

**ANNUAL REPORT**  
2018

**IMAFLEX**  
*Committed to Excellence*



## 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, 2018 and 2017. Unless otherwise indicated, the terms "Imaflex", "Company", "Corporation", "we", "our", and "us" all refer to Imaflex Inc., together with its divisions Canguard Packaging and Can slit, 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, 2018 and 2017.

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, 2019. 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](http://www.imaflex.com) and on SEDAR at [www.sedar.com](http://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, 2019.

## MANAGEMENT DISCUSSION AND ANALYSIS

### COMPANY OVERVIEW

Imaflex 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 Imaflex. 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. Imaflex and Imaflex 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 and Grow 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® (under development). Our crop protection films are mulch films surface coated with either metallic aluminum and/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 death. Common insecticides have proven to be ineffective in preventing HLB infestation in newly planted citrus groves.

## MANAGEMENT DISCUSSION AND ANALYSIS

### GROWTH STRATEGY (continued)

#### Grow the Agriculture Business (continued)

Shine N' Ripe XL's unique ability to reflect up to 80% of solar ultraviolet (UV) light repels the ACP and hence helps deter HLB infestation in young citrus trees. In addition, Shine N' Ripe XL significantly increases tree growth and yield 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. The film's proprietary anti-corrosion coating has also 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.

In a multi-year trial conducted by the Florida Research Centre for Agricultural Sustainability (FLARES), they repeatedly found that Shine N' Ripe XL demonstrated clear benefits over conventional production practices. In their January 2018 Florida Citrus Show presentation, FLARES reported that although approximately four years had passed since the trial 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.

#### **ADVASEAL®**

Today, agricultural films are used in the growing of fresh fruits and vegetables worldwide to cover soil treated with fumigants - volatile and toxic pesticides, 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.

ADVASEAL® will contain all the active ingredients, including a 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. The catalyst to activate the release of these ingredients from the film is water. When the film is applied to the moist soil, they are released, replacing the spray application currently being used by growers. The underlying technology is patent protected in the top 20 major vegetable and fruit producing countries worldwide until 2032.

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 and fumigants currently being used. 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 work steps currently being used. Collectively, this puts Imaflex in a good position to capture market share worldwide 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. This will help support the build-out of our core flexible packaging product portfolio. 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 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.

## MANAGEMENT DISCUSSION AND ANALYSIS

### MARKET OVERVIEW

The North American flexible packaging market is valued at approximately US \$29 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 2018, Imaflex was once again ranked in the top 100 North American film and sheet manufacturers by sales.

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 also working in its favour. Sustainability and intelligent farming are becoming increasingly important.

### SHINE N' RIPE XL BUILD-OUT

In 2017, a major international citrus producer began using Shine N' Ripe XL, 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 studies, all of which confirmed the biological, environmental and economic benefits associated with using the film.

In the first quarter of 2018, Imaflex saw some timing delays in citrus film sales, largely due to major storms in the southeastern USA in late 2017. In the second quarter of 2018 orders resumed, however overall sales for 2018 were muted year-over-year. Sales fluctuations are not unusual when a product and customer network is being built out. The Corporation is actively pursuing new citrus film users and has a number of trials underway.

Imaflex is currently the only company with independent, long-term field trials showing 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 trials underway with new growers, Imaflex is optimistic it will see a further broadening of its customer base and revenue expansion going forward.

### ADVASEAL® COMMERCIALIZATION

Imaflex has successfully completed the design of the coating line, customized for the cost effective production of ADVASEAL®. As for the active ingredients to be used with the film, faced with merger and acquisition activity amongst crop protection companies and the resulting delays in obtaining supply commitments, the Corporation decided to go directly to the same manufacturers in Asia supplying them. Although all the registered active ingredients were eventually sourced, Imaflex experienced unusually long delays obtaining the necessary import permits due to the recent partial U.S. federal government shutdown. As a result, the chemicals were not received in time for the spring 2019 growing season. All of the active ingredients have now been received and we are cautiously optimistic field tests will be completed by year-end 2019.

Imaflex has identified a potential manufacturer (coater) capable of supplying sufficient quantities of ADVASEAL® for upcoming efficacy field trials. The contract manufacturer is a multi-national technology leader staffed with qualified chemists, process engineers and production technicians that are adept at working with chemicals and developing new products. Numerous trials have taken place at their facility and we are increasingly confident they will be able to provide coated film for upcoming efficacy field trials. The manufacturer has also obtained the required regulatory approval to work with the active ingredients associated with ADVASEAL®.



## MANAGEMENT DISCUSSION AND ANALYSIS

### ADVASEAL® COMMERCIALIZATION (continued)

The efficacy studies are required by the US Environmental Protection Agency (EPA) for the exclusive registration of ADVASEAL®. Management believes the efficacy field trials and the pesticide registration process will be positive as the generic active ingredients to be used with ADVASEAL are effectively used by growers today. As well, the Company previously received EPA approval of its herbicidal active ingredient release film, ADVASEAL® HSM.

### COMPETITIVE ENVIRONMENT

Although competition is high in all of 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 252 people in North America, including those at our corporate head office 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 (toll) manufacturers for certain activities in order to meet all production deadlines and ensure 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.

## MANAGEMENT DISCUSSION AND ANALYSIS

### NON-IFRS FINANCIAL MEASURES (continued)

Reconciliation of EBITDA to net income:

(\$ thousands, except per share data)	Three months ended		Years ended	
	December 31,	2017	December 31,	2017
	2018		2018	
Net income	\$ 556	\$ 761	\$ 3,550	\$ 3,762
Plus:				
Income taxes	411	225	1,477	1,386
Finance costs	170	154	571	572
Depreciation and amortization	657	617	2,201	2,091
EBITDA	\$ 1,794	\$ 1,757	\$ 7,799	\$ 7,811
Basic EBITDA per share *	\$ 0.04	\$ 0.04	\$ 0.16	\$ 0.16
Diluted EBITDA per share *	\$ 0.04	\$ 0.03	\$ 0.15	\$ 0.15

\*Basic weighted average number of shares outstanding of 50,013,637 for the three-month period ended December 31, 2018 (49,744,072 in 2017) and 49,915,829 for the year ended December 31, 2018 (49,740,007 in 2017). Diluted weighted average number of shares outstanding of 51,031,396 for the three-month period ended December 31, 2018 (51,185,931 in 2017) and 51,067,300 for the year ended December 31, 2018 (51,023,356 in 2017).

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 overall market the Company competes in has historically shown resiliency and growth, even during difficult economic times. The Company's customers predominantly operate in the food packaging and agriculture markets, which is somewhat resilient to recessionary and seasonal pressures. This fact, coupled with expanding product lines and introduction of 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 from movement of the Canadian dollar relative to other currencies, particularly the U.S. dollar; the effects of changes in interest rates; the effects of competition in the markets in which we operate; our ability to successfully align our organization, resources, and processes; the availability and price of raw materials; failure to achieve planned growth associated with the U.S. operations; changes in accounting policies and methods we use to report our financial condition, including uncertainties associated with critical accounting assumptions and estimates; operational and infrastructure risks; other factors may affect future results including, but not limited to, timely development and introduction of new products and services; changes in tax laws, technological changes and new regulations; the possible impact on our businesses from public-health emergencies, international conflicts and other developments; and our success in anticipating and managing the foregoing risks.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **GENERAL SITUATION OF THE POLYETHYLENE BLOWN FILM MARKET – RESIN PRICING**

Despite routine monthly fluctuations, 2018 resin prices were down overall and pricing remained flat for the first quarter of 2019. The prevailing sentiment of resin buyers for the remainder of 2019 is for moderate downward pressure on pricing, due largely to expected capacity increases from new plants coming on stream. This said, any supply chain disruptions would allow resin producers to raise prices. Since Imaflex does not have major long term contracts with its customers, resin price fluctuations are typically passed along to them.

### **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 helps ensure 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 some seasonality as a result of the plant's partial manufacturing focus on the production of agriculture film for fruit and vegetable growers. 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 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 space. In this market, proof of negligence in our manufacturing process could entail some form of compensation in the event that the expected crop yields do not materialize.

