



Annual report 2009

Siding - Roofing - Accessories



NOVIK

2009 FISCAL YEAR HIGHLIGHTS

- **16% increase in sales in North America**
- **24% increase in sales in fourth quarter 2009**
- **25% decrease in sales to \$15,100,000 explained by decreased sales in Europe**
- **Large order valued at \$2,300,000 received during fourth quarter 2009 from a new American distributor**
- **Launch of five new exterior coverings in 2009, creating new business opportunities**
- **Net loss of \$776,000 compared with a net profit of \$875,000**

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management's discussion and analysis ("MD&A") was prepared in order to help the reader understand the company's activities, performance, and financial position as at December 31, 2009. This MD&A analysis compares the operating results and the cash position of this fiscal year with those of the fiscal year ended December 31, 2008. This analysis of the company's results of operations and financial position should therefore be read in conjunction with the audited consolidated financial statements and related notes for the fiscal years ended December 31, 2009 and 2008, included in the company's annual report. The consolidated financial statements are expressed in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles. All amounts in this MD&A are expressed in thousands of Canadian dollars, unless otherwise indicated.

The following information takes into account any significant event that occurred up until March 25, 2010, the date of the approval by the board of directors of this MD&A, on the recommendation of the audit committee.

NON-GAAP MEASURES

The company uses adjusted EBITDA (earnings before interest, income taxes, stock-based compensation costs, depreciation, and amortization), long-term debt to net tangible value, as well as the working capital ratio, three non-GAAP measures, to evaluate the company's performance and capital structure. Securities regulators require that issuers caution readers that measures adjusted to a basis other than GAAP do not have standardized meaning under GAAP and are unlikely to be comparable to similar measures used by other companies. These non-GAAP measures, defined in the capital disclosure portion of the "Capital Disclosures" section of this MD&A, are presented solely as supplemental disclosure, because management believes that they provide useful information regarding the company's operating performance and capital structure.

FORWARD-LOOKING STATEMENTS

This MD&A may contain statements that are forward-looking in nature. These forward-looking statements may involve, but are not limited to, comments with respect to the company's business or financial objectives, its strategies or future actions, its targets, expectations for financial condition or outlook for operations and future earn-out and additional equity interest obligations. Forward-looking statements are not guarantees of future performance, and actual results may differ materially from those in the forward-looking statements as a result of various factors, including downturns in general economic conditions and resulting changes in customer business, dependence upon a limited number of customers contributing a significant percentage of income, inability to acquire new customers or new orders and the retention of key management and technical personnel. Assumptions relating to the foregoing involve judgments and risks, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the company. Although Management believes that the expectations reflected in the forward-looking statements are reasonable based on information currently available, it cannot assure that the expectations will prove to have been correct. Accordingly, the reader should not place undue reliance on forward-looking statements.

CORE BUSINESS, VISION, AND STRATEGY

Core business activity

Novik is a Canadian company specializing in the design, manufacturing, and marketing of polymer exterior covering and roofing products and a wide variety of exterior structural and decorative products for the residential and commercial construction and home improvement industry. Polymer covering and roofing products provide a new cost-effective solution for consumers. Novik is a leader in the polymer exterior covering and roofing market, which is the fastest growing material sector in the worldwide construction industry. Novik's products replicate traditional construction materials such as wood, brick, stone, slate, and clay. These products offer many benefits, such as easy installation, low maintenance, and high weather resistance at a fraction of the cost of traditional materials.

According to a study by experts in the exterior covering industry, the polymer sector is expected to see one of the largest growth rates in a market of more than \$7 billion in North America alone. The North American roofing market adds another \$10 billion. Novik expects to gain a greater worldwide market share over the coming years with its wide range of innovative products and the limited number of competitors. Novik's product variety and quality give it a strong competitive advantage.

Geographical scale

Novik's sales are made through direct employees and sales agents to distributors who, in turn, resell them to contractors and retailers. Sales are also made directly to superstores. Some of Canada's largest distributor networks ensure that "Novik" products are present in Canada's main cities. A team of four employees travels all around the Canadian territory to promote better awareness of our products. In the United States, the company is represented by a team of five employees as well as a dozen manufacturers' agents in nearly 25 states. International sales throughout the rest of the world now represent a significant share of its business. Through its sustained marketing efforts and its distributors, Novik has generated a remarkable increase in international sales in recent years. Novik has solid business relationships with distributors throughout Asia and Europe and strong potential in South America.

Strategically, Novik is concentrating on further establishing itself on the global market, especially in Canada and the United States. Given that the type of products manufactured by Novik is better known in these two countries, we are investing more effort and money into this territory. However, we are continuing efforts in countries where Novik has strong growth potential, including Russia, Mexico, Germany, France, and England. With our extended product line of various exterior coverings, roofing products, and accessories, Novik can easily meet the needs of consumers worldwide and therefore reduce the risk of concentrating its sales in any one particular market.

VISION

Company strategy

Novik's mission is to be recognized around the world as the specialist in polymer exterior siding products with our range of innovative, high-quality products.

As part of its three-year (2009-2011) strategic plan, Novik's management discussed the strategic directions to be put into place to achieve this mission.

This brainstorming resulted in three strategic directions to allow the entire Novik team to focus on these objectives over a three-year period.

These three strategic directions are:

- Developing a marketing approach based on strong growth of its sales in 2011 compared with 2008
- Offering a range of innovative, competitive, high-quality, cutting-edge products responding to market trends and customer needs
- Providing Novik with organizational processes to assess performance and to give priority to the actions necessary for achieving the strategic objectives

Strategic directions

Novik's annual financial results for 2009 do not demonstrate the breakthroughs made in the North American market. The economic difficulties of some of our American competitors, combined with the introduction of new exterior covering products in summer 2009, allowed Novik to gain significant market shares in 2009. Despite the credit crisis seen primarily in the United States, Novik managed to increase its sales in this country. Novik was able to meet and finalize important agreements with major players in the US market during the year, putting Novik in a good position for 2010 as well as for the upcoming economic recovery. On the Canadian side, Novik also managed to increase its sales, mainly in Quebec and the Maritime provinces. The Novexpert pilot program tested in Quebec in 2009 was positive. This program to raise awareness of our products with installers, contractors, and end-consumers put Novik in good position in this province. We will continue this program in this territory and debut it in 2010 in targeted territories in the rest of Canada and on the east coast of the US.

Internationally, it is true that we have suffered a sharp decline in our sales in Eastern Europe. However, we believe that the worst is over and foresee a return to growth in this territory with the addition of new distributors.

For the reasons mentioned above, we have decided to pursue the strategic directions in our 2009-2011 three-year strategic plan.

Developing a marketing approach based on market development to achieve strong sales growth in three years

Novik's marketing strategy will now target four areas: Eastern Canada (Quebec and the Maritime provinces), Western Canada (from Ontario to British Columbia), the United States, and the international market.

Each area always has the same leader, which will allow Novik to take concrete measures specific to each area. We have managers in place to maximize the performance foreseen for the coming years in a context of sales growth.

In addition, we hired a managing director with extensive experience in managing a sales and marketing team. He began in February 2010 and will be responsible for implementing and overseeing an action plan for making our strategic plan a success with our management team.

Novik's ultimate goal is to create a proactive network for each area between the manufacturer, the distributor, and the specialist in order to boost demand with the end-user. In recent years, Novik relied heavily on distributors. Based on our analysis, we believe that Novik's sales potential is currently understated in these areas, and a more proactive approach will be observed in the coming years.

As mentioned above, a pilot program was implemented in Quebec in 2009. We have made the decision to continue this Novexpert program based on the increase in our sales and the greater visibility of our products in this area. This program devotes significant human and financial resources to the marketing of Novik products. The ultimate goal is to present Novik's products to end-users while demonstrating the advantages of our products: aesthetics, the possibility of differentiation, and quality. Advertisements in neighbourhood publications in collaboration with contractors, participation in regional trade fairs for new home constructions or renovation projects, television commercials, and a

magazine showing the various applications of Novik products are all concrete measures that were and will be taken this year. In addition, our Novexpert program will help to retain construction specialists to promote the link between them and the end-consumer. The signing of several specialists across the province will ensure that the demand created by the marketing actions will be met either by the people in our sales department or by these specialists. By training these specialists in our products and sharing our marketing activities in their region, sales throughout Quebec will be maximized.

Our sales teams responsible for the Canadian market and the US market will continue to give priority to concrete measures with our network of current distributors in connection with their customers. The industry's current situation, more specifically with certain competitors, has allowed Novik to pursue attractive opportunities with other major players on the US market. Our sales teams will also debut the Novexpert program in other territories in order to promote a connection between Novik and the end-user.

Despite a significant decrease in 2009 compared with 2008, international sales will also remain a priority. Our continued relationships with our current distributors and our continued expansion into new markets will continue to be on the agenda for the coming year. Our current partners, from Eastern Europe, Germany, France, England and Mexico, are still positive about the benefits of our products and are committed to continuing their business with Novik. The development of new markets is just as important. We are currently receiving several requests from new distributors who would like to offer our products in targeted countries. Several sales visits have already been done to assess the potential of the area and the distributor, and other visits will take place soon. These activities should allow Novik to start selling in new markets this year.

Offering a range of innovative, competitive, high-quality, cutting-edge products responding to market trends and customer needs

Novik already has recognition in our industry, and our objective is to increase it further to fulfill our mission. We will continue our efforts to develop new products so that we can stand out from the competition even more. Novik's goal is to become the partner of choice for the siding and roofing industry, offering innovative polymer-based products to become the benchmark in residential exteriors.

The introduction of five new exterior coverings and a new roof covering in 2009 demonstrates Novik's desire to achieve this strategic objective. These new products, some of which are unique, are also in line with our sales growth targets for the coming years. The arrival of these new coverings also explains the desire to maintain our sales growth targets despite the economic conditions. We want to ensure that our sales and marketing team can have products to stimulate our base of current and potential customers. The market's reaction to these new products has been very positive, as we now have products allowing us to open doors to new important distributors. The unique character of some of these products explains this situation, and the current backlog for these coverings is already filled up for the next year.

Other important projects are under consideration to follow the trends observed in the market, but we want to ensure that in 2010 we market the products introduced in the previous year before introducing new coverings.

A trend currently seen with consumers involves the environment. Novik wants to follow this trend with the exploration of alternative raw materials. We are currently in discussion with partners to assess the current potential.

Providing Novik with organizational processes to assess performance and to give priority to the actions necessary for achieving the strategic objectives

Novik is currently well positioned to be recognized as a world-class company. Its considerable share of sales across several countries, its one-of-a-kind product line, and its highly automated manufacturing equipment are important factors in the company's current success.

Novik's management wants to maximize organizational performance by establishing key indicators for each department to ensure that its financial and productivity objectives are achieved. Constant monitoring of these key indicators will encourage the achievement of deliverables and objectives for the coming years and, by default, the achievement of our strategic directions. The establishment of a quality approach throughout the company, the establishment of an internal communication plan to evaluate the performance of the monitored indicators, and the establishment of a training program in line with the desired organizational performance are concrete measures targeting the capacity of Novik and its team members to achieve in its short-, medium-, and long-term financial objectives.

Disclosures in volatile and uncertain times in the financial markets

Novik is currently pursuing a strategic plan that focuses on growing sales by expanding into new geographic markets and exploiting the huge potential of the many new, innovative products introduced in 2009 and earlier. As such, fewer fixed assets will be acquired in 2010 compared with previous years as the plan including the acquisition of equipment and moulds as well as the expansion of the factory, finalized in 2009, enables Novik to ensure the production capacity to achieve the level of sales growth foreseen for the coming years.

