Interim Condensed Consolidated Financial Statements of

# IMAFLEX INC.

For the three and nine-month periods ended September 30, 2016 and 2015

## Consolidated statements of comprehensive (loss) income

| for the<br>(in thousands of Canadian dollars, except per share data)<br>(unaudited) | | three-month periods ended September 30, 2016 | three-month periods ended September 30, 2015 | nine-month periods ended September 30, 2016 | nine-month periods ended September 30, 2015 |
|---|---|---|---|---|---|
| Revenues | (Note 3.1) | $ 16,997 | $ 17,441 | $ 54,570 | $ 52,067 |
| Cost of sales | | 15,314 | 16,066 | 48,142 | 47,331 |
| Gross profit | | 1,683 | 1,375 | 6,428 | 4,736 |
| Expenses: | | | | | |
| Selling | | 376 | 431 | 1,172 | 1,283 |
| Administrative | | 1,256 | 1,165 | 3,702 | 3,453 |
| Finance costs | (Note 6) | 132 | 142 | 413 | 454 |
| Foreign exchange (gains) losses | | (121) | (869) | 453 | (1,420) |
| Other | | 24 | 15 | 65 | 52 |
| | | 1,667 | 884 | 5,805 | 3,822 |
| Income before income taxes | | 16 | 491 | 623 | 914 |
| Income taxes | | 120 | 47 | 376 | 418 |
| **NET (LOSS) INCOME** | | (104) | 444 | 247 | 496 |
| **Other comprehensive income (loss)** | | | | | |
| **Item that will be reclassified subsequently to net income** | | | | | |
| Exchange differences on translating foreign operations | | 57 | 284 | (216) | 633 |
| **COMPREHENSIVE (LOSS) INCOME** | | $ (47) | $ 728 | $ 31 | $ 1,129 |
| **Earnings per share** | | | | | |
| Basic and diluted | (Note 7) | $ (0.002) | $ 0.009 | $ 0.005 | $ 0.010 |

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

**Consolidated statements of financial position**

| As at (in thousands of Canadian dollars) (unaudited) | | September 30, 2016 | December 31, 2015 |
|---|---|---|---|
| **Assets** | | | |
| *Current assets* | | | |
| Cash | | $ 305 | $ 161 |
| Trade and other receivables | | 11,623 | 11,502 |
| Inventories | | 10,395 | 10,822 |
| Prepaid expenses | | 269 | 265 |
| Total current assets | | 22,592 | 22,750 |
| *Non-current assets* | | | |
| Property, plant and equipment | | 18,695 | 19,601 |
| Intangible assets | | 1,492 | 1,484 |
| Total non-current assets | | 20,187 | 21,085 |
| Total assets | | $ 42,779 | $ 43,835 |
| **Liabilities and equity** | | | |
| *Current liabilities* | | | |
| Bank indebtedness | | 6,083 | 6,926 |
| Trade and other payables | | 9,770 | 8,865 |
| Current tax liabilities | | 306 | 541 |
| Long-term debt, current portion | | 1,432 | 1,358 |
| Finance lease obligations, current portion | | 152 | 154 |
| Total current liabilities | | 17,743 | 17,844 |
| *Non-current liabilities* | | | |
| Long-term debt | | 3,215 | 4,300 |
| Deferred tax liabilities | | 1,254 | 1,286 |
| Finance lease obligations | | 273 | 334 |
| Total non-current liabilities | | 4,742 | 5,920 |
| Total liabilities | | 22,485 | 23,764 |
| *Equity* | | | |
| Share capital | (Note 9) | 11,765 | 11,753 |
| Reserves | | 1,723 | 1,759 |
| Retained earnings | | 6,806 | 6,559 |
| Total equity | | 20,294 | 20,071 |
| Total liabilities and equity | | $ 42,779 | $ 43,835 |

