

Interim Condensed Consolidated Financial Statements of

# **IMAFLEX INC.**

For the three and nine-month periods ended September 30, 2020 and 2019

These interim condensed consolidated financial statements were not reviewed by our external auditors.

## 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,	
	2020	2019	2020	2019
Revenues (Note 3.1)	\$ 22,904	\$ 19,195	\$ 64,742	\$ 62,331
Cost of sales	18,519	16,674	52,687	54,026
Gross profit	4,385	2,521	12,055	8,305
Expenses:				
Selling	457	419	1,335	1,246
Administrative	1,466	1,393	4,362	4,120
Finance costs (Note 6)	118	196	429	542
Foreign exchange (gains) losses	434	(217)	(432)	498
Other	19	20	68	67
	2,494	1,811	5,762	6,473
Income before income taxes	1,891	710	6,293	1,832
Income taxes	655	240	1,623	599
<b>NET INCOME</b>	<b>1,236</b>	<b>470</b>	<b>4,670</b>	<b>1,233</b>
<b>Other comprehensive income (loss)</b>				
<b>Item that will be reclassified subsequently to net income</b>				
Exchange differences on translating foreign operations	(50)	33	33	(88)
<b>COMPREHENSIVE INCOME</b>	<b>\$ 1,186</b>	<b>\$ 503</b>	<b>\$ 4,703</b>	<b>\$ 1,145</b>
<b>Earnings per share</b> (Note 7)				
Basic	\$ 0.02	\$ 0.01	\$ 0.09	\$ 0.02
Diluted	\$ 0.02	\$ 0.01	\$ 0.09	\$ 0.02

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, 2020	December 31, 2019
<b>Assets</b>		
<i>Current assets</i>		
Cash	\$ 2,295	\$ 61
Trade and other receivables	12,741	11,520
Inventories	11,506	11,751
Prepaid expenses	454	237
Total current assets	26,996	23,569
<i>Non-current assets</i>		
Property, plant and equipment (Note 8)	27,018	28,573
Intangible assets	1,315	1,220
Total non-current assets	28,333	29,793
Total assets	\$ 55,329	\$ 53,362
<b>Liabilities and equity</b>		
<i>Current liabilities</i>		
Bank indebtedness (Note 9)	\$ -	\$ 4,538
Trade and other payables	8,688	5,922
Current tax liabilities	807	126
Long-term debt, current portion (Note 9)	1,948	1,922
Lease obligations, current portion (Note 9, 10)	901	1,104
Total current liabilities	12,344	13,612
<i>Non-current liabilities</i>		
Long-term debt (Note 9)	5,619	6,442
Lease obligations (Note 9, 10)	1,797	2,414
Deferred tax liabilities	1,136	1,222
Total non-current liabilities	8,552	10,078
Total liabilities	20,896	23,690
<i>Equity</i>		
Share capital (Note 11)	11,901	11,875
Reserves	2,277	2,212
Retained earnings	20,255	15,585
Total equity	34,433	29,672
Total liabilities and equity	\$ 55,329	\$ 53,362

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, 2020 and 2019**  
**(in thousands of Canadian dollars) (unaudited)**

	Reserves						Total
	Share capital (a)	Share-based compensation	Accumulated foreign currency translation	Warrants	Total reserves	Retained earnings	
<b>Balance at July 1, 2019</b>	\$ 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
<b>Balance at September 30, 2019</b>	\$ 11,875	\$ 1,134	\$ 641	\$ 465	\$ 2,240	\$ 15,282	\$ 29,397
<b>Balance at July 1, 2020</b>	<b>\$ 11,901</b>	<b>\$ 1,165</b>	<b>\$ 681</b>	<b>\$ 465</b>	<b>\$ 2,311</b>	<b>\$ 19,019</b>	<b>\$ 33,231</b>
Net income for the period	-	-	-	-	-	1,236	1,236
Exchange differences on translating foreign operations	-	-	(50)	-	(50)	-	(50)
Comprehensive income (loss) for the period	-	-	(50)	-	(50)	1,236	1,186
Transactions with owners:							
Share-based compensation (Note 12)	-	16	-	-	16	-	16
<b>Balance at September 30, 2020</b>	<b>\$ 11,901</b>	<b>\$ 1,181</b>	<b>\$ 631</b>	<b>\$ 465</b>	<b>\$ 2,277</b>	<b>\$ 20,255</b>	<b>\$ 34,433</b>

