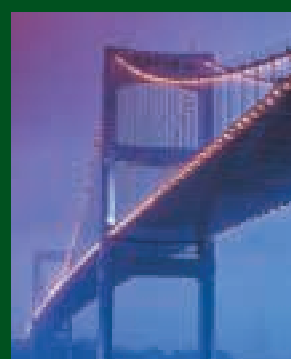
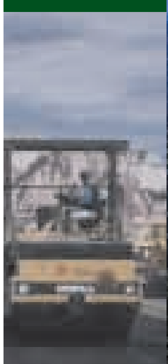
POLY PHALT INC



2000 ANNUAL REPORT

April 1 to December 31, 2000

technology • licensing • materials • manufacturing



CKI Headquarters,
Hong Kong

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Polyphalt technology has improved the performance of thousands of kilometres of asphalt pavements from the inside out. Using patented process technology, complex networks of plastics and rubbers are created to build strength, elasticity and durability.

Our Mission:

To be a global market leader in the field of polymer modified asphalt technology, products and services.

Our Business: Polyphalt was formed in 1992 to develop and commercialize process technologies to improve the performance of asphalt, one of the world's most widely used building materials.

Through our strategic licensing program, we have created an international network of partnerships that includes twelve leading suppliers of asphalt cement in Canada, the United States, Australia, Europe and China.

We are uniquely positioned to build on our patented portfolio of technologies and expand the range of value-added products and services that we bring to our growing network of licensees and other diverse segments of the asphalt industry.

Our Market Focus: Our technologies, products and services are focused on the polymer modified asphalt (PMA) segment of the asphalt paving, roofing and coatings markets.

PMAs are the fastest growing segment of the $15 billion asphalt products industry around the world and across all applications markets. PMAs now have well over 10% of the global market.

Our Technology Advantage: Polyphalt has developed a comprehensive portfolio of PMA technologies that use advanced polymer chemistry to improve the performance characteristics of asphalt. The result … better performing, longer-lasting, lower maintenance asphalt products.

These patented technologies use sophisticated combinations of elastomeric and plastomeric polymers, including recycled rubbers and plastics, to provide exceptional competitive advantage in the critical areas of performance, economics and logistics.

Highlights

April 1 – December 31, 2000

- Revenues increased by 90% to almost $2 million (9 month period only) and loss per share reduced from $0.17 per share last year to $0.01 per share
- Cheung Kong Infrastructure Holdings Limited established a major share position in Polyphalt through a $10 million investment
- Three new license agreements completed in key US market: Gulf States Asphalt Co., Jebro Inc., and Montana Refining Company
- Master License Agreement completed for China and Hong Kong with CKI subsidiary
- Polyphalt ends the year with current assets in excess of $10 million
- Polyphalt shares listed on the Canadian Venture Exchange
- Letter of intent signed for acquisition of The GH Company

A Message from the Chairman

In every successful business there are always periods that, in retrospect, can be seen as transformational. While the year ended December 31st 2000 was shortened due to the change in fiscal year end, it was, nonetheless, a very exciting year that was marked by many accomplishments across all facets of our business.

Polyphalt's previous fiscal year ended with the securing of a major investment of $10 million by Cheung Kong Infrastructure Holdings Limited (CKI), in which I hold the position of Executive Director. CKI is one of Asia's largest and most diversified infrastructure companies. Thus, CKI's investment in Polyphalt is both financial and strategic in nature.

Polyphalt's dedicated management team and employees began putting these new resources to work right away. Among the key successes for Polyphalt since April 1, 2000:

- revenues in the nine months that made up this fiscal year were almost double those of the prior twelve months and overall bottom line results improved markedly.
- the Company completed four new technology licensing agreements thereby growing its licensee base by 50%.
- ongoing investments in R&D were made which pave the way for the next wave of growth, building on the Company's outstanding intellectual property portfolio.

A Message from the Chairman

Our Board of Directors is confident that these accomplishments are indicative of the increasing value of Polyphalt both within the industry and for all of our shareholders. Nonetheless, we recognize that these successes represent a very small piece of the long term potential of this dynamic young enterprise. To ensure that the full value of this potential is realized your Board focused efforts in 2000 toward establishing more comprehensive strategic and financial planning, as well as ensuring that the management team has the necessary resources to meet our aggressive targets.

For 2001, this will mean more investment in people and facilities and expanded sales and marketing programs for our core technology licensing business in North America. Polyphalt will also fulfil its long time ambition of seeing its technology applied as an integral part of China's aggressive infrastructure development program. CKI, through its Master License from Polyphalt, is presently negotiating several agreements that will form the first step in the expansion of Polyphalt's business into Asia.

Shareholders can also expect to see Polyphalt fulfill its commitment to move into businesses that complement its technology-licensing program. Our current fiscal year began with the completion of our first acquisition GH International Inc, a leading Canadian producer of specialty asphalt products. Additional investments in selected manufacturing and processing businesses will follow in 2001 and beyond provided that two criteria are met. First, these businesses must represent strong stand-alone opportunities. Second, and more importantly, they must offer improved leverage of the Company's exceptional technology base.

Put together, this integrated package of differentiated technology-based businesses offers excellent opportunities for sustained, diversified and profitable growth.

I look forward to sharing our successes with you over the coming year. Finally, I would like to thank all of our employees, customers and shareholders for their support and for their warm welcome to me as Chairman of the Board.

Yours sincerely,

Barrie Cook

A Message from the President & C.E.O.

In 1992, a small group of investors were presented with a unique opportunity: the chance to participate in the commercialization of groundbreaking developments in what had been, up to then, a relatively overlooked area – asphalt technology. The result was the creation of Polyphalt.

For the past eight years, our dedicated team of employees has been working diligently to establish Polyphalt as the world leader in the multi-billion dollar market for asphalt technology, services and products. This year, I believe that we have made substantial progress in meeting that objective. Next year, based on our new strategic plan, we anticipate even more opportunities for growth and financial improvement.

With the change in our fiscal year end we are reporting results for nine months versus twelve months. This was, however, a period that was by any measure one of excellent progress.

- Revenues grew to almost $2 million: an increase of 90%, generated by a broader range of customers using a wider-than-ever cross section of Polyphalt's proprietary technologies. Our loss per share was reduced from $0.17 per share last year to $0.01 per share.
- We negotiated four new license agreements in nine months compared to one in the previous year. Three of those agreements increased our market penetration in the pivotal U.S. market. The fourth gives Polyphalt an entry into the world's fastest emerging market for polymer-modified asphalt, the Peoples Republic of China. As we ended 2000, Polyphalt had twelve licensees, an increase of 50% since the beginning of the fiscal year.

- Our investment in our emerging materials and manufacturing businesses contributed to building a diversified and integrated platform for future growth.
- We ended 2000 with a very healthy balance sheet with over $10 million in current assets.
- The Company's shares, now listed on CDNX, the Canadian Venture Exchange, have held their value in a market in which many technology companies have experienced significant declines.

These successes reflect the strength of our technologies and the commitment, skills and positive attitude of our employees. We are acutely aware, however, that the expectations of our key stakeholders - customers, employees and shareholders - are much higher. In order for us to meet these increasingly high standards and objectives, we have defined a clear and well-crafted plan for growth.

Polyphalt is a technology driven organization and technology remains as the cornerstone of this plan. We will continue to invest strongly in the development and protection of leading edge proprietary technologies and products that differentiate us and our customers in markets around the world.

In order to reach our full potential, however, we must also embrace selected manufacturing and processing opportunities. By moving directly to the market, we can (i) accelerate adoption of our processes and products, (ii) improve the training and development of our personnel, and (iii) position ourselves to provide a complete package of solutions to meet the needs of our customers.

The recent acquisition of Toronto based GH International Inc. is our most significant move in this area so far. GHI, which produces coatings, sealants and specialty asphalt products, can significantly benefit from polymer modified asphalt technology while Polyphalt, through GHI and similar businesses, can leverage its intellectual capital and develop new profitable downstream markets for its technologies.

As we enter fiscal year 2001, I am confident that we have all of the tools to make our 2001 plan a success:

- an unparalleled portfolio of proprietary technologies
- a rapidly growing international network of industry partners
- a proven track record for high performance technologies and products
- the backing of one of Asia's leading industrial conglomerates.

