

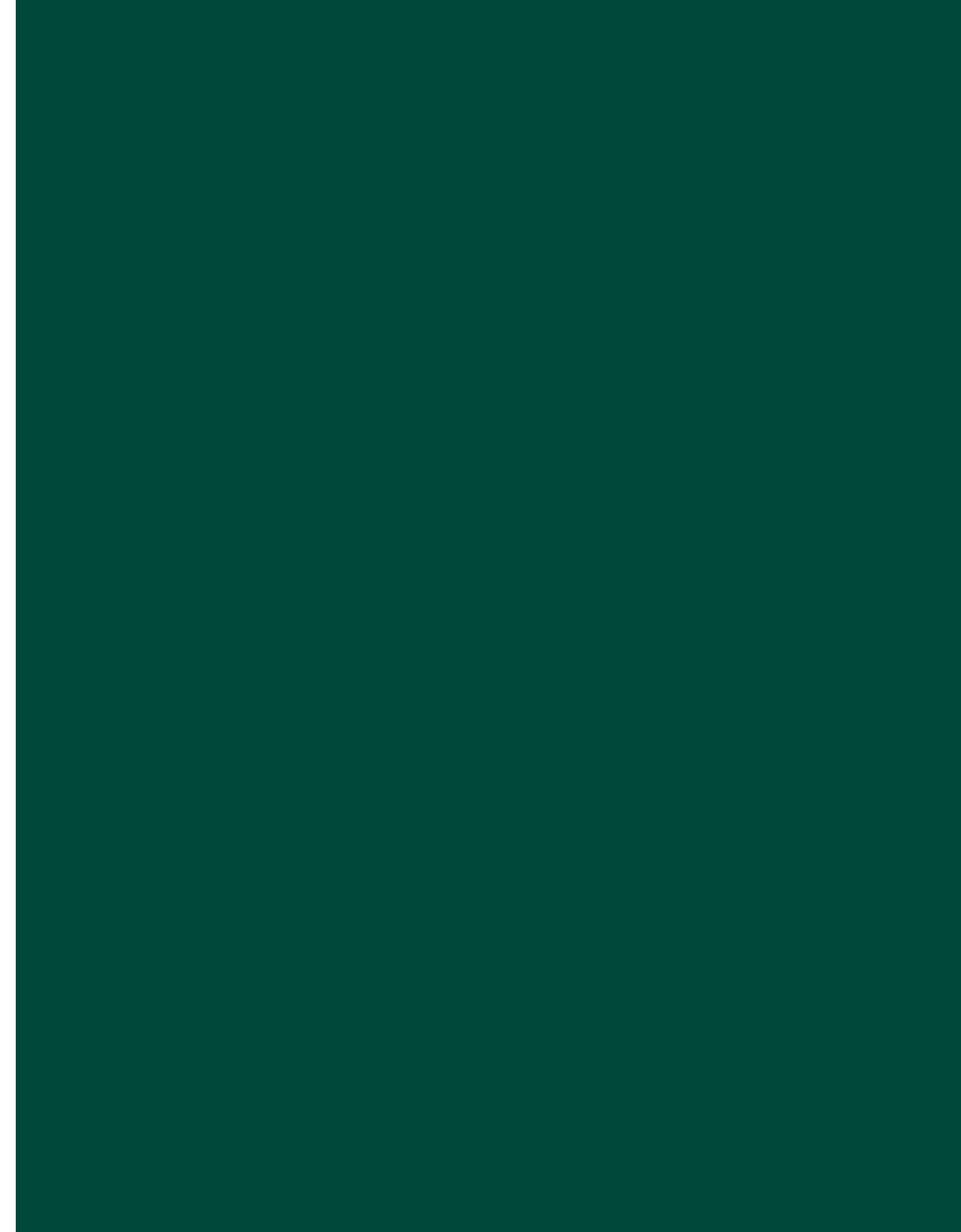
ANNUAL REPORT

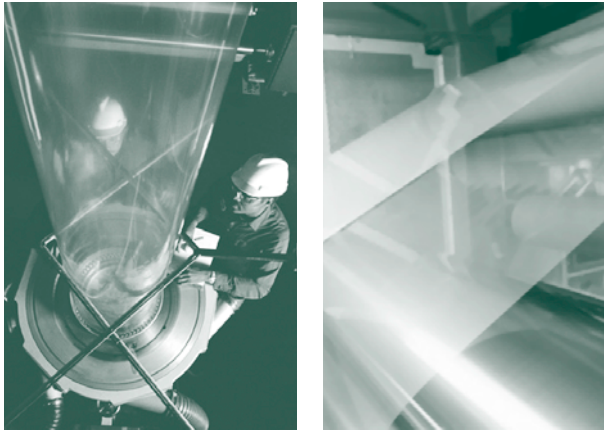
*Eleven - month period ended
December 31, 2001*



C o m m i t t e d t o e x c e l l e n c e

IMAFLEX





CORPORATE PROFILE

Imaflex Inc. specializes in the manufacture and sale of custom-made polyethylene films suited for various packaging needs of our customers. These packaging films are either used directly by our customers to protect their own products, or used by customers who convert our film products into plain or printed bags of all types and/or into printed roll stock, in their own converting operations, to satisfy their own customer needs. Imaflex employs approximately 85 people in its manufacturing facility, located in Montréal, Québec. Imaflex recycles 100% of its own waste, the majority in house, thereby enhancing cost efficiency.

