

Interim Condensed Consolidated Financial Statements of

IMAFLEX INC.

For the three and nine-month periods ended September 30, 2022 and 2021

These consolidated interim financial statements were not reviewed by our external auditors.

Consolidated statements of comprehensive income

(in thousands of Canadian dollars, except per share data)

(unaudited)

for the	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Revenues (Note 3.1)	\$ 26,569	\$ 29,459	\$ 89,756	\$ 81,770
Cost of sales	22,220	25,063	75,039	68,272
Gross profit	4,349	4,396	14,717	13,498
Expenses:				
Selling	400	421	1,378	1,278
Administrative	1,547	1,385	4,601	3,989
Finance costs (Note 6)	105	87	332	313
Foreign exchange (gains) losses	(1,369)	(580)	(1,720)	97
Other	33	21	70	58
	716	1,334	4,661	5,735
Income before income taxes	3,633	3,062	10,056	7,763
Income taxes	510	288	1,431	1,038
NET INCOME	3,123	2,774	8,625	6,725
Other comprehensive income (loss)				
Item that will be reclassified subsequently to net income				
Exchange differences on translating foreign operations	751	162	917	75
COMPREHENSIVE INCOME	\$ 3,874	\$ 2,936	\$ 9,542	\$ 6,800
Earnings per share (Note 7)				
Basic	\$ 0.06	\$ 0.05	\$ 0.17	\$ 0.13
Diluted	\$ 0.06	\$ 0.05	\$ 0.17	\$ 0.13

The accompanying notes are an integral part of these interim condensed consolidated financial statements. Note 4 presents additional information on consolidated comprehensive income.

Consolidated statements of financial position
(in thousands of Canadian dollars) (unaudited)

As at	September 30, 2022	December 31, 2021
Assets		
<i>Current assets</i>		
Cash	\$ 6,830	\$ 8,465
Trade and other receivables	16,696	15,073
Inventories	13,455	14,920
Prepaid expenses	288	205
Total current assets	37,269	38,663
<i>Non-current assets</i>		
Property, plant and equipment (Note 8)	34,547	24,507
Intangible assets	2,084	1,822
Total non-current assets	36,631	26,329
Total assets	\$ 73,900	\$ 64,992
Liabilities and equity		
<i>Current liabilities</i>		
Bank indebtedness (Note 9)	825	2,498
Trade and other payables	9,415	8,286
Current tax liabilities	850	669
Long-term debt, current portion (Note 9)	1,912	1,994
Lease obligations, current portion (Note 9, 10)	974	851
Total current liabilities	13,976	14,298
<i>Non-current liabilities</i>		
Long-term debt (Note 9)	2,131	3,498
Deferred tax liabilities	1,520	1,390
Lease obligations (Note 9, 10)	1,502	732
Total non-current liabilities	5,153	5,620
Total liabilities	19,129	19,918
<i>Equity</i>		
Share capital (Note 11)	12,634	12,559
Reserves	3,212	2,215
Retained earnings	38,925	30,300
Total equity	54,771	45,074
Total liabilities and equity	\$ 73,900	\$ 64,992

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

(s) Joseph Abbandonato
Joseph Abbandonato
Director

(s) Roberto Longo
Roberto Longo
Director

Consolidated statements of changes in equity
For the three-month periods ended September 30, 2022 and 2021
(in thousands of Canadian dollars) (unaudited)

	Reserves						
	Share capital (a)	Share-based compensation	Accumulated foreign currency translation	Warrants	Total reserves	Retained earnings	Total
Balance at July 1, 2021	11,999	1,207	398	465	2,070	25,885	39,954
Net income for the period	-	-	-	-	-	2,774	2,774
Exchange differences on translating foreign operations	-	-	162	-	162	-	162
Comprehensive income for the period	-	-	162	-	162	2,774	2,936
Transactions with owners:							
Issuance of shares (Note 11)	560	-	-	-	-	-	560
Share-based compensation (Note 12)	-	3	-	-	3	-	3
Balance at September 30, 2021	\$12,559	\$ 1,210	\$ 560	\$ 465	\$ 2,235	\$ 28,659	\$ 43,453
Balance at July 1, 2022	\$12,634	\$1,258	\$ 704	\$ 465	\$ 2,427	\$ 35,802	\$ 50,863
Net income for the period	-	-	-	-	-	3,123	3,123
Exchange differences on translating foreign operations	-	-	751	-	751	-	751
Comprehensive income for the period	-	-	751	-	751	3,123	3,874
Transactions with owners:							
Issuance of shares (Note 11)	-	-	-	-	-	-	-
Share-based compensation (Note 12)	-	34	-	-	34	-	34
Balance at September 30, 2022	\$12,634	\$ 1,292	\$ 1,455	\$ 465	\$ 3,212	\$ 38,925	\$ 54,771

(a) Additional detail of share capital is provided in Note 11.

