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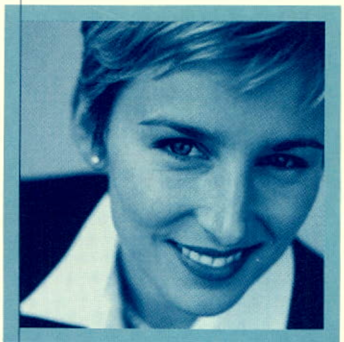

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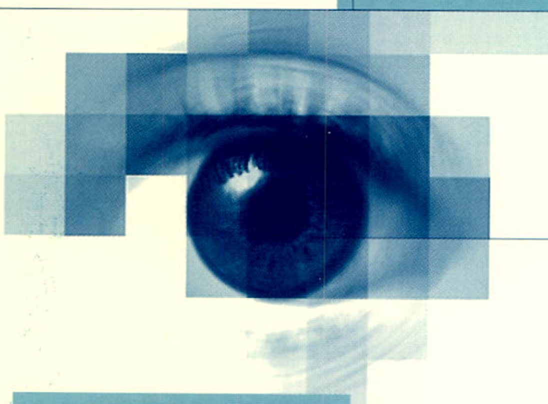
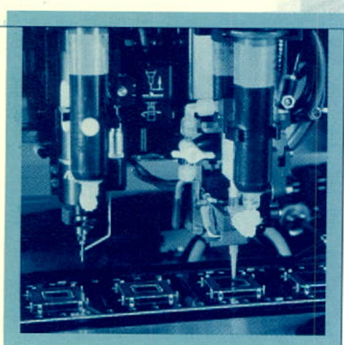
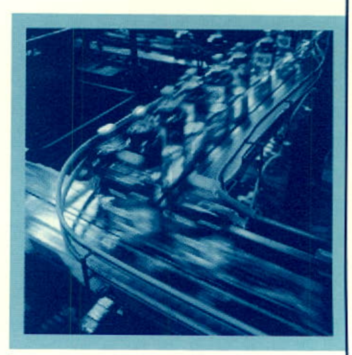


# excellence in machine vision





CORECO INC.

Coreco Inc. designs, develops, manufactures and markets computer vision hardware and software that help enhance the productivity, quality and cost-competitiveness of manufacturing processes.

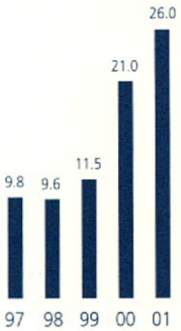
The Company's products are used in high-performance machine vision applications in the industrial vision, medical imaging and multimedia and surveillance markets. Coreco currently serves over 600 customers throughout the world.

Coreco employs a staff of 135 people and has operations in Montreal (QC), Vancouver (BC) and Boston (MA), with additional sales offices in Cleveland (OH) and San Juan Capistrano (CA).

**Visit us online at www.coreco.com**

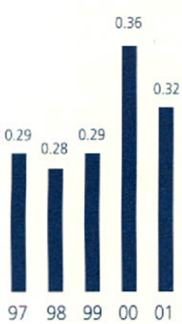
# Financial Highlights

**Sales**
(in millions of US$)




**Net Earnings from Operations** (3)
(in millions of US$)


**Net Earnings from Operations Per Share (basic)** (3)
(in US cents)




| YEARS ENDED DECEMBER 31, | 2001 | 2000 | % change |
|---|---|---|---|
| (in thousands of US dollars except share data[1]) | $ | $ | |
| **Operating Results** | | | |
| Sales | **26,009** | 21,010 | 24 % |
| Gross profit | **14,614** | 12,702 | 15 % |
| Research and development expenditures (gross) | **4,448** | 3,799 | 17 % |
| Selling and marketing expenses | **4,400** | 3,470 | 27 % |
| Acquisition-related charges [2] | **6,452** | 2,887 | 123 % |
| Earnings (loss) before income taxes | **(3,036)** | 1,271 | (339)% |
| Supplementary measure of net earnings [3] | **2,326** | 2,659 | (13)% |
| Net (loss) | **(3,872)** | (201) | 1,826 % |
| Supplementary measure of net earnings per share (basic and diluted) [3] | **0.32** | 0.36 | (11)% |
| Net (loss) per share (basic & diluted) | **(0.53)** | (0.03) | 1,667 % |
| **Number of Shares Outstanding** | | | |
| Weighted average number of shares outstanding (basic) | **7,247,426** | 7,286,121 | – |
| Weighted average number of shares outstanding (diluted) | **7,312,132** | 7,389,795 | – |
| Total number of shares outstanding | **7,234,472** | 7,276,622 | – |
| **Financial Position** | | | |
| Total assets | **19,248** | 25,671 | (25)% |
| Working capital | **9,143** | 7,715 | 19 % |
| Cash position | **3,486** | 1,638 | 113 % |
| Shareholders' equity | **11,955** | 15,956 | (25)% |

(1) Effective January 1, 2001, the Corporation adopted the US dollar as its measurement currency as a result of the significance of business activities conducted in the United States and the increasing proportion of operating, financing and investing transactions in the Canadian operations that are denominated in US dollars. In accordance with Canadian GAAP, this table presents selected financial information in US dollars using the convenience translation method whereby all Canadian dollar amounts were converted into US dollars at the closing exchange rate at December 31, 2000, which was $1.5002 Canadian dollar per US dollar.

(2) Includes the amortization and write-off of acquisition-related charges.

(3) Excludes the after-tax effect of the acquisition-related charges described in (2) above. See note 9 to the Consolidated Financial Statements.

In 2001, Coreco continued to execute its strategy to provide integrated, application-specific solutions to both the OEM and end-user segments of the international machine vision market, while addressing the challenges of an economic slowdown that rippled throughout markets worldwide.

### Solid results in a challenging year

To attenuate the effects of the downturn, Coreco moved quickly to implement stringent cost containment measures throughout the organization. In addition, we refocused our sales and marketing efforts to address markets that were less affected in the prevailing environment and those markets more likely to rebound strongly with the economy.

For the year ended December 31, 2001, the Company posted a 24% increase in revenues to $26 million from $21 million in 2000. Most of this increase was strategic, resulting from a full twelve months of contribution from the U.S. group acquired in June 2000.

Net earnings from operations, adjusted for non-cash acquisition-related charges, amounted to $2.3 million or $0.32 per share, compared with $2.7 million or $0.36 per share in 2000. Acquisition-related charges of $6.5 million included a writedown of $0.6 million related to the Dipix acquisition in January 1999. Former Dipix customers have since migrated to Coreco's newer products, resulting in the discontinuation of the legacy products.

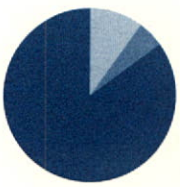
At year-end, Coreco again reported a strong balance sheet with a net cash position. Working capital was up 19% to $9.1 million and cash more than doubled to stand at $3.5 million. Long-term debt including the current portion was $3.2 million.

### Diversified geographic markets and products

The contribution of new products to our results continues to grow, accounting for almost 53% of revenues in 2001 compared with 37% in 2000 and 18% in 1999. This demonstrates our continuous commitment to the research and development of new machine vision products to serve the specialized needs of our growing customer base.

Design-wins from our OEM customer base accelerated in the last quarter of 2001 and represented a growing number of electronics, defense and medical applications. In 2001, Coreco achieved a total of 50 design-wins, a clear testament to our success in attracting and winning new customers. Some of these customers, in particular those in the electronics and medical industries, have already begun to ship their products to their end customers.

Sales by Application
(% of total)



Sales: $26.0 M

Industrial vision 85%
Medical imaging 11%
Multimedia & surveillance 4%

In 2001, all geographic regions and product lines contributed to our revenue growth. By geographic region, sales to Europe grew by almost 75%, while sales to Asia-Pacific and the U.S. increased by 19% and 8%, respectively. By product category, sales of frame grabbers increased by 36%, followed by software at 25% and embedded products at 9%.

