Annual Report
2002

IMAFLEX

Committed to Excellence

IMAFLEX inc.

CERTIFIED • CERTIFIÉE ISO 9002

Committed to Excellence

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 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'S ABILITY TO MASTER 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.

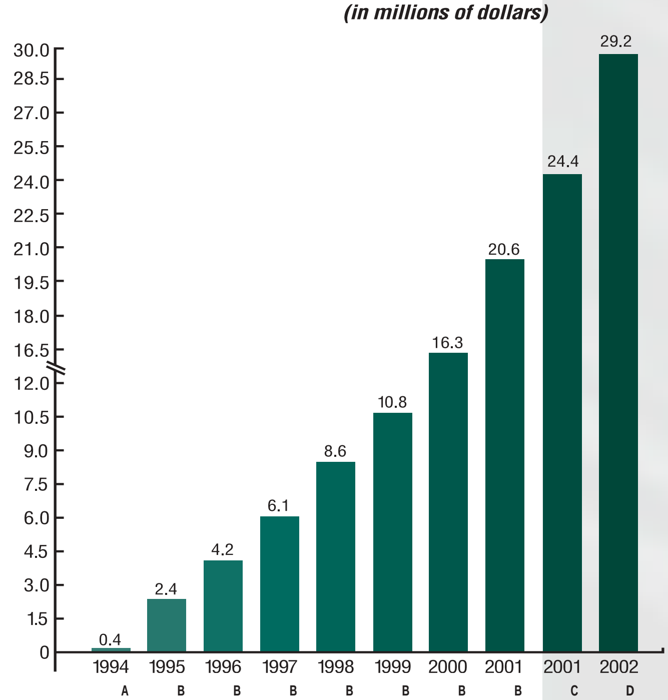
FINANCIAL HIGHLIGHTS

(in dollars except per share data)

	Year ended December 31, 2002	Eleven month period ended December 31, 2001 (*)	% Change Current year vs. prior period	Year ended January 31, 2001	Year ended January 31, 2000	Year ended January 31, 1999	Year ended January 31, 1998
Operating Summary							
Sales	**$29,184,831**	$24,366,170	19.8%	$20,558,115	$16,320,773	$10,781,895	$8,550,614
Net Income	**739,785**	71,363	936.7%	1,033,715	684,424	144,133	379,896
Earnings Per Share	**0.024**	0.002	1100.0%	0.034	0.023	0.006	0.016
EBIT (1)	**1,518,559**	837,378	81.3%	1,816,018	1,278,728	459,326	582,327
EBITDA (2)	**2,888,028**	1,910,482	51.2%	2,564,143	1,894,265	903,724	844,316
EBITDA Per Share	**0.093**	0.062	50.0%	0.085	0.063	0.038	0.036
Financial Position							
Working Capital	**1,151,989**	863,322	33.4%	1,231,817	946,787	638,544	(39 304)
Capital Assets	**10,039,595**	7,981,279	25.8%	6,149,982	4,126,607	3,269,225	2,483,762
Total Assets	**17,249,269**	15,633,974	10.3%	11,639,557	8,823,434	6,634,763	5,196,683
Total Long-Term Debt (including Capital Leases)	**6,434,957**	5,205,737	23.6%	3,289,014	1,954,393	1,735,604	1,510,884
Shareholders' Equity	**5,060,498**	4,302,713	17.6%	4,118,850	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)



A Represents seven month period ended January 31.

B Represents year ended January 31.

C Represents eleven month period ended December 31.

D Represents year ended December 31.

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.

In the previous year, Imaflex changed its financial year-end to December 31 from January 31 to harmonize with Canslit's year-end and to facilitate reporting in future years. Accordingly, the results for the current financial year are comprised of a twelve month period from January 1 to December 31, 2002. The previous financial year's results were comprised of an eleven month period from February 1 to December 31, 2001.

FINANCIAL RESULTS

The year ended December 31, 2002 was one of continued growth in sales, with a vast improvement in net income.

