

**QUARTERLY REPORT**  
September 30, 2008

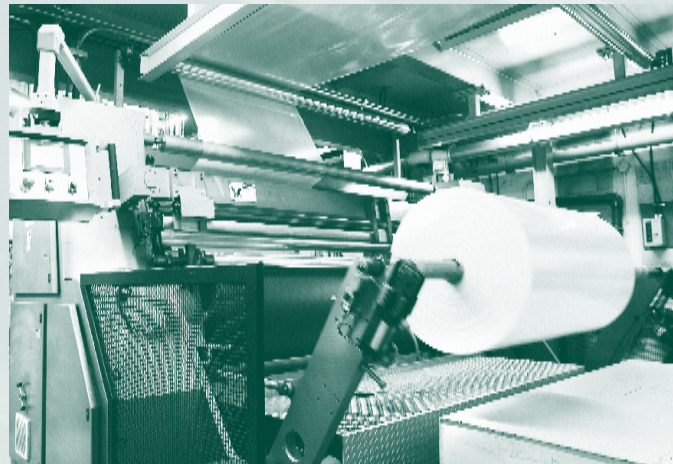
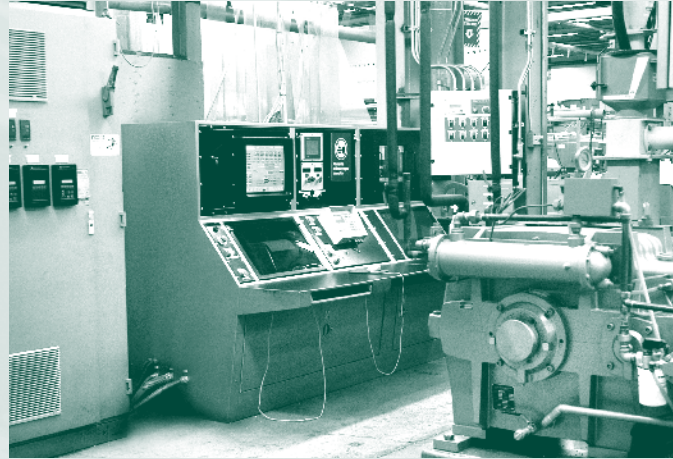
**IMAFLEX**  
*Committed to Excellence*



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****(unaudited)**

	<b>September 30</b>	December 31	September 30
(\$ thousands)	<b>2008</b>	2007	2007
	<b>(Unaudited)</b>	(Audited)	(Unaudited)
<b>Assets</b>			
Current assets:			
Cash	\$ -	\$ 496	\$ 692
Accounts receivable	<b>10,815</b>	8,845	9,115
Inventories	<b>9,677</b>	6,914	6,384
Prepaid expenses	<b>132</b>	146	137
	<b>20,624</b>	16,401	16,328
Capital assets	<b>20,523</b>	22,899	23,715
	<b>\$ 41,147</b>	<b>\$ 39,300</b>	<b>\$ 40,043</b>
<b>Liabilities and Shareholders' Equity</b>			
Current liabilities:			
Bank indebtedness	\$ 6,298	\$ 1,875	\$ -
Accounts payable and accrued liabilities	<b>5,381</b>	4,282	5,763
Income taxes payable	<b>87</b>	58	275
Current portion of long-term debt	<b>3,620</b>	3,569	3,524
Current portion of obligations under capital lease	<b>97</b>	92	90
	<b>15,483</b>	9,876	9,652
Obligations under capital lease	<b>69</b>	142	166
Long-term debt	<b>7,517</b>	9,914	10,848
Future income taxes	<b>1,239</b>	1,238	1,324
<b>Shareholders' equity:</b>			
Share capital	<b>7,329</b>	7,329	7,329
Contributed surplus	<b>323</b>	323	323
Retained earnings	<b>9,187</b>	10,478	10,401
	<b>16,839</b>	18,130	18,053
	<b>\$ 41,147</b>	<b>\$ 39,300</b>	<b>\$ 40,043</b>

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 2008	September 30 2007	September 30 2008	September 30 2007
Sales	\$ 13,976	\$ 11,732	\$ 40,104	\$ 35,849
Cost of sales	12,306	10,027	34,643	30,871
Gross profit	1,670	1,705	5,461	4,978
Expenses				
Selling and administrative	1,030	978	3,017	2,851
Amortization of capital assets	854	769	2,504	1,992
Interest	237	342	685	865
Foreign exchange loss (gain)	207	(251)	344	(735)
Other	45	20	113	51
	2,373	1,858	6,663	5,024
Income (loss) before income taxes	(703)	(153)	(1,202)	(46)
Provision for income taxes	(117)	4	141	87
Net income (loss)	(586)	(157)	(1,343)	(133)
Retained earnings, beginning of period	9,773	10,558	10,530	10,534
Retained earnings, end of period	\$ 9,187	\$ 10,401	\$ 9,187	\$ 10,401
Average number of shares outstanding				
Basic	37,350,002	37,350,002	37,350,002	37,350,002
Diluted	37,350,002	37,350,002	37,350,002	37,350,002
Basic and diluted earnings (loss) per share	\$ (0.016)	\$ (0.005)	\$ (0.036)	\$ (0.004)
Earnings before interest, taxes depreciation and amortization (EBITDA)	\$ 388	\$ 958	\$ 1,987	\$ 2,811
Basic and diluted EBITDA per share	\$ 0.010	\$ 0.025	\$ 0.053	\$ 0.075

