

*Annual Report*  
2003

**IMAFLEX**  
*Committed to Excellence*





## CORPORATE PROFILE

Imaflex Inc. specializes in the manufacture and sale of custom-made polyethylene films suited for various packaging needs of our customers. These packaging films are either used directly by our customers to protect their own products, or by customers who convert our film products into plain or printed bags of all types and/or into printed roll stock, in their own converting operations, to satisfy their own customer needs. Imaflex employs approximately 80 people in its manufacturing facility, located in Montréal, Québec. Imaflex recycles 100% of its own waste, the majority in-house, thereby enhancing cost efficiency.

Canslit Inc., the wholly owned subsidiary, specializes in the metallization of numerous polymer-based products including polyester, nylon, polypropylene and polyethylene. This is accomplished through the application under vacuum conditions of a fine layer of aluminum vapors to the surface of the polymer-based film. Metallized films are generally used in the packaging of food products. However, these films are also being used in the insulation, photography, aerospace and numerous other industries. Canslit employs approximately 30 people at its manufacturing facility in Victoriaville, Québec.



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

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

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

## FINANCIAL HIGHLIGHTS

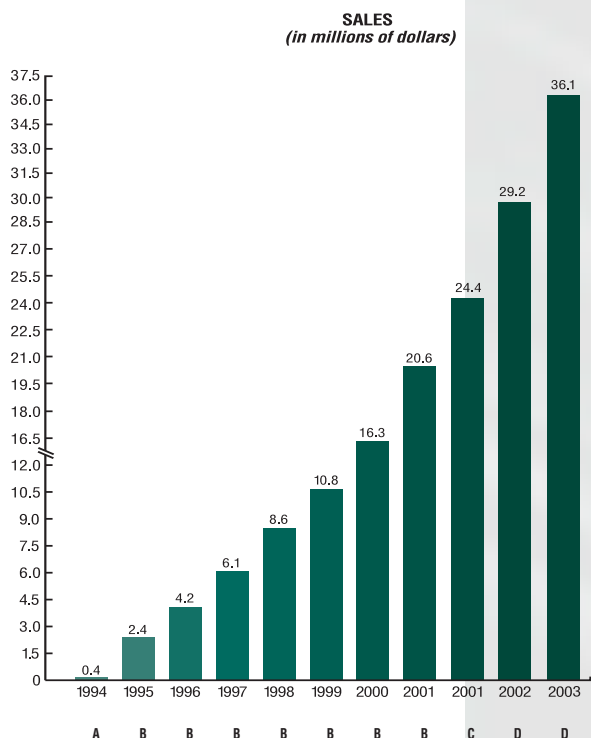
(in dollars except per share data)

	Year ended December 31, 2003	Year ended December 31, 2002	% Change Current vs. prior year	Eleven month period ended December 31, 2001 (*)	Year ended January 31, 2001	Year ended January 31, 2000	Year ended January 31, 1999	Year ended January 31, 1998
<b>Operating Summary</b>								
Sales	\$36,133,109	\$29,184,831	23.8%	\$24,366,170	\$20,558,115	\$16,320,773	\$10,781,895	\$8,550,614
Net Income	1,478,570	739,785	99.9%	71,363	1,033,715	684,424	144,133	379,896
Earnings Per Share	0.048	0.024	100.0%	0.002	0.034	0.023	0.006	0.016
EBIT <sup>(1)</sup>	2,467,380	1,518,559	62.5%	837,378	1,816,018	1,278,728	459,326	582,327
EBITDA <sup>(2)</sup>	4,235,456	2,888,028	46.7%	1,910,482	2,564,143	1,894,265	903,724	844,316
EBITDA Per Share	0.136	0.093	46.2%	0.062	0.085	0.063	0.038	0.036
<b>Financial Position</b>								
Working Capital	2,198,793	1,151,989	90.9%	863,322	1,231,817	946,787	638,544	(39,304)
Capital Assets	11,464,751	10,039,595	14.2%	7,981,279	6,149,982	4,126,607	3,269,225	2,483,762
Total Assets	20,929,028	17,249,269	21.3%	15,633,974	11,639,557	8,823,434	6,634,763	5,196,683
Total Long-Term Debt (including Capital Leases)	7,319,309	6,434,957	13.7%	5,205,737	3,289,014	1,954,393	1,735,604	1,510,884
Shareholders' Equity	6,539,068	5,060,498	29.2%	4,302,713	4,118,850	3,081,149	2,532,875	1,167,946

(1) Earnings before interest and taxes

(2) Earnings before interest, taxes, depreciation and amortization

(\*) Change in year-end



A Represents seven month period ended January 31.

B Represents year ended January 31.

C Represents eleven month period ended December 31.

D Represents year ended December 31.

## REPORT TO OUR SHAREHOLDERS

### INTRODUCTION

The current year's results include those of Imaflex Inc. and its wholly owned subsidiary, Canslit Inc.

### FINANCIAL RESULTS

The year ended December 31, 2003 was one of continued growth in sales, with a significant increase in net income.

