# IMAFLEX

## CORPORATE PROFILE

Imaflex 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, 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.

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

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***IN ALL SUCCESSFUL BUSINESSES THE KEY TO SUCCESS RELIES ON MANAGEMENT MASTERING THREE FUNDAMENTALS:***

- ***CLEAR VISION OF GOALS***
- ***CORRECT TIMING OF ACTIONS***
- ***COMMITMENT TO CUSTOMERS***

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

IMAFLEX

***FINANCIAL HIGHLIGHTS***

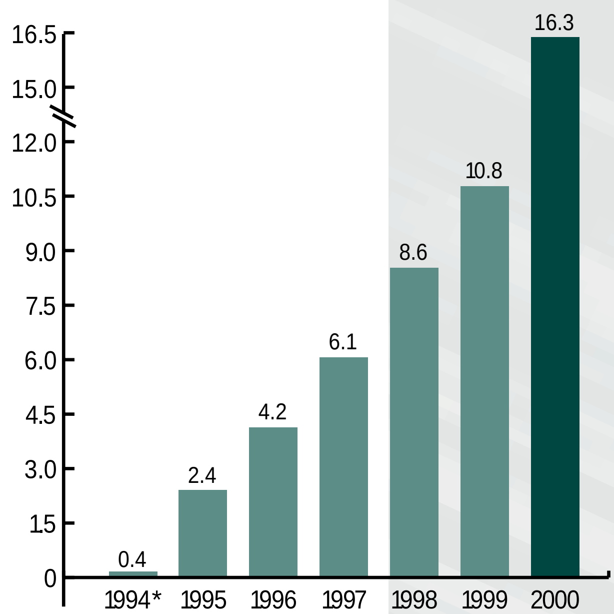
Years ended January 31 (in dollars except per share data)

| | **2000** | 1999 | 1998 | % Change 2000/1999 |
|---|---|---|---|---|
| ***Operating Summary*** | | | | |
| Sales | **$ 16,320,773** | $ 10,781,895 | $ 8,550,614 | 51.4% |
| Net Income | **684,424** | 144,133 | 379,896 | 374.9% |
| Earnings Per Share | **0.023** | 0.006 | 0.016 | 283.3% |
| EBIT (1) | **1,278,728** | 459,326 | 582,327 | 178.4% |
| EBITDA (2) | **1,894,265** | 903,724 | 844,316 | 109.6% |
| ***Financial Position*** | | | | |
| Working Capital | **946,787** | 638,544 | (39,304) | 48.3% |
| Capital Assets | **4,126,607** | 3,269,225 | 2,483,762 | 26.2% |
| Total Assets | **8,823,434** | 6,634,763 | 5,196,683 | 33.0% |
| Total Long-Term Debt (Including Capital Leases) | **1,954,393** | 1,735,604 | 1,510,884 | 12.6% |
| Shareholders' Equity | **3,081,149** | 2,532,875 | 1,167,946 | 21.6% |

(1) Earnings before interest and taxes.

(2) Earnings before interest, taxes, depreciation and amortization.

**SALES**
***(in millions of dollars)***




* Represents seven month period

# IMAFLEX

## REPORT TO OUR SHAREHOLDERS

This report to shareholders for the year ended January 31, 2000 marks the Company's first full fiscal year as a public company. The year was one of significant growth in sales and net income.

Net income for the year ended January 31, 2000 was $684,424, or $0.023 per share, an increase of 375% compared with net income of $144,133, or $0.006 per share for the year ended January 31, 1999. Sales for the year ended January 31,2000 totalled $16,320,773 compared with $10,781,895 for the year ended January 31, 1999, an increase of 51% 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.

The stronger earnings performance for the year, compared to the prior year, 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 is continuing as planned, and is expected to result in an increase in production capacity of approximately 20%, commencing in the third quarter of fiscal 2001.

