Annual Report

2006

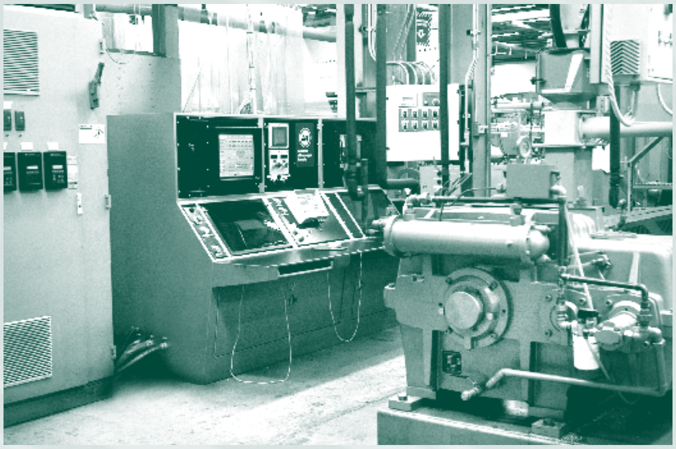
IMAFLEX

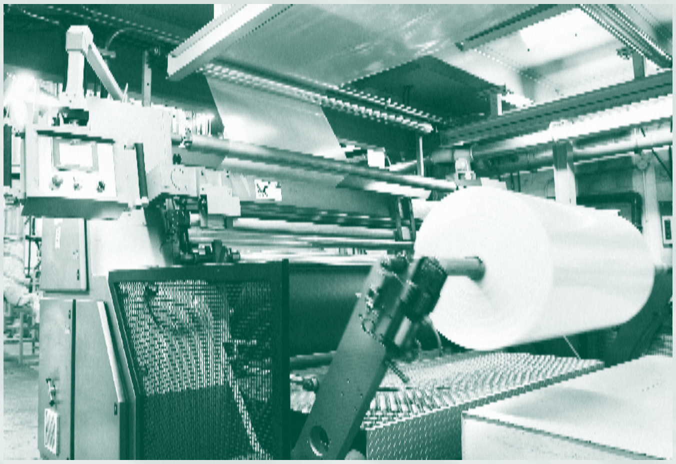
Committed to Excellence

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

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

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





IMAFLEX inc. CERTIFIED • CERTIFIÉ ISO 9001 2000

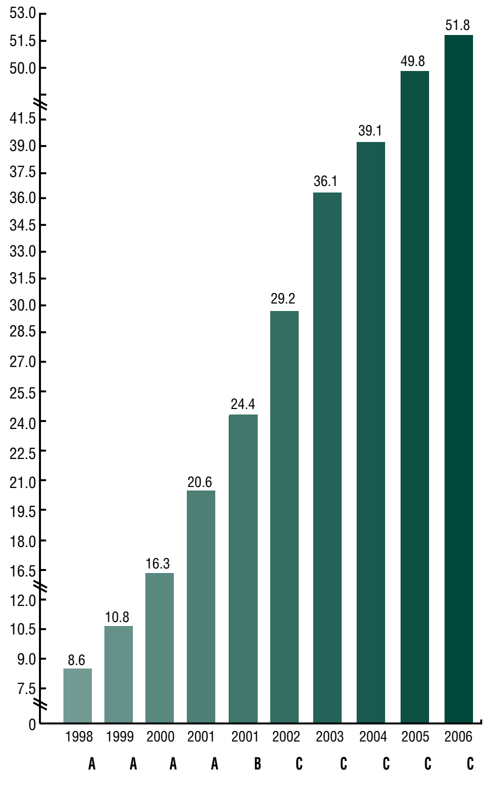
Committed to Excellence

FINANCIAL HIGHLIGHTS

($ thousands, except per share data)	**Year ended December 31, 2006**	Year ended December 31, 2005	Year ended December 31, 2004	Year ended December 31, 2003	Year ended December 31, 2002
Operating Summary					
Sales	**$51,775**	$49,818	$39,084	$36,133	$29,185
Net income (loss)	**(131)**	3,793	2,587	1,479	740
Earnings (loss) per share	**(0.003)**	0.110	0.083	0.048	0.024
EBIT (1)	**1,454**	5,545	3,872	2,467	1,519
EBITDA (2)	**3,707**	7,572	5,775	4,235	2,888
EBITDA per share	**0.099**	0.220	0.186	0.136	0.093
Financial Position					
Working capital	**6,447**	9,745	3,981	2,199	1,152
Capital assets	**25,056**	16,079	10,145	11,465	10,040
Total assets	**40,272**	36,843	25,132	20,929	17,249
Total long-term debt (including capital leases)	**15,604**	9,738	5,535	7,319	6,435
Shareholders' equity	**18,186**	18,317	9,132	6,539	5,060

(1) Earnings before interest and taxes
(2) Earnings before interest, taxes, non-controlling interest, depreciation and amortization

SALES
(in millions dollars)



A Represents year ended January 31.

B Represents eleven month period ended December 31.

C Represents year ended December 31.

REPORT TO OUR SHAREHOLDERS

During 2006, management conveyed to all shareholders the difficult conditions which befell the plastics packaging industry. These, coupled with the start up problems at our two new entities Imaflex USA and Canguard, created conditions that could not permit management to deliver the profitability envisioned, or that the Company had been accustomed to. It was a year whose results were greatly impacted by machinery woes. However, on a positive note, now that most, if not all, of the machinery problems have been resolved, the tools are finally in place to permit the realization of increased profitability. Actually, and if one would compare, 2006 is akin to our results in 2001, when we embarked on our first acquisition, Canslit Inc.

Management believes that now that the equipment is running well, coupled with a slightly more stable business climate for 2007, we can generate the necessary sales volume to permit our U.S. operation to contribute to shareholder value, rather than diminish it.

With regards to our Canadian operations, which throughout 2006 needed to adjust to ever changing market conditions, management has taken the necessary steps to make them profitable, or increase profitability, depending on the facility, by streamlining its operations. Once all of the changes are implemented, which is expected towards the end of the second quarter, our Canadian operations should also see an increase in profitability.

What management created in 2006 were the conditions necessary to generate sales of over $75,000,000. Though external forces outside our control made it impossible to attain these sales in 2006, the foundation was built, and is now in place, to permit the Company, albeit a little later than planned, to take a great leap forward.