(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, 2020 and 2019**  
**(in thousands of Canadian dollars) (unaudited)**

	Reserves						
	Share capital (a)	Share-based compensation	Accumulated foreign currency translation	Warrants	Total reserves	Retained earnings	Total
<b>Balance at December 31, 2018</b>	\$ 11,875	\$ 1,074	\$ 729	\$ 465	\$ 2,268	\$ 14,280	\$ 28,423
Adjustments related to the adoption of IFRS 16	-	-	-	-	-	(231)	(231)
<b>Balance at January 1, 2019</b>	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 (loss) for the period	-	-	(88)	-	(88)	1 233	1 145
Transactions with owners:							
Share-based compensation (Note 12)	-	60	-	-	60	-	60
<b>Balance at September 30, 2019</b>	\$11,875	\$ 1,134	\$ 641	\$ 465	\$ 2,240	\$ 15,282	\$ 29,397
<b>Balance at January 1, 2020</b>	<b>\$11,875</b>	<b>\$1,149</b>	<b>\$ 598</b>	<b>\$ 465</b>	<b>\$ 2,212</b>	<b>\$ 15,585</b>	<b>\$ 29,672</b>
Net income for the period	-	-	-	-	-	<b>4,670</b>	<b>4,670</b>
Exchange differences on translating foreign operations	-	-	<b>33</b>	-	<b>33</b>	-	<b>33</b>
Comprehensive income for the period	-	-	<b>33</b>	-	<b>33</b>	<b>4,670</b>	<b>4,703</b>
Transactions with owners:							
Issuance of share capital (Note 11)	<b>26</b>	-	-	-	-	-	<b>26</b>
Share-based compensation (Note 12)	-	<b>32</b>	-	-	<b>32</b>	-	<b>32</b>
<b>Balance at September 30, 2020</b>	<b>\$11,901</b>	<b>\$ 1,181</b>	<b>\$ 631</b>	<b>\$ 465</b>	<b>\$ 2,277</b>	<b>\$ 20,255</b>	<b>\$ 34,433</b>

(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,	
	2020	2019	2020	2019
<b>Operating activities:</b>				
Net income for the period	\$ 1,236	\$ 470	\$ 4,670	\$ 1,233
Income tax expense	655	240	1,623	599
Depreciation and amortisation of non-current assets	944	829	2,820	2,435
Finance costs	118	196	429	542
Share-based compensation	16	17	32	60
Unrealized foreign exchange loss (gain)	402	(180)	(496)	488
	3,371	1,572	9,078	5,357
Net changes in working capital				
(Increase) decrease in trade and other receivables	(411)	(714)	(1,173)	1,954
(Increase) decrease in inventories	(81)	(386)	415	1,389
Increase in prepaid expenses	(101)	(88)	(214)	(386)
Increase (decrease) in trade and other payables	1,517	1,326	2,713	(516)
	924	138	1,741	2,441
Cash generated by operating activities	4,295	1,710	10,819	7,798
Net income taxes paid	(240)	(287)	(1,028)	(803)
<b>Net cash generated by operating activities</b>	<b>4,055</b>	<b>1,423</b>	<b>9,791</b>	<b>6,995</b>
<b>Investing activities:</b>				
Payments for property, plant and equipment	(397)	(3,026)	(841)	(4,086)
Payments for intangible assets	(127)	-	(127)	-
<b>Net cash used in investing activities</b>	<b>(524)</b>	<b>(3,026)</b>	<b>(968)</b>	<b>(4,086)</b>
<b>Financing activities:</b>				
Net change in bank indebtedness	(1,029)	(346)	(4,538)	(3,491)
Issuance of share capital	-	-	26	-
Interest paid	(118)	(190)	(429)	(536)
Increase in long-term debt	-	3,748	-	3,748
Repayment of long-term debt	(271)	(936)	(807)	(1,586)
Repayment of leases	(280)	(263)	(831)	(760)
<b>Net cash (used in) generated by financing activities</b>	<b>(1,698)</b>	<b>2,013</b>	<b>(6,579)</b>	<b>(2,625)</b>
<b>Net increase in cash</b>	<b>1,833</b>	<b>410</b>	<b>2,244</b>	<b>284</b>
Cash, beginning of the period	471	175	61	311
Effects of foreign exchange differences on cash	(9)	2	(10)	(8)
<b>Cash, end of period</b>	<b>\$ 2,295</b>	<b>\$ 587</b>	<b>\$ 2,295</b>	<b>\$ 587</b>

