

## **RECORD ANNUAL SALES AND RETURN TO PROFITABILITY FOR 2010**

### **2010 FISCAL YEAR HIGHLIGHTS**

- **Record annual sales at \$23,776,000; 58% sales growth compared with 2009**
- **Record sales for each quarterly period of 2010**
- **Gross margin maintained at 38% despite an increase in the cost of raw materials**
- **Significant increase in adjusted EBITDA from \$520,000 to \$2,947,000**
- **\$279,000 in net profit compared with a net loss of \$776,000**

### **MANAGEMENT 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, 2010. 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, 2009. 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, 2010 and 2009, 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 February 23, 2011, the date of the Board's approval of this management report 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 clients or new orders, increased prices for consumed raw materials, and the retention of key management or 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, you 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 new 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 through its innovation in the products offered and its manufacturing processes at the cutting edge of technology. 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 our sales team and 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 sales team of four employees travels all around the Canadian territory with our marketing team to promote better awareness of our products. Canadian sales represent around 30% of Novik's sales revenue. In the United States, the company is represented by a team of four employees as well as a dozen manufacturers' agents in nearly 25 states. Around 60% of Novik's sales come from the United States. International sales throughout the rest of the world represent around 10% of its business. Through its sustained marketing efforts and its distributors, Novik has generated an increase in international sales in recent years. Novik benefits from solid business relations with distributors located across Europe.

Strategically, Novik is concentrating on further establishing itself on the global market, especially in Canada and the United States. Given the potential for faster growth and the natural geographical proximity of these two countries, we are investing more of our marketing efforts 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 as the most popular exterior coverings company with its customers.

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 maximizing the company's profitability

### **Strategic directions**

In the most recent annual report, we presented a decrease in sales for the first time in Novik's history. However, in this same document, we indicated that the 2009 annual financial results did not demonstrate the breakthroughs made on the North American market.

Novik's sales growth of nearly 60% in 2010 compared with 2009 justifies this comment. Novik has managed to benefit from its competitors' weaknesses and introduce new unique products, thus allowing Novik to gain market shares in a relatively fragile industry.

We are in the final year of our 2009-2011 three-year strategic plan, and we intend to continue it while modifying certain action plans in 2011 with the goal of maintaining our pace of growth.

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

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

These areas are now managed by the same leader in order to instil a common vision. While each area may be at a different stage of development, we believe in the success of our marketing plan by creating our own demand.

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 consumer. In its recent years of operations, Novik relied heavily on distributors. Based on our analysis, we believe that Novik's sales potential is currently understated in North America, and a more proactive approach has now been observed since 2009.

For example, 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 objective is to present Novik's products to end consumers and to demonstrate the advantages of our products to them: 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, and a magazine showing the various applications of Novik products are all concrete measures that have been or 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 the area will be maximized. During the next year, we will also be sure to develop solid relationships with architects and real estate developers in large urban centres. These decision-makers can influence the decisions of consumers and allow us to raise awareness about our various products.

Our sales teams responsible for the Canadian market and the US market also continue to give priority to concrete measures with our network of current distributors and 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 targeted areas in order to promote a connection between Novik and the end consumer.

Despite a significant decrease in 2010 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 are still positive about the advantages of our products and are committed to continuing their activities with Novik in several Western European countries, Germany, France, England, and Mexico. The development of new markets is just as important. Each year, we receive several requests from new distributors who would like to offer our products in targeted countries.

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

Novik already has recognition in its industry, and our objective is to increase it to fulfill our mission. We will continue our efforts to develop new products in the coming years so that we can stand out from the competition even more. Novik wants to become the first-choice partner of those working in the exterior covering industry by offering innovative polymer-based products in order to become the manufacturer of reference in residential siding.

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 targeted in order to maximize their sales growth potential for the coming years. The significant sales growth in fiscal year 2010 compared with 2009 is directly linked to this desire to offer innovative products. More than \$9,000,000 of Novik's sales comes from these new products for fiscal year 2010 and largely explains the success obtained in 2010. 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. There is still interest in these products for the next year, thus favouring our increased market share in an industry achieving growth rates lower than those observed by Novik in 2010.

