As required by regulators, the purpose of this MD&A is to explain management's point of view on Imaflex Inc.'s (the "Parent Company") past performance and future outlook. This report also provides information to improve the reader's understanding of the consolidated financial statements and related notes. Please refer to the unaudited interim condensed consolidated financial statements for the periods ending June 30, 2016 and 2015 as well as the audited consolidated financial statements for the years ended December 31, 2015 and 2014 when reading this MD&A. Unless otherwise indicated, all financial data in this document is prepared in accordance with International Financial Reporting Standards ("IFRS" hereafter) and all amounts are expressed in Canadian dollars. Differences may occur due to the rounding of amounts for the presentation in thousands of dollars. In this MD&A we also use financial measures that are not defined by IFRS. Please refer to the section entitled "Non-IFRS Financial Measures" for a complete description of these measures. The consolidated financial statements include the accounts of the Company, those of its wholly-owned subsidiary, Imaflex USA, Inc. ("Imaflex USA") and its divisions, Canguard Packaging ("Canguard") and Canslit ("Canslit"). To facilitate the reading of this report, the terms "Imaflex", "Company", "we", "our", "us" all refer to Imaflex Inc. together with its subsidiary. This MD&A is prepared in conformity with National Instrument 51-102 and Form 51-102F1 and has been approved by the board of directors prior to its release.

FORWARD LOOKING STATEMENTS

From time to time, we make forward-looking statements within the meaning of certain securities laws, including the "safe harbor" provisions of the Securities Act (Ontario). We may make such statements in this document, in other filings with Canadian regulators, in reports to shareholders or in other communications. These forward-looking statements include, among others, statements regarding the business and anticipated financial performance of the Company. The words "may", "could", "should", "would", "outlook", "believe", "plan", "anticipate", "expect", "intend", "objective", the use of the conditional tense and words and expressions of similar nature are intended to identify forward-looking statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, which give rise to the possibility that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution readers not to place undue reliance on these statements, as a number of important factors could cause our actual results to differ materially from the beliefs, plans, objectives, expectations, anticipations, estimates and intentions expressed in such forward-looking statements. These factors include, but are not limited to, the length and severity of the current economic downturn, management of credit, market dynamics, liquidity, funding and operational risks; the strength of the Canadian and U.S. economies in which we conduct business; the impact of the movement of the Canadian dollar relative to other currencies, particularly the U.S. dollar; the effects of changes in interest rates; the effects of competition in the markets in which we operate; our ability to successfully align our organization, resources, and processes; the availability and price of raw materials; failure to achieve planned growth associated with the U.S. operations and future sales; changes in accounting policies and methods we use to report our financial condition, including uncertainties associated with critical accounting assumptions and estimates; operational and infrastructure risks; other factors may affect future results including, but not limited to, timely development and introduction of new products and services; changes in tax laws, technological changes, new regulations; the possible impact on our businesses from public-health emergencies, international conflicts and other developments; and our success in anticipating and managing the foregoing risks.

We caution our readers that the foregoing list of important factors that may affect future results is not exhaustive. When relying on our forward-looking statements to make decisions with respect to the Company, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. Unless otherwise required by the securities authorities, we do not undertake to update any forward-looking statement that may be made from time to time by us or on our behalf. The forward-looking statements contained herein are based on information available as of August 22, 2016.

COMPANY OVERVIEW

The Company's operations 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 plasticulture and packaging industries. The results herein include those of Imaflex, located in Montréal (Québec), its divisions Canguard and Canslit, located in Victoriaville (Québec), and its wholly owned subsidiary, Imaflex USA, located in Thomasville (North Carolina). All intercompany balances and transactions have been eliminated on consolidation.

Imaflex and Imaflex USA specialize in the manufacture and sale of custom-made polyethylene films and bags suited for various packaging needs of our customers. Canguard specializes in the manufacture and sale of polyethylene garbage bags for both the retail and industrial markets. Canslit specializes in the metallization of plastic film.

The common shares of the Parent Company are listed for trading on the TSX Venture Exchange under the symbol "IFX". The Company's head office is located in Montréal (Québec).

NON-IFRS FINANCIAL MEASURES

The Company's management uses a non-IFRS financial measure in this MD&A, namely EBITDA. Management wishes to specify that for the analysis of the performance of the Company's financial results, EBITDA is determined as "Earnings before interest, taxes, depreciation and amortization". The reader may refer to the table below for the reconciliation of the EBITDA used by the Company to its reported net income.