The company is relying on stability in the hiring of competent people but remains ready to move if sales grow as expected for 2010. Given the financial results of 2009, we have had to take special measures to manage expenditures more tightly and take certain measures to reduce Novik's fixed cost structure. The current period of uncertainty and volatility has not had required the company to change its method of dealing with credit, since Novik customers with high credit are regularly contacted to discuss on their activities and financial situation.

As for recent currency fluctuations, an appreciating American dollar against the Canadian dollar generally favours sales figures and gross margins, since most of Novik's sales are made in US dollars.

Regarding cash management, the various financing sources signed in fiscal years 2008 and 2009 gives the company the financial resources necessary to operate for the next fiscal year. However, in order to take advantage of market opportunities in a period when the calculated profit margin is lower in the first months of the fiscal year, Novik has obtained the support of most of its financial partners for a six-month moratorium on capital payments on its long-term debts. Our financial partners are actively watching Novik's financial situation and support us in relation to the strategic objectives described above.

The accounting estimates used in the financial statements for the fiscal year ended December 31, 2009, were not modified for the current uncertain economic environment because of the nature of the line items where the main estimates are made. Significant estimates include the allowance for doubtful accounts receivable, provisions for obsolete inventories, refundable tax credits, the useful lives and recoverable amount of property, plant, and equipment and intangible assets, future income taxes, capitalized development costs, warranty provisions, certain accrued liabilities, and the fair value of options granted to employees, officers, consultants, and directors.

Main performance indicators

Novik measures the company's overall performance by using key financial indicators, particularly revenues, gross earnings, adjusted EBITDA (earnings before interest, income taxes, stock-based compensation costs, depreciation, and amortization), and working capital. These items are described in the appropriate sections under the headings "Results of operations" and "Liquidity, financial resources, and commitments." The analysis of financial ratios is also part of its performance evaluation process. The working capital ratio and the ratio of long-term debt to tangible net worth are performance measures monitored on a monthly basis.

The company's management also measures the performance of each of the product families by sales territory with the help of certain indicators related to operations, particularly the backlog, gross earnings as a percentage of revenues, percentage of deliveries made on time, expenses related to non-quality, cost-reduction objectives attained, and production capacity utilization.

SELECTED ANNUAL INFORMATION

(in thousands of dollars, except per share data)	Fiscal year 2009	Fiscal year 2008	Fiscal year 2007
Revenues	15,061	20,116	15,184
Gross earnings	5,762	7,955	5,933
Earnings before interest, income taxes, stock-based compensation costs, depreciation, and amortization	520	3,781	2,461
Net earnings (net loss)	(776)	875	400
Basic and diluted net earnings (net loss) per share	(0.016)	0.019	0.009
Total assets	25,314	25,583	16,250
Working capital	1,457	3,175	2,186
Total debt, net of cash and excluding accounts payables and accrued liabilities	10,450	12,019	5,291

RESULTS OF OPERATIONS

Revenues

During fiscal year 2009, the company recorded revenues of \$15.1M versus \$20.1M for 2008. This 25% decrease is primarily related to the sharp drop in European deliveries, given the current difficult economic environment, especially in Russia. Novik's European sales decreased by nearly \$6.9M because of the difficulty that our distributors had in selling their high level of inventory purchased in the final quarter of 2008. They subsequently minimized their purchases of Novik products by adopting tighter management justified by less widespread demand for the construction materials in their markets. Our distributors are still ready to support our product line, and our new distributors on this continent are still expressing interest in selling our products. Recent visits to Europe have been productive and will result in the signing of new distributors for fiscal year 2010; these new distributors should contribute to regaining a level of growth in this market.

North American sales in fiscal year 2009 were up by nearly \$1.8 M compared with the same period of the previous fiscal year, an increase of 16%. This sales growth in this territory is positive compared with the results of manufacturers in our industry sector. They report substantial decreases in their revenue in North America, down an average of nearly 25% compared with the previous year. Our marketing efforts since the beginning of the year in this territory, especially with our Novexpert network in Quebec, the financial difficulties of our competitors, and our more diversified range of products since the introduction of three new, very unique products explain this success. We gained significant market shares during the year on two levels: in the polymer covering sector and, as a very positive point, in the global exterior covering market.

Revenues for fourth quarter 2009 amounted to \$3.4 M compared with \$2.7 M during fourth quarter 2008. This 24% increase in sales is the only quarter in 2009 in which our sales were greater than the same period of the previous year. The increase in sales on the North American market contributed to reaching this level of sales. The introduction of three new exterior coverings allowed Novik to generate higher sales in this period. During this period, we also obtained large orders for these products from existing customers and new major distributors, and they are expected to be delivered in the first months of fiscal year 2010.

Gross earnings

The company's gross earnings for fiscal year 2009 totalled \$5.8 M, i.e. 38% of the company's total income, compared with \$8.0 M for the previous fiscal year, i.e. 40% of total sales. This decrease in gross margin is explained by an increase in our fixed production costs and a lower production volume. The increase in our fixed costs is explained by the higher depreciation of our fixed assets, given our investment plan carried out in 2008 providing for the addition of production equipment and the expansion of our factory. The lower production volume is directly in line with the decrease in sales.

This gross margin would have been lower as a percentage had it not been for two important accomplishments in the beginning of 2009. Novik signed a large plastic supply contract. This contract allowed the company to purchase a significant volume of plastic for fiscal year 2009 at a fixed rate. This fixed rate was around 25% less expensive than the market rate offered by distributors and manufacturers during the 2009 period. Given that this raw material represents a significant portion of the total cost of our products, this supply contract made our production costs lower than if we had purchased this raw material at the market rate. In addition, the sale of US dollars through currency forward contracts at an average rate of 1.26, for a total amount of \$8.5 M in January 2009, allowed significant exchange gains to be recorded in 2009. The realized exchange gain of \$495,000 in 2009 on these currency forward contracts (versus a realized exchange loss of \$156,000 in 2008) was included in the gross margin, given that our hedging strategy is in line with the anticipated net cash flows from sales and purchases of raw materials in US dollars.

Earnings before interest, income taxes, stock-based compensation costs, depreciation, and amortization (adjusted EBITDA)

(in thousands of dollars)	Fiscal year 2009	Fiscal year 2008	Fiscal year 2007
Adjusted EBITDA	520	3,781	2,461
Stock-based compensation costs	(152)	(188)	(104)
Depreciation and amortization	(1,831)	(1,319)	(1,080)
Financial (expenses) revenues	345	(973)	(743)
Earnings (loss) before income taxes	(1,118)	1,301	534

For the fiscal year ended December 31, 2009, adjusted EBITDA amounted to \$520,000 compared with \$3,781,000 for the previous fiscal year. Adjusted EBITDA is lower compared with the same period of the previous year in light of the lower volume of business combined with an increase in our fixed cost structure, as explained above, and higher expenditures in Novik's selling expenses.

Selling expenses

The increase in selling expenses of \$1,267,000 observed in fiscal year 2009 compared with the previous year is explained by the greater number of investments made since the start of the fiscal year. This increase is explained by a larger sales team on the Canadian and US markets since June 2008, more intensive marketing efforts, such as our Novexpert program in Quebec, and the addition of members to our marketing and customer service team to ensure the effectiveness of these marketing efforts. The goal of implementing these efforts is clear: to allow Novik to take advantage of current opportunities on the market, given the openness of potential customers to offer new products and the financial difficulties of our competitors. Throughout the year, our sales team continued its approach to encourage new large customers to offer our products to their own customers. This approach has been successful, as Novik has succeeded in beginning business relations with major players in the North American territory already offering products similar to Novik's. These customers are very enthusiastic about the idea of offering Novik products compared with our competitors' products, as we offer a wider range of products, and they intend to achieve significant sales in future periods. Once the economy recovers, Novik believes that these actions will allow the company to enjoy a greater business volume than in previous years.

Cumulative selling expenses amounted to \$4.9 M compared with \$3.6 M for the twelve-month period ended in the previous fiscal year.

Administrative expenses

Administrative expenses for fiscal year 2009 remained stable compared with the same period of the previous year.

Financial expenses

Financial expenses for fiscal year 2009 decreased by nearly \$1.3 M compared with the same period of the previous year. An exchange gain on monetary items and an unrealized exchange gain on currency forward contracts reduced Novik's losses before taxes by \$1.1 M. Given that Novik has a higher balance of monetary liabilities (bank loan, accounts payable, and long-term debt) than net monetary assets (accounts receivable) as at December 31, 2009, the appreciation of the Canadian dollar against the US dollar allowed an unrealized exchange gain of \$497,000 to be recorded. Regarding the unrealized exchange gain of \$575,000 on currency forward contracts, the currency contracts obtained at an average rate of 1.26 in January 2009 made it possible to record this gain in relation to the exchange rate at the end of the year, which was 1.05. This currency exchange management was a good move for Novik in 2009, just like the plastic supply management.

These exchange gains were reduced by higher interest on long-term debt than the previous year, given the higher level of debts than last year. This increase is due to the presence of new debts to finance our 2008-2009 fixed asset acquisition plan.

Net earnings

The net loss for fiscal year 2009 was \$776,000 compared with a net profit of \$875,000 for the same period of the previous fiscal year. The decrease in sales combined with a decrease in gross margin as a percentage and the increase in selling expenses compared with the previous year were greater than the larger exchange gains recorded in fiscal year 2009 versus 2008.

PRINCIPAL QUARTERLY FINANCIAL DATA

(in thousands of dollars, except per share amounts) (unaudited)	Total	First quarter	Second quarter	Third quarter	Fourth quarter
Fiscal year ended December 31, 2009					
Revenues	15,061	2,645	4,172	4,872	3,372
Net earnings (net loss)	(776)	(627)	436	93	(678)
Basic and diluted net earnings (net loss) per share	(0.016)	(0.013)	0.009	0.002	(0.014)
Fiscal year ended December 31, 2008					
Revenues	20,116	3,382	6,772	7,239	2,723
Net earnings (net loss)	875	105	811	917	(958)
Basic and diluted net earnings (net loss) per share	0.019	0.002	0.018	0.020	(0.021)

Considering the seasonality of the residential and commercial construction and home improvement industry, Novik's second and third quarters are often characterized by a higher demand, whereas the first and fourth quarters show a slight slowdown.

The net loss observed in the fourth quarter comes from this decrease in sales volume compared with the previous two quarters and a lower gross margin, given the prices offered on large orders for the launch of our new products.

LIQUIDITY, FINANCIAL POSITION, AND COMMITMENTS

Liquidity

The difficult economic conditions have had negative repercussions on our liquidity, particularly during the first half of 2009. The decrease in available cash flows during the first six months came from accelerated production combined with lower sales than expected. Since this more difficult six-month period, we reduced some of our fixed costs and slowed down production in order to avoid stocking a large inventory by the end of fiscal year 2009. We are continuing to monitor market conditions for opportunities to generate cash flows and continuing to exercise strict control over discretionary expenditures in order to limit our cash outflows. This exercise remains important considering the presence of two consecutive quarters of lower sales, i.e. the first and last quarter, putting additional pressure on the company's level of liquidity during this period. Sound management of our cash flows combined with a request for a six-month capital moratorium from our financial partners starting in February 2011 gives us confidence for the next fiscal year.

Operating activities

The decrease in sales volume and the increase in our selling expenses, as explained above, resulted in a decrease of nearly \$3.4 M in cash flow from operations compared with the same period of the previous fiscal year.

Cash flows related to operating activities amounted to \$1,633,000 in late December 2009 compared with \$898,000 in the same period of the previous year. Faster collection of our accounts receivable and a smaller increase in our inventories during this period explain this situation and allowed Novik to generate liquidity in 2009 despite the decrease in sales and the increase in selling expenses.

Financing activities

For fiscal year 2009, financing activities decreased by \$7 M compared with the previous year. This decrease is mainly explained by the debts contracted in 2008 to finance the company's fixed asset acquisition plan for increased production capacity, the development of new products, and the expansion of our factory and by common share subscription warrants exercised by two of our shareholders.

