

Interim condensed consolidated statement of comprehensive income

for the (in thousands of Canadian dollars, except per share amount, unaudited)	Three months ended		Six months ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Revenue	\$ 11,554	\$ 11,747	\$ 25,897	\$ 23,790
Cost of sales	9,740	10,320	22,083	20,352
Gross profit	<u>1,814</u>	<u>1,427</u>	<u>3,814</u>	<u>3,438</u>
Expenses:				
Selling and administrative	1,005	1,164	2,089	2,246
Finance costs (Note 7)	138	128	255	249
Foreign exchange loss (gain)	79	(180)	193	(83)
Amortisation of capital assets	323	361	653	739
Other expenses	44	51	104	115
	<u>1,589</u>	<u>1,524</u>	<u>3,294</u>	<u>3,266</u>
Profit before tax	<u>225</u>	<u>(97)</u>	<u>520</u>	<u>172</u>
Income tax	155	(8)	333	117
PROFIT FOR THE PERIOD	<u>70</u>	<u>(89)</u>	<u>187</u>	<u>55</u>
Other comprehensive income				
Exchange differences on translating foreign operations	(20)	275	(122)	71
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>\$ 50</u>	<u>\$ 186</u>	<u>\$ 65</u>	<u>\$ 126</u>
Earnings per share				
Basic (dollars per share) (Note 8)	\$ 0.002	\$ (0.002)	\$ 0.005	\$ 0.001
Diluted (dollars per share) (Note 8)	\$ 0.002	\$ (0.002)	\$ 0.005	\$ 0.001

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

Interim condensed consolidated statement of financial position

As at (in thousands of Canadian dollars, unaudited)	June 30, 2011	December 31, 2010	June 30, 2010
Assets			
<i>Current assets</i>			
Cash and bank balances	\$ -	\$ 82	\$ 263
Trade and other receivables	11,217	8,285	8,207
Inventories	7,515	8,962	10,393
Prepaid expenses	108	13	120
Total current assets	<u>18,840</u>	<u>17,342</u>	<u>18,983</u>
<i>Non-current assets</i>			
Property, plant and equipment	14,788	15,663	16,536
Total non-current assets	<u>14,788</u>	<u>15,663</u>	<u>16,536</u>
Total assets	<u>\$ 33,628</u>	<u>\$ 33,005</u>	<u>\$ 35,519</u>
Equity and liabilities			
<i>Current liabilities</i>			
Bank Indebtedness	\$ 7,252	\$ 6,338	\$ 7,268
Trade and other payables	6,096	5,827	5,190
Current tax liabilities	222	39	57
Long term debt (current portion) (Note 9)	1,765	5,518	2,557
Capital leases (current portion) (Note 10)	13	55	11
Provisions	-	115	-
Total current liabilities	<u>15,348</u>	<u>17,892</u>	<u>15,083</u>
<i>Non-current liabilities</i>			
Long term debt (Note 9)	2,477	-	3,196
Capital leases (Note 10)	35	-	43
Deferred tax liabilities	1,167	1,087	1,023
Total non-current liabilities	<u>3,679</u>	<u>1,087</u>	<u>4,262</u>
Total liabilities	<u>19,027</u>	<u>18,979</u>	<u>19,345</u>
<i>Capital and reserves</i>			
Issued capital (Note 11)	8,092	7,829	7,829
Contributed Surplus	570	323	323
Accumulated Other Comprehensive Loss	(290)	(168)	181
Retained earnings (Note 13)	6,229	6,042	7,841
Total equity	<u>14,601</u>	<u>14,026</u>	<u>16,174</u>
Total equity and liabilities	<u>\$ 33,628</u>	<u>\$ 33,005</u>	<u>\$ 35,519</u>

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

Interim condensed consolidated statement of changes in equity

(in thousands of Canadian dollars, unaudited)	Share capital	Contributed Surplus	Retained Earnings	Accumulated other comprehensive loss	Total
For the three month period ended June 30, 2011					
Balance at April 1 2011	\$ 7,829	\$ 323	\$ 6,159	\$ (270)	\$ 14,041
Net earnings	-	-	70	-	70
Issuance of share capital (Note 11)	263	-	-	-	263
Issuance of warrants (Note 11)	-	237	-	-	237
Share-based compensation (Note 12)	-	10	-	-	10
Other comprehensive loss	-	-	-	(20)	(20)
Balance at June 30 2011	\$ 8,092	\$ 570	\$ 6,229	\$ (290)	\$ 14,601

