

MANAGEMENT DISCUSSION AND ANALYSIS

PREFACE

This Management Discussion and Analysis (MD&A) comments on Imaflex Inc.'s (the "Parent Company") operations, financial performance, financial condition, future outlook and other matters for the three and nine-month periods ended September 30, 2018 and 2017. Unless otherwise indicated, the terms "Imaflex", "Company", "Corporation", "we", "our", and "us" all refer to Imaflex Inc., together with its divisions Canguard Packaging and Canslit, along with its wholly owned subsidiary, Imaflex USA Inc. All intercompany balances and transactions have been eliminated on consolidation.

This MD&A also provides information to improve the reader's understanding of the accompanying interim condensed consolidated financial statements and related notes. It should be read together with our unaudited interim condensed consolidated financial statements for the periods ended September 30, 2018 and 2017 as well as our audited consolidated financial statements for the years ended December 31, 2017 and 2016.

Unless otherwise indicated, all financial data in this document was prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and all amounts in tables are expressed in thousands of Canadian dollars unless otherwise indicated. Differences may occur due to rounding of amounts. 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. This MD&A was reviewed by Imaflex's Audit Committee and approved by the Board of Directors on November 26, 2018. Disclosure contained within it is current to that date, unless otherwise indicated.

Additional information on Imaflex is available on our website at www.imaflex.com and on SEDAR at www.sedar.com.

FORWARD LOOKING STATEMENTS

From time to time, we make forward-looking statements within the meaning of Canadian 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 an 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; and other factors that 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 November 26, 2018.

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COMPANY OVERVIEW

Imaflex is focused on the development and manufacturing of innovative solutions for the flexible packaging and agricultural markets. The Company's flexible packaging products are largely used to protect and preserve and consist primarily of polyethylene (plastic) films and bags, and metalized films. Our polyethylene films are mainly sold to printers known as "converters", who process the film into a finished product to meet their end-customer needs. Additionally, our films are sold directly to customers to protect and market their own products, or bought by distributors for re-sale.

Our agricultural films are finished products, predominantly sold directly to end-users by Imaflex. They are available in a variety of formats and include both metalized and non-metalized films. Our portfolio includes common mulch and fumigant barrier films, which are also available in a compostable plastic, as well as innovative crop protection films, that add pest/weed control and/or accelerated growth benefits beyond those provided by our common mulch films.

Imaflex operates three manufacturing facilities. Two are located in the province of Quebec, including Montreal (Imaflex Inc.) and Victoriaville (Canguard and Canslit), and one is located in Thomasville, North Carolina, USA (Imaflex USA). The Company also has a warehouse in Thomasville. The four facilities cover a total area of approximately 23,412 square meters or 252,000 square feet. Imaflex and Imaflex USA specialize in the manufacturing and sale of custom-made polyethylene films and bags, along with non-metalized agricultural films. Canguard specializes in the manufacturing and sale of polyethylene garbage bags, while Canslit specializes in the metallization of plastic film. We believe that our manufacturing presence in both Canada and the United States provides a competitive advantage in terms of logistics, currency, manufacturing flexibility and cost leadership.

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

GROWTH STRATEGY

Imaflex's history attests to its management's ability to successfully adapt to prevailing and continuously changing market conditions. Management believes that success will also lie in the ability to properly manage future 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.

Management believes the following initiatives will contribute to Imaflex's long term growth:

Strengthen and Grow the Core

We will continue to strengthen the core flexible packaging business. This includes revenue growth and margin expansion through higher production volumes geared towards the most profitable markets and products, along with a focus on lean operations (minimizing scrap, reducing production set-up times, etc.). In addition to growing organically, we will also consider strategic acquisitions that make sense in terms of complementary fit, cost and ease of integration.