Net income for the year ended December 31, 2002 was $739,785, or $0.024 per share, an increase of 936.7% compared with net income of $71,363, or $0.002 per share, for the eleven month period ended December 31, 2001. The significant improvement is primarily attributable to a reduction in the loss at Canslit's metallizing operations and the inclusion in the previous year of a one-time restructuring charge of $350,000 at Canslit. Imaflex's extrusion operations generated net income of $982,677 for the year ended December 31, 2002 as compared to $946,701 for the eleven month period ended December 31, 2001. Canslit's metallizing operations incurred a net loss of $242,892 for the year ended December 31, 2002 as compared to $875,338 for the nine months ended December 31, 2001.

Sales for the year ended December 31, 2002 totaled $29,184,831, compared with $24,366,170 for the eleven month period ended December 31, 2001, an increase of $4,818,661 or 19.8%. Imaflex's sales increased by $3,243,145 to $24,369,991, due to one additional month of sales in the current year and to an increase in volume as a result of the expansion of its manufacturing capacity in the first quarter of the current year. Canslit's sales increased by $1,575,516 to $4,814,840, primarily attributable to stronger sales volume as a result of the restructuring plan instituted in the previous year and to an additional three months of sales during the current year as compared to the previous period.

MANAGEMENT OUTLOOK

Imaflex's operations produced a favourable financial performance in 2002, a considerable achievement given the sluggish demand and increased costs of raw materials experienced throughout the last six months of the year.

Canslit's operations resulted in a significantly reduced loss in 2002 and have been integrated on a cost-efficient basis.

In spite of the uncertain economic climate, management is confident in its ability to increase its overall profitability during 2003.

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

Joseph Abbandonato
President & Chief Executive Officer

QUARTERLY FINANCIAL INFORMATION

	SALES		NET INCOME	
	Year ended December 31, 2002	Eleven month period ended December 31, 2001	Year ended December 31, 2002	Eleven month period ended December 31, 2001
First Quarter	$ 6,771,473	$ 6,699,927	$ 171,297	$ 259,309
Second Quarter	7,384,003	6,351,620	182,183	(423,062)
Third Quarter	7,698,369	6,868,488	313,685	40,155
Fourth Quarter	7,330,986	4,446,135(*)	72,620	194,961(*)
	$ 29,184,831	$ 24,366,170	$ 739,785	$ 71,363

	EBITDA		EARNINGS PER SHARE	
	Year ended December 31, 2002	Eleven month period ended December 31, 2001	Year ended December 31, 2002	Eleven month period ended December 31, 2001
First Quarter	$ 728,048	$ 725,926	$ 0.006	$ 0.008
Second Quarter	742,299	68,184	0.006	(0.014)
Third Quarter	868,025	562,108	0.010	0.001
Fourth Quarter	549,656	554,264(*)	0.002	0.007(*)
	$ 2,888,028	$ 1,910,482	$ 0.024	$ 0.002

(*) Represents two month period

SELECTED FINANCIAL INFORMATION

Selected Balance Sheet Information	IMAFLEX	IMAFLEX	CANSLIT	CANSLIT	IMAFLEX CONSOLIDATED	IMAFLEX CONSOLIDATED
	December 31, 2002	December 31, 2001	**December 31, 2002**	December 31, 2001	**December 31, 2002**	December 31, 2001
Assets						
Accounts receivable	**$ 3,778,950**	$ 4,017,440	**$ 851,963**	$ 666,912	**$ 4,630,913**	$ 4,684,352
Inventories	**1,883,000**	1,449,500	**513,000**	366,200	**2,396,000**	1,815,700
Deposits for capital assets	**49,486**	575,792	**-**	-	**49,486**	575,792
Capital assets	**8,702,635**	6,519,332	**1,336,960**	1,461,947	**10,039,595**	7,981,279
Liabilities						
Accounts payable and accrued liabilities	**3,729,089**	3,845,218	**505,122**	921,392	**4,234,211**	4,766,610
Current portion of long-term debt	**1,013,571**	703,031	**370,000**	45,000	**1,383,571**	748,031
Long-term debt	**3,492,659**	2,482,141	**1,437,500**	1,507,500	**4,930,159**	3,989,641