Reconciliation of EBITDA to net income:

($ thousands, except per share data)	**Three months ended**		**Six months ended**	
	June 30, 2016	June 30, 2015	**June 30, 2016**	June 30, 2015
Net income	**$ 523**	$ 345	**$ 351**	$ 52
Plus:				
Income taxes	**110**	151	**256**	371
Finance costs	**136**	140	**281**	312
Depreciation and amortization	**473**	426	**956**	839
EBITDA	**$ 1,242**	$ 1,062	**$ 1,844**	$ 1,574
Basic and diluted EBITDA per share *	**$ 0.025**	$ 0.021	**$ 0.037**	$ 0.032

*Basic weighted average number of shares outstanding of 49,673,802 for the three-month period ended June 30, 2016 (49,638,637 in 2015) and 49,656,219 for the six-month period ended June 30, 2016 (49,394,359 in 2015). Diluted weighted average number of shares outstanding of 49,714,531 for the three-month period ended June 30, 2016 (49,728,130 in 2015) and 49,707,826 for the six-month period ended June 30, 2016 (49,493,312 in 2015).

While EBITDA is not a standard IFRS measure, management, analysts, investors and others use it as an indicator of the Company's financial and operating management and performance. EBITDA should not be construed as an alternative to net income determined in accordance with IFRS as an indicator of the Company's performance. The Company's method of calculating EBITDA may be different from those used by other companies.

BUSINESS OVERVIEW

Imaflex is primarily a provider of polyethylene films to converters, who process film into a finished product. The converting process involves printing the required information on the film that Imaflex supplies them based on their end-customer’s needs. Imaflex also manufactures bags that are sold for a variety of uses, including garbage bags. Additionally, the Company produces specialized metallized film for specific agricultural usage.

Imaflex operates four manufacturing facilities, two of which are located in the Province of Québec, in Montréal and in Victoriaville, and two others located in Thomasville, North Carolina, in the United States. The four facilities cover a total area of approximately 22,800 square meters or 228,000 square feet.

MARKET OPPORTUNITY

The North American flexible packaging market is valued at approximately $ 25 billion. Although this market is highly fragmented and commoditized in terms of pricing, there are niches within this larger market that offer the opportunity of increased profitability. The Company also targets the North American mulch film market for which the Company has and continues to offer innovative and proprietary solutions.

Management believes that four factors will contribute to Imaflex’s long term growth and its ability to properly position itself within the industry in which it operates.

The first is continued investment in research and development efforts allowing our research teams to develop new products for highly profitable niche markets. While building on its legacy product portfolio, the Company aims to introduce new proprietary technologies to the agricultural market in order to offer solutions that are more environmentally-conscious than the traditional methods currently used. The Company’s research teams use the fields in which they have core-competencies in order to identify innovative improvements and solutions to products and methods where chemicals and polymers can offer added-value.

The second is the efficiency of our equipment, and our commitment to sustain this efficiency with the required capital investments. This will allow us to remain cost competitive in the marketplace.

The third is our access to capital. Being a publicly traded company we have the ability to tap into the equity markets if the right opportunity comes along. This is in addition to the credit facilities currently provided to the Company by its banks.

The fourth is our manufacturing presence in both Canada and the United States which confers to the Company a competitive advantage in terms of logistics, currency, and manufacturing flexibility.

OUTSOURCING

Our industry is capital intensive. Labour is only a minor component in the total cost of production. As a result, outsourcing production to countries with lower wages would not have a material impact on the cost of production, especially when factoring in expenses related to freight and duty.

Furthermore, the risks associated with quality and on-time delivery would far outweigh any minimal benefit to our customers that would be generated by lower labour costs. Accordingly, management does not currently contemplate the establishment of an outsourcing strategy.

BUSINESS STRATEGY

Imaflex is focused on providing its customers the highest quality products on a timely basis and at competitive prices. This strategy has been the backbone of our growth and it has served us well.

Some competitors, experiencing idle operations or producing at below average capacity levels, may attempt to gain market share through reduced pricing, particularly during difficult economic times.

Imaflex still believes that maintaining its focus on the quality of its products and the excellence of its customer service remains its best long-term strategy, as these two characteristics define our position and reputation in the market, and this regardless of the fluctuations in the economic cycle.

GROWING CUSTOMER BASE

In our market, it becomes essential to sell value-added products and avoid producing highly commoditized products generating lower margins. The key to the success of this strategy is to identify and build relationships with customers having specific needs and eventually develop products that address their customized specifications. Our sales force's primary mandate is to find such clients.