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

($ thousands, except per share data)

	SALES		NET (LOSS) INCOME	
	2006	2005	2006	2005
First Quarter	$ 11,800	$ 11,858	$ (159)	$ 982
Second Quarter	14,912	11,461	700	826
Third Quarter	13,800	12,565	84	1,072
Fourth Quarter	11,263	13,934	(756)	913
	$ 51,775	$ 49,818	$ (131)	$ 3,793

	EBITDA		EARNINGS (LOSS) PER SHARE	
	2006	2005	2006	2005
First Quarter	$ 761	$ 1,946	$ (0.004)	$ 0.032
Second Quarter	1,805	1,608	0.018	0.026
Third Quarter	1,232	1,918	0.003	0.029
Fourth Quarter	(91)	2,100	(0.020)	0.023
	$ 3,707	$ 7,572	$ (0.003)	$ 0.110

MANAGEMENT DISCUSSION AND ANALYSIS ("MD&A")

The purpose of this MD&A is, as required by regulators, to explain management's point of view on Imaflex Inc.'s (the "Company") past performance and future outlook. This report also provides information to improve the reader's understanding of the consolidated financial statements and related notes. Please refer to the audited consolidated financial statements for the year ended December 31, 2006 when reading this MD&A. In this document, unless otherwise indicated, all financial data is prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). All amounts are expressed in Canadian dollars. In this MD&A we also use a non-GAAP financial measure. Please refer to the section entitled "Non-GAAP Measure" for a complete description of this measure. The consolidated financial statements include the accounts of the Company, those of its wholly owned subsidiaries, Canslit Inc. ("Canslit") and Imaflex USA, Inc. ("Imaflex USA") and those of its 70%-owned subsidiary, Canguard Packaging Inc. ("Canguard"), incorporated in 2006. On December 29, 2006, the company acquired the non-controlling interest in Canguard for a nominal amount and transferred the assets and operations into Imaflex. To facilitate the reading of this report, the terms "Imaflex", "Company", "we", "our" "us" all refer to Imaflex Inc. together with its subsidiaries. This MD&A is prepared in conformity with National Instrument 51-102 and Form 51-102F1 and has been approved by the board of directors prior to its release. The consolidated financial statements have been audited by KPMG LLP, the auditors of the Company.

FORWARD-LOOKING STATEMENTS

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

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

We caution that the foregoing list of important factors that may affect future results is not exhaustive. When relying on our forward-looking statements to make decisions with respect to the Company, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. Unless otherwise required by the securities authorities, we do not undertake to update any forward-looking statement that may be made from time to time by us or on our behalf. The forward-looking statements contained herein are based on information available as of March 13, 2007.

COMPANY OVERVIEW

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

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

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

CONTROLS AND PROCEDURES

Management, including the President and Chief Executive Officer and VP - Finance, has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Multilateral Instrument 52-109 of the Canadian Securities Administrators) as of December 31, 2006.

Management has concluded that, as of December 31, 2006, the Company's disclosure controls and procedures were effective to provide reasonable assurance that material information relating to the Company would be made known to them by others within those entities, particularly during the period in which this report was being prepared.

Management is responsible for and has designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

There were no changes in internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

NON-GAAP MEASURE

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

Reconciliation of EBITDA and Net income (loss):

NON-GAAP MEASURE (continued)

	Three months ended		Year ended	
	December 31	December 31	**December 31**	December 31
($ thousands)	**2006**	2005	**2006**	2005
Net income (loss)	**$ (756)**	$ 913	**$ (131)**	$ 3,793
Plus:				
Non-controlling interest	**(29)**	–	**(100)**	–
Income taxes	**(100)**	768	**737**	1,527
Interest	**295**	(63)	**947**	225
Amortization	**499**	482	**2,254**	2,027
EBITDA	**(91)**	2,100	**3,707**	7,572

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

SELECTED ANNUAL INFORMATION

	For the fiscal years ended December 31		
($ thousands, except per share data)	2004	2005	2006
Sales	39,084	49,818	51,775
Net income (loss)	2,587	3,793	(131)
Total assets	25,132	36,843	40,272
Total long-term debt	5,535	9,738	15,277
Total obligations under capital lease	–	–	327
Earnings (loss) per share (basic and diluted)	0.083	0.110	(0.003)
Cash dividends per share	–	0.010	–

Sales increased from 2004 to 2006 due mainly to organic growth, resulting from increased manufacturing capacity and sales volume growth in the U.S. market as well as from new product development and introduction.

Net income increased from 2004 to 2005, as a result of the Company's sales growth as noted above and profits generated by the Victoriaville facility. The 2006 results were negatively affected by operating losses at its U.S. operations and decreased gross margins due to significant competitive pressures.

Total assets increased from 2004 to 2006 due mainly to an increase in current assets, such as inventories and accounts receivable as a result of increased sales and capital assets resulting from the increased manufacturing capacity.

Total long-term debt increased from 2004 to 2006 as a result of the financing for the expansion of the Company's manufacturing capacity.

RESULTS OF OPERATIONS

	Three months ended		Year ended	
($ thousands)	**December 31 2006**	December 31 2005	**December 31 2006**	December 31 2005
Sales	**$ 11,263**	$ 13,934	**$ 51,775**	$ 49,818

With continued pricing pressures and loss of volume in the Company's local Canadian market as a result of the factors noted in the net income caption, modest volume growth was driven exclusively by the Company's U.S. based accounts.

	Three months ended		Year ended	
($ thousands)	**December 31 2006**	December 31 2005	**December 31 2006**	December 31 2005
Gross Profit ($)	**$ 1,564**	$ 3,029	**$ 8,064**	$ 10,721
Gross Margin (%)	**13.9%**	21.7%	**15.6%**	21.5%

The decline in gross profit margin is primarily due to reduced margins as a result of competitive conditions. In addition, the Company experienced production inefficiencies and lower than expected sales volume at the Company's U.S. and Ontario facilities.

	Three months ended		Year ended	
($ thousands)	**December 31 2006**	December 31 2005	**December 31 2006**	December 31 2005
Selling and administrative	**$ 1,073**	$ 976	**$ 4,132**	$ 3,216
As a % of sales	**9.5%**	7.0%	**8.0%**	6.5%

The increase in selling and administrative expenses is a result of the Company's continuing and expanded sales efforts in the U.S. market, with an emphasis on increasing sales volume and growth at the Company's U.S. operations. A greater portion of the Company's U.S. based sales is being generated by U.S. based external sales agents.

	Three months ended		Year ended	
($ thousands)	**December 31 2006**	December 31 2005	**December 31 2006**	December 31 2005
Amortization	**$ 499**	$ 482	**$ 2,254**	$ 2,027

RESULTS OF OPERATIONS (continued)

The increase resulted primarily from the additional amortization on capital expenditures at the Company's U.S. facility.

	Three months ended		Year ended	
($ thousands)	**December 31 2006**	December 31 2005	**December 31 2006**	December 31 2005
Interest	**$ 295**	$ (63)	**$ 947**	$ 225

The increase in interest expense is attributed to higher levels of long-term debt as a result of the financing for the expansion of the Company's manufacturing capacity. It is important to note that the Company received an interest refund adjustment from a long-term debt holder of $165,000 in the fourth quarter of 2005.