Net income for the year ended December 31, 2003 was \$1,478,570, or \$0.048 per share, an increase of 99.9% compared with net income of \$739,785, or \$0.024 per share, for the same period in 2002. The significant improvement is primarily attributable to solid sales volume growth at Imaflex's extrusion operations and a reduction in the loss at Canslit's metallizing operations. Imaflex's extrusion operations generated net income of \$1,615,059 for the year ended December 31, 2003 as compared to \$982,677 for the same period in 2002. Canslit's metallizing operations incurred a net loss of \$136,489 for the year ended December 31, 2003 as compared to a net loss of \$242,892 for the same period in 2002.

Sales for the year ended December 31, 2003 totaled \$36,133,109, compared with \$29,184,831 for the same period in 2002, an increase of \$6,948,278 or 23.8%, which is explained by the increased capacity resulting from Imaflex's capital expenditures in the first half of 2002, selling price increases necessitated by a significantly higher cost of raw materials, and higher volume at Canslit's metallizing operations. Imaflex's sales increased by \$6,163,376 to \$30,533,367. Canslit's sales increased by \$784,902 to \$5,599,742.

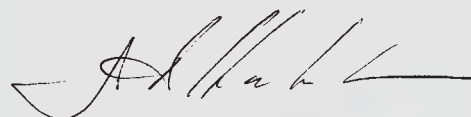
### MANAGEMENT OUTLOOK

In spite of the continued difficulties in the North American economy during the fourth quarter, in particular the increased competitive pressures caused by the soaring Canadian dollar, Imaflex was able to increase its sales volume and profitability in comparison to the same period in 2002. Additionally, Imaflex's first co-extrusion line commenced operations in October 2003.

Following a year of notable accomplishments, and with the increased manufacturing capacity, management expects Imaflex to continue its growth in both sales and profitability in 2004.

With respect to Canslit, the efficiency of its operations has been significantly improved and its operating loss for 2003 reduced from the loss incurred in 2002. This improvement was achieved although management's ability to increase revenues and profitability was hampered by the impact of lower sales prices caused by Asian competition and the increased cost of raw materials. Nevertheless, Canslit's results continue to improve slowly and management expects a small profit in 2004.

We would like to extend our special thanks to our employees for their dedication to the Company's growth and development, and to our shareholders, customers and suppliers for their continued confidence and support.



Joseph Abbandonato  
President & Chief Executive Officer

## QUARTERLY FINANCIAL INFORMATION

	SALES		NET INCOME	
	2003	2002	2003	2002
<b>First Quarter</b>	\$ 9,748,971	\$ 6,771,473	\$ 565,029	\$ 171,297
<b>Second Quarter</b>	9,182,625	7,384,003	376,837	182,183
<b>Third Quarter</b>	7,961,934	7,698,369	213,057	313,685
<b>Fourth Quarter</b>	9,239,579	7,330,986	323,647	72,620
	\$36,133,109	\$29,184,831	\$1,478,570	\$ 739,785

	EBITDA		EARNINGS PER SHARE	
	2003	2002	2003	2002
<b>First Quarter</b>	\$ 1,331,821	\$ 728,048	\$ 0.018	\$ 0.006
<b>Second Quarter</b>	1,044,969	742,299	0.012	0.006
<b>Third Quarter</b>	884,621	868,025	0.007	0.010
<b>Fourth Quarter</b>	974,045	549,656	0.011	0.002
	\$ 4,235,456	\$ 2,888,028	\$ 0.048	\$ 0.024

## SELECTED FINANCIAL INFORMATION

Selected Balance Sheet Information	IMAFLEX	IMAFLEX	CANSLIT	CANSLIT	IMAFLEX	IMAFLEX
	2003	2002	2003	2002	CONSOLIDATED 2003	CONSOLIDATED 2002
<b>Assets</b>						
Accounts receivable	\$ 5,303,658	\$ 3,778,950	\$ 1,363,505	\$ 851,963	\$ 6,667,163	\$ 4,630,913
Inventories	1,765,000	1,883,000	818,000	513,000	2,583,000	2,396,000
Capital assets	10,436,085	8,702,635	1,028,666	1,336,960	11,464,751	10,039,595
<b>Liabilities</b>						
Accounts payable and accrued liabilities	4,733,888	3,729,089	368,044	505,122	5,101,932	4,234,211
Current portion of long-term debt	1,413,931	1,013,571	370,000	370,000	1,783,931	1,383,571
Long-term debt	4,377,878	3,492,659	1,157,500	1,437,500	5,535,378	4,930,159

Selected Statement of Income Information	IMAFLEX	IMAFLEX	CANSLIT	CANSLIT	IMAFLEX	IMAFLEX
	2003	2002	2003	2002	CONSOLIDATED 2003	CONSOLIDATED 2002
Sales	\$30,533,367	\$24,369,991	\$ 5,599,742	\$4,814,840	\$36,133,109	\$29,184,831
Gross profit (\$)	6,249,504	5,084,154	599,490	371,326	6,848,994	5,455,480
Gross profit (%)	20.5%	20.9%	10.7%	7.7%	19.0%	18.7%
<b>Expenses</b>						
Selling and administrative	2,203,037	2,144,795	313,252	242,181	2,516,289	2,386,976
Amortization of capital assets	1,442,482	1,098,201	325,594	271,268	1,768,076	1,369,469
Interest	277,657	276,965	114,130	111,717	391,787	388,682
Provision for income taxes	628,079	421,148	(31,056)	(31,056)	597,023	390,092
Net income (loss)	1,615,059	982,677	(136,489)	(242,892)	1,478,570	739,785
EBITDA	3,963,277	2,778,991	272,179	109,037	4,235,456	2,888,028

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### INTRODUCTION

The following discussion and analysis should be read in conjunction with the Company's consolidated financial statements and accompanying notes.

