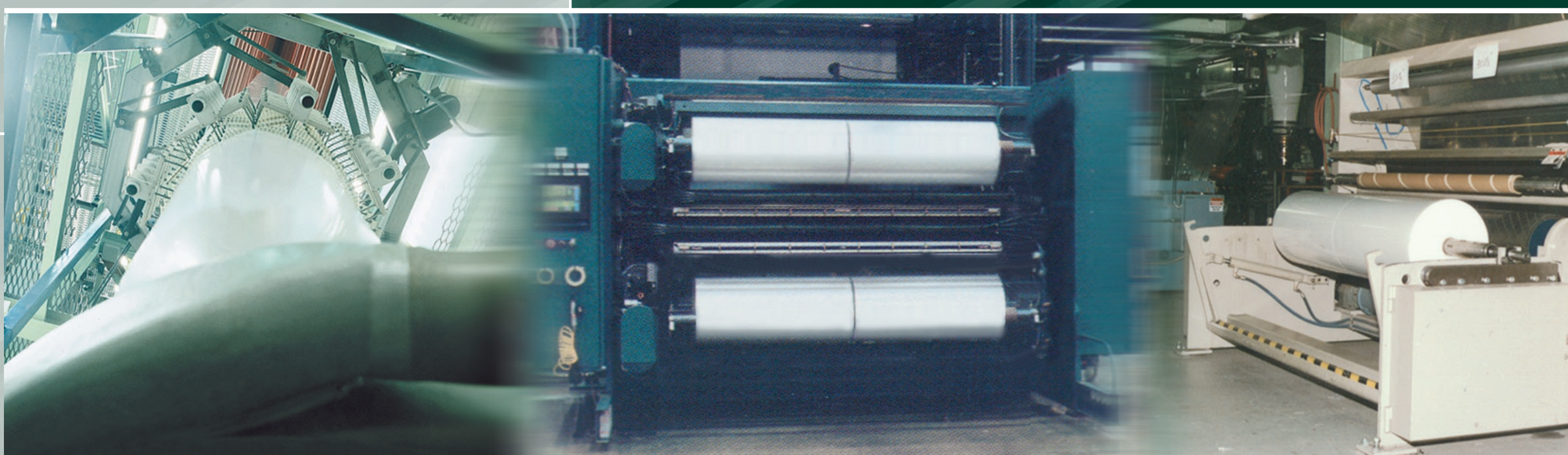
Annual Report
2004

IMAFLEX
Committed to Excellence



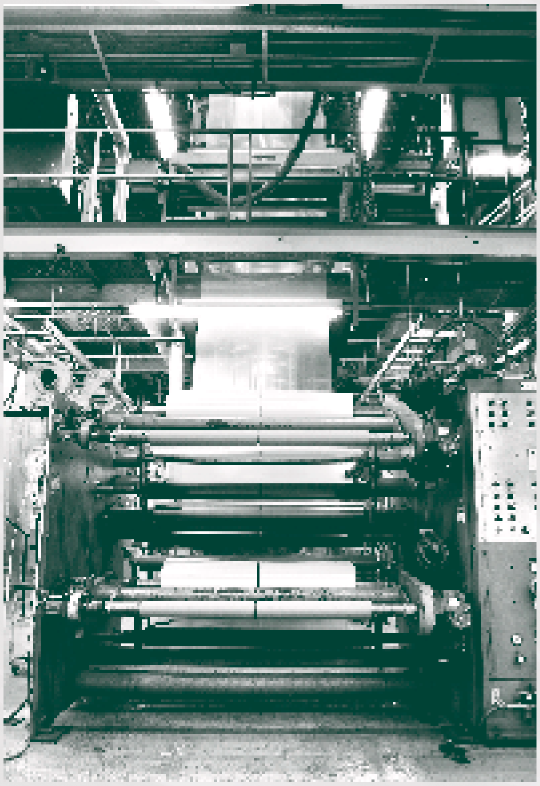
IMAFLEX inc.

CERTIFIED • CERTIFIÉ ISO 9001 2000

Committed to Excellence

CORPORATE PROFILE

Imaflex Inc. specializes in the manufacture and sale of custom-made polyethylene films suited for various packaging needs of our customers. These packaging films are either used directly by our customers to protect their own products, or by customers who convert our film products into plain or printed bags of all types and/or into printed roll stock, in their own converting operations, to satisfy their own customer needs. Imaflex employs approximately 70 people in its manufacturing facility, located in Montréal, Québec. Imaflex recycles 100% of its own waste, the majority in-house, thereby enhancing cost efficiency.



Canslit Inc., the wholly owned subsidiary, specializes in the metallization of numerous polymer-based products including polyester, nylon, polypropylene and polyethylene. This is accomplished through the application under vacuum conditions of a fine layer of aluminum vapors to the surface of the polymer-based film. Metallized films are generally used in the packaging of food products. However, these films are also being used in the agricultural, insulation, photography, aerospace and numerous other industries. Canslit employs approximately 30 people at its manufacturing facility in Victoriaville, Québec.