Investing activities

Investing activities used a lower amount of funds in the fiscal year 2009 compared with the previous fiscal year by \$6.2 M. This decrease is explained by the above strategic investment plan carried out last year.

Investments in fixed assets since the start of fiscal year 2009 are primarily explained by the expenditures made on moulds for the introduction of new products to our existing line. These new innovative products are all offered beginning in the third quarter of the 2009 fiscal year.

In the coming months, we foresee no major investments in building, equipment, or moulds. The current production and storage capacity makes us confident that we can support any future growth in our sales. In addition, during this period, we will continue to maximize our sales opportunities for our current product line, especially for recently offered new products, unless a tangible opportunity for a large increase in sales suddenly appears.

Financial position

Total assets

Novik's total assets remained stable for the fiscal year ended on December 31, 2009, compared with the previous fiscal year. Faster collection of our accounts receivable, generating a decrease of nearly \$400,000 in this item, was cancelled out by an increase in our fixed assets, mainly moulds, and our capitalized development expenses in 2009.

Financial liabilities

Total liabilities increased by \$355,000 as at December 31, 2009, compared with December 31, 2008, given the greater use of the bank loan and the increase in accounts payable and accrued expenses caused by higher volume of business in fourth quarter 2009 compared with the final quarter of fiscal year 2008. These increases were reduced by capital repayments of long-term debt.

Financial ratios

Novik is required by its financial institutions to meet specific financial ratios. As at December 31, 2009, all financial ratios were met.

Capital stock

The following table summarizes the capital stock activity since January 1, 2008:

	Twelve Months Ended December 31, 2009		Twelve Months Ended December 31, 2008	
	Number	Stated value \$	Number	Stated value \$
Balance – Beginning of year	48,470,858	9,946,318	45,799,429	8,531,413
Issuance of shares pursuant to warrants exercised	-	-	2,671,429	1,425,554
Share issue expenses	-	-		(10,649)
Balance – End of year	48,470,858	9,946,318	48,470,858	9,946,318

As at the date of this MD&A, no change has occurred in the company's capital stock.

SHARE AND OPTIONS DATA	
Issued and outstanding as at December 31, 2009	Issued
Common shares	48,470,858
Stock options outstanding as at December 31, 2009	
Options issued under the stock option plan	2,583,500
COMMON SHARES	
	Twelve-month period ended December 31, 2009
	\$
Transaction volume	1,270,000
Average price	0.26
Closing price	0.20
Range of market prices	0.15 - 0.34

Stock options

On September 20, 2005, the company put a stock option plan into place for employees, officers, and directors of the company as well as for consultants. Options vest over a maximum period of ten years and are exercisable under the conditions established by the Board of Directors on the grant date. The purchase price of shares under the plan corresponds to the quoted market price of the company's shares at the closing of the market on the trading day immediately preceding the grant date.

The maximum number of shares issuable under the plan is limited to 7,435,600 shares, and the maximum number that may be granted to an optionee must not exceed 5% of all issued and outstanding shares.

Under the existing plan, on May 29, 2008, the company granted 425,000 stock options to its directors and certain officers at an exercise price of \$0.40, maturing on May 29, 2013. A compensation expense of \$141,490 has been accounted for in the consolidated statement of earnings, as these new stock options are exercisable immediately.

Under the existing plan, on May 28, 2009, the company granted 575,000 stock options to its directors and certain officers at an exercise price of \$0.32, maturing on May 28, 2014. A compensation expense of \$151,300 has been accounted for in the consolidated statement of earnings, as these new stock options are exercisable immediately.

The following table summarizes information relating to stock options under the plan since January 1, 2009:

	Number	Carrying amount \$	Weighted average exercise price \$
Outstanding – Beginning of year	2,024,000	524,632	0.42
Granted during the year	575,000	-	0.32
Cancelled during the year	(15,500)	(4,046)	0.50
Stock-based compensation costs	-	152,000	-
Outstanding – End of year	2,583,500	672,586	0.39
Exercisable – End of year	2,583,500		0.39

As at the date of this MD&A, no change has occurred regarding the stock options.

Warrants

On October 9, 2008, 1,571,429 warrants were exercised in the amount of \$707,143 in exchange for 1,571,429 common shares of the company. On October 20, 2008, 1,100,000 warrants were also exercised in the amount of \$495,000 in exchange for 1,100,000 common shares of the company.

Note 12 pertaining to the company's audited consolidated financial statements provides other information relating to capital stock.

Commitments

The company offers a limited, transferable warranty on its products, which decreases proportionally to the number of years. The typical warranty terms require the company to replace defective material during the warranty period at its own expense. The company records a provision for warranties when the products are shipped based on the estimated warranty costs to be incurred.

The company's total minimum commitments under long-term financing contracts amount to \$10,449,939. The required annual instalments amount to \$1,465,495 in 2010, \$2,496,341 in 2011, \$915,440 in 2012, \$835,002 in 2013, \$544,739 in 2014, and \$4,192,922 thereafter.

The company's total minimum commitments under agreements with service providers for equipment and vehicles amount to \$55,023. The required annual minimum payments for the next four fiscal years under these agreements amount to \$25,808 in 2010, \$13,365 in 2011, \$10,567 in 2012, and \$5,283 in 2013.

Notes 12 and 21 pertaining to the audited consolidated financial statements provide a status of these commitments.

Related-party transactions

During fiscal year 2009, no related-party transactions occurred.

CAPITAL DISCLOSURES

The company's objectives when managing capital are to:

1. Maintain financial flexibility in order to preserve its ability to meet financial obligations; and
2. Deploy capital to provide an appropriate investment return to its shareholders; and
3. Maintain a capital structure that gives multiple financing options to the company should a financing need arise.

The company defines its capital as follows:

	As at December 31	
	2009	2008
	\$	\$
Bank loan	1,794,591	863,043
Long-term debt, including the current portion	10,449,939	11,155,495
Equity	10,818,027	11,441,880
	23,062,557	23,460,418

The company's financial strategy is designed and formulated to maintain a flexible capital structure consistent with the objectives stated above and to respond to changes in economic conditions and the risk characteristics of underlying assets. In order to maintain or adjust its capital structure, the company may purchase shares for cancellation under share buyback offerings during the normal course of business, issue new shares and new debt securities (secured, unsecured, convertible, and/or other types of available debt instruments), or refinance existing debt with different characteristics.

The company periodically monitors capital using a number of financial metrics including the following ratios:

1. Long-term debt to net tangible value; and
2. Working capital ratio.

Total long-term debt, a non-GAAP measure, is calculated as the sum of the long-term debt including the current portion.

Net tangible value, a non-GAAP measure, is calculated as the sum of shareholders' equity less future income tax assets, intangible assets, and deferred charges.

The working capital ratio, a non-GAAP measure, is calculated as the sum of current assets over total current liabilities.

The company's financial objectives and strategy as described above have remained substantially unchanged over the past two fiscal years. These objectives and strategy are reviewed on an annual basis. The company believes that its current ratios are within reasonable limits, in light of the relative size of the company and its capital management objectives.

The company is also subject to financial covenants in its operating credit facility agreements, which are assessed on a monthly basis. The company is in compliance with all financial covenants.

FINANCIAL INSTRUMENTS

Fair value

The company's financial instruments recognized in the balance sheet are cash, accounts receivable, the bank loan, accounts payable and accrued expenses, as well as long-term debt. The fair value of these financial instruments approximates their carrying values, due to their short-term maturity, or current market rates.

The fair value of the financial instruments is detailed as follows:

	<u>As at December 31, 2009</u>	
	Loans and receivables	Other financial liabilities
	\$	\$
Financial assets		
Accounts receivable	2,369,825	-
Government assistance receivable	122,576	-
	<u>2,504,401</u>	<u>-</u>
Financial liabilities		
Bank loan	-	1,794,591
Accounts payable and accrued expenses	-	2,251,771
Long-term debt	-	10,576,156
	<u>-</u>	<u>14,622,518</u>
	<u>As at December 31, 2008</u>	
	Loans and receivables	Other financial liabilities
	\$	\$
Financial assets		
Accounts receivable	2,765,810	-
Government assistance receivable	185,076	-
	<u>2,950,886</u>	<u>-</u>
Financial liabilities		
Bank loan	-	863,043
Accounts payable and accrued expenses	-	1,992,908
Long-term debt	-	11,279,089
	<u>-</u>	<u>14,135,040</u>

Interest rate risk

Cash bears interest at a floating rate. Accounts receivable as well as accounts payable and accrued expenses bear no interest. The interest rates of the bank loan and long-term debt are mentioned in notes 9 and 11, respectively.

A fluctuation of +1% / -1% in the prime interest rates would have an impact of \$83,000 (\$72,000 in 2008) on interest expense on long-term debt.

Credit risk

The company's credit risk is primarily attributable to its trade receivables. The amounts disclosed in the balance sheet are net of allowances for bad debts, estimated by the company's management based on prior experience and its assessment of the current economic environment. The company believes that the credit risk of accounts receivable is limited for the following reasons:

- There is a broad customer base dispersed across varying sectors and geographic locations.
- More than 92% of trade receivables are less than 90 days outstanding.
- Although 36% of the company's revenue for fiscal year 2009 comes from its top two customers, the company believes that the credit risk associated with these customers is limited. In addition, the company performs periodic credit reviews of its customers.
- The company accounts for a special bad debt provision when management considers that the expected recovery is less than the actual account receivable.
- In the past three fiscal years, the company has not recorded bad debt expenses in excess of its provision for bad debts. The allowance for bad debts as at December 31, 2009, was \$67,443 and (\$62,578 as at December 31, 2008). All bad debt write-offs are charged to administrative expenses.

Liquidity risk

The company actively maintains credit facilities to ensure that it has sufficient available funds to meet current and foreseeable financial requirements at a reasonable cost.

The following table summarizes the contractual maturities of financial liabilities as at December 31, 2009:

	Carrying amount	Contractual Cash Flows	0 to 12 months	12 to 24 months	After 24 months
Bank loan	1,794,591	1,794,591	1,794,591	-	-
Accounts payable and accrued expenses	2,251,771	2,251,771	2,251,771	-	-
Long-term debt, including the current portion	10,576,156	11,124,367	1,465,495	2,496,341	7,162,531
	<u>14,622,518</u>	<u>15,170,729</u>	<u>5,511,857</u>	<u>2,496,341</u>	<u>7,162,531</u>

Management believes that future cash flows from operations and available funds under existing banking arrangements will be sufficient to support these financial liabilities.

Currency risk

Since a portion of the company's revenues is denominated in US dollars, the company is exposed to fluctuations in currency rates. This risk is partially hedged by its purchases in US dollars and by foreign currency forward contracts. The company is also exposed to currency risk arising from its long-term debt denominated in US dollars.

Based on historical changes and volatility in the previously mentioned market variables and according to Management's current assessment of the financial markets, the company believes the following variation is reasonably possible over a 12-month period, net of income taxes, using an estimated effective tax rate of 31%:

- Proportional exchange rate variation of -10% (depreciation of Canadian dollar (CAD)) and +10% (appreciation of CAD) against the US dollar (USD), from a period-end conversion rate of 1.051.