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(\$ thousands)	Three months ended		Nine months ended	
	September 30 2008	September 30 2007	September 30 2008	September 30 2007
Cash flows from operating activities:				
Net income (loss)	\$ (586)	\$ (157)	\$ (1,343)	\$ (133)
Adjustments for:				
Amortization of capital assets	854	769	2,504	1,992
Future income taxes	125	(77)	1	67
Foreign exchange	208	(353)	397	(859)
Change in fair value of derivative financial instrument	(3)	69	(10)	29
Cash from operations before changes in non-cash operating working capital	598	251	1,549	1,096
Net change in non-cash operating working capital	(1,795)	2,961	(3,619)	956
	(1,197)	3,212	(2,070)	2,052
Cash flows from financing activities:				
Increase in bank indebtedness	2,093	(3,442)	4,423	(496)
Issuance of long-term debt	-	2,000	-	3,000
Repayment of long-term debt	(915)	(916)	(2,717)	(2,804)
Repayment of obligations under capital lease	(23)	(29)	(69)	(71)
	1,155	(2,387)	1,637	(371)
Cash flows from investing activities:				
Purchase of capital assets	(2)	(129)	(42)	(976)
Increase in deposits for capital assets	-	-	3	-
	(2)	(129)	(39)	(976)
Effect of exchange rate differences on cash	2	(4)	(24)	(13)
Net decrease in cash	(42)	692	(496)	692
Cash, beginning of period	42	-	496	-
Cash, end of period	\$ -	\$ 692	\$ -	\$ 692
<b>Supplemental cash flow information:</b>				
Interest paid	\$ 278	\$ 264	\$ 776	\$ 828
Income taxes paid	-	-	145	346
Additions to capital assets included in accounts payable	241	352	330	352

See accompanying notes to consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2008 and 2007 (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, 2007.

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, 2007.

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 including initial adoption

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 Sections provide comprehensive requirements for the recognition and measurement of financial instruments. Section 1530 also establishes standards for reporting and displaying comprehensive income and Section 3251 describes standards for the presentation of equity and changes in equity for the reporting period as a result of the application of Section 1530.

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.

Effective January 1, 2008 the Company adopted CICA Handbook Section 1535 *Capital Disclosures* (see note 2(a)), Section 3862, *Financial Instruments – Disclosure* and 3863 – *Financial Instruments – Presentation*. Sections 3862 and 3863 replace the existing Section 3861, *Financial Instruments – Disclosure and Presentation*. Disclosure standards are enhanced and expanded to complement the changes in accounting policies adopted in accordance with Section 3855, *Financial Instruments – Recognition and Measurement*. These Sections are effective for fiscal periods beginning on or after October 1, 2007 (see note 2(b)). These new standards relate to disclosure only and did not impact the financial results of the Company.

On January 1, 2008, the Company adopted CICA Handbook Section 3031, *Inventories*, which replaces Section 3030 and harmonizes the Canadian standards related to inventories with International Financial Reporting Standards (“IFRS”). This Section provides changes to the measurement and more extensive guidance on the determination of cost, including allocation of overhead; narrows the permitted cost formulas; requires impairment testing; and expands the disclosure requirements to increase transparency. The change in accounting policy resulted in an increase to opening retained earnings of \$52,000.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2008 and 2007 (unaudited)

### 2 (a) CAPITAL DISCLOSURES

The company's objective in managing capital is to ensure sufficient liquidity to pursue its growth while at the same time taking a conservative approach towards financial leverage and financial risk.

The Company's Capital is composed of net debt and shareholder's equity. Net debt consists of interest bearing debt less cash and equivalents. The company's primary uses of capital are to finance increases in non-cash working capital and capital expenditures for capacity expansion and integration.

The Company's primary measure to monitor financial leverage is EBITDA.

Long term debt arrangements require that we meet certain ratios at fixed points in time. The ratios are:

Working Capital ratio of at least 1.1 to 1,

Debt / Equity ratio of no more than 3.5 to 1.

At September 30, 2008 the company meets all its covenants.

### 2 (b) FINANCIAL INSTRUMENTS – Disclosure and Presentation

Financial assets (\$ thousands)	September 30, 2008		June 30, 2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Loans and receivables:				
Accounts receivable	\$ 10,815	\$ 10,815	\$ 12,271	\$ 12,271
Financial liabilities				
Other financial liabilities:				
Bank indebtedness	6,298	6,298	4,205	4,205
Accounts payable	5,250	5,250	6,769	6,769
Long term debt	11,137	11,137	11,842	11,842
Derivative financial instrument:				
Interest rate swap	131	131	129	129

Fair value estimates are made as of a specific point in time, using available information about the financial instrument. These estimates are subjective in nature and often cannot be determined with precision. The Company has determined that the fair value of its short term financial assets and liabilities approximates their respective carrying amounts as at the balance sheet date because of the short term maturity of those instruments. The fair value of the long-term debt, which bears interest at floating rates, approximates its carrying amount. The Company has determined its interest rate swap based on a valuation model using forward interest rates. For a more detailed explanation see note 8 (a) of the <<Notes to the Financial Statements for the years ended December 31, 2007 and 2006>> in our annual report.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2008 and 2007 (unaudited)

### Financial Risk Management

This section provides disclosure relating to the nature and extent of the Company's exposure to risk arising from the use of financial instruments, including credit risk, liquidity risk, foreign currency risk, and interest risk, as well as a discussion on how the company manages those risks.