Canslit Inc., the wholly owned subsidiary, specializes in the metallization of numerous polymer-based products including polyester, nylon, polypropylene and polyethylene. This is accomplished through the application under vacuum conditions of a fine layer of aluminum vapors to the surface of the polymer-based film. Metallized films are generally used in the packaging of food products. However, these films are also being used in the insulation, photography, aerospace and numerous other industries. Canslit employs approximately 15 people at its manufacturing facility in Victoriaville, Québec.



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

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

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

FINANCIAL HIGHLIGHTS

(In dollars except per share data)

	Eleven month period ended December 31, 2001 (*)	Year ended January 31, 2001	% Change Current period vs. Year ended January 31, 2001	Year ended January 31, 2000	Year ended January 31, 1999	Year ended January 31, 1998
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Operating Summary

Sales	\$ 24,366,170	\$ 20,558,115	18.5%	\$ 16,320,773	\$ 10,781,895	\$ 8,550,614
Net Income	71,363	1,033,715	(93.1%)	684,424	144,133	379,896
Earnings Per Share	0.002	0.034	(94.1%)	0.023	0.006	0.016
EBIT ⁽¹⁾	837,378	1,816,018	(53.9%)	1,278,728	459,326	582,327
EBITDA ⁽²⁾	1,910,482	2,564,143	(25.5%)	1,894,265	903,724	844,316
EBITDA Per Share	0.062	0.085	(27.1%)	0.063	0.038	0.036

Financial Position

Working Capital	863,322	1,231,817	(29.9%)	946,787	638,544	(39,304)
Capital Assets	7,981,279	6,149,982	29.8%	4,126,607	3,269,225	2,483,762
Total Assets	15,633,974	11,639,557	34.3%	8,823,434	6,634,763	5,196,683
Total Long-Term Debt (including Capital Leases)	5,205,737	3,289,014	58.3%	1,954,393	1,735,604	1,510,884
Shareholders' Equity	4,302,713	4,118,850	4.5%	3,081,149	2,532,875	1,167,946

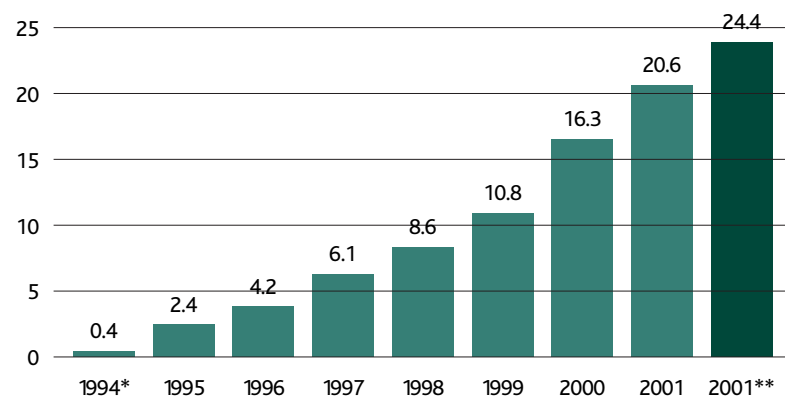
(1) Earnings before interest and taxes

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

(*) Change in year-end

SALES

(in millions of dollars)



* Represents seven month period

** Represents eleven month period

REPORT TO OUR SHAREHOLDERS

INTRODUCTION

The current year's results include those of Imaflex Inc. and its wholly owned subsidiary, Canslit Inc., which was acquired on March 29, 2001.

Imaflex's financial year-end has been changed to December 31 to harmonize with Canslit's year-end and to facilitate reporting in future years. Accordingly, the results for the financial year are comprised of an eleven month period from February 1 to December 31, 2001. The previous financial year was a twelve month period from February 1, 2000 to January 31, 2001.

FINANCIAL RESULTS

The eleven month period ended December 31, 2001 was one of continued growth in sales, with a marked decline in net income.

Net income for the eleven months ended December 31, 2001 was \$71,363 or \$0.002 per share, a decrease of 93% compared with net income of \$1,033,715, or \$0.034 per share for the year ended January 31, 2001. Imaflex's operations generated net income of \$946,701 as compared to \$1,033,715 for the year ended January 31, 2001, while Canslit incurred a net loss of \$875,338 in the current period. The significant loss at Canslit's operations consisted of (1) a one-time restructuring charge of \$350,000 in the second quarter resulting from the rationalization of its manufacturing operations from plants in Milton, Ontario and Pointe-Claire, Québec into one

larger plant in Victoriaville, Québec and (2) lower sales volume as a result of a temporary production slowdown, and duplication of production overhead resulting in a loss from its current operations of \$525,338.

Sales for the eleven month period ended December 31, 2001 totaled \$24,366,170, compared with \$20,558,115 for the year ended January 31, 2001, an increase of \$3,808,055 or 18%, resulting from the following factors:

- The increase in Imaflex sales of \$568,731, a result of increased sales volume; and
- Sales of Canslit for nine months of \$3,239,324.