For the three month period ended June 30, 2010

Balance at April 1 2010	\$ 7,829	\$ 323	\$ 7,936	\$ (94)	\$ 15,994
Net earnings	-	-	(89)	-	(89)
Adjustment to retained earnings	-	-	(6)	-	(6)
Other comprehensive income	-	-	-	275	275
Balance at June 30 2010	\$ 7,829	\$ 323	\$ 7,841	\$ 181	\$ 16,174

For the six month period ended June 30, 2011

Balance at January 1 2011	\$ 7,829	\$ 323	\$ 6,042	\$ (168)	\$ 14,026
Net earnings	-	-	187	-	187
Issuance of share capital (Note 11)	263	-	-	-	263
Issuance of warrants (Note 11)	-	237	-	-	237
Share-based compensation (Note 12)	-	10	-	-	10
Other comprehensive loss	-	-	-	(122)	(122)
Balance at June 30 2011	\$ 8,092	\$ 570	\$ 6,229	\$ (290)	\$ 14,601

For the six month period ended June 30, 2010 (note 2)

Balance at January 1 2010 (note 2)	\$ 7,829	\$ 323	\$ 7,792	\$ -	\$ 15,944
Net earnings	-	-	55	-	55
Adjustment to retained earnings	-	-	(6)	-	(6)
Other comprehensive income	-	-	-	181	181
Balance at June 30 2010	\$ 7,829	\$ 323	\$ 7,841	\$ 181	\$ 16,174

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

**Interim condensed consolidated statement of cash flows
for the**

(in thousands of Canadian dollars, unaudited)

Cash flows from operating activities

	Three months ended		Six months ended	
	June 30,	June 30,	June 30,	June 30,
	2011	2010	2011	2010
Profit for the period	\$ 70	\$ (89)	\$ 187	\$ 55
Income tax expense recognized in profit or loss	155	(8)	333	117
Revaluation of interest rate swap	(10)	(8)	(32)	(15)
Impairment loss recognized on trade receivables	15	-	20	-
Depreciation of non-current assets	323	360	653	739
Interest expense	148	136	287	264
Expense recognized for share-based compensation	10	-	10	-
Net foreign exchange (gain)/loss	30	18	131	(7)
	741	409	1,589	1,153
Movements in working capital				
Decrease (increase) in trade and other receivables	(646)	(65)	(2,961)	(1,382)
Decrease (increase) in inventories	702	(137)	1,439	203
Decrease (increase) in prepaid expenses	52	27	(95)	(101)
Change in income tax payable	-	(77)	(2)	(93)
Increase (decrease) in trade payables and provisions	(966)	594	181	533
	(858)	342	(1,438)	(840)
Cash generated by (used in) operations	(117)	751	151	313
Interest paid	(148)	(136)	(282)	(264)
Income taxes paid	-	-	(70)	(100)
Net cash generated by (used in) operating activities	(265)	615	(201)	(51)
Cash flows from investing activities				
Payments for property, plant and equipment	-	(138)	(19)	(535)
Net cash used in investing activities	-	(138)	(19)	(535)
Cash flows from financing activities				
Increase in bank indebtedness	361	189	912	1,309
Issuance of share capital	500	-	500	-
Repayment of long term debt	(596)	(685)	(1,272)	(1,418)
Net cash generated by (used in) financing activities	265	(496)	140	(109)
Net decrease in cash and cash equivalents	-	(19)	(80)	(695)
Cash and cash equivalents at the beginning of the period	-	278	82	964
Effects of exchange rate changes on the balance of cash held in foreign currencies	-	4	(2)	(6)
Cash and cash equivalents at the end of the year	\$ -	\$ 263	\$ -	\$ 263

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

Notes to the interim condensed consolidated financial statements for the six month period ended June 30 2011

1. General information

Imaflex Inc. (“Imaflex” or “the Company”) is a limited company incorporated under the Canada Business Corporations Act. Its registered office and headquarters are located at 5710 Notre-Dame Street West, Montreal, Quebec, Canada. The principal activities of the Company and its subsidiaries are described in note 6. The Class A shares of the Company are listed for trading on the TSX Venture Exchange under the symbol “IFX.A”.

The interim condensed consolidated financial statements of Imaflex Inc. are expressed in Canadian Dollars (‘CAD’), which is the functional currency of the Company, and present the financial information of Imaflex Inc. together with its subsidiary.

Notice - The condensed interim consolidated financial statements of Imaflex Inc. for the six months ended June 30, 2011 and 2010 have not been reviewed by an external auditor.

2. Adoption and transition to International Financial Reporting Standards (“IFRS”)

Standards and Interpretations affecting amounts reported

As a consequence of the replacement of Canadian Generally Accepted Accounting Principles (“GAAP”) by International Financial Reporting Standards (“IFRS”) for publicly accountable enterprises, Imaflex’s unaudited interim condensed consolidated financial statements for the period ending June 30, 2011 were prepared in accordance with applicable international accounting standards.

