

## CONSOLIDATED BALANCE SHEETS

(in thousands)	March 31, 2004	December 31, 2003	March 31, 2003
	(Unaudited)	(Audited)	(Unaudited)
<b>Assets</b>			
Current assets:			
Cash	\$ -	\$ 162	\$ -
Accounts receivable	7,290	6,667	7,765
Inventories	2,543	2,583	2,120
Prepaid expenses	125	11	105
	<b>9,958</b>	9,423	9,990
Deposits for capital assets	-	41	53
Capital assets	<b>11,092</b>	11,465	9,662
Long-term investment	-	-	113
	<b>\$ 21,050</b>	20,929	\$ 19,818
<b>Liabilities and Shareholders' Equity</b>			
Current liabilities:			
Bank indebtedness	\$ 1,549	\$ -	\$ 946
Accounts payable and accrued liabilities	3,719	5,102	5,407
Income taxes payable	296	339	344
Current portion of long-term debt	1,751	1,784	1,433
Current portion of obligations under capital leases	-	-	102
	<b>7,315</b>	7,225	8,232
Long-term debt	<b>5,015</b>	5,535	4,545
Future income taxes	<b>1,683</b>	1,630	1,415
Shareholders' equity:			
Share capital	1,941	1,941	1,941
Retained earnings	<b>5,006</b>	4,598	3,685
	<b>6,947</b>	6,539	5,626
	<b>\$ 21,050</b>	\$ 20,929	\$ 19,818

## CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

(Unaudited)

(in thousands, except per share and share data)	Three months ended March 31, 2004	Three months ended March 31, 2003
Sales	\$ 8,909	\$ 9,749
Cost of sales	7,045	7,722
Gross profit	<b>1,864</b>	2,027
Expenses:		
Selling and administrative	688	676
Amortization of capital assets	504	419
Interest	100	90
Other	23	19
	<b>1,315</b>	1,204
Income before income taxes	<b>549</b>	823
Provision for income taxes	141	258
Net income	<b>408</b>	565
Retained earnings, beginning of period	4,598	3,120
Retained earnings, end of period	<b>\$ 5,006</b>	\$ 3,685
Average number of shares (*) outstanding		
Basic	<b>31,035,002</b>	31,035,002
Diluted	<b>31,110,104</b>	31,035,002
Basic and diluted earnings per share	<b>\$ 0.013</b>	\$ 0.018
Earnings before interest, taxes, depreciation and amortization (EBITDA)	<b>\$ 1,153</b>	\$ 1,332
Basic and diluted EBITDA per share	<b>\$ 0.037</b>	\$ 0.043

(\*) Class A voting and Class B Series 1 non-voting shares

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands)	Three months ended March 31, 2004	Three months ended March 31, 2003
Cash flows from operating activities:		
Net income	\$ 408	\$ 565
Adjustments for:		
Amortization of capital assets	504	419
Future income taxes	53	52
Net change in non-cash operating working capital	(2,148)	(1,564)
	<b>(1,183)</b>	(528)
Cash flows from financing activities:		
Increase in bank indebtedness	1,549	927
Repayment of long-term debt	(463)	(336)
Repayment of obligations under capital leases	-	(19)
	<b>1,086</b>	572
Cash flows from investing activities:		
Purchase of capital assets	(65)	(40)
Increase in deposits for capital assets	-	(4)
	<b>(65)</b>	(44)
Net decrease in cash	<b>(162)</b>	-
Cash, beginning of period	162	-
Cash, end of period	<b>\$ -</b>	\$ -
Supplemental cash flow information:		
Interest paid	\$ 100	\$ 91
Income taxes paid	140	-
Conversion of deposits for capital assets to capital asset additions	41	-
Additions to capital assets included in accounts payable	113	50

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(For the three months ended March 31, 2004 and 2003)

### 1. Significant accounting policies:

The unaudited interim consolidated financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles. (GAAP) The same accounting policies as described in the Company's latest Annual Report have been used. However, these consolidated financial statements do not include all disclosures required under GAAP and accordingly should be read in connection with the consolidated financial statements and notes thereto included in the Company's latest Annual Report.

### 2. Comparative figures:

Certain comparative figures for the three months ended March 31, 2003 have been reclassified to conform to the current period's presentation.

## FROM THE CHAIRMAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER

To our shareholders,

The Company reports net income for the three months ended March 31, 2004 of \$408,000, or \$0.013 per share, compared with net income of \$565,000, or \$0.018 per share, for the same period in 2003. The results include those of Imaflex Inc. and its wholly owned subsidiary, Canslit Inc.

Imaflex's extrusion operations generated net income of \$383,000 for the three months ended March 31, 2004 as compared to \$683,000 for the same period in 2003. The prior year's results were driven by an unusually strong sales volume, due to the influence of the geopolitical climate and expected price increases in the second quarter of 2003. Canslit's metallizing operations generated net income of \$25,000 for the three months ended March 31, 2004 as compared to a net loss of \$118,000 for the same period in 2003. The significant improvement is due to a change in product mix towards metallized polyethylene and growth in the US market.

Sales for the three months ended March 31, 2004 totaled \$8,909,000 compared with \$9,749,000 for the same period in 2003. This decrease of \$840,000 or 8.6% is explained by the reduced sales volume at Imaflex's extrusion operations. Imaflex's sales decreased by \$1,304,000 to \$7,409,000. Canslit's sales increased by \$464,000 to \$1,500,000.

Gross profit for the three months ended March 31, 2004 was \$1,864,000 or 20.9% of sales, compared with \$2,027,000 or 20.8% of sales for the same period in 2003. The lower margin at Imaflex's extrusion operations, due to reduced sales volume, was offset by improving margins at Canslit's metallizing operations, as a result of increased sales volume and change in product mix.

With regard to expenses, Imaflex's amortization of capital assets increased to \$504,000 in the three months ended March 31, 2004, compared with \$419,000 for the same period in 2003. This increase resulted from Imaflex's acquisition of its first co-extrusion line in October 2003.

Income before income taxes for the three months ended March 31, 2004 was \$549,000 as compared to \$823,000 for the same period in 2003. The significant decrease is a direct result of reduced sales volume at Imaflex's extrusion operations and

## FROM THE CHAIRMAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER (continued)

higher amortization expense, which was partially offset by improving results at Canslit.


The income tax provision reflects the taxes on the income generated by Imaflex's operations. Canslit's income before income tax for the three months ended March 31, 2004 was offset by losses incurred in prior periods which are being recognized in the income tax provision at the time Canslit generates income.

### Management Outlook

In spite of a difficult economic climate in its industry sector, in particular competitive pressures caused by excess capacity, the stronger Canadian dollar and Asian competition, Imaflex was able to generate solid profitability during the first quarter of 2004. Looking ahead, Imaflex will seek to increase sales volume in more profitable product segments, with the integration of its first co-extrusion line.

During the first quarter, Canslit faced the same issues as those described above for Imaflex. Management continues to invest in its sales and production activities, to enable Canslit to achieve sales and profitability growth. Management expects that Canslit's operating results will continue to improve as a result of expanding opportunities in the US market.

Sincerely yours,



Joseph Abbandonato  
Chairman of the Board, President and Chief Executive Officer

## 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.

For investor information, contact

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QUARTERLY REPORT  
March 31, 2004

**IMAFLEX**  
Committed to Excellence

