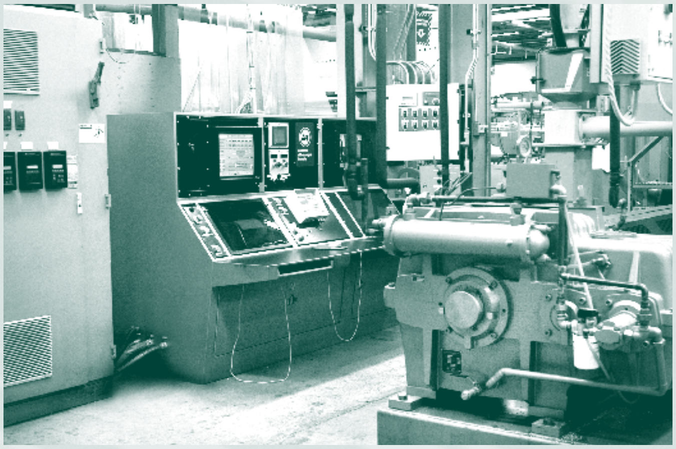
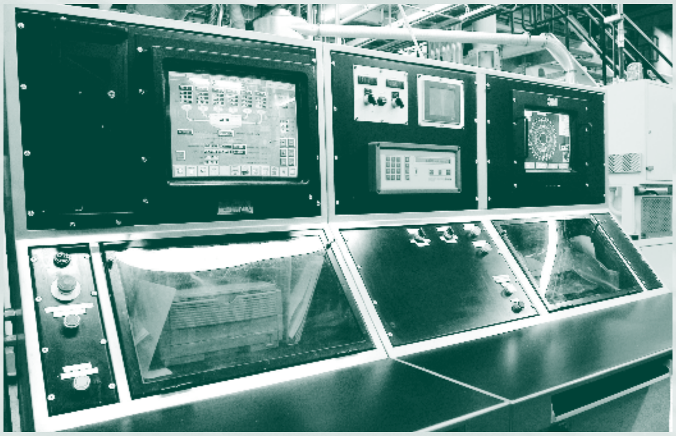
ANNUAL REPORT
2016

IMAFLEX
Committed to Excellence

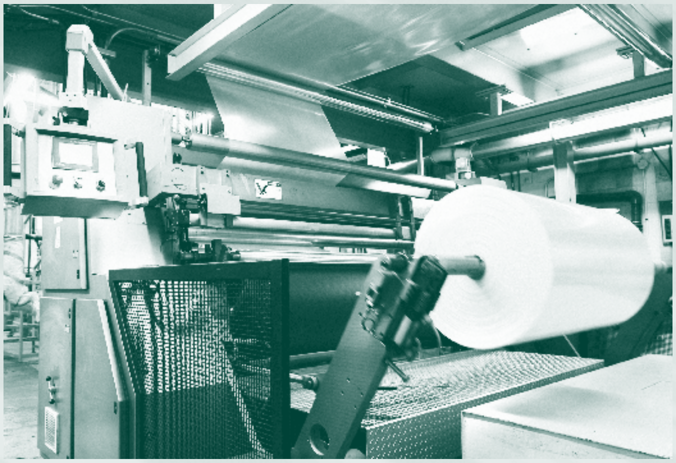




IN ALL SUCCESSFUL BUSINESSES THE KEY TO SUCCESS RELIES ON MANAGEMENT'S ABILITY TO MASTER THREE FUNDAMENTALS:

> 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.



IMAFLEX inc. ISO 9001 2000 CERTIFIED • CERTIFIÉE

Committed to Excellence

PREFACE

This Management Discussion and Analysis (MD&A) comments on Imaflex Inc.'s (the "Parent Company") operations, financial performance, financial condition, future outlook and other matters for the three-month periods and years ended December 31, 2016 and December 31, 2015. Unless otherwise indicated, the terms "Imaflex", "Company", "we", "our", and "us" all refer to Imaflex Inc., together with its divisions Canguard Packaging and Canslit, along with its wholly owned subsidiary, Imaflex USA Inc. All intercompany balances and transactions have been eliminated on consolidation.

This MD&A also provides information to improve the reader's understanding of the accompanying consolidated financial statements and related notes. It should be read together with our audited consolidated financial statements for the years ended December 31, 2016 and 2015.

Unless otherwise indicated, all financial data in this document was prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and all amounts are expressed in thousands of Canadian dollars. Differences may occur due to rounding of amounts. We also use financial measures that are not defined by IFRS. Please refer to the section entitled "Non-IFRS Financial Measures" for a complete description of these measures. This MD&A was reviewed by Imaflex's Audit Committee and approved by the Board of Directors on April 18, 2017. Disclosure contained within it is current to that date, unless otherwise indicated.

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

FORWARD LOOKING STATEMENTS

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

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

FORWARD LOOKING STATEMENTS (continued)

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 18, 2017.

COMPANY OVERVIEW

Imaflex is focused on the development and manufacturing of innovative solutions for the flexible packaging and agriculture markets. The Company's flexible packaging products, largely used to protect and preserve, consist primarily of polyethylene (plastic) film and bags, including garbage bags, as well as metalized film. Our polyethylene film is mainly sold to printers, known as "converters", who process the film into a finished product to meet their end-customer needs. Our agriculture products are comprised of both non-metalized and metalized mulch films, including standard, compostable and barrier (fumigant) films, along with next generation crop protection and yield enhancement films, including Shine N' Ripe XL and ADVASEAL® (under development). The Company expects agriculture sales to become a much larger revenue contributor in the coming years.

Imaflex operates three manufacturing facilities. Two are located in the province of Québec, including Montréal (Imaflex Inc.) and Victoriaville (Canguard and Canslit), and one is located in Thomasville, North Carolina, USA (Imaflex USA). The Company also has a warehouse in Thomasville. The four facilities cover a total area of approximately 21,182 square meters or 228,000 square feet. Imaflex and Imaflex USA specialize in the manufacture and sale of custom-made polyethylene films and bags. Canguard specializes in the manufacture and sale of polyethylene garbage bags, while Canslit specializes in the metallization of plastic film. We believe that our manufacturing presence in both Canada and the United States provides a competitive advantage in terms of logistics, currency, and manufacturing flexibility.

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

Shine N' Ripe XL

Shine N' Ripe XL is a long-lasting, heavy-duty, metalized agricultural mulch film specifically designed to fight citrus greening, a bacterial disease spread by the Asian Citrus Psyllid (ACP), an insect that is threatening the citrus industry. It causes deformed off-flavoured fruits, low yields and eventually tree death. Common insecticides alone have proven ineffective in managing ACP.

Shine N' Ripe XL helps repel insect infestation through solar reflection. Its unique ability to reflect ultraviolet (UV) light disorients insects, creating confusion between up and down. Not only does the film provide a highly-effective insect repellent, it also enhances tree growth and yield, while also controlling weeds and bringing water preservation benefits. Shine N' Ripe XL has a unique ability to maintain high long-term UV reflectivity for 3 or more years, making it an environmentally-friendly, economically-viable agricultural film for the management of citrus greening.

Shine N' Ripe XL is currently being commercialized. During the fourth quarter ended December 31, 2016, the Company received its first significant mulch film order for approximately $1.0 million dollars from one of the world's largest citrus growers.