Other important projects are under consideration to follow the trends observed in the market, but we want to ensure that in 2011 we market the products introduced in the previous year before introducing new coverings. In addition, we want to focus more next year on improving existing products. Whether to improve aesthetics, decrease manufacturing costs, or facilitate installation, we aim to offer these improvements on the market as quickly as possible.

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 maximizing the company's profitability***

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 putting key indicators into place 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 its short-, medium-, and long-term financial objectives.

### **Disclosures in volatile and uncertain times in the financial markets**

In the current setting, Novik is continuing to carry out its strategic plan geared towards increasing sales through territorial growth and exploiting the immense potential of the launch of new innovative products introduced in 2009 and in recent years. The acquisition of tangible fixed assets will be lower in 2011 compared with 2008 and 2009, since 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 betting on stability in the hiring of competent human resources in order to maximize the opportunities offered in our operational efficiency. Given the financial results observed in 2009 and the strong pressure on the cost of consumed raw materials for the next year, we must take measures to continue to improve our productivity. Since last fall, we have benefited from the experience of all of our team members in order to make our solutions more efficient in our operations, thus generating significant savings. The delivery of our resin purchases by railcar, the reduction of the injection cycle and the labour time in the manufacturing of certain products, and the decrease in time for our cleaning operations are all examples aiming to maximize the opportunities offered in our production cycle and thus promote better profitability.

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. We have not had any significant loss in recovering our accounts receivable since fall 2008.

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, a more difficult fiscal year in 2009 combined with a rapid growth in its sales in 2010 has forced Novik to manage its liquid assets adequately in order to take advantage of opportunities present on the market. For the next fiscal year, we recently entered into a plan with certain current financial partners to maintain the necessary financial resources for our operations in the next fiscal year. This plan aims to refinance maturing debts with more favourable terms as well as an additional amount to finance our acquisitions of tangible fixed assets for the next year and direct injection into our working capital. In addition, 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 the change in Novik's financial situation and are supporting us with regard to the strategic objectives described above.

The accounting estimates used for the fiscal year ended December 31, 2010, 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 data per share)	<b>Fiscal year 2010</b>	Fiscal year 2009	Fiscal year 2008
Revenue	<b>23,776</b>	15,061	20,116
Gross margin	<b>9,024</b>	5,762	7,955
Earnings before interest, income taxes, stock-based compensation costs, depreciation, and amortization	<b>2,947</b>	520	3,781
Net earnings (Net loss)	<b>279</b>	(776)	875
Basic and diluted net earnings (net loss) per share	<b>0.006</b>	(0.016)	0.019
Total assets	<b>24,307</b>	25,314	25,583
Working capital	<b>2,186</b>	1,457	3,175
Total long-term financial liabilities	<b>8,960</b>	10,450	12,019

## **OPERATING RESULTS**

### **Revenue**

During fiscal year 2010, the company generated \$23.8 M in revenues compared with \$15.1 M in 2009. This 58% increase in sales is directly linked to the presence of new major distributors in Canada and the United States and the introduction of innovative covering products in 2009. This significant growth in Novik's sales compared with the previous fiscal year is a great achievement, given our presence in an industry still facing significant challenges following the recent economic recession. Our industry has grown calmly since last year but remains far from the thresholds seen in the mid-2000s; Novik is thus gaining market shares, given its greater pace of sales growth since the start of the current year. The efforts in marketing and developing new products in recent years have allowed Novik to generate this sales growth and stand out in a market where the opportunities are at a slow pace. This phenomenal growth in Novik's sales in a North American economic context considered very difficult positions the company advantageously in the face of a stronger economic recovery foreseen over the coming years.

North American sales in fiscal year 2010 were up by nearly \$10 M compared with the same period of the previous fiscal year, an increase of 83%. This growth in sales in this area is exclusively related to our exterior coverings introduced since fall 2009 and now sold to large distributors in this area. As for Novik's exports on the European market, we have seen a 12% growth compared with the previous year.