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

### **FLUCTUATIONS IN OPERATING RESULTS**

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



## MANAGEMENT DISCUSSION AND ANALYSIS

### 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. Interest rate hikes, including those seen in recent quarters, 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 Imaflex has grown, it has also strengthened its team, adding individuals having a variety of competencies, such as 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. Management is confident that it can retain and, if need be, attract qualified individuals that will contribute to its on-going goal of building shareholder value.

### FOREIGN EXCHANGE FLUCTUATIONS

Some 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 US denominated expenses. Imaflex can also borrow funds on its line of credit in US dollars. The Company has increased its debt in US dollars in order to obtain additional revenues in US dollars. As this additional US 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

Fiscal 2018 revenue was down versus 2017, largely due to reduced sales volumes in the first half of 2018, particularly citrus films. This said, profitability was positively impacted by favourable movements in foreign exchange and lower selling and administrative expenses. As a result, EBITDA was unchanged year-over-year, while net income came in at \$3.6 million for calendar 2018, versus \$3.8 million in 2017.

(\$ thousands)	Three months ended December 31,		Years ended December 31,	
	2018	2017	2018	2017
Sales	\$22,472	\$21,395	\$86,332	\$88,297

Revenues were \$22.5 million for the fourth quarter of 2018, up 5.0% from \$21.4 million in 2017. The increase was driven by higher sales volumes, improvements to product mix and favourable movements in foreign exchange. Citrus film sales totaled \$1.4 million for the quarter, versus \$1.5 million in the corresponding period of 2017.

## MANAGEMENT DISCUSSION AND ANALYSIS

### RESULTS OF OPERATIONS (continued)

Sales for the year ended December 31, 2018 stood at \$86.3 million, versus \$88.3 million for calendar 2017. The decrease was largely due to lower sales volumes in the first half of 2018, particularly citrus film, partially offset by improvements to product mix. Citrus film sales totaled \$2.8 million for calendar 2018, as compared to \$6.4 million in the prior year. At the end of 2018, the Corporation had \$1.8 million of citrus film orders in its sales pipeline.

(\$ thousands)	Three months ended December 31,		Years ended December 31,	
	2018	2017	2018	2017
Gross Profit (\$) before amortization of production equipment	\$2,361	\$3,468	\$12,684	\$15,767
Gross Profit before amortization of production equipment (%)	10.5%	16.2%	14.7%	17.9%
Amortization of production equipment	589	459	1,920	1,774
Gross profit (\$)	\$1,772	\$3,009	\$10,764	\$13,993
Gross profit (%)	7.9%	14.1%	12.5%	15.8%

Quarterly gross profit before the amortization of production equipment was \$2.4 million or 10.5% of sales for the quarter, versus \$3.5 million and 16.2% of sales in 2017. Including amortization of production equipment, the quarterly gross profit was \$1.8 million or 7.9% of sales, versus \$3.0 million and 14.1% of sales in 2017. The decrease was largely due to product pricing, stemming predominantly from a reduction in resin prices. Industry wide, resin price decreases are normally reflected immediately in customer pricing, while increases usually take approximately 30 days to be priced in. As such, the effect of a resin price decrease is that an immediate opportunity loss is incurred with respect to resin inventory previously purchased when resin prices were higher.

For fiscal 2018, the gross profit before amortization of production equipment stood at \$12.7 million or 14.7% of sales, down from \$15.8 million and 17.9% of sales in the prior year. Including amortization expenses, the gross profit was \$10.8 million or 12.5% of sales in 2018, versus \$14.0 million and 15.8% of sales in 2017. The reduced year-to-date gross profit, before and after amortization, was largely due to less sales of higher margin citrus films in 2018.

(\$ thousands)	Three months ended December 31,		Years ended December 31,	
	2018	2017	2018	2017
Selling and administrative	\$1,490	\$1,884	\$6,493	\$7,084
As a % of sales	6.6%	8.8%	7.5%	8.0%

Selling and administrative expenses were \$1.5 million or 6.6% of sales in the fourth quarter of 2018, down from \$1.9 million and 8.8% of sales in 2017. The year-over-year expense decrease was largely due to lower professional service fees in 2018 and a one-time customer credit loss in 2017.

For the year ended December 31, 2018, selling and administrative expenses totaled \$6.5 million or 7.5% of sales, down from \$7.1 million and 8.0% of sales in 2017. The expense decrease versus 2017 was largely due to the lower 2018 sales base.

(\$ thousands)	Three months ended December 31,		Years ended December 31,	
	2018	2017	2018	2017
Finance costs	\$170	\$154	\$571	\$572

## MANAGEMENT DISCUSSION AND ANALYSIS

### RESULTS OF OPERATIONS (continued)

Year-over-year finance costs were up slightly for the quarter ended December 31, 2018, largely due to increased debt levels, including greater usage of the Company's line of credit, and higher 2018 interest rates. For fiscal 2018, year-over-year finance costs remained essentially in-line, with debt repayments and the capitalization of interest on new borrowings offsetting higher 2018 interest rates.

(\$ thousands)	Three months ended December 31,		Years ended December 31,	
	2018	2017	2018	2017
<b>Foreign exchange (gains)/losses</b>	<b>\$(886)</b>	<b>\$(39)</b>	<b>(\$1,340)</b>	<b>\$1,085</b>

A stronger year-over-year appreciation of the US dollar against the Canadian dollar resulted in a foreign exchange gain of \$0.9 million in the fourth quarter of 2018, up from a slight gain of \$39 thousand dollars in 2017.

For the year ended December 31, 2018, the appreciation of the US dollar against the Canadian dollar resulted in a foreign exchange gain of \$1.3 million. Conversely, in the prior year Imaflex recorded a foreign exchange loss of \$1.1 million as a result of unfavourable currency fluctuations. Collectively, this generated a positive year-over-year variance of \$2.4 million. The majority of these foreign exchange gains and losses are non-cash impacting and relate to intercompany balances for which Imaflex can control the time of settlement.

(\$ thousands)	Three months ended December 31,		Years ended December 31,	
	2018	2017	2018	2017
<b>Income taxes</b>	<b>\$411</b>	<b>\$225</b>	<b>\$1,477</b>	<b>\$1,386</b>
<b>As a % of income before taxes</b>	<b>42.5%</b>	<b>22.8%</b>	<b>29.4%</b>	<b>26.9%</b>

Income tax expenses totaled \$0.4 million for the fourth quarter of 2018, up from \$0.2 million in 2017. The income tax expense as a percentage of income before taxes also increased year-over-year, growing from 22.8% in 2017 to 42.5% in 2018.

Calendar 2018 income taxes came in at \$1.5 million for the year, up from \$1.4 million in 2017. The income tax expense as a percentage of income before taxes was 29.4% for 2018, up from 26.9% in 2017. The Corporation's statutory tax rate was 26.7% in 2018.

(\$ thousands, except per share data)	Three months ended December 31,		Years ended December 31,	
	2018	2017	2018	2017
<b>Net income</b>	<b>\$556</b>	<b>\$761</b>	<b>\$3,550</b>	<b>\$3,762</b>
<b>Basic earnings per share</b>	<b>\$0.01</b>	<b>\$0.02</b>	<b>\$0.07</b>	<b>\$0.08</b>
<b>Diluted earnings per share</b>	<b>\$0.01</b>	<b>\$0.01</b>	<b>\$0.07</b>	<b>\$0.07</b>

The Corporation realized net income of \$0.6 million in the fourth quarter of 2018, down from \$0.8 million in 2017. For calendar 2018 and 2017, net income stood at \$3.6 million and \$3.8 million respectively. Year-over-year net income for both the quarter and calendar year was down largely as a result of the lower gross profits and higher taxes in 2018. This was partially offset by favourable currency fluctuations and lower selling and administrative expenses.

### 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:

## MANAGEMENT DISCUSSION AND ANALYSIS

### SUMMARY OF QUARTERLY RESULTS (continued)

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

	Q4/18	Q3/18	Q2/18	Q1/18	Q4/17	Q3/17	Q2/17	Q1/17
Revenues	\$22,472	\$21,316	\$21,927	\$20,617	\$21,395	\$20,791	\$24,055	\$22,056
Net income (loss)	556	594	727	1,673	761	556	1,300	1,145
Earnings (loss) per share								
Basic	0.011	0.012	0.015	0.034	0.015	0.011	0.026	0.023
Diluted	0.011	0.012	0.014	0.033	0.015	0.011	0.026	0.023

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.

