

Interim Condensed Consolidated Financial Statements of

IMAFLEX INC.

For the three and nine-month periods ended September 30, 2019 and 2018

Consolidated statements of comprehensive income

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

(unaudited)

for the	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Revenues (Note 3.1)	\$ 19,195	\$ 21,316	\$ 62,331	\$ 63,860
Cost of sales	16,674	18,387	54,026	54,868
Gross profit	2,521	2,929	8,305	8,992
Expenses:				
Selling	419	426	1,246	1,153
Administrative	1,393	1,300	4,120	3,850
Finance costs (Note 6)	196	138	542	401
Foreign exchange (gains) losses	(217)	242	498	(454)
Other	20	(60)	67	(18)
	1,811	2,046	6,473	4,932
Income before income taxes	710	883	1,832	4,060
Income taxes	240	289	599	1,066
NET INCOME	470	594	1,233	2,994
Other comprehensive income (loss) Item that will be reclassified subsequently to net income				
Exchange differences on translating foreign operations	33	(55)	(88)	98
COMPREHENSIVE INCOME	\$ 503	\$ 539	\$ 1,145	\$ 3,092
Earnings per share (Note 7)				
Basic	\$ 0.01	\$ 0.01	\$ 0.02	\$ 0.06
Diluted	\$ 0.01	\$ 0.01	\$ 0.02	\$ 0.06

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

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

As at	September 30, 2019	December 31, 2018
Assets		
<i>Current assets</i>		
Cash	\$ 587	\$ 311
Trade and other receivables	13,848	15,922
Inventories	13,156	14,656
Prepaid expenses	603	221
Total current assets	28,194	31,110
<i>Non-current assets</i>		
Property, plant and equipment (Note 8)	28,348	21,183
Intangible assets	1,254	1,345
Total non-current assets	29,602	22,528
Total assets	\$ 57,796	\$ 53,638
Liabilities and equity		
<i>Current liabilities</i>		
Bank indebtedness (Note 9)	5,427	8,918
Trade and other payables	8,637	9,190
Current tax liabilities	308	498
Long-term debt, current portion (Note 9)	1,911	1,433
Lease obligations, current portion (Note 9, 10)	1,092	90
Total current liabilities	17,375	20,129
<i>Non-current liabilities</i>		
Long-term debt (Note 9)	6,927	2,139
Deferred tax liabilities	1,457	1,468
Lease obligations (Note 9, 10)	2,640	1,479
Total non-current liabilities	11,024	5,086
Total liabilities	28,399	25,215
<i>Equity</i>		
Share capital (Note 11)	11,875	11,875
Reserves	2,240	2,268
Retained earnings	15,282	14,280
Total equity	29,397	28,423
Total liabilities and equity	\$ 57,796	\$ 53,638

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, 2019 and 2018
(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, 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 11)	60	-	-	-	-	-	60
Share-based compensation (Note 12)	-	10	-	-	10	-	10
Balance at September 30, 2018	\$11,875	\$ 1,040	\$ 563	\$ 465	\$ 2,068	\$ 13,724	\$ 27,667
Balance at July 1, 2019	\$11,875	\$1,117	\$ 608	\$ 465	\$ 2,190	\$ 14,812	\$ 28,877
Net income for the period	-	-	-	-	-	470	470
Exchange differences on translating foreign operations	-	-	33	-	33	-	33
Comprehensive income for the period	-	-	33	-	33	470	503
Transactions with owners:							
Share-based compensation (Note 12)	-	17	-	-	17	-	17
Balance at September 30, 2019	\$11,875	\$ 1,134	\$ 641	\$ 465	\$ 2,240	\$ 15,282	\$ 29,397

(a) Additional detail of share capital is provided in Note 11.