CERTIFIED • CERTIFIÉE ISO 9001 2000 IMAFLEX

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

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

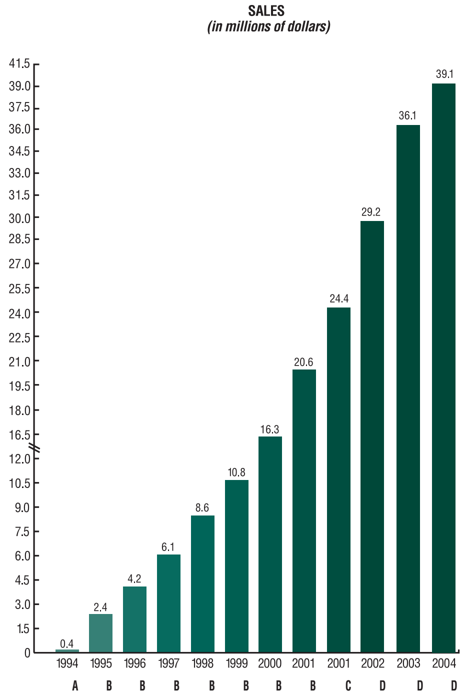
OUR SENIOR MANAGEMENT TEAM KNOWS, UNDERSTANDS AND LIVES BY THESE PILLARS OF BUSINESS FUNDAMENTALS.

FINANCIAL HIGHLIGHTS

(In dollars except per share data)

	Year ended December 31, 2004	Year ended December 31, 2003	% Change Current year vs. prior year	Year ended December 31, 2002	Eleven month period ended December 31, 2001 (*)	Year ended January 31, 2001	Year ended January 31, 2000
Operating Summary							
Sales	**$39,084,230**	$36,133,109	8.2%	$29,184,831	$24,366,170	$20,558,115	$16,320,773
Net Income	**2,586,568**	1,478,570	74.9%	739,785	71,363	1,033,715	684,424
Earnings Per Share	**0.083**	0.048	72.9%	0.024	0.002	0.034	0.023
EBIT (1)	**3,871,810**	2,467,380	56.9%	1,518,559	837,378	1,816,018	1,278,728
EBITDA (2)	**5,774,550**	4,235,456	36.3%	2,888,028	1,910,482	2,564,143	1,894,265
EBITDA Per Share	**0.186**	0.136	36.8%	0.093	0.062	0.085	0.063
Financial Position							
Working Capital	**3,980,763**	2,198,793	81.0%	1,151,989	863,322	1,231,817	946,787
Capital Assets	**10,144,821**	11,464,751	-11.5%	10,039,595	7,981,279	6,149,982	4,126,607
Total Assets	**25,131,826**	20,929,028	20.1%	17,249,269	15,633,974	11,639,557	8,823,434
Total Long-Term Debt (including Capital Leases)	**5,535,378**	7,319,309	-24.4%	6,434,957	5,205,737	3,289,014	1,954,393
Shareholders' Equity	**9,131,636**	6,539,068	39.6%	5,060,498	4,302,713	4,118,850	3,081,149

(1) Earnings before interest and taxes
(2) Earnings before interest, taxes, depreciation and amortization
(*) Change in year-end



A Represents seven month period ended January 31.
B Represents year ended January 31.
C Represents eleven month period ended December 31.
D Represents year ended December 31.

REPORT TO OUR SHAREHOLDERS

INTRODUCTION

The current year's results include those of Imaflex Inc. and its wholly owned subsidiary, Canslit Inc.

FINANCIAL RESULTS

The year ended December 31, 2004 was one of a moderate growth in sales, with a significant increase in net income.

Net income for the year ended December 31, 2004 was $2,586,568, or $0.083 per share, an increase of 74.9% compared with net income of $1,478,570, or $0.048 per share, for the same period in 2003. The stronger performance was driven by an optimal product mix towards more profitable product segments, continued sales growth volume in the local and US markets, and improved manufacturing productivity. Imaflex's extrusion operations generated net income of $2,447,130 for the year ended December 31, 2004 as compared to $1,615,059 for the same period in 2003. Canslit's metallizing operations generated net income of $139,438 for the year ended December 31, 2004 as compared to a net loss of $136,489 for the same period in 2003.

Sales for the year ended December 31, 2004 totaled $39,084,230 compared with $36,133,109 for the same period in 2003, an increase of $2,951,121 or 8.2%, which is explained by higher sales volume at Imaflex's operations resulting from increases in both manufacturing capacity and demand and sales growth by Canslit in the US market. Imaflex's sales increased by $1,461,013 to $31,994,380. Canslit's sales increased by $1,490,108 to $7,089,850.

MANAGEMENT OUTLOOK

Imaflex reported record sales and profitability during 2004 as a result of its continued push into more profitable product segments. Management has countered competitive pressures from the strengthening of the Canadian dollar and increased Asian competition by improving plant productivity, maintaining rigorous cost controls and seeking higher margin business. In order to maintain sales and profitability growth, Imaflex continues to explore expansion opportunities in the US.

Canslit experienced solid sales growth during 2004 by concentrating its expansion on polyethylene based products, rather than on its traditional polyester based products. Management expects further improvement in Canslit's profitability in 2005 as a result of increased demand for its metallized polyethylene products. This market segment has provided Canslit with an added value product complementary to Imaflex's existing line of polyethylene films. To meet this expanding market segment and enter new markets, Canslit arranged for the delivery of additional manufacturing equipment which is expected to be operational in the second quarter of 2005, enabling both Imaflex and Canslit to increase sales and profitability in 2005.

We would like to extend our special thanks to our employees for their dedication to the Company's growth and development, and to our shareholders, customers and suppliers for their continued confidence and support.