The current year's results include those of Imaflex Inc. and its wholly owned subsidiary, Canslit Inc.

### INCOME STATEMENT

Net income for the year ended December 31, 2003 was \$1,478,570, or \$0.048 per share, an increase of 99.9% compared with net income of \$739,785, or \$0.024 per share, for the same period in 2002. The significant improvement is primarily attributable to solid sales volume growth at Imaflex's extrusion operations and a reduction in the loss at Canslit's metallizing operations. Imaflex's extrusion operations generated net income of \$1,615,059 for the year ended December 31, 2003 as compared to \$982,677 for the same period in 2002. Canslit's metallizing operations incurred a net loss of \$136,489 for the year ended December 31, 2003 as compared to a net loss of \$242,892 for the same period in 2002.

Sales for the year ended December 31, 2003 totaled \$36,133,109, compared with \$29,184,831 for the same period in 2002, an increase of \$6,948,278 or 23.8%, which is explained by the increased capacity resulting from Imaflex's capital expenditures in the first half of 2002, selling price increases necessitated by a significantly higher cost of raw materials, and higher volume at Canslit's metallizing operations. Imaflex's sales increased by \$6,163,376 to \$30,533,367. Canslit's sales increased by \$784,902 to \$5,599,742.

Gross profit for the year ended December 31, 2003 amounted to \$6,848,994 or 19.0% of sales, compared with \$5,455,480 or 18.7% of sales for same period in 2002. The increase in gross profit and gross profit margin is a direct result of the increased sales volume.

Selling and administrative expenses increased for the year ended December 31, 2003 by \$129,313 over the same period in 2002, as a result of the increase in sales. Selling and administrative expenses represent 7.0% of sales in fiscal 2003, as compared to 8.2% of sales in fiscal 2002.

Amortization of capital assets increased for the year ended December 31, 2003 by \$398,607 over the same period in 2002, as a result of the significant capital expenditure program of the last few years.

Interest expense increased slightly for the year ended December 31, 2003 by \$3,105 over the same period in 2002. Higher levels of long-term debt necessitated by the significant capital expenditure program resulted in increased interest costs, which were offset by interest savings on long-term debt issued prior to 2003, with higher interest rates.

Other expenses represent 0.3% of sales for the year ended December 31, 2003, as compared with 0.6% of sales for the same period in 2002.

The effective tax rate for the year ended December 31, 2003 decreased to 29% from 35% for the same period in 2002, reflecting the lower unrecognized operating loss for tax purposes of Canslit during 2003.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

### BALANCE SHEET

*December 31, 2003 versus December 31, 2002*

Total assets increased by \$3,679,759 to \$20,929,028 as at December 31, 2003 compared with \$17,249,269 at December 31, 2002.

Current assets increased by \$2,375,752 to \$9,423,440 as at December 31, 2003 compared with \$7,047,688 at December 31, 2002, primarily as a result of an increase in accounts receivable due to a higher level of sales. Days sales outstanding were 67 days during the current year as compared to 58 days in the prior year, reflecting the difficult economic climate in North America.

Capital assets increased by \$1,425,156 to \$11,464,751 as at December 31, 2003 compared with \$10,039,595 at December 31, 2002, as a result of the Company's purchase of its first co-extrusion line.

Total liabilities increased by \$2,201,189 to \$14,389,960 as at December 31, 2003 compared to \$12,188,771 at December 31, 2002.

Current liabilities increased by \$1,328,948 to \$7,224,647 as at December 31, 2003 compared with \$5,895,699 at December 31, 2002, as a result of the following:

- Increase in accounts payable due to a higher level of expenses;
- Increase in income taxes payable, as a result of higher income during 2003;
- Increase in the current portion of long-term debt, as a result of new borrowings; and a
- Decrease in the current portion of obligations under capital leases.

Long-term debt increased by \$605,219 to \$5,535,378 as at December 31, 2003 compared to \$4,930,159 at December 31, 2002, primarily as a result of the financing for the expansion of Imaflex's manufacturing capacity during 2003.

Future income tax liabilities increased by \$267,022 to \$1,629,935 as at December 31, 2003 compared to \$1,362,913 at December 31, 2002, primarily related to accelerated amortization of capital assets for taxation purposes.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

### CASH FLOWS

Net cash provided by operations for the year ended December 31, 2003 increased to \$2,114,295 from \$1,887,534 for the same period in 2002, primarily as a result of much higher net income, offset by an increase in accounts receivable.

Financing activities for the year ended December 31, 2003 provided cash resources of \$865,132 compared to \$1,266,440 for the same period in 2002, as a result of increased long-term repayments during 2003.

Investing activities for the year ended December 31, 2003 required a net cash outlay of \$2,816,978 compared to \$3,550,284 for the same period in 2002, as a result of a reduced level of manufacturing equipment purchases during 2003.

