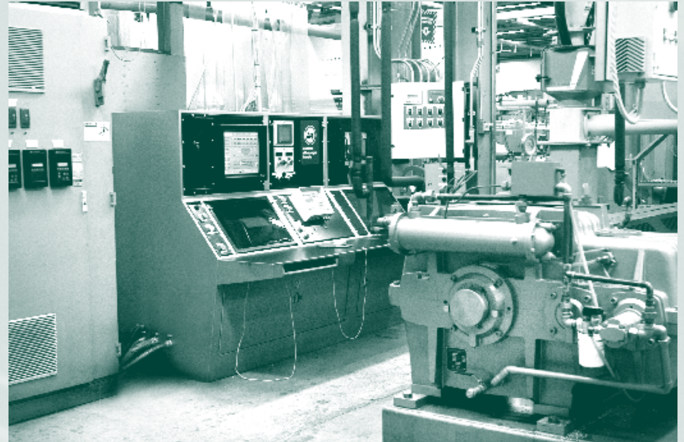
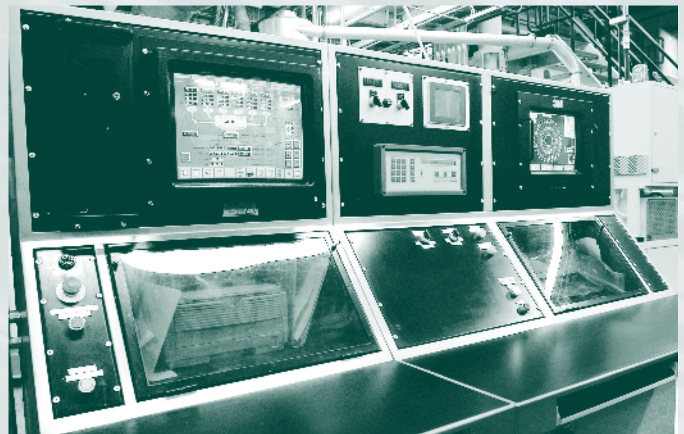
ANNUAL REPORT
2017

IMAFLEX
Committed to Excellence

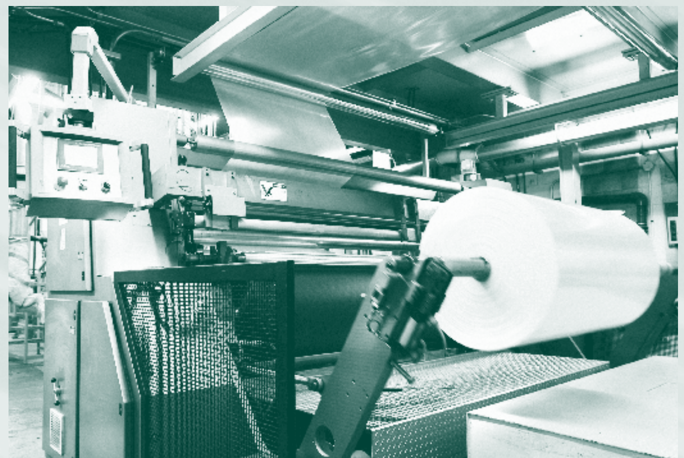




IN ALL SUCCESSFUL BUSINESSES THE KEY TO SUCCESS RELIES ON MANAGEMENT'S ABILITY TO MASTER THREE FUNDAMENTALS:

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

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



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MANAGEMENT DISCUSSION AND ANALYSIS

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, 2017 and December 31, 2016. 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 audited consolidated financial statements and related notes. It should be read together with our audited consolidated financial statements for the years ended December 31, 2017 and 2016.

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 in tables are expressed in thousands of Canadian dollars unless otherwise indicated. 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 17, 2018. 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.

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 17, 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

COMPANY OVERVIEW

lmaflex is focused on the development and manufacturing of innovative solutions for the flexible packaging and agricultural markets. The Company's flexible packaging products are largely used to protect and preserve and consist primarily of polyethylene (plastic) films and bags, and metalized films. Our polyethylene films are mainly sold to printers known as "converters", who process the film into a finished product to meet their end-customer needs. Additionally, our films are sold directly to customers to protect and market their own products, or bought by distributors for re-sale.

Our agricultural films are finished products, predominantly sold directly to end-users by lmaflex. They are available in a variety of formats and include both metalized and non-metalized films. Our portfolio includes common mulch and fumigant barrier films, which are also available in a compostable plastic, as well as innovative crop protection films, that add pest/weed control and/or accelerated growth benefits beyond those provided by our common mulch films.

Imaflex operates three manufacturing facilities. Two are located in the province of Quebec, including Montreal (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 23,412 square meters or 252,000 square feet. lmaflex and lmaflex USA specialize in the manufacturing and sale of custom-made polyethylene films and bags, along with non-metalized agricultural films. Canguard specializes in the manufacturing 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, manufacturing flexibility and cost leadership.

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).

GROWTH STRATEGY

Imaflex’s history attests to its management’s ability to successfully adapt to prevailing and continuously changing market conditions. Management believes that success will also lie in the ability to properly manage future 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.

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 growing organically, 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 crop protection products, particularly our unique film, Shine N’ Ripe XL and our patented film, ADVASEAL®. Our crop protections films are mulch films surface coated with either metallic aluminum or chemical/biological active substances aimed to protect plants from disease transmitting insects, to limit the growth of soil borne pests and weeds and/or to accelerate the growth and yield of plants.

Shine N’ Ripe XL

Shine N’ Ripe XL is a long-lasting, heavy-duty, highly-reflective metalized mulch film designed specifically to fight citrus greening (HLB), a bacterial disease transmitted by the Asian Citrus Psyllid (ACP). HLB has devastated the global citrus industry, causing deformed off-flavored fruits, low yields and inevitably early tree deaths. Common insecticides have proven to be ineffective in preventing HLB infestation in newly planted citrus groves.

GROWTH STRATEGY (continued)

Grow the Agriculture Business (continued)

Shine N' Ripe XL's unique ability to reflect 85% of solar ultraviolet (UV) light repels the ACP and hence helps prevent HLB infestation in young citrus trees. In addition, Shine N' Ripe XL significantly increases tree growth and yields by providing more sunlight to the lower tree parts, usually hidden in the canopy's shadow. Importantly, Shine N' Ripe XL also significantly suppresses weeds and reduces water and fertilizer consumption compared to traditional growing methods. As well, Shine N' Ripe XL's proprietary anti-corrosion coating has been shown to maintain its initial high UV reflectivity for at least 3 years, making it one of the most environmentally-friendly and economically-viable tools for coping with citrus greening.

ADVASEAL®

Today, agricultural films are used in the growing of fresh fruits and vegetables worldwide to cover the soil after it is treated with fumigants - volatile and toxic pesticides - and herbicide sprays, which are essential for providing a pest and weed free (disinfested) soil for the undisturbed growth of new crop seedlings. ADVASEAL®, which is currently under development, simplifies the soil disinfestation process, making it safer, more environmentally-friendly and cost effective by releasing modern non-volatile crop protection products under controlled conditions from a coated plastic mulch, replacing the need for spraying. The underlying technology is patent protected in the top 20 major vegetable and fruit producing countries worldwide until 2032.

The catalyst to activate the release of chemicals from ADVASEAL® is water. When the film is applied to the moist soil, the active ingredients are released. This simplifies the chemical spray application currently being used by growers.