In order to accelerate the commercial adoption of its existing Environmental Protection Agency ("EPA") qualified ultrathin agricultural barrier films, Imaflex is ensuring that its internal sales organization is technically accomplished and can properly communicate the competitive advantages of its barrier films.

RISK FACTORS

The Company is involved in a competitive industry and marketplace in which there are a number of participants. To accommodate and effectively manage future growth, the Company continues to improve its operational, financial and management information systems, as well as its production procedures and controls. The Company's success is largely the result of the continued contributions of its employees and the Company's ability to attract and retain qualified management, sales and operational personnel.

The market the Company competes in has historically shown resiliency and growth even at the worst economic times. The Company's customers operate predominantly in the food packaging and agriculture markets. This fact, coupled with the expanding product lines and reliance on newer and faster equipment, should help it weather the potential volatility caused by uncertainty in the North American economic climate.

Factors which can impact the Company include, but are not limited to: management of credit, market dynamics, liquidity, funding and operational risks; the strength of the Canadian and U.S. economies in which we conduct business; the impact of the movement of the Canadian dollar relative to other currencies, particularly the U.S. dollar; the effects of changes in interest rates; the effects of competition in the markets in which we operate; our ability to successfully align our organization, resources, and processes; the availability and price of raw materials; failure to achieve planned growth associated with the U.S. operations; changes in accounting policies and methods we use to report our financial condition, including uncertainties associated with critical accounting assumptions and estimates; operational and infrastructure risks; other factors may affect future results including, but not limited to, timely development and introduction of new products and services; changes in tax laws, technological changes and new regulations; the possible impact on our businesses from public-health emergencies, international conflicts and other developments; and our success in anticipating and managing the foregoing risks.

GENERAL SITUATION OF THE POLYETHYLENE BLOWN FILM MARKET

Following an increase of polyethylene prices early in the second quarter of 2016, prices remained stable throughout the remainder of the quarter and are expected to stay flat in the near future. The general decrease in demand during the summer months is expected to offset the issues that some producers have had with supply and polyethylene buyers have thus avoided an upward pressure on pricing.

LOSS OF BUSINESS FROM A SIGNIFICANT CUSTOMER

One of our business practices has been to limit the purchases by any particular customer to less than 15% of our revenues. This strategy ensures us that our profitability and financial well-being are not dependent on any one client.

COMPETITION FROM OTHER COMPANIES

Competition in our market is at the moment quite intense. Nevertheless, because we are dealing in a $ 25 billion market; because we have highly skilled teams that are quick to respond to customer needs; because we have a diversified manufacturing base and because the bulk of our customers deal in food related products, we believe that we have a competitive edge. It may not always translate into a greater net profit, but it certainly does translate into customer loyalty should we decide to match our competitors’ prices.

SEASONALITY OF OPERATIONS

Some products produced in our Victoriaville and Thomasville facilities are subject to seasonality as a result of their partial manufacturing focus in the production of agricultural film products sold to fruit and vegetable growers. Customer demand in this end-market peaks twice yearly. Inventory is managed in a way to optimize cash flow while remaining able to react to any market opportunities that present themselves. However, because these locations also manufacture products that are destined for other markets which are not affected by seasonal downturns, these two plants are still able to operate all year, albeit at lower capacity levels.

EXPOSURE TO PRODUCT LIABILITY

Due to the nature of its operations, which consist of manufacturing polyethylene films transformed by our customers for their end-customers, Imaflex’s exposure to product liability is low. Imaflex is not exposed to liability for personal injury or death arising from negligence in the manufacturing of the films either.

The only market segment that exposes the Company to potential product liability claims is the agricultural market. In this market, proof of negligence in our manufacturing process could entail some form of compensation in the event that the expected crop yields do not materialize.

Although the likelihood of a claim in this market is low, we are nonetheless covered by a product liability insurance policy in the amount of $ 25,000,000.

FLUCTUATIONS IN OPERATING RESULTS

It is important to note that profitability may vary from quarter to quarter, irrespective of quarterly sales. This is due to many factors, including and not limited to: competitive conditions in the businesses in which the Company participates; general economic conditions and normal business uncertainty; product mix; fluctuations in foreign currency exchange rates; the availability and costs of raw materials; changes in the Company’s relationship with its suppliers; and interest rate fluctuations and other changes in borrowing costs.