## Expanding horizons

Near the end of 2001, we announced the formation of a new intelligent products division (IPD) that will focus exclusively on easy-to-use machine vision solutions. These products, typically a pre-packaged product containing a frame grabber, application-specific software and an intelligent camera, will target the end-user market. These customers, unlike our specialized OEM customer base, usually require machine vision products that can be deployed on the factory floor in a matter of minutes.

Going forward, our business units will be organized around our two customer groups, end-users and OEMs. This will enable us to serve their distinct needs more effectively, while broadening our market focus and opportunities for revenue growth. Our new IPD entity will be headquartered in Boston (MA), while our OEM customers will be served from our head office in Montreal, Canada.

## Strongly positioned for the future

We are already well advanced in the first quarter of 2002 and we are beginning to see clear signs of an economic recovery. Our design-win and sales activities are building and industry indicators, such as book-to-bill numbers and inventory levels, are beginning to improve.

Coreco is well positioned to benefit from the economic upturn when it takes hold. We have a healthy slate of design-wins that have the potential to lead to volume orders as our clients begin to manufacture their new products. Moreover, our balance sheet is solid and our operations are generating strong cash flow, allowing us to examine opportunities to grow our business strategically through the acquisition of complementary technologies and businesses.

We are optimistic that our business volume will accelerate by the second half of 2002, and we anticipate strong growth for our OEM and IPD products in the years ahead. With the continued support of our dedicated employees and the confidence of our growing customer base, we look forward to creating strong, sustainable value for our shareholders.

On behalf of the Board,

Keith A. Reuben

Keith A. Reuben
President and Chief Executive Officer

# Five-Year Financial Review

| YEARS ENDED DECEMBER 31, | 2001 | 2000 | 1999 | 1998 | 1997 |
|---|---|---|---|---|---|
| (in thousands of US dollars except share data[1]) | $ | $ | $ | $ | $ |
| **Operating Results** | | | | | |
| Sales | **26,009** | 21,010 | 11,538 | 9,565 | 9,781 |
| Gross profit | **14,614** | 12,702 | 7,501 | 6,287 | 6,228 |
| Research and development expenditures (gross) | **4,448** | 3,799 | 2,532 | 1,688 | 1,215 |
| Selling and marketing expenses | **4,400** | 3,470 | 1,693 | 1,487 | 1,536 |
| Acquisition-related charges and other charges [2] | **6,452** | 2,887 | 2,604 | 370 | 62 |
| Earnings (loss) before income taxes | **(3,036)** | 1,271 | 825 | 2,818 | 3,291 |
| Supplementary measure of net earnings [3] | **2,326** | 2,659 | 2,150 | 2,094 | 2,178 |
| Net (loss) earnings | **(3,872)** | (201) | 519 | 1,852 | 2,138 |
| **Financial Position** | | | | | |
| Total assets | **19,248** | 25,671 | 18,449 | 19,076 | 17,684 |
| Working capital | **9,143** | 7,715 | 13,875 | 14,548 | 12,528 |
| Cash position | **3,486** | 1,638 | 9,947 | 11,683 | 10,083 |
| Cash flows from operating activities | **2,682** | 3,966 | 2,192 | 2,549 | 2,284 |
| Cash flows from financing activities | **(472)** | 2,775 | (502) | (704) | 327 |
| Cash flows from investing activities | **(361)** | (5,179) | (5,022) | 737 | (2,073) |
| Shareholders' equity | **11,955** | 15,956 | 16,460 | 16,523 | 15,375 |
| **Per Share Data** | | | | | |
| Supplementary measure of net earnings per share (basic and diluted) [3] | **0.32** | 0.36 | 0.29 | 0.28 | 0.29 |
| Net (loss) earnings per share | **(0.53)** | (0.03) | 0.07 | 0.25 | 0.29 |
| Book value per share | **1.65** | 2.19 | 2.25 | 2.25 | 2.03 |
| Cash per share (including short term investments) | **0.48** | 0.23 | 1.36 | 1.59 | 1.33 |
| Dividend | **–** | 0.03 | 0.07 | – | – |
| **Shareholder Data** | | | | | |
| Weighted average number of shares outstanding (basic) | **7,247,426** | 7,286,121 | 7,345,452 | 7,506,927 | 7,530,899 |
| Weighted average number of shares outstanding (diluted) | **7,312,132** | 7,389,795 | 7,549,243 | 7,569,886 | 7,530,899 |
| Total number of shares outstanding | **7,234,472** | 7,276,622 | 7,333,322 | 7,364,416 | 7,578,616 |
| Market price range (CAN$ per share) | | | | | |
| High | **6.75** | 8.50 | 7.00 | 11.80 | 12.00 |
| Low | **4.50** | 4.25 | 4.35 | 3.40 | 5.00 |

(1) Effective January 1, 2001, the Corporation adopted the US dollar as its measurement currency as a result of the significance of business activities conducted in the United States and the increasing proportion of operating, financing and investing transactions in the Canadian operations that are denominated in US dollars. In accordance with Canadian GAAP, this table presents selected financial information in US dollars using the convenience translation method whereby all Canadian dollar amounts were converted into US dollars at the closing exchange rate at December 31, 2000, which was 1.5002 Canadian dollar per US dollar.

(2) Includes the amortization and write-off of acquisition-related charges and in 1999, also includes settlement costs and related attorney fees.

(3) Excludes the after-tax effect of the amortization and write-off of acquisition-related charges described in (2) above. See note 9 to the Consolidated Financial Statements.

## Quarterly Financial Data

| (unaudited) | | Year | Q4 | Q3 | Q2 | Q1 |
|---|---|---|---|---|---|---|
| (in thousands of US dollars except share data[1]) | | $ | $ | $ | $ | $ |
| Sales | **2001** | **26,009** | **4,739** | **6,060** | **7,626** | **7,584** |
| | 2000 | 21,010 | 7,221 | 7,255 | 3,433 | 3,101 |
| Gross profit | **2001** | **14,614** | **2,680** | **3,374** | **4,301** | **4,259** |
| | 2000 | 12,702 | 4,292 | 4,246 | 2,172 | 1,992 |
| Research and development expenditures (gross) | **2001** | **4,448** | **921** | **1,077** | **1,218** | **1,232** |
| | 2000 | 3,799 | 1,111 | 1,197 | 763 | 728 |
| Selling and marketing expenses | **2001** | **4,400** | **900** | **1,088** | **1,151** | **1,261** |
| | 2000 | 3,470 | 1,145 | 1,321 | 486 | 518 |
| Acquisition-related charges [2] | **2001** | **6,452** | **2,101** | **1,435** | **1,458** | **1,458** |
| | 2000 | 2,887 | 1,412 | 1,511 | (76) | 40 |
| Earnings (loss) before income taxes | **2001** | **(3,036)** | **(1,771)** | **(761)** | **(161)** | **(343)** |
| | 2000 | 1,271 | (301) | (370) | 1,113 | 829 |
| Supplementary measure of net earnings [3] | **2001** | **2,326** | **272** | **505** | **833** | **716** |
| | 2000 | 2,659 | 771 | 689 | 650 | 549 |
| Net earnings (loss) | **2001** | **(3,872)** | **(1,623)** | **(915)** | **(609)** | **(725)** |
| | 2000 | (201) | (624) | (804) | 701 | 526 |
| Supplementary measure of net earnings per share (basic) [3] | **2001** | **0.32** | **0.04** | **0.07** | **0.11** | **0.10** |
| | 2000 | 0.36 | 0.11 | 0.09 | 0.09 | 0.07 |
| Supplementary measure of net earnings per share (diluted) [3] | **2001** | **0.32** | **0.04** | **0.07** | **0.11** | **0.10** |
| | 2000 | 0.36 | 0.10 | 0.09 | 0.09 | 0.07 |
| Net earnings (loss) per share (basic and diluted) | **2001** | **(0.53)** | **(0.22)** | **(0.13)** | **(0.08)** | **(0.10)** |
| | 2000 | (0.03) | (0.08) | (0.11) | 0.10 | 0.07 |

(1) Effective January 1, 2001, the Corporation adopted the US dollar as its measurement currency as a result of the significance of business activities conducted in the United States and the increasing proportion of operating, financing and investing transactions in the Canadian operations that are denominated in US dollars. In accordance with Canadian GAAP, this table presents selected financial information in US dollars using the convenience translation method whereby all Canadian dollar amounts were converted into US dollars at the closing exchange rate at December 31, 2000, which was $1.5002 Canadian dollar per US dollar.