Revenues for fourth quarter 2010 totalled \$4.4 M compared with \$3.4 M in fourth quarter 2009. This sales growth of nearly 30% is a record for a fourth quarter and ensures Novik's achievement of record sales for a fourth consecutive quarter. The increase in sales on the North American market contributed to reaching this level of sales and also with the larger delivery of containers on the European continent. Since the fall season, we have sensed a renewed level of economic activity in certain countries and are positive about seeing an increase in our sales on this market for the next fiscal year.

### **Gross earnings**

The company's gross earnings for fiscal year 2009 totalled \$9.0 M, i.e. 38% of the company's total income, compared with \$5.8 M for the previous fiscal year, i.e. 38% of total income.

This steadiness in the gross margin as a percentage in the current year is even more positive given the significant increase in the price of raw materials since the beginning of 2010 compared with the previous year and the Canadian dollar's appreciation in relation to the US dollar. The higher price of raw materials in 2010 decreased the margin by nearly 4%, and the appreciation of the Canadian dollar in relation to the US dollar put pressure on our gross margin for fiscal year 2010. However, the significant sales growth observed in 2010 compared with stable operation costs has made it possible to achieve economies of scale of nearly 8%. Our product price increase announced last spring also offset these negative external impacts.

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

(in thousands of dollars)	<b>Fiscal</b>	Fiscal year	Fiscal
	<b>year 2010</b>	2009	year 2008
Adjusted EBITDA	<b>2,947</b>	520	3,781
Stock-based compensation	<b>(116)</b>	(152)	(188)
Depreciation and amortization	<b>(1,769)</b>	(1,831)	(1,319)
Financial (income) expenses	<b>(545)</b>	345	(973)
Earnings (loss) before income taxes	<b>517</b>	(1,118)	1,301

For the fiscal year ended December 31, 2010, adjusted EBITDA amounted to \$3,038,000 compared with \$520,000 for the previous fiscal year.

Novik's significant sales growth for fiscal year 2010 explains in significant increase. This level of adjusted EBITDA, given a ratio to sales of 13%, represents a more satisfying threshold than the one seen during the previous fiscal year. This ratio demonstrates Novik's potential to generate attractive levels of liquidities in a context of profitability.

### Selling expenses

Cumulative selling expenses amounted to \$5.7 M compared with \$4.9 M for the twelve-month period ended in the previous fiscal year.

This increase in sales is explained by higher transport costs, given the higher level of sales in the current fiscal year compared with the previous fiscal year. An increase in expenditures on our sales team also partially explains this increase in selling expenses. New players were added in new markets where Novik finds the future opportunities to be attractive.

### Administrative expenses

Administrative expenses for fiscal year 2010 decreased slightly compared with the previous year. This decrease in administrative expenses of \$157,000 demonstrates the stability of our operating costs in this sector despite a significant increase in the company's sales revenue.

### Financial expenses

Financial expenses for fiscal year 2010 increased by \$812,000 compared with the previous fiscal year. Interest expenses on the bank loan and long-term debt remained roughly stable compared with the same period of the previous year. The increase is explained by the significant appreciation of the Canadian dollar in relation to the US dollar last year. This situation had allowed Novik to record a large foreign exchange gain of more than \$1,000,000 in 2009. This exchange gain was explained by the recording of an exchange gain on foreign exchange contracts with an average rate of 1.26 and the revaluation of the net monetary liabilities denominated in US currencies as at December 31, 2009.

## Net earnings

The net profit for fiscal year 2010 was \$279,000 compared with a net loss of \$776,000 for the previous fiscal year. It is important to note that the operating profit is significantly higher in 2010 because the recorded exchange gain of more than \$1,000,000 had allowed Novik to minimize the operational losses experienced in 2009.

Novik generated an operating profit of \$1,063,000 in 2010 compared with an operating loss of \$1,385,000 in 2009. This improvement of nearly \$2,500,000 is directly linked to the company's significant sales growth. A marked increase can thus be seen in the company's profitability in only one year.