Joseph Abbandonato
President & Chief Executive Officer

QUARTERLY FINANCIAL INFORMATION

	SALES		NET INCOME	
	2004	2003	2004	2003
First Quarter	$ 8,909,028	$ 9,748,971	$ 408,047	$ 565,029
Second Quarter	9,647,398	9,182,625	588,791	376,837
Third Quarter	9,958,509	7,961,934	525,772	213,057
Fourth Quarter	10,569,295	9,239,579	1,063,958	323,647
	$ 39,084,230	$ 36,133,109	$ 2,586,568	$ 1,478,570

	EBITDA		EARNINGS PER SHARE	
	2004	2003	2004	2003
First Quarter	$ 1,152,940	$ 1,331,821	$ 0.013	$ 0.018
Second Quarter	1,378,520	1,044,969	0.019	0.012
Third Quarter	1,284,312	884,621	0.017	0.007
Fourth Quarter	1,958,778	974,045	0.034	0.011
	$ 5,774,550	$ 4,235,456	$ 0.083	$ 0.048

SELECTED FINANCIAL INFORMATION

Selected Balance Sheet Information	IMAFLEX		CANSLIT		IMAFLEX CONSOLIDATED	
	2004	2003	**2004**	2003	**2004**	2003
Assets						
Accounts receivable	**$ 6,500,315**	$ 5,303,658	**$1,750,207**	$1,363,505	**$ 8,250,522**	$ 6,667,163
Inventories	**5,760,000**	1,765,000	**724,000**	818,000	**6,484,000**	2,583,000
Capital assets	**9,395,390**	10,436,085	**749,431**	1,028,666	**10,144,821**	11,464,751
Liabilities						
Accounts payable and accrued liabilities	**6,128,581**	4,733,888	**220,703**	368,044	**6,349,284**	5,101,932
Current portion of long-term debt	**1,636,039**	1,413,931	**370,000**	370,000	**2,006,039**	1,783,931
Long-term debt	**2,741,839**	4,377,878	**787,500**	1,157,500	**3,529,339**	5,535,378

Selected Statement of Income Information	IMAFLEX		CANSLIT		IMAFLEX CONSOLIDATED	
	2004	2003	**2004**	2003	**2004**	2003
Sales	**$31,994,380**	$30,533,367	**$7,089,850**	$5,599,742	**$39,084,230**	$36,133,109
Gross profit ($)	**7,608,719**	6,142,302	**959,480**	599,490	**8,568,199**	6,741,792
Gross profit (%)	**23.8%**	20.1%	**13.5%**	10.7%	**21.9%**	18.7%
Expenses						
Selling and administrative	**2,271,787**	2,095,835	**443,705**	313,252	**2,715,492**	2,409,087
Amortization of capital assets	**1,623,505**	1,442,482	**279,235**	325,594	**1,902,740**	1,768,076
Interest	**243,021**	277,657	**121,611**	114,130	**364,632**	391,787
Provision for income taxes	**951,666**	628,079	**(31,056)**	(31,056)	**920,610**	597,023
Net income (loss)	**2,447,130**	1,615,059	**139,438**	(136,489)	**2,586,568**	1,478,570
EBITDA	**5,265,322**	3,963,277	**509,228**	272,179	**5,774,550**	4,235,456

MANAGEMENT DISCUSSION AND ANALYSIS

INTRODUCTION

The following discussion and analysis should be read in conjunction with the Company's consolidated financial statements and accompanying notes.

The current year's results include those of Imaflex Inc. and its wholly owned subsidiary, Canslit Inc.

INCOME STATEMENT

Net income for the year ended December 31, 2004 was $2,586,568, or $0.083 per share, an increase of 74.9% compared with net income of $1,478,570, or $0.048 per share, for the same period in 2003. The stronger performance was driven by an optimal product mix towards more profitable product segments, continued sales growth volume in the local and US markets, and improved manufacturing productivity. Imaflex's extrusion operations generated net income of $2,447,130 for the year ended December 31, 2004 as compared to $1,615,059 for the same period in 2003. Canslit's metallizing operations generated net income of $139,438 for the year ended December 31, 2004 as compared to a net loss of $136,489 for the same period in 2003.

Sales for the year ended December 31, 2004 totaled $39,084,230 compared with $36,133,109 for the same period in 2003, an increase of $2,951,121 or 8.2%, which is explained by higher sales volume at Imaflex's operations resulting from increases in both manufacturing capacity and demand and sales growth by Canslit in the US market. Imaflex's sales increased by $1,461,013 to $31,994,380. Canslit's sales increased by $1,490,108 to $7,089,850.

Gross profit for the year ended December 31, 2004 amounted to $8,568,199 or 21.9% of sales, compared with $6,741,792 or 18.7% of sales for same period in 2003. The increase in gross profit and gross profit margin is due to increased sales volume and to changes in product mix.

Selling and administrative expenses increased for the year ended December 31, 2004 by $306,405 over the same period in 2003, primarily as a result of the increase in sales at Imaflex and Canslit's higher profile in the US market, which required higher selling efforts. Selling and administrative expenses represent 6.9% of sales in fiscal 2004, as compared to 6.7% of sales in fiscal 2003.

Amortization of capital assets increased for the year ended December 31, 2004 by $134,664 over the same period in 2003, as a result of Imaflex's acquisition of additional manufacturing equipment in the fourth quarter of fiscal 2003.