Selected Statement of Income Information	IMAFLEX	IMAFLEX	CANSLIT	CANSLIT	IMAFLEX CONSOLIDATED	IMAFLEX CONSOLIDATED
	December 31, 2002	December 31, 2001	**December 31, 2002**	December 31, 2001	**December 31, 2002**	December 31, 2001
	(12 months)	(11 months)	**(12 months)**	(9 months)	**(12 months)**	(11 months)
Sales	**$ 24,369,991**	$ 21,126,846	**$ 4,814,840**	$ 3,239,324	**$ 29,184,831**	$ 24,366,170
Gross profit ($)	**5,084,154**	4,525,262	**371,326**	257,226	**5,455,480**	4,782,488
Gross profit (%)	**20.9%**	21.4%	**7.7%**	7.9%	**18.7%**	19.6%
Expenses						
Selling and administrative	**2,144,795**	1,965,386	**242,181**	444,207	**2,386,976**	2,409,593
Amortization of capital assets	**1,098,201**	856,662	**271,268**	216,442	**1,369,469**	1,073,104
Interest	**276,965**	234,604	**111,717**	129,374	**388,682**	363,978
Provision for income taxes	**421,148**	425,329	**(31,056)**	(23,292)	**390,092**	402,037
Net income (loss)	**982,677**	946,701	**(242,892)**	(875,338)	**739,785**	71,363
EBITDA	**2,778,991**	2,463,296	**109,037**	(552,814)	**2 888,028**	1,910,482

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

In the previous year, Imaflex changed its financial year-end to December 31 from January 31 to harmonize with Canslit's year-end and to facilitate reporting in future years. Accordingly, the results for the current financial year are comprised of a twelve month period from January 1 to December 31, 2002. The previous financial year's results were comprised of an eleven month period from February 1 to December 31, 2001.

INCOME STATEMENT

Net income for the year ended December 31, 2002 was $739,785, or $0.024 per share, an increase of 936.7% compared with net income of $71,363, or $0.002 per share, for the eleven month period ended December 31, 2001. The significant improvement is primarily attributable to a reduction in the loss at Canslit's metallizing operations and the inclusion in the previous year of a one-time restructuring charge of $350,000 at Canslit. Imaflex's extrusion operations generated net income of $982,677 for the year ended December 31, 2002 as compared to $946,701 for the eleven month period ended December 31, 2001. Canslit's metallizing operations incurred a net loss of $242,892 for the year ended December 31, 2002 as compared to $875,338 for the nine months ended December 31, 2001.

Sales for the year ended December 31, 2002 totaled $29,184,831, compared with $24,366,170 for the eleven month period ended December 31, 2001, an increase of $4,818,661 or 19.8%. Imaflex's sales increased by $3,243,145 to $24,369,991, due to one additional month of sales in the current year and to an increase in volume as a result of the expansion of its manufacturing capacity in the first quarter of the current year. Canslit's sales increased by $1,575,516 to $4,814,840, primarily attributable to stronger sales volume as a result of the restructuring plan instituted in the previous year and to an additional three months of sales during the current year as compared to the previous period.

Gross profit for the year ended December 31, 2002 amounted to $5,455,480 or 18.7% of sales, compared with $4,782,488 or 19.6% of sales for the eleven month period ended December 31, 2001. The decrease in the gross profit margin is attributable to sluggish demand and increased costs of raw materials experienced throughout the last six months of 2002.

Amortization of capital assets increased for the year ended December 31, 2002 by $296,365 over the eleven month period ended December 31, 2001, as a result of the significant capital expenditure program of the last few years and one additional month of amortization in the current year.

Interest expense increased for the year ended December 31, 2002 by $24,704 over the eleven month period ended December 31, 2001, as a result of one additional month of interest in the current year. Higher levels of long-term debt necessitated by the significant capital expenditure program resulted in increased interest costs, which were offset by interest savings on lower short-term borrowing levels during 2002.

Other expenses represent 0.6% of sales for the year ended December 31, 2002, as compared with 0.5% of sales for the eleven month period ended December 31, 2001.

MANAGEMENT'S DISCUSSION AND ANALYSIS *(continued)*

INCOME STATEMENT *(continued)*

In July of 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 the manufacturing and administrative operations. The restructuring charge consisted of severance and moving costs. The rationalization was completed in late December 2001.