(2) Includes the amortization and write-off of acquisition-related charges.

(3) Excludes the after-tax effect of the amortization and write-off of acquisition-related charges described in (1) above. See note 9 to the Consolidated Financial Statements.

*The following discussion and analysis of financial condition, results of operations and cash flows should be read in conjunction with the audited Consolidated Financial Statements and the related Notes for the year ended December 31, 2001.*

*Effective January 1, 2001, the Company adopted the US dollar as its measurement currency as a result of the significance of business activities conducted in the United States and the increasing proportion of operating, financing and investing transactions in the Canadian operations that are denominated in US dollars.*

*All amounts are expressed in US dollars unless otherwise stated.*

Coreco Inc. ("Coreco") is a leader in the design, development, manufacturing and marketing of hardware and software for high-performance computer vision applications. The Company's products are used mainly by Original Equipment Manufacturers (OEMs) in the medical imaging, machine vision and other leading industrial markets.

The Company, which employs a staff of 135 people, has operations in Montreal (QC), Vancouver (BC) and Boston (MA), with additional sales offices in Cleveland (OH) and San Juan Capistrano (CA). The Company's international operations are based in Montreal and its U.S. operations in Boston.

## Results of Operations

The Consolidated Financial Statements of the Company for the year ended December 31, 2001 include a full year's contribution (2000 – 6 months) from Imaging Technology, Inc. ("ITI"), which was acquired on June 30, 2000.

The following table presents selected financial data as a percentage of sales.

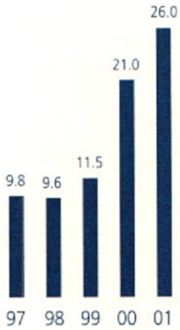
| | **2001** | 2000 |
|---|---|---|
| Sales | **100.0%** | 100.0% |
| Gross profit | **56.2%** | 60.5% |
| Research & development expenditures (gross) | **17.1%** | 18.1% |
| Selling & marketing expenses | **16.9%** | 16.5% |
| Acquisition-related charges (1) | **24.8%** | 13.7% |
| Supplementary measure of net earnings (2) | **8.9%** | 12.7% |
| Net loss | **(14.9%)** | (1.0%) |
| Earnings before interest, taxes, depreciation and amortization (EBITDA) | **16.6%** | 22.2% |

(1) Includes the amortization and write-off of acquisition-related charges.
(2) Excludes the after-tax effect of the acquisition-related charges described in (1) above. See note 9 to the Consolidated Financial Statements.

### *Revenues*

Sales for the year ended December 31, 2001 increased 24% to $26.009 million. By product category, sales of frame grabbers increased by 36%, software by 25% and embedded products by 9%. Sales to Asia-Pacific, Europe and the U.S. increased by 19%, 74% and 8%, respectively.

Sales
(in millions of US$)




Sales in the second half of 2001, amounting to $10.799 million compared with $15.210 million in the first half, were negatively affected by the general slowdown in the world economy and the electronics sector in particular, together with the tragic events of last September. Although shipments to our current customer base slowed in the second half of the year, new design-win activity remained strong, which indicates that the Company continues to attract and add new customers.

The increase in the proportion of sales from frame grabber products, from 51% in 2001 to 56% in 2001, is attributed to the acquisition of ITI completed in June 2000. Historically, this group sold proportionally more frame grabber products than Coreco Inc.

Likewise, the increase in the proportion of sales outside the U.S. is mainly due to the integration of the European distribution network resulting from the acquisition of ITI, together with the economic slowdown in the second half of 2001 that affected primarily the U.S. market.

In 2001, new products accounted for almost 53% of revenues versus 37% in 2000, demonstrating the Company's commitment to the continuous research and development of new computer vision products.

### *Gross Profit*

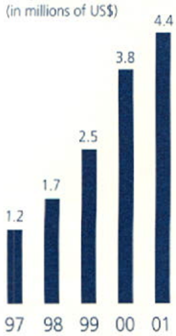
Gross profit amounted to $14.614 million, or 56.2% of sales in 2001, compared with $12.702 million, or 60.5% of sales in 2000. The variation in the gross margin is related to the acquisition of the U.S. group, which was completed in June 2000. In fiscal 2000, the product mix was composed of twelve months of original Coreco products, historically generating gross margins of 60-65%, and six months (from July 1 to December 31, 2000) of ITI products with traditional gross margins of 50-55%.

### *Expense Control*

In view of the negative economic outlook in effect since the beginning of fiscal 2001, the Company put measures in place to reduce the level of expenses throughout the organization. All departments are showing sequential reductions since the beginning of fiscal 2001.

Subsequently, with many economic indicators confirming a slowdown compounded by the tragic events in the U.S., the Company took additional measures effective October 1st to further reduce expenses and discretionary spending in order to maintain profitability. These measures included a reduction in staff, a freeze on salary increases, a restricted hiring plan, and the elimination of all bonuses.

Research & Development Expenditures
(in millions of US$)




### *Research and Development*

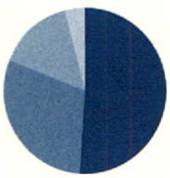
In fiscal 2001, R&D expenditures increased 17% to $4.448 million, or 17.1% of sales, from $3.799 million, or 18.1% of sales, in the previous year. The increase in dollar terms is mainly due to the addition of ITI and its group of specialized engineers as of July 1, 2000.

The Company continues to believe in the need to invest heavily in research and development, however, it has adopted a prudent approach through its cost control program to offset any impact from the general slowdown in the global economy.

Investment tax credits for research and development totaled $1.035 million in 2001, compared with $1.114 million in 2000. This reduction of approximately 7.1% relative to the overall rise in gross R&D expenditures is attributable to the R&D carried out in the U.S., which is not eligible for Canadian investment tax credits.

**Sales by Geographic Region**
(% of total)

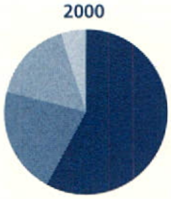
**2001**



Total Sales: $26.0 M

USA 51%
Europe 30%
Asia/Pacific 15%
Canada 4%

**2000**



Total Sales: $21.0 M

USA 58%
Europe 21%
Asia/Pacific 16%
Canada 5%

### *Selling and Marketing*

Selling and marketing expenses amounted to $4.400 million, or 16.9% of sales in 2001, compared with $3.470 million, or 16.5% of sales in 2000. The increase in dollar terms is mainly due to the addition of ITI as of July 1, 2000.

To mitigate the impact of the economic slowdown that is expected to endure until the second half of fiscal 2002, the Company re-focused its selling and marketing efforts to address markets less affected in the current environment as well as markets with strong potential to rebound with the economy.

### *General and Administrative*

General and administrative expenses amounted to $2.492 million, or 9.6% of sales in 2001, compared with $1.881 million, or 9.0% of sales in fiscal 2000. The increase in dollar terms is mainly due to the addition of ITI from July 1, 2000 onwards.

