

NOVIK INC.

Financial Statements
December 31, 2008 and 2007

Auditors' Report

To the Shareholders of Novik Inc.

We have audited the balance sheets of **Novik Inc.** (the "company") as at December 31, 2008 and 2007 and the statements of earnings and comprehensive income, retained earnings, 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, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP¹

Québec, Quebec, Canada
March 30, 2009

¹ Chartered accountant auditor permit No. 7871

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Novik Inc.

Balance Sheets

	<u>As at December 31,</u>	
	<u>2008</u>	<u>2007</u>
	\$	\$
Assets		
Current assets		
Accounts receivable (notes 4, 10 and 12)	2,765,810	2,325,204
Inventories (notes 5, 10 and 12)	4,152,812	2,758,138
Refundable tax credits	309,020	184,364
Prepaid expenses	439,465	183,972
	<u>7,667,107</u>	<u>5,451,678</u>
Government assistance receivable (note 6)	185,076	-
Tax credits recoverable	366,468	278,557
Future income tax assets (note 14)	-	296,365
Property, plant and equipment (notes 7 and 12)	15,868,657	8,975,945
Intangible assets (note 8)	445,125	430,233
Deferred charges (note 9)	1,050,579	816,956
	<u>25,583,012</u>	<u>16,249,734</u>
Liabilities		
Current liabilities		
Bank loan (note 10)	863,043	411,458
Accounts payable and accrued liabilities (note 11)	1,992,908	1,770,713
Current portion of long-term debt (note 12)	1,636,355	1,083,902
	<u>4,492,306</u>	<u>3,266,073</u>
Long-term debt (note 12)	9,519,140	3,795,473
Future income tax liabilities (note 14)	129,686	-
	<u>14,141,132</u>	<u>7,061,546</u>
Shareholders' Equity		
Capital stock (note 13)	9,946,318	8,531,413
Stock options and warrants (note 13b and c)	524,632	622,996
Conversion option (note 13d)	-	20,781
Contributed surplus	958,621	875,235
Retained earnings (Deficit)	12,309	(862,237)
	<u>11,441,880</u>	<u>9,188,188</u>
	<u>25,583,012</u>	<u>16,249,734</u>

Commitments (note 21)

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 Retained Earnings

	<u>Years Ended December 31,</u>	
	2008	2007
	\$	\$
Balance – Beginning of year	(862,237)	(1,308,692)
Adjustment related to the implementation of a new accounting standard (note 2)	-	46,777
Net income for the period	874,546	399,678
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Balance – End of year	12,309	(862,237)

Statements of Contributed Surplus

	<u>Years Ended December 31,</u>	
	2008	2007
	\$	\$
Balance – Beginning of year	875,235	167,311
Expired conversion options (note 13d)	20,781	27,270
Cancelled stock options (note 13b)	2,870	100,315
Expired unit options and warrants (note 13c and 13d)	59,735	580,339
	<hr/>	<hr/>
Balance – End of year	958,621	875,235

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

Novik Inc.

Statements of Earnings and Comprehensive Income

	Years Ended December 31,	
	2008	2007
	\$	\$
Revenues	20,116,378	15,183,748
Cost of sales		
Direct costs	11,068,214	8,460,247
Depreciation of property, plant and equipment	868,771	713,628
Amortization of intangible assets	68,321	76,823
	12,005,306	9,250,698
Gross margin	8,111,072	5,933,050
Operating expenses		
Selling expenses	3,591,414	2,886,422
Administrative expenses (including stock-based compensation costs of \$187,652; \$104,129 in 2007)	1,672,896	1,365,253
Research and development costs	35,734	113,970
Depreciation of property, plant and equipment	20,553	25,687
Amortization of intangible assets	78,513	81,535
Amortization of development expenses	215,507	182,878
	5,614,617	4,655,745
Earnings from operations	2,496,455	1,277,305
Financial expenses		
Interest and bank charges	119,558	70,842
Interest on long-term debt	445,030	495,902
Exchange loss on financial items	309,155	92,581
Realized exchange loss on forward contracts	156,125	129,423
Unrealized loss (gain) on forward contracts	98,790	(42,660)
Amortization of financing expenses	67,200	45,475
Grant (note 12)	-	(48,621)
	1,195,858	742,942
Earnings before income taxes	1,300,597	534,363
Future income tax expense (note 14)	426,051	134,685
Net earnings and comprehensive income for the year	874,546	399,678
Basic and diluted net earnings per share (note 15)	0.019	0.009
Weighted average number of shares outstanding (note 15)		
Basic	46,378,059	45,799,429
Diluted	46,523,647	45,852,472

