QUARTERLY REPORT 3

September 30, 2016

IMAFLEX

Committed to Excellence

As required by regulators, the purpose of this MD&A is to explain management’s point of view on Imaflex Inc.’s (the “Parent Company”) past performance and future outlook. This report also provides information to improve the reader’s understanding of the consolidated financial statements and related notes. Please refer to the unaudited interim condensed consolidated financial statements for the periods ending September 30, 2016 and 2015 as well as the audited consolidated financial statements for the years ended December 31, 2015 and 2014 when reading this MD&A. Unless otherwise indicated, all financial data in this document is prepared in accordance with International Financial Reporting Standards (“IFRS” hereafter) and all amounts are expressed in Canadian dollars. Differences may occur due to the rounding of amounts for the presentation in thousands of dollars. In this MD&A we also use financial measures that are not defined by IFRS. Please refer to the section entitled “Non-IFRS Financial Measures” for a complete description of these measures. The consolidated financial statements include the accounts of the Company, those of its wholly-owned subsidiary, Imaflex USA, Inc. (“Imaflex USA”) and its divisions, Canguard Packaging (“Canguard”) and Canslit (“Canslit”). To facilitate the reading of this report, the terms “Imaflex”, “Company”, “we”, “our”, “us” all refer to Imaflex Inc. together with its subsidiary. This MD&A is prepared in conformity with National Instrument 51-102 and Form 51-102F1 and has been approved by the board of directors prior to its release.

FORWARD LOOKING STATEMENTS

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

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

We caution our readers that the foregoing list of important factors that may affect future results is not exhaustive. When relying on our forward-looking statements to make decisions with respect to the Company, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. Unless otherwise required by the securities authorities, we do not undertake to update any forward-looking statement that may be made from time to time by us or on our behalf. The forward-looking statements contained herein are based on information available as of November 24, 2016.

COMPANY OVERVIEW

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

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

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

NON-IFRS FINANCIAL MEASURES

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

Reconciliation of EBITDA to net (loss) income:

($ thousands, except per share data)	**Three months ended**		**Nine months ended**	
	September 30, 2016	September 30, 2015	**September 30, 2016**	September 30, 2015
Net (loss) income	**$ (104)**	$ 444	**$ 247**	$ 496
Plus:				
Income taxes	**120**	47	**376**	418
Finance costs	**132**	142	**413**	454
Depreciation and amortization	**484**	440	**1,440**	1,279
EBITDA	**$ 632**	$ 1,073	**$ 2,476**	$ 2,647
Basic and diluted EBITDA per share *	**$ 0.013**	$ 0.022	**$ 0.050**	$ 0.053

*Basic weighted average number of shares outstanding of 49,738,637 for the three-month period ended September 30, 2016 (49,638,637 in 2015) and 49,683,892 for the nine-month period ended September 30, 2016 (49,476,680 in 2015). Diluted weighted average number of shares outstanding of 49,738,637 for the three-month period ended September 30, 2016 (49,710,112 in 2015) and 49,718,917 for the nine-month period ended September 30, 2016 (49,558,346 in 2015).

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

BUSINESS OVERVIEW

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

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

MARKET OPPORTUNITY

The North American flexible packaging market is valued at approximately US$28 billion. Although this market is highly fragmented and commoditized in terms of pricing, there are niches within this larger market that offer the opportunity of increased profitability. The Company also targets the North American mulch film market for which the Company has and continues to offer innovative and proprietary solutions.

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

The first is continued investment in research and development efforts allowing our research teams to develop new products for highly profitable niche markets. While building on its core flexible packaging product portfolio, the Company aims to introduce new proprietary technologies to the agricultural market in order to offer solutions that are more cost effective and environmentally-conscious than the traditional methods currently used. The Company's research teams use the fields in which they have core-competencies in order to identify innovative improvements and solutions to products and methods where chemicals and polymers can offer added-value.

The second is the efficiency of our equipment, our commitment to sustain this efficiency with the required capital investments and our ability to deliver quick customized solutions, on-time and at competitive prices. This will allow us to remain cost competitive in the marketplace.

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

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

ADVASEAL® COMMERCIALIZATION

Work to establish the customized coating equipment (the "coater") needed for the production of ADVASEAL® continues to advance. During the third quarter, results of another lab trial were positive, indicating that management remains on the right track. An additional lab trial is planned for the coming months. Once completed and prior to placing an equipment order, the Corporation also intends to conduct a field trial to ensure ADVASEAL® performs to specifications with the proposed equipment.

ADVASEAL® COMMERCIALIZATION (continued)

ADVASEAL® is a next generation crop protection product, and represents a significant growth platform for Imaflex. Most of the plastic mulch used annually worldwide is applied in conjunction with the spraying of herbicides and pesticides or the application of fumigants. ADVASEAL® simplifies this process in a safe, environmentally friendly and cost effective way by allowing for the controlled release of crop protection products using a patent protected mulch film that has been coated with the active ingredients.

ADVASEAL® is more efficient at delivering expensive chemicals, eliminating the need for spraying, and is safe to handle, environmentally friendly and cost effective. Management estimates that ADVASEAL® will save growers between $200 and $800 per acre, depending on the crop grown, which puts the Company in a good position to gain market share. In the US alone, there are approximately 130 million pounds of mulch film being used, resulting in an estimated total addressable market of approximately US $750 million.

