

Interim Condensed Consolidated Financial Statements of

IMAFLEX INC.

For the three and nine-month periods ended September 30, 2017 and 2016

Consolidated statements of comprehensive income (loss)
(in thousands of Canadian dollars, except per share data)
(unaudited)

for the	Three months ended		Nine months ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Revenues (Note 3.1)	\$ 20,791	\$ 16,997	\$ 66,902	\$ 54,570
Cost of sales	17,728	15,314	55,918	48,142
Gross profit	3,063	1,683	10,984	6,428
Expenses:				
Selling	380	376	1,278	1,172
Administrative	1,277	1,256	3,922	3,702
Finance costs (Note 6)	142	132	418	413
Other (gains) and losses (Note 7)	640	(121)	1,147	453
Other	18	24	57	65
	2,457	1,667	6,822	5,805
Income before income taxes	606	16	4,162	623
Income taxes	50	120	1,161	376
NET INCOME (LOSS)	556	(104)	3,001	247
Other comprehensive (loss) income				
Item that will be reclassified subsequently to net income				
Exchange differences on translating foreign operations	(123)	57	(233)	(216)
COMPREHENSIVE INCOME (LOSS)	\$ 433	\$ (47)	\$ 2,768	\$ 31
Earnings per share				
Basic (Note 8)	\$ 0.01	\$ (0.00)	\$ 0.06	\$ 0.01
Diluted (Note 8)	\$ 0.01	\$ (0.00)	\$ 0.06	\$ 0.01

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

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

As at	September 30, 2017	December 31, 2016
Assets		
<i>Current assets</i>		
Cash	\$ 153	\$ 68
Trade and other receivables	13,768	11,359
Inventories	11,954	10,074
Prepaid expenses	421	145
Total current assets	26,296	21,646
<i>Non-current assets</i>		
Property, plant and equipment	18,590	18,786
Intangible assets	1,439	1,485
Total non-current assets	20,029	20,271
Total assets	\$ 46,325	\$ 41,917
Liabilities and equity		
<i>Current liabilities</i>		
Bank indebtedness	6,973	5,052
Trade and other payables	8,702	8,749
Current tax liabilities	736	311
Long-term debt, current portion	1,243	1,356
Finance lease obligations, current portion	198	171
Total current liabilities	17,852	15,639
<i>Non-current liabilities</i>		
Long-term debt	3,094	4,128
Deferred tax liabilities	1,495	1,291
Finance lease obligations	326	222
Total non-current liabilities	4,915	5,641
Total liabilities	22,767	21,280
<i>Equity</i>		
Share capital	11,765	11,765
Reserves	1,824	1,904
Retained earnings	9,969	6,968
Total equity	23,558	20,637
Total liabilities and equity	\$ 46,325	\$ 41,917

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

(s) Joseph Abbandonato
Joseph Abbandonato
Director

(s) Tony Abbandonato
Tony Abbandonato
Director

Consolidated statements of changes in equity
For the three months ended September 30, 2017 and 2016
(in thousands of Canadian dollars) (unaudited)

	Reserves				Total reserves	Retained earnings	Total
	Share capital	Share-based compensation	Accumulated foreign currency translation	Warrants			
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 11)	-	116	-	-	116	-	116
Balance at September 30, 2016	\$ 11,765	\$ 655	\$ 603	\$ 465	\$ 1,723	\$ 6,806	\$ 20,294
Balance at July 1, 2017	\$11,765	\$ 879	\$ 573	\$ 465	\$ 1,917	\$ 9,413	\$ 23,095
Net income for the period	-	-	-	-	-	556	556
Exchange differences on translating foreign operations	-	-	(123)	-	(123)	-	(123)
Comprehensive income for the period	-	-	(123)	-	(123)	556	433
Transactions with owners:							
Share-based compensation (Note 11)	-	30	-	-	30	-	30
Balance at September 30, 2017	\$11,765	\$ 909	\$ 450	\$ 465	\$ 1,824	\$ 9,969	\$ 23,558

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

Consolidated statements of changes in equity
For the nine months ended September 30, 2017 and 2016
(in thousands of Canadian dollars) (unaudited)

	Reserves				Total reserves	Retained earnings	Total
	Share capital	Share-based compensation	Accumulated foreign currency translation	Warrants			
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 10)	12	-	-	-	-	-	12
Share-based compensation (Note 11)	-	180	-	-	180	-	180
Balance at September 30, 2016	\$ 11,765	\$ 655	\$ 603	\$ 465	\$ 1,723	\$ 6,806	\$ 20,294
Balance at January 1, 2017	\$11,765	\$ 756	\$ 683	\$ 465	\$ 1,904	\$ 6,968	\$ 20,637
Net income for the period	-	-	-	-	-	3,001	3,001
Exchange differences on translating foreign operations	-	-	(233)	-	(233)	-	(233)
Comprehensive income for the period	-	-	(233)	-	(233)	3,001	2,768
Transactions with owners:							
Share-based compensation (Note 11)	-	153	-	-	153	-	153
Balance at September 30, 2017	\$11,765	\$ 909	\$ 450	\$ 465	\$ 1,824	\$ 9,969	\$ 23,558