### *Interest*

Net interest expense amounted to $253,647 in 2001 compared with income of $25,528 for 2000. This increase reflects the draw on cash resources to finance the ITI acquisition. The Company used $10.454 million of its short-term investments and cash as well as proceeds of $5.5 million from the issuance of long-term debt to finance the transaction that closed on June 30, 2000. The Company made debt prepayments of $2.0 million in December 2000 and $343,750 in 2001, from cash flows generated since the acquisition date.

### *Acquisition-Related Charges*

Acquisition-related charges were $6.452 million in 2001 compared with $2.887 million in 2000. This increase is due to amortization of the goodwill related to the ITI acquisition in June 2000 together with the write-off of goodwill and acquired software related to the Dipix acquisition in January 1999.

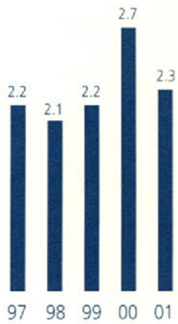
Amortization charges related to the ITI transaction represented $5.691 million and applied to four quarters in 2001, compared with $2.908 million applicable to two quarters in the previous year.

During the fourth quarter of 2001, the Company reviewed the carrying value of acquired software and goodwill related to the Dipix acquisition and concluded that they were permanently impaired. The values were written down to their estimated net realized value of nil.

### *Income Tax*

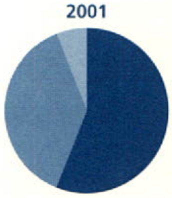
The tax rate of the Company is affected by the amount of net income earned in its various jurisdictions. The effective tax rate for 2001 was 32.3%, compared with 35.8% for fiscal 2000. The amortization of the intangible assets associated with the acquisition of ITI is not tax deductible for income tax purposes.

**Supplementary Measure of Net Earnings**
(in millions of US$)




**Sales by Product Category**
(% of total)

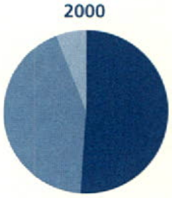
**2001**



Total Sales: $26.0 M

- Frame grabbers 56%
- Embedded products 38%
- Software 6%

**2000**



Total Sales: $21.0 M

- Frame grabbers 51%
- Embedded products 43%
- Software 6%

*Supplementary Measure of Net Earnings*

As a measure of the financial performance of the Company, management utilizes a supplementary measure of net earnings and net earnings per share ("net earnings from operations"). This method excludes the after-tax effect of acquisition-related charges (refer to Note 11 of the 2001 Consolidated Financial Statements of the Company).

Net earnings from operations in 2001 were $2.326 million compared with $2.659 million in 2000. On a per-share basis, net earnings from operations amounted to $0.32 (basic and diluted) in 2001, compared with $0.36 (basic and diluted) in 2000.

## Liquidity and Capital Resources

In fiscal 2001, cash flow generated from operating activities amounted to $2.682 million, compared with $3.966 million one year ago. Aside from profit, the single most important factor responsible for this variation was the increase in inventories of $1.0 million. In 2002, the Company is committed to reducing inventories to a level similar to the ending balance at the end of fiscal 2000.

During 2001, through its normal course issuer bid program, the Company repurchased for cancellation 42,900 common shares at an average price of CAN$4.72 for a total consideration of $131,180, compared with 73,950 common shares at an average price of CAN$4.79 for a total consideration of $232,034 in 2000.

While the Company was under no obligation to make a debt payment due to the prepayment of $2.0 million made during the last quarter of 2000, a further capital repayment of $343,750 was made in August 2001 to reduce long-term debt to a level of $3.156 million. The Company has made an additional prepayment of $343,740 in the first quarter of 2002.

During fiscal 2001, the Company invested $361,422 to purchase capital assets versus $432,114 in 2000, reflecting continued prudent control over capital spending.

The Company generated cash of $1.848 million in 2001 compared with $1.587 million in 2000.

At the end of 2001, the Company held $3.486 million in cash offset by total long-term debt of $3.156 million resulting in a net cash position of $329,453. Coreco has an operating credit facility of CAN$7.0 million, or the equivalent thereof in US$, of which no amount was outstanding as at December 31, 2001. Under the terms of the agreement for the long-term debt, the Company may borrow, prepay the loan in whole or in part, and re-borrow under this facility. This loan is denominated in US dollars and was for an original amount of $5.5 million. Under these credit facilities, the Company is required to maintain a number of financial ratios. At the end of December 2001, the Company was in full compliance with these covenants.

Coreco believes that existing cash and credit facilities, as well as cash flows from operations, will be sufficient to meet all the Company's planned expenditures and debt service requirements for the remainder of this year. The Company regularly reviews acquisition opportunities, for which it may require additional debt or equity financing.

## Risks and Uncertainties

### *Business Outlook*

While we remain cautious and manage our business accordingly, there are indications that the recovery has begun. More sales order activity has been noted in the first quarter of 2002 which, together with improving book-to-bill numbers and falling inventory levels in the industry, leads management to estimate that business will accelerate in the second half of the year.

Looking beyond this year, the Company's three-year forecast indicates strong growth for both its OEM (Original Equipment Manufacturer) and its recently launched IPD (Intelligent Products Division) products. With a healthy balance sheet, strong cash flow from operations and a commitment to the ongoing development of new machine vision products, Coreco is positioned to create long-term shareholder value in 2002 and beyond.

### *Seasonality*

Historically, the Company's operating results have fluctuated on a quarterly basis as a result of the timing of standard sales to OEM customers. The Company expects that quarterly financial results may continue to fluctuate in the future. In the opinion of management, a more appropriate approach to assess the performance of the Company would therefore be to monitor its growth on a year-over-year rather than on a quarterly basis.

### *Risk of Servicing the High Technology and Electronics Sectors*

The Company's customers are largely associated with the high technology and electronic sectors, which are subject to fluctuations in demand from time to time. Coreco believes that its exposure to risk in any specific sector is naturally mitigated by its large number of customers operating across numerous sectors of activity around the world.

### *Dependence on New Products and Risk of Product Development Delays*

The Company's success depends upon continuing market acceptance of its existing products, as well as its ability to enhance existing products and introduce new products and features to meet changing customer requirements. There can be no assurance that Coreco will be successful in identifying, developing, manufacturing and marketing new products, or enhancing its existing products, which could have a material adverse effect on the Company's business, operations and prospects. In order to reduce its exposure to this risk, the Company continues to invest heavily in research and development to ensure that it is in line with the latest machine vision technology available. The Company also has a dedicated group of engineers working closely with customers to ensure alignment with their needs and to understand the requirements of the evolving market for machine vision products and services.

## Outlook

Coreco intends to pursue its strategy to provide integrated, application-specific solutions to the international machine vision market. Within this perspective, the Company will continue to develop new products and to examine acquisition opportunities relating to complementary technologies and businesses.

## Auditors' Report

To the Shareholders of Coreco Inc.

We have audited the consolidated balance sheet of Coreco Inc. as at December 31, 2001 and the consolidated statements of earnings, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation'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 Corporation as at December 31, 2001 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at and for the year ended December 31, 2000 were audited by another firm of Chartered Accountants who expressed an opinion without reservation under date of March 5, 2001.

Deloitte & Touche LLP

Chartered Accountants

Montréal, Canada
February 22, 2002

## Management's Statement of Responsibility

The financial statements of Coreco Inc. and the other financial information included in this annual report are the responsibility of the Company's management and have been examined and approved by its Board of Directors. These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and include some amounts that are based on management's best estimates using careful judgment. The selection of accounting principles and methods is management's responsibility.

The Company maintains internal control systems designed to ensure that financial information is relevant and accurate and that assets are safeguarded. Management recognizes its responsibility for conducting the Company's affairs to comply with the requirements of applicable laws and established financial standards of conduct in its activities.

The Board of Directors supervises the financial statements and other financial information through its Audit Committee, which consists solely of outside directors.