## PRINCIPAL QUARTERLY FINANCIAL DATA

(in thousands of dollars, except per share amounts) (unaudited)	Total	First quarter	Second quarter	Third quarter	Fourth quarter
<b>Fiscal year ended December 31, 2010</b>					
Revenue	<b>23,776</b>	3,854	7,691	7,839	4,392
Net earnings (Net loss)	<b>279</b>	(312)	51	693	(153)
Basic and diluted net earnings (net loss) per share	<b>0.006</b>	(0.006)	0.001	0.014	(0.003)
<b>Fiscal year ended December 31, 2009</b>					
Revenue	<b>15,061</b>	2,645	4,172	4,872	3,372
Net earnings (Net loss)	<b>(776)</b>	(627)	436	93	(678)
Basic and diluted net earnings (net loss) per share	<b>(0.016)</b>	(0.013)	0.009	0.002	(0.014)

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 losses observed in the first and fourth quarters come from the decrease in the volume of sales compared with the second and fourth quarters.

## **LIQUIDITY, FINANCIAL POSITION, AND COMMITMENTS**

### **Liquidity**

As previously mentioned, the more difficult financial results of 2009 combined with a rapid increase in Novik's sales in 2010 forced us manage our cash flows soundly. Our financial partners supported us by offering a six-month capital moratorium during fiscal year 2010. We must continue to be vigilant in monitoring the market's conditions to find opportunities to generate positive cash flows and exercise strict control over discretionary spending to limit our outflows of funds. This fiscal year 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. Given this situation, and in order to be able to maintain our current level of growth, we have worked with certain current financial partners on the upcoming refinancing of existing debts with better payment terms and the granting of new debts to finance our future acquisitions of tangible fixed assets and support our working capital for fiscal year 2011. In addition, the company and these same financial partners have agreed to a six-month capital moratorium for part of fiscal year 2011.

### *Operating activities*

The increase in sales volume, as explained above, resulted in an increase of nearly \$2.6 M in cash flow from operations compared with the same period of the previous fiscal year.

Cash flows related to operating activities amounted to \$2.2 M in late December 2010 compared with \$1.6 M in the same period of the previous year.

### *Financing activities*

For fiscal year 2010, financing activities decreased by \$1.9 M compared with the previous year. This decrease is explained primarily by the increase in debts contracted in 2009 to finance the construction of new moulds last year in order to offer new innovative products. As previously explained, these new products have allowed Novik to make significant breakthroughs on the North American market compared with the competition.

### *Investing activities*

Investing activities used a lower amount of funds in fiscal year 2009 compared with the previous fiscal year by \$1.4 M.

Investments in tangible fixed assets were lower in 2010 compared with 2009. The greater amount of investments in the previous year is primarily explained by the expenditures made on moulds for the introduction of new products to our existing line. These new innovative products have all been offered since the third quarter of fiscal year 2009.

In the coming months, we foresee no major investments in building, equipment, or moulds. We seek to improve our current products, which may lead to modifications of our existing moulds. As such, certain investments will be necessary. However, these investments will not be to the same degree as in previous fiscal years. 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 decreased by \$1 M for the fiscal year ended on December 31, 2010, compared with the previous fiscal year. A faster recovery of our accounts receivable was cancelled out by the increase in our inventories. However, greater depreciation of tangible fixed assets compared with the level of acquisitions in 2010 primarily explains this decrease.

### *Financial liabilities*

Total liabilities decreased by \$1.4 M as at December 31, 2010, compared with December 31, 2009, given the capital repayments of long-term debt during the fiscal year. The bank loan level as well as accounts payable and accrued expenses have remained roughly stable.

### *Financial ratios*

The company is bound by financial commitments related to its credit facilities, compliance with which is measured according to certain financial ratios calculated annually as at December 31. As at December 31, 2010, the company is meeting all of its financial ratios in connection with the actions as indicated below in the "Subsequent events" section.

### *Capital stock*

The following table presents the capital stock situation since January 1, 2009:

	Twelve Months Ended December 31, 2010		Twelve Months Ended December 31, 2009	
	Shares	Stated value \$	Shares	Stated value \$
<b>Balance at the beginning and end of the fiscal year</b>	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.

