

CONSOLIDATED BALANCE SHEETS

| (in thousands) | March 31, 2006 (Unaudited) | December 31, 2005 (Audited) | March 31, 2005 (Unaudited) |
|---|----------------------------------|-----------------------------------|----------------------------------|
| Assets | | | |
| Current assets: | | | |
| Cash | \$ - | \$ 2,103 | \$ - |
| Accounts receivable | 8,727 | 10,886 | 8,733 |
| Inventories | 6,217 | 6,222 | 4,613 |
| Prepaid expenses | 276 | 82 | 121 |
| | 15,220 | 19,293 | 13,467 |
| Deposits for capital assets | 2,265 | 1,472 | 349 |
| Capital assets | 19,427 | 16,078 | 11,282 |
| | \$ 36,912 | \$ 36,843 | \$ 25,098 |
| Liabilities and Shareholders' Equity | | | |
| Current liabilities: | | | |
| Bank indebtedness | \$ 795 | \$ - | \$ 1,163 |
| Accounts payable and accrued liabilities | 6,780 | 6,396 | 4,747 |
| Income taxes payable | 321 | 731 | 578 |
| Current portion of long-term debt | 2,429 | 2,420 | 2,356 |
| | 10,325 | 9,547 | 8,844 |
| Long-term debt | 6,682 | 7,318 | 4,449 |
| Future income taxes | 1,660 | 1,660 | 1,688 |
| Non-controlling interest | 86 | - | - |
| Shareholders' equity: | | | |
| Share capital | 7,367 | 7,367 | 1,950 |
| Contributed surplus | 285 | 285 | - |
| Retained earnings | 10,507 | 10,666 | 8,167 |
| | 18,159 | 18,318 | 10,117 |
| | \$ 36,912 | \$ 36,843 | \$ 25,098 |

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

(Unaudited)

| (in thousands, except per share and share data) | Three months ended | |
|---|--------------------|-------------------|
| | March 31, 2006 | March 31, 2005 |
| Sales | \$ 11,800 | \$ 11,858 |
| Cost of sales | 10,048 | 9,191 |
| Gross profit | 1,752 | 2,667 |
| Expenses: | | |
| Selling and administrative | 937 | 706 |
| Amortization of capital assets | 563 | 505 |
| Interest | 171 | 104 |
| Foreign exchange loss on translation of integrated subsidiary | 68 | - |
| Other | (14) | 15 |
| | 1,725 | 1,330 |
| Income before income taxes and non-controlling interest | 27 | 1,337 |
| Provision for income taxes | 200 | 355 |
| Non-controlling interest | (14) | - |
| Net (loss) income | (159) | 982 |
| Retained earnings, beginning of period | 10,666 | 7,185 |
| Retained earnings, end of period | \$ 10,507 | \$ 8,167 |
| Average number of shares outstanding | | |
| Basic | 37,600,002 | 31,058,335 |
| Diluted | 37,695,514 | 31,153,563 |
| Basic and diluted (loss) earnings per share | \$ (0.004) | \$ 0.032 |
| Earnings before interest, taxes, depreciation and amortization (EBITDA) | | |
| | \$ 761 | \$ 1,946 |
| Basic EBITDA per share | \$ 0.020 | \$ 0.063 |
| Diluted EBITDA per share | \$ 0.020 | \$ 0.062 |

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

| (in thousands) | Three months ended | |
|---|--------------------|-------------------|
| | March 31, 2006 | March 31, 2005 |
| Cash flows from operating activities: | | |
| Net (loss) income | \$ (159) | \$ 982 |
| Adjustments for: | | |
| Amortization of capital assets | 563 | 505 |
| Future income taxes | - | (8) |
| Non-controlling interest | 86 | - |
| Other | 37 | - |
| Cash from operations before changes in non-cash operating working capital | 527 | 1,479 |
| Net change in non-cash operating working capital | 1,390 | (593) |
| | 1,917 | 886 |
| Cash flows from financing activities: | | |
| Increase (decrease) in bank indebtedness | 795 | (509) |
| Issuance of long-term debt | - | 1,700 |
| Repayment of long-term debt | (640) | (430) |
| Issuance of share capital | - | 3 |
| | 155 | 764 |
| Cash flows from investing activities: | | |
| Purchase of capital assets | (3,365) | (1,533) |
| Increase in deposits for capital assets | (793) | (117) |
| | (4,158) | (1,650) |
| Effect of exchange rate differences on cash | (17) | - |
| Net decrease in cash | (2,103) | - |
| Cash, beginning of period | 2,103 | - |
| Cash, end of period | \$ - | \$ - |
| Supplemental cash flow information: | | |
| Interest paid | \$ 137 | \$ 105 |
| Income taxes paid | 610 | 533 |
| Additions to capital assets included in accounts payable | 692 | 215 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(For the three months ended March 31, 2006 and 2005)

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. The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Canslit Inc. and Imaflex USA Inc., as well as the majority-owned Canguard Packaging Inc.

