

QUARTERLY REPORT
September 30, 2007

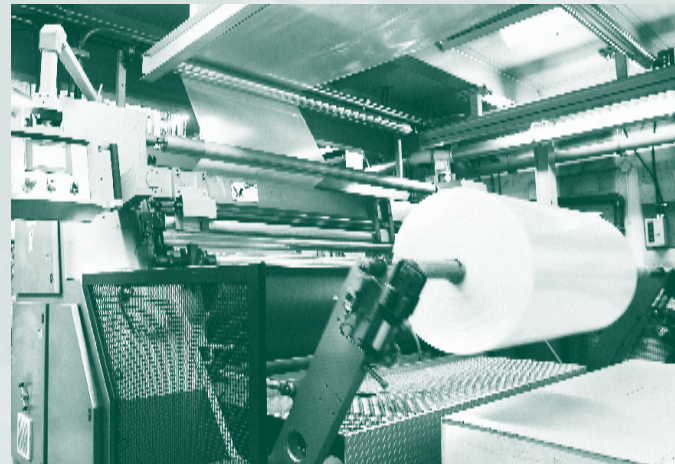
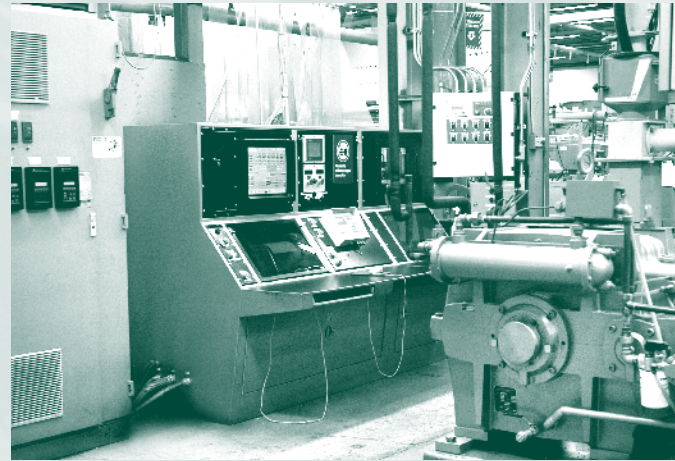
IMAFLEX
Committed to Excellence



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

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

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



CONSOLIDATED BALANCE SHEETS

(\$ thousands)	September 30 2007 (Unaudited)	December 31 2006 (Audited)	September 30 2006 (Unaudited)
Assets			
Current assets:			
Cash	\$ 692	\$ –	\$ –
Accounts receivable	9,115	8,876	9,524
Inventories	6,384	6,112	8,782
Future income taxes	–	123	–
Income taxes receivable	–	66	64
Prepaid expenses	137	39	154
	16,328	15,216	18,524
Deposits for capital assets	–	–	1,218
Capital assets	23,715	25,056	23,746
	\$ 40,043	\$ 40,272	\$ 43,488
Liabilities and Shareholders' Equity			
Current liabilities:			
Bank indebtedness	\$ –	\$ 496	\$ 416
Accounts payable and accrued liabilities	5,763	4,606	8,321
Income taxes payable	275	–	–
Current portion of long-term debt	3,524	3,582	3,243
Current portion of obligations under capital lease	90	85	84
	9,652	8,769	12,064
Obligations under capital lease	166	242	263
Long-term debt	10,848	11,695	10,529
Future income taxes	1,324	1,380	1,660
Non-controlling interest	–	–	29
Shareholders' equity:			
Share capital	7,329	7,329	7,367
Contributed surplus	323	323	285
Retained earnings	10,401	10,534	11,291
	18,053	18,186	18,943
	\$ 40,043	\$ 40,272	\$ 43,488

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE INCOME AND RETAINED EARNINGS

(Unaudited)

(\$ thousands, except per share and share data)	Three months ended		Nine months ended	
	September 30 2007	September 30 2006	September 30 2007	September 30 2006
Sales	\$ 11,732	\$ 13,800	\$ 35,849	\$ 40,512
Cost of sales	10,027	11,536	30,871	33,658
Gross profit	1,705	2,264	4,978	6,854
Expenses:				
Selling and administrative	978	1,039	2,851	3,059
Amortization of capital assets	769	607	1,992	1,755
Interest	342	290	865	652
Foreign exchange loss (gain)	(251)	(35)	(735)	(34)
Other	20	28	51	31
	1,858	1,929	5,024	5,463
(Loss) income before income taxes and non-controlling interest	(153)	335	(46)	1,391
Provision for income taxes	4	287	87	837
Non-controlling interest	–	(36)	–	(71)
Net (loss) income and comprehensive income	(157)	84	(133)	625
Retained earnings, beginning of period	10,558	11,207	10,534	10,666
Retained earnings, end of period	\$ 10,401	\$ 11,291	\$ 10,401	\$ 11,291
Average number of shares outstanding				
Basic	37,350,002	37,600,002	37,350,002	37,600,002
Diluted	37,350,002	37,600,002	37,350,002	37,637,826
Basic and diluted (loss) earnings per share	\$ (0.005)	\$ 0.003	\$ (0.004)	\$ 0.017
Earnings before interest, taxes, non-controlling interest, depreciation and amortization (EBITDA)	\$ 958	\$ 1,232	\$ 2,811	\$ 3,798
Basic and diluted EBITDA per share	\$ 0.025	\$ 0.033	\$ 0.075	\$ 0.101