ADVASEAL® is safe to transport, store and handle and its application is emission-free, eliminating the risk of inhalation and environmental damage present with the spray drift of fumigants and herbicides under current agricultural practices. In addition to being environmentally friendly, management estimates that ADVASEAL® will provide significant savings to growers depending on the crop. ADVASEAL® permits the precise application of a low dose of crop protection products, improving crop quality and yields. Management estimates that ADVASEAL® will reduce the chemicals required by up to 95% and eliminate many of the costly works steps currently being used. Collectively, this puts lmaflex in a good position to capture market share as ADVASEAL® is commercialized.

Maintain focus on Research and Development

We will maintain our focus on enhancing the customer value proposition, while 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.

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.

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 2017, Imaflex was ranked in the top 100 North American film and sheet manufacturers by sales.

MARKET OVERVIEW (continued)

The total addressable global agriculture mulch film market, excluding silage and green house films, is valued at approximately US $3.5 billion. The Company has and continues to develop innovative and proprietary solutions for this important market. Going forward, Imaflex 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®. Management believes the value of the global addressable market for an active ingredient release film like ADVASEAL will be much larger than that for traditional mulch films. 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 for ADVASEAL® of approximately US $750 million.

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 since it is recognized as 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 & polymer 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.

EMPLOYEES AND CORPORATE OFFICE

Imaflex currently employs approximately 250 people in North America and our corporate head office is located in Montreal, Canada. The Company currently has no unionized employees.

OUTSOURCING

Our industry is capital intensive and labour is only a minor component in the total cost of production. As a result, outsourcing our manufacturing 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 relinquishing our control over quality and delays in delivery deadlines would far outweigh any minimal benefit that would be generated by lower labour costs.

However, in the effort of eliminating bottlenecks in our production process when our capacity usage is very high, Management may consider the use of third-party manufacturers for certain activities in order to meet all production deadlines and ensuring the best service to our customers.

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, 2017	December 31, 2016	**December 31, 2017**	December 31, 2016
Net income	**$ 761**	$ 161	**$ 3,762**	$ 408
Plus:				
Income taxes	**225**	213	**1,386**	589
Finance costs	**154**	136	**572**	549
Depreciation and amortization	**617**	561	**2,091**	2,001
EBITDA	**$ 1,757**	$ 1,071	**$ 7,811**	$ 3,547
Basic EBITDA per share *	**$ 0.04**	$ 0.02	**$ 0.16**	$ 0.07
Diluted EBITDA per share *	**$ 0.03**	$ 0.02	**$ 0.15**	$ 0.07

*Basic weighted average number of shares outstanding of 49,744,072 for the quarter ended December 31, 2017 (49,738,637 in 2016) and 49,740,007 for the year ended December 31, 2017 (49,697,653 in 2016). Diluted weighted average number of shares outstanding of 51,185,931 for the quarter ended December 31, 2017 (49,784,681 in 2016) and 51,023,356 for the year ended December 31, 2017 (49,724,435 in 2016).

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 any 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

RISK FACTORS (continued)

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

The polyethylene and the plastics market in general was affected by a tightening of supply beginning in August 2017 when major storms began hitting the southern USA. This impacted both the quantity of material available and the price at which it was sold. During the following months several price increases ensued, before stabilizing in November and retreating marginally in December 2017. To offset the higher input costs, Imaflex introduced some increases in the selling price of extruded film and printed bags, although going into December 2017 – January 2018 some customer price reductions occurred as markets continued to stabilize and commodity prices dropped. Currently, the Company does not expect price fluctuations in resin to have a material impact on 2018 results.

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 10% 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

Imaflex operates in the highly competitive multi-billion dollar flexible packaging and agricultural film markets. This said, we believe the Company has a competitive edge over the competition due to our highly skilled teams that are quick to respond to customer needs, a diversified manufacturing base and the fact that the bulk of our customers deal in food related products which are less subject to recessionary and seasonal pressures. It may not always translate into greater net profit, but it should result in customer loyalty if we decide to match our competitors' prices.

SEASONALITY OF OPERATIONS

Some products produced at our Victoriaville and Thomasville facilities are subject to seasonality as a result of the plant's partial manufacturing focus on the production of agriculture film for 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, they are not overly affected by seasonal downturns.

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 agriculture 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;

FLUCTUATIONS IN OPERATING RESULTS (continued)

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; planned plant shutdowns for preventative maintenance affecting production levels; 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 have some 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. Recent interest rate hikes may affect the Company's future cost of borrowing however, for the moment management is not hedging any of its interest rate exposure and expects this exposure to lessen 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 the Company was able to keep key competencies within the firm. This includes its three founders, who have more than 100 years of combined experience in management and research and development. As the Company has grown, it has also strengthened its team with the addition of individuals having a variety of competencies, be it accounting, operations, or engineering.

Management promotes a work environment that allows for the free exchange of ideas in an effort to ensure that the Company remains at the forefront of its industry. We are confident that we can retain and, if need be, attract qualified individuals that will contribute to our on-going goal of building shareholder value.

FOREIGN EXCHANGE FLUCTUATIONS

A portion of the Company's sales and expenses, as well as accounts receivable and payable, are denominated in US dollars. A portion of the revenue stream in US dollars acts as a natural hedge to cover expenses denominated in US dollars. The Company also has the possibility of borrowing amounts on its line of credit in US dollars. The Company has increased its debt in US dollars to obtain additional revenue streams in US dollars. 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 handling 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

During the fourth quarter and fiscal 2017, market fundamentals were strong, resulting in significant year-over-year increases in both sales and profitability. Growth was driven by strength in the core flexible packaging business, the ramp-up of citrus film sales, along with tight cost controls and operational efficiencies across the business.

($ thousands)	**Three months ended**		**Years ended**	
	December 31, 2017	December 31, 2016	**December 31, 2017**	December 31, 2016
Sales	**$21,395**	$18,943	**$88,297**	$73,513

RESULTS OF OPERATIONS (continued)

Quarterly sales increased by $2.5 million or 12.9% over the prior year, largely due to a favourable change in product mix, including $1.5 million of revenues for Shine N' Ripe XL and higher sales of converted (printed) products. Once again, growth was seen across the business and in all geographies.

For the year ended December 31, 2017, the Company recorded revenues of $88.3 million, up $14.8 million or 20.1%. Growth was driven by volume increases and product mix. Notably, Imaflex benefited from the new source of revenues provided by Shine N' Ripe XL, which accounted for $6.4 million or 7.2% of sales for the year.

($ thousands)	Three months ended		Years ended	
	December 31, 2017	December 31, 2016	**December 31, 2017**	December 31, 2016
Gross profit before amortization of production equipment	**$3,468**	$2,538	**$15,767**	$10,186
Gross profit margin before amortization of production equipment	**16.2%**	13.4%	**17.9%**	13.9%
Amortization of production equipment	**459**	552	**1,774**	1,772
Gross profit	**$3,009**	$1,986	**$13,993**	$8,414
Gross profit margin	**14.1%**	10.5%	**15.8%**	11.4%

The Company's quarterly gross profit before the amortization of production equipment increased by $0.9 million or 36.6% over 2016. Additionally, the associated gross margin improved by 280 basis points, growing from 13.4% in 2016 to 16.2% in 2017. The improvement was largely due to higher sales volumes and better operating leverage as the additional sales volumes were achieved without a material impact on fixed manufacturing costs.

Year-over year, amortization of production equipment expenses remained relatively stable, decreasing by $0.1 million in the current quarter. Quarterly gross profit after amortization stood at $3.0 million in the fourth quarter of 2017, up $1.0 million or 51.5% over the prior year. The gross margin after amortization of production equipment increased by 360 basis points over the prior year, coming in at 14.1% for the fourth quarter of 2017 versus 10.5% in 2016.