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,	
	2017	2016	2017	2016
Operating activities:				
Net income (loss) for the period	\$ 556	\$ (104)	\$ 3,001	\$ 247
Income tax expense	50	120	1,161	376
Depreciation and amortization of non-current assets	500	484	1,474	1,440
Finance costs	142	132	418	413
Loss on disposition of property, plant and equipment	23	-	23	-
Share-based compensation	30	116	153	180
Unrealized foreign exchange loss (gain)	511	(186)	968	627
	1,812	562	7,198	3,283
Net changes in working capital				
Decrease (increase) in trade and other receivables	179	399	(2,669)	(259)
(Increase) decrease in inventories	(1,983)	(1,022)	(2,147)	203
(Increase) decrease in prepaid expenses	(43)	148	(311)	(12)
Increase in trade and other payables	540	2,442	33	985
	(1,307)	1,967	(5,094)	917
Cash generated by operations	505	2,529	2,104	4,200
Net income taxes paid	(135)	(246)	(533)	(641)
Net cash generated by operating activities	370	2,283	1,571	3,559
Investing activities:				
Payments for property, plant and equipment and intangible assets	(435)	(384)	(1,892)	(1,207)
Net cash used in investing activities	(435)	(384)	(1,892)	(1,207)
Financing activities:				
Net change in bank indebtedness	(365)	(1,229)	1,921	(843)
Interest paid	(127)	(134)	(411)	(415)
Repayment of long-term debt	(278)	(193)	(955)	(840)
Net proceeds from issuance of share capital	-	-	-	12
Repayment of finance leases	(53)	(40)	(139)	(116)
Net cash (used in) generated by financing activities	(823)	(1,596)	416	(2,202)
Net (decrease) increase in cash	(888)	303	95	150
Cash, beginning of the period	1,047	2	68	161
Effects of foreign exchange differences on cash	(6)	-	(10)	(6)
Cash, end of the period	\$ 153	\$ 305	\$ 153	\$ 305

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

Non-cash transactions (Note 9)

**Notes to the interim condensed consolidated financial statements
for the three and nine months ended September 30, 2017 and 2016**

Amounts in tables are expressed in thousands of Canadian dollars, except 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

The interim condensed consolidated financial statements have been prepared in accordance 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, 2016 and 2015, prepared in accordance with IFRS as issued by the IASB. 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 27, 2017.

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,	
	2017	2016	2017	2016
Canada	\$ 6,084	\$ 6,012	\$ 22,293	\$ 19,917
United States	14,561	10,985	44,420	34,532
Other	146	-	189	121
Total	\$ 20,791	\$ 16,997	\$ 66,902	\$ 54,570

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

	September 30, 2017	December 31, 2016
Canada	\$ 7,715	\$ 6,890
United States	12,314	13,381
Total	\$ 20,029	\$ 20,271

**Notes to the interim condensed consolidated financial statements
for the three and nine months ended September 30, 2017 and 2016**

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

The Company's consolidated statements of comprehensive income (loss) includes depreciation of production equipment of \$0.5 million for the quarter ended September 30, 2017 (\$0.4 million in 2016) and \$ 1.3 million for the nine-month period ended September 30, 2017 (\$ 1.2 million in 2016) classified in Cost of sales. Depreciation of other property, plant and equipment and amortisation of intangible assets amounting to \$0.04 million for the quarter ended September 30, 2017 (\$0.1 million in 2016) and \$ 0.2 million for the nine-month period ended September 30, 2017 (\$ 0.2 million in 2016) is included in Administrative expenses.

The Company's consolidated statements of comprehensive income (loss) includes salaries paid to its employees of \$2.3 million for the quarter ended September 30, 2017 (\$2.2 million in 2016) and \$ 7.1 million for the nine-month period ended September 30, 2017 (\$ 6.7 million in 2016) classified in Cost of sales. Administrative expenses include salaries paid to employees of \$0.4 million for the quarter ended September 30, 2017 (\$0.4 million in 2016) and \$1.3 million for the nine-month period ended September 30, 2017 (\$ 1.1 million in 2016). Selling expenses include salaries paid to employees of \$0.1 million for the quarter ended September 30, 2017 (\$0.1 million in 2016) and \$0.4 million for the nine-month period ended September 30, 2017 (\$0.3 million in 2016).

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 \$0.7 million during the quarter ended September 30, 2017 (\$0.6 million in 2016) and \$2.0 million for the nine-month period ended September 30, 2017 (\$1.9 million in 2016). 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 also offers a defined contribution employee benefit plan to its employees located in North Carolina, USA. For the quarter ended September 30, 2017, the Company contributed \$7 thousand to this plan (\$9 thousand in 2016) and \$24 thousand for the nine-month period ended September 30, 2017 (\$24 thousand in 2016).