The effective tax rate for the year ended December 31, 2002 decreased to 35% from 85% for the eleven month period ended December 31, 2001, reflecting the lower unrecognized operating losses for tax purposes of Canslit during 2002.

BALANCE SHEET

December 31, 2002 versus December 31, 2001

Total assets increased by $1,615,295 to $17,249,269 as at December 31, 2002 compared with $15,633,974 at December 31, 2001.

Current assets increased by $133,285 to $7,047,688 as at December 31, 2002 compared with $6,914,403 at December 31, 2001, as a result of the following:

- Decrease in accounts receivable of $53,439. Days sales outstanding were 58 days during the current year as compared to 64 days in the prior period.
- Increase in inventories of $580,300 due to an accumulation of inventory in anticipation of an increase in the price of raw materials; and
- Decrease in cash of $396,310 due to the increase in inventory levels.

Deposits for capital assets decreased by $526,306 to $49,486 as at December 31, 2002 compared with $575,792 at December 31, 2001, due to the completion of the significant capital expenditure program by July 2002.

Capital assets increased by $2,058,316 to $10,039,595 as at December 31, 2002 compared with $7,981,279 at December 31, 2001, as a result of the Company's purchase of additional manufacturing equipment.

Total liabilities increased by $857,510 to $12,188,771 as at December 31, 2002 compared to $11,331,261 at December 31, 2001.

Current liabilities decreased by $155,382 to $5,895,699 as at December 31, 2002 compared with $6,051,081 at December 31, 2001, as a result of the following:

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

Long-term debt increased by $940,518 to $4,930,159 as at December 31, 2002 compared to $3,989,641 at December 31, 2001, primarily as a result of the financing for the expansion of Imaflex's manufacturing capacity during 2002.

Future income tax liabilities increased by $193,117 to $1,362,913 as at December 31, 2002 compared to $1,169,796 at December 31, 2001, primarily related to accelerated amortization of capital assets for taxation purposes.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

CASH FLOWS

Net cash provided by operations for the year ended December 31, 2002 increased to $1,887,534 from $1,383,705 for the eleven month period ended December 31, 2001, primarily as a result of higher net income.

Financing activities for the year ended December 31, 2002 provided cash resources of $1,266,440 compared to a net cash outflow of $241,296 for the eleven month period ended December 31, 2001, due to the issuance of long-term debt required for the significant capital expenditure program of the current year.

Investment activities for the year ended December 31, 2002 required a net cash outflow of $3,550,284 compared to $746,099 for the eleven month period ended December 31, 2001, as a result of Imaflex's acquisition of manufacturing equipment in the current year.

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 continues to improve 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 markets. This fact, coupled with the expanding product lines and reliance on newer and faster equipment should help it weather the potential volatility caused by geopolitical events.

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 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
February 7, 2003

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Imaflex Inc. as at December 31, 2002 and 2001 and the consolidated statements of income and retained earnings and cash flows for the year ended December 31, 2002 and for the eleven-month period ended December 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 audit.

We conducted our audit 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, 2002 and 2001 and the results of its operations and its cash flows for the year ended December 31, 2002 and for the eleven-month period ended December 31, 2001 in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Montréal, Canada
February 7, 2003

CONSOLIDATED BALANCE SHEETS

December 31, 2002 and 2001

	2002	2001
Assets		
Current assets:		
Cash	$ –	$ 396,310
Accounts receivable (note 4)	**4,630,913**	4,684,352
Inventories (note 5)	**2,396,000**	1,815,700
Prepaid expenses	**20,775**	18,041
	7,047,688	6,914,403
Deposits for capital assets	**49,486**	575,792
Capital assets (note 6)	**10,039,595**	7,981,279
Long-term investment (note 7)	**112,500**	162,500
	$ 17,249,269	$ 15,633,974
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness (note 8)	**$ 19,220**	$ –
Accounts payable and accrued liabilities	**4,234,211**	4,766,610
Income taxes payable	**137,470**	189,118
Current portion of long-term debt (note 9)	**1,383,571**	748,031
Current portion of obligations under capital leases (note 10)	**121,227**	347,322
	5,895,699	6,051,081
Long-term debt (note 9)	**4,930,159**	3,989,641
Obligations under capital leases (note 10)	**–**	120,743
Future income taxes (note 11)	**1,362,913**	1,169,796
Shareholders' equity:		
Share capital (note 12)	**1,940,615**	1,922,615
Retained earnings	**3,119,883**	2,380,098
	5,060,498	4,302,713
Commitments (note 14)		
Contingencies (note 15)		
	$ 17,249,269	$ 15,633,974

See accompanying notes to financial statements.