### Credit Risk

The Company's extension of credit is based on an evaluation of each customer's financial condition and the Company's ability to obtain credit insurance coverage for that customer. Credit losses are provided for in the financial statements. Sales to one customer represented approximately 14.4 % of total sales for the quarter ended September 30, 2008 compared to 14.9 % for the same period of 2007. The above customer represented approximately 6.1 % of accounts receivable at September 30, 2008 compared to 5.8 % at September 30, 2007.

### The ageing of trade accounts receivable at September 30, 2008 was as follows:

(\$ thousands)	September 30, 2008
Current	\$ 4,714
30-60 days	3,625
Overdue 60-90 days	1,882
Overdue 90 days & over	1,564
Total	\$ 11,785
Less allowance for doubtful accounts	970
Trade receivables net of allowance for doubtful accounts	\$ 10,815

During the quarter there was no movement in the allowance for doubtful accounts.

### Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure and financial leverage, as outlined in note 2 (a). It also manages liquidity risk by continuously monitoring actual and projected cash flows.

We have an operating line of credit of \$7,500,000, of which an amount of \$ 6,520,000 was utilized as at September 30, 2008. Borrowings under our operating line of credit bear interest at the bank's prime rate plus 0.50%. The line of credit contains customary covenants requiring us to maintain certain financial ratios.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2008 and 2007 (unaudited)

As at September 30, 2008, the carrying amount and contractual cash flows for our financial liabilities are as follows:

### Non Derivative Financial Liabilities

(\$ thousands)	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Long term debt (1)	\$ 11,137	\$ (12,937)	\$ (2,111)	\$ (2,111)	\$ (3,587)	\$ (5,128)	-
Bank indebtedness	6,298	(6,298)	(6,298)	-	-	-	-
Accounts payable (2)	5,250	(5,250)	(5,250)	-	-	-	-

### Derivative Financial Liabilities

Interest rate swap	\$ 131	\$ (131)	\$ (49)	\$ (49)	\$ (33)	-	-
Total	\$ 22,816	\$ (24,616)	\$ (13,708)	\$ (2,160)	\$ (3,620)	\$ (5,128)	-

#### Note:

- (1) The interest on the secured bank debt and derivative is based on interest rates in effect at the balance sheet date.
- (2) The accounts payable exclude the interest rate Swap presented separately.

### Foreign currency risk

A portion of the Company's sales and expenses as well as accounts receivable and payable are denominated in US dollars. A portion of the revenue stream in US dollars acts as a natural hedge to cover expenses denominated in US dollars. The Company does not use forward foreign exchange contracts to manage its residual foreign exchange exposure.

As at September 30, 2008, the Company had the following financial instruments denominated in foreign currencies:

(\$ thousands)	US \$
Trade Receivables	\$ 5,032
Trade Payables	(2,483)
Secured Bank loans	(5,028)
Interest rate Swap	(123)
Gross balance sheet exposure	(2,602)

### Sensitivity analysis

Assuming the strengthening of the Canadian dollar against the American dollar at September 30, 2008 a 5 % increase in the Canadian dollar would increase equity and net income by \$ 130,000.

Conversely a 5 % decrease in the value of the Canadian dollar would have the opposite effect.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2008 and 2007 (unaudited)

### Interest rate risk

The Company's principal exposure to interest rate fluctuations is with respect to its short term and long term financing, which bear interest at floating rates.

At the reporting date the carrying value of the Company's interest bearing financial instruments were as follows:

(\$ thousands)

<i>Fixed rate instruments</i>	
Financial Liabilities	\$ 5,806
<i>Variable rate instruments</i>	
Financial Liabilities	\$ 5,331
<i>Derivative financial instrument</i>	
Interest rate Swap	\$ 131

### Sensitivity analysis

As the Company's fixed-rate non-derivative financial instruments are measured at amortized costs, fluctuations in interest rates will affect the fair values of these instruments but will not impact earnings or equity.

The Company is exposed to interest rate risk with respect to its variable rate non-derivative financial instruments and interest rate risk and its interest rate Swap. A 100 basis point increase in interest rates at the reporting date would result in the following decrease in net income and equity. Conversely a decrease would have the opposite effect.

