

*From the Chairman, President  
and Chief Executive Officer*

To our shareholders,

**Second Quarter Results**

The Company reports a consolidated net loss for the three months ended July 31, 2001 of \$423,000, or \$0.014 per share, compared with net income of \$95,000, or \$0.003 per share, for the same period in 2000. 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 operations generated net income of \$158,000 as compared to \$95,000 for the same period in 2000, while Canslit incurred a net loss of \$581,000 in the current period. The significant loss at Canslit's operations was caused mainly by a one-time restructuring charge of \$350,000 resulting from the rationalization of its manufacturing operations from existing plants in Milton, Ontario and Pointe-Claire, Québec into one larger plant to be based in the Province of Quebec. Furthermore, as a result of low sales volume and duplication of production overhead Canslit incurred a loss from current operations of \$231,000.

Consolidated sales for the second quarter of the current year totaled \$6,352,000, compared with \$4,914,000 for the same period in 2000, an increase of \$1,438,000 or 29.3%, resulting from the following factors:

- The increase in Imaflex sales of \$228,000 was a result of increased volumes and selling prices. Volume increases resulted from the expansion of the Company's manufacturing capacity in the third quarter of the previous fiscal year. Selling price increases were necessitated by continued upward pressure on the cost of raw materials.
- Sales of Canslit for the quarter of \$1,210,000.

Consolidated gross profit for the second quarter of the current year was \$1,187,000 or 18.7% of sales as compared to \$828,000 or 16.8% of sales for the same period in 2000. The increase is attributable to a higher level of operating margin at Imaflex.

The consolidated loss before income taxes for the second quarter of the current year was \$363,000 as compared to Imaflex's income before income taxes of \$143,000 for the same period in 2000. The decrease of \$506,000 is primarily attributable to Canslit's operating losses and the one-time restructuring charge of \$350,000. Furthermore, amortization of capital assets increased as a result of last year's significant capital expenditure program. Lastly, the second quarter results of the current year include all operating expenses of Canslit.

Notwithstanding the losses at Canslit's operations, the income tax provision reflects the taxes on the income generated by Imaflex's operations.

*From the Chairman, President  
and Chief Executive Officer (continued)*

**Year-to-date Results**

The Company reports a consolidated net loss for the six months ended July 31, 2001 of \$164,000, or \$0.005 per share, compared with net income of \$370,000, or \$0.012 per share, for the same period in 2000. Imaflex's operations generated net income of \$440,000 as compared to \$370,000 for the same period in 2000, while Canslit incurred a net loss of \$604,000 in the current period.

Consolidated sales for the six months ended July 31, 2001 totaled \$13,052,000, compared with \$10,029,000 for the same period in 2000, an increase of \$3,023,000 or 30.1%, resulting from the following factors:

- The increase in Imaflex sales of \$1,331,000 was a result of increased volumes and selling prices.
- Sales of Canslit for four months of \$1,692,000.

**Management Outlook**

Management is dedicated to achieving profitability at Canslit at the earliest possible date. For this purpose, management expects to complete the move of Canslit's operations into the one larger manufacturing plant over the next four months. This move will enable management to increase Canslit's revenue base and also to eliminate the duplication of production overhead costs and will result in customer service, purchasing, accounting and other head office functions to be located at Imaflex's head office, thus streamlining decision making processes and further lowering costs. Management is also planning an additional expansion of the Imaflex manufacturing capacity during the next fiscal year at a capital cost of approximately \$2,500,000. The new production equipment, scheduled for installation in the first quarter of the next fiscal year, will allow Imaflex to continue its sales and profitability growth.

Sincerely yours,



Joseph Abbandonato  
Chairman of the Board, President and Chief Executive Officer

**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 70 people in its manufacturing facility, located in Montreal, Quebec.

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 Pointe-Claire, Quebec.

The acquisition of Canslit and its integration into Imaflex provides the combined entity entry into specific niche markets, which not only adds diversity, but additional value and services that, can be provided to our existing and potential customers. Imaflex expects to realize numerous synergistic advantages through cost savings and an increased presence in the Ontario market.

In its latest edition, PROFIT 100 Magazine honored Imaflex as one of Canada's Fastest Growing Companies.

For investor information, contact

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Quarterly  
Report

July 31, 2001

**IMAFLEX**  
Committed to Excellence



## Consolidated Balance Sheets

(in thousands)	July 31 2001 (Unaudited)	January 31 2001 (Audited)
<b>Assets</b>		
Current assets:		
Accounts receivable	\$ 4,599	\$ 3,895
Inventories	2,156	1,385
Prepaid expense	319	47
	<b>7,074</b>	5,327
Capital assets	8,122	6,150
Long-term investment	163	163
	<b>\$ 15,359</b>	\$ 11,640
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Bank indebtedness	\$ 669	\$ 35
Accounts payable and accrued liabilities	4,219	3,176
Income taxes payable	213	189
Current portion of long-term debt	784	475
Current portion of obligations under capital leases	220	220
	<b>6,105</b>	4,095
Long-term debt	3,818	2,144
Obligations under capital leases	342	450
Future income taxes	1,026	832
Shareholders' equity:		
Share capital	1,923	1,810
Retained earnings	2,145	2,309
	<b>4,068</b>	4,119
	<b>\$ 15,359</b>	\$ 11,640

