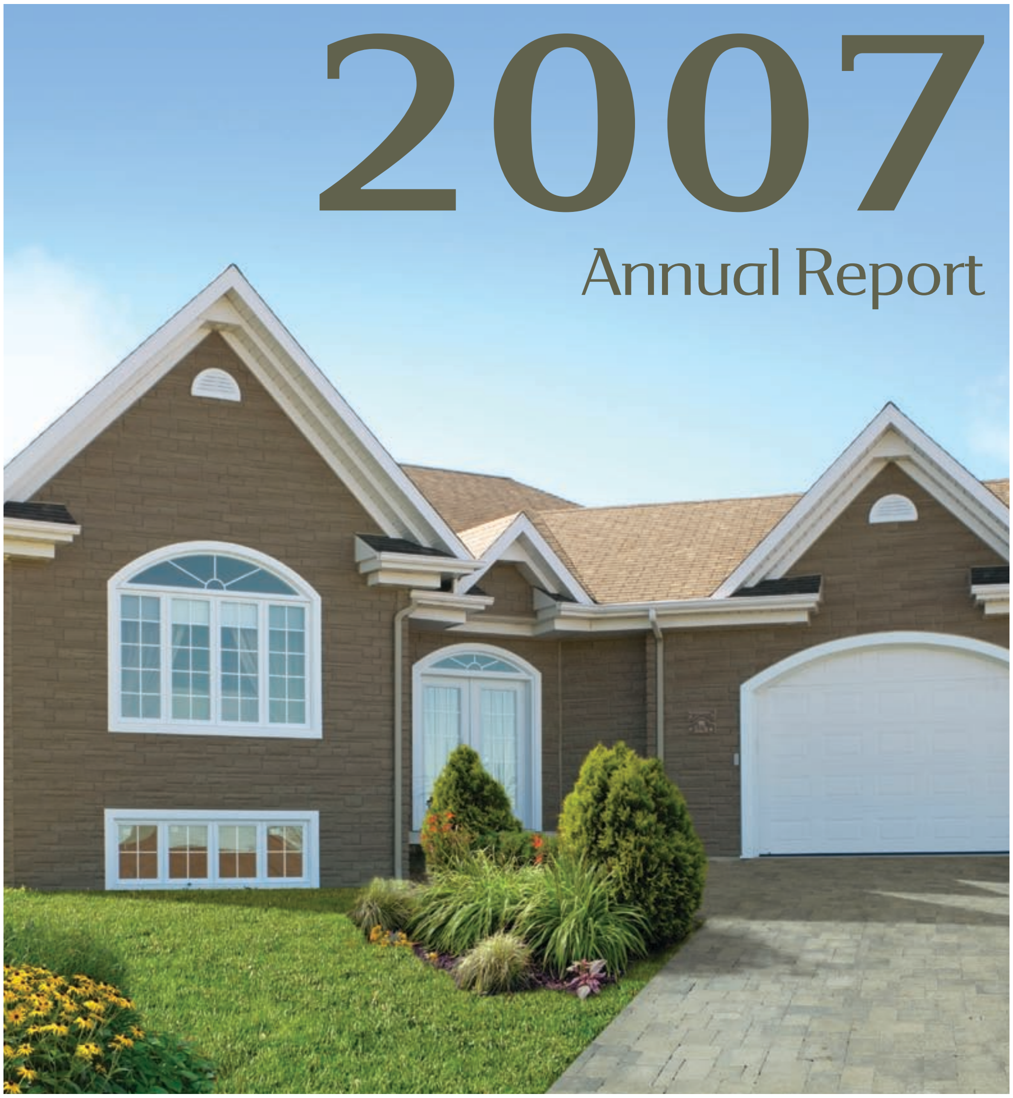
High Performance Specialty Polymer Systems

SIDING | ROOFING | ACCESSORIES

2007 Annual Report



NOVIK
INNOVATIVE POLYMERS

NOVIK EXCEEDS SALES & EARNINGS GOALS FOR 2007

2007 FISCAL YEAR HIGHLIGHTS

- **Record-breaking $15.2 million in sales; up 25% over 2006**
- **Gross margin at 39%; up 7% over 2006**
- **EBITDA adjusted increased to $2.5 million from $500,000 in 2006**
- **Net earnings up $400,000; compared to net loss of $957,000 in 2006**
- **Fourth quarter 2007 revenue increased by 83% over fourth quarter 2006**

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management's discussion and analysis ("MD&A") was prepared in order to help understand the company's activities, performance, and financial position as of December 31, 2007. 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, 2006. This analysis of the company's results of operations and financial position should therefore be read in conjunction with the audited financial statements and related notes included in this annual report. The 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 27, 2008, the date of the approval by the board of directors of this MD&A, on the recommendation of the audit committee.

FORWARD-LOOKING STATEMENTS

This document may contain forward-looking statements reflecting the management's current expectations with respect to future events. Such forward-looking statements are dependent upon a certain number of factors and are subject to risks and uncertainties. Actual results may differ from those expected. Although management believes that its forward-looking statements are reasonable, based on the information that it had at the time they were made, it cannot guarantee that these forecasts will become a reality. As such, the reader is asked not to grant any unqualified significance to these forward-looking statements.

OVERVIEW

Core business activity

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

According to a study by experts in the covering industry, the polymer sector should enjoy one of the largest growth rates in a market of more than $10 billion in North America alone. The North American roofing market adds another $10 billion. Novik expects to gain a greater world-wide market share over the coming years with its range of innovative products and limited players in this sector. 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. Distributor networks that are among the largest in Canada ensure the presence of "Novik" products in Canada's main cities. In the United States, the company is represented by approximately ten manufacturers' agents in close to 25 American states. International sales throughout the rest of the world now represent a significant share of its business. Through its combined marketing efforts and its distributors, Novik has generated a remarkable increase in international sales over recent years. Novik has solid business relationships with distributors throughout Asia and Europe and strong potentials in South America.

Strategically, Novik is concentrating on further establishing itself internationally adding numerous high growth potential countries to their list. Given our extended line of products, including various exterior coverings, roofing products, and accessories, Novik can easily meet the needs of consumers on a global scale and therefore reduce the risk of concentration of its sales in any one particular market.

Company strategy

Novik’s strategy for profitable growth is threefold:

- strong strategic commitment to increasing sales world-wide;
- leading the market with competitive products;
- decreasing operational costs to make Novik an extremely competitive and profitable company.

Novik’s vision is to be recognized as the leader in the polymer sector through leading edge, low cost aesthetic products that meet the needs of consumers.

Strategic priorities

In order to work towards profitability, Novik had to implement a program to find solutions to reduce its operating costs in order to be more competitive and to benefit from greater sales growth. In 2007, Novik benefited from the positive impact of actions taken in the previous year to achieve all of its financial objectives. The sales growth in new international markets, greater Novik representation on the Canadian market by its representatives, and development of our new roofing products allowed the company to enjoy sales growth of 25% compared to the previous fiscal year. In addition, we have put quite a bit of effort into diversifying Novik’s sales in other high-potential markets by introducing two new, exclusive polymer roofing systems with imitation slate and clay. These new products have allowed Novik to open its horizons to a vast market offering significant growth potential.

The plan to reduce production costs, which began in fall 2006, as well as the introduction of roofing products which, thanks to their uniqueness, provide significant margins made it possible to reach a gross margin of nearly 40% compared to 32% in the previous year. Novik's management is particularly proud of achieving this goal, since this success occurred while the Canadian dollar was rising in relation to the American dollar in 2007. This result demonstrates Novik’s potential in a more difficult economic context in North America.

As a result of the above, Novik was able to become profitable in a remarkable manner. Following net losses nearing a million dollars during the past two fiscal years, the company is showing a net earnings of $400,000 for fiscal year 2007.

With its objectives for 2007 achieved, Novik must continue its marketing efforts in order to significantly achieve higher sales. This vision was discussed during our recent strategic planning session, and our product marketing and development strategy was planned based on achieving this vision.

Our marketing strategy will now target four areas: the Canadian market, the American market, the international market, and the strategic partners. Each territory will be managed independently by leaders with the necessary experience to ensure the development of Novik products.