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

Novik Inc.

Statements of Cash Flows

	Years Ended December 31,	
	2008	2007
	\$	\$
Cash flows from operating activities		
Net earnings for the year	874,546	399,678
Items not affecting cash		
Depreciation and amortization	1,318,865	1,126,026
Future income taxes	426,051	134,685
Unrealized exchange loss (gain)	591,707	(42,660)
Stock-based compensation	187,652	104,129
Grant	-	(48,621)
Interest capitalized on long-term debt	23,100	34,490
	<u>3,421,921</u>	<u>1,707,727</u>
Net change in non-cash working capital items (note 16a)	<u>(2,524,103)</u>	<u>115,369</u>
	<u>897,818</u>	<u>1,823,096</u>
Cash flows from financing activities		
Increase (decrease) in bank loan	451,585	(395,115)
Long-term debt contracted	7,237,721	732,000
Decrease in deferred financing expenses	(132,549)	(42,822)
Long-term debt redemption	(1,416,229)	(1,289,343)
Issuance of shares	1,202,143	-
Issue expenses	(10,649)	(11,198)
	<u>7,332,022</u>	<u>(1,006,478)</u>
Cash flows from investing activities		
Additions to property, plant and equipment	(7,731,484)	(850,116)
Increase in intangible assets	(161,726)	(112,526)
Increase in deferred charges	(297,210)	(295,907)
Receipt of refundable tax credits	(151,920)	-
Government assistance	112,500	112,500
	<u>(8,229,840)</u>	<u>(1,146,051)</u>
Net change in cash	-	(329,433)
Cash - Beginning of year	-	<u>329,433</u>
Cash - End of year	-	<u>-</u>

Additional information (note 16b and c)

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

Inventories are valued at the lower of cost and net realizable value. Cost of raw materials is determined on the average cost basis. Cost of finished goods and work in process inventories are determined using the standard cost system.

Novik Inc.

Notes to Financial Statements

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, 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 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.

Novik Inc.

Notes to Financial Statements

Long-term debt

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

As of January 1, 2007, 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.

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 adjustments 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)

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 Changes in accounting policies

Adopted accounting policies

On January 1, 2008 the company adopted the following sections of the CICA Handbook:

- Section 1535, "Capital Disclosures". This section establishes standards for disclosing information about an entity's capital and how it is managed. It describes the disclosure of the entity's objectives, policies and processes for managing capital as well as summary quantitative data on the elements included in the management of capital. The section seeks to determine if the entity has complied with capital requirements and if not, the consequences of such non-compliance.
- Section 3031, "Inventories". This section prescribes the accounting treatment for inventories. It provides guidance on the determination of cost and its subsequent recognition as an expense, including any writedown to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories.
- Section 3862, "Financial Instruments – Disclosures". This section describes the required disclosures to evaluate the significance of financial instruments for the entity's financial position and performance as well as the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks.
- Section 3863, "Financial Instruments – Presentation". This section establishes standards for presentation of financial instruments and non-financial derivatives. It details the presentation of standards described in Section 3861, "Financial Instruments – Disclosure and Presentation".

Novik Inc.

Notes to Financial Statements

- Section 1400, "General Standards of Financial Statement Presentation". This section includes requirements to assess and disclose an entity's ability to continue as a going concern (going concern assumption).

The company has adopted these standards prospectively and there has been no impact on the financial statements (notes 18 and 19).