For the year ended December 31, 2017, the gross profit before the amortization of production equipment strengthened considerably over 2016, growing by $5.6 million or 54.8%. Correspondingly, the associated gross margin increased by 400 basis points year-over-year, coming in at 17.9% for 2017. The improvement was due to the heightened sales volumes seen throughout 2017, on-going expense controls and better operating leverage. Including amortization expenses, which were essentially unchanged versus 2016, the gross profit for fiscal 2017 was $14.0 million, up $5.6 million or 66.3% over 2016. Correspondingly, the associated gross profit margin was up 440 basis points, coming in at 15.8% versus 11.4% in 2016.

($ thousands)	Three months ended		Years ended	
	December 31, 2017	December 31, 2016	**December 31, 2017**	December 31, 2016
Selling and administrative	**$1,884**	$1,623	**$7,084**	$6,497
As a % of sales	**8.8%**	8.6%	**8.0%**	8.8%

Selling and administrative expenses increased by $0.3 million in the fourth quarter of 2017 versus 2016, in line with higher sales. Despite the higher revenue base, selling and administrative expenses as a percentage of sales remained essentially flat year-over-year, going from 8.6% in the fourth quarter of 2016 to 8.8% in 2017.

RESULTS OF OPERATIONS (continued)

For the year ended December 31, 2017, selling and administrative expenses grew by $0.6 million, in-line with the higher sales levels. However, due to the heightened revenue base and on-going cost controls, they decreased as a percentage of sales, going from 8.8% in 2016 to 8.0% in 2017.

($ thousands)	Three months ended		Years ended	
	December 31, 2017	December 31, 2016	**December 31, 2017**	December 31, 2016
Finance costs	**$154**	$136	**$572**	$549

Finance costs increased moderately in the fourth quarter of 2017 versus 2016, due to higher interest rates, a new loan received towards the end of the fourth quarter of 2016 and new finance leases obtained during the course of 2017.

For the year ended December 31, 2017, finance costs grew slightly over the prior year as a decrease in long term loans outstanding reduced the impact of higher interest rates and the new financings concluded since the end of the prior-year period.

($ thousands)	Three months ended		Years ended	
	December 31, 2017	December 31, 2016	**December 31, 2017**	December 31, 2016
Foreign exchange losses/(gains)	**$(39)**	$(162)	**$1,085**	$291

The appreciation of the US dollar versus the Canadian dollar throughout the fourth quarter of 2017 and 2016 resulted in foreign exchange gains of $39 thousand and $162 thousand, respectively. The higher foreign exchange gain in 2016 therefore led to a year-over-year negative impact of $0.1 million.

For the year ended December 31, 2017 and 2016, the depreciation of the US dollar against the Canadian dollar resulted in foreign exchange losses of $1.1 million and $0.3 million, respectively. As a result, the Company realized a negative year-over-year impact of $0.8 million.

($ thousands)	Three months ended		Years ended	
	December 31, 2017	December 31, 2016	**December 31, 2017**	December 31, 2016
Income taxes	**$225**	$213	**$1,386**	$589
As a % of income before income taxes	**22.8%**	57.0%	**26.9%**	59.1%

Quarterly income tax expenses remained relatively stable year-over-year, coming in at $0.2 million for both periods.

For the year ended December 31, 2017, the income tax expense stood at $1.4 million, up $0.8 million over fiscal 2016. The increase was due to the higher profitability the Company achieved in 2017. Income taxes as a percent of income before taxes was 26.9% for fiscal 2017, in line with the Company's statutory tax rate of 26.8%.

($ thousands, except per share data)	Three months ended		Years ended	
	December 31, 2017	December 31, 2016	**December 31, 2017**	December 31, 2016
Net income	**$761**	$161	**$3,762**	$408
Basic earnings per share	**$0.02**	$0.00	**$0.08**	$0.01
Diluted earnings per share	**$0.01**	$0.00	**$0.07**	$0.01

RESULTS OF OPERATIONS (continued)

Year-over-year improvements in profitability continued into the fourth quarter of 2017, with net income growing from $0.2 million in 2016 to $0.8 million in 2017, a 372.7% improvement. The increase continued to be driven by top line sales growth, operational efficiencies and on-going cost controls.

For fiscal 2017, net income increased by $3.4 million or 822.1% over the corresponding prior-year period. The improvement was generated by heightened sales growth throughout 2017, along with on-going operational efficiencies, tight cost controls and higher equipment utilization levels. This was partially offset by higher foreign exchange losses in 2017, following a strengthening of the Canadian dollar versus the US dollar.

Financial Position

December 31, 2017 vs. December 31, 2016

Working capital grew from $6.0 million as at December 31, 2016 to $9.2 million as at December 31, 2017, reflecting year-over-year improvements in the Company's financial position. The higher sales achieved in 2017 led to increases in trade receivables and inventories. Following the major storms in the USA in 2017, important resin purchases were made to ensure adequate inventory levels. Part of this growth was financed through bank indebtedness, which increased by $0.8 million over December 31, 2016. The higher debt was offset by a $1.0 million year-over-year decrease in Trade and Other Payables as the Company is benefiting from better terms by making early payments.

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):

	Q4/17	**Q3/17**	**Q2/17**	**Q1/17**	**Q4/16**	**Q3/16**	**Q2/16**	**Q1/16**
Revenues	**$21,395**	**$20,791**	$24,055	$22,056	$18,943	$16,997	$18,195	$19,378
Net income (loss)	**761**	**556**	1,300	1,145	161	(104)	523	(172)
Earnings (loss) per share Basic and diluted	**0.015**	**0.011**	0.026	0.023	0.003	(0.002)	0.010	(0.003)

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; planned plant shutdowns for preventative maintenance affecting production levels; along with interest rate fluctuations and other changes in borrowing costs.

LIQUIDITY

Significant improvements in profitability led to a material year-over-year increase in cash flows from operating activities, before movements in working capital and taxes paid, for both the fourth quarter and fiscal 2017. However, in conjunction with the heightened 2017 sales growth and additional operational support required, important investments in working capital were required, which impacted the aforesaid improvement in cash flows from operating activities.

Cash Flows from Operating Activities

Fourth quarter cash flows from operating activities before working capital and taxes were up materially year-over-year, growing from $0.9 million in 2016 to $1.7 million in 2017. The increase largely reflects the heightened profitability achieved in 2017.

LIQUIDITY (continued)

Cash Flows from Operating Activities (continued)

Positive movements in working capital, due to a decrease in trade receivables, resulted in a small incremental cash flow increase of $0.3 million for the fourth quarter of 2017, although this was largely offset by income taxes paid of $0.2 million. In 2016, movements in working capital and taxes paid reduced cash flows by $0.4 million. Net of movements in working capital and taxes, cash generated by operations stood at $1.8 million for the fourth quarter of 2017, and $0.5 million for 2016.

For the year ended December 31, 2017, cash flows before movements in working capital and taxes improved significantly, going from $4.2 million in 2016 to $8.9 million in 2017. However, important investments in working capital following the growth in sales led to cash outflows for working capital of $4.8 million in 2017. This compares to cash inflows of $0.7 million for fiscal 2016, as the Company did not need to make the same type of investments to support operations. Including net changes in working capital and taxes paid of $0.7 million in 2017 and $0.8 million in 2016, the net cash generated by operating activities was $3.3 million in fiscal 2017, compared to $4.1 million in 2016.

Cash Flows from Investing Activities

During the fourth quarter of 2017, the Company invested $0.5 million for capital assets, mainly towards the purchase of a new coextrusion blown film line. This compares to investments of $0.3 million during the fourth quarter of 2016.

In fiscal 2017, the Company made capital investments totaling $2.4 million, compared to $1.5 million in 2016. These investments are aimed at enhancing the Company's production processes and growing its offerings in order to generate additional sales and profitability.