	Three months ended		Year ended	
($ thousands)	**December 31 2006**	December 31 2005	**December 31 2006**	December 31 2005
FX loss (gain)	**$ 564**	$ (13)	**$ 176**	$ (76)

Three months ended December 31, 2006

The foreign exchange translation of Imaflex USA resulted in a loss of $564,000 for the quarter ended December 31, 2006, as a result of a notable appreciation of the U.S. dollar during the quarter. The translation loss is related to the period end U.S./Canadian exchange rate differential between October 1, 2006 (1.1177) and December 31, 2006 (1.1654).

The foreign exchange translation of Imaflex USA resulted in a gain of $13,000 for the quarter ended December 31, 2005, as a result of a small appreciation of the U.S. dollar during the quarter. The translation gain is related to the period end U.S./Canadian exchange rate differential between October 1, 2005 (1.1627) and December 31, 2005 (1.1630).

Year ended December 31, 2006

The foreign exchange translation of Imaflex USA resulted in a loss of $176,000 for the year ended December 31, 2006, as a result of a small appreciation of the U.S. dollar during the year. The translation loss is related to the period end U.S./Canadian exchange rate differential between January 1, 2006 (1.1630) and December 31, 2006 (1.1654).

The foreign exchange translation of Imaflex USA resulted in a gain of $76,000 for the year ended December 31, 2005, as a result of a devaluation of the U.S. dollar during the year. The translation gain is related to the period end U.S./Canadian exchange rate differential between September 1, 2005 (Imaflex USA's commencement of operations) (1.1834) and December 31, 2005 (1.1630).

RESULTS OF OPERATIONS (continued)

($ thousands)	Three months ended December 31 2006	December 31 2005	Year ended December 31 2006	December 31 2005
Provision for income taxes	**$ (100)**	$ 768	**$ 737**	$ 1,527
As a % of income before taxes and non-controlling interest	**11.3%**	45.7%	**145.7%**	28.7%

In 2006, the income tax provision reflects the taxes on the income generated by the Company's Québec operations. It also includes a future income tax recovery of $75,000, resulting from enacted decreased Federal corporate tax rates and the recognition of loss carryforwards of its Toronto operation, the benefit of which was $123,000. No future income tax benefits have been recorded on the Company's losses at its U.S. location.

In 2005, the income tax provision reflected the taxes on the income generated by the Company's Montréal facility. It also includes a future income tax expense of $198,000 resulting from enacted increased Quebec corporate tax rates. In 2005, the taxable income generated by the Victoriaville facility was offset by previously unrecorded tax losses from prior periods in the amount of $929,000, the benefit of which was recorded in the income tax provision.

($ thousands)	Three months ended December 31 2006	December 31 2005	Year ended December 31 2006	December 31 2005
Net (loss) income	**$ (756)**	$ 913	**$ (131)**	$ 3,793
Earnings (loss) per share (basic and diluted)	**(0.020)**	0.023	**(0.003)**	0.110

Three months ended December 31, 2006

The Company incurred a net loss of $756,000 for the three months ended December 31, 2006, compared with net income of $913,000 for the same period in 2005. The Company continues to face significant pricing pressures as reduced demand and excess supply, combined with the soft U.S. dollar, adversely affected its Canadian customers' ability to export product competitively to the USA. Meanwhile, U.S. competitors continued to penetrate aggressively the Company's local markets. As a result, the Company's Québec operations generated combined net income of $283,000 for the three months ended December 31, 2006, compared with net income of $1,069,000 for the same period in 2005. The current quarter includes a future income tax recovery of $75,000, resulting from recently enacted decreased Federal corporate tax rates. The previous year included a future income tax expense of $198,000 resulting from enacted increased Quebec corporate tax rates. The Company's Toronto operation generated net income of $3,000 (net of non-controlling interest), primarily as a result of the recognition of loss carryforwards, the benefit of which was $123,000. Furthermore the current quarter's results were adversely impacted by losses at the Company's U.S. facility of $478,000, compared with $169,000 for the same period in 2005. Lastly, the Company incurred a foreign exchange loss on the translation of the integrated subsidiary of $564,000, as a result of a notable appreciation in the U.S. dollar during the quarter, compared with a foreign exchange gain of $13,000 for the same period in 2005.

RESULTS OF OPERATIONS (continued)

Three months ended December 31, 2006 (continued)

Basic earnings per share have been calculated on the basis of the weighted average number of shares outstanding during the fourth quarter ended December 31, 2006 of 37,600,002 (2005 – 37,600,002).

Diluted earnings per share, which give effect to the outstanding stock options, have been calculated on the basis of the weighted average number of shares outstanding during the fourth quarter ended December 31, 2006 of 37,600,002 (2005 – 37,686,642).

Year ended December 31, 2006

The Company incurred a net loss of $131,000 for the year ended December 31, 2006, compared with net income of $3,793,000 for the same period in 2005. The significant drop in earnings was due to difficult market conditions as previously disclosed and noted above. As a result, the Company's Québec operations generated combined net income of $2,062,000 for the year ended December 31, 2006, compared with net income of $3,937,000 for the same period in 2005. Furthermore, the current period's results were adversely impacted by losses at the Company's U.S. facility of $1,854,000, compared with $220,000 for the same period in 2005. In addition, the Company incurred a foreign exchange loss on the translation of the integrated subsidiary of $176,000, compared with a foreign exchange gain of $76,000 for the same period of 2005. Lastly, the Company's Toronto operation incurred a net loss of $163,000 (net of non-controlling interest).

Earnings per share have been calculated on the basis of the weighted average number of shares outstanding during year ended December 31, 2006 of 37,600,002 (2005 – 34,362,502).

Diluted earnings per share, which give effect to the outstanding stock options, have been calculated on the basis of the weighted average number of shares outstanding during year ended December 31, 2006 of 37,628,370 (2005 – 34,437,258).

FINANCIAL POSITION

December 31, 2006 vs. December 31, 2005

Cash decreased by $2,103,000 primarily as a result of a lower level of accounts payables. Accounts receivables decreased from $10,886,000 to $8,876,000 mainly due to a lower level of fourth quarter sales vis-à-vis the prior year.

Deposits for capital assets decreased by $1,472,000 primarily due to the arrival of manufacturing equipment at the Company's U.S. facility in the first quarter of 2006.

Capital assets, net of accumulated amortization increased by $8,978,000, primarily from the acquisition of manufacturing equipment for the Victoriaville and North Carolina facilities.

Accounts payable and accrued liabilities decreased from $6,396,000 to $4,606,000 mainly due to the timing of inventory purchases and payments in the fourth quarter vis-à-vis the prior year.

Long-term debt increased by $5,538,000, as a result of the financing for the expansion of the Company's manufacturing capacity in 2006.