Future accounting changes

The CICA issued Section 3064, "Goodwill and Intangible Assets", which will apply to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008. This section establishes standards for the recognition, measurement and disclosure applicable to intangible assets. It replaces Section 3062, "Goodwill and Other Intangible Assets", and Section 3450, "Research and Development Costs". Upon consideration of this new standard, the company has concluded that it will not impact significantly on its financial statements.

In January 2009, the CICA's Emerging Issue Committee ("EIC") issued Abstract EIC-173, *Credit Risk and the Fair Value of Financial Assets and Liabilities* which requires entities to take both counterparty credit risk and their own credit risk into account when measuring the fair value of financial assets and liabilities, including derivatives. EIC-173 will be effective for interim and annual periods beginning on or after January 1, 2009. The company does not expect that adoption of this guidance will have a significant impact on its financial statements.

The CICA published the following sections of the CICA Handbook that apply to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011.

- a) Section 1582, "Business Combinations", which replaces the former Section 1581 with the same title, establishes accounting standards for a business combination. It provides the Canadian equivalent to International Financial Reporting Standard IFRS3, "Business Combinations".
- b) Section 1601, "Consolidated Financial Statements", which replaces the former Section 1600 with the same title, establishes standards for the preparation of consolidated financial statements.
- c) Section 1602, "Non-Controlling Interests". This new section establishes standards on accounting for non-controlling interests in a subsidiary in consolidated financial statements prepared subsequent to a business combination. It is equivalent to the corresponding provisions of International Accounting Standard IAS 27, "Consolidated and Separate Financial Statements".

The company is currently evaluating the impact of these new standards on its financial statements.

Novik Inc.

Notes to Financial Statements

On February 13, 2008, the Accounting Standards Board confirmed the date of changeover from Canadian GAAP to International Financial Reporting Standards (“IFRS”). Canadian publicly accountable enterprises must adopt IFRS for their interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The company has developed a plan for the conversion of its consolidated financial statements to IFRS. An analysis of the differences between IFRS and the company’s accounting standards is underway. This analysis is being conducted by taking into account the potential impacts, among others, on accounting policies, financial reporting and information technologies. The company is currently evaluating the impact of these new standards on its financial statements.

4 Accounts receivable

	<u>As at December 31,</u>	
	2008	2007
	\$	\$
Trade	2,552,678	1,887,447
Government assistance receivable (note 6)	62,500	112,500
Commodity taxes receivable	70,380	148,401
Deposits and others	80,252	134,196
Fair value of forward contracts (note 19)	-	42,660
	<u>2,765,810</u>	<u>2,325,204</u>

5 Inventories

	<u>As at December 31,</u>	
	2008	2007
	\$	\$
Raw materials	1,298,555	720,338
Work in process	748,623	297,298
Finished goods	2,105,634	1,740,502
	<u>4,152,812</u>	<u>2,758,138</u>

Novik Inc.

Notes to Financial Statements

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. Such government assistance was applied 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. In addition, financial contribution received in 2004 was fully obtained in 2008.

	<u>As at December 31,</u>	
	2008	2007
	\$	\$
Government assistance receivable	247,576	112,500
Less: Current portion (note 4)	62,500	112,500
	<u>185,076</u>	<u>-</u>

7 Property, plant and equipment

	<u>As at December 31,</u>			
	2008		2007	
	Cost	Accumulated depreciation	Cost	Accumulated depreciation
	\$	\$	\$	\$
Land	476,348	-	180,659	-
Plant	5,123,308	441,910	2,697,177	347,365
Equipment	8,279,097	1,695,667	4,278,131	1,249,197
Molds	5,055,046	1,563,968	4,581,953	1,242,734
Office furniture	65,923	43,961	62,939	39,217
Computer equipment	215,303	112,477	143,746	90,147
Deposits on property, plant and equipment	511,615	-	-	-
	<u>19,726,640</u>	<u>3,857,983</u>	<u>11,944,605</u>	<u>2,968,660</u>
Less:				
Accumulated depreciation	<u>3,857,983</u>		<u>2,968,660</u>	
Net amount	<u>15,868,657</u>		<u>8,975,945</u>	

Novik Inc.