This committee's role is to examine the financial statements and recommend that the Board of Directors approve them, to examine the internal control and information protection systems and all other matters relating to the Company's accounting and finances. In order to do so, the Audit Committee meets periodically with the external auditors, either with or without the Company's management, to review their audit plan and discuss the results of their examinations.

The financial statements have been audited by Deloitte & Touche LLP, the external auditors, in accordance with Canadian generally accepted auditing standards on behalf of the shareholders. The external auditors have full and free access to the Audit Committee.

Keith A. Reuben

**Keith A. Reuben**
President and Chief
Executive Officer

**Louis Daigneault**
Vice-President,
Finance and Administration,
Secretary and Chief Financial Officer

## Consolidated Balance Sheets

| AS AT DECEMBER 31, | 2001 | 2000 |
|---|---|---|
| (in US dollars) | $ | $ |
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | **3,485,703** | 1,637,958 |
| Accounts receivable (Note 4) | **3,521,909** | 5,429,536 |
| Research tax credits recoverable | **1,712,802** | 2,190,271 |
| Inventories (Note 5) | **4,717,602** | 3,717,502 |
| Prepaid expenses | **321,984** | 326,283 |
| Future income taxes (Note 10) | **266,199** | 501,066 |
| | **14,026,199** | 13,802,616 |
| Capital assets (Note 6) | **1,096,509** | 1,850,553 |
| Investment, at cost | **987,888** | 987,888 |
| Goodwill (Note 3) | **2,789,881** | 8,834,629 |
| Future income taxes (Note 10) | **286,678** | 113,935 |
| Deferred financing fees | **60,737** | 80,981 |
| | **19,247,892** | 25,670,602 |
| **Liabilities** | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | **2,593,272** | 4,062,169 |
| Income taxes payable | **1,341,503** | 1,747,928 |
| Current portion of long-term debt (Note 7) | **750,000** | – |
| Future income taxes (Note 10) | **197,938** | 277,963 |
| | **4,882,713** | 6,088,060 |
| Long-term debt (Note 7) | **2,406,250** | 3,500,000 |
| Future income taxes (Note 10) | **4,183** | 126,650 |
| | **7,293,146** | 9,714,710 |
| Commitments (Note 13) | | |
| **Shareholders' equity** | | |
| Share capital (Note 8) | **10,815,730** | 10,875,779 |
| Cumulative translation adjustment | **115,663** | 115,663 |
| Retained earnings | **1,023,353** | 4,964,450 |
| | **11,954,746** | 15,955,892 |
| | **19,247,892** | 25,670,602 |

See accompanying notes to consolidated financial statements.

Approved by the Board

Robert Mee
Director

Jacques E. Lefebvre, C.M.
Director

## Consolidated Statements of Earnings

| YEARS ENDED DECEMBER 31, | 2001 | 2000 |
|---|---|---|
| (in US dollars) | $ | $ |
| **Sales** | **26,008,794** | 21,010,057 |
| Cost of goods sold | **11,394,574** | 8,307,888 |
| Gross profit | **14,614,220** | 12,702,169 |
| Expenses | | |
| Research and development expenditures | **4,448,005** | 3,799,076 |
| Less research tax credits | **(1,034,786)** | (1,113,813) |
| | **3,413,219** | 2,685,263 |
| Selling and marketing | **4,399,670** | 3,469,565 |
| General and administrative | **2,492,248** | 1,880,915 |
| Depreciation and amortization of equipment and leasehold improvements | **639,340** | 534,637 |
| Financial, net | **253,647** | (25,528) |
| | **11,198,124** | 8,544,852 |
| Earnings before the undernoted items | **3,416,096** | 4,157,317 |
| Acquisition-related charges (Note 9) | **6,452,063** | 2,886,749 |
| (Loss) earnings before income taxes | **(3,035,967)** | 1,270,568 |
| Income taxes (Note 10) | | |
| Current | **976,663** | 1,517,068 |
| Future | **(140,368)** | (45,746) |
| | **836,295** | 1,471,322 |
| **Net loss** | **(3,872,262)** | (200,754) |
| (Loss) per share - basic and diluted (Note 11) | **(0.53)** | (0.03) |

See notes to consolidated financial statements.

## Consolidated Statements of Retained Earnings

| YEARS ENDED DECEMBER 31, | 2001 | 2000 |
|---|---|---|
| (in US dollars) | $ | $ |
| **Retained earnings, beginning of year** | **4,964,450** | 5,532,426 |
| Net loss | **(3,872,262)** | (200,754) |
| Dividends | **–** | (243,526) |
| Excess of purchase price over book value of common shares (Note 8 (a)) | **(68,835)** | (123,696) |
| **Retained earnings, end of year** | **1,023,353** | 4,964,450 |

See notes to consolidated financial statements.

## Consolidated Statements of Cash Flows

| YEARS ENDED DECEMBER 31, | 2001 | 2000 |
|---|---|---|
| (in US dollars) | $ | $ |
| **Cash flows from operating activities** | | |
| Net loss | **(3,872,262)** | (200,754) |
| Adjustments for: | | |
| Depreciation and amortization of capital assets | **639,340** | 534,637 |
| Amortization of goodwill | **5,691,056** | 2,908,175 |
| Amortization of acquired software | **95,225** | 95,225 |
| Amortization of deferred financing fees | **20,244** | 10,149 |
| Write-off of goodwill and acquired software (Note 9) | **643,118** | – |
| Future income taxes | **(140,368)** | (45,746) |
| Change in operating assets and liabilities | | |
| Accounts receivable | **1,907,627** | 57,476 |
| Research tax credits recoverable | **477,468** | (736,854) |
| Inventories | **(1,000,100)** | (140,467) |
| Prepaid expenses | **4,299** | (105,274) |
| Accounts payable and accrued liabilities | **(1,377,425)** | 217,921 |
| Income taxes payable | **(406,423)** | 1,371,731 |
| | **2,681,799** | 3,966,219 |
| **Cash flows from financing activities** | | |
| Dividends paid | **–** | (365,733) |
| Repurchase of shares | **(131,180)** | (232,034) |
| Proceeds from issue of common shares | **2,298** | 56,759 |
| Proceeds from issuance of long-term debt | **–** | 5,432,542 |
| Repayment of long-term debt | **(343,750)** | (2,026,263) |
| Financing fees | **–** | (89,988) |
| | **(472,632)** | 2,775,283 |
| **Cash flows from investing activities** | | |
| Cash used for business acquisitions, net of cash acquired | **–** | (14,643,073) |
| Purchase of capital assets | **(361,422)** | (432,114) |
| Net proceeds from disposal of short-term investments | **–** | 9,895,742 |
| | **(361,422)** | (5,179,445) |
| Effect of foreign exchange rate changes | **–** | 24,653 |
| Increase in cash | **1,847,745** | 1,586,710 |
| Cash and cash equivalents, beginning of year | **1,637,958** | 51,248 |
| **Cash and cash equivalents, end of year** | **3,485,703** | 1,637,958 |
| Supplemental information | | |
| Cash paid during the year for | | |
| Income taxes | **561,564** | 117,018 |
| Interest | **360,780** | – |

See notes to consolidated financial statements.

**1. Description of the business**

Coreco Inc. (the "Corporation"), incorporated under the *Canada Business Corporations Act*, develops, manufactures, markets and sells computer vision products.

**2. Significant accounting policies**

*Use of estimates*
The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

*Consolidation and change in measurement currency*
The consolidated financial statements include the accounts of its wholly-owned subsidiary, Coreco Imaging, Inc. Intercompany balances and transactions have been eliminated on consolidation.

Effective January 1, 2001, the Corporation adopted the US dollar as its measurement currency as a result of the significance of business activities conducted in the United States and the increasing proportion of operating, financing and investing transactions in the Canadian operations that are denominated in US dollars.

The 2000 consolidated financial statements have also been presented in US dollars using the convenience translation method, whereby all Canadian dollar amounts were converted into US dollars at the closing exchange rate at December 31, 2000, which was $1.5002 Canadian dollar per US dollar.