On the North American market, these leaders must have contacts in the market in order to demonstrate the benefits of Novik products over competitor products. These leaders and their respective sales teams will target not only distributors but also installers, real estate developers, and architects. We must succeed in building loyalty among these people so that Novik's various products can become a benchmark on the construction and renovation market. Our North American distributors will ensure that these people are served with Novik products. We believe that we have the products, marketing tools, and people to achieve significant growth on the North American market.

The international division will be managed by our president, who has developed several business relationships during his thirty years of sales experience. All of our current distributors are optimistic about continuing their growth plan with Novik products and also expect to expand their product lines to include those products already offered in these countries, such as roofing products. As previously mentioned, we are having important discussions with distributors in countries offering considerable short- and medium-term potential for Novik. These discussions should lead to new business opportunities for Novik.

Lastly, strategic customers, who also show great potential for Novik, will be handled by management. One of Novik's biggest customers, with more than 220 points of sale in the United States, has provided a stable level of sales over the past three years. This customer's sales could increase with the introduction of our new cedar boards into their network. This new exterior covering offers several advantages to customers, such as quality and competitive pricing, which includes installation. This important customer expects to place initial orders for delivery during the second quarter of fiscal year 2008. In addition, Novik has signed a partnership agreement with a major American manufacturer to offer our roofing products, our Perfecto covering, and certain accessories to their vast distribution network including over 600 distributors in USA. This new agreement will allow Novik products to be better recognized on the American market and offer significant growth in the sale of its products starting in 2008.

The management of these territories will be assessed independently, and Novik's management will keep an eye on the success of this marketing strategy.

As for our product development strategy, the introduction of a new eight-foot cedar board will allow Novik to pit one of its coverings against products that are very popular on the North American market, such as cement fibre and Canexel. This new product offers several advantages, as previously explained, including ease of installation. We will put a strong emphasis on installer and architect training during the next year in order to present these advantages and encourage sales growth.

Novik's management and R&D team are also working on various projects involving new polymer exterior coverings, offering lots of potential for the company. The next product to be introduced will be the polymer cedar roof, which is planned for the second quarter of fiscal year 2008. We are constantly evaluating market trends to better serve needs of our clients and to benefit from new opportunities.

In order to be ready to support this planned significant growth, we are currently considering an investment plan that includes the expansion of the current building, the purchase of injection and painting equipment, and the improvement of existing moulds and manufacturing of new moulds. The budget for this investment plan, spread out over fiscal years 2008 and 2009, amounts to approximately $4.5M.

The expansion of the current building is necessary for the following three reasons:

- to support the expected growth by having adequate warehousing, as just-in-time production is not possible given the high sales periods during the second and third quarters;
- to make it possible in the near future to add our new or potential new products to our inventory;
- to increase productivity in our painting shop by moving it into the new section.

Our painting shop is called upon more and more for orders that we receive, as we are one of the only manufacturers to provide quality painted products offering a wider variety of colours to consumers. We are also considering painting our roofing products as well as our new cedar board in order to offer a bigger selection of colours.

A cost/benefit analysis was performed in order to compare the option of expanding to renting a warehouse. We concluded that it would be preferable to expand, as the short-term cost would be lower and logistical complexity could be minimized. We have presented this investment plan to our financial partners, who are open to funding this major project. They are confident that Novik will succeed in achieving its growth and profitability objectives in the coming years.

The goals of Novik's management for fiscal year 2007 were ambitious, but, overall, it was able to achieve all of them. Sales growth of more than 25%, a noticeable increase in the percentage of gross margin despite a more difficult economic context, and a return to profitability were all achieved. We are now focused on reaching our financial goals for fiscal year 2008, aiming for growth equal to or greater than the level of sales. Current discussions with our sales team, our current and potential distributors, and our strategic partners ensure that we have the confidence to achieve these goals and also keep our vision for 2010 in mind: to take Novik's sales to a significant higher level. This is a tremendous challenge, but we believe that we have the people, the capacity and products to succeed.

Key performance indicators

Novik measures the company's performance on the whole by using key financial indicators, in particular revenues, gross earnings, 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 company's management also measures the performance of each of the product families and by sales territory with the help of certain indicators related to operations, including in particular 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 2007**	Fiscal year 2006	Fiscal year 2005
Revenues	**15,184**	12,170	11,296
Gross margin	**5,933**	3,834	3,745
Earnings before interest, income taxes, stock-based compensation costs, depreciation and amortization	**2,461**	523	670
Net earnings (net loss)	**400**	(957)	(795)
Basic and diluted net earnings (net loss) per share	**0.009**	(0.024)	(0.030)
Total assets	**16,250**	16,442	15,866
Working capital	**2,186**	2,203	2,318
Total debt, net of cash and excluding accounts payables and accrued liabilities	**5,291**	6,055	7,667

RESULTS OF OPERATIONS

REVENUES

During fiscal 2007, the company recorded revenues of $15.2M versus $12.2M for 2006. This 25% growth is directly related to Novik's marketing successes on the European and Canadian fronts.

Novik managed to increase its sales despite the downturn in the American real estate market and an average increase of 6% in the Canadian currency. This was done through penetration of the European market, increased penetration in the Canadian market and introduction of new leading edge roofing products in 2006.

Novik made a concerted effort to diversify itself within international markets, particularly Europe. This was made possible with the strength of our distributors and newly designed exterior sidings and roofing products.

Solid growth in the Canadian market was achieved through stronger representation of Novik products through our distribution and installer network. Through our sales force efforts there is greater recognition of Novik products on the Canadian market and we will continue these efforts to further grow.

The introduction of our new slate and clay roofing products also contributed $750,000 to our overall sales. These products are unique in the market and we expect these products to continue to significantly add to our revenue base in the future.

Gross margin

The company's gross margin for fiscal year 2007 amounted to $5.9M, or 39% of the company's total revenues in comparison with $3.8M for the previous fiscal year, or 32% of total revenues. This increased percentage of gross margin is all the more remarkable considering the negative pressure caused by the significant rise in the Canadian dollar in relation to the US dollar. Four factors are mainly responsible for the rise in gross margins:

- The gradual implementation in 2007 of two raw material cost reduction projects created significant annual and ongoing savings;

- Elimination of redundant positions and reduction of operational costs further contributed to annual and ongoing saving;.

- As sales volume increases the portion of our fixed costs, (currently included in our inventory costs at more than 30%) is spread over more product further resulting in increased gross margin . In addition, Novik still has not reached it maximum injection capacity, therefore, as sales grow gross margins will again increase.

- Introduction of our new replica slate and clay roof covering products which are unique on the world-wide market allowed for excellent gross margins.

Novik is, therefore, well positioned to continue to aim for a gross margin in excess of 40% during the coming years despite the pressure generated by the increased costs of raw materials and the appreciation of the Canadian dollar in relation to the US dollar.

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

(in thousands of dollars)	**Fiscal year 2007**	Fiscal year 2006	Fiscal year 2005
EBITDA adjusted	**2,461**	523	670
Stock-based compensation costs	**(104)**	(218)	(197)
Depreciation and amortization	**(1,126)**	(967)	(800)
Financial expenses	**(697)**	(614)	(696)
Earnings (loss) before income taxes	**534**	(1,276)	(1,023)

EBITDA adjusted is a measure that has no standardized meaning prescribed by Canadian generally accepted accounting principles. It is therefore considered to be a non-GAAP measure in Canada. Accordingly, this measure may not be comparable to similar measures presented by other issuers. This measure is presented and described in this MD&A in order to provide shareholders and potential investors with additional information regarding the company's liquidity and ability to generate funds to finance its activities.

For the fiscal year ended December 31, 2007, EBITDA adjusted amounted to $2.5M, compared with $0.5M for the previous fiscal year. This strong rise is due to increased sales during fiscal year 2007 as well as the improved gross margin explained above. Attaining this result proves that Novik is able to generate enough cash assets to meet its growth objectives and the expectations of its financial partners.

Selling expenses

The increase in selling expenses is attributable in large part to a greater marketing effort towards the penetration of our products in North American and foreign markets. Thus, the increased sales team representation in the Canadian and American markets and the expenses associated with a larger team contributed to an increase in these expenses. These expenses include travel, entertainment, exhibition, and marketing tool expenses. However, the increase in these expenses, on the order of nearly $200,000, is insignificant considering the growth in sales of $3,000,000; as a percentage of sales, selling expenses decreased from 22% to 19% in 2007 compared to the previous fiscal year.