Cash Flows from Financing Activities

During the fourth quarter of 2017, the net cash used in financing activities totaled $1.3 million, largely consisting of a $1.1 million repayment on the Company's line of credit and $0.2 million towards interest paid on borrowings. During the same period in 2016, the net cash used in financing activities totaled $0.4 million, largely due to a $1.0 million decrease in the Company's line of credit, interest payments of $0.1 million, partially offset by a net increase in long-term debt of $0.8 million.

For fiscal 2017, the net cash used in financing activities totaled $0.9 million, largely due to a net decrease in long-term debt totaling $1.0 million, interest payments of $0.6 million, the repayment of finance leases of $0.2 million, partially offset by a $0.8 million increase in the balance outstanding on the Company's line of credit. During the same period in 2016, the Company used $2.6 million of cash in financing activities. This mostly consisted of a $1.9 million decrease in the Company's line of credit, interest payments of $0.5 million, the repayment of finance leases of $0.2 million and a net repayment of long-term debt, totaling $0.1 million.

CONTRACTUAL OBLIGATIONS

The contractual obligations as at December 31, 2017 were as follows:

($ thousands)	Payments due by period			
	Total	Less than 1 year	1 to 5 years	After 5 years
Long-term debt	**$ 4,812**	$ 1,469	$ 3,239	$ 104
Finance leases	**527**	217	310	-
Operating leases	**5,075**	908	2,871	1,296
Bank indebtedness	**5,827**	5,827	-	-
Total contractual obligations	**$ 16,241**	**$ 8,421**	**$ 6,420**	**$ 1,400**

These contractual obligations are sensitive to the fluctuation of interest rates. They are based on interest rates and foreign exchange rates effective as at December 31, 2017.

CAPITAL RESOURCES

The Company's $12 million operating line of credit, which is secured by trade receivables and inventories, bears interest at a premium of 0.75% over the Canadian prime rate. As at December 31, 2017, the Company was using approximately $ 5.8 million on its line of credit ($ 5.1 million as at December 31, 2016). The Company's working capital improved, reaching $9.2 million as at December 31, 2017, compared to $6.0 million as at December 31, 2016. The improvement was mainly due to an increase in trade receivables and inventories following the growth in sales and the tightening in supply of resin. These increases came, with minimal year-over-year growth in the Company's current liabilities. The Company controls its financial leverage, ensuring that its borrowings reflect the asset base against which the funds are borrowed as well as the profitability that is generated through the operations. The Company has sufficient capital to fund its operations and to further grow the business in the near future.

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, 2017 and 2016. 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, 2017 and 2016.

($ thousands)		**Three months ended**		**Years ended**	
		December 31, 2017	December 31, 2016	**December 31, 2017**	December 31, 2016
Professional fees and key management personnel services	(a)	**$ 78**	$ 108	**$ 284**	$ 284
Rent	(b)	**$ 216**	$ 233	**$ 868**	$ 878
Remuneration	(c)	**$ 256**	$ 398	**$ 1,113**	$ 975

(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, 2017 and 2016. This note explains the Company's accounting policies under IFRS.

FINANCIAL INSTRUMENTS

Please refer to note 21, *Financial instruments* of the consolidated financial statements for the years ended December 31, 2017 and 2016 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.

FINANCIAL INSTRUMENTS (continued)

As at December 31, 2017, the Company is not using any swap, forward or hedge accounting and there were no warrants outstanding.

As at December 31, 2017, 2,525,000 options to purchase shares of the Company were outstanding at a weighted average strike price of $0.489 of which 1,937,500 were exercisable. During the fourth quarter of 2017, Imaflex granted 150,000 options to purchase shares of the Company for a period of 5 years at a price of $1.11 per share.

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 and there were no warrants outstanding.

SHINE N' RIPE XL BUILD-OUT

In 2017, a major international citrus producer began using Shine N' Ripe XL to cover a new grove in Florida, leading to multi-million dollars in citrus film sales for the year. These purchases followed initial field trials by the grower and other multi-year independent field trials. All trials confirmed the biological, environmental and economic benefits associated with using the film.

In the first quarter of 2018, the Florida Research Centre for Agricultural Sustainability (FLARES) provided an update on its multi-year trial, once again validating the clear benefits Shine N' Ripe XL brings over conventional production. Although approximately four years had passed since the FLARES trial first began, trees planted with Shine N' Ripe XL continued to show less impact from the citrus greening disease ("HLB") versus other treatments. As well, material on-going benefits continued in crop yields, resulting in a significantly shorter pay-back time for citrus growers. In both year three and year four, crops using Imaflex's film remained the only ones in the comparative group with a positive net return on invested capital. This ensued despite the higher initial investment costs for land preparation and installation associated with the metalized film's use.

Imaflex is currently the only company with independent, long-term field trials proving that its long-lasting metalized film effectively reduces the early onset of citrus greening, while also accelerating tree growth and increasing yield. Due to these successes and the commencement of new production trials with new growers, Imaflex is confident it will see a further broadening of its customer base and revenue expansion going forward.

ADVASEAL® COMMERCIALIZATION

During 2017, Imaflex successfully completed the trials necessary to identify and design the coating equipment needed to produce ADVASEAL® cost effectively. As for the chemicals, faced with on-going merger and acquisition activity amongst major crop protection firms and the resulting delays in Imaflex's ability to obtain supply commitments, the Corporation decided to directly source the active ingredients required (fungicides and a nematicide) from the same suppliers in Asia currently selling to the crop protection companies. Imaflex had previously found a herbicide in connection with ADVASEAL® HSM, its herbicidal releasing film. All active ingredients have now been sourced and the registration process with the US Environmental Protection Agency (EPA) has been initiated.

Imaflex is currently seeking a toll manufacturer (coater) capable of providing sufficient quantities of ADVASEAL® film coated with the active ingredients for the efficacy field trials. The studies are also required for the exclusive registration with the EPA as ADVASEAL® is a novel formulation of the generic active ingredients, containing fungicides and a nematicide in addition to a herbicide. The Corporation expects the efficacy trials to commence by the first quarter of 2019.

Management believes the efficacy field trials and the pesticide registration process itself will be positive as the generic active ingredients to be used with ADVASEAL® are effectively used by growers today. As well, the Company has already received prior EPA approval of its herbicidal active ingredient release film, ADVASEAL® HSM.

ADVASEAL® COMMERCIALIZATION (continued)

ADVASEAL® is a plastic mulch film that releases an herbicide (HSM) to control weeds, fungicides to control soil borne pathogens, and a nematicide to control nematodes pre-plant for soil disinfestation to replace hazardous fumigants and conventional pesticide spray emissions.

MANAGEMENT OUTLOOK

Business fundamentals continue to be strong, despite some unforeseen delays in the on-going market expansion of Shine N' Ripe XL. Sales of our core flexible packaging products should remain robust in 2018, while Shine N' Ripe XL sales are fully expected to ramp-up in the coming months. This said, some caution is warranted. The major storms in the southeastern USA in late 2017 has hindered 2018 citrus film sales to date, as growers have been focusing their efforts on actively repairing damaged groves. However, the situation remains very fluid. The Corporation is currently in customer discussions and upward revenue expectations could occur at any time. Based on these discussions, new trials underway with growers, and the success of multi-year independent field trials, we are confident there will be further revenue expansion for our citrus film going forward.

OUTSTANDING SHARE DATA

As at December 31, 2017, the Company had 49,863,637 common shares outstanding (49,738,637 as at December 31, 2016).

SUBSEQUENT EVENTS

On March 28, 2018, Imaflex announced that it had obtained a secured loan of up to CDN $3.75 million (the "Loan") to fund the purchase of a new coextrusion blown film line ("extruder").