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, 2020 and 2019**

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, 2019 and 2018. These interim condensed consolidated financial statements do not include all the notes and disclosures required in annual financial statements. All amounts are in Canadian dollars, except where noted.

The interim condensed consolidated financial statements were approved by the board of directors and authorized for issue on November 24, 2020.

**3. Segment information**

The Company operates in one reportable segment, comprising the development, manufacture and sale of flexible packaging material in the form of film or bags, for various uses.

**3.1 Revenues by geographical end market**

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

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Canada	\$ 7,054	\$ 7,690	\$ 22,562	\$ 25,070
United States	15,850	11,505	42,180	37,196
Other	-	-	-	65
Total	\$ 22,904	\$ 19,195	\$ 64,742	\$ 62,331

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

	September 30, 2020	December 31, 2019
Canada	\$ 8,117	\$ 9,037
United States	20,216	20,756
Total	\$ 28,333	\$ 29,793

**Notes to the interim condensed consolidated financial statements  
for the three and nine-month periods ended September 30, 2020 and 2019**

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**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 \$0.9 million for the quarter ended September 30, 2020 (\$0.8 million in 2019) and \$2.6 million for the nine-month period ended September 30, 2020 (\$2.3 million in 2019) classified in Cost of sales, which includes the depreciation of right-of-use assets of \$0.3 million for the quarter (\$0.3 million in 2019) and \$0.8 million for the nine-month period (\$0.8 million in 2019). Depreciation of other property, plant and equipment and amortisation of intangible assets amounting to \$0.1 million for the quarter ended September 30, 2020 (\$0.1 million in 2019) and \$0.2 million for the nine-month period ended September 30, 2020 (\$0.2 million in 2019) 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, 2020 (\$2.4 million in 2019) and \$7.3 million for the nine-month period ended September 30, 2020 (\$7.6 million in 2019) classified in Cost of sales. Administrative expenses include salaries paid to employees of \$0.5 million for the quarter ended September 30, 2020 (\$0.5 million in 2019) and \$1.4 million for the nine-month period ended September 30, 2020 (\$1.6 million in 2019). Selling expenses include salaries paid to employees of \$0.1 million for the quarter ended September 30, 2020 (\$0.1 million in 2019) and \$0.3 million for the nine-month period ended September 30, 2020 (\$0.3 million in 2019).

**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, 2020 (\$0.7 million in 2019) and \$2.1 million for the nine-month period ended September 30, 2020 (\$2.1 million in 2019). 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, 2020, the Company contributed \$7 thousand to this plan (\$8 thousand in 2019) and \$21 thousand during the nine-month period ended September 30, 2020 (\$24 thousand in 2019).

**6. Finance costs**

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Interest on bank indebtedness and long-term debt	\$ 76	\$ 143	\$ 296	\$ 366
Interest on lease obligations	42	66	133	259
Capitalized interest	-	(13)	-	(83)
	<b>\$ 118</b>	<b>\$ 196</b>	<b>\$ 429</b>	<b>\$ 542</b>

**Notes to the interim condensed consolidated financial statements  
for the three and nine-month periods ended September 30, 2020 and 2019**

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

**7. Earnings per share**

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Net income for basic and diluted earnings per share	\$ 1,236	\$ 470	\$ 4,670	\$ 1,233
Weighted average number of common shares outstanding	50,063	50,014	50,033	50,014
Dilutive effect of share purchase options	617	583	554	706
Diluted weighted average common shares outstanding	50,680	50,597	50,587	50,720
Basic earnings per common share	\$ 0.02	\$ 0.01	\$ 0.09	\$ 0.02
Diluted earnings per common share	\$ 0.02	\$ 0.01	\$ 0.09	\$ 0.02

An amount of 600,000 stock options outstanding as at September 30, 2020 were not included in the calculation of diluted earnings per share because they were antidilutive (450,000 as at September 30, 2019).