6. Finance costs

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Interest on bank indebtedness and long term debt	\$ 124	\$ 128	\$ 391	\$ 398
Interest on obligations under finance leases	18	4	27	15
	\$ 142	\$ 132	\$ 418	\$ 413

7. Other (gains) and losses

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Foreign exchange losses (gains)	\$ 617	\$ (121)	\$ 1,124	\$ 453
Loss on disposition of equipment	23	-	23	-
	\$ 640	\$ (121)	\$ 1,147	\$ 453

**Notes to the interim condensed consolidated financial statements
for the three and nine months ended September 30, 2017 and 2016**

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

8. Earnings per share

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Income (loss) for basic and diluted earnings per share	\$ 556	\$ (104)	\$ 3,001	\$ 247
Weighted average number of common shares outstanding	49,739	49,738	49,739	49,684
Dilutive effect of share purchase options	1,546	-	1,218	35
Diluted weighted average common shares outstanding	51,285	49,738	50,957	49,719
Basic earnings per common share	\$ 0.01	\$ (0.00)	\$ 0.06	\$ 0.01
Diluted earnings per common share	\$ 0.01	\$ (0.00)	\$ 0.06	\$ 0.01

9. Non-cash transactions

During the first quarter of 2017, the Company signed a non-cancellable finance lease agreement for cooling equipment worth \$0.3 million that was received in the third quarter of 2017. The lease and the assets were consequently recorded when the equipment was received in the third quarter. In addition, the company also financed a forklift truck by entering into a finance lease of a value of \$46 thousand, which was also recorded in the third quarter of 2017.

During the nine-month period ended September 30, 2016, the Company financed the acquisition of production equipment of a value totalling \$0.1 million by entering into a finance lease for the entire amount.

10. Share capital

The Company's authorized share capital consists of an unlimited number of common shares, voting, participating, without par value. At September 30, 2017, there were 49,738,637 common shares outstanding (49,738,637 common shares at December 31, 2016 and September 30, 2016).

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.

11. 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.

On June 22, 2017, 50,000 options to purchase common shares were granted at a strike price of \$1.03. Each option was given a value of \$0.53. The expense related to share-based compensation with a corresponding increase in Reserves amounted to \$0.03 million for the quarter ended September, 2017 and \$0.2 million for the nine-month period ended September 30, 2017.

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. 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. The expense related to the issuance of share-based compensation with a corresponding increase in Reserves amounted to \$0.1 million and to \$0.2 million for the three and nine-month periods ended September 30, 2016, respectively.

**Notes to the interim condensed consolidated financial statements
for the three and nine months ended September 30, 2017 and 2016**

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

11. Share-based compensation (continued)

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

Fair value assumptions	22/06/2017	06/09/2016	21/06/2016	16/06/2015	Total
Outstanding as at 31/12/2016	-	500,000	1,300,000	650,000	2,450,000
Issued	50,000	-	-	-	50,000
Outstanding as at 30/09/2017	50,000	500,000	1,300,000	650,000	2,500,000
Outstanding as at 30/09/2016	-	500,000	1,300,000	650,000	2,450,000
Exercisable as at 30/09/2017	12,500	375,000	650,000	650,000	1,687,500
Exercisable as at 30/09/2016	-	125,000	-	487,500	612,500
Remaining life of options (yrs)	4.73	3.94	3.73	2.71	
Expected life of options (yrs)	2.5 to 3.25	2.5 to 3.25	2.75 to 3.5	2.75 to 3.5	
Expiry	22/06/2022	06/09/2021	21/06/2021	15/06/2020	
Expected share price volatility	80.01% - 83.03%	76.59% - 79.60%	75.95% - 82.15%	83.19% - 98.85%	
Dividend yield	0%	0%	0%	0%	
Risk free rate	1.15%	0.51%	0.50%	0.55% - 0.65%	
Exercise price	\$ 1.03	\$ 0.42	\$ 0.40	\$ 0.52	
Share price on grant date	\$ 1.03	\$ 0.42	\$ 0.40	\$ 0.52	
Fair value of option at grant	\$ 0.53	\$ 0.21	\$ 0.21	\$ 0.30	

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.

12. Financial instruments

12.1 Fair value and classification of financial instruments

	Carrying amount and fair value	
	September 30, 2017	December 31, 2016
Financial assets		
Loans and receivables		
Cash	\$ 153	\$ 68
Trade and other receivables ⁽¹⁾	13,088	10,873
	13,241	10,941
Financial liabilities		
Financial liabilities, at amortised cost		
Bank indebtedness	6,973	5,052
Trade and other payables ⁽²⁾	7,417	7,805
Long term debt	4,337	5,484
	18,727	18,341
Other liabilities		
Finance lease obligations	524	393

⁽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.

**Notes to the interim condensed consolidated financial statements
for the three and nine months ended September 30, 2017 and 2016**

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

12. 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.

12.2 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, 2017 and December 31, 2016, the fair values of long-term debt and finance lease obligations are categorised as Level 2.