*Cash and cash equivalents*
Cash and cash equivalents represent unrestricted cash and highly-liquid investments with a maturity of three months or less at the date of acquisition.

*Capital assets*
Capital assets are recorded at cost and are depreciated and amortized over their estimated useful lives. Depreciation and amortization are calculated using the following methods and annual rates:

| | | |
|---|---|---|
| Equipment | Declining balance | 20% and 30% |
| Computer equipment | Straight-line | 2 years |
| Furniture and fixtures | Declining balance | 20% and 30% |
| Leasehold improvements | Straight-line | Over lease term |
| Acquired software | Straight-line | 7 years |

*Inventories*
Raw materials are carried at the lower of cost and replacement cost, while goods in process and finished goods are carried at the lower of cost and net realizable value. The cost of raw materials is determined on a first in, first out basis, whereas the cost of goods in process and finished goods is determined using the full cost accounting method.

*Goodwill*
Goodwill represents the excess of the purchase price over the estimated fair values of the net assets of entities acquired. Goodwill is amortized on a straight-line basis over the expected useful lives, ranging between two to seven years. See "Future Accounting Changes".

*Impairment of long-lived assets*
The Corporation evaluates the carrying value of its long-lived assets, including goodwill, on an ongoing basis. In order to determine whether an impairment exists, management considers the undiscounted cash flows estimated to be generated by those assets as well as other indicators. Any permanent impairment in the carrying value of assets is charged against earnings in the period an impairment is determined. See "Future accounting changes".

*Deferred financing charges*
Deferred financing charges relate to costs incurred in securing the long-term debt and are being amortized over the term of the debt.

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

*Revenue recognition*
Revenue from product sales is recognized at the point in time when persuasive evidence of an arrangement exists, the price is fixed and final delivery has occurred and there is reasonable assurance of collection of the sale proceeds. The Corporation generally obtains oral or written purchase authorizations from its customers for a specified amount of product at a specified price and considers delivery to have occurred at the point of shipment.

*Government assistance*
Government assistance, comprised of grants and research tax credits, is recorded as a reduction of the related expense or the cost of the capital assets acquired.

*Research and development costs*
Research costs are expensed as incurred. Development expenditures, net of related investment tax credits, are capitalized when they meet the appropriate criteria for capitalization in accordance with Canadian generally accepted accounting principles.

*Translation of foreign currencies*
Revenue and expenses denominated in foreign currencies are recorded at the rate of exchange prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at exchange rates prevailing at the balance sheet dates. Other balance sheet items denominated in foreign currencies are translated at the rates of exchange at the transaction date. Translation gains and losses are included in net earnings.

*Stock-based compensation plans*
The Corporation has stock option plans which are described in Note 8. No compensation expense is recognized for this plan when stock options are granted to employees. Any consideration paid by employees on exercise of stock options is credited to share capital.

*Financial instruments*
The Corporation periodically uses derivative financial instruments, principally forward foreign exchange contracts, to manage risks related to fluctuations in exchange rates. Derivative financial instruments are not used for trading purposes. Gains and losses on forward foreign exchange contracts are recognized through earnings and generally offset transaction losses or gains on the foreign currency cash flows which they are intended to hedge. Forward foreign exchange contracts are entered into with maturities of no longer than six months.

*Income taxes*
Future income tax assets and liabilities are determined based on differences between the accounting basis and tax basis of the assets and liabilities, and are measured using the currently enacted, or substantively enacted, tax rates and laws expected to apply when these differences reverse. A valuation allowance is recorded against any future income tax asset if it is more likely than not that the asset will not be realized. Income tax expense or benefit is the sum of the Corporation's provision for current income taxes and the change in future income tax assets and liabilities.

*Earnings per share*
The Corporation adopted the recommendations of CICA Handbook Section 3500, *Earnings per Share* ("EPS"), effective January 1, 2001. The revised section requires the use of the treasury stock method to compute the dilutive effect of potential common shares. Basic and diluted EPS figures of each of the years presented are computed using the treasury stock method.

*Future accounting changes*
The CICA has recently issued the following Handbook Sections:
Section 1581, *Business Combinations*, and Section 3062, *Goodwill and Other Intangible Assets*. Effective July 1, 2001, the standards require that all business combinations be accounted for using the purchase method. Additionally, effective January 1, 2002, goodwill and intangible assets with an indefinite life will no longer be amortized to earnings and will be assessed for impairment on an annual basis in accordance with the new standards, including a transitional impairment test whereby any resulting impairment will be charged to opening retained earnings. The Corporation is currently evaluating the impact of the adoption of the new standards, including the transitional impairment test. The Corporation does not expect that the adoption of the new standards will have a material effect on its consolidated financial statements.

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

*Future accounting changes (continued)*

Section 3870, *Stock-Based Compensation and Other Stock-Based Payments*. Effective January 1, 2002, this 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 and applies to transactions, including non-reciprocal 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. This Section sets out a fair value based method of accounting and is required for certain stock-based transactions and awards entered into or granted on or after that date. The Corporation is currently evaluating the effect of the adoption of the new standards. The Corporation does not expect that the adoption of the new standard will have a material effect on its consolidated financial statements.

**3. Business acquisitions**

*Coreco Imaging, Inc. (formerly Imaging Technology, Inc.)*

On June 30, 2000, the Corporation acquired all of the outstanding shares of Coreco Imaging, Inc. (formerly Imaging Technology, Inc.) ("ITI"), a US-based company engaged in the design, manufacturing, marketing and selling of software and computer boards for use in computer vision processing applications for a total consideration of US$15,954,326. The acquisition has been accounted for using the purchase method and, accordingly, ITI's results of operations have been included in the consolidated financial statements from the date of acquisition.

The allocation of the purchase price to the fair value of net assets acquired is as follows:

| | $ |
|---|---|
| Assets acquired, at assigned values | |
| Cash | 137,248 |
| Accounts receivable | 3,434,896 |
| Inventories | 1,387,599 |
| Prepaid expenses | 122,591 |
| Capital assets | 783,796 |
| Future income taxes | 520,162 |
| | 6,386,292 |
| Liabilities assumed | |
| Accounts payable and accrued liabilities | (1,774,442) |
| | 4,611,850 |
| Goodwill | 11,342,476 |
| Fair value of assets acquired | 15,954,326 |
| Consideration | |
| Cash | 10,454,326 |
| Long-term debt | 5,500,000 |
| | 15,954,326 |

As at December 31, 2001 and 2000, goodwill is as follows:

| | 2001 | 2000 |
|---|---|---|
| | $ | $ |
| Goodwill, at cost | **11,250,999** | 11,801,356 |
| Less accumulated amortization | **8,461,118** | 2,966,727 |
| | **2,789,881** | 8,834,629 |

During 2001, certain integration costs accrued in connection with the acquisition of ITI were found to be not required. As a result, goodwill and accrued liabilities have both been reduced accordingly, in an amount of $91,676.