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(\$ thousands)	Three months ended		Nine months ended	
	September 30 2007	September 30 2006	September 30 2007	September 30 2006
Cash flows from operating activities:				
Net (loss) income	\$ (157)	\$ 84	\$ (133)	\$ 625
Adjustments for:				
Amortization of capital assets	769	607	1,992	1,755
Future income taxes	(77)	–	67	–
Foreign exchange	(353)	(11)	(859)	(77)
Change in fair value of derivative financial instrument	69	49	29	49
Non-controlling interest	–	(36)	–	(71)
Cash from operations before changes in non-cash operating working capital	251	693	1,096	2,281
Net change in non-cash operating working capital	2,961	(1,159)	956	(724)
	3,212	(466)	2,052	1,557
Cash flows from financing activities:				
(Decrease) increase in bank indebtedness	(3,442)	(2,315)	(496)	416
Issuance of long-term debt	2,000	4,823	3,000	6,067
Repayment of long-term debt	(916)	(655)	(2,804)	(1,892)
Repayment of obligations under capital lease	(29)	(20)	(71)	(20)
Issuance of share capital by non-wholly owned subsidiary	–	–	–	100
	(2,387)	1,833	(371)	4,671
Cash flows from investing activities:				
Purchase of capital assets	(129)	(1,367)	(976)	(8,281)
Increase in deposits for capital assets	–	–	–	–
	(129)	(1,367)	(976)	(8,281)
Effect of exchange rate differences on cash	(4)	–	(13)	(50)
Net increase (decrease) in cash	692	–	692	(2,103)
Cash, beginning of period	–	–	–	2,103
Cash, end of period	\$ 692	\$ –	\$ 692	\$ –
Supplemental cash flow information:				
Interest paid	\$ 264	\$ 236	\$ 828	\$ 568
Income taxes paid	–	1,073	346	1,708
Additions to capital assets included in accounts payable	352	666	352	666
Purchase of capital assets through the issuance of obligations under capital lease	–	367	–	367
Conversion of deposits for capital assets to capital asset additions	–	551	–	254

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2007 and 2006 (unaudited)

1. Significant accounting policies:

The unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”). Other than the changes in accounting policies in Note 2 below, the accounting policies for these financial statements are the same as those in Note 1 of the audited annual consolidated financial statements for the year ended December 31, 2006.

These unaudited interim consolidated financial statements do not include all of the disclosures included in the Company’s audited annual consolidated financial statements, and as such should be read in conjunction with the audited annual consolidated financial statements for the year ended December 31, 2006.

The unaudited interim consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Canslit Inc. and Imaflex USA, Inc.

In addition, these unaudited interim consolidated financial statements have not been reviewed by KPMG LLP, the auditors of the Company.

2. Changes in accounting policies

On January 1, 2007, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 1530, Comprehensive Income, Section 3251, Equity, Section 3855, Financial Instruments – Recognition and Measurement and Section 3861, Financial Instruments – Disclosure and Presentation. These new Handbook Sections, which apply to fiscal years beginning on or after October 1, 2006, provide comprehensive requirements for the recognition and measurement of financial instruments. Section 1530 also establishes standards for reporting and displaying comprehensive income. Comprehensive income is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income but that are excluded from net income calculated in accordance with GAAP.

Under these standards, all financial instruments are classified into one of the following five categories: held-for-trading, and held-to-maturity investments, available-for-sale financial assets, loans and receivables and other financial liabilities. All financial instruments, including derivatives, are included on the consolidated balance sheet and are measured at fair market value with the exception of loans and receivables, investments held-to-maturity and other financial liabilities, which are measured at amortized cost. Subsequent measurement and recognition of changes in fair value of financial instruments depend on their initial classification. Held-for-trading financial investments are measured at fair value and all gains and losses are included in net income in the period in which they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses included in other comprehensive income until the asset or liability is removed from the balance sheet.

As a result of the adoption of these new standards, the Company has classified its cash as held-for-trading. Accounts receivable are classified as loans and receivables. Accounts payable and accrued liabilities, bank indebtedness, long-term debt, including interest payable, and obligations under capital lease are classified as other liabilities, all of which are measured at amortized cost. The Company has measured all derivatives and embedded derivatives at fair value and does not use hedge accounting.

The adoption of these new standards did not have an impact on opening retained earnings or on the measurement of the Company’s assets and liabilities as at January 1, 2007.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2007 and 2006 (unaudited) (*continued*)

3. Contingency:

In the normal course of business, the Company is named as defendant in various claims resulting from the use by end-users of its products. While it is not possible to estimate the outcome of the various proceedings at this time, the Company expects that it will not incur any significant loss or expense in excess of amounts already provided. Any differences between the amounts settled and the amounts provided will be accounted for as a charge to income in the period in which the settlement occurs.

4. Comparative figures:

Certain prior period figures have been reclassified to conform to the current period presentation.