

*From the Chairman, President  
and Chief Executive Officer*

To our shareholders,

Imaflex Inc. reports net income for the three months ended July 31, 1999 of \$55,000, or \$0.002 per share, compared with net income of \$62,000, or \$0.003 per share, for the same period in 1998. Net income in the second quarter of the current year was lower than in the second quarter of last year due to increased depreciation and amortization charges in the current year and by the inclusion in the second quarter of last year's pre-tax profit (and cost of sales) of approximately \$110,000 of non-recurring subsidies and other credits. Sales for the second quarter of the current year amounted to \$3,592,000, compared with \$2,512,000 in the second quarter of last year, an increase of 43% resulting from increased volumes and selling prices.

Net income for the six month period ended July 31, 1999 amounted to \$216,000, or \$0.007 per share, compared with net income of \$129,000, or \$0.005 per share, for the same period in 1998. Sales for the six month period of the current year amounted to \$6,892,000, compared with \$5,381,000 for the six month period of last year, an increase of 28% resulting from increased volumes and selling prices.

The stronger earnings performance in the six months ended July 31, 1999, compared with the same period in 1998, resulted primarily from a higher level of sales and manufacturing process enhancements which produced a substantially higher gross profit in the current year.

During the second quarter of the current year, the Company received and installed new production equipment which management anticipates will result in an enhancement of both sales and earnings commencing in the third quarter. The majority of these capital expenditures were financed by an asset-based lending institution and the remainder through the Company's existing credit facility. Management is planning an additional expansion of the Company's manufacturing capacity during the next fiscal year, which is expected to have further beneficial effects on the Company's operating results.

Sincerely yours,



Joseph Abbandonato  
Chairman of the Board, President and Chief Executive Officer

*Corporate Profile*

Imaflex Inc. is engaged in the manufacture and sale of polyethylene packaging films, which are sold primarily in the Canadian markets.

Imaflex has two types of customers:

- 1- Those who convert polyethylene film products into plain or printed polyethylene bags of all types and/or into printed roll stock that is then used by their customers on automatic packaging machinery to package their products.
- 2- Those who use the polyethylene film to protect their products.

Some examples of different markets where our packaging films are used:

- Bread bags, confectionery bags, snack food bags of all kinds, fruit and vegetable bags, heavy-duty bags for such uses as salt, soil, etc.
- Packaging materials for paper products, books and textiles among others.
- Materials with special properties such as shrink film used in the juice and water industries.
- Laminating films used in packaging, by bonding with other materials, in order to better protect or add shelf life to perishable food.

Imaflex also recycles in house 100% of its own waste, thereby enhancing cost efficiency.

Imaflex employs 60 people in its manufacturing facility located in Montreal.

*For investor information, contact*

**ROBERTO LONGO, CA**  
Corporate Controller  
**(514) 935-5710**

**IMAFLEX**

5710 Notre Dame West  
Montreal, Quebec, Canada H4C 1V2  
Telephone: (514) 935-5710 - Fax: (514) 935-0264  
[www.imaflex.com](http://www.imaflex.com)

*Quarterly  
Report*

*July 31, 1999*

**IMAFLEX**  
*Committed to Excellence*



## Balance Sheet

(Unaudited)  
(in thousands)

|  | As at July 31   |                 |
|--|-----------------|-----------------|
|  | 1999            | 1998<br>(note)  |
| <b>Assets</b>                                      |                 |                 |
| Current assets:                                    |                 |                 |
| Accounts receivable                                | \$ 2,593        | \$ 2,099        |
| Inventories  | 1,430           | 799             |
| Prepaid expenses                                   | 188             | 272             |
|  | <b>4,211</b>    | <b>3,170</b>    |
| Capital assets                                     | 4,100           | 2,605           |
| Deferred charges                                   | 99              | 164             |
| Long-term investment                               | 163             | 163             |
|  | <b>\$ 8,573</b> | <b>\$ 6,102</b> |
| <b>Liabilities and Shareholders' Equity</b>        |                 |                 |
| Current liabilities:                               |                 |                 |
| Bank indebtedness                                  | \$ 1,169        | \$ 1,312        |
| Accounts payable and accrued liabilities           | 1,964           | 1,365           |
| Income taxes payable                               | 65              | -               |
| Current portion of long-term debt                  | 239             | 127             |
| Current portion of obligations under capital lease | 212             | 179             |
|  | <b>3,649</b>    | <b>2,983</b>    |
| Long-term debt                                     | 1017            | 561             |
| Obligations under capital lease                    | 776             | 643             |
| Deferred income taxes                              | 358             | 283             |
| Shareholders' equity:                              |                 |                 |
| Share capital (note)                               | 1,786           | 876             |
| Retained earnings                                  | 987             | 756             |
|  | <b>2,773</b>    | <b>1,632</b>    |
|  | <b>\$ 8,573</b> | <b>\$ 6,102</b> |