**4. Accounts receivable**

| | 2001 | 2000 |
|---|---|---|
| | $ | $ |
| Trade receivables | **3,457,817** | 5,175,307 |
| Sales tax and other receivables | **64,092** | 254,229 |
| | **3,521,909** | 5,429,536 |

## 5. Inventories

| | 2001 | 2000 |
|---|---|---|
| | **$** | $ |
| Raw materials | **1,740,212** | 1,398,410 |
| Goods in process | **1,620,063** | 1,473,789 |
| Finished goods | **1,357,327** | 845,303 |
| | **4,717,602** | 3,717,502 |

## 6. Capital assets

| | 2001 | | |
|---|---|---|---|
| | COST | ACCUMULATED DEPRECIATION AND AMORTIZATION | NET BOOK VALUE |
| | **$** | **$** | **$** |
| Equipment including computers | **6,132,373** | **5,290,602** | **841,771** |
| Furniture and fixtures | **780,241** | **585,910** | **194,331** |
| Leasehold improvements | **221,638** | **121,389** | **100,249** |
| | **7,134,252** | **5,997,901** | **1,136,351** |
| Investment tax credits | **(69,709)** | **(29,867)** | **(39,842)** |
| | **7,064,543** | **5,968,034** | **1,096,509** |

| | 2000 | | |
|---|---|---|---|
| | COST | ACCUMULATED DEPRECIATION AND AMORTIZATION | NET BOOK VALUE |
| | $ | $ | $ |
| Equipment, including computers | 5,847,194 | 4,742,505 | 1,104,689 |
| Furniture and fixtures | 765,541 | 535,630 | 229,911 |
| Leasehold improvements | 401,027 | 302,909 | 98,118 |
| | 7,013,762 | 5,581,044 | 1,432,718 |
| Investment tax credits | (84,629) | (26,336) | (58,293) |
| | 6,929,133 | 5,554,708 | 1,374,425 |
| Acquired software | 666,578 | 190,450 | 476,128 |
| | 7,595,711 | 5,745,158 | 1,850,553 |

## 7. Long-term debt

| | 2001 | 2000 |
|---|---|---|
| | **$** | **$** |
| $5,500,000 revolving term loan, bearing interest at LIBOR plus 2.5%, secured by a deed of moveable hypothec over the universality of the Corporation's assets. Effective interest rate at December 31, 2001 was 4.40% (2000 – 9.05%). The authorized limit of the revolving term loan decreases quarterly by $343,750, with the first quarterly reduction having occurred on December 31, 2000. Any outstanding loan amounts are repayable in full on December 31, 2004. Interest is payable monthly. | **3,156,250** | 3,500,000 |
| Less current portion | **750,000** | — |
| | **2,406,250** | 3,500,000 |

Minimum repayments of principal revolving term loan amounts outstanding over the next three years are as follows:

| | $ |
|---|---|
| **2002** | **750,000** |
| **2003** | **1,375,000** |
| **2004** | **1,031,250** |

## 8. Share capital

Authorized

An unlimited number of common shares, without nominal or par value

An unlimited number of preferred shares, without nominal or par value, issuable in series with such rights and conditions as may be determined by the Board of Directors.

| | 2001 | | 2000 | |
|---|---|---|---|---|
| | NUMBER OF SHARES | BOOK VALUE | NUMBER OF SHARES | BOOK VALUE |
| | | $ | | $ |
| Issued and outstanding: | | | | |
| Common shares: | | | | |
| **Balance, beginning of year** | **7,276,622** | **10,875,779** | 7,333,322 | 10,927,357 |
| Repurchased under normal course issuer bid (a) | **(42,900)** | **(62,347)** | (73,950) | (108,338) |
| Issued for cash on exercise of options | **750** | **2,298** | 17,250 | 56,760 |
| **Balance, end of year** | **7,234,472** | **10,815,730** | 7,276,622 | 10,875,779 |

*(a) Normal course issuer bid*

In 2001, the Corporation repurchased 42,900 common shares (2000 - 73,950 common shares) under a normal course issuer bid for a total consideration of $131,180 (2000 - $232,034). The excess of the purchase price over book value of common shares in the amount of $68,835 (2000 - $123,696) was charged to retained earnings.

*(b) Stock option plans*

The Corporation may grant options to purchase common shares to key employees, directors, officers and service-providers. The terms, number of common shares covered by each option, as well as the permitted frequency of the exercise of such options are determined by the Board of Directors. The subscription price for each share covered by an option is established by the Board of Directors, but such price shall not be lower than the fair market value at the date of grant. Options vest ratably over a period of four years and are exercisable for a maximum period of ten years after date of grant. During 2000, the number of shares available for options under the plan was increased from 500,000 to 645,212 common shares.

Changes in outstanding options are as follows:

| | NUMBER | WEIGHTED AVERAGE EXERCISE PRICE PER SHARE |
|---|---|---|
| | | $ |
| Options outstanding, December 31, 1999 | 358,000 | 5.55 |
| Granted | 280,000 | 5.21 |
| Cancelled | (110,250) | 5.00 |
| Exercised | (17,250) | 4.94 |
| Options outstanding, December 31, 2000 | 510,500 | 5.51 |
| Cancelled | (57,250) | 5.18 |
| Exercised | (750) | 4.70 |
| Options outstanding, December 31, 2001 | 452,500 | 5.55 |

## 8. Share capital (continued)

Options outstanding at December 31, 2001 are exercisable at the following prices:

| OPTIONS OUTSTANDING | OPTIONS EXERCISABLE | EXERCISE PRICE PER SHARE CAN $ | EXPIRY DATE |
|---|---|---|---|
| **45,000** | **33,750** | **10.11** | **March 2008** |
| **52,000** | **39,000** | **5.35** | **August 2008** |
| **5,000** | **2,500** | **5.00** | **January 2009** |
| **145,500** | **72,750** | **4.70** | **October 2009** |
| **10,000** | **2,500** | **4.50** | **April 2010** |
| **70,000** | **17,500** | **5.00** | **June 2010** |
| **115,000** | **28,750** | **5.20** | **June 2010** |
| **10,000** | **2,500** | **7.55** | **August 2010** |
| **452,500** | **199,250** | **5.55** | |

*(c) Rights plan*

Under a Rights Agreement approved by Shareholders in 1997, rights were issued to purchase common shares from the Corporation; each right is exercisable at a price of $75.00 for each share outstanding, subject to adjustments. The rights will separate and trade apart from the common shares and become exercisable in the event that 20% or more of the common shares of the Corporation have been acquired or in the event of a public announcement of a take-over bid. Each right will entitle the holder to receive, upon payment of the exercise price, that number of common shares that have a market value equal to twice the exercise price. The rights will expire on July 21, 2002. As at December 31, 2001 and 2000, no rights were issued and outstanding under this plan.

## 9. Acquisition-related charges

| | 2001 | 2000 |
|---|---|---|
| | **$** | $ |
| Amortization of goodwill | **5,691,056** | 2,908,175 |
| Amortization of acquired software | **95,225** | 95,225 |
| Write-off of goodwill and acquired software | **643,118** | – |
| Other expense (income) | **22,664** | (116,651) |
| | **6,452,063** | 2,886,749 |

During the fourth quarter of 2001, as a result of its review of the carrying value of acquired software and goodwill related to the Dipix Technologies Inc. acquisition in 1999, the Corporation determined that the acquired software and goodwill were permanently impaired. This determination was based on the Corporation's assessment of the recoverability of these balances.

Significant changes during 2001 reduced the value of these assets. Specifically, the Corporation developed new products, which had substantially reduced the application and marketability of the acquired software.

In view of these changes, and based upon the revised estimates of undiscounted future cash flows, the values were written down to their estimated net realizable value of nil.