Quality, as the Ford Motor Company once stated in its advertising slogan, is "Job One". Senior management has strived to emulate this philosophy in our daily operations. From the beginning it has been the driving force in our decisions on capital expenditures and in our training programs for production personnel. As the Company continues to invest in new technology, employee training, both practical and theoretical is ongoing. This philosophy of total quality thinking continually maximizes our efficiencies when utilizing our resources during our normal manufacturing schedule of seven days a week, twenty-four hours a day.

Management is optimistic with respect to the future. As announced at the last annual shareholders' meeting and discussed in the third quarter report, 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.

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

Joseph Abbandonato
President & Chief Executive Officer

# IMAFLEX

## QUARTERLY FINANCIAL INFORMATION

| | SALES | | | | NET INCOME | | | |
|---|---|---|---|---|---|---|---|---|
| | 2000 | | 1999 | | 2000 | | 1999 | |
| First Quarter | $ 3,299,725 | 20% | $ 2,869,558 | 27% | $ 161,496 | 24% | $ 67,204 | 47% |
| Second Quarter | 3,592,058 | 22 | 2,511,282 | 23 | 54,575 | 8 | 61,842 | 43 |
| Third Quarter | 4,866,559 | 30 | 2,919,594 | 27 | 247,637 | 36 | 86,480 | 60 |
| Fourth Quarter | 4,562,431 | 28 | 2,481,461 | 23 | 220,716 | 32 | (71,393) | (50) |
| | $ 16,320,773 | 100% | $ 10,781,895 | 100% | $ 684,424 | 100% | $ 144,133 | 100% |

| | EBITDA | | | | EARNINGS PER SHARE | | | |
|---|---|---|---|---|---|---|---|---|
| | 2000 | | 1999 | | 2000 | | 1999 | |
| First Quarter | $ 432,887 | 23% | $ 267,285 | 30% | $ 0.005 | 22% | $ 0.003 | 50% |
| Second Quarter | 313,347 | 16 | 274,309 | 30 | 0.002 | 8 | 0.003 | 50 |
| Third Quarter | 618,657 | 33 | 318,792 | 35 | 0.008 | 35 | 0.004 | 67 |
| Fourth Quarter | 529,374 | 28 | 43,338 | 5 | 0.008 | 35 | (0.004) | (67) |
| | $ 1,894,265 | 100% | $ 903,724 | 100% | $ 0.023 | 100% | $ 0.006 | 100% |

# IMAFLEX

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### INTRODUCTION

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

*Year ended January 31, 2000 compared with year ended January 31, 1999*

### RESULTS

Net income for fiscal 2000 of $684,424 or $0.023 per share increased by $540,291 or 375% from $144,133 or $0.006 reported in fiscal 1999. The major contributor was the increase in volume as a result of the Company's expansion of its manufacturing capacity during the second quarter of the current year.

Higher sales and continued enhancements in the manufacturing process increased gross profit to $3,177,677 or 19.5% of sales in fiscal 2000 from $1,762,334 or 16.3% of sales in fiscal 1999.

Selling and administrative expenses increased by $406,319 from fiscal 1999 primarily as a result of the increase in sales. Selling and administrative expenses represented 7.2% of sales in both the 1999 and 2000 fiscal years.

Amortization of capital assets increased by $153,248 from fiscal 1999, as a result of the significant capital expenditure program of the last few years.

Interest expense decreased by $7,442 from fiscal 1999, as a result of the Company's ability to obtain more favourable borrowing terms and rates from its lenders.

Amortization of deferred charges increased by $17,891 from fiscal 1999. During fiscal 2000 the Company amortized the remaining balance of expenses associated with its move during the fourth quarter of fiscal 1998 to its larger manufacturing premises.

Other expenses increased by $18,843 from fiscal 1999 primarily as a result of the increase in sales.

The effective tax rate in 2000 decreased to 36.0% from 40.6% in 1999, as a result of the Company's use of the manufacturing and processing deduction.

### SALES

Sales in 2000 increased by $5,538,878 or 51% to $16,320,773, 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.

### BALANCE SHEET

*2000 versus 1999*

Total assets increased by $2,188,671 to $8,823,434 as at January 31, 2000 compared with $6,634,763 at the end of 1999.