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

Consolidated statements of changes in equity
For the nine-month periods ended September 30, 2022 and 2021
(in thousands of Canadian dollars) (unaudited)

	Reserves						
	Share capital (a)	Share-based compensation	Accumulated foreign currency translation	Warrants	Total reserves	Retained earnings	Total
Balance at January 1, 2021	11,901	1,193	485	465	2,143	21,934	35,978
Net income for the period	-	-	-	-	-	6,725	6,725
Exchange differences on translating foreign operations	-	-	75	-	75	-	75
Comprehensive income for the period	-	-	75	-	75	6,725	6,800
Transactions with owners:							
Issuance of shares (Note 11)	658	-	-	-	-	-	658
Share-based compensation (Note 12)	-	17	-	-	17	-	17
Balance at September 30, 2021	\$12,559	\$ 1,210	\$ 560	\$ 465	\$ 2,235	\$ 28,659	\$ 43,453
Balance at January 1, 2022	\$12,559	\$1,212	\$ 538	\$ 465	\$ 2,215	\$ 30,300	\$ 45,074
Net income for the period	-	-	-	-	-	8,625	8,625
Exchange differences on translating foreign operations	-	-	917	-	917	-	917
Comprehensive income for the period	-	-	917	-	917	8,625	9,542
Transactions with owners:							
Issuance of shares (Note 11)	75	-	-	-	-	-	75
Share-based compensation (Note 12)	-	80	-	-	80	-	80
Balance at September 30, 2022	\$12,634	\$ 1,292	\$ 1,455	\$ 465	\$ 3,212	\$ 38,925	\$ 54,771

(a) Additional detail of share capital is provided in Note 11.

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

Consolidated statements of cash flows
(in thousands of Canadian dollars) (unaudited)

for the	Three months ended		Nine months ended	
	September 30,		September 30,	
	2022	2021	2022	2021
Operating activities:				
Net income for the period	\$ 3,123	\$ 2,774	\$ 8,625	\$ 6,725
Income tax expense	510	288	1,431	1,038
Depreciation and amortisation of non-current assets	1,085	921	3,093	2,724
Finance costs	105	87	332	313
Share-based compensation	34	3	80	17
Unrealized foreign exchange (gain) loss	(1,319)	(589)	(1,617)	26
	3,538	3,484	11,944	10,843
Net changes in working capital				
Decrease (increase) in trade and other receivables	1,642	(911)	(1,092)	(5,765)
Decrease (increase) in inventories	495	1,301	2,016	(1,595)
Decrease (increase) in prepaid expenses	131	81	(75)	(143)
(Decrease) increase in trade and other payables	(150)	52	855	4,594
	2,118	523	1,704	(2,909)
Cash generated by operating activities	5,656	4,007	13,648	7,934
Net income taxes paid	(140)	(386)	(1,120)	(1,316)
Net cash generated by operating activities	5,516	3,621	12,528	6,618
Investing activities:				
Payments for tangible and intangible assets	(2,293)	(469)	(9,940)	(1,722)
Net cash used in investing activities	(2,293)	(469)	(9,940)	(1,722)
Financing activities:				
Net change in bank indebtedness	(1,160)	824	(1,673)	1,898
Issuance of share capital	-	560	75	658
Interest paid	(105)	(87)	(332)	(313)
Repayment of long-term debt	(459)	(488)	(1,450)	(1,392)
Repayment of leases	(294)	(305)	(848)	(875)
Net cash (used in) generated by financing activities	(2,018)	504	(4,228)	(24)
Net increase (decrease) in cash	1,205	3,656	(1,640)	4,872
Cash, beginning of the period	5,622	4,431	8,465	3,219
Effects of foreign exchange differences on cash	3	2	5	(2)
Cash, end of period	\$ 6,830	\$ 8,089	\$ 6,830	\$ 8,089