COMPANY OVERVIEW (continued)

ADVASEAL® Commercialization

ADVASEAL® is a next generation, crop protection product currently under development and an important growth platform for Imaflex. The underlying technology is patent protected until 2032 and the Company has obtained or is in the process of filing for patent protection in the top 20 major vegetable and fruit producing countries in the world, including Central-America, the USA and the European Union.

Most of the plastic mulch used annually worldwide is applied in conjunction with the spraying of herbicides and pesticides or the application of fumigants. ADVASEAL® simplifies this process in a safe, environmentally-friendly and cost effective way, by allowing for the controlled release of crop protection products (pesticides, fungicides and herbicides) using a patent protected mulch film that has been coated with the active ingredients. It is safe to handle, transport and apply, and unlike the traditional practice of chemical spraying, there is no need for protective gear. It also permits exact dosing of expensive chemicals, which improves crop quality and increases yields.

When the film is used, the ingredients are released in a timely manner only to the soil, eliminating the need for costly work steps in the preparation and application of common spray mixtures. There is also reduced risk of toxicity to the crop, no wind drift of agrochemicals into the environment and no respiration hazards for operators or bystanders.

In addition to being an environmentally-friendly product, management estimates that ADVASEAL® will save growers between $200 and $800 per acre, depending on the crop grown. Collectively, this puts Imaflex in a good position to capture market share as ADVASEAL® is commercialized.

During fiscal 2016, the Company made progress in the process of customizing the coating equipment needed to produce ADVASEAL®. The Company is now in the last stages of equipment testing and, once completed, will proceed with a field trial of approximately 25 acres, most of which will be given to selected growers and the remainder will be used for lab and US Environmental Protection Agency (EPA) testing. If the results of this testing is positive, the Company will be able to proceed to the process of ordering the equipment.

MARKET OVERVIEW

The North American flexible packaging market is valued at approximately US$28 billion. Although this market is highly fragmented and commoditized in terms of pricing, there are niches within the larger space that offer the opportunity for increased profitability. In 2016, Imaflex was ranked in the top 100 North American film and sheet manufacturers by sales.

The total addressable global agriculture mulch film market is valued at approximately US$9 billion, for which the Company has and continues to develop innovative and proprietary solutions. In the US alone, the Company estimates that approximately 130 million pounds of mulch film is being used, resulting in an estimated total addressable market of approximately US$750 million.

Going forward, the Company hopes to capture a much larger share of the agriculture film market due to its next generation crop protection and yield enhancement products, Shine N' Ripe XL and ADVASEAL®. With growing concerns over the scarcity of resources, the environment, lower crop yields due to disease, and a rising global population, the Company believes that the macro-environment is working in its favour. Sustainability and intelligent farming are becoming increasingly important.

COMPETITIVE ENVIRONMENT

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

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

Some competitors, experiencing idle operations or producing at below average capacity levels, may attempt to gain market share through reduced pricing, particularly during difficult economic times. Imaflex still believes that maintaining its focus on the quality of its products and the excellence of its customer service remains its best long-term strategy, as these two characteristics define our position and reputation in the market, and this regardless of the fluctuations in the economic cycle. This strategy has been the backbone of our growth and it has served us well.

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

GROWTH STRATEGY

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

Strengthen the Core

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

Grow the Agriculture Business

We will continue to build-out our agriculture business, driving awareness and exposure for our advanced agriculture films, particularly Shine N' Ripe XL and ADVASEAL®. In conjunction with this, we will continue to work on the timely commercialization of ADVASEAL®. Management believes the underlying technology platform behind both products brings substantial upside potential for the Company.

Maintain focus on Research and Development

We will maintain our focus on enhancing the customer value proposition, developing new capabilities and leading edge products for highly profitable niche markets. In addition to building out our core flexible packaging product portfolio, we will also concentrate on introducing new proprietary technologies, in order to offer solutions that are more cost effective and environmentally-friendly than traditional methods. The Company's research teams use the fields in which they have core-competencies in order to identify innovative improvements and solutions where chemicals and polymers can offer added-value.

GROWTH STRATEGY (continued)

Maintain Efficiency of Equipment

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

EMPLOYEES AND CORPORATE OFFICE

Imaflex currently employs 220 people worldwide and our corporate head office is located in Montreal, Canada. The Company currently has no unionized employees.

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 costs, 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 have an outsourcing strategy in place.

NON-IFRS FINANCIAL MEASURES

The Company's management uses a non-IFRS financial measure in this MD&A, namely EBITDA, to assess its performance. EBITDA is determined as "Earnings before interest, taxes, depreciation and amortization". The reader may refer to the table below for the reconciliation of the EBITDA used by the Company to its reported net income.

Reconciliation of EBITDA to net income:

($ thousands, except per share data)	**Three months ended**		**Years ended**	
	December 31, 2016	December 31, 2015	**December 31, 2016**	December 31, 2015
Net income	**$ 161**	$ 317	**$ 408**	$ 813
Plus:				
Income taxes	**213**	291	**589**	709
Finance costs	**136**	147	**549**	601
Depreciation and amortization	**561**	403	**2,001**	1,682
EBITDA	**$ 1,071**	$ 1,158	**$ 3,547**	$ 3,805
Basic and diluted EBITDA per share *	**$ 0.022**	$ 0.023	**$ 0.071**	$ 0.077

*Basic weighted average number of shares outstanding of 49,738,637 for the quarter ended December 31, 2016 (49,638,637 in 2015) and 49,697,653 for the year ended December 31, 2016 (49,517,502 in 2015). Diluted weighted average number of shares outstanding of 49,784,681 for the quarter ended December 31, 2016 (49,705,847 in 2015) and 49,724,435 for the year ended December 31, 2016 (49,593,417 in 2015).

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

RISK FACTORS

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

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

Although polyethylene prices experienced an increase in the fourth quarter of 2016, overall the market is still expecting supply to be greater than demand and therefore there is no upwards pressure expected on pricing in 2017, much as was the case in 2016. Although resin suppliers will most definitely implement price adjustments in the year, the additional capacity that is expected to come on board should keep resin prices relatively flat in the long run.

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, we are in a US$28 billion market and we believe we have a competitive edge over our competition because we have highly skilled teams that are quick to respond to customer needs, we have a diversified manufacturing base and the bulk of our customers deal in food related products. It may not always translate into a greater net profit, but should result in customer loyalty if 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 our operations, which consist primarily of manufacturing polyethylene film for converters, who process the film into a finished product for their end-customers, Imaflex's exposure to product liability is low. Imaflex is not exposed to liability for personal injury or death arising from negligence in the manufacturing of the films either.

The only market segment that exposes the Company to potential product liability claims is the 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 interest rate risk. Management assesses its exposure to interest rate fluctuations and decides whether it may be favourable to enter into contracts to hedge this risk 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 should be managed naturally. Management continuously assesses its exposure to such risk and the Company does not currently use any financial instruments to hedge its foreign currency position.

ENVIRONMENTAL HAZARDS

The Company's raw materials, processes and finished goods do not have any hazardous implications. However we do buy a few items which are used in our production equipment such as cooling products which may be hazardous, but their use and 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

Sales continued to grow in the fourth quarter of 2016 compared to the corresponding quarter of 2015, leading to higher sales and gross profits for the full year 2016. Going forward, as the Company continues to introduce new products to the market, it will build on its solid foundation to further improve sales volumes and profitability.