Notes to Financial Statements

8 Intangible assets

	As at December 31,			
	2008		2007	
	Cost \$	Accumulated amortization \$	Cost \$	Accumulated amortization \$
Software	1,007,684	608,517	883,568	471,664
Web site	37,720	17,419	25,020	10,217
Trademark	32,806	7,149	7,896	4,370
	1,078,210	<u>633,085</u>	916,484	<u>486,251</u>
Less:				
Accumulated amortization	<u>633,085</u>		<u>486,251</u>	
Net amount	<u>445,125</u>		<u>430,233</u>	

9 Deferred charges

	As at December 31,			
	2008		2007	
	Cost \$	Accumulated amortization \$	Cost \$	Accumulated amortization \$
Development expenses	1,531,267	480,688	1,082,137	265,781
Less:				
Accumulated amortization	<u>480,688</u>		<u>265,181</u>	
Net amount	<u>1,050,579</u>		<u>816,956</u>	

During the year ended December 31, 2008, the company applied research and development tax credits amounting to \$189,795 (\$190,870 in 2007) 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 0.25% and renewable annually. Accounts receivable and inventories have been given as security for the line of credit.

Novik Inc.

Notes to Financial Statements

11 Accounts payable and accrued liabilities

	As at December 31,	
	2008	2007
	\$	\$
Trade payable	1,039,932	1,118,824
Salaries and employee benefits payable	316,087	160,449
Accrued liabilities	542,059	491,440
Fair value of forward contracts (note 19)	94,830	-
	<u>1,992,908</u>	<u>1,770,713</u>

12 Long-term debt

	As at December 31,	
	2008	2007
	\$	\$
Immoveable hypothec, at prime rate plus 1%, payable in monthly principal instalment plus interest, starting in December 2010 and maturing in November 2035*	5,150,000	1,923,720
Notes payable for which a moveable hypothec on equipment, molds and all tangible assets has been given as security, at prime rate plus 0.4% to bankers' acceptance rate of 4.5%, payable in monthly principal instalment plus interest, maturing between 2011 and 2014*	3,846,813	856,597
Notes payable for which a moveable hypothec on equipment and molds has been given as security, at prime rate plus 0.5% to fixe rate of 9.25%, payable in monthly principal instalment plus interest, maturing between 2009 and 2015*	2,032,777	1,408,138
Note payable to Canada Economic Development, non-interest bearing, payable in equal and consecutive annual instalment, maturing between 2009 and 2013, discounted with an effective rate of 15% ***	249,499	262,839
Renegotiated during the year	-	387,155
Reimbursed during the year	-	99,170
Deferred financing charges	(123,594)	(58,244)
	<u>11,155,495</u>	<u>4,879,375</u>
Less: Current portion	<u>1,636,355</u>	<u>1,083,902</u>
	<u>9,519,140</u>	<u>3,795,473</u>

The company has a long-term debt totaling \$3,004,096 which is payable in US dollars.

The annual principal instalments required over the next five years are as follow: \$1,641,245 in 2009, \$1,863,790 in 2010, \$2,272,507 in 2011, \$493,875 in 2012 and \$372,263 in 2013.

Novik Inc.

Notes to Financial Statements

The company has committed to meeting certain financial ratios in connection with certain of these loans. As at December 31, 2008, all financial ratios have been met.

- * 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 extension of the current plant, for the purchase of the adjacent land and of specific equipments related to the extension.
- ** 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%.
- *** Since this debt was non-interest bearing, it was decreased by \$48,621 and reflected in earnings as a grant so as to consider an effective interest rate of 15%.

In order to financially support its important addition plan on property, plant and equipment during fiscal years 2008 and 2009, a non-interest bearing loan of \$1,000,000 was granted to the company under a Strategic Support for Investment Program. The company expects to receive the majority of the funds in its fiscal year 2009.