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, 2019 and 2018
(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, 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 11)	60	-	-	-	-	-	60
Share-based compensation (Note 12)	-	88	-	-	88	-	88
Balance at September 30, 2018	\$11,875	\$ 1,040	\$ 563	\$ 465	\$ 2,068	\$ 13,724	\$ 27,667
Balance at January 1, 2019	\$11,875	\$1,074	\$ 729	\$ 465	\$ 2,268	\$ 14,280	\$ 28,423
Adjustments related to the adoption of IFRS 16	-	-	-	-	-	(231)	(231)
Adjusted balance as at Jan 1, 2019	11,875	1,074	729	465	2,268	14,049	28,192
Net income for the period	-	-	-	-	-	1,233	1,233
Exchange differences on translating foreign operations	-	-	(88)	-	(88)	-	(88)
Comprehensive income for the period	-	-	(88)	-	(88)	1,233	1,145
Transactions with owners:							
Share-based compensation (Note 12)	-	60	-	-	60	-	60
Balance at September 30, 2019	\$11,875	\$ 1,134	\$ 641	\$ 465	\$ 2,240	\$ 15,282	\$ 29,397

(a) Additional detail of share capital is provided in Note 11.

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,	
	2019	2018	2019	2018
Operating activities:				
Net income for the period	\$ 470	\$ 594	\$ 1,233	\$ 2,994
Income tax expense	240	289	599	1,066
Depreciation and amortisation of non-current assets	829	498	2,435	1,544
Finance costs	196	138	542	401
Share-based compensation	17	10	60	88
Unrealized foreign exchange (gain) loss	(180)	257	488	(413)
	1,572	1,786	5,357	5,680
Net changes in working capital				
(Increase) decrease in trade and other receivables	(714)	(875)	1,954	(2,852)
(Increase) decrease in inventories	(386)	(629)	1,389	(2,425)
(Increase) decrease in prepaid expenses	(88)	(16)	(386)	172
Increase (decrease) in trade and other payables	1,326	1,084	(516)	1,392
	138	(436)	2,441	(3,713)
Cash generated by operating activities	1,710	1,350	7,798	1,967
Net income taxes paid	(287)	(918)	(803)	(1,442)
Net cash generated by operating activities	1,423	432	6,995	525
Investing activities:				
Payments for property, plant and equipment	(3,026)	(279)	(4,086)	(2,191)
Net cash used in investing activities	(3,026)	(279)	(4,086)	(2,191)
Financing activities:				
Net change in bank indebtedness	(346)	474	(3,491)	1,601
Interest paid	(190)	(145)	(536)	(418)
Proceeds from the issuance of share capital	-	60	-	60
Increase in long-term debt	3,748	-	3,748	1,761
Repayment of long-term debt	(936)	(338)	(1,586)	(992)
Repayment of leases	(263)	(49)	(760)	(151)
Net cash generated by (used in) financing activities	2,013	2	(2,625)	1,861
Net increase in cash	410	155	284	195
Cash, beginning of the period	175	132	311	87
Effects of foreign exchange differences on cash	2	(2)	(8)	3
Cash, end of period	\$ 587	\$ 285	\$ 587	\$ 285

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, 2019 and 2018

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”.

These interim condensed consolidated financial statements have not been reviewed by the Company’s auditors.

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, 2018 and 2017, with the exception of the adoption of IFRS 16 on January 1, 2019 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 22, 2019.

2.2 Initial adoption of new accounting standards in the reporting period

Leases

IFRS 16 – *Leases* replaces IAS 17 – *Leases* and related interpretations. IFRS 16 eliminates the classification as an operating lease and requires lessees to recognise a right-of-use asset and a lease obligation in the statement of financial position for all leases, with exemptions permitted for short-term leases and leases of low value assets. In addition, IFRS 16 largely retains IAS 17’s approach to lessor accounting and introduces new disclosure requirements. The Company’s accounting policy under IFRS 16 is as follows:

At inception of a contract, the Company identifies whether it is or contains a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

At the commencement date, the Company recognizes the lease liability measured at the present value of the lease payments that are not paid at that date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company’s incremental borrowing rate. Lease payments include fixed payments and in-substance fixed payments, variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date of the lease, amounts expected to be paid by the Company under residual value guarantees, purchase options if the Company is reasonably certain to exercise that option and penalties for terminating the lease if the lease term reflects the Company using an option to terminate the lease. The lease liability is measured at amortized cost using the effective interest method. It is remeasured by discounting the revised lease payments using a revised discount rate if there is a change in the lease term or in the assessment of an option to purchase the underlying asset. The lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate if there is a change in the amount payable under a residual value guarantee or there is a change in future lease payments resulting from a change in an index or rate used to determine those payments.