<b>SHARE AND OPTIONS DATA</b>	
<b>Issued and outstanding as at December 31, 2010</b>	<b>Issued</b>
Common shares	<b>48,470,858</b>
<b>Outstanding stock options as at December 31, 2010</b>	
Options issued under the stock option plan	<b>2,555,000</b>
<b>COMMON SHARES</b>	
	<b>Twelve-month period ended December 31, 2010</b>
	<b>\$</b>
Volume traded	<b>2,447,100</b>
Average price	<b>0.21</b>
Closing price	<b>0.33</b>
Price range	<b>0.15 – 0.38</b>

### **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 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.

Under the existing plan, on May 27, 2010, the company granted 705,000 stock options to its directors and certain officers at an exercise price of \$0.20, maturing on May 27, 2015. A compensation expense of \$116,000 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, 2010:

	Shares	Book value \$	Weighted average exercise price \$
<b>Outstanding – Beginning of year</b>	2,583,500	672,586	0.39
Granted during the year	705,000	116,000	0.20
Cancelled during the year	(733,500)	(191,444)	0.50
<b>Outstanding – End of year</b>	<b>2,555,000</b>	<b>597,142</b>	<b>0.31</b>
<b>Exercisable – End of year</b>	<b>2,555,000</b>		<b>0.31</b>

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

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 reduces proportionally with the number of years. The typical warranty terms require that the company replace defective material during the warranty period at its own expense. The company posts a warranty provision when the products are shipped based on the estimated incurred costs of the warranty.

The company's total minimum commitments under long-term financing contracts amount to \$8,960,427. The required annual instalments amount to \$838,767 in 2011, \$1,117,932 in 2012, \$974,378 in 2013, \$784,260 in 2014, \$601,824 in 2015, and \$4,643,266 thereafter.

As at December 31, 2010, the total amount of the company's minimum commitments under agreements with service providers for equipment and vehicles was \$92,656. The required annual minimum payments for the next four fiscal years under these agreements amount to \$34,510 in 2011, \$34,510 in 2012, \$22,724 in 2013, and \$912 in 2014.

The company is committed to purchase an equipment of a total value of \$630,000. As at December 31, 2010, a balance of \$535,500 is payable in the first two quarters of 2011.

Notes 11 and 19 pertaining to the audited consolidated financial statements provide a status of these commitments.

### Related-party transactions

During fiscal year 2010, no related-party transactions occurred.

## **Contingency**

A statement of claim was issued against the company from a former employee for damages. The company believes that the claim is without merit and has accrued a reasonable provision with respect to this claim. Should the actual amount be different of the amount of the recorded provision as at December 31, 2010 will be recorded in the net earnings of the period when the actual amount becomes known.

## **Subsequent events**

In February 2011, the company obtained a loan of \$2,625,000 bearing interest at the financial institution's prime rate plus 4%, secured by an hypothec on all chattel and real properties, payable in monthly principal instalments of \$43,000 plus interests starting in October 2011 and a final instalment of \$45,000 plus interest in September 2016. The proceeds from this loan will be used to repay notes payable maturing between 2011 and 2015 amounting to \$1,630,812.

The company also obtained a second loan of \$400,000 bearing interest at the financial institution's prime rate plus 2.75%, secured up to 70% of the loan amount by Investissement Québec and by an hypothec on all assets subordinated to the existing sureties. The loan is payable in monthly principal instalments of \$7,407 plus interests starting in October 2011 and matures in March 2016.

Finally, the company obtained a six-month capital instalment moratorium on other notes payable. Capital instalments payable after the end of the moratorium period will be adjusted so that the loans will be repaid within the initial maturity dates.

As at December 31, 2010, the current portion of long-term debt were established using the above terms and conditions. These allow the company to meet the working capital ratio level required by the long-term creditors.

