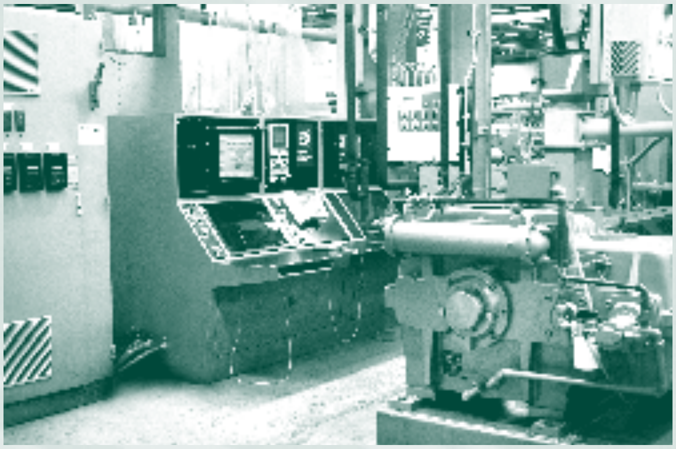
ANNUAL REPORT
2015

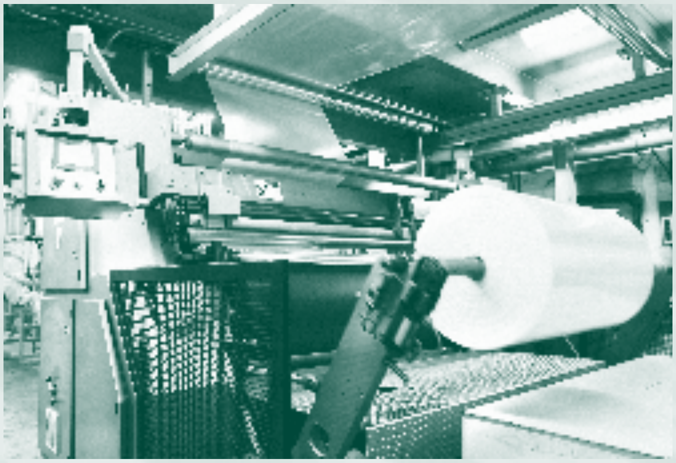
IMAFLEX
Committed to Excellence

IN ALL SUCCESSFUL BUSINESSES THE KEY TO SUCCESS RELIES ON MANAGEMENT'S ABILITY TO MASTER THREE FUNDAMENTALS:

> COMMITMENT TO CUSTOMER
> CLEAR VISION OF GOALS
> CORRECT TIMING OF ACTIONS

OUR SENIOR MANAGEMENT TEAM KNOWS, UNDERSTANDS AND LIVES BY THESE PILLARS OF BUSINESS FUNDAMENTALS.





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Committed to Excellence

As required by regulators, the purpose of this MD&A is to explain management's point of view on Imaflex Inc.'s (the "Parent Company") past performance and future outlook. This report also provides information to improve the reader's understanding of the consolidated financial statements and related notes. Please refer to the audited consolidated financial statements for the years ended December 31, 2015 and 2014 when reading this MD&A. Unless otherwise indicated, all financial data in this document is prepared in accordance with International Financial Reporting Standards ("IFRS" hereafter) and all amounts are expressed in Canadian dollars. Differences may occur due to the rounding of amounts for the presentation in thousands of dollars. In this MD&A we also use financial measures that are not defined by IFRS. Please refer to the section entitled "Non-IFRS Financial Measures" for a complete description of these measures. The consolidated financial statements include the accounts of the Company, those of its wholly-owned subsidiary, Imaflex USA, Inc. ("Imaflex USA") and its divisions, Canguard Packaging ("Canguard") and Canslit ("Canslit"). To facilitate the reading of this report, the terms "Imaflex", "Company", "we", "our", "us" all refer to Imaflex Inc. together with its subsidiary. This MD&A is prepared in conformity with National Instrument 51-102 and Form 51-102F1 and has been approved by the board of directors prior to its release.

FORWARD LOOKING STATEMENTS

From time to time, we make forward-looking statements within the meaning of certain securities laws, including the "safe harbor" provisions of the Securities Act (Ontario). We may make such statements in this document, in other filings with Canadian regulators, in reports to shareholders or in other communications. These forward-looking statements include, among others, statements regarding the business and anticipated financial performance of the Company. The words "may", "could", "should", "would", "outlook", "believe", "plan", "anticipate", "expect", "intend", "objective", the use of the conditional tense and words and expressions of similar nature are intended to identify forward-looking statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, which give rise to the possibility that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution readers not to place undue reliance on these statements, as a number of important factors could cause our actual results to differ materially from the beliefs, plans, objectives, expectations, anticipations, estimates and intentions expressed in such forward-looking statements. These factors include, but are not limited to, the length and severity of the current economic downturn, management of credit, market dynamics, liquidity, funding and operational risks; the strength of the Canadian and U.S. economies in which we conduct business; the impact of the movement of the Canadian dollar relative to other currencies, particularly the U.S. dollar; the effects of changes in interest rates; the effects of competition in the markets in which we operate; our ability to successfully align our organization, resources, and processes; the availability and price of raw materials; failure to achieve planned growth associated with the U.S. operations and future sales; changes in accounting policies and methods we use to report our financial condition, including uncertainties associated with critical accounting assumptions and estimates; operational and infrastructure risks; other factors may affect future results including, but not limited to, timely development and introduction of new products and services; changes in tax laws, technological changes, new regulations; the possible impact on our businesses from public-health emergencies, international conflicts and other developments; and our success in anticipating and managing the foregoing risks.

We caution our readers that the foregoing list of important factors that may affect future results is not exhaustive. When relying on our forward-looking statements to make decisions with respect to the Company, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. Unless otherwise required by the securities authorities, we do not undertake to update any forward-looking statement that may be made from time to time by us or on our behalf. The forward-looking statements contained herein are based on information available as of April 20, 2016.

COMPANY OVERVIEW

The Company’s operations 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 plasticulture and packaging industries. The results herein include those of Imaflex, located in Montréal (Québec), its divisions Canguard and Canslit, located in Victoriaville (Québec), and its wholly owned subsidiary, Imaflex USA, located in Thomasville (North Carolina). All intercompany balances and transactions have been eliminated on consolidation.

Imaflex and Imaflex USA specialize in the manufacture and sale of custom-made polyethylene films and bags suited for various packaging needs of our customers. Canguard specializes in the manufacture and sale of polyethylene garbage bags for both the retail and industrial markets. Canslit specializes in the metallization of plastic film.

The common shares of the Parent Company are listed for trading on the TSX Venture Exchange under the symbol “IFX”. The Company’s head office is located in Montréal (Québec).

NON-IFRS FINANCIAL MEASURES

The Company’s management uses a non-IFRS financial measure in this MD&A, namely EBITDA. Management wishes to specify that for the analysis of the performance of the Company’s financial results, EBITDA is determined as “Earnings before interest, taxes, depreciation and amortization”. The reader may refer to the table below for the reconciliation of the EBITDA used by the Company to its reported net income.

Reconciliation of EBITDA to net income (loss):

($ thousands, except per share data)	**Three months ended**		**Years ended**	
(unaudited)	**December 31, 2015**	December 31, 2014	**December 31, 2015**	December 31, 2014
Net income (loss)	**$ 317**	$ 231	**$ 813**	$ (7)
Plus:				
Income taxes	**291**	380	**709**	682
Finance costs	**147**	193	**601**	577
Depreciation and amortization	**403**	414	**1,682**	1,416
EBITDA	**$ 1,158**	$ 1,218	**$ 3,805**	$ 2,668
Basic and diluted EBITDA per share*	**$ 0.023**	$ 0.027	**$ 0.077**	$ 0.060

*Basic weighted average number of shares outstanding of 49,638,637 for the quarter ended December 31, 2015 (44,245,359 in 2014) and 49,517,502 for the year ended December 31, 2015 (44,212,387 in 2014). Diluted weighted average number of shares outstanding of 49,705,847 for the quarter ended December 31, 2015 (44,333,959 in 2014) and 49,593,417 for the year ended December 31, 2015 (44,276,296 in 2014).

While EBITDA is not a standard IFRS measure, management, analysts, investors and others use it as an indicator of the Company’s financial and operating management and performance. EBITDA should not be construed as an alternative to net income determined in accordance with IFRS as an indicator of the Company’s performance. The Company’s method of calculating EBITDA may be different from those used by other companies.

BUSINESS OVERVIEW

Imaflex is primarily a provider of polyethylene films to converters, who process film into a finished product. The converting process involves printing the required information on the film that Imaflex supplies them based on their end-customer’s needs. Imaflex also manufactures bags that are sold for a variety of uses, including garbage bags. Additionally, the Company produces specialized metallized film for specific agricultural usage.

Imaflex operates four manufacturing facilities, two of which are located in the Province of Québec, in Montréal and in Victoriaville, and two others located in Thomasville, North Carolina, in the United States. The four facilities cover a total area of approximately 22,800 square meters or 228,000 square feet.

MARKET OPPORTUNITY

The North American flexible packaging market is valued at approximately $ 25 billion. Although this market is highly fragmented and commoditized in terms of pricing, there are niches within this larger market that offer the opportunity of increased profitability.

Management believes that four factors will contribute to Imaflex’s long term growth and its ability to properly position itself within the industry in which it operates.

The first is continued investment in research and development efforts allowing our research teams to develop on a timely basis new products for highly profitable niche markets as the older niches gradually become price sensitive with the entry of new participants.

The second is the efficiency of our equipment, and our commitment to sustain this efficiency with the required capital investments. This will allow us to remain cost competitive in the marketplace.

The third is our access to capital. Being a publicly traded company we have the ability to tap into the equity markets if the right opportunity comes along. This is in addition to the credit facilities currently provided to the Company by its banks.

The fourth is our manufacturing presence in both Canada and the United States which confers to the Company a competitive advantage in terms of logistics, currency, and manufacturing flexibility.

OUTSOURCING

Our industry is capital intensive. Labour is only a minor component in the total cost of production. As a result, outsourcing production to countries with lower wages would not have a material impact on the cost of production, especially when factoring in expenses related to freight and duty.

Furthermore, the risks associated with quality and on-time delivery would far outweigh any minimal benefit to our customers that would be generated by lower labour costs. Accordingly, management does not currently contemplate the establishment of an outsourcing strategy.

BUSINESS STRATEGY

Imaflex is focused on providing its customers the highest quality products on a timely basis and at competitive prices. This strategy has been the backbone of our growth and it has served us well.

Some competitors, experiencing idle operations or producing at below average capacity levels, may attempt to gain market share through reduced pricing, particularly during difficult economic times.

Imaflex still believes that maintaining its focus on the quality of its products and the excellence of its customer service remains its best long-term strategy, as these two characteristics define our position and reputation in the market, and this regardless of the fluctuations in the economic cycle.

GROWING CUSTOMER BASE

In our market, it becomes essential to sell value-added products and avoid producing highly commoditized products generating lower margins. The key to the success of this strategy is to identify and build relationships with customers having specific needs and eventually develop products that address their customized specifications. Our sales force’s primary mandate is to find such clients.

In order to accelerate the commercial adoption of its existing Environmental Protection Agency (“EPA”) qualified ultrathin agricultural barrier films, Imaflex is ensuring that its internal sales organization is technically accomplished and can properly communicate the competitive advantages of its barrier films.