The Loan is available to Imaflex for a 12-month period, with repayment of principal to commence 13 months after the first advance. The principal is then to be repaid in 60 equal monthly installments. The Loan carries an annual interest rate equal to the Canadian prime lending rate plus 1.75%.

The extruder, which is expected to be operational in the first quarter of 2019, increases the Company's production capacity by approximately four million pounds annually and broadens its extrusion capabilities. Based on customer feedback, the Corporation believes it will run close to capacity, generating additional annualized revenues of approximately CDN $6.0 million.

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 17, 2018

For investor information, contact

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Consolidated Financial Statements of

IMAFLEX INC.

Years ended December 31, 2017 and 2016

Raymond Chabot
Grant Thornton

Independent Auditor's Report

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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, 2017 and 2016 and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of 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

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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, 2017 and 2016 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 17, 2018

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

Consolidated statements of comprehensive income

(in Canadian dollars)

for the years ended		**December 31,**	
		2017	**2016**
Revenues	(Note 5.1)	**$ 88,296,683**	$ 73,513,424
Cost of sales		**74,303,446**	65,099,412
Gross profit		**13,993,237**	8,414,012
Expenses:			
Selling		**1,633,851**	1,541,833
Administrative		**5,450,359**	4,955,639
Finance costs	(Note 8)	**572,427**	548,940
Foreign exchange losses		**1,084,810**	290,977
Other		**102,988**	79,549
		8,844,435	7,416,938
Income before income taxes		**5,148,802**	997,074
Income taxes	(Note 9)	**1,386,462**	589,007
NET INCOME		**3,762,340**	408,067
Other comprehensive income			
Item that will be reclassified subsequently to net income			
Exchange differences on translating foreign operations		**(217,994)**	(136,297)
COMPREHENSIVE INCOME		**$ 3,544,346**	$ 271,770
Earnings per share	(Note 10)		
Basic		**$ 0.076**	$ 0.008
Diluted		**$ 0.074**	$ 0.008

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
(in Canadian dollars)

As at		December 31, 2017	December 31, 2016
Assets			
Current assets			
Cash		**$ 87,140**	$ 68,100
Trade and other receivables	(Note 11)	**12,384,001**	11,358,652
Inventories	(Note 12)	**12,076,464**	10,074,571
Prepaid expenses		**521,625**	145,011
Total current assets		**25,069,230**	21,646,334
Non-current assets			
Property, plant and equipment	(Note 13)	**18,591,573**	18,785,708
Intangible assets	(Note 14)	**1,395,557**	1,485,177
Total non-current assets		**19,987,130**	20,270,885
Total assets		**$ 45,056,360**	$ 41,917,219
Liabilities and equity			
Current liabilities			
Bank indebtedness	(Note 16)	**5,827,182**	5,052,270
Trade and other payables	(Note 15)	**7,702,182**	8,749,001
Current tax liabilities		**868,999**	311,211
Long-term debt, current portion	(Note 16)	**1,250,481**	1,355,760
Finance lease obligations, current portion	(Notes 16, 17)	**194,684**	170,740
Total current liabilities		**15,843,528**	15,638,982
Non-current liabilities			
Long-term debt	(Note 16)	**3,094,886**	4,128,041
Deferred tax liabilities	(Note 9)	**1,410,786**	1,291,493
Finance lease obligations	(Notes 16, 17)	**280,378**	221,974
Total non-current liabilities		**4,786,050**	5,641,508
Total liabilities		**20,629,578**	21,280,490
Equity			
Share capital	(Note 18)	**11,815,023**	11,765,023
Reserves	(Note 19)	**1,881,536**	1,903,823
Retained earnings		**10,730,223**	6,967,883
Total equity		**24,426,782**	20,636,729
Total liabilities and equity		**$ 45,056,360**	$ 41,917,219

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) Mario Settino
Mario Settino
Director

Consolidated statements of changes in equity
For the years ended December 31, 2017 and 2016
(in Canadian dollars)

		Reserves					
	Share capital (a)	**Share-based compensation**	**Accumulated foreign currency translation**	**Warrants**	**Total reserves**	**Retained earnings**	**Total**
Balance at 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 and January 1, 2017	**$11,765,023**	**$ 755,829**	**$ 682,820**	**$ 465,174**	**$ 1,903,823**	**$ 6,967,883**	**$ 20,636,729**
Net income for the year	**-**	**-**	**-**	**-**	**-**	**3,762,340**	**3,762,340**
Exchange differences on translating foreign operations	**-**	**-**	**(217,994)**	**-**	**(217,994)**	**-**	**(217,994)**
Comprehensive income for the year	**-**	**-**	**(217,994)**	**-**	**(217,994)**	**3,762,340**	**3,544,346**
Transactions with owners:							
Issuance of share capital (Note 18)	**50,000**	**-**	**-**	**-**	**-**	**-**	**50,000**
Share-based compensation (Note 19)	**-**	**195,707**	**-**	**-**	**195,707**	**-**	**195,707**
Balance at December 31, 2017	**$11,815,023**	**$ 951,536**	**$ 464,826**	**$ 465,174**	**$ 1,881,536**	**$ 10,730,223**	**$ 24,426,782**

(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
(in Canadian dollars)

for the years ended	**December 31,**	
	2017	**2016**
Operating activities:		
Net income for the year	**$ 3,762,340**	$ 408,067
Income tax expense	**1,386,462**	589,007
Depreciation and amortisation of non-current assets	**2,091,413**	2,000,905
Write-off of property, plant and equipment	**22,855**	-
Finance costs	**572,427**	548,940
Share-based compensation	**195,707**	281,296
Unrealized foreign exchange loss	**838,742**	343,279
	8,869,946	4,171,494
Net changes in working capital		
(Increase) decrease in trade and other receivables	**(1,271,657)**	75,411
(Increase) decrease in inventories	**(2,245,638)**	618,492
(Increase) decrease in prepaid expenses	**(389,222)**	115,013
Decrease in trade and other payables	**(925,628)**	(81,931)
	(4,832,145)	726,985
Cash generated by operating activities	**4,037,801**	4,898,479
Net income taxes paid	**(709,382)**	(813,295)
Net cash generated by operating activities	**3,328,419**	4,085,184
Investing activities:		
Payments for property, plant and equipment	**(2,350,073)**	(1,447,246)
Payments for intangible assets	**(50,301)**	(93,345)
Net cash used in investing activities	**(2,400,374)**	(1,540,591)
Financing activities:		
Net change in bank indebtedness	**774,912**	(1,873,443)
Interest paid	**(562,727)**	(548,445)
Increase in long term debt	**250,000**	961,510
Repayment of long-term debt	**(1,204,574)**	(1,029,168)
Net proceeds from issuance of share capital	**50,000**	12,500
Repayment of finance leases	**(212,288)**	(158,395)
Net cash used in financing activities	**(904,677)**	(2,635,441)
Net increase (decrease) in cash	**23,368**	(90,848)
Cash, beginning of the year	**68,100**	160,975
Effects of foreign exchange differences on cash	**(4,328)**	(2,027)
Cash, end of the year	**$ 87,140**	$ 68,100

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, 2017. The consolidated financial statements were approved by the board of directors and authorized for issue on April 17, 2018.

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, 2017 and 2016, 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.

The foreign exchange gains and losses arising on inter-company monetary non-trade advances totalling US$4,000,000, for which settlement is determined to be neither planned nor likely in the foreseeable future and are therefore accounted for as forming part of the Company's net investment in its foreign subsidiary, are recognized in Accumulated foreign currency translation within reserves. The foreign exchange gains or losses on trade receivables and other monetary advances continue to be included in Other gains and losses 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.