## **CAPITAL DISCLOSURES**

The company's objectives when managing capital are to:

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

The company defines its capital as follows:

	As at December 31,	
	2010	2009
	\$	\$
Bank loan	1,621,972	1,794,591
Long-term debt, including the current portion	8,960,427	10,449,939
Shareholders' equity	11,213,239	10,818,027
	<u>21,795,638</u>	<u>23,062,557</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:

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

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

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

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

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 under its operating credit facility agreement, which compliance is measured according to certain financial ratios calculated annually as at December 31. As at December 31, 2010, the company is in compliance with all financial covenants.



## **Interest rate risk**

Accounts receivable and 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 (also see note 21).

Proportional variation of + 1% / - 1% in the prime interest rates would have an approximative impact of \$89,000 (\$83,000 in 2009) 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 in various sectors and geographic locations.
- Over 94% of trade accounts receivable are outstanding for less than 90 days.
- Though 40% of the company's revenue for the fiscal year 2010 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 from clients for trade accounts receivable; however reasonable 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, 2010 was \$79,135 (\$67,443 as at December 31, 2009). 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 its current and long-term financial requirements at a reasonable cost.

The following table summarizes the contractual maturities of financial liabilities as at December 31, 2010 considering the new repayment terms and conditions that will apply as of February 2011:

	<b>Carrying Amount</b>	<b>Contractual Cash Flows</b>	<b>0 to 12 months</b>	<b>12 to 24 months</b>	<b>Over 24 months</b>
Bank loan	1,621,972	1,621,972	1,621,972	-	-
Accounts payable and accrued liabilities	2,266,095	2,266,095	2,266,095	-	-
Long-term debt including the current portion	9,078,759	9,610,538	1,020,968	1,227,151	7,362,419
	<u>12,966,826</u>	<u>13,498,605</u>	<u>4,909,035</u>	<u>1,227,151</u>	<u>7,362,419</u>

The company believes that future cash flows from operations and funds available under existing banking arrangements or those signed in February 2011 will be sufficient to adequately discharge these financial liabilities.

## Currency risk

Since a portion of the company's revenue is denominated in US dollars, the company is exposed to currency risk. This risk is partially hedged by its purchases in US dollars and by foreign currency forward exchange contracts. The company is exposed as well to currency risk on long-term debt refundable in US dollars.

Based on historical changes and volatility in the above mentioned 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 0.9946.

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
<b>Financial assets</b>					
Accounts receivable	773	53	53	(53)	(53)
<b>Financial liabilities</b>					
Bank loan	429	(30)	(30)	30	30
Accounts payable and accrued liabilities	680	(47)	(47)	47	47
Long-term debt refundable in USD	1,463	(101)	(101)	101	101
<b>TOTAL INCREASE (DECREASE)</b>		(125)	(125)	125	125

The fair value of foreign currency forward contracts as at December 31, 2010 and 2009 is as follows:

	Purchasing currency	Selling currency	Par value in selling currency \$	Maturity	Fair value (a) \$	Average rate \$
2010	CAN\$	\$US	2,724,500	2011	198,616	1.07
2009	CAN\$	\$US	2,812,500	2010	575,104	1.26

The company has realized an exchange gain of \$41,984 on its foreign currency forward contracts in 2010 (exchange gain of \$494,828 in 2009).

- (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.

## **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.

## **CHANGES IN ACCOUNTING POLICIES**

### **a) 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.

### **b) Future change in accounting policies**

The company will adopt International Financial Reporting Standards (IFRS) for the preparation of its interim and annual financial statements relating to financial year beginning on January 1, 2011. The company has developed a plan for the conversion of its financial statements to IFRS. An analysis of the differences between IFRS and the company’s accounting standards has been performed during the last year.

The company determined the significant effects of adopting IFRS. 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 the effects the company believes to be most significant about accounting and financial reporting. The company did not identify significant impacts of IFRS transition related to information technologies and key internal controls.

### **First-Time Adoption of International Financial Reporting Standards – IFRS 1**

As required by IFRS 1, adjustments required upon transition to IFRS will be made retrospectively against opening retained earnings on January 1, 2010, presented in the comparative balance sheet.