If these variations were to occur, the impact on earnings and equity for each category of financial instruments held as at the balance sheet date would be as follows:

(in thousands of dollars)	Carrying amount	Currency risk			
		-10%		+10%	
		Earnings	Equity	Earnings	Equity
Financial assets					
Accounts receivable	958	66	66	(66)	(66)
Financial liabilities					
Bank loan	2,370	(164)	(164)	164	164
Accounts payable and accrued expenses	271	(19)	(19)	19	19
Long-term debt repayable in USD	2,270	(157)	(157)	157	157
TOTAL INCREASE (DECREASE)		(274)	(274)	274	274

The fair value of foreign currency forward contracts at December 31, 2009, is as follows:

Purchasing currency	Selling currency	Par value in selling currency	Maturity	Fair value (a) \$	Average rate
\$CAN	\$US	2,812,500	2010	575,104	1.26

The company realized an exchange gain of \$494,828 on its foreign currency forward contracts in 2009 (exchange loss of \$156,125 in 2008).

(a) Fair value of foreign currency forward contracts generally reflects the estimated amounts that the company would receive by way of settlement of favourable contracts or would be required to pay to terminate unfavourable contracts as at the balance sheet date.

SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires Management to make estimates and assumptions that affect the amounts of assets and liabilities reported in the financial statements. Those estimates and assumptions also affect the disclosure of contingencies as at the date of the financial statements and the reported amounts of revenues and expenses during the fiscal year. Significant estimates include the allowances for doubtful accounts receivable, provisions for obsolete inventories, refundable tax credits, the useful lives and recoverable amount of property, plant, and equipment and intangible assets, future income taxes, capitalized development costs, warranty provisions, certain accrued expenses, and the fair value of options granted to employees, officers, consultants, and directors. Management believes that its estimates are adequate; however, actual results could differ from those estimates.

The main accounting policies are described in Note 2 related to the audited consolidated financial statements as at December 31, 2009.

ACCOUNTING CHANGES

Research and development costs

On January 1, 2009, the company adopted Section 3064, “Goodwill and Intangible Assets,” which replaces Section 3062, “Goodwill and Other Intangible Assets,” and Section 3450, “Research and Development Costs.”

The adoption of this new section, together with the adoption of changes made to Section 1000, “Financial Statement Concepts,” has led the company to change the accounting methods applied for deferred development expenses.

However, this change had no impact on the company’s financial position and results of operations. Furthermore, the company changed the disclosure of the significant accounting policies in Note 2, and the deferred development expenses, formerly reported in the assets as a component of deferred expenses, are now reported as a component of intangible assets in Note 8.

The company is currently assessing the impacts on the consolidated financial statements of the following recently issued standards:

a) Financial Reporting Framework

In 2008, the Accounting Standards Board (“AcSB”) announced that all Canadian reporting entities, subject to certain exceptions, will adopt IFRS as Canadian generally accepted accounting principles (GAAP) for fiscal years beginning on or after January 1, 2011. Therefore, publicly accountable enterprises, like the company, must adopt IFRS for the preparation of their interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The company has developed a plan for the conversion of its consolidated financial statements to IFRS. An analysis of the differences between IFRS and the company’s accounting standards is underway. This analysis is being conducted by taking into account the potential impacts, among others, on accounting policies, financial reporting, and information technologies.

The company has not yet determined the full effects of adopting IFRS. The company’s preliminary view of the key areas where changes in accounting policies are expected that may impact the company’s consolidated financial statements are listed below. The list and comments below should not be regarded as a complete list of changes that will result from the transition to IFRS. This information is intended to highlight those effects the company believes to be most significant; however, analysis of the changes is still in progress, and not all decisions have been made where choices of accounting policies are available. At this stage, the company has not quantified the expected impacts on its consolidated financial statements from these differences.

Note that most adjustments required upon transition to IFRS will be made retrospectively against opening retained earnings in the first comparative balance sheet. Transitional adjustments relating to those standards where comparative figures are not required to be restated because they are applied prospectively will only be made as at the first day of the year of transition.

IFRS 1, “First-Time Adoption of International Financial Reporting Standards,” provides entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions, in certain cases, to the general requirements for full retrospective application of IFRS. The company is analyzing the various accounting policy choices available and will implement those determined to be most appropriate for the company’s circumstances.

Property, Plant, and Equipment

International Accounting Standard (IAS) 16, “Property, Plant, and Equipment,” and Canadian GAAP contain the same basic principles, but there are some differences. IFRS requires that significant parts of an asset be depreciated separately and that depreciation must commence when the asset is available for use. IFRS also permits property, plant, and equipment to be valued using the fair value model of the historical cost model. The company is not planning on adopting the fair value model for its property, plant, and equipment.

IFRS 1 contains an elective exemption according to which an entity may elect to reset the fair value at the date of transition as the new cost basis for property, plant, and equipment. The company is not planning on adopting this exemption and will continue to value its property, plant, and equipment at cost.

Impairment of Assets

Impairments under IAS 36, “Impairment of Assets,” are based on discounted cash flows. Under Canadian GAAP, if an asset’s estimated undiscounted future cash flows are below its carrying amount, a write-down is required, as determined by the amount by which the carrying amount exceeds the discounted cash flows. There is no undiscounted test under IFRS. This may result in more frequent write-downs where carrying values of assets were previously supported under Canadian GAAP on an undiscounted cash flow basis but could not be supported on a discounted cash flow basis.

In addition, under IAS 36, a favourable change in the circumstances that resulted in an impairment of an asset, other than goodwill, would trigger the requirement for a re-determination of the amount of the impairment, with any reversal being recognized in earnings to the extent the asset had previously been impaired. Under Canadian GAAP, impairments may not be reversed.

Provisions, Contingent Liabilities, and Contingent Assets

IAS 37, “Provisions, Contingent Liabilities, and Contingent Assets,” requires a provision to be recognized when there is a present obligation as a result of a past transaction or event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the obligation. “Probable” in this context means more likely than not. Under Canadian GAAP, the criterion for recognition in the financial statements is “likely”, which is a higher threshold than “probable.” Therefore, it is possible that there may be some contingent liabilities that would meet the recognition criteria under IFRS that were not recognized under Canadian GAAP.

Other differences between IFRS and Canadian GAAP exist in relation to the measurement of provisions, such as the methodology for determining the best estimate when there is a range of equally possible outcomes (IFRS uses the mid-point of the range, whereas Canadian GAAP uses the low-end of the range) and the requirement under IFRS for provisions to be discounted when they are significant.

b) Business Combinations, Consolidated Financial Statements, and Non-Controlling Interests

In January 2009, the AcSB issued Section 1582, “Business Combinations,” Section 1601, “Consolidated Financial Statements,” and Section 1602, “Non-Controlling Interests.” Section 1582, which replaces Section 1581, “Business Combinations,” establishes standards for accounting for a business combination. It provides the Canadian equivalent to International Financial Reporting Standard IFRS 3, “Business Combinations” (January 2008). Sections 1601

and 1602, taken together, replace the former Section 1600, “Consolidated Financial Statements.” Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of International Financial Reporting Standard IAS 27, “Consolidated and Separate Financial Statements” (January 2008).

These new sections apply to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted; however, the three new sections must be adopted simultaneously. The company does not expect to apply these new standards, because it does not plan to elect an early adoption date and instead plans to adopt IFRS as at January 1, 2011.

RISK FACTORS

Credit agreements

The credit agreements negotiated by the company include financial obligations that the company might not be able to meet in the future. The company would then be in default and would have to negotiate new terms or, at the request of the financial partners, repay its loans and find new financing sources. Unmet financial obligations under the credit agreements could therefore have a significant unfavourable effect on the company.

Exclusive intellectual property rights

The company utilizes technologies for which it holds certain intellectual properties. It is quite possible that other companies may develop similar products independently, thus rendering those produced by our company unnecessary.

The company’s success will partially depend on its ability to protect its works and trademarks and to carry out its activities without infringing on the intellectual property rights of third parties and without its own rights being infringed.

Also, because a large majority of trademarks used by Novik are not registered with the Intellectual Property Office in Canada or in other countries, it is not certain that proof of ownership and exclusive use of works and trademarks used by the company can be demonstrated. There is no guarantee of adequate protection for the company’s intellectual property in relation to the products of competitors. As part of conducting business, it is sometimes necessary to divulge certain trade secrets as well as knowledge covered by the intellectual property right.

Competition and technical obsolescence

The company must keep up with existing technology, competitors, as well as new companies launching new products. In order to remain at the cutting-edge of technology, the company must develop its related products. Whether it is competition from new companies in development and/or marketing of polymer coverings, a merger, or an acquisition of existing companies

subsidiaries, competition within the construction and renovation industry offering solutions similar to the company's own solutions should increase. A majority of the company's competitors have greater financial, technical, distribution, and marketing resources. Technological progress and product development can have the effect of rendering the company's products obsolete or reducing their value.

Growth management and market development

There is no guarantee that the company can develop its market significantly, which affects its profitability. The rapid growth of the company's range of work could possibly create significant pressures on our management, operations, and technical resources. In order to manage its growth, the company may have to increase the number of employees on its technical and operational staff and manage its personnel while maintaining numerous relationships with third parties effectively. There is no guarantee that the company will be able to manage its business growth. The company's inability to implement consistent management systems, add economic resources, or manage its expansion adequately could have a significant and unpredictable harmful effect on its activities and results of operations.

Conflicts of interest

In the future, some directors, officers, promoters, and other members of the company's management may act as director, officer, promoter, or member of the management of other companies. Consequently, it is possible that a conflict may arise between their responsibilities as director, officer, promoter, or member of the company's management and their responsibilities as director, officer, promoter, or member of these other companies.

In performing their duties with the company, there is no guarantee that the directors, officers, promoters, and other members of the company's management will not find themselves in situations that could bring about conflicts of interest. There is no guarantee that these conflicts would be settled in the company's favour.

The company's directors and officers are aware of the existing laws that make provisions for the responsibility of directors with regard to business situations that are favourable for the company and require that the officers divulge their conflicts of interest as well as the fact that the company will make use of these laws with regard to conflicts of interest of directors and officers or with regard to any breach of their responsibilities by its directors and officers. Any conflict of interest must be divulged by the directors and officers according to the provisions of the legislation applicable to companies, and these directors and officers must conduct themselves to the best of their skill and ability according to the obligations imposed upon them by the law.

Vulnerability to demand

The company receives the vast majority of its revenues from the sale of polymer exterior coverings and a full line of exterior decorative and structural accessories, and it feels that the revenues from these products will represent a significant portion of the company's revenues for the foreseeable future. Future revenues related to the sale of polymer exterior coverings and a full line of exterior decorative and structural accessories will depend on sales to new customers. Consequently, the company is particularly vulnerable to fluctuations in the demand for polymer exterior coverings and exterior decorative and structural accessories. Therefore, if the demand for polymer exterior coverings and exterior decorative and structural accessories decreases significantly, the company and the results of operations could be negatively affected.

Establishing prices based on the market

The very competitive market in which the company conducts business could force the company to reduce its prices. If its competitors offer major discounts on certain products in order to regain market shares or take over new shares or sell other polymer exterior coverings and exterior decorative and structural exterior accessories, the company may have to lower its prices and offer other favourable ways of competing successfully. Such changes may reduce the profit margins and have an unfavourable effect on the company's results of operations. Some of the company's competitors could bring together polymer products that compete with their own for promotional purposes or as part of a long-term price establishment strategy or offer price guarantees or product installation. With time, these practices could limit the prices that the company may charge for its products. If the company cannot offset its price reductions with a corresponding increase in sales or lower expenses, the decrease in revenues from the sale of polymer exterior coverings and exterior decorative and structural accessories could have an unfavourable effect on its profit margins and results of operations.

Labour force significance and cost

The company depends on the services of its technical employees and its key management personnel. The loss of one of these individuals could have a significant negative effect on the company, its results of operations, and its financial position. The company's success depends largely on its ability to continue to find, hire, train, motivate, and retain highly skilled management employees, technical employees, and sales and marketing staff. Competition with regard to its employees can be intense, and the company cannot guarantee that it will be able to recruit or retain highly skilled technical and management personnel in the future. The company's inability to recruit and retain necessary management and technical personnel and sales and marketing employees could have an unfavourable effect on its growth and future profitability. The company could be obligated to increase compensation paid to current or future employees in such a way that would increase operating expenses substantially.

