

Interim Condensed Consolidated Financial Statements of

IMAFLEX INC.

For the three and nine-month periods ended September 30, 2018 and 2017

Consolidated statements of comprehensive income

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

(unaudited)

for the	Three months ended		Nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Revenues (Note 4.1)	\$ 21,316	\$ 20,791	\$ 63,860	\$ 66,902
Cost of sales	18,387	17,728	54,868	55,918
Gross profit	2,929	3,063	8,992	10,984
Expenses:				
Selling	426	380	1,153	1,278
Administrative	1,300	1,277	3,850	3,922
Finance costs (Note 7)	138	142	401	418
Other (gains) losses (Note 8)	242	640	(454)	1,147
Other	(60)	18	(18)	57
	2,046	2,457	4,932	6,822
Income before income taxes	883	606	4,060	4,162
Income taxes	289	50	1,066	1,161
NET INCOME	594	556	2,994	3,001
Other comprehensive income				
Item that will be reclassified subsequently to net income				
Exchange differences on translating foreign operations	(55)	(123)	98	(233)
COMPREHENSIVE INCOME	\$ 539	\$ 433	\$ 3,092	\$ 2,768
Earnings per share (Note 9)				
Basic	\$ 0.01	\$ 0.01	\$ 0.06	\$ 0.06
Diluted	\$ 0.01	\$ 0.01	\$ 0.06	\$ 0.06

The accompanying notes are an integral part of these interim condensed consolidated financial statements. Note 5 presents additional information on consolidated comprehensive income.

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

As at	September 30, 2018	December 31, 2017
Assets		
<i>Current assets</i>		
Cash	\$ 285	\$ 87
Trade and other receivables	15,313	12,384
Inventories	14,673	12,076
Prepaid expenses	347	522
Total current assets	30,618	25,069
<i>Non-current assets</i>		
Property, plant and equipment (Note 10)	19,678	18,592
Intangible assets	1,344	1,395
Total non-current assets	21,022	19,987
Total assets	\$ 51,640	\$ 45,056
Liabilities and equity		
<i>Current liabilities</i>		
Bank indebtedness (Note 11)	7,428	5,827
Trade and other payables	9,174	7,702
Current tax liabilities	531	869
Long-term debt, current portion (Note 11)	1,445	1,250
Finance lease obligations, current portion (Note 11)	121	195
Total current liabilities	18,699	15,843
<i>Non-current liabilities</i>		
Long-term debt (Note 11)	3,696	3,095
Deferred tax liabilities	1,373	1,411
Finance lease obligations (Note 11)	205	280
Total non-current liabilities	5,274	4,786
Total liabilities	23,973	20,629
<i>Equity</i>		
Share capital (Note 12)	11,875	11,815
Reserves (Note 13)	2,068	1,882
Retained earnings	13,724	10,730
Total equity	27,667	24,427
Total liabilities and equity	\$ 51,640	\$ 45,056

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

(s) Joseph Abbandonato
Joseph Abbandonato
Director

(s) Mario Settino
Mario Settino
Director

Consolidated statements of changes in equity
For the three-month periods ended September 30, 2018 and 2017
(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, 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 13)	-	30	-	-	30	-	30
Balance at September 30, 2017	\$11,765	\$ 909	\$ 450	\$ 465	\$ 1,824	\$ 9,969	\$ 23,558
Balance at July 1, 2018	\$11,815	\$1,030	\$ 618	\$ 465	\$ 2,113	\$ 13,130	\$ 27,058
Net income for the period	-	-	-	-	-	594	594
Exchange differences on translating foreign operations	-	-	(55)	-	(55)	-	(55)
Comprehensive income for the period	-	-	(55)	-	(55)	594	539
Transactions with owners:							
Issuance of share capital (Note 12)	60	-	-	-	-	-	60
Share-based compensation (Note 13)	-	10	-	-	10	-	10
Balance at September 30, 2018	\$11,875	\$ 1,040	\$ 563	\$ 465	\$ 2,068	\$ 13,724	\$ 27,667

(a) Additional detail of share capital is provided in Note 12.