(\$ thousands)	<b>Effect</b>
Variable rate instrument	\$ (53)
Interest rate Swap	\$ 1
Total impact of a 100 basis point increase in interest rates	\$ (52)

### 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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")

For the three and nine months ended September 30, 2008 and 2007 (unaudited)

The purpose of this MD&A is, as required by regulators, to explain management's point of view on the Company's past performance and future outlook. This report also provides information to improve the reader's understanding of the consolidated financial statements and related notes. Please refer to the unaudited consolidated financial statements for the third quarter when reading this MD&A, in addition to the 2007 Annual Report. In this document, unless otherwise indicated, all financial data is prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). All amounts are expressed in Canadian dollars unless otherwise indicated. In this MD&A we also use a non-GAAP financial measure. Please refer to the section entitled "Non-GAAP Measure" for a complete description of this measure. The consolidated financial statements include the accounts of the Company and its division Canguard Packaging, and its wholly owned subsidiaries, Canslit Inc. ("Canslit") and Imaflex USA, Inc. ("Imaflex USA"). To facilitate the reading of this report, the terms "Imaflex", "Company", "we", "our", "us" all refer to Imaflex Inc. together with its subsidiaries. This MD&A is prepared in conformity with National Instrument 51-102 and Form 51-102F1 and has been approved by the board of directors prior to its release. The unaudited consolidated financial statements for the third quarter ended September 30, 2008 have not been reviewed by KPMG LLP, the auditors of the Company.

### **FORWARD-LOOKING STATEMENTS**

From time to time, we make forward-looking statements within the meaning of certain securities laws, including the "safe harbor" provisions of the Securities Act (Ontario). We may make such statements in this document, in other filings with Canadian regulators, in reports to shareholders or in other communications. These forward-looking statements include, among others, statements regarding the business and anticipated financial performance of the Company. The words "may", "could", "should", "would", "outlook", "believe", "plan", "anticipate", "expect", "intend", "objective," the use of the conditional tense and words and expressions of similar nature are intended to identify forward-looking statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, which give rise to the possibility that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution readers not to place undue reliance on these statements, as a number of important factors could cause our actual results to differ materially from the beliefs, plans, objectives, expectations, anticipations, estimates and intentions expressed in such forward-looking statements. These factors include, but are not limited to, management of credit, market dynamics, liquidity, funding and operational risks; the strength of the Canadian and U.S. economies in which we conduct business; the impact of the movement of the Canadian dollar relative to other currencies, particularly the U.S. dollar; the effects of changes in interest rates; the effects of competition in the markets in which we operate; our ability to successfully align our organization, resources, and processes; the availability and price of raw materials; failure to achieve planned growth associated with the U.S. expansion; changes in accounting policies and methods we use to report our financial condition, including uncertainties associated with critical accounting assumptions and estimates; operational and infrastructure risks; other factors may affect future results including, but not limited to, timely development and introduction of new products and services, changes in tax laws, technological changes, new regulations; the possible impact on our businesses from public-health emergencies, international conflicts and other developments; and our success in anticipating and managing the foregoing risks.

We caution our readers that the foregoing list of important factors that may affect future results is not exhaustive. When relying on our forward-looking statements to make decisions with respect to the Company, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. Unless otherwise required by the securities authorities, we do not undertake to update any forward-looking statement that may be made from time to time by us or on our behalf. The forward-looking statements contained herein are based on information available as of November 12, 2008.

## MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")

For the three and nine months ended September 30, 2008 and 2007 (unaudited)

### COMPANY OVERVIEW

The Company operates in one reportable segment being the development, manufacture and sale of packaging materials. The results include those of Imaflex Inc. ("Imaflex") located in Montreal, (Quebec) and its division Canguard located in Victoriaville (Québec), and its wholly owned subsidiaries, Imaflex USA, Inc. ("Imaflex USA") located in Thomasville (North Carolina) and Canslit Inc. ("Canslit") located in Victoriaville (Quebec). All intercompany balances and transactions have been eliminated.

Imaflex and Imaflex USA specialize in the manufacture and sale of custom-made polyethylene films suited for various packaging needs of our customers. Canguard specializes in the manufacture and sale of polyethylene trash bags for both the retail and industrial markets. Canslit specializes in the metallization of polyethylene film.

The Class A shares of the Company are listed for trading on the TSX Venture Exchange under the symbol "IFX.A". The Company's head office is located in Montreal, (Quebec).

### NON-GAAP MEASURE

The Company's management uses a non-GAAP measure in this MD&A, namely EBITDA. Management wishes to specify that in the performance of the Company's financial results, EBITDA is shown as "Earnings before interest, taxes, depreciation and amortization". The reader may refer to the table below for the reconciliation of the EBITDA used by the Company and reported net income.

Reconciliation of EBITDA and (Net loss):

	Three months ended		Nine months ended	
(\$ thousands, except per share and share data)	September 30 2008	September 30 2007	September 30 2008	September 30 2007
(Net loss)	<b>(586)</b>	(157)	<b>(1,343)</b>	(133)
Plus:				
Income taxes	<b>(117)</b>	4	<b>141</b>	87
Interest	<b>237</b>	342	<b>685</b>	865
Amortization	<b>854</b>	769	<b>2,504</b>	1,992
EBITDA	<b>388</b>	958	<b>1,987</b>	2,811
EBITDA (basic and diluted)	<b>0.010</b>	0.025	<b>0.053</b>	0.075

While EBITDA is not a standard GAAP measure, management, analysts, investors and others use it as an indicator of the Company's financial and operating management and performance. EBITDA should not be construed as an alternative to net income determined in accordance with GAAP as an indicator of the Company's performance. The Company's method of calculating EBITDA may be different from those used by other companies.

## MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")

For the three and nine months ended September 30, 2008 and 2007 (unaudited)

### SELECTED ANNUAL INFORMATION

(\$ thousands, except per share data)	For the fiscal years ended December 31		
	2005	2006	2007
Sales	\$ 49,818	\$ 51,775	\$ 46,840
Net income (loss)	3,793	(131)	(56)
Total assets	36,843	40,272	39,301
Total long-term debt	9,738	15,277	13,483
Total obligations under capital lease	-	327	234
Earnings (loss) per share (basic and diluted)	0.110	(0.003)	(0.0015)
Cash dividends per share	0.010	-	-

Sales decreased from 2006 to 2007 due primarily to significant competitive pressures and a decrease in the average selling price and a selective selling strategy.

Net loss decreased from 2006 to 2007, as a result of the impact of foreign exchange rate changes with the US dollar and the compensation received from an equipment supplier.

Total assets decreased from 2006 to 2007 due mainly to amortization.

Total long-term debt decreased from 2006 to 2007 as a result of payments made on existing loans.

### RESULTS OF OPERATIONS

(\$ thousands)	Three months ended		Nine months ended	
	September 30 2008	September 30 2007	September 30 2008	September 30 2007
<b>Sales</b>	<b>\$ 13,976</b>	<b>\$ 11,732</b>	<b>\$ 40,104</b>	<b>\$ 35,849</b>

#### Three months ended September 30, 2008

The increase of \$ 2,244,000 or 19.1% was due primarily to pricing increases as a result of higher raw material costs.

#### Nine months ended September 30, 2008

The increase of \$ 4,255,000 or 11.8% was due primarily to pricing increases as a result of higher raw material costs.

(\$ thousands)	Three months ended		Nine months ended	
	September 30 2008	September 30 2007	September 30 2008	September 30 2007
<b>Gross Profit</b>	<b>\$ 1,670</b>	<b>\$ 1,705</b>	<b>\$ 5,461</b>	<b>\$ 4,978</b>
<b>Gross Margin</b>	<b>11.9 %</b>	<b>14.5 %</b>	<b>13.6 %</b>	<b>13.9 %</b>

The gross profit margin decreased primarily due to the lag between the increase in resin prices and the selling price.

## MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")

For the three and nine months ended September 30, 2008 and 2007 (unaudited)

	Three months ended		Nine months ended	
	September 30 2008	September 30 2007	September 30 2008	September 30 2007
(\$ thousands)				
<b>Selling and administrative</b>	<b>\$ 1,030</b>	\$ 978	<b>\$ 3,017</b>	\$ 2,851
<b>As a % of sales</b>	<b>7.4%</b>	8.3%	<b>7.5%</b>	8.0%

The dollar increase in selling and administrative expenses is due to an increase in the sales force. However the percentage decrease is the result of higher sales.

	Three months ended		Nine months ended	
	September 30 2008	September 30 2007	September 30 2008	September 30 2007
(\$ thousands)				
<b>Amortization of capital assets</b>	<b>\$ 854</b>	\$ 769	<b>\$ 2,504</b>	\$ 1,992

The increase resulted from the additional amortization on capital expenditures at the Company's U.S. and Victoriaville facilities.

	Three months ended		Nine months ended	
	September 30 2008	September 30 2007	September 30 2008	September 30 2007
(\$ thousands)				
<b>Interest</b>	<b>\$ 237</b>	\$ 342	<b>\$ 685</b>	\$ 865

The decrease in interest expense is attributed to a change in the interest rate on the interest rate Swap of the derivative financial instrument and a decreased long term debt balance.

	Three months ended		Nine months ended	
	September 30 2008	September 30 2007	September 30 2008	September 30 2007
(\$ thousands)				
<b>FX loss (gain)</b>	<b>\$ 207</b>	\$ (251)	<b>\$ 344</b>	\$ (735)

### Three months ended September 30, 2008

For the quarter ended September 30, 2008, the foreign exchange translation resulted in a loss of \$207,000, as a result of the appreciation in the U.S. dollar during the quarter.

### Nine months ended September 30, 2008

The foreign exchange loss of \$ 344,000 for the nine months ended September 30, 2008, is the result of the appreciation in the U.S. dollar and the unfavorable impact on its U.S. denominated long term debt with its U.S. lenders.

## MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")

For the three and nine months ended September 30, 2008 and 2007 (unaudited)

	Three months ended		Nine months ended	
	September 30 2008	September 30 2007	September 30 2008	September 30 2007
(\$ thousands)				
<b>Provision for income taxes</b>	<b>\$ (117)</b>	<b>\$ 4</b>	<b>\$ 141</b>	<b>\$ 87</b>
<b>As a % of income (loss) before taxes</b>	<b>16.6%</b>	<b>(2.6)%</b>	<b>(11.7)%</b>	<b>(189.1)%</b>

The income tax provision reflects the taxes on the income generated by the Company's Canadian operations. No future income tax benefits have been recorded on Imaflex USA's operating losses.