($ thousands)	**Three months ended**		**Years ended**	
	December 31, 2016	December 31, 2015	**December 31, 2016**	December 31, 2015
Sales	**$18,943**	$17,084	**$73,513**	$69,151

Sales increased by $1.9 million, or 10.9%, in the fourth quarter of 2016 compared to the same period in 2015, mainly due to higher sales prices following a favorable change in the product mix during the quarter. Sales in the US subsidiary also increased due to management's efforts to stimulate growth in our operations and the fourth quarter demonstrated positive results on that front. To a lesser extent, foreign exchange also had a positive impact on sales in the fourth quarter of 2016 due to a stronger USD throughout the period, despite the fact that the USD closed stronger in 2015 than in 2016.

For the year ended December 31, 2016, sales increased by $4.4 million, or 6.3%, compared to fiscal 2015. The increase in the sales price, which was also stimulated by a stronger USD throughout the year, was an important factor in the increase in sales. The Company's sales volume also increased, most notably in the core packaging business, further contributing to the growth in sales.

RESULTS OF OPERATIONS (continued)

($ thousands)	**Three months ended**		**Years ended**	
	December 31, 2016	December 31, 2015	**December 31, 2016**	December 31, 2015
Gross Profit ($) before amortization of production equipment	**$2,538**	$2,704	**$10,186**	$8,520
Gross margin (%)	**13.4%**	15.8%	**13.9%**	12.3%
Amortization of production equipment	**552**	332	**1,772**	1,412
Gross profit ($)	**$1,986**	$2,372	**$8,414**	$7,108
Gross margin (%)	**10.5%**	13.9%	**11.4%**	10.3%

The Company's gross profit before the amortization of production equipment decreased by $0.2 million or 6.1% during the quarter ended December 31, 2016 compared to the same period in 2015 and the associated gross margin decreased from 15.8% in 2015 to 13.4% in 2016. The amortization of production equipment increased in the fourth quarter of 2016 due to the assets purchased throughout the year. The Canadian operations maintained a strong gross profit in the fourth quarter of 2016 whereas the US experienced a decrease due to an unfavourable change in product mix. Moreover, higher resin prices from suppliers negatively impacted the gross profit as the Company was only able to reflect the increase in its pricing after a month's delay.

For the year ended December 31, 2016, the gross profit before the amortization of production equipment increased by $1.7 million compared to the year ended December 31, 2015 and the gross margin increased from 12.3% in 2015 to 13.9% in 2016. Although the amortization of production equipment increased in fiscal 2016 due to equipment purchases, the gross profit increased by $1.3 million in fiscal 2016 over fiscal 2015. The Company generated more operational profitability in fiscal 2016 compared to 2015 following the increase in sales and improved operational efficiencies achieved during the year. These improvements reflect management's ongoing efforts to drive operational efficiencies throughout the business and support growth in an efficient manner.

($ thousands)	**Three months ended**		**Years ended**	
	December 31, 2016	December 31, 2015	**December 31, 2016**	December 31, 2015
Selling and administrative	**$1,623**	$1,475	**$6,497**	$6,211
As a % of sales	**8.6%**	8.6%	**8.8%**	9.0%

Selling and administrative expenses increased by $0.1 million in the fourth quarter of 2016 compared to the same period in 2015, mainly as a result of the increase in sales and administrative salaries. The stronger USD also had an impact on selling and administrative expenses. As a percentage of sales however, selling and administrative expenses remained constant at 8.6% in both fiscal 2015 and 2016 due to the higher revenue base.

Despite the increase in sales and production volumes, growth in fiscal 2016 selling and administrative expenses was limited to $0.3 million due to controlled spending during the year. As a percentage of sales, selling and administrative expenses decreased from 9.0% in 2015 to 8.8% in 2016 due to the higher revenue base and ongoing cost control efforts. Management remains focused on managing selling and administrative expenses as the Company continues to grow.

RESULTS OF OPERATIONS (continued)

($ thousands)	**Three months ended**		**Years ended**	
	December 31, 2016	December 31, 2015	**December 31, 2016**	December 31, 2015
Finance costs	**$136**	$147	**$549**	$601

Due to the lower amount outstanding under the Company's line of credit and USD loan in the fourth quarter of 2016, finance expenses decreased slightly compared to the same period in 2015. The Company refinanced a loan during the fourth quarter of 2016, obtaining additional capital and increasing the balance outstanding on that loan, which partly offset the decrease in finance costs on the line of credit and the USD loan.

Finance costs decreased during the year ended December 31, 2016 compared to the year ended December 31, 2015 mainly due to the decreasing balances on long term loans, despite the additional capital that was obtained at the end of fiscal 2016 after a loan was refinanced.

($ thousands)	**Three months ended**		**Years ended**	
	December 31, 2016	December 31, 2015	**December 31, 2016**	December 31, 2015
Foreign exchange (gains)/losses	**$ (162)**	$ 124	**$ 291**	$ (1,296)

The depreciation of the CAD against the USD over the fourth quarter of 2016 led to a gain on foreign exchange of $0.2 million, whereas the depreciation of the CAD against the USD over the fourth quarter of 2015 led to a loss of $0.1 million. Variations in the Company's exposure and movements of accounts in foreign currency, including transactions with the Company's US subsidiary, led to a positive swing in results of $0.3 million quarter over quarter.

The slight appreciation of the CAD against the USD throughout fiscal 2016 led to a foreign exchange loss of $0.3 million, whereas the important depreciation of the CAD against the USD throughout fiscal 2015 led to an important foreign exchange gain of $1.3 million. Movements in foreign exchange therefore had a negative impact of $1.6 million on year over year results, largely offsetting the improvements achieved in the Company's operations.

($ thousands)	**Three months ended**		**Years ended**	
	December 31, 2016	December 31, 2015	**December 31, 2016**	December 31, 2015
Income taxes	**$ 213**	$ 291	**$ 589**	$ 709
As a % of profit before taxes	**57.0%**	47.9%	**59.1%**	46.6%

The income tax expense amounted to $0.2 million in the fourth quarter of 2016 compared to an expense of $0.3 million for the same period in 2015. The income tax expense represented 57.0% of profit before tax, which is higher than the statutory income tax rate and the 47.9% in fiscal 2015.

For fiscal 2016, the income tax expense amounted to $0.6 million compared to $0.7 million for the corresponding period in 2015 and increased as a percentage of profit before tax, increasing from 46.6% in 2015 to 59.1% in 2016. This is higher than the statutory income tax rate because for both years no benefit was recorded for the losses of the US subsidiary.

RESULTS OF OPERATIONS (continued)

($ thousands, except per share data)	**Three months ended**		**Years ended**	
	December 31, 2016	December 31, 2015	**December 31, 2016**	December 31, 2015
Net income	**$ 161**	$ 317	**$ 408**	$ 813
Basic and diluted earnings per share	**$ 0.003**	$ 0.006	**$ 0.008**	$ 0.016

The Company's net income decreased slightly in the fourth quarter, going from $0.3 million in 2015 to $0.2 million in 2016. The decrease reflects the lower gross profit and the higher selling and administrative expenses, partially offset by favorable foreign exchange movements and a lower income tax expense. The basic and diluted EPS decreased, from $0.006 in 2015 to $0.003 in 2016.

For fiscal 2016, net income was $0.4 million, decreasing from $0.8 million in fiscal 2015, mainly due to the large swing in foreign exchange. In 2015, the US dollar appreciated significantly from the beginning to the end of the year, whereas in 2016 the Company saw more stability in the currencies with which it operates. Operationally, the Company's profitability improved significantly and increases in other expenses were limited, which positions the Company for further improvements to net income if sales volumes continue to grow as seen in recent years.

