

IFL Investment Foundation (Canada) Ltd.
La Fondation de Placements IFL (Canada) Limitée

ANNUAL REPORT
DECEMBER 31, 2001

A. SCOTT FRASER
President

JOEL H. RABY
Vice-President

A. KEITH HAM
Secretary

PETER C. LANDRY
Director

JOHN FULLER
Director

PETER S. MARTIN
Director

To the shareholders,

The table below reflects the results of your company since the beginning of the "Bull Market" of the 1990s. While the value of the Equity declined during the year, the decline was substantially less than the dividends paid to shareholders. The current holdings should provide future growth sufficient to sustain current dividends.

| YEAR END | EQUITY | DIVIDENDS | EXPENSES |
|----------|------------|-----------|----------|
| 1993 | 9,220,375 | 543,653 | 77,558 |
| 1994 | 8,127,348 | 543,653 | 99,574 |
| 1995 | 8,455,169 | 559,643 | 86,743 |
| 1996 | 10,746,791 | 639,592 | 77,837 |
| 1997 | 14,620,846 | 727,536 | 90,569 |
| 1998 | 15,411,445 | 919,413 | 94,734 |
| 1999 | 14,831,556 | 919,413 | 91,061 |
| → 2000 | 17,026,967 | 1,039,334 | 81,569 |
| 2001 | 16,681,570 | 1,039,334 | 104,043 |

The financial community is obsessed with performance measurement over a multitude of time frames. We do not prepare any, as it is backward looking, and we believe that our shareholders are more interested in dividends. The preoccupation with performance leads to comparisons with a "Benchmark" which is frequently based on the performance of the TSE 300 Index. In this report, we will explain the composition of the Index and how imbalances occur.

The TSE 300 Index is made up of the 300 largest float market capitalization of companies listed on the Toronto Stock Exchange. Float meaning those shares not owned by controlling interests e.g.: Imperial Oil by Exxon Mobil and Loblaw by Weston. As shares of companies in Financial Services and Utilities were widely held, they provided a substantial non cyclical bias to the index, thereby creating a reasonable benchmark for comparison.

With the decline in fixed assets in favour of Research and Marketing during the last quarter of the Twentieth century, Financial Services and in particular Mutual Funds proliferated. As markets rose during the past decade, pension funds both public and private allocated an increasing amount to common stocks. Portfolio measurement was mandatory for pension funds and the marketing of mutual funds. To the extent that a benchmark was necessary, for Canadian equities some form based on the TSE 300 was used. To accommodate the inflow of funds, Canadian Index Funds, based on the TSE 300 were created. So far, so good.

The first serious crack appeared when the market cap of Bre-X rose sufficiently for its inclusion in the TSE. To hedge against the benchmark, funds bought Bre-X stock so that the rise in price fed on itself. The eventual collapse of Bre-X should have sent a warning to investors in Index Funds.

In early 1999, both BCE and Nortel began to rise in anticipation of the spin-off of Nortel shares to BCE shareholders. By year-end, the price of BCE shares had more than doubled. When the Nortel shares were distributed to BCE shareholders in early 2000, 100% of Nortel shares were included in the TSE 300 Index resulting in a total of over 30% of the index. At this time, the total contribution of the five largest Canadian banks to the index was materially less than that of Nortel. As the nature of Nortel's business was more cyclical than that of the bank's, clearly, any investor with more than 5% of their total portfolio invested in Nortel was breaking the "Prudent Man Rule".

For the huge funds, with billions invested in Canadian equities, there was no escape. For everyone else there was an opportunity to reduce holdings. As most public funds are measured monthly, there is tremendous pressure to perform with your peers. How then do you sell when all around say buy? The resulting "High Tech" implosion was much worse than from the Tulip Mania in Holland. You have to ask, where were the analysts? Where was common sense?

During the year, our shares, which were listed on the Montreal Stock Exchange, were transferred to the CDNX exchange located in Calgary. The trading symbol remains IF but the board lot is now ten shares. If anyone wants to dispose of a broken lot of our shares, they should telephone me, at the number shown at the bottom of this page, for assistance.