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, 2018 and 2017
(in thousands of Canadian dollars) (unaudited)

	Reserves						
	Share capital (a)	Share-based compensation	Accumulated foreign currency translation	Warrants	Total reserves	Retained earnings	Total
Balance at January 1, 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 13)	-	153	-	-	153	-	153
Balance at September 30, 2017	\$11,765	\$ 909	\$ 450	\$ 465	\$ 1,824	\$ 9,969	\$ 23,558
Balance at January 1, 2018	\$11,815	\$952	\$ 465	\$ 465	\$ 1,882	\$ 10,730	\$ 24,427
Net income for the period	-	-	-	-	-	2,994	2,994
Exchange differences on translating foreign operations	-	-	98	-	98	-	98
Comprehensive income for the period	-	-	98	-	98	2,994	3,092
Transactions with owners:							
Issuance of share capital (Note 12)	60	-	-	-	-	-	60
Share-based compensation (Note 13)	-	88	-	-	88	-	88
Balance at September 30, 2018	\$11,875	\$ 1,040	\$ 563	\$ 465	\$ 2,068	\$ 13,724	\$ 27,667

(a) Additional detail of share capital is provided in Note 12.

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,	
	2018	2017	2018	2017
Operating activities:				
Net income for the period	\$ 594	\$ 556	\$ 2,994	\$ 3,001
Income tax expense	289	50	1,066	1,161
Depreciation and amortisation of non-current assets	498	500	1,544	1,474
Finance costs	138	142	401	418
Loss on disposition of property, plant and equipment	-	23	-	23
Share-based compensation	10	30	88	153
Unrealized foreign exchange loss (gain)	257	511	(413)	968
	1,786	1,812	5,680	7,198
Net changes in working capital				
(Increase) decrease in trade and other receivables	(875)	179	(2,852)	(2,669)
Increase in inventories	(629)	(1,983)	(2,425)	(2,147)
(Increase) decrease in prepaid expenses	(16)	(43)	172	(311)
Increase in trade and other payables	1,084	540	1,392	33
	(436)	(1,307)	(3,713)	(5,094)
Cash generated by operating activities	1,350	505	1,967	2,104
Net income taxes paid	(918)	(135)	(1,442)	(533)
Net cash generated by operating activities	432	370	525	1,571
Investing activities:				
Payments for property, plant and equipment	(279)	(435)	(2,191)	(1,892)
Net cash used in investing activities	(279)	(435)	(2,191)	(1,892)
Financing activities:				
Net change in bank indebtedness	474	(365)	1,601	1,921
Interest paid	(145)	(127)	(418)	(411)
Proceeds from the issuance of share capital	60	-	60	-
Increase in long term debt	-	-	1,761	-
Repayment of long-term debt	(338)	(278)	(992)	(955)
Repayment of finance leases	(49)	(53)	(151)	(139)
Net cash generated by (used in) financing activities	2	(823)	1,861	416
Net increase (decrease) in cash	155	(888)	195	95
Cash, beginning of the period	132	1,047	87	68
Effects of foreign exchange differences on cash	(2)	(6)	3	(10)
Cash, end of period	\$ 285	\$ 153	\$ 285	\$ 153

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

Notes to the interim condensed consolidated financial statements for the three and nine-month periods ended September 30, 2018 and 2017

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

1. General information

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

2. Significant accounting policies

2.1 Basis of Presentation

The interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and with International Accounting Standard (“IAS”) 34, *Interim Financial Reporting*. These interim condensed consolidated financial statements were prepared using the same basis of presentation and accounting policies as outlined in Note 2, *Significant accounting policies* of our Consolidated financial statements for the years ended December 31, 2017 and 2016, with the exception of the adoption of IFRS 15 and IFRS 9 on January 1, 2018 as described in note 2.2 of the interim condensed consolidated financial statements. 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 26, 2018.