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

**Notes to the interim condensed consolidated financial statements
for the three and nine-month periods ended September 30, 2022 and 2021**

Amounts in tables are expressed in thousands of Canadian dollars, except per share information (unaudited)

1. General information

Imaflex Inc. (the “Parent Company”) is incorporated under the Canada Business Corporations Act. Its registered office and headquarters are located at 5710 Notre-Dame Street West, Montreal, Quebec, Canada. The principal activities of the Parent Company and its subsidiary (together referred to as the “Company”) consist in the manufacture and sale of products for the flexible packaging industry, including polyethylene film and bags, as well as the metallization of plastic film for the agriculture and packaging industries. The common shares of the Parent Company are listed for trading on the TSX Venture Exchange under the symbol “IFX”.

2. Significant accounting policies

2.1 Basis of Presentation

The interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and with International Accounting Standard (“IAS”) 34, *Interim Financial Reporting*. These interim condensed consolidated financial statements were prepared using the same basis of presentation and accounting policies as outlined in Note 2, *Significant accounting policies* of our Consolidated financial statements for the years ended December 31, 2021 and 2020. These interim condensed consolidated financial statements do not include all the notes and disclosures required in annual financial statements. All amounts are in Canadian dollars, except where noted.

The interim condensed consolidated financial statements were approved by the board of directors and authorized for issue on November 23, 2022.

3. 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.

3.1 Revenues by geographical end market

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

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Canada	\$ 8,458	\$ 8,891	\$ 33,469	\$ 26,734
United States	18,111	20,568	56,287	55,036
Total	\$ 26,569	\$ 29,459	\$ 89,756	\$ 81,770

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

	September 30, 2022	December 31, 2021
Canada	\$ 11,706	\$ 8,219
United States	24,925	18,110
Total	\$ 36,631	\$ 26,329

**Notes to the interim condensed consolidated financial statements
for the three and nine-month periods ended September 30, 2022 and 2021**

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4. Additional information on the consolidated statements of comprehensive income

The Company's consolidated statements of comprehensive income include depreciation of production assets and accessories of \$1.0 million for the quarter ended September 30, 2022 (\$0.9 million in 2021) and \$2.9 million for the nine-month period ended September 30, 2022 (\$2.6 million in 2021) classified in Cost of sales, which includes the depreciation for right-of-use assets of \$0.3 million for the quarter (\$0.3 million in 2021) and \$0.8 million for the nine-month period (\$0.8 million in 2021). Depreciation of other property, plant and equipment and amortisation of intangible assets amounting to \$0.1 million for the quarter ended September 30, 2022 (\$0.1 million in 2021) and \$0.2 million for the nine-month period ended September 30, 2022 (\$0.2 million in 2021) is included in Administrative expenses.

The Company's consolidated statements of comprehensive income include salaries paid to its employees of \$2.6 million for the quarter ended September 30, 2022 (\$2.4 million in 2021) and \$7.8 million for the nine-month period ended September 30, 2022 (\$7.3 million in 2021) classified in Cost of sales. Administrative expenses include salaries paid to employees of \$0.5 million for the quarter ended September 30, 2022 (\$0.4 million in 2021)) and \$1.5 million for the nine-month period ended September 30, 2022 (\$1.4 million in 2021). Selling expenses include salaries paid to employees of \$0.1 million for the quarter ended September 30, 2022 (\$0.1 million in 2021) and \$0.3 million for the nine-month period ended September 30, 2022 (\$0.3 million in 2021).

5. 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 \$1.0 million for the quarter ended September 30, 2022 (\$0.9 million in 2021) and \$2.5 million for the nine-month period ended September 30, 2022 (\$2.0 million in 2021). These payments are expensed as incurred and the Company does not recognise any gains or losses subsequent to the payment of these benefits.

The Company offered a defined contribution employee benefit plan to its employees located in North Carolina, USA. The Company contributed \$13 thousand during the nine-month period ended September 30, 2021 and \$nil during the nine-month period ended September 30, 2022.