### FACTORS AFFECTING THE BUSINESS

Imaflex is involved in a competitive industry and marketplace in which there are a number of participants. To accommodate the recent growth and effectively manage future growth, Imaflex continues to improve its operational, financial and management information systems, and procedures and controls. Imaflex'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.

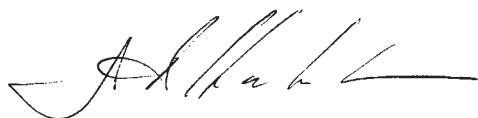
The 30 billion dollar market the Company competes in has historically shown resiliency and growth even at the worst economic times. The Company's customers operate predominantly in the food packaging markets. This fact, coupled with the expanding product lines and reliance on newer and faster equipment should help it weather the potential volatility caused by uncertainty in the North American economic climate.

## RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements and the information in the Annual Report are the responsibility of management. The consolidated financial statements have been prepared by management and include the selection of appropriate accounting principles, judgments and estimates necessary to prepare these statements in accordance with Canadian generally accepted accounting principles. Financial information contained elsewhere in the Annual Report is consistent with the consolidated financial statements.

To provide reasonable assurance that assets are safeguarded and that relevant and reliable financial information is being reported, management has developed and maintains a system of internal controls. An integral part of the system is the requirement that employees maintain the highest standard of ethics in their activities.

The Board of Directors, acting through an Audit Committee, is responsible for determining that management fulfills its responsibilities in the preparation of financial statements and the financial control of operations. The Audit Committee recommends the independent auditors for appointment by the shareholders. It meets periodically with management and the independent auditors to discuss financial reporting issues, internal controls and auditing matters and reports its findings to the Board. The independent auditors have unrestricted access to the Audit Committee. The Committee reviews the financial statements with management and the independent auditors prior to submission to the Board for approval.



Joseph Abbandonato  
President and Chief Executive Officer

Montréal, Canada  
February 20, 2004



Roberto Longo, CA  
Corporate Controller

## AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Imaflex Inc. as at December 31, 2003 and 2002 and the consolidated statements of income and retained earnings and cash flows for the years ended December 31, 2003 and 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the years ended December 31, 2003 and 2002 in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Montréal, Canada  
February 20, 2004

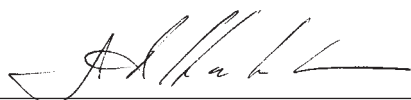
## CONSOLIDATED BALANCE SHEETS

December 31, 2003 and 2002

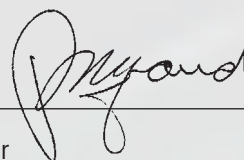
	2003	2002
<b>Assets</b>		
Current assets:		
Cash	\$ 162,449	\$ -
Accounts receivable (note 4)	6,667,163	4,630,913
Inventories (note 5)	2,583,000	2,396,000
Prepaid expenses	10,828	20,775
	<b>9,423,440</b>	<b>7,047,688</b>
Deposits for capital assets	40,837	49,486
Capital assets (note 6)	11,464,751	10,039,595
Long-term investment (note 7)	-	112,500
	<b>\$ 20,929,028</b>	<b>\$ 17,249,269</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Bank indebtedness (note 8)	\$ -	\$ 19,220
Accounts payable and accrued liabilities	5,101,932	4,234,211
Income taxes payable	338,784	137,470
Current portion of long-term debt (note 9)	1,783,931	1,383,571
Current portion of obligations under capital leases	-	121,227
	<b>7,224,647</b>	<b>5,895,699</b>
Long-term debt (note 9)	5,535,378	4,930,159
Future income taxes (note 10)	1,629,935	1,362,913
Shareholders' equity:		
Share capital (note 11)	1,940,615	1,940,615
Retained earnings	4,598,453	3,119,883
	<b>6,539,068</b>	<b>5,060,498</b>
Commitments (note 13)		
Contingency (note 14)		
	<b>\$ 20,929,028</b>	<b>\$ 17,249,269</b>

See accompanying notes to financial statements.

On behalf of the Board:



Director



Director

**CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS**

Years ended December 31, 2003 and 2002

	2003	2002
Sales	\$ 36,133,109	\$ 29,184,831
Cost of sales	29,284,115	23,729,351
Gross profit	6,848,994	5,455,480
Expenses:		
Selling and administrative	2,516,289	2,386,976
Amortization of capital assets	1,768,076	1,369,469
Interest	391,787	388,682
Other	97,249	180,476
	4,773,401	4,325,603
Income before income taxes	2,075,593	1,129,877
Provision for income taxes (note 10)	597,023	390,092
Net income	1,478,570	739,785
Retained earnings, beginning of year	3,119,883	2,380,098
Retained earnings, end of year	\$ 4,598,453	\$ 3,119,883
Basic and diluted earnings per share	\$ 0.048	\$ 0.024

See accompanying notes to financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2003 and 2002