<u>Financial assets</u>

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

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

<u>Impairment of financial assets</u>

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

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

2. Significant accounting policies (continued)

2.8 Financial assets and financial liabilities (continued)

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

Financial liabilities

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

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

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

2.9 Inventories

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

2.10 Property, plant and equipment

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	10 - 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;

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 has completed the assessment of the impact of this new standard on its consolidated financial statements and has concluded that the adoption of this standard will not have a material impact on its consolidated financial statements. Management has chosen the modified retrospective method of adoption, and as a result the 2016 and 2017 comparative periods will not be restated to conform to the new IFRS 15 requirements. Going forward, no significant impact is expected on the 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. The impact on the Company's consolidated financial statements for 2016 and 2017 is insignificant and management does not expect to restate those results upon adoption of IFRS 9.

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

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:

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 and amortisable 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 depreciation and amortisation methods used are 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, 2017	**December 31, 2016**
Canada	**$ 29,709,160**	$ 27,387,025
United States	**58,375,728**	45,954,583
Other	**211,795**	171,816
Total	**$ 88,296,683**	$ 73,513,424

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

	December 31, 2017	**December 31, 2016**
Canada	**$ 7,909,095**	$ 6,889,509
United States	**12,078,035**	13,381,376
Total	**$ 19,987,130**	$ 20,270,885

6. Additional information on the consolidated statements of comprehensive income

The Company's consolidated statements of comprehensive income include depreciation of production equipment of $1,773,921 for the year ended December 31, 2017 ($1,771,631 in 2016) classified in Cost of sales. Depreciation of other property, plant and equipment and amortisation of intangible assets amounting to $317,492 for the year ended December 31, 2017 ($229,274 in 2016) is included in Administrative expenses.

The Company's consolidated statements of comprehensive income include salaries paid to its employees of $9,414,435 for the year ended December 31, 2017 ($8,952,979 in 2016) classified in Cost of sales. Administrative expenses include salaries paid to employees of $1,746,402 for the year ended December 31, 2017 ($1,569,759 in 2016) and Selling expenses include salaries paid to employees of $470,505 for the year ended December 31, 2017 ($418,638 in 2016).

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 $2,576,398 during the year ended December 31, 2017 ($2,535,708 in 2016). 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, 2017, the Company contributed $31,582 to this plan ($33,112 in 2016).

8. Finance costs

	Year ended	
	December 31, 2017	**December 31, 2016**
Interest on bank indebtedness and long-term debt	**$ 540,488**	$ 526,994
Interest on finance leases obligations	**31,939**	21,946
	$ 572,427	$ 548,940

9. Income taxes

9.1 Income tax recognised in net income

	Year ended	
	December 31, 2017	**December 31, 2016**
Income tax expense comprises:		
Current tax expense	**$ 1,267,169**	$ 583,107
Deferred tax expense relating to the origination and reversal of temporary differences	**119,293**	5,900
Total income tax expense	**$ 1,386,462**	$ 589,007

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

	Year ended	
	December 31, 2017	**December 31, 2016**
Income before income taxes	**$ 5,148,802**	$ 997,074
Income tax expense calculated at 26.8%	**1,379,879**	268,213
Permanent differences	**80,127**	129,370
Effect of unrecognised benefit of Imaflex USA's losses	**-**	499,205
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(9,447)**	(154,882)
Other	**(64,097)**	(152,899)
Income tax expense recognised in net income	**$ 1,386,462**	$ 589,007

The tax rate used for the 2017 reconciliation above is the corporate tax rate of 26.8% (26.9% in 2016) payable by corporate entities in Quebec, Canada on taxable income under tax law in those jurisdictions.

9. Income taxes (continued)

9.3 Deferred tax balances

	Opening balance	Recognised in income	Closing balance
2017			
Assets			
Non-capital losses	**$ 2,422,003**	**$ (1,204,717)**	**$ 1,217,286**
Advance	**36,489**	**14,814**	**51,303**
Inventory	**207,646**	**(96,267)**	**111,379**
Other assets	**273,221**	**(140,321)**	**132,900**
	2,939,359	**(1,426,491)**	**1,512,868**
Liabilities			
Finance leases	**-**	**(71,785)**	**(71,785)**
Property, plant and equipment	**(4,217,393)**	**1,372,038**	**(2,845,355)**
Investment tax credits	**(13,459)**	**6,945**	**(6,514)**
	(4,230,852)	**1,307,198**	**(2,923,654)**
Deferred tax liabilities	**$(1,291,493)**	**$ (119,293)**	**$(1,410,786)**

	Opening balance	Recognised in income	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)

9.4 Unrecognised deferred tax assets

The Company's subsidiary, Imaflex USA, has non-capital losses available to carry forward to reduce future taxable income of $23,366,963 in 2017 and $25,975,542 in 2016, for part of which a deferred tax asset has not been recognised ($4,157,115 in 2017 and $7,708,458 in 2016), that expire as follows:

Expiring in	December 31, 2017	December 31, 2016
2025	**$ -**	$ 99,098
2026	**803,890**	1,837,014
2027	**932,408**	997,963
2028	**2,172,071**	2,324,783
2029	**2,548,797**	2,727,994
2030	**4,233,862**	4,531,532
2031	**2,096,673**	2,244,084
2032	**2,904,447**	3,108,650
2033	**2,894,894**	3,098,425
2034	**2,558,608**	2,738,496
2035	**1,404,350**	1,503,086
2036	**816,963**	764,417
2037	**-**	-
	$23,366,963	$25,975,542

10. Earnings per share

	Year ended	
	December 31, 2017	**December 31, 2016**
Net income for basic and diluted earnings per share	**$ 3,762,340**	$ 408,067
Weighted average number of common shares outstanding	**49,740,007**	49,697,653
Dilutive effect of share purchase options	**1,283,349**	26,782
Diluted weighted average common shares outstanding	**51,023,356**	49,724,435
Basic earnings per common share	**$ 0.076**	$ 0.008
Diluted earnings per common share	**$ 0.074**	$ 0.008

An amount of 200,000 stock options outstanding as at December 31, 2017 were not included in the calculation of earnings per share because they were antidilutive (2,450,000 in 2016).

11. Trade and other receivables

	December 31, 2017	December 31, 2016
Trade receivables	**$ 13,164,807**	$ 11,619,093
Allowance for doubtful accounts	**(1,125,559)**	(757,497)
	12,039,248	10,861,596
Other receivables	**344,753**	497,056
Total trade and other receivables	**$ 12,384,001**	$ 11,358,652

11. Trade and other receivables (continued)

Movement in the allowance for doubtful accounts

	Year ended	
	December 31, 2017	**December 31, 2016**
Balance, beginning of year	**$ (757,497)**	$ (872,548)
Release of allowance for doubtful accounts	**50,000**	43,291
Account write-offs during the year	**-**	325,535
Impairment losses recognised on trade receivables	**(445,468)**	(264,502)
Foreign exchange	**27,406**	10,727
Balance, end of year	**$ (1,125,559)**	$ (757,497)

Credit risk

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

Credit risk management

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

For trade receivables, the Company uses an external credit service to assess the potential customer's credit quality and uses this information to define the allowed credit limits by customer. Moreover, the Company uses credit insurance to mitigate credit risk. As at December 31, 2017, $5,967,129 ($5,448,146 as at December 31, 2016) 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 $2,678,325 of past due trade receivables that were not impaired ($2,125,111 in 2016). Of that amount, $1,153,820 was aged over 90 days ($564,318 as at December 31, 2016).