Administrative expenses

The decreased administrative expenses of $109,000 observed in fiscal year 2007 in comparison with the previous fiscal year are explained mainly by lower stock-based compensation expenses. The fair value of the options granted to directors and officers in 2007 was less than in 2006. Monetary administrative expenses were stable compared to the previous year, demonstrating Novik's potential to manage its sales growth with the current team. These expenses should also remain stable over the coming years.

Research and development costs

The amount of research and development (R&D) costs, net of tax credits, increased by nearly $150,000 in comparison with the previous fiscal year. This increase is mainly related to the amortization of projects to develop new product or significantly improve existing products, which has been in place since fiscal year 2005. The amortization of development expenses now refers to three fiscal years in 2007 compared to two in 2006.

Financial expenses

The increase in financial expenses of $151,000 is explained by an exchange loss generated by the conversion of net monetary assets in American currency during 2007. This exchange loss is directly attributable to the appreciation of the Canadian dollar in relation to the US dollar during fiscal year 2007. The presence of foreign currency forward contracts made it possible to decrease a more significant loss partially, and Novik's management is constantly on the lookout for a negative change in Canadian currency in relation to foreign currencies in order to reduce the exchange risk by using an exchange policy adapted to its needs.

Net earnings (net loss)

The company's net earnings for fiscal year 2007 amounted to $400,000 compared with a net loss of $957,000 for the previous fiscal year. This profitability in 2007, preceded by two fiscal years at a loss, is directly linked to increased sales and reduced operating costs.

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, 2007					
Revenues	**15,184**	2,356	4,469	5,056	3,303
Net earnings (net loss)	**400**	(213)	311	304	(2)
Basic and diluted net earnings (net loss) per share	**0.009**	(0.006)	0.007	0.008	0.000
Fiscal year ended December 31, 2006					
Revenues	**12,170**	2,605	3,704	4,052	1,809
Net earnings (net loss)	**(957)**	(234)	(185)	106	(644)
Basic and diluted net earnings (net loss) per share	**(0.024)**	(0.006)	(0.006)	0.003	(0.015)

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.

Revenues for the fourth quarter of the current fiscal year amounted to \$3.3M compared with \$1.8M in the corresponding quarter of 2006, an increase of more than 80%. This is the third consecutive quarter in which the company showed significant growth in its sales figures, resulting mainly from the marketing success on the European and Canadian markets.

It is worth outlining that Novik reaches a break-even point for its fourth quarter of fiscal year 2007 compared to a net loss of \$0.6M in the same period of previous fiscal year. This financial result is an important improvement and highlights Novik potential for the future years.

LIQUIDITY, FINANCIAL POSITION, AND COMMITMENTS

Liquidity

Operating activities

The significant increase in profitability, as explained above, excluding items not affecting cash, had the effect of generating positive cash flows from operating activities for fiscal year 2007 on the order of $1.7M in comparison with negative cash flows of $0.1M in the previous fiscal year.

Non-cash working capital items decreased by $1.0M during the fiscal year ended December 31, 2007, compared to the previous fiscal year, due to the significant increase in the company's receivables, which is related to increased sales during the last quarter of the current fiscal year.

Therefore, cash flows related to operating activities improve to $1.8M during the fiscal year, compared with a positive amount of $1.0M for the previous fiscal year.

Financing activities

For the fiscal year ended December 31, 2007, cash flow used for financing activities in the amount of $1.0M came mainly from the repayment of long-term debt and partial repayment of the bank loan. New long-term debt contracted in current fiscal year offsets the total cash flow used by $0.7M for financing activities.

Investing activities

During fiscal year 2007, investing activities used funds to purchase moulds for new products and equipment to improve the productivity of our operations. The internal work associated with the costs of developing new products also explains the use of funds. The use of cash flows related to investing activities decreased by nearly $0.4M in view of the lower amount of equipment, mould and intangible assets purchases made during the current fiscal year compared with the previous year.

As explained in the "Strategic priorities" section, Novik expects to undergo a second investment phase in 2008-2009 in order to allow it to meet the needs of its current and potential customers. Management currently does not see any problems with its current and potential partners for funding most of these investments. The financial partners have already been targeted and are confident about the success of Novik's business plan.

Financial position

Novik's working capital as of December 31, 2007, is noticeably comparable to the figure as of December 31, 2006.

Total assets

Total assets decreased by $0.2M for the year ended December 31, 2007, compared with the previous year. The recovery of refundable tax credits from years prior to 2007 dampened the increase in receivables in late December. It is worth mentioning that inventory decreased by approximately $0.1M, despite an increase in the company's sales. This situation is explained by management's desire to manage inventory in a more disciplined manner.

Financial liabilities

Total liabilities were more than $0.7M lower on December 31, 2007, compared with December 31, 2006, following the repayment of part of the bank loan and the principal repayment of long-term debt. These repayments come from cash assets generated by operations.

Financial ratios

Novik is required by its financial institutions to meet specific financial ratios. As of December 31, 2007, all financial ratios were met.

Capital stock

The following table summarizes the capital stock activity since January 1, 2006:

	Twelve Months Ended December 31, 2007		**Twelve Months Ended December 31, 2006**	
	Number	**Stated value $**	**Number**	**Stated value $**
Balance – Beginning of year	45,799,429	8,542,611	39,028,000	6,555,469
Issuance of shares pursuant to private placements			6,771,429	2,074,194
Share issue expenses		(11 198)		(87,052)
Balance – End of year	45,799,429	8,531,413	45,799,429	8,542,611

[1] During the fiscal year ended December 31, 2006, the company made an equity investment of 6,771,429 common shares at a price of $0.35 per share.

As of the date of this MD&A, no change has been brought to the company's capital stock.

SHARE AND OPTIONS DATA	
Issued and outstanding as at December 31, 2007	**Issued**
Common shares	**45,799,429**
Stock options outstanding as at December 31, 2007	
Options issued under the stock option plan	**1,620,000**

COMMON SHARES	**Twelve-month period ended December 31, 2007**
	$
Transaction volume	**3,572,200**
Average price	**0.23**
Closing price	**0.17**
Range of market prices	**0.12 - 0.41**

Stock options

On September 20, 2005, the company put in place a stock option plan 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 date of grant.
The purchase price of the 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 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 be granted to an optionee must not exceed 5% of all the issued and outstanding shares.

On March 29, 2006, the company granted 185,000 stock options at an exercise price of $0.46. These options will generate aggregate stock-based compensation costs of $51,800 over their vesting period and will mature on March 29, 2011. For the fiscal year ended December 31, 2007, an expense of $11,200 was posted. These stock options were granted to senior officers and a consultant of the company and are exercisable at the rate of 33% per annum from the first anniversary of the date of grant for the senior officers and 33% per annum from the date of grant for the consultant.

On May 25, 2006, the company granted 500,000 stock options to its directors at an exercise price of $0.45. These options generated total compensation expenses of $137,000 during their acquisition period and will mature on May 25, 2011. Compensation expenses of $137,000 were recorded for these new stock options. These stock options are immediately exercisable.

On May 24, 2007, the company granted 330,000 stock options to its directors and certain officers at an exercise price of $0.19, which will mature on May 24, 2012. Stock-based compensation expenses of $43,500 have been recorded for these new stock options, given that they are immediately exercisable.

The following table summarizes information relating to stock options under the plan since January 1, 2007:

	Number	**Carrying value $**	**Weighted average exercise price $**
Outstanding – Beginning of year	1,806,500	336,036	0.48
Granted during the year	330,000	-	0.19
Stock-based compensation costs	-	104,129	-
Cancelled during the year	(516,500)	(100,315)	0.49
Outstanding – End of year	**1,620,000**	**339,850**	**0.42**
Exercisable – End of year	**1,375,000**		**0.41**

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

Unit options

The following table summarizes information about unit options outstanding and exercisable since January 1, 2007:

	Number	**Carrying value $**	**Weighted average exercise price $**	**Weighted average remaining contractual life (years)**
Outstanding and exercisable – Beginning of year	634,240	88,541	0.50	0.59
Expired during the year	(634,240)	(88,541)	0.50	-
Outstanding and exercisable – End of year	**-**	**-**	**-**	**-**

Each unit option entitled the agent to purchase one unit at a price of $0.50 over a maximum period of 24 months from the date of grant. Each unit was composed of one share and one warrant for the company's capital stock.