The company will benefit from a three-year capital exemption period on this loan, which starts on the date at the first disbursement. The company will redeem this loan on a monthly basis over the seven-year period following the exemption period.

13 Capital stock

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

The following table summarizes the capital stock activity since January 1, 2007:

	2008		2007	
Common shares, issued and fully paid	Number	Stated value \$	Number	Stated value \$
Balance – Beginning of year	45,799,429	8,531,413	45,799,429	8,542,611
Issuance of shares pursuant to warrants exercised (note 13c)	2,671,429	1,425,554	-	-
Share issue expenses	-	(10,649)	-	(11,198)
Balance – End of year	48,470,858	9,946,318	45,799,429	8,531,413

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Notes to Financial Statements

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 29, 2008, the company granted 425,000 stock options to its directors and certain officers at an exercise price of \$0.40 under the existing plan and will mature on May 29, 2013. Costs of \$141,490 have been accounted for as these new stock options are exercisable immediately.

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.

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

	2008			2007		
	Number	Carrying value \$	Weighted average exercise price \$	Number	Carrying value \$	Weighted average exercise price \$
Outstanding - Beginning of year	1,620,000	339,850	0.42	1,806,500	336,036	0.48
Granted during the year	425,000	-	0.40	330,000	-	0.19
Cancelled during the year*	(21,000)	(2,870)	0.50	(516,500)	(100,315)	0.49
Compensation costs	-	187,652	-	-	104,129	-
Outstanding – End of year	2,024,000	524,632	0.42	1,620,000	339,850	0.42
Exercisable – End of year	2,009,000		0.42	1,375,000		0.41

* An amount of \$2,870 (\$100,315 in 2007) has been accounted for as an increase of the contributed surplus following cancellation of \$21,000 (\$516,500 in 2007) exercisable stock options.

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Notes to Financial Statements

The following table summarizes information on outstanding and exercisable stock options under the plan as at December 31, 2008:

Exercise price	Options outstanding		Options exercisable	
	Number	Weighted average contractual life (years)	Number	Weighted average contractual life (years)
\$0.19	330,000	3.40	330,000	3.40
\$0.40	425,000	4.41	425,000	4.41
\$0.45	400,000	2.40	400,000	2.40
\$0.46	120,000	2.24	105,000	2.24
\$0.50	749,000	1.78	749,000	1.78
	2,024,000	2.66	2,009,000	2.66

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 29, 2008	Granted under the plan on May 24, 2007
Risk-free interest rate	2.73%	4.32%
Expected volatility	120%	85%
Dividend yield	Nil	Nil
Expected life	60 months	60 months
Fair value on the date of grant	\$0.33	\$0.13

Novik Inc.

Notes to Financial Statements

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	12,313,715	774,944	0.80	0.96
Expired during fiscal year	(8,928,000)	(491,798)	0.99	-
Outstanding as at December 31, 2007	3,385,715	283,146	0.45	0.89
Exercised during the year	(2,671,429)	(223,411)	0.45	-
Expired during the year	(714,286)	(59,735)	0.45	-
Outstanding as at December 31, 2008	-	-	-	-

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) Conversion options

The company has granted a conversion option on notes payable having outstanding balances of nil as at December 31, 2008 (\$60,853 as of December 31, 2007). 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, 2008, an amount of \$20,781 has been accounted for in this regard (\$27,270 in 2007).

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Notes to Financial Statements

14 Income taxes

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

	Years Ended December 31,	
	2008	2007
	\$	\$
Income tax expense at the Canadian combined statutory tax rate (30.90 % in 2008 and 32.02% in 2007)	401,884	171,103
Increase (decrease) due to:		
Non-taxable income	(11,615)	(10,203)
Stock-based compensation costs	57,984	33,342
Other non-deductible expenses	93,605	12,008
Use of previously unrecognized assets	(143,487)	-
Change in valuation allowance	66,830	-
Change in enacted rates	(55,871)	(65,340)
Other	16,721	(6,225)
	<u>426,051</u>	<u>134,685</u>