SUMMARY OF QUARTERLY RESULTS

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

For the quarters ending March, June, September and December

($ thousands, except per share data)

	Q4/06	Q3/06	Q2/06	Q1/06	Q4/05	Q3/05	Q2/05	Q1/05
Sales	$11,263	$13,800	$14,912	$11,800	$13,934	$12,565	$11,461	$11,858
Net income (loss)	(756)	84	700	(159)	913	1,072	826	982
Earnings (loss) per share:								
Basic	(0.020)	0.003	0.018	(0.004)	0.023	0.029	0.026	0.032
Diluted	(0.020)	0.003	0.018	(0.004)	0.023	0.028	0.026	0.032

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

LIQUIDITY

Working capital at December 31, 2006 was $6,447,000 compared with working capital of $9,745,000 at December 31, 2005. The decrease in working capital of $3,298,000 is due to the following factors: (1) a remaining portion of the financing of the current year's capital expenditures at Victoriaville through short-term borrowings. This is considered temporary as the Company intends to draw on the remaining portion of long-term debt facility with the National Bank of Canada of $1,000,000 in the first half 2007, (2) a notable increase in the current portion of long-term debt consistent with the issuance of long-term debt to finance capital expenditures at its US and Victoriaville facilities, and (3) funds required to support the U.S. facility's operating losses.

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

Cash Flows from Operating Activities

During the quarter ended December 31, 2006, the Company experienced ($389,000) in cash flow from operating activities before changes in non-cash operating working capital, a decrease of $1,991,000, or 124.3%, over the same period in 2005, primarily as a result of a decrease in net income. The reduction in non-cash operating working capital of $265,000 in the current quarter was primarily attributable to a significant decrease in accounts payable, which was partially offset by a decrease in accounts receivable and inventories. The reduction in non-cash operating working capital of $2,595,000 in the fourth quarter of 2005 was principally due to increased inventories.

Cash Flows from Operating Activities (continued)

During the year ended December 31, 2006, the Company generated $1,892,000 in cash flow from operating activities before changes in non-cash operating working capital, a decrease of $4,103,000, or 68.4%, over the same period in 2005, primarily as a result of much lower net income. The reduction in non-cash operating working capital of $989,000 in the current year was primarily attributable to decreases in accounts and income taxes payable, which was only partially offset by a decrease in accounts receivable. In 2005, the decrease in non-cash operating working capital of $2,447,000 was primarily attributable to a significant increase in accounts receivable.

Cash Flows from Financing Activities

The quarter ended December 31, 2006 generated cash inflows of $1,225,000 compared to cash inflows of $2,422,000 for the same period in 2005. The issuance of long-term debt of $2,000,000 to finance capital expenditures at its Victoriaville facility in the second half of 2006 was used to make scheduled long-term debt repayments of $835,000. In 2005, the Company issued long-term debt of $3,305,000 to fund the capital asset requirements at its U.S. facility, and made scheduled long-term debt repayments of $879,000.

During the year ended December 31, 2006, the Company generated cash inflows of $5,895,000 compared to cash inflows of $7,750,000 for the same period in 2005. The cash inflows to support capital expenditures in 2006 were generated by increased bank borrowings of $496,000 and the issuance of long-term debt of $8,067,000, partially offset by scheduled long-term debt repayments of $2,727,000. In 2005, the increased cash flow from operating activities was used to reduce bank indebtedness by $1,672,000, make scheduled long-term debt repayments of $2,443,000, and pay dividends of $313,000, which was more than offset by the issuance of long-term debt of $6,674,000 and the issuance of shares for $5,502,000.

Cash Flows from Investing Activities

During the quarter ended December 31, 2006, the Company required a net cash outflow of $580,000 compared to $1,193,000 for the same period in 2005. During the year ended December 31, 2006, the Company required a net cash outflow of $8,860,000 compared to $9,162,000 for the same period in 2005. The amount in 2006 was primarily required for additional manufacturing equipment at the Company's U.S. and Victoriaville facilities. The amount in 2005 was primarily for additional manufacturing equipment at the Company's facilities and to make deposits for capital assets related to the Company's U.S. facility.

CONTRACTUAL OBLIGATIONS

($ thousands)	Payments due by period				
	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Long-term debt	$ 15,277	$ 3,582	$ 6,124	$ 4,280	$ 1,291
Capital lease	327	85	190	52	–
Operating leases	7,756	713	1,426	1,491	4,126
Total contractual obligations	**$ 23,360**	**4,380**	**7,740**	**5,823**	**5,417**

The Company entered into a capital lease with IBM Canada to finance its new Enterprise Resource Planning (ERP) system, expected to be operational in the second quarter of 2007.

CAPITAL RESOURCES

During the fourth quarter ended December 31, 2006, the Company drew $2,000,000 on its long-term facility with the National Bank of Canada of $3,000,000, to finance its capital expenditures for the Victoriaville facility. The Company expects to draw the remaining $1,000,000 in the first half of 2007.

The Company has operating lines of credit with its bankers to a maximum of $7,900,000, bearing interest at rates ranging between prime plus 0.25% to 1.00%. The lines of credit are secured by accounts receivable, inventories and capital assets. At December 31, 2006, the Company had drawn $2,170,000 (2005 - $3,354,000) on its lines of credit.

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

OFF-BALANCE SHEET ARRANGEMENTS

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

This information is disclosed in note 7 (c) of the "Notes to Consolidated Financial Statements" for the years ended December 31, 2006 and 2005. Management believes there are no circumstances since December 31, 2006 that would impact the Company's financial condition. As at December 31, 2006, the fair market value estimate of the bank notes is $1,634,000.

RELATED PARTY TRANSACTIONS

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

The following table reflects the related party transactions as disclosed in note 10 of the "Notes to Consolidated Financial Statements" for the years ended December 31, 2006 and 2005:

		Three months ended		Year ended	
($ thousands)		**December 31 2006**	December 31 2005	**December 31 2006**	December 31 2005
Management fees	**(a)**	**$ 35**	$ 34	**$ 138**	$ 133
Rent	**(b)**	**177**	176	**703**	549
Inventory & capital assets	**(c)**	**8**	–	**844**	–
Sales agency	**(c)**	**62**	–	**208**	–
Others	**(c)**	**38**	–	**148**	–
Sales	**(c)**	**4**	–	**29**	–

RELATED PARTY TRANSACTIONS (continued)

(a) Gerald R. Phelps, Imaflex's Vice-President – Operations, is the controlling shareholder of Polytechnomics Inc. ("Polytech"). The Company has an agreement with Polytech for the provision of consulting, management, and technical services. The agreement is presented to and approved by the Company's Board of Directors on an annual basis.

(b) Joseph Abbandonato, Imaflex's President, Chief Executive Officer and Chairman of the Board, is the controlling shareholder of Roncon Consultants Inc. ("Roncon"). The Company's production facilities at Imaflex, Canslit, and Imaflex USA are leased from Roncon and parties related to Roncon under long-term operating lease agreements (see "Contractual Obligations" under "Liquidity").