### FINANCIAL POSITION

*December 31, 2018 vs. December 31, 2017*

Working Capital strengthened, growing from \$9.2 million as at December 31, 2017, to \$11.0 million as at December 31, 2018. The improvement was largely due to a \$2.6 million year-over-year increase in inventories to meet heightened sales expectations for both our core flexible packaging and agriculture products, along with higher trade and other receivables of \$3.5 million. This was partially offset by a \$3.3 million increase in bank debt, including short-term borrowings to buy equipment, and trade and other payables were higher by \$1.5 million.

### LIQUIDITY

#### Cash Flows from Operating Activities

Before movements in working capital and income taxes paid, Imaflex generated \$1.0 million of cash flows from operating activities during the fourth quarter of 2018, down from \$1.7 million in 2017. The decrease was largely due to year-over-year movements in foreign exchange and the lower profit in 2018.

Overall movements in working capital were relatively flat for the fourth quarter of 2018, with Imaflex recording \$46 thousand of cash outflows, versus \$0.3 million of inflows in the corresponding prior year quarter. Including movements in working capital and taxes paid, the net cash generated by operating activities totaled \$0.6 million in the fourth quarter of 2018, down from \$1.8 million in 2017.

For fiscal 2018, net cash generated by operating activities, before movements in working capital and income taxes paid, totaled \$6.7 million, down from \$8.9 million in 2017. The \$2.2 million year-over-year decrease is largely explained by a \$2.1 million outflow due to movements in foreign exchange. Net cash generated from operating activities including movements in working capital and taxes paid stood at \$1.1 million for fiscal 2018, down from \$3.3 million in 2017. The decrease was due to the aforementioned movements in foreign exchange, and \$1.1 million more taxes paid in 2018, partially offset by favourable year-over-year movements in working capital of \$1.1 million versus 2017.

#### Cash Flows from Investing Activities

During the fourth quarter of 2018, Imaflex contributed \$1.5 million towards capital assets, up from \$0.5 million in the corresponding prior-year period, largely due to the purchase of additional equipment for the Corporation's US operations.

For fiscal 2018, capital investments totaled \$3.7 million, up from \$2.4 million in the prior year. The majority of cash used for investing activities during fiscal 2018 went towards the purchase of additional equipment for Imaflex's US operations,

## MANAGEMENT DISCUSSION AND ANALYSIS

### Cash Flows from Investing Activities (continued)

including the purchase of a new 5-layer coextruder. These investments are aimed at improving the Company's production capacity and capabilities in order to generate heightened sales and profitability.

### Cash Flows from Financing Activities

Cash flows generated from financing activities totaled \$0.9 million for the fourth quarter of 2018, up from net cash outflows of \$1.3 million in the corresponding prior year quarter. The \$2.2 million improvement over 2017 is largely due to a \$2.6 million variation in short term borrowings largely relating to the Corporation's line of credit, along with a \$1.3 million increase in finance leases, partially offset by higher repayments of long-term debt of \$1.4 million.

For fiscal 2018, Imaflex generated \$2.8 million of cash flows from financing activities, as compared to cash outflows of \$0.9 million in 2017. The \$3.7 million net year-over-year improvement is largely due to a \$2.3 million increase in the Corporation's line of credit, and a \$1.3 million increase in finance leases relating largely to the purchase of a new coextruder.

## CONTRACTUAL OBLIGATIONS

The contractual obligations as at December 31, 2018 were as follows:

(\$ thousands)	Payments due by period			
	Total	Less than 1 year	1 to 5 years	After 5 years
Bank indebtedness	8,114	8,114	-	-
Short-term borrowings	804	804	-	-
Long-term debt	\$ 3,933	\$ 1,602	\$ 2,273	\$ 58
Finance leases*	311	104	207	-
Operating Leases	4,669	1,194	3,294	181
Total contractual obligations	\$ 17,831	\$ 11,818	\$ 5,774	\$ 239

\*Finance leases exclude \$1.3 million of interim advances for equipment related to the Company's previously announced equipment leasing facility. A payment schedule will be determined upon receipt of equipment.

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, 2018.

## 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 0.40% over the Canadian prime rate. As at December 31, 2018, Imaflex was using approximately \$ 8.1 million on its line of credit (\$5.8 million as at December 31, 2017) and had cash outstanding of \$0.3 million (\$0.1 million as at December 31, 2017). Working capital strengthened year-over-year, coming in at \$11.0 million as at December 31, 2018, up from \$9.2 million as at December 31, 2017. 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.

## EQUIPMENT LEASING FACILITY

In 2018, Imaflex entered into an equipment leasing facility of up to CDN \$10.0 million with a leading global financial institution to fund business expansion. Upon delivery of equipment to Imaflex, the specific lease will be repayable in 60 equal monthly installments, with the applicable interest rate being locked in at time of equipment delivery. At the end of the 60-month period, Imaflex will own the equipment. This financing allows the Corporation to increase its scale, broaden its capabilities and drive revenue and margin expansion at attractive terms.



## MANAGEMENT DISCUSSION AND ANALYSIS

### 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, 2018 and 2017. 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, 2018 and 2017.

(\$ thousands)		Three months ended		Years ended	
		December 31,		December 31,	
		2018	2017	2018	2017
Professional fees and key management personnel services	(a)	\$ 19	\$ 78	\$ 216	\$ 284
Rent	(b)	\$ 336	\$ 216	\$ 975	\$ 868
Remuneration	(c)	\$ 252	\$ 256	\$ 1,142	\$ 1,113

(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, including the Company’s accounting policies under IFRS, are disclosed in note 2, *Significant accounting policies* of the consolidated financial statements for the years ended December 31, 2018 and 2017. On January 1, 2018 the Company adopted IFRS 9 and 15, as explained in note 2.18 of the consolidated financial statements for the year ended December 31, 2018.

### FINANCIAL INSTRUMENTS

Please refer to note 21, *Financial instruments* of the consolidated financial statements for the years ended December 31, 2018 and 2017 for disclosure on the Company’s financial instruments as well as note 23, *Risk management* for a discussion on the risks the Company is exposed to and how they are managed.

As at December 31, 2018, the Company was not using any swap, forward or hedge accounting and there were no warrants outstanding.

As at December 31, 2018, 2,625,000 options to purchase shares of the Company were outstanding at a weighted average strike price of \$0.520 of which 2,400,000 were exercisable.

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.

## MANAGEMENT DISCUSSION AND ANALYSIS

### MANAGEMENT OUTLOOK

Business fundamentals for 2019, are expected to remain stable in a competitive market. Overall growth will be supported by investments we have made to increase our production capacity and capabilities. Assembly and installation of the new 5-layer coextruder is well underway and the Corporation continues to expect it to be operational around the end of the second quarter of 2019. Although we are expecting higher sales volumes for 2019, the total impact on revenues may be moderated due to a possible reduction in resin prices. Since the Corporation does not have major long term contracts, resin price fluctuations are passed along to customers.

With respect to our citrus film, Shine N' Ripe XL, we have a number of trials underway with new growers. These trials are progressing well, and we are hopeful it will result in a broadened customer base and heightened sales going forward.

Concerning ADVASEAL®, all of the active ingredients required for the film have now been received and we remain cautiously optimistic field tests will be completed by year-end 2019.

### OUTSTANDING SHARE DATA

As at December 31, 2018, the Company had 50,013,637 common shares outstanding, compared to 49,863,637 as at December 31, 2017.

Additional information relating to our Company, including our quarterly and Annual Reports, can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

(s) Joe Abbandonato  
Joe Abbandonato  
President and Chief Executive Officer

(s) Giancarlo Santella  
Giancarlo Santella, CPA, CA  
Chief Financial Officer

April 17, 2019

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#### *For investor information, contact*

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Consolidated Financial Statements of

# **IMAFLEX INC.**

Years ended December 31, 2018 and 2017

## Independent Auditor's Report

To the Shareholders of  
Imaflex Inc.

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

T 514-878-2691

### Opinion

We have audited the consolidated financial statements of Imaflex Inc. (hereafter "the Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

### Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Information other than the consolidated financial statements and the auditor's report thereon

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis, and the information, other than the consolidated financial statements and our auditor's report thereon, included in the Annual Report.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of this auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

#### **Responsibilities of management and those charged with governance for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of the 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

#### **Auditor's responsibilities for the audit of the consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.



As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Antonia Psyharis.