These condensed consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34 “Interim financial reporting” and IFRS 1 “First-time adoption of IFRS”. These financial statements do not include all of the financial statement disclosures required for annual consolidated financial statements and should be read in conjunction with Imaflex’s GAAP annual financial statements for the year ended December 31, 2010.

IFRS 1 requires first-time adopters to retrospectively apply each IFRS effective at the end of the first annual financial statements under IFRS which for Imaflex will be December 31, 2011 after taking into consideration the applicable exemptions and exceptions to retrospective application. As a result, the accounting policies described in note 3 are based on IFRS that have been issued and are expected to be effective December 31, 2011 and have been applied in preparing the financial statements for the six months ended June 30, 2011, the comparative information for the period ended June 30, 2010, the year ended December 31, 2010 and the opening statement of financial position at January 1, 2010, our date of transition to IFRS. The Company’s accounting policies are based on the IFRS that are expected to be effective as of December 31, 2011 and therefore, in case of evolution of or changes to the IFRS between June 30, 2011 and December 31, 2011, the opening balance sheet might have to be modified. Such modifications, if any, would be explained in subsequent interim reports or the annual report, depending on when the modification would take place.

Exemptions

Business combinations – IFRS 3, Business Combinations:

Imaflex has elected not to apply IFRS 3 retrospectively to business combinations that occurred prior to the transition date to IFRS. As at January 1, 2010, there was no goodwill recognised in the financial statements resulting from past business combinations.

**Notes to the interim condensed consolidated financial statements
for the six month period ended June 30 2011**

2. Adoption and transition to International Financial Reporting Standards (“IFRS”) (continued)

Elections

Fair value as deemed cost

IFRS 1 provides a choice between measuring property, plant and equipment at its fair value at the date of transition and using those amounts as deemed cost. Imaflex continued to apply the cost model for property, plant and equipment. As such, we did not restate property, plant and equipment to fair value under IFRS.

Cumulative translation differences

Retrospective application of IFRS would have required Imaflex to determine cumulative currency translation differences in accordance with IAS 21, *The Effects of Changes in Foreign Exchange Rates*, from the date a subsidiary was formed or acquired. IFRS 1 permits cumulative translation gains or losses to be reset to zero at the transition date. Imaflex elected to reset all cumulative translation gains and losses to zero as at January 1st 2010 through a reclassification to opening retained earnings at the transition date.

Borrowing Costs

IAS 23 (Revised 2007) requires an entity to capitalize the borrowing costs related to all the qualifying assets for which the commencement date for capitalization is on or after January 1, 2009. Early adoption is permitted. IFRS 1 permits to adopt IAS 23 at the transition date if later than January 1, 2009. Imaflex elected to use this option, thus borrowing costs related to the qualifying assets for which the commencement date is prior to January 1, 2010 are expensed, and those with a commencement date subsequent to January 1, 2010 will be capitalized.

Mandatory Exceptions

Estimates

Hindsight is not used to create or revise estimates. The estimates we previously made under GAAP cannot be revised for application of IFRS except where necessary to reflect any difference in accounting policies.

Reconciliation of opening balance sheet from GAAP to IFRS

Impact on condensed consolidated statement of comprehensive income – The transition to IFRS did not have any material impact to the condensed consolidated statement of comprehensive income for the six months ended June 30, 2010 or for the year ended December 31, 2010.

Impact on condensed consolidated statement of cash flow - The transition to IFRS did not have an important impact on the Company’s cash flow statement for the six months ended June 30, 2010 nor for the year ended December 31, 2010, with the exception of the current income tax expense, which is now included as an adjustment to the profit for the period, while it was previously included in the movements of non-cash working capital.

For an analysis of the impact on the opening balance sheet as at January 1, 2010, refer to the first quarter report for the three months ended March 31, 2011.

**Notes to the interim condensed consolidated financial statements
for the six month period ended June 30 2011**

2. Adoption and transition to International Financial Reporting Standards (“IFRS”) (continued)

The following table provides details of the reconciliation of the opening financial position from GAAP to IFRS as at June 30, 2010.