Once again, in this report, we have enclosed what is now called the "Director's Cash Flow Statement". We have had some success in spreading the understanding of the application of funds generated, but truthfully, acceptance has been very slow. Fortunately we have received encouragement from influential sources.

A. Scott Fraser
President
514-875-2625

DIRECTOR'S CASH FLOW STATEMENT

SOURCES OF CASH

FROM OPERATIONS

NET PROFIT + DEPRECIATION
AMORITIZATION +

CAPITAL ITEMS

NEW NEW
EQUITY + DEBT

(TIME LAG)



APPLICATIONS OF CASH

- (FIXED ASSET
ADDITION (NET) + EQUITY DEBT
RETIREMENT + DIVIDENDS) = WORKING CAPITAL ±

Excessive increases in
Working Capital lead to
Lazy Equity

SECURITY HOLDINGS AS AT DECEMBER 31ST, 2001

| | CONVERTIBLE STOCKS | MARKET VALUE | % |
|-----------|--------------------------------------|-------------------|---------------|
| \$168,000 | C.H.C Helicopters 8% | 159,180 | |
| 50,000 | Vicwest Mar.10, 2007 | 43,025 | |
| | TOTAL | 202,205 | 1.22% |
| | COMMON STOCKS BANKS - FINANCE | | |
| 20,000 | Bank of Montreal | 718,000 | |
| 50,000 | Bank of Nova Scotia | 2,448,000 | |
| 20,000 | Cdn Imperial Bank of Commerce | 1,097,000 | |
| 20,000 | Manulife Financial | 832,000 | |
| | TOTAL | 5,095,000 | 30.69% |
| | CONSUMER MERCHANDISING | | |
| 20,000 | Andres Wines Ltd. "B" | 300,000 | |
| 10,500 | Cara Operations Ltd. "A" | 59,640 | |
| 30,000 | Loblaw | 1,560,000 | |
| | TOTAL | 1,919,640 | 11.56% |
| | MANUFACTURING | | |
| 7000 | Cognos Inc. | 276,990 | |
| 48,000 | Dupont Canada Inc. "A" | 1,264,800 | |
| 75,000 | Genum Corp. | 1,083,750 | |
| 20,000 | Heroux Inc. | 200,000 | |
| 35,000 | Leitch Technology | 411,250 | |
| 10,000 | Nortel Networks | 119,000 | |
| | TOTAL | 3,355,790 | 20.22% |
| | UTILITIES & PIPELINES | | |
| 33,340 | Aliant Inc. | 999,533 | |
| 14,000 | BCE Inc. | 504,140 | |
| 30,000 | Enbridge | 1,302,000 | |
| | TOTAL | 2,805,673 | 16.90% |
| | MISCELLANEOUS | | |
| 10,000 | C.H.C. Helicopter Corp. "A" | 177,500 | |
| 10,000 | C.H.C. Helicopter Corp. "B" | 180,000 | |
| 7,500 | Canadian Medical Labs | 154,125 | |
| 8000 | MacDonald Dettwiler | 222,000 | |
| 20,000 | St. Lawrence Cement Group | 460,000 | |
| 30,000 | Stratos Global | 292,500 | |
| 20,000 | Torstar B | 444,000 | |
| | TOTAL | 1,930,125 | 11.63% |
| | TOTAL CANADIAN EQUITY | 15,308,433 | 92.22% |

| | U.S. SECURITIES | MARKET VALUE | % |
|--------|----------------------------------|-------------------|--------------|
| 8,000 | Abbott Labs | 710,300 | |
| 2,000 | Coca-Cola | 150,182 | |
| 4000 | Echostar Communications A | 174,995 | |
| 10,000 | QuintilesTransnational | 255,612 | |
| | TOTAL U.S. EQUITY (CDN\$) | 1,291,089 | 7.78% |
| | TOTAL PORTFOLIO | 16,599,522 | 100% |

**IFL Investment
Foundation Canada Ltd.
Financial Statements
For the years ended December 31, 2001 and 2000**

IFL Investment Foundation Canada Ltd.
Financial Statements
For the years ended December 31, 2001 and 2000

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Auditors' Report

**To the Shareholders of
IFL Investment Foundation Canada Ltd.**

We have audited the balance sheets of IFL Investment Foundation Canada Ltd. as at December 31, 2001 and 2000 and the statements of income, retained earnings, net realized gain on investments and changes in net assets for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