EXPOSURE TO INTEREST RATE FLUCTUATIONS

The Company's borrowings which bear interest at a variable rate due present interest rate risk. Management assesses its exposure to interest rate fluctuations and decides whether it may be favourable to enter into contracts to hedge this risk based on expectation of future movements and the available economic data. For the moment, management is not hedging any of its interest rate exposure and expects this exposure to decrease as the outstanding balance of its long term borrowings decreases.

ABILITY TO ATTRACT AND RETAIN QUALIFIED PERSONNEL

Imaflex's core operational management team has been stable over the past years and was able to keep key competencies within the Company. This is because the three founders, who have more than 100 years of combined experience in management and research and development, were and remain at the core of its management team. As the Company has grown, it has strengthened its team with the addition of individuals having a variety of competencies, be it accounting, operations, or engineering.

This has resulted in a work environment that allows for the free exchange of ideas in an effort to ensure that the Company remains at the forefront of our industry. We are confident that we can retain and, if need be, attract qualified individuals that will contribute to our quest of building shareholder value.

MANAGEMENT OF GROWTH

Imaflex's history attests to its management's ability to create and manage growth and to successfully adapt to prevailing and continuously changing market conditions. Management believes that future success will also lie in the ability to properly manage growth whether it comes from new markets and products, acquisitions, mergers, or a combination of any or all three. This success will depend on the Company's ability to seek out new opportunities and to position itself such that it will be able to take advantage of them when they present themselves. Past decisions have been made bearing this in mind and the Company is now in a better position to make this happen.

FOREIGN EXCHANGE FLUCTUATIONS

A portion of the Company's sales and expenses as well as accounts receivable and payable are denominated in USD. A portion of the revenue stream in USD acts as a natural hedge to cover expenses denominated in USD. The Company also has the possibility of borrowing amounts on its line of credit in USD. The Company has increased its debt in USD to obtain additional revenue streams in USD. When this additional business fully materializes, the Company's exposure to foreign currency should be managed naturally. Management continuously assesses its exposure to such risk and the Company does not currently use any financial instruments to hedge its foreign currency position.

ENVIRONMENTAL HAZARDS

The Company's raw materials, processes and finished goods do not have any hazardous implications. However we do buy a few items which are used in our production equipment such as cooling products which may be hazardous, but their use and manipulation are controlled. Though these products actually pose little risk, they are handled in a manner that fully complies with existing safety regulations.

RESULTS OF OPERATIONS

Sales decreased in the second quarter of 2016 compared to the same period in 2015, but the gross profit remained stable and overall profitability increased. The Company was able to operate in a more stable environment and production remained efficient and profitable despite the decrease in sales. Over the course of the six-month period, the Company was able to improve its profitability compared to the same period in 2015 despite foreign exchange movements being considerably less favourable.

($ thousands)	**Three months ended**		**Six months ended**	
	June 30, 2016	June 30, 2015	**June 30, 2016**	June 30, 2015
Sales	**$18,195**	$18,716	**$37,573**	$34,626

Sales decreased by $ 520,381 during the second quarter of 2016 compared to the same period in 2015. Mulch film sales decreased in the second quarter of 2016 following a high level of sales in the first quarter. The Company faced a very competitive market and management is seeking to return to an upward sales trend for metallized mulch films. The Company benefited from a higher foreign exchange conversion rate for its USD sales which offset part of the impact of the decrease in resin prices from the end of the second quarter of 2015 through the beginning of the second quarter of 2016.

Sales increased by $ 2,948,382 during the six-month period ended June 30, 2016 compared to the same period in 2015, mainly as a result of the strong performance in the first quarter. The Canadian operations generated an important increase in sales volume which, coupled with the favourable foreign exchange rate, was an important factor in the improvement in sales over the period. Management is now aiming to maintain the production volume that will enable the Company to remain profitable throughout the end of the year.

($ thousands)	**Three months ended**		**Six months ended**	
	June 30, 2016	June 30, 2015	**June 30, 2016**	June 30, 2015
Gross Profit ($) before amortization of production equipment	**$2,817**	$2,801	**$5,558**	$4,078
(%)	**15.5%**	15.0%	**14.8%**	11.8%
Amortization of production equipment	**398**	356	**813**	717
Gross profit ($)	**$2,419**	$2,445	**$4,745**	$3,361
Gross profit (%)	**13.3%**	13.1%	**12.6%**	9.7%

The gross profit before the amortization of production equipment remained stable despite the decrease in sales but increased as a percentage of sales, from 15.0% during the second quarter of 2015 to 15.5% in the second quarter of 2016. Without having to manage the important and rapid fluctuations in the price of raw material at the beginning of the 2015 fiscal year, management was able to focus on operational efficiency. The improvements achieved in the Canadian operations enabled the Company to maintain good profitability despite lower consolidated sales. Following investments in production equipment, gross profit after the amortization of production equipment decreased from $ 2,444,477 in the second quarter of 2015 to $ 2,419,608 in 2016 but, as a percentage of sales, increased from 13.1% in the second quarter of 2015 to 13.3% in 2016.