Interest expense decreased for the year ended December 31, 2004 by $27,155 from the same period in 2003. Higher levels of long-term debt necessitated by Imaflex's acquisition of its first co-extrusion line in 2003 resulted in increased interest costs, which were more than offset by interest savings on long-term debt issued prior to 2003, with higher rates but declining balances.

Other expenses represented 0.2% of sales for the year ended December 31, 2004, as compared with 0.3% of sales for the same period in 2003.

The effective tax rate for the year ended December 31, 2004 decreased to 26% from 29% for the same period in 2003. The income tax provision reflects the taxes on the income generated by Imaflex's operations. Canslit's income before income tax for the year ended December 31, 2004 was offset by losses incurred in prior periods which are being recognized in the income tax provision at the time Canslit generates income.

BALANCE SHEET

December 31, 2004 versus December 31, 2003

Total assets increased by $4,202,798 to $25,131,826 as at December 31, 2004 compared with $20,929,028 at December 31, 2003.

BALANCE SHEET *(continued)*

Current assets increased by $5,332,002 to $14,755,442 as at December 31, 2004 compared with $9,423,440 at December 31, 2003, as a result of the following:

- Increase in accounts receivable as a result of an increase in sales. Days sales outstanding were 77 days during the current year as compared to 67 days in the prior year, reflecting the difficult economic climate for credit in North America; and
- Increase in inventories, necessitated by an expected increase in level of sales and an expected increase in resin costs.

Deposits for capital assets increased by $190,726 to $231,563 as at December 31, 2004 compared with $40,837 at December 31, 2003, due to additional manufacturing equipment for Canslit which is expected to be operational in the second quarter of 2005.

Capital assets decreased by $1,319,930 to $10,144,821 as at December 31, 2004 compared with $11,464,751 at December 31, 2003, primarily as a result of amortization incurred during 2004.

Total liabilities increased by $1,610,230 to $16,000,190 as at December 31, 2004 compared to $14,389,960 at December 31, 2003.

Current liabilities increased by $3,550,032 to $10,774,679 as at December 31, 2004 compared with $7,224,647 at December 31, 2003, as a result of the following:

- Increase in bank indebtedness and accounts payable due to a higher level of inventory and expenses;
- Increase in income taxes payable, as a result of higher income during 2004; and
- Increase in the current portion of long-term debt, as a result of an expected balloon payment to a long-term debt holder in October 2005.

Long-term debt decreased by $1,783,931 to $5,535,378 as at December 31, 2004 compared to $7,319,309 at December 31, 2003, as a result of scheduled long-term debt repayments.

Future income tax liabilities increased by $66,237 to $1,696,172 as at December 31, 2004 compared to $1,629,935 at December 31, 2003, primarily related to accelerated amortization of capital assets for taxation purposes.

CASH FLOWS

Cash Flows from operating activities

During the year ended December 31, 2004, the Company generated $4,555,545 in cash flow from operating activities before changes in non-cash working capital items, an increase of $1,041,877, or 29.7%, over the same period in 2003. This increase was primarily related to increased amortization and net income. The reduction in non-cash operating working capital of $3,856,065 in 2004 was primarily attributable to a notable increase in accounts receivable, due to higher sales in 2004, a significant increase in inventory levels, necessitated by an expected increase in resin costs, partially offset by an increase in accounts payable. In 2003, the reduction in non-cash operating working capital was $1,399,373, due primarily to a significant increase in accounts receivable due to higher sales in 2003 when compared to 2002.

Cash Flows from financing activities

During the year ended December 31, 2004, the Company required a net cash outflow of $106,393 compared to cash inflows of $865,132 for the same period in 2003. The significant decrease in non-cash working capital resulted in increased bank indebtedness of $1,671,538, while the Company made scheduled long-term debt repayments of $1,783,931. The cash inflows in 2003 were primarily generated by the issuance of long-term debt of $2,500,000 to finance Imaflex's first co-extrusion line, partially offset by scheduled long-term debt repayments of $1,494,421 and capital lease repayments of $121,227.

Cash Flows from investing activities

During the year ended December 31, 2004, the Company required a net cash outflow of $755,536 compared to $2,816,978 for the same period in 2003. The considerable amount in 2003 was required for Imaflex's acquisition of its first co-extrusion line. In 2004, Imaflex added auxiliary equipment to its manufacturing operations.

FACTORS AFFECTING THE BUSINESS

Imaflex 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, Imaflex continues to improve its operational, financial and management information systems, and procedures and controls. Imaflex'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.

Factors which can impact the Company 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; variations in raw material costs; changes in the Company's relationship with its suppliers; and interest rate fluctuations and other changes in borrowing costs.

RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements and all other information in the Annual Report are the responsibility of the Company's management and have been approved by its Board of Directors.

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include amounts that are based on best estimates and judgments. Financial information provided elsewhere in the Annual Report is consistent with that shown in the consolidated financial statements.

Management maintains accounting and internal control systems that are designed to provide reasonable assurance that accounting records are reliable and assets are safeguarded.

The Board of Directors carries out its responsibility for the consolidated financial statements included in the present Annual Report, principally through its Audit Committee. The Audit Committee reviews the Company's annual consolidated financial statements and formulates the appropriate recommendations to the Board of Directors. The auditors appointed by the shareholders have full access to the Audit Committee, with and without management being present.