*Raymond Chabot Grant Thornton LLP<sup>1</sup>*

Montréal  
April 17, 2019

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<sup>1</sup> CPA auditor, CA public accountancy permit no. A119564

**Consolidated statements of comprehensive income**  
**(in Canadian dollars)**

for the years ended		December 31,	
		2018	2017
Revenues	(Note 5.1)	\$ 86,332,093	\$ 88,296,683
Cost of sales		75,568,464	74,303,446
Gross profit		10,763,629	13,993,237
Expenses:			
Selling		1,605,374	1,633,851
Administrative		4,887,531	5,450,359
Finance costs	(Note 8)	571,487	572,427
Foreign exchange (gains) losses		(1,340,813)	1,084,810
Other		13,266	102,988
		5,736,845	8,844,435
Income before income taxes		5,026,784	5,148,802
Income taxes	(Note 9)	1,476,852	1,386,462
<b>NET INCOME</b>		<b>3,549,932</b>	<b>3,762,340</b>
<b>Other comprehensive income</b>			
<b>Item that will be reclassified subsequently to net income</b>			
Exchange differences on translating foreign operations		263,803	(217,994)
<b>COMPREHENSIVE INCOME</b>		<b>\$ 3,813,735</b>	<b>\$ 3,544,346</b>
<b>Earnings per share</b>	(Note 10)		
Basic		\$ 0.071	\$ 0.076
Diluted		\$ 0.070	\$ 0.074

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, 2018	December 31, 2017
<b>Assets</b>		
<i>Current assets</i>		
Cash	\$ 310,874	\$ 87,140
Trade and other receivables (Note 11)	15,922,044	12,384,001
Inventories (Note 12)	14,656,483	12,076,464
Prepaid expenses	220,500	521,625
Total current assets	31,109,901	25,069,230
<i>Non-current assets</i>		
Property, plant and equipment (Note 13)	21,183,335	18,591,573
Intangible assets (Note 14)	1,345,038	1,395,557
Total non-current assets	22,528,373	19,987,130
Total assets	\$ 53,638,274	\$ 45,056,360
<b>Liabilities and equity</b>		
<i>Current liabilities</i>		
Bank indebtedness and short-term borrowings (Note 16)	8,918,137	5,827,182
Trade and other payables (Note 15)	9,190,309	7,702,182
Current tax liabilities	498,463	868,999
Long-term debt, current portion (Note 16)	1,432,505	1,250,481
Finance lease obligations, current portion (Notes 16, 17)	89,517	194,684
Total current liabilities	20,128,931	15,843,528
<i>Non-current liabilities</i>		
Long-term debt (Note 16)	2,138,759	3,094,886
Deferred tax liabilities (Note 9)	1,468,329	1,410,786
Finance lease obligations (Notes 16, 17)	1,478,906	280,378
Total non-current liabilities	5,085,994	4,786,050
Total liabilities	25,214,925	20,629,578
<i>Equity</i>		
Share capital (Note 18)	11,875,023	11,815,023
Reserves (Note 19)	2,268,171	1,881,536
Retained earnings	14,280,155	10,730,223
Total equity	28,423,349	24,426,782
Total liabilities and equity	\$ 53,638,274	\$ 45,056,360

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, 2018 and 2017**  
**(in Canadian dollars)**

	Reserves						
	Share capital (a)	Share-based compensation	Accumulated foreign currency translation	Warrants	Total reserves	Retained earnings	Total
<b>Balance at January 1, 2017</b>	\$ 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
<b>Balance at December 31, 2017 and January 1, 2018</b>	<b>\$11,815,023</b>	<b>\$ 951,536</b>	<b>\$ 464,826</b>	<b>\$ 465,174</b>	<b>\$ 1,881,536</b>	<b>\$ 10,730,223</b>	<b>\$ 24,426,782</b>
Net income for the year	-	-	-	-	-	3,549,932	3,549,932
Exchange differences on translating foreign operations	-	-	263,803	-	263,803	-	263,803
Comprehensive income for the year	-	-	263,803	-	263,803	3,549,932	3,813,735
Transactions with owners:							
Issuance of share capital (Note 18)	60,000	-	-	-	-	-	60,000
Share-based compensation (Note 19)	-	122,832	-	-	122,832	-	122,832
<b>Balance at December 31, 2018</b>	<b>\$11,875,023</b>	<b>\$ 1,074,368</b>	<b>\$ 728,629</b>	<b>\$ 465,174</b>	<b>\$ 2,268,171</b>	<b>\$ 14,280,155</b>	<b>\$ 28,423,349</b>

(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,	
	2018	2017
<b>Operating activities:</b>		
Net income for the year	\$ 3,549,932	\$ 3,762,340
Income tax expense	1,476,852	1,386,462
Depreciation and amortisation of non-current assets	2,201,037	2,091,413
Write-off of property, plant and equipment	-	22,855
Finance costs	571,487	572,427
Share-based compensation	122,832	195,707
Unrealized foreign exchange (gain) loss	(1,239,319)	838,742
	<b>6,682,821</b>	<b>8,869,946</b>
Net changes in working capital		
Increase in trade and other receivables	(3,251,978)	(1,271,657)
Increase in inventories	(2,105,325)	(2,245,638)
Decrease (increase) in prepaid expenses	304,371	(389,222)
Increase (decrease) in trade and other payables	1,293,777	(925,628)
	<b>(3,759,155)</b>	<b>(4,832,145)</b>
Cash generated by operating activities	<b>2,923,666</b>	<b>4,037,801</b>
Net income taxes paid	(1,789,845)	(709,382)
<b>Net cash generated by operating activities</b>	<b>1,133,821</b>	<b>3,328,419</b>
<b>Investing activities:</b>		
Payments for property, plant and equipment	(3,692,883)	(2,350,073)
Payments for intangible assets	-	(50,301)
<b>Net cash used in investing activities</b>	<b>(3,692,883)</b>	<b>(2,400,374)</b>
<b>Financing activities:</b>		
Net change in bank indebtedness	2,268,100	774,912
Interest paid	(574,237)	(562,727)
Increase in short-term borrowings	804,419	-
Increase in long-term debt	1,761,200	250,000
Repayment of long-term debt	(2,629,503)	(1,204,574)
Net proceeds from issuance of share capital	60,000	50,000
Increase in finance leases	1,288,400	-
Repayment of finance leases	(200,813)	(212,288)
<b>Net cash generated by (used in) financing activities</b>	<b>2,777,566</b>	<b>(904,677)</b>
<b>Net increase in cash</b>	<b>218,504</b>	<b>23,368</b>
Cash, beginning of the year	87,140	68,100
Effects of foreign exchange differences on cash	5,230	(4,328)
<b>Cash, end of the year</b>	<b>\$ 310,874</b>	<b>\$ 87,140</b>

Non-cash transactions (Note 20)

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

## **Notes to the consolidated financial statements for the years ended December 31, 2018 and 2017**

### **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, 2018. The consolidated financial statements were approved by the board of directors and authorized for issue on April 17, 2019.

#### ***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, 2018 and 2017, 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.

## **Notes to the consolidated financial statements for the years ended December 31, 2018 and 2017**

### **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 recognized when the control of a product is transferred to a customer, which is typically when the customer takes possession of the goods, and there are no other performance obligations to be completed under the contract.

Revenue is measured based on the consideration that has been agreed upon by all parties and that the Company expects to be entitled to receive from the customer, net of variable considerations, including all returns, rebates and discounts agreed to by all parties concerned and the information available relative to each customer.

Revenue recognition is based on the following steps:

- identification of the contract with the customer;
- identification of the performance obligations in the contract;
- determination of the transaction price;
- allocation of the transaction price to the performance obligations in the contract; and
- recognition of revenue when the Company satisfies a performance obligation.

#### **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.

## Notes to the consolidated financial statements for the years ended December 31, 2018 and 2017

### 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 liabilities are recognized when the Company becomes party to the contractual provisions of the financial instrument. Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled or expired.

##### Classification and initial measurement of financial assets

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through earnings, or fair value through other comprehensive income.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component, the Company initially measures financial assets at fair value plus, in the case of financial assets not a fair value through earnings, transaction costs. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through earnings are recognized immediately in earnings. Trade receivables that do not contain a significant financing component are measured at the transaction price determined in accordance with IFRS 15.

