

NOVIK INC.

Consolidated Financial Statements
December 31, 2009 and 2008



Auditors' Report

To the Shareholders of
Novik inc.

We have audited the consolidated balance sheet of **Novik inc.** as at December 31, 2009 and the consolidated statements of earnings and comprehensive income, retained earnings (deficit), contributed surplus and cash flows for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

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

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

Quebec City (Québec), Canada
March 19, 2010

¹ CA auditor permit No. 11198

Novik Inc.

Consolidated Balance Sheets

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

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

Approved on behalf of the Board of Directors

(signed) MICHEL GAUDREAU, Director

(signed) LOUIS-ANDRÉ GAUDREAU, Director

Novik Inc.

Consolidated Statements of Retained Earnings (Deficit)

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

Consolidated Statements of Contributed Surplus

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

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

Novik Inc.

Consolidated Statements of Earnings and Comprehensive Income

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

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

Novik Inc.

Consolidated Statements of Cash Flows

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

Additional information (note 15b and c)

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

Novik Inc.

Notes to Consolidated Financial Statements

At December 31, 2009 and 2008

1 Statutes and nature of activities

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

2 Summary of significant accounting policies

Basis of reporting

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

Consolidation policies

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

Use of estimates

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

Foreign currency translation

Foreign currency transactions

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

Foreign currency forward exchange contracts

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

Novik Inc.

Notes to Consolidated Financial Statements

At December 31, 2009 and 2008

Inventories

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

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

Impairment of non-monetary long-lived assets

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

Property, plant and equipment

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

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

Intangible assets

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

Novik Inc.

Notes to Consolidated Financial Statements

At December 31, 2009 and 2008

Tax credits and government assistance

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

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

Provision for warranties

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

Long-term debt

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

Revenue recognition

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

Income taxes

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

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

Equity issue expenses

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

Novik Inc.

Notes to Consolidated Financial Statements

At December 31, 2009 and 2008

Earnings per share and information pertaining to the number of shares

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

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

Stock-based compensation and other stock-based payments

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

3 Accounting changes

Research and other development costs

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

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

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

Novik Inc.

Notes to Consolidated Financial Statements

At December 31, 2009 and 2008

Future changes in accounting policies

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

a) Financial Reporting Framework

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

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

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

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

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

Novik Inc.

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

4 Accounts receivable

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

5 Inventories

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

6 Government assistance receivable

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

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

Novik Inc.

Notes to Consolidated Financial Statements

At December 31, 2009 and 2008

7 Property, plant and equipment

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

8 Intangible assets

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

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

Novik Inc.

Notes to Consolidated Financial Statements

At December 31, 2009 and 2008

9 Credit facilities

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

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

10 Accounts payable and accrued liabilities

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

Novik Inc.

Notes to Consolidated Financial Statements

At December 31, 2009 and 2008

11 Long-term debt

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

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

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

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

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

Novik Inc.

Notes to Consolidated Financial Statements

At December 31, 2009 and 2008

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

12 Capital stock

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

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

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

Novik Inc.

Notes to Consolidated Financial Statements

At December 31, 2009 and 2008

b) Stock options

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

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

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

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

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

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

Novik Inc.

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

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

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

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

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

c) Warrants

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

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

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

d) Expired conversion option

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

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

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Notes to Consolidated Financial Statements

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13 Income taxes

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

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

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

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

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

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

14 Earnings per share

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

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

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

15 Additional disclosures to the statements of cash flows

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

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

Novik Inc.

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

(b) Items not affecting cash related to:

Operating and investing activities

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

(c) Additional information

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

16 Related party transactions

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

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

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

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Notes to Consolidated Financial Statements

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17 Capital Disclosures

The company's objectives when managing capital are to:

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

The company defines its capital as follows:

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

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

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

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

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

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

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

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Notes to Consolidated Financial Statements

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

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

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

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

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Interest rate risk

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

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

Credit risk

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

A broad client base dispersed across varying geographic locations.

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

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

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

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

Liquidity Risk

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

Novik Inc.

Notes to Consolidated Financial Statements

At December 31, 2009 and 2008

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

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

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

Currency risk

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

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

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

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

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

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Notes to Consolidated Financial Statements

At December 31, 2009 and 2008

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

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

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

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

19 Segment information

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

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

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

Novik Inc.

Notes to Consolidated Financial Statements

At December 31, 2009 and 2008

Major customers

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

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

20 Commitments

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

21 Comparative figures

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