Grow the Agriculture Business

We will continue to build-out our agriculture business, driving awareness and exposure for our advanced crop protection products, particularly our unique film, Shine N' Ripe XL and our patented film, ADVASEAL® (under development). Our crop protection films are mulch films surface coated with either metallic aluminum and/or chemical/biological active substances aimed to protect plants from disease transmitting insects, to limit the growth of soil borne pests and weeds and/or to accelerate the growth and yield of plants.

Shine N' Ripe XL

Shine N' Ripe XL is a long-lasting, heavy-duty, highly-reflective metalized mulch film designed specifically to fight citrus greening (HLB), a bacterial disease transmitted by the Asian Citrus Psyllid (ACP). HLB has devastated the global citrus industry, causing deformed off-flavored fruits, low yields and inevitably early tree death. Common insecticides have proven to be ineffective in preventing HLB infestation in newly planted citrus groves.

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GROWTH STRATEGY (continued)

Grow the Agriculture Business (continued)

Shine N' Ripe XL's unique ability to reflect up to 80% of solar ultraviolet (UV) light repels the ACP and hence helps deter HLB infestation in young citrus trees. In addition, Shine N' Ripe XL significantly increases tree growth and yield by providing more sunlight to the lower tree parts, usually hidden in the canopy's shadow. Importantly, Shine N' Ripe XL also significantly suppresses weeds and reduces water and fertilizer consumption compared to traditional growing methods. The film's proprietary anti-corrosion coating has also been shown to maintain its initial high UV reflectivity for at least 3 years, making it one of the most environmentally-friendly and economically-viable tools for coping with citrus greening.

In the first quarter of 2018, the Florida Research Centre for Agricultural Sustainability (FLARES) provided an update on its multi-year trial, once again validating the clear benefits Shine N' Ripe XL brings over conventional production. Although approximately four years had passed since the FLARES trial first began, trees planted with Shine N' Ripe XL continued to show less impact from the citrus greening disease ("HLB") versus other treatments. As well, material on-going benefits continued in crop yields, resulting in a significantly shorter pay-back time for citrus growers. In both year three and year four, crops using Imaflex's film remained the only ones in the comparative group with a positive net return on invested capital. This ensued despite the higher initial investment costs for land preparation and installation associated with the metalized film's use.

ADVASEAL®

Today, agricultural films are used in the growing of fresh fruits and vegetables worldwide to cover the soil after it is treated with fumigants - volatile and toxic pesticides, which are essential for providing a pest and weed free (disinfested) soil for the undisturbed growth of new crop seedlings. ADVASEAL®, which is currently under development, simplifies the soil disinfestation process, making it safer, more environmentally-friendly and cost effective by releasing modern non-volatile crop protection products under controlled conditions from a coated plastic mulch, replacing the need for spraying.

ADVASEAL® contains all the active ingredients, including a herbicide (HSM) to control weeds, fungicides to control soil borne pathogens, and a nematicide to control nematodes (pre-plant) for soil disinfestation to replace hazardous fumigants and conventional pesticide spray emissions. The catalyst to activate the release of these ingredients from the film is water. When the film is applied to the moist soil, they are released, replacing the spray application currently being used by growers. The underlying technology is patent protected in the top 20 major vegetable and fruit producing countries worldwide until 2032.

ADVASEAL® is safe to transport, store and handle and its application is emission-free, eliminating the risk of inhalation and environmental damage present with the spray drift of fumigants and herbicides under current agricultural practices. In addition to being environmentally friendly, management estimates that ADVASEAL® will provide significant savings to growers depending on the crop and fumigants currently being used. ADVASEAL® permits the precise application of a low dose of crop protection products, improving crop quality and yields. Management estimates that ADVASEAL® will reduce the chemicals required by up to 95% and eliminate many of the costly work steps currently being used. Collectively, this puts Imaflex in a good position to capture market share worldwide as ADVASEAL® is commercialized.

Maintain focus on Research and Development

We will maintain our focus on enhancing the customer value proposition, while developing new capabilities and leading-edge products for highly profitable niche markets. This will help support the build-out of our core flexible packaging product portfolio. The Company's research teams use the fields in which they have core-competencies in order to identify innovative improvements and solutions where chemicals and polymers can offer added-value.