OUTSOURCING

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

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

BUSINESS STRATEGY

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

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

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

GROWING CUSTOMER BASE

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

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

RISK FACTORS

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

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

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

GENERAL SITUATION OF THE POLYETHYLENE BLOWN FILM MARKET

After decreasing polyethylene prices from the third quarter of 2015 and throughout the beginning of 2016, prices increased at the end of the third quarter of 2016 and additional increases may also materialize due to the tighter market, although overall the high stock levels and weakened demand from export markets point to stability in the market and not continued increases in prices through the end of the year.

LOSS OF BUSINESS FROM A SIGNIFICANT CUSTOMER

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

COMPETITION FROM OTHER COMPANIES

Competition in our market is at the moment quite intense. Nevertheless, we are dealing in a US$28 billion market and we believe that we have a competitive edge over our competition because we have highly skilled teams that are quick to respond to customer needs, we have a diversified manufacturing base and the bulk of our customers deal in food related products. It may not always translate into a greater net profit, but it certainly does translate into customer loyalty should we decide to match our competitors’ prices.

SEASONALITY OF OPERATIONS

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

EXPOSURE TO PRODUCT LIABILITY

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

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

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

FLUCTUATIONS IN OPERATING RESULTS

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

EXPOSURE TO INTEREST RATE FLUCTUATIONS

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

ABILITY TO ATTRACT AND RETAIN QUALIFIED PERSONNEL

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

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

MANAGEMENT OF GROWTH

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

FOREIGN EXCHANGE FLUCTUATIONS

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

ENVIRONMENTAL HAZARDS

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

RESULTS OF OPERATIONS

Sales in the third quarter of 2016 decreased compared to the same period in 2015 due to strong competition in the markets the Company competes in, but the gross margin increased nonetheless and operations continued to be efficient. Although foreign exchange was not a factor in the third quarter of 2016, a more volatile environment in the third quarter of 2015 caused important variations quarter over quarter having a negative impact on net income.

($ thousands)	**Three months ended**		**Nine months ended**	
	September 30, 2016	September 30, 2015	**September 30, 2016**	September 30, 2015
Sales	**$16,997**	$17,441	**$54,570**	$52,067

Sales decreased by $ 444,385, or 2.5%, in the third quarter of 2016 compared to the same period in 2015. The Company continued to face increased competition in certain markets and generated lower than expected sales volumes from its US operations. Management is proactively responding and adjusting to the market pressure in order to maintain and eventually grow its sales volumes and is taking appropriate measures for all of its products with the objective of delivering top line growth in coming quarters and improving volumes for its core business. Resin price decreases in between quarters also had a negative impact on the sales price, contributing to the sales decrease in the third quarter of 2016, and may also have an impact in coming quarters.

Over the nine-month period ended September 30, 2016, sales remained greater than they were during the same period in 2015, despite the strong competition encountered for certain products. The foreign exchange fluctuations at the beginning of the year had a positive impact on the increase in sales although management expects foreign exchange to be less of a factor in the coming months.

RESULTS OF OPERATIONS (continued)

($ thousands)	**Three months ended**		**Nine months ended**	
	September 30, 2016	September 30, 2015	**September 30, 2016**	September 30, 2015
Gross Profit ($) before amortization of production equipment	**$2,090**	$1,738	**$7,648**	$5,816
Gross margin (%)	**12.3%**	10.0%	**14.0%**	11.2%
Amortization of production equipment	**407**	363	**1,220**	1,080
Gross profit ($)	**$1,683**	$1,375	**$6,428**	$4,736
Gross margin (%)	**9.9%**	7.9%	**11.8%**	9.1%

The Company was able to continue improving its gross profit, before and after the amortization of production equipment, in the third quarter of 2016 compared to the third quarter of 2015, increasing from $ 1,738,913 in 2015 to $ 2,090,086 in 2016 before the amortization of production equipment and from $ 1,375,687 to $ 1,682,676 after the amortization of production equipment.

The Company continued to focus on efficient operations and was not negatively impacted by sharp fluctuations in foreign exchange rates or the cost of raw material. In the US operations, the impact of the decrease in sales on the gross margin was limited because the production was maintained as efficient as possible and because a portion of the decrease in sales is attributable to lower sales prices following the drop in resin prices rather than to a decrease in the sales volume. The amortization expense for production equipment increased, but the Company was nonetheless capable of increasing its gross profit after amortization of production equipment.

The gross margin over the nine-month period is the result of management's efforts to maximize profitability by maintaining efficient operations, improving the product mix and increasing sales. Gross margins after the amortization of production equipment improved over the nine-month period, increasing from 9.1% in 2015 to 11.8% in 2016. Management is aware that additional improvements need to be implemented and is working on sustaining the improvement in the Company's operations and profitability.

($ thousands)	**Three months ended**		**Nine months ended**	
	September 30, 2016	September 30, 2015	**September 30, 2016**	September 30, 2015
Selling and administrative	**$1,632**	$1,596	**$4,874**	$4,736
As a % of sales	**9.6%**	9.2%	**8.9%**	9.1%

The Company's cost structure remained comparable in the third quarter of 2016 compared to 2015, although selling and administrative expenses increased. Several administrative expenses increased slightly, namely share-based remuneration related to incentivizing key management personnel and strategic service providers. Other variances had a neutral impact on selling and administrative expenses. In relation to sales, selling and administrative expenses only increased from 9.2 % in the third quarter of 2015 to 9.6% in 2016.