Current assets increased by $1,462,807 to $4,534,327 as at January 31, 2000 compared with $3,071,520 at the end of 1999 primarily as a result of an increase in accounts receivable due to a higher level of sales and an increase in inventories necessitated by the increase in production levels.

### BALANCE SHEET (continued)

Capital assets increased by $857,382 to $4,126,607 as at January 31, 2000 compared with $3,269,225 at the end of fiscal 1999 as a result of the Company's purchase of additional manufacturing equipment.

Total liabilities increased by $1,640,397 to $5,742,285 as at January 31, 2000 compared to $4,101,888 at the end of fiscal 1999.

Current liabilities increased by $1,154,564 to $3,587,540 as at January 31, 2000 compared with $2,432,976 at the end of fiscal 1999 primarily as a result of an increase in accounts payable due to a higher level of inventories and expenses and an increase in income taxes payable due to a higher level of income.

Long-term debt and obligations under capital leases increased by $218,789 to $1,954,393 as at January 31, 2000 compared to $1,735,604 at the end of fiscal 1999 primarily as a result of the financing of the expansion of the Company's manufacturing capacity during fiscal 2000.

Future income tax liabilities increased by $329,460 to $619,460 as at January 31, 2000 compared to $290,000 at the end of fiscal 1999 primarily as a result of an increase in the difference in the ending value of capital assets for accounting and taxation purposes and the adoption of new recommendations for the accounting for income taxes.

Shareholders' equity increased by $548,274 to $3,081,149 as at January 31, 2000 compared to $2,532,875 at the end of fiscal 1999 primarily as a result of the Company's net income during the year.

### CASH FLOWS

Net cash provided by operations increased to $1,175,104 from $324,825 in fiscal 1999, mainly as a result of higher net income in fiscal 2000.

Financing activities provided resources of $221,153 compared to $492,583 in fiscal 1999, resulting primarily from the decrease in bank indebtedness and the decrease in issuance of share capital in fiscal 2000, partially offset by the increase in long-term debt.

Investment activities required a net cash outlay of $1,396,257 compared to $817,408 in fiscal 1999, as a result of the Company's continued acquisition of manufacturing equipment.

### FACTORS AFFECTING THE BUSINESS

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

### YEAR 2000

The Company is proud to report that no negative events have occurred to date as a result of the advent of the Year 2000. We thank the efforts of our employees, customers, suppliers and other third parties, who assisted in avoiding any disruption to the Company's operating activities.

# IMAFLEX

## RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements and the information in the Annual Report are the responsibility of management. The financial statements have been prepared by management and include the selection and consistent application of appropriate accounting principles, judgments and estimates necessary to prepare these statements in accordance with Canadian generally accepted accounting principles.  Financial information contained elsewhere in the Annual Report is consistent with that shown in the financial statements.

To provide reasonable assurance that assets are safeguarded and that relevant and reliable financial information is being reported, management has developed and maintains a system of internal controls.  An integral part of the system is the requirement that employees maintain the highest standard of ethics in their activities.

The Board of Directors, acting through the Audit Committee, is responsible for determining that management fulfills its responsibilities in the preparation of financial statements and the financial control of operations.  The Audit Committee recommends the independent auditors for appointment by the shareholders.  It meets periodically with management and the independent auditors to discuss financial reporting issues, internal controls and auditing matters and reports its findings to the Board.  The independent auditors have unrestricted access to the Audit Committee.  The Committee reviews the financial statements with management and the independent auditors prior to submission to the Board for approval.