Maintain Efficiency of Equipment

Finally, we will focus on the efficiency of our equipment, making the required capital investments to maintain, upgrade and expand into new areas. Our commitment to make the required investments, and our ability to deliver customized solutions, on-time and at competitive prices should help to drive revenue and margin expansion, while allowing us to remain competitive in the marketplace.

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MARKET OVERVIEW

The North American flexible packaging market is valued at approximately US \$29 billion. Although this market is highly fragmented and commoditized in terms of pricing, there are niches within the larger space that offer the opportunity for increased profitability. In 2018, Imaflex was once again ranked in the top 100 North American film and sheet manufacturers by sales.

The total addressable global agriculture mulch film market, excluding silage and green house films, is valued at approximately US \$3.5 billion. The Company has and continues to develop innovative and proprietary solutions for this important market. Going forward, Imaflex hopes to capture a much larger share of the agriculture film market due to its next generation crop protection and yield enhancement products, Shine N' Ripe XL and ADVASEAL®. Management believes the value of the global addressable market for an active ingredient release film like ADVASEAL® will be much larger than that for traditional mulch films. In the US alone, the Company estimates that approximately 130 million pounds of mulch film is being used, resulting in an estimated total addressable market for ADVASEAL® of approximately US \$750 million.

With growing concerns over the scarcity of resources, the environment, lower crop yields due to disease, and a rising global population, the Company believes that the macro-environment is also working in its favour. Sustainability and intelligent farming are becoming increasingly important.

SHINE N' RIPE XL BUILD-OUT

In 2017, a major international citrus producer began using Shine N' Ripe XL to plant new groves in Florida, leading to multi-million dollars in citrus film sales for the year. These purchases followed initial field trials by the grower and other multi-year independent field trials. All trials confirmed the biological, environmental and economic benefits associated with using the film.

In the first quarter of 2018, Imaflex saw some timing delays in citrus film sales, largely due to the major storms in the southeastern USA in late 2017. However, in the second and third quarters of 2018, citrus sales resumed, and the Corporation received a total of \$4.5 million in follow-on orders from the aforementioned citrus producer. Sales fluctuations are not unusual when a product and customer network is being built out.

The Corporation continues to actively pursue new citrus film customers. Current field trials with growers are going well and initial customer feedback is positive. Imaflex is currently the only company with independent, long-term field trials proving that its long-lasting metalized film effectively reduces the early onset of citrus greening, while also accelerating tree growth and increasing yield. Due to these successes and the commencement of citrus film trials with new growers, Imaflex is confident it will see a further broadening of its customer base and revenue expansion going forward.

ADVASEAL® COMMERCIALIZATION

During 2017, Imaflex successfully completed the design of the coating line, customized for the cost effective production of ADVASEAL®. As for the active ingredients to be used with ADVASEAL®, faced with merger and acquisition activity amongst crop protection companies and the resulting delays in Imaflex's ability to obtain supply commitments for the registered active ingredients required, including fungicides and a nematicide, the Corporation decided to source them from the same manufacturers in Asia supplying the crop protection companies. All active ingredients have now been sourced.

Management has also identified a potential toll manufacturer (coater) capable of supplying sufficient quantities of ADVASEAL® for the efficacy field trials. Various trials are underway with the coater to confirm their ability to produce the coated film, along with the best application method for the active ingredients. The manufacturer has also obtained the required regulatory approval to work with the active ingredients associated with ADVASEAL®.

Imaflex continues to target the first quarter of 2019 for the commencement of efficacy field trials. These studies are required by the US Environmental Protection Agency (EPA) for the exclusive registration of ADVASEAL®. Management believes the efficacy field trials and the pesticide registration process will be positive as the generic active ingredients to

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ADVASEAL® COMMERCIALIZATION (continued)

be used with ADVASEAL are effectively used by growers today. As well, the Company previously received EPA approval of its herbicidal active ingredient release film, ADVASEAL® HSM.