**Notes to the interim condensed consolidated financial statements
for the three and nine-month periods ended September 30, 2019 and 2018**

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)

The Company recognizes a right-of-use asset at the lease commencement date initially measured at cost, which comprises the initial measurement of the lease liability, any lease payments made before the commencement date, any initial indirect costs incurred by the Company, less any lease incentives received. The right-of-use asset is subsequently amortised on a straight-line basis over the term of the lease or the useful life of the asset, if shorter, if the Company is reasonably certain to exercise an option to buy the asset or if ownership of the asset is automatically transferred to the Company at the term of the lease. The lease term includes any option to renew the lease if it is reasonably certain that the Company will renew the lease. In addition, as for all of the Company's assets, the right-of-use asset is periodically assessed for indications of impairment.

Transition to IFRS 16

IFRS 16 has been applied with a date of initial application being January 1, 2019, using the modified retrospective approach, with the cumulative effect of adopting IFRS 16 being recognized in equity as an adjustment of the opening balance of retained earnings for the current period. Prior periods have not been restated. For leases in existence at the date of initial application, the Company has elected not to include direct costs in the measurement of the right-of-use asset. Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Company has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

The Company has applied the optional exemptions not to recognize right-of-use assets for leases with a term of less than 12 months and for leases of low-value assets and opted to account for these leases on a straight-line basis over the remaining lease term. For leases previously classified as finance leases, the right-of-use asset and lease liability are measured at the date of initial application at the same amounts as under IAS 17 immediately before the date of initial application. The Company elected not to separate non-lease components from lease components in lease payments to determine the lease obligation under IFRS 16. Finally, the Company also used hindsight in determining the term of the leases accounted for under IFRS 16 which resulted in the extension of the term of certain leases for which the Company was reasonably certain to prevail itself of its extension option. The Company also eliminated some non-cash accrued amounts that were being amortized over the remaining term of some leases.

As a result of the adoption of IFRS 16, the Company recorded a lease liability of \$4.3 million, right-of-use assets totalling \$4.0 million and a \$0.2 million reduction in retained earnings, which is net of the \$0.1 million reversal of accrued expenses. On transition, the weighted average incremental borrowing rate applied to lease liabilities applied under IFRS 16 was 5.6%.

(in thousands of Canadian dollars) (unaudited)	
Total operating lease commitment disclosed as at December 31, 2018	\$ 4,669
Other adjustments relating to commitment disclosures	212
Leases of low value	(36)
Operating lease liabilities before discounting	4,845
Discounting using incremental borrowing rates	(551)
Operating lease liability	4,294
Finance lease obligations recorded as at December 31, 2018	1,568
Total lease liabilities recognised under IFRS 16 as at January 1, 2019	\$ 5,862

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.

**Notes to the interim condensed consolidated financial statements
for the three and nine-month periods ended September 30, 2019 and 2018**

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

3. Segment information (continued)

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,	
	2019	2018	2019	2018
Canada	\$ 7,690	\$ 7,868	\$ 25,070	\$ 22,094
United States	11,505	13,431	37,196	41,530
Other	-	17	65	236
Total	\$ 19,195	\$ 21,316	\$ 62,331	\$ 63,860

3.2 Property, plant and equipment, right-of-use assets and intangible assets per geographic location

	September 30, 2019	December 31, 2018
Canada	\$ 9,381	\$ 9,197
United States	20,221	13,331
Total	\$ 29,602	\$ 22,528

4. Additional information on the consolidated statements of comprehensive income

The Company's consolidated statements of comprehensive income include depreciation of production assets and accessories of \$0.8 million for the quarter ended September 30, 2019 (\$0.4 million in 2018) and \$2.3 million for the nine-month period ended September 30, 2019 (\$1.3 million in 2018) classified in Cost of sales, which includes the depreciation for right-of-use assets of \$0.3 million for the quarter and \$0.8 million for the nine-month period. Depreciation of other property, plant and equipment and amortisation of intangible assets amounting to \$0.1 million for the quarter ended September 30, 2019 (\$0.1 million in 2018) and \$0.2 million for the nine-month period ended September 30, 2019 (\$0.2 million in 2018) is included in Administrative expenses.