2.2 Initial adoption of new accounting standards in the reporting period

Revenue Recognition

IFRS 15 – *Revenue from Contracts with Customers* was issued in May 2014 to replace IAS 18 – *Revenue* and IAS 11 – *Construction Contracts* as well as other revenue-related interpretations. IFRS 15 establishes a new control-based revenue recognition model based on the transfer of promised goods and services to customers at a point in time or over time, provides new and more detailed guidance on specific topics and provides additional requirements on the disclosures about revenue in the consolidated financial statements.

The Company adopted this new standard on January 1, 2018 using the modified retrospective method of adoption, with the effect of initially applying this standard on January 1, 2018. The financial information for periods beginning after January 1, 2018 is presented in accordance with IFRS 15, while the 2016 and 2017 comparative periods will not be restated to conform to the new IFRS 15 requirements. The adoption of this new standard did not have a material impact on the Company’s interim condensed consolidated financial statements and no adjustments were made to retained earnings as at January 1, 2018.

Revenue is recognized when the control of a product is transferred to a customer and no other performance obligations are to be completed under the contract. Revenue is measured based on the consideration that has been agreed upon by all parties and that the Company expects to be entitled to receive from the customer, net of all rebates and discounts agreed to by all parties concerned.

**Notes to the interim condensed consolidated financial statements
for the three and nine-month periods ended September 30, 2018 and 2017**

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

2. Significant accounting policies (continued)

2.2 Initial adoption of new accounting standards in the reporting period (continued)

Financial Instruments

In July 2014, the IASB released IFRS 9 – *Financial instruments*, which will replace IAS 39 – *Financial Instruments: Recognition and Measurement*. This IFRS includes a revised model for the classification and measurement of financial assets and liabilities, a forward-looking ‘expected loss’ impairment model and a reformed approach to hedge-accounting.

The Company adopted this standard on January 1, 2018. The impact on the Company’s consolidated financial statements for 2016 and 2017 is insignificant and there were no adjustments made to opening retained earnings or the interim condensed consolidated financial statements following the adoption of this standard.

The Company considers historical, current and forward-looking factors when determining expected credit losses (ECLs) based on the approach used under IFRS 9, which may lead to losses being recognized earlier than in the incurred loss model previously used. The Company uses a simplified approach when determining the lifetime expected losses for its trade receivables, which takes into consideration the age of trade receivables and the Company’s historical credit losses for each category of trade receivables as well as other factors which may increase the accuracy of the determined loss probability, including geographical region, knowledge of the customer’s paying pattern and credit insurance.

3. New accounting standards not yet applied

Leases

In January 2016, the IASB published IFRS 16 – *Leases*, which will replace the existing standard IAS 17 – *Leases* and related interpretations. This IFRS eliminates the classification as an operating lease and requires lessees to recognise a right-of-use asset and a lease liability in the statement of financial position for all leases with exemptions permitted for short-term leases and leases of low value assets. IFRS 16 also changes the definition of a lease, sets requirements on how to account for the asset and liability, including complexities such as non-lease elements, variable lease payments and options periods, changes the accounting for sale and leaseback arrangements, largely retains IAS 17’s approach to lessor accounting and introduces new disclosure requirements. Imaflex Inc. will adopt this new standard on January 1, 2019 and it will require the Company to change the accounting treatment currently used for operating leases, including the leases for its production facilities. Management is finalizing the process of implementing IFRS 16, including the assessment of the overall impact of this new standard on its consolidated financial statements as well as the choice of the transition method and elections to be made upon application.

4. 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.