RISK FACTORS

The Company is involved in a competitive industry and marketplace in which there are a number of participants. To accommodate and effectively manage future growth, the Company continues to improve its operational, financial and management information systems, as well as its production procedures and controls. The Company’s success is largely the result of the continued contributions of its employees and the Company’s ability to attract and retain qualified management, sales and operational personnel.

The market the Company competes in has historically shown resiliency and growth even at the worst economic times. The Company’s customers operate predominantly in the food packaging and agriculture markets. This fact, coupled with the expanding product lines and reliance on newer and faster equipment, should help it weather the potential volatility caused by uncertainty in the North American economic climate.

Factors which can impact the Company include, but are not limited to: management of credit, market dynamics, liquidity, funding and operational risks; the strength of the Canadian and U.S. economies in which we conduct business; the impact of the movement of the Canadian dollar relative to other currencies, particularly the U.S. dollar; the effects of changes in interest rates; the effects of competition in the markets in which we operate; our ability to successfully align our organization, resources, and processes; the availability and price of raw materials; failure to achieve planned growth associated with the U.S. operations; changes in accounting policies and methods we use to report our financial condition, including uncertainties associated with critical accounting assumptions and estimates; operational and infrastructure risks; other factors may affect future results including, but not limited to, timely development and introduction of new products and services; changes in tax laws, technological changes and new regulations; the possible impact on our businesses from public-health emergencies, international conflicts and other developments; and our success in anticipating and managing the foregoing risks.

GENERAL SITUATION OF THE POLYETHYLENE BLOWN FILM MARKET

Prices for polyethylene continued decreasing in the fourth quarter of 2015 and in the beginning of 2016 due largely to the decrease in oil prices and the increased capacity that is expected from shale gas in the United States as well as from countries in the Middle East. Although export volumes may impact local supply, it is expected that in the near future these trends will keep prices low.

LOSS OF BUSINESS FROM A SIGNIFICANT CUSTOMER

One of our business practices has been to limit the purchases by any particular customer to less than 15% of our revenues. This strategy ensures us that our profitability and financial well-being are not dependent on any one client.

COMPETITION FROM OTHER COMPANIES

Competition in our market is at the moment quite intense. Nevertheless, because we are dealing in a $ 25 billion market; because we have highly skilled teams that are quick to respond to customer needs; because we have a diversified manufacturing base and because the bulk of our customers deal in food related products, we believe that we have a competitive edge. It may not always translate into a greater net profit, but it certainly does translate into customer loyalty should we decide to match our competitors’ prices.

SEASONALITY OF OPERATIONS

Some products produced in our Victoriaville and Thomasville facilities are subject to seasonality as a result of their partial manufacturing focus in the production of agricultural film products sold to fruit and vegetable growers. Customer demand in this end-market peaks twice yearly. Inventory is managed in a way to optimize cash flow while remaining able to react to any market opportunities that present themselves. However, because these locations also manufacture products that are destined for other markets which are not affected by seasonal downturns, these two plants are still able to operate all year, albeit at lower capacity levels.

EXPOSURE TO PRODUCT LIABILITY

Due to the nature of its operations, which consist of manufacturing polyethylene films transformed by our customers for their end-customers, Imaflex’s exposure to product liability is low. Imaflex is not exposed to liability for personal injury or death arising from negligence in the manufacturing of the films either.

The only market segment that exposes the Company to potential product liability claims is the agricultural market. In this market, proof of negligence in our manufacturing process could entail some form of compensation in the event that the expected crop yields do not materialize.

Although the likelihood of a claim in this market is low, we are nonetheless covered by a product liability insurance policy in the amount of $ 25,000,000.

FLUCTUATIONS IN OPERATING RESULTS

It is important to note that profitability may vary from quarter to quarter, irrespective of quarterly sales. This is due to many factors, including and not limited to: competitive conditions in the businesses in which the Company participates; general economic conditions and normal business uncertainty; product mix; fluctuations in foreign currency exchange rates; the availability and costs of raw materials; changes in the Company’s relationship with its suppliers; and interest rate fluctuations and other changes in borrowing costs.

EXPOSURE TO INTEREST RATE FLUCTUATIONS

The Company's borrowings which bear interest at a variable rate do present a risk to fluctuations in the cost of borrowing. Management assesses its exposure to interest rate fluctuations and decides whether it may be favourable to enter into contracts to hedge this risk based on expectation of future movements and the available economic data. For the moment, management is not hedging any of its interest rate exposure and expects this exposure to decrease as the outstanding balance of its long term borrowings decreases.

ABILITY TO ATTRACT AND RETAIN QUALIFIED PERSONNEL

Imaflex's core operational management team has been stable over the past years and was able to keep key competencies within the Company. This is because the three founders, who have more than 100 years of combined experience in management and research and development, were and remain at the core of its management team. As the Company has grown, it has strengthened its team with the addition of individuals having a variety of competencies, be it accounting, operations, or engineering.

This has resulted in a work environment that allows for the free exchange of ideas in an effort to ensure that the Company remains at the forefront of our industry. We are confident that we can retain and, if need be, attract qualified individuals that will contribute to our quest of building shareholder value.

MANAGEMENT OF GROWTH

Imaflex's history attests to its management's ability to create and manage growth and to successfully adapt to prevailing and continuously changing market conditions. Management believes that future success will also lie in the ability to properly manage growth whether it comes from new markets and products, acquisitions, mergers, or a combination of any or all three. This success will depend on the Company's ability to seek out new opportunities and to position itself such that it will be able to take advantage of them when they present themselves. Past decisions have been made bearing this in mind and the Company is now in a better position to make this happen.

FOREIGN EXCHANGE FLUCTUATIONS

A portion of the Company's sales and expenses as well as accounts receivable and payable are denominated in USD. A portion of the revenue stream in USD acts as a natural hedge to cover expenses denominated in USD. The Company also has the possibility of borrowing amounts on its line of credit in USD. The Company has increased its debt in USD to obtain additional revenue streams in USD. When this additional business fully materializes, the Company's exposure to foreign currency will be managed naturally. Management continuously assesses its exposure to such risk and the Company does not currently use any financial instruments to hedge its foreign currency position.

ENVIRONMENTAL HAZARDS

The Company's raw materials, processes and finished goods do not have any hazardous implications. However we do buy a few items which are used in our production equipment such as cooling products which may be hazardous, but their use and manipulation are controlled. Though these products actually pose little risk, they are handled in a manner that fully complies with existing safety regulations.

RESULTS OF OPERATIONS

The results of the fourth quarter of 2015 show that the improvements implemented in the US operations have generated the profitability that was expected and that management will focus on maintaining and growing the sales volume in order to achieve the profitability that the Company is capable of. The market remained volatile both for resin pricing and foreign exchange and management is doing its best to remain efficient throughout these changes.

RESULTS OF OPERATIONS (continued)

($ thousands)	**Three months ended,** (unaudited)		**Years ended**	
	December 31, 2015	December 31, 2014	**December 31, 2015**	December 31, 2014
Revenues	**$17,084**	$15,857	**$69,151**	$60,861

Revenues increased in the fourth quarter of 2015 by $ 1,226,416 compared to the same period in 2014. The US operations continued to generate growth in sales volume as management continued to explore new opportunities for its production capacity and to actively seek new business for the legacy products that have been sold in past years. The Company also benefitted from an appreciation of the USD against the CAD in the fourth quarter of 2015 compared to 2014.

Revenues increased by $ 8,289,321 in 2015 compared to 2014, as the positive trend maintained itself quarter after quarter and the Company was able to achieve a year of impressive growth. Management was successful in securing additional business for the Company’s US operations which was the main factor driving the increase in sales, thus achieving one of the objectives that was established at the onset of the year. The Canadian operations maintained their sales level and benefitted from the appreciation of the USD for the sales denominated in USD.

($ thousands)	**Three months ended,** (unaudited)		**Years ended**	
	December 31, 2015	December 31, 2014	**December 31, 2015**	December 31, 2014
Gross Profit ($) before amortization of production equipment	**$2,704**	$1,939	**$8,520**	$6,848
(%)	**15.8%**	12.2%	**12.3%**	11.3%
Amortization of production equipment	**332**	358	**1,412**	1,284
Gross profit ($)	**$2,372**	$1,581	**$7,108**	$5,564
Gross profit (%)	**13.9%**	10.0%	**10.3%**	9.1%

The improvements in the performance of the Company’s US operations contributed greatly to improving the gross profit before amortization of production equipment, increasing from $ 1,939,226 in the fourth quarter of 2014 to $ 2,704,216 in 2015 and from 12.2% of sales to 15.8% of sales. With a relatively fixed cost structure, the additional sales led to improved operational efficiencies and profitability. In 2015, management realized part of the potential it knew the US operations could achieve. The Canadian operations also showed good profitability given that part of the increases in raw material costs due to foreign exchange were offset by the decreases in resin prices and the increase in sales prices for certain products.

Over the year, the gross profit before amortization of production equipment increased from $ 6,847,555 in 2014 to $ 8,520,612 in 2015, representing an increase from 11.3% of sales in 2014 to 12.3% in 2015. Despite important volatility in the cost of raw material throughout 2015, the Company maintained good profitability by producing efficiently and adapting quickly to changes in market conditions. One of management’s main focuses was to grow sales in its US operations in order to increase capacity usage and to produce more efficiently in order to maximize profitability. Both these objectives have been partly achieved, although there remains room for additional improvements which should continue this positive trend. Management is pleased with the results achieved thus far and is looking to generate additional growth for 2016.

RESULTS OF OPERATIONS (continued)

($ thousands)	**Three months ended,** (unaudited)		**Years ended**	
	December 31, 2015	December 31, 2014	**December 31, 2015**	December 31, 2014
Selling and administrative	**$1,475**	$1,210	**$6,211**	$5,165
As a % of sales	**8.6%**	7.6%	**9.0%**	8.5%

Selling and administrative expenses increased by $ 265,927 in the fourth quarter of 2015 compared to 2014. Salaries increased due to an increase in administrative and sales salaries as well as the effect of foreign exchange which was greater in the fourth quarter of 2015 compared to 2014. The increase in sales also led to an increase in the commission expense throughout the period.

The fourth quarter continued the trend that began earlier in the year and the total increase in selling and administrative expenses for the year ended December 31, 2015 amounted to $ 1,045,349. Beyond the increase in administrative and sales salaries, patent registration and maintenance fees also had an impact on selling and administrative expenses. As a percentage of sales, selling and administrative expenses remained comparable at 9.0% in 2015 compared to 8.5% in 2014.

($ thousands)	**Three months ended,** (unaudited)		**Years ended**	
	December 31, 2015	December 31, 2014	**December 31, 2015**	December 31, 2014
Finance costs	**$147**	$193	**$601**	$577

Finance costs in the fourth quarter of 2015 decreased due in large part to the decrease in the finance costs related to bank indebtedness as a result of a decrease in the interest rate applicable to the line of credit. A one-time expense totaling approximately $ 36,000 in the fourth quarter of 2014 further contributed to the favourable variance.