The Company's consolidated statements of comprehensive income include salaries paid to its employees of \$2.4 million for the quarter ended September 30, 2019 (\$2.3 million in 2018) and \$7.6 million for the nine-month period ended September 30, 2019 classified in Cost of sales (\$7.3 million in 2018). Administrative expenses include salaries paid to employees of \$0.5 million for the quarter ended September 30, 2019 (\$0.5 million in 2018) and \$1.6 million for the nine-month period ended September 30, 2019 (\$1.4 million in 2018). Selling expenses include salaries paid to employees of \$0.1 million for the quarter ended September 30, 2019 (\$0.1 million in 2018) and \$0.3 million for the nine-month period ended September 30, 2019 (\$0.3 million in 2018).

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 for the quarter ended September 30, 2019 (\$0.7 million in 2018) and \$2.1 million for the nine-month period ended September 30, 2019 (\$2.0 million in 2018). 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. The Company contributed \$8 thousand to this plan during the quarter ended September 30, 2019 (\$7 thousand in 2018) and \$24 thousand during the nine-month period ended September 30, 2019 (\$21 thousand in 2018).

**Notes to the interim condensed consolidated financial statements
for the three and nine-month periods ended September 30, 2019 and 2018**

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

6. Finance costs

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Interest on bank indebtedness and long-term debt	\$ 143	\$ 132	\$ 366	\$ 383
Interest on lease obligations	66	6	259	18
Capitalized interest	(13)	-	(83)	-
	\$ 196	\$ 138	\$ 542	\$ 401

7. Earnings per share

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Net income for basic and diluted earnings per share	\$ 470	\$ 594	\$ 1,233	\$ 2,994
Weighted average number of common shares outstanding	50,014	49,921	50,014	49,883
Dilutive effect of share purchase options	583	1,133	706	1,195
Diluted weighted average common shares outstanding	50,597	51,054	50,720	51,078
Basic earnings per common share	\$ 0.01	\$ 0.01	\$ 0.02	\$ 0.06
Diluted earnings per common share	\$ 0.01	\$ 0.01	\$ 0.02	\$ 0.06

An amount of 450,000 stock options outstanding as at September 30, 2019 were not included in the calculation of earnings per share because they were antidilutive (200,000 as at September 30, 2018).

8. Property, plant and equipment

	Land	Building	Production equipment	Leasehold improvements	Office equipment	Computer equipment	Equipment under finance lease	Total
Cost								
January 1, 2018	\$ 22	\$ 107	\$ 48,087	\$ 2,482	\$ 45	\$ 515	\$ 1,329	\$ 52,587
Additions	-	-	2,493	248	-	6	946	3,693
Foreign exchange	1	9	1,743	97	1	3	76	1,930
December 31, 2018	23	116	52,323	2,827	46	524	2,351	58,210
Accumulated depreciation								
January 1, 2018	\$ -	\$ (9)	\$(30,991)	\$(2,106)	\$(45)	\$(492)	\$(351)	\$(33,994)
Depreciation expense	-	(5)	(1,827)	(160)	-	(23)	(87)	(2,102)
Foreign exchange	-	(1)	(831)	(72)	(1)	(4)	(22)	(931)
December 31, 2018	-	(15)	(33,649)	(2,338)	(46)	(519)	(460)	(37,027)
Net book value, as at								
December 31, 2018	\$ 23	\$ 101	\$ 18,674	\$ 489	\$ -	\$ 5	\$ 1,891	\$ 21,183