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

(s) Joseph Abbandonato
Joseph Abbandonato
Director

(s) Gilles Émond
Gilles Émond
Director

**Consolidated statements of changes in equity**
**For the three-month periods ended September 30, 2016 and 2015**
**(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, 2015** | $ 11,753 | $ 380 | $ 367 | $ 465 | $ 1,212 | $ 5,798 | $ 18,763 |
| Net income for the period | - | - | - | - | - | 444 | 444 |
| Exchange differences on translating foreign operations | - | - | 284 | - | 284 | - | 284 |
| Comprehensive income for the period | - | - | 284 | - | 284 | 444 | 728 |
| Transactions with owners: | | | | | | | |
| Share-based compensation (Note 10) | - | 42 | - | - | 42 | - | 42 |
| **Balance at September 30, 2015** | $ 11,753 | $ 422 | $ 651 | $ 465 | $ 1,538 | $ 6,242 | $ 19,533 |
| **Balance at July 1, 2016** | 11,765 | 539 | 546 | 465 | 1,550 | 6,910 | 20,225 |
| Net loss for the period | - | - | - | - | - | (104) | (104) |
| Exchange differences on translating foreign operations | - | - | 57 | - | 57 | - | 57 |
| Comprehensive loss for the period | - | - | 57 | - | 57 | (104) | (47) |
| Transactions with owners: | | | | | | | |
| Share-based compensation (Note 10) | - | 116 | - | - | 116 | - | 116 |
| **Balance at September 30, 2016** | $ 11,765 | $ 655 | $ 603 | $ 465 | $ 1,723 | $ 6,806 | $ 20,294 |

(a) Additional detail of share capital is provided in Note 9
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, 2016 and 2015**
**(in thousands of Canadian dollars) (unaudited)**

| | | Reserves | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Share capital (a) | Share-based compensation | Accumulated foreign currency translation | Warrants | Other | Total reserves | Retained earnings | Total |
| **Balance at January 1, 2015** | $ 10,946 | $ 372 | $ 18 | $ 650 | $ 296 | $ 1,336 | $ 5,746 | $ 18,028 |
| Net income for the period | - | - | - | - | - | - | 496 | 496 |
| Exchange differences on translating foreign operations | - | - | 633 | - | - | 633 | - | 633 |
| Comprehensive income for the period | - | - | 633 | - | - | 633 | 496 | 1,129 |
| Transactions with owners: | | | | | | | | |
| Issuance of share capital (Note 9) | 807 | - | - | (185) | (296) | (481) | - | 326 |
| Share-based compensation (Note 10) | - | 50 | - | - | - | 50 | - | 50 |
| **Balance at September 30, 2015** | $ 11,753 | $ 422 | $ 651 | $ 465 | $ - | $ 1,538 | $ 6,242 | $ 19,533 |
| **Balance at January 1, 2016** | 11,753 | 475 | 819 | 465 | - | 1,759 | 6,559 | 20,071 |
| Net income for the period | - | - | - | - | - | - | 247 | 247 |
| Exchange differences on translating foreign operations | - | - | (216) | - | - | (216) | - | (216) |
| Comprehensive income for the period | - | - | (216) | - | - | (216) | 247 | 31 |
| Transactions with owners: | | | | | | | | |
| Issuance of share capital (Note 9) | 12 | - | - | - | - | - | - | 12 |
| Share-based compensation (Note 10) | - | 180 | - | - | - | 180 | - | 180 |
| **Balance at September 30, 2016** | $ 11,765 | $ 655 | $ 603 | $ 465 | $ - | $ 1,723 | $ 6,806 | $ 20,294 |

(a) Additional detail of share capital is provided in Note 9
The accompanying notes are an integral part of these interim condensed consolidated financial statements

