

## CONSOLIDATED BALANCE SHEETS

(in thousands)	September 30, 2005 (Unaudited)	December 31, 2004 (Audited)	September 30, 2004 (Unaudited)
<b>Assets</b>			
Current assets:			
Cash	\$ 1,899	\$ -	\$ -
Accounts receivable	9,906	8,250	7,892
Inventories	3,134	6,484	2,378
Prepaid expenses	250	21	42
	<b>15,189</b>	14,755	10,312
Deposits for capital assets	4,451	232	337
Capital assets	12,489	10,145	10,288
Deferred charges	27	-	-
	<b>\$ 32,156</b>	\$ 25,132	\$ 20,937
<b>Liabilities and Shareholders' Equity</b>			
Current liabilities:			
Bank indebtedness	\$ -	\$ 1,672	\$ 1,145
Accounts payable and accrued liabilities	5,571	6,349	3,625
Income taxes payable	374	748	431
Current portion of long-term debt	2,348	2,006	1,726
	<b>8,293</b>	10,775	6,927
Long-term debt	4,992	3,529	4,238
Future income taxes	1,665	1,696	1,704
Shareholders' equity:			
Share capital	7,255	1,947	1,947
Contributed surplus	198	-	-
Retained earnings	9,753	7,185	6,121
	<b>17,206</b>	9,132	8,068
	<b>\$ 32,156</b>	\$ 25,132	\$ 20,937

## CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

(Unaudited)

(in thousands, except per share and share data)	Three months ended		Nine months ended	
	Sept. 30, 2005	Sept. 30, 2004	Sept. 30, 2005	Sept. 30, 2004
Sales	\$12,565	\$ 9,959	\$35,884	\$28,515
Cost of sales	9,887	7,935	28,192	22,589
Gross profit	2,678	2,024	7,692	5,926
Expenses:				
Selling and administrative	803	713	2,240	2,042
Amortization of capital assets	529	485	1,545	1,487
Interest	83	84	287	276
Foreign exchange gain on translation of integrated subsidiary	(63)	-	(63)	-
Other	20	27	43	69
	<b>1,372</b>	1,309	<b>4,052</b>	3,874
Income before income taxes	1,306	715	3,640	2,052
Provision for income taxes	233	189	759	529
Net income	1,073	526	2,881	1,523
Retained earnings, beginning of period	8,680	5,595	7,185	4,598
Dividends	-	-	(313)	-
Retained earnings, end of period	<b>\$ 9,753</b>	\$ 6,121	<b>\$ 9,753</b>	\$ 6,121
Average number of shares outstanding				
Basic	37,600,002	31,055,002	33,283,335	31,043,891
Diluted	37,717,157	31,114,024	33,354,129	31,111,899
Basic earnings per share	\$ 0.029	\$ 0.017	\$ 0.087	\$ 0.049
Diluted earnings per share	0.028	0.017	0.086	0.049
Earnings before interest, taxes, depreciation and amortization (EBITDA)				
	\$ 1,918	\$ 1,284	\$ 5,472	\$ 3,815
Basic and Diluted EBITDA per share	\$ 0.050	\$ 0.041	\$ 0.164	\$ 0.123

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands)	Three months ended		Nine months ended	
	Sept. 30, 2005	Sept. 30, 2004	Sept. 30, 2005	Sept. 30, 2004
Cash flows from operating activities:				
Net income	\$1,073	\$ 526	\$2,881	\$1,523
Adjustments for:				
Amortization of capital assets	529	485	1,545	1,487
Future income taxes	(16)	28	(31)	74
Other	(1)	-	(1)	-
Cash from operations before changes in non-cash operating working capital	1,585	1,039	4,394	3,084
Net change in non-cash operating working capital	(643)	(396)	147	(2,412)
	<b>942</b>	643	<b>4,541</b>	672
Cash flows from financing activities:				
Increase (decrease) in bank indebtedness	(893)	184	(1,672)	1,145
Issuance of long-term debt	1,669	-	3,369	-
Repayment of long-term debt	(587)	(427)	(1,564)	(1,355)
Issuance of share capital	5,246	-	5,308	6
Dividends	-	-	(313)	-
Issuance of compensation options	198	-	198	-
	<b>5,633</b>	(243)	<b>5,326</b>	(204)
Cash flows from investing activities:				
Purchase of capital assets	(1,371)	(63)	(3,721)	(334)
Increase in deposits for capital assets	(3,277)	(337)	(4,219)	(296)
Deferred Charges	(27)	-	(27)	-
	<b>(4,675)</b>	(400)	<b>(7,967)</b>	(630)
Net increase (decrease) in cash	1,900	-	1,900	(162)
Effect of exchange rate differences on cash	(1)	-	(1)	-
Cash, beginning of period	-	-	-	162
Cash, end of period	<b>\$1,899</b>	\$ -	<b>\$1,899</b>	\$ -
Supplemental cash flow information:				
Interest paid	\$ 84	\$ 84	\$ 289	\$ 275
Income taxes paid	243	82	1,172	387
Additions to capital assets included in accounts payable	273	64	273	64

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(For the nine months ended September 30, 2005 and 2004)

### 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 nine months ended September 30, 2004 have been reclassified to conform to the current period's presentation.