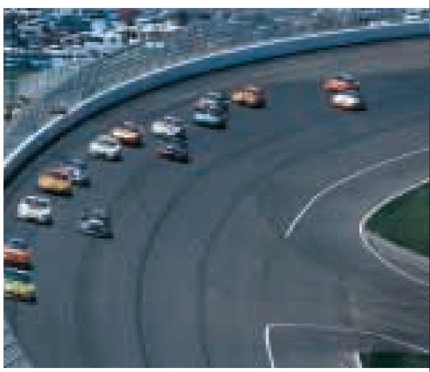
Perhaps most important of all, Polyphalt has the nucleus of people to make this plan a success. Our skilled and dedicated team members are proud of the role that they play in this dynamic organization. They are committed to this plan and confident that their efforts will result in a business whose value will dwarf current levels.

I would like to offer my sincere thanks to these dedicated team members as well as our directors, licensees and other business partners. And, of course, I would like to thank you, our shareholders. I look forward to your participation in our growing success.

Yours sincerely,

Bruce Harbinson
President & CEO

Technology



Successful businesses require strong foundations and technology is the foundation on which Polyphalt's licensing, materials and manufacturing businesses are being built.

From the beginning, Polyphalt has never veered from its strategy of using technology to build a leadership position in the rapidly emerging global marketplace for high value polymer modified asphalts. Our investment in research and development has resulted in a strong portfolio of proprietary process technologies whose utility is being actively demonstrated across diverse geographic and commercial markets. Patents and patent applications for Polyphalt's key technologies span the world and several of the world's leading infrastructure materials companies are among our committed partners.

The paving market is currently our largest source of revenue. Our international network of licensees uses our extensive and highly flexible portfolio of patented process technologies and products to achieve an optimum blend of technology, materials and application. The result has been longer lasting more durable pavements. Every day, thousands of kilometres of high performance pavements built with Polyphalt technology withstand the challenges of severe climates, growing traffic volumes and increasingly heavy loadings.

In 2000, Polyphalt began building its Value-Added Materials business with the objective of (i) offering the highest quality raw materials to our partners and (ii) bringing novel technology "delivery systems" to the market. Our sales of recycled rubber were an integral factor in the expanded use of our ***DVx***® advanced crumb rubber modified asphalt technology, now making rapid inroads in the large Texas and south-western US market for high performance surface treatments. Our development efforts on technology delivery systems also advanced in the past nine months and commercial trials will begin in 2001.

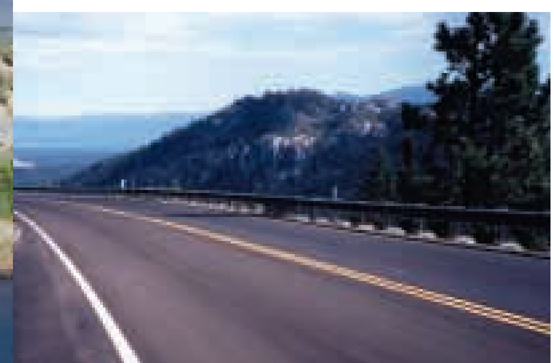
Technology is also driving Polyphalt's program to build and acquire selected manufacturing platforms. In 2000, we completed due diligence on our first acquisition, GH International Inc. This acquisition will allow Polyphalt to apply its advanced technologies in the manufacturing of specific products in the specialty asphalt markets.

The Company remains committed to improving, extending and expanding its base of intellectual capital. In 2001 we will invest more in our people, facilities and programs than at any point in our history and use a well-crafted blend of business strategies to optimize the return on those investments.

Few organizations possess the focus on and passion for asphalt related technology that Polyphalt does. We believe the dividends of this focus and passion will drive our future success and amply reward our shareholders.

Licensing





Licensing

The transfer of Polyphalt's leading edge technology via long term, regional licensing agreements with leading asphalt cement suppliers has been Polyphalt's core business.

In 2000, Polyphalt made significant advances in its licensing program. The four new agreements executed in the past nine months expanded our licensee base by 50%. By contrast, only one new agreement was completed in the prior year.

At December 31, 2000 Polyphalt had twelve licensees in major PMA markets in Canada, the United States, Australia, Europe and Asia. Our partners include some of the largest and most prestigious global infrastructure materials companies in the world.

The completion of a master license agreement for China and Hong Kong, one of the world's fastest growing markets for PMAs, was a highlight for 2000. Our new partner is a wholly owned subsidiary of Cheung Kong Infrastructure Holdings Limited, one of Asia's dominant infrastructure players and Polyphalt's majority shareholder.

In 2001, CKI will be investing heavily in materials processing facilities and PMA manufacturing agreements in China with well-positioned regional partners.

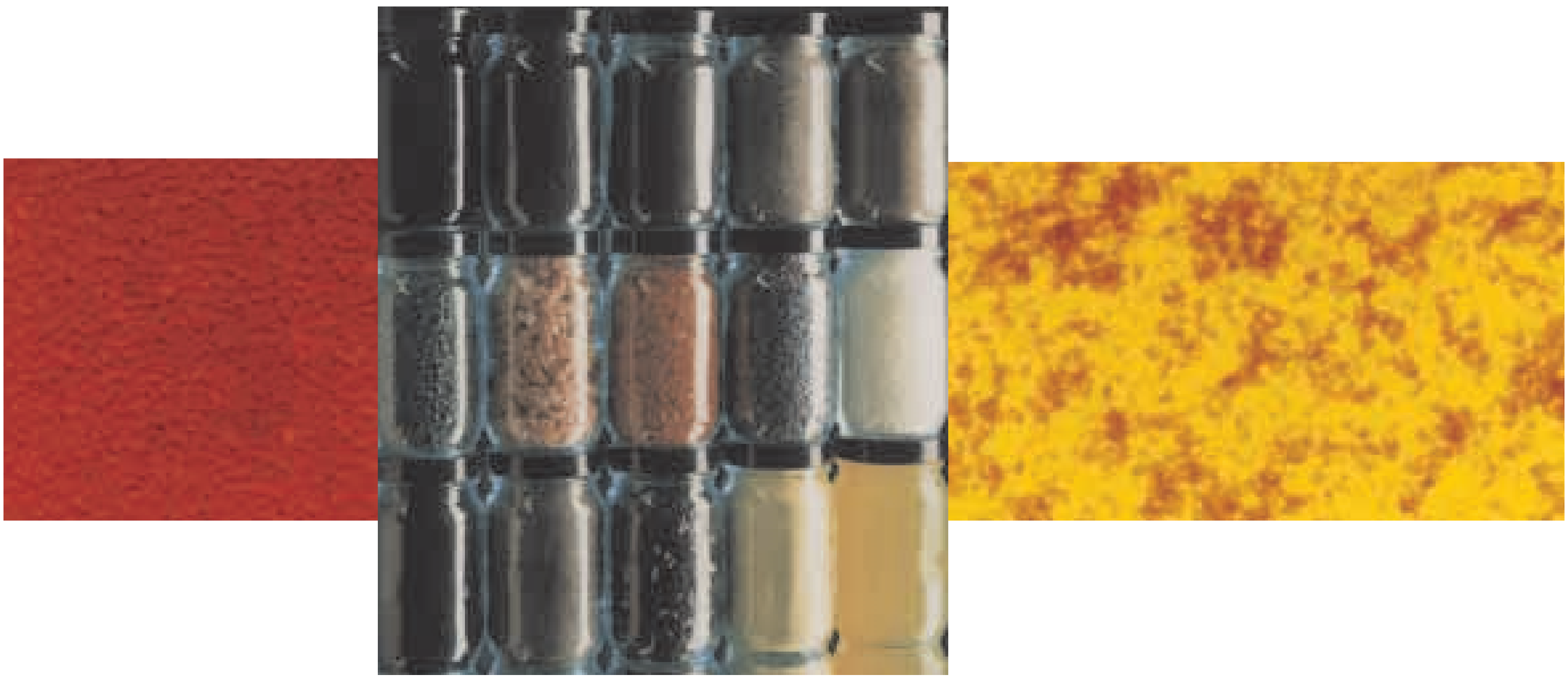
What is driving these companies to seek partnerships with Polyphalt? Our philosophy is simple: assist our partners by improving revenues and reducing costs. Our licensees gain access to world-class technology and to the resources of Polyphalt's team of talented, entrepreneurial and service-oriented employees. They have the opportunity to extend their business horizons through Polyphalt's growing domestic and international network of partners. They also gain the competitive benefits of Polyphalt's technology:

- flexibility to meet any performance specification
- unequalled storage stability & handling characteristics
- compatibility with a broad range of asphalts
- superior cost-performance ratio
- technical, marketing and strategic business support services

For 2001, Polyphalt is targeting a 50% or greater increase in our core North American licensee base. At the same time, the Company will continue to support CKI's efforts in China and will begin to invest in selected international markets where its technologies match well with local needs. We are also building our sales and marketing capabilities and have recently added two industry veterans to our team. Further investments in sales, technical service and support personnel, and facilities are being made in order to add greater depth to our customer service.