Joseph Abbandonato
President and Chief Executive Officer

Roberto Longo, CA
Corporate Controller

Montreal, Canada
March 8, 2000

# AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the balance sheet of Imaflex Inc. as at January 31, 2000 and 1999 and the statements of income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at January 31, 2000 and 1999 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
Montreal, Canada
March 8, 2000

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## BALANCE SHEET

January 31, 2000 with comparative figures for 1999

| | 2000 | 1999 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Accounts receivable (note 3) | **$ 3,121,499** | $ 2,084,769 |
| Inventories (note 4) | **1,343,000** | 972,572 |
| Prepaid expenses | **69,828** | 14,179 |
| | **4,534,327** | 3,071,520 |
| Capital assets (note 5) | **4,126,607** | 3,269,225 |
| Long-term investment (note 6) | **162,500** | 162,500 |
| Deferred charges | **-** | 131,518 |
| | **$ 8,823,434** | $ 6,634,763 |
| **Liabilities and Shareholders' Equity** | | |
| Current liabilities: | | |
| Bank indebtedness (note 7) | **$ 576,073** | $ 617,559 |
| Accounts payable and accrued liabilities | **2,331,054** | 1,432,725 |
| Income taxes payable | **261,305** | 26,000 |
| Current portion of long-term debt (note 8) | **216,307** | 119,690 |
| Current portion of obligations under capital leases (note 9) | **202,801** | 237,002 |
| | **3,587,540** | 2,432,976 |
| Long-term debt (note 8) | **865,467** | 506,350 |
| Obligations under capital leases (note 9) | **669,818** | 872,562 |
| Future income taxes (note 1(a) and 10) | **619,460** | 290,000 |
| Shareholders' equity: | | |
| Share capital (note 11) | **1,806,129** | 1,762,279 |
| Retained earnings | **1,275,020** | 770,596 |
| | **3,081,149** | 2,532,875 |
| Commitments (note 13) | | |
| | **$ 8,823,434** | $ 6,634,763 |

See accompanying notes to financial statements.

On behalf of the Board:

Joseph Abbandonato, Director

Pierre Myrand, Director

## STATEMENT OF INCOME AND RETAINED EARNINGS

Year ended January 31, 2000 with comparative figures for 1999

| | 2000 | 1999 |
|---|---|---|
| Sales | **$ 16,320,773** | $ 10,781,895 |
| Cost of sales | **13,143,096** | 9,019,561 |
| Gross profit | **3,177,677** | 1,762,334 |
| Expenses: | | |
| Selling and administrative | **1,182,134** | 775,815 |
| Amortization of capital assets | **531,888** | 378,640 |
| Interest expense | **209,314** | 216,756 |
| Amortization of deferred charges | **83,649** | 65,758 |
| Other | **101,278** | 82,795 |
| | **2,108,263** | 1,519,764 |
| Income before income taxes | **1,069,414** | 242,570 |
| Provision for income taxes (note 10): | | |
| Current | **235,530** | 28,458 |
| Future | **149,460** | 69,979 |
| | **384,990** | 98,437 |
| Net income | **684,424** | 144,133 |
| Retained earnings, beginning of year: | | |
| As previously reported | **770,596** | 626,463 |
| Adjustment of new accounting standard for income taxes (note 1(a)) | **(180,000)** | - |
| As restated | **590,596** | 626,463 |
| Retained earnings, end of year | **$ 1,275,020** | $ 770,596 |
| Earnings per share | **$ 0.023** | $ 0.006 |
| EBITDA | **$ 1,894,265** | $ 903,724 |

See accompanying notes to financial statements.

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## STATEMENT OF CASH FLOWS

Year ended January 31, 2000 with comparative figures for 1999

| | 2000 | 1999 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income | **$ 684,424** | $ 144,133 |
| Items not involving cash: | | |
| Amortization of capital assets | **531,888** | 378,640 |
| Amortization of deferred charges | **83,649** | 65,758 |
| Future income taxes | **149,460** | 69,979 |
| Net change in non-cash operating working capital (note 14) | **(274,317)** | (333,685) |
| | **1,175,104** | 324,825 |
| Cash flows from financing activities: | | |
| Decrease in bank indebtedness | **(41,486)** | (358,130) |
| Issuance of long-term debt | **700,000** | - |
| Repayment of long-term debt | **(244,266)** | (91,686) |
| Decrease in obligations under capital leases | **(236,945)** | (263,141) |
| Issuance of share capital | **43,850** | 1,220,796 |
| Decrease in loans due to shareholders | **-** | (15,256) |
| | **221,153** | 492,583 |
| Cash flows from investing activities: | | |
| Purchase of capital assets | **(1,444,126)** | (654,908) |
| Recovery of deferred charges | **47,869** | - |
| Increase in long-term investment | **-** | (162,500) |
| | **(1,396,257)** | (817,408) |
| Cash, beginning and end of year | **$ -** | $ - |
| **Supplemental cash flow information:** | | |
| Interest paid | **$ 206,299** | $ 242,041 |
| Income taxes paid | **1,344** | 1,776 |
| Additions to capital assets included in accounts payable | **54,856** | 70,352 |
| Capital assets acquired under capital leases | **-** | 579,547 |