## Consolidated statements of cash flows

| for the<br>(in thousands of Canadian dollars) (unaudited) | three-month periods ended September 30, | | nine-month periods ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| **Operating activities:** | | | | |
| Net (loss) income for the period | $ (104) | $ 444 | $ 247 | $ 496 |
| Income tax expense | 120 | 47 | 376 | 418 |
| Depreciation and amortisation of non-current assets | 484 | 440 | 1,440 | 1,279 |
| Finance costs | 132 | 142 | 413 | 454 |
| Share-based compensation | 116 | 42 | 180 | 50 |
| Unrealized foreign exchange (gain) loss | (186) | (645) | 627 | (1,296) |
| | 562 | 470 | 3,283 | 1,401 |
| Net changes in working capital | | | | |
| Decrease (increase) in trade and other receivables | 399 | 1,374 | (259) | (1,095) |
| (Increase) decrease in inventories | (1,022) | (347) | 203 | 642 |
| Decrease (increase) in prepaid expenses | 148 | (51) | (12) | (267) |
| Increase in trade and other payables | 2,442 | 1,248 | 985 | 1,448 |
| | 1,967 | 2,224 | 917 | 728 |
| Cash generated by operations | 2,529 | 2,694 | 4,200 | 2,129 |
| Net income taxes paid | (246) | (97) | (641) | (434) |
| **Net cash from operating activities** | 2,283 | 2,597 | 3,559 | 1,695 |
| **Investing activities:** | | | | |
| Payments for property, plant and equipment and intangible assets | (384) | (317) | (1,207) | (1,338) |
| **Net cash used in investing activities** | (384) | (317) | (1,207) | (1,338) |
| **Financing activities:** | | | | |
| Net change in bank indebtedness | (1,229) | (1,572) | (843) | (501) |
| Interest paid | (134) | (141) | (415) | (440) |
| Increase in long term debt | - | - | - | 587 |
| Repayment of long-term debt | (193) | (312) | (840) | (730) |
| Net proceeds from issuance of share capital | - | - | 12 | 326 |
| Repayment of a due to a shareholder and director | - | - | - | (204) |
| Repayment of finance leases | (40) | (35) | (116) | (102) |
| **Net cash used in financing activities** | (1,596) | (2,060) | (2,202) | (1,064) |
| **Net increase (decrease) in cash** | 303 | 220 | 150 | (707) |
| Cash, beginning of the period | 2 | 18 | 161 | 946 |
| Effects of foreign exchange differences on cash | - | 2 | (6) | 1 |
| **Cash, end of the period** | $ 305 | $ 240 | $ 305 | $ 240 |

Non-cash transactions (Note 11)

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

**(all amounts are in thousands of Canadian dollars, except per share data)**

## 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 of 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".

Notice - The interim condensed consolidated financial statements of Imaflex Inc. for the three and nine-month periods ended September 30, 2016 and 2015 have not been reviewed by an external auditor.

## 2. Significant accounting policies

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, 2015 and 2014. 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 24, 2016.

## 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-month periods ended | | nine-month periods ended | |
|---|---|---|---|---|
| | September 30, 2016 | September 30, 2015 | September 30, 2016 | September 30, 2015 |
| Canada | $ 6,012 | $ 5,681 | $ 19,917 | $ 18,913 |
| United States | 10,985 | 11,760 | 34,532 | 33,040 |
| Other | - | - | 121 | 114 |
| Total | $ 16,997 | $ 17,441 | $ 54,570 | $ 52,067 |

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

| | September 30, 2016 | December 31, 2015 |
|---|---|---|
| Canada | $ 6,858 | $ 6,708 |
| United States | 13,329 | 14,377 |
| Total | $ 20,187 | $ 21,085 |

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

## 4. Additional information on the consolidated statements of comprehensive (loss) income

The Company's consolidated statement of comprehensive (loss) income includes depreciation of production equipment of $ 407,409 for the quarter ended September 30, 2016 ($ 363,226 in 2015) and $ 1,220,432 for the nine-month period ended September 30, 2016 ($ 1,080,577 in 2015) classified in Cost of sales. Depreciation of other property, plant and equipment and amortisation of intangible assets amounting to $ 76,788 for the quarter ended September 30, 2016 ($ 77,148 in 2015) and $ 220,562 for the nine-month period ended September 30, 2016 ($ 198,600 in 2015) is included in Administrative expenses.

The Company's consolidated statement of comprehensive (loss) income includes salaries paid to its employees of $ 2,175,924 for the quarter ended September 30, 2016 ($ 2,049,542 in 2015) and $ 6,654,370 for the nine-month period ended September 30, 2016 ($ 5,824,426 in 2015) classified in Cost of sales. Administrative expenses include salaries paid to employees of $ 381,547 for the quarter ended September 30, 2016 ($ 366,973 in 2015) and $ 1,116,642 for the nine-month period ended September 30, 2016 ($ 1,087,288 in 2015). Selling expenses include salaries paid to employees of $ 73,907 for the quarter ended September 30, 2016 ($ 152,785 in 2015) and $ 285,796 for the nine-month period ended September 30, 2016 ($ 430,807 in 2015).