Over the year, finance costs increased from $ 576,521 in 2014 to $ 601,298 in 2015. Although the interest rate on bank indebtedness decreased, the USD denominated debt offset the improvements achieved elsewhere due to the fact that the debt was outstanding for the entire year in 2015 whereas the first draw on the loan in 2014 occurred within the fourth quarter, the effect of the appreciation of the USD against the CAD as well as the increase in USD prime rates. Overall, management is pleased that expenses only increased by $ 24,777 despite having had the new USD debt outstanding throughout the entire year.

($ thousands)	**Three months ended,** (unaudited)		**Years ended**	
	December 31, 2015	December 31, 2014	**December 31, 2015**	December 31, 2014
Foreign exchange loss/(gain)	**$ 124**	$ (404)	**$ (1,296)**	$ (894)

Due to the important appreciation of the USD against the CAD, the foreign exchange gain amounted to $ 1,296,335 for the year ended December 31, 2015 compared to a gain of $ 893,559 for the same period in 2014. Whereas the a large portion of the foreign exchange gain was realized in the fourth quarter in 2014, the increase was gradual in 2015 and, combined with the elimination of a portion of the foreign exchange gain on non-trade advances to Imaflex USA as of January 1, 2015, led to a loss of $ 123,899 in the fourth quarter despite the appreciation of the USD towards the end of the quarter.

RESULTS OF OPERATIONS (continued)

($ thousands)	Three months ended, (unaudited)		Years ended	
	December 31, 2015	December 31, 2014	**December 31, 2015**	December 31, 2014
Income taxes	**$ 291**	$380	**$ 709**	$682
As a % of profit before taxes	**47.9%**	62.1%	**46.6%**	101.1%

The income tax expense amounted to $ 289,679 for the fourth quarter of 2015 and $ 379,235 for the same period in 2014. The income tax expense as a percentage of the consolidated income before income taxes is not representative in the fourth quarter of 2015 and 2014 because no income tax recovery is recorded for the losses of the US subsidiary.

The income tax expense for the year ended December 31, 2015, which represents the taxes payable by the Canadian entity, increased compared to the year ended December 31, 2014. However, the expense decreased as a percentage of income before taxes given the improvement in the income before taxes.

($ thousands, except per share data)	Three months ended, (unaudited)		Years ended	
	December 31, 2015	December 31, 2014	**December 31, 2015**	December 31, 2014
Net income (loss)	**$ 317**	$231	**$ 813**	$ (7)
Basic and diluted earnings per share	**$ 0.006**	$0.005	**$ 0.016**	$ (0.0002)

During the fourth quarter, the Company generated increased profitability in 2015 compared to 2014 due to more efficient operations and the growth in sales. Although the selling and administrative expenses increased and the variance of foreign exchange impacts was unfavourable, the results show that the improvements that were implemented generated the expected results and that the Company is on the right track.

Profitability also increased for the year ended December 31, 2015 compared to 2014, going from a net loss of $ 7,442 to a net income of $ 813,218. Sales and operations were more profitable in 2015 as management’s plans yielded the results that were anticipated. Moreover, the impact of foreign exchange gains generated a favourable variance due to the continued and important appreciation of the USD against the CAD. The finance costs and the selling and administrative expenses partly offset the improvements, but overall the Company generated more efficiency and increased its volume.

Financial Position

December 31, 2015 vs. December 31, 2014

The $ 784,769 decrease in cash is attributable to the investments the Company made in its working capital. The added volume and value of sales led to an important increase in both accounts receivable and inventory, while prepaid expenses increased moderately. Accounts payable, on their end, increased only slightly. Part of this increase was financed through the line of credit. It is expected that as inventory is sold and accounts receivable collected, the bank indebtedness should decrease. Working capital decreased only slightly and the Company’s overall financial position remains healthy. Due to the schedule of repayments on the Company’s long term debt as well as movements in foreign exchange, the current portion of long term debt increased.

SUMMARY OF QUARTERLY RESULTS

Summary financial data derived from the Company's unaudited quarterly financial statements for each of the eight most recently completed quarters are as follows:

For the quarters ending March, June, September and December ($ thousands, except per share data, unaudited):

	Q4/15	Q3/15	Q2/15	Q1/15	Q4/14	Q3/14	Q2/14	Q1/14
Revenues	17,084	17,441	18,716	15,910	15,857	15,314	15,267	14,423
Net income (loss)	317	444	345	(293)	231	174	(355)	(57)
Earnings (loss) per share:								
Basic and diluted	0.006	0.009	0.007	(0.006)	0.005	0.004	(0.008)	(0.001)

It is important to note that profitability may vary from quarter to quarter, irrespective of quarterly sales due to many factors. These factors include and are not limited to: competitive conditions in the businesses in which the Company participates; general economic conditions and normal business uncertainty; product mix; fluctuations in foreign currency rates; the availability and costs of raw materials; changes in the Company's relationship with its suppliers; the amount of research and development costs the are incurred; and interest rate fluctuations and other changes in borrowing costs.

LIQUIDITY

Bank indebtedness increased in the fourth quarter of 2015, reaching $ 6,925,713 following important investments in working capital due to the increase in accounts receivable and inventory. The profitability showed positive indicators and management is looking to improve on the advances made thus far. Working capital decreased slightly at $ 4,905,236 compared to $ 5,493,261 as at December 31, 2014. The liquidity position should improve as the Company realizes the investments in working capital made throughout the year ended December 31, 2015 and manages to improve on the profitability achieved.

Cash Flows from Operating Activities

Operating activities generated net outflows of $ 1,565,238 during the fourth quarter of 2015. Before movements in working capital, operating activities led to inflows of $ 746,575 as the net income adjusted for non-cash impacting expenses was partially offset by the unrealized foreign exchange gain. Important cash outflows due to working capital, namely $ 263,428 for trade and other receivables, $ 886,049 for inventories and $ 1,286,739 for trade payables, as well as the $ 109,059 payment of income taxes more than offset the operational cash inflows. During the fourth quarter of 2014, operating activities generated cash outflows of only $ 3,417 due to the inflows of $ 557,180 before movements in working capital that were offset by outflows due to investments in working capital and the $ 333,582 payment of income taxes.

Over the year ended December 31, 2015, operating activities generated inflows of $ 129,668. The strong net income and adjustments for non-cash impacting expenses were only partially offset by the $1,759,890 unrealized foreign exchange gain, the $ 1,474,732 cash outflows due to movements in working capital and the $ 543,213 payment of taxes. During the year ended December 31, 2014, operating activities generated outflows of $ 559,755, because the inflows of $ 1,433,202 before movements in working capital were offset by the outflows of $ 1,439,668 due to movements in working capital and the $ 553,289 payment of taxes.

LIQUIDITY (continued)

Cash Flows from Investing Activities

During the quarter ended December 31, 2015, the Company invested $ 291,203 in capital assets, mainly for additional equipment and leasehold improvements. During the year ended December 31, 2015 the Company invested $ 1,628,546 in capital assets to refurbish existing equipment, to purchase new equipment aimed at increasing operational efficiency and for new analytical equipment.

During the year ended December 31, 2014, the Company made payments totaling $ 1,234,222 for machinery, equipment and leasehold improvements as well as $ 681,320 for patents. The equipment was purchased to increase production efficiency as well as for leasehold improvements to its current locations. The Company also acquired the patents relating to active ingredient-releasing mulch films from Bayer AG.

Cash Flows from Financing Activities

During the fourth quarter of 2015, the Company used $ 2,271,671 of its line of credit for its operations, reimbursed $ 328,834 on its long term borrowings, $ 36,630 on its obligations under finance leases and $ 146,891 in interest on indebtedness.

Over the twelve month period ended December 31, 2015, the Company borrowed a total of $ 1,770,843 on its line of credit and $ 587,023 under its long term borrowing agreement. The Company issued shares generating proceeds of $ 325,709 in addition to the $ 296,053 received in 2014. The Company reimbursed a total of $ 1,059,012 on long term borrowings, $ 203,947 to a shareholder and $ 138,672 under its finance lease obligations. Finally, the company paid $ 586,716 in interest. During the year ended December 31, 2014, the Company increased its long term borrowings by $ 4,312,597 and closed a private placement which generated net proceeds of $ 1,689,672. The Company also received $ 296,053 in anticipation of the exercise of options and received a loan of $ 203,947 from a shareholder. The Company paid $ 2,283,812 on its bank indebtedness, $ 1,396,950 on its long term borrowings, $ 500,941 in interest and $ 104,551 under its finance lease obligations.

CONTRACTUAL OBLIGATIONS

The contractual obligations as at December 31, 2015 were as follows:

($ thousands)	**Payments due by period**			
	Total	Less than 1 year	1 – 5 years	After 5 years
Long-term debt	$ 6,357	$ 1,603	$ 4,754	$ -
Finance leases	524	174	350	-
Operating leases	4,563	797	2,611	1,155
Bank Indebtedness	6,926	6,926	-	-
Total contractual obligations	**$ 18,370**	**$ 9,500**	**$ 7,715**	**$ 1,155**

These contractual obligations are sensitive to the fluctuation of interest rates. These obligations are based on interest rates and foreign exchange rates effective as at December 31, 2015.

CAPITAL RESOURCES

The Company has an operating line of credit with its bankers to a maximum of $ 10,000,000 bearing interest at a rate of prime plus 1.15%. The line of credit is secured by trade receivables and inventories. As at December 31, 2015, the Company was using $ 6,925,713 on its line of credit ($ 5,154,870 as at December 31, 2014). The Company’s working capital decreased slightly from $ 5,493,261 as at December 31, 2014 to $ 4,905,236 on December 31, 2015. The Company’s liquidity was put under pressure following the growth in sales, however short term assets increased and the Company still has access to sufficient liquidity to generate additional growth as the increase in profitability will eventually provide the funds that are required to fund growth in the longer term. Management is pleased with the progress that was achieved on this front and continues to maintain its focus on growing the business and maintaining sufficient funds to support it.

PROPOSED TRANSACTION

The Company is currently considering a business combination that would aim to increase its profitability. The Company does not need to close the transaction should findings during the due diligence not be to its entire satisfaction.

RELATED PARTY TRANSACTIONS

In the normal course of operations, the Company had routine transactions with related parties. These transactions are measured at fair value, which is the amount of consideration established and agreed to by the related parties.

The following table reflects the related party transactions recorded for the periods ended December 31, 2015 and 2014. For additional information, please refer to note 24, *Related party transactions* of the “Notes to the consolidated financial statements” for the years ended December 31, 2015 and 2014.

($ thousands)		**Three months ended,** (unaudited)		**Years ended**	
		December 31, 2015	December 31, 2014	**December 31, 2015**	December 31, 2014
Professional fees and key management personnel services	**(a)**	**$ (4)**	$ 7	**$ 221**	$ 274
Rent	**(b)**	**$ 234**	$ 190	**$ 825**	$ 755
Remuneration	**(c)**	**$ 182**	$ 177	**$ 744**	$ 731

(a) Professional fees include transactions with Polytechnomics Inc., of which Gerald R. Phelps, Imaflex’s Vice-President – Operations, is the controlling shareholder and with Philip Nolan, a director of Imaflex, who is also a partner at Lavery de Billy L.L.P.

(b) Joseph Abbandonato, Imaflex’s President, Chief Executive Officer and Chairman of the Board, is the controlling shareholder of Roncon Consultants Inc. (“Roncon”). The Company’s production facilities at Imaflex, Canslit, and Imaflex USA are leased from Roncon and parties related to Roncon under long-term operating lease agreements (see “Contractual Obligations”).

