 2010 a \$0.05 depreciation of the US dollar against the Canadian dollar would decrease the net loss by \$99,950.

Conversely a \$0.05 appreciation of the US dollar against the Canadian dollar would have the opposite effect.

(b) Credit risk:

The Company's extension of credit is based on an evaluation of each customer's financial condition and the Company's ability to obtain credit insurance coverage for that customer. Credit losses are provided for in the financial statements. Management manages credit risk by limiting the exposure of accounts receivable to a single customer. Sales to one customer represented approximately 8% of total sales for the year ended December 31, 2010 (2009 –15%). The maximum exposure to credit risk consists of total trade receivables, net of allowance for doubtful accounts.

The aging of trade accounts receivable at December 31, 2010 was as follows:

<b>(in thousands)</b>	<b>2010</b>	<b>2009</b>
Current	\$ 3,242	\$ 2,663
30-60 days	2,907	2,359
Overdue 60-90 days	1,509	990
Overdue 90 days and over	1,084	1,471
	<b>8,742</b>	<b>7,483</b>
Less allowance for doubtful accounts	(496)	(906)
Trade receivables, net of allowance for doubtful accounts	\$ 8,246	\$ 6,577

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2010 and 2009

### 13. Financial instruments and risk management (continued):

#### (c) Interest rate risk:

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.

As the Company's fixed-rate non-derivative financial instruments are measured at amortized costs, fluctuations in interest rates will affect the fair values of these instruments but will not impact earnings or equity.

The Company is exposed to interest rate risk with respect to its variable rate non-derivative financial instruments and its interest rate swap. Any variance in cash flow related to the interest rate swap is offset by an equal variance in cash flow of the loan on which it is used to fix the interest rate. Any increase in interest rates would increase the value of the swap to the Company and ultimately increase its value in the consolidated financial statements. For the remaining loans on which the Company does pay variable interest rates, it is management's opinion that a 100 basis point increase in interest rates would not have a significant impact on the Company's cash flow and that interest rate risk is not significant.

#### (d) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure and financial leverage, as outlined in Note 14. It also manages liquidity risk by continuously monitoring actual and projected cash flows.

As at December 31, 2010, the carrying amount and contractual cash flows for the Company's financial liabilities are as follows:

(in thousands)	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years
Non-derivative financial liabilities:						
Long-term debt	\$ 5,573	\$ (5,967)	\$ (1,323)	\$ (1,270)	\$ (1,340)	\$ (2,034)
Bank indebtedness	6,339	(6,339)	(6,339)	—	—	—
Accounts payable <sup>(1)</sup>	5,831	(5,831)	(5,831)	—	—	—
Derivative financial liabilities:						
Interest rate swap	111	(122)	(40)	(32)	(40)	(10)
	<b>\$ 17,854</b>	<b>\$ (18,259)</b>	<b>\$ (13,533)</b>	<b>\$ (1,302)</b>	<b>\$ (1,380)</b>	<b>\$ (2,044)</b>

<sup>(1)</sup> The accounts payable exclude the interest rate swap presented separately.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2010 and 2009

### 13. Financial instruments and risk management (continued):

(e) Fair value of financial instruments:

(in thousands)	Carrying amount	2010		2009	
		Fair value	Carrying amount	Fair value	Carrying amount
Financial Assets:					
Cash	\$ 82	\$ 82	\$ 964	\$ 964	
Loans and receivables:					
Accounts receivable	8,285	8,285	7,066	7,066	
Financial Liabilities:					
Other financial liabilities:					
Bank indebtedness	6,339	6,339	5,959	5,959	
Accounts payable	5,831	5,831	4,983	4,983	
Long-term debt	5,518	5,518	7,093	7,093	
Derivative Financial Instrument:					
Interest rate swap	111	111	168	168	

Fair value estimates are made as of a specific point in time, using available information about the financial instrument. These estimates are subjective in nature and often cannot be determined with precision. The Company has determined that the fair value of its short-term financial assets and liabilities approximates their respective carrying amounts as at the balance sheet date because of the short-term maturity of those instruments. The fair value of the long-term debt approximates its carrying amount as it bears interest at variable rate and has financing conditions similar to those currently available to the Company.

(f) Fair value hierarchy

Financial instruments recorded at fair value on the Consolidated Balance Sheet are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

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 (i.e. as prices) or indirectly (i.e. derived from prices);

Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The Company has determined its interest rate swap using level 3 valuation techniques using forward interest rates (Note 7 (a)).

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2010 and 2009

### 14. Capital disclosures:

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 comprised 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 EBITDA. EBITDA is a non GAAP measure and is defined as "Earnings before interest, taxes, depreciation and amortization.

Operating line of credit and long-term debt arrangements require that the Company meet certain financial covenants as described in Note 5, which as at December 31, 2010, they were in breach of. However, as of April 21, 2011, the Company renewed its credit facilities. The Company is in compliance with the revised financial covenants and expects to continue to be in compliance during 2011.

### 15. Segmented information:

The Company operates in one reportable operating segment, comprising the development, manufacture and sale of packaging materials.

Sales to the United States totaled \$21,029,100 for the year ended December 31, 2010 (2009 - \$22,998,265).

Capital assets in the United States totaled \$8,100,747 as at December 31, 2010 (2009 - \$8,906,155).

### 16. Subsequent Events

On March 2, 2011, the Company announced that a significant shareholder would acquire for cash of \$500,000 1,315,789 units at a price of \$0.38 per unit, each unit consisting of one Class A share and one Class A share purchase warrant entitling the holder to acquire one additional Class A share at a price of \$0.45 for a period of 36 months from the date of issuance of the warrant. The transaction is expected to close in mid May 2011.

### 17. Comparative figures:

Certain comparative figures have been reclassified to conform with the presentation adopted in the current year.