

CONSOLIDATED BALANCE SHEETS

(in thousands)	June 30, 2004 (Unaudited)	December 31, 2003 (Audited)	June 30, 2003 (Unaudited)
Assets			
Current assets:			
Cash	\$ -	\$ 162	\$ -
Accounts receivable	8,035	6,667	6,878
Inventories	2,289	2,583	2,794
Prepaid expenses	69	11	70
	10,393	9,423	9,742
Deposits for capital assets	-	41	12
Capital assets	10,710	11,465	9,329
Long-term investment	-	-	113
	\$ 21,103	\$ 20,929	\$ 19,196
Liabilities and Shareholders' Equity			
Current liabilities:			
Bank indebtedness	\$ 961	\$ -	\$ 2,642
Accounts payable and accrued liabilities	4,184	5,102	2,945
Income taxes payable	349	339	452
Current portion of long-term debt	1,718	1,784	1,483
Current portion of obligations under capital leases	-	-	82
	7,212	7,225	7,604
Long-term debt	4,673	5,535	4,157
Future income taxes	1,676	1,630	1,432
Shareholders' equity:			
Share capital	1,947	1,941	1,941
Retained earnings	5,595	4,598	4,062
	7,542	6,539	6,003
	\$ 21,103	\$ 20,929	\$ 19,196

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

(Unaudited)

(in thousands, except per share and share data)	Three months ended June 30, 2004	June 30, 2003	Six months ended June 30, 2004	June 30, 2003
Sales	\$ 9,647	\$ 9,183	\$ 18,556	\$ 18,932
Cost of sales	7,541	7,521	14,586	15,243
Gross profit	2,106	1,662	3,970	3,689
Expenses:				
Selling and administrative	709	584	1,397	1,260
Amortization of capital assets	498	439	1,002	858
Interest	92	103	192	193
Other	19	33	42	52
	1,318	1,159	2,633	2,363
Income before income taxes	788	503	1,337	1,326
Provision for income taxes	199	126	340	384
Net income	589	377	997	942
Retained earnings, beginning of period	5,006	3,685	4,598	3,120
Retained earnings, end of period	\$ 5,595	\$ 4,062	\$ 5,595	\$ 4,062
Average number of shares (*) outstanding				
Basic	31,041,669	31,035,002	31,038,335	31,035,002
Diluted	31,111,569	31,035,002	31,110,836	31,035,002
Basic and diluted earnings per share	\$ 0.019	\$ 0.012	\$ 0.032	\$ 0.030
Earnings before interest, taxes, depreciation and amortization (EBITDA)	\$ 1,378	\$ 1,045	\$ 2,531	\$ 2,377
Basic and diluted EBITDA per share	\$ 0.044	\$ 0.034	\$ 0.081	\$ 0.077

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands)	Three months ended June 30, 2004	June 30, 2003	Six months ended June 30, 2004	June 30, 2003
Cash flows from operating activities:				
Net income	\$ 589	\$ 377	\$ 997	\$ 942
Adjustments for:				
Amortization of capital assets	498	439	1,002	858
Future income taxes	(7)	17	46	69
Net change in non-cash operating working capital	132	(2,118)	(2,016)	(3,682)
	1,212	(1,285)	29	(1,813)
Cash flows from financing activities:				
Increase (decrease) in bank indebtedness	(588)	1,696	961	2,623
Repayment of long-term debt	(465)	(338)	(928)	(674)
Repayment of obligations under capital leases	-	(20)	-	(39)
Issuance of share capital	6	-	6	-
	(1,047)	1,338	39	1,910
Cash flows from investing activities:				
Purchase of capital assets	(165)	(53)	(230)	(97)
Net decrease in cash	-	-	(162)	-
Cash, beginning of period	-	-	162	-
Cash, end of period	\$ -	\$ -	\$ -	\$ -
Supplemental cash flow information:				
Interest paid	\$ 91	\$ 99	\$ 191	\$ 190
Income taxes paid	165	-	305	-
Conversion of deposits for capital assets to capital asset additions	-	-	41	-
Additions to capital assets included in accounts payable	64	62	64	62

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(For the six months ended June 30, 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. These financial statements were not reviewed or audited by our external auditors.

2. Comparative figures:

Certain comparative figures for the six months ended June 30, 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 June 30, 2004 of \$589,000, or \$0.019 per share, compared with net income of \$377,000, or \$0.012 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 \$533,000 for the three months ended June 30, 2004 as compared to \$345,000 for the same period in 2003. Canslit's metallizing operations generated net income of \$56,000 for the three months ended June 30, 2004 as compared to net income of \$32,000 for the same period in 2003. The overall improvement is due to a change in product mix towards metallized polyethylene and continued growth in the US market.

Sales for the three months ended June 30, 2004 totaled \$9,647,000 compared with \$9,183,000 for the same period in 2003. This increase of \$464,000 or 5.1% is explained by the increased sales volume at Canslit's metallizing operations. Imaflex's sales increased by \$69,000 to \$7,900,000. Canslit's sales increased by \$395,000 or 29.2% to \$1,747,000.

Gross profit for the three months ended June 30, 2004 was \$2,106,000 or 21.8% of sales, compared with \$1,662,000 or 18.1% of sales for the same period in 2003. The increase in gross profit margin is due to an increased sales volume at Canslit and to changes in product mix.

Selling and administrative expenses for the three months ended June 30, 2004 were \$709,000 or 7.3% of sales, compared with \$584,000 or 6.4% of sales for the same period in 2003, primarily as a result of Canslit's higher profile in the US market, which required increased selling efforts.

Income before income taxes for the three months ended June 30, 2004 was \$788,000 as compared to \$503,000 for the same period in 2003. The significant increase is a direct result of the higher sales volume and the enhanced gross profit.

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 June 30, 2004 was offset by losses incurred in prior periods which are being recognized in the income tax provision at the time Canslit generates income.

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

Year-to-date Results

The Company reports net income for the six months ended June 30, 2004 of \$997,000, or \$0.032 per share, compared with net income of \$942,000, or \$0.030 per share, for the same period in 2003. Imaflex's extrusion operations generated net income of \$916,000 for the six months ended June 30, 2004 as compared to \$1,028,000 for the same period in 2003. Canslit's metallizing operations generated net income of \$81,000 for the six months ended June 30, 2004 as compared to a net loss of \$86,000 for the same period in 2003. The overall improvement is due to a change in product mix towards metallized polyethylene and continued growth in the US market.

Sales for the six months ended June 30, 2004 totaled \$18,556,000 compared with \$18,932,000 for the same period in 2003, a decrease of \$376,000 or 2.0%. Imaflex's sales decreased by \$1,235,000 to \$15,309,000, as a result of an unusually strong sales volume in the first quarter of 2003. Canslit's sales increased by \$859,000 to \$3,247,000, largely offsetting the Imaflex decline.

Management Outlook

Imaflex was able to generate strong profitability during the second quarter of 2004 and, with the further integration of its first co-extrusion line, continues to increase sales volume in more profitable product segments. Nevertheless, the competitive pressures continue to exist in its industry sector resulting from excess manufacturing capacity, the strong Canadian dollar and Asian competition.

Canslit was able to increase profitability during the second quarter of 2004 and management is considering the purchase of additional manufacturing equipment to meet 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.

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QUARTERLY REPORT

June 30, 2004

IMAFLEX
Committed to Excellence