Adjustments made to GAAP upon transition to IFRS

Unaudited In thousands of Canadian dollars	GAAP	Adjustment	Note	IFRS
	June 30, 2010			June 30, 2010
Assets				
<i>Current assets</i>				
Cash and bank balances	263	-		263
Trade and other receivables	8,207	-		8,207
Inventories	10,393	-		10,393
Prepaid expenses	120	-		120
Total current assets	<u>18,983</u>	-		<u>18,983</u>
<i>Non-current assets</i>				
Property, plant and equipment	16,536	-		16,536
Total non-current assets	<u>16,536</u>	-		<u>16,536</u>
Total assets	<u>35,519</u>	-		<u>35,519</u>
Equity and liabilities				
<i>Current liabilities</i>				
Bank Indebtedness	7,268	-		7,268
Trade and other payables	5,190	-		5,190
Current tax liabilities	57	-		57
Long term debt (current portion)	2,557	-		2,557
Capital Leases (current portion)	11	-		11
Total non-current liabilities	<u>15,083</u>	-		<u>15,083</u>
<i>Non-current liabilities</i>				
Long term debt	3,196	-		3,196
Capital Leases	43	-		43
Deferred tax liabilities	1,023	-		1,023
Total non-current liabilities	<u>4,262</u>	-		<u>4,262</u>
<i>Capital and reserves</i>				
Issued capital	7,829	-		7,829
Contributed Surplus	323	-		323
Accumulated other comprehensive loss	(63)	244	B	181
Retained earnings	8,085	(244)	B	7,841
Total equity	<u>16,174</u>	-		<u>16,174</u>
Total equity and liabilities	<u>35,519</u>	-		<u>35,519</u>

**Notes to the interim condensed consolidated financial statements
for the six month period ended June 30 2011**

2. Adoption and transition to International Financial Reporting Standards (“IFRS”) (continued)

The following table reconciles total equity as at January 1, 2010, June 30, 2010 and December 31, 2010.

Unaudited In thousand of Canadian dollars	Note	January 1, 2010	June 30, 2010	December 31, 2010
Total equity as reported under previous GAAP		\$ 15,944	\$ 16,174	\$ 14,026
Reclass of cumulative translation adjustments losses from accumulated other comprehensive income	B	244	244	244
Reclass of cumulative translation adjustments losses to retained earnings	B	(244)	(244)	(244)
Total equity as reported under IFRS		<u>\$ 15,944</u>	<u>\$ 16,174</u>	<u>\$ 14,026</u>

The following table reconciles accumulated other comprehensive income as at January 1, 2010, June 30, 2010 and December 31, 2010.

Unaudited In thousand of Canadian dollars	Note	January 1, 2010	June 30, 2010	December 31, 2010
Accumulated other comprehensive income as reported under previous GAAP		\$ (244)	\$ (63)	\$ (412)
Reclass of cumulative translation adjustments losses from accumulated other comprehensive income	B	244	244	244
Total accumulated other comprehensive income as reported under IFRS		<u>\$ -</u>	<u>\$ 181</u>	<u>\$ (168)</u>

A – As at January 1, 2010, the Company was in breach of certain covenants relating to its credit facilities. IFRS requires a Company to have obtained, on or before the end of the reporting period, an unconditional right to defer settlement for at least twelve months after that date. The waiver covering fiscal 2010 was only obtained on March 3, 2010, after the January 1, 2010 reporting period. Consequently, all long term debt and obligations under capital leases were reclassified to current liabilities.

As at December 31, 2010, the Company was in breach of certain covenants relating to its credit facilities. On April 21, 2011, the Company renewed its credit facility under which terms the Company was not in breach. Consequently, the long term debt and obligations under capital leases that were presented as long term in the Company’s consolidated financial statements for the year ended December 31, 2010 under GAAP were reclassified to short term liabilities.

B – In accordance with IFRS 1, Imaflex elected to reset all cumulative translation gains and losses to zero at the transition date. As a result, the balance of the cumulative translation losses was reclassified to retained earnings on January 1, 2010.

Notes to the interim condensed consolidated financial statements for the six month period ended June 30 2011

3. Significant accounting policies

3.1 Basis of preparation

The financial statements have been prepared using the historical cost basis except for the revaluation of certain financial instruments at their fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets. The Company elected to present the statement of income and the statement of comprehensive income in the same statement and chose to present expenses by nature, which is how information is presented for internal reporting purposes and is consistent with how management views and manages expenses in its operations.

The statement of cash flows has been prepared using the indirect method. The principal accounting policies are set out below.

3.2 Basis of consolidation

The condensed consolidated financial statements include the accounts of the Company and its subsidiary Imaflex USA Inc. (“Imaflex USA”), a wholly owned entity. The Company controls the entity given it has the power to govern the financial and operating policies so as to obtain benefits from its activities through the 100% stake in the shares of the subsidiary.

All intercompany transactions and balances are eliminated on consolidation.

3.3 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- Imaflex has transferred to the buyer the significant risks and rewards of ownership of the goods;
- Imaflex retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Company; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

3.4 Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position are expressed in Canadian Dollars (‘CAD’), which is the functional currency of Imaflex Inc. and the presentation currency for the consolidated financial statements.