**8. Property, plant and equipment**

	Land	Building	Production equipment	Leasehold improvements	Office equipment	Computer equipment	Rolling Stock	Total
<b>Cost</b>								
January 1, 2019	\$ 23	\$ 117	\$ 54,674	\$ 2,827	\$ 46	\$ 524	\$ -	\$ 58,211
IFRS 16 Impact	-	3,656	68	-	41	-	228	3,993
Additions	-	-	7,134	87	8	34	37	7,300
Disposals	-	-	(16)	-	-	-	-	(16)
Foreign exchange	(1)	(33)	(1,175)	(60)	(1)	(2)	(1)	(1,273)
December 31, 2019	22	3,740	60,685	2,854	94	556	264	68,215
Additions	-	-	831	9	-	1	-	841
Foreign exchange	1	18	654	33	-	1	2	709
September 30, 2020	\$ 23	\$ 3,758	\$ 62,170	\$ 2,896	\$ 94	\$ 558	\$ 266	\$ 69,765
<b>Accumulated depreciation</b>								
January 1, 2019	\$ -	\$ (15)	\$ (34,110)	\$ (2,338)	\$ (46)	\$ (519)	\$ -	\$ (37,028)
Depreciation	-	(935)	(2,063)	(162)	(9)	(20)	(42)	(3,231)
Disposals	-	-	2	-	-	-	-	2
Foreign exchange	-	7	559	46	1	2	0	615
December 31, 2019	-	(943)	(35,612)	(2,454)	(54)	(537)	(42)	(39,642)
Depreciation	-	(710)	(1,906)	(108)	(7)	(13)	(32)	(2,776)
Foreign exchange	-	(5)	(298)	(25)	-	(1)	(0)	(329)
September 30, 2020	\$ -	\$ (1,658)	\$ (37,816)	\$ (2,587)	\$ (61)	\$ (551)	\$ (74)	\$ (42,747)
<b>Net book value, as at</b>								
December 31, 2019	\$ 22	\$ 2,797	\$ 25,073	\$ 400	\$ 40	\$ 19	\$ 222	\$ 28,573
September 30, 2020	\$ 23	\$ 2,100	\$ 24,354	\$ 309	\$ 33	\$ 7	\$ 192	\$ 27,018

A portion of the Company's production equipment with a carrying amount of approximately \$ 14.1 million (approximately \$15.0 million as at December 31, 2019) is pledged as collateral for the Company's long-term debt.

During the nine months ended September 30, 2019, the Company made an additional \$1.8 million deposit on an extruder under a lease agreement.

**Notes to the interim condensed consolidated financial statements  
for the three and nine-month periods ended September 30, 2020 and 2019**

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

**8. Property, plant and equipment (continued)**

Included in the net carrying amount of property, plant and equipment as at September 30, 2020 and December 31, 2019 are right-of-use assets as follows:

	September 30, 2020	December 31, 2019
Buildings	\$ 2,016	\$ 2,706
Production equipment	301	334
Rolling stock	185	218
Office equipment	25	32
<b>Total right-of-use assets</b>	<b>\$ 2,527</b>	<b>\$ 3,290</b>

**9. Borrowings**

	September 30, 2020	December 31, 2019
Bank indebtedness (a)	\$ -	\$ 4,538
Long-term debt		
Loan, bearing interest at the lender's base rate minus 0.5% (effective rate of 4.05% as at September 30, 2020 and 5.55% as at December 31, 2019), secured by production equipment having a net book value of approximately \$6 million. (b)	1,298	1,419
Loan, bearing interest at the lender's base rate plus 0.67%, (effective rate of 5.22% as at September 30, 2020 and 6.72% as at December 31, 2019) secured by the same production equipment as the loan above. (c)	212	222
Loan, bearing interest at the lender's base rate minus 1.0%, (effective rate of 3.55% as at September 30, 2020 and 5.05% as at December 31, 2019) secured by production equipment having a net book value of approximately \$650 thousand. (d)	283	308
Loan, bearing interest at a fixed rate of 3.746% secured by a \$3.6 million hypothec on a piece of equipment. (e)	2,998	3,334
Loan, bearing interest at a fixed rate of 3.75% secured by a \$3.3 million hypothec on a piece of equipment. (f)	2,776	3,081
<b>Total long-term debt</b>	<b>7,567</b>	<b>8,364</b>
Lease obligations	2,698	3,518
<b>Total borrowings</b>	<b>\$ 10,265</b>	<b>\$ 16,420</b>