##### Subsequent measurement

After initial recognition, cash and trade and other receivables (excluding sales taxes) are measured at amortized cost using the effective interest method. The expense relating to the allowance for expected credit loss is recognized in earnings in Administrative expenses in the statement of comprehensive income.

##### Impairment of financial assets

The Company recognizes a loss allowance for expected credit losses arising from financial assets. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

## Notes to the consolidated financial statements for the years ended December 31, 2018 and 2017

### 2. Significant accounting policies (continued)

#### 2.8 Financial assets and financial liabilities (continued)

The Company applies a simplified approach for calculating expected credit losses for trade and other receivables (excluding sales taxes). The Company recognizes a loss allowance based on lifetime expected credit losses at each reporting date. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the Company uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix. Note 11 provides a detailed analysis of how the impairment requirements of IFRS 9 are applied.

#### Classification and measurement of financial liabilities

The Company's financial liabilities include bank indebtedness and short-term borrowings, trade and other payables (excluding employee benefits), and long-term debt. Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs. Subsequently, financial liabilities are measured at amortized cost using the effective interest method.

All interest related charges for financial liabilities measured at amortized cost are recognized in the consolidated statement of comprehensive income under Finance costs.

#### 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 them 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



## **Notes to the consolidated financial statements for the years ended December 31, 2018 and 2017**

### **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).

## **Notes to the consolidated financial statements for the years ended December 31, 2018 and 2017**

### **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.

## Notes to the consolidated financial statements for the years ended December 31, 2018 and 2017

### 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.

#### 2.18 Adoption of new accounting standards

##### *IFRS 9 – Financial Instruments*

The Company has adopted IFRS 9 with date of initial application of January 1, 2018, and applied retroactively with restatement of comparative periods. IFRS 9 replaced IAS 39 – *Financial Instruments: Recognition and Measurement* and 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.

There was no material impact to the Company's consolidated financial statements as a result of adopting IFRS 9, with the exception of financial assets that were classified as Loans and Receivables that are now classified in the amortized cost category and applied retroactively with restatement of comparative periods.

##### *IFRS 15 - Revenue from Contracts with Customers*

The Company has adopted IFRS 15 with date of initial application of January 1, 2018. IFRS 15 replaced IAS 11 – *Construction Contracts* and IAS 18 – *Revenue* as well as other revenue-related interpretations and established a new five-step 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.

## **Notes to the consolidated financial statements for the years ended December 31, 2018 and 2017**

### **2. Significant accounting policies (continued)**

#### **2.18 Adoption of new accounting standards (continued)**

The Company has applied IFRS 15 using the modified retrospective method of adoption and as a result comparative information has not been restated and continues to be reported under IAS 11 and IAS 18. The adoption of IFRS 15 did not result in any transition adjustment as of January 1, 2018.

The Company did not make any changes to the presentation of its consolidated financial statements following the adoption of IFRS 15.

### **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:

#### ***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 obligation in the statement of financial position for all leases with exemptions permitted for short-term leases and leases of low value assets. In addition, IFRS 16 changes the definition of a lease, sets requirements on how to account for the asset and liability, including complexities such as non-lease elements, variable lease payments and options periods, changes the accounting for sale and leaseback arrangements, largely retains IAS 17’s approach to lessor accounting and introduces new disclosure requirements. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019 with early application permitted in certain circumstances.

Management is finalizing its assessment of the impact of the adoption of this standard, but has identified facility leases, vehicle leases and certain equipment leases that were previously accounted for as operating leases for which a lease obligation will be recorded following the adoption of IFRS 16. The Company expects to use a modified retrospective approach under which prior periods presented will not be restated and the cumulative impact effect of the adoption of IFRS 16 will be reflected as an adjustment to the retained earnings as at January 1, 2019.

While management continues to evaluate the impact of IFRS 16 on our consolidated financial statements, we expect the right-of-use asset to be approximately \$4,000,000, the increase lease obligation to be approximately \$4,400,000 and the adjustment to retained earnings to be approximately \$400,000.

### **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.

## **Notes to the consolidated financial statements for the years ended December 31, 2018 and 2017**

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

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

#### ***4.1 Critical judgments in applying accounting policies***

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

##### ***Cash-generating units***

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

#### ***4.2 Key sources of estimation uncertainty***

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

##### ***Allowance for expected credit losses***

During each reporting period, the Company makes an assessment of whether trade accounts receivable are collectible from customers. Accordingly, management establishes an allowance for estimated losses arising from non-payment. The Company's allowance for expected credit loss reflects expected credit losses using a provision matrix model, supplemented by an allowance for individually impaired trade receivables. The provision matrix is based on the Company's historic credit loss experience, adjusted for any change in risk of the trade receivable population based on credit monitoring indicators, and expectations of general economic conditions that might affect the collection of trade receivables. The provision matrix applies fixed provision rates depending on the number of days that a trade receivable is past due, with higher rates applied the longer a balance is past due. Refer to Note 11 for more information regarding the allowance for expected credit losses.

##### ***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.

**Notes to the consolidated financial statements  
for the years ended December 31, 2018 and 2017**

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

**4.2 Key sources of estimation uncertainty (continued)**

**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, 2018	December 31, 2017
Canada	\$ 30,718,578	\$ 29,709,160
United States	55,350,220	58,375,728
Other	263,295	211,795
Total	\$ 86,332,093	\$ 88,296,683

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

	December 31, 2018	December 31, 2017
Canada	\$ 9,197,143	\$ 7,909,095
United States	13,331,230	12,078,035
Total	\$ 22,528,373	\$ 19,987,130

**Notes to the consolidated financial statements  
for the years ended December 31, 2018 and 2017**

**6. Additional information on the consolidated statements of comprehensive income**

The Company's consolidated statements of comprehensive income include depreciation of production equipment of \$1,920,732 for the year ended December 31, 2018 (\$1,773,921 in 2017) classified in Cost of sales. Depreciation of other property, plant and equipment and amortisation of intangible assets amounting to \$280,305 for the year ended December 31, 2018 (\$317,492 in 2017) is included in Administrative expenses.

The Company's consolidated statements of comprehensive income include salaries paid to its employees of \$9,865,338 for the year ended December 31, 2018 (\$9,414,435 in 2017) classified in Cost of sales. Administrative expenses include salaries paid to employees of \$1,841,908 for the year ended December 31, 2018 (\$1,746,402 in 2017) and Selling expenses include salaries paid to employees of \$405,393 for the year ended December 31, 2018 (\$470,505 in 2017).

**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 \$2,538,987 during the year ended December 31, 2018 (\$2,576,398 in 2017). 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, 2018, the Company contributed \$27,477 to this plan (\$31,582 in 2017).

**8. Finance costs**

	Year ended	
	December 31, 2018	December 31, 2017
Interest on bank indebtedness and long-term debt	\$ 590,866	\$ 540,488
Interest on finance lease obligations	27,821	31,939
Capitalized interest	(47,200)	-
	<b>\$ 571,487</b>	<b>\$ 572,427</b>

**9. Income taxes**

**9.1 Income tax recognised in net income**

	Year ended	
	December 31, 2018	December 31, 2017
Income tax expense comprises:		
Current tax expense	\$ 1,419,309	\$ 1,267,169
Deferred tax expense relating to the origination and reversal of temporary differences	57,543	119,293
Total income tax expense	<b>\$ 1,476,852</b>	<b>\$ 1,386,462</b>



**Notes to the consolidated financial statements  
for the years ended December 31, 2018 and 2017**

**9. Income taxes (continued)**

**9.2 Reconciliation between the income tax expense and the statutory income tax rate (continued)**

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

	Year ended	
	December 31, 2018	December 31, 2017
Income before income taxes	\$ 5,026,785	\$ 5,148,802
Income tax expense calculated at 26.7% (26.8% in 2017)	1,342,152	1,379,879
Permanent differences	(102,820)	80,127
Effect of unrecognised benefit of Imaflex USA's losses	-	-
Effect of different tax rates of subsidiaries operating in other jurisdictions	14,978	(9,447)
Other	222,542	(64,097)
Income tax expense recognised in net income	\$ 1,476,852	\$ 1,386,462

The tax rate used for the 2018 reconciliation above is the corporate tax rate of 26.7% (26.8% in 2017) payable by corporate entities in Quebec, Canada on taxable income under tax law in those jurisdictions.