Warrants

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

	Number	**Carrying value $**	**Weighted average exercise price $**	**Weighted average remaining contractual life (years)**
Outstanding – Beginning of year	12,313,715	774,944	0.80	0.96
Expired during the year	(8,928,000)	(491,798)	0.99	-
Outstanding and exercisable – End of year	**3,385,715**	**283,146**	**0.45**	**0.89**

Units issued upon the completion of equity investments made in fiscal year 2005 as well as unit options granted were composed of one share and one warrant. Each warrant entitled the holder to purchase one common share at a price of $0.75 per share before the 12th month from the date of grant or at a price of $1.25 per share between the 12th and 24th month from the date of grant. These warrants matured during fiscal year 2007.

Units issued upon the completion of equity investments made in November 2006 are composed of one share and one-half warrant. Each warrant entitles the holder to subscribe for one common share at a price of $0.45 per share between the 4th and the 24th month from the date of grant.

As of the date of this MD&A, no change has occurred regarding warrants.

Note 13 pertaining to the company's audited 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 under long-term financing contracts amount to $4,937,619. The annual instalments required amount to $1,083,902 in 2008, $978,979 in 2009, $879,017 in 2010, $650,667 in 2011, $244,780 in 2012 and $1,042,030 thereafter.

The company's total minimum commitments under agreements with service providers for equipments and vehicles amount to $107,815. The annual minimum commitments for the next four fiscal years amount to $43,949 in 2008, $40,556 in 2009, $19,844 in 2010 and $3,466 in 2011.

As part of the introduction of new innovative products and the acquisition of equipment, on December 31, 2007, the company committed to paying approximately $604,000.

Notes 12 and 20 pertaining to the audited financial statements provide a status of these commitments.

Related party transactions

During fiscal years 2006 and 2007, no significant transaction between related parties occurred.

The aforementioned expenses are detailed in note 17 to the audited financial statements as at December 31, 2007.

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 values of these financial instruments values due to their short-term maturity or to current market rates for the long-term debt.

Interest rate risk

Accounts receivable, government assistance receivable, as well as accounts payable and accrued liabilities bear no interest. The interest rates of the bank loan and the long-term debt are described in notes 10 and 12 respectively in the audited financial statements as at December 31, 2007.

Credit risk

The company continuously reviews, in the normal course of its operations, the financial position of its customers and examined the credit continuity schedule of all new customers. There is no existing account that represents a substantial risk for the company. The company establishes an allowance for doubtful accounts while keeping in mind the specific credit risk of customers, their historical tendencies and the economic situation. As at 31 December 2007, 81% (33% in 2006) of the company's accounts receivable is due from four customers (two in 2006).

Currency risk

Since a part of this company's revenues is denominated in US dollars, the company is exposed currency fluctuations. These risks are partially offset by its purchases in US dollars and foreign currency forward contracts.

Financial derivatives

The financial derivatives used by the company are foreign currency forward contracts. This involves financial contracts whose values are based on fluctuations in currency rates. The use of derivatives allows the transfer, modification, or reduction of current or expected risks, including exchange rate risks and other market risks. The derivatives are used by the company to manage its risks related to the exchange rates. The company has decided not to apply hedge accounting. Consequently, the foreign currency forward contracts are recorded at their fair value. The assets and liabilities on foreign currency forward contracts have been recorded under current assets or liabilities in the balance sheet. The unrealized gain or loss has been reflected in the statements of earnings. During fiscal year 2007, an unrealized gain on foreign currency forward contracts of $42,660 (unrealized loss of $9,056 in 2006) has been reflected in the statements of earnings. As at December 31, 2007, Novik has incurred a sum of US$1,800,000 (US$300,00 in 2006) as foreign currency forward contracts.

SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of financial statements in conformity 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. 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. Management believes that its estimates are adequate; however, actual results could differ from those estimates.

The main accounting policies are described in note 2 to the audited financial statements as at December 31, 2007.

NEW ACCOUNTING STANDARDS

Financial instruments

In January 2005, the Canadian Institute of Chartered Accountants ("CICA") issued four new accounting standards in relation with financial instruments: Section 3855 "Financial Instruments – Recognition and Measurement", Section 3865 "Hedges", Section 1530 "Comprehensive Income" and Section 3251 "Equity." Sections 3855, 3865 and 1530 apply to fiscal years beginning on or after October 1, 2006, and were adopted by the company on January 1, 2007. The company has applied these changes prospectively.

Section 3855, "Financial Instruments – Recognition and Measurement" requires that all financial assets and liabilities be accounted for using one of four available accounting models: held to maturity, available for sale, held for trading, loans and receivables and other financial assets and liabilities.

Following is a summary of the accounting model the company has elected to apply to each of its significant categories of financial instruments outstanding as of January 1, 2007:

Cash	Held-for-trading
Accounts receivable	Loans and receivables
Bank loan	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities
Long-term debt	Other financial liabilities

Accounting changes

Effective January 1, 2007, the company adopted CICA Handbook Section 1506 "Accounting Changes". This section establishes criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. In particular, this section allows for voluntary changes in accounting policy only when they result in the financial statements providing reliable and more relevant information. Furthermore, this section requires disclosure of when an entity has not applied a new source of GAAP that has been issued but is not yet effective. Such disclosures are provided below. The adoption of this section had no further effects on the financial statements of the company for the year ended December 31, 2007.

FUTURE CHANGES TO ACCOUNTING STANDARDS

Capital Disclosures

The CICA issued Section 1535, "Capital Disclosures". This section establishes standards for disclosing information regarding an entity's capital and its management. The information provided by an entity should focus in particular on its objectives, policies and processes for managing capital, and disclose whether it complies with capital requirements to which it is subject and also what the consequences are in case of non-compliance. The new requirements will be effective starting January 1, 2008. The company is presently evaluating the impact of this new standard.

Financial Instruments – Disclosures and Financial Instruments - Presentation

The CICA issued new Sections 3862 and 3863, which will replace Section 3861, "Financial Instruments – Disclosure and Presentation". These sections require the disclosure of additional detail of financial asset and liability categories as well as a detailed discussion on the risks associated with the company's financial instruments, including how it manages these risks. These standards harmonize disclosures with International Financial Reporting Standards ("IFRS"). These new standards will be effective starting January 1, 2008. The company is presently evaluating the impact of these new standards.

Inventories

The CICA issued Section 3031, "Inventories" which will replace existing Section 3030 with the same title and will harmonize accounting for inventories under Canadian GAAP with IFRS. This standard requires that inventories be measured at the lower of cost and net realizable value, and includes guidance on the determination of cost, including allocation of overheads and other costs. The section also requires that similar inventories within a consolidated group be measured using the same method. It also requires the reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of inventories. The new section is effective beginning on or after January 1, 2008. The company is presently evaluating the impact of the adoption of this new section on its financial statements.

Going Concern

The CICA amended Section 1400, "General Standards of Financial Statement Presentation" to include requirements to assess and disclose an entity's ability to continue as a going concern (going concern assumption). This new standard will not have any significant impact on the financial statements of the company and is effective beginning on January 1, 2008.

Goodwill and intangible assets

In February 2008, the CICA issued Section 3064, “Goodwill and Intangible Assets”, replacing Section 3062, “Goodwill and Other Intangible Assets” and Section 3450, “Research and Development Costs”. Various changes have been made to other sections of the CICA Handbook for consistency purposes. The new sections will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the company will adopt the new standards for its fiscal year beginning January 1, 2009. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The company is currently evaluating the impact of the adoption of this new Section on its financial statements.

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 or 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 and, 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 in 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 coming from these products will represent a significant part 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 sales increase 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 regards 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, the customers could experience financial difficulties, not buy its products, postpone budgets for purchasing the company's products, or take its 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, and that 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 would 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 65% of Novik's revenues for the fiscal year ended December 31, 2007, 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 the 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; and
- 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 which 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

Exceeding the financial objectives for 2007 represents a success for Novik's management. There is a strong strategic commitment to increasing sales world-wide, leading the market with competitive products and decreasing costs to make Novik an extremely competitive and profitable company. The 2007 financial results are proof that strong management and adherence to their strategy was successful.