Over the nine-month period, selling and administrative expenses increased slightly from $ 4,734,423 in 2015 to $ 4,875,650 in 2016. In addition to the share-based compensation, expenses reflecting changes in prevailing market conditions contributed to the increase, but management is focusing on keeping expenses under control. As a percentage of sales, the selling and administrative expenses decreased from 9.1% in 2015 to 8.9% in 2016.

RESULTS OF OPERATIONS (continued)

($ thousands)	**Three months ended**		**Nine months ended**	
	September 30, 2016	September 30, 2015	**September 30, 2016**	September 30, 2015
Finance costs	**$132**	$142	**$413**	$454

Finance costs remained comparable in the third quarters of 2016 and 2015, decreasing by only $ 9,574. The increased use of the line of credit was offset by the decrease in finance costs on long term debts and finance leases due to the lower balances outstanding on these loans.

Over the nine-month period, the decrease in finance costs was mainly explained by the other interest that occurred only in 2015. The increase in finance costs on short-term borrowings was offset by the decrease in finance costs on long term debt.

($ thousands)	**Three months ended**		**Nine months ended**	
	September 30, 2016	September 30, 2015	**September 30, 2016**	September 30, 2015
Foreign exchange (gains)/losses	**$ (121)**	$ (869)	**$ 453**	$ (1,420)

The Company faced low foreign exchange volatility during the third quarter of 2016 and the foreign exchange gain was therefore limited to $ 121,276 compared to the $ 869,045 gain in 2015, when the Canadian dollar sharply depreciated against the US dollar. The variance in the foreign exchange gain had a negative impact of $ 747,769 quarter over quarter.

Over the nine-month period, the appreciation of the Canadian dollar against the US dollar led to foreign exchange losses of $ 452,094 compared to gains of $ 1,420,232 for the same period in 2015. The variance in foreign exchange gains and losses had a negative impact of $ 1,872,326 on the results of the nine-month period in 2016 compared to the same period in 2015.

($ thousands)	**Three months ended**		**Nine months ended**	
	September 30, 2016	September 30, 2015	**September 30, 2016**	September 30, 2015
Income taxes	**$ 120**	$ 47	**$ 376**	$ 418
As a % of profit before taxes	**750%**	9.6%	**60.4%**	45.7%

The income tax expense amounted to $ 119,370 in the third quarter of 2016 compared to $ 47,001 for the same period in 2015. The income tax expense increased despite the decrease of the profit before tax because a large portion of the net income in the third quarter of 2015 was caused by unrealized foreign exchange gains on intercompany advances part of which do not have an immediate impact on taxable income. As a percentage of profit before taxes, the income tax expense is not representative of the applicable statutory rate.

Over the nine-month period, the income tax expense decreased due to the lower profit before tax. Although the decrease can also be largely explained by the important variance in foreign exchange movements, a portion of these important gains did have an impact on taxable income in 2015 and consequently on the income tax expense. As a percentage of profit before tax, the expense increased from 45.7% in 2015 to 60.4% in 2016.

RESULTS OF OPERATIONS (continued)

($ thousands, except per share data)	**Three months ended**		**Nine months ended**	
	September 30, 2016	September 30, 2015	**September 30, 2016**	September 30, 2015
Net (loss) income	**$ (104)**	$ 444	**$ 247**	$ 496
Basic and diluted earnings per share	**$ (0.002)**	$ 0.009	**$ 0.005**	$ 0.010

The Company improved its gross margin in the third quarter of 2016 compared to 2015, but the important decrease in the foreign exchange gain and, to a lesser extent, the increase in administrative expenses offset the operational improvements achieved and led to a decrease in net income and the earnings per share.

Over the nine-month period ended September 30, 2016, the net (loss) income and earnings per share also decreased mainly due to the large fluctuations in foreign exchange movements as well as the increase in administrative expenses. The gross profit and gross profit margin improved over the period but this did not translate into an improvement to net income compared to 2015.

Financial Position

September 30, 2016 vs. December 31, 2015

The Company’s short term assets and liabilities are comparable as at December 31, 2015 and September 30, 2016, with short term assets and liabilities decreasing by $ 158,283 and $ 102,656 respectively. The decrease of current assets were driven mainly by the decrease in inventories, which was partially offset by the increase in trade and other receivables and cash, which increased by $ 143,628, while prepaid expenses remained constant. The decrease in current liabilities is mainly the result of the decrease in bank indebtedness and the current tax liability, whereas trade and other payables increased due to the timing of raw material purchases. The current portions of long-term debt and finance lease obligations decreased slightly as well.

SUMMARY OF QUARTERLY RESULTS

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

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

	Q3/16	**Q2/16**	**Q1/16**	**Q4/15**	**Q3/15**	**Q2/15**	**Q1/15**	**Q4/14**
Revenues	16,997	18,195	19,378	17,084	17,441	18,716	15,910	15,857
Net income (loss)	(104)	523	(172)	317	444	345	(293)	231
Earnings (loss) per share:								
Basic and diluted	(0.002)	0.010	(0.003)	0.006	0.009	0.007	(0.006)	0.005

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

LIQUIDITY

The Company’s working capital decreased slightly from $ 4,905,236 as at December 31, 2015 to $ 4,849,609 as at September 30, 2016. Short term assets decreased by $ 158,283, mainly due to the decrease in inventories, whereas trade and other receivables and cash increased, partially offsetting the movement in inventories. Short term liabilities decreased mainly due to the decrease in bank indebtedness and, to a lesser extent, the decrease in current tax liabilities and the current portion of long term debt. The increase in accounts payable partially offset the decreases, resulting in a $ 102,656 net decrease in current liabilities.