Over the six-month period ended June 30, 2016, the gross margin, both in relative and absolute terms, improved compared to the same period in 2015. The Company encountered important challenges at the onset of the 2015 fiscal year following increases in resin prices and foreign exchange volatility. In 2016, efforts to improve operational efficiency and to increase sales enabled the Company to improve its gross margin. Despite the fluctuations in sales levels, management was able to maintain its profitability in both the first and second quarters of 2016.

RESULTS OF OPERATIONS (continued)

($ thousands)	Three months ended		Six months ended	
	June 30, 2016	June 30, 2015	**June 30, 2016**	June 30, 2015
Selling and administrative	**$1,529**	$1,673	**$3,242**	$3,140
As a % of sales	**8.4%**	8.9%	**8.6%**	9.1%

Selling and administrative expenses decreased in the second quarter of 2016 compared to the same period in 2015, from $ 1,672,267 in 2015 to $ 1,529,639 in 2016. Administrative and sales salaries were lower in the second quarter of 2016 and sales commissions also decreased due to the lower level of sales in 2016 compared to 2015. As a percentage of sales, selling and administrative salaries decreased from 8.9% in 2015 to 8.4% in 2016.

Over the six-month period ended June 30, 2016, sales and administrative expenses increased by $ 102,327 mainly due to the increase in sales and to the appreciation of the USD that led to an increase in expenses denominated in USD. Moreover, professional fees related to projects the Company is involved in also contributed to the increase in 2016.

($ thousands)	Three months ended		Six months ended	
	June 30, 2016	June 30, 2015	**June 30, 2016**	June 30, 2015
Finance costs	**$136**	$140	**$281**	$312

Finance costs are comparable in the second quarters of 2016 and 2015, decreasing by only $ 4,882. The decrease in finance costs on long term debt more than offset the increase in interest payments on short term borrowings resulting in a slight decrease overall. Costs not related to long term debt or short term borrowings that occurred in 2015 but did not recur in 2016 are the main reason behind the decrease in finance costs over the six-month period. Excluding this expense, finance costs remained comparable over the six-month period in 2015 when compared to 2016.

($ thousands)	Three months ended		Six months ended	
	June 30, 2016	June 30, 2015	**June 30, 2016**	June 30, 2015
Foreign exchange losses/(gains)	**$ 96**	$ 122	**$ 574**	$ (551)

The CAD remained relatively stable against the USD in the second quarter of 2016, especially compared to the first quarter of 2016. The foreign exchange loss was therefore limited to $ 95,618 compared to the $ 573,370 loss incurred over the six-month period, given the important depreciation of the CAD at the beginning of the year and the subsequent appreciation during the second half of the first quarter.

In 2015, the slight depreciation of the CAD against the USD in the second quarter of 2015 led to a $ 121,644 loss whereas the appreciation of the CAD against the USD over the six-month period ended June 30, 2015 led to a foreign exchange gain amounting to $ 551,188.

If foreign exchange fluctuations did not have a significant impact in the second quarter of 2016 compared to 2015, over the six-month period foreign exchange fluctuations led to an unfavourable variance in results of $ 1,124,558 in 2016 when compared to 2015.

RESULTS OF OPERATIONS (continued)

($ thousands)	**Three months ended**		**Six months ended**	
	June 30, 2016	June 30, 2015	**June 30, 2016**	June 30, 2015
Income taxes	**$ 110**	$ 151	**$ 256**	$ 371
As a % of profit before taxes	**17.4%**	30.4%	**42.2%**	87.7%

The income tax expense amounted to $ 110,081 in the second quarter of 2016 compared to $ 151,469 for the same period in 2015. The increased profitability led to an increase in the tax provision for the current year, but adjustments made to income taxes for the previous year resulted in an overall decrease in the expense. As a percentage of profit before taxes, the expense also decreased from 30.4% in 2015 to 17.4% in 2016.

