

COMMON STOCK

The Chromaline Corporation common stock is traded on the Nasdaq SmallCap market under the symbol CMLH. A market in The Chromaline Corporation common stock is maintained by:

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TRANSFER AGENT

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The Chromaline Corporation
4832 Grand Avenue • Duluth, MN 55807



2001

THIRD QUARTER REPORT

THE CHROMALINE CORPORATION

November 5, 2001

To Our Stockholders,

Sales for the third quarter were flat with last year. We posted a loss of \$74,000, or \$0.06 per diluted share compared to a profit of \$0.02 per diluted share in the third quarter of 2000. The loss on comparable sales primarily reflects a shift to lower margin products.

The screen printing industry is in a recession. Our European screen print sales are up over last year, but this is attributable to better distribution rather than the health of the industry. To grow in the screen print market, we are introducing new products outside of our traditional photochemical line.

Our newest product results from a strategic alliance with Digital IMS Corporation of Lincoln, Nebraska for sole distribution rights to ScreenPrinterPresence.com; a web site software that enables printers to establish customized direct interactive contact with individual customers. We have tested and added content to the ScreenPrinterPresence.com package and are confident that it will bring significant value to the customer and sales to Chromaline. In addition to the alliance on the screen print product, Chromaline has non-exclusive distribution rights to Digital IMS products designed for sign and offset printers. We will begin selling these products in November.

These products will be sold through Split Rock Technologies, a new division of Chromaline aimed at selling products to customers that lie outside of our traditional markets and channels of distribution. In the fourth quarter we will also begin selling through Split Rock a line of soy based hand cleaners to the industrial and home markets. This product is derived from a soy based cleaner for screen printers that is part of our Nichols Chemical line.

Sales of our abrasive etching products continue to grow and a recent marketing alliance with the Aicello Corporation for European distribution should further boost those sales.

The company is financially strong. Our challenge is to a diversify our markets and products while remaining focused on what we do best, which is make excellent products and provide excellent service. New opportunities will not be allowed to divert us from these core strengths. As the screen print industry recovers, we will emerge as a more robust company with a broader base of markets and products.

Like the rest of the nation, the events of September 11th were deeply felt here and our sympathies go out to all those affected by this tragedy. Chromaline recently held a fundraiser with proceeds going to the disaster relief fund. I want to thank our employees for their generous contributions.

For the Board of Directors,



William C. Ulland
Chairman, President & CEO

This letter contains statements regarding future sales, potential acquisitions that involve risks and uncertainties. The company's actual results could differ materially as a result of domestic and global economic conditions, competitive market conditions, acceptance of new products, the ability to identify and make suitable acquisitions, as well as the factors described in the company's Form 10-KSB on file with the SEC.

THE CHROMALINE CORPORATION

Statements of Operations

For the Three and Nine Month Periods Ending September 30, 2001 and 2000

	Three Months Ending		Nine Months Ending	
	9/30/01	9/30/00	9/30/01	9/30/00
Sales	\$ 2,519,461	\$ 2,500,781	\$ 8,068,707	\$ 7,776,547
Costs, expenses, and other income	<u>2,631,224</u>	<u>2,465,050</u>	<u>8,092,658</u>	<u>7,259,431</u>
Income (loss) before income taxes	\$ (111,763)	\$ 35,731	\$ (23,951)	\$ 517,116
Federal & state income tax expense (benefit)	<u>(37,700)</u>	<u>14,000</u>	<u>(9,100)</u>	<u>197,000</u>
Net income (loss)	<u>\$ (74,063)</u>	<u>\$ 21,731</u>	<u>\$ (14,851)</u>	<u>\$ 320,116</u>
Earnings (loss) per common share - diluted	<u>\$ (0.06)</u>	<u>\$ 0.02</u>	<u>\$ (0.01)</u>	<u>\$ 0.25</u>
Average shares outstanding - diluted	1,271,627	1,301,961	1,271,627	1,303,941

Balance Sheets

as of September 30, 2001 and December 31, 2000

Assets	9/30/01	12/31/00
Current Assets	\$ 4,435,299	\$ 4,319,167
Property, Equipment & Patents	1,373,102	1,494,034
Investment	187,500	112,500
Other Intangible	291,956	307,880
Deferred Taxes	<u>105,000</u>	<u>105,000</u>
	<u>\$ 6,392,857</u>	<u>\$ 6,338,581</u>
Liabilities and Equity		
Current Liabilities	\$ 609,047	\$ 552,644
Long Term Debt	0	0
Stockholders' Equity	<u>5,783,810</u>	<u>5,785,937</u>
	<u>\$ 6,392,857</u>	<u>\$ 6,338,581</u>

Summary of Quarterly Statements

(Thousands of Dollars)

Quarter Ended	2001			2000			1999		
	Sales	Net Income (loss)	Earnings Per Share	Sales	Net Income (loss)	Earnings Per Share	Sales	Net Income	Earnings Per Share
March 31									
June 30	\$ 2,858	\$ 88	\$.07	\$ 2,414	\$ 50	\$.04	\$ 2,351	\$ 143	\$.11
September 30	2,691	(29)	(.02)	2,861	248	.19	2,678	258	.20
December 31	2,520	(74)	(.06)	2,501	22	.02	2,574	193	.15
				2,591	(65)	(.05)	2,779	210	.16
	<u>\$ 8,069</u>	<u>\$(15)</u>	<u>\$(.01)</u>	<u>\$10,367</u>	<u>\$ 255</u>	<u>\$.20</u>	<u>\$10,382</u>	<u>\$ 804</u>	<u>\$.62</u>

Unaudited interim financial information

Sales in 1999, and 2000 restated to reflect EITF 00-10 ruling on freight cost recognition.