Novik's vision is to be recognized as the leader in the polymer sector though leading edge, low cost aesthetic products that meet the needs of consumers. We will continue to strategically position ourselves to achieve this.

Novik's largest distributors and strategic partners have given Novik their vote of confidence for the future. They expect continued growth with the current product line and have increased expectations as new and improved Novik products are introduced. Our new strategic alliance, which involves providing a white label product for a large American manufacturer with a solid distribution market in the US, is promoting even faster sales growth. In addition, increased name and product recognition in Canada and the US are further growth factors. Novik has also strategically positioned itself to grow internationally through alliances with strong distributors. Solid growth has continued on a world-wide basis.

Novik, is positioned to achieve its forecasted 2008 financial objectives. Already the indications are that first quarter of fiscal 2008 is substantially better than the first quarter 2007 and above its 2008 forecast figures. Novik is looking to a very positive and strong financial and sales growth in 2008.

CONTROLS AND PROCEDURES

Disclosure controls

Our disclosure controls and procedures are designed to provide reasonable assurance that information is accumulated and communicated to management, including Novik Inc.'s President and Chief Executive Officer (CEO), General Manager (GM) and Vice-president of Finance (VP), to allow timely decisions regarding required disclosure.

As of December 31, 2007, an evaluation of the effectiveness of our disclosure controls and procedures, as defined under *Multilateral Instrument 52-109*, was carried out under the supervision of and with the participation of management, including the President, the CEO and the VP. Based on that evaluation, the President, CEO and the VP concluded that the design and operation of our disclosure controls and procedures were effective as of December 31, 2007, and ensure that information is recorded, processed, summarized, and reported within the time periods specified under Canadian securities laws.

Internal control over financial reporting

Management is responsible for designing adequate internal control over financial reporting, as defined under Multilateral Instrument 52-109. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The President and VP of Finance performed an assessment in order to determine whether the company has made significant changes to the internal controls during the fiscal year ended December 31, 2007, that had or possibly could have significant effects on these controls. No such change was identified from their assessment.

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	*(s) Pascal Bouthot*
Michel Gaudreau	Pascal Bouthot, CA
President	Vice-President of Finance

March 27, 2008

MANAGEMENT'S REPORT

The 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 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 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 27, 2008

NOVIK INC.

Financial Statements
December 31, 2007 and 2006

PRICEWATERHOUSECOOPERS

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Auditors' Report

To the Shareholders of
Novik Inc.

We have audited the balance sheets of **Novik Inc.** (the "company") as at December 31, 2007 and 2006 and the statements of earnings and comprehensive income, deficit, contributed surplus and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Quebec, Quebec, Canada
March 27, 2008

Novik Inc.

Balance Sheets

	As at December 31,	
	2007 $	2006 $
Assets		
Current assets		
Cash	-	329,433
Accounts receivable (notes 4, 10 and 12)	2,325,204	1,494,759
Inventories (notes 5, 10 and 12)	2,758,138	2,839,502
Refundable tax credits	184,364	787,578
Prepaid expenses	183,972	215,538
	5,451,678	5,666,810
Government assistance receivable (note 6)	-	112,500
Tax credits recoverable	278,557	194,638
Future income tax assets (note 14)	296,365	453,063
Property, plant and equipment (notes 7 and 12)	8,975,945	8,774,159
Intangible assets (note 8)	430,233	476,065
Deferred charges (note 9)	816,956	764,824
	16,249,734	16,442,059
Liabilities		
Current liabilities		
Bank loan (note 10)	411,458	806,573
Accounts payable and accrued liabilities (note 11)	1,770,713	1,408,801
Current portion of long-term debt (note 12)	1,083,902	1,248,496
	3,266,073	3,463,870
Long-term debt (note 12)	3,795,473	4,329,387
	7,061,546	7,793,257
Shareholders' Equity		
Capital stock (note 13a)	8,531,413	8,542,611
Stock options, unit options and warrants (note 13b, c and d)	622,996	1,199,521
Conversion option (note 13e)	20,781	48,051
Contributed surplus	875,235	167,311
Deficit	(862,237)	(1,308,692)
	9,188,188	8,648,802
	16,249,734	16,442,059

Commitments (note 20)

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

Approved by the Board of Directors

(signed) MICHEL GAUDREAU Director

(signed) LOUIS-ANDRÉ GAUDREAU Director

Novik Inc.

Statements of Deficit

	Years Ended December 31,	
	2007 **$**	**2006** **$**
Balance – Beginning of year	1,308,692	351,748
Adjustment related to the implementation of a new accounting standard (note 3)	(46,777)	-
Net loss (net earnings) for the year	(399,678)	956,944
Balance – End of year	862,237	1,308,692

Statements of Contributed Surplus

	Years Ended December 31,	
	2007 **$**	**2006** **$**
Balance – Beginning of year	167,311	28,023
Expired conversion options (note 13e)	27,270	18,206
Cancelled stock options (note 13b)	100,315	121,082
Expired unit options and warrants (note 13c and 13d)	580,339	-
Balance – End of year	875,235	167,311

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

	Years Ended December 31,	
	2007	**2006**
	$	**$**
Revenues	15,183,748	12,170,298
Cost of sales		
Direct costs	8,460,247	7,578,963
Depreciation of property, plant and equipment	713,628	659,572
Amortization of intangible assets	76,823	89,485
Loss on disposal of property, plant and equipment	-	8,653
	9,250,698	8,336,673
Gross margin	5,933,050	3,833,625
Operating expenses		
Selling expenses	2,886,422	2,717,470
Administrative expenses (including stock-based compensation costs of $104,129 in 2007: $217,624 in 2006)	1,365,253	1,474,367
Research and development costs	113,970	85,329
Depreciation of property, plant and equipment	25,687	31,969
Amortization of intangible assets	81,535	94,831
Amortization of development expenses	182,878	64,789
	4,655,745	4,468,755
Earnings (loss) from operations	1,277,305	(635,130)
Financial expenses		
Interest and bank charges	70,842	165,128
Interest on long-term debt	495,902	427,139
Exchange loss	179,344	21,294
Amortization of financing expenses	45,475	26,825
Grant (note 12)	(48,621)	-
	742,942	640,386
Earnings (loss) before income taxes	534,363	(1,275,516)
Income tax expense (recovery) (note 14)		
Future income taxes	134,685	(318,572)
Net earnings (net loss) and comprehensive income for the year	399,678	(956,944)
Basic and diluted net earnings (net loss) per share (note 15)	0.009	(0.024)
Weighted average number of shares outstanding (note 15)		
Basic	45,799,429	39,788,626
Diluted	45,852,472	39,788,626

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

Novik Inc.

Statements of Cash Flows

	Years Ended December 31,	
	2007 **$**	**2006** **$**
Cash flows from operating activities		
Net earnings (net loss) for the year	399,678	(956,944)
Items not affecting cash		
Depreciation and amortization	1,126,026	967,471
Future income taxes	134,685	(318,572)
Unrealized loss (gain) on foreign currency forward contracts	(42,660)	9,056
Stock-based compensation	104,129	217,624
Grant (note 12)	(48,621)	-
Interest capitalized on long-term debt	34,490	-
Gain on long-term items denominated in foreign currency	-	(31,407)
Loss on disposal of property, plant and equipment	-	8,653
	1,707,727	(104,119)
Net change in non-cash working capital items (note 16a)	115,369	1,061,899
	1,823,096	957,780
Cash flows from financing activities		
Decrease in bank loan	(395,115)	(793,906)
Long-term debt contracted	732,000	675,520
Deferred financing expenses	(42,822)	(23,156)
Long-term debt redemption	(1,289,343)	(1,133,877)
Issuance of shares	-	2,370,000
Issue expenses	(11,198)	(144,303)
	(1,006,478)	950,278
Cash flows from investing activities		
Additions to property, plant and equipment	(850,118)	(1,141,801)
Increase in intangible assets	(112,526)	(78,646)
Increase in deferred charges	(295,907)	(482,426)
Proceeds from disposal of property, plant and equipment	-	11,748
Government assistance	112,500	112,500
	(1,146,051)	(1,578,625)
Net change in cash	(329,433)	329,433
Cash - Beginning of year	329,433	-
Cash - End of year	-	329,433

Additional information (note 16b and 16c)

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

1 Statutes and nature of activities

The company, incorporated under Part 1A of the Québec Companies Act, specializes in the design, manufacturing and marketing of new covers of polymer 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

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the 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 currencies. 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 reflected in the statements of earnings. Revenues and expenses are translated at the average rate for the year.