BDO Dunwoody LLP

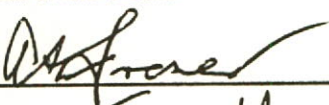
Chartered Accountants

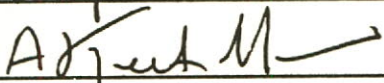
Montréal, Quebec
January 30, 2002

IFL Investment Foundation Canada Ltd. Balance Sheets

| December 31 | 2001 | 2000 |
|---|----------------------|----------------------|
| Assets | | |
| Investments | | |
| Marketable securities- Canadian | \$ 15,149,253 | \$ 15,474,362 |
| - Foreign (United States) | 1,291,089 | 1,473,024 |
| 8% Bond, maturing August 31, 2007, face value of \$168,000 | 159,180 | 164,938 |
| | <u>16,599,522</u> | <u>17,112,324</u> |
| Dividends and interest receivable | 17,218 | 33,289 |
| Income taxes recoverable | 59,657 | - |
| Cash | 19,876 | 6,306 |
| | <u>\$ 16,696,273</u> | <u>\$ 17,151,919</u> |
| Liabilities and Shareholders' Equity | | |
| Bank loan (Note 3) | \$ - | \$ 40,000 |
| Accounts payable and accrued liabilities | 14,703 | 15,038 |
| Income taxes payable | - | 69,914 |
| | <u>14,703</u> | <u>124,952</u> |
| Shareholders' equity | | |
| Capital stock (Note 4) | 1,547,450 | 1,547,450 |
| Retained earnings | 807,641 | 817,677 |
| Net realized gain on investments | 4,380,567 | 4,908,013 |
| Unrealized gain on investments | 9,945,912 | 9,753,827 |
| | <u>16,681,570</u> | <u>17,026,967</u> |
| | <u>\$ 16,696,273</u> | <u>\$ 17,151,919</u> |

On behalf of the Board


 _____ Director


 _____ Director

IFL Investment Foundation Canada Ltd. Statements of Income

| For the years ended December 31 | 2001 | 2000 |
|---------------------------------|-------------------|-------------------|
| Revenue | | |
| Dividends | \$ 313,765 | \$ 298,807 |
| Interest | 20,089 | 22,226 |
| | <u>333,854</u> | <u>321,033</u> |
| Expenses | | |
| Directors' fees | 12,000 | 10,000 |
| General | 92,043 | 71,569 |
| | <u>104,043</u> | <u>81,569</u> |
| Net income for the year | <u>\$ 229,811</u> | <u>\$ 239,464</u> |
| Income per common share | <u>\$ 2.87</u> | <u>\$ 3.00</u> |

The accompanying notes are an integral part of these financial statements.

IFL Investment Foundation Canada Ltd.
Statements of Retained Earnings

| For the years ended December 31 | 2001 | 2000 |
|--|-------------------|-------------------|
| Balance, beginning of year | \$ 817,677 | \$ 578,213 |
| Net income for the year | 229,811 | 239,464 |
| Dividends paid (Note 5) | (239,847) | - |
| Balance, end of year | \$ 807,641 | \$ 817,677 |

IFL Investment Foundation Canada Ltd. Statements of Net Realized Gain on Investments

| For the years ended December 31 | 2001 | 2000 |
|---|--------------|--------------|
| Realized gain on investments | \$ 202,770 | \$ 1,443,380 |
| Income taxes recovery (charge) (Note 6) | 2,185 | (255,538) |
| | 204,955 | 1,187,842 |
| Net realized gain on investments, beginning of year | 4,908,013 | 4,573,985 |
| | 5,112,968 | 5,761,827 |
| Dividends paid (Note 5) | (799,490) | (1,039,337) |
| Capital gains refund (Note 6) | 67,089 | 185,523 |
| Balance, end of year | \$ 4,380,567 | \$ 4,908,013 |

The accompanying notes are an integral part of these financial statements.