MANAGEMENT OUTLOOK

In last year's annual report to shareholders management referred to the integration of Canslit, the expectation being that Canslit's operations would produce favourable results in a relatively short time frame. However, because of difficulties experienced in obtaining efficient and effective operating performance from certain Canslit manufacturing equipment, the expected favourable results are taking longer to achieve.

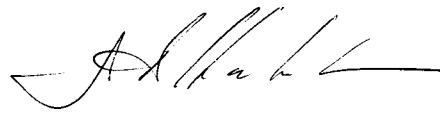
The completion of the restructuring of Canslit's operations and the move to the larger Victoriaville plant during December 2001 has enabled management to also focus on increasing Canslit's revenue base. Management now expects that Canslit's operations will become profitable in the third quarter of 2002 and remains committed to its cost-effective integration with Imaflex's operations.

REPORT TO OUR SHAREHOLDERS (continued)

After another favourable financial performance, Imaflex's operations continue to expand. Management is expecting the arrival and installation of new production equipment in the second quarter of this year in order to increase Imaflex's manufacturing capacity and ability to meet additional demand in the US market. Management is confident that this expansion will result in further growth in Imaflex sales and profitability.

The difficulties associated with Can slit's integration have not altered management's belief that accelerated growth through pursuing other suitable acquisitions is a key to enhancing shareholder value. However, only acquisitions of profitable and established companies will be pursued to achieve these goals.

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



Joseph Abbandonato
President & Chief Executive Officer

QUARTERLY FINANCIAL INFORMATION

	SALES		NET INCOME	
	Eleven month period ended December 31, 2001	Year ended January 31, 2001	Eleven month period ended December 31, 2001	Year ended January 31, 2001
First Quarter	\$ 6,699,927	\$ 5,115,516	\$ 259,309	\$ 274,498
Second Quarter	6,351,620	4,913,187	(423,062)	95,867
Third Quarter	6,868,488	4,869,991	40,155	241,655
Fourth Quarter	4,446,135 (*)	5,659,421	194,961 (*)	421,695
	\$ 24,366,170	\$ 20,558,115	\$ 71,363	\$ 1,033,715

	EBITDA		EARNINGS PER SHARE	
	Eleven month period ended December 31, 2001	Year ended January 31, 2001	Eleven month period ended December 31, 2001	Year ended January 31, 2001
First Quarter	\$ 725,926	\$ 672,285	\$ 0.008	\$ 0.009
Second Quarter	68,184	423,925	(0.014)	0.003
Third Quarter	562,108	657,447	0.001	0.008
Fourth Quarter	554,264 (*)	810,486	0.007 (*)	0.014
	\$ 1,910,482	\$ 2,564,143	\$ 0.002	\$ 0.034

(*) Represents two month period.

SELECTED FINANCIAL INFORMATION

Selected Balance Sheet Information	IMAFLEX	CANSLIT	IMAFLEX CONSOLIDATED	IMAFLEX
	December 31 2001	December 31 2001	December 31 2001	January 31 2001
Assets				
Accounts receivable	\$ 4,017,440	\$ 666,912	\$ 4,684,352	\$ 3,894,756
Inventories	1,449,500	366,200	1,815,700	1,385,000
Deposits for capital assets	575,792	-	575,792	29,000
Capital assets	6,519,332	1,461,947	7,981,279	6,149,982
Liabilities				
Accounts payable and accrued liabilities	3,845,218	921,392	4,766,610	3,175,683
Current portion of long-term debt	703,031	45,000	748,031	474,735
Long-term debt	2,482,141	1,507,500	3,989,641	2,144,461
Selected Statement of Income Information				
	IMAFLEX	CANSLIT	IMAFLEX CONSOLIDATED	IMAFLEX
	December 31 2001	December 31 2001	December 31 2001	January 31 2001
	(11 months)	(9 months)	(11 months)	(12 months)
Sales	\$ 21,126,846	\$ 3,239,324	\$ 24,366,170	\$ 20,558,115
Gross profit (\$)	4,525,262	257,226	4,782,488	4,069,701
Gross profit (%)	21.4%	7.9%	19.6%	19.8%
Expenses				
Selling and administrative	1,965,386	444,207	2,409,593	1,398,269
Amortization of capital assets	856,662	216,442	1,073,104	739,460
Interest	234,604	129,374	363,978	295,849
Provision for income taxes	425,329	(23,292)	402,037	486,454
Net income (loss)	946,701	(875,338)	71,363	1,033,715
EBITDA	2,463,296	(552,814)	1,910,482	2,564,143

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

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

The current year results include those of Imaflex Inc. and its wholly owned subsidiary, Canslit Inc., which was acquired on March 29, 2001.

Imaflex's financial year-end has been changed to December 31 to harmonize with Canslit's year-end and to facilitate reporting in future years. Accordingly, the results for the financial year are comprised of an eleven month period from February 1 to December 31, 2001. The previous financial year was a twelve month period from February 1, 2000 to January 31, 2001.