4.1 Revenues by geographical end market

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

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Canada	\$ 7,868	\$ 6,084	\$ 22,094	\$ 22,293
United States	13,431	14,561	41,530	44,420
Other	17	146	236	189
Total	\$ 21,316	\$ 20,791	\$ 63,860	\$ 66,902

**Notes to the interim condensed consolidated financial statements
for the three and nine-month periods ended September 30, 2018 and 2017**

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

4. Segment information (continued)

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

	September 30, 2018	December 31, 2017
Canada	\$ 8,566	\$ 7,909
United States	12,456	12,078
Total	\$ 21,022	\$ 19,987

5. Additional information on the consolidated statements of comprehensive income

The Company's consolidated statements of comprehensive income include depreciation of production equipment of \$0.4 million for the quarter ended September 30, 2018 (\$0.5 million in 2017) and \$1.3 million for the nine-month period ended September 30, 2018 (\$1.3 million in 2017) classified in Cost of sales. Depreciation of other property, plant and equipment and amortisation of intangible assets amounting to \$0.1 million for the quarter ended September 30, 2018 (\$0.04 million in 2017) and \$0.2 million for the nine-month period ended September 30, 2018 (\$0.2 million in 2017) is included in Administrative expenses.

The Company's consolidated statements of comprehensive income include salaries paid to its employees of \$2.3 million for the quarter ended September 30, 2018 (\$2.3 million in 2017) and \$7.3 million for the nine-month period ended September 30, 2018 (\$7.1 million in 2017) classified in Cost of sales. Administrative expenses include salaries paid to employees of \$0.5 million for the quarter ended September 30, 2018 (\$0.4 million in 2017) and \$1.4 million for the nine-month period ended September 30, 2018 (\$1.3 million in 2017). Selling expenses include salaries paid to employees of \$0.1 million for the quarter ended September 30, 2018 (\$0.1 million in 2017) and \$0.3 million for the nine-month period ended September 30, 2018 (\$0.4 million in 2017).

6. 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 for the quarter ended September 30, 2018 (\$0.7 million in 2017) and \$2.0 million for the nine-month period ended September 30, 2018 (\$2.0 million in 2017). 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, 2018, the Company contributed \$7 thousand to this plan (\$7 thousand in 2017) and \$21 thousand for the nine-month period ended September 30, 2018 (\$24 thousand in 2017).

**Notes to the interim condensed consolidated financial statements
for the three and nine-month periods ended September 30, 2018 and 2017**

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

7. Finance costs

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Interest on bank indebtedness and long-term debt	\$ 132	\$ 124	\$ 383	\$ 391
Interest on finance lease obligations	6	18	18	27
	\$ 138	\$ 142	\$ 401	\$ 418

8. Other gains and losses

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Foreign exchange losses (gains)	\$ 242	\$ 617	\$ (454)	\$ 1,124
Loss on disposition of equipment	-	23	-	23
	\$ 242	\$ 640	\$ (454)	\$ 1,147

9. Earnings per share

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Net income for basic and diluted earnings per share	\$ 594	\$ 556	\$ 2,994	\$ 3,001
Weighted average number of common shares outstanding	49,921	49,739	49,883	49,739
Dilutive effect of share purchase options	1,133	1,546	1,195	1,218
Diluted weighted average common shares outstanding	51,054	51,285	51,078	50,957
Basic earnings per common share	\$ 0.01	\$ 0.01	\$ 0.06	\$ 0.06
Diluted earnings per common share	\$ 0.01	\$ 0.01	\$ 0.06	\$ 0.06

An amount of 200,000 stock options outstanding as at September 30, 2018 were not included in the calculation of earnings per share because they were antidilutive (50,000 as at September 30, 2017).

**Notes to the interim condensed consolidated financial statements
for the three and nine-month periods ended September 30, 2018 and 2017**