(c) Includes salaries, benefits and fees paid to key management personnel and directors.

CRITICAL ACCOUNTING POLICIES

The Company’s significant accounting policies are disclosed in note 2, *Significant accounting policies* of the consolidated financial statements for the years ended December 31, 2015 and 2014. This note explains the Company’s accounting policies under IFRS which have not changed since the Company’s last annual financial statements, with the exception of the item explained in note 2.4 of the consolidated financial statements for the years ended December 31, 2015 and 2014 which details that, as of the 1st of January 2015, a portion of the Parent Company’s advances to the foreign subsidiary is being accounted for as forming part of the net investment in the foreign subsidiary for the purposes of foreign exchange accounting.

FINANCIAL INSTRUMENTS

Please refer to note 21, *Financial instruments* of the consolidated financial statements for the years ended December 31, 2015 and 2014 for disclosure on the Company’s financial instruments as well as note 23, *Risk management* for a discussion on the risks the Company is exposed to and how they are managed.

As at December 31, 2015, the Company is not using any swap, forward or hedge accounting.

As at December 31, 2015, 750,000 options to purchase shares of the Company were outstanding at a weighted average strike price of $0.467 and 262,500 were exercisable. As at December 31, 2015, there were no warrants entitling the owner to purchase common shares outstanding. During the year ended December 31, 2015, 200,000 options and 2,824,363 warrants entitling the holder to purchase shares of the Company expired and 1,381,695 warrants to purchase a common share for $0.45 were exercised for total proceeds of $ 621,762, of which $ 296,053 was received in 2014.

MANAGEMENT OUTLOOK

Management is pleased to report that everything is going in accordance to plan: revenues and profitability are increasing. And though this is being felt throughout our operations, it is the continuing improvements in the US operations that are playing a key role in the increase in revenues and EBITDA quarter after quarter; its results are no longer subtracting from those divisions which are EBITDA positive.

Our SHINE N’ RIPE XL product continues to shine. Numerous independent reports claim it to be the solution to the citrus greening problem. Its delayed adoption results from the need to build attachments for tractors that would permit the creation of three meter beds. Interested customers are actively working with equipment suppliers in order to find a solution to the constraint and management expects that it will be resolved in the near future.

In the fourth quarter we also learnt that the ADVASEAL trials went well. The growers’ feedback is very positive and because of this, we have begun looking for the coating equipment. Management has found equipment suited for this use and will be carrying out testing in the near future to confirm it is adequate.

OUTSTANDING SHARE DATA

As at December 31, 2015, the Company had 49,638,637 common shares outstanding (48,256,942 as at December 31, 2014).

RISK FACTORS

The Company is involved in a competitive industry and marketplace in which there are a number of participants. To effectively manage future growth, the Company continues to improve its operational, financial and management information systems, procedures and controls. The Company’s success is largely the result of the continued contributions of its employees and the Company’s ability to attract and retain qualified management, sales and operational personnel.

RISK FACTORS (continued)

The $ 25 billion market the Company competes in has historically shown resiliency and growth even at the worst economic times. The Company's customers operate predominantly in the food packaging and agricultural markets. This fact, coupled with the expanding product lines and reliance on newer and faster equipment should help it weather the potential volatility caused by uncertainty in the North American economic climate.

Factors which can impact the Company include, but are not limited to: management of credit, market dynamics, liquidity, funding and operational risks; the strength of the Canadian and U.S. economies in which we conduct business; the impact of the movement of the Canadian dollar relative to other currencies, particularly the U.S. dollar; the effects of changes in interest rates; the effects of competition in the markets in which we operate; our ability to successfully align our organization, resources, and processes; the availability and price of raw materials; failure to achieve planned growth associated with the U.S. operations; changes in accounting policies and methods we use to report our financial condition, including uncertainties associated with critical accounting assumptions and estimates; operational and infrastructure risks; other factors may affect future results including, but not limited to, timely development and introduction of new products and services, changes in tax laws, technological changes, new regulations; the possible impact on our businesses from public-health emergencies, international conflicts and other developments; and our success in anticipating and managing the foregoing risks.

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

(s) Joseph Abbandonato	***(s) Giancarlo Santella***
Joseph Abbandonato	Giancarlo Santella, CPA, CA
President and Chief Executive Officer	Corporate Controller

April 20, 2016

Consolidated Financial Statements of

IMAFLEX INC.

Years ended December 31, 2015 and 2014

Raymond Chabot Grant Thornton LLP
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Independent Auditor's Report

To the Shareholders of
Imaflex Inc.

We have audited the accompanying consolidated financial statements of Imaflex Inc., which comprise the consolidated statements of financial position as at December 31, 2015 and 2014 and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Imaflex Inc. as at December 31, 2015 and 2014 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Raymond Chabot Grant Thornton LLP[1]

Montreal
April 20, 2016

[1] CPA auditor, CA public accountancy permit No. A105359

Consolidated statements of comprehensive income

for the years ended (in Canadian dollars)		December 31, 2015	 2014
Revenues	(Note 5.1)	$ 69,150,630	$ 60,861,309
Cost of sales		62,042,460	55,297,419
Gross profit		7,108,170	5,563,890
Expenses:			
Selling		1,735,052	1,369,502
Administrative		4,475,482	3,795,683
Finance costs	(Note 8)	601,298	576,521
Foreign exchange gains		(1,296,335)	(893,559)
Other		71,000	41,606
		5,586,497	4,889,753
Income before income taxes		1,521,673	674,137
Income taxes	(Note 9)	708,455	681,579
NET INCOME (LOSS)		813,218	(7,442)
Other comprehensive income			
Item that will be reclassified subsequently to net income			
Exchange differences on translating foreign operations		801,108	48,327
COMPREHENSIVE INCOME		$ 1,614,326	$ 40,885
Earnings (loss) per share			
Basic and diluted	(Note 10)	$ 0.016	$ (0.0002)

The accompanying notes are an integral part of these consolidated financial statements and note 6 presents additional information on consolidated comprehensive income.

Consolidated statements of financial position

As at **(in Canadian dollars)**		**December 31, 2015**	**December 31, 2014**
Assets			
Current assets			
Cash		$ 160,975	$ 945,744
Trade and other receivables	(Note 11)	11,501,462	9,578,570
Inventories	(Note 12)	10,822,438	9,827,996
Prepaid expenses		265,002	205,868
Total current assets		22,749,877	20,558,178
Non-current assets			
Property, plant and equipment	(Note 13)	19,601,217	17,419,808
Intangible assets	(Note 14)	1,484,370	1,399,280
Other receivables	(Note 11)	-	80,685
Total non-current assets		21,085,587	18,899,773
Total assets		$ 43,835,464	$ 39,457,951
Liabilities and equity			
Current liabilities			
Bank indebtedness	(Note 16)	6,925,713	5,154,870
Trade and other payables	(Note 15)	8,865,082	8,478,772
Current tax liabilities		541,399	376,626
Long-term debt, current portion	(Note 16)	1,358,488	927,727
Finance lease obligations, current portion	(Notes 16, 17)	153,959	126,922
Total current liabilities		17,844,641	15,064,917
Non-current liabilities			
Long-term debt	(Note 16)	4,300,420	4,632,710
Deferred tax liabilities	(Note 9)	1,285,593	1,318,859
Finance lease obligations	(Notes 16, 17)	333,647	412,978
Total non-current liabilities		5,919,660	6,364,547
Total liabilities		23,764,301	21,429,464
Equity			
Share capital	(Note 18)	11,752,523	10,945,614
Reserves	(Note 19)	1,758,824	1,336,275
Retained earnings		6,559,816	5,746,598
Total equity		20,071,163	18,028,487
Total liabilities and equity		$ 43,835,464	$ 39,457,951

Non-cancellable operating lease commitments (Note 22.3)

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

(s) Joseph Abbandonato
Joseph Abbandonato
Director

(s) Gilles Émond
Gilles Émond
Director

Consolidated statements of changes in equity
For the years ended December 31, 2015 and 2014
(in Canadian dollars)

		Reserves						
	Share capital (a)	Share-based compensation	Accumulated foreign currency translation	Warrants	Other	Total reserves	Retained earnings	Total
Balance at January 1, 2014	$ 9,368,452	$ 367,669	$ (30,318)	$ 496,197	$ -	$ 833,548	$ 5,754,040	$ 15,956,040
Net loss for the year	-	-	-	-	-	-	(7,442)	(7,442)
Exchange differences on translating foreign operations	-	-	48,327	-	-	48,327	-	48,327
Comprehensive income for the year	-	-	48,327	-	-	48,327	(7,442)	40,885
Transactions with owners:								
Issuance of share capital and warrants net of transaction costs and taxes (Note 18)	1,577,162	-	-	154,124	-	154,124	-	1,731,286
Share-based compensation (Note 19)	-	4,223	-	-	-	4,223	-	4,223
Deposit on future exercise of warrants (Note 18)	-	-	-	-	296,053	296,053	-	296,053
Balance at December 31, 2014 and January 1, 2015	$10,945,614	$ 371,892	$ 18,009	$ 650,321	$ 296,053	$ 1,336,275	$ 5,746,598	$ 18,028,487
Net income for the year	-	-	-	-	-	-	813,218	813,218
Exchange differences on translating foreign operations	-	-	801,108	-	-	801,108	-	801,108
Comprehensive income for the year	-	-	801,108	-	-	801,108	813,218	1,614,326
Transactions with owners:								
Issuance of share capital (Note 18)	806,909	-	-	(185,147)	(296,053)	(481,200)	-	325,709
Share-based compensation (Note 19)	-	102,641	-	-	-	102,641	-	102,641
Balance at December 31, 2015	$11,752,523	$ 474,533	$ 819,117	$ 465,174	$ -	$ 1,758,824	$ 6,559,816	$ 20,071,163

(a) Additional detail of share capital is provided in Note 18
The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statements of cash flows

for the years ended (in Canadian dollars)	December 31, 2015	2014
Operating activities:		
Net income (loss) for the year	$ 813,218	$ (7,442)
Income tax expense	708,455	681,579
Depreciation and amortisation of non-current assets	1,681,891	1,415,703
Finance costs	601,298	576,521
Share-based compensation	102,641	4,223
Unrealized foreign exchange gain	(1,759,890)	(1,237,382)
	2,147,613	1,433,202
Net changes in working capital		
Increase in trade and other receivables	(1,358,589)	(261,224)
Increase in inventories	(243,767)	(2,373,185)
Increase in prepaid expenses	(33,433)	(81,159)
Increase in trade and other payables	161,057	1,275,900
	(1,474,732)	(1,439,668)
Cash generated by (used in) operations	672,881	(6,466)
Net income taxes paid	(543,213)	(553,289)
Net cash generated by (used in) operating activities	129,668	(559,755)
Investing activities:		
Payments for property, plant and equipment	(1,598,779)	(1,234,222)
Payments for intangible assets	(29,767)	(681,320)
Net cash used in investing activities	(1,628,546)	(1,915,542)
Financing activities:		
Net change in bank indebtedness	1,770,843	(2,283,812)
Interest paid	(586,716)	(500,941)
Increase in long term debt	587,023	4,312,597
Repayment of long-term debt	(1,059,012)	(1,396,950)
Net proceeds from issuance of share capital and warrants	325,709	1,689,672
Due to a shareholder and director (Note 15)	(203,947)	203,947
Deposit on future exercise of warrants (Note 18)	-	296,053
Repayment of finance leases	(138,672)	(104,551)
Net cash generated by financing activities	695,228	2,216,015
Net decrease in cash	(803,650)	(259,282)
Cash, beginning of the year	945,744	1,129,891
Effects of foreign exchange differences on cash	18,881	75,135
Cash, end of the year	$ 160,975	$ 945,744

Non-cash transactions (Note 20)

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

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 plasticulture and packaging industries. The common shares of the Parent Company are listed for trading on the TSX Venture Exchange under the symbol "IFX".

2. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

2.1 Basis of presentation and statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") in effect on December 31, 2015. The consolidated financial statements were approved by the board of directors and authorized for issue on April 20, 2016.

2.2 Basis of measurement

The consolidated financial statements have been prepared using the historical cost basis.

2.3 Basis of consolidation

The consolidated financial statements include the accounts of the Parent Company and its subsidiary Imaflex USA Inc. ("Imaflex USA"), a wholly owned entity, which both have a reporting period of December 31. Imaflex Inc. is the Company's ultimate parent. The Parent Company controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. All intercompany transactions and balances are eliminated on consolidation.

As at December 31, 2015 and 2014, Imaflex USA, the Company's wholly owned subsidiary, manufactured flexible packaging and plastic film out of its two North Carolina, USA, plants.

2.4 Foreign currencies

The functional currency is the currency of the primary economic environment in which an entity operates. The financial statements of the Parent Company and its subsidiary that are consolidated into the Company's financial statements are prepared in their respective functional currencies. The consolidated financial statements are expressed in Canadian dollars ("CAD"), which is also the functional currency of the Parent Company as well as the Company's presentation currency.

The assets and liabilities of the Company's foreign subsidiary, Imaflex USA, whose functional currency is the US dollar ("USD"), are translated at the exchange rate in effect at the date of the consolidated statement of financial position. Revenues and expenses are translated at monthly average exchange rates over the reporting period. Exchange gains or losses arising from the translation of Imaflex USA's financial statements are recognised as Accumulated foreign currency translation within Reserves.

2. Significant accounting policies (continued)

2.4 Foreign currencies (continued)

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency are recorded at the monthly average exchange rate during the year. If exchange rates fluctuated significantly within these periods, exchange rates in effect on the date of the transactions are used. Monetary items denominated in foreign currencies are translated at the exchange rate prevailing at the end of the reporting period. Resulting gains and losses on foreign exchange are recorded in the consolidated statement of comprehensive income.

Effective January 1, 2015, in light of a change in circumstances, the Company re-assessed its designation of US$ 4,000,000 of inter-company monetary non-trade advances for foreign currency accounting. As such, since that date, this portion of monetary non-trade advances from the Parent Company to its foreign operation for which settlement is determined to be neither planned nor likely in the foreseeable future is accounted for as forming part of the Company's net investment in its foreign subsidiary. The foreign exchange gains and losses arising on these advances are therefore recognized as Accumulated foreign currency translation within reserves. This change in estimate was treated prospectively from that date and resulted in an amount of approximately $ 895,000 being recorded in shareholder's equity instead of foreign exchange gains in the consolidated statement of comprehensive income for the year ended December 31, 2015. The foreign exchange gains or losses on trade receivables and other monetary advances continue to be included in Foreign exchange gains in the consolidated statement of comprehensive income.

2.5 Revenue recognition

Revenues are generated almost exclusively from the sale of goods. Revenue is measured at the fair value of the consideration received or receivable, net of estimated returns, rebates and discounts, and is recognised when all the following conditions are satisfied:

- The Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Company; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue is recognised in accordance with the terms of sale, generally when goods are received by external customers.

2.6 Income Tax

Income tax expense comprises both current and deferred tax. Current tax is based on taxable income for the year. Taxable income differs from net income as reported in the consolidated statement of comprehensive income because of items of revenue or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated statements of financial position and the corresponding tax basis used in the computation of taxable income. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that future taxable income will be available against which the underlying tax loss or deductible temporary difference can be utilized.

2. Significant accounting policies (continued)

2.6 Income Tax (continued)

Deferred tax assets and liabilities are calculated using the tax rates and laws enacted or substantively enacted at the reporting date and which are expected to apply in the period in which the liability is settled or the asset realized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities, when they relate to income taxes levied by the same taxation authority and when the Company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred taxes are recognised as an expense or income in net income, except when they relate to items that are recognised outside net income (whether in other comprehensive income or directly in equity), in which case the tax is also recognised outside net income.

2.7 Earnings per share

Earnings per share are calculated by dividing net income (loss) available for common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated by taking into consideration potentially issuable shares that would have a dilutive effect on earnings per share.

2.8 Financial assets and financial liabilities

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument. On initial recognition, financial instruments are measured at fair value adjusted for transaction costs except if directly attributable to the acquisition of financial assets.

<u>Financial assets</u>

For the purposes of subsequent measurement, financial assets are classified, upon initial recognition, in the different categories depending on their nature and purpose.

The Company’s cash as well as trade and other receivables (excluding sales taxes) are classified as loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest method, less any impairment. Discounting is omitted where the effect of discounting is immaterial.

<u>Impairment of financial assets</u>

Financial assets are assessed for indications of impairment at least at each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset have been affected.

Trade and other receivables that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in economic conditions that correlate with default on receivables.

2. Significant accounting policies (continued)

2.8 Financial assets and financial liabilities (continued)

The carrying amount for most financial assets is reduced by the impairment loss directly. For trade receivables, the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in net income. The expense relating to the allowance for doubtful accounts is recognised in Administrative expenses in the statement of comprehensive income.

Financial liabilities

Financial liabilities are measured subsequently at amortised cost using the effective interest rate method. Discounting is omitted where the effect of discounting is immaterial.

The Company's bank indebtedness, trade and other payables (excluding employee benefits) and long-term debt are classified as financial liabilities measured at amortised cost. All interest-related charges are recognised in the consolidated statement of comprehensive income under Finance costs.

The Company derecognises financial liabilities when, and only when, the Company's obligations are extinguished, discharged, cancelled or expired.

2.9 Inventories

Inventories are stated at the lower of cost and net realizable value. Costs, including raw materials and an appropriate portion of fixed and variable overhead expenses, are assigned to inventories by the method most appropriate to the particular class of inventory, being valued on a first-in-first-out basis. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion necessary to make the sale and estimated selling expenses.

2.10 Property, plant and equipment

Production equipment, office equipment and computer equipment are stated at cost, including any costs directly attributable to bringing the assets to the location and condition necessary for it to be capable of operating in the manner intended by the Company's management, less accumulated depreciation and accumulated impairment losses.

Depreciation is recognised so as to write down the cost of assets less their residual values over their useful lives, as outlined below, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed and adjusted, if necessary, at each reporting date, with the effect of any changes in estimate accounted for on a prospective basis.

Asset	Period
Production equipment	20 years
Office equipment	5 years
Computer equipment	3 years

2. Significant accounting policies (continued)

2.10 Property, plant and equipment (continued)

Leasehold improvements are amortised on a straight-line basis over the lesser of the terms of the leases or their useful lives (5 years).

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising from the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in net income, with Other gains in the consolidated statement of comprehensive income.

2.11 Leased assets

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation. Leases are initially recognised on the date from which the Company is entitled to exercise its right to use the leased asset, referred to as the commencement of the lease term, which corresponds to the date on which the equipment is received. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets (between 3 and 5 years) or, where shorter, the term of the relevant lease.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in net income. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

2.12 Intangible assets other than goodwill

Customer relationships acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date, which is regarded as their cost. Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses. When intangible assets are purchased separately, as it was the case for patents, the cost comprises its purchase price and any directly attributable cost of preparing the asset for its intended use. When intangible assets are internally developed, as is the case with the Company’s internally developed patents, the cost comprises the directly attributable costs in the development phase necessary to create, produce and prepare the patent for the Company to be able to operate it for its intended use.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from its use or disposal. Gains or losses arising from the derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in net income when the asset is derecognised. The amortisation of intangible assets, if any, is recognised in Administrative expenses in the consolidated statement of comprehensive income over the useful life of the intangible asset. Customer relationships are amortised on a straight-line basis over 8 years and patents are amortised as of the moment they can be used over the life of the patent (14 years).

2. Significant accounting policies (continued)

2.13 Impairment of property, plant and equipment and intangible assets other than goodwill

At each reporting date, or sooner if there is an indication that an asset may be impaired, the Company reviews the carrying amounts of its property, plant and equipment and intangible assets, to determine whether there is any indication that they have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of the assets is estimated to be less than their carrying amount, the carrying amount is reduced to the recoverable amount. An impairment loss is recognised immediately in net income.

When an impairment loss subsequently reverses, the carrying amount of the assets is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the assets in prior years. A reversal of an impairment loss is recognised immediately in net income.

2.14 Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Company's cash-generating units or groups of cash-generating units that are expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in net income in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

2.15 Provisions

Provisions are recognised when the Company has a present obligation, legal or constructive, as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation based on the most reliable evidence available at the reporting date, taking into account the risks and uncertainties surrounding the obligation.

2. Significant accounting policies (continued)

2.16 Share-based compensation

The Company uses equity-settled share-based compensation plans for its employees and consultants. None of the Company's plans are cash-settled. Equity-settled share-based compensation is measured at the fair value of the services received at the grant date indirectly by reference to the fair value of the equity instruments granted, estimated using the Black-Scholes option pricing model.

The fair value determined at the grant date of the equity-settled share-based compensation is expensed over the vesting period with a corresponding increase in Reserves.

2.17 Share capital and reserves

Share capital represents the nominal value of shares that have been issued. Proceeds, net of transaction costs after taxes, from the issuance of units consisting of shares and purchase warrants are allocated based on the relative fair values of each instrument. The fair value of the shares is based on the TSX share price at the time of the issuance and the fair value of the warrants is determined using a Black & Scholes valuation model.

Reserves include the following:

- Share-based compensation (see 2.16);
- Accumulated foreign currency translation (see 2.4);
- Warrants – comprises the value of outstanding and expired warrants;
- Other (see Note 18).

Upon the exercise of options and warrants, the proceeds received less the transaction costs attributable to the limit of the nominal value of shares issued are credited to share capital.

3. Future accounting changes

Certain new standards as well as amendments and improvements to existing standards have been published by the IASB but are not yet effective and have not been adopted early by the Company. Management anticipates that all of the relevant pronouncements will be adopted in the first reporting date following the date of application. The information on new standards as well as amendments and improvements to existing standards that may impact the Company's consolidated financial statements are as follows:

Revenues from contracts

IFRS 15 – *Revenue from Contracts with Customers* will replace IAS 18 – *Revenue*, IAS 11 – *Construction Contracts* and other revenue-related interpretations and will be effective for periods beginning on or after January 1, 2018 although earlier application is permitted. It establishes a new control-based revenue recognition model, changes the basis for deciding when revenue is recognised at a point in time or over time, provides new and more detailed guidance on specific topics and expands and improves disclosures about revenue. Management is currently evaluating the impact of this new standard but does not expect it to have a material impact on its consolidated financial statements.