**Notes to the interim condensed consolidated financial statements  
for the three and nine-month periods ended September 30, 2020 and 2019**

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

**9. Borrowings (continued)**

	September 30, 2020	December 31, 2019
Current		
Bank indebtedness	\$ -	\$ 4,538
Long-term debt, current portion	1,948	1,922
Lease obligations, current portion	901	1,104
	<b>2,849</b>	<b>7,564</b>
Non-current		
Long-term debt	5,619	6,442
Lease obligations	1,797	2,414
	<b>7,416</b>	<b>8,856</b>
<b>Total borrowings</b>	<b>\$ 10,265</b>	<b>\$ 16,420</b>

Interest on long-term debt amounted to \$72 thousand for the quarter ended September 30, 2020 (\$83 thousand in 2019) and \$233 thousand for the nine-month period ended September 30, 2020 (\$140 thousand in 2019).

- (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, 2020 and December 31, 2019 for an effective interest rate of 2.85% as at September 30, 2020 and 4.35% as at December 31, 2019. 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, 2020 and December 31, 2019. As at September 30, 2020, the Company was not drawing on the line of credit (\$4.5 million as at December 31, 2019).
- (b) The loan is repayable in monthly instalments of \$40,550 until May 2023. The Company obtained a six-month capital payment moratorium for this loan starting in April 2020 and payments will resume normally thereafter.
- (c) The loan is repayable in one instalment of \$3,630 in May 2019 followed by 71 monthly instalments of \$3,470 until October 2025. The Company obtained a six-month capital payment moratorium for this loan starting in April 2020 and payments will resume normally thereafter.
- (d) The loan is repayable in one instalment of \$8,530 followed by 59 monthly instalments of \$8,330 through July 2023. The Company obtained a six-month capital payment moratorium for this loan starting in April 2020 and payments will resume normally thereafter.
- (e) The Company borrowed \$3,609,480 for payments towards a piece of equipment through a loan which is repayable in blended monthly instalments of \$66,072 through October 2024. 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.
- (f) The Company borrowed \$3,280,940 for payments towards a piece of equipment that was received during the course of the 2019 fiscal year. This loan is repayable in blended monthly instalments of \$60,061 through November 2024. 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. The Company obtained a three-month capital payment moratorium for this loan starting in May 2020 and payments resumed normally in August 2020.

**Notes to the interim condensed consolidated financial statements  
for the three and nine-month periods ended September 30, 2020 and 2019**

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

**9. Borrowings (continued)**

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

Not later than one year	\$ 1,948
Later than one year and not later than five years	5,615
Later than 5 years	4
	<b>\$ 7,567</b>

**10. Lease obligations**

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

Not later than one year	\$ 1,025
Later than one year and not later than five years	1,902
Later than five years	-
Total minimum lease payments	2,927
Less amount representing interest at approximately 6.8%	(229)
Present value of minimum lease payments	2,698
Less the long-term portion	(1,797)
Current portion of obligations under leases	\$ 901

**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, 2020, there were 50,063,637 common shares outstanding (50,013,637 as at September 30, 2019 and December 31, 2019).

During the nine-month period ended on September 30, 2020, 50,000 shares were issued for cash consideration totaling \$26 thousand following the exercise of options issued in June 2015.

**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 quarter ended September 30, 2020, the Company issued 150,000 options to employees of the Company permitting to purchase an equal amount of shares at a strike price of \$0.73 per share for a five year period. The options vest in four tranches, the first vesting immediately upon grant with an additional quarter vesting every six months thereafter.