(c) Polyglad Inc. ("Polyglad") was the minority shareholder of Canguard with a 30% equity interest up to December 29, 2006. In March 2006, Canguard purchased from Polyglad capital assets and inventory. The Company has an agreement with Polyglad for the provision of sales services. Others are comprised of other miscellaneous items such as rent, power and the reimbursement of expenses required to operate Canguard.

PROPOSED TRANSACTIONS

The Company has no proposed transactions at this time.

CRITICAL ACCOUNTING POLICIES

The Company's significant accounting policies are disclosed in note 1 of the "Notes to Consolidated Financial Statements" for the years ended December 31, 2006 and 2005.

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

No new accounting pronouncements have been adopted in the current period.

FINANCIAL INSTRUMENTS

Please refer to note 14 of the "Notes to Consolidated Financial Statements" for the years ended December 31, 2006 and 2005, for a discussion of the Company's foreign currency risk management, credit risk, fair value disclosure, and interest rate risk.

On September 28, 2006, the Company obtained from Wachovia Corporation $4,300,000 U.S. at a floating interest rate for 7 years, as a result of a long-term debt facility entered into to fund its capital expenditures for its U.S. operations. The Company then entered into an interest rate swap agreement for the same amount and period. Under the terms of this interest rate swap agreement, the Company receives, on a monthly basis, a variable interest rate and pays a fixed interest rate of 6.54%. The Company used 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. Derivative financial instruments are not used for trading purposes. The Company does not currently apply hedge accounting for derivative financial instruments. They are measured at fair value, with changes in fair value recognized in income.

As at December 31, 2006, the fair value of the interest rate swap of $45,000 has been recorded on the balance sheet under accounts payable and accrued liabilities, with a charge to the income statement under interest expense.

Except as noted above, the Company has no other swaps, futures, or hedge contracts at December 31, 2006.

MANAGEMENT OUTLOOK

During the past year, management has conveyed to shareholders the difficult, volatile and evolving conditions in the plastics packaging industry. The impact of the weak U.S. dollar, Asian competition, reduced demand and excess supply, continue to negatively impact the industry. Many of these factors have stabilized, which has permitted management to concentrate its energies and efforts on the key element affecting the Company's profitability, the turnaround of our U.S. operations.

As noted in our third quarter report, Imaflex USA was beset by significant equipment problems that undermined our ability to generate profitability in the historical time frame and manner that we had come to expect. Management acknowledges that the profits earned by the Company's Canadian operations were offset by losses incurred by the U.S operations, thereby negating our goal of increasing shareholder value.

In the second quarter of 2007, the new manufacturing equipment is expected to come on stream. Combined with a more stable business climate, the Company can concentrate efforts on generating the sales volume required to reduce production inefficiencies, generate profits and enhance shareholder value.

With regards to our Canadian operations, management is in the process of streamlining its Canguard operation. Once completed by the second quarter of 2007, Canguard should see the level of profitability that the Company had envisioned.

OUTSTANDING SHARE DATA

As of the date of this report, the Company had 37,350,002 Class A shares outstanding. On December 14, 2006, a judgment was rendered in the Company's favour whereby 250,000 Class A shares placed in escrow were delivered to the Company. The shares were subsequently cancelled by the Company. Please refer to note 12 of the "Notes to Consolidated Financial Statements" for the years ended December 31, 2006 and 2005 for further information. In July 2005, 444,500 compensation options were issued to Acumen Capital Finance Partners Limited. These compensation options had an exercise price of $0.95 per share for the first 12 months subsequent to the issuance and a price of $1.05 per share for an additional 6 months. The compensation options expired in January 2007.

RISK FACTORS

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

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

Factors which can impact the Company include, but are not limited to: management of credit, market dynamics, liquidity, funding and operational risks; the strength of the Canadian and U.S. economies in which we conduct business; the impact of the movement of the Canadian dollar relative to other currencies, particularly the U.S. dollar; the effects of changes in interest rates; the effects of competition in the markets in which we operate; our ability to successfully align our organization, resources, and processes; the availability and price of raw materials; failure to achieve planned growth

RISK FACTORS (continued)

associated with the U.S. expansion; changes in accounting policies and methods we use to report our financial condition, including uncertainties associated with critical accounting assumptions and estimates; operational and infrastructure risks; other factors may affect future results including, but not limited to, timely development and introduction of new products and services, changes in tax laws, technological changes, new regulations; the possible impact on our businesses from public-health emergencies, international conflicts and other developments; and our success in anticipating and managing the foregoing risks.

Additional information relating to our Company, including our Annual Report, can be found on SEDAR at www.sedar.com.

Joseph Abbandonato
President and Chief Executive Officer

Roberto Longo, CA
VP - Finance

March 13, 2007

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying 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 properly accounted for and 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.

These consolidated financial statements have been examined by the auditors appointed by the shareholders, KPMG LLP, Chartered Accountants and their report is presented hereafter.

Joseph Abbandonato
President and Chief Executive Officer

Roberto Longo, CA
VP - Finance

Montréal, Canada
February 23, 2007

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Imaflex Inc. as at December 31, 2006 and 2005 and the consolidated statements of operations 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, 2006 and 2005 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 23, 2007

CONSOLIDATED BALANCE SHEETS

December 31, 2006 and 2005

	2006	2005
Assets		
Current assets:		
Cash	**$ –**	$ 2,103,088
Accounts receivable (note 2)	**8,876,231**	10,886,317
Inventories (note 3)	**6,112,237**	6,221,720
Future income taxes (note 8)	**123,000**	–
Income taxes receivable	**65,504**	–
Prepaid expenses	**38,893**	81,617
	15,215,865	19,292,742
Deposits for capital assets	**–**	1,472,052
Capital assets (note 4)	**25,056,253**	16,078,546
	$ 40,272,118	$ 36,843,340
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness (note 5)	**$ 495,871**	$ –
Accounts payable and accrued liabilities	**4,606,176**	6,396,021
Income taxes payable	**–**	731,561
Current portion of long-term debt (note 7)	**3,581,572**	2,420,281
Current portion of obligations under capital lease (note 6)	**85,217**	–
	8,768,836	9,547,863
Obligations under capital lease (note 6)	**241,883**	–
Long-term debt (note 7)	**11,695,197**	7,318,200
Future income taxes (note 8)	**1,379,931**	1,659,882
Shareholders' equity:		
Share capital (note 9)	**7,329,165**	7,366,665
Contributed surplus (note 9)	**322,500**	285,000
Retained earnings	**10,534,606**	10,665,730
	18,186,271	18,317,395
Commitments (note 11)		
Contingency (note 12)		
	$ 40,272,118	$ 36,843,340

See accompanying notes to consolidated financial statements.