Acquisitions

In the future, the company could selectively acquire products or businesses that it considers to complement its own. It is possible that the company may still not be able to find appropriate acquisition possibilities at reasonable prices, carry out an acquisition, or even successfully integrate an acquired product or business into its activities. Moreover, the company could face competition with companies likely to be acquired, including those of other parties that could have more significant resources than its own.

Product defects

Products that are manufactured and distributed by the company may contain defects that could be discovered at any time in the product's life cycle. Defects in the company's products could have a significant unfavourable effect on its reputation, impose significant expenses on the company, delay product launches, and harm the company's ability to sell its products in the future. The costs of correcting a defect in one of its products could be significant and could negatively affect its operating margins. Although the company expects to continue to test products to detect defects and to work with customers by way of support and maintenance services in order to find and correct defects, defects in its products could occur in the future.

Uncertainty in the construction and renovation market

The market for products produced and distributed by the company depends on the economic conditions affecting the broader market of construction and renovation. Economic recessions could result in customers cancelling or delaying orders for its products. In this context, customers could experience financial difficulties, not buy its products, postpone budgets for purchasing the company's products, or take their business elsewhere. In turn, this situation could lead to longer sales cycles, delays or defaults on payments and collection, as well as pressures on the prices, which could result in lower revenues and margins for the company.

New regulations

Currently, Novik's activities are subject to laws regulating credit, product transport, product importing and exporting, and labour practices. These laws and regulations as well as the rules and supporting policies are managed by different organizations, by federal, provincial, municipal, regional, and local decision-making bodies, and by other government authorities. New laws governing the company's activities could be adopted, or changes could be made to existing laws, which could lead to significant consequences for the company's activities. The company's failure to observe applicable laws and regulations could subject it to civil or regulatory proceedings, which could lead to significant negative consequences for the company's resulting financial position and its results of operations. Given that the company is considering expansion to the United States and abroad, it is probable that the company will expose itself, in such as case, to a large number of risks as it becomes subject to the regulations in effect in the United States and abroad.

Risks related to foreign currencies

More than 62% of Novik's revenues for the fiscal year ended December 31, 2009, came from sales made in US dollars. There are risks involved in converting balances from Canadian dollars into US dollars. Although Novik, generally speaking, does not hedge inventories purchased specifically for the US and foreign market, Novik enters into foreign exchange forward contracts in order to sell foreign currency for the purpose of locking in profits made from certain US and overseas activities. Since exchange rate fluctuations are independent of the will of the company, nothing guarantees that these fluctuations will not harm its financial position and its operating earnings.

Fluctuations in securities

The price of the company's common shares could be volatile and could experience large fluctuations deriving from various factors including the following:

- Real or expected fluctuations in results of operations
- Changes in estimations related to future results of operations from the company or from securities market analyses
- News of technological innovations and new products made by the company or its competitors
- General changes in the construction and renovation industry or related markets
- Other items or factors

In addition, the financial markets have experienced significant fluctuations in prices and values, which have particularly affected the prices of ownership interests in numerous companies and were sometimes unrelated to the operating performance of these companies. Large market fluctuations, as well as general economic conditions or economic conditions specific to the construction and renovation industry, could have an unfavourable effect on stock prices.

The securities market

There can be no guarantee that an active market can be established and maintained for the company's securities. The market price of the company's securities could be prone to significant fluctuations. Factors such as governmental regulations, interest rates, movements in stock prices of peer companies or competitors, as well as market movements in general can have a significant effect on the market price of the company's securities. From time to time, the stock exchanges have experienced significant fluctuations in price and volume that were not at all related to the results of operations of specific companies.

OUTLOOK

Despite the current global economic situation, Novik's return to sales growth bodes well for the next fiscal year. Expected sales for first quarter 2010 should be up by nearly 30% compared with the same period of the previous year. In addition, the backlog for the second quarter is greater than the previous year as at today, thus providing a positive outlook for the next year.

It is certainly too soon to predict the total growth expected for 2010; however, the present opportunities are off to a good start in 2010. The receipt of a \$2.3 M order in December 2009 from a major distributor in the United States, the introduction of three new exterior covering products through a major customer placing an order valued at more than \$300,000, the resounding success of our new exterior covering products in the North American market permitting the signing of new distributors, current discussions with new international distributors, the success obtained in 2009 in Quebec with our Novexpert program, and the enthusiasm recently seen in this province at trade fairs are all examples that explain our positive outlook for sales.

However, we must be vigilant in 2010 about the management of our gross margin, as the current Canadian exchange rate against the US dollar and the current cost of our raw materials act negatively on it. The search for new suppliers, the search for new revenue while preserving the quality of our products, and the continued pursuit of improved productivity in our operations are on the agenda in our strategic meetings in order to decrease this negative pressure. In addition, an increase in our sales prices by around 8% for the second quarter has already been communicated to our customers. Lastly, a greater volume of sales in 2010 compared with 2009 could allow Novik to benefit from attractive economies of scale.

In the expected economic environment, we will focus on prudent management of our fixed asset and marketing expenditures. In addition, we will be sure to maximize efforts in line with our strategic objectives in order to achieve concrete results to ensure Novik's return to profitability as quickly as possible.

OTHER INFORMATION

For further information relating to Novik Inc., the reader may consult the SEDAR database at the following Internet address: www.sedar.com.

(s) Michel Gaudreau

Michel Gaudreau

President

(s) Pascal Bouthot

Pascal Bouthot, CA

Vice-President of Finance

March 25, 2010



MANAGEMENT'S REPORT

The consolidated financial statements of Novik inc. and all information contained in this annual report are the responsibility of management and have been approved by the board of directors. Management's responsibility also includes the selection of appropriate accounting practices in accordance with Canadian generally accounting principles, and the preparation of reasonable estimates. Financial information presented elsewhere in this annual report is consistent with that in the consolidated financial statements.

In keeping with its responsibilities, management maintains an internal control system designed to, among other things, provide reasonable assurance that the Company's assets are properly safeguarded and that accounting records constitute an appropriate basis for the preparation of reliable consolidated financial statements.

Each year, the board of directors appoints an Audit Committee. This committee reviews the Company's annual consolidated financial statements and recommends their approval to the board of directors, as described in the Audit Committee Board of Directors Charter.

In management's opinion, these financial statements incorporate, within reasonable limits, all important elements and data available at the time of their preparation.

(s) Pascal Bouthot

Pascal Bouthot, CA
Vice President of Finance

March 25, 2010

NOVIK INC.

Consolidated Financial Statements
December 31, 2009 and 2008

Auditors' Report

To the Shareholders of
Novik inc.

We have audited the consolidated balance sheet of **Novik inc.** as at December 31, 2009 and the consolidated statements of earnings and comprehensive income, retained earnings (deficit), contributed surplus and cash flows for the year 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 audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at December 31, 2008 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated March 30, 2009.

*Dallaire Forest Kirouac S.É.N.C.R.L.*¹

Quebec City (Québec), Canada
March 19, 2010

¹ CA auditor permit No. 11198

Novik Inc.

Consolidated Balance Sheets

	As at December 31,	
	2009	2008
	\$	\$
Assets		
Current assets		
Accounts receivable (notes 4, 9 and 11)	2,369,825	2,765,810
Inventories (notes 5, 9 and 11)	4,011,785	4,152,812
Refundable tax credits	174,168	309,020
Prepaid expenses	337,870	439,465
	<hr/>	<hr/>
	6,893,648	7,667,107
Government assistance receivable (note 6)	122,576	185,076
Tax credits recoverable	408,379	366,468
Property, plant and equipment (notes 7 and 11)	16,087,229	15,868,657
Intangible assets (note 8)	1,590,356	1,495,704
Future income tax assets (note 13)	212,140	-
	<hr/>	<hr/>
	25,314,328	25,583,012
Liabilities		
Current liabilities		
Bank loan (note 9)	1,794,591	863,043
Accounts payable and accrued liabilities (note 10)	2,251,771	1,992,908
Current portion of long-term debt (note 11)	1,390,315	1,636,355
	<hr/>	<hr/>
	5,436,677	4,492,306
Long-term debt (note 11)	9,059,624	9,519,140
Future income tax liabilities (note 13)	-	129,686
	<hr/>	<hr/>
	14,496,301	14,141,132
Shareholders' Equity		
Capital stock (note 12a)	9,946,318	9,946,318
Stock options (note 12b)	672,586	524,632
Contributed surplus	962,667	958,621
Retained earnings (Deficit)	(763,544)	12,309
	<hr/>	<hr/>
	10,818,027	11,441,880
	<hr/>	<hr/>
	25,314,328	25,583,012
Commitments (note 20)		

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

Approved on behalf of the Board of Directors

(signed) MICHEL GAUDREAU, Director

(signed) LOUIS-ANDRÉ GAUDREAU, Director

Novik Inc.

Consolidated Statements of Retained Earnings (Deficit)

	<u>Years Ended December 31,</u>	
	2009	2008
	\$	\$
Balance – Beginning of year	12,309	(862,237)
Net earnings (loss) for the period	<u>(775,853)</u>	<u>874,546</u>
Balance – End of year	<u>(763,544)</u>	<u>12,309</u>

Consolidated Statements of Contributed Surplus

	<u>Years Ended December 31,</u>	
	2009	2008
	\$	\$
Balance – Beginning of year	958,621	875,235
Cancelled stock options (note 12b)	4,046	2,870
Expired warrants (note 12c)	-	59,735
Expired conversion option (note 12d)	<u>-</u>	<u>20,781</u>
Balance – End of year	<u>962,667</u>	<u>958,621</u>

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

Novik Inc.

Consolidated Statements of Earnings and Comprehensive Income

	Years Ended December 31,	
	2009 \$	2008 \$
Revenue	15,060,884	20,116,378
Cost of sales		
Direct costs	7,995,176	11,224,339
Depreciation of property, plant and equipment	1,230,486	868,771
Amortization of intangible assets	73,670	68,321
	9,299,332	12,161,431
Gross margin	5,761,552	7,954,947
Operating expenses		
Selling expenses	4,858,364	3,591,414
Administrative expenses (including stock-based compensation costs of \$152,000; \$187,652 in 2008)	1,795,238	1,672,896
Research and development costs	44,126	35,734
Depreciation of property, plant and equipment	35,184	20,553
Amortization of intangible assets	413,233	294,020
	7,146,145	5,614,617
Earnings (loss) from operations	(1,384,593)	2,340,330
Financial expenses (revenues)		
Interest and bank charges	114,098	119,558
Interest on long-term debt	612,548	445,030
Exchange loss (gain) on monetary items	(496,863)	309,155
Unrealized loss (gain) on forward exchange contracts	(575,104)	98,790
Amortization of financing expenses	78,407	67,200
	(266,914)	1,039,733
Earnings (loss) before income taxes	(1,117,679)	1,300,597
Future income tax expense (recovery) (note 13)	(341,826)	426,051
Net earnings (loss) and comprehensive income for the year	(775,853)	874,546
Basic and diluted net earnings (loss) per share (note 14)	(0.016)	0.019
Weighted average number of shares outstanding (note 14)		
Basic	48,470,858	46,378,059
Diluted	48,559,482	46,523,647

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

Novik Inc.