See accompanying notes to financial statements.

**NOTES TO FINANCIAL STATEMENTS**

Year ended January 31, 2000

Imaflex Inc. (the “Company”) representing the amalgamation on February 1, 1999 of Cyclonic Investments Corporation (“Cyclonic”) and Imaflex Inc. (“Imaflex”), is incorporated under the Canada Business Corporations Act. Its principal business activity and dominant industry segment is the extrusion of plastic films.

**1. Changes in accounting policies:**

(a) Income taxes:

During the year, the Company retroactively adopted the Canadian Institute of Chartered Accountants’ (CICA) new recommendations 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.

(b) Statement of cash flows:

During the year, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants 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 has 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. The effect on the prior year’s comparative figures was an increase in cash provided by operations from $254,473 to $324,825, a decrease in cash provided by financing activities from $1,430,260 to $492,583 and a decrease in cash used for investments from $1,326,603 to $817,408.

**2. Significant accounting policies:**

(a) Basis of presentation:

These financial statements represent the results of operations for the amalgamated entity of Cyclonic and Imaflex. The comparative figures for the year ended January 31, 1999 present the consolidated accounts of the Company and its wholly-owned legal subsidiary, prior to the amalgamation, Imaflex Inc.

(b) 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.

**2. Significant accounting policies: (continued)**

(c) Capital assets:
Capital assets other than assets under capital leases are recorded at cost. Assets under capital leases are recorded at the present value of minimum lease payments at the inception of the lease, less accumulated amortization. Amortization is provided using the following methods and rates:

| Asset | Basis | Rate |
|---|---|---|
| Production equipment | Straight-line | 10 years |
| Office equipment | Declining balance | 20% |
| Computer equipment | Straight-line | 3 1/3 years |
| Equipment under capital leases | Straight-line | 10 years |

Leasehold improvements are amortized on a straight-line basis over the term of the lease.

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

(e) Income taxes:
The asset and liability method is used for determining income taxes. Under this method, future tax assets and liabilities are recognized for the estimated tax recoverable or payable, which would arise if assets and liabilities were recovered and settled at the financial statement carrying amounts. Future tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. Changes to these balances are recognized in income in the period in which they occur.

(f) Earnings per share:
Earnings per share are calculated using the weighted average of the transaction shares and shares issued subsequent to the reverse takeover. For each of the years ended January 31, 2000 and 1999, the exercise of options and warrants would not be dilutive.

(g) Cash and cash equivalents:
Cash and cash equivalents consist of short-term, highly liquid investments with a maturity of 90 days or less.

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

**NOTES TO FINANCIAL STATEMENTS, page 3**
Year ended January 31, 2000

### 3. Accounts receivable:

Accounts receivable consist of:

| | 2000 | 1999 |
|---|---|---|
| Trade receivables, net of allowance for doubtful accounts | **$ 3,053,213** | $ 1,950,150 |
| Net claim receivable | **47,855** | 47,855 |
| Other | **20,431** | 86,764 |
| | **$ 3,121,499** | $ 2,084,769 |

### 4. Inventories:

Inventories consist of:

| | 2000 | 1999 |
|---|---|---|
| Raw materials and supplies | **$ 1,128,000** | $ 859,920 |
| Finished goods | **215,000** | 112,652 |
| | **$ 1,343,000** | $ 972,572 |