2. Comparative figures:

Certain comparative figures for the three months ended March 31, 2005 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

Summary – Results of Operations

The Company incurred a net loss of \$159,000 for the three months ended March 31, 2006, compared with net income of \$982,000 for the same period in 2005. The results include those of Imaflex Inc. ("Imaflex"), its wholly owned subsidiaries, Imaflex USA Inc. ("Imaflex USA") and Canslit Inc. ("Canslit"), as well as the majority owned Canguard Packaging Inc. ("Canguard") (refer to New Developments below)

As anticipated by management, the plastics packaging industry experienced a difficult operating environment in the first quarter of 2006. The Company was faced with significant pricing pressures as reduced demand and excess supply, combined with the continuing decline in the U.S. dollar during the quarter, adversely affected its Canadian customers' ability to export product competitively to the USA. Meanwhile, U.S. competitors continued to penetrate the Company's local markets. As a result, the Company's Canadian operations (Imaflex and Canslit) generated combined net income of \$424,000 for the three months ended March 31, 2006, compared with net income of \$982,000 for the same period in 2005. Furthermore, the current quarter's results were adversely impacted by a loss on Imaflex USA's operations of \$549,000 (inclusive of a foreign exchange translation loss of \$68,000) and a loss (net of non-controlling interest) at Canguard of \$34,000, which are both in start-up mode as new operating entities in the Imaflex group.

Sales

Sales for the three months ended March 31, 2006 totaled \$11,800,000 compared with \$11,858,000 for the same period in 2005. Although the current quarter's sales are comparable to the same period in 2005, there was a notable decrease in sales volume at Imaflex's Canadian operations as a result of the factors noted above.

Gross profit margins

Gross profit margin for the three months ended March 31, 2006 was 14.8% of sales, compared with 22.5% for the same period in 2005. Although the Company was able to increase its selling prices to match increased resin costs, the reduced Imaflex sales volume and start up operations at Imaflex USA and Canguard resulted in a significant drop in gross profit margin.

Income taxes

The income tax provision reflects the taxes on the income generated by the Company's Canadian operations.

New Developments

In March 2006, Imaflex incorporated Canguard, whose main function is the manufacture and sale of plastic trash bags for both the retail and industrial markets. In the same way that Canslit relies on Imaflex's extruded polyethylene

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

film, Canguard utilizes Imaflex's extruded film products and recycled resins and becomes an important component of the Imaflex group. Imaflex controls Canguard through a 70% ownership stake.

Management Outlook

Despite the state of the plastics packaging industry which continues to be hampered by reduced demand and excess supply, the Company's Canadian operations continue to operate profitably, albeit at a lower level than in the fourth quarter of 2005.

Imaflex USA incurred substantial losses during the first quarter as it is still in start-up mode. There was limited production capacity available during the first quarter. The first of three large, efficient and productive extruders will be brought on stream during the second quarter, with two others in the third quarter. Management expects that profitability will be attained before year end.

With regard to the Company's controlling interest in Canguard, management sees an opportunity to improve its returns on its recycled line of products. Canguard's operations require a low level of capital and start-up costs. Management expects Canguard to operate profitably by year end.

Notwithstanding the foregoing and the overall difficult market conditions, management expects the Company to post a consolidated profit for the current fiscal year with results for the last two quarters of the year being more in keeping with the recent historical quarterly profit figures.

Safe Harbor Statement

Certain statements and information included in this release constitute "forward-looking statements". Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied in such forward-looking statements. Additional discussion of factors that could cause actual results to differ materially from management's projections, estimates and expectations is contained in the Company's other public filings. The Company undertakes no duty to update its forward-looking statements, including its earnings outlook.

Sincerely yours,



Joseph Abbondonato
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 15 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.

Canguard Packaging Inc., a majority owned subsidiary, specializes in the manufacture and sale of plastic trash bags for both the retail and industrial markets. Canguard employs approximately 5 people at its manufacturing facility in Concord, Ontario.

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March 31, 2006

IMAFLEX
Committed to Excellence