Financial Position

December 31, 2016 vs. December 31, 2015

The Company's short term assets and liabilities decreased from December 31, 2015 to December 31, 2016. A greater decrease in current liabilities improved the Company's financial position as the increase in long term borrowings, combined with the increased profitability over the period, provided the liquidities needed to decrease the short-term bank indebtedness. The Company's working capital increased from $4.9 million in 2015 to $6.0 million in 2016. Trade and other receivables and prepaid expenses also decreased, each by approximately $0.1 million, and trade payables and the current tax liabilities decreased, by $0.1 million and $0.2 million respectively. Overall, the Company maintains a solid financial position placing it in a good position to support future growth.

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):

	Q4/16	**Q3/16**	**Q2/16**	**Q1/16**	**Q4/15**	**Q3/15**	**Q2/15**	**Q1/15**
Revenues	18,943	16,997	18,195	19,378	17,084	17,441	18,716	15,910
Net income (loss)	161	(104)	523	(172)	317	444	345	(293)
Earnings (loss) per share:								
Basic and diluted	0.003	(0.002)	0.010	(0.003)	0.006	0.009	0.007	(0.006)

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; and interest rate fluctuations and other changes in borrowing costs.

LIQUIDITY

The Company's working capital increased from $ 4.9 million as at December 31, 2015 to $ 6.0 million as at December 31, 2016. Short term assets decreased by $ 1.1 million, mainly due to the $0.7 million decrease in inventories. Accounts receivable and prepaid expenses also decreased, each by approximately $0.1 million, and over the period the Company's cash position also decreased by $0.1 million. Current liabilities decreased more significantly than current assets, driven by the $1.9 million decrease in bank indebtedness. The Company repaid an important amount on its short term bank debt following increased profitability and the inflow obtained after a loan was refinanced late in the year. Trade payables decreased by $0.1 million and current tax payable also decreased, by $0.2 million. The current portion of long term debt remained fairly stable and the current portion of finance leases increased by $17 thousand over the period.

Cash Flows from Operating Activities

The strong profitability over the quarter fueled improvements in the Company's operating cash flow, with operating cash flow before movements in working capital totaling $0.9 million for the fourth quarter of 2016. These inflows were only partially offset by a $0.2 million outflow due to movements in working capital and a $0.2 million outflow for payments of income taxes. Total operating cash flow amounted to $0.5 million. During the fourth quarter of 2015, before movements in working capital, operating activities generated inflows of $ 0.7 million, coming in lower than in 2016, which were entirely offset by important outflows due to movements in working capital and the payment of income taxes, for a net operational cash outflow of $1.6 million.

The operating cash flow for fiscal 2016 improved significantly, generating an inflow of $4.2 million before movements in working capital due to the increased profitability for the year. Movements in working capital generated inflows of $0.7 million, mainly due to the $0.6 million decrease in inventories and, net of the $0.8 million payment of income taxes, operating activities generated inflows of $4.1 million. During fiscal 2015, operating cash flow before movements in working capital generated inflows of $2.1 million, as the large unrealized foreign exchange gain offset a portion of the cash inflows generated by operations. These inflows were also offset by the $1.5 million outflow due to movements in working capital and the $0.5 million payment of income taxes, generating net cash inflows of only $0.1 million.

Cash Flows from Investing Activities

During the fourth quarter of 2016, the Company invested an additional $ 0.3 million in capital assets and non-current assets, mainly for small pieces of auxiliary equipment and to improve existing equipment. During the same quarter in 2015, the Company invested $ 0.3 million for small equipment and leasehold improvements.

During fiscal 2016, the Company invested $1.5 million in long term assets, mainly for the improvement to existing equipment in order to operate more efficiently. This amount is slightly lower than the $1.6 million invested in fiscal 2015 for the refurbishing of its machinery, for analytical equipment and for leasehold improvements.

Cash Flows from Financing Activities

During the fourth quarter of 2016, the Company reimbursed $1.0 million on its short term bank debt, $0.2 million on long term debt, $42 thousand on finance leases and made interest payments amounting to $0.1 million. During the quarter, the Company received an additional $1.0 million by refinancing an existing long term loan following the purchase of long term assets. In the fourth quarter of 2015, the Company used $2.3 million of its line of credit for operations, reimbursed $0.3 million on long term debt and $37 thousand on obligations under finance leases. The Company also paid $0.1 million in interest.

LIQUIDITY (continued)

<u>Cash Flows from Financing Activities</u> (continued)

During fiscal 2016, the Company reimbursed $ 1.9 million on its short term bank indebtedness, $ 1.0 million on its long term debt, $0.2 million on finance leases and paid $0.5 million in interest. The Company obtained $1.0 million by refinancing a long term loan and issued shares for proceeds of $12 thousand. In fiscal 2015, the Company borrowed $1.8 million on its line of credit and $0.6 million in term debt. A share issuance generated proceeds of $0.3 million during the year. Moreover, the Company reimbursed $1.1 million on long term borrowings, $0.2 million to a shareholder, $0.1 million under its obligations under finance leases and paid $0.6 million in interest.

CONTRACTUAL OBLIGATIONS

The contractual obligations as at December 31, 2016 were as follows:

($ thousands)	**Payments due by period**			
	Total	Less than 1 year	1 – 5 years	After 5 years
Long-term debt	$ 6,100	$ 1,566	$ 4,079	$ 455
Finance leases	415	185	230	-
Operating leases	6,011	931	3,206	1,874
Bank Indebtedness	5,052	5,052	-	-
Total contractual obligations	**$ 17,578**	**$ 7,734**	**$ 7,515**	**$ 2,329**

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, 2016.

CAPITAL RESOURCES

The Company has an operating line of credit with its bankers to a maximum of $ 10 million bearing interest at a rate of prime plus 0.90%. The line of credit is secured by trade receivables and inventories. As at December 31, 2016, the Company was using $ 5.1 million on its line of credit ($ 6.9 million as at December 31, 2015). The Company's working capital improved, reaching $6.0 million as at December 31, 2016 compared to $4.9 million as at December 31, 2015. The Company has a solid financial position and its profitability and the refinancing of a long term loan provided additional capital, permitting the Company to decrease short term borrowings. The Company currently has sufficient liquidity to finance its current operations and the short term growth that is expected in the year to come.

PROPOSED TRANSACTION

The Company is not currently contemplating any business acquisition or merger.

RELATED PARTY TRANSACTIONS

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

The following table reflects the related party transactions recorded for the periods ended December 31, 2016 and 2015. 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, 2016 and 2015.

RELATED PARTY TRANSACTIONS (continued)

($ thousands)		Three months ended		Years ended	
(unaudited)		**December 31, 2016**	December 31, 2015	**December 31, 2016**	December 31, 2015
Professional fees and key management personnel services	**(a)**	**$ 108**	$ (4)	**$ 284**	$ 221
Rent	**(b)**	**$ 233**	$ 234	**$ 878**	$ 825
Remuneration	**(c)**	**$ 398**	$ 182	**$ 975**	$ 744

(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, 2016 and 2015. This note explains the Company's accounting policies under IFRS which have not changed since the Company's last annual financial statements.

FINANCIAL INSTRUMENTS

Please refer to note 21, *Financial instruments* of the consolidated financial statements for the years ended December 31, 2016 and 2015 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, 2016, the Company is not using any swap, forward or hedge accounting and there were no warrants outstanding.