The firm of KPMG – LLP, Chartered Accountants has been given the mandate to audit the present consolidated financial statements in accordance with Canadian generally accepted auditing standards. Their audit includes tests and other procedures they deemed necessary under the circumstances. Their independent opinion on the consolidated financial statements is presented hereafter.

Joseph Abbandonato
President and Chief Executive Officer

Roberto Longo, CA
Corporate Controller

Montréal, Canada
February 18, 2005

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Imaflex Inc. as at December 31, 2004 and 2003 and the consolidated statements of income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Montréal, Canada
February 18, 2005

CONSOLIDATED BALANCE SHEETS

December 31, 2004 and 2003

	2004	2003
Assets		
Current assets:		
Cash	**$ –**	$ 162,449
Accounts receivable (note 4)	**8,250,522**	6,667,163
Inventories (note 5)	**6,484,000**	2,583,000
Prepaid expenses	**20,920**	10,828
	14,755,442	9,423,440
Deposits for capital assets	**231,563**	40,837
Capital assets (note 6)	**10,144,821**	11,464,751
	$ 25,131,826	$ 20,929,028
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness (note 7)	**$ 1,671,538**	$ –
Accounts payable and accrued liabilities	**6,349,284**	5,101,932
Income taxes payable	**747,818**	338,784
Current portion of long-term debt (note 8)	**2,006,039**	1,783,931
	10,774,679	7,224,647
Long-term debt (note 8)	**3,529,339**	5,535,378
Future income taxes (note 9)	**1,696,172**	1,629,935
Shareholders' equity:		
Share capital (note 10)	**1,946,615**	1,940,615
Retained earnings	**7,185,021**	4,598,453
	9,131,636	6,539,068
Commitments (note 12)		
Contingency (note 13)		
	$ 25,131,826	$ 20,929,028

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Director

Director

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

Years ended December 31, 2004 and 2003

	2004	2003
Sales	**$ 39,084,230**	$ 36,133,109
Cost of sales	**30,516,031**	29,391,317
Gross profit	**8,568,199**	6,741,792
Expenses:		
Selling and administrative	**2,715,492**	2,409,087
Amortization of capital assets	**1,902,740**	1,768,076
Interest	**364,632**	391,787
Other	**78,157**	97,249
	5,061,021	4,666,199
Income before income taxes	**3,507,178**	2,075,593
Provision for income taxes (note 9)	**920,610**	597,023
Net income	**2,586,568**	1,478,570
Retained earnings, beginning of year	**4,598,453**	3,119,883
Retained earnings, end of year	**$ 7,185,021**	$ 4,598,453
Basic and diluted earnings per share	**$ 0.083**	$ 0.048

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2004 and 2003

	2004	2003
Cash flows from operating activities:		
Net income	**$ 2,586,568**	$ 1,478,570
Adjustments for:		
Amortization of capital assets	**1,902,740**	1,768,076
Future income taxes	**66,237**	267,022
Net change in non-cash operating working capital (note 14)	**(3,856,065)**	(1,399,373)
	699,480	2,114,295
Cash flows from financing activities:		
Increase (decrease) in bank indebtedness	**1,671,538**	(19,220)
Issuance of long-term debt	**–**	2,500,000
Repayment of long-term debt	**(1,783,931)**	(1,494,421)
Repayment of obligations under capital leases	**–**	(121,227)
Issuance of share capital	**6,000**	–
	(106,393)	865,132
Cash flows from investing activities:		
Purchase of capital assets	**(564,810)**	(2,929,478)
Increase in deposits for capital assets	**(190,726)**	–
Redemption of long-term investment	**–**	112,500
	(755,536)	(2,816,978)
Net (decrease) increase in cash	**(162,449)**	162,449
Cash, beginning of year	**162,449**	–
Cash, end of year	**$ –**	$ 162,449
Supplemental cash flow information:		
Interest paid	**$ 363,489**	$ 391,817
Income taxes paid	**467,802**	188,244
Additions to capital assets included in accounts payable	**105,500**	87,500
Conversion of deposits for capital assets to capital asset additions	**–**	8,649

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2004 and 2003

Imaflex Inc. (the "Company") is incorporated under the Canada Business Corporations Act. The Company's principal business activity is the design, manufacture and sale of packaging materials.

1. Change in accounting policy:

Stock-based compensation and other stock-based payments:

The CICA Accounting Standards Board has amended CICA Handbook Section 3870 *"Stock-based Compensation and Other Stock-based Payments"* to require entities to account for employee stock options using the fair value based method, beginning January 1, 2004. Under the fair value based method, the compensation cost is measured at fair value at the date of grant and is expensed over the award's vesting period. In accordance with one of the transitional options permitted under amended Section 3870, the Company prospectively applies the fair value based method to all employee stock options granted during the year. There is no effect in the current year's net income, and basic or diluted earnings per share, resulting from prospectively adopting the fair value based method.

In 2002, the Company granted 20,000 options. Had the Company used the fair value based accounting method (the Black-Scholes model) to measure compensation, pro forma net income and pro forma basic and diluted earnings per share for the year ended December 31, 2004 would have been $2,586,235 (2003 - $1,478,237) and $0.083 (2003 - $0.048), respectively. As permitted by the new recommendations, pro forma amounts exclude the effect of awards granted prior to January 1, 2002.