Consolidated Statements of Cash Flows

	Years Ended December 31,	
	2009	2008
	\$	\$
Cash flows from operating activities		
Net earnings (loss) for the year	(775,853)	874,546
Items not affecting cash		
Stock-based compensation	152,000	187,652
Interest capitalized on long-term debt	32,028	23,100
Unrealized exchange loss (gain)	(840,281)	591,707
Depreciation and amortizations	1,830,980	1,318,865
Future income taxes	(341,826)	426,051
	57,048	3,421,921
Net change in non-cash working capital items (note 15a)	1,575,594	(2,524,103)
	1,632,642	897,818
Cash flows from financing activities		
Increase in bank loan	931,548	451,585
Long-term debt contracted	1,355,157	7,237,721
Increase in deferred financing expenses	(81,030)	(132,549)
Repayment of long-term debt	(1,824,941)	(1,416,229)
Issuance of shares	-	1,202,143
Share issue expenses	-	(10,649)
	380,734	7,332,022
Cash flows from investing activities		
Additions to property, plant and equipment	(1,452,410)	(7,731,484)
Additions to intangible assets	(581,555)	(458,936)
Increase in refundable tax credits	(41,911)	(151,920)
Government assistance	62,500	112,500
	(2,013,376)	(8,229,840)
Net change in cash	-	-
Cash - Beginning of year	-	-
Cash - End of year	-	-

Additional information (note 15b and c)

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

Novik Inc.

Notes to Consolidated Financial Statements

At December 31, 2009 and 2008

1 Statutes and nature of activities

Novik inc. (“the company”), incorporated under Part 1A of the Québec Companies Act, specializes in the design, manufacturing and marketing of new polymer siding and roofing covers and of a wide variety of exterior and utility decorative products for residential and commercial construction and the home improvement industry.

2 Summary of significant accounting policies

Basis of reporting

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles. The company’s reporting currency is the Canadian dollar. The company’s functional currency is also the Canadian dollar except for operations of its foreign integrated subsidiary, located in the United States of America. However, the financial statements of this subsidiary are translated according to the temporal method. Accordingly, revenues, expenses and cash flows are translated at the average rate for the period. Monetary assets and liabilities are translated at the rate of exchange in effect at the end of the reporting period. All of the exchange gains and losses are current in nature and included in the statement of earnings.

Consolidation policies

These consolidated financial statements include the accounts of the company and its wholly-owned subsidiary from the date of inception. Intercompany accounts and transactions are eliminated upon consolidation.

Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts of assets and liabilities reported in the financial statements. Those estimates and assumptions also affect the disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

Foreign currency translation

Foreign currency transactions

The company follows the temporal method of accounting for translation of foreign currency transactions. Under this method, monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate in effect at year-end. All other assets and liabilities are translated at the exchange rate in effect on each transaction date. Exchange gains or losses are accounted for in the consolidated statement of earnings. Revenues and expenses are translated at the average rate for the year.

Foreign currency forward exchange contracts

The company has elected not to apply hedge accounting. Consequently, the company's foreign currency forward exchange contracts, which are used to hedge anticipated US-denominated sales, are recorded at fair value. The fair value of foreign currency forward exchange contracts is recorded under current assets or liabilities in the consolidated balance sheet. The unrealized gain or loss is accounted for in the consolidated statement of earnings.

Novik Inc.

Notes to Consolidated Financial Statements

At December 31, 2009 and 2008

Inventories

Inventories are valued at the lower of cost and net realizable value. Cost of raw materials is determined using the weighted average cost basis. Cost of finished goods is determined using the standard cost method.

The amount of inventories recognized as an expense during the period corresponds to the cost of sales presented in the statement of earnings.

Impairment of non-monetary long-lived assets

The company tests non-monetary long-lived assets for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purposes of this evaluation, the company groups assets and liabilities for which identifiable cash flows are largely associated. A loss for impairment of non-monetary long-lived assets is accounted for when the carrying amount exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposal of the asset or group of assets (and liabilities) considered. The impairment loss accounted for in the consolidated statement of earnings is measured as the amount by which the carrying amount exceeds the fair value.

Property, plant and equipment

Property, plant and equipment are accounted for at cost. They are depreciated from the date they are put into use over their estimated useful lives using the following methods, period and annual rates:

	Methods	Period and rates
Plant	Declining balance	4%
Equipment	Declining balance	10%
Molds	Straight-line	15 years
Office furniture	Declining balance	20%
Computer equipment	Declining balance	30%

Intangible assets

Intangible assets, which mainly consist of Deferred development expenses, Software, Web site, Trademarks and Patents are accounted for at cost. Expenditures on research are recognized as an expense when they are incurred. Expenditures on development that do not meet certain defined conditions are also recognized as an expense when they are incurred. Expenditures on development are recognized as an intangible asset when the company can demonstrate that these conditions are met. Deferred development expenses are amortized using the straight-line method over a maximum period of five years. Software and Web site are accounted for at cost and they are amortized using the declining balance at an annual rate of 30% beginning at the date they are put into use. Trademarks and patents are amortized from the date they received authorities' acceptance using the straight-line method over a maximum period of fifteen years.

Novik Inc.

Notes to Consolidated Financial Statements

At December 31, 2009 and 2008

Tax credits and government assistance

Tax credits and government assistance are accounted for in the period in which the related expenses are incurred, provided the company has reasonable assurance the amounts will be recovered. Tax credits and government assistance related to deferred development expenses or to property, plant and equipment are accounted for against the cost of these assets and are amortized at the same rate than that used for the corresponding assets. Tax credits and government assistance pertaining to current expenses are recognized in earnings as the related expenses are incurred.

Amounts comprised in “Refundable tax credits” and “Tax credits recoverable” relate to claims that are still subject to review by tax authorities. Any difference between amounts refundable accounted for by the company and tax credits granted by tax authorities shall be accounted for at this time, in the consolidated statement of earnings or as an adjustment of the cost of property, plant and equipment or intangible assets, as appropriate.

Provision for warranties

The company offers on its products limited and transferable warranties that decrease proportionally to the number of years. The company's typical warranties require it to repair defective products during the warranty period at no cost to the customer. The company records a provision for warranties when products are delivered based upon its expectations of warranty costs to be incurred.

Long-term debt

Long-term debt, including debt-related issue costs, is accounted for at amortized cost using the effective rate interest method.

Revenue recognition

Revenue, which mainly consists of sales of goods, is recognized when the products are delivered to customers and recovery of the sale price is reasonably certain. Risks and significant benefits related to ownership are then transferred.

Income taxes

The company provides for income taxes using the liability method of tax allocation. Under this method, future income tax assets and liabilities are determined based on deductible or taxable temporary differences between carrying values and tax base values of assets and liabilities using enacted or substantively enacted income tax rates and laws expected to be in effect for the year in which the differences are expected to reverse.

The company establishes a valuation allowance against future income tax assets if, based on available information, it is more likely than not that some or all of the future income tax assets will not be realized.

Equity issue expenses

Equity issue expenses are accounted for against the amount of the related equity instrument issued.

Novik Inc.

Notes to Consolidated Financial Statements

At December 31, 2009 and 2008

Earnings per share and information pertaining to the number of shares

Basic earnings per share is determined using the weighted average number of participating shares outstanding during the year.

Diluted earnings per share is determined using the weighted average number of participating shares outstanding during the year, plus the effects of potentially dilutive participating shares outstanding during the year. The calculation of diluted earnings per share is made using the treasury stock method, as if all potentially dilutive participating shares had been exercised at the later of the beginning of the year or the date of issuance, as the case may be, and that the funds obtained thereby had been used to purchase participating shares of the company at the average market value of the participating shares during the year.

Stock-based compensation and other stock-based payments

The company uses the fair value method to account for awards of stock to employees, officers, directors and consultants. Any consideration paid by plan participants on the exercise of stock options or the purchase of shares is credited to capital stock together with any related stock-based compensation cost. Stock-based compensation costs are recognized over the vesting period of the options.

3 Accounting changes

Research and other development costs

On January 1, 2009, the company has adopted Section 3064 “Goodwill and intangible assets”, which replaces Section 3062 “Goodwill and Other Intangible Assets” and Section 3450 “Research and Other Development Costs”.

The adoption of this new Section, together with the adoption of changes made to Section 1000, “Financial statement concepts”, has led the Company to change the accounting methods applied for deferred development expenses.

However, this change had no impact on the Company’s financial position and results of operations. Furthermore, the company changed the disclosure of the significant accounting policies in Note 2 and the deferred development expenses, formerly reported in the assets as a component of deferred expenses, are now reported as a component of intangible assets.

Novik Inc.

Notes to Consolidated Financial Statements

At December 31, 2009 and 2008

Future changes in accounting policies

The company is currently assessing the impacts on the consolidated financial statements of the following recently issued standards:

a) Financial Reporting Framework

In 2008, the Accounting Standards Board (“AcSB”) announced that all Canadian reporting entities, subject to certain exceptions, will adopt IFRS as Canadian generally Accepted Accounting Principles for fiscal years beginning on or after January 1, 2011. Therefore, publicly accountable enterprises, as the company, must adopt IFRS for the preparation of their interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The company has developed a plan for the conversion of its consolidated financial statements to IFRS. An analysis of the differences between IFRS and the company’s accounting standards is underway. This analysis is being conducted by taking into account the potential impacts, among others, on accounting policies, financial reporting and information technologies.

To date, the company is unable to expose the consequences of the conversion from Canadian GAAP to IFRS on its consolidated financial statements.

b) Business combinations, consolidated Financial Statements and Non-Controlling Interests

In January 2009, the AcSB issued Section 1582, "Business Combinations", Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-Controlling Interests". Section 1582, which will replace Section 1581, "Business Combinations", establishes standards for the accounting for a business combination. It provides the Canadian equivalent to International Financial Reporting Standard IFRS 3, "Business Combinations" (January 2008). Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of International Financial Reporting Standard IAS 27, "Consolidated and Separate Financial Statements" (January 2008).

These new Sections apply for fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted, however, the three new Sections must be adopted simultaneously. The company does not expect to apply these new standards because it does not plan to elect an early adoption date and considers instead to adopt IFRS as of January 1, 2011.

Novik Inc.

Notes to Consolidated Financial Statements At December 31, 2009 and 2008

4 Accounts receivable

	<u>As at December 31,</u>	
	2009	2008
	\$	\$
Trade accounts receivable	1,553,685	2,552,678
Government assistance receivable (note 6)	62,500	62,500
Commodity taxes receivable	29,906	70,380
Deposits and others	148,630	80,252
Fair value of forward exchange contracts (note 18)	575,104	-
	<u>2,369,825</u>	<u>2,765,810</u>

5 Inventories

	<u>As at December 31,</u>	
	2009	2008
	\$	\$
Raw materials	1,044,514	1,298,555
Finished goods	2,967,271	2,854,257
	<u>4,011,785</u>	<u>4,152,812</u>

6 Government assistance receivable

During the fiscal year ended December 31, 2008, the company has entered into an agreement whereby it will receive a financial contribution of a maximum amount of \$250,000 under the Business Assistance – Immigrant Investor Program. This government assistance was accounted for against property, plant and equipment. The amount receivable is to be cashed in annual equal instalments of \$62,500. The long-term portion receivable has been discounted to take into consideration the 1.31% effective interest rate, which represents the one-month Treasury bill rate at the date of agreement.

	<u>As at December 31,</u>	
	2009	2008
	\$	\$
Government assistance receivable	185,076	247,576
Less current portion (note 4)	<u>62,500</u>	<u>62,500</u>
	<u>122,576</u>	<u>185,076</u>

Novik Inc.