	2003	2002
Cash flows from operating activities:		
Net income	\$ 1,478,570	\$ 739,785
Adjustments for:		
Amortization of capital assets	1,768,076	1,369,469
Future income taxes	267,022	193,117
Net change in non-cash operating working capital (note 15)	(1,399,373)	(414,837)
	<b>2,114,295</b>	<b>1,887,534</b>
Cash flows from financing activities:		
(Decrease) increase in bank indebtedness	(19,220)	19,220
Issuance of long-term debt	2,500,000	2,300,000
Repayment of long-term debt	(1,494,421)	(723,942)
Repayment of obligations under capital leases	(121,227)	(346,838)
Issuance of share capital	-	18,000
	<b>865,132</b>	<b>1,266,440</b>
Cash flows from investing activities:		
Purchase of capital assets	(2,929,478)	(3,600,284)
Redemption of long-term investment	112,500	50,000
	<b>(2,816,978)</b>	<b>(3,550,284)</b>
Net increase (decrease) in cash	<b>162,449</b>	<b>(396,310)</b>
Cash, beginning of year	-	396,310
Cash, end of year	<b>\$ 162,449</b>	<b>\$ -</b>
<b>Supplemental cash flow information:</b>		
Interest paid	\$ 391,817	\$ 391,948
Income taxes paid	188,244	239,520
Additions to capital assets included in accounts payable	87,500	48,000
Conversion of deposits for capital assets to capital asset additions	8,649	526,306
Unpaid reimbursement of additions to capital assets (note 6)	-	215,605

See accompanying notes to financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2003 and 2002

Imaflex Inc. (the "Company") is incorporated under the Canada Business Corporations Act. The Company's principal business activity is the design, manufacture and sale of packaging materials.

### 1. Change in accounting policy:

Stock based compensation and other stock based payments:

The CICA Accounting Standards Board has amended CICA Handbook Section 3870 "*Stock based Compensation and Other Stock based Payments*" to require entities to account for employee stock options using the fair value based method, beginning January 1, 2004. Under the fair value based method, the compensation cost is measured at fair value at the date of grant and is expensed over the award's vesting period. In accordance with one of the transitional options permitted under amended Section 3870, the Company has prospectively applied the fair value based method to all employee stock options granted during the year. There is no effect in the current year's net income, and basic or diluted earnings per share, resulting from prospectively adopting the fair value based method.

In 2002, the Company granted 20,000 options. Had the Company used the fair value based accounting method (the Black-Scholes model) to measure compensation, pro forma net income and pro forma basic and diluted earnings per share for the year ended December 31, 2003 would have been \$1,478,237 (2002 - \$739,120) and \$0.048 (2002 - \$0.024), respectively. As permitted by the new recommendations, pro forma amounts exclude the effect of awards granted prior to January 1, 2002.

### 2. Significant accounting policies:

(a) Basis of presentation:

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

(b) Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Canslit Inc. ("Canslit"). All significant intercompany balances and transactions have been eliminated.

(c) Inventories:

Raw materials and supplies are valued at the lower of cost and replacement cost. Finished goods are valued at the lower of cost and net realizable value. Cost is determined by the first-in, first-out method.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, (page 2)

Years ended December 31, 2003 and 2002

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

(d) Capital assets:

Capital assets, other than assets under capital leases, are recorded at cost, including capitalized interest directly attributable to their acquisition, construction and development. Assets under capital leases are recorded at the present value of minimum lease payments at the inception of the lease. Amortization is provided using the following methods, rates and/or periods and net of an estimated salvage value on certain assets:

Asset	Basis	Period
Production equipment	Straight-line	2 to 10 years
Office equipment	Straight-line	5 years
Computer equipment	Straight-line	3 years
Equipment under capital leases	Straight-line	10 years

Leasehold improvements are amortized on a straight-line basis over the terms of the leases, to a maximum of 5 years.

(e) Foreign exchange:

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange in effect at the balance sheet date. Sales and expenses are translated at the average rates prevailing during the year. Gains or losses on foreign exchange are included in the determination of income.

(f) Income taxes:

The asset and liability method is used for determining income taxes. Under this method, future income taxes are recognized for temporary differences between the financial statement carrying amounts and their respective income tax bases. Future income tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is included in income in the period in which the change occurs. The amount of future income tax assets recognized is limited to the amount that is more likely than not to be realized.

(g) Cash and cash equivalents:

Cash and cash equivalents consist of short-term, highly liquid investments with maturity of ninety days or less.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, (page 3)

Years ended December 31, 2003 and 2002

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

(h) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

(i) Stock-based compensation plans:

Effective January 1, 2003, compensation expense is recognized over the vesting period for plans where stock or stock options are issued to employees. Any consideration paid by employees on exercise of stock options or purchase of stock is credited to share capital. If stock or stock options are repurchased from employees, the excess of the consideration paid over the carrying amount of the stock or stock option cancelled is charged to retained earnings.

### 3. Business acquisition:

On March 29, 2001, the Company acquired 100% of the outstanding shares of Canslit for an initial consideration of \$162,501 payable by the issuance of 750,000 Class A shares of the Company. The acquisition was accounted for using the purchase method.

The share purchase agreement included a contingent consideration clause based on the future results of Canslit for the years ending December 31, 2002, 2003 and 2004, which could result in the issuance of up to an additional 750,000 Class A shares of the Company. As a consequence of Canslit not having attained the minimum contractual level of results for the years ended December 31, 2002 and 2003, only an additional 250,000 Class A shares of the Company may be issued (note 14). The amount of the remaining contingent consideration, if any, is not determinable at this time and was therefore not included in the determination of the purchase price.