3. Future accounting changes (continued)

Financial Instruments

In July 2014, the IASB released IFRS 9 – *Financial intruments*, which replaces IAS 39 – *Financial Instruments: Recognition and Measurement*. This IFRS includes a revised model for the classification and measurement of financial assets and liabilities, a single 'expected credit loss' impairment model and a reformed approach to hedge-accounting. This IFRS is effective for periods starting on or after January 1, 2018, although earlier application is permitted. Management is currently evaluating the impact of this new standard on the Company's consolidated financial statements.

Leases

In January 2016, the IASB published IFRS 16 – *Leases*, which will replace IAS 17 – *Leases*. 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. In addition, IFRS 16 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. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019 with early application permitted in certain circumstances. Management has yet to assess the impact of this new standard on its consolidated financial statements.

4. Critical accounting judgments and key sources of estimation uncertainty

The preparation of these consolidated financial statements in conformity with IFRS and the application of the Company's accounting policies described in note 2, required management to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

4.1 Critical judgments in applying accounting policies

The following are the critical judgments, apart from those involving estimations, that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Cash-generating units

Management has identified only one cash-generating unit ("CGU") for the Company. Revenue generated by the Company's various product lines and facilities are generated through a single sales force whose ability to cross sell products influences the level of sale for each product line. Management has determined that the cash flows of the Company's production facilities are closely interrelated and not independent.

4.2 Key sources of estimation uncertainty

The following are the key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

4. Critical accounting judgments and key sources of estimation uncertainty (continued)

Allowance for doubtful accounts

The Company analyzes its trade receivables on an account by account basis and on a portfolio basis. Any impairment recognised on these assets is based on historical experience and management's best estimate of the recoverability of the account receivable.

Inventory

The Company estimates the net realizable values of inventories taking into account the most reliable evidence available at each reporting date. This assessment is based on management's knowledge of the market and experience regarding obsolescence and valuation of inventory.

Useful lives of depreciable assets

The Company reviews the estimated useful lives of property, plant and equipment and intangible assets other than goodwill at the end of each annual reporting period in order to ensure that the amortisation method used is appropriate.

Impairment of long-lived assets

If required, the Company performs impairment tests on its long-lived assets by comparing the carrying amount of the assets to their recoverable amount, which is calculated as the higher of the asset's fair value less costs to sell and its value in use. Value in use is calculated based on a discounted cash flow analysis, which requires the use of estimates of future cash flow and discount rates. The Company uses judgment to determine whether it identifies any triggering event that may indicate that the long-lived assets have been impaired.

Income taxes

Management uses estimates in determining the appropriate rates and amounts in recording deferred income taxes, giving consideration to timing and probability of realization. Actual taxes could significantly vary from these estimates as a result of a variety of factors including future events, changes in income tax laws or the outcome of reviews by tax authorities and related appeals. The resolution of these uncertainties and the associated final taxes payable may result in adjustments to the Company's deferred and current tax assets and liabilities.

Warrants and share-based compensation

The Company issues equity instruments from time to time, which are comprised of options to purchase common shares as well as common shares and warrants (units). The Company uses the Black and Scholes pricing model in order to determine the value of these instruments or how proceeds are allocated between the instruments. These methods require estimates based on market inputs.

5. 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.

5.1 Revenues by geographical end market

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

	Year ended	
	December 31, 2015	December 31, 2014
Canada	$ 25,724,900	$ 25,874,706
United States	43,312,195	34,881,603
Other	113,535	105,000
Total	$ 69,150,630	$ 60,861,309

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

	December 31, 2015	December 31, 2014
Canada	$ 6,707,965	$ 6,752,362
United States	14,377,622	12,066,726
Total	$ 21,085,587	$ 18,819,088

6. Additional information on the consolidated statements of comprehensive income

The Company's consolidated statement of comprehensive income includes depreciation of production equipment of $ 1,412,442 for the year ended December 31, 2015 ($ 1,283,665 in 2014) classified in Cost of sales. Depreciation of other property, plant and equipment and amortisation of intangible assets amounting to $ 269,449 for the year ended December 31, 2015 ($132,038 in 2014) is included in Administrative expenses.

The Company's consolidated statement of comprehensive income includes salaries paid to its employees of $ 8,060,688 for the year ended December 31, 2015 ($6,813,329 in 2014) classified in Cost of sales. Administrative expenses include salaries paid to employees of $ 1,460,906 for the year ended December 31, 2015 ($1,383,269 in 2014) and Selling expenses include salaries paid to employees of $ 629,437 for the year ended December 31, 2015 ($430,301 in 2014).

7. 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 $ 2,302,252 during the year ended December 31, 2015 ($ 2,117,133 in 2014). These payments are expensed as incurred and the Company does not recognise any gains or losses subsequent to the payment of these benefits. These transactions do not result in any asset or liability on the consolidated statement of financial position.

The Company also offers a defined contribution employee benefit plan to its employees located in North Carolina, USA. For the year ended December 31, 2015, the Company contributed $ 28,151 to this plan ($15,130 in 2014).

8. Finance costs

	Year ended December 31, 2015	Year ended December 31, 2014
Interest on bank indebtedness and long term debt	$ 541,209	$ 515,158
Interest on obligations under finance leases	24,966	24,973
Other interest	35,123	36,390
	$ 601,298	$ 576,521

9. Income taxes

9.1 Income tax recognised in net income (loss)

	Year ended December 31, 2015	Year ended December 31, 2014
Income tax expense comprises:		
Current tax expense	$ 741,721	$ 682,688
Deferred tax expense relating to the origination and reversal of temporary differences	(33,266)	(1,109)
Total income tax expense	$ 708,455	$ 681,579

9.2 Reconciliation between the income tax expense and the statutory income tax rate

	Year ended December 31, 2015	Year ended December 31, 2014
Income before income taxes	$ 1,521,673	$ 674,137
Income tax expense calculated at 26.9%	409,330	181,343
Permanent differences	(24,390)	(95,267)
Effect of unrecognised benefit of Imaflex USA's losses	348,430	634,703
Effect of different tax rates of subsidiaries operating in other jurisdictions	(108,103)	(166,294)
Other	83,188	127,094
Income tax expense recognised in net income (loss)	$ 708,455	$ 681,579

The tax rate used for the 2015 reconciliation above is the corporate tax rate of 26.9% (26.9% in 2014) payable by corporate entities in Quebec, Canada on taxable income under tax law in those jurisdictions.

9. Income taxes (continued)

9.3 Deferred tax balances

	Opening balance	Recognised in equity	Recognised in income (loss)	Adjustment to prior year balance	Closing balance
2015					
Assets					
Non-capital losses	$ 2,592,811	$ -	$ 732,232	$ -	$ 3,325,043
Finance leases	11,480	-	(3,541)	-	7,939
Inventory	245,222	-	(10,323)	-	234,899
Other assets	176,967	-	84,225	-	261,192
	3,026,480	-	802,593	-	3,829,073
Liabilities					
Advance	(131,792)	-	43,866	-	(87,926)
Property, plant and equipment	(4,208,167)	-	(799,378)	(16,505)	(5,024,050)
Investment tax credits	(5,380)	-	2,690	-	(2,690)
	(4,345,339)	-	(752,822)	(16,505)	(5,114,666)
Deferred tax liabilities	$(1,318,859)	$ -	$ 49,771	$ (16,505)	$(1,285,593)

9.3 Deferred tax balances (continued)

	Opening balance	Recognised in equity	Recognised in income	Adjustment to prior year balance	Closing balance
2014					
Assets					
Non-capital losses	$ 2,454,562	$ -	$ 138,249	$ -	$ 2,592,811
Finance leases	15,983	-	(4,503)	-	11,480
Inventory	223,932	-	21,290	-	245,222
Other assets	90,350	33,291	53,326	-	176,967
	2,784,827	33,291	208,362	-	3,026,480
Liabilities					
Advance	(80,516)	-	(51,276)	-	(131,792)
Property, plant and equipment	(4,052,190)	-	(155,606)	(371)	(4,208,167)
Investment tax credits	(5,380)	-	-	-	(5,380)
	(4,138,086)	-	(206,882)	(371)	(4,345,339)
Deferred tax liabilities	$(1,353,259)	$33,291	$ 1,480	$ (371)	$(1,318,859)

9. Income taxes (continued)

9.4 Unrecognised deferred tax assets

The Company's subsidiary, Imaflex USA, has non-capital losses available to carry forward to reduce future taxable income of $ 25,409,793 in 2015 and $ 20,651,478 in 2014 for part of which a deferred tax asset has not been recognised ($ 6,584,776 in 2015 and $ 4,934,653 in 2014) that expire as follows:

Expiring in	December 31, 2015	December 31, 2014
2025	$ 102,146	$ 100,578
2026	1,893,518	1,685,728
2027	1,028,659	1,158,751
2028	2,396,291	2,502,093
2029	2,811,905	2,710,419
2030	4,670,917	3,977,536
2031	2,313,110	1,697,894
2032	3,204,269	2,383,876
2033	3,193,729	2,386,914
2034	2,822,729	2,047,689
2035	972,520	-
	$25,409,793	$20,651,478

10. Earnings per share

	Year ended	
	December 31, 2015	December 31, 2014
Income (loss) for basic and diluted earnings per share	$ 813,218	$ (7,442)
Weighted average number of common shares outstanding	49,517,502	44,212,387
Dilutive effect of share purchase options	75,915	-
Diluted weighted average common shares outstanding	49,593,417	44,212,387
Basic and diluted earnings (loss) per common share	$ 0.016	$ (0.0002)

An amount of 650,000 instruments outstanding as at December 31, 2015 were not included in the calculation of earnings per share because they were antidilutive (4,506,058 in 2014).

11. Trade and other receivables

	December 31, 2015	December 31, 2014
Trade receivables	$ 11,842,670	$ 9,915,500
Allowance for doubtful accounts	(872,548)	(834,392)
	10,970,122	9,081,108
Other receivables	531,340	578,147
Total receivables	11,501,462	9,659,255
Non-current other receivables	-	80,685
Current trade and other receivables	$ 11,501,462	$ 9,578,570

11. Trade and other receivables (continued)

Movement in the allowance for doubtful accounts

	Year ended	
	December 31, 2015	December 31, 2014
Balance, beginning of year	$ (834,392)	$ (620,539)
Release of allowance for doubtful accounts	174,015	90,000
Impairment losses and adjustments recognised on trade receivables	(154,015)	(258,674)
Foreign exchange	(58,156)	(45,179)
Balance, end of year	$ (872,548)	$ (834,392)

Credit risk

Credit risk is the risk that a counterparty fails to discharge an obligation to the Company. The Company's maximum exposure to credit risk is limited to the carrying amount of the financial assets, net of any provisions for losses recorded on the Company's consolidated statements of financial position.

Credit risk management

Credit risk associated with cash is substantially mitigated by ensuring that these financial assets are primarily placed with major American and Canadian financial institutions that have been accorded grade ratings by a primary rating agency and qualify as creditworthy counterparties. The Company performs an ongoing review and evaluation of the possible risks associated with cash.