## 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 $ 645,999 for the quarter ended September 30, 2016 ($ 614,317 in 2015) and $ 1,920,230 for the nine-month period ended September 30, 2016 ($ 1,777,921 in 2015). These payments are expensed as incurred and the Company does not recognise any gains or losses subsequent to the payment of these benefits. These transactions do not result in any asset or liability on the consolidated statement of financial position.

The Company also offers a defined contribution employee benefit plan to its employees located in North Carolina, USA. The Company contributed $ 8,657 to this plan for the quarter ended September 30, 2016 ($ 8,001 in 2015) and $ 23,892 for the nine-month period ended September 30, 2016 ($ 21,323 in 2015).

## 6. Finance costs

| | three-month periods ended | | nine-month periods ended | |
|---|---|---|---|---|
| | September 30, 2016 | September 30, 2015 | September 30, 2016 | September 30, 2015 |
| Interest on bank indebtedness and long term debt | $ 128 | $ 134 | $ 398 | $ 400 |
| Interest on obligations under finance leases | 4 | 6 | 15 | 19 |
| Other interest | - | 2 | - | 35 |
| | $ 132 | $ 142 | $ 413 | $ 454 |

**(all amounts are in thousands of Canadian dollars, except per share data)**

## 7. Earnings per share

| | three-month periods ended | | nine-month periods ended | |
|---|---|---|---|---|
| | September 30, 2016 | September 30, 2015 | September 30, 2016 | September 30, 2015 |
| Net (loss) income for basic and diluted earnings per share | $ (104) | $ 444 | $ 247 | $ 496 |
| Weighted average number of common shares outstanding | 49,738 | 49,639 | 49,684 | 49,477 |
| Dilutive effect of share purchase options | - | 71 | 35 | 82 |
| Diluted weighted average common shares outstanding | 49,738 | 49,710 | 49,719 | 49,559 |
| Basic and diluted earnings per common share | $ (0.002) | $ 0.009 | $ 0.005 | $ 0.010 |

## 8. Financial instruments

### *8.1 Fair value and classification of financial instruments*

| | Carrying amount and fair value | |
|---|---|---|
| | September 30, 2016 | December 31, 2015 |
| ***Financial assets*** | | |
| **Loans and receivables** | | |
| Cash | $ 305 | $ 161 |
| Trade and other receivables [1] | 11,357 | 11,148 |
| | 11,662 | 11,309 |
| ***Financial liabilities*** | | |
| **Financial liabilities, at amortised cost** | | |
| Bank indebtedness | 6,083 | 6,926 |
| Trade and other payables [2] | 8,891 | 8,273 |
| Long term debt | 4,647 | 5,658 |
| | 19,621 | 20,857 |
| ***Other liabilities*** | | |
| Finance lease obligations | 425 | 488 |

(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.

## 8. Financial instruments (continued)

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 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 and finance lease obligations, which mainly bear interest at floating 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.

### *8.2 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 (ie as prices) or indirectly (ie 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, 2016 and December 31, 2015, the fair values of long-term debt and finance lease obligations are categorised as Level 2.

## 9. Share capital

The Company's authorized share capital consists of an unlimited number of common shares, voting, participating, without par value. At September 30, 2016, there were 49,738,637 common shares outstanding (49,638,637 common shares at December 31, 2015 and September 30, 2015).

During the second quarter of 2016, the Company issued 100,000 shares following the exercise of options that were issued on May 27, 2011 for total cash proceeds of $12,500.