On behalf of the Board,

Director

Director

CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

Years ended December 31, 2006 and 2005

	2006	2005
Sales	**$ 51,775,157**	$ 49,817,827
Cost of sales	**43,711,549**	39,096,478
Gross profit	**8,063,608**	10,721,349
Expenses:		
Selling and administrative	**4,131,794**	3,216,662
Amortization of capital assets	**2,253,824**	2,027,128
Interest	**947,511**	224,866
Foreign exchange loss (gain) on translation of integrated subsidiary	**176,025**	(75,965)
Other	**48,357**	8,721
	7,557,511	5,401,412
Income before income taxes and non-controlling interest	**506,097**	5,319,937
Provision for income taxes (note 8)	**(737,221)**	(1,526,728)
Non-controlling interest	**100,000**	–
Net (loss) income	**(131,124)**	3,793,209
Retained earnings, beginning of year	**10,665,730**	7,185,021
Dividends	**–**	(312,500)
Retained earnings, end of year	**$ 10,534,606**	$ 10,665,730
Basic and diluted (loss) earnings per share	**$ (0.003)**	$ 0.110

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2006 and 2005

		2006		2005
Cash flows from operating activities:				
Net (loss) income	$	**(131,124)**	$	3,793,209
Adjustments for:				
Amortization of capital assets		**2,253,824**		2,027,128
Future income taxes		**(402,951)**		166,675
Foreign exchange		**229,324**		7,986
Non-controlling interest		**(100,000)**		–
Change in fair value of derivative financial instrument		**43,140**		–
Net change in non-cash operating working capital (note 13)		**(988,998)**		(2,447,208)
		903,215		3,547,790
Cash flows from financing activities:				
Increase (decrease) in bank indebtedness		**495,871**		(1,671,538)
Issuance of long-term debt		**8,066,517**		6,674,275
Repayment of long-term debt		**(2,726,897)**		(2,442,705)
Repayment of obligations under capital lease		**(40,365)**		–
Issuance of share capital by non-wholly owned subsidiary		**100,000**		–
Issuance of share capital		**–**		5,502,085
Dividends		**–**		(312,500)
		5,895,126		7,749,617
Cash flows from investing activities:				
Purchase of capital assets		**(8,860,415)**		(7,689,470)
Increase in deposits for capital assets		**–**		(1,472,052)
		(8,860,415)		(9,161,522)
Effect of exchange rate differences on cash		**(41,014)**		(32,797)
Net (decrease) increase in cash		**(2,103,088)**		2,103,088
Cash, beginning of year		**2,103,088**		–
Cash, end of year	$	**–**	$	2,103,088
Supplemental cash flow information:				
Interest paid	$	**870,960**	$	259,856
Income taxes paid		**1,982,883**		1,390,000
Additions to capital assets included in accounts payable		**676,919**		145,320
Purchase of capital assets through the issuance of obligations under capital lease		**367,465**		–
Issuance of compensation options		**–**		285,000
Conversion of deposits for capital assets to capital asset additions		**1,472,052**		231,563

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2006 and 2005

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. 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, those of its wholly-owned subsidiaries, Canslit Inc. ("Canslit") and Imaflex USA, Inc. ("Imaflex USA") and those of its 70% owned subsidiary, Canguard Packaging Inc., incorporated in 2006. On December 29, 2006, the Company acquired the non-controlling interest in Canguard Packaging Inc. for a nominal amount and wound up the company. All significant intercompany balances and transactions have been eliminated.

(c) Revenue recognition:
Sales are recognized when products are shipped and collection is reasonably assured.

(d) 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.

(e) Capital assets:
Capital assets are recorded at cost. Amortization is provided using the following methods, rates and/or periods, net of an estimated salvage value on certain assets:

Asset	Basis	Period
Production equipment	Straight-line	2 to 10 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 terms of the leases, to a maximum of 5 years.

(f) Foreign exchange:
Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange at the balance sheet date. Other balance sheet items denominated in foreign currencies are translated at the rates prevailing at the respective transaction dates. Income and expenses denominated in foreign currencies are translated at average rates prevailing during the year. Gains or losses on foreign exchange are recorded in the statement of operations.

The foreign subsidiary is considered to be an integrated foreign operation and its accounts have been translated using the temporal method with translation gains and losses included in the statement of operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, (page 2)

Years ended December 31, 2006 and 2005

1. Significant accounting policies (continued):

(g) 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.

(h) Cash and cash equivalents:

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

(i) 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 year. Actual results could differ from those estimates.

(j) Stock-based compensation plans:

The Company follows the fair value method 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. 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. 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.

(k) Guarantees:

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.

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.

(l) Financial instruments:

The Company uses derivative financial instruments to manage the risk from fluctuations in interest rates. The intent is to fix the interest costs on variable rate long-term debt. Derivative financial instruments are not used for trading purposes. The Company does not currently apply hedge accounting for derivative financial instruments. They are measured at fair value, with changes in fair value recognized in income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, (page 3)

Years ended December 31, 2006 and 2005

2. Accounts receivable:

	2006	2005
Trade receivables, net of allowance for doubtful accounts	**$ 8,660,177**	$ 9,882,409
Other	**216,054**	1,003,908
	$ 8,876,231	$ 10,886,317

3. Inventories:

	2006	2005
Raw materials and supplies	**$ 3,563,746**	$ 4,883,742
Reprocessed raw materials	**277,547**	61,000
Work in process	**175,000**	80,000
Finished goods	**2,095,944**	1,196,978
	$ 6,112,237	$ 6,221,720

4. Capital assets:

			2006
	Cost	Accumulated amortization	Net book value
Production equipment	$ 35,559,176	$ 11,747,509	**$ 23,811,667**
Leasehold improvements	1,232,143	369,769	**862,374**
Office equipment	16,430	4,053	**12,377**
Computer equipment	2,892	522	**2,370**
	36,810,641	12,121,853	**24,688,788**
Assets under capital lease:			
Computer software and equipment	367,465	–	**367,465**
	$ 37,178,106	$ 12,121,853	**$ 25,056,253**

4. Capital assets (continued):

			2005
	Cost	Accumulated amortization	Net book value
Production equipment	$ 25,606,964	$ 9,755,957	$ 15,851,007
Office equipment	16,578	833	15,745
Leasehold improvements	505,144	293,350	211,794
	$ 26,128,686	$ 10,050,140	$ 16,078,546

5. Bank indebtedness:

The Company has operating lines of credit with its bankers to a maximum of $7,900,000, bearing interest at rates ranging between prime plus 0.25% and prime plus 1.00%. The lines of credit are secured by accounts receivable, inventories and capital assets. At December 31, 2006, the Company had drawn $2,170,000 (2005 - $3,354,000) on its lines of credit.

The Company is in compliance with applicable covenants as at December 31, 2006.