Polyphalt's management team will be working diligently in 2001 to manage our growth and profitability in today's PMA market. The growing rate of mergers and acquisitions, some of which involve current and prospective partners; the extreme volatility of the crude oil market and its impact on asphalt, polymer and manufacturing costs; and ongoing changes to pavement specifications that will impact PMA demand, present Polyphalt with both challenges and opportunities. At the same time, our R&D group will be pursuing new opportunities that will ensure that our existing and future licensees are well positioned to benefit from this growing market in the years ahead.

Value Added Materials



Value Added Materials

Polymer modified asphalt use is expanding rapidly in all applications and in virtually all corners of the world. In large, mature markets, licensing is an effective method for transferring technology and gaining market share. For other markets, where respect for intellectual property is of concern or PMA use is still relatively small, Polyphalt is developing complementary materials-based strategies on which to build its business.

Unique delivery systems are one of the means by which Polyphalt is expanding its market and adding-value to its product lines. These unique delivery systems combine the various polymers and additives required for specific Polyphalt process technologies in pre-formulated, easy to use material form.

By "packaging" our technologies in this novel form, we will be in a position to grow our business not only through sales to licensees but also through sales to manufacturers in markets that are not well suited to licensing.

Three groundbreaking delivery systems are currently under development:

- polymer based dry blended additive packages
- asphalt based, pelletized PMAs
- liquid-based PMA systems

Together, this portfolio of value-added materials will compete for market share in the billion-dollar market for asphalt-related polymers and additives.

While substantial progress was made with these systems in 2000, the pace was slower than we had expected. Consequently, the Company has committed to make additional investment in product development in this important area. Our Dry Mix system will enter commercial trials in 2001. The Company's first investments in processing facilities are expected to be in North America and China.

Polyphalt continues to be fully committed to the use of recycled polymers in its process technologies. Given that all engineering performance requirements can be met, Polyphalt formulations are uniquely positioned to take advantage of the environmental and economic benefits of recycled materials. Over the past several years, millions of pounds of recycled polyethylene and recycled rubber have been used in the production of Polyphalt PMAs - a record in which we and our licensees take pride.

Last year, we expanded our value-added recycled materials business by supplying high quality recycled rubber to several of our licensees. In 2001, we expect this business will grow several fold and we will be carefully analyzing various new investment opportunities.

Through its new material delivery systems and its recycled material supply business, Polyphalt can deliver the best in available recycled and virgin polymers to its partners while building a level of integration that will secure internal manufacturing requirements in the years ahead.

Manufacturing

Fully developing the business opportunities inherent in Polyphalt's strong technology base requires a three-pronged approach: licensing, materials and manufacturing.

By integrating manufacturing related activities with its technology, Polyphalt will:

- Accelerate new product development and new product launches
- Improve training for Polyphalt's and its partners' employees
- Provide tighter control over intellectual property where warranted
- Improve the management and development of sales and marketing programs

In 2001 and the years ahead, Polyphalt will use a combination of greenfield investments, joint ventures and acquisitions to establish selected manufacturing bases and maximize growth and profit potential. The Company has identified numerous manufacturing opportunities in the paving, roofing and specialty asphalt markets. These opportunities, however, will be carefully screened to ensure that they are consistent with the Company's overall technology-based strategy.

In February 2001, Polyphalt completed its first acquisition with the purchase of the assets of The GH Company, a leading Canadian manufacturer and marketer of specialty asphalt products with sales in over a dozen different countries. The GH Company has a proud history dating back to 1911.

The new business, renamed GH International (GHI) competes primarily in the billion dollar North American specialty asphalt market for roofing maintenance, waterproofing, coating and sealant products. Polymer modified products already have a 20% share of this market and are growing at a rate of close to 15% annually. Polyphalt's advanced PMA technology will allow GHI to expand its existing product lines, add new, higher margin products and expand from the retail sector into commercial and industrial markets.

At the same time, GHI's product line of pavement sealers and permanent pothole repair products complements Polyphalt's business. These products, sold in finished, cold mix form as well as in liquid concentrates, lend themselves to cross-selling strategies with the Company's licensees both domestically and internationally.

With the backing of its major shareholder, CKI, Polyphalt is well positioned to make additional acquisitions in the relatively fragmented specialty asphalt market. Polyphalt will also pursue acquisitions and investments outside this sector if they allow the Company to leverage its technology base and build a well-balanced, integrated organization.

Polyphalt's Board of Directors

Polyphalt 2001 Board Members Left to Right:
Stephen Tsang, Holger Kluge, Ralph Haas, Robert Barnett, Gary Yu, Bruce Harbinson, Barrie Cook, George Magnus, Don Johnston, Zhi Zhong Liang

Polyphalt's Board of Directors

ROBERT BARNETT
Position: Company Director and Financial Consultant
Residence: Toronto, Canada
Joined Polyphalt Board: 1998
Mr. Barnett qualified as a chartered accountant in England in 1973. More recently, he was an associate with the Merchant Banking firm Gornitzki, Thompson and Little and, before that, Vice-President, Finance and Chief Financial Officer of Pembridge Inc., a financial services group that managed insurance companies and investment portfolios in Canada and the U.S.

BARRIE COOK
(Chairman of the Board)
Company: Cheung Kong Infrastructure Holdings Limited
Position: Executive Director
Residence: Hong Kong
Joined Polyphalt Board: 2000
Mr. Cook joined the Cheung Kong group in 1983.
He is also the Chairman of the East Asian Cement Forum, the Hong Kong Construction Materials Association and the Hong Kong Government's Waste Reduction Committee. He is the Convenor of the Hong Kong Business Coalition on the Environment and a member of the Hong Kong Government's Advisory Council on the Environment.

RALPH HAAS
Position: The Norman W. McLeod Engineering Professor & distinguished Professor Emeritus, University of Waterloo.
Residence: Waterloo, Canada
Joined Polyphalt Board: 1994
Dr. Haas is a leading consulting engineer and Chairman Emeritus of Stantec Consulting Ltd. The former Chairman of the International Society for Asphalt Pavements, Dr Haas was awarded the Order of Canada in 1999 for his contributions to the field of pavement materials and engineering.

BRUCE HARBINSON
Company: Polyphalt Inc.
Position: President & C.E.O.
Residence: Toronto, Canada
Joined Polyphalt Board: 1994
A founding partner of Polyphalt, Mr. Harbinson is also a founding Director of the Association of Modified Asphalt Producers.

DONALD JOHNSTON
Company: Green Island International
Position: Director
Residence: Hong Kong
Joined Polyphalt Board: 2000
Mr. Johnston has been part of the CKI organization since 1988 where he has been responsible for all asphalt and asphalt contracting operations. He is a member of the Institute of Engineers (Australia), a fellow of the Institute of Quarrying (U.K.) and the past chairman of the Institute of Quarrying, Hong Kong Branch.

HOLGER KLUGE
Position: Company Director
Residence: Toronto, Canada
Joined Polyphalt Board: 2000
Mr. Kluge is a director of several organizations including: TAL Global Asset Management Ltd., 724 Solutions Inc., Husky Energy Inc., ProLogic Corporation, Covenant House Toronto, Hong Kong Electric Holdings Limited and Hutchison Telecommunications (Australia) Limited. He was President of Personal and Commercial Bank, Canadian Imperial Bank of Commerce until his retirement in 1999.

ZHI ZHONG LIANG
Company: Polyphalt Inc.
Position: Vice-President, Technology
Residence: Toronto, Canada
Joined Polyphalt Board: 1999
A founding partner of Polyphalt, Mr. Liang has held senior scientific positions in the polymer field in China, Europe and Canada and has been awarded numerous patents.