The functional currency of the Company’s foreign subsidiary Imaflex USA, Inc. is the US dollar (‘USD’). The financial statements of Imaflex USA are translated as follows: assets and liabilities are translated at the exchange rate in effect at the balance sheet date and revenues and expenses are translated at the exchange rates in effect on the dates on which such items are recognized into income during the period. Exchange gains or losses arising from the translation of Imaflex USA’s financial statements are recognized in other comprehensive income, and are included in net income when there is a reduction in the net investment in Imaflex USA.

Notes to the interim condensed consolidated financial statements for the six month period ended June 30 2011

3. Significant accounting policies (continued)

3.4 Foreign currencies (continued)

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency are recognized at the average exchange rates for the periods during the year, unless exchange rates fluctuated significantly during those periods, in which case the exchange rates at the dates of the transactions are used. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

3.5 Income Tax

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the condensed consolidated statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, except where Imaflex is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred taxes are recognized as an expense or income in profit or loss, except when they relate to items that are recognized outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognized outside profit or loss.

**Notes to the interim condensed consolidated financial statements
for the six month period ended June 30 2011**

3. Significant accounting policies (continued)

3.6 Property, plant and equipment

Fixtures and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognized so as to write off the cost of assets less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

Asset	Basis	Period
Production equipment	Straight-line	20 years
Office equipment	Straight-line	5 years
Computer software and equipment	Straight-line	3 years

Leasehold improvements are amortized on a straight-line basis over the lesser of the terms of the leases or their useful lives.

Effective January 1, 2010, the Company revised the estimated useful life of its production equipment from 10 and 15 years to 20 years. The changes in estimates, which were applied prospectively, resulted in a reduction in depreciation.

Impairment

At each reporting date, Imaflex Inc. reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets for which the estimates of future cash flows have not been adjusted. If the recoverable amount of the assets is estimated to be less than their carrying amount, the carrying amount is reduced to the recoverable amount. An impairment loss is recognized immediately in the income statement.

Where an impairment loss subsequently reverses, the carrying amount of the assets is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in the income statement.

Assets under finance lease

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Notes to the interim condensed consolidated financial statements for the six month period ended June 30 2011

3. Significant accounting policies (continued)

3.7 Inventories

Inventories are stated at the lower of cost and net realizable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories by the method most appropriate to the particular class of inventory, being valued on a first-in-first-out basis. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

3.8 Provisions

Provisions are recognized when the Company has a present obligation, legal or constructive, as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

3.9 Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'available-for-sale' (AFS) and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets are classified as FVTPL when the financial asset is either held for trading or it is designated as FVTPL. The Company's cash, designated as held for trading, is measured and stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. Fair value is determined by valuation techniques using inputs for assets and liabilities based on observable market data.

Trade receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment on a regular basis. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset have been affected.

Trade receivables that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in economic conditions that correlate with default on receivables.

The carrying amount for most financial assets is reduced by the impairment loss directly. For trade receivables, the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

**Notes to the interim condensed consolidated financial statements
for the six month period ended June 30 2011**

3. Significant accounting policies (continued)

3.10 Financial liabilities and equity instruments

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement. Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

The interest rate swap is designated as FVTPL, because such designation significantly reduces any measurement inconsistency that would otherwise arise if the derivative instrument were designated otherwise. The interest rate swap is stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss.

Other financial liabilities, including long term debt, are initially measured at fair value, net of transaction costs, then decreased by any principal payment made on the borrowing.

The Company derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

The issuance cost of debt is included as part of long term debt and is recorded at amortized cost, using the effective interest method. The issuance cost of equity is presented in the statement of changes in equity as a reduction in the proceeds received.

3.11 Share-based payments

Equity-settled share-based payments to employees are measured at the fair value of the financial instruments at the grant date, using the Black-Scholes option pricing model. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 12. Options issued during the period vest immediately and are therefore valued as a single tranche.

The fair value determined at the grant date of the equity-settled share-based payments is expensed during the period with a corresponding increase in contributed surplus.

Imaflex did not issue any share-based payments to non-employees nor did it issue any share-based payments to be settled in cash.

3.12 Derivative financial instruments

Imaflex entered into an interest rate swap.

The interest rate swap was initially recognized at fair value at the date the derivative contract was entered into and is subsequently remeasured to fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately.

When the derivative has a positive fair value it is recognized as a financial asset and when it has a negative fair value is recognized as a financial liability. As at June 30, 2011, the interest rate swap is included in Trade and other payables in current liabilities.

3.13 Earnings per share

Earnings per share is calculated by dividing net earnings available for common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated taking into account the dilution that would occur if securities or other agreements for the issuance of common shares were exercised or converted into common shares at the later of the beginning of the period or the issuance date.