Foreign currency forward contracts

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

Inventories

Raw materials inventories are valued at the lower of cost and replacement cost. Cost is determined on the first in, first out basis. Finished goods inventories are valued at the lower of cost and net realizable value. Cost is determined using the standard cost system.

Property, plant and equipment

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

	Methods	Periods 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 software, a Web site and a trademark, are recorded at cost. They are amortized from the date they are put into use using the declining balance method at an annual rate of 30%.

Long-lived assets

Long-lived assets are reviewed for impairment when events or circumstances indicate that costs may not be recoverable. Impairment exists when the carrying value of the asset is greater than the pre-tax undiscounted future cash flows expected to be provided by the asset. The amount of impairment loss, if any, is the excess of the carrying value of the asset over its fair value.

Research and development costs

Research costs are expensed as incurred. Development costs are expensed as incurred except for those meeting generally accepted criteria for deferral, which are capitalized and amortized using the straight-line method over a maximum period of five years.

Tax credits and government assistance

Tax credits and government assistance are recognized in the year 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 development expenses are applied against the carrying value of these deferred expenses. Tax credits and government assistance related to property, plant and equipment 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.

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 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 interest rate method. In 2006, debt-related issue costs were recorded at cost and were amortized using the straight-line method over the term of the financing. Such deferred financing expenses were included in the balance sheets section “Deferred charges” in 2006 (note 3).

Revenue recognition

Revenues, which mainly consist of sales of goods, are recognized when the products are delivered to customers. 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 financial statement values and tax values of assets and liabilities using enacted or substantively enacted income tax rates 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 applied against shareholders' equity.

Earnings per share and information pertaining to the number of shares

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

Diluted earnings per share are 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 New accounting standards

Accounting changes

Effective January 1, 2007, the company adopted CICA Handbook Section 1506 "Accounting Changes". This section establishes criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. In particular, this Section allows for voluntary changes in accounting policy only when they result in the financial statements providing reliable and more relevant information. Furthermore, this Section requires disclosure of when an entity has not applied a new source of GAAP that has been issued but is not yet effective. Such disclosures are provided below. The adoption of this Section had no further effects on the financial statements of the company for the year ended December 31, 2007.

Financial instruments

In January 2005, the Canadian Institute of Chartered Accountants ("CICA") issued four new accounting standards in relation with financial instruments: Section 3855 "Financial Instruments – Recognition and Measurement", Section 3865 "Hedges", Section 1530 "Comprehensive Income" and Section 3251 "Equity". Sections 3855, 3865 and 1530 apply to fiscal years beginning on or after October 1, 2006 and were adopted by the company on January 1, 2007. The company has applied these changes prospectively.

Section 3855, "Financial Instruments – Recognition and Measurement" requires that all financial assets and liabilities be accounted for using one of five available accounting models, being: held to maturity, available for sale, held for trading, loans and receivables and other financial assets and liabilities.

Following is a summary of the accounting model the company has elected to apply to each of its significant categories of financial instruments outstanding as of January 1, 2007:

Cash	Held for trading
Accounts receivable	Loans and receivables
Bank loan	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities
Long-term debt	Other financial liabilities

Effective interest rate method

Premiums and discounts on long-term debt are accounted for using the effective interest rate method.

The impact of the use of the effective interest method has been recognized as an adjustment to the opening balance of deficit, net of income taxes.

Impact of the adoption of these standards

The reclassification of financing expenses included in deferred charges as of January 1, 2007, in the amount of $60,897, has been applied against the long-term debt.

The impact of these new accounting standards is summarized as follows:

	As at December 31, 2006 **$**	**Adjustments** **$**	**As at January 1, 2007** **$**
Assets			
Future income tax assets	453,063	(22,013)	431,050
Deferred charges	764,824	(60,897)	703,927
Liabilities and Shareholders' Equity			
Long-term debt	5,577,883	(129,687)	5,448,196
Deficit	(1,308,692)	46,777	(1,261,915)

Accounting policies not yet adopted

Capital Disclosures

The CICA issued Section 1535, "Capital Disclosures". This section establishes standards for disclosing information regarding an entity's capital and its management. The information provided by an entitly should focus in particular on its objectives, policies and processes for managing capital, and disclose whether it complies with capital requirements to which it is subject and also what the consequences are in case of non-compliance. The new requirements will be effective starting January 1, 2008. The company is presently evaluating the impact of this new standard.

Financial Instruments – Disclosures and Financial Instruments - Presentation

The CICA issued new Sections 3862 and 3863, which will replace Section 3861, "Financial Instruments – Disclosure and Presentation". These sections require the disclosure of additional detail of financial asset and liability categories as well as a detailed discussion on the risks associated with the company's financial instruments, including how it manages these risks. These standards harmonize disclosures with International Financial Reporting Standards ("IFRS"). These new standards will be effective starting January 1, 2008. The company is presently evaluating the impact of these new standards.

Inventories

The CICA issued Section 3031, "Inventories" which will replace existing Section 3030 with the same title and will harmonize accounting for inventories under Canadian GAAP with IFRS. This standard requires that inventories be measured at the lower of cost and net realizable value, and includes guidance on the determination of cost, including allocation of overheads and other costs. The section also requires that similar inventories within a consolidated group be measured using the same method. It also requires the reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of inventories. The new section is effective beginning on January 1, 2008. The company is presently evaluating the impact of the adoption of this new section on its financial statements.

Going Concern

The CICA amended Section 1400, "General Standards of Financial Statement Presentation" to include requirements to assess and disclose an entity's ability to continue as a going concern (going concern assumption). This new standard will not have any significant impact on the financial statements of the company and is effective beginning on January 1, 2008.

Goodwill and intangible assets

In February 2008, the CICA issued Section 3064, “Goodwill and Intangible Assets”, replacing Section 3062, “Goodwill and Other Intangible Assets” and Section 3450, “Research and Development Costs”. Various changes have been made to other sections of the CICA Handbook for consistency purposes. The new sections will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the company will adopt the new standards for its fiscal year beginning January 1, 2009. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The company is presently evaluating the impact of the adoption of this new Section on its financial statements.

4 Accounts receivable

	As at December 31,	
	2007 **$**	**2006** **$**
Trade	1,887,447	1,132,315
Government assistance receivable (note 6)	112,500	112,500
Commodity taxes receivable	148,401	189,480
Deposits and others	134,196	60,464
Fair value of forward contracts (note 18)	42,660	-
	2,325,204	1,494,759

5 Inventories

	As at December 31,	
	2007 **$**	**2006** **$**
Raw materials	720,338	739,950
Finished goods	2,037,800	2,099,552
	2,758,138	2,839,502

6 Government assistance receivable

The company has entered into an agreement whereby it will receive a financial contribution of a maximum amount of $450,000 under the Business Assistance – Immigrant Investor Program. During the year ended December 31, 2004, government assistance was applied against property, plant and equipment. The amount receivable is to be cashed in annual equal instalments of $112,500.