### 5. Capital assets:

Capital assets consist of:

| | | | **2000** | 1999 |
|---|---|---|---|---|
| | Cost | Accumulated amortization | Net book value | Net book value |
| Production equipment | $ 3,463,046 | $ 887,260 | **$ 2,575,786** | $ 1,662,994 |
| Office equipment | 72,515 | 23,669 | **48,846** | 23,280 |
| Leasehold improvements | 301,899 | 92,637 | **209,262** | 136,901 |
| Computer equipment | 39,542 | 13,709 | **25,833** | 15,992 |
| | 3,877,002 | 1,017,275 | **2,859,727** | 1,839,167 |
| Assets under capital leases: | | | | |
| Production equipment | 1,605,584 | 349,186 | **1,256,398** | 1,416,956 |
| Office equipment | 13,792 | 3,310 | **10,482** | 13,102 |
| | 1,619,376 | 352,496 | **1,266,880** | 1,430,058 |
| | $ 5,496,378 | $ 1,369,771 | **$ 4,126,607** | $ 3,269,225 |

## 6. Long term investment:

The long-term investment is comprised of 1,625 preferred shares of an affiliated company and is recorded at cost. The preferred shares must be redeemed by the affiliated company at an amount equal to the consideration received upon issuance of these shares on or before January 19, 2004.

## 7. Bank indebtedness:

The Company has an operating line of credit with its bankers to a maximum of $1,700,000 bearing interest at prime plus 0.5%. The line of credit is secured by accounts receivable, inventories, and capital assets.

## 8. Long-term debt:

Long-term debt consists of:

| | 2000 | 1999 |
|---|---|---|
| Loan bearing interest at prime plus 1.50%, repayable in monthly installments of $4,750 up to October 2003 and $2,750 thereafter to July 2006 (a) | **$ 304,500** | $ 361,500 |
| Loan bearing interest at prime plus 1%, repayable in monthly installments of $2,400 to February 2005 (a) | **146,400** | 175,200 |
| Loan bearing interest at prime plus 2%, repayable in monthly installments of $1,125 to March 2000 (a) | **2,250** | 15,750 |
| Quebec Government Immigrant Investor loan bearing interest at the Royal Bank of Canada's 30 day Banker Acceptance rate plus 1.30%, repayable in blended monthly installments of $13,517 to June 2004, secured by production equipment | **628,624** | - |
| Other bank loans | **-** | 73,590 |
| | **1,081,774** | 626,040 |
| Current portion of long-term debt | **216,307** | 119,690 |
| | **$ 865,467** | $ 506,350 |

## 8. Long-term debt: (continued)

(a) These loans are secured by a hypothec on the universality of all present and future property of the Company, movables and immovables, corporeal and incorporeal, and including machinery, equipment, inventory, and receivables ranking second to the bank indebtedness.

The aggregate maturities of long-term debt for each of the five years subsequent to January 31, 2000 and thereafter are as follows:

| | |
|---|---|
| 2001 | $ 216,307 |
| 2002 | 221,900 |
| 2003 | 230,223 |
| 2004 | 233,054 |
| 2005 | 128,390 |
| Thereafter | 51,900 |
| | $ 1,081,774 |

## 9. Obligations under capital leases:

The Company has entered into long-term lease agreements which require the following minimum lease payments:

| | **2000** | 1999 |
|---|---|---|
| Year ending January 31: | | |
| 2000 | **$ -** | $ 318,485 |
| 2001 | **265,790** | 265,790 |
| 2002 | **265,790** | 265,790 |
| 2003 | **360,506** | 360,506 |
| 2004 | **119,783** | 119,783 |
| Total minimum lease payments | **1,011,869** | 1,330,354 |
| Less amount representing interest (at rates ranging from 7% to 14%) | **139,250** | 220,790 |
| Present value of net minimum capital lease payments | **872,619** | 1,109,564 |
| Current portion of obligations under capital leases | **202,801** | 237,002 |
| | **$ 669,818** | $ 872,562 |