As at December 31, 2016, 2,450,000 options to purchase shares of the Company were outstanding at a weighted average strike price of $0.436 of which 937,500 were exercisable. During the year ended December 31, 2016, the Company issued 500,000 options to purchase shares of the Company at an exercise price of $ 0.42 and 1,300,000 options to purchase shares of the Company at $0.40 for a period of five years. During the year ended December 31, 2016, the Company issued 100,000 shares following the exercise of options for a cash consideration of $ 12,500.

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 outstanding, but during the year 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, a portion of which was received during fiscal 2014.

MANAGEMENT OUTLOOK

All indications are that citrus film sales have now taken root. This new revenue stream should bolster sales and profitability as market adoption increases. Furthermore, our ability to offer unique products, combined with our commitment to make the required investments in order to monetize them, should allow us to drive further revenue and margin expansion. With a much improved balance sheet, an unwavering focus on operational and financial excellence and an innovative team, we believe we are well placed to capitalize on market opportunities and drive sustained profitable growth.

Imaflex expects 2017 revenues to grow by approximately 10% over 2016.

OUTSTANDING SHARE DATA

As at December 31, 2016, the Company had 49,738,637 common shares outstanding (49,638,637 as at December 31, 2015).

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.

The US$28 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) Joe Abbandonato	***(s) Giancarlo Santella***
Joe Abbandonato	Giancarlo Santella, CPA, CA
President and Chief Executive Officer	Corporate Controller

April 18, 2016

Consolidated Financial Statements of

IMAFLEX INC.

Years ended December 31, 2016 and 2015

Raymond Chabot
Grant Thornton

Independent Auditor's Report

Raymond Chabot Grant Thornton LLP
Suite 2000
National Bank Tower
600 De La Gauchetière Street West
Montréal, Quebec H3B 4L8

Telephone: 514-878-2691
Fax: 514-878-2127
www.rcgt.com

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, 2016 and 2015 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, 2016 and 2015 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]

Montréal
April 18, 2017

[1] CPA auditor, CA public accountancy permit no. A119564

Consolidated statements of comprehensive income

for the years ended		December 31,	
(in Canadian dollars)		2016	2015
Revenues	(Note 5.1)	$ 73,513,424	$ 69,150,630
Cost of sales		65,099,412	62,042,460
Gross profit		8,414,012	7,108,170
Expenses:			
Selling		1,541,833	1,735,052
Administrative		4,955,639	4,475,482
Finance costs	(Note 8)	548,940	601,298
Foreign exchange losses (gains)		290,977	(1,296,335)
Other		79,549	71,000
		7,416,938	5,586,497
Income before income taxes		997,074	1,521,673
Income taxes	(Note 9)	589,007	708,455
NET INCOME		408,067	813,218
Other comprehensive (loss)/income			
Item that will be reclassified subsequently to net income			
Exchange differences on translating foreign operations		(136,297)	801,108
COMPREHENSIVE INCOME		$ 271,770	$ 1,614,326
Earnings per share			
Basic and diluted	(Note 10)	$ 0.008	$ 0.016

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, 2016	December 31, 2015
Assets			
Current assets			
Cash		$ 68,100	$ 160,975
Trade and other receivables	(Note 11)	11,358,652	11,501,462
Inventories	(Note 12)	10,074,571	10,822,438
Prepaid expenses		145,011	265,002
Total current assets		21,646,334	22,749,877
Non-current assets			
Property, plant and equipment	(Note 13)	18,785,708	19,601,217
Intangible assets	(Note 14)	1,485,177	1,484,370
Total non-current assets		20,270,885	21,085,587
Total assets		$ 41,917,219	$ 43,835,464
Liabilities and equity			
Current liabilities			
Bank indebtedness	(Note 16)	5,052,270	6,925,713
Trade and other payables	(Note 15)	8,749,001	8,865,082
Current tax liabilities		311,211	541,399
Long-term debt, current portion	(Note 16)	1,355,760	1,358,488
Finance lease obligations, current portion	(Notes 16, 17)	170,740	153,959
Total current liabilities		15,638,982	17,844,641
Non-current liabilities			
Long-term debt	(Note 16)	4,128,041	4,300,420
Deferred tax liabilities	(Note 9)	1,291,493	1,285,593
Finance lease obligations	(Notes 16, 17)	221,974	333,647
Total non-current liabilities		5,641,508	5,919,660
Total liabilities		21,280,490	23,764,301
Equity			
Share capital	(Note 18)	11,765,023	11,752,523
Reserves	(Note 19)	1,903,823	1,758,824
Retained earnings		6,967,883	6,559,816
Total equity		20,636,729	20,071,163
Total liabilities and equity		$ 41,917,219	$ 43,835,464

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, 2016 and 2015
(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, 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 and January 1, 2016	$11,752,523	$ 474,533	$ 819,117	$ 465,174	$ -	$ 1,758,824	$ 6,559,816	$ 20,071,163
Net income for the year	-	-	-	-	-	-	408,067	408,067
Exchange differences on translating foreign operations	-	-	(136,297)	-	-	(136,297)	-	(136,297)
Comprehensive income for the year	-	-	(136,297)	-	-	(136,297)	408,067	271,770
Transactions with owners:								
Issuance of share capital (Note 18)	12,500	-	-	-	-	-	-	12,500
Share-based compensation (Note 19)	-	281,296	-	-	-	281,296	-	281,296
Balance at December 31, 2016	$11,765,023	$ 755,829	$ 682,820	$ 465,174	$ -	$ 1,903,823	$ 6,967,883	$ 20,636,729

(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, 2016	 2015
Operating activities:		
Net income for the year	$ 408,067	$ 813,218
Income tax expense	589,007	708,455
Depreciation and amortisation of non-current assets	2,000,905	1,681,891
Finance costs	548,940	601,298
Share-based compensation	281,296	102,641
Unrealized foreign exchange loss (gain)	343,279	(1,759,890)
	4,171,494	2,147,613
Net changes in working capital		
Decrease (increase) in trade and other receivables	75,411	(1,358,589)
Decrease (increase) in inventories	618,492	(243,767)
Decrease (increase) in prepaid expenses	115,013	(33,433)
(Decrease) increase in trade and other payables	(81,931)	161,057
	726,985	(1,474,732)
Cash generated by operations	4,898,479	672,881
Net income taxes paid	(813,295)	(543,213)
Net cash generated by operating activities	4,085,184	129,668
Investing activities:		
Payments for property, plant and equipment	(1,447,246)	(1,598,779)
Payments for intangible assets	(93,345)	(29,767)
Net cash used in investing activities	(1,540,591)	(1,628,546)
Financing activities:		
Net change in bank indebtedness	(1,873,443)	1,770,843
Interest paid	(548,445)	(586,716)
Increase in long term debt	961,510	587,023
Repayment of long-term debt	(1,029,168)	(1,059,012)
Net proceeds from issuance of share capital and warrants	12,500	325,709
Due to a shareholder and director	-	(203,947)
Repayment of finance leases	(158,395)	(138,672)
Net cash (used in) generated by financing activities	(2,635,441)	695,228
Net decrease in cash	(90,848)	(803,650)
Cash, beginning of the year	160,975	945,744
Effects of foreign exchange differences on cash	(2,027)	18,881
Cash, end of the year	$ 68,100	$ 160,975

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

2. Significant accounting policies

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, 2016. The consolidated financial statements were approved by the board of directors and authorized for issue on April 18, 2017.