Cash Flows from Operating Activities

Operating activities in the third quarter of 2016 continued to generate positive cash flow for the Company. Before movements in working capital, operating activities generated $ 561,998 mainly because the non-cash impacting expenses offset the net loss and the adjustment for the unrealized foreign exchange gain. Working capital variations generated important cash inflows in the third quarter of 2016, mainly due to the $ 2,442,403 increase in trade and other payables, and, to a lesser extent, the decrease in trade and other receivables and prepaid expenses, by $ 398,944 and $ 148,359 respectively. These inflows were partially offset by the $ 1,021,883 increase in inventories. Net of the $ 246,399 payment of income taxes, operating activities generated inflows of $ 2,283,420. During the third quarter of 2015, before movements in working capital, operating activities generated inflows of $ 469,764, slightly lower than in 2016, but the variations of working capital generated greater inflows than in 2016, driven by the $ 1,373,580 decrease in trade and other receivables and the $ 1,247,926 increase in trade and other payables. Overall, cash inflows generated by operating activities were greater than in 2016, amounting to $ 2,596,719.

Over the nine-month period, the Company generated greater cash flow from operating activities than over the same period in 2015. Before movements in working capital, cash inflows amounted to $ 3,282,427 compared to $ 1,401,038 and movements in working capital generated inflows of $ 917,831 in 2016 compared to $ 728,022 in 2015. Net of the $ 641,408 payment of taxes in 2016 compared to $ 434,154 in 2015, operating activities generated inflows of $ 3,558,850 in 2016 compared to $ 1,694,906 in 2015.

Cash Flows from Investing Activities

During the third quarter of 2016, the Company invested $ 384,086 in capital assets, mainly to improve existing extrusion lines and auxiliary equipment. During the third quarter of 2015, the Company invested $ 317,083 in capital assets for its existing equipment and software development.

Over the nine-month period, the Company invested $ 1,207,139 to improve its existing equipment in order to produce more efficiently and for leasehold improvements. During the nine-month period ended September 30, 2015, the Company invested $ 1,337,344 in order to refurbish existing equipment and for new equipment purchased to increase the efficiency of operations.

Cash Flows from Financing Activities

During the third quarter of 2016, the Company reimbursed $ 1,229,707 on its short-term bank indebtedness, $ 192,774 on its long term debt, $ 40,141 on its obligations under finance leases and $ 134,333 in interest. In 2015, the Company repaid $ 1,571,561 on its short-term bank indebtedness, $ 311,852 on its long term borrowings, $ 35,125 on its obligations under finance leases and paid $ 140,625 in interest.

During the nine-month period ended September 30, 2016, the Company reimbursed $ 842,939 on its short term bank indebtedness, $ 839,807 on its long term debts, $ 116,898 on its obligations under finance leases and paid $ 415,301 in interest. The Company also received $ 12,500 following the issuance of shares. Over the nine-month period ended September 30, 2015, the Company reimbursed $ 500,828 on its short term bank indebtedness, $ 730,178 on its long term debt, $ 102,042 on its obligations under finance leases, repaid $ 203,947 to a shareholder and paid $ 439,824 in interest on borrowings. In addition, the Company increased its long term borrowings by $ 587,023 and obtained $ 325,710 for the issuance of share capital.

CONTRACTUAL OBLIGATIONS

The contractual obligations as at September 30, 2016 were as follows:

($ thousands)	Payments due by period			
	Total	Less than 1 year	1 – 5 years	After 5 years
Long-term debt	$ 5,213	$ 1,619	$ 3,594	$ -
Finance leases	452	183	269	-
Operating leases	6,235	935	3,265	2,035
Bank Indebtedness	6,083	6,083	-	-
Total contractual obligations	**$ 17,983**	**$ 8,820**	**$ 7,128**	**$ 2,035**

These contractual obligations are sensitive to the fluctuation of interest rates. These obligations are based on interest rates and foreign exchange rates effective as at September 30, 2016.

CAPITAL RESOURCES

The Company has an operating line of credit with its bankers to a maximum of $ 10,000,000 bearing interest at a rate of prime plus 0.90%. The line of credit is secured by trade receivables and inventories. As at September 30, 2016, the Company was using $ 6,082,774 on its line of credit ($ 6,925,713 as at December 31, 2015). The Company's working capital remained fairly constant, standing at $ 4,905,236 as at December 31, 2015 and $ 4,849,609 on September 30, 2016. The Company has a solid financial position and is able to support its operations and future growth plans. The Company aims to keep a healthy capital structure and to efficiently balance the use of funds from short term borrowings, long term borrowings and equity. After the end of the quarter but before the issuance of this report, the Company refinanced a long term debt receiving an additional $961,510 in order to fund the purchase of capital assets and, through the transaction, was able to decrease the interest applicable on the loan from 0.375% over the lender's base rate to 0.5% under the lender's base rate. The Company has sufficient liquidity for its immediate needs.

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 September 30, 2016 and 2015. For additional information, please refer to note 24, *Related party transactions* of the "Notes to the consolidated financial statements" for the years ended December 31, 2015 and 2014.