**9.3 Deferred tax balances**

	Opening balance	Recognised in income	Closing balance
<b>2018</b>			
<b>Assets</b>			
Non-capital losses	\$ 1,217,286	\$ 29,262	\$ 1,246,548
Inventory	111,379	805	112,184
Advance	51,303	(51,303)	-
Other assets	132,900	(54,955)	77,945
	1,512,868	(76,191)	1,436,677
<b>Liabilities</b>			
Finance leases	(71,785)	14,472	(57,313)
Property, plant and equipment	(2,845,355)	13,208	(2,832,147)
Advance	-	(15,546)	(15,546)
Investment tax credits	(6,514)	6,514	-
	(2,923,654)	18,648	(2,905,006)
Deferred tax liabilities	\$(1,410,786)	\$ (57,543)	\$(1,468,329)

**Notes to the consolidated financial statements  
for the years ended December 31, 2018 and 2017**

**9. Income taxes (continued)**

**9.3 Deferred tax balances (continued)**

	Opening balance	Recognised in income	Closing balance
<b>2017</b>			
<b>Assets</b>			
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
<b>Liabilities</b>			
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)

**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 \$26,042,515 in 2018 and \$23,366,963 in 2017, for part of which a deferred tax asset has not been recognised (\$4,743,231 in 2018 and \$4,157,115 in 2017), that expire as follows:

Expiring in	December 31, 2018	December 31, 2017
2026	1,393,466	803,890
2027	1,362,613	932,408
2028	2,942,294	2,172,071
2029	3,187,272	2,548,797
2030	4,677,317	4,233,862
2031	1,996,610	2,096,673
2032	2,802,966	2,904,447
2033	2,806,851	2,894,894
2034	2,560,552	2,558,608
2035	1,473,699	1,404,350
2036	838,875	816,963
	<b>\$26,042,515</b>	<b>\$23,366,963</b>

**Notes to the consolidated financial statements  
for the years ended December 31, 2018 and 2017**

**10. Earnings per share**

	Year ended	
	December 31, 2018	December 31, 2017
Net income for basic and diluted earnings per share	\$ 3,549,932	\$ 3,762,340
Weighted average number of common shares outstanding	49,915,829	49,740,007
Dilutive effect of share purchase options	1,151,471	1,283,349
Diluted weighted average common shares outstanding	51,067,300	51,023,356
Basic earnings per common share	\$ 0.071	\$ 0.076
Diluted earnings per common share	\$ 0.070	\$ 0.074

200,000 stock options outstanding as at December 31, 2018 were not included in the calculation of earnings per share because they were antidilutive (200,000 in 2017).

**11. Trade and other receivables**

	December 31, 2018	December 31, 2017
Trade receivables	\$ 15,874,079	\$ 13,164,807
Allowance for expected credit losses	(584,410)	(1,125,559)
	15,289,669	12,039,248
Other receivables	632,375	344,753
Total trade and other receivables	\$ 15,922,044	\$ 12,384,001

Movement in the allowance for expected credit losses

	Year ended	
	December 31, 2018	December 31, 2017
Balance, beginning of year	\$ (1,125,559)	\$ (757,497)
Expected credit losses losses recognised on trade receivables	(21,827)	(445,468)
Release of allowance for expected credit losses	47,284	50,000
Account write-offs during the year	561,189	-
Foreign exchange	(45,497)	27,406
Balance, end of year	\$ (584,410)	\$ (1,125,559)

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.

**Notes to the consolidated financial statements  
for the years ended December 31, 2018 and 2017**

**11. Trade and other receivables (continued)**

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, 2018, \$8,280,051 (\$5,967,129 as at December 31, 2017) of the total trade receivables are insured. The Company's management considers that all receivables that are not impaired for each reporting date are of good credit quality.

Expected credit losses

The Company's allowance for expected credit losses reflects expected credit losses using a provision matrix model, supplemented by an allowance for individually impaired trade receivables. The provision matrix is based on the Company's historic credit loss experience, adjusted for any change in risk of the trade receivable population based on credit monitoring indicators, and expectations of general economic conditions that might affect the collection of trade receivables. The provision matrix applies fixed provision rates depending on the number of days that a trade receivable is past due, with higher rates applied the longer a balance is past due. Trade receivables outstanding longer than the agreed upon payment terms are considered past due. The Company determines its allowance for individually impaired trade receivables by considering a number of factors, including notices of liquidation, information provided by credit monitoring services, the length of time trade receivables are past due, the customer's current ability to pay its obligation to the Company, the customer's history of paying balances when they are past due, historical results and the condition of the general economy and the industry as a whole. After considering the factors above, at December 31, 2018, the Company has determined there is no significant increase or decrease in its trade receivable credit risk since its initial recognition. The Company writes off trade receivables when they are determined to be uncollectible and any payments subsequently received on such trade receivables are credited to the allowance for expected credit loss.

**12. Inventories**

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Raw materials and supplies	<b>\$ 8,913,092</b>	\$ 6,851,440
Finished goods	<b>5,298,178</b>	4,212,889
Work in process	<b>445,213</b>	1,012,135
<b>Total</b>	<b>\$ 14,656,483</b>	\$ 12,076,464

The cost of inventories recognised as an expense during the year was \$69,525,363 (\$68,458,873 in 2017). There were no write-downs of inventory recognised in the fiscal year ended on December 31, 2018 or 2017.

**Notes to the consolidated financial statements  
for the years ended December 31, 2018 and 2017**

**13. Property, plant and equipment**

	Land	Building	Production equipment	Leasehold improvements	Office equipment	Computer equipment	Equipment under finance lease	Total
<b>Cost</b>								
January 1, 2017	\$ 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	<b>21,508</b>	<b>107,284</b>	<b>48,087,161</b>	<b>2,482,340</b>	<b>44,615</b>	<b>514,335</b>	<b>1,328,519</b>	<b>52,585,762</b>
Additions	-	-	2,492,775	247,698	-	6,435	945,975	3,692,883
Foreign exchange	1,881	9,381	1,743,346	97,275	1,531	3,089	76,387	1,932,890
December 31, 2018	<b>\$ 23,389</b>	<b>\$ 116,665</b>	<b>\$ 52,323,282</b>	<b>\$ 2,827,313</b>	<b>\$ 46,146</b>	<b>\$ 523,859</b>	<b>\$ 2,350,881</b>	<b>\$ 58,211,535</b>
<b>Accumulated depreciation</b>								
January 1, 2017	-	(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	-	<b>(8,471)</b>	<b>(30,991,431)</b>	<b>(2,106,298)</b>	<b>(44,615)</b>	<b>(492,333)</b>	<b>(351,041)</b>	<b>(33,994,189)</b>
Depreciation expense	-	<b>(5,840)</b>	<b>(1,826,649)</b>	<b>(160,146)</b>	-	<b>(23,347)</b>	<b>(86,988)</b>	<b>(2,102,970)</b>
Foreign exchange	-	<b>(1,040)</b>	<b>(831,286)</b>	<b>(71,676)</b>	<b>(1,531)</b>	<b>(3,162)</b>	<b>(22,346)</b>	<b>(931,041)</b>
December 31, 2018	-	<b>\$ (15,351)</b>	<b>\$ (33,649,366)</b>	<b>\$ (2,338,120)</b>	<b>\$ (46,146)</b>	<b>\$ (518,842)</b>	<b>\$ (460,375)</b>	<b>\$ (37,028,200)</b>
<b>Net book value, as at</b>								
December 31, 2017	\$ 21,508	\$ 98,813	\$ 17,095,730	\$ 376,042	\$ -	\$ 22,002	\$ 977,478	\$ 18,591,573
December 31, 2018	<b>\$ 23,389</b>	<b>\$ 101,314</b>	<b>\$ 18,673,916</b>	<b>\$ 489,193</b>	<b>\$ -</b>	<b>\$ 5,017</b>	<b>\$ 1,890,506</b>	<b>\$ 21,183,335</b>

A portion of the Company's production equipment with a carrying amount of approximately \$ 18,400,000 (approximately \$17,700,000 as at December 31, 2017) is pledged as collateral for the Company's long-term debt.