## Statement of Income and Retained Earnings

(Unaudited)  
(in thousands, except per share data)

|   | Three Months Ended<br>July 31 |                | Six Months Ended<br>July 31 |                |
|---|-------------------------------|----------------|-----------------------------|----------------|
|   | 1999                          | 1998<br>(note) | 1999                        | 1998<br>(note) |
| Sales   | \$ 3,592                      | \$ 2,512       | \$ 6,892                    | \$ 5,381       |
| Cost of sales   | 2,994                         | 2,072          | 5,572                       | 4,516          |
| Gross profit  | 598                           | 440            | 1,320                       | 865            |
| Expenses:   |                               |                |                             |                |
| Selling and administrative  | 264                           | 149            | 532                         | 294            |
| Depreciation and amortization of capital assets                         | 160                           | 92             | 278                         | 179            |
| Interest on long-term debt and obligations under capital lease          | 51                            | 62             | 98                          | 113            |
| Amortization of deferred charges  | 17                            | 17             | 33                          | 33             |
| Other   | 20                            | 16             | 41                          | 29             |
|   | <b>512</b>                    | <b>336</b>     | <b>982</b>                  | <b>648</b>     |
| Income before income taxes  | 86                            | 104            | 338                         | 217            |
| Provision for income taxes  | 31                            | 42             | 122                         | 88             |
| Net income  | 55                            | 62             | 216                         | 129            |
| Retained earnings, beginning of period                                  | 932                           | 694            | 771                         | 627            |
| Retained earnings, end of period  | \$ 987                        | \$ 756         | \$ 987                      | \$ 756         |
| Earnings per share  | \$ 0.002                      | \$ 0.003       | \$ 0.007                    | \$ 0.005       |
| Earnings before interest, taxes, depreciation and amortization (EBITDA) | \$ 314                        | \$ 275         | \$ 747                      | \$ 542         |

## Note

### 1. Reverse take-over

On December 1, 1998, Cyclonic Investments Corporation («Cyclonic») entered into an agreement with Imaflex Inc. («Imaflex») whereby Cyclonic acquired all the issued and outstanding shares of Imaflex in a transaction qualifying under the Alberta junior capital pool. In exchange for their shares, the shareholders of Imaflex received 12,000,000 Class A voting shares and 11,700,000 non-voting, participating, convertible Class B Series 1 shares of Cyclonic thereby obtaining control of Cyclonic.

This transaction has been treated as a reverse take-over of Cyclonic with Imaflex deemed to have acquired Cyclonic and

has been accounted for by the purchase method. Consequently, the comparative financial information contained herein relates only to Imaflex.

The fair value of the net assets acquired by Imaflex amounts to \$290,000 being \$340,000 of current assets less \$50,000 of current liabilities. A purchase consideration equal to the fair value of the net assets acquired has been assigned to share capital. Effective February 1, 1999, Cyclonic and Imaflex were amalgamated and continued operations under the name Imaflex Inc.

The number of Class A voting shares and Class B Series 1 non-voting shares outstanding as at July 31, 1999 is 18,357,030 and 11,700,000, respectively.

## Statement of Changes in Financial Position

(Unaudited)  
(in thousands)

|  | Six Months Ended<br>July 31 |                |
|--|-----------------------------|----------------|
|  | 1999                        | 1998<br>(note) |
| Cash provided by (used in):                            |                             |                |
| Operations:  |                             |                |
| Net income   | \$ 216                      | \$ 129         |
| Items not involving cash:                              |                             |                |
| Depreciation   | 196                         | 114            |
| Amortization of assets under capital lease             | 82                          | 65             |
| Amortization of deferred charges                       | 33                          | 33             |
| Deferred income taxes                                  | 68                          | 63             |
| Net change in non-cash working capital balances        | (569)                       | (596)          |
|  | <b>26</b>                   | <b>(192)</b>   |
| Financing:   |                             |                |
| Decrease in loan due to shareholders                   | -                           | (15)           |
| Issuance of long-term debt                             | 700                         | -              |
| Repayment of long-term debt                            | (70)                        | (30)           |
| (Decrease) increase in obligations under capital lease | (122)                       | 29             |
| Issuance of share capital                              | 24                          | 335            |
|  | <b>532</b>                  | <b>319</b>     |
| Investments:   |                             |                |
| Purchase of capital assets                             | (1,109)                     | (94)           |
| Equipment under capital lease                          | -                           | (206)          |
| Increase in long-term investment                       | -                           | (163)          |
|  | <b>(1,109)</b>              | <b>(463)</b>   |
| Increase in bank indebtedness                          | (551)                       | (336)          |
| Bank indebtedness, beginning of period                 | (618)                       | (976)          |
| Bank indebtedness, end of period                       | \$ (1,169)                  | \$ (1,312)     |