Notes to the interim condensed consolidated financial statements for the six month period ended June 30 2011

4. Future accounting changes

Financial instruments

International Financial Reporting Standard 9, Financial Instruments (“IFRS 9”), was issued in November 2009. It addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss.

IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends, to the extent not clearly representing a return of investment, are recognized in profit or loss; however, other gains and losses (including impairments) associated with such instruments remain in accumulated other comprehensive income indefinitely. This standard is required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

5. Critical accounting judgements and key sources of estimation uncertainty

The preparation of these financial statements in conformity with IFRS and the application of the Company’s accounting policies described in note 3, required management to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

5.1 Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Allowance for doubtful accounts

The Company analyses its trade receivables on an account by account basis and on a portfolio basis. Any impairment recognized on these assets is based on historical experience and management’s best estimate of the recoverability of the account.

Useful lives of property, plant and equipment

The Company reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period. For the financial year 2010, management determined that the useful lives of all the production equipment should be extended from the estimates used in 2009.

Impairment of long-lived assets

The Company performs impairment tests on its long-lived assets by comparing the carrying amount of the assets to their recoverable amount, which is calculated as the higher of the asset’s fair value less costs to sell and its value in use. Value in use is calculated based on a discounted cash flow analysis, which requires the use of estimates of future cash flow and the discount rates.

**Notes to the interim condensed consolidated financial statements
for the six month period ended June 30 2011**

5. Critical accounting judgements and key sources of estimation uncertainty (continued)

Inventory

The Company analyses its inventory in order to assess the carrying amount of inventory. This assessment is based on management's knowledge of the market and experience regarding obsolescence and valuation of inventory.

Derivative financial instruments

The Company carries financial instruments at fair value for which there are no quoted prices in active markets for identical assets or liabilities. This requires management to use valuation techniques using inputs for the liability that are not based on observable market data.

Income taxes

Management uses judgment and estimates in determining the appropriate rates and amounts in recording deferred income taxes, giving consideration to timing and probability of realization and in determining tax provisions. Actual taxes could significantly vary from these estimates as a result of a variety of factors including future events, changes in income tax laws or the outcome of reviews by tax authorities and related appeals. The resolution of these uncertainties and the associated final taxes payable may result in adjustments to the Corporation's deferred and current tax assets and tax liabilities.

6. Segment information

6.1 Reportable Operating Segments

The Company operates in one reportable segment, comprising the development, manufacture and sale of packaging materials.

6.2 Revenues by geographical end market

The following is the detail of the Company's revenues by geographical end market.

In thousands of Canadian dollars	Three months ended		Six months ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Sales to Canada	\$ 6,857	\$ 6,527	\$ 14,381	12,742
Sales to the United States	4,563	5,220	11,382	10,854
Other	134	-	134	194
Total	\$ 11,554	\$ 11,747	\$ 25,897	23,790

6.3 Capital assets per geographic location

In thousands of Canadian dollars	June 30, 2011	December 31, 2010	January 1, 2010
Located in Canada	\$ 7,186	\$ 7,562	\$ 8,906
Located in the US	7,602	8,101	7,725
Total capital assets	\$ 14,788	\$ 15,663	\$ 16,631

**Notes to the interim condensed consolidated financial statements
for the six month period ended June 30 2011**

7. Finance costs

In thousands of Canadian dollars	Three months ended		Six months ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Interest on bank indebtedness and long term debt	\$ 147	\$ 134	\$ 285	\$ 260
Interest on obligations under finance leases	1	2	2	4
Total interest expense for financial liabilities not classified as at FVTPL	148	136	287	264
Valuation difference for the interest rate swap	(10)	(8)	(32)	(15)
	\$ 138	\$ 128	\$ 255	249

8. Earnings per share

In thousands of Canadian dollars (except per share data)	Three months ended		Six months ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Net earnings for basic earnings per share	\$ 70	\$ (89)	\$ 187	\$ 55
Adjustments for diluted earnings per share	-	-	-	-
Net earnings for diluted earnings per share	70	(89)	187	55
Weighted average common shares outstanding (in thousands)	39,711	39,350	39,532	39,350
Dilutive effect of share-based compensation (in thousands)	13	-	6	-
Diluted weighted average common shares outstanding (in thousands)	39,724	39,350	39,538	39,350
Basic net earnings per common share	\$ 0.002	\$ (0.002)	\$ 0.005	\$ 0.001
Diluted net earnings per common share	\$ 0.002	\$ (0.002)	\$ 0.005	\$ 0.001