Aging of total trade and other receivables

	Year ended	
	December 31, 2017	**December 31, 2016**
Current	**$ 4,171,720**	$ 5,515,051
31 days to 60 days	**5,527,510**	3,706,785
61 days to 90 days	**1,524,504**	1,560,793
Over 90 days	**1,160,267**	576,023
Total	**$ 12,384,001**	$ 11,358,652

12. Inventories

	December 31, 2017	December 31, 2016
Raw materials and supplies	**$ 6,851,440**	$ 5,983,381
Finished goods	**4,212,889**	2,770,444
Work in process	**1,012,135**	1,320,746
Total	**$ 12,076,464**	$ 10,074,571

The cost of inventories recognised as an expense during the year was $68,458,873 ($62,053,092 in 2016). There were no write-downs of inventory recognised in the fiscal year ended on December 31, 2017 or 2016.

13. Property, plant and equipment

	Land	Building	Production equipment	Leasehold improvements	Office equipment	Computer equipment	Equipment under finance lease	Total
Cost								
January 1, 2016	$ -	$ -	$ 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**
Additions	**-**	**-**	**2,013,853**	**330,130**	**-**	**6,090**	**309,989**	**2,660,062**
Write-off	**-**	**-**	**(28,780)**	**-**	**-**	**-**	**-**	**(28,780)**
Foreign exchange	**(1,512)**	**(7,543)**	**(1,354,132)**	**(64,811)**	**(1,231)**	**(2,483)**	**(61,416)**	**(1,493,128)**
December 31, 2017	**$ 21,508**	**$ 107,284**	**$ 48,087,161**	**$2,482,340**	**$ 44,615**	**$514,335**	**$ 1,328,519**	**$ 52,585,762**
Accumulated depreciation								
January 1, 2016	-	-	(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)**
Depreciation expense	**-**	**(5,842)**	**(1,678,450)**	**(184,801)**	**-**	**(36,142)**	**(88,217)**	**(1,993,452)**
Write-off	**-**	**-**	**5,925**	**-**	**-**	**-**	**-**	**5,925**
Foreign exchange	**-**	**394**	**589,827**	**48,955**	**1,231**	**1,993**	**12,838**	**655,238**
December 31, 2017	**-**	**$ (8,471)**	**$(30,991,431)**	**$ (2,106,298)**	**$ (44,615)**	**$(492,333)**	**$ (351,041)**	**$(33,994,189)**
Net book value, as at								
December 31, 2016	$ 23,020	$ 111,804	$ 17,547,487	$ 246,569	$ -	$ 52,544	$ 804,284	$ 18,785,708
December 31, 2017	**$ 21,508**	**$ 98,813**	**$ 17,095,730**	**$ 376,042**	**$ -**	**$ 22,002**	**$ 977,478**	**$ 18,591,573**

A portion of the Company’s production equipment with a carrying amount of approximately $ 17,700,000 (approximately $17,700,000 as at December 31, 2016) is pledged as collateral for the Company’s long-term debt.

14. Intangible assets

	Goodwill	Customer relationships	Patents	Total
January 1, 2016	$ 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**
Additions	**-**	**-**	**50,301**	**50,301**
Amortisation	**-**	**(48,674)**	**(49,287)**	**(97,961)**
Foreign exchange	**(33,115)**	**(8,845)**	**-**	**(41,960)**
December 31, 2017	**$ 471,009**	**$ 101,926**	**$ 822,622**	**$ 1,395,557**

15. Trade and other payables

	December 31, 2017	December 31, 2016
Trade payables	**$ 5,604,791**	$ 7,086,001
Other payables and accrued liabilities	**2,097,391**	1,663,000
	$ 7,702,182	$ 8,749,001

16. Borrowings

	December 31, 2017	December 31, 2016
Bank indebtedness (a)	**$ 5,827,182**	$ 5,052,270
Long-term debt		
Loan, bearing interest at the lender's base rate minus 0.5% (effective rate of 4.80% as at December 31, 2017, 4.20% as at December 31, 2016), secured by production equipment having a net book value of approximately $7,000,000. (b)	**2,433,000**	2,920,000
Loan, bearing interest at the lender's base rate plus 0.67%, (effective rate of 5.97% as at December 31, 2017) secured by the same production equipment as the loan above. (c)	**250,000**	-
Loan (US$1,325,123, US$1,909,437 as at December 31, 2016), bearing interest at the US prime rate, reset monthly, plus 3.00% (effective rate of 7.50% as at December 31, 2017, 6.75% in 2016) secured by the production equipment of the subsidiary having a net book value of approximately $10,700,000 and a corporate guarantee from the Parent Company. (d)	**1,662,367**	2,563,801
Total long-term debt	**4,345,367**	5,483,801
Finance leases (Note 17)	**475,062**	392,714
Total borrowings	**10,647,611**	10,928,785

16. Borrowings (continued)

	December 31, 2017	December 31, 2016
Current		
Bank indebtedness	**$ 5,827,182**	$ 5,052,270
Long-term debt, current portion	**1,250,481**	1,355,760
Finance lease obligations, current portion	**194,684**	170,740
	7,272,347	6,578,770
Non-current		
Long-term debt	**3,094,886**	4,128,041
Finance lease obligations	**280,378**	221,974
	3,375,264	4,350,015
Total borrowings	**$ 10,647,611**	$ 10,928,785

Interest on long-term debt amounted to $279,452 for the year ended December 31, 2017 ($297,356 in 2016).

(a) The Company has an operating line of credit with its bankers to a maximum of $12,000,000, bearing interest at prime plus 0.75% as at December 31, 2017 (0.90% as at December 31, 2016) for an effective interest rate of 3.95% at December 31, 2017 (3.60% as at December 31, 2016). The line of credit is secured by trade receivables and inventories. The line of credit may be reviewed periodically by the bank and is repayable on demand. The operating line of credit is subject to working capital, debt to equity and minimum EBITDA covenants (as defined in the lending agreement), all of which were respected as at December 31, 2017 and 2016 and during the years ended December 31, 2017 and 2016. As at December 31, 2017, the Company had drawn $5,827,182 ($5,052,270 as at December 31, 2016) 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 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 4.80% as of December 31, 2017 and 4.20% as at December 31, 2016).

(c) During the year ended December 31, 2017, the Company closed financing for $250,000 in order to finance the purchase of equipment. The loan is repayable in one instalment of $3,630 starting in May 2019 followed by 71 monthly instalments of $3,470 until April 2025 and bears interest at 0.67% over the lender's base rate for an effective rate of 5.97% as December 31, 2017. This loan is secured by the same production equipment as the loan detailed in (b).

(d) 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 7.50% as at December 31, 2017 (6.75% as at December 31, 2016). This loan was recorded at the effective interest rate method, net of all incremental transaction costs directly attributable to the transaction. This loan is subject to certain covenants. As at December 31, 2017 and 2016 and during the year ended Deember 31, 2017 and 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	**$ 1,260,113**
Later than one year and not later than five years	**2,974,894**
Later than 5 years	**97,160**
	$ 4,332,167

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	**$ 217,426**
Later than one year and not later than five years	**309,618**
Later than five years	**-**
Total minimum lease payments	**527,044**
Less amount representing interest at approximately 6.1%	**(51,982)**
Present value of minimum lease payments	**475,062**
Less the long-term portion	**(280,378)**
Current portion of obligations under finance leases	**$ 194,684**

During the year ended December 31, 2017, the Company financed the acquisition of production equipment of a value totalling $309,989 ($75,064 in 2016) by entering into finance leases.

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, 2017, there were 49,863,637 common shares outstanding (49,738,637 common shares at December 31, 2016).

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

During the year ended December 31, 2016, the Company issued 100,000 shares for cash consideration totaling $12,500 following the exercise of options that were issued in 2012. As at December 31, 2016, there were no warrants outstanding.