Notes to Consolidated Financial Statements

At December 31, 2009 and 2008

7 Property, plant and equipment

	As at December 31,			
	2009		2008	
	Cost \$	Accumulated depreciation \$	Cost \$	Accumulated depreciation \$
Land	476,348	-	476,348	-
Plant	5,291,324	635,126	5,123,308	441,910
Equipment	8,254,810	2,351,538	8,279,097	1,695,667
Molds	6,873,863	1,936,436	5,055,046	1,563,968
Office furniture	72,759	48,353	65,923	43,961
Computer equipment	241,779	152,201	215,303	112,477
Deposits on property, plant and equipment	-	-	511,615	-
	21,210,883	<u>5,123,654</u>	19,726,640	<u>3,857,983</u>
Less:				
Accumulated depreciation	<u>5,123,654</u>		<u>3,857,983</u>	
Net amount	<u>16,087,229</u>		<u>15,868,657</u>	

8 Intangible assets

	As at December 31,			
	2009		2008	
	Cost \$	Accumulated amortization \$	Cost \$	Accumulated amortization \$
Deferred development expenses	1,989,563	812,671	1,531,267	480,688
Software	1,117,298	755,457	1,007,684	608,517
Web site	37,720	23,689	37,720	17,419
Trademarks	37,681	8,859	32,806	7,149
Patents	8,770	-	-	-
	3,191,032	<u>1,600,676</u>	2,609,477	<u>1,113,773</u>
Less:				
Accumulated amortization	<u>1,600,676</u>		<u>1,113,773</u>	
Net amount	<u>1,590,356</u>		<u>1,495,704</u>	

During the year ended December 31, 2009, the company applied research and development tax credits amounting to \$80,389 (\$189,795 in 2008) against the cost of deferred development expenses.

Novik Inc.

Notes to Consolidated Financial Statements

At December 31, 2009 and 2008

9 Credit facilities

The company has an available authorized line of credit of \$4,000,000 or its equivalent in US dollar that can be used in the form of letters of credit or a bank loan bearing interest at the lender's Canadian prime rate plus 1.50% and the US prime rate plus 1.50%. The line of credit is renewable annually. Accounts receivable and inventories have been pledged as collateral for the line of credit.

As at December 31, 2009, the company the company has outstanding letter of credit of \$USD 300,000.

10 Accounts payable and accrued liabilities

	<u>As at December 31,</u>	
	2009	2008
	\$	\$
Trade accounts payable	1,168,528	1,039,932
Salaries and employee benefits payable	288,117	316,087
Accrued liabilities	795,126	542,059
Fair value of forward exchange contracts	-	94,830
	<hr/>	<hr/>
	2,251,771	1,992,908
	<hr/>	<hr/>

Novik Inc.

Notes to Consolidated Financial Statements

At December 31, 2009 and 2008

11 Long-term debt

	As at December 31,	
	2009	2008
	\$	\$
Immoveable hypothec without delivery, bearing interest at prime rate plus 1%, payable in monthly principal instalments of \$17,170 plus interest, beginning in December 2010, maturing in November 2035*	5,150,000	5,150,000
Notes payable secured by a moveable hypothec on equipment, molds and all tangible assets, bearing interest varying at December 31, 2009 from prime rate plus 0.65%, libor rate plus 8.55% and fix rate of 4.37% to 4.5%, maturing between 2011 and 2014**	3,503,538	3,846,813
Notes payable secured by a moveable hypothec on equipment and molds, bearing interest varying at December 31, 2009 from prime rate plus 0.5% to 1.9%, bank acceptance rate plus 2.7% to 2.9% and fixe rate of 6.35%, maturing between 2010 and 2015	1,294,915	2,032,777
Notes payable to Canada Economic Development, non-interest bearing, payable in equal and consecutive annual instalments totalling \$76,440, maturing between 2011 and 2013, discounted with an effective rate of 15%***	174,812	249,499
Note payable to Canada Economic Development, non-interest bearing, payable in monthly principal instalments of \$3,000, beginning in March 2012 and maturing in February 2017, discounted with an effective rate of 15%***	90,178	-
Note payable under a Strategic Support for Investment Program, non-interest bearing, payable in equal and consecutive monthly principal instalments of \$9,084, starting in April 2012 and maturing in March 2019, discounted with an effective rate of 15%***	362,713	-
Deferred financing costs	(126,217)	(123,594)
	10,449,939	11,155,495
Less: Current portion	1,390,315	1,636,355
	<u>9,059,624</u>	<u>9,519,140</u>

As at December 31, 2009, the effective weighted average rate was 6.40% (7.92% as at December 31, 2008).

The company has a long-term debt totalling \$2,270,420 which is payable in US dollars.

The annual principal instalments required over the next five years are as follow: \$1,465,495 in 2010, \$2,496,341 in 2011, \$915,440 in 2012, \$835,002 in 2013 and \$544,739 in 2014.

The company is committed to meet certain financial ratios in connection with certain of these loans. As at December 31, 2009, all financial ratios are met.

Novik Inc.

Notes to Consolidated Financial Statements

At December 31, 2009 and 2008

- * On May 2, 2008, the company refinanced its immovable hypothec with the same financial partner and an authorized immovable hypothec of \$5,150,000 has been signed with the latter. This refinancing has been used for the expansion of the current plant and for the purchase of the adjacent land and of specific equipments related to the expansion.
- ** On May 5, 2008, the company changed its financial partner responsible for the authorized line of credit and a note payable. This new operating credit facility was used to fully repay, as at May 5, 2008, all borrowings under the existing bank loan agreements. The note payable due to the new financial partner has the same financial terms, except for the interest rate, which has changed from prime rate plus 1.25% to prime rate plus 0.50%.
- *** Effective rate of 15% represents the company's estimate of the prevailing market rate of interest for a similar instrument with a similar credit rating. As at December 31, 2009, the undiscounted balance of these notes payable amount to \$1,175,914 (\$309,320 in December 31, 2008).

12 Capital stock

- a) The company's authorized capital stock is composed of an unlimited number of common shares, without par value, voting and participating.

The following table summarizes changes to capital stock activity since January 1, 2008:

	2009		2008	
	Number	Stated value \$	Number	Stated value \$
Common shares, issued and fully paid				
Balance – Beginning of year	48,470,858	9,946,318	45,799,429	8,531,413
Issuance of shares pursuant to exercise of warrants (note 12c)	-	-	2,671,429	1,425,554
Share issue expenses	-	-	-	(10,649)
Balance – End of year	<u>48,470,858</u>	<u>9,946,318</u>	<u>48,470,858</u>	<u>9,946,318</u>

Novik Inc.

Notes to Consolidated Financial Statements

At December 31, 2009 and 2008

b) Stock options

On September 20, 2005, the company put in place a stock option plan for employees, officers, directors and consultants. Options vest over a maximum period of ten years and are exercisable under the conditions established by the committee on the date of grant. The purchase price of the shares under the plan corresponds to the quoted market price of the shares of the company at the closing of the market, on the trading day preceding immediately the date of grant. The maximum number of shares issuable under the plan is limited to 7,435,600 shares and the maximum number that may granted to an optionee shall not exceed 5% of all the issued and outstanding shares.

Under the existing plan, on May 29, 2008, the company granted 425,000 stock options to its directors and certain officers at an exercise price of \$0.40 which will mature on May 29, 2013. A compensation expense of \$141,490 has been accounted for in the statement of earnings as these new stock options are exercisable immediately.

Under the existing plan, on May 28, 2009, the company granted 575,000 stock options to its directors and certain officers at an exercise price of \$0.32, which will mature on May 28, 2014. A compensation expense of \$151,300 has been accounted for in the statement of earnings as these new stock options are exercisable immediately.

The following table summarizes information about stock options under the plan since January 1, 2008:

	2009			2008		
	Number	Carrying value \$	Weighted average exercise price \$	Number	Carrying value \$	Weighted average exercise price \$
Outstanding - Beginning of year	2,024,000	524,632	0.42	1,620,000	339,850	0.42
Granted during the year	575,000	-	0.32	425,000	-	0.40
Cancelled during the year*	(15,500)	(4,046)	0.50	(21,000)	(2,870)	0.50
Compensation costs	-	152,000	-	-	187,652	-
Outstanding – End of year	<u>2,583,500</u>	<u>672,586</u>	<u>0.39</u>	<u>2,024,000</u>	<u>524,632</u>	<u>0.42</u>
Exercisable – End of year	<u>2,583,500</u>		<u>0.39</u>	<u>2,009,000</u>		<u>0.42</u>

* An amount of \$4,046 (\$2,870 in 2008) has been accounted for as an increase of the contributed surplus following cancellation of 15,500 (21,000 in 2008) exercisable stock options.

Novik Inc.

Notes to Consolidated Financial Statements

At December 31, 2009 and 2008

The following table summarizes information on outstanding and exercisable stock options under the plan as at December 31, 2009:

Exercise price	Options outstanding and exercisable	
	Number	Weighted average contractual life (years)
\$0.19	330,000	2.40
\$0.32	575,000	4.41
\$0.40	425,000	3.41
\$0.45	400,000	1.40
\$0.46	120,000	1.24
\$0.50	733,500	0.78
	2,583,500	2.34

The fair value of the stock options issued was estimated using the Black-Scholes valuation model with the following assumptions:

	Granted under the plan on May 28, 2009	Granted under the plan on May 29, 2008
Risk-free interest rate	0.44%	2.73%
Expected volatility	120%	120%
Dividend yield	Nil	Nil
Expected life	60 months	60 months
Fair value on the date of grant	\$0.26	\$0.33

Novik Inc.

Notes to Consolidated Financial Statements At December 31, 2009 and 2008

c) Warrants

The following table summarizes information about warrants outstanding since January 1, 2007:

	Number	Carrying value \$	Weighted average exercise price \$	Weighted average remaining contractual life (years)
Outstanding as at January 1, 2007	3,385,715	283,146	0.45	0.89
Exercised in 2008	(2,671,429)	(223,411)	0.45	-
Expired in 2008	(714,286)	(59,735)	0.45	-
Outstanding as at December 31, 2008 and 2009	-	-	-	-

On October 9, 2008, 1,571,429 warrants were exercised in the amount of \$707,143 in exchange of 1,571,429 common shares of the company. On October 20, 2008, 1,100,000 warrants were also exercised in the amount of \$495,000 in exchange of 1,100,000 common shares of the company.

d) Expired conversion option

The company had granted a conversion option on notes payable which was fully reimbursed in 2008.

The fair value of this conversion option was transferred to the contributed surplus at the same rate as the reimbursement of notes payable. A final amount of \$20,781 had been accounted for in this regard in 2008.

Novik Inc.

Notes to Consolidated Financial Statements

At December 31, 2009 and 2008

13 Income taxes

The reconciliation of the income tax expense calculated using the statutory combined income tax rates of the federal government (Canada) and provinces concerned (Quebec), to the income tax expense per the financial statements is as follows:

	Years Ended December 31,	
	2009	2008
	\$	\$
Income tax expense (recovery) at the combined statutory tax rate (30.90% in 2009 and 2008)	(345,363)	401,884
Increase (decrease) due to:		
Non-taxable income	(84,177)	(11,615)
Stock-based compensation costs	46,968	57,984
Other non-deductible expenses	18,790	93,605
Use of previously unrecognized assets	-	(143,487)
Change in valuation allowance	(56,904)	66,830
Change in tax rates	88,698	(55,871)
Other	(9,838)	16,721
	(341,826)	426,051

Significant components of the company's future income tax assets and liabilities are detailed as follows:

	As at December 31,	
	2009	2008
	\$	\$
Long-term future income tax assets		
Non-capital losses	1,236,051	281,398
Research and development expenses	289,618	414,939
Share issue and financing expenses	48,942	140,035
Unrealized exchange loss	9,926	66,830
Other	7,655	6,906
	1,592,192	910,108
Long-term future income tax liabilities		
Property, plant and equipment	1,218,187	956,872
Long-term debt	151,939	16,092
Valuation allowance	9,926	66,830
	1,380,052	1,039,794
Long-term future income tax assets (liabilities), net	212,140	(129,686)

The company accumulated federal and provincial non-capital losses of \$4,795,248 and \$4,342,556 respectively and maturing at different date until 2029.

Novik Inc.