	As at December 31,	
	2007 **$**	**2006** **$**
Government assistance receivable	112,500	225,000
Less: Current portion (note 4)	112,500	112,500
	-	112,500

7 Property, plant and equipment

	As at December 31,			
		2007		2006
	Cost $	Accumulated depreciation $	Cost $	Accumulated depreciation $
Land	180,659	-	180,659	-
Plant	2,697,177	347,365	2,685,062	249,844
Equipment	4,278,131	1,249,197	3,915,138	916,536
Molds	4,581,953	1,242,734	4,038,977	957,488
Office furniture	62,939	39,217	62,939	33,286
Computer equipment	143,746	90,147	120,729	72,191
	11,944,605	2,968,660	11,003,504	2,229,345
Less:				
Accumulated depreciation	2,968,660		2,229,345	
Net amount	8,975,945		8,774,159	

8 Intangible assets

	As at December 31,			
		2007		2006
	Cost $	Accumulated amortization $	Cost $	Accumulated amortization $
Software	883,568	471,664	780,932	317,599
Web site	25,020	10,217	15,130	7,437
Trademark	7,896	4,370	7,896	2,857
	916,484	486,251	803,958	327,893
Less:				
Accumulated amortization	486,251		327,893	
Net amount	430,233		476,065	

9 Deferred charges

	As at December 31,			
	2007		2006	
	Cost $	Accumulated amortization $	Cost $	Accumulated amortization $
Development expenses	1,082,137	265,781	786,230	82,303
Financing expenses (note 3)	-	-	111,558	50,661
	1,082,137	265,181	897,788	132,964
Less:				
Accumulated amortization	265,181		132,964	
Net amount	816,956		764,824	

During the year ended December 31, 2007, the company applied research and development tax credits amounting to $190,870 ($202,926 in 2006) against deferred development expenses.

10 Credit facilities

The company has an available authorized line of credit of $4,000,000, bearing interest at prime rate plus 0.75% and renewable annually. Accounts receivable and inventories have been given as security for the line of credit. As at December 31, 2007, a balance of $1,772,000 ($1,092,000 in 2006) was available.

11 Accounts payable and accrued liabilities

	As at December 31,	
	2007 $	2006 $
Trade payable	1,118,824	692,714
Salaries and employee benefits payable	160,449	114,823
Accrued liabilities	491,440	592,208
Fair value of forward contracts	-	9,056
	1,770,713	1,408,801

12 Long-term debt

	As at December 31,	
	2007 **$**	**2006** **$**
Immoveable hypothec, at prime rate plus 0,6%, payable in monthly principal instalments of $13,940 plus interest, maturing in May 2019 *	1,923,720	2,091,000
Note payable, at prime rate plus 1.25%, payable in monthly principal instalments of $9,443 maturing in January 2011. A moveable hypothec on equipment, molds and all tangible assets has been given as security for this loan	387,155	500,471
Notes payable for which a moveable hypothec on equipment, molds, office furniture, computer system and software has been given as security		
Prime rate plus 0.8%, payable in monthly principal instalments of $2,250, plus interest, maturing in September 2008	18,250	45,250
9.25%, payable in monthly instalments of $4,976 including principal and interest, until January 2008 and of $4,536 until January 2010	98,900	147,541
Bankers' acceptance rate plus 2.65%, payable in monthly instalments of $6,203 including principal and interest, maturing in October 2010	202,618	260,301
Prime rate plus 2.90%, payable in monthly instalments of $20,900 including principal and interest, until August 2009 and in instalments of $10,455 including principal and interest, maturing in July 2011	582,810	782,329
Prime rate plus 0.5%, payable in monthly instalments of $11,905 plus interest, maturing in August 2011	523,810	666,666
(forward)	3,737,263	4,493,558

	As at December 31,	
	2007 **$**	**2006** **$**
(brought forward)	3,737,263	4,493,558
Note payable, 12% payable since November 2004 in monthly principal instalments of $1,410 for the first 24 months, $2,340 for the following 22 months and $1,347 for the last instalment, plus interest, convertible into shares in case of default, maturing in September 2008 (note 13e)	20,067	48,147
Note payable, 12% payable since November 2004 in monthly principal instalments of $3,910 for the first 24 months, $6,510 for the following 23 months and $2,263 for the last instalment, plus interest, convertible into shares in case of default, maturing in October 2008 (note 13e)	60,853	138,973
Note payable to Canada Economic Development, non-interest bearing **, payable in five equal and consecutive annual instalments, the first payment being due 24 months after the end of the project, that is July 1, 2005	107,408	182,200
Note payable, bearing interest at prime rate plus 1% payable in monthly principal instalments of $12,963 plus interest, starting in July 2007 and maturing in December 2011. A moveable hypothec on molds has been given as security.	622,222	325,000
Note payable, bearing interest at prime rate plus 1.9% payable in monthly principal instalments of $3,125, starting in August 2007 and maturing in March 2014. A moveable hypothec on equipment has been given as security.	234,375	93,000
Note payable to Canada Economic Development, non-interest bearing ***, payable in five equal and consecutive annual instalments, the first payment being due 24 months after the end of the project, that is July 1, 2007.	155,431	-
Reimbursed during the year	-	297,005
Deferred financing expenses (note 3)	(58,244)	-
	4,879,375	5,577,883
Less: Current portion	1,083,902	1,248,496
	3,795,473	4,329,387

The annual principal instalments required over the next five fiscal years are as follow: $1,083,902 in 2008, $987,979 in 2009, $879,017 in 2010, $650,667 in 2011 and $244,780 in 2012.

* The company has committed to meeting certain financial ratios in connection with these loans. As at December 31, 2007, all financial ratios have been met.

** As a result of the application of the new accounting standard (see note 3), the opening balance of that debt has been decreased by $68,790 so as to consider an effective interest rate of 15%.

*** An additional non-interest-bearing debt was borrowed in fiscal year 2007. Since this debt is non-interest bearing, it has been decreased by $48,621 and reflected in earnings as a grant so as to consider an effective interest rate of 15%.

13 Capital stock

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

The following table summarizes the capital stock activity since January 1, 2006:

	2007		2006	
Common shares, issued and fully paid	**Number**	**Stated value $**	**Number**	**Stated value $**
Balance – Beginning of year	45,799,429	8,542,611	39,028,000	6,555,469
Issuance of shares pursuant to private placements	-	-	6,771,429 1)	2,074,194
Share issue expenses	-	(11,198)	-	(87,052)
Balance – End of year	45,799,429	8,531,413	45,799,429	8,542,611

1) On November 21, 2006, the company issued 6,771,429 units at a price of $0.35 per unit. Each unit is composed of one share and one half-warrant for the company's capital stock. Each warrant entitles the holder to subscribe for one common share at a price of $0.45 per share between the 4th and the 24th month from the date of grant.

Gross proceeds from the investment in the amount of $2,370,000 is shared out between the 6,771,429 common shares for an amount of $2,074,194 and the 3,385,715 warrants attached to each unit for a gross amount of $295,806 (note 13d). In connection with this investment, the company paid a cash compensation of $78,000.

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.

On May 24, 2007, the company granted 330,000 stock options to its directors and certain officers at an exercise price of $0.19, which will mature on May 24, 2012. Stock-based compensation costs of $43,500 have been accounted for in this regard in 2007. These stock options are exercisable from the date of grant.

On May 25, 2006, the company granted 500,000 stock options to its directors at an exercise price of $0.45, which will mature on May 25, 2011. Stock-based compensation costs of $137,000 have been accounted for in this regard in 2006. These stock options are exercisable from the date of grant.

On March 29, 2006, the company granted 185,000 stock options at an exercise price of $0.46. These options will generate aggregate stock-based compensation costs of $51,800 over their vesting period, which will mature on March 29, 2011. For the year ended December 31, 2007, stock-based compensation costs of $11,200 ($21,389 in 2006) have been accounted for in this regard. Stock options were granted to officers and a consultant and are exercisable at a rate of 33% on an annual basis commencing on the first anniversary of the date of grant for the officers and at a rate of 33% commencing at the date of grant for the consultant.

The following table summarizes information about stock options under the plan since January 1, 2006:

	2007			2006		
	Number	Carrying value $	Weighted average exercise price $	Number	Carrying value $	Weighted average exercise price $
Outstanding - Beginning of year	1,806,500	336,036	0.48	1,635,000	196,712	0.50
Granted during the year	330,000	-	0.19	685,000	-	0.45
Cancelled during the year*	(516,500)	(100,315)	0.49	(513,500)	(100,110)	0.50
Compensation costs	-	104,129	-	-	239,434	-
Outstanding – End of year	1,620,000	339,850	0.42	1,806,500	336,036	0.48
Exercisable – End of year	1,375,000		0.41	957,722		0.47

*An amount of $100,315 ($78,300 in 2006) has been accounted for as an increase of the contributed surplus following cancellation of 516,500 (300,000 in 2006) exercisable stock options. In 2006, an amount of $21,810 has been applied against stock-based compensation costs following cancellation of 213,500 non-exercisable stock options.