On behalf of the Board:

Director

Director

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

Year ended December 31, 2002 and eleven-month period ended December 31, 2001

	2002	2001
	(12 months)	(11 months)
Sales	**$ 29,184,831**	$ 24,366,170
Cost of sales	**23,729,351**	19,583,682
Gross profit	**5,455,480**	4,782,488
Expenses:		
Selling and administrative	**2,386,976**	2,409,593
Amortization of capital assets	**1,369,469**	1,073,104
Interest	**388,682**	363,978
Other	**180,476**	112,413
	4,325,603	3,959,088
Income before restructuring charge and income taxes	**1,129,877**	823,400
Restructuring charge (note 3)	**–**	350,000
Income before income taxes	**1,129,877**	473,400
Provision for income taxes (note 11)	**390,092**	402,037
Net income	**739,785**	71,363
Retained earnings, beginning of period	**2,380,098**	2,308,735
Retained earnings, end of period	$ **3,119,883**	$ 2,380,098
Basic and diluted earnings per share	**$ 0.024**	$ 0.002

See accompanying notes to financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended December 31, 2002 and eleven-month period ended December 31, 2001

	2002	2001
	(12 months)	(11 months)
Cash flows from operating activities:		
Net income	**$ 739,785**	$ 71,363
Adjustments for:		
Amortization of capital assets	**1,369,469**	1,073,104
Future income taxes	**193,117**	183,037
Net change in non-cash operating working capital (note 16)	**(414,837)**	56,201
	1,887,534	1,383,705
Cash flows from financing activities:		
Increase (decrease) in bank indebtedness	**19,220**	(35,519)
Issuance of long-term debt	**2,300,000**	1,000,000
Repayment of long-term debt	**(723,942)**	(1,116,524)
Repayment of obligations under capital leases	**(346,838)**	(201,753)
Issuance of share capital	**18,000**	112,500
	1,266,440	(241,296)
Cash flows from investing activities:		
Purchase of capital assets	**(3,600,284)**	(936,056)
Acquisition of business, net of cash (note 3)	**–**	(43,230)
Partial redemption of long-term investment	**50,000**	–
Proceeds from disposal of capital assets	**–**	779,979
Increase in deposits for capital assets	**–**	(546,792)
	(3,550,284)	(746,099)
Net (decrease) increase in cash	**(396,310)**	396,310
Cash, beginning of period	**396,310**	–
Cash, end of period	**$ –**	$ 396,310
Supplemental cash flow information:		
Interest paid	**$ 391,948**	$ 354,882
Income taxes paid	**239,520**	271,056
Additions to capital assets included in accounts payable	**48,000**	531,200
Conversion of deposits for capital assets to capital asset additions	**526,306**	–
Unpaid reimbursement of additions to capital assets (note 6)	**215,605**	–

See accompanying notes to financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 2002 and eleven-month period ended December 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 previous 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:

Stock-based compensation and other stock-based payments:

During the year, the Company adopted the Canadian Institute of Chartered Accountants' (CICA) new recommendations related to stock-based compensation and other stock-based payments. The recommendations establish standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services. It applies to transactions in which an enterprise grants shares of common stock, stock options or other equity instruments. The recommendations encourage companies to apply the fair value based method of accounting to all employee stock-based compensation plans, but requires them to do so only for specific types of stock-based payments, of which the Company has none. Thus, these new recommendations have been applied prospectively.

Although enterprises are encouraged to apply the fair value based method of accounting to all awards, the new standard allows for no compensation cost to be recorded on the grant of stock options to employees. Therefore, the Company has elected to continue its existing policy of settlement accounting for its stock option plan. Under this policy, consideration paid by employees on the exercise of stock options or the purchase of stock is credited to share capital. Additional information regarding the stock option plan is presented in note 12 to the Company's financial statements.