($ thousands)		Three months ended		Nine months ended	
(unaudited)		**September 30, 2016**	September 30, 2015	**September 30, 2016**	September 30, 2015
Professional fees and key management personnel services	**(a)**	**$ 57**	$ 101	**$ 176**	$ 225
Rent	**(b)**	**$ 211**	$ 201	**$ 645**	$ 591
Remuneration	**(c)**	**$ 195**	$ 192	**$ 577**	$ 363

RELATED PARTY TRANSACTIONS (continued)

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

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

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

CRITICAL ACCOUNTING POLICIES

The Company’s significant accounting policies are disclosed in note 2, *Significant accounting policies* of the consolidated financial statements for the years ended December 31, 2015 and 2014. This note explains the Company’s accounting policies under IFRS which have not changed since the Company’s last annual financial statements and have been applied consistently to the interim condensed consolidated financial statements for the periods ended September 30, 2016 and 2015.

FINANCIAL INSTRUMENTS

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

As at September 30, 2016, the Company is not using any swap, forward or hedge accounting and there were no warrants outsanding.

As at September 30, 2016, 2,450,000 options to purchase shares of the Company were outstanding at a weighted average strike price of $0.436 of which 612,500 were exercisable. During the third quarter of 2016, the Company issued 500,000 options to purchase shares of the Company at an exercise price of $ 0.42. During the second quarter of 2016, the Company issued 100,000 shares following the exercise of options for a cash consideration of $ 12,500 and issued 1,300,000 options du purchase shares of the Company at $0.40 for a period of five years.

As at September 30, 2015, 750,000 options to purchase shares of the Company were outstanding at a weighted average strike price of $0.467 and 100,000 were exercisable. As at September 30, 2015, 2,270,573 warrants entitling the owner to purchase common shares at a price of $0.65 were outstanding. Over the nine-month period ended September 30, 2015, 200,000 options and 553,790 warrants entitling the holder to purchase shares of the Company expired and 1,381,695 warrants to purchase a common share for $0.45 were exercised for total proceeds of $ 621,763.

MANAGEMENT OUTLOOK

Management continues to advance the ADVASEAL® project, while also fine-tuning operations to generate greater sales and profitability. The fourth quarter 2016 order bookings are strong and management expects full-year 2016 revenues to surpass the $69 million of fiscal 2015. Going forward, management is targeting sustained long-term revenue growth and margin expansion by increasing sales volumes, improving product and customer mix, maintaining disciplined cost controls and investing strategically. The underlying technology platform behind ADVASEAL® also brings substantial upside potential. This focus on offering best-in-class, innovative solutions, with compelling value puts the Company in a solid position.

OUTSTANDING SHARE DATA

As at September 30, 2016, the Company had 49,738,637 common shares outstanding (49,638,637 as at December 31, 2015 and September 30, 2015).

RISK FACTORS

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

The US$28 billion market the Company competes in has historically shown resiliency and growth even at the worst economic times. The Company's customers operate predominantly in the food packaging and agricultural markets. This fact, coupled with the expanding product lines and reliance on newer and faster equipment should help it weather the potential volatility caused by uncertainty in the North American economic climate.

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

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

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

November 24, 2016

Interim Condensed Consolidated Financial Statements of

IMAFLEX INC.

For the three and nine-month periods ended September 30, 2016 and 2015

Consolidated statements of comprehensive (loss) income

for the (in thousands of Canadian dollars, except per share data) (unaudited)		three-month periods ended September 30, 2016	three-month periods ended September 30, 2015	nine-month periods ended September 30, 2016	nine-month periods ended September 30, 2015
Revenues	(Note 3.1)	$ 16,997	$ 17,441	$ 54,570	$ 52,067
Cost of sales		15,314	16,066	48,142	47,331
Gross profit		1,683	1,375	6,428	4,736
Expenses:					
Selling		376	431	1,172	1,283
Administrative		1,256	1,165	3,702	3,453
Finance costs	(Note 6)	132	142	413	454
Foreign exchange (gains) losses		(121)	(869)	453	(1,420)
Other		24	15	65	52
		1,667	884	5,805	3,822
Income before income taxes		16	491	623	914
Income taxes		120	47	376	418
NET (LOSS) INCOME		(104)	444	247	496
Other comprehensive income (loss)					
Item that will be reclassified subsequently to net income					
Exchange differences on translating foreign operations		57	284	(216)	633
COMPREHENSIVE (LOSS) INCOME		$ (47)	$ 728	$ 31	$ 1,129
Earnings per share					
Basic and diluted	(Note 7)	$ (0.002)	$ 0.009	$ 0.005	$ 0.010

The accompanying notes are an integral part of these interim condensed consolidated financial statements and note 4 presents additional information on consolidated comprehensive income.

Consolidated statements of financial position

As at (in thousands of Canadian dollars) (unaudited)		September 30, 2016	December 31, 2015
Assets			
Current assets			
Cash		$ 305	$ 161
Trade and other receivables		11,623	11,502
Inventories		10,395	10,822
Prepaid expenses		269	265
Total current assets		22,592	22,750
Non-current assets			
Property, plant and equipment		18,695	19,601
Intangible assets		1,492	1,484
Total non-current assets		20,187	21,085
Total assets		$ 42,779	$ 43,835
Liabilities and equity			
Current liabilities			
Bank indebtedness		6,083	6,926
Trade and other payables		9,770	8,865
Current tax liabilities		306	541
Long-term debt, current portion		1,432	1,358
Finance lease obligations, current portion		152	154
Total current liabilities		17,743	17,844
Non-current liabilities			
Long-term debt		3,215	4,300
Deferred tax liabilities		1,254	1,286
Finance lease obligations		273	334
Total non-current liabilities		4,742	5,920
Total liabilities		22,485	23,764
Equity			
Share capital	(Note 9)	11,765	11,753
Reserves		1,723	1,759
Retained earnings		6,806	6,559
Total equity		20,294	20,071
Total liabilities and equity		$ 42,779	$ 43,835