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

	As at December 31,	
	2008	2007
	\$	\$
Long-term future income tax assets		
Non-capital losses	281,398	549,424
Share issue and financing expenses	140,035	184,517
Research and development expenses	414,939	373,274
Unrealized exchange loss	66,830	-
	<u>903,202</u>	<u>1,107,215</u>
Long-term future income tax liabilities		
Property, plant and equipment	956,872	799,864
Valuation allowance	66,830	-
Other	9,186	10,986
	<u>1,032,888</u>	<u>810,850</u>
Long-term future income tax assets (liabilities), net	<u>(129,686)</u>	<u>296,365</u>

The company accumulated federal and provincial non-capital losses of \$1,105,000 and \$868,000 respectively and maturing in 2026.

Novik Inc.

Notes to Financial Statements

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,	
	2008	2007
Basic weighted average number of shares outstanding	46,378,059	45,799,429
Diluted weighted average number of shares outstanding	145,588	53,043
Basic weighted average number of shares outstanding	46,523,647	45,852,472

A number of stock options corresponding to 1,694,000 shares (1,290,000 in 2007) for the year ended December 31, 2008 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.

A number of warrants corresponding to 3,385,715 shares 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 the average market price of the common shares.

16 Additional disclosures on the statements of cash flows

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

	Years Ended December 31,	
	2008 \$	2007 \$
Accounts receivable	(738,182)	(787,785)
Inventories	(1,394,674)	81,364
Refundable tax credits	(212,657)	519,295
Prepaid expenses	(255,493)	31,566
Accounts payable and accrued liabilities	76,813	270,929
	(2,524,103)	115,369

Novik Inc.

Notes to Financial Statements

(b) Items not affecting cash related to:

i) Operating and investing activities

	Years Ended December 31,	
	2008	2007
	\$	\$
Acquisition of property, plant and equipment included in accounts payable and accrued liabilities	141,535	90,983

(c) Additional information

	Years Ended December 31,	
	2008	2007
	\$	\$
Interest paid	390,201	461,412

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,	
	2008	2007
	\$	\$
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 Financial Statements

18 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>	
	2008	2007
	\$	\$
Bank loan	863,043	411,458
Long-term debt, including the current portion	11,155,495	4,879,375
Shareholders' equity	11,441,880	9,188,188
	<u>23,460,418</u>	<u>14,479,021</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. coverage ratio of fixed costs.

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.

Coverage ratio of fixed costs, a non-GAAP measure, is calculated as the sum of earnings from operations plus depreciation and amortization and stock-based compensation (adjusted EBITDA) to the current portion of the long-term debt and interest on bank charges and long-term debt.

The company's financial objectives and strategy as described above have remained substantially unchanged over the last two completed 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.

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Notes to Financial Statements

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, 2008	As at December 31, 2007
Long-term debt, including the current portion		\$11,155,495	\$4,879,375
Shareholders' equity		\$11,441,880	\$9,188,188
Less:			
Future income tax assets		-	\$(296,365)
Intangible assets		\$(445,125)	\$(430,233)
Deferred charges		\$(1,050,579)	\$(816,956)
Plus:			
Future income tax liabilities		\$129,686	-
Net tangible value		\$10,075,862	\$7,644,634
Long-term debt, including the current portion		\$11,155,495	\$4,879,375
Net tangible value		\$10,075,862	\$7,644,634
Long-term debt to net tangible value	1.50:1	1.11:1	0.64:1
Earnings from operations		\$2,496,555	\$1,277,305
Plus:			
Amortization and depreciation		\$1,251,665	\$1,080,551
Stock-based compensation		\$187,652	\$104,129
Adjusted EBITDA		\$3,935,772	\$2,371,985
Current portion of the long-term debt		\$1,636,355	\$1,083,902
Plus:			
Interest and bank charges		\$119,558	\$70,842
Interest on long-term debt		\$445,030	\$495,902
Fixed costs		\$2,200,943	\$1,650,646
Adjusted EBITDA		\$3,935,772	\$2,371,985
Fixed costs		\$2,200,943	\$1,650,646
Coverage ratio of fixed costs	1.20:1	1.79:1	1.44:1