**10. Income taxes:**

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

| | **2000** | 1999 |
|---|---|---|
| Income before income taxes | **$ 1,069,414** | $ 242,570 |
| Expected rate | **31.27%** | 31.27% |
| Expected taxes | **334,400** | 75,900 |
| Adjustments to expected taxes: | | |
| Deduction for new investment in Quebec | **(28,500)** | (14,700) |
| Non-deductible expenses | **8,500** | 4,000 |
| Other differences | **70,590** | 33,237 |
| **Income tax expense** | **$ 384,990** | $ 98,437 |
| Represented by: | | |
| Current income tax expense | **$ 235,530** | $ 28,458 |
| Future income tax expense | **149,460** | 69,979 |
| **Income tax expense** | **$ 384,990** | $ 98,437 |

The future income tax liabilities comprise the following temporary differences:

| | **January 31, 2000** | February 1, 1999 |
|---|---|---|
| Capital assets | **$ 619,460** | $ 425,000 |
| Deferred charges | **-** | 45,000 |
| **Future income tax liabilities** | **$ 619,460** | $ 470,000 |

**11. Share capital:**

On December 1, 1998, Cyclonic entered into an agreement with 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 (the "transaction shares") thereby obtaining control of Cyclonic.

This transaction was treated as a reverse takeover of Cyclonic with Imaflex deemed to have acquired Cyclonic and was accounted for by the purchase method. The description of the capital structure of the entity at January 31, 1999 is that of Cyclonic, but the values attributed thereto are those of Imaflex, prior to the amalgamation.

The fair value of the net assets acquired by Imaflex amounted 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 was assigned to share capital. Effective February 1, 1999, Cyclonic and Imaflex were amalgamated.

Share capital consists of:

| | **2000** | 1999 |
|---|---|---|
| Authorized: | | |
| Unlimited number of Class A shares, voting, participating, without par value | | |
| Unlimited number of Class B shares, non-voting, participating, without par value, issuable at any time and in one or more Series | | |
| Unlimited number of Class B Series 1 shares, convertible at the option of the holder to Class A shares subject to the restriction that the percentage of Class A shares in the hands of public security holders following such conversion must not be less than 20% of the total issued and outstanding Class A shares | | |
| Issued and outstanding: | | |
| 18,457,030 (1999 – 18,102,030) Class A shares | **$ 1,251,265** | $ 1,207,415 |
| 11,700,000 Class B Series 1 shares | **554,864** | 554,864 |
| | **$ 1,806,129** | $ 1,762,279 |

**11. Share capital: (continued)**

During the year, the Company issued 355,000 Class A shares pursuant to the exercise of stock options for net proceeds of $43,850.

13,333,334 Class A shares and 11,700,000 Class B Series 1 shares were placed in escrow at the date of the reverse takeover. 13,333,334 Class A shares and 4,000,000 Class B Series 1 shares were to be released from escrow as to one third thereof on each of the first, second, and third anniversaries of the reverse takeover transaction. On February 17, 2000, 3,999,998 Class A shares were removed from escrow in accordance with this agreement. 7,700,000 Class B Series 1 shares are to be released from escrow based on the levels of cash flow generated by the Company, pursuant to a Performance Release Escrow Agreement.

The detail of the options and warrants outstanding is as follows:

| Units | Exercise price | Expiry date |
|---|---|---|
| 120,000 | $0.15 per share | June 3, 2002 |
| 20,000 | $0.30 per share | June 18, 2004 |
| 150,000 (a) | $0.37 per share | December 1, 2000 |
| 2,027,030 (b) | $0.50 per share | December 1, 2000 |
| **2,317,030** | | |

(a) The holder of these options is entitled to purchase up to 150,000 units at an exercise price of $0.37 per unit before December 1, 2000. Each unit consists of one Class A share and one Class A purchase warrant entitling the holder thereof to acquire one Class A share at a price of $0.50 before December 1, 2000.

(b) On December 1, 1998, concurrently with the reverse takeover, the Company issued by way of a private placement 2,027,030 units at a price of $0.37 per unit, consisting of one Class A share and one Class A purchase warrant entitling the holder thereof to acquire one Class A share for a consideration of $0.50 per share before December 1, 2000.