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, 2016 and 2015, 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 exchange rates in effect on the date of the transactions. 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 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.

Financial assets

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.

Impairment of financial assets

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

The Company's building, land, 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
Land	Indefinite
Building	20 years
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, in Other 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 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 rental payments 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 rental payments 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 the 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 group 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 amount received upon issuance of shares, net of transaction costs. Proceeds 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 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 International Accounting Standards Board ("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:

Revenue Recognition

IFRS 15 – *Revenue from Contracts with Customers* was issued in May 2014 to replace IAS 18 – *Revenue* and IAS 11 – *Construction Contracts* as well as other revenue-related interpretations. The Company will adopt this new standard in the first quarter of 2018. IFRS 15 establishes a new control-based revenue recognition model based on the transfer of promised goods and services to customers at a point in time or over time, provides new and more detailed guidance on specific topics and provides additional requirements on the disclosures about revenue in the consolidated financial statements. Management is continuing to assess the impact of this new standard on its consolidated financial statements.

3. Future accounting changes (continued)

Financial Instruments

In July 2014, the IASB released IFRS 9 – *Financial instruments*, which will replace IAS 39 – *Financial Instruments: Recognition and Measurement*. This IFRS includes a revised model for the classification and measurement of financial assets and liabilities, a forward-looking 'expected loss' impairment model and a reformed approach to hedge-accounting. The Company will adopt this standard in the first quarter of 2018. Management is continuing to assess 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 the existing standard IAS 17 – *Leases* and related interpretations. This IFRS eliminates the classification as an operating lease and requires lessees to recognise a right-of-use asset and a lease liability in the statement of financial position for all leases with exemptions permitted for short-term leases and leases of low value assets. 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. The adoption of this new standard will require the Company to change the method used for accounting for operating leases, but management is continuing 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.

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-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, 2016	December 31, 2015
Canada	$ 27,387,025	$ 25,724,900
United States	45,954,583	43,312,195
Other	171,816	113,535
Total	$ 73,513,424	$ 69,150,630

5. Segment information (continued)

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

	December 31, 2016	December 31, 2015
Canada	$ 6,889,509	$ 6,707,965
United States	13,381,376	14,377,622
Total	$ 20,270,885	$ 21,085,587

6. Additional information on the consolidated statements of comprehensive income

The Company's consolidated statement of comprehensive income includes depreciation of production equipment of $1,771,631 for the year ended December 31, 2016 ($1,412,442 in 2015) classified in Cost of sales. Depreciation of other property, plant and equipment and amortisation of intangible assets amounting to $229,274 for the year ended December 31, 2016 ($269,449 in 2015) is included in Administrative expenses.

The Company's consolidated statement of comprehensive income includes salaries paid to its employees of $8,952,979 for the year ended December 31, 2016 ($8,060,688 in 2015) classified in Cost of sales. Administrative expenses include salaries paid to employees of $1,569,759 for the year ended December 31, 2016 ($1,460,906 in 2015) and Selling expenses include salaries paid to employees of $418,638 for the year ended December 31, 2015 ($629,437 in 2015).

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 $2,535,708 during the year ended December 31, 2016 ($2,302,252 in 2015). These payments are expensed as incurred and the Company does not recognise any gains or losses subsequent to the payment of these benefits.

The Company also offers a defined contribution employee benefit plan to its employees located in North Carolina, USA. For the year ended December 31, 2016, the Company contributed $33,112 to this plan ($28,151 in 2015).

8. Finance costs

	Year ended	
	December 31, 2016	December 31, 2015
Interest on bank indebtedness and long term debt	$ 526,994	$ 541,209
Interest on obligations under finance leases	21,946	24,966
Other interest	-	35,123
	$ 548,940	$ 601,298

9. Income taxes

9.1 Income tax recognised in net income

	Year ended December 31, 2016	Year ended December 31, 2015
Income tax expense comprises:		
Current tax expense	$ 583,107	$ 741,721
Deferred tax expense relating to the origination and reversal of temporary differences	5,900	(33,266)
Total income tax expense	$ 589,007	$ 708,455

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

	Year ended December 31, 2016	Year ended December 31, 2015
Income before income taxes	$ 997,074	$ 1,521,673
Income tax expense calculated at 26.9%	268,213	409,330
Permanent differences	129,370	(24,390)
Effect of unrecognised benefit of Imaflex USA's losses	499,205	348,430
Effect of different tax rates of subsidiaries operating in other jurisdictions	(154,882)	(108,103)
Other	(152,899)	83,188
Income tax expense recognised in net income	$ 589,007	$ 708,455

The tax rate used for the 2015 and 2016 reconciliation above is the corporate tax rate of 26.9% payable by corporate entities in Quebec, Canada on taxable income under tax law in those jurisdictions.

9.3 Deferred tax balances

	Opening balance	Recognised in income	Adjustment to prior year balance	Closing balance
2016				
Assets				
Non-capital losses	$ 3,325,043	$ (903,040)	$ -	$ 2,422,003
Advance	-	36,489	-	36,489
Inventory	234,899	(27,253)	-	207,646
Other assets	261,192	12,029	-	273,221
	3,821,134	(881,775)	-	2,939,359
Liabilities				
Advance	(87,926)	87,926	-	-
Property, plant and equipment	(5,016,111)	798,718	-	(4,217,393)
Investment tax credits	(2,690)	(10,769)	-	(13,459)
	(5,106,727)	875,875	-	(4,230,852)
Deferred tax liabilities	$(1,285,593)	$ (5,900)	$ -	$(1,291,493)

9. Income taxes (continued)

9.3 Deferred tax balances (continued)

	Opening balance	Recognised in income	Adjustment to prior year balance	Closing balance
2015				
Assets				
Non-capital losses	$ 2,592,811	$ 732,232	$ -	$ 3,325,043
Inventory	245,222	(10,323)	-	234,899
Other assets	176,967	84,225	-	261,192
	3,015,000	806,134	-	3,821,134
Liabilities				
Advance	(131,792)	43,866	-	(87,926)
Property, plant and equipment	(4,196,687)	(802,919)	(16,505)	(5,016,111)
Investment tax credits	(5,380)	2,690	-	(2,690)
	(4,333,859)	(756,363)	(16,505)	(5,106,727)
Deferred tax liabilities	$(1,318,859)	$ 49,771	$ (16,505)	$(1,285,593)

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 $25,975,542 in 2016 and $25,409,793 in 2015, for part of which a deferred tax asset has not been recognised ($7,708,458 in 2016 and $6,584,776 in 2015), that expire as follows:

Expiring in	December 31, 2016	December 31, 2015
2025	$ 99,098	$ 102,146
2026	1,837,014	1,893,518
2027	997,963	1,028,659
2028	2,324,783	2,396,291
2029	2,727,994	2,811,905
2030	4,531,532	4,670,917
2031	2,244,084	2,313,110
2032	3,108,650	3,204,269
2033	3,098,425	3,193,729
2034	2,738,496	2,822,729
2035	1,503,086	972,520
2036	764,417	-
	$25,975,542	$25,409,793

10. Earnings per share

	Year ended December 31, 2016	Year ended December 31, 2015
Income for basic and diluted earnings per share	$ 408,067	$ 813,218
Weighted average number of common shares outstanding	49,697,653	49,517,502
Dilutive effect of share purchase options	26,782	75,915
Diluted weighted average common shares outstanding	49,724,435	49,593,417
Basic and diluted earnings per common share	$ 0.008	$ 0.016

An amount of 2,450,000 stock options outstanding as at December 31, 2016 were not included in the calculation of earnings per share because they were antidilutive (650,000 in 2015).