For trade receivables, the Company uses an external credit service to assess the potential customer's credit quality and uses this information to define the allowed credit limits by customer. Moreover, the Company uses credit insurance to mitigate credit risk. As at December 31 2015, $ 4,099,851 ($ 4,200,472 as at December 31, 2014) of the total trade receivables are insured. The Company's management considers that all receivables that are not impaired or past due for each reporting dates are of good credit quality.

Trade receivables past due but not impaired

Trade receivables disclosed above include amounts that are past due at the end of the reporting period but not impaired, because the amounts are still considered recoverable based on the Company's analysis of reimbursements. In situations where the Company believes there may be increased credit risk, netting agreements are signed in order to be able to settle any payables to the same customer on a net basis. At the end of the reporting period, there were $ 2,220,105 of past due trade receivables that were not impaired ($ 2,201,230 in 2014). Of that amount, $ 796,676 was over 90 days ($ 343,425 as at December 31, 2014).

Aging of total receivables

	Year ended	
	December 31, 2015	December 31, 2014
Current	$ 5,147,361	$ 4,348,179
31 days to 60 days	3,750,836	2,917,291
61 days to 90 days	1,628,465	1,857,804
Over 90 days	974,800	535,981
Total	$ 11,501,462	$ 9,659,255

12. Inventories

	December 31, 2015	December 31, 2014
Raw materials and supplies	$ 6,370,895	$ 6,116,872
Finished goods	3,559,696	3,284,600
Work in process	891,847	426,524
Total	$ 10,822,438	$ 9,827,996

The cost of inventories recognised as an expense during the year was $ 59,220,158 ($ 53,030,533 in 2014). There were no write-downs of inventory recognised in the fiscal year ended on December 31, 2015 or 2014.

13. Property, plant and equipment

	Production equipment	Leasehold improvements	Office equipment	Computer equipment	Equipment under finance lease	Total
Cost,						
January 1, 2014	39,991,564	1,741,195	41,951	391,858	193,727	42,360,295
Additions	907,732	131,218	-	27,318	657,466	1,723,734
Foreign exchange	1,318,364	57,093	1,347	1,120	33,664	1,411,588
December 31, 2014	42,217,660	1,929,506	43,298	420,296	884,857	45,495,617
Additions	1,448,077	66,736	-	83,966	-	1,598,779
Foreign exchange	3,191,245	134,006	3,124	2,599	142,796	3,473,770
December 31, 2015	$ 46,856,982	$2,130,248	$ 46,422	$506,861	$ 1,027,653	$ 50,568,166
Accumulated depreciation						
January 1, 2014	(24,310,476)	(1,395,702)	(41,951)	(386,586)	(93,583)	(26,228,298)
Depreciation expense	(1,240,301)	(71,760)	-	(8,724)	(43,364)	(1,364,149)
Foreign exchange	(448,104)	(30,596)	(1,347)	(1,119)	(2,196)	(483,362)
December 31, 2014	(25,998,881)	(1,498,058)	(43,298)	(396,429)	(139,143)	(28,075,809)
Depreciation expense	(1,348,419)	(179,365)	-	(21,856)	(64,023)	(1,613,663)
Foreign exchange	(1,173,045)	(87,280)	(3,124)	(2,599)	(11,429)	(1,277,477)
December 31, 2015	$(28,520,345)	$ (1,764,703)	$ (46,422)	$(420,884)	$ (214,595)	$(30,966,949)
Net book value, as at						
December 31, 2014	$ 16,218,779	$ 431,448	$ -	$ 23,867	$ 745,714	$ 17,419,808
December 31, 2015	$ 18,336,637	$ 365,545	$ -	$ 85,977	$ 813,058	$ 19,601,217

A portion of the Company's production equipment with a carrying amount of approximately $ 16,000,000 (approximately $ 13,600,000 as at December 31, 2014) is pledged as collateral for the Company's operating line of credit and long-term debt.

14. Intangible assets

	Goodwill	Customer relationships	Patents	Total
January 1, 2014	$ 399,335	$ 245,958	$ 67,737	$ 713,030
Additions	-	-	681,320	681,320
Amortisation	-	(41,441)	(10,113)	(51,554)
Foreign exchange	36,231	20,253	-	56,484
December 31, 2014	435,566	224,770	738,944	1,399,280
Additions	-	-	29,767	29,767
Amortisation	-	(48,006)	(20,222)	(68,228)
Foreign exchange	84,065	39,486	-	123,551
December 31, 2015	$ 519,631	$ 216,250	$ 748,489	$ 1,484,370

During the year ended December 31, 2014, the Company purchased the patents to ADVASEAL, a plastic film formulation for controlled release of plant protection products, including all the rights and intellectual property surrounding the co-extruded active ingredient-releasing agricultural film, which was co-developed by Imaflex. It also further invested in its existing patents in order to be able to obtain all required registrations. The patents for which EPA approval has not been obtained have not started being amortized in the year ended December 31, 2015.

15. Trade and other payables

	December 31, 2015	December 31, 2014
Trade payables	$ 7,617,334	$ 7,106,151
Other payables and accrued liabilities	1,247,748	1,168,674
Due to a shareholder and director (a)	-	203,947
	$ 8,865,082	$ 8,478,772

(a) This loan does not bear interest and does not have any predetermined fixed repayment terms. During the year ended December 31, 2015, the loan to a shareholder and director was reimbursed in its entirety with no penalties.

16. Credit facilities

	December 31, 2015	December 31, 2014
Bank indebtedness (a)	$ 6,925,713	$ 5,154,870
Long term debt		
Loan, bearing interest at the lender's base rate (4.70% as at December 31, 2015, 5.00% in 2014) plus 0.375%, repayable in monthly principal installments of $41,670 to May 2020, secured by production equipment. (b)	2,208,751	2,708,550
Loan (US$ 2,493,133, US$ 2,458,311 as at December 31, 2014), bearing interest at the US prime rate, reset monthly, plus 3.00% (effective rate of 6.50% as at December 31, 2015, 6,25% in 2014) secured by the production equipment of the subsidiary and a corporate guarantee from the Parent Company. (c)	3,450,157	2,851,887
Total long term debt	5,658,908	5,560,437
Finance leases (Note 17)	487,606	539,900
Total borrowings	13,072,227	11,255,207
Current		
Bank indebtedness	6,925,713	5,154,870
Long-term debt, current portion	1,358,488	927,727
Finance leases	153,959	126,922
	8,438,160	6,209,519
Non-current		
Long-term debt	4,300,420	4,632,710
Finance leases	333,647	412,978
	4,634,067	5,045,688
Total borrowings	$ 13,072,227	$ 11,255,207

Interest on long-term debt amounted to $ 347,379 for the year ended December 31, 2015 ($187,895 in 2014).

(a) The Company has an operating line of credit with its bankers to a maximum of $10,000,000, bearing interest at prime plus 1.15% (3.85% effective interest rate at December 31, 2015, 4.25% as at December 31, 2014). 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). As at December 31, 2015, the Company had drawn $ 6,925,713 ($5,154,870 as at December 31, 2014) on the line of credit. As at December 31 2014, the Company was not in compliance with a financial covenant on its line of credit and obtained a waiver tolerating the breach until January 1, 2016.

(b) During the year ended December 31, 2014, the Company refinanced a loan obtaining $ 1,565,820 of additional funds in order to replenish working capital. The loan is repayable in monthly instalments of $ 41,670 until May 2020. The interest applicable to the loan is of 0.375% over the lender's base rate (effective rate of 5.075% as of December 31, 2015 and 5.375% as at December 31, 2014).

16. Credit facilities (continued)

(c) During the year ended December 31, 2014, the Company entered into a credit agreement for a total of USD $3,000,000 at a rate of 3.00% over the US prime rate for an effective rate of 6.50% as at December 31, 2015 (6.25% as at December 31, 2014) repayable in 20 equal quarterly instalments starting 6 months after the date of the first draw. This loan was recorded at the effective interest rate method, net of all incremental transaction costs directly attributable to the transaction. As at December 31, 2014, the Company was not in compliance with its Interest-bearing-debt-to-EBITDA and fixed-charge-coverage ratio covenants. However, the Company obtained waivers as at December 31, 2014 confirming tolerance for these breaches for a period of more than one year. During the year ended December 31 2015, the Company drew an additional amount of $ 587,023 (USD $ 463,580). As at December 31, 2015, the Company was not in compliance with its Interest-bearing-debt-to-EBITDA and fixed-charge-coverage ratio covenants. However, the Company obtained waivers as at December 31, 2015 confirming tolerance for these breaches for a period of more than one year.

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

Not later than one year	$ 1,358,488
Later than one year and not later than five years	4,336,504
Later than 5 years	-
	$ 5,694,992

17. Obligations under finance leases

The Company has entered into certain finance lease agreements. Finance lease payments are as follows :

Not later than one year	$ 173,648
Later than one year and not later than five years	351,101
Later than five years	-
Total minimum lease payments	524,749
Less amount representing interest at approximately 7%	(37,143)
Present value of minimum lease payments	487,606
Less the long term portion	(333,647)
Current portion of obligations under finance leases	153,959

During the year ended December 31, 2014, the Company entered into a finance lease agreement for $ 518,701 relating to production equipment worth $ 610,236. The lease is repayable over 5 years and the Company also made a down payment totalling $ 91,535.

18. Share capital

The Company's authorized share capital consists of an unlimited number of common shares, voting, participating, without par value. At December 31, 2015, there were 49,638,637 common shares outstanding (48,256,942 common shares at December 31, 2014).

During the year ended December 31, 2015, the Company issued 1,381,695 shares following the exercise of warrants that entitled the holders to purchase shares of the Company at $ 0.45 per share for total proceeds of $ 621,762, of which $ 296,053 had been received during the year ended December 31, 2014 in anticipation for the exercise of these warrants. These warrants were issued as part of a private placement that closed on February 1, 2012. The amount of $ 296,053 that was received during the year ended December 31, 2014 was reclassed from Other items within Reserves to Share Capital and an amount of $ 185,147 was reclassed from Warrants within Reserves to Share Capital.The impact of this transaction on shareholder's equity is as follows :

18. Share capital (continued)

	Share capital		Warrants		Total	
Proceeds received in 2014	296,053	$	-	$	296,053	$
Proceeds received in 2015	325,709		-		325,709	
Value of warrants reclassed from Warrants to Share capital	185,147		(185,147)		-	
	806,909	$	(185,147)	$	621,762	$

During the year ended December 31, 2014, the Company issued, through a private placement, 4,055,666 Units for gross proceeds of $ 1,825,050. Each Unit is comprised of one common share and one half common share purchase warrant. Each full warrant entitles the holder thereof to purchase one additional common share at a price of $ 0.65 per share for a period of twelve months from the date of closing.