Over the six-month period, for similar reasons, the income tax expense decreased in 2016 compared to 2015, from $ 371,775 to $ 255,973 and from 87.7% of profit before tax to 42.2% in 2016.

($ thousands, except per share data)	**Three months ended**		**Six months ended**	
	June 30, 2016	June 30, 2015	**June 30, 2016**	June 30, 2015
Net income	**$ 523**	$ 345	**$ 351**	$ 52
Basic and diluted earnings per share	**$ 0.010**	$ 0.007	**$ 0.007**	$ 0.001

The Company’s net income increased in 2016 compared to 2015, for the quarter and for the six-month period. The Company was able to significantly improve its operational profitability in the first quarter following an important increase in sales and to maintain it in the second quarter, despite the decrease in sales. The stability in the market enabled the Company to operate in more favourable conditions in 2016 compared to 2015 and the sales level achieved in the first six months of 2016 led to efficient and profitable operations. Even considering the very unfavourable impact of foreign exchange over the six-month period, the improvements achieved still allowed for an important increase in the Company’s net income. Management is aiming to continue these positive trends for the remainder of 2016 to further improve results.

Financial Position

June 30, 2016 vs. December 31, 2015

The decrease in the Company’s cash and short term assets was offset by an even greater decrease in short term liabilities. Accounts receivable increased slightly given sales were the strongest at the beginning of the quarter, while inventory levels decreased significantly following the strong sales over the six-month period ended June 30, 2016. Prepaid expenses also increased following annual payments that occur at the beginning of each fiscal year. Accounts payable were the main factor that led to the decrease in short term liabilities. The current portion of long term debt and obligations under finance leases also decreased slightly, mainly as a result of foreign exchange. Tight cash management led to a $ 158,750 decrease in cash, which closed the quarter at only $ 2,225. The Company’s financial position remains strong at the end of the second quarter due to the increased profitability that was generated over the period.

SUMMARY OF QUARTERLY RESULTS

Summary financial data derived from the Company's unaudited quarterly financial statements for each of the eight most recently completed quarters are as follows:

For the quarters ending March, June, September and December ($ thousands, except per share data):

	Q2/16	Q1/16	Q4/15	Q3/15	Q2/15	Q1/15	Q4/14	Q3/14
Revenues	18,195	19,378	17,084	17,441	18,716	15,910	15,857	15,314
Net income (loss)	523	(172)	317	444	345	(293)	231	174
Earnings (loss) per share:								
Basic and diluted	0.010	(0.003)	0.006	0.009	0.007	(0.006)	0.005	0.004

It is important to note that profitability may vary from quarter to quarter, irrespective of quarterly sales due to many factors. These factors include and are not limited to: competitive conditions in the businesses in which the Company participates; general economic conditions and normal business uncertainty; product mix; fluctuations in foreign currency rates; the availability and costs of raw materials; changes in the Company's relationship with its suppliers; and interest rate fluctuations and other changes in borrowing costs.

LIQUIDITY

The Company's working capital as at June 30, 2016 increased by $ 332,475 compared to December 31, 2015, going from $ 4,905,236 to $ 5,237,711. The decrease in the price of resin, the depreciation of the USD and the important sales volume over the period led to a decrease in the level of inventories and current assets as a whole. Accounts payable also decreased significantly which, with the increase in accounts receivable over the six-month period in 2016, permitted the Company to close the second quarter in a better position than the previous year-end.

Cash Flows from Operating Activities

The Company's operating activities led to cash inflows of $ 1,335,361 before movements in working capital, given the increase in the Company's profitability and the positive adjustments for non-cash-impacting and non-operating expenses. Movements in working capital led to cash outflows of $ 1,081,233, mainly due to the decrease in accounts payable that were only partially offset by the decrease in short term assets. Net of the $ 395,009 payment of income taxes, operating activities led to cash outflows of $ 140,882. In the first quarter of 2015, operating activities led to cash inflows of $ 1,210,877 before movements in working capital. The Company made important investments in its current assets: accounts receivable increased by $ 1,903,749, inventories by $ 542,844 and prepaid expenses by $ 45,925. These increases were partially offset by the $ 377,070 increase in accounts payable. Net of the $ 245,390 payment of income taxes, operating activities led to net cash outflows of $ 1,149,961.