As a result of the reverse takeover transaction, the legal, tax and book values of share capital are significantly different.

**12. Related party transactions:**

During the year, in the normal course of business, the Company had business transactions with related parties. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Details of these transactions are as follows:

| | 2000 | 1999 |
|---|---|---|
| Management fees | **$ 97,500** | $ 82,500 |
| Commissions | **49,000** | 48,000 |
| Rent | **259,950** | 216,000 |

In addition, an officer and shareholder of the Company had an amount owing to the Company of $ 20,000 bearing interest at prime plus 0.5%

**13. Commitments:**

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

| | |
|---|---|
| 2001 | $ 273,000 |
| 2002 | 273,000 |
| 2003 | 273,000 |
| 2004 | 273,000 |
| 2005 | 273,000 |
| Thereafter | 2,275,000 |
| | $ 3,640,000 |

**14. Statement of cash flows:**

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

| | 2000 | 1999 |
|---|---|---|
| Accounts receivable | **$ (1,036,730)** | $ (291,089) |
| Inventories | **(370,428)** | (364,699) |
| Prepaid expenses | **(55,649)** | 27,044 |
| Accounts payable and accrued liabilities | **953,185** | 196,190 |
| Income taxes payable | **235,305** | 98,869 |
| | **$ (274,317)** | $ (333,685) |

## 15. Financial instruments:

(a) Foreign currency risk management:

A portion of the Company's sales and expenses are denominated in US dollars. The Company does not use forward foreign exchange contracts to reduce foreign exchange exposure since the revenue stream in US dollars acts as a natural hedge to cover expenses denominated in US dollars. Export sales to the United States totalled $1,697,286 (1999 - $424,428).

(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 and have been within management's expectations. Sales to two customers represented approximately 22% of total sales (1999 – 22%).

(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 fair values as at the balance sheet date because of the short-term maturity of those instruments. For long-term debt and obligations under capital leases, the carrying value of these liabilities approximates the fair values at the balance sheet date.

(d) Interest rate risk:
The Company's principal exposure to interest rate fluctuations is with respect to its short-term and long-term financing which bear interest at floating rates.

# IMAFLEX

## CORPORATE INFORMATION

### OFFICERS

Joseph Abbandonato, President and Chief Executive Officer

Tony Abbandonato, Production Director and Secretary

Gerry Phelps, Vice-President – Operations

Pierre Senecal, Vice-President – Sales

Roberto Longo, CA – Corporate Controller

### BOARD OF DIRECTORS

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

Joseph Abbandonato, Chairman and President

Tony Abbandonato, Secretary Treasurer

Philippe Frère, Partner, Lavery, de Billy

Francis Fox, President Eastern Canada,
Rogers AT&T

Pierre Myrand, Corporate Director

Gerry Phelps, Vice-President

### SHAREHOLDER INFORMATION

Audit and Compensation Committee:
Joseph Abbandonato, Chairman;
Pierre Myrand; Philippe Frère

Auditors: KPMG LLP, Montreal, Quebec

Legal Counsel: Lavery, de Billy, Montreal, Quebec

Listing: Imaflex Inc. shares are listed as IFX.A on the Canadian Venture Exchange (CDNX)

Transfer Agent: Montreal Trust Company

Corporate Communications:
MAS Capital – Marie Antoinette Shields,
Managing Partner
Telephone: (604) 685-9202 / Fax: (604) 685-8625

Head office: Imaflex Inc., 5710 Notre Dame Ouest
Montreal, Quebec, Canada  H4C 1V2
Telephone: (514) 935-5710 / Fax: (514) 935-0264
E-mail: info@imaflex.com
**www.imaflex.com**

### ANNUAL MEETING OF SHAREHOLDERS

The Annual Meeting of Shareholders will be held on Monday, June 5, 2000 at 9:00 a.m. at the Intercontinental Hotel,
Salon St-Jacques,
360 St. Antoine, Montreal, Quebec