


To our shareholders,

Imaflex Inc. reports net income for the three months ended October 31, 2000 of \$242,000 or \$0.008 per share, compared with net income of \$247,000, or \$0.008 per share, for the same period in 1999. Sales for the third quarter of the current year amounted to \$4,870,000, compared with \$4,866,000 in the third quarter of last year.

Net income for the nine-month period ended October 31, 2000 was \$612,000, or \$0.020 per share, an increase of 32% compared with net income of \$463,000, or \$0.015 per share, for the same period in 1999. Sales for the nine-month period of the current year amounted to \$14,899,000, compared with \$11,758,000 for the nine-month period of last year, an increase of 27%. The stronger earnings performance for the nine months ended October 31, 2000, compared with the same period in 1999, resulted primarily from a higher level of sales, and improvements in the manufacturing process, which together produced a considerably higher gross profit in the current year.

The commencement of production on new equipment was delayed from the mid-point in the third quarter to the last week of the quarter, resulting in lower sales and profitability growth than had been planned. Management expects a resumption in the fourth quarter of the Company's historical pattern of quarterly growth in sales and profitability.

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 and employs approximately 60 people in its manufacturing facility, located in Montreal.

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 polyethylene films used in packaging, by bonding with other materials, in order to better protect or add shelf life to perishable food.

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

*For investor information, contact*

**ROBERTO LONGO, CA**  
Corporate Controller  
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**IMAFLEX**  
*Committed to Excellence*



## Balance Sheet

(Unaudited)  
(in thousands)

	As at October 31	
	2000	1999 (note)
<b>Assets</b>		
Current assets:		
Accounts receivable	\$ 3,226	\$ 3,463
Inventories	1,547	1,229
Prepays	65	36
	<b>4,838</b>	4,728
Capital assets	6,279	4,113
Long-term investment	163	163
Deferred charges	-	82
	<b>\$ 11,280</b>	\$ 9,086
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Bank indebtedness	\$ 1,043	\$ 686
Accounts payable and accrued liabilities	2,227	2,683
Income taxes payable	157	149
Current portion of long-term debt	465	237
Current portion of obligations under capital leases	216	207
	<b>4,108</b>	3,962
Long-term debt	2,268	959
Obligations under capital leases	506	722
Future income taxes (note)	701	588
Shareholders' equity:		
Share capital	1,810	1,801
Retained earnings (note)	1,887	1,054
	<b>3,697</b>	2,855
	<b>\$ 11,280</b>	\$ 9,086

## Note

### 1. Changes in accounting policies:

#### Income taxes:

During the fiscal year ended January 31, 2000, the Company retroactively adopted the Canadian Institute of Chartered Accountants' (CICA) new recommendation for the accounting for income taxes, which requires the use of the asset and liability method. Under this method, future income taxes are recognized for the future income tax consequences attributable to differences between the financial statement carrying amounts and their respective income tax basis. 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.

In accordance with the transitional provisions of the new standard, the Company has applied these new recommendations retroactively but has not restated comparative periods. The cumulative effect of the adoption of the new standard of \$180,000 has been recorded as a decrease to opening retained earnings.

## Statement of Income and Retained Earnings

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

	Three Months Ended October 31		Nine Months Ended October 31	
	2000	1999 (note)	2000	1999 (note)
Sales	\$ 4,870	\$ 4,866	\$ 14,899	\$ 11,758
Cost of sales	3,882	3,880	12,026	9,452
Gross profit	988	986	2,873	2,306
Expenses:				
Selling and administrative	312	346	1,040	878
Amortization of capital assets	212	153	615	431
Interest	85	62	217	160
Amortization of deferred charges	-	16	-	49
Loss on disposal of capital assets	-	-	9	-
Other	19	23	79	64
	628	600	1,960	1,582
Income before income taxes	360	386	913	724
Provision for income taxes	118	139	301	261
Net income	242	247	612	463
Retained earnings, beginning of period:				
As previously reported	1,645	987	1,275	771
Adjustment of new accounting standard for income taxes (note)	-	(180)	-	(180)
As restated	1,645	807	1,275	591
Retained earnings, end of period	\$ 1,887	\$ 1,054	\$ 1,887	\$ 1,054
Earnings per share	\$ 0.008	\$ 0.008	\$ 0.020	\$ 0.015
Class A voting shares	18,465,002	18,317,030	18,465,002	18,317,030
Class B Series 1 non-voting shares	11,700,000	11,700,000	11,700,000	11,700,000
Earnings before interest, taxes, depreciation and amortization (EBITDA)	\$ 657	\$ 617	\$ 1,754	\$ 1,364
EBITDA per share	\$ 0.022	\$ 0.021	\$ 0.058	\$ 0.045

## Note (continued)

### Statement of cash flows:

During the fiscal year ended January 31, 2000, the Company adopted the new recommendations of the CICA on cash flow statements. The recommendations require the Company to provide information on the changes in cash and short-term investments during the year arising from operating, investing and financing activities. Cash flows from operating activities can be reported using either the direct or indirect method.

The Company adopted the indirect method of reporting cash flows, under which the net cash flow from operating activities is reported by adjusting net income for the effects of non-cash items and net changes in non-cash working capital balances.

## Statement of Cash Flows

(Unaudited)  
(in thousands)

	Nine Months Ended October 31	
	2000	1999 (note)
Cash flows from operating activities:		
Net income	\$ 612	\$ 463
Items not involving cash:		
Amortization of capital assets	615	431
Amortization of deferred charges	-	49
Future income taxes	82	118
Loss on disposal of fixed assets	9	-
Net change in non-cash operating working capital	(623)	(198)
	695	863
Cash flows from financing activities:		
Increase in bank indebtedness	467	68
Issuance of long-term debt	1,833	700
Repayment of long-term debt	(182)	(130)
Decrease in obligations under capital leases	(151)	(181)
Issuance of share capital	4	39
	1,971	496
Cash flows from investing activities:		
Purchase of capital assets	(2,681)	(1,359)
Proceeds on disposal of capital assets	15	-
	(2,666)	(1,359)
Cash beginning and end of year	\$ -	\$ -
<b>Supplemental cash flow information</b>		
Interest paid	\$ 210	\$ 152
Income taxes paid	317	1
Additions to capital assets included in accounts payable	(110)	84