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

(s) Joseph Abbandonato
Joseph Abbandonato
Director

(s) Gilles Émond
Gilles Émond
Director

Consolidated statements of changes in equity
For the three-month periods ended September 30, 2016 and 2015
(in thousands of Canadian dollars) (unaudited)

		Reserves					
	Share capital (a)	Share-based compensation	Accumulated foreign currency translation	Warrants	Total reserves	Retained earnings	Total
Balance at July 1, 2015	$ 11,753	$ 380	$ 367	$ 465	$ 1,212	$ 5,798	$ 18,763
Net income for the period	-	-	-	-	-	444	444
Exchange differences on translating foreign operations	-	-	284	-	284	-	284
Comprehensive income for the period	-	-	284	-	284	444	728
Transactions with owners:							
Share-based compensation (Note 10)	-	42	-	-	42	-	42
Balance at September 30, 2015	$ 11,753	$ 422	$ 651	$ 465	$ 1,538	$ 6,242	$ 19,533
Balance at July 1, 2016	11,765	539	546	465	1,550	6,910	20,225
Net loss for the period	-	-	-	-	-	(104)	(104)
Exchange differences on translating foreign operations	-	-	57	-	57	-	57
Comprehensive loss for the period	-	-	57	-	57	(104)	(47)
Transactions with owners:							
Share-based compensation (Note 10)	-	116	-	-	116	-	116
Balance at September 30, 2016	$ 11,765	$ 655	$ 603	$ 465	$ 1,723	$ 6,806	$ 20,294

(a) Additional detail of share capital is provided in Note 9
The accompanying notes are an integral part of these interim condensed consolidated financial statements.

Consolidated statements of changes in equity
For the nine-month periods ended September 30, 2016 and 2015
(in thousands of Canadian dollars) (unaudited)

	Share capital (a)	Reserves: Share-based compensation	Reserves: Accumulated foreign currency translation	Reserves: Warrants	Reserves: Other	Total reserves	Retained earnings	Total
Balance at January 1, 2015	$ 10,946	$ 372	$ 18	$ 650	$ 296	$ 1,336	$ 5,746	$ 18,028
Net income for the period	-	-	-	-	-	-	496	496
Exchange differences on translating foreign operations	-	-	633	-	-	633	-	633
Comprehensive income for the period	-	-	633	-	-	633	496	1,129
Transactions with owners:								
Issuance of share capital (Note 9)	807	-	-	(185)	(296)	(481)	-	326
Share-based compensation (Note 10)	-	50	-	-	-	50	-	50
Balance at September 30, 2015	$ 11,753	$ 422	$ 651	$ 465	$ -	$ 1,538	$ 6,242	$ 19,533
Balance at January 1, 2016	11,753	475	819	465	-	1,759	6,559	20,071
Net income for the period	-	-	-	-	-	-	247	247
Exchange differences on translating foreign operations	-	-	(216)	-	-	(216)	-	(216)
Comprehensive income for the period	-	-	(216)	-	-	(216)	247	31
Transactions with owners:								
Issuance of share capital (Note 9)	12	-	-	-	-	-	-	12
Share-based compensation (Note 10)	-	180	-	-	-	180	-	180
Balance at September 30, 2016	$ 11,765	$ 655	$ 603	$ 465	$ -	$ 1,723	$ 6,806	$ 20,294

(a) Additional detail of share capital is provided in Note 9
The accompanying notes are an integral part of these interim condensed consolidated financial statements

Consolidated statements of cash flows

for the **(in thousands of Canadian dollars) (unaudited)**	**three-month periods ended September 30,**		**nine-month periods ended September 30,**	
	2016	**2015**	**2016**	**2015**
Operating activities:				
Net (loss) income for the period	$ (104)	$ 444	$ 247	$ 496
Income tax expense	120	47	376	418
Depreciation and amortisation of non-current assets	484	440	1,440	1,279
Finance costs	132	142	413	454
Share-based compensation	116	42	180	50
Unrealized foreign exchange (gain) loss	(186)	(645)	627	(1,296)
	562	470	3,283	1,401
Net changes in working capital				
Decrease (increase) in trade and other receivables	399	1,374	(259)	(1,095)
(Increase) decrease in inventories	(1,022)	(347)	203	642
Decrease (increase) in prepaid expenses	148	(51)	(12)	(267)
Increase in trade and other payables	2,442	1,248	985	1,448
	1,967	2,224	917	728
Cash generated by operations	2,529	2,694	4,200	2,129
Net income taxes paid	(246)	(97)	(641)	(434)
Net cash from operating activities	2,283	2,597	3,559	1,695
Investing activities:				
Payments for property, plant and equipment and intangible assets	(384)	(317)	(1,207)	(1,338)
Net cash used in investing activities	(384)	(317)	(1,207)	(1,338)
Financing activities:				
Net change in bank indebtedness	(1,229)	(1,572)	(843)	(501)
Interest paid	(134)	(141)	(415)	(440)
Increase in long term debt	-	-	-	587
Repayment of long-term debt	(193)	(312)	(840)	(730)
Net proceeds from issuance of share capital	-	-	12	326
Repayment of a due to a shareholder and director	-	-	-	(204)
Repayment of finance leases	(40)	(35)	(116)	(102)
Net cash used in financing activities	(1,596)	(2,060)	(2,202)	(1,064)
Net increase (decrease) in cash	303	220	150	(707)
Cash, beginning of the period	2	18	161	946
Effects of foreign exchange differences on cash	-	2	(6)	1
Cash, end of the period	$ 305	$ 240	$ 305	$ 240

Non-cash transactions (Note 11)

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

(all amounts are in thousands of Canadian dollars, except per share data)

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 of 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".