Over the six-month period in 2016, the increase in profitability and foreign exchange movements led to cash inflows related to operating activities before movements in working capital of $ 2,720,429, compared to $ 931,274 for the same period in 2015. Movements in working capital led to lower cash outflows in 2016 compared to 2015, given the Company invested less in accounts receivable and had a greater decrease in inventories. Net of the payment of income taxes, operating activities generated inflows of $ 1,275,429 in 2016 compared to cash outflows of $ 901,813 for the same period in 2015.

LIQUIDITY (continued)

Cash Flows from Investing Activities

During the second quarter of 2016, the Company invested $ 554,472 in capital assets, mainly to improve existing equipment, for leasehold improvements and for analytical equipment. During the same period in 2015, the Company invested $ 273,668 to improve and install existing machinery as well as for laboratory equipment.

Over the six-month period ended June 30, 2016, the Company invested $ 823,052, mainly to improve operational efficiency by improving its machines and for leasehold improvements. Over the same period in 2015, investing activities resulted in cash outflows of $ 1,020,261 in order to improve and install existing assets as well as to purchase equipment destined to make the US operations more efficient.

Cash Flows from Financing Activities

During the second quarter of 2016, the Company borrowed an additional amount of $ 1,072,200 on its line of credit and reimbursed $ 310,135 on long term debt, $ 39,211 on its obligations under finance leases and paid $ 137,679 in interest. The Company received $ 12,500 in cash following the exercise of share purchase options. Over the same period in 2015, the Company borrowed $ 1,687,232 on its line of credit and reimbursed $ 203,947 to a shareholder, $ 293,316 on its long term debts, $ 32,721 on its finance lease obligations and paid $ 138,774 in interest.

Over the six-month period ended June 30, 2016, the Company borrowed $ 386,768 on its line of credit and reimbursed $ 647,032 on its long term debt, $ 76,757 on its finance lease obligations and paid $ 280,968 in interest. The Company also received $ 12,500 following the exercise of share purchase options. Over the same period in 2015, the Company increased borrowings on its line of credit by $ 1,070,733 and borrowed an additional $ 587,023 on long term borrowings. Following the exercise of warrants, the Company received cash consideration of $ 325,710. The Company paid $ 299,200 in interest and reimbursed $ 418,326 on its long term debt, $ 66,917 on its finance-lease obligations and $ 203,947 to a director and shareholder.

CONTRACTUAL OBLIGATIONS

The contractual obligations as at June 30, 2016 were as follows:

($ thousands)	**Payments due by period**			
	Total	Less than 1 year	1 – 5 years	After 5 years
Long-term debt	$ 5,706	$ 1,517	$ 4,189	$ -
Finance leases	490	180	310	-
Operating leases	6,882	686	2,349	3,847
Bank Indebtedness	7,312	7,312	-	-
Total contractual obligations	**$ 20,390**	**$ 9,695**	**$ 6,848**	**$ 3,847**

These contractual obligations are sensitive to the fluctuation of interest rates. These obligations are based on interest rates and foreign exchange rates effective as at June 30, 2016.

CAPITAL RESOURCES

The Company has an operating line of credit with its bankers to a maximum of $ 10,000,000 bearing interest at a rate of prime plus 1.15%. The line of credit is secured by trade receivables and inventories. As at June 30, 2016, the Company was using $ 7,312,481 on its line of credit ($ 6,925,713 as at December 31, 2015). The Company's working capital increased from $ 4,905,236 as at December 31, 2015 to $ 5,237,711 on June 30, 2016. The Company experienced a strong performance throughout the quarter which enabled the Company to retain a solid financial position and to generate sufficient funds to support its operations and future growth plans. Following the Company's good financial results, management believes that the Company currently has a healthy capital structure and may consider additional long term debt or equity as possibilities to fund its long term needs. The Company does currently have sufficient funds for its operations and will only choose to obtain additional financing at the right terms.

PROPOSED TRANSACTION

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

RELATED PARTY TRANSACTIONS

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

The following table reflects the related party transactions recorded for the periods ended June 30, 2016 and 2015. For additional information, please refer to note 24, *Related party transactions* of the "Notes to the consolidated financial statements" for the years ended December 31, 2015 and 2014.

($ thousands)		**Three months ended**		**Six months ended**	
(unaudited)		**June 30, 2016**	June 30, 2015	**June 30, 2016**	June 30, 2015
Professional fees and key management personnel services	**(a)**	**$ 55**	$ 49	**$ 119**	$ 124
Rent	**(b)**	**$ 217**	$ 194	**$ 434**	$ 390
Remuneration	**(c)**	**$ 189**	$ 195	**$ 382**	$ 371

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

(b) Joseph Abbandonato, Imaflex's President, Chief Executive Officer and Chairman of the Board, is the controlling shareholder of Roncon Consultants Inc. ("Roncon"). The Company's production facilities at Imaflex, Canslit, and Imaflex USA are leased from Roncon and parties related to Roncon under long-term operating lease agreements (see "Contractual Obligations").