6. Finance costs

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Interest on bank indebtedness and long-term debt	\$ 76	\$ 71	\$ 242	\$ 223
Interest on lease obligations	29	16	90	90
	\$ 105	\$ 87	\$ 332	\$ 313

**Notes to the interim condensed consolidated financial statements
for the three and nine-month periods ended September 30, 2022 and 2021**

Amounts in tables are expressed in thousands of Canadian dollars, except per share information (unaudited)

7. Earnings per share

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Net income for basic and diluted earnings per share	\$ 3,123	\$ 2,774	\$ 8,625	\$ 6,725
Weighted average number of common shares outstanding	51,738	50,715	51,687	50,479
Dilutive effect of share purchase options	198	936	199	1,118
Diluted weighted average common shares outstanding	51,936	51,651	51,886	51,597
Basic earnings per common share	\$ 0.06	\$ 0.05	\$ 0.17	\$ 0.13
Diluted earnings per common share	\$ 0.06	\$ 0.05	\$ 0.17	\$ 0.13

As at September 30 2022 and 2021, there were no outstanding stock options that were excluded from this calculation.

8. Property, plant and equipment

	Land	Building	Production equipment	Leasehold improvements	Office equipment	Computer equipment	Rolling Stock	Total
Cost								
January 1, 2021	22	3,727	\$ 61,060	\$ 2,873	\$ 93	\$ 583	\$ 263	\$ 68,621
Additions	-	349	1,857	213	-	92	-	2,511
Foreign exchange	(0)	(4)	(133)	(6)	(0)	(0)	(0)	(143)
December 31, 2021	\$ 22	\$ 4,072	\$ 62,784	\$ 3,080	\$ 93	\$ 675	\$ 263	\$ 70,989
Addition	-	1,671	9,388	161	-	-	48	11,268
Foreign exchange	2	224	2,917	114	1	4	9	3,271
September 30, 2022	24	5,967	75,089	3,355	94	679	320	85,528
Accumulated depreciation								
January 1, 2021	-	(1,860)	(37,610)	(2,576)	(63)	(562)	(87)	(42,758)
Amortisation	-	(997)	(2,555)	(112)	(10)	(40)	(48)	(3,762)
Foreign exchange	-	(2)	36	4	0	0	(0)	38
December 31, 2021	-	(2,859)	(40,129)	(2,684)	(73)	(602)	(135)	(46,482)
Amortisation	-	(734)	(2,142)	(122)	(7)	(11)	(40)	(3,056)
Foreign exchange	-	(91)	(1,255)	(88)	(1)	(4)	(4)	(1,443)
September 30, 2022	-	(3,684)	(43,526)	(2,894)	(81)	(617)	(179)	(50,981)
Net book value, as at								
December 31, 2021	\$ 22	\$ 1,213	\$ 22,655	\$ 396	\$ 20	\$ 73	\$ 128	\$ 24,507
September 30, 2022	\$ 24	\$ 2,283	\$ 31,563	\$ 461	\$ 13	\$ 62	\$ 141	\$ 34,547

A portion of the Company's production equipment with a carrying amount of approximately \$ 20.1 million (approximately \$14.9 million as at December 31, 2021) is pledged as collateral for the Company's long-term debt.

**Notes to the interim condensed consolidated financial statements
for the three and nine-month periods ended September 30, 2022 and 2021**

Amounts in tables are expressed in thousands of Canadian dollars, except per share information (unaudited)

8. Property, plant and equipment (continued)

Included in the net carrying amount of property, plant and equipment as at September 30, 2022 and December 31, 2021 are right-of-use assets as follows:

	September 30, 2022	December 31, 2021
Buildings	\$ 2,125	\$ 1,880
Production equipment	239	285
Rolling stock	90	156
Office equipment	6	20
Total right-of-use asset	\$ 2,460	\$ 2,341