IFRS 1 also provides entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions. These optional exemptions and mandatory exceptions permit in certain circumstances to avoid the full retrospective application of some standards. According to its analysis, the Company realized the following choices:

- Share-Based Payments: Equity instruments granted and vested before January 1, 2010 have not been restated;
- Business Combinations: Business combination recorded prior to January 1, 2010 have not been restated.

### **Property, Plant, and Equipment – IAS 16**

IAS 16 and Canadian GAAP contain the same basic principles, but there are some differences. The company will continue to measure its property, plant and equipment at amortized cost and will not use the IFRS' choice to value them according to the fair value model.

Furthermore, IAS 16 is more precise about requiring that significant parts of an asset must be depreciated separately. In consequence, the Company will amortize separately each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost and a specific useful life. The following schedule summarizes the depreciation method and period that the Company envisages for IFRS financial statements and the comparison with the actual Canadian GAAP accounting policy.

**IFRS**

	<b>Method</b>	<b>Period for each component</b>
Plant	Straight-line	Between 20 and 40 years
Equipment	Straight-line	Between 10 and 20 years
Molds	Straight-line	25 years
Office furniture	Straight-line	3 years
Computer equipment	Straight-line	Between 3 and 5 years

**Canadian GAAP**

	<b>Methods</b>	<b>Period and rates for the asset</b>
Plant	Declining balance	4%
Equipment	Declining balance	10%
Molds	Straight-line	15 years
Office furniture	Declining balance	20%
Computer equipment	Declining balance	30%

As of February 23, 2011, this combined analysis for the method and period of amortization is not finalized. The company will finish valuing the impact of this transition for the filing of its first 2011 interim financial statements. The adjustment will increase or decrease opening retained earnings on January 1, 2010. Finally, the amortization of 2010 financial statements presented as comparative information will be restated at this moment.

## **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**

Close than 70% 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

The sales growth observed in 2010 was an important success for Novik. The current trends make us positive about continuing this sales growth for next year. It may be difficult to expect that we will maintain the same pace, at nearly 60%, compared with the previous year, but we believe that the opportunities offered for next year remain positive. Current discussions with our larger customers are very positive and all project an increase in the purchase of our products. We are also continuing discussions with potential customers interested in offering our range of products, particularly stimulated by the new products offered since the end of 2009.

With regard to our marketing strategy, we want to pursue our goals of having closer relationships with decision-makers. Participating in trade fairs and maintaining our Novexpert program have had a positive effect in reaching end consumers and thus creating our own demand. We also want to build closer relationships with architects and real estate developers in 2011, as they are also players who could influence consumer decisions. The hiring of technical representatives and the creation of new marketing tools will ensure that we maximize our opportunities with these players in the next fiscal year.

We will soon begin marketing a new range of colours aiming to represent a more natural state of our products. The creation of six colours offered for all of our imitation cedar coverings is now stirring up interest from our current and potential customers. The comments received on these new colours have been very positive, and we believe that this project will allow Novik to stand out more from the competition and solidify our competitive advantage on the market with our knowledge of painting techniques. We also believe that this project will allow Novik to promote additional sales for the next fiscal year.

However, we must be vigilant in 2011 regarding the increase in our consumed raw materials. Already since the start of the fiscal year, we have experienced significant price increases by our main suppliers. This situation negatively influences the company's profitability. We are in discussions with our suppliers to reduce these increases as much as possible. In addition, we are working hard with our various teams to maximize the opportunities to improve our manufacturing processes and do so cost-effectively. We have established a committee to explore all of the opportunities communicated by our team members and to take action on projects offering good potential. This formula is already a resounding success with our team members and is intended to maintain Novik's profitability for the next fiscal year and subsequent fiscal years.

Our focus is therefore clear for 2011: we want to continue our growth in sales as well as the company's profitability.

## **OTHER INFORMATION**

For further information relating to Novik Inc., the reader may consult the SEDAR database at the following Internet address: [www.sedar.com](http://www.sedar.com).

*(s) Michel Gaudreau*

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February 23, 2011