INCOME STATEMENT

Net income for the eleven months ended December 31, 2001 was \$71,363 or \$0.002 per share, a decrease of 93% compared with net income of \$1,033,715, or \$0.034 per share for the year ended January 31, 2001. Imaflex's operations generated net income of \$946,701 as compared to \$1,033,715 for the year ended January 31, 2001, while Canslit incurred a net loss of \$875,338 in the current period. The significant loss at Canslit's operations consisted of (1) a one-time restructuring charge of \$350,000 in the second quarter resulting from the rationalization of its manufacturing operations from plants in Milton, Ontario and Pointe-Claire, Québec into one larger plant in Victoriaville, Québec and (2) lower sales volume as a result of a temporary production slowdown, and duplication of production overhead resulting in a loss from its current operations of \$525,338.

Sales for the eleven month period ended December 31, 2001 totaled \$24,366,170, compared with \$20,558,115 for the year ended January 31, 2001, an increase of \$3,808,055 or 18%, resulting from the following factors:

- The increase in Imaflex sales of \$568,731, a result of increased sales volume; and
- Sales of Canslit for nine months of \$3,239,324.

Gross profit for the eleven month period ended December 31, 2001 amounted to \$4,782,488 or 19.6% of sales, compared with \$4,069,701 or 19.8% of sales for the year ended January 31, 2001. Removing the impact of Canslit, the gross profit margin was 21.4% of sales during the current period.

Selling and administrative expenses increased for the eleven month period ended December 31, 2001 by \$1,011,324 over the year ended January 31, 2001, as a result of the following:

- Imaflex's increased selling efforts in the US market and a profit participation program instituted for Imaflex employees during the current period; and
- Canslit's selling and administrative expenses of \$444,207.

Amortization of capital assets increased for the eleven month period ended December 31, 2001 by \$333,644 over the year ended January 31, 2001, as a result of the following:

- Imaflex's increase of \$117,202, as a result of the significant capital expenditure program of the last few years; and
- Canslit's amortization of \$216,442.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Interest expense increased for the eleven month period ended December 31, 2001 by \$68,129 over the year ended January 31, 2001, as a result of higher borrowing levels necessitated by the significant capital expenditure program of the last few years and the assumption of Canslit's long-term debt.

In July 2001, Canslit incurred a restructuring charge of \$350,000 with respect to the rationalization of the operations located in Milton, Ontario and Pointe-Claire, Québec into one larger facility in Victoriaville, Québec. The plan included the consolidation of certain functions to better manage its manufacturing operations. The restructuring charge is comprised of severance and moving costs. The rationalization was completed in late December 2001.

The effective tax rate for the eleven month period ended December 31, 2001 increased to 85% from 32% for the year ended January 31, 2001. Removing the impact of the valuation allowance on Canslit's net loss would result in an adjusted effective tax rate of 31%, which is comparable to the prior year.

BALANCE SHEET

December 31, 2001 versus January 31, 2001

Total assets increased by \$3,994,417 to \$15,633,974 as at December 31, 2001 compared with \$11,639,557 at January 31, 2001.

Current assets increased by \$1,616,328 to \$6,914,403 as at December 31, 2001 compared with \$5,298,075 at January 31, 2001, as a result of the following:

- Increase in accounts receivable of \$789,596 due to a higher level of sales. Days sales outstanding were 70 days during the current period as compared to 69 days in the prior year;

- Increase in inventories of \$430,700 due to the change in year-end and Canslit's inventory; and
- Increase in cash of \$396,310 due to positive cash flows from operations.

Deposits for capital assets increased by \$546,792 to \$575,792 as at December 31, 2001 compared with \$29,000 at January 31, 2001, due to deposits on new production equipment expected to be installed in the second quarter of 2002.

Capital assets increased by \$1,831,297 to \$7,981,279 as at December 31, 2001 compared with \$6,149,982 at January 31, 2001, as a result of the Company's purchase of additional manufacturing equipment and the acquisition of Canslit.

Total liabilities increased by \$3,810,554 to \$11,331,261 as at December 31, 2001 compared to \$7,520,707 at January 31, 2001.

Current liabilities increased by \$1,955,823 to \$6,051,081 as at December 31, 2001 compared with \$4,095,258 at January 31, 2001, as a result of the following:

- Increase in accounts payable due to a higher level of expenses; and
- Increase in the current portion of long-term debt and obligations under capital leases, as a result of new borrowings and the acquisition of Canslit.

Long-term debt and obligations under capital leases increased by \$1,916,723 to \$5,205,737 as at December 31, 2001 compared to \$3,289,014 at January 31, 2001, primarily as a result of the financing for the expansion of Imaflex's manufacturing capacity during the current period and the assumption of Canslit's long-term debt.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Future income tax liabilities increased by \$338,287 to \$1,169,796 as at December 31, 2001 compared to \$831,509 at January 31, 2001, primarily related to accelerated depreciation of capital assets for taxation purposes.

Shareholders' equity increased by \$183,863 to \$4,302,713 as at December 31, 2001 compared to \$4,118,850 at January 31, 2001, as a result of the issuance of shares to acquire Canslit and the Company's net income during the current period.

CASH FLOWS

Net cash provided by operations for the eleven month period ended December 31, 2001 decreased to \$1,383,705 from \$1,935,016 for the year ended January 31, 2001, mainly as a result of lower net income.