**Notes to the interim condensed consolidated financial statements
for the six month period ended June 30 2011**

9. Long term debt

In thousands of Canadian dollars (except if stated otherwise)	June 30, 2011	December 31, 2010	January 1, 2010
Loan (June 30 US\$1,382,000, December 31 US\$1,689,000, January 1 US\$2,304,000), bearing interest at the 30-day LIBOR rate (0.19% as at June 30, 2011), reset monthly, plus 1.24%, repayable in monthly principal installments of \$49,000 (US\$51,000) up to September 2013 and secured by production equipment. (a)	\$ 1,333	\$ 1,680	\$ 2,421
Loan, bearing interest at prime plus 1.50%, repayable in monthly principal installments of \$50,000 to January 2012 and secured by production equipment. Furthermore, the loan is secured by an additional hypothec of \$3,000,000 on all present and future properties of the Canslit division of the Company, movables and immovable, corporeal and incorporeal, including machinery, equipment, inventory and receivables.	350	650	1,250
Loan, bearing interest at the lender's base rate (5.00% as at June 30, 2011) plus 0.25%, repayable in monthly principal installments of \$43,000 to September 2015, secured by production equipment.	2,216	2,478	-
Loans, bearing interest at rates varying between prime plus 0.50% and 2.00%, retired or refinanced during the year.	-	46	2,096
Loan (June 30 US\$274,000, December 31 US\$540,000, January 1 US\$1,047,000), bearing interest at the 30-day LIBOR rate, reset monthly, plus 2.00%, repayable in blended monthly installments of \$45,000 (US\$47,000) up to December 2011 and secured by production equipment and a corporate guarantee from Imaflex Inc.	265	537	1,100
Loan (June 30 US\$81,000, December 31 US\$128,000, January 1 US\$216,000), bearing interest at the 30-day LIBOR rate, reset monthly, plus 2.00%, repayable in blended monthly installments of \$8,000 (US\$8,000) up to April 2012 and secured by production equipment and a full corporate guarantee from Imaflex Inc.	78	127	227
	4,242	5,518	7,094
Current portion of long term debt	(1,765)	(5,518)	(7,094)
Long term portion of long term debt	\$ 2,477	\$ -	\$ -

- (a) On September 28, 2006, the Company borrowed from Wachovia Corporation US\$4,300,000 at a variable interest rate for seven years, as a result of a long-term debt facility entered into to fund its capital expenditures. The Company then entered into an interest rate swap for the same amount and maturity. Under the terms of this interest rate swap, the Company receives, on a monthly basis, a variable interest rate and pays a fixed interest rate of 6.54%. The Company uses this derivative financial instrument to manage the risk from fluctuations in interest rates. The intent is to fix the interest cost on this long-term debt.

As at June 30, 2011, the fair value of the interest rate swap is a liability of \$76,000 (US \$79,000) (December 31 2010 \$111,000 (US\$111,000)) and has been recorded on the balance sheet under accounts payable and accrued liabilities, with a charge to the statement of operations under interest expense for the change in fair value since December 31, 2010.

**Notes to the interim condensed consolidated financial statements
for the six month period ended June 30 2011**

9. Long term debt (continued)

The aggregate repayment of long-term debt is as follows:

In thousands of Canadian dollars

2011	\$ 1,168
2012	1,196
2013	966
2014 and thereafter	912
	4,242
	(1,765)
	<u>\$ 2,477</u>

10. Obligations under finance leases

The Company has financed certain assets by entering into capital lease arrangements for lift trucks expiring on August 18, 2013 and October 28, 2013. Capital lease payments are due as follows:

In thousands of Canadian dollars

2011	\$ 9
2012	18
2013	29
Total minimum lease payments	56
Less amount representing interest at approximately 8.7%	(8)
Present value of minimum lease payments	48
Less current portion	(13)
	<u>\$ 35</u>

11. Common shares

The Company's outstanding share capital consisted of an unlimited number of Class A shares, voting, participating, without par value; unlimited number of Class B shares, non-voting, participating, without par value, issuable at any time and in one or more series; and an unlimited number of Class B Series 1 shares, convertible at the option of the holder to Class A shares subject to the restriction that the percentage of Class A shares in the hands of public security holders following such conversion must not be less than 20% of the total issued and outstanding Class A shares.

At the end of the second quarter of 2011, there were 40,665,791 Class A shares outstanding (39,350,002 at June 30, 2010 and January 1, 2010). During the course of the second quarter, the Company issued, through a non-brokered private placement, 1,315,789 units to a related party at a price of \$0.38 for a total of \$500,000. Each unit consists of one Class A share and one Class A share purchase warrant, entitling the holder thereof to acquire one additional Class A share of Imaflex at a price of \$0.45 per Class A share until June 6, 2014.