19. Share-based compensation

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

During the year ended December 31, 2017, the Company granted 50,000 options to an employee to acquire shares at $1.03 for a period of 5 years. These options vest in 4 tranches over 18 months, the first vesting at issuance and the other tranches vest at 6-month intervals. Reserves were increased by an amount of $19,625 during the year ended December 31, 2017, representing the share-based compensation for the periods.

During the year ended December 31, 2017, the Company granted 150,000 options to an employee to acquire shares at $1.11 for a period of 5 years. These options vest in 4 tranches over 18 months, the first vesting at issuance and the other tranches vest at 6-month intervals. Reserves were increased by an amount of $8,386 during the year ended December 31, 2017, representing the share-based compensation for the periods.

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 $110,958 representing the share-based compensation related to this issuance for the year ended December 31, 2017 and $142,080 for the year ended December 31, 2016.

19. Share-based compensation (continued)

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 $44,169 representing the share-based compensation related to this issuance for the year ended December 31, 2017 and $56,691 for the year ended December 31, 2016.

The expenses related to share-based compensation granted in 2015 totaled $12,569 for the year ended December 31, 2017 and $82,525 in the year ended December 31, 2016.

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	29/11/2017	22/06/2017	06/09/2016	21/06/2016	16/06/2015	Total
Outstanding as at 01/01/2016	-	-	-	-	650,000	650,000
Issued	-	-	500,000	1,300,000	-	1,800,000
Expired	-	-	-	-	-	-
Outstanding as at 31/12/2016	-	-	500,000	1,300,000	650,000	2,450,000
Exercised	-	-	-	(125,000)	-	(125,000)
Issued	150,000	50,000	-	-	-	200,000
Outstanding as at 31/12/2017	150,000	50,000	500,000	1,175,000	650,000	2,525,000
Exercisable as at 31/12/2016	-	-	125,000	325,000	487,500	937,500
Exercisable as at 31/12/2017	37,500	25,000	375,000	850,000	650,000	1,937,500
Remaining life of options (yrs)	4.92	4.48	3.69	3.48	2.46	
Expected life of options (yrs)	2.5 to 3.25	2.5 to 3.25	2.5 to 3.25	2.75 to 3.5	2.75 to 3.5	
Expiry	29/11/2022	22/06/2022	06/09/2021	21/06/2021	15/06/2020	
Expected share price volatility	79.13% - 80.17%	80.01% - 83.03%	76.59% - 79.60%	75.95% - 82.15%	83.19% - 98.85%	
Dividend yield	0%	0%	0%	0%	0%	
Risk free rate	1.62%	1.15%	0.51%	0.50%	0.55% to 0.65%	
Exercise price	$ 1.11	$ 1.03	$ 0.42	$ 0.40	$ 0.52	
Share price on grant date	$ 1.11	$ 1.03	$ 0.42	$ 0.40	$ 0.52	
Fair value of option at grant	$ 0.57	$ 0.53	$ 0.21	$ 0.21	$ 0.30	

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, 2017, the Company financed the acquisition of a chiller of a value totalling $263,950 and plant equipment of a value of $46,039 by entering into finance leases. Additional information on finance leases is provided in note 17.

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, 2017	**December 31, 2016**
Financial assets		
Loans and receivables		
Cash	**$ 87,140**	$ 68,100
Trade and other receivables [1]	**12,045,694**	10,873,302
	12,132,834	10,941,402
Financial liabilities		
Financial liabilities, at amortised cost		
Bank indebtedness	**5,827,182**	5,052,270
Trade and other payables [2]	**6,693,995**	7,804,787
Long term debt	**4,345,367**	5,483,801
	16,866,544	18,340,858
Other liabilities		
Finance lease obligations	**475,062**	392,714

[1] Excludes sales taxes
[2] Excludes employee benefits

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

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

- The fair value of cash, trade and other receivables, bank indebtedness and trade and other payables approximates their respective carrying amounts as at the date of the consolidated statement of financial position because of the short-term maturity of those instruments.

- The fair value of long-term debt and finance lease obligations, which mainly bear interest at floating rates, is estimated using a discounted cash flows approach, which discounts the contractual cash flows using discount rates derived from observable market interest rates of similar loans with similar risks.

The Company ensures, to the extent possible, that its valuation techniques and assumptions incorporate all factors that market participants would consider in setting a price and that it is consistent with accepted economic methods for pricing financial instruments.

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, 2017 and 2016, 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 April 2026, and include renewal provisions.

22.2 Payments recognised as an expense

	Year ended	
	December 31, 2017	**December 31, 2016**
Lease payments for premises	**$ 867,766**	$ 934,845
Vehicles	**35,311**	35,004
Office equipment	**16,679**	17,032

22.3 Non-cancellable operating lease commitments

	Year ended	
	December 31, 2017	**December 31, 2016**
Not later than 1 year	**$ 908,312**	$ 931,274
Later than 1 year and not later than 5 years	**2,870,414**	3,206,060
Later than 5 years	**1,295,841**	1,873,205
	$ 5,074,567	$ 6,010,539

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, 2017:
- 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, 2017.

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 a summary of the Company's financial assets and liabilities that are denominated in USD, which is in a currency other than the Company's functional currency:

	December 31, 2017	December 31, 2016
Cash	**$ 1,195**	$ 369
Trade receivables	**3,527,502**	2,279,387
Trade payables	**(2,439,700)**	(3,903,091)
Bank indebtedness	**(312,580)**	(1,173,716)
Net financial position exposure	**$ 776,417**	$ (2,797,051)

23. Risk management (continued)

23.2 Foreign currency risk management (continued)

A 5% appreciation of the Canadian dollar against the USD would increase its financial position by $22,700 as at December 31, 2017 (a decrease of $244,616 as at December 31, 2016). 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 positive impact on the Company's result of approximately $190,000. 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, 2017	**December 31, 2016**
Variable rate instruments		
Financial liabilities	**$ 10,172,549**	$ 10,536,071
Gross financial position exposure	**$ 10,172,549**	$ 10,536,071

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 $115,000 ($ 92,739 for 2016). Conversely a decrease in interest rates 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 $12,000,000, of which an amount of $5,827,182 was utilized as at December 31, 2017. Borrowings under the Company's operating line of credit bear interest at the bank's prime rate plus 0.75%. 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, 2017, 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	$ 5,827,182	$ 5,827,182	$ 5,827,182	$ -	$ -
Long-term debt (1)	4,345,367	4,812,454	1,468,605	3,239,193	104,656
Finance leases (2)	475,062	527,044	217,426	309,618	-
Trade and other payables (3)	6,693,995	6,693,995	6,693,995	-	-
	$17,341,606	$17,860,675	$14,207,208	$ 3,548,811	$ 104,656

(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.
(3) Excludes employee benefits

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, 2017	December 31, 2016	**December 31, 2017**	December 31, 2016	**December 31, 2017**	December 31, 2016
Entities owned by key management personnel or their family members						
Rent	**$ 867,766**	$ 877,693	**$ -**	$ -	**$ 4,990,249**	$ 5,947,770
Key management personnel services	**149,691**	145,909	**12,689**	12,257	**-**	-
Entities over which key management personnel have significant influence						
Professional services	**134,298**	138,269	**134,298**	138,269	**-**	-
	$ 1,151,755	$ 1,161,871	**$ 146,987**	$ 150,526	**$ 4,990,249**	$ 5,947,770

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, 2017	**December 31, 2016**
Salaries	**$ 859,122**	$ 685,485
Director's fees	**40,250**	44,750
Short-term employee benefits	**13,405**	8,883
Post-employment benefits – State-run plans	**14,990**	18,267
Share-based compensation	**139,589**	178,679
Other benefits	**45,441**	38,682
	$ 1,112,797	$ 974,746