COMPETITIVE ENVIRONMENT

Although competition is high in all our markets, Imaflex operates in a multi-billion dollar industry with a multitude of product opportunities. Flexible packaging alone is used in almost every consumer product market to protect and preserve. Additionally, many of the Company's customers deal in food related products, which is somewhat recession resistant.

Imaflex believes it has a competitive edge since it is recognized as being an industry leader in the development of innovative solutions. The Company focuses on offering customers unique high quality products on a timely basis and at competitive prices. A key strength of ours is the ability to take on smaller orders with short lead times. Collectively, this helps create customer loyalty.

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. This strategy has been the backbone of our growth and it has served us well.

We employ a staff of chemical & polymer engineers and a chemist, which allows us to develop unique solutions. In our markets, we believe it is essential to sell value-added products and avoid producing highly commoditized offerings generating lower margins. The key to this strategy is identifying and building relationships with customers having specific needs and eventually developing products that address them. Our sales force is mandated to seek out such clients and the Company works to ensure its sales team is technically accomplished and equipped to properly communicate the advantages of all products.

EMPLOYEES AND CORPORATE OFFICE

Imaflex currently employs approximately 243 people in North America, including those at our corporate head office located in Montreal, Canada. The Company currently has no unionized employees.

OUTSOURCING

Our industry is capital intensive and labour is only a minor component in the total cost of production. As a result, outsourcing our manufacturing to countries with lower wages would not have a material impact on costs, especially when factoring in expenses related to freight and duty. Furthermore, the risks associated with relinquishing our control over quality and delays in delivery deadlines would far outweigh any minimal benefit that would be generated by lower labour costs.

However, in the effort of eliminating bottlenecks in our production process when our capacity usage is very high, management may consider the use of third-party manufacturers for certain activities in order to meet all production deadlines and ensuring the best service to our customers.

NON-IFRS FINANCIAL MEASURES

The Company's management uses a non-IFRS financial measure in this MD&A, namely EBITDA, to assess its performance. 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.

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NON-IFRS FINANCIAL MEASURES (continued)

Reconciliation of EBITDA to net income:

(\$ thousands, except per share data)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Net income	\$ 594	\$ 556	\$ 2,994	\$ 3,001
Plus:				
Income taxes	289	50	1,066	1,161
Finance costs	138	142	401	418
Depreciation and amortization	498	500	1,544	1,474
EBITDA	\$ 1,519	\$ 1,248	\$ 6,005	\$ 6,054
Basic EBITDA per share *	\$ 0.03	\$ 0.03	\$ 0.12	\$ 0.12
Diluted EBITDA per share *	\$ 0.03	\$ 0.02	\$ 0.12	\$ 0.12

*Basic weighted average number of shares outstanding of 49,920,702 for the three-month period ended September 30, 2018 (49,738,637 in 2017) and 49,882,868 for the nine-month period ended September 30, 2018 (49,738,637 in 2017). Diluted weighted average number of shares outstanding of 51,053,391 for the three-month period ended September 30, 2018 (51,284,856 in 2017) and 51,077,720 for the nine-month period ended September 30, 2018 (50,956,943 in 2017).

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 and accordingly it should not be considered in isolation.

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 any 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.

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GENERAL SITUATION OF THE POLYETHYLENE BLOWN FILM MARKET – RESIN PRICING

Although some monthly resin price fluctuations have occurred, overall resin prices for the year-to-date have been largely flat. Going forward, the prevailing sentiment of resin buyers is for downward pressure on pricing, due to expected capacity increases from new plants coming on stream. So far, resin companies have managed to hold ground and Imaflex does not expect resin price fluctuations to have a material impact on 2018 results.