6. Obligations under capital lease:

The Company has financed certain computer software and equipment by entering into a capital lease arrangement expiring on June 1, 2010. Capital lease payments are due as follows:

2007	$ 105,395
2008	105,395
2009	105,395
2010	52,696
Total minimum lease payments	368,881
Less amount representing interest at approximately 7.21%	41,781
Present value of minimum lease payments	327,100
Less current portion	85,217
	$ 241,883

Interest expense includes interest on capital lease obligations of approximately $12,333.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, (page 5)

Years ended December 31, 2006 and 2005

7. Long-term debt:

	2006	2005
Loan, bearing interest at prime (6% as at December 31, 2006) plus 0.50%, repayable in monthly principal instalments of $33,333 to December 2011, secured by production equipment. Furthermore, this loan is secured by an additional hypothec on all present and future properties of Canslit, movables and immovables, corporeal and incorporeal, including machinery, equipment, inventory and receivables, ranking second to the bank indebtedness (b).	**$2,000,000**	$ –
Loan (US$4,146,428), bearing interest at the 30 day LIBOR rate (5.32% as at December 31, 2006), reset monthly, plus 1.24%, repayable in monthly principal instalments of $59,657 (US$51,190) up to September 2013. The loan is secured by production equipment and a full corporate guarantee from the Company. (a)	**4,832,247**	–
Loan (US$448,407), bearing interest at the 30 day LIBOR rate, reset monthly, plus 2.00%, repayable in blended monthly instalments of $9,759 (US$8,374) up to April 2012. The loan is secured by production equipment and a full corporate guarantee from the Company.	**522,574**	–
Loan, bearing interest at prime plus 0.75%, repayable in monthly principal installments of $31,000 to June 2010, secured by production equipment	**1,302,000**	1,674,000
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 (c)	**364,583**	802,083
Loan bearing interest at prime plus 1.25%, repayable in monthly principal installments of $22,500 up to November 2008, secured by production equipment	**517,500**	787,500
Loan, bearing interest at prime plus 1%, repayable in monthly principal installments of $16,667 up to March 2007 and a final principal installment of $15,756 in April 2007, secured by production equipment	**65,756**	265,756
Loan (US$2,394,693), bearing interest at the 30-day LIBOR rate, reset, monthly plus 2.00%, repayable in blended monthly installments of $54,226 (US$46,530) up to December 2011. The loan is secured by production equipment and a corporate guarantee from the Company.	**2,790,776**	3,245,809
Balance carried forward	**12,395,436**	6,775,148

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, (page 6)

Years ended December 31, 2006 and 2005

7. Long-term debt (continued):

	2006	2005
Balance brought forward	**$ 12,395,436**	$ 6,775,148
Loan, bearing interest at prime plus 0.50%, repayable in monthly principal installments of $38,333 to March 2010, secured by production equipment	**1,495,000**	1,955,000
Loan, bearing interest at prime plus 0.50%, repayable in monthly principal installments of $18,333 to July 2010, secured by production equipment	**788,333**	1,008,333
Loan, bearing interest at prime plus 1.00%, repayable in monthly principal installments of $11,500 to April 2011, secured by production equipment	**598,000**	–
	15,276,769	9,738,481
Current portion of long-term debt	**3,581,572**	2,420,281
	$ 11,695,197	$ 7,318,200

(a) On September 28, 2006, the Company borrowed from Wachovia Corporation US$4,300,000 at a variable interest rate for 7 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 period. 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 derivate 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 December 31, 2006, the fair value of the interest rate swap of $44,920 (US$38,545) has been recorded on the balance sheet under accounts payable and accrued liabilities, with a charge to the statement of operations under interest expense.

(b) The Company has available an additional $1,000,000 on this term loan facility, which was not utilized as at December 31, 2006.

(c) 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.

Interest on long-term debt amounted to $849,977 for the year ended December 31, 2006 (2005 - $259,284).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, (page 7)

Years ended December 31, 2006 and 2005

7. Long-term debt (continued):

The aggregate maturities of long-term debt for each of the five years subsequent to December 31, 2006 and thereafter are as follows:

2007	$ 3,581,572
2008	3,166,043
2009	2,958,275
2010	2,377,920
2011	1,901,648
Thereafter	1,291,311
	$ 15,276,769

8. Income taxes:

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

	2006	2005
Income before income taxes	**$ 506,097**	$ 5,319,937
Statutory tax rate	**32.02%**	30.92%
Computed income taxes	**162,052**	1,644,925
Adjustments:		
Non-deductible items	**23,735**	24,817
Reversal of valuation allowance and utilization of non-capital losses carried forward	**–**	(287,800)
Translation gain (loss) of a foreign subsidiary	**67,770**	(29,246)
Unrecognized benefit of Imaflex USA's losses	**583,268**	91,934
Other	**106,947**	(116,263)
Effect of foreign tax rate difference	**(131,551)**	–
Future income tax adjustments due to rate enactments	**(75,000)**	198,361
Income tax expense	**$ 737,221**	$ 1,526,728

8. Income taxes (continued):

	2006	2005
Represented by:		
Current	**$ 1,140,172**	$ 1,360,053
Future	**(402,951)**	166,675
Income tax expense	**$ 737,221**	$ 1,526,728

The detail of the future income taxes is as follows:

	2006	2005
Assets:		
Losses carried forward	**$ 742,306**	$ 91,934
Capital assets	**268,003**	–
Others	**18,000**	–
Valuation allowance	**(905,309)**	(91,934)
	$ 123,000	$ –
Liabilities:		
Capital assets	**$ 1,581,824**	$ 1,821,263
Share issue costs	**(111,429)**	(161,381)
Valuation allowance	**(90,464)**	–
Net future income tax liability	**$ 1,379,931**	$ 1,659,882

The Company has non-capital losses available to carry forward to reduce future taxable income of approximately $328,000 that expire in 2026.

The Company's subsidiary, Imaflex USA, has non-capital losses available to carry forward to reduce future taxable income of approximately $1,654,000 that expire as follows:

2025	$ 101,000
2026	1,553,000
	$ 1,654,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, (page 9)

Years ended December 31, 2006 and 2005

9. Share capital:

Share capital consists of:

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; and 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

A summary of shares outstanding is presented below:

	2006		2005	
	Shares	**Book value**	Shares	Book value
Issued and outstanding:				
Class A shares, beginning of year	**37,600,002**	**$ 7,366,665**	31,055,002	$ 1,946,615
Exercise of options	**–**	**–**	195,000	62,550
Issuance of shares by private placement	**–**	**–**	6,350,000	6,032,500
Share issue costs, net of future income taxes of $202,965	**–**	**–**	–	(390,000)
Issuance of 444,500 compensation options	**–**	**–**	–	(285,000)
Cancellation of shares (note 12)	**(250,000)**	**(37,500)**	–	–
	37,350,002	**$ 7,329,165**	37,600,002	$ 7,366,665

Basic earnings per share have been calculated on the basis of the weighted average number of shares outstanding during the year of 37,600,002 (2005 - 34,362,502).