Financing activities for the eleven month period ended December 31, 2001 required a net cash outlay of \$241,296 compared to cash flows of \$798,053 for the year ended January 31, 2001, due primarily from the repayment of long-term debt resulting from the sale of Canslit's production plant in Milton, Ontario during December 2001.

Investment activities for the eleven month period ended December 31, 2001 required a net cash outlay of \$746,099 compared to \$2,733,069 for the year ended January 31, 2001, as a result of the reduction of manufacturing equipment purchases.

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.

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 market. This fact, coupled with the expanding product lines and reliance on newer and faster equipment should help it weather any possible downturn in the North American economy.

RESPONSIBILITY FOR FINANCIAL REPORTING

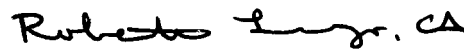
The accompanying consolidated financial statements and the information in the Annual Report are the responsibility of management. The consolidated financial statements have been prepared by management and include the selection of appropriate accounting principles, judgments and estimates necessary to 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 consolidated 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 an 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

Montréal, Canada
March 5, 2002

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Imaflex Inc. as at December 31, 2001 and January 31, 2001 and the consolidated statements of income and retained earnings and cash flows for the eleven-month period ended December 31, 2001 and for the year ended January 31, 2001. 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, 2001 and January 31, 2001 and the results of its operations and its cash flows for the eleven-month period ended December 31, 2001 and for the year ended January 31, 2001 in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Montréal, Canada
March 5, 2002

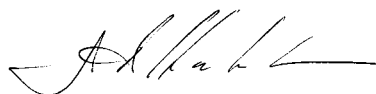
CONSOLIDATED BALANCE SHEETS

December 31, 2001 and January 31, 2001

	December 31, 2001	January 31, 2001
Assets		
Current assets:		
Cash	\$ 396,310	\$ -
Accounts receivable (note 4)	4,684,352	3,894,756
Inventories (note 5)	1,815,700	1,385,000
Prepaid expenses	18,041	18,319
	<u>6,914,403</u>	<u>5,298,075</u>
Deposits for capital assets	575,792	29,000
Capital assets (note 6)	7,981,279	6,149,982
Long-term investments (note 7)	162,500	162,500
	<u>\$ 15,633,974</u>	<u>\$ 11,639,557</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness (note 8)	\$ -	\$ 35,519
Accounts payable and accrued liabilities	4,766,610	3,175,683
Income taxes payable	189,118	188,982
Current portion of long-term debt (note 9)	748,031	474,735
Current portion of obligations under capital leases (note 10)	347,322	220,339
	<u>6,051,081</u>	<u>4,095,258</u>
Long-term debt (note 9)	3,989,641	2,144,461
Obligations under capital leases (note 10)	120,743	449,479
Future income taxes (note 11)	1,169,796	831,509
Shareholders' equity:		
Share capital (note 12)	1,922,615	1,810,115
Retained earnings	2,380,098	2,308,735
	<u>4,302,713</u>	<u>4,118,850</u>
Commitments (note 14)		
Contingencies (note 15)		
	<u>\$ 15,633,974</u>	<u>\$ 11,639,557</u>

See accompanying notes to consolidated financial statements.

On behalf of the Board:



Director



Director

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

Eleven-month period ended December 31, 2001 and year ended January 31, 2001

	December 31, 2001 (11 months)	January 31, 2001 (12 months)
Sales	\$ 24,366,170	\$ 20,558,115
Cost of sales	19,583,682	16,488,414
Gross profit	4,782,488	4,069,701
Expenses:		
Selling and administrative	2,409,593	1,398,269
Amortization of capital assets	1,073,104	739,460
Interest	363,978	295,849
Other	112,413	107,289
Loss on disposal of capital assets	—	8,665
	3,959,088	2,549,532
Income before restructuring charge and income taxes	823,400	1,520,169
Restructuring charge (note 3)	350,000	—
Income before income taxes	473,400	1,520,169
Provision for income taxes (note 11)	402,037	486,454
Net income	71,363	1,033,715
Retained earnings, beginning of period	2,308,735	1,275,020
Retained earnings, end of period	\$ 2,380,098	\$ 2,308,735
Earnings per share	\$ 0.002	\$ 0.034

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Eleven-month period ended December 31, 2001 and year ended January 31, 2001

	December 31, 2001 (11 months)	January 31, 2001 (12 months)
Cash flows from operating activities:		
Net income	\$ 71,363	\$ 1,033,715
Adjustments for:		
Amortization of capital assets	1,073,104	739,460
Future income taxes	183,037	212,049
Loss on disposal of capital assets	—	8,665
Net change in non-cash operating working capital (note 16)	56,201	(58,873)
	1,383,705	1,935,016
Cash flows from financing activities:		
Decrease in bank indebtedness	(35,519)	(540,554)
Issuance of long-term debt	1,000,000	1,833,300
Repayment of long-term debt	(1,116,524)	(295,878)
Decrease in obligations under capital leases	(201,753)	(202,801)
Issuance of share capital	112,500	3,986
	(241,296)	798,053
Cash flows from investing activities:		
Decrease (increase) in deposits for capital assets	(546,792)	21,272
Purchase of capital assets	(936,056)	(2,769,341)
Acquisition of business, net of cash (note 3)	(43,230)	—
Proceeds on disposal of capital assets	779,979	15,000
	(746,099)	(2,733,069)
Net increase in cash	396,310	—
Cash, beginning of period	—	—
Cash, end of period	\$ 396,310	\$ —
Supplemental cash flow information:		
Interest paid	\$ 354,882	\$ 288,469
Income taxes paid	271,056	376,404
Additions to capital assets included in accounts payable	(464,125)	(17,159)