9. Borrowings

	September 30, 2022	December 31, 2021
Bank indebtedness (a)	\$ 825	\$ 2,498
Long-term debt		
Loan, bearing interest at the lender's base rate minus 0.75% (effective rate of 6.80% as at September 30, 2022 and 3.80% as at December 31, 2021), secured by production equipment having a net book value of approximately \$11.1 million. (b)	365	689
Loan, bearing interest at a fixed rate of 3.746% secured by a \$3.6 million hypothec on a piece of equipment. (c)	1,587	2,128
Loan, bearing interest at a fixed rate of 3.75% secured by a \$3.3 million hypothec on a piece of equipment. (d)	1,498	1,988
Loan, bearing interest at the lender's base rate plus 0.40%, (effective rate of 7.95% as at September 30, 2022 and 4.95% as at December 31, 2021) secured by production equipment having a net book value of approximately \$11.1 million. (e)	593	687
Total long-term debt	4,043	5,492
Lease obligations	2,476	1,583
Total borrowings	7,344	9,573
Current		
Bank indebtedness	\$ 825	\$ 2,498
Long-term debt, current portion	1,912	1,994
Lease obligations, current portion	974	851
	3,711	5,343
Non-current		
Long-term debt	2,131	3,498
Lease obligations	1,502	732
	3,633	4,230
Total borrowings	\$ 7,344	\$ 9,573

**Notes to the interim condensed consolidated financial statements
for the three and nine-month periods ended September 30, 2022 and 2021**

Amounts in tables are expressed in thousands of Canadian dollars, except per share information (unaudited)

9. Borrowings (continued)

Interest on long-term debt amounted to \$46 thousand for the quarter ended September 30, 2022 (\$62 thousand in 2021) and \$152 thousand for the nine-month period ended September 30, 2022 (\$197 thousand in 2021).

- (a) The Company has an operating line of credit with its bankers to a maximum of \$12.0 million, bearing interest at the prime rate as at September 30, 2022 (prime plus 0.40% as at December 31, 2021) for an effective interest rate of 5.45% as at September 30, 2022 and 2.85% as at December 31, 2021. The line of credit is secured by trade receivables and inventories. The line of credit may be reviewed periodically by the bank and is repayable on demand. The operating line of credit is subject to working capital and debt to equity covenants (as defined in the lending agreement), all of which were respected as at September 30, 2022 and December 31, 2021. As at September 30, 2022, the Company had drawn \$0.8 million on the line of credit (\$2.5 million on December 31, 2021).
- (b) The loan is repayable in monthly instalments of \$41 thousand until May 2023.
- (c) The loan is repayable in blended monthly instalments of \$66 thousand through October 2024. This loan is secured by a hypothec on a specific piece of equipment of the Company.
- (d) The loan is repayable in blended monthly instalments of \$60 thousand through November 2024. This loan is secured by a hypothec on a specific piece of equipment of the Company.
- (e) This loan bears interest at the lender's base rate plus 0.40% and is repayable in one payment of \$11 thousand in July 2021 followed by 71 monthly payments of \$10 thousand through June 2027.

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

Not later than one year	\$ 1,912
Later than one year and not later than five years	2,131
Later than 5 years	-
	\$ 4,043

10. Lease obligations

The Company has entered into certain lease agreements. Lease payments are due as follows:

Not later than one year	\$ 1,082
Later than one year and not later than five years	1,562
Later than five years	0
Total minimum lease payments	2,644
Less amount representing interest	(168)
Present value of minimum lease payments	2,476
Less the long-term portion	(1,502)
Current portion of obligations under leases	\$ 974

Lease obligations reflect the renewal of the lease for the Company's facilities located in North Carolina for an amount of \$ 1.6 million during the nine-month period ended September 30, 2022.

**Notes to the interim condensed consolidated financial statements
for the three and nine-month periods ended September 30, 2022 and 2021**

Amounts in tables are expressed in thousands of Canadian dollars, except per share information (unaudited)

11. Share capital

The Company's authorized share capital consists of an unlimited number of common shares, voting, participating, without par value. As at September 30, 2022, there were 51,738,637 common shares outstanding (51,638,637 as at September 30, 2021 and December 31, 2021).

During the nine-month period ended September 30, 2022, the Company issued 50,000 for cash consideration of \$36,500 following the exercise of options issued on August 26, 2020 and another 50,000 for cash consideration of \$38,000 following the exercise of options issued on November 29, 2018.

During the nine-month period ended September 30, 2021, the Company issued 50,000 common shares following the exercise of options issued on November 29, 2018 for cash consideration of \$38 thousand, 150,000 shares for cash consideration of \$60 thousand following the exercise of options issued on June 21, 2016, 500,000 shares for cash consideration of \$210 thousand following the exercise of options issued on September 6, 2016 and 875,000 shares for cash consideration of \$350 thousand following the exercise of options issued on June 21, 2016.