11. Trade and other receivables

	December 31, 2016	December 31, 2015
Trade receivables	$ 11,619,093	$ 11,842,670
Allowance for doubtful accounts	(757,497)	(872,548)
	10,861,596	10,970,122
Other receivables	497,056	531,340
Total trade and other receivables	$ 11,358,652	11,501,462

<u>Movement in the allowance for doubtful accounts</u>

	Year ended December 31, 2016	Year ended December 31, 2015
Balance, beginning of year	$ (872,548)	$ (834,392)
Release of allowance for doubtful accounts	43,291	174,015
Account write-offs during the year	325,535	-
Impairment losses recognised on trade receivables	(264,502)	(154,015)
Foreign exchange	10,727	(58,156)
Balance, end of year	$ (757,497)	$ (872,548)

<u>Credit risk</u>

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.

<u>Credit risk management</u>

Credit risk associated with cash is 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.

11. Trade and other receivables (continued)

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, 2016, $5,448,146 ($4,099,851 as at December 31, 2015) 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 date 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 $2,125,111 of past due trade receivables that were not impaired ($2,220,105 in 2015). Of that amount, $564,318 was aged over 90 days ($796,676 as at December 31, 2015).

Aging of total trade and other receivables

	Year ended	
	December 31, 2016	**December 31, 2015**
Current	$ 5,515,051	$ 5,147,361
31 days to 60 days	3,706,785	3,750,836
61 days to 90 days	1,560,793	1,628,465
Over 90 days	576,023	974,800
Total	$ 11,358,652	$ 11,501,462

12. Inventories

	December 31, 2016	**December 31, 2015**
Raw materials and supplies	$ 5,983,381	$ 6,370,895
Finished goods	2,770,444	3,559,696
Work in process	1,320,746	891,847
Total	$ 10,074,571	$ 10,822,438

The cost of inventories recognised as an expense during the year was $62,053,092 ($59,220,158 in 2015). There were no write-downs of inventory recognised in the fiscal year ended on December 31, 2016 or 2015.

13. Property, plant and equipment

	Land	Building	Production equipment	Leasehold improvements	Office equipment	Computer equipment	Equipment under finance lease	Total
Cost								
January 1, 2015	$ -	$ -	$ 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
Additions	22,649	112,975	1,193,306	113,286	-	5,030	75,064	1,522,310
Foreign exchange	371	1,852	(594,068)	(26,513)	(576)	(1,163)	(22,771)	(642,868)
December 31, 2016	$ 23,020	$ 114,827	$ 47,456,220	$2,217,021	$ 45,846	$510,728	$ 1,079,946	$ 51,447,608
Accumulated depreciation								
January 1, 2015	-	-	(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)
Depreciation expense	-	(2,950)	(1,607,450)	(219,594)	-	(37,893)	(63,089)	(1,930,976)
Foreign exchange	-	(73)	219,062	13,845	576	593	2,022	236,025
December 31, 2016	-	$ (3,023)	$(29,908,733)	$ (1,970,452)	$ (45,846)	$(458,184)	$ (275,662)	$(32,661,900)
Net book value, as at								
December 31, 2015	-	-	$ 18,336,637	$ 365,545	$ -	$ 85,977	$ 813,058	$ 19,601,217
December 31, 2016	$ 23,020	$ 111,804	$ 17,547,487	$ 246,569	$ -	$ 52,544	$ 804,284	$ 18,785,708

A portion of the Company's production equipment with a carrying amount of approximately $17,700,000 (approximately $16,000,000 as at December 31, 2015) is pledged as collateral for the Company's long-term debt.

14. Intangible assets

	Goodwill	Customer relationships	Patents	Total
January 1, 2015	$ 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
Additions	-	-	93,345	93,345
Amortisation	-	(49,703)	(20,226)	(69,929)
Foreign exchange	(15,507)	(7,102)	-	(22,609)
December 31, 2016	$ 504,124	$ 159,445	$ 821,608	$ 1,485,177

14. Intangible assets (continued)

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 years ended December 31, 2016 and 2015.

15. Trade and other payables

	December 31, 2016	December 31, 2015
Trade payables	$ 7,086,001	$ 7,617,334
Other payables and accrued liabilities	1,663,000	1,247,748
	$ 8,749,001	$ 8,865,082

16. Credit facilities

	December 31, 2016	December 31, 2015
Bank indebtedness (a)	$ 5,052,270	$ 6,925,713
Long term debt		
Loan, bearing interest at the lender's base rate (4.70% as at December 31, 2016 and 2015) minus 0.5% (plus 0.375% in 2015), refinanced during the year, secured by production equipment. (b)	2,920,000	2,208,751
Loan (US$1,909,437, US$2,493,133 as at December 31, 2015), bearing interest at the US prime rate, reset monthly, plus 3.00% (effective rate of 6.75% as at December 31, 2016, 6.50% in 2015) secured by the production equipment of the subsidiary and a corporate guarantee from the Parent Company. (c)	2,563,801	3,450,157
Total long term debt	5,483,801	5,658,908
Finance leases (Note 17)	392,714	487,606
Total borrowings	10,928,785	13,072,227
Current		
Bank indebtedness	5,052,270	6,925,713
Long-term debt, current portion	1,355,760	1,358,488
Finance leases	170,740	153,959
	6,578,770	8,438,160
Non-current		
Long-term debt	4,128,041	4,300,420
Finance leases	221,974	333,647
	4,350,015	4,634,067
Total borrowings	$ 10,928,785	$ 13,072,227

16. Credit facilities (continued)

Interest on long-term debt amounted to $297,356 for the year ended December 31, 2016 ($347,379 in 2015).

(a) The Company has an operating line of credit with its bankers to a maximum of $10,000,000, bearing interest at prime plus 0.90% (3.60% effective interest rate at December 31, 2016, 3.85% as at December 31, 2015). 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, 2016, the Company had drawn $5,052,270 ($6,925,713 as at December 31, 2015) on the line of credit.

(b) During the year ended December 31, 2016, the Company refinanced a loan obtaining $961,510 of additional funds in order to replenish working capital. The loan is repayable in one instalment of $40,950 followed by monthly instalments of $40,550 until November 2022. Following the refinancing, the interest applicable to the loan decreased from 0.375% over the lender's base rate to 0.50% under the lender's base rate (effective rate of 4.20% as of December 31, 2016 and 5.075% as at December 31, 2015).

(c) This loan is repayable in 20 equal quarterly instalments through January 2020 and bears interest at a rate of 3.00% over the US prime rate for an effective rate of 6.75% as at December 31, 2016 (6.50% as at December 31, 2015). This loan was recorded at the effective interest rate method, net of all incremental transaction costs directly attributable to the transaction. During the year ended December 31 2015, the Company drew an additional amount of $587,023 (USD $463,580) on this facility. This loan is subject to certain covenants. 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. As at December 31, 2016, the Company was in compliance with all covenants related to this loan.