During the year, the Company granted 20,000 options. Had the Company used the fair value based accounting method (the Black-Scholes model) to measure compensation, pro forma net income and pro forma basic and diluted earnings per share for the year ended December 31, 2002, would have been $739,120 and $0.024, respectively. As permitted by the new recommendations, pro forma amounts exclude the effect of awards granted prior to January 1, 2002.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, (page 2)

Year ended December 31, 2002 and eleven-month period ended December 31, 2001

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 wholly-owned 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	3 1/2 years
Equipment under capital leases	Straight-line	10 years

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

(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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, (page 3)

Year ended December 31, 2002 and eleven-month period ended December 31, 2001

2. Significant accounting policies (continued):

(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 bases. 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 assets and 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.

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 was accounted for using the purchase method.

The share purchase agreement included a contingent consideration clause based on the future results of Canslit for the years ending December 31, 2002, 2003 and 2004, which could result in the issuance of up to an additional 750,000 Class A shares of the Company. As a consequence of Canslit not having attained the minimum contractual level of results for the year ended December 31, 2002, only an additional 500,000 Class A shares of the Company may be issued. The amount of the remaining contingent consideration, if any, is not determinable at this time and was therefore not 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, (page 4)

Year ended December 31, 2002 and eleven-month period ended December 31, 2001

4. Accounts receivable:

Accounts receivable consist of:

	2002	2001
Trade receivables, net of allowance for doubtful accounts	**$ 4,358,433**	$ 4,573,063
Other (note 6)	**272,480**	111,289
	$ 4,630,913	$ 4,684,352

5. Inventories:

Inventories consist of:

	2002	2001
Raw materials and supplies	**$ 1,697,000**	$ 1,358,850
Finished goods	**699,000**	456,850
	$ 2,396,000	$ 1,815,700

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, (page 5)

Year ended December 31, 2002 and eleven-month period ended December 31, 2001

6. Capital assets:

Capital assets consist of:

			2002	2001
	Cost	Accumulated amortization	**Net book value**	Net book value
Production equipment	$ 14,177,453	$ 5,197,948	**$ 8,979,505**	$ 6,756,761
Office equipment	78,265	48,556	**29,709**	37,136
Computer equipment	38,353	24,740	**13,613**	15,831
Leasehold improvements	315,864	87,096	**228,768**	224,014
	14,609,935	5,358,340	**9,251,595**	7,033,742
Assets under capital leases:				
Production equipment	1,581,666	799,144	**782,522**	940,689
Office equipment	13,792	8,314	**5,478**	6,848
	1,595,458	807,458	**788,000**	947,537
	$ 16,205,393	$ 6,165,798	**$ 10,039,595**	$ 7,981,279

A former Canslit shareholder agreed to reimburse the Company $215,605 for capital additions incurred to refurbish certain Canslit manufacturing equipment. This amount is included in "Other" accounts receivable on the balance sheet.

7. Long-term investment:

The long-term investment is comprised of 1,125 (2001 - 1,625) preferred shares of an affiliated company and is recorded at cost. The preferred shares must be redeemed by the affiliated company on or before January 19, 2004, at an amount equal to the consideration received upon issuance of these shares. During the year, the affiliated company redeemed 500 preferred shares at cost for a total consideration of $50,000.

8. Bank indebtedness:

The Company has operating lines of credit with its bankers to a maximum of $3,350,000, 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, (page 6)

Year ended December 31, 2002 and eleven-month period ended December 31, 2001

9. Long-term debt:

Long-term debt consists of:

	2002	2001
Quebec Government Immigrant Investor loan, bearing interest at prime plus 0.50%, repayable in monthly principal installments of $20,833 up to October 2003 and $36,458 up to October 2007 (a)	**$ 1,958,333**	$ –
Loan bearing interest at prime plus 1.25%, repayable in monthly principal installments of $22,500 up to July 2008. 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	**1,507,500**	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	**1,249,281**	1,522,802
Loan, bearing interest at prime plus 1%, repayable in monthly principal installments of $16,667 up to March 2007 and one final principal installment of $15,756 in April 2007, secured by production equipment	**865,756**	1,000,000
Loan, bearing interest at prime plus 0.50%, repayable in monthly principal installments of $8,333 up to December 2005	**300,000**	–
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	**232,210**	375,920
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 (b)	**138,250**	195,250
Loan, bearing interest at prime plus 1%, repayable in monthly principal installments of $2,400 to February 2005 (b)	**62,400**	91,200
	6,313,730	4,737,672
Current portion of long-term debt	**1,383,571**	748,031
	$ 4,930,159	$ 3,989,641