Notice - The interim condensed consolidated financial statements of Imaflex Inc. for the three and nine-month periods ended September 30, 2016 and 2015 have not been reviewed by an external auditor.

2. Significant accounting policies

The interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*. These interim condensed consolidated financial statements were prepared using the same basis of presentation and accounting policies as outlined in Note 2, *Significant accounting policies* of our Consolidated financial statements for the years ended December 31, 2015 and 2014. These interim condensed consolidated financial statements do not include all the notes and disclosures required in annual financial statements. All amounts are in Canadian dollars, except where noted.

The interim condensed consolidated financial statements were approved by the board of directors and authorized for issue on November 24, 2016.

3. Segment information

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

3.1 Revenues by geographical end market

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

	three-month periods ended		nine-month periods ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Canada	$ 6,012	$ 5,681	$ 19,917	$ 18,913
United States	10,985	11,760	34,532	33,040
Other	-	-	121	114
Total	$ 16,997	$ 17,441	$ 54,570	$ 52,067

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

	September 30, 2016	December 31, 2015
Canada	$ 6,858	$ 6,708
United States	13,329	14,377
Total	$ 20,187	$ 21,085

(all amounts are in thousands of Canadian dollars, except per share data)

4. Additional information on the consolidated statements of comprehensive (loss) income

The Company's consolidated statement of comprehensive (loss) income includes depreciation of production equipment of $ 407,409 for the quarter ended September 30, 2016 ($ 363,226 in 2015) and $ 1,220,432 for the nine-month period ended September 30, 2016 ($ 1,080,577 in 2015) classified in Cost of sales. Depreciation of other property, plant and equipment and amortisation of intangible assets amounting to $ 76,788 for the quarter ended September 30, 2016 ($ 77,148 in 2015) and $ 220,562 for the nine-month period ended September 30, 2016 ($ 198,600 in 2015) is included in Administrative expenses.

The Company's consolidated statement of comprehensive (loss) income includes salaries paid to its employees of $ 2,175,924 for the quarter ended September 30, 2016 ($ 2,049,542 in 2015) and $ 6,654,370 for the nine-month period ended September 30, 2016 ($ 5,824,426 in 2015) classified in Cost of sales. Administrative expenses include salaries paid to employees of $ 381,547 for the quarter ended September 30, 2016 ($ 366,973 in 2015) and $ 1,116,642 for the nine-month period ended September 30, 2016 ($ 1,087,288 in 2015). Selling expenses include salaries paid to employees of $ 73,907 for the quarter ended September 30, 2016 ($ 152,785 in 2015) and $ 285,796 for the nine-month period ended September 30, 2016 ($ 430,807 in 2015).

5. Employee benefits

The Company contributes to state-run pension plans, employment insurance, group insurance and social security for its employees. The costs incurred for the employee benefits noted above amounted to $ 645,999 for the quarter ended September 30, 2016 ($ 614,317 in 2015) and $ 1,920,230 for the nine-month period ended September 30, 2016 ($ 1,777,921 in 2015). These payments are expensed as incurred and the Company does not recognise any gains or losses subsequent to the payment of these benefits. These transactions do not result in any asset or liability on the consolidated statement of financial position.

The Company also offers a defined contribution employee benefit plan to its employees located in North Carolina, USA. The Company contributed $ 8,657 to this plan for the quarter ended September 30, 2016 ($ 8,001 in 2015) and $ 23,892 for the nine-month period ended September 30, 2016 ($ 21,323 in 2015).

6. Finance costs

	three-month periods ended		nine-month periods ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Interest on bank indebtedness and long term debt	$ 128	$ 134	$ 398	$ 400
Interest on obligations under finance leases	4	6	15	19
Other interest	-	2	-	35
	$ 132	$ 142	$ 413	$ 454

(all amounts are in thousands of Canadian dollars, except per share data)

7. Earnings per share

	three-month periods ended		nine-month periods ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Net (loss) income for basic and diluted earnings per share	$ (104)	$ 444	$ 247	$ 496
Weighted average number of common shares outstanding	49,738	49,639	49,684	49,477
Dilutive effect of share purchase options	-	71	35	82
Diluted weighted average common shares outstanding	49,738	49,710	49,719	49,559
Basic and diluted earnings per common share	$ (0.002)	$ 0.009	$ 0.005	$ 0.010

8. Financial instruments

8.1 Fair value and classification of financial instruments

	Carrying amount and fair value	
	September 30, 2016	December 31, 2015
Financial assets		
Loans and receivables		
Cash	$ 305	$ 161
Trade and other receivables (1)	11,357	11,148
	11,662	11,309
Financial liabilities		
Financial liabilities, at amortised cost		
Bank indebtedness	6,083	6,926
Trade and other payables (2)	8,891	8,273
Long term debt	4,647	5,658
	19,621	20,857
Other liabilities		
Finance lease obligations	425	488

(1) Excludes sales taxes
(2) Excludes employee benefits

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

8. Financial instruments (continued)

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

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

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

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

8.2 Fair value hierarchy

The Company categorizes its financial instruments into a three-level fair value measurement hierarchy as follows:

Level–1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level–2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices);

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

As at September 30, 2016 and December 31, 2015, the fair values of long-term debt and finance lease obligations are categorised as Level 2.