(c) Includes salaries, benefits and fees paid to key management personnel and directors.

CRITICAL ACCOUNTING POLICIES

The Company’s significant accounting policies are disclosed in note 2, *Significant accounting policies* of the consolidated financial statements for the years ended December 31, 2015 and 2014. This note explains the Company’s accounting policies under IFRS which have not changed since the Company’s last annual financial statements and have been applied consistently to the interim condensed consolidated financial statements for the periods ended June 30, 2016 and 2015.

FINANCIAL INSTRUMENTS

Please refer to note 21, *Financial instruments* of the consolidated financial statements for the years ended December 31, 2015 and 2014 for disclosure on the Company’s financial instruments as well as note 23, *Risk management* for a discussion on the risks the Company is exposed to and how they are managed.

As at June 30, 2016, the Company is not using any swap, forward or hedge accounting.

As at June 30, 2016, 1,950,000 options to purchase shares of the Company were outstanding at a weighted average strike price of $0.44 of which 487,500 were exercisable and there were no warrants outstanding. During the quarter ended June 30, 2016, the Company issued 100,000 shares following the exercise of options for a cash consideration of $ 12,500. As at June 30, 2015, 850,000 options to purchase shares of the Company were outstanding at a weighted average strike price of $0.459 and 200,000 were exercisable. As at June 30, 2015, 2,270,573 warrants entitling the owner to purchase common shares at a price of $0.65 were outstanding. Over the six-month period ended June 30, 2015, 100,000 options and 553,790 warrants entitling the holder to purchase shares of the Company expired and 1,381,695 warrants to purchase a common share for $0.45 were exercised for total proceeds of $ 621,763.

MANAGEMENT OUTLOOK

Management is once again pleased to report an increase in profitability for the second quarter of 2016. The rebuilding of the legacy business is not yet entirely completed, but quarter after quarter the foundation of our operations is getting stronger.

Management is also pleased to report that the tests for the coating machine needed for our ADVASEAL product were conducted. Our findings were positive: the coating equipment proved to be the correct technology, however additional tests need to be completed in order to ensure that the coater’s drying capacity will permit us to coat at a rate of 1,000 feet per minute. Our technical team, together with the manufacturer’s team, is presently working on this issue and expects it to be resolved by the end of the year.

OUTSTANDING SHARE DATA

As at June 30, 2016, the Company had 49,738,637 common shares outstanding (49,638,637 as at December 31, 2015 and June 30, 2015).

RISK FACTORS

The Company is involved in a competitive industry and marketplace in which there are a number of participants. To effectively manage future growth, the Company continues to improve its operational, financial and management information systems, procedures and controls. The Company’s success is largely the result of the continued contributions of its employees and the Company’s ability to attract and retain qualified management, sales and operational personnel.

The $ 25 billion market the Company competes in has historically shown resiliency and growth even at the worst economic times. The Company’s customers operate predominantly in the food packaging and agricultural markets. This fact, coupled with the expanding product lines and reliance on newer and faster equipment should help it weather the potential volatility caused by uncertainty in the North American economic climate.

RISK FACTORS (continued)

Factors which can impact the Company include, but are not limited to: management of credit, market dynamics, liquidity, funding and operational risks; the strength of the Canadian and U.S. economies in which we conduct business; the impact of the movement of the Canadian dollar relative to other currencies, particularly the U.S. dollar; the effects of changes in interest rates; the effects of competition in the markets in which we operate; our ability to successfully align our organization, resources, and processes; the availability and price of raw materials; failure to achieve planned growth associated with the U.S. operations; changes in accounting policies and methods we use to report our financial condition, including uncertainties associated with critical accounting assumptions and estimates; operational and infrastructure risks; other factors may affect future results including, but not limited to, timely development and introduction of new products and services, changes in tax laws, technological changes, new regulations; the possible impact on our businesses from public-health emergencies, international conflicts and other developments; and our success in anticipating and managing the foregoing risks.

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

(s) Tony Abbandonato	***(s) Giancarlo Santella***
Tony Abbandonato	Giancarlo Santella, CPA, CA
Interim President and Chief Executive Officer	Corporate Controller

August 22, 2016