2. Significant accounting policies:

(a) Basis of presentation:
These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

(b) Principles of consolidation:
The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Canslit Inc. ("Canslit"). All significant intercompany balances and transactions have been eliminated.

(c) Inventories:
Raw materials and supplies are valued at the lower of cost and replacement cost. Finished goods are valued at the lower of cost and net realizable value. Cost is determined by the first-in, first-out method.

(d) Capital assets:
Capital assets, other than assets under capital leases, are recorded at cost, including capitalized interest directly attributable to their acquisition, construction and development. Assets under capital leases are recorded at the present value of minimum lease payments at the inception of the lease. Amortization is provided using the following methods, rates and/or periods and net of an estimated salvage value on certain assets:

2. Significant accounting policies (continued):

Asset	Basis	Period
Production equipment	Straight-line	2 to 10 years
Office equipment	Straight-line	5 years
Computer equipment	Straight-line	3 years
Equipment under capital leases	Straight-line	10 years

Leasehold improvements are amortized on a straight-line basis over the terms of the leases, to a maximum of 5 years.

(e) Foreign exchange:

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange in effect at the balance sheet date. Sales and expenses are translated at the average rates prevailing during the year. Gains or losses on foreign exchange are included in the determination of income.

(f) Income taxes:

The asset and liability method is used for determining income taxes. Under this method, future income taxes are recognized for temporary differences between the financial statement carrying amounts and their respective income tax bases. Future income tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is included in income in the period in which the change occurs. The amount of future income tax assets recognized is limited to the amount that is more likely than not to be realized.

(g) Cash and cash equivalents:

Cash and cash equivalents consist of short-term, highly liquid investments with a maturity of ninety days or less.

(h) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

(i) Stock-based compensation plans:

The Company follows the fair value based approach for stock option awards and prospectively applied this method of accounting to all awards of employee stock options granted, modified or settled on or after January 1, 2004, as explained in Note 1 - Change in accounting policy. For awards granted before January 1, 2004, the Company did not record compensation cost, and any consideration paid by employees on exercise of stock options was recorded as share capital.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, (page 3)

Years ended December 31, 2004 and 2003

2. Significant accounting policies (continued):

(j) Guarantees:

The Company recognizes a liability for the fair value of the obligation undertaken in issuing certain guarantees on the date the guarantee is issued or modified. Where the Company expects to make a payment in respect of a guarantee, a liability is recognized to the extent that it has not yet been recognized.

In the normal course of business, the Company enters into various agreements that may contain features that meet the definition of a guarantee. A guarantee is defined to be a contract (including an indemnity) that contingently requires the Company to make payments to a third party based on (i) changes in an underlying that is related to an asset, a liability or an equity of the guaranteed party or (ii) failure of another party to perform under an obligating agreement.

3. Business acquisition:

On March 29, 2001, the Company acquired 100% of the outstanding shares of Canslit for an initial consideration of $162,501 payable by the issuance of 750,000 Class A shares of the Company. The acquisition was accounted for using the purchase method.

The share purchase agreement included a contingent consideration clause based on the future results of Canslit for the years ending December 31, 2002, 2003 and 2004, which could have resulted in the issuance of up to an additional 750,000 Class A shares of the Company. As a consequence of Canslit not having attained the minimum contractual level of results for the years ended December 31, 2002, 2003 and 2004, no additional Class A shares of the Company will be issued (note 13).

4. Accounts receivable:

Accounts receivable consist of:

	2004	2003
Trade receivables, net of allowance for doubtful accounts	**$ 8,245,592**	$ 6,632,814
Other	**4,930**	34,349
	$ 8,250,522	$ 6,667,163

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, (page 4)

Years ended December 31, 2004 and 2003

5. Inventories:

Inventories consist of:

	2004	2003
Raw materials and supplies	**$ 5,441,000**	$ 2,110,000
Reprocessed raw materials	**131,000**	170,000
Work in process	**70,000**	–
Finished goods	**842,000**	303,000
	$ 6,484,000	$ 2,583,000

6. Capital assets:

Capital assets consist of:

			2004	2003
	Cost	Accumulated amortization	**Net book value**	Net book value
Production equipment	$ 18,668,132	$ 8,625,732	**$ 10,042,400**	$ 11,262,762
Office equipment	–	–	**–**	25,981
Computer equipment	–	–	**–**	10,413
Leasehold improvements	315,864	213,443	**102,421**	165,595
	$ 18,983,996	$ 8,839,175	**$ 10,144,821**	$ 11,464,751

7. Bank indebtedness:

The Company has operating lines of credit with its bankers to a maximum of $4,350,000, bearing interest at rates ranging between prime plus 0.25% to prime plus 0.75%. The lines of credit are secured by accounts receivable, inventories and capital assets.

