

*From the Chairman, President  
and Chief Executive Officer*

To our shareholders,

Imaflex Inc. reports net income for the three months ended October 31, 1999 of \$247,000, or \$0.008 per share, compared with net income of \$86,000, or \$0.004 per share, for the same period in 1998. Sales for the third quarter of the current year amounted to \$4,866,000, compared with \$2,919,000 in the third quarter of last year, an increase of 66.7% resulting primarily from increased volumes and selling prices. Volume increases resulted from the completion in the second quarter of the expansion of the Company's manufacturing capacity. Selling price increases were necessitated by continued pressure on the cost of raw materials.

Net income for the nine month period ended October 31, 1999 was \$463,000, or \$0.015 per share, an increase of 115.3% compared with net income of \$215,000, or \$0.009 per share, for the same period in 1998. Sales for the nine month period of the current year totalled \$11,758,000, compared with \$8,300,000 for the nine month period of last year, an increase of 41.7% resulting from increased volumes and selling prices.

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

Management's plan for the additional expansion of the Company's manufacturing capacity during the next fiscal year is now complete, and is expected to result in an additional production capability of approximately 20%. The new production line is expected to be operating in the third quarter of next year.

As announced at the last annual shareholders' meeting, the Company's growth strategy is to continue the expansion of its manufacturing capacity and also to pursue potential acquisitions, in order to further enhance shareholder value.

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 approximately 60 people in its manufacturing facility located in Montreal.

*For investor information, contact*

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**Quarterly  
Report**

**October 31, 1999**

**IMAFLEX**  
*Committed to Excellence*



## Balance Sheet

(Unaudited)  
(in thousands)

	As at October 31	
	1999	1998 (note)
<b>Assets</b>		
Current assets:		
Accounts receivable	\$ 3,463	\$ 2,301
Inventories	1,229	687
Prepaid expenses	36	222
	<b>4,728</b>	3,210
Capital assets	4,113	3,155
Deferred charges	82	148
Long-term investment	163	163
	<b>\$ 9,086</b>	\$ 6,676
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Bank indebtedness	\$ 686	\$ 1,237
Accounts payable and accrued liabilities	2,683	1,290
Income taxes payable	149	10
Current portion of long-term debt	237	123
Current portion of obligations under capital lease	207	237
	<b>3,962</b>	2,897
Long-term debt	959	536
Obligations under capital lease	722	929
Deferred income taxes	408	325
Shareholders' equity:		
Share capital (note)	1,801	1,147
Retained earnings	1,234	842
	<b>3,035</b>	1,989
	<b>\$ 9,086</b>	\$ 6,676

## Statement of Income and Retained Earnings

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

	Three Months Ended October 31		Nine Months Ended October 31	
	1999	1998 (note)	1999	1998 (note)
Sales	\$ 4,866	\$ 2,919	\$ 11,758	\$ 8,300
Cost of sales	3,880	2,395	9,452	6,911
Gross profit	986	524	2,306	1,389
Expenses:				
Selling and administrative	346	182	878	476
Depreciation and amortization of capital assets	153	95	431	274
Interest	62	61	160	174
Amortization of deferred charges	16	16	49	49
Other	23	25	64	54
	600	379	1,582	1,027
Income before income taxes	386	145	724	362
Provision for income taxes	139	59	261	147
Net income	247	86	463	215
Retained earnings, beginning of period	987	756	771	627
Retained earnings, end of period	\$ 1,234	\$ 842	\$ 1,234	\$ 842
Earnings per share	\$ 0.008	\$ 0.004	\$ 0.015	\$ 0.009
Earnings before interest, taxes, depreciation and amortization (EBITDA)	\$ 617	\$ 317	\$ 1,364	\$ 859

## 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 October 31, 1999 is 18,457,030 and 11,700,000, respectively.

## Statement of Cash Flows

(Unaudited)  
(in thousands)

	Nine Months Ended October 31	
	1999	1998 (note)
Cash provided by (used in):		
Operations:		
Net income	\$ 463	\$ 215
Items not involving cash:		
Depreciation	310	175
Amortization of assets under capital lease	121	99
Amortization of deferred charges	49	49
Deferred income taxes	118	105
Net change in non-cash working capital balances	(282)	(701)
	779	(58)
Financing:		
Decrease in loan due to shareholders	-	(15)
Issuance of long-term debt	700	-
Repayment of long-term debt	(130)	(59)
(Decrease) increase in obligations under capital lease	(181)	373
Issuance of share capital	39	606
	428	905
Investments:		
Purchase of capital assets	(1,275)	(365)
Equipment under capital lease	-	(580)
Increase in long-term investment	-	(163)
	(1,275)	(1,108)
Increase in bank indebtedness	(68)	(261)
Bank indebtedness, beginning of period	(618)	(976)
Bank indebtedness, end of period	\$ (686)	\$ (1,237)

## Supplemental Disclosure of Cash Flow Information:

Cash paid during the year for:

Interest expense	\$ 152	\$ 185
Income taxes	\$ 1	\$ 1