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Eleven-month period ended December 31, 2001 and year ended January 31, 2001

Imaflex Inc. (the "Company") is incorporated under the Canada Business Corporations Act. Its principal business activity is the design, manufacture and sale of packaging materials. During the period, the Company's fiscal year-end was changed to December 31 from January 31, in order to harmonize it with its wholly-owned subsidiary, Canslit Inc. ("Canslit").

1. Change in accounting policy:

Earnings per share:

During the period, the Company adopted the Canadian Institute of Chartered Accountants' (CICA) new recommendations related to the accounting for earnings per share. The recommendations require the application of the treasury stock method for the calculation of the dilutive effect of stock options and other dilutive securities. The adoption of the new recommendations resulted in no restatement of comparative periods.

Previously, fully diluted earnings per share were calculated on the assumption that common stock options which are dilutive are exercised at the beginning of the year or the date granted if later, and the funds derived therefrom are invested at the company's annual after tax cost of short-term financing. Under this method, the net earnings available to shareholders would be adjusted for this imputed interest.

2. 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 and its subsidiary, Canslit. All significant intercompany balances and transactions have been eliminated.

(c) 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.

(d) Capital assets:

Capital assets other than assets under capital leases, are recorded at cost, including capitalized interest directly attributable to their acquisition, construction and development. Assets under capital leases are recorded at the present value of minimum lease payments at the inception of the lease. Amortization is provided using the following methods, rates and/or periods and net of an estimated salvage value on certain assets:

Asset	Basis	Rate/period
Production equipment	Straight-line	2 to 10 years
Office equipment	Declining balance	20%
Computer equipment	Straight-line	2 to 3 1/2 years
Equipment under capital lease	Straight-line	10 years

Leasehold improvements are amortized on a straight-line basis over the terms of the leases.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (page 2)

Eleven-month period ended December 31, 2001 and year ended January 31, 2001

2. Significant accounting policies (continued):

(e) 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.

(f) 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 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.

(g) Cash and cash equivalents:

Cash and cash equivalents consist of short-term, highly liquid investments with maturity of ninety 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 disclosures 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.

(i) Stock-based compensation plans:

No compensation expense is recognized for plans where stock or stock options are issued to senior officers. Any consideration paid by senior officers on exercise of stock options or purchase of stock is credited to share capital. If stock or stock options are repurchased from employees, the excess of the consideration paid over the carrying amount of the stock or stock option cancelled is charged to retained earnings.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (page 3)

Eleven-month period ended December 31, 2001 and year ended January 31, 2001

3. Business acquisition:

On March 29, 2001, the Company acquired 100% of the outstanding shares of Canslit Inc. for an initial consideration of \$162,501 payable by the issuance of 750,000 Class A shares of the Company. The acquisition has been accounted for using the purchase method and the accompanying financial statements include the results of Canslit's operations from the date of the purchase.

The purchase price allocation based on the fair values of the net assets acquired and liabilities assumed is as follows:

Current assets	\$	1,495,866
Capital assets		2,284,199
Current liabilities		(1,442,314)
Long-term debt		(2,020,000)
Future income taxes		(155,250)
	\$	162,501

The share purchase agreement includes a contingent consideration clause based on the future results of Canslit for the years ending December 31, 2002, 2003 and 2004, which may result in the issuance of up to an additional 750,000 Class A shares of the Company. The amount of this contingent consideration, if any, is not determinable at this time and has therefore not been included in the determination of the purchase price.

In July 2001, the Company instituted a restructuring plan at Canslit to rationalize operations located in Milton, Ontario and Pointe-Claire, Québec into one larger facility in Victoriaville, Québec. The plan included the consolidation of certain functions to better manage its manufacturing operations. The restructuring charge is comprised of severance and moving costs. The rationalization was completed in late December 2001.

4. Accounts receivable:

Accounts receivable consist of:

	December 31, 2001	January 31, 2001
Trade receivables, net of allowance for doubtful accounts	\$ 4,573,063	\$ 3,794,215
Other	111,289	100,541
	\$ 4,684,352	\$ 3,894,756

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (page 4)

Eleven-month period ended December 31, 2001 and year ended January 31, 2001

5. Inventories:

Inventories consist of:

	December 31, 2001	January 31, 2001
Raw materials and supplies	\$ 1,358,850	\$ 1,296,000
Finished goods	456,850	89,000
	<u>\$ 1,815,700</u>	<u>\$ 1,385,000</u>

6. Capital assets:

Capital assets consist of:

	December 31, 2001		January 31, 2001	
	Cost	Accumulated amortization	Net book value	Net book value
Production equipment	\$ 11,049,772	\$ 4,293,011	\$ 6,756,761	\$ 4,780,261
Office equipment	78,265	41,129	37,136	39,077
Computer equipment	29,720	13,889	15,831	31,114
Leasehold improvements	278,070	54,056	224,014	205,470
	<u>11,435,827</u>	<u>4,402,085</u>	<u>7,033,742</u>	<u>5,055,922</u>
Assets under capital leases:				
Production equipment	1,581,666	640,977	940,689	1,085,675
Office equipment	13,792	6,944	6,848	8,385
	<u>1,595,458</u>	<u>647,921</u>	<u>947,537</u>	<u>1,094,060</u>
	<u>\$ 13,031,285</u>	<u>\$ 5,050,006</u>	<u>\$ 7,981,279</u>	<u>\$ 6,149,982</u>

7. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (page 5)

Eleven-month period ended December 31, 2001 and year ended January 31, 2001

8. Bank indebtedness:

The Company has operating lines of credit with its bankers to a maximum of \$3,650,000, bearing interest at rates ranging between prime plus 0.25% to 0.75%. The lines of credit are secured by accounts receivable, inventories and capital assets.

9. Long-term debt:

Long-term debt consists of:

	December 31, 2001	January 31, 2001
Loan bearing interest at prime plus 1.25%, repayable in 69 monthly principal installments of \$22,500 commencing in November 2002. The loan is secured by a hypothec on all present and future property of the subsidiary, movables and immovables, corporeal and incorporeal, including machinery, equipment, inventory and receivables ranking second to the bank indebtedness, and a corporate guarantee from the Company equal to 50% of the outstanding balance	\$ 1,552,500	\$ —
Loan, bearing interest at the Royal Bank of Canada's 30-day banker acceptance rate plus 2.80%, repayable in blended monthly installments of \$32,834 up to September 2005 and one final blended installment of \$366,660 in October 2005, secured by production equipment	1,522,802	1,753,729
Loan, bearing interest at prime plus 1%, repayable in monthly principal installments of \$16,667 up to December 2006, secured by production equipment	1,000,000	—
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 up to June 2004, secured by production equipment	375,920	500,367
Loan, bearing interest at prime plus 1%, repayable in monthly principal installments of \$4,750 up to October 2003 and \$2,750 thereafter to July 2006 (a)	195,250	247,500
Loan, bearing interest at prime plus 1%, repayable in monthly principal installments of \$2,400 to February 2005 (a)	91,200	117,600
	4,737,672	2,619,196
Current portion of long-term debt	748,031	474,735
	\$ 3,989,641	\$ 2,144,461

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (page 6)

Eleven-month period ended December 31, 2001 and year ended January 31, 2001

9. 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, including machinery, equipment, inventory and receivables ranking second to the bank indebtedness.

Interest on long-term debt amounted to \$310,728 for the eleven-month period ended December 31, 2001 (year ended January 31, 2001 - \$232,996).

The aggregate maturities of long-term debt for each of the five years subsequent to December 31, 2001 and thereafter are as follows:

2002	\$ 748,031
2003	1,002,321
2004	936,231
2005	1,134,339
2006	489,250
Thereafter	427,500
	\$ 4,737,672

10. Obligations under capital leases:

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

	December 31, 2001	January 31, 2001
Period ended December 31 (January 31):		
2001	\$ —	\$ 265,790
2002	375,399	360,506
2003	127,039	119,783
Total minimum lease payments	502,438	746,079
Less amounts representing interest (at rates ranging from 7% to 14%)	34,373	76,261
Present value of net minimum capital lease payments	468,065	669,818
Current portion of obligations under capital leases	347,322	220,339
	\$ 120,743	\$ 449,479

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (page 7)

Eleven-month period ended December 31, 2001 and year ended January 31, 2001

11. 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:

	December 31, 2001 (11 months)	January 31, 2001 (12 months)
Income before income taxes	\$ 473,400	\$ 1,520,169
Expected rate	31.15%	31.15%
Expected income taxes	147,500	473,500
Adjustments:		
Deduction for new investment in Québec	(38,200)	(37,400)
Non-deductible expenses	18,400	11,500
Unrecognized benefit of subsidiary's current year loss	272,900	—
Other	1,437	38,854
	\$ 402,037	\$ 486,454
	December 31, 2001	January 31, 2001
Represented by:		
Current	\$ 219,000	\$ 274,405
Future	183,037	212,049
Income tax expense	\$ 402,037	\$ 486,454

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (page 8)

Eleven-month period ended December 31, 2001 and year ended January 31, 2001

11. Income taxes (continued):

The detail of the future income taxes is as follows:

	December 31, 2001	January 31, 2001
Assets:		
Subsidiary losses carried forward	\$ 272,900	\$ -
Valuation allowance	(272,900)	-
	\$ -	\$ -
Liabilities:		
Capital assets	\$ 1,169,796	\$ 831,509
Net future income taxes liability	\$ 1,169,796	\$ 831,509

The Company's subsidiary has non-capital losses available to carry forward to reduce future taxable income of approximately \$915,000 that expire as follows:

Year of expiry	Amount
2007	\$ 216,000
2008	699,000
	\$ 915,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (page 9)

Eleven-month period ended December 31, 2001 and year ended January 31, 2001

12. Share capital:

Share capital consists of:

	December 31, 2001	January 31, 2001
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:		
19,215,002 Class A shares (January 31, 2001 - 18,465,002)	\$ 1,367,751	\$ 1,255,251
11,700,000 Class B Series 1 shares	554,864	554,864
	<u>\$ 1,922,615</u>	<u>\$ 1,810,115</u>

Earnings per share have been calculated on the basis of the weighted average number of shares outstanding during the eleven-month period ended December 31, 2001 of 30,846,820 (year ended January 31, 2001 - 30,164,338).