8. Long-term debt:

Long-term debt consists of:

	2004	2003
Loan, bearing interest at prime plus 0.75%, repayable in monthly principal installments of $31,000 to June 2010, secured by production equipment	**$ 2,046,000**	$ 2,418,000
Quebec Government Immigrant Investor loan, bearing interest at prime plus 0.50%, repayable in monthly principal installments of $20,833 up to October 2003 and $36,458 up to October 2007 (a)	**1,239,583**	1,677,083
Loan, bearing interest at prime plus 1.25%, repayable in monthly principal installments of $22,500 up to November 2008. The loan is secured by a hypothec on all present and future property of the subsidiary, movables and immovables, corporeal and incorporeal, including machinery, equipment, inventory and receivables, ranking second to the bank indebtedness and a corporate guarantee from the Company equal to 50% of the outstanding balance	**1,057,500**	1,327,500
Loan, bearing interest at the Royal Bank of Canada's 30-day banker acceptance rate plus 2.80%, repayable in blended monthly installments of $32,834 up to September 2005 and one final blended installment of $366,660 in October 2005, secured by production equipment	**626,539**	951,259
Loan, bearing interest at prime plus 1%, repayable in monthly principal installments of $16,667 up to March 2007 and one final principal installment of $15,756 in April 2007, secured by production equipment	**465,756**	665,756
Loan, bearing interest at prime plus 0.50%, repayable in monthly principal installments of $8,333 up to December 2005	**100,000**	200,000
Quebec Government Immigrant Investor loan, bearing interest at the Royal Bank of Canada's 30-day banker acceptance rate plus 1.30%, repayable in blended monthly installments of $13,517 up to June 2004, secured by production equipment	**–**	79,711
	5,535,378	7,319,309
Current portion of long-term debt	**2,006,039**	1,783,931
	$ 3,529,339	$ 5,535,378

(a) 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 also transferred bank notes to the trust, purchased at a discount in the amount of $1,419,740 and maturing in five years on October 31, 2007 at an amount of $1,750,000. The act creating the trust stipulates that the guaranteed obligations will be settled from the proceeds of the maturity of the bank notes. In addition, the act creating the trust compels the trustee to endorse the notes upon maturity and to use the proceeds of this endorsement in order to settle any obligations created under the trust.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, (page 6)

Years ended December 31, 2004 and 2003

8. Long-term debt (continued):

Interest on long-term debt amounted to $365,578 for the year ended December 31, 2004 (2003 - $350,531).

The aggregate maturities of long-term debt for each of the five years subsequent to December 31, 2004 and thereafter are as follows:

2005	$ 2,006,039
2006	1,279,500
2007	1,072,339
2008	619,500
2009	372,000
Thereafter	186,000
	$ 5,535,378

9. Income taxes:

The provision for income taxes differs from the amount computed by applying the Canadian federal and provincial rates to income before income taxes. The reasons for the difference and the related tax effects are as follows:

	2004	2003
Income before income taxes	**$ 3,507,178**	$ 2,075,593
Expected rate	**31.15%**	31.15%
Expected income taxes	**1,092,486**	646,547
Adjustments:		
Deduction for new investment in Québec	**(49,900)**	(64,200)
Non-deductible expenses	**16,200**	15,000
Utilization of non-capital losses carried forward	**(64,500)**	–
Increase in valuation allowance	**–**	21,800
Other	**(73,676)**	(22,124)
	$ 920,610	$ 597,023

	2004	2003
Represented by:		
Current	**$ 854,373**	$ 330,001
Future	**66,237**	267,022
Income tax expense	**$ 920,610**	$ 597,023

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, (page 7)

Years ended December 31, 2004 and 2003

9. Income taxes (continued):

The detail of the future income taxes is as follows:

	2004	2003
Assets:		
Losses carried forward	**$ 120,000**	$ 242,000
Capital assets	**149,000**	91,000
Valuation allowance	**(269,000)**	(333,000)
	$ –	$ –
Liabilities:		
Capital assets	**$ 1,696,172**	$ 1,629,935
Net future income tax liability	**$ 1,696,172**	$ 1,629,935

The Company's subsidiary has non-capital losses available to carry forward to reduce future taxable income of approximately $386,000 that expire as follows:

Year of expiry	Amount
2008	$ 385,000
2009	1,000
	$ 386,000

10. Share capital:

Share capital consists of:

	2004	2003
Authorized:		
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		
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		
Issued and outstanding:		
31,055,002 Class A shares (2003 - 31,035,002)	**$1,946,615**	$ 1,940,615

10. Share capital (continued):

Earnings per share have been calculated on the basis of the weighted average number of shares outstanding during the year of 31,046,669 (2003 - 31,035,002).

In 2001, the Company issued 750,000 Class A shares pursuant to the acquisition of Canslit. 250,000 Class A shares were placed in escrow on March 29, 2001 and are to be released from escrow based on representations and warranties being satisfied by the vendor (note 13).

As a result of the reverse takeover transaction that occurred effective December 1, 1998, the legal, tax and book values of share capital are significantly different.

Stock Option Plan:

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 the directors, and only 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.

A summary of the options outstanding under the Plan is presented below:

	2004		2003	
	Options (000's)	**Weighted average exercise price**	Options (000's)	Weighted average exercise price
Outstanding, beginning of year	**215**	**$ 0.32**	565	$ 0.33
Granted	**–**	**–**	–	–
Expired	**–**	**–**	(350)	0.33
Exercised	**(20)**	**0.30**	–	–
Outstanding, end of year	**195**	**$ 0.32**	215	$ 0.32
Exercisable, end of year	**195**		180	

During the year, 20,000 options were exercised for cash proceeds of $6,000.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, (page 9)

Years ended December 31, 2004 and 2003

10. Share capital (continued):

The following table summarizes information about the options outstanding as of December 31, 2004:

	Options outstanding			Options exercisable	
Exercise price	Number outstanding (000's)	Weighted average remaining contractual life (years)	Exercise price	Options (000's)	Weighted average exercise price
$0.24	20	0.4	$ 0.24	20	$ 0.24
$0.33	175	0.4	0.33	175	0.33
$0.24 to $0.33	195	0.4	$ 0.32	195	$ 0.32

