

## FROM THE CHAIRMAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER

To our shareholders,

The Company reports net income for the three months ended June 30, 2002 of \$183,000, or \$0.006 per share, compared with a net loss of \$423,000, or \$0.014 per share, for the three months ended July 31, 2001. The 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 second quarter are comprised of the months of April to June 2002. The previous year's second quarter is comprised of the results for the months of May to July 2001.*

Imaflex's extrusion operations generated net income of \$305,000 for the three months ended June 30, 2002 as compared to \$152,000 for the three months ended July 31, 2001. Canslit's metallizing operations incurred a net loss of \$122,000 for the three months ended June 30, 2002 as compared to a net loss of \$575,000 for the three months ended July 31, 2001.

Sales for the three months ended June 30, 2002 totaled \$7,384,000, compared with \$6,352,000 for the three months ended July 31, 2001, an increase of \$1,032,000 or 16.2%. Imaflex's sales increased by \$1,289,000 to \$6,431,000 as a result of (1) an increase in volume as a result of the expansion of its manufacturing capacity in the first quarter of the current year and (2) the previous year's quarterly sales figures include the month of July, a traditionally slower month. Canslit's sales decreased by \$257,000 to \$953,000 as a result of the loss of customers arising from the (1) restructuring of operations, moving to the new premises in the previous year and (2) breakdown of key manufacturing equipment in the first quarter of the current year.

Gross profit for the three months ended June 30, 2002 was \$1,442,000 or 19.5% of sales as compared to \$1,187,000 or 18.7% of sales for the three months ended July 31, 2001. The increase is attributable to a higher level of operating margin at Imaflex.

The income before income taxes for the three months ended June 30, 2002 was \$302,000 as compared to a loss before income taxes of \$363,000 for the three months ended July 31, 2001. The increase of \$665,000 is primarily attributable to (1) an improvement in Imaflex's extrusion results, (2) a reduction in the loss at Canslit's metallizing operations, as a result of the restructuring plan instituted in the previous year and (3) the inclusion in the previous year of a one-time restructuring charge of \$350,000.

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 current year-to-date results are comprised of the months of January to June 2002. The previous year-to-date results are comprised of the months of February to July 2001. As Canslit was acquired on March 29, 2001, the current year-to-date results include six months of its operations, whereas the previous year-to-date results include only four months of its operations.*

Imaflex Inc. reports net income for the six months ended June 30, 2002 of \$354,000, or \$0.011 per share, compared with a net loss of \$164,000, or \$0.005 per share, for the six months ended July 31, 2001. Imaflex's extrusion operations generated net income of \$630,000 for the six months ended June 30, 2002 as compared to \$445,000 for the six months ended July 31, 2001. Canslit's metallizing operations incurred a net loss of \$276,000 for the six months ended June 30, 2002 as compared to a net loss of \$609,000 for the four months ended July 31, 2001.

Sales for the six months ended June 30, 2002 totaled \$14,155,000, compared with \$13,052,000 for the six months ended July 31, 2001, an increase of \$1,103,000 or 8.5%. Imaflex's sales increased by \$798,000 to \$12,159,000, primarily as a result of the factors discussed above. Canslit's sales increased by \$305,000 to \$1,996,000, primarily as a result of an additional two months of sales during the current year as compared to the previous year, partially offset by lower sales as described above.

### Management Outlook

The refurbishing of certain key Canslit manufacturing equipment was completed during the second quarter. Barring any unforeseen equipment breakdown, management's focus is now concentrated on increasing Canslit's revenue base. Its expectations are that Canslit will attain a break-even revenue level during the third quarter.

The installation of Imaflex's new extrusion line has been completed. Management believes that Imaflex is poised to show a steady growth in revenues and profitability in the coming quarters.

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 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.

For investor information, contact

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QUARTERLY REPORT  
June 30, 2002

**CONSOLIDATED BALANCE SHEETS**

(in thousands)	June 30, 2002 (Unaudited)	December 31, 2001 (Audited)
<b>Assets</b>		
Current assets:		
Cash	\$ -	\$ 396
Accounts receivable	5,268	4,684
Inventories	2,459	1,816
Prepaid expenses	71	18
	<b>7,798</b>	6,914
Deposits for capital assets	278	576
Capital assets	10,259	7,981
Long-term investment	113	163
	<b>\$ 18,448</b>	\$ 15,634
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Bank indebtedness	\$ 681	\$ -
Accounts payable and accrued liabilities	4,963	4,767
Income taxes payable	182	189
Current portion of long-term debt	1,266	748
Current portion of obligations under capital leases	277	347
	<b>7,369</b>	6,051
Long-term debt	5,023	3,990
Obligations under capital leases	82	121
Future income taxes	1,299	1,169
Shareholders' equity:		
Share capital	1,941	1,923
Retained earnings	2,734	2,380
	<b>4,675</b>	4,303
	<b>\$ 18,448</b>	\$ 15,634

**CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS**

(Unaudited)

(in thousands, except per share and share data)	Three months ended		Six months ended	
	June 30, 2002	July 31, 2001	June 30, 2002	July 31, 2001
Sales	\$ 7,384	\$ 6,352	\$ 14,155	\$ 13,052
Cost of sales	5,942	5,165	11,336	10,598
Gross profit	1,442	1,187	2,819	2,454
Expenses:				
Selling and administrative	642	738	1,261	1,254
Amortization of capital assets	344	315	686	575
Interest	97	116	180	194
Other	57	31	87	55
	<b>1,140</b>	1,200	<b>2,214</b>	2,078
Income (loss) before restructuring charge and income taxes	302	(13)	605	376
Restructuring charge	-	350	-	350
Income (loss) before income taxes	302	(363)	605	26
Provision for income taxes	119	60	251	190
Net income (loss)	183	(423)	354	(164)
Retained earnings, beginning of period	2,551	2,568	2,380	2,309
Retained earnings, end of period	<b>\$ 2,734</b>	\$ 2,145	<b>\$ 2,734</b>	\$ 2,145
Average number of shares (*) outstanding				
Basic	31,035,002	30,915,002	30,985,002	30,790,002
Diluted	31,035,002	30,997,002	31,000,359	30,861,002
Basic and diluted earnings per share	<b>\$ 0.006</b>	\$ (0.014)	<b>\$ 0.011</b>	\$ (0.005)
Earnings before interest, taxes depreciation and amortization (EBITDA)	\$ 743	\$ 68	\$ 1,471	\$ 795
Basic and diluted EBITDA per share	<b>\$ 0.024</b>	\$ 0.002	<b>\$ 0.047</b>	\$ 0.026

(\*) Class A voting and Class B Series 1 non-voting shares

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)

(in thousands)	Three months ended		Six months ended	
	June 30, 2002	July 31, 2001	June 30, 2002	July 31, 2001
Cash flows from operating activities:				
Net income	\$ 183	\$ (423)	\$ 354	\$ (164)
Adjustments for:				
Amortization of capital assets	344	315	686	575
Future income taxes	56	9	130	39
Net change in non-cash operating working capital	(80)	608	(745)	(326)
	<b>503</b>	509	<b>425</b>	124
Cash flows from financing activities:				
Increase (decrease) in bank indebtedness	(509)	(65)	681	634
Issuance of long-term debt	1,833	-	1,833	-
Repayment of long-term debt	(159)	(136)	(282)	(252)
Repayment of obligations under capital leases	(50)	(54)	(109)	(108)
Issuance of share capital	9	-	18	113
	<b>1,124</b>	(255)	<b>2,141</b>	387
Cash flows from investing activities:				
Decrease (increase) in deposits for capital assets	317	(149)	298	(191)
Purchase of capital assets	(1,944)	(105)	(3,310)	(276)
Partial redemption of long-term investment	-	-	50	-
Acquisition of business, net of cash	-	-	-	(44)
	<b>(1,627)</b>	(254)	<b>(2,962)</b>	(511)
Net change in cash	-	-	(396)	-
Cash, beginning of period	-	-	396	-
Cash, end of period	<b>\$ -</b>	\$ -	<b>\$ -</b>	\$ -
<b>Supplemental cash flow information:</b>				
Interest paid	\$ 97	\$ 113	\$ 181	\$ 190
Income taxes paid	120	106	120	206
Additions to capital assets included in accounts payable	(20)	(37)	346	13

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(For the six months ended June 30, 2002 and July 31, 2001)

**1. Significant accounting policies:**

The unaudited interim consolidated financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles. (GAAP) The same accounting policies as described in the Company's latest Annual Report have been used, with the exception of the new accounting policy described in note 2. However, these consolidated financial statements do not include all disclosures required under GAAP and accordingly should be read in connection with the consolidated financial statements and notes thereto included in the Company's latest Annual Report.

**2. Change in accounting policy:**

Effective January 1, 2002, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants (CICA) Section 3870, "Stock-based Compensation and Other Stock-based Payments." This new section establishes 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, or incurs liabilities based on the price of common stock or other equity instruments. Section 3870 encourages 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, this new standard has 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 of the Company's financial statements, included in the Company's latest Annual Report.

During the six months ended June 30, 2002, 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 six months ended June 30, 2002, would have been \$353,000 and \$0.011, respectively. As permitted by the new recommendations, pro forma amounts exclude the effect of awards granted prior to January 1, 2002.

**3. Comparative figures:**

Certain comparative figures for the six month period ended July 31, 2001 have been reclassified to conform to the current period's presentation.