**Notes to the interim condensed consolidated financial statements
for the three and nine-month periods ended September 30, 2019 and 2018**

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

8. Property, plant and equipment (continued)

	Land	Building	Production equipment	Leasehold improvements	Office equipment	Computer equipment	Rolling Stock	Total
Cost								
January 1, 2019	\$ 23	\$ 3,772	\$ 54,742	\$ 2,827	\$ 87	\$ 523	\$ 228	\$ 62,202
Additions	-	12	5,665	238	9	16	-	5,940
Foreign exchange	-	(20)	(694)	(37)	(1)	(1)	(1)	(754)
September 30, 2019	23	3,764	59,713	3,028	95	538	227	67,388
Accumulated depreciation								
January 1, 2019	-	(15)	(34,110)	(2,338)	(46)	(518)	-	(37,027)
Depreciation expense	-	(701)	(1,493)	(121)	(7)	(16)	(32)	(2,370)
Foreign exchange	-	1	328	27	-	1	-	357
September 30, 2019	-	(715)	(35,275)	(2,432)	\$ (53)	(533)	(32)	(39,040)
Net book value, as at								
September 30, 2019	\$ 23	\$ 3,049	\$ 24,438	\$ 596	\$ 42	\$ 5	\$ 195	\$ 28,348

A portion of the Company's production equipment with a carrying amount of approximately \$24.8 million (approximately \$18.4 million as at December 31, 2018) 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 was delivered during the 2019 fiscal year. Under a loan agreement made available to the Company, Imaflex made an additional \$1.8 million deposit and a final payment totaling \$ 82 thousand during the first and second quarters of 2019 respectively.

During the third quarter of 2019, the Company also made a \$2.2 million payment for a piece of production equipment, in addition to the \$0.8 million payment that was made during the fourth quarter of 2018.

Included in the net carrying amount of property, plant and equipment as at September 30, 2019 are right-of-use assets as follows:

	September 30, 2019
Buildings	\$ 2,943
Production equipment	332
Rolling stock	196
Office equipment	34
Total right-of-use asset	\$ 3,505

**Notes to the interim condensed consolidated financial statements
for the three and nine-month periods ended September 30, 2019 and 2018**

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

9. Borrowings

	September 30, 2019	December 31, 2018
Bank indebtedness (a)	\$ 5,427	\$ 8,114
Short-term borrowings (b)	-	804
	5,427	8,918
Long-term debt		
Loan, bearing interest at the lender's base rate minus 0.5% (effective rate of 5.55% as at September 30, 2019 and December 31, 2018), secured by production equipment having a net book value of approximately \$7.0 million. (c)	1,541	1,906
Loan, bearing interest at the lender's base rate plus 0.67%, (effective rate of 6.72% as at September 30, 2019 and December 31, 2018) secured by the same production equipment as the loan above. (d)	233	250
Loan, bearing interest at the lender's base rate minus 1.00%, (effective rate of 5.05% as at September 30, 2019 and December 31, 2018) secured by a \$500 thousand hypothec on a piece of equipment of the borrower. (e)	333	408
Loan, bearing interest at a fixed rate of 3.746% secured by a \$3.6 million hypothec on a piece of equipment of the borrower. (f)	3,500	-
Loan, bearing interest at a fixed rate of 3.75% secured by a \$3.3 million hypothec on a piece of equipment of the borrower. (g)	3,231	-
Loan (US\$0.7 million as at December 31, 2018), bearing interest at the US prime rate, reset monthly, plus 3.00% (effective rate of 8.50% as December 31, 2018) secured by the production equipment of the subsidiary having a net book value of approximately \$11 million and a corporate guarantee from the Parent Company. (h)	-	1,008
Total long-term debt	8,838	3,572
Lease obligations	3,732	1,569
Total borrowings	17,997	14,059

**Notes to the interim condensed consolidated financial statements
for the three and nine-month periods ended September 30, 2019 and 2018**