**14. Intangible assets**

	Goodwill	Customer relationships	Patents	Total
January 1, 2017	\$ 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	<b>471,009</b>	<b>101,926</b>	<b>822,622</b>	<b>1,395,557</b>
Amortisation	-	<b>(48,603)</b>	<b>(49,464)</b>	<b>(98,067)</b>
Foreign exchange	<b>41,189</b>	<b>6,359</b>	-	<b>47,548</b>
December 31, 2018	<b>\$ 512,198</b>	<b>\$ 59,682</b>	<b>\$ 773,158</b>	<b>\$ 1,345,038</b>

**Notes to the consolidated financial statements  
for the years ended December 31, 2018 and 2017**

**15. Trade and other payables**

	December 31, 2018	December 31, 2017
Trade payables	\$ 6,950,121	\$ 5,604,791
Other payables and accrued liabilities	2,240,188	2,097,391
	<b>\$ 9,190,309</b>	<b>\$ 7,702,182</b>

**16. Borrowings**

	December 31, 2018	December 31, 2017
Bank indebtedness (a)	\$ 8,113,718	\$ 5,827,182
Short-term borrowings (b)	804,419	-
Total bank indebtedness and short term borrowings	<b>\$ 8,918,137</b>	<b>\$ 5,827,182</b>
Long-term debt		
Loan, bearing interest at the lender's base rate minus 0.5% (effective rate of 5.55% as at December 31, 2018, 4.80% as at December 31, 2017), secured by production equipment having a net book value of approximately \$7,000,000. (c)	1,905,850	2,433,000
Loan, bearing interest at the lender's base rate plus 0.67%, (effective rate of 6.72% as at December 31, 2018, 5.97% as at December 31, 2017) secured by the same production equipment as the loan above. (d)	250,000	250,000
Loan (US\$730,334, US\$1,325,123 as at December 31, 2017), bearing interest at the US prime rate, reset monthly, plus 3.00% (effective rate of 8.50% as at December 31, 2018, 7.50% in 2017) 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. (e)	1,007,244	1,662,367
Loan, bearing interest at the lender's base rate minus 1.0%, (effective rate of 5.05% as at December 31, 2018) secured by production equipment having a net book value of approximately \$700,000. (f)	408,170	-
Total long-term debt	<b>3,571,264</b>	<b>4,345,367</b>
Finance leases (Note 17)	<b>1,568,423</b>	<b>475,062</b>
<b>Total borrowings</b>	<b>14,057,824</b>	<b>10,647,611</b>
Current		
Bank indebtedness	\$ 8,113,718	\$ 5,827,182
Short-term borrowings	804,419	-
Long-term debt, current portion	1,432,505	1,250,481
Finance lease obligations, current portion	89,517	194,684
	<b>10,440,159</b>	<b>7,272,347</b>

**Notes to the consolidated financial statements  
for the years ended December 31, 2018 and 2017**

**16. Borrowings (continued)**

	December 31, 2018	December 31, 2017
Non-current		
Long-term debt	2,138,759	3,094,886
Finance lease obligations	1,478,906	280,378
	<b>3,617,665</b>	<b>3,375,264</b>
<b>Total borrowings</b>	<b>\$ 14,057,824</b>	<b>\$ 10,647,611</b>

The interest expense on long-term debt amounted to \$260,440 for the year ended December 31, 2018 (\$279,452 in 2017).

- (a) The Company has an operating line of credit with its bankers for a maximum of \$12,000,000, bearing interest at prime plus 0.40% as at December 31, 2018 (0.75% as at December 31, 2017) for an effective interest rate of 4.35% at December 31, 2018 (3.95% as at December 31, 2017). 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, 2018 and 2017 and during the years ended December 31, 2018 and 2017. As at December 31, 2018, the Company had drawn \$8,113,718 (\$5,827,182 as at December 31, 2017) on the line of credit.
- (b) The Company borrowed by way of a three-month bankers' acceptance at an annualized rate of 2.32% to make a down payment on a piece of equipment. This down payment is guaranteed by a letter of credit issued by the supplier's financial institution. Once the equipment is received, it is expected that the bankers' acceptance will be transferred to the lease amount.
- (c) The loan is repayable in monthly instalments of \$40,550 until November 2022 and bears interest at the lender's base rate less 0.50% (effective rate of 5.55% as of December 31, 2018 and 4.80% as at December 31, 2017).
- (d) The loan is repayable in one instalment of \$3,630 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 6.72% as December 31, 2018 (5.97% as at December 2017). This loan is secured by the same production equipment as the loan detailed in (c).
- (e) 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 8.50% as at December 31, 2018 (7.50% as at December 31, 2017). This loan was recorded at the effective interest rate method, net of all incremental transaction costs directly attributable to the transaction. This loan is subject to certain covenants. As at December 31, 2018 and 2017 and during the years ended December 31, 2018 and 2017, the Company was in compliance with all covenants related to this loan.
- (f) The Company borrowed \$500,000 to finance the purchase of equipment purchased in 2017. The loan bears interest at the lender's base rate minus 1.0% (for an effective rate of 5.05% as at December 31, 2018) and is repayable in one instalment of \$8,530 followed by 59 monthly instalments of \$8,330 and matures in January 2023.

During the year ended December 31, 2018, the Company received an amount of \$1,261,200 to finance the purchase of production equipment. This amount was reimbursed in full with no penalty during the course of the year.

**Notes to the consolidated financial statements  
for the years ended December 31, 2018 and 2017**

**16. Borrowings (continued)**

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

Not later than one year	<b>\$ 1,432,505</b>
Later than one year and not later than five years	<b>2,083,239</b>
Later than 5 years	<b>55,520</b>
	<b>\$ 3,571,264</b>

The changes in the Company's liabilities arising from borrowings can be classified as follows:

	Short-term borrowings	Long-term borrowings	Finance Leases	Total
Balance as of January 1, 2017	\$ 5,052,270	\$ 5,483,801	\$ 392,714	\$ 10,928,785
Cash flows:				
Proceeds	5,700,000	250,000	-	5,950,000
Repayments	(4,895,242)	(1,204,574)	(212,288)	(6,312,104)
Non-cash:				
New finance leases	-	-	309,989	309,989
Amortization of debt issuance costs		(4,875)	-	(4,875)
Foreign exchange and other	(29,846)	(178,985)	(15,353)	(224,184)
Balance as of December 31, 2017	5,827,182	4,345,367	475,062	10,647,611
Cash flows:				
Proceeds	6,572,519	1,761,200	1,288,400	9,622,119
Repayments	(3,500,000)	(2,629,503)	(200,813)	(6,330,316)
Non-cash:				
New finance leases	-	-	-	-
Amortization of debt issuance costs		(4,875)	-	(4,875)
Foreign exchange and other	18,436	99,075	5,774	123,285
Balance as of December 31, 2018	\$ 8,918,137	\$ 3,571,264	\$ 1,568,423	\$ 14,057,824

**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	<b>\$ 103,933</b>
Later than one year and not later than five years	<b>1,495,163</b>
Later than five years	-
Total minimum lease payments	<b>1,599,096</b>
Less amount representing interest at approximately 6.1%	<b>(30,673)</b>
Present value of minimum lease payments	<b>1,568,423</b>
Less the long-term portion	<b>(1,478,906)</b>
Current portion of obligations under finance leases	<b>\$ 89,517</b>



## **Notes to the consolidated financial statements for the years ended December 31, 2018 and 2017**

### **17. Obligations under finance leases (continued)**

During the year ended December 31, 2018, the Company received \$1,288,400 under a finance lease agreement for interim payments made to a supplier for a piece of machinery. Interim payments under the lease agreement bear interest at a variable rate of prime plus 0.25% (effective rate of 4.20% as at December 31, 2018). The lease reimbursement schedule will be determined once the equipment is received and no reimbursements have been agreed upon as at December 31, 2018. The lease inception date will be the date when the Company will be able to use the equipment leased.

During the year ended December 31, 2017 the Company financed the acquisition of production equipment for an amount of \$309,989 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, 2018, there were 50,013,637 common shares outstanding (49,863,637 common shares at December 31, 2017).

During the year ended December 31, 2018, the Company issued 150,000 shares for cash consideration totaling \$60,000 following the exercise of options that were issued in 2016. As at December 31, 2018, there were no warrants outstanding.