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

10. Property, plant and equipment

	Land	Building	Production equipment	Leasehold improvements	Office equipment	Computer equipment	Equipment under finance lease	Total
Cost								
January 1, 2017	\$ 23	\$ 115	\$ 47,456	\$ 2,217	\$ 46	\$ 511	\$ 1,080	\$ 51,448
Additions	-	-	2,014	330	-	6	310	2,660
Write-off	-	-	(29)	-	-	-	-	(29)
Foreign exchange	(1)	(8)	(1,354)	(65)	(1)	(3)	(61)	(1,493)
December 31, 2017	22	107	48,087	2,482	45	514	1,329	52,586
Additions	-	-	1,937	248	-	6	-	2,191
Foreign exchange	1	4	636	36	0	2	27	706
September 30, 2018	\$ 23	\$ 111	\$ 50,660	\$ 2,766	\$ 45	\$ 522	\$ 1,356	\$ 55,483
Accumulated depreciation								
January 1, 2017	\$ -	\$ (3)	\$(29,909)	\$(1,970)	\$(46)	\$(458)	\$(276)	\$(32,662)
Depreciation expense	-	(6)	(1,678)	(185)	-	(36)	(88)	(1,993)
Write-off	-	-	6	-	-	-	-	6
Foreign exchange	-	0	590	49	1	2	13	655
December 31, 2017	-	(9)	(30,991)	(2,106)	(45)	(492)	(351)	(33,994)
Depreciation expense	-	(4)	(1,261)	(125)	-	(20)	(65)	(1,475)
Foreign exchange	-	(0)	(301)	(26)	(0)	(1)	(8)	(336)
September 30, 2018	-	\$ (13)	\$(32,553)	\$ (2,257)	\$ (45)	\$ (513)	\$ (424)	\$(35,805)
Net book value, as at								
December 31, 2017	\$ 22	\$ 98	\$ 17,096	\$ 376	\$ -	\$ 22	\$ 978	\$ 18,592
September 30, 2018	\$ 23	\$ 98	\$ 18,107	\$ 509	\$ -	\$ 9	\$ 932	\$ 19,678

A portion of the Company's production equipment with a carrying amount of approximately \$ 18.5 million (approximately \$17.7 million as at December 31, 2017) is pledged as collateral for the Company's long-term debt.

During the quarter ending March 31, 2018, the Company made a \$1.0 million deposit on an extruder that is expected to be delivered at the beginning of the 2019 fiscal year.

**Notes to the interim condensed consolidated financial statements
for the three and nine-month periods ended September 30, 2018 and 2017**

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

11. Borrowings

	September 30, 2018	December 31, 2017
Bank indebtedness (a)	\$ 7,428	\$ 5,827
Long-term debt		
Loan, bearing interest at the lender's base rate minus 0.5% (effective rate of 5.3% as at September 30, 2018 and 4.80% as at December 31, 2017), secured by production equipment having a net book value of approximately \$7.0 million. (b)	2,068	2,433
Loan, bearing interest at the lender's base rate plus 0.67%, (effective rate of 6.47% as at September 30, 2018 and 5.97% as at December 31, 2017) secured by the same production equipment as the loan above. (c)	250	250
Loan, bearing interest at the lender's base rate minus 1.00%, (effective rate of 4.8% as at September 30, 2018) secured by a \$500 thousand hypothec on a piece of equipment of the borrower. (d)	433	-
Loan (US\$0.9 million, US\$1.3 million as at December 31, 2017), bearing interest at the US prime rate, reset monthly, plus 3.00% (effective rate of 8% as at September 30, 2018, 7.5% as at December 31, 2017) secured by the production equipment of the subsidiary having a net book value of approximately \$10.7 million and a corporate guarantee from the Parent Company. (e)	1,129	1,662
Loan, bearing interest at the prime rate plus 1.75%, (effective rate of 5.45% as at September 30, 2018) secured by the production equipment of the subsidiary having a net book value of approximately \$10.7 million. (f)	1,261	-
Total long-term debt	5,141	4,345
Finance leases	326	475
Total borrowings	12,895	10,647
Current		
Bank indebtedness	\$ 7,428	\$ 5,827
Long-term debt, current portion	1,445	1,250
Finance lease obligations, current portion	121	195
	8,994	7,272
Non-current		
Long-term debt	3,696	3,095
Finance lease obligations	205	280
	3,901	3,375
Total borrowings	\$ 12,895	\$ 10,647

**Notes to the interim condensed consolidated financial statements
for the three and nine-month periods ended September 30, 2018 and 2017**

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

11. Borrowings (continued)

Interest on long-term debt amounted to \$57 thousand for the quarter ended September 30, 2018 (\$61 thousand in 2017) and \$178 thousand for the nine-month period ended September 30, 2018 (\$202 thousand in 2017).