GEORGE COLIN MAGNUS
Company: Cheung Kong Infrastructure Holdings Limited
Position: Deputy Chairman
Residence: Hong Kong
Joined Polyphalt Board: 2000
Mr. Magnus joined the Cheung Kong group in 1979 and has been Deputy Chairman of Cheung Kong (Holdings) Limited since 1985. He is also Deputy Chairman of Cheung Kong Infrastructure Holdings Limited, the Chairman of the Hong Kong Electric Holdings group and an Executive Director of the Hutchinson Whampoa Ltd.

STEPHEN H. TSANG
Company: Polyphalt Inc.
Position: Chief Financial Officer
Residence: Toronto, Canada
Joined Polyphalt Board: 2000
Mr. Tsang worked for the Cheung Kong and Hutchison Whampoa groups in Hong Kong and mainland China for over 14 years before joining Polyphalt in 2000.

GARY YU
Company: Green Island International
Position: Executive Director
Residence: Hong Kong
Joined Polyphalt Board: 2000
Before joining Green Island Cement in 1993, Mr. Yu worked for over ten years with various companies of the Cheung Kong group.

The following discussion and analysis should be read in conjunction with the Company's consolidated financial statements and notes thereto appearing elsewhere in this Annual Report. (Unless otherwise noted, all dollar figures are in Canadian funds.)

Business Profile of the Company

Polyphalt is a publicly traded, Canadian based company serving the rapidly growing global market for polymer modified asphalt (PMA) technology, products and related services.

Polyphalt's technology has been widely used in the construction of thousands of kilometres and millions of dollars worth of high performance pavements, including interstate highways, city and county roads, airport runway and NASCAR racetracks.

The Company's strategic plan is built on a foundation of technology and has three thrusts: licensing, materials and manufacturing.

As at December 31, 2000 Polyphalt had a network of twelve licensees made up of leading asphalt refiners and suppliers in Canada, the United States, Europe, Australia and China. Four of these licensees were secured in the nine month period ended December 31, 2000. The Company continues to develop new licensees in the paving market. It is also leveraging the technology and expertise developed in the paving market for application in the roofing and coatings markets.

The Company is also actively developing innovative technology delivery systems as part of its materials strategy. These new delivery systems will allow licensees and other customers to purchase Polyphalt technology in a packaged product form.

On February 14, 2001, subsequent to year end, as part of its manufacturing strategy, Polyphalt expanded into the manufacturing sector with the completion of an asset purchase agreement of The GH Company, a specialty asphalt products manufacturer based in Toronto, Ontario.

Strategic Partnership with CKI

On March 31, 2000, Polyphalt became a member of the Cheung Kong Infrastructure Holdings Limited group of companies.

CKI, based in Hong Kong, is a constituent stock of the Hang Seng Index in Hong Kong, the largest diversified infrastructure company in Asia and one of the largest investors in China's infrastructure sector.

CKI's three core businesses - infrastructure materials, transportation and energy - are strategically positioned in the Asia Pacific region. With a strong financial position and extensive experience, CKI has ambitious globalization and diversification plans and is making selective investments based on inherent need, solid return on investment, and excellent future prospects.

Market and Market Environment

The Company is targeting its technologies, products and services at the $15 billion asphalt market. PMAs represent the highest growth segment in each of the key asphalt markets: paving, roofing and coatings.

In the paving market, the superior performance, durability and cost effectiveness of PMAs is fuelling growth. Demand is being driven by major domestic and international government funded infrastructure development and maintenance programs and by infrastructure privatization programs where engineered materials can generate improved returns on investment.

Similar market growth has been experienced, and is predicted to continue, in the roofing and specialty asphalt markets.

Management estimates that PMAs already account for over 10% of the 110,000,000 tons of asphalt used around the world each year and that this market will grow at rates well above those of other asphalt products for the next five years.

Change in Fiscal Year End

Polyphalt changed its fiscal year end from March 31 to December 31 in order to align its fiscal year end with that of its majority shareholder, Grandwin Holding DK ApS, a wholly owned subsidiary of CKI. As a result of this change, financial results are presented for the nine month period from April 1, 2000 through December 31, 2000 as compared to the prior period, twelve months, running from April 1, 1999 through March 31, 2000. Readers of these financial statements should consider the difference in reporting periods and the related impact associated with the seasonality of the business in assessing comparative results (see below).

Results of Operations

Revenues: Despite a shorter fiscal period of only 9 months, revenue increased by 91% compared to the 12-month period ended March 31, 2000. Royalty income and license fees continued to be the major sources of income for Polyphalt, accounting for more than 80% of the total revenue in the current fiscal period.

Polyphalt's current sales have almost doubled despite a slowdown in construction activity due to the increased cost of crude oil. The unanticipated increase in the price of crude oil drove asphalt cement prices up by 50% or more and also resulted in increased polymer and energy prices as well. As a result, according to many industry players and agencies, construction activity has slowed and some projects were deferred to the 2001 season.

However, Polyphalt's growth remained strong, buoyed by three new licensees in North America, Jebro Inc., Montana Refining Company and Gulf States Asphalt Co., and by the signing of the China license agreement with CKI. These new licensees significantly broaden the revenue base of the Company.

Both Jebro Inc. and Gulf States Asphalt Co. started production late in the first quarter ended June 30, 2000. Jebro supplied Polyphalt-based PMA products to numerous hot mix pavement jobs in Iowa to meet stringent new federal specifications for performance graded asphalt cements. Gulf States successfully entered the rapidly growing Texas market for AC-15 5TR, a high performance, crumb rubber modified asphalt used in chip seal, surface treatment applications. In its first season, Gulf States supplied enough of Polyphalt's ***DVx*** materials to surface close to 1,000 lane-kilometres of Texas roads. Montana Refining, which signed its agreement after this year's construction season, will be starting PMA production using Polyphalt technology in 2001.

Revenue from product and material sales had a moderate increase of 9%, notwithstanding a shortage in the supply of recycled tire rubber in the middle of last year.

The impact of the shortened fiscal year on revenues is not considered material given that the first quarter of the calendar year is typically a slower than average period for licensing revenues.

Results of Operations

	9 months ended Dec 31, 2000 C$'000	12 months ended Mar 31, 2000 C$'000
Revenue		
Royalties	800	498
License Fees	735	202
Products & Materials Sales	320	293
Consulting & Other Services	55	8
	1,910	1,001
Less: Cost of Products, consulting & others	343	231
	1,567	770
Expenses		
Wages & Benefits	616	745
Testing, Subcontracting & Consulting	161	190
General & Administration	923	873
Writedown of abandoned patents	35	105
	1,735	1,913
EBITDA	(168)	(1,143)
Amortization	499	758
EBIT	(667)	(1,901)
Interest Income	376	5
Interest Expenses	(107)	(73)
Income (Loss) for the period	(398)	(1,969)

Expenses: Expenses in 2000 were reduced by $178,000 versus those of the prior year reflecting a shorter fiscal period and a much higher activity level during the nine month period. General and administration (G&A) costs rose by 6% due primarily to professional fees and costs associated with the new license agreements during the period.

In April 2000, the Company re-evaluated its estimate of useful life for its intellectual property. As such, the fiscal period results being reported, as well as those to be reported on a prospective basis, reflect a twelve year amortization period as opposed to five years in prior periods. Accordingly, amortization expenses in the fiscal period related to intangible assets such as patents and trademarks were reduced by 34%.

Interest income and expenses: Interest income was generated by the proceeds of private placement to a wholly owned subsidiary of Cheung Kong Holdings Infrastructure Limited on March 31, 2000. The interest expenses represented the debenture interest and equity for the $970,000, 5% convertible debentures issued in November 1999. These debentures will mature by the end of January 2002.

EBITDA: Compared to the prior year, EBITDA (earnings before interest, taxes, depreciation and amortization) for 2000 improved by approximately $975,000. The total loss for the year was $398,091 versus $1,969,014 in the prior year. Had there been no change in year end, the improvements in EBITDA would have been moderately reduced as a result of seasonality factors that typically result in slow first calendar quarter sales combined with normal overhead expenditures.

Taxes: The Company is not currently taxable and, at December 31, 2000, had $3,998,000 of income tax losses and $479, 000 of investment tax credits available to reduce future taxable income. In addition, the Company has $2,224,000 of unclaimed scientific research and experimental expenditures available to reduce future Canadian taxable income.