	Three months ended		Nine months ended	
	September 30 2008	September 30 2007	September 30 2008	September 30 2007
(\$ thousands)				
<b>(Net loss)</b>	<b>\$ (586)</b>	<b>\$ (157)</b>	<b>\$ (1,343)</b>	<b>\$ (133)</b>
<b>(Net loss) per share (basic and diluted)</b>	<b>(0.016)</b>	<b>(0.005)</b>	<b>(0.036)</b>	<b>(0.004)</b>

### Three months ended September 30, 2008

The Company's Canadian operations generated combined net income of \$ 418,000 for the three months ended September 30, 2008, compared with a net loss of \$529,000 for the same period in 2007. The consolidated net loss in the third quarter of 2008 of \$ 586,000 is due primarily to the loss on foreign exchange of \$ 207,000 during the quarter (2007 – gain of \$251,000) and the increase in amortization of \$ 85,000 over the same period of 2007.

The Company's U.S. operations continue to not generate the appropriate sales volume levels necessary to recover current operating costs.

### Nine months ended September 30, 2008

The Company's Canadian operations generated a combined net income of \$ 984,000 for the nine months ended September 30, 2008, compared with a net loss of \$ 1,088,000 for the same period in 2007. The consolidated net loss for the nine months ending September 30, 2008 of \$ 1,343,000 is due primarily to the loss on foreign exchange of \$ 344,000 compared to a gain of \$735,000 for the same period of 2007 and the increase in amortization of \$ 512,000 over the same period of 2007.

Furthermore, the current results were adversely impacted by operational losses at the Company's U.S. facility.

## MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")

For the three and nine months ended September 30, 2008 and 2007 (unaudited)

### FINANCIAL POSITION

#### September 30, 2008 vs. December 31, 2007

Current assets increased by \$ 4,223,000 , as a result of a higher level of accounts receivable due to increased sales and a higher level of inventories, due to the timing of purchases.

Current liabilities increased by \$ 5,607,000 as a result of the higher level of accounts receivable and inventories as noted above.

### SUMMARY OF QUARTERLY RESULTS

Summary financial data derived from the Company's unaudited financial statements for each of the eight most recently completed quarters are as follows:

For the quarters ending March, June, September and December

(\$ thousands, except per share data)

	Q3/08	Q2/08	Q1/08	Q4/07	Q3/07	Q2/07	Q1/07	Q4/06
Sales	\$13,976	\$14,014	\$12,114	\$10,991	\$11,732	12,089	12,028	11,263
Income (loss) before								
Foreign Exchange	(379)	(244)	(376)	159	(408)	(348)	215	(192)
Foreign Exchange (loss)	(207)	(37)	(100)	(82)	251	451	136	(564)
Net income (loss)	(586)	(281)	(476)	77	(157)	103	(79)	(756)
Earnings (loss) per share:								
Basic	(0.016)	(0.010)	(0.013)	0.002	(0.005)	0.003	(0.002)	(0.020)
Diluted	(0.016)	(0.010)	(0.013)	0.002	(0.005)	0.003	(0.002)	(0.020)

It is important to note that profitability may vary from quarter to quarter, irrespective of quarterly sales due to many factors. These factors include and are not limited to: competitive conditions in the businesses in which the Company participates; general economic conditions and normal business uncertainty; product mix; fluctuations in foreign currency exchange rates; the availability and costs of raw materials; changes in the Company's relationship with its suppliers; and interest rate fluctuations and other changes in borrowing costs.

### LIQUIDITY

Working capital at September 30, 2008 was \$ 5,141,000, compared to a working capital of \$6,525,000 at December 31, 2007.

The Company believes that it still has an adequate level of liquidity, sufficient to cover its operating requirements, as well as an adequate financial position.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (“MD&A”)

For the three and nine months ended September 30, 2008 and 2007 (unaudited)

### **CASH FLOWS FROM OPERATING ACTIVITIES**

During the quarter ended September 30, 2008, the Company generated \$ 598,000 in cash flow from operating activities before changes in non-cash operating working capital, an increase of \$347,000 or 138.2%, over the same period in 2007, primarily as a result of the change in income tax expense of \$202,000, the change in the effect of foreign exchange of \$561,000, partially offset by the increase in the loss of \$429,000 during the quarter. The reduction in non-cash operating working capital of \$1,795,000 in the current quarter was primarily attributable to a decrease in accounts receivable, partially offset by an increase in inventories and payables. The increase in non-cash operating working capital of \$2,961,000 in 2007 was primarily attributable to a decrease in inventories, accounts receivable and income taxes payable.