## Consolidated Statements of Income and Retained Earnings

(Unaudited)

(in thousands, except per share and share data)	Three months ended July 31		Six months ended July 31	
	2001	2000	2001	2000
Sales	\$ 6,352	\$ 4,914	\$ 13,052	\$ 10,029
Cost of sales	5,165	4,086	10,598	8,144
Gross profit	1,187	828	2,454	1,885
Expenses:				
Selling and administrative	738	371	1,254	728
Amortization of capital assets	315	206	575	403
Interest	116	75	194	132
Other	31	33	55	60
Loss on disposal of capital assets	-	-	-	9
	<b>1,200</b>	685	<b>2,078</b>	1,332
Income (loss) before restructuring charge and income taxes	(13)	143	376	553
Restructuring charge	350	-	350	-
Income (loss) before income taxes	(363)	143	26	553
Provision for income taxes	60	48	190	183
Net income (loss)	(423)	95	(164)	370
Retained earnings, beginning of period	2,568	1,550	2,309	1,275
Retained earnings, end of period	<b>\$ 2,145</b>	\$ 1,645	<b>\$ 2,145</b>	\$ 1,645
Earnings (loss) per share	<b>\$ (0.014)</b>	\$ 0.003	<b>\$ (0.005)</b>	\$ 0.012
Class A voting shares	19,215,002	18,465,002	19,215,002	18,465,002
Class B Series 1 non-voting shares	11,700,000	11,700,000	11,700,000	11,700,000
Earnings before interest, taxes, depreciation and amortization (EBITDA)	<b>\$ 418</b>	\$ 424	<b>\$ 1,145</b>	\$ 1,097
EBITDA per share	<b>\$ 0.014</b>	\$ 0.014	<b>\$ 0.037</b>	\$ 0.036

## Consolidated Statements of Cash Flows

(Unaudited)

(in thousands)	Three months ended July 31		Six months ended July 31	
	2001	2000	2001	2000
Cash flows from operating activities:				
Net income (loss)	\$ (423)	\$ 95	\$ (164)	\$ 370
Adjustments for:				
Amortization of capital assets	315	206	575	403
Future income taxes	9	19	39	53
Loss on disposal of capital assets	-	-	-	9
Net change in non-cash operating working capital	459	329	(517)	(834)
	<b>360</b>	649	<b>(67)</b>	1
Cash flows from financing activities:				
Increase (decrease) in bank indebtedness	(65)	(20)	634	1,011
Issuance of long-term debt	-	1,331	-	1,331
Repayment of long-term debt	(136)	(54)	(252)	(109)
Decrease in obligations under capital leases	(54)	(50)	(108)	(100)
Issuance of share capital	-	-	113	4
	<b>(255)</b>	1,207	<b>387</b>	2,137
Cash flows from investing activities:				
Purchase of capital assets	(105)	(1,856)	(276)	(2,153)
Acquisition of business, net of cash	-	-	(44)	-
Proceeds on disposal of capital assets	-	-	-	15
	<b>(105)</b>	(1,856)	<b>(320)</b>	(2,138)
Cash beginning and end of period	\$ -	\$ -	\$ -	\$ -

### Supplemental cash flow information:

Interest paid	\$ 113	\$ 70	\$ 190	\$ 117
Income taxes paid	106	59	206	257
Additions to capital assets included in accounts payable	(37)	(103)	13	(140)

## Notes to Consolidated Financial Statements

(For the six months ended July 31, 2001 and 2000)

### 1. Significant accounting policies:

The consolidated financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles using the same accounting policies and methods of application as disclosed in the Company's financial statements for the year ended January 31, 2001. The comparative January 31, 2001 balance sheet information is derived from the Company's audited financial statements.

### 2. Changes in accounting policies:

Effective February 1, 2001, the Company adopted the Canadian Institute of Chartered Accountants' 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.

During the first quarter of the fiscal year ended January 31, 2002, the Company has adopted retroactively the Canadian Institute of Chartered Accountants' new recommendations on the presentation of interim financial statements. The new recommendations require minimal disclosures including significant accounting policies. These new recommendations also require a comparative balance sheet established as of January 31, 2001.

### 3. Acquisition:

On March 29, 2001, the Company acquired 100% of the outstanding shares of Canslit Inc. ("Canslit") for an initial consideration of \$163,000 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 operations from the date of the purchase.

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

	('000s)
Current assets	\$ 1,377
Capital assets	2,284
Current liabilities	(1,402)
Long-term debt	(1,941)
Other liabilities	(155)
Cost of consideration	<b>\$ 163</b>

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.