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 10% 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

Imaflex operates in the highly competitive multi-billion dollar flexible packaging and agricultural film markets. This said, we believe the Company has a competitive edge over the competition due to our highly skilled teams that are quick to respond to customer needs, a diversified manufacturing base and the fact that the bulk of our customers deal in food related products which are less subject to recessionary and seasonal pressures. It may not always translate into greater net profit, but it should result in customer loyalty if we decide to match our competitors' prices.

SEASONALITY OF OPERATIONS

Some products produced at our Victoriaville and Thomasville facilities are subject to some seasonality as a result of the plant's partial manufacturing focus on the production of agriculture film for fruit and vegetable growers. 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, they are not overly affected by seasonal downturns.

EXPOSURE TO PRODUCT LIABILITY

Due to the nature of our operations, which consist primarily of manufacturing polyethylene film for converters, who process the film into a finished product 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 agriculture 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; planned plant shutdowns for preventative maintenance affecting production levels; 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 have some 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

MANAGEMENT DISCUSSION AND ANALYSIS

EXPOSURE TO INTEREST RATE FLUCTUATIONS (continued)

based on expectation of future movements and the available economic data. Recent interest rate hikes may affect the Company's future cost of borrowing however, for the moment, management is not hedging any of its interest rate exposure and expects this exposure to lessen 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 the Company was able to keep key competencies within the firm. This includes its three founders, who have more than 100 years of combined experience in management and research and development. As the Company has grown, it has also strengthened its team with the addition of individuals having a variety of competencies, be it accounting, operations, or engineering.

Management promotes a work environment that allows for the free exchange of ideas in an effort to ensure that the Company remains at the forefront of its industry. We are confident that we can retain and, if need be, attract qualified individuals that will contribute to our on-going goal of building shareholder value.

FOREIGN EXCHANGE FLUCTUATIONS

A portion of the Company's sales and expenses, as well as accounts receivable and payable, are denominated in US dollars. A portion of the revenue stream in US dollars acts as a natural hedge to cover expenses denominated in US dollars. The Company also has the possibility of borrowing amounts on its line of credit in US dollars. The Company has increased its debt in US dollars to obtain additional revenue streams in US dollars. 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 handling 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

During the third quarter of 2018, the Corporation saw a year-over-year improvement in both sales and profitability, although growth was tempered by lower citrus film sales in 2018.

(\$ thousands)	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Sales	\$21,316	\$20,791	\$63,860	\$66,902

Revenues were \$21.3 million for the quarter, up from \$20.8 million in 2017. The increase was largely due to product mix, and favourable movements in foreign exchange. This was partially offset by lower citrus film sales, which stood at \$0.4 million for the quarter, versus \$1.5 million in the third quarter of 2017.

Year-to-date sales were \$63.9 million, down 4.5% from \$66.9 million in the corresponding prior-year period. The decrease was largely due to lower sales volumes for both our core flexible packaging and agriculture products, particularly citrus films. As of September 30, 2018 year-to-date, Imaflex had received \$4.6 million of citrus film orders and recognized \$1.4 million of sales related to this, leaving \$3.2 million worth of orders to be shipped and recognized going forward.

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RESULTS OF OPERATIONS (continued)

(\$ thousands)	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Gross Profit (\$) before amortization of production equipment	\$3,371	\$3,522	\$10,323	\$12,299
Gross Profit before amortization of production equipment (%)	15.8%	16.9%	16.2%	18.4%
Amortization of production equipment	442	459	1,331	1,315
Gross profit (\$)	\$2,929	\$3,063	\$8,992	\$10,984
Gross profit (%)	13.7%	14.7%	14.1%	16.4%

Quarterly gross profit before the amortization of production equipment was \$3.4 million or 15.8% of sales for the quarter, down slightly from \$3.5 million or 16.9% of sales in 2017. Including amortization of production equipment expenses, the quarterly gross profit was \$2.9 million or 13.7% of sales, versus \$3.1 million or 14.7% of sales in 2017. The 2018 quarterly gross profit before and after amortization was impacted by the reduced levels of higher margin citrus film sales.