Each share issued was attributed a value of \$0.20, for a total consideration for shares of \$263,000, which corresponds to the share price on the date of issuance, and was presented in Share Capital. Each warrant issued was attributed a value of \$0.18, for a total consideration for warrants of \$237,000, which was presented in Contributed Surplus.

**Notes to the interim condensed consolidated financial statements
for the six month period ended June 30 2011**

12. Share-based compensation

Pursuant to the Stock Option Plan (the “Plan”) of the Company, ten percent (10%) of the Class A shares issued and outstanding from time to time are reserved for options. The Plan provides that the term of the options shall be fixed by directors. Officers and employees of the Company or its subsidiaries are eligible to receive options. Options are granted at an exercise price of not less than the fair value of the Company’s shares on the date the options are granted. Options may be exercisable for a period no longer than five (5) years and the exercise price must be paid in full upon exercise of the option.

On May 27 2011, the Company issued 100,000 options to an officer of the Company, each option entitling the holder to acquire one Class A share of Imaflex at \$0.125 for a period of 5 years. These options are the only options outstanding as at June 30, 2011.

At the grant date, the fair value of the options was \$10,000 (\$0.10 per option) and was recognized as an expense with a corresponding increase to contributed surplus. Options were priced using the Black-Scholes option pricing model and assumptions are based on management’s best estimate of when the options are expected to be exercised. Expected volatility is based on the historic volatility of Imaflex’s shares.

Fair value assumptions	May 27, 2011 issue
Expected life of options	2.5 years
Expected share price volatility	172.86%
Dividend yield	0%
Risk free rate	1.67%
Exercise price	\$0.125
Share price on grant date	\$0.125

There were no options exercised during the quarter and as at June 30, 2011 100,000 share options were outstanding.

13. Retained earnings and dividends

In thousands of Canadian dollars

	June 30, 2011	December 31, 2010	January 1, 2010
Retained earnings	\$ 6,229	\$ 6,042	\$ 8,036
Adjustment – Reclass of cumulative translation losses (note 2)	-	-	(244)
Restated retained earnings	<u>\$ 6,229</u>	<u>\$ 6,042</u>	<u>\$ 7,792</u>
	Six months ended June 30, 2011	Twelve months ended December 31 2010	
Balance at beginning of period	\$ 6,042	\$ 7,792	
Net profit (loss)	187	(1,750)	
Balance at end of period	<u>\$ 6,229</u>	<u>\$ 6,042</u>	

**Notes to the interim condensed consolidated financial statements
for the six month period ended June 30 2011**

14. Subsidiaries

Details of the Company's subsidiaries at 31 March 2011 are as follows.

Name of subsidiary	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held	
			June 30, 2011	December 31, 2010
Imaflex USA	Manufacturing of plastic film	North Carolina, USA	100%	100%

Imaflex USA is a fully owned subsidiary, thus it is consolidated in the Company financial statements.

15. Related party transactions

Transactions with related parties

During this period, in the normal course of business, the Company had routine transactions with entities owned by shareholders of the Company. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Details of these transactions are as follows:

In thousands of Canadian dollars	Three months ended		Six months ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Rent	\$ 180	\$ 182	\$ 361	\$ 364
Consulting Fees	26	51	68	78
	<u>\$ 206</u>	<u>\$ 233</u>	<u>\$ 429</u>	<u>\$ 442</u>

Rent is paid on the first day of the month for the following month and the consulting fees are paid upon receipt, therefore there are rarely any amounts outstanding to related parties.

Compensation of key management personnel

The table below details the compensation paid to four key members of management, which include the Company's chief executive officer, the vice-president of operations, the production director and the corporate controller.

In thousands of Canadian dollars	Three months ended		Six months ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Salary	\$ 104	\$ 117	\$ 217	\$ 236
Consulting Fees	26	51	68	78
Short-term employee benefits	1	1	1	1
Post-employment benefits – State-run plans	2	1	8	7
Other benefits	7	6	15	12
	<u>\$ 140</u>	<u>\$ 176</u>	<u>\$ 309</u>	<u>\$ 334</u>

**Notes to the interim condensed consolidated financial statements
for the six month period ended June 30 2011**

16. Employee Benefits

The Company does not offer any employee benefit plan to its employees, however it does make regular payments to the state-run pension plan, the Québec Pension Plan. During the three and six months ended June 30, 2011, the Company contributed \$31,000 and \$70,000 respectively to this plan (\$36,000 and \$75,000 respectively in 2010). These payments are expensed as paid and the Company does not recognise any gains or losses subsequent to the payment of these benefits. These transactions do not result in any asset or liability on the statement of financial position.

17. Approval of financial statements

The financial statements were approved by the board of directors and authorized for issue on August 25, 2011.