11. Related party transactions:

During the year, in the normal course of business, 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. Details of these transactions are as follows:

	2004	2003
Management fees	**$ 133,405**	$ 123,600
Commissions	**32,000**	96,000
Consulting	**40,000**	30,000
Rent	**470,244**	453,080

12. Commitments:

The Company's future minimum lease payments under operating leases for facilities are approximately as follows:

2005	$ 423,000
2006	423,000
2007	435,000
2008	435,000
2009	434,000
Thereafter	1,529,000
	$ 3,679,000

In addition, the Company entered into a commitment to purchase production equipment for approximately $1,600,000, of which $231,563 was paid as a deposit at year-end.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, (page 10)

Years ended December 31, 2004 and 2003

13. Contingency:

The Company is contingently liable for outstanding letters of credit of approximately $543,000.

In 2003, the Company filed two statements of claim against a former shareholder of Canslit (the "Defendant"). In the first action, the Company asserts that a breach of undertakings by the Defendant under a confidentiality and non-competition agreement has caused the Company serious prejudice for which it is seeking reparation.

Under the share purchase agreement, the Defendant, as vendor, represented and warranted to the Company, as purchaser, the operating condition of the equipment used in carrying on the business of Canslit. The Company asserts in the second statement of claim that the Defendant's representations and warranties under the Canslit share purchase agreement were not accurate and is seeking damages in that regard.

The Defendant subsequently filed a counterclaim seeking the release and delivery of all shares held in escrow (note 10) and the re-issuance of the shares that the Company has already cancelled following Canslit's failure to meet the minimum contractual level of results. The Company is vigorously contesting the counterclaim, which, it believes, is without merit. The Company is currently waiting for a trial date in these matters.

14. Statement of cash flows:

The detail of the net change in non-cash working capital balances relating to operations is as follows:

	2004	2003
Accounts receivable	**$(1,583,359)**	$(2,251,855)
Inventories	**(3,901,000)**	(187,000)
Prepaid expenses	**(10,092)**	9,947
Accounts payable and accrued liabilities	**1,229,352**	828,221
Income taxes payable	**409,034**	201,314
	$(3,856,065)	$(1,399,373)

15. Financial instruments:

(a) Foreign currency risk management:
A portion of the Company's sales and expenses are denominated in US dollars. The Company does not use forward foreign exchange contracts to reduce foreign exchange exposure since the revenue stream in US dollars acts as a natural hedge to cover expenses denominated in US dollars. The Company's statement of income includes $35,000 (2003 - $191,000) of foreign exchange gains realized as part of normal operations.

(b) 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, (page 11)

Years ended December 31, 2004 and 2003

15. Financial instruments (continued):

(c) Fair value disclosure:

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 carrying value of its short-term financial assets and liabilities approximates their fair values as at the balance sheet date because of the short-term maturity of those instruments. The carrying value of long-term debt approximates its fair value at the balance sheet date.

(d) 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.

16. Segmented information:

The Company operates in one reportable operating segment being the design, manufacture and sale of packaging materials. The Company operates exclusively in Canada.

Export sales to the United States totaled $10,381,899 for the year ended December 31, 2004 (2003 - $8,812,026).

17. Comparative figures:

Certain figures previously reported on for the year ended December 31, 2003 have been reclassified to conform to the current year's presentation.

CORPORATE INFORMATION

OFFICERS

Joseph Abbandonato,
President and Chief Executive Officers

Tony Abbandonato,
Production Director and Secretary

Gerry Phelps,
Vice-President – Operations

Pierre Senecal,
Vice-President – Sales

Roberto Longo, CA
Corporate Controller

BOARD OF DIRECTORS

The Board of Directors establishes the objectives and the long-term direction of the Company. The Board meets regularly throughout the year to review progress towards achievement of the Company's goals and to recommend policies and procedures directed at optimizing performance.

Joseph Abbandonato,
Chairman and President

Tony Abbandonato,
Secretary

Camillo Lisio,
Vice-President and Chief Operating Officer – Dorel Industries Inc.

Pierre Myrand,
President and CEO, SiXtron Advanced Materials Inc.

Philip Nolan,
Partner, Lavery, de Billy

Gerry Phelps,
Vice-President

John Wight, FCA,
Corporate Director

SHAREHOLDER INFORMATION

Audit and Compensation Committee: John Wight, FCA, Chairman; Pierre Myrand; Philip Nolan

Auditors: KPMG - LLP, Montréal, Québec

Legal Counsel: Lavery, de Billy, Montréal, Québec

Listing: Imaflex Inc. shares are listed as IFX.A on the TSX Venture Exchange

Transfer Agent: Computershare Investor Services

Head office: Imaflex Inc.
5710 Notre Dame West
Montréal, Québec, Canada
H4C 1V2
Telephone: (514) 935 – 5710
Fax: (514) 935 – 0264
E-mail: info@imaflex.com
Website: www.imaflex.com

ANNUAL MEETING OF SHAREHOLDERS

The Annual Meeting of Shareholders will be held on Tuesday, May 31, 2005 at 5:00 p.m. at Fairmont - The Queen Elizabeth, Salon Bersimis, 900 René Lévesque West, Montréal, Québec, H3B 4A5.