The expense related to share-based compensation totaled \$16 thousand for the quarter ended September 30, 2020 (\$17 thousand in 2019) and \$32 thousand for the nine-month period ended September 30, 2020 (\$60 thousand in 2019).

**Notes to the interim condensed consolidated financial statements  
for the three and nine-month periods ended September 30, 2020 and 2019**

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

**12. Share-based compensation (continued)**

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

Fair value assumptions	26/08/2020	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 31/12/2019	-	100,000	250,000	150,000	50,000	500,000	1,025,000	650,000	2,725,000
Expired	-	-	-	-	-	-	-	(600,000)	(600,000)
Exercised	-	-	-	-	-	-	-	(50,000)	(50,000)
Issued	150,000	-	-	-	-	-	-	-	150,000
Outstanding as at 30/09/2020	150,000	100,000	250,000	150,000	50,000	500,000	1,025,000	-	2,225,000
Outstanding as at 30/09/2019	-	100,000	250,000	150,000	50,000	500,000	1,025,000	650,000	2,725,000
Exercisable as at 30/09/2020	37,500	75,000	250,000	150,000	50,000	500,000	1,025,000	-	2,087,500
Exercisable as at 30/09/2019	-	25,000	125,000	150,000	50,000	500,000	1,025,000	650,000	2,525,000
Remaining life of options (yrs)	4.91	3.95	3.17	2.17	1.73	0.94	0.73	-	-
<b>Fair value assumptions</b>									
Expected life of options (yrs)	2.5 to 3.25	2.5 to 3.25	2.5 to 3.25	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	26/08/2025	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	57.82 - 60.98%	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%	0%	
Risk free rate	0.41%	1.44%	2.23%	1.62%	1.15%	0.51%	0.50%	0.55% to 0.65%	
Exercise price	\$ 0.73	\$ 0.55	\$ 0.76	\$ 1.11	\$ 1.03	\$ 0.42	\$ 0.40	\$ 0.52	
Share price on grant date	\$ 0.73	\$ 0.55	\$ 0.76	\$ 1.11	\$ 1.03	\$ 0.42	\$ 0.40	\$ 0.52	
Fair value of option at grant	\$ 0.28	\$ 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.

**13. Financial instruments**

**13.1 Fair value and classification of financial instruments**

	Carrying amount			Fair Value	
	September 30, 2020	December 31, 2019	September 30, 2020	December 31, 2019	
<b>Financial assets</b>					
<b>Loans and receivables</b>					
Cash	\$ 2,295	\$ 61	\$ 2,295	\$ 61	
Trade and other receivables <sup>(1)</sup>	12,624	11,409	12,624	11,409	
	14,919	11,470	14,919	11,470	
<b>Financial liabilities</b>					
<b>Financial liabilities, at amortised cost</b>					
Bank indebtedness	-	4,538	-	4,538	
Trade and other payables <sup>(2)</sup>	7,788	4,686	7,788	4,686	
Long-term debt	7,567	8,364	7,669	8,364	
	15,355	17,588	15,457	17,588	

<sup>(1)</sup> Excludes sales taxes

<sup>(2)</sup> Excludes employee benefits

**Notes to the interim condensed consolidated financial statements  
for the three and nine-month periods ended September 30, 2020 and 2019**

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

**13. Financial instruments (continued)**

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 rates approximates its carrying value as the interest rate applicable to the loan reflects the latest market rates whereas long term debt that bears interest at 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.

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.

**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, 2020 and December 31, 2019, the fair values of long-term debt and lease obligations are categorised as Level 2.

**14. Non-cash transactions**

During the nine months ended September 30, 2019, the Company made interim payments totaling \$1.8 million 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.

**Notes to the interim condensed consolidated financial statements  
for the three and nine-month periods ended September 30, 2020 and 2019**

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

**15. COVID-19**

COVID-19 may cause significant changes to the Company's assets or liabilities in the coming year, particularly to accounts receivable, although to date the Company's assessment did not identify important customers with a great exposure to segments of the economy most impacted by the crisis. These events may also have an impact on future operations, although for the moment all of the Company's plants remain fully operational at normal business levels given it is considered an essential supplier. The Company has taken and will continue to take action to minimize the impact. However, it is impossible to determine the financial implications of these events for the moment.