- (a) The Company has an operating line of credit with its bankers to a maximum of \$12.0 million, bearing interest at prime plus 0.40% as at September 30, 2018 (plus 0.75% as at December 31, 2017) for an effective interest rate of 4.10% as at September 30, 2018 and 3.95% as at December 31, 2017. The line of credit is secured by trade receivables and inventories. The line of credit may be reviewed periodically by the bank and is repayable on demand. The operating line of credit is subject to working capital, debt to equity and minimum EBITDA covenants (as defined in the lending agreement), all of which were respected as at September 30, 2018 and December 31, 2017. As at September 30, 2018, the Company had drawn \$7.4 million (\$5.8 million as at December 31, 2017) on the line of credit.
- (b) This loan is repayable in monthly instalments of \$41 thousand until November 2022. The interest applicable to the loan is 0.50% under the lender's base rate (effective rate of 5.3% as at September 30, 2018 and 4.8% as at December 31, 2017).
- (c) During the year ended December 31, 2017, the Company closed a financing for \$250 thousand in order to finance the purchase of equipment. The loan is repayable in one instalment of \$4 thousand in May 2019 and 71 monthly instalments of \$3 thousand until April 2025 and bears interest at 0.67% over the lender's base rate for an effective rate of 6.47% as at September 30, 2018 and 5.97% as at December 31, 2017. This loan is secured by the same production equipment as the loan detailed in (b).
- (d) During the first quarter of 2018, the Company closed a financing for \$500 thousand in order to finance the purchase of equipment. The loan is repayable in one monthly instalment of \$9 thousand in February 2018 followed by 59 monthly instalments of \$8 thousand and bears interest at 1.00% under the lender's base rate for an effective interest rate of 4.8% as at September 30, 2018. This loan is secured by a piece of equipment.
- (e) This loan is repayable in 20 equal quarterly instalments through January 2020 and bears interest at a rate of 3.00% over the US prime rate for an effective rate of 8.00% as at September 30, 2018 (7.50% as at December 31, 2017). This loan was recorded at the effective interest rate method, net of all incremental transaction costs directly attributable to the transaction. This loan is subject to certain covenants. As at September 30, 2018 and December 31, 2017, the Company was in compliance with all covenants related to this loan.
- (f) During the second quarter of 2018, the Company closed a financing for a total amount of \$3.75 million to purchase a five layer blown extrusion line. The facility may be drawn upon in 4 advances for the 12 months following the date the financing was closed. As at September 30, 2018, the Company had drawn \$1.3 million on this facility. This loan is repayable in 60 equal monthly instalments starting on the 13th month following the date of the initial advance. It bears interest at a rate of prime plus 1.75% (for an effective rate of 5.45% as at September 30, 2018). The loan is secured by the five layer blown extrusion line as well as a general security on all of the subsidiary's present and after-acquired personal and movable property.

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

Not later than one year	\$ 1,500
Later than one year and not later than five years	3,428
Later than 5 years	213
	\$ 5,141

**Notes to the interim condensed consolidated financial statements
for the three and nine-month periods ended September 30, 2018 and 2017**

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

12. Share capital

The Company's authorized share capital consists of an unlimited number of common shares, voting, participating, without par value. During the third quarter of 2018, following the exercise of options granted in 2016, the Company issued 150,000 shares for cash consideration of \$60 thousand. As at September 30, 2018, there were 50,013,637 common shares outstanding (49,863,637 common shares at December 31, 2017 and 49,738,637 at September 30, 2017).

During the year ended December 31, 2017, the Company issued 125,000 shares for cash consideration totaling \$50 thousand following the exercise of options that were issued in 2016. As at December 31, 2017 and September 30, 2018, there were no warrants outstanding.