Notes to Consolidated Financial Statements

At December 31, 2009 and 2008

14 Earnings per share

The following table summarizes the basic and diluted weighted average number of common shares outstanding used in the basic and diluted net earnings per share calculations:

	<u>Years Ended December 31,</u>	
	2009	2008
Basic weighted average number of shares outstanding	48,470,858	46,378,059
Weighted average number of potentially dilutive shares outstanding	88,624	145,588
	<hr/>	<hr/>
Diluted weighted average number of shares outstanding	48,559,482	46,523,647

A number of stock options corresponding to 2,253,500 shares (1,694,000 in 2008) for the year ended December 31, 2009 has been excluded from the calculation of diluted earnings per share because the exercise prices of these stock options were greater than the average market price of the common shares.

15 Additional disclosures to the statements of cash flows

(a) Net change in non-cash working capital items

	<u>Years Ended December 31,</u>	
	2009	2008
	\$	\$
Accounts receivable	971,089	(738,182)
Inventories	141,027	(1,394,674)
Refundable tax credits	134,852	(212,657)
Prepaid expenses	101,595	(255,493)
Accounts payable and accrued liabilities	227,031	76,903
	<hr/>	<hr/>
	1,575,594	(2,524,103)

Novik Inc.

Notes to Consolidated Financial Statements At December 31, 2009 and 2008

(b) Items not affecting cash related to:

Operating and investing activities

	<u>Years Ended December 31,</u>	
	2009	2008
	\$	\$
Acquisition of property, plant and equipment included in accounts payable and accrued liabilities	31,832	141,535

(c) Additional information

	<u>Years Ended December 31,</u>	
	2009	2008
	\$	\$
Interest paid	662,600	481,706

16 Related party transactions

The transactions entered into by the company with related parties are reflected in the financial statements as follows:

	<u>Years Ended December 31,</u>	
	2009	2008
	\$	\$
With a company owned at 50% by a shareholder		
Property, plant and equipment	-	8,574

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Novik Inc.

Notes to Consolidated Financial Statements

At December 31, 2009 and 2008

17 Capital Disclosures

The company's objectives when managing capital are to:

1. maintain financial flexibility in order to preserve its ability to meet financial obligations;
2. deploy capital to provide an appropriate investment return to its shareholders;
3. maintain a capital structure that allows multiple financing options to the company should a financing need arise.

The company defines its capital as follows:

	<u>As at December 31,</u>	
	2009	2008
	\$	\$
Bank loan	1,794,591	863,043
Long-term debt, including the current portion	10,449,939	11,155,495
Shareholders' equity	10,818,027	11,441,880
	<u>23,062,557</u>	<u>23,460,418</u>

The company's financial strategy is designed and formulated to maintain a flexible capital structure consistent with the objectives stated above and to respond to changes in economic conditions and the risk characteristics of underlying assets. In order to maintain or adjust its capital structure, the company may purchase shares for cancellation pursuant to normal course issuer bids, issue new shares, raise debt (secured, unsecured, convertible and/or other types of available debt instruments) or refinance existing debt with different characteristics.

The company periodically monitors capital using a number of financial metrics comprised of the following ratios:

1. long-term debt to net tangible value; and
2. working capital ratio.

Total long-term debt, a non-GAAP measure, is calculated as the sum of the long-term debt including the current portion.

Net tangible value, a non-GAAP measure, is calculated as the sum of shareholders' equity less future income tax assets, intangible assets and deferred charges.

Working capital ratio, a non-GAAP measure, is calculated as the sum of current assets over total current liabilities.

Novik Inc.

Notes to Consolidated Financial Statements

At December 31, 2009 and 2008

The company's financial objectives and strategy as described above have remained substantially unchanged over the previous fiscal years. These objectives and strategy are reviewed on an annual basis. The company believes that its ratios are within reasonable limits, in light of the relative size of the company and its capital management objectives.

The company is also subject to financial covenants in its operating credit facility agreement, which are measured on a monthly basis. The company is in compliance with all financial covenants.

The following table illustrates the financial ratios calculated on a trailing twelve-month basis over the last fiscal period:

	Guidelines (up to)	As at December 31, 2009	As at December 31, 2008
Long-term debt, including the current portion		\$10,449,939	\$11,155,495
Shareholders' equity		\$10,818,027	\$11,441,880
Less:			
Future income tax assets		\$(212,140)	-
Intangible assets		\$(1,590,356)	\$(1,495,704)
Plus:			
Future income tax liabilities		-	\$129,686
Net tangible value		\$9,015,531	\$10,075,862
Long-term debt, including the current portion		\$10,449,939	\$11,155,495
Net tangible value		\$9,015,531	\$10,075,862
Long-term debt to net tangible value	1.5:1	1.2:1	1.1:1
Current assets		\$6,893,648	\$7,667,107
Current liabilities		\$5,436,677	\$4,492,306
Working capital ratio	1.3:1	1.3:1	1.7:1

Novik Inc.

Notes to Consolidated Financial Statements

At December 31, 2009 and 2008

18 Financial instruments

Fair value

The company's financial instruments recognized in the balance sheet are cash, accounts receivable, bank loan, accounts payable and accrued liabilities as well as long-term debt. The fair value of these financial instruments approximates their carrying values due to their short-term maturity or to current market conditions.

The fair value of financial instruments is as follow:

	<u>As at December 31, 2009</u>	
	Loans and receivables	Other financial liabilities
	\$	\$
Financial assets		
Accounts receivable	2,369,825	-
Government assistance receivable	122,576	-
	<hr/>	<hr/>
	2,504,401	-
	<hr/>	<hr/>
Financial liabilities		
Bank loan	-	1,794,591
Accounts payable and accrued liabilities	-	2,251,771
Long-term debt	-	10,576,156
	<hr/>	<hr/>
	-	14,622,518
	<hr/>	<hr/>
	<u>As at December 31, 2008</u>	
	Loans and receivables	Other financial liabilities
	\$	\$
Financial assets		
Accounts receivable	2,765,810	-
Government assistance receivable	185,076	-
	<hr/>	<hr/>
	2,950,886	-
	<hr/>	<hr/>
Financial liabilities		
Bank loan	-	863,043
Accounts payable and accrued liabilities	-	1,992,908
Long-term debt	-	11,279,089
	<hr/>	<hr/>
	-	14,135,040
	<hr/>	<hr/>

Novik Inc.

Notes to Consolidated Financial Statements

At December 31, 2009 and 2008

Interest rate risk

Cash bears interest at a floating rate. Accounts receivable, government assistance receivable as well as accounts payable and accrued liabilities bear no interest. The interest rates of bank loan and long-term debt are mentioned in notes 9 and 11, respectively.

Proportional variation of + 1% / - 1% in the prime interest rates would have an impact of \$83,000 (\$72,000 in 2008) on interest expense on long-term debt.

Credit risk

The company's credit risk is primarily attributable to its trade accounts receivable. The amounts disclosed in the balance sheet are net of allowance for bad debts, estimated by the company's management based on prior experience and their assessment of the current economic environment. The company believes that the credit risk of accounts receivable is limited for the following reasons:

A broad client base dispersed across varying geographic locations.

Just above 92% of trade accounts receivable is outstanding for less than 90 days.

Though 36% of the company's revenue for the fiscal year 2009 comes from its top two clients, the company believes that the credit risk associated with these clients is limited. Generally, the company does not require collateral or other security from clients for trade receivables; however credit is extended to clients following an evaluation of creditworthiness. In addition, the company performs periodic credit reviews of its clients.

The company accounts for a specific bad debt allowance when management considers that the expected recovery is less than the actual amount receivable.

In the past three fiscal years, the company has not recorded bad debt expenses in excess of its allowance for bad debts. The allowance for bad debts as at December 31, 2009 was \$67,443 (\$62,578 as at December 31, 2008). All bad debt write-offs are charged to administrative expenses.

Liquidity Risk

The company actively maintains credit facilities to ensure it has sufficient available funds to meet current and foreseeable financial requirements at a reasonable cost.

Novik Inc.

Notes to Consolidated Financial Statements

At December 31, 2009 and 2008

The following are the contractual maturities of financial liabilities as at December 31, 2009:

	Carrying Amount	Contractual Cash Flows	0 to 12 months	12 to 24 months	Over 24 months
Bank loan	1,794,591	1,794,591	1,794,591	-	-
Accounts payable and accrued liabilities	2,251,771	2,251,771	2,251,771	-	-
Long-term debt including the current portion	10,576,156	11,124,367	1,465,495	2,496,341	7,162,531
	14,622,518	15,170,729	5,511,857	2,496,341	7,162,531

Management believes that future cash flows from operations and availability under existing banking arrangements will be sufficient to support these financial liabilities.

Currency risk

Since a portion of the company's revenue is denominated in US dollar, the company is exposed to currency risk. This risk is partially hedged by its purchases in US dollar and by foreign currency forward exchange contracts. The company is also exposed to currency risk arising from its long-term debt denominated in US dollar.

Based on historical changes and volatility in the above market variable, and on management's current assessment of the financial markets, the company believes the following variation is reasonably possible over a 12-month period, net of income taxes and using an estimated effective tax rate of 31%:

Proportional foreign exchange rate variation of -10% (depreciation of Canadian dollar (CAD)) and +10% (appreciation of CAD) against the US dollar (USD), from a period-end rate of 1.051.

If these variations were to occur, the impact on consolidated net earnings and equity for each category of financial instruments held at the balance sheet date would be as follows:

(in thousands of dollars)	Carrying amount	Foreign exchange rate risk			
		-10%		+10%	
		Earnings	Equity	Earnings	Equity
Financial assets					
Accounts receivable	958	66	66	(66)	(66)
Financial liabilities					
Bank loan	2,370	(164)	(164)	164	164
Accounts payable and accrued liabilities	271	(19)	(19)	19	19
Long-term debt refundable in USD	2,270	(157)	(157)	157	157
TOTAL INCREASE (DECREASE)		(274)	(274)	274	274

Novik Inc.

Notes to Consolidated Financial Statements

At December 31, 2009 and 2008

The fair value of foreign currency forward contracts at December 31, 2009 is as follows:

Purchasing currency	Selling currency	Par value in selling currency	Maturity	Fair value (a) \$	Average rate
CAN\$	US\$	2,812,500	2010	575,104	1.26

The company has realized an exchange gain of \$494,828 on its foreign currency forward contracts in 2009 (exchange loss of \$156,125 in 2008).

- (a) Fair value of foreign currency forward contracts generally reflects the estimated amounts that the company would receive by way of settlement of favourable contracts or would be required to pay to terminate unfavourable contracts at the balance sheet date.

19 Segment information

The company is organized under one single operating segment, as described in note 1. Revenue by geographic region is detailed as follows:

	Years Ended December 31,	
	2009	2008
	\$	\$
Canada	5,739,590	4,788,588
United States	6,728,044	5,940,437
Mexico	719,907	651,843
North America	13,187,541	11,380,868
Europe and Asia-Pacific	1,873,343	8,735,510
	<u>15,060,884</u>	<u>20,116,378</u>

Revenue has been allocated based on the country of residence of the customer. All of the company's long-lived assets are located in Canada.

Novik Inc.

Notes to Consolidated Financial Statements

At December 31, 2009 and 2008

Major customers

Customers representing 10% or more of revenues in 2009 are allocated as follows:

	<u>Years Ended December 31,</u>	
	2009	2008
	%	%
Customer 1	25,53	14,74
Customer 2	10,35	8,63

20 Commitments

As at December 31, 2009, the company's minimum aggregate commitments under long-term equipment and vehicle lease agreements amount to \$55,023. Minimum lease payments required over the next four years amount to \$25,808 in 2010, \$13,365 in 2011, \$10,567 in 2012 and \$5,283\$ in 2013.

21 Comparative figures

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