During the nine months ended September 30, 2008, the Company generated \$ 1,549,000 in cash flow from operating activities before changes in non-cash operating working capital, an increase of \$ 453,000 or 41.3%, over the same period in 2007, as a result of the increase in amortization of \$512,000, the change in the effect of foreign exchange of \$1,256,000. The reduction in non-cash operating working capital of \$ 3,619,000 in the current year was primarily attributable to an increase in inventories and accounts receivable, which was partially offset by a decrease in accounts payable. In 2007, the increase in non-cash operating working capital of \$956,000 was primarily attributable to a significant increase in accounts payable and income tax payable, which was partially offset by an increase in accounts receivable and inventories.

### **CASH FLOWS FROM FINANCING ACTIVITIES**

During the quarter ended September 30, 2008, the Company generated cash inflows of \$1,155,000 compared to an outflow of \$ 2,387,000 for the same period in 2007. The Company increased its bank indebtedness by \$2,093,000 for working capital purposes and made scheduled long-term debt repayments of \$ 915,000. In 2007, the cash inflows to support capital expenditures were generated by issuing long-term debt of \$ 2,000,000 partially offset by scheduled long-term debt repayments of \$916,000.

During the nine months ended September 30, 2008, the Company generated cash inflows of \$1,637,000 compared to an outflow of \$ 371,000 for the same period in 2007. The Company increased its bank indebtedness by \$ 4,423,000 to finance working capital requirements and made scheduled long-term debt repayments of \$ 2,717,000. In 2007, the cash inflows to support capital expenditures were generated by the issuance of long-term debt of \$ 3,000,000 and made scheduled long-term debt repayments of \$2,804,000.

### **CASH FLOWS FROM INVESTING ACTIVITIES**

During the quarter ended September 30, 2008, the Company required a net cash outflow of \$2,000 compared to \$129,000 for the same period in 2007. During the nine months ended September 30, 2008, the Company required a net cash outflow of \$ 39,000 compared to \$ 976,000 for the same period in 2007.

**MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")**

For the three and nine months ended September 30, 2008 and 2007 (unaudited)

**CONTRACTUAL OBLIGATIONS**

(\$ thousands)	Payments due by period				
	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
<b>Long-term debt</b>	\$ 11,137	\$ 3,620	\$ 5,459	\$ 2,058	-
<b>Capital lease</b>	166	97	69	-	-
<b>Operating leases</b>	6,109	682	1,401	1,476	2,550
<b>Total contractual obligations</b>	<b>\$ 17,412</b>	<b>\$ 4,399</b>	<b>\$ 6,929</b>	<b>\$ 3,534</b>	<b>\$ 2,550</b>

**CAPITAL RESOURCES**

The Company has operating lines of credit with its bankers to a maximum of \$7,500,000, bearing interest at rates of prime plus 0.50%. The lines of credit are secured by accounts receivable, inventories and capital assets. At September 30, 2008 the Company had drawn \$6,520,000 (2007, \$ 449,000) on its lines of credit.

Management expects to be able to continue financing the Company's activities, most of its capital expenditures and other anticipated cash requirements through its cash flow from operations and, if necessary, funds available under its line of credit facilities.

**OFF-BALANCE SHEET ARRANGEMENTS**

In 2002, the Company received loans under the Quebec Immigrant Investor Program ("QIIP") in the amount of \$1,750,000. In order to guarantee its obligations towards its creditors for the loans, the Company established a trust, making QIIP its beneficiary. The Company transferred bank notes to the trust, purchased at a discount in the amount of \$1,420,000 and matured on October 31, 2007.

This information is disclosed in note 8 (b) of the "Notes to Consolidated Financial Statements" for the years ended December 31, 2007 and 2006.

**RELATED PARTY TRANSACTIONS**

In the normal course of operations, the Company had routine transactions with related parties. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

The following table reflects the related party transactions as disclosed in note 11 of the "Notes to Consolidated Financial Statements" for the years ended December 31, 2007 and 2006:

## MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")

For the three and nine months ended September 30, 2008 and 2007 (unaudited)

		Three months ended		Nine months ended	
		September 30 2008	September 30 2007	September 30 2008	September 30 2007
(\$ thousands)					
<b>Management fees</b>	<b>(a)</b>	<b>\$ 50</b>	<b>\$ 35</b>	<b>\$ 148</b>	<b>\$ 104</b>
<b>Rent</b>	<b>(b)</b>	<b>\$ 176</b>	<b>\$ 172</b>	<b>\$ 530</b>	<b>\$ 526</b>

- (a) Gerald R. Phelps, Imaflex's Vice-President – Operations, is the controlling shareholder of Polytechnomics Inc. ("Polytech"). The Company has an agreement with Polytech for the provision of consulting, management, and technical services. The agreement is presented to and approved by the Company's Board of Directors on an annual basis.
- (b) Joseph Abbandonato, Imaflex's President, Chief Executive Officer and Chairman of the Board, is the controlling shareholder of Roncon Consultants Inc. ("Roncon"). The Company's production facilities at Imaflex, Canslit, and Imaflex USA are leased from Roncon and parties related to Roncon under long-term operating lease agreements (see "Contractual Obligations" under "Liquidity").

### PROPOSED TRANSACTIONS

The Company has no proposed transactions at this time.

### CRITICAL ACCOUNTING POLICIES

The Company's significant accounting policies are disclosed in note 1 of the "Notes to Consolidated Financial Statements" for the years ended December 31, 2007 and 2006.

### CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

On January 1, 2008, we adopted the recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1535, *Capital Disclosures* (see note 2(a)), Sections 3862, *Financial Instruments - Disclosure* and Section 3863, *Financial Instruments – Presentation* (see note 2 (b)). These new Handbook sections apply to fiscal years beginning October 1, 2007 and do not have an impact on the financial results.

In June 2007, the CICA issued Section 3031, *Inventories*. The company evaluated and calculated the effect of this change on the financial statements. The analysis concluded that the effect of such change was immaterial; nevertheless the effect of the change was recorded in the books of the company for the period ended September 30, 2008. The company will continue to apply the standards set forth in Section 3031.

The effect of these changes relate to the calculation of finished goods inventory. Historically the company has expensed all depreciation in the period to which it applied and allocated only direct costs and manufacturing overheads to the finished goods inventory. The new standard requires that finished goods include the cost of applied overhead which is to be calculated on a normalized production level and applied on an actual production basis.

The effect of this change resulted in an adjustment to beginning retained earnings in the amount of \$ 52,000, which is disclosed in the Financial Statements ended September 30, 2008.

## **MANAGEMENT OUTLOOK**

The Company was challenged during the most recent quarter by unprecedented market conditions created by constantly escalating raw material prices followed by a sharp drop in those same prices brought about by disappearing demand because of worldwide economic events that seemed improbable just a few months ago.

Notwithstanding pressure on the Company brought about by the foregoing, steps taken by management to streamline the Company's Canadian operations have started to take effect. The Company's year over year financial results from its Canadian operations for the most recent quarter have swung from a \$529,000 loss to net income of \$418,000.

Imaflex USA's high density agricultural film was approved by its clients during this past quarter which has allowed it to begin building inventory in anticipation of both the summer and winter growing seasons. Management anticipates that revenues from Imafex USA will finally begin to rise as of the fourth quarter which should reverse the numerous months of operating losses from this entity.

During the third quarter, the Company started pursuing various opportunities that will permit it to more fully integrate its operations and benefit from savings in raw material costs. These initiatives should allow the company to be more competitive and expand margins during the next fiscal year. Current market conditions are enabling the Company to access both quality assets at distress price levels as well as qualified personnel to strengthen an already very strong operating team.

## **OUTSTANDING SHARE DATA**

As of the date of this report, the Company had 37,350,002 Class A shares outstanding. In July 2005, 444,500 compensation options were issued to Acumen Capital Finance Partners Limited. Please refer to note 10 of the “Notes to Consolidated Financial Statements” for the years ended December 31, 2007 and 2006 for further details. The compensation options expired in January, 2007.

## **CONTINGENCY**

The Company is involved in a competitive industry and marketplace in which there are a number of participants. To accommodate the recent growth and effectively manage future growth, the Company continues to improve its operational, financial and management information systems, and procedures and controls. The Company's success is largely the result of the continued contributions of its employees and the Company's ability to attract and retain qualified management, sales and operational personnel.

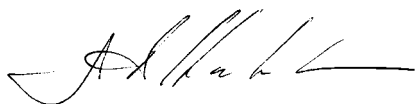
The 30 billion dollar market the Company competes in, has historically shown resiliency and growth even at the worst economic times. The Company's customers operate predominantly in the food packaging markets. This fact, coupled with the expanding product lines and reliance on newer and faster equipment should help it weather the potential volatility caused by uncertainty in the North American economic climate.

## MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")

For the three and nine months ended September 30, 2008 and 2007 (unaudited)

Factors which can impact the Company include, but are not limited to: management of credit, market dynamics, liquidity, funding and operational risks; the strength of the Canadian and U.S. economies in which we conduct business; the impact of the movement of the Canadian dollar relative to other currencies, particularly the U.S. dollar; the effects of changes in interest rates; the effects of competition in the markets in which we operate; our ability to successfully align our organization, resources, and processes; the availability and price of raw materials; failure to achieve planned growth associated with the U.S. expansion; changes in accounting policies and methods we use to report our financial condition, including uncertainties associated with critical accounting assumptions and estimates; operational and infrastructure risks; other factors may affect future results including, but not limited to, timely development and introduction of new products and services, changes in tax laws, technological changes, new regulations; the possible impact on our businesses from public-health emergencies, international conflicts and other developments; and our success in anticipating and managing the foregoing risks.

Additional information relating to our Company, including our Annual Report, can be found on SEDAR at [www.sedar.com](http://www.sedar.com).



Joseph Abbandonato  
President and Chief Executive Officer



Robert Nagy, CMA, CIA  
Corporate Comptroller

November 12, 2008

*For investor information, contact*

**JOSEPH ABBANDONATO**

President and Chief Executive Officer

**(514) 935-5710**

**IMAFLEX**

5710 Notre Dame West

Montréal, Québec, Canada H4C 1V2

Telephone: (514) 935-5710 | Fax: (514) 935-0264

Email: [info@imaflex.com](mailto:info@imaflex.com)

Web site: [www.imaflex.com](http://www.imaflex.com)