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, *(page 7)*

Year ended December 31, 2002 and eleven-month period ended December 31, 2001

9. Long-term debt (continued):

(a) The Company received loans under the Quebec Immigrant Investor Program (''QIIP'') in the amount of $1,750,000. In order to guarantee its obligations towards its creditors for the loans, the Company established a trust, making QIIP its beneficiary. The Company also transferred bank notes to the trust, purchased at a discount in the amount of $1,419,740 and maturing in five years on October 31, 2007 at an amount of $1,750,000. The act creating the trust stipulates that the guaranteed obligations will be settled from the proceeds of the maturity of the bank notes. In addition, the act creating the trust compels the trustee to endorse the notes upon maturity and to use the proceeds of this endorsement in order to settle any obligations created under the trust.

(b) 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 $354,724 for the year ended December 31, 2002 (eleven-month period ended December 31, 2001 - $310,728).

The aggregate maturities of long-term debt for each of the five years subsequent to December 31, 2002 and thereafter are as follows:

2003	$ 1,383,571
2004	1,473,731
2005	1,671,839
2006	926,750
2007	700,339
Thereafter	157,500
	$ 6,313,730

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, (page 8)

Year ended December 31, 2002 and eleven-month period ended December 31, 2001

10. Obligations under capital leases:

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

	2002	2001
Period ended December 31:		
2002	**$ –**	$ 375,399
2003	**127,039**	127,039
Total minimum lease payments	**127,039**	502,438
Less amounts representing interest (at rates ranging from 7% to 14%)	**5,812**	34,373
Present value of net minimum capital lease payments	**121,227**	468,065
Current portion of obligations under capital leases	**121,227**	347,322
	$ –	$ 120,743

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:

	2002	2001
	(12 months)	(11 months)
Income before income taxes	**$ 1,129,877**	$ 473,400
Expected rate	**31.15%**	31.15%
Expected income taxes	**352,000**	147,500
Adjustments:		
Deduction for new investment in Québec	**(44,200)**	(38,200)
Non-deductible expenses	**17,100**	18,400
Unrecognized benefit of subsidiary's current year loss	**55,300**	272,900
Other	**9,892**	1,437
	$ 390,092	$ 402,037

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, (page 9)

Year ended December 31, 2002 and eleven-month period ended December 31, 2001

11. Income taxes (continued):

	2002	2001
	(12 months)	(11 months)
Represented by:		
Current	**$ 196,975**	$ 219,000
Future	**193,117**	183,037
Income tax expense	**$ 390,092**	$ 402,037

The detail of the future income taxes is as follows:

	2002	2001
Assets:		
Subsidiary losses carried forward	**$ 328,200**	$ 272,900
Valuation allowance	**(328,200)**	(272,900)
	$ –	$ –
Liabilities:		
Capital assets	**$ 1,362,913**	$ 1,169,796
Net future income tax liability	**$ 1,362,913**	$ 1,169,796

The Company's subsidiary has non-capital losses available to carry forward to reduce future taxable income of approximately $937,000 that expire as follows:

Year of expiry	Amount
2007	$ 237,000
2008	699,000
2009	1,000
	$ 937,000

The benefit of the tax losses will be recognized as realized.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, (page 10)

Year ended December 31, 2002 and eleven-month period ended December 31, 2001

12. Share capital:

Share capital consists of:

	2002	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:		
28,468,334 Class A shares (2001 - 19,215,002)	**$ 1,818,893**	$ 1,367,751
2,566,668 Class B Series 1 shares (2001 - 11,700,000)	**121,722**	554,864
	$ 1,940,615	$ 1,922,615

Earnings per share have been calculated on the basis of the weighted average number of shares outstanding during the year ended December 31, 2002 of 31,010,002 (eleven-month period ended December 31, 2001 - 30,846,820).