### 4. Accounts receivable:

Accounts receivable consist of:

	2003	2002
Trade receivables, net of allowance for doubtful accounts	\$ 6,632,814	\$ 4,358,433
Other (note 6)	34,349	272,480
	<b>\$ 6,667,163</b>	<b>\$ 4,630,913</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, (page 4)

Years ended December 31, 2003 and 2002

### 5. Inventories:

Inventories consist of:

	2003	2002
Raw materials and supplies	\$ 2,110,000	\$ 1,386,000
Reprocessed raw materials	170,000	311,000
Finished goods	303,000	699,000
	<b>\$ 2,583,000</b>	<b>\$ 2,396,000</b>

### 6. Capital assets:

Capital assets consist of:

	2003		2002	
	Cost	Accumulated amortization	Net book value	Net book value
Production equipment	\$ 18,866,971	\$ 7,604,209	<b>\$11,262,762</b>	\$ 8,979,505
Office equipment	92,057	66,076	<b>25,981</b>	29,709
Computer equipment	20,181	9,768	<b>10,413</b>	13,613
Leasehold improvements	315,864	150,269	<b>165,595</b>	228,768
	19,295,073	7,830,322	<b>11,464,751</b>	9,251,595
Assets under capital leases:				
Production equipment	-	-	-	782,522
Office equipment	-	-	-	5,478
	-	-	-	788,000
	<b>\$ 19,295,073</b>	<b>\$ 7,830,322</b>	<b>\$11,464,751</b>	<b>\$ 10,039,595</b>

In 2002, a former Canslit shareholder agreed to reimburse the Company \$215,605 for capital additions incurred to refurbish certain manufacturing equipment. This amount is included in "Other" accounts receivable on the balance sheet.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, (page 5)

Years ended December 31, 2003 and 2002

### 7. Long-term investment:

During the year, an affiliated company redeemed the remaining 1,125 (2002 – 500) preferred shares for a total consideration of \$112,500 (2002 - \$50,000). The preferred shares of the affiliated company were redeemed at an amount equal to the consideration received upon issuance of these shares.

### 8. Bank indebtedness:

The Company has operating lines of credit with its bankers to a maximum of \$4,350,000, bearing interest at rates ranging between prime plus 0.25% to 0.75%. The lines of credit are secured by accounts receivable, inventories and capital assets.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, (page 6)

Years ended December 31, 2003 and 2002

### 9. Long-term debt:

Long-term debt consists of:

	2003	2002
Loan, bearing interest at prime plus 0.75%, repayable in monthly principal installments of \$31,000 to June 2010, secured by production equipment	<b>\$ 2,418,000</b>	\$ -
Quebec Government Immigrant Investor loan, bearing interest at prime plus 0.50%, repayable in monthly principal installments of \$20,833 up to October 2003 and \$36,458 up to October 2007 (a)	<b>1,677,083</b>	1,958,333
Loan bearing interest at prime plus 1.25%, repayable in monthly principal installments of \$22,500 up to November 2008. The loan is secured by a hypothec on all present and future property of the subsidiary, movables and immovables, corporeal and incorporeal, including machinery, equipment, inventory and receivables, ranking second to the bank indebtedness and a corporate guarantee from the Company equal to 50% of the outstanding balance	<b>1,327,500</b>	1,507,500
Loan, bearing interest at the Royal Bank of Canada's 30-day banker acceptance rate plus 2.80%, repayable in blended monthly installments of \$32,834 up to September 2005 and one final blended installment of \$366,660 in October 2005, secured by production equipment	<b>951,259</b>	1,249,281
Loan, bearing interest at prime plus 1%, repayable in monthly principal installments of \$16,667 up to March 2007 and one final principal installment of \$15,756 in April 2007, secured by production equipment	<b>665,756</b>	865,756
Loan, bearing interest at prime plus 0.50%, repayable in monthly principal installments of \$8,333 up to December 2005	<b>200,000</b>	300,000
Quebec Government Immigrant Investor loan, bearing interest at the Royal Bank of Canada's 30-day banker acceptance rate plus 1.30%, repayable in blended monthly installments of \$13,517 up to June 2004, secured by production equipment	<b>79,711</b>	232,210
Loan, bearing interest at prime plus 1%, repayable in monthly principal installments of \$4,750 up to October 2003 and \$2,750 thereafter to July 2006	-	138,250
Loan, bearing interest at prime plus 1%, repayable in monthly principal installments of \$2,400 to February 2005	-	62,400
	<b>7,319,309</b>	6,313,730
Current portion of long-term debt	<b>1,783,931</b>	1,383,571
	<b>\$ 5,535,378</b>	\$ 4,930,159

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, (page 7)

Years ended December 31, 2003 and 2002

### 9. Long-term debt (continued):

- (a) In 2002, the Company received loans under the Quebec Immigrant Investor Program ("QIIP") in the amount of \$1,750,000. In order to guarantee its obligations towards its creditors for the loans, the Company established a trust, making QIIP its beneficiary. The Company also transferred bank notes to the trust, purchased at a discount in the amount of \$1,419,740 and maturing in five years on October 31, 2007 at an amount of \$1,750,000. The act creating the trust stipulates that the guaranteed obligations will be settled from the proceeds of the maturity of the bank notes. In addition, the act creating the trust compels the trustee to endorse the notes upon maturity and to use the proceeds of this endorsement in order to settle any obligations created under the trust.