For the nine months ended September 30, 2018 the gross profit before amortization of production equipment stood at \$10.3 million or 16.2% of sales, down from \$12.3 million or 18.4% of sales in 2017. Including amortization expenses, the gross profit was \$9.0 million or 14.1% of sales, down from \$11.0 million or 16.4% of sales in 2017. The reduced year-to-date gross profit, before and after amortization, was largely due to the lower sales base in 2018, and product mix, with the Corporation selling less of its higher margin agriculture films, including Shine N' Ripe XL.

(\$ thousands)	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Selling and administrative	\$1,726	\$1,657	\$5,003	\$5,200
As a % of sales	8.1%	8.0%	7.8%	7.8%

Selling and administrative expenses were \$1.7 million or 8.1% of sales in the third quarter of 2018, relatively unchanged from \$1.7 million and 8.0% of sales in 2017.

For the nine-month period ending September 30, 2018, selling and administrative expenses were \$5.0 million, down from \$5.2 million in 2017, largely due to the lower 2018 sales base. The year-to-date expenses as a percentage of sales remained unchanged versus 2017, coming in at 7.8% of sales.

(\$ thousands)	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Finance costs	\$138	\$142	\$401	\$418

For both the quarter and nine-month period ended September 30, 2018, year-over-year finance costs remained essentially unchanged, with debt repayments and the capitalization of interest on a new debt facility offsetting higher interest rates.

(\$ thousands)	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Foreign exchange (gains)/losses	\$242	\$617	(\$454)	\$1,124

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RESULTS OF OPERATIONS (continued)

The appreciation of the Canadian dollar versus the US dollar in the third quarter of 2018 resulted in a foreign exchange loss of \$0.2 million, down from a loss of \$0.6 million in 2017.

Conversely, the appreciation of the US dollar against the Canadian dollar for the nine-month period ended September 30, 2018 resulted in a foreign exchange gain of \$0.5 million. For the corresponding prior-year period, Imaflex recorded a foreign exchange loss of \$1.1 million. The majority of these foreign exchange gains and losses are non-cash impacting and relate to intercompany balances for which Imaflex can control the time of settlement.

(\$ thousands)	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Income taxes	\$289	\$50	\$1,066	\$1,161
As a % of income before taxes	32.7%	8.3%	26.3%	27.9%

Income tax expenses came in at \$0.3 million for the third quarter of 2018. This compares to \$50 thousand dollars in 2017, which included certain prior-period adjustments. The income tax expense as a percent of income before income taxes was 32.7% in the third quarter of 2018, up from the Corporations statutory tax rate of 26.8%.

For the year-to-date, income taxes were \$1.1 million, down slightly from \$1.2 million in 2017. Income taxes as a percentage of profit decreased from 27.9% in 2017 to 26.3% in 2018.

(\$ thousands, except per share data)	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Net income	\$594	\$556	\$2,994	\$3,001
Basic earnings per share	\$0.01	\$0.01	\$0.06	\$0.06
Diluted earnings per share	\$0.01	\$0.01	\$0.06	\$0.06

The Corporation achieved net income of \$0.6 million in the third quarter of 2018, essentially in line with 2017. For the first nine months of 2018, net income was \$3.0 million, unchanged from the prior year. The lower 2018 year-to-date revenue base and corresponding reduction in gross profits versus 2017, was largely offset by foreign exchange gains in the current year, versus foreign exchange losses in the corresponding prior-year 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):

	Q3/18	Q2/18	Q1/18	Q4/17	Q3/17	Q2/17	Q1/17	Q4/16
Revenues	\$21,316	\$21,927	\$20,617	\$21,395	\$20,791	\$24,055	\$22,056	\$18,943
Net income (loss)	594	727	1,673	761	556	1,300	1,145	161
Earnings (loss) per share								
Basic	0.012	0.015	0.034	0.015	0.011	0.026	0.023	0.003
Diluted	0.012	0.014	0.033	0.015	0.011	0.026	0.023	0.003

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

MANAGEMENT DISCUSSION AND ANALYSIS

SUMMARY OF QUARTERLY RESULTS (continued)

rates; the availability and costs of raw materials; changes in the Company's relationship with its suppliers; planned plant shutdowns for preventative maintenance affecting production levels; along with interest rate fluctuations and other changes in borrowing costs.