9. Share capital

The Company's authorized share capital consists of an unlimited number of common shares, voting, participating, without par value. At September 30, 2016, there were 49,738,637 common shares outstanding (49,638,637 common shares at December 31, 2015 and September 30, 2015).

During the second quarter of 2016, the Company issued 100,000 shares following the exercise of options that were issued on May 27, 2011 for total cash proceeds of $12,500.

During the nine-month period ended September 30, 2015, the Company issued 1,381,695 shares following the exercise of warrants that entitled the holders to purchase shares of the Company at $ 0.45 per share for total proceeds of $ 621,762, of which $ 296,053 had been received during the year ended December 31, 2014 in anticipation for the exercise of these warrants. These warrants were issued as part of a private placement that closed on February 1, 2012. The amount of $ 296,053 that was received during the year ended December 31, 2014 was reclassed from Other items within Reserves to Share Capital and an amount of $ 185,147 was reclassed from Warrants within Reserves to Share Capital.The impact of this transaction on shareholder's equity is as follows :

(all amounts are in thousands of Canadian dollars, except per share data)

9. Share capital (continued)

	Share capital		Warrants		Total	
Proceeds received in 2014	296	$	-	$	296	$
Proceeds received in 2015	326		-		326	
Value of warrants reclassed from Warrants to Share capital	185		(185)		-	
	807	$	(185)	$	622	$

As at September 30, 2016, there were no warrants to purchase common shares outstanding. During the nine-month period ended September 30, 2015, 553,790 warrants entitling the owners to acquire one additional common share of the Company expired. As at September 30, 2015, 2,270,573 warrants entitling the owners to purchase common shares at an exercise price of $0.65 per share were outstanding.

10. Share-based compensation

Pursuant to the Stock Option Plan (the "Plan") of the Company, 3,735,000 of the common shares are reserved for options. The Plan provides that the term of the options shall be fixed by directors. Officers and employees of the Company are eligible to receive options. Options are granted at an exercise price of not less than the fair value of the Company's shares on the date the options are granted. Options may be exercisable for a period no longer than five (5) years and the exercise price must be paid in full upon exercise of the option.

On June 21, 2016, the Company granted 1,300,000 options to an employee and two consultants to acquire common shares at $ 0.40 for a period of five years. These options vest in 4 tranches over 2 years, the first vesting six months after issuance and the other tranches vesting at six-month intervals. Reserves were increased by $ 67,950 and $ 79,275 respectively for the quarter and the nine-month period ended September 30, 2016 representing the share-based compensation related to this issuance.

On September 6, 2016, the Company granted 500,000 options to an employee to acquire common shares at $ 0.42 for a period of five years. These options vest in 4 tranches over 18 months, the first vesting immediately at issuance and the remaining tranches vesting at six-month intervals. Reserves were increased by $ 32,496 for the quarter ended September 30, 2016 representing the share-based compensation related to this issuance.

During the nine-month period ended September 30, 2015, the Company issued 650,000 options to employees and one consultant to acquire shares at $ 0.52 for a period of 5 years. These options vest in 4 tranches over 2 years, the first vesting six months after issuance and the other tranches vesting at six-month intervals. Reserves were increased by $ 15,631 for the quarter ended September 30, 2016 ($ 41,600 in 2015) and by $ 68,018 for the nine-month period ended September 30, 2016 ($ 49,774 in 2015) representing the share-based compensation related to this issuance.

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

(all amounts are in thousands of Canadian dollars, except per share data)

10. Share-based compensation (continued)

Fair value assumptions	September 6, 2016	June 21, 2016	June 16, 2015	May 27, 2011	Total
Outstanding as at 31/12/2015	-	-	650,000	100,000	750,000
Exercised	-	-	-	(100,000)	(100,000)
Issued	500,000	1,300,000	-	-	1,800,000
Outstanding as at 30/09/2016	500,000	1,300,000	650,000	-	2,450,000
Exercisable as at 30/09/2016	125,000	-	487,500	-	612,500
Remaining life of options (yrs)	4.94	4.73	3.71	-	
Expected life of options (yrs)	2.5 to 3.25	2.75 to 3.5	2.75 to 3.5	2.5	
Expiry	September 6, 2021	June 21, 2021	June 15, 2020	May 27, 2016	
Expected share price volatility	76.59% to 82.30%	75.95% to 82.15%	83.19% to 98.85%	172.86%	
Dividend yield	0%	0%	0%	0%	
Risk free rate	0.51%	0.50%	0.60% to 0.68%	1.67%	
Exercise price	$ 0.42	$ 0.40	$ 0.52	$0.125	
Share price on grant date	$ 0.42	$ 0.40	$ 0.52	$0.125	
Fair value of option at grant	$ 0.21	$ 0.21	$ 0.30	$0.100	

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

11. Non-cash transactions

During the nine-month period ended September 30, 2016, the Company financed the acquisition of production equipment of a value totalling $ 75,579 by entering into a finance lease for the entire amount of the purchase.