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

Not later than one year	$ 1,345,162
Later than one year and not later than five years	3,711,516
Later than 5 years	446,050
	$ 5,502,728

17. Obligations under finance leases

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

Not later than one year	$ 185,452
Later than one year and not later than five years	230,942
Later than five years	-
Total minimum lease payments	416,394
Less amount representing interest at approximately 6.1%	(23,680)
Present value of minimum lease payments	392,714
Less the long term portion	(221,974)
Current portion of obligations under finance leases	170,740

During the year ended December 31, 2016, the Company financed the acquisition of production equipment of a value totalling $75,064 by entering into a finance lease for the entire amount of the purchase.

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, 2016, there were 49,738,637 common shares outstanding (49,638,637 common shares at December 31, 2015).

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 :

	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, 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.

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.

During the year ended December 31, 2016, the Company granted 1,300,000 options to an employee and two consultants to acquire common shares at $0.40 for a period of five years. These options vest in 4 tranches over 2 years, the first vesting six months after issuance and the other tranches vesting at six-month intervals. Reserves were increased by $142,080 representing the share-based compensation related to this issuance for the year ended December 31, 2016.

During the year ended December 31, 2016, the Company granted 500,000 options to an employee to acquire common shares at $0.42 for a period of five years. These options vest in 4 tranches over 18 months, the first vesting immediately at issuance and the remaining tranches vesting at six-month intervals. Reserves were increased by $56,691 representing the share-based compensation related to this issuance for the year ended December 31, 2016.

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 $82,525 during the year ended December 31, 2016 ($102,641 in 2015), representing the share-based compensation for the periods.

19. Share-based compensation (continued)

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

Fair value assumptions	**06/09/2016**	**21/06/2016**	**16/06/2015**	**15/07/2013**	**15/01/2013**	**27/05/2011**	**Total**
Outstanding as at 01/01/2015	-	-	-	100,000	100,000	100,000	300,000
Issued	-	-	650,000	-	-	-	650,000
Expired	-	-	-	(100,000)	(100,000)	-	(200,000)
Outstanding as at 31/12/2015	-	-	650,000	-	-	100,000	750,000
Exercised	-	-	-	-	-	(100,000)	(100,000)
Issued	500,000	1,300,000	-	-	-	-	1,800,000
Outstanding as at 31/12/2016	500,000	1,300,000	650,000	-	-	-	2,450,000
Exercisable as at 31/12/2015	-	-	162,500	-	-	100,000	262,500
Exercisable as at 31/12/2016	125,000	325,000	487,500	-	-	-	937,500
Remaining life of options (yrs)	4.69	4.48	3.46	-	-	-	
Expected life of options (yrs)	2.5 to 3.25	2.75 to 3.5	2.75 to 3.5	0.99 to 1.37	0.99 to 1.37	2.5	
Expiry	06/09/2021	21/06/2021	15/06/2020	15/07/2015	15/01/2015	27/05/2016	
Expected share price volatility	76.59% - 79.60%	75.95% - 82.15%	83.19% - 98.85%	106.54% - 125.9%	134.8% - 191.1 %	172.86%	
Dividend yield	0%	0%	0%	0%	0%	0%	
Risk free rate	0.51%	0.50%	0.55% to 0.65%	1.27%	1.18%	1.67%	
Exercise price	$ 0.42	$ 0.40	$ 0.52	$ 0.40	$ 0.36	$0.125	
Share price on grant date	$ 0.42	$ 0.40	$ 0.52	$ 0.40	$ 0.32	$0.125	
Fair value of option at grant	$ 0.21	$ 0.21	$ 0.30	$ 0.19	$ 0.20	$0.100	

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, 2016, the Company financed the acquisition of production equipment of a value totalling $75,064 by entering into a finance lease for the entire amount of the purchase. 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, 2016	**December 31, 2015**
Financial assets		
Loans and receivables		
Cash	$ 68,100	$ 160,975
Trade and other receivables [(1)]	10,873,302	11,148,246
	10,941,402	11,309,221
Financial liabilities		
Financial liabilities, at amortised cost		
Bank indebtedness	5,052,270	6,925,713
Trade and other payables [(2)]	7,804,787	8,272,779
Long term debt	5,483,801	5,658,908
	18,340,858	20,857,400
Other liabilities		
Finance lease obligations	392,714	487,606

[(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 (as prices) or indirectly (derived from prices);

Level–3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As at December 31, 2016 and 2015, 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 rent 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, 2016	December 31, 2015
Lease payments for premises	$ 934,845	$ 944,277
Vehicles	35,004	34,248
Office equipment	17,032	8,406

22.3 Non-cancellable operating lease commitments

	Year ended	
	December 31, 2016	December 31, 2015
Not later than 1 year	$ 931,274	$ 797,161
Later than 1 year and not later than 5 years	3,206,060	2,610,569
Later than 5 years	1,873,205	1,154,879
	$ 6,010,539	$ 4,562,609

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, 2016:

- 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 greater than 1.10:1.00;
- To maintain a minimum EBITDA (as defined) of $1,900,000 for the fiscal year ended December 31, 2016.

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, which is in a currency other than the Company's functional currency:

	December 31, 2016	December 31, 2015
Cash	$ 369	$ 5,964
Trade receivables	2,279,387	3,671,530
Trade payables	(3,903,091)	(4,170,709)
Bank indebtedness	(1,173,716)	(2,244,011)
Gross financial position exposure	$ (2,797,051)	$ (2,737,226)

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 $244,616 as at December 31, 2016 (December 31, 2015 - $354,784). 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, 2016	December 31, 2015
Variable rate instruments		
Financial liabilities	$ 10,536,071	$ 12,584,621
Gross financial position exposure	$ 10,536,071	$ 12,584,621

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, 2017 of approximately $92,739 ($118,952 for 2016 as at December 31, 2015). 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 borrowings 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 $5,052,270 was utilized as at December 31, 2016. Borrowings under the Company's operating line of credit bear interest at the bank's prime rate plus 0.90%. In order to ensure that this line of credit is sufficient to fund the Company's cash requirements, 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, 2016, 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	$ 5,052,270	$ 5,052,270	$ 5,052,270	$ -	$ -
Long term debt	5,450,684	5,469,611	1,312,046	3,711,515	446,050
Interest on borrowings (1)	33,117	630,652	253,463	367,792	9,397
Finance leases (2)	392,714	416,394	185,452	230,942	-
Trade and other payables	7,804,787	7,804,787	7,804,787	-	-
	$18,733,572	$19,373,714	$14,608,018	$ 4,310,249	$ 455,447

(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, 2016	**December 31, 2015**	**December 31, 2016**	**December 31, 2015**	**December 31, 2016**	**December 31, 2015**
Entities owned by key management personnel or their family members						
Rent	$ 877,693	$ 825,461	$ -	$ -	$ 5,947,770	$ 4,480,279
Key management personnel services	145,909	138,017	12,257	12,273	-	-
Entities over which key management personnel have significant influence						
Professional services	138,269	82,914	138,269	82,914	-	-
	$ 1,161,871	$ 1,046,392	$ 150,526	$ 95,187	$ 5,947,770	$ 4,480,279

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 vice president of corporate affairs, the corporate controller and members of the board of directors.

	Year ended	
	December 31, 2016	December 31, 2015
Salaries	$ 685,485	$ 653,053
Director's fees	44,750	40,250
Short-term employee benefits	8,883	3,830
Post-employment benefits – State-run plans	18,267	13,104
Share-based compensation	178,679	15,791
Other benefits	38,682	33,273
	$ 974,746	$ 759,301