Liquidity & Capital Resources

Cash Position and Cash Flow: At December 31, 2000 current assets were in excess of $10 million, about 90% of which was cash or cash equivalents.

While the Company's current licensing program is not capital intensive, management expects that certain overhead and operating costs will increase as it builds its human resources, technical support capabilities, market position and new product development.

Management believes that the Company has sufficient financial resources currently to support the next phase of its long-term business plan, which will include making selective investments and acquisitions in product manufacturing as deemed appropriate by management and Directors.

Capital and Intangible Assets: During the past nine month period, the Company spent a total of $282,000 on capital expenditures, 81 percent of which was in the Company's worldwide intellectual property program.

Polyphalt now has a cumulative investment of $1.4 million in patents and trademarks with an amortized net carrying value as of December 31, 2000 of approximately $1 million.

Management believes that the economic value of these intangible assets is well in excess of their amortized value.

Acquisition: In February 2001, subsequent to year-end, Polyphalt acquired all of the operating assets of The GH Company, a privately held manufacturer and marketer of roof coatings, adhesives and pavement maintenance products based in Toronto, Ontario. The company now operates as GH International Inc.

The acquisition of GH International represents a major step forward in Polyphalt's plan to complement its licensing business with related materials and manufacturing businesses.

The acquisition is expected to add over $7 million to Polyphalt's revenues in the current fiscal year.

Dividends: Polyphalt is not currently profitable and has not paid any dividends on its shares.

The Company expects to use future earnings to finance the development and expansion of its business. It does not foresee paying any dividends in the near future.

Risks and Uncertainties: Polyphalt's management monitors, understands and manages the risks associated with business transactions and the business environment.

Personnel: As a technology company, the Company mitigates its business risks by employing and retaining highly skilled, experienced and motivated staff. To protect and enhance the value of its intellectual property assets, the Company uses comprehensive employment agreements that address issues of confidentiality, non-competition and ownership rights.

Intellectual Property: The Company seeks patent and trademark protection for its intellectual property in major markets around the world. There is, however, no assurance that any of the Company's pending patent applications will be granted or that its existing patents will not be challenged.

The Company believes that its portfolio of proprietary technologies has substantial value and, therefore, maintains Intellectual Property Infringement Abatement Insurance to minimize exposure to the costs of enforcing patent rights against suspected infringing parties.

The Company may elect to protect certain intellectual property as trade secrets and know-how, particularly where it can retain control over all sensitive development and manufacturing activities, rather than seeking patent protection.

Seasonality and Cyclicality: Historically, the majority of the Company's licensing royalties and materials related revenues are generated during the construction season from late spring until mid to late fall. These revenues may be affected by such uncontrollable risks as weather or labour disruptions. License fees associated with new license agreements do not follow seasonal patterns.

Sales of GHI products are expected to exhibit some seasonality with the strongest sales occurring in the spring, summer and fall seasons. Product margins are not expected to exhibit significant seasonality in any of the Company's business areas. As a result of the impacts of seasonality, comparing financial performance on a quarter versus prior quarter basis may be misleading and such performance may be more appropriately judged by comparison to equivalent prior year periods.

Given the relatively short operating history of the business, the impact of cyclical effects is difficult to ascertain. Nonetheless, major economic downturns in the Canadian and American economies are not expected to have a material impact on financial results as (i) government spending on infrastructure related projects may actually increase during such periods and (ii) minor roofing and repair work in the DIY (do it yourself) market served by GHI may gain market share at the expense of professional contractors.

Management believes that its business plan, which involves measured degrees of integration and geographic diversification mitigates a large portion of these risks.

Customer Reliance: Although the Company has considerably improved the position of relying on revenues from a single customer from the prior years, its relatively small licensing base is still susceptible to significant financial risk should any matter materially disrupt the business of any of its larger licensees. Increasing merger and acquisition activity within the Company's existing and targeted customer base poses both risks and opportunities that will be addressed within the specific context of any transaction.

Management projections indicate that the growth from current and new licensees will further reduce the Company's exposure in this area.

Competition: The Company believes that its products, technologies and services offer significant sources of competitive advantage over those of its competition. There are, however, many competitors with viable alternatives and access to greater resources. To mitigate this risk, the Company's strategy is to build solid long-term industry relationships, maintain a keen focus on its core competencies and increase its investment in Research & Development and customer service.

Insurance: While the Company has a comprehensive insurance program to mitigate risks and protect against significant loss, it is not fully insured against all risks, nor are all such risks insurable.

Insurance for liability, property, and business interruption is considered adequate and is believed to be consistent with common industry practice.

Foreign Currency and Interest Rates: Although the Company's results are reported in Canadian dollars, a significant portion of its sales and, to a lesser degree, its operating costs are denominated in US dollars. As a result, exchange rate fluctuations may affect the Company's financial results.

The Company maintains US and Canadian dollar bank accounts and attempts to match US costs with US dollar revenues to minimize exchange transactions.

Most of the Company's short term assets are invested in short term deposits. With the acquisition of the business assets of GH International subsequent to the year end, the Company has also assumed certain of its liabilities including the operating line of credit from the Laurentian Bank. Interest rate fluctuations will affect both the interest paid on the line of credit and the interest income generated from the short-term deposits.

Business Outlook

Polyphalt's senior management team is projecting substantial growth in revenues, cash flow and earnings over the coming year and that its strategy and resources will allow Polyphalt to sustain similar levels of growth throughout its longer term planning period. This growth will stem from three inter-related strategies: an expanded licensing program, value-added asphalt modifier sales and, specialty asphalt products manufacturing.

The Company's licensing program continues to progress well. Existing licensees are expected to benefit from further market growth and from increased sales and higher margins as a result of new product development efforts undertaken by the Company. Increased revenue for licensees is directly related to increased royalty revenues for Polyphalt.

Since only a relatively small portion of the Company's potential market is under license, prospects for new license agreements are excellent. We expect several new license agreements to be completed in the next fiscal year and that Polyphalt will maintain the rate of growth that it established in 2000.

The Company has been developing several new product "delivery systems" that will package the Company's proven technologies in simple, easy to use form. Scale-up efforts for the manufacturing of these products are underway. We anticipate conducting product trials in the upcoming fiscal year with the first sales projected for the latter part of 2001.

With its growing licensee network and a number of international prospects, the Company feels that it is well positioned to use these "delivery systems" to rapidly penetrate the value-added asphalt modifier market that is already valued in excess of one billion dollars. Value-added material, or modifier, sales would complement existing royalty income allowing the Company to effectively increase its "dollar per ton" share while concurrently delivering substantial benefits to its customers.

Finally, the Company's new subsidiary, GH International, a manufacturer of specialty asphalt products, is expected to be the first in a series of selective investments and acquisitions that will support Polyphalt's manufacturing strategy.

Management is confident that the years of "investing in our future" are now paying off and that the Company is positioned for a period of accelerated growth and significantly improved financial performance.

Forward Looking Statements

This annual report contains forward-looking statements that involve risk and uncertainties beyond the Company's ability to control or predict. Future results may differ materially from project results depending on factors such as competition, changes in industry structure and alliances, reduced product demand, raw material shortages, price volatility or other factors. Readers are cautioned not to place undue reliance on such forward looking statements.

Toronto, Ontario, Canada

April 19, 2001

The management of Polyphalt Inc. is responsible for the preparation of the accompanying consolidated financial statements and the preparation and presentation of all information in this Annual Report. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and are considered by management to present fairly the financial position and operating results of the Company.

The Company maintains various systems of internal control to provide reasonable assurance that transactions are appropriately authorized and recorded, that assets are safeguarded, and that financial records are properly maintained to provide accurate and reliable financial statements.

The Company's audit committee is composed of three non-management directors who are appointed by the Board of Directors annually. The committee meets periodically with the Company's management and independent auditors to review financial reporting matters and internal controls and to review consolidated financial statements and the independent auditors' report. The audit committee reported its findings to the Board of Directors who have approved the consolidated financial statements.

The Company's independent auditors have examined the consolidated financial statements and their report follows.

Bruce Harbinson	Stephen Tsang
President and C.E.O.	Chief Financial Officer

Auditors' Report

January 16, 2001 (except for Note 14 which is as at February 15, 2001)

TO THE SHAREHOLDERS OF POLYPHALT INC.