During the period, the Company issued 750,000 Class A shares pursuant to the acquisition of Canslit (see note 3) for a total value of \$112,500. 250,000 Class A shares were placed in escrow on March 29, 2001 and are to be released from escrow based on representations and warranties being satisfied by the vendor.

13,333,334 Class A shares and 11,700,000 Class B Series 1 shares were placed in escrow on December 1, 1998. 13,333,334 Class A shares and 4,000,000 Class B Series 1 shares are to be released from escrow as to one-third thereof on each of the first, second, and third anniversaries of the reverse takeover transaction. The Class A and Class B Series 1 shares have been totally removed from escrow in accordance with this agreement (January 31, 2001 - 8,888,886 Class A shares). 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. 5,133,332 Class B Series 1 shares (January 31, 2001 - nil) have been removed from escrow in accordance with this agreement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (page 10)

Eleven-month period ended December 31, 2001 and year ended January 31, 2001

12. Share capital (continued):

As a result of the reverse takeover transaction that occurred effective December 1, 1998, the legal, tax and book values of share capital are significantly different.

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.

A summary of the options outstanding under the plan is presented below:

	December 31, 2001		January 31, 2001	
	Options (000's)	Weighted average exercise price	Options (000's)	Weighted average exercise price
Outstanding, beginning of period	340	\$ 0.26	140	\$ 0.17
Granted	400	0.33	200	0.33
Expired	(15)	0.33	–	–
Outstanding, end of period	725	\$ 0.30	340	\$ 0.26
Exercisable, end of period	270		180	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (page 11)

Eleven-month period ended December 31, 2001 and year ended January 31, 2001

12. Share capital (continued):

The following table summarizes information about the options outstanding as of December 31, 2001:

Exercise price	Options outstanding			Options exercisable		
	Number outstanding (000's)	Weighted average remaining contractual life (years)	Exercise price	Options (000's)	Weighted average exercise price	
\$0.15	120	0.4	\$ 0.15	120	\$ 0.15	
\$0.30	20	2.5	0.30	20	0.30	
\$0.33	435	4.0	0.33	130	0.33	
\$0.34	150	4.5	0.34	—	—	
\$0.15 to \$0.34	725	3.5	\$ 0.30	270	\$ 0.25	

13. Related party transactions:

During the period, in the normal course of business, 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. Details of these transactions are as follows:

	December 31, 2001 (11 months)	January 31, 2001 (12 months)
Management fees	\$ 187,000	\$ 94,000
Commissions	138,000	70,000
Rent	283,250	290,800

In addition, an affiliated company owed the Company \$30,000, bearing interest at prime plus 0.75%.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (page 12)

Eleven-month period ended December 31, 2001 and year ended January 31, 2001

14. Commitments:

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

2002	\$	411,000
2003		411,000
2004		423,000
2005		423,000
2006		423,000
Thereafter		2,832,000
	\$	4,923,000

15. Contingencies:

The Company is contingently liable for outstanding letters of credit of approximately \$221,000.

16. Statement of cash flows:

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

	December 31, 2001	January 31, 2001
Accounts receivable	\$ (267,705)	\$ (773,257)
Inventories	369,649	(42,000)
Prepaid expenses	54,633	1,237
Accounts payable and accrued liabilities	(40,512)	827,470
Income taxes payable	(59,864)	(72,323)
	\$ 56,201	\$ (58,873)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (page 13)

Eleven-month period ended December 31, 2001 and year ended January 31, 2001

17. 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 totaled \$3,016,936 for the eleven-month period ended December 31, 2001 (year ended January 31, 2001 - \$3,053,959).

(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.

(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. For long-term debt and obligations under capital leases, the carrying value of these liabilities approximates their fair value 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.

18. Segmented information:

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

19. Comparative figures:

Certain figures previously reported on for the year ended January 31, 2001 have been reclassified to conform to the current period's presentation.

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

Philip Nolan,
Partner, Lavery, de Billy

Gerry Phelps,
Vice-President

John Wight, FCA
Corporate Director

SHAREHOLDER INFORMATION

Audit and Compensation Committee:
John Wight, FCA, Chairman; Pierre Myrand; Philippe Frère

Auditors: KPMG LLP, Montréal, Québec

Legal Counsel: Lavery, de Billy, Montréal, Québec

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

Transfer Agent: Computershare Investor Services

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E-mail: info@imaflex.com
Website: www.imaflex.com

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

Philippe Frère,
Partner, Lavery, de Billy

Pierre Myrand,
Corporate Director

ANNUAL MEETING OF SHAREHOLDERS

The Annual Meeting of Shareholders will be held on
Tuesday, June 18, 2002 at 4:30 p.m. at Imaflex Inc.
Notre-Dame West, Montréal, Québec, Canada H4C 1V2.