### 3. The unaudited financial statements have not been reviewed by KPMG – LLP, the auditors of the Company.

## FROM THE CHAIRMAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER

To our shareholders,

The Company reports net income for the three months ended September 30, 2005 of \$1,073,000, or \$0.029 per share, compared with net income of \$526,000, or \$0.017 per share, for the same period in 2004. The results include those of Imaflex Inc. and its wholly owned subsidiaries, Imaflex USA Inc. and Canslit Inc.

Imaflex's extrusion operations, including those of Imaflex USA Inc., generated net income of \$650,000 for the three months ended September 30, 2005 as compared to \$507,000 for the same period in 2004. Canslit's metallizing operations generated net income of \$423,000 for the three months ended September 30, 2005 as compared to \$19,000 for the same period in 2004. The stronger performance was driven by further sales growth in the US market, by a continued emphasis on more profitable product segments, and improved manufacturing productivity.

Sales for the three months ended September 30, 2005 totaled \$12,565,000 compared with \$9,959,000 for the same period in 2004. This increase of \$2,606,000 or 26.2% is primarily the result of increased polyethylene sales volume at Canslit's metallizing operations and selling price increases necessitated by a higher cost of raw materials. Imaflex's sales increased by \$276,000 or 3.4% to \$8,327,000. Canslit's sales increased by \$2,330,000 or 122.1% to \$4,238,000.

Gross profit for the three months ended September 30, 2005 was \$2,678,000 or 21.3% of sales, compared with \$2,024,000 or 20.3% of sales for the same period in 2004. The Company experienced an increase in gross profit margin (%) due primarily to increased sales volume and to changes in product mix.

Income before income taxes for the three months ended September 30, 2005 was \$1,306,000 as compared to \$715,000 for the same period in 2004. The 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 extrusion operations. Canslit's income before income tax for the three months ended September 30, 2005 was offset by losses incurred in prior periods which are being recognized in the income tax provision at the time Canslit generates income.

### Year-to-date Results

The Company reports net income for the nine months ended September 30, 2005 of \$2,881,000, or \$0.087 per share, compared with net income of \$1,523,000, or \$0.049 per share, for the same period in 2004. Imaflex's extrusion operations generated net income of \$2,043,000 for the nine months ended September 30, 2005 as compared to \$1,423,000 for the same period in 2004. Canslit's metallizing operations generated net

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

income of \$838,000 for the nine months ended September 30, 2005 as compared to \$100,000 for the same period in 2004. The overall improvement was driven primarily by a particularly strong first quarter and solid second and third quarters due to sales growth in the Canadian and US markets, by a continuing emphasis on more profitable product segments, and improved manufacturing productivity.

Sales for the nine months ended September 30, 2005 totaled \$35,884,000 compared with \$28,515,000 for the same period in 2004, an increase of \$7,369,000 or 25.8%. Imaflex's sales increased by \$2,828,000 to \$26,188,000, as a result of stronger sales volume in the first quarter of 2005. Canslit's sales increased by \$4,541,000 to \$9,696,000, as a result of progressively stronger quarterly sales volume in the US.

### Management Outlook

Imaflex's operations reported another strong quarter in both sales and profitability. Towards the end of the third quarter, prices for petroleum and ethylene based resins, our primary raw materials for the Company's products, rose rapidly in the wake of Hurricanes Katrina and Rita which significantly reduced supplier capacity. As a result, the Company has announced several selling price increases to counter the raw material cost increases from its suppliers, albeit with a timing delay to our customers as a result of competitive pressures. Management expects these abnormal supply conditions in the plastics packaging industry to continue over the course of the next several months.

Imaflex's extrusion operations in the US, through its wholly owned subsidiary Imaflex USA Inc., will have manufacturing capacity in place at its plant in Thomasville, North Carolina during the fourth quarter, enabling the Company to develop its customer base. Management expects that in the short term the US operations will incur operating losses, with improvements being generated as more manufacturing capacity is brought on stream in the first and second quarters of 2006.

Sincerely yours,



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

## CORPORATE PROFILE

Imaflex Inc. and its wholly owned subsidiary Imaflex USA Inc. specialize 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 Inc. employs approximately 70 people in its manufacturing facility, located in Montréal, Québec. Imaflex USA Inc. employs approximately 10 people in its manufacturing facility, located in Thomasville, North Carolina. 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 agricultural, insulation, photography, aerospace and numerous other industries. Canslit employs approximately 35 people at its manufacturing facility in Victoriaville, Québec.

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**IMAFLEX**  
Committed to Excellence