IFL Investment Foundation Canada Ltd. Statements of Changes in Net Assets

| For the years ended December 31 | 2001 | 2000 |
|---|----------------------|----------------------|
| Net assets , beginning of year | \$ 17,026,967 | \$ 14,831,556 |
| Net income for the year | 229,811 | 239,464 |
| Dividends paid | (1,039,337) | (1,039,337) |
| Income taxes recovery (payable) | 69,274 | (70,015) |
| Realized gain on investments | | |
| Investments - at cost, beginning of year | \$ 7,358,497 | \$ 7,525,307 |
| Purchases | 561,342 | 1,189,441 |
| | <u>7,919,839</u> | <u>8,714,748</u> |
| Investments - at cost, end of year | <u>6,653,610</u> | <u>7,358,497</u> |
| Cost of investments sold | 1,266,229 | 1,356,251 |
| Proceeds from sale of investments | <u>1,468,999</u> | <u>2,799,631</u> |
| | 202,770 | 1,443,380 |
| Net change in unrealized gain of investments, appreciation | <u>192,085</u> | <u>1,621,919</u> |
| | <u>(345,397)</u> | <u>2,195,411</u> |
| Net assets , end of year | \$ 16,681,570 | \$ 17,026,967 |
| Net assets per share | \$ 208.65 | \$ 212.97 |

The accompanying notes are an integral part of these financial statements.

IFL Investment Foundation Canada Ltd.

Notes to Financial Statements

December 31, 2001 and 2000

1. Status and Nature of Activities

The company is incorporated under the *Canada Business Corporations Act* and it defines itself as a closed-end investment company. For income tax purposes, it is considered as an investment corporation.

2. Significant Accounting Policies

Investments

As is the case for many investment companies, the company records its investments at their quoted market value. The difference between the quoted market value and the cost of the investments held is shown as unrealized gain on investments. The average cost method is used to determine the gain or loss on disposal of investments.

Recognition of Income and Expenses

The accrual method of recording income and expenses is followed by the company with dividends being recorded on the ex-dividend date.

Foreign Currency Translation

Foreign currency accounts are translated into Canadian dollars as follows:

At the transaction date, each asset, liability, revenue and expense is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year end, monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at that date. The resulting foreign exchange gains and losses are included in income in the current period.

IFL Investment Foundation Canada Ltd. Notes to Financial Statements

December 31, 2001 and 2000

Financial Instruments

Fair value

The following methods and assumptions were used to estimate the fair value of each class of financial assets and liabilities:

Cash, dividends and interest receivable, bank loan and accounts payable and accrued liabilities:

The carrying amount of each item of this category approximates fair value due to the short-term maturities of these instruments.

Investments:

The fair value of this item has been estimated based on quoted market value as of December 31, 2001 which is reflected in the financial statements.

Risk management

Investment returns are subject to a variety of risk factors both specific to individual investments and arising from general economic conditions. To mitigate the risks, the company maintains a portfolio of investments in various industry segments, both in Canada and in the United States.

3. Bank Loan

The bank loan is repayable on demand, bears interest at prime rate plus ¼% and is guaranteed by securities held by the bank. At year end, the bank loan was unused.

4. Capital Stock

Authorized

Unlimited number of common shares.

Issued

79,949 common shares

| | <u>2001</u> | <u>2000</u> |
|--|---------------------|---------------------|
| | \$ 1,547,450 | \$ 1,547,450 |

IFL Investment Foundation Canada Ltd. Notes to Financial Statements

December 31, 2001 and 2000

5. Dividends Paid

For the year 2001, dividends totalling \$799,490 (\$10.00 per share) were paid out of net realized gain on investments, and dividends totalling \$239,847 (\$3.00 per share) were paid out of retained earnings.

For the year 2000, dividends totalling \$1,039,337 (\$13.00 per share) were paid out of net realized gain on investments.

6. Capital Gains Refund

The income taxes charged to the net realized gain on investments represent Federal Part 1 tax which is payable on taxable capital gains on investments.

Certain income taxes paid by the company on investment income are refundable to the company at the rate of 14% (14% in 2000) of capital gains dividends paid to shareholders. The refundable capital gains tax on hand at December 31, 2001 is \$NIL. Such tax is charged and its recovery is credited to net realized gain on investments.

7. Cash Flow Statement

Statements of cash flows are not presented since the cash flow information is readily apparent from other financial statements.