FINANCIAL POSITION

September 30, 2018 vs. December 31, 2017

Working Capital strengthened, growing from \$9.2 million as at December 31, 2017, to \$11.9 million as at September 30, 2018. The improvement was largely due to a \$2.6 million year-over-year increase in inventories to meet heightened sales expectations for both our core flexible packaging and agriculture products, along with higher trade and other receivables of \$2.9 million. This was partially offset by a \$1.8 million increase in bank indebtedness, including the current portion of long-term debt, as well as higher trade and other payables of \$1.5 million.

LIQUIDITY

Cash Flows from Operating Activities

Before movements in working capital and income taxes paid, Imaflex generated \$1.8 million of cash flows from operating activities during the third quarter of 2018, unchanged from 2017.

Movements in working capital generated cash outflows of \$0.4 million for the current quarter, down from cash outflows of \$1.3 million in the corresponding prior year quarter. The improvement over 2017 was largely due to favourable year-over-year movements in inventories and higher trade & other payables, partially offset by increases in trade and other receivables.

Including movements in working capital and taxes paid, the net cash generated by operating activities totaled \$0.4 million for the current quarter, unchanged from the third quarter of 2017.

For the nine-month period ended September 30, 2018, net cash generated by operating activities totaled \$0.5 million, down from \$1.6 million in 2017. The year-over-year decrease is largely explained by movements in foreign exchange and higher taxes paid in 2018, partially offset by a larger increase in trade and other payables over 2017.

Cash Flows from Investing Activities

During the third quarter of 2018, the Company invested \$0.3 million for capital assets, down slightly from \$0.4 million in the corresponding quarter of 2017. For the year-to-date, capital investments totaled \$2.2 million, largely towards a new coextruder, versus \$1.9 million in the corresponding prior-year period. These investments are aimed at improving the Company's production capabilities in order to generate heightened sales and profitability.

Cash Flows from Financing Activities

Cash flows generated from financing activities totaled \$2 thousand for the third quarter of 2018, up from net cash outflows of \$0.8 million in the prior year quarter. The improvement is largely due to year-over-year movements in bank indebtedness of \$0.8 million, relating to the Corporation's line of credit.

For 2018 year-to-date, Imaflex generated \$1.9 million of cash flows from financing activities, up from \$0.4 million in 2017. The year-over-year improvement is largely due to an increase in long term debt relating to the purchase of a new coextruder.

MANAGEMENT DISCUSSION AND ANALYSIS

CONTRACTUAL OBLIGATIONS

The contractual obligations as at September 30, 2018 were as follows:

(\$ thousands)	Payments due by period			
	Total	Less than 1 year	1 to 5 years	After 5 years
Long-term debt	\$ 5,785	\$ 1,751	\$ 3,811	\$ 223
Finance leases	364	136	228	-
Operating leases	4,092	593	2,638	861
Bank indebtedness	7,428	7,428	-	-
Total contractual obligations	\$ 17,669	\$ 9,908	\$ 6,677	\$ 1,084

These contractual obligations are sensitive to the fluctuation of interest rates. They are based on interest rates and foreign exchange rates effective as at September 30, 2018.