During the nine-month period ended September 30, 2015, the Company issued 1,381,695 shares following the exercise of warrants that entitled the holders to purchase shares of the Company at $ 0.45 per share for total proceeds of $ 621,762, of which $ 296,053 had been received during the year ended December 31, 2014 in anticipation for the exercise of these warrants. These warrants were issued as part of a private placement that closed on February 1, 2012. The amount of $ 296,053 that was received during the year ended December 31, 2014 was reclassed from Other items within Reserves to Share Capital and an amount of $ 185,147 was reclassed from Warrants within Reserves to Share Capital.The impact of this transaction on shareholder's equity is as follows :

**(all amounts are in thousands of Canadian dollars, except per share data)**

## 9. Share capital (continued)

| | Share capital | | Warrants | | Total | |
|---|---|---|---|---|---|---|
| Proceeds received in 2014 | 296 | $ | - | $ | 296 | $ |
| Proceeds received in 2015 | 326 | | - | | 326 | |
| Value of warrants reclassed from Warrants to Share capital | 185 | | (185) | | - | |
| | 807 | $ | (185) | $ | 622 | $ |

As at September 30, 2016, there were no warrants to purchase common shares outstanding. During the nine-month period ended September 30, 2015, 553,790 warrants entitling the owners to acquire one additional common share of the Company expired. As at September 30, 2015, 2,270,573 warrants entitling the owners to purchase common shares at an exercise price of $0.65 per share were outstanding.

## 10. Share-based compensation

Pursuant to the Stock Option Plan (the "Plan") of the Company, 3,735,000 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.

On June 21, 2016, the Company granted 1,300,000 options to an employee and two consultants to acquire common shares at $ 0.40 for a period of five years. These options vest in 4 tranches over 2 years, the first vesting six months after issuance and the other tranches vesting at six-month intervals. Reserves were increased by $ 67,950 and $ 79,275 respectively for the quarter and the nine-month period ended September 30, 2016 representing the share-based compensation related to this issuance.

On September 6, 2016, the Company granted 500,000 options to an employee to acquire common shares at $ 0.42 for a period of five years. These options vest in 4 tranches over 18 months, the first vesting immediately at issuance and the remaining tranches vesting at six-month intervals. Reserves were increased by $ 32,496 for the quarter ended September 30, 2016 representing the share-based compensation related to this issuance.

During the nine-month period ended September 30, 2015, the Company issued 650,000 options to employees and one consultant to acquire shares at $ 0.52 for a period of 5 years. These options vest in 4 tranches over 2 years, the first vesting six months after issuance and the other tranches vesting at six-month intervals. Reserves were increased by $ 15,631 for the quarter ended September 30, 2016 ($ 41,600 in 2015) and by $ 68,018 for the nine-month period ended September 30, 2016 ($ 49,774 in 2015) representing the share-based compensation related to this issuance.

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

**(all amounts are in thousands of Canadian dollars, except per share data)**

## 10. Share-based compensation (continued)

| Fair value assumptions | September 6, 2016 | June 21, 2016 | June 16, 2015 | May 27, 2011 | Total |
|---|---|---|---|---|---|
| Outstanding as at 31/12/2015 | - | - | 650,000 | 100,000 | 750,000 |
| Exercised | - | - | - | (100,000) | (100,000) |
| Issued | 500,000 | 1,300,000 | - | - | 1,800,000 |
| Outstanding as at 30/09/2016 | 500,000 | 1,300,000 | 650,000 | - | 2,450,000 |
| Exercisable as at 30/09/2016 | 125,000 | - | 487,500 | - | 612,500 |
| Remaining life of options (yrs) | 4.94 | 4.73 | 3.71 | - | |
| Expected life of options (yrs) | 2.5 to 3.25 | 2.75 to 3.5 | 2.75 to 3.5 | 2.5 | |
| Expiry | September 6, 2021 | June 21, 2021 | June 15, 2020 | May 27, 2016 | |
| Expected share price volatility | 76.59% to 82.30% | 75.95% to 82.15% | 83.19% to 98.85% | 172.86% | |
| Dividend yield | 0% | 0% | 0% | 0% | |
| Risk free rate | 0.51% | 0.50% | 0.60% to 0.68% | 1.67% | |
| Exercise price | $ 0.42 | $ 0.40 | $ 0.52 | $0.125 | |
| Share price on grant date | $ 0.42 | $ 0.40 | $ 0.52 | $0.125 | |
| Fair value of option at grant | $ 0.21 | $ 0.21 | $ 0.30 | $0.100 | |

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

## 11. Non-cash transactions

During the nine-month period ended September 30, 2016, the Company financed the acquisition of production equipment of a value totalling $ 75,579 by entering into a finance lease for the entire amount of the purchase.