Interest on long-term debt amounted to \$350,531 for the year ended December 31, 2003 (2002 - \$354,724).

The aggregate maturities of long-term debt for each of the five years subsequent to December 31, 2003 and thereafter are as follows:

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2004	\$ 1,783,931
2005	2,006,039
2006	1,279,500
2007	1,072,339
2008	619,500
Thereafter	558,000

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\$ 7,319,309

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, (page 8)

Years ended December 31, 2003 and 2002

### 10. Income taxes:

The provision for income taxes differs from the amount computed by applying the Canadian federal and provincial rates to income before income taxes. The reasons for the difference and the related tax effects are as follows:

	2003	2002
Income before income taxes	\$ 2,075,593	\$ 1,129,877
Expected rate	31.15%	31.15%
Expected income taxes	646,500	352,000
Adjustments:		
Deduction for new investment in Québec	(64,200)	(44,200)
Non-deductible expenses	15,000	17,100
Unrecognized benefit of subsidiary's current year loss	21,800	55,300
Other	(22,077)	9,892
	\$ 597,023	\$ 390,092
	2003	2002
Represented by:		
Current	\$ 330,001	\$ 196,975
Future	267,022	193,117
Income tax expense	\$ 597,023	\$ 390,092

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, (page 9)

Years ended December 31, 2003 and 2002

### 10. Income taxes (continued):

The detail of the future income taxes is as follows:

	2003	2002
<b>Assets:</b>		
Losses carried forward	\$ 242,000	\$ 292,000
Capital assets	91,000	36,200
Valuation allowance	(333,000)	(328,200)
	<b>\$ -</b>	<b>\$ -</b>
<b>Liabilities:</b>		
Capital assets	<b>\$ 1,629,935</b>	\$ 1,362,913
<b>Net future income tax liability</b>	<b>\$ 1,629,935</b>	\$ 1,362,913

The Company's subsidiary has non-capital losses available to carry forward to reduce future taxable income of approximately \$777,000 that expire as follows:

Year of expiry	Amount
2007	\$ 77,000
2008	699,000
2009	1,000
	<b>\$ 777,000</b>

The benefit of the tax losses will be recognized as realized.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, (page 10)

Years ended December 31, 2003 and 2002

### 11. Share capital:

Share capital consists of:

	2003	2002
Authorized:		
Unlimited number of Class A shares, voting, participating, without par value		
Unlimited number of Class B shares, non-voting, participating, without par value, issuable at any time and in one or more series		
Unlimited number of Class B Series 1 shares, convertible at the option of the holder to Class A shares subject to the restriction that the percentage of Class A shares in the hands of public security holders following such conversion must not be less than 20% of the total issued and outstanding Class A shares		
Issued and outstanding:		
31,035,002 Class A shares (2002 - 28,468,334)	\$ 1,940,615	\$ 1,818,893
Nil Class B Series 1 shares (2002 - 2,566,668)	-	121,722
	<b>\$ 1,940,615</b>	<b>\$ 1,940,615</b>

Earnings per share have been calculated on the basis of the weighted average number of shares outstanding during the year ended December 31, 2003 of 31,035,002 (2002 - 31,010,002).

In 2001, the Company issued 750,000 Class A shares pursuant to the acquisition of Canslit. 250,000 Class A shares were placed in escrow on March 29, 2001 and are to be released from escrow based on representations and warranties being satisfied by the vendor (note 14).

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, (page 11)

Years ended December 31, 2003 and 2002

### 11. Share capital (continued):

During the year, 2,566,668 Class B Series 1 (2002 - 9,133,332) shares were converted into Class A shares for no additional consideration.

As a result of the reverse takeover transaction that occurred effective December 1, 1998, the legal, tax and book values of share capital are significantly different.

Stock Option Plan:

Pursuant to the Stock Option Plan (the "Plan") of the Company, ten percent (10%) of the Class A shares issued and outstanding from time to time are reserved for options. The Plan provides that the term of the options shall be fixed by the directors, and only directors, officers and employees of the Company or its subsidiaries 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.

A summary of the options outstanding under the Plan is presented below:

	2003		2002	
	Options (000's)	Weighted average exercise price	Options (000's)	Weighted average exercise price
Outstanding, beginning of year	565	\$ 0.33	725	\$ 0.30
Granted	-	-	20	0.24
Expired	(350)	0.33	(60)	0.34
Exercised	-	-	(120)	0.15
Outstanding, end of year	215	\$ 0.33	565	\$ 0.33
Exercisable, end of year	180		245	

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, (page 12)

Years ended December 31, 2003 and 2002

### 11. Share capital (continued):

The following table summarizes information about the options outstanding as of December 31, 2003:

Exercise prices	Options outstanding			Options exercisable		
	Number outstanding (000's)	Weighted average remaining contractual life (years)	Exercise prices	Options (000's)	Weighted average exercise price	
\$ 0.24	20	1.4	\$ 0.24	15	\$ 0.24	
\$ 0.30	20	0.5	0.30	20	0.30	
\$ 0.33	175	1.4	0.33	145	0.33	
\$ 0.24 to \$0.33	215	1.3	\$ 0.33	180	\$ 0.32	

### 12. Related party transactions:

During the year, in the normal course of business, the Company had routine transactions with related parties. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Details of these transactions are as follows:

	2003	2002
Management fees	\$ 123,600	\$ 191,800
Commissions	96,000	96,000
Consulting	30,000	—
Rent	453,080	437,455

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, (page 13)

Years ended December 31, 2003 and 2002

### 13. Commitments:

The Company's future minimum lease payments under operating leases for facilities are approximately as follows:

2004	\$ 423,000
2005	423,000
2006	423,000
2007	435,000
2008	435,000
Thereafter	1,963,000
	\$ 4,102,000

### 14. Contingency:

In 2003, the Company filed two statements of claim against a former shareholder (the "Defendant") of Canslit. In the first action, the Company asserts that a breach of undertakings by the Defendant under a confidentiality and non-competition agreement has caused the Company serious prejudice for which it is seeking reparation.

Under the share purchase agreement, the Defendant, as vendor, represented and warranted to the Company, as purchaser, the operating condition of the equipment used in carrying on the business of Canslit. The Company asserts in the second statement of claim that the Defendant's representations and warranties under the Canslit share purchase agreement were not accurate and is seeking damages in that regard.

The Defendant subsequently filed a counterclaim seeking the release and delivery of all shares held in escrow (note 11) and the re-issuance of the shares that the Company has already cancelled following Canslit's failure to meet the minimum contractual level of results. The Company is vigorously contesting the counterclaim, which it believes is without merit. The Company is currently waiting for a trial date in these matters.

### 15. Statement of cash flows:

The detail of the net change in non-cash working capital balances relating to operations is as follows:

	2003	2002
Accounts receivable	\$ (2,251,855)	\$ 269,044
Inventories	(187,000)	(580,300)
Prepaid expenses	9,947	(2,734)
Accounts payable and accrued liabilities	828,221	(49,199)
Income taxes payable	201,314	(51,648)
	\$ (1,399,373)	\$ (414,837)

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, (page 14)

Years ended December 31, 2003 and 2002

### 16. Financial instruments:

(a) Foreign currency risk management:

A portion of the Company's sales and expenses are denominated in US dollars. The Company does not use forward foreign exchange contracts to reduce foreign exchange exposure since the revenue stream in US dollars acts as a natural hedge to cover expenses denominated in US dollars.

(b) Credit risk:

The Company's extension of credit is based on an evaluation of each customer's financial condition and the Company's ability to obtain credit insurance coverage for that customer. Credit losses are provided for in the financial statements.

(c) Fair value disclosure:

Fair value estimates are made as of a specific point in time, using available information about the financial instrument. These estimates are subjective in nature and often cannot be determined with precision.

The Company has determined that the carrying value of its short-term financial assets and liabilities approximates their fair values as at the balance sheet date because of the short-term maturity of those instruments. For long-term debt and obligations under capital leases, the carrying value of these liabilities approximates their fair value at the balance sheet date.

(d) Interest rate risk:

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

### 17. Segmented information:

The Company operates in one reportable operating segment being the design, manufacture and sale of packaging materials. The Company operates exclusively in Canada.

Export sales to the United States totaled \$8,812,026 for the year ended December 31, 2003 (2002 - \$5,407,613).

## CORPORATE INFORMATION

### OFFICERS

Joseph Abbandonato,  
President and Chief Executive Officer

Tony Abbandonato,  
Production Director and Secretary

Gerry Phelps,  
Vice-President – Operations

Pierre Senecal,  
Vice-President – Sales

Roberto Longo, CA  
Corporate Controller

### BOARD OF DIRECTORS

The Board of Directors establishes the objectives and the long-term direction of the Company. The Board meets regularly throughout the year to review progress towards achievement of the Company's goals and to recommend policies and procedures directed at optimizing performance.

Joseph Abbandonato,  
Chairman and President

Tony Abbandonato,  
Secretary

Pierre Myrand,  
Corporate Director

Philip Nolan,  
Partner, Lavery, de Billy

Gerry Phelps,  
Vice-President

John Wight, FCA  
Corporate Director

### SHAREHOLDER INFORMATION

Audit and Compensation Committee:  
John Wight, FCA, Chairman; Pierre Myrand;  
Philip Nolan

Auditors: KPMG LLP, Montréal, Québec

Legal Counsel: Lavery, de Billy, Montréal, Québec

Listing: Imaflex Inc. shares are listed as IFX.A on the  
TSX Venture Exchange

Transfer Agent: Computershare Investor Services

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Website: [www.imaflex.com](http://www.imaflex.com)

### ANNUAL MEETING OF SHAREHOLDERS

The Annual Meeting of Shareholders will be held on  
Tuesday, June 1, 2004 at 5:00 p.m. at Fairmont - The  
Queen Elizabeth, Salon St-Charles, 900 René Lévesque  
West, Montréal, Québec, H3B 4A5.