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

9. Borrowings (continued)

	September 30, 2019	December 31, 2018
Current		
Bank indebtedness	\$ 5,427	\$ 8,114
Short-term borrowings	-	804
Long-term debt, current portion	1,911	1,433
Lease obligations, current portion	1,092	90
	8,430	10,441
Non-current		
Long-term debt	6,927	2,139
Lease obligations	2,640	1,479
	9,567	3,618
Total borrowings	\$ 17,997	\$ 14,059

Interest on long-term debt amounted to \$83 thousand for the quarter ended September 30, 2019 (\$57 thousand in 2018) and \$140 thousand for the nine-month period ended September 30, 2019 (\$178 thousand in 2018).

- (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, 2019 and December 31, 2018 for an effective interest rate of 4.35% as at September 30, 2019 and December 31, 2018. 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 and debt to equity covenants (as defined in the lending agreement), all of which were respected as at September 30, 2019 and December 31, 2018. As at September 30, 2019, the Company had drawn \$5.4 million (\$8.1 million as at December 31, 2018) on the line of credit.
- (b) As at December 31, 2018, the Company had \$0.8 million outstanding on a three month banker's acceptance which bore interest at an annualized rate of 2.32% to make a deposit on a piece of equipment. The banker's acceptance was guaranteed by a letter of credit issued by the supplier's bank and was renewed several times during the course of the 2019 fiscal year. Once the piece of equipment was received and the long-term loan related to this piece of equipment was funded, the banker's acceptance was fully reimbursed.
- (c) The 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 5.55% as at September 30, 2019 and December 31, 2018).
- (d) The loan is repayable in 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 6.72% as September 30, 2019 and December 31, 2018. This loan is secured by the same production equipment as the loan detailed in (c).
- (e) During the first quarter of 2018, the Company borrowed \$500 thousand in order to finance the purchase of equipment. The loan bears interest at the lender's base rate minus 1.0% (for an effective rate of 5.05% as at September 30, 2019 and December 31, 2018) and is repayable in monthly instalments of \$8 thousand and matures in January 2023.

**Notes to the interim condensed consolidated financial statements
for the three and nine-month periods ended September 30, 2019 and 2018**

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

9. Borrowings (continued)

- (f) The loan is repayable in monthly instalments of \$66 thousand until July 2024 and bears interest at a fixed annualized rate of 3.746%. This loan is secured by a hypothec on a specific piece of equipment of the Company. The progressive payments made to the supplier for this piece of equipment were initially borrowed under a lease agreement and all amounts were transferred to this loan when the equipment was fully delivered.
- (g) The loan is repayable in monthly instalments of \$60 thousand until August 2024 and bears interest at a fixed annualized rate of 3.75%. This loan is secured by a hypothec on a specific piece of equipment of the Company. The banker's acceptance that was outstanding as at December 31, 2018 was reimbursed with the proceeds of this loan.
- (h) During the third quarter, this loan, initially repayable in 20 equal quarterly instalments through January 2020, was reimbursed in full, including all interest due at the payment date, without incurring any penalties. The loan bore interest at a rate of 3.00% over the US prime rate for an effective rate of 8.50% as at December 31, 2018. 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 December 31, 2018, the Company was in compliance with all covenants related to this loan.

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

Not later than one year	\$ 1,911
Later than one year and not later than five years	6,903
Later than 5 years	24
	\$ 8,838

10. Lease obligations

The Company has entered into certain lease agreements. Lease payments are due as follows:

Not later than one year	\$ 1,271
Later than one year and not later than five years	2,856
Later than five years	25
Total minimum lease payments	4,152
Less amount representing interest at approximately 6.8%	(420)
Present value of minimum lease payments	3,732
Less the long-term portion	(1,092)
Current portion of obligations under leases	\$ 2,640

The \$3.1 million that the Company borrowed under a lease agreement for interim payments made to a supplier for a piece of machinery was transferred to a loan during the third quarter of 2019. As such, all balances outstanding and payments to be made under the loan agreement are presented in Note 9 – *Borrowings* under long-term debt.