CAPITAL RESOURCES

The Company's \$12 million operating line of credit, which is secured by trade receivables and inventories, bears interest at a premium of 0.40% over the Canadian prime rate. As at September 30, 2018, Imaflex was using approximately \$ 7.4 million on its line of credit (\$5.8 million as at December 31, 2017) and had cash outstanding of \$0.3 million (\$0.1 million as at December 31, 2017). Working capital improved, coming in at \$11.9 million as at September 30, 2018, up from \$9.2 million as at December 31, 2017. The Company controls its financial leverage, ensuring that its borrowings reflect the asset base against which the funds are borrowed as well as the profitability that is generated through the operations. The Company has sufficient capital to fund its operations and to further grow the business in the near future.

EQUIPMENT LEASING FACILITY

Imaflex has entered into an equipment leasing facility of up to CDN \$10 million with a leading global financial institution to fund business expansion. Upon delivery of equipment to Imaflex, the specific lease will be repayable in 60 equal monthly installments, with the applicable interest rate being locked in at time of equipment delivery. At the end of the 60-month period, Imaflex will own the equipment. This financing allows us to increase our scale, broaden our capabilities and drive revenue and margin expansion at attractive 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 September 30, 2018 and 2017. 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, 2017 and 2016.

(\$ thousands)		Three months ended		Nine months ended	
		September 30,	2017	September 30,	2017
		2018		2018	
Professional fees and key management personnel services	(a)	\$ 63	\$ 63	\$ 197	\$ 206
Rent	(b)	\$ 214	\$ 210	\$ 639	\$ 652
Remuneration	(c)	\$ 285	\$ 266	\$ 890	\$ 857

MANAGEMENT DISCUSSION AND ANALYSIS

RELATED PARTY TRANSACTIONS (continued)

(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, including the Company's accounting policies under IFRS, are disclosed in note 2, *Significant accounting policies* of the consolidated financial statements for the years ended December 31, 2017 and 2016. On January 31, 2018 the Company adopted IFRS 9 and 15, as explained in note 2.2 of the interim financial statements for the period ended September 30, 2018.

FINANCIAL INSTRUMENTS

Please refer to note 21, *Financial instruments* of the consolidated financial statements for the years ended December 31, 2017 and 2016 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 September 30, 2018, the Company was not using any swap, forward or hedge accounting and there were no warrants outstanding.

As at September 30, 2018, 2,375,000 options to purchase shares of the Company were outstanding at a weighted average strike price of \$0.495 of which 2,287,500 were exercisable.

As at September 30, 2017, 2,500,000 options to purchase shares of the Company were outstanding at a weighted average strike price of \$0.448 of which 1,687,500 were exercisable.

SUBSEQUENT EVENTS

As previously announced, Imaflex intended to move its CDN \$3.75 million loan for the purchase of a new coextrusion blown film line ("extruder") to its CDN \$10 million equipment leasing facility. Following September 30, 2018, Imaflex transferred the loan, which included \$1.3 million of debt drawn to date, to the leasing facility. As well, the Corporation also borrowed approximately \$0.8 million of funds towards equipment for its US operations, which will be captured under the leasing facility going forward.

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

MANAGEMENT OUTLOOK

We expect business fundamentals to remain stable going into 2019, supported by a number of key upcoming milestones. These include the launch of our new coextrusion blown film line ("extruder"), the completion of ongoing field trials with new citrus growers and the start of ADVASEAL® efficacy trials. The extruder, which is expected to be installed and operational around the end of the first quarter of 2019, will increase the Corporation's extrusion capacity by approximately

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT OUTLOOK (continued)

four million pounds annually. As well, the citrus trials should result in new customer wins and better revenue stability going forward. Finally, our previously announced CDN \$10.0 million equipment leasing facility provides us with important growth capital.

OUTSTANDING SHARE DATA

As at September 30, 2018, the Company had 50,013,637 common shares outstanding, compared to 49,738,637 as at September 30, 2017 and 49,863,637 as at December 31, 2017.

(s) Joe Abbandonato

Joe Abbandonato
President and Chief Executive Officer

(s) Giancarlo Santella

Giancarlo Santella, CPA, CA
Chief Financial Officer

November 26, 2018

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