We have audited the consolidated balance sheets of **Polyphalt Inc.** as at December 31, 2000 and March 31, 2000 and the consolidated statements of operations and deficit and cash flows for the periods 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 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 consolidated financial statements present fairly, in all material respects, the financial position of the corporation as at December 31, 2000 and March 31, 2000 and the results of its operations and its cash flows for the periods then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Toronto, Canada

Consolidated Balance Sheets

(expressed in Canadian dollars)

	December 31, 2000	March 31, 2000
ASSETS		
Current assets		
Cash and cash equivalents (Note 9)	$ 9,161,257	$ 9,924,840
Accounts receivable (Note 10)		
Trade	231,478	231,618
Other	44,142	12,517
Inventory	674,600	5,255
Prepaids and other assets	94,906	7,035
	10,206,383	10,181,265
Capital assets (Note 3)	80,805	118,363
Intangible assets (Note 4)	1,147,902	1,362,824
	$ 11,435,090	$ 11,662,452
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 5 & 10)	$ 722,958	$ 623,169
Current portion of capital lease obligation	28,143	29,580
	751,101	652,749
Capital lease obligation	–	22,186
Liability component of convertible debentures (Note 6)	839,968	769,730
	1,591,069	1,444,665
SHAREHOLDERS' EQUITY		
Equity component of convertible debentures (Note 6)	242,500	242,500
Capital stock (Note 7)	18,605,583	18,581,258
Deficit	(9,004,062)	(8,605,971)
	9,844,021	10,217,787
	$ 11,435,090	$ 11,662,452

Commitments (Note 10)

Approved by the Board of Directors

Director

Director

Consolidated Statements Of Operations And Deficit

(expressed in Canadian dollars)

	Period ended December 31, 2000	Year ended March 31, 2000
Revenue		
Royalties	$ 800,085	$ 497,672
Licence fees (Note 10)	734,642	202,304
Product and material sales	319,553	292,690
Other	55,377	8,487
	1,909,657	1,001,153
Cost of product and material sales	295,191	231,299
Cost of consulting and other services	48,096	–
	1,566,370	769,854
Expenses		
Wages and benefits	615,471	744,855
Testing, subcontracting and consulting (Note 10)	161,097	190,533
General and administrative	923,108	872,749
Amortization	499,434	758,303
Writedown of abandoned patents	35,308	105,055
	2,234,418	2,671,495
Interest Income	376,745	5,689
Interest Expense	(106,788)	(73,062)
	269,957	(67,373)
Loss for the period	(398,091)	(1,969,014)
Deficit - Beginning of period	(8,605,971)	(6,636,957)
Deficit - End of period	$ (9,004,062)	$ (8,605,971)
Loss per common share (Note 8)	$ (0.01)	$ (0.17)

Consolidated Statements Of Cash Flows

(expressed in Canadian dollars)

	Period ended December 31, 2000	Year ended March 31, 2000
CASH PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Loss for the period	$ (398,091)	$ (1,969,014)
Items not affecting cash		
Amortization of intangible assets	409,759	618,098
Amortization of capital assets	89,675	140,205
Writedown of abandoned patents	35,308	105,055
Wages paid in common shares	—	141,800
Non-cash interest expense (Note 6)	106,788	73,062
Unrealized foreign exchange gain	(12,225)	—
Changes in non-cash working capital (Note 9)	(688,912)	115,138
	(457,698)	(775,656)
FINANCING ACTIVITIES		
Proceeds on issuance of common shares	—	9,950,029
Proceeds on issuance of convertible debentures	—	970,000
Proceeds (repayment) of amounts due to shareholder	—	(100,000)
	—	10,820,029
INVESTING ACTIVITIES		
Acquisition of intangible assets	(230,145)	(264,254)
Acquisition of capital assets	(52,117)	(1,318)
Payment on capital lease obligation	(23,623)	(29,580)
	(305,885)	(295,152)
Increase (decrease) in cash and cash equivalents during the period	(763,583)	9,749,221
Cash and cash equivalents - Beginning of period	9,924,840	175,619
Cash and cash equivalents - End of period (Note 9)	$ 9,161,257	$ 9,924,840

Supplementary cash flow information (Note 9)

Notes to Consolidated Financial Statements

December 31, 2000 and March 31, 2000
(expressed in Canadian dollars)

1. NATURE OF OPERATIONS

The corporation was incorporated on January 13, 1992 under the Ontario Business Corporations Act to carry out research, development and commercialization of advanced process technologies for asphalt modification for use in the paving, roofing and industrial markets. The corporation has developed a portfolio of advanced polymer modification processes, the first of which was originally invented at the University of Toronto and subsequently licensed to the corporation. The corporation's process technologies rely primarily on recycled plastic and rubber to improve the performance and durability of conventional asphalt.

During the year, the corporation changed its fiscal year-end to December 31.

2. GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the corporation have been prepared in accordance with Canadian generally accepted accounting principles. The principal accounting policies followed by the corporation, which have been consistently applied, are summarized as follows:

(a) 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 amount 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 period. Actual results could differ from those estimates.

It is possible that the estimates of the remaining economic life of the intangible assets will be reduced due to competitive pressures. If this should occur, the carrying amount of the patent costs may be materially reduced.

(b) Basis of consolidation

These consolidated financial statements reflect the accounts of the corporation and those of its wholly owned subsidiaries, Polyphalt Canada Inc. and Polyphalt America Inc. On March 31, 2000, its wholly owned subsidiary, Polyphalt LLC, was dissolved.

(c) Cash and cash equivalents

Cash and cash equivalents consist of cash and highly liquid investments that have original maturities of three months or less.

(d) Inventory

Inventory consists of crumb rubber and is stated at the lower of cost and net realizable value on a first-in, first-out basis.

(e) Investment tax credits

Investment tax credits are a form of government assistance related to specific qualifying expenditures. This initiative was established to encourage scientific research and experimental development by defining eligible expenditures and allowing a credit to be calculated on the total eligible expenditures at certain prescribed rates.

Investment tax credits are accounted for using the cost reduction method and accordingly are deducted from the related research and development expenditures in the year incurred, provided there is reasonable assurance they will be realized. In 2000, no investment tax credits have been recorded.

(f) Capital assets

Capital assets are recorded at the lower of cost, net of accumulated amortization, and net recoverable amount. Equipment is amortized over its useful life ranging from three to five years and leasehold improvements are amortized over the term of the related lease.

(g) Deferred costs and licence agreement

Research costs are expensed as incurred and development costs, which meet the criteria for deferral and are expected to provide future benefits with reasonable certainty, are deferred. These costs are amortized over the period of the expected benefit, not to exceed five years.

The licence agreement with the University of Toronto Innovations Foundation (the Foundation) is recorded at cost and is amortized over the period of the expected benefit, not to exceed five years.

(h) Patent costs

Patent costs represent the accumulation of legal costs incurred in securing patents. Costs relating to patents that are pending or issued are capitalized. Costs related to patents that have been abandoned are written off in the year of abandonment. Costs for patents that have been issued are amortized over the period of the expected benefit, not to exceed 12 years.

(i) Revenue recognition

Licence fees are recognized when the corporation's obligation under the terms of the related agreements have been fulfilled and reasonable assurance regarding measurement and collectibility of the consideration exists.

Royalties are recognized in accordance with the terms of the related agreement based on a percentage of sales and the sales amounts collected by the licensee.

Revenue related to sale of materials are recorded when shipped, net of provision for returns.

(j) Foreign currency translation

Transactions denominated in foreign currencies and the accounts of the company's integrated foreign subsidiaries are translated using the temporal method. Under the temporal method, monetary assets and liabilities are translated into Canadian dollars at the exchange rate prevailing at the balance sheet date, whereas other non-monetary assets, liabilities and transactions are translated at exchange rates prevailing at the respective transaction dates. Exchange gains and losses are included in the consolidated statements of operations and deficit.

(k) Income taxes

The company follows the assets and liability method of accounting for income taxes. Under this method, future tax assets and liabilities are determined based on the differences between the financial reporting and income tax bases of assets and liabilities and are measured using the enacted tax rates and laws. The company provides a valuation allowance for future tax assets when it is more likely than not that the future tax assets will not be realized.

(l) Stock options issued to service providers

Stock options issued to service providers are recorded at their fair market value at the date of the grant. This amount is charged to operations over the periods in which services are rendered.