The following table summarizes information on outstanding and exercisable stock options under the plan as at December 31, 2007:

	Options outstanding		Options exercisable	
Exercise price	Number	Weighted average contractual life (years)	Number	Weighted average contractual life (years)
$0.19	330,000	4.39	330,000	4.39
$0.45	400,000	3.39	400,000	3.39
$0.46	120,000	3.24	65,000	3.24
$0.50	770,000	2.78	580,000	2.78
	1,620,000	3.30	1,375,000	3.37

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

	Granted under the plan on May 24, 2007	**Granted under the plan on May 25, 2006**	**Granted under the plan on March 29, 2006**
Risk-free interest rate	4.32%	4.10%	4.06%
Expected volatility	85%	70%	70%
Dividend yield	Nil	Nil	nil
Expected life	60 months	60 months	60 months
Fair value on the date of grant	$0.13	$0.27	$0.28

c) Unit options

The following table summarizes information about unit options outstanding and exercisable since January 1, 2006:

	Number	**Carrying value $**	**Weighted average exercise price $**
Outstanding and exercisable as at January 1, 2006 and December 31, 2006	634,240	88,541	0.50
Expired during fiscal year	(634,240)	(88,541)	0.50
Outstanding and exercisable as at December 31, 2007	-	-	-

These unit options has a weighted average remaining contractual life of nil year (0.59 year as at December 31, 2006 and 1.59 years as at January 1, 2006) as at December 31, 2007.

d) Warrants

The following table summarizes information about warrants outstanding since January 1, 2006:

	Number	Carrying value $	Weighted average exercise price $	Weighted average remaining contractual life (years)
Outstanding and exercisable as at January 1, 2006	8,928,000	491,798	0.99	0.60
Granted to the subscriber pursuant to private placements, net of issue expenses of $18,011 and future income taxes of $5,351	3,385,715	283,146	0.45	1.89
Outstanding as at December 31, 2006	12,313,715	774,944	0.80	0.96
Expired during fiscal year	(8,928,000)	(491,798)	0.99	-
Outstanding and exercisable as at December 31, 2007	3,385,715	283,146	0.45	0.89

A number of 8,928,000 warrants were exercisable as at December 31, 2006 with a weighted average exercise price of 0.99$ and a weighted average remaining contractual life of 0.6 year.

e) Conversion options

The company has granted a conversion option on notes payable having outstanding balances of $60,853 and $20,067 as at December 31, 2007 (note 12). The conversion option is defined as follows: the shareholder will have the right to convert the entire balance, and not a part of the loan, into fully paid-up common shares of the company, and this, based on the issue price of the private placement completed by the company. This conversion right will vest over a three-year period from the closing date of the qualifying transaction. During the three-year period, if the price of the shares is twice the granting price, the shareholder will be required to convert the balance of the loan.

The fair value of this conversion option is transferred to the contributed surplus at the same rate as the reimbursement of notes payable. As at December 31, 2007, an amount of $27,270 has been accounted for in this regard ($18,206 in 2006).

14 Income taxes

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

	Years Ended December 31,	
	2007 **$**	**2006** **$**
Income tax expense (recovery) at the Canadian combined statutory tax rate (32.02 % in 2007 and 32.02% in 2006)	171,103	(408,420)
Increase (decrease) due to:		
Non-taxable income	(10,203)	(14,285)
Stock-based compensation costs	33,342	69,683
Other non-deductible expenses	12,008	9,396
Change in enacted rates	(65,340)	13,408
Other	(6,225)	11,646
	134,685	(318,572)

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

	As at December 31,	
	2007 **$**	**2006** **$**
Long-term future income tax assets		
Non-capital losses	549,424	781,027
Share issue and financing expenses	184,517	257,402
Research and development expenses	373,274	263,150
Other	-	6,398
	1,107,215	1,307,977
Long-term future income tax liabilities		
Property, plant and equipment	799,864	854,914
Other	10,986	-
	810,850	854,914
Long-term future income tax assets, net	296,365	453,063

The company accumulated federal and provincial non-capital losses of $ 1,841,000 and $ 1,678,000, respectively. Such losses could be applied in reduction of future taxable income and expiry as follows:

	Federal	Provincial
	$	$
2015	827,000	755,000
2026	1,014,000	923,000

15 Earnings per share

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

	Years Ended December 31,	
	2007	**2006**
Basic weighted average number of shares outstanding	45,799,429	39,788,626
Dilutive effect of stock options	53,043	-
Diluted weighted average number of shares outstanding	45,852,472	39,788,626

A number of stock options corresponding to 1,290,000 shares (1,806,500 in 2006) for the year ended December 31, 2007 has been excluded from the calculation of diluted earnings per share because the exercise prices of these stock options were greater than to average market price of the common shares.

A number of warrants corresponding to 3,385,715 shares (12,313,715 in 2006) for the year ended December 31, 2007 has been excluded from the calculation of diluted earnings per share because the exercise prices of these warrants were greater than to average market price of the common shares.

For the year ended December 31, 2006, the potentially dilutive weighted average number of shares outstanding was the same as the basic weighted average number of shares outstanding, since the effect of the warrants, stock options and unit options would have been anti-dilutive. Accordingly, diluted net loss for that year was calculated using the basic weighted average number of shares outstanding.

16 Additional disclosures on the statements of cash flows

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

	Years Ended December 31, 2007 $	2006 $
Accounts receivable	(787,785)	124,771
Inventories	81,364	702,024
Refundable tax credits	519,295	(18,981)
Prepaid expenses	31,566	(90,003)
Accounts payable and accrued liabilities	270,929	344,088
	115,369	1,061,899

(b) Items not affecting cash related to:

i) Operating and investing activities

	Years Ended December 31, 2007 $	2006 $
Acquisition of property, plant and equipment included in accounts payable and accrued liabilities	90,983	-

ii) Financing activities

	Years Ended December 31, 2007 $	2006 $
Transfer of a portion of the conversion option to the contributed surplus	27,270	18,206
Stock options, unit options and warrants applied against capital stock	104,129	522,580
Cancelled stock options, unit options and warrants accounted for as an increase of the contributed surplus	(680,654)	(121,082)
Cancelled stock options applied against stock-based compensation costs	-	(21,810)
Tax credits receivable applied against deferred charges	190,870	202,926

(c) Additional information

	Years Ended December 31, 2007 $	2006 $
Interest paid	461,412	427,139

17 Related party transactions

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

	Years Ended December 31, 2007 $	2006 $
With a company owned at 50% by a shareholder		
Rent	-	(1,212)
Travel expenses	-	594

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.

18 Financial instruments

Fair value

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

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 10 and 12, respectively.

Credit risk

The company continuously reviews, in the normal course of its operations, the financial position of its customers and examines the credit continuity schedule of all new customers. There is no existing account that represents a substantial risk for the company. The company establishes an allowance for doubtful accounts while keeping in mind the specific credit risk of customers, their historical tendencies and the economic situation.

Currency risk

Since a part of the company's revenues is denominated in US dollars, the company is exposed to currency risk. These risks are partially hedged by its purchases in US dollars and by foreign currency forward contracts.

The fair value of foreign currency forward contracts at the end of the year is as follows:

As of December 31	Purchasing currency	Selling currency	Par value in selling currency $	Maturity	Fair value (a) $	Average rate $
2007	CAN$	US$	1,800,000	2008	42,660	1.017

(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. Revenues by geographic region are detailed as follows:

	Years Ended December 31, 2007 $	2006 $
Canada	4,736,288	3,995,564
United States	6,354,280	7,291,701
North America	11,090,568	11,287,265
Europe and Asia-Pacific	4,093,180	883,033
	15,183,748	12,170,298

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

Major customers

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

	Years Ended December 31,	
	2007 **%**	**2006** **%**
Customer 1	25.63	33.77
Customer 2	16.06	2.58
Customer 3	13.02	16.25

20 Commitments

As at December 31, 2007, the company's minimum aggregate commitments under long-term equipment and vehicle lease agreements amount to $107,815. Minimum lease payments required over the next four years amount to $43,949 in 2008, $40,556 in 2009, $19,844 in 2010 and $3,466 in 2011. The company has also agreed to pay an approximate amount of $604,000 for the acquisition of equipment and molds.