13. Share-based compensation

Pursuant to the Stock Option Plan (the "Plan") of the Company, 4,973,860 of the common shares are reserved for options. The Plan provides that the term of the options shall be fixed by directors. Officers and employees of the Company are eligible to receive options. Options are granted at an exercise price of not less than the fair value of the Company's shares on the date the options are granted. Options may be exercisable for a period no longer than five (5) years and the exercise price must be paid in full upon exercise of the option.

The expense related to share-based compensation totaled \$10 thousand for the quarter ended September 30, 2018 (\$30 thousand in 2017) and \$88 thousand for the nine-month period ended September 30, 2018 (\$153 thousand in 2017).

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

	29/11/2017	22/06/2017	06/09/2016	21/06/2016	16/06/2015	Total
Outstanding as at 31/12/2017	150,000	50,000	500,000	1,175,000	650,000	2,525,000
Issued	-	-	-	-	-	-
Exercised	-	-	-	150,000	-	150,000
Outstanding as at 30/09/2018	150,000	50,000	500,000	1,025,000	650,000	2,375,000
Exercisable as at 30/09/2018	75,000	37,500	500,000	1,025,000	650,000	2,287,500
Outstanding as at 30/09/2017	-	50,000	500,000	1,300,000	650,000	2,500,000
Exercisable as at 30/09/2017	-	12,500	375,000	650,000	650,000	1,687,500
Remaining life of options (yrs)	4.17	3.73	2.94	2.73	1.71	
Expected life of options (yrs)	2.5 to 3.25	2.5 to 3.25	2.5 to 3.25	2.75 to 3.5	2.75 to 3.5	
Expiry	29/11/2022	22/06/2022	06/09/2021	21/06/2021	15/06/2020	
Fair value assumptions						
Expected share price volatility	79.13% - 80.17%	80.01% - 83.03%	76.59% - 79.60%	75.95% - 82.15%	83.19% - 98.85%	
Dividend yield	0%	0%	0%	0%	0%	
Risk free rate	1.62%	1.15%	0.51%	0.50%	0.55% - 0.65%	
Exercise price	\$ 1.11	\$ 1.03	\$ 0.42	\$ 0.40	\$ 0.52	
Share price on grant date	\$ 1.11	\$ 1.03	\$ 0.42	\$ 0.40	\$ 0.52	
Fair value of option at grant	\$ 0.57	\$ 0.53	\$ 0.21	\$ 0.21	\$ 0.30	

**Notes to the interim condensed consolidated financial statements
for the three and nine-month periods ended September 30, 2018 and 2017**

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

13. Share-based compensation (continued)

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

14. Financial instruments

14.1 Fair value and classification of financial instruments

	Carrying amount and fair value	
	September 30, 2018	December 31, 2017
Financial assets		
Loans and receivables		
Cash	\$ 285	\$ 87
Trade and other receivables ⁽¹⁾	14,873	12,046
	15,158	12,133
Financial liabilities		
Financial liabilities, at amortised cost		
Bank indebtedness	7,428	5,827
Trade and other payables ⁽²⁾	7,931	6,694
Long term debt	5,141	4,345
	20,500	16,866
Other liabilities		
Finance lease obligations	326	475

⁽¹⁾ Excludes sales taxes

⁽²⁾ Excludes employee benefits

Fair value estimates are made as of the date of the consolidated statement of financial position, using available information about the financial instrument. These estimates are subjective in nature and often cannot be determined with precision.

The following methods and assumptions were used to determine the estimated fair value of each class of financial instruments:

- The fair value of cash, trade and other receivables, bank indebtedness 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.

**Notes to the interim condensed consolidated financial statements
for the three and nine-month periods ended September 30, 2018 and 2017**

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

14. Financial instruments (continued)

14.2 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, 2018 and December 31, 2017, the fair values of long-term debt and finance lease obligations are categorised as Level 2.

15. Subsequent events

After the date of the statement of financial position, the Company borrowed an additional \$0.8 million in order to make the first down payment for the purchase of a new piece of machinery that is expected to be delivered in the third quarter of 2019. This debt bears interest at an annualized rate of 2.32%.