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11. Share capital

The Company's authorized share capital consists of an unlimited number of common shares, voting, participating, without par value. As at September 30, 2019, there were 50,013,637 common shares outstanding (50,013,637 common shares at December 31, 2018 and September 30, 2018).

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.

12. 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.

During the third quarter of 2019, the Company granted 100,000 options to a sales agent with an exercise price of \$0.55. The options are convertible into an equal number of shares with one quarter of the options vesting immediately at issuance and an additional quarter vesting every six-month period thereafter.

The expense related to share-based compensation totaled \$17 thousand for the quarter ended September 30, 2019 (\$10 thousand in 2018) and \$60 thousand for the nine-month period ended September 30, 2019 (\$88 thousand in 2018).

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	10/09/2019	29/11/2018	29/11/2017	22/06/2017	06/09/2016	21/06/2016	16/06/2015	Total
Outstanding as at 31/12/2018	-	250,000	150,000	50,000	500,000	1,025,000	650,000	2,625,000
Issued	100,000	-	-	-	-	-	-	100,000
Exercised	-	-	-	-	-	-	-	-
Outstanding as at 30/09/2019	100,000	250,000	150,000	50,000	500,000	1,025,000	650,000	2,725,000
Outstanding as at 30/09/2018	-	-	150,000	50,000	500,000	1,025,000	650,000	2,375,000
Exercisable as at 30/09/2019	25,000	125,000	150,000	50,000	500,000	1,025,000	650,000	2,525,000
Exercisable as at 30/09/2018	-	-	75,000	37,500	500,000	1,025,000	650,000	2,287,500
Remaining life of options (yrs)	4.95	4.17	3.17	2.73	1.94	1.73	0.71	
Fair value assumptions								
Expected life of options (yrs)	2.5 to 3.25	2.75 to 3.5	2.75 to 3.5					
Expiry	10/09/2024	29/11/2023	29/11/2022	22/06/2022	06/09/2021	21/06/2021	15/06/2020	
Expected share price volatility	61.21% - 64.47%	67.14% - 70.41%	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%	0%	0%	
Risk free rate	1.44%	2.23%	1.62%	1.15%	0.51%	0.50%	0.55% to 0.65%	
Exercise price	\$ 0.55	\$ 0.76	\$ 1.11	\$ 1.03	\$ 0.42	\$ 0.40	\$ 0.52	
Share price on grant date	\$ 0.55	\$ 0.76	\$ 1.11	\$ 1.03	\$ 0.42	\$ 0.40	\$ 0.52	
Fair value of option at grant	\$ 0.30	\$ 0.35	\$ 0.57	\$ 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 Venture Exchange over the expected life of the options.

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13. Financial instruments

13.1 Fair value and classification of financial instruments

	Carrying amount and fair value	
	September 30, 2019	December 31, 2018
Financial assets		
Loans and receivables		
Cash	\$ 587	\$ 311
Trade and other receivables ⁽¹⁾	13,380	15,294
	13,967	15,605
Financial liabilities		
Financial liabilities, at amortised cost		
Bank indebtedness	5,427	8,114
Short-term borrowings	-	804
Trade and other payables ⁽²⁾	7,494	8,029
Long-term debt	8,838	3,572
	21,759	20,519

⁽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, short-term borrowings 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 that bears interest at floating and fixed 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. Over time, changes in market interest rates may cause a difference between the fair value and the carrying value of long-term debt that bears interest at fixed rates.

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.

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

13. Financial instruments (continued)

13.2 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, 2019 and December 31, 2018, the fair values of long-term debt and lease obligations are categorised as Level 2.

14. Non-cash transactions

During the quarter ended March 31, 2019, the Company made a \$1.8 million interim payment for a piece of equipment under an existing lease agreement. This payment was included in property, plant and equipment and in the long-term lease obligations in the statement of financial position. During the quarter ended June 30, 2019, the Company made the \$82 thousand final payment for the same piece of equipment and was included in property, plant and equipment and in the long-term lease obligations in the statement of financial position.