In 2001, the Company issued 750,000 Class A shares pursuant to the acquisition of Canslit. 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.

During the year, the Company issued 120,000 Class A shares pursuant to the exercise of stock options for net proceeds of $18,000.

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 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. The Class A and Class B Series 1 shares have been totally removed from escrow in accordance with this agreement. 7,700,000 Class B Series 1 shares were to be released from escrow based on the levels of cash flow generated by the Company, pursuant to a Performance Release Escrow Agreement. The Class B Series 1 shares have been totally removed from escrow in accordance with this agreement (December 31, 2001 - 5,133,332).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, (page 11)

Year ended December 31, 2002 and eleven-month period ended December 31, 2001

12. Share capital (continued):

During the year, 9,133,332 Class B Series 1 shares were converted into Class A shares for no additional consideration.

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:

	2002		2001	
	Options (000's)	**Weighted average exercise price**	Options (000's)	Weighted average exercise price
Outstanding, beginning of period	**725**	**$ 0.30**	340	$ 0.26
Granted	**20**	**0.24**	400	0.33
Expired	**(60)**	**0.34**	(15)	0.33
Exercised	**(120)**	**0.15**	–	–
Outstanding, end of period	**565**	**$ 0.33**	725	$ 0.30
Exercisable, end of period	**245**		270	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, (page 12)

Year ended December 31, 2002 and eleven-month period ended December 31, 2001

12. Share capital (continued):

The following table summarizes information about the options outstanding as of December 31, 2002:

	Options outstanding			Options exercisable	
Exercise price	Number outstanding (000's)	Weighted average remaining contractual life (years)	Exercise price	Options (000's)	Weighted average exercise price
$0.24	20	2.4	$ 0.24	10	$ 0.24
$0.30	20	1.5	0.30	20	0.30
$0.33	425	3.0	0.33	215	0.33
$0.34	100	3.5	0.34	–	–
$0.24 to $0.34	565	3.0	$ 0.33	245	$ 0.32

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:

	2002	2001
	(12 months)	(11 months)
Management fees	**$ 191,800**	$ 187,000
Commissions	**96,000**	138,000
Rent	**437,455**	283,250

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, (page 13)

Year ended December 31, 2002 and eleven-month period ended December 31, 2001

14. Commitments:

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

2003	$ 411,000
2004	423,000
2005	423,000
2006	423,000
2007	435,000
Thereafter	2,398,000
	$ 4,513,000

15. Contingencies:

The Company is contingently liable for outstanding letters of credit of approximately $437,000.

16. Statement of cash flows:

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

	2002	2001
Accounts receivable	**$ 269,044**	$ (267,705)
Inventories	**(580,300)**	369,649
Prepaid expenses	**(2,734)**	54,633
Accounts payable and accrued liabilities	**(49,199)**	(40,512)
Income taxes payable	**(51,648)**	(59,864)
	$ (414,837)	$ 56,201

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, (page 14)

Year ended December 31, 2002 and eleven-month period ended December 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.

(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. The Company operates exclusively in Canada.

Export sales to the United States totaled $5,407,613 for the year ended December 31, 2002 (eleven-month period ended December 31, 2001 - $3,016,936).

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

Bernard Matte,
Chairman and CEO – FPC Flexible Packaging Corp.

Pierre Myrand,
Corporate Director

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;
Philip Nolan

Auditors: KPMG LLP, Montréal, Québec

Legal Counsel: Lavery, de Billy, Montréal, Québec

Listing: Imaflex Inc. shares are listed as IFX.A on the TSX Venture Exchange

Transfer Agent: Computershare Investor Services

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Fax: (514) 935 – 0264
E-mail: info@imaflex.com
Website : www.imaflex.com

ANNUAL MEETING OF SHAREHOLDERS

The Annual Meeting of Shareholders will be held on Monday, June 2, 2003 at 5:00 p.m. at Fairmont - The Queen Elizabeth, Salon St-Laurent, 900 Réné Lévesque West, Montréal, Québec, H3B 4A5.