(m) Stock-based compensation plans

The corporation's stock option plan is described in note 7. No compensation expense is recorded for these plans when stock or stock options are issued to employees at fair value. Any consideration paid by employees on the exercise of options or purchase of stock is credited to share capital. If stock or stock options are repurchased from employees, the excess of the consideration paid over the carrying amount of the stock or stock option cancelled is charged to contributed surplus.

(n) Earnings (loss) per share

Basic earnings (loss) per share are computed by dividing the earnings (loss) for the year by the weighted monthly average number of common shares outstanding during the year. Fully diluted earnings (loss) per share are computed by dividing the earnings (loss) for the year by the weighted average number of common and potential common shares outstanding during the year. Potential common shares consist of common shares issuable upon the exercise of share options. Potential common shares are excluded from the calculation if their effect is anti-dilutive, as was the case for the period ended December 31, 2000 and the year ended March 31, 2000.

(o) Financial instruments

Financial instruments are initially recorded at historical cost. If subsequent circumstances indicate that a decline in the fair value of a financial asset is other than temporary, the financial asset is written down to its fair value. Unless otherwise indicated, the fair values of financial instruments approximate their recorded amounts.

The corporation is exposed to foreign exchange risk to the extent that the majority of its revenue is derived from the United States and is earned in a currency other than that used for reporting purposes.

(p) Concentration of credit risk

The corporation's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and accounts receivable. Cash and cash equivalents include short-term highly liquid investments that are readily convertible into cash. These investments are in place with a major bank and financial institution. The corporation performs ongoing credit evaluations of its customers' financial condition.

3. CAPITAL ASSETS

	December 31, 2000 Cost	December 31, 2000 Accumulated Amortization	December 31, 2000 Net
Equipment	$ 424,786	$ 343,981	$ 80,805
Leasehold improvements	230,172	230,172	—
	$ 654,958	$ 574,153	$ 80,805

	March 31, 2000 Cost	March 31, 2000 Accumulated Amortization	March 31, 2000 Net
Equipment	$ 372,669	$ 275,070	$ 97,599
Leasehold improvements	230,172	209,408	20,764
	$ 602,841	$ 484,478	$ 118,363

4. INTANGIBLE ASSETS

	December 31, 2000 Cost	December 31, 2000 Accumulated Amortization	December 31, 2000 Net
Deferred costs	$ 2,054,548	$ 1,983,043	$ 71,505
Patent costs	1,375,464	307,400	1,068,064
Licence agreement	500,000	491,667	8,333
	$ 3,930,012	$ 2,782,110	$ 1,147,902

	March 31, 2000 Cost	March 31, 2000 Accumulated Amortization	March 31, 2000 Net
Deferred costs	$ 2,017,157	$ 1,680,357	$ 336,800
Patent costs	1,218,018	275,327	942,691
Licence agreement	500,000	416,667	83,333
	$ 3,735,175	$ 2,372,351	$ 1,362,824

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2000	March 31, 2000
Trade accounts payable	$ 412,347	$ 233,974
Professional fees	250,147	335,706
Wages and withholding taxes	50,159	23,494
Subcontracting fees	10,305	29,995
	$ 722,958	$ 623,169

6. CONVERTIBLE DEBENTURES

On August 12, 1999, the corporation issued special notes for gross cash consideration of $970,000. On November 8, 1999, the special notes were converted into convertible debentures (the debentures) for no additional consideration upon the receipt of a qualifying prospectus. The debentures bear interest at the rate of 5% per annum, payable semi-annually and mature on January 31, 2002. The debentures are secured by a floating charge on the corporation's assets and this debenture is convertible at the option of the holder at any time prior to the maturity date into 2.5 common shares of the corporation for each $1 of principal.

At the date of issue, the total consideration allocated to each component of the convertible debenture was as follows:

Financial liability component, being the present value of future principal and interest obligations at a discount rate of 15%	$ 727,500
Equity component which represents fair value of the conversion feature	242,500
	$ 970,000

The interest expense for the debentures is composed of the interest calculated on the face value of the convertible debenture at the rate of 5% per annum, plus a notional interest annually representing the accretion of the book value of the debentures. The interest expense on the debentures is as follows:

	Period Ended December 31, 2000	Year Ended March 31, 2000
Interest expense on face value (a)	$ 36,550	$ 30,832
Notional interest representing accretion	70,238	42,230
Interest expense for the period	$ 106,788	$ 73,062

(a) $24,325 of this liability was settled by way of the issuance of 97,298 (March 31, 2000 - 123,329) common shares (Note 7(d)).

The liability portion of the debenture is as follows:

	Period Ended December 31, 2000	Year Ended March 31, 2000
Financial liability component	$ 769,730	$ 727,500
Notional interest representing accretion	70,238	42,230
	$ 839,968	$ 769,730

No principal repayments are required on the debentures prior to maturity on January 31, 2002. The debentures may be prepaid by the corporation in whole or in part at any time provided the holder receives an additional one common share for each $1 of principal repaid.

7. CAPITAL STOCK

Authorized and issued share capital

(Authorized capital comprises an unlimited number of common shares.)

	December 31, 2000 Number	December 31, 2000 Amount	March 31, 2000 Number	March 31, 2000 Amount
Capital stock				
Balance - Beginning of period	34,058,403	$ 18,166,840	11,738,408	$ 8,080,179
Shares issued for cash (a)	—	—	21,750,000	9,950,029
Shares issued as remuneration	—	—	496,666	141,800
Shares issued as interest payment (b)	97,298	24,325	123,329	30,832
Employee share purchase loan (c)	—	—	(50,000)	(36,000)
Balance - End of period	34,155,701	18,191,165	34,058,403	18,166,840
Contributed surplus		414,418		414,418
		$ 18,605,583		$ 18,581,258

(a) On March 31, 2000, the corporation issued 21,750,000 common shares from treasury by way of private placement for gross cash proceeds of $10,005,000. Expenses totalling $54,971 related to the issuance of the common shares have been incurred to yield net proceeds of $9,950,029.

(b) 97,298 (March 31, 2000 - 123,329) common shares were issued in lieu of cash interest on the convertible debentures (note 6).

(c) On March 31, 2000, the corporation repurchased for cancellation shares pledged as collateral for an employee loan receivable. The difference between the weighted average cost per share and the settlement amount is reflected as a reduction in contributed surplus.

Stock Options

The corporation has an incentive plan under which options to purchase common shares may be granted to its directors, officers and employees at the discretion of the Board of Directors. Each option under the incentive plan, which allows for the purchase of one common share, expires not later than ten years from the date on which it was granted and is cumulative, non-assignable and non-transferable. The option exercise price is set at the fair value at the date of grant.

The number of shares issuable under options and the average option price per share are as follows:

	Period ended December 31, 2000		Year ended March 31, 2000	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Shares issuable under options				
Beginning of period	1,137,200	$ 0.85	803,200	$ 1.12
Granted	560,000	0.76	479,000	0.40
Cancelled	(7,500)	1.70	(145,000)	0.68
End of period	1,689,700	$ 0.82	1,137,200	$ 0.85
Options exercisable at period-end	840,033		691,867	

The options to directors, officers and employees at December 31, 2000 are as follows:

Range of exercise prices $	Number outstanding at December 31, 2000	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at December 31, 2000	Weighted average exercise price
0.40	484,000	8.97	$ 0.40	95,000	$ 0.40
0.51 to 0.60	62,000	7.81	0.53	41,333	0.53
0.70 to 1.00	560,000	9.38	1.00	120,000	1.00
1.01 to 1.17	396,700	5.27	1.10	396,700	1.10
1.40 to 1.70	187,000	3.37	1.61	187,000	1.61
0.40 to 1.70	1,689,700	7.58	$ 0.82	840,033	$ 1.09

8. LOSS PER COMMON SHARE

Loss per common share was based on a weighted average number of shares outstanding during the period ended December 31, 2000 of 34,090,954 (March 31, 2000 - 11,921,045). Calculation of fully diluted common shares is anti-dilutive.

9. CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in non-cash working capital are as follows:

	Period ended December 31, 2000	Year ended March 31, 2000
Decrease (increase) in current assets		
Accounts receivable	$ (31,485)	$ (126,521)
Inventory	(669,345)	5,255
Prepaids and other assets	(87,871)	19,574
Increase in current liabilities		
Accounts payable and accrued liabilities	99,789	216,830
	$ (688,912)	$ 115,138
Cash and cash equivalents		
Cash	955,496	20,245
Short-term deposits	8,205,761	9,904,595
	$ 9,161,257	$ 9,924,840
Supplementary cash flow information		
Cash interest paid	2,177	4,266
Cash income taxes paid	35,704	35,461
Non-cash interest paid (Note 6(a))	24,325	30,832

10. RELATED PARTY TRANSACTIONS

Included in accounts receivable are amounts totalling $63,581 (March 31, 2000 - $6,000) from various companies with the same shareholder(s) of the corporation. These amounts represent recoverable expenses paid by the corporation on behalf of the related parties.

Included in accounts payable are amounts totalling $1,476 (March 31, 2000 - $9,200) payable to various shareholders of the corporation for miscellaneous expenses.

Included in testing, subcontracting and consulting expenses are subcontract fees at the exchange amount of $78,000 (March 31, 2000 - $123,000) paid to certain shareholders of the corporation.

During the March 31, 2000 fiscal year, the corporation amended its agreement to lease office and laboratory facilities from certain shareholders of the corporation at the exchange amount of $94,576 for the fiscal year ending December 31, 2001, $96,751 for fiscal year 2002 and $97,476 for fiscal year 2003.

Included in revenue are licence fees of $600,000 received from the corporation's majority shareholder.

11. INCOME TAXES

The corporation's income tax provision has been determined as follows:

	Period ended December 31, 2000	Year ended March 31, 2000
Loss for the period	$ (398,000)	$ (1,969,000)
Combined basic federal and provincial income tax recovery at 43.5% (March 31, 2000 - 43.62%)	(175,000)	(859,000)
Permanent non-tax deductible expenses	49,000	43,000
Foreign tax rate differential	(1,000)	11,000
Provincial research and development deduction	(15,000)	(17,000)
Net operating loss and temporary differences for which no benefit was recognized	142,000	822,000
	$ —	$ —

As at December 31, 2000, the corporation has available non-capital losses for tax purposes that may be used to reduce taxable income in future years. The benefit of these income tax losses has not been recognized in these consolidated financial statements and expires as follows:

2001	$ 371,000
2002	208,000
2003	—
2004	1,172,000
2005	1,465,000
2006	782,000
	$ 3,998,000

There are approximately $2,224,000 of unclaimed scientific research and experimental development expenditures available to reduce future Canadian taxable income of the corporation, which have no expiry date. The corporation has earned non-refundable investment tax credits amounting to approximately $479,000 that can be applied to reduce future Canadian federal income taxes payable, and expire as follows:

2004	$	70,000
2005		27,000
2006		99,000
2007		67,000
2008		67,000
2009		83,000
2010		66,000
	$	479,000

The benefit of these losses and non-refundable investment tax credits and unclaimed scientific research and experimental development expenditures has not been recognized in these consolidated financial statements. The significant components of future income tax assets and liabilities are summarized as follows:

		Period ended December 31, 2000		Year ended March 31, 2000
Future income tax assets				
Benefit of unclaimed scientific research and experimental development expenditures	$	630,000	$	703,000
Non-capital loss carry-forward		1,557,000		1,971,000
Benefit of net investment tax credi		479,000		413,000
Amortization		903,000		864,000
Share issue costs		100,000		156,000
		3,669,000		4,107,000
Valuation allowance		(3,669,000)		(4,107,000)
Net future tax assets	$	—	$	—

The valuation allowance decreased by $438,000 during the period ended December 31, 2000 primarily as a result of the effect of a decrease in the substantially enacted tax rates and the expected timing of utilization of future tax assets (March 31, 2000 - increased by $1,416,000). Realization of the future tax benefits is dependent upon many factors, including the company's ability to generate taxable income within the loss carry-forward periods.

12. SEGMENTED INFORMATION

The percentage of revenue by individual customer, which accounts for more than 10% of revenue, is as follows:

	Percentage by customer			
	First customer %	Second customer %	Third customer %	Fourth customer %
December 31, 2000	32.4	25.9	19.8	7.1
March 31, 2000	—	60.2	—	32.8

The corporation operates in one principal business segment across geographically diverse markets.

Revenue earned from customers by country of customer domicile and capital assets and goodwill attributable to those countries are as follows:

		Period ended December 31, 2000		Year ended March 31, 2000
Revenue by geographic location				
Canada	$	59,500	$	28,982
United States		1,170,122		933,318
Asia		655,377		—
Other		24,658		37,301
Intangible and capital assets by geographic location				
Canada		184,347		222,227
United States		106,991		128,976
Europe		417,632		503,449
Asia		230,136		227,425
Other		289,601		349,109

13. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses included in the consolidated statements of operations are $346,197 (March 31, 2000 - $280,768).

14. SUBSEQUENT EVENT

On February 14, 2001, the corporation purchased assets valued at approximately $6 million and assumed certain liabilities with an estimated value of $4.7 million from G.H. Holdings Inc. Up front cash consideration was $700,000 with the balance payable on or before September 14, 2000, subject to final valuation of certain assets and liabilities.

15. COMPARATIVE FIGURES

Certain of the prior year's figures were reclassified to conform to the current period's financial statement presentation.

Corporate Information

OFFICERS

Barrie Cook
Chairman

Bruce Harbinson
President & Chief Executive Officer

Zhi Zhong Liang
Vice President, Technology

Larry Firmin (4)
Vice President, Market Development

Stephen Tsang
Chief Financial Officer

W.S. Vaughan
Corporate Secretary

DIRECTORS

Robert J. Barnett (1) (4)
Company Director and Financial Consultant

Barrie Cook
Chairman of the Board

Ralph Haas (2) (3)
Chairman Emeritus, Stantec Consulting Ltd.
Distinguished Professor Emeritus of Civil Engineering, University of Waterloo

Bruce Harbinson (4)
President & Chief Executive Officer, Polyphalt Inc.

Don Johnston (4)
Director, Green Island International

Holger Kluge (1) (2) (3)
Company Director

Zhi Zhong Liang (4)
V.P. Technology, Polyphalt Inc.

George Magnus (3)
Deputy Chairman, Cheung Kong Infrastructure Holdings Limited

Stephen Tsang (4)
Chief Financial Officer, Polyphalt Inc.

Gary Yu (4)
Executive Director,
Green Island International

(1) Audit Committee (2) Human Resources Committee
(3) Corporate Governance Committee (4) Executive Committee

SERVICES

Auditors
PricewaterhouseCoopers LLP
Toronto, Ontario

Bankers
Toronto Dominion Bank and
The Canadian Imperial Bank of Commerce
Toronto, Ontario

Legal Counsel
Aird & Berlis
Toronto, Ontario

Patent & Trademark Counsel
Sim & McBurney
Toronto, Ontario

Transfer Agent & Registrar
Equity Transfer Services
Toronto, Ontario

SECURITIES INFORMATION

Shares Outstanding: 34,155,701
Market: Canadian Venture Exchange (CDNX)
Trading Symbol: YPY
Cusip#: 731 906-10-3
Other: Standard & Poor's Corporation Records Listing
12g3-2(b) Exemption #82-4585

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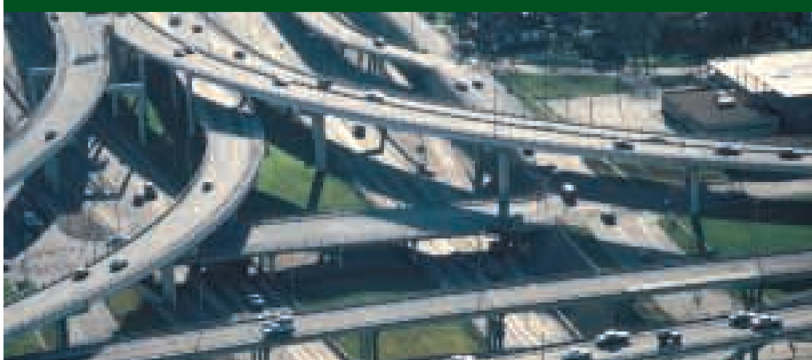
Forward Looking Statements: This annual report contains forward looking statements which involve risk and uncertainties that are beyond the Company's ability to control or predict. Future results may differ materially from projected results depending on factors such as competition, changes in industry structure and alliances, reduced product demand, raw material shortages, price volatility or other factors. Readers are cautioned not to place undue reliance on such forward looking statements.



POLY PHALT INC

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