Each share issued was attributed a value of $ 0.415 and each half warrant issued was attributed a value of $ 0.035. Transactions costs, net of income taxes, amounting to $ 113,183 were presented in equity against the gross proceeds of the private placement. As part of the costs of the transaction, the Company also issued 242,740 warrants. Each warrant entitles the holder thereof to purchase one common share of the Company at a price of $ 0.65 per share for a period of twelve months from the closing of the private placement. The value attributed to warrants amounted to $ 19,419 which was entirely recorded in Warrants in the Consolidated Statements of Changes in Equity. The following assumptions were used to determine the fair value of the warrants:

Dividend yield	0%
Risk free rate	1.01%
Expected life of warrant	1 year
Expected share price volatility	70.0%

As at December 31, 2014, the variations in the Consolidated statement of changes in equity for this transaction are as follows:

	Share capital		Warrants		Total	
Gross proceeds	1,681,439	$	143,611	$	1 825,050	$
Transaction costs, net of taxes	(104,277)		(8,906)		(113,183)	
Issuance of warrants	-		19,419		19,419	
Total changes	1,577,162	$	154,124	$	1,731,286	$

During the year ended December 31, 2015, 2,824,363 warrants entitling the owners to acquire one additional common share of the Company expired. As at December 31, 2015, there were no warrants outstanding (4,206,058 warrants at an average weighted exercise price of $0.56 as at December 31, 2014). During the year ended December 31, 2014, 1,315,789 warrants expired.

19. Share-based compensation

Pursuant to the Stock Option Plan (the “Plan”) of the Company, 3,735,000 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.

19. Share-based compensation (continued)

During the year ended December 31, 2015, the Company issued 650,000 options to employees and one consultant to acquire shares at $ 0.52 for a period of 5 years. These options vest in 4 tranches over 2 years, the first vesting six months after issuance and the other tranches vest at 6-month intervals. Reserves were increased by an amount of $ 102,641 representing the share-based compensation for the year ended December 31, 2015.

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	June 16, 2015	July 15, 2013	January 15, 2013	May 27, 2011	Total
Outstanding as at 01/01/2014 and 31/12/2014	-	100,000	100,000	100,000	300,000
Expired	-	(100,000)	(100,000)	-	(200,000)
Issued	650,000	-	-	-	650,000
Outstanding as at 31/12/2015	650,000	-	-	100,000	750,000
Exercisable as at 31/12/2014	-	100,000	100,000	100,000	300,000
Exercisable as at 31/12/2015	162,500	-	-	100,000	262,500
Remaining life of options	4.46 years	Expired	Expired	0.41 years	
Expected life of options (yrs)	2.75 to 3.5	0.99 to 1.37	0.99 to 1.37	2.5	
Expiry	June 16, 2020	July 15, 2015	January 15, 2015	May 27, 2016	
Expected share price volatility	83.19% to 98.85%	106.54% to 125.9%	134.8% to 191.1 %	172.86%	
Dividend yield	0%	0%	0%	0%	
Risk free rate	0.55% to 0.65%	1.27%	1.18%	1.67%	
Exercise price	$ 0.52	$ 0.40	$0.36	$0.125	
Share price on grant date	$ 0.52	$ 0.40	$0.32	$0.125	
Fair value of option at grant	$0.30	$0.19	$0.20	$0.10	

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

20. Non-cash transactions

During the year ended December 31, 2014, the Company financed the acquisition of certain operating assets of a value totalling $ 610,236 by entering into finance leases for an amount totalling $ 518,701. Additional information on finance leases is provided in Note 17.

21. Financial instruments

21.1 Fair value and classification of financial instruments

	Carrying amount and fair value	
	December 31, 2015	**December 31, 2014**
Financial assets		
Loans and receivables		
Cash	$ 160,975	$ 945,744
Trade and other receivables [1]	11,148,246	9,273,665
	11,309,221	10,219,409
Financial liabilities		
Financial liabilities, at amortised cost		
Bank indebtedness	6,925,713	5,154,870
Trade and other payables [2]	8,272,779	7,903,031
Long term debt	5,658,908	5,560,437
	20,857,400	18,618,338
Other liabilities		
Finance lease obligations	487,606	539,900

(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 debts 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.

21. Financial instruments (continued)

21.2 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 (ie as prices) or indirectly (ie 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 December 31, 2015 and 2014, the fair values of long-term debt and finance lease obligations are categorised as Level 2.

22. Operating lease arrangements

22.1 Leasing arrangements

The Company leases its premises for manufacturing locations from related parties under operating leases. Rent is paid monthly and there are no restrictions imposed on the Company under these leasing arrangements. There is no contingent lease under those leasing agreements and no sublease payments received by the Company. The leases expire at various dates to August 2020, and include renewal provisions.

22.2 Payments recognised as an expense

	Year ended	
	December 31, 2015	December 31, 2014
Lease payments for premises	$ 944,277	$ 876,640
Vehicles	34,248	34,248
Office equipment	8,406	8,406

22.3 Non-cancellable operating lease commitments

	Year ended	
	December 31, 2015	December 31, 2014
Not later than 1 year	$ 797,161	$ 951,014
Later than 1 year and not later than 5 years	2,610,569	2,619,272
Later than 5 years	1,154,879	1,679,851
	$ 4,562,609	$ 5,250,137

23. Risk management

23.1 Capital management

The Company's objective in managing capital is to ensure sufficient liquidity to pursue its growth while at the same time taking a conservative approach towards financial leverage and financial risk.

The Company's capital is composed of net debt and shareholders' equity. Net debt consists of interest-bearing debt less cash. The Company's primary uses of capital are to finance increases in non-cash working capital and capital expenditures for capacity expansion and integration.

The Company's primary measure to monitor financial leverage is Debt to Earnings before Interest, Taxes, Depreciation and Amortization ("EBITDA").

Credit facility arrangements require that the Company meet certain financial ratios at fixed points in time. The financial covenants are, as at December 31, 2015:
- Working capital ratio, defined as current assets divided by current liabilities greater than or equal to 1.10:1.00;
- Debt to equity ratio, defined as total debt excluding taxes divided by equity and deferred taxes less intangible assets of less than or equal to 2.50:1.00;
- Interest bearing debt divided by EBITDA ratio (as defined) less than or equal to 4.00:1.00;
- Fixed charge coverage ratio calculated on a yearly basis equal to or greather than 1.10:1.00;
- To maintain a minimum EBITDA (as defined) of $ 1,900,000 for the fiscal year ended December 31, 2015.

23.2 Foreign currency risk management

The Company's Canadian operations face foreign currency risk as a result of a significant portion of the costs of raw material for these sales being in USD. The Company's sales in USD act as a hedge against this risk, mitigating the risk.

The Company also faces foreign currency risk through its foreign subsidiary Imaflex USA, whose functional currency is the USD. Imaflex does not specifically hedge this foreign currency risk.

The Company also has a portion of its long term debt in USD. The majority of the cash flows generated by the assets financed by these borrowings in USD are in USD.

The following is the Company's financial assets and liabilities denominated in USD in its consolidated statement of financial position:

	December 31, 2015	December 31, 2014
Cash	$ 5,964	$ 347,529
Trade receivables	3,671,530	2,209,518
Trade payables	(4,170,709)	(4,546,247)
Bank indebtedness	(2,244,011)	(7,153)
Gross financial position exposure	$ (2,737,226)	$ (1,996,353)

23. Risk management (continued)

23.2 Foreign currency risk management (continued)

A 5% appreciation of the Canadian dollar against the USD would impact its financial position by $ 354,784 as at December 31, 2015 (December 31, 2014 - $201,154). Conversely a 5% depreciation of the Canadian dollar against the USD would have the opposite effect. Management estimates that every $ 0.01 appreciation of the USD against the Canadian dollar would have a negative impact on the Company's result of approximately $ 30,000. Every $ 0.01 depreciation of the USD against the Canadian dollar would have the opposite effect.

23.3 Interest rate risk management

The Company's exposure to interest rate fluctuations is with respect to its short-term and long-term financing, which bear interest at floating rates.

At the reporting date, the carrying value of the Company's interest-bearing financial liabilities was as follows:

	December 31, 2015	December 31, 2014
Variable rate instruments		
Financial liabilities	$ 12,584,621	$ 10,715,307
Gross financial position exposure	$ 12,584,621	$ 10,715,307

Sensitivity analysis

A 100 basis point increase in interest rates at the reporting date would result in a decrease in income for the year ended December 31, 2016 of approximately $ 118,952 ($ 102,946 for 2015 as at December 31, 2014). Conversely a decrease would have the opposite effect.

23.4 Liquidity risk management

Liquidity risk, the risk that the Company will not be able to meet its financial obligations as they fall due, is managed through the Company's capital structure and financial leverage. The Company obtains financing through a mix of share issuance on the capital markets and borrowing from financial institutions. An analysis of financial leverage is used to determine the required mix between the different sources of liquidity offered to the Company while keeping an acceptable risk level in the Company's leverage.

The Company ensures that it maintains sufficient cash flow to pay its obligations within the next 12 months. Cash flows generated from operations are matched to the liquidity required to meet its financial obligations for the sources of financing used to generate that cash flow.

The Company has an operating line of credit of up to $10,000,000, of which an amount of $6,925,713 was utilized as at December 31, 2015. Borrowings under the Company's operating line of credit bear interest at the bank's prime rate plus 1.15%. In order to ensure that this line of credit is sufficient to fund the Company's obligations, management follows the movements in the collateral against which the line of credit is given.

23. Risk management (continued)

23.4 Liquidity risk management (continued)

As at December 31, 2015, the carrying amount and undiscounted contractual cash flows for the Company's liabilities are as follows:

	Carrying amount	Contractual cash flow	1 year or less	2-5 years	More than 5 years
Bank indebtedness	$ 6,925,713	$ 6,925,713	$ 6,925,713	$ -	$ -
Long term debt	5,609,186	5,645,270	1,308,766	4,336,504	-
Interest on borrowings (1)	49,722	712,122	294,738	417,384	-
Finance leases (2)	487,606	524,749	173,648	351,101	-
Trade and other payables	8,272,779	8,272,779	8,272,779	-	-
	$21,345,006	$22,080,633	$16,975,644	$ 5,104,989	$ -

(1) The interest on the long term debt is based on prevailing interest rates at the date of the consolidated statement of financial position.
(2) The contractual cash flow for finance leases includes the interest on the borrowings.

24. Related party transactions

Entities in which key management personnel has an interest

During the year, in the normal course of business, the Company had routine transactions with entities owned by shareholders and key management personnel of the Company. These transactions are measured at fair value, which is the amount of consideration established and agreed to by the related parties. Details of these transactions not disclosed elsewhere in these consolidated financial statements are as follows:

	Transactions for the year ended		Amounts owing as at		Non-secured commitments as at	
	December 31, 2015	**December 31, 2014**	**December 31, 2015**	**December 31, 2014**	**December 31, 2015**	**December 31, 2014**
Entities owned by key management personnel or their family members						
Rent	$ 825,461	$ 755,050	$ -	$ -	$ 4,480,279	$ 5,048,502
Key management personnel services	138,017	173,558	12,273	14,000	-	-
Entities over which key management personnel have significant influence						
Professional services	82,914	100,000	82,914	100,000	-	-
	$ 1,046,392	$ 1,028,608	$ 95,187	$ 114,000	$ 4,480,279	$ 5,048,502

24. Related party transactions (continued)

Key management personnel

The table below details the compensation paid to the key members of management, which include the Company's chief executive officer, the vice president of marketing and innovation, the production director, the corporate controller and members of the board of directors.

	Year ended	
	December 31, 2015	December 31, 2014
Salaries	$ 653,053	$ 639,126
Director's fees	40,250	40,250
Short-term employee benefits	3,830	3,985
Post-employment benefits – State-run plans	13,104	12,029
Other benefits	33,273	35,177
	$ 743,510	$ 730,567