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.

### **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, 2018, the Company granted 250,000 options to directors of the Company to acquire an equal amount of shares at \$0.76 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.

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 and 150,000 options to an employee to purchase shares at a price of \$1.11. These options vest in 4 tranches over 18 months, the first vesting at issuance and the other tranches vest at 6-month intervals.

The expense relating to the issue of option grants totalled \$122,832 for the year ended December 31, 2018 and \$195,707 for the year ended December 31, 2017.

**Notes to the consolidated financial statements  
for the years ended December 31, 2018 and 2017**

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

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

Fair value assumptions	29/11/2018	29/11/2017	22/06/2017	06/09/2016	21/06/2016	16/06/2015	Total
Outstanding as at 01/01/2017	-	-	-	500,000	1,300,000	650,000	2,450,000
Issued	-	150,000	50,000	-	-	-	200,000
Exercised	-	-	-	-	(125,000) <sup>(1)</sup>	-	(125,000)
Outstanding as at 31/12/2017	-	150,000	50,000	500,000	1,175,000	650,000	2,525,000
Exercised	-	-	-	-	(150,000) <sup>(2)</sup>	-	(150,000)
Issued	250,000	-	-	-	-	-	250,000
Outstanding as at 31/12/2018	250,000	150,000	50,000	500,000	1,025,000	650,000	2,625,000
Exercisable as at 31/12/2017	-	37,500	25,000	375,000	850,000	650,000	1,937,500
Exercisable as at 31/12/2018	62,500	112,500	50,000	500,000	1,025,000	650,000	2,400,000
Remaining life of options (yrs)	4.92	3.92	3.48	2.69	2.48	1.46	
Expected life of options (yrs)	2.5 to 3.25	2.5 to 3.25	2.5 to 3.25	2.5 to 3.25	2.75 to 3.5	2.75 to 3.5	
Expiry	29/11/2023	29/11/2022	22/06/2022	06/09/2021	21/06/2021	15/06/2020	
	67.14% -	79.13% -	80.01% -	76.59% -	75.95% -	83.19% -	
Expected share price volatility	70.41%	80.17%	83.03%	79.60%	82.15%	98.85%	
Dividend yield	0%	0%	0%	0%	0%	0%	

**Fair value assumptions**

Risk free rate	2.23%	1.62%	1.15%	0.51%	0.50%	0.55% to 0.65%
Exercise price	\$ 0.76	\$ 1.11	\$ 1.03	\$ 0.42	\$ 0.40	\$ 0.52
Share price on grant date	\$ 0.76	\$ 1.11	\$ 1.03	\$ 0.42	\$ 0.40	\$ 0.52
Fair value of option at grant	\$ 0.35	\$ 0.57	\$ 0.53	\$ 0.21	\$ 0.21	\$ 0.30

<sup>(1)</sup> The fair value of the common shares at the exercise date was \$1.00 per share.

<sup>(2)</sup> The fair value of the common shares at the exercise date was \$0.88 per share.

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.

**Notes to the consolidated financial statements  
for the years ended December 31, 2018 and 2017**

**21. Financial instruments**

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

	Carrying amount and fair value	
	December 31, 2018	December 31, 2017
<b>Financial assets</b>		
<b>Amortised cost</b>		
Cash	\$ 310,874	\$ 87,140
Trade and other receivables <sup>(1)</sup>	15,293,902	12,045,694
	<b>15,604,776</b>	12,132,834
<b>Financial liabilities</b>		
<b>Financial liabilities, at amortised cost</b>		
Bank indebtedness	8,113,718	5,827,182
Short-term borrowings	804,419	-
Trade and other payables <sup>(2)</sup>	8,029,262	6,693,995
Long-term debt	3,571,264	4,345,367
	<b>20,518,663</b>	16,866,544

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

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

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

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

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

**21.2 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;

**Notes to the consolidated financial statements  
for the years ended December 31, 2018 and 2017**

**21. Financial instruments (continued)**

**21.2 Fair value hierarchy (continued)**

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, 2018 and 2017, the fair values of long-term debt are categorised as Level 2.

**22. Operating lease arrangements**

**22.1 Leasing arrangements**

The Company leases its premises for manufacturing 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 May 2024, and include renewal provisions.

**22.2 Payments recognised as an expense**

	Year ended	
	December 31, 2018	December 31, 2017
Lease payments for premises	\$ 975,471	\$ 867,766
Vehicles	43,973	35,311
Office equipment	22,054	16,679

**22.3 Non-cancellable operating lease commitments**

	Year ended	
	December 31, 2018	December 31, 2017
Not later than 1 year	\$ 1,194,608	\$ 908,312
Later than 1 year and not later than 5 years	3,293,847	2,870,414
Later than 5 years	180,814	1,295,841
	\$ 4,669,269	\$ 5,074,567

**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.

## Notes to the consolidated financial statements for the years ended December 31, 2018 and 2017

### 23. Risk management (continued)

#### 23.1 Capital management (continued)

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, 2018:

- 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 \$3,100,000 for the fiscal year ended December 31, 2018.

#### 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, 2018	December 31, 2017
Cash	\$ 6,481	\$ 1,195
Trade receivables	4,408,143	3,527,502
Trade payables	(3,233,428)	(2,439,700)
Bank indebtedness	(946,707)	(312,580)
Net financial position exposure	\$ 234,489	\$ 776,417

A \$0.05 appreciation of the Canadian dollar against the USD would increase its financial position by \$48,568 as at December 31, 2018 (a decrease of \$22,700 as at December 31, 2017). Conversely a \$0.05 depreciation of the Canadian dollar against the USD would have the opposite effect. Management estimates that every \$0.01 appreciation of the USD against the Canadian dollar would have a negative impact on the Company's result of approximately \$2,527. 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.

**Notes to the consolidated financial statements  
for the years ended December 31, 2018 and 2017**

**23. Risk management (continued)**

**23.3 Interest rate risk management (continued)**

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

	December 31, 2018	December 31, 2017
Variable rate instruments		
Financial liabilities	\$ 12,973,383	\$ 10,172,549
Gross financial position exposure	\$ 12,973,383	\$ 10,172,549

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, 2018 of approximately \$117,000 (\$ 115,000 for 2017). 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 \$8,113,718 was utilized as at December 31, 2018. Borrowings under the Company's operating line of credit bear interest at the bank's prime rate plus 0.40%. 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.

As at December 31, 2018, 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	\$ 8,113,718	\$ 8,113,718	\$ 8,113,718	\$ -	\$ -
Short-term borrowings	804,419	804,419	804,419	-	-
Long-term debt (1)	3,571,264	3,932,764	1,601,584	2,273,026	58,154
Finance leases (2)	1,568,423	310,696	103,933	206,763	-
Trade and other payables (3)	8,029,262	8,029,262	8,029,262	-	-
	\$22,087,086	\$21,190,859	\$18,652,916	\$ 2,479,789	\$ 58,154

(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. The finance lease for which the reimbursement schedule has yet to be agreed to (Note 17) has not been included in the contractual cash flow.

(3) Excludes employee benefits

**Notes to the consolidated financial statements  
for the years ended December 31, 2018 and 2017**

**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, 2018	December 31, 2017	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
<b>Entities owned by key management personnel or their family members</b>						
Rent	\$ 975,471	\$ 867,766	\$ -	\$ -	\$ 6,605,537	\$ 4,990,249
Key management personnel services	146,628	149,691	12,689	12,689	-	-
<b>Entities over which key management personnel have significant influence</b>						
Professional services	69,351	134,298	69,351	134,298	-	-
	<b>\$ 1,191,450</b>	<b>\$ 1,151,755</b>	<b>\$ 82,040</b>	<b>\$ 146,987</b>	<b>\$ 6,605,537</b>	<b>\$ 4,990,249</b>

***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 chief financial officer and members of the board of directors.

	Year ended	
	December 31, 2018	December 31, 2017
Salaries	\$ 915,840	\$ 859,122
Director's fees	41,000	40,250
Short-term employee benefits	13,101	13,405
Post-employment benefits – State-run plans	14,788	14,990
Share-based compensation	112,193	139,589
Other benefits	44,972	45,441
	<b>\$ 1,141,894</b>	<b>\$ 1,112,797</b>