Diluted earnings per share, which give effect to the outstanding stock options, have been calculated on the basis of the weighted average number of shares outstanding during the year of 37,628,370 (2005 - 34,437,258).

In July 2005, the Company issued 6,350,000 Class A shares pursuant to an underwritten private placement with Acumen Capital Finance Partners Limited ("Acumen") for a cash consideration of $6,032,500. Issue expenses of $592,965 less future income taxes of $202,965 were applied against the proceeds.

Furthermore, 444,500 compensation options were issued to Acumen as part of the private placement. The compensation options had an exercise price of $0.95 per share for the first 12 months subsequent to the issuance in 2005 and a price of $1.05 for an additional period of 6 months. No compensation options were exercised in 2005 and 2006. In January 2007, the compensation options issued to Acumen expired with no value.

The cost of $285,000 relating to the compensation options was calculated using the Black-Scholes option pricing model with the following assumptions; expected option life of 18 months, a risk-free interest rate of 2.25% and an expected volatility of 77%.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, (page 10)

Years ended December 31, 2006 and 2005

9. Share capital (continued):

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. As at December 31, 2006, there are no outstanding options under the Plan.

A summary of the options outstanding is presented below:

	2006		2005	
	Options (000's)	**Weighted average exercise price**	Options (000's)	Weighted average exercise price
Stock option plan:				
Outstanding, beginning of year	**–**	**$ –**	195	$0.32
Exercised	**–**	**–**	(195)	0.32
Outstanding, end of year	**–**	**$ –**	–	$ –
Compensation option:				
Outstanding, beginning of year	**444.5**	**$0.95**	–	$ –
Granted	**–**	**–**	444.5	0.95
Outstanding and exercisable, end of year	**444.5**	**$1.05**	444.5	$0.95

The following table summarizes information about the options outstanding as of December 31, 2006:

	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
$1.05	444.5	0.1	$ 1.05	444.5	$1.05

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, (page 11)

Years ended December 31, 2006 and 2005

10. Related party transactions:

During the year, 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:

	2006	2005
Management fees	**$ 138,000**	$ 132,805
Rent	**702,675**	548,736
Transactions with Polyglad Inc. and Sweet Source Packaging Inc.:		
Inventory and capital assets	**843,530**	–
Sales agency	**208,335**	–
Others	**148,447**	–
Sales	**28,672**	–

Polyglad Inc. was a minority shareholder of Canguard up to December 29, 2006. Sweet Source Packaging Inc. is an affiliated entity of Polyglad Inc. (see note 1 (b)).

11. Commitments:

The Company's future minimum lease payments under operating leases for facilities leased from a related party are approximately as follows:

2007	$ 713,000
2008	713,000
2009	713,000
2010	725,000
2011	766,000
Thereafter	4,126,000
	$ 7,756,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, (page 12)

Years ended December 31, 2006 and 2005

12. Contingency:

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, of which 250,000 Class A shares were placed in escrow and were to be released from escrow, based on representations and warranties being satisfied by the vendor. The share purchase agreement also 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 will be issued.

In December 2003, the Company filed two statements of claim against a former shareholder of Canslit (the "Defendant"). In the first action, the Company asserted that a breach of undertakings by the Defendant under a confidentiality and non-competition agreement caused the Company serious prejudice for which it was seeking reparation. In December 2006, a judgment was rendered dismissing the Company's claim.

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 asserted in the second statement of claim that the Defendant's representations and warranties under the Canslit share purchase agreement were not accurate and was seeking damages in that regard.

The Defendant subsequently filed a counterclaim seeking the release and delivery of all shares in escrow 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.

In 2006, a judgment was rendered in the Company's favour whereby the 250,000 Class A shares placed in escrow were delivered to the Company, as a result of the Defendant's representations and warranties not being satisfied by the vendor. The shares were subsequently cancelled by the Company and their carrying amount recorded in contributed surplus. Furthermore, the Defendant's counterclaim was dismissed.

13. Statements of cash flows:

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

	2006	2005
Accounts receivable	**$ 2,026,456**	$ (2,638,209)
Income taxes receivable	**(65,504)**	–
Inventories	**122,198**	256,983
Prepaid expenses	**41,305**	(61,540)
Accounts payable and accrued liabilities	**(2,381,892)**	11,814
Income taxes payable	**(731,561)**	(16,256)
	$ (988,998)	$ (2,447,208)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, (page 13)

Years ended December 31, 2006 and 2005

14. Financial instruments:

(a) Foreign currency risk management:

A portion of the Company's sales and expenses are denominated in US dollars. A portion of the revenue stream in US dollars acts as a natural hedge to cover expenses denominated in US dollars. The Company does not use forward foreign exchange contracts to manage its residual foreign exchange exposure. The Company's statement of operations includes a foreign exchange gain of $81,000 (2005 - loss of $505,000) 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. Sales to one customer represented approximately 18% of total sales for the year ended December 31, 2006 (2005 - 18%). The above customer represented approximately 9% of accounts receivable at December 31, 2006 (2005 - 17%).

(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, which bears interest at floating rates, approximates its fair value at the balance sheet date.

The Company has determined the fair value of its interest rate swap (see note 7 (a)) based on a valuation model using forward interest rates.

(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.

15. Segmented information:

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

Sales to the United States totaled $25,585,543 for the year ended December 31, 2006 (2005 - $22,588,542).

Capital assets in the United States totaled $11,877,423 as at December 31, 2006 (2005 - $4,986,894).

16. Comparative figures:

Certain figures previously reported on for the year ended December 31, 2005 have been reclassified to conform to the current year's presentation.

CORPORATE INFORMATION

OFFICERS

Joseph Abbandonato,
President and Chief Executive Officer

Tony Abbandonato,
Production Director and Secretary

Gerry Phelps,
VP – Operations

Pierre Senécal,
VP – Sales

Roberto Longo, CA
VP - Finance

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,
VP and Chief Operating Officer – Dorel Industries Inc.

Pierre Myrand,
President - Mentis Consulting Inc.

Philip Nolan,
Partner, Lavery, de Billy

Gerry Phelps,
VP

Gilles Émond, CMA, CA
Corporate Director

SHAREHOLDER INFORMATION

Audit and Compensation Committee: Gilles Émond, CMA, CA, 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
Subsidiaries:	Canslit Inc. Imaflex USA, Inc.

ANNUAL MEETING OF SHAREHOLDERS

The Annual Meeting of Shareholders will be held on Tuesday, May 22, 2007 at 5:00 p.m. at Fairmont - The Queen Elizabeth, Salon Hochelaga, 900 René Lévesque West, Montréal, Québec, H3B 4A5.