12. 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.

The expense related to share-based compensation totalled \$34 thousand for the quarter ended September 30, 2022 (\$3 thousand in 2021) and \$80 thousand for the nine-month period ended September 30, 2022 (\$17 thousand in 2021).

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

	26/05/2022	26/08/2020	10/09/2019	29/11/2018	29/11/2017	22/06/2017	Total
Outstanding as at 31/12/2021	-	150,000	100,000	200,000	150,000	50,000	650,000
Granted	300,000	-	-	-	-	-	300,000
Exercised ⁽¹⁾	-	(50,000)	-	(50,000)	-	-	(100,000)
Expired	-	-	-	-	-	(50,000)	(50,000)
Outstanding as at 30/09/2022	300,000	100,000	100,000	150,000	150,000	-	800,000
Outstanding as at 30/09/2021	-	150,000	100,000	200,000	150,000	50,000	650,000
Exercisable as at 30/09/2022	75,000	100,000	100,000	150,000	150,000	-	575,000
Exercisable as at 30/09/2021	-	112,500	100,000	200,000	150,000	50,000	612,500
Remaining life of options (yrs)	4.65	2.91	1.95	1.16	0.16	-	
Fair value assumptions :							
Expected life of options (yrs)	2.5 to 3.25						
Expiry ⁽²⁾	26/05/2027	26/08/2025	10/09/2024	29/11/2023	29/11/2022	22/06/2022	
Expected share price volatility	58.83% - 59.93%	57.82% - 60.98%	61.21% - 64.47%	67.14% - 70.41%	79.13% - 80.17%	80.01% - 83.03%	
Dividend yield	0%	0%	0%	0%	0%	0%	
Risk free rate	2.62%	0.41%	1.44%	2.23%	1.62%	1.15%	
Exercise price	\$ 1.19	\$ 0.73	\$ 0.55	\$ 0.76	\$ 1.11	\$ 1.03	
Share price on grant date	\$ 1.19	\$ 0.73	\$ 0.55	\$ 0.76	\$ 1.11	\$ 1.03	
Fair value of option at grant	\$ 0.48	\$ 0.28	\$ 0.30	\$ 0.35	\$ 0.57	\$ 0.53	

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

**Notes to the interim condensed consolidated financial statements
for the three and nine-month periods ended September 30, 2022 and 2021**

Amounts in tables are expressed in thousands of Canadian dollars, except per share information (unaudited)

12. Share-based compensation (continued)

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

13. Financial instruments

13.1 Fair value and classification of financial instruments

	Carrying amount		Fair Value	
	September 30, 2022	December 31, 2021	September 30, 2022	December 31, 2021
Financial assets				
Loans and receivables				
Cash	\$ 6,830	\$ 8,465	\$ 6,830	\$ 8,465
Trade and other receivables ⁽¹⁾	16,116	14,301	16,116	14,301
	22,946	22,766	22,946	22,766
Financial liabilities				
Financial liabilities, at amortised cost				
Bank indebtedness	825	2,498	825	2,498
Trade and other payables ⁽²⁾	7,919	6,644	7,919	6,644
Long-term debt	4,043	5,492	3,958	5,495
	12,787	14,634	12,702	14,637

⁽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 rates approximates its carrying value as the interest rate applicable to the loan reflects the latest market rates whereas long term debt that bears interest at 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.

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.

**Notes to the interim condensed consolidated financial statements
for the three and nine-month periods ended September 30, 2022 and 2021**

Amounts in tables are expressed in thousands of Canadian dollars, except per share information (unaudited)

13. Financial instruments (continued)

13.2 Fair value hierarchy

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

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

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

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

As at September 30, 2022 and December 31, 2021, the fair values of long-term debt and lease obligations are categorised as Level 2.

14. Non-cash transactions

The financial statements for the nine-month period ended September 30, 2022 reflect the renewal of a production facility lease which came to term on December 31, 2021 for an amount of \$1.6 million. The information for the nine-month period ended September 30, 2021 reflect the renewal of a production facility lease for an amount of \$349 thousand.