## 10. Income taxes

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

| | 2001 | 2000 |
|---|---|---|
| | $ | $ |
| Earnings (loss) before income taxes | **(3,035,967)** | 1,270,568 |
| Expected rate | **37%** | 38% |
| Expected income taxes (recovery) | **(1,123,308)** | 482,602 |
| Adjustments | | |
| Effect of different tax rates on earnings (losses) of foreign subsidiary | **(137,346)** | (101,320) |
| Effect of permanent and other differences | **(153,473)** | (146,462) |
| Effect of non-deductible goodwill | **2,250,422** | 1,236,502 |
| | **836,295** | 1,471,322 |

The tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities at December 31 are presented below:

| | 2001 | 2000 |
|---|---|---|
| | $ | $ |
| Future tax assets | | |
| Accounting reserves and accruals deductible in different periods | **321,824** | 501,066 |
| Book depreciation and amortization in excess of tax depreciation (subsidiary) | **231,053** | 113,935 |
| | **552,877** | 615,001 |
| Future tax liabilities | | |
| Federal research tax credits | **197,938** | 277,963 |
| Tax depreciation in excess of book depreciation and amortization (Canada) | **4,183** | 126,650 |
| | **202,121** | 404,613 |

## 11. Earnings (loss) per share

Earnings (loss) per share have been calculated based on the weighted average number of shares outstanding during the year.

| | 2001 | 2000 |
|---|---|---|
| | $ | $ |
| Basic and diluted loss per share | **(0.53)** | (0.03) |
| Weighted average number of common shares outstanding | | |
| Basic | **7,247,426** | 7,286,121 |
| Diluted | **7,312,132** | 7,389,795 |

The denominator for diluted earnings (loss) per share is as follows:

| | 2001 | 2000 |
|---|---|---|
| | $ | $ |
| Denominator for basic earnings (loss) per share - weighted average number of shares | **7,247,426** | 7,286,121 |
| Effect of dilutive securities: Stock options | **64,706** | 103,674 |
| Denominator for diluted earnings (loss) per share - weighted average number of shares | **7,312,132** | 7,389,795 |

Supplementary measure of net earnings and earnings per share data are presented to show net earnings as adjusted for the impact of the acquisition-related charges described in note 9 on an after-tax basis.

| | 2001 | 2000 |
|---|---|---|
| | $ | $ |
| Net loss | **(3,872,262)** | (200,754) |
| Add back of acquisition-related charges, net of tax | **6,198,650** | 2,859,937 |
| Supplementary measure of net earnings | **2,326,388** | 2,659,183 |
| Supplementary measure of earnings per share: | | |
| Basic and diluted | **0.32** | 0.36 |

**12. Segment disclosures**

*(a) Geographic information*

The Corporation operates in one business segment, namely computer vision products. Sales by geographical area, based on the location of the customers, are approximately as follows:

| | 2001 | 2000 |
|---|---|---|
| | $ | $ |
| Canada | **1,139,000** | 1,057,000 |
| United States | **13,177,000** | 12,202,000 |
| Europe | **7,764,000** | 4,453,000 |
| Asia/Pacific | **3,929,000** | 3,298,000 |
| | **26,009,000** | 21,010,000 |

Capital assets and goodwill by geographic area are as follows:

| | 2001 | 2000 |
|---|---|---|
| | $ | $ |
| Canada | **552,032** | 1,464,209 |
| United States | **3,334,358** | 9,220,973 |

*(b) Information about major customers*

No one customer represents more than 10% of total sales for 2001 or 2000.

**13. Commitments**

*(a) Operating lease commitments*

Minimum lease payments under operating leases relating to premises are approximately as follows:

| | $ |
|---|---|
| **2002** | **869,000** |
| **2003** | **796,000** |
| **2004** | **721,000** |
| **2005** | **745,000** |
| **2006** | **481 000** |
| | **3,612,000** |

*(b) Operating credit facility*

The Corporation has an operating credit facility with its bankers to a maximum of CAN$7,000,000 ($4,395,000) of which nil was utilized at December 31, 2001. This facility, which is based on eligible accounts receivable and inventories, bears interest at the prime rate of the financial institution, and is secured by a deed of moveable hypothec over the universality of the assets of the Corporation.

**14. Financial instruments**

*(a) Concentration of credit risk*

Credit risk results from the possibility that a loss may occur from the failure of another party to perform according to the terms of the contract. The Corporation regularly monitors the credit risk exposure and takes steps to mitigate the likelihood of these exposures from resulting in actual loss.

Financial instruments that potentially subject the Corporation to significant concentrations of credit risk consist principally of short-term investments and accounts receivable.

The Corporation has investment policies that require placement of short-term investments in financial institutions evaluated as highly creditworthy.

Concentration of credit risk with respect to accounts receivable is limited due to the Corporation's credit evaluation process, reasonably short collection terms, the large number of customers comprising the Corporation's customer base and their dispersion among different industries and geographical locations around the world. In the normal course of business, the Corporation evaluates the financial condition of its customers on a continuing basis and reviews the creditworthiness of all new customers. The Corporation determines an allowance for doubtful accounts to reflect specific customer risks.

**14. Financial instruments (continued)**

*(b) Foreign currency risk management*

A significant portion of the Corporation's expenses are denominated in Canadian dollars. This results in financial risk due to fluctuations in the value of the US dollar relative to the Canadian dollar. From time to time, the Corporation uses forward foreign exchange contracts to reduce its foreign exchange exposure on its Canadian denominated expenses. Fluctuations in payments made for the Corporation's products could cause unanticipated fluctuations in the Corporation's operating results.

There were no forward foreign exchange contracts outstanding as at December 31, 2001 (2000 – nil).

*(c) Fair value disclosures*

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 Corporation has determined that the carrying values of the Corporation's short-term financial assets and liabilities approximate their fair values due to the relatively short periods to maturity of these instruments. The carrying values of the Corporation's short-term investments are not significantly different from their fair values. The fair values of short-term investments are determined based on published market prices or quotes as of December 31, 2001. The carrying value of the Corporation's long-term debt also approximates fair value because interest is based on market-related variable rates.

*(d) Interest rate risk*

The Corporation's principal exposure to interest rate fluctuations is with respect to its long-term financing which bears interest at floating rates.

**15. Comparative figures**

Certain comparative figures have been reclassified to conform with the presentation adopted in the current year.

## Board of Directors

**Robert Mee**, B.Sc.Eng.*
Vice-President,
Altacap Investors Inc.
Chairman of the Board,
Coreco Inc.

**Keith A. Reuben**, B.Sc., M.Eng.
President and Chief Executive Officer,
Coreco Inc.

**Jacques E. Lefebvre**, C.M.*
President,
Lefebvre, Démosthène et les autres inc.

**Daniel Crevier**, Ph.D.*
Professional Engineer

**Pierre Fleurent**, B.Eng., MBA, CFA*
Managing Director, Global Banking
RBC Dominion Securities Inc.

* Member of Audit Committee

## Management

**Keith A. Reuben**, B.Sc., M.Eng.*
President and Chief Executive Officer

**Louis Daigneault**, B.A.A., CA*
Vice-President,
Finance and Administration,
Secretary and Chief Financial Officer

**Ghislain Beaupré**, B.Eng., P.Eng.*
Vice-President, Operations,
Research and Development,
Canadian Operations

**Steven Geraghty**, Bs.EE
Vice-President, Operations,
Research and Development,
U.S. Operations

**Philip N. Colet**, B.Eng.
Vice-President, Sales and Marketing

**Brad Finney**, B.Sc.
Vice-President, U.S. Sales

* Officers

# Corporate Information

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www.coreco.com

### Transfer Agent and Registrar
Computershare Trust Company of Canada
Montreal, Quebec, Canada

### Bankers
Canadian Imperial Bank of Commerce
Montreal, Quebec, Canada

### Legal Counsel
McCarthy Tétrault LLP
Montreal, Quebec, Canada

### Auditors
Deloitte & Touche LLP
Montreal, Quebec, Canada

### Stock Information
At December 31, 2001
Stock exchange – TSE
Stock symbol – CRC
Common shares outstanding
Basic – 7,234,472
Diluted – 7,686,972
Trading volume in 2001: 1,422,521 shares
Public float: 5,349,056 shares
52-week high/low (CAN$): $6.75/$4.50

### Dividends
In light of the ITI acquisition closed on June 30, 2000 and the financial requirements of the Company, the Board of Directors decided to suspend, for an undetermined period of time, the quarterly payment of dividends, as of June 30, 2000.

### Annual Meeting
Shareholders are invited to attend the Annual and Special Meeting of Coreco Inc. on Tuesday, May 14, 2002 at 8:30 a.m.
Omni Hotel
Salon Été
1050 Sherbrooke Street West
Montreal, Quebec
Canada H3A 2R6

A continental breakfast will be served starting at 8:00 a.m.

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