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Notes to Financial Statements

19 Financial instruments

Fair value

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

The fair value of financial instruments is as follow:

	As at December 31, 2008	
	Loans and receivables	Other financial liabilities
	\$	\$
Financial assets		
Accounts receivable	2,765,810	-
Government assistance receivable	185,076	-
	<hr/>	<hr/>
	2,950,886	-
Financial liabilities		
Bank loan	-	863,042
Accounts payable and accrued liabilities	-	1,992,908
Long term debt	-	11,031,901
	<hr/>	<hr/>
	-	13,887,851
	<hr/>	<hr/>
	As at December 31, 2008	
	Loans and receivables	Other financial liabilities
	\$	\$
Financial assets		
Accounts receivable	2,325,204	-
	<hr/>	<hr/>
Financial liabilities		
Bank loan	-	411,458
Accounts payable and accrued liabilities	-	1,770,713
Long term debt	-	4,821,131
	<hr/>	<hr/>
	-	7,003,302
	<hr/>	<hr/>

Novik Inc.

Notes to Financial Statements

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.

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

Credit risk

The company's credit risk is primarily attributable to its trade receivables. The amounts disclosed in the balance sheet are net of allowances for bad debts, estimated by the company's management based on prior experience and 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 60% of trade receivables is outstanding for less than 90 days.
- Though 57% of the company's revenue for the fiscal year 2008 comes from its top three 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 provision when management considers that the expected recovery is less than the actual account receivable.
- In the past three fiscal years, the company has not recorded bad debt expenses in excess of its provision for bad debts. The allowance for bad debts as at December 31, 2008 was \$62,578 (\$15,000 as at December 31, 2007). All bad debt write-offs are charged to administrative expenses.

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Notes to Financial Statements

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.

The following are the contractual maturities of financial liabilities as at December 31, 2008:

	Carrying Amount	Contractual Cash Flows	0 to 12 months	12 to 24 months	After 24 months
Bank loan	863,043	863,043	863,043	-	-
Accounts payable and accrued liabilities	1,992,908	1,992,908	1,992,908		
Long-term debt including the current portion	11,155,495	11,215,316	1,718,284	1,940,230	7,556,802
	<u>14,011,446</u>	<u>14,071,267</u>	<u>4,574,235</u>	<u>1,940,230</u>	<u>7,556,802</u>

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 revenues is denominated in US dollars, the company is exposed to currency risk. This risk is partially hedged by its purchases in US dollars and by foreign currency forward contracts.

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 30%:

- 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 1.218.

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Notes to Financial Statements

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	2,141	120	120	(120)	(120)
Financial liabilities					
Bank loan	2,669	(149)	(149)	149	149
Accounts payable and accrued liabilities	241	(14)	(14)	14	14
Long-term debt refundable in USD	3,004	(170)	(170)	170	170
TOTAL INCREASE (DECREASE)		(213)	(213)	213	213

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

As at December 31	Purchasing currency	Selling currency	Par value in selling currency \$	Maturity	Fair value (a) \$	Average rate \$
2008	CAN\$	US\$	600,000	2009	(94,830)	1.060

(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.

20 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,	
	2008 \$	2007 \$
Canada	4,788,588	4,736,288
United States	5,940,437	6,354,280
North America	10,729,025	11,090,568
Europe and Asia-Pacific	9,387,353	4,093,180
	20,116,378	15,183,748

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Notes to Financial Statements

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,	
	2008 %	2007 %
Customer 1	22,96	13,02
Customer 2	19,63	16,06
Customer 3	14,74	25,63

21 Commitments

As at December 31, 2008, the company's minimum aggregate commitments under long-term equipment and vehicle lease agreements amount to \$63,866. Minimum lease payments required over the next three years amount to \$40,556 in 2009, \$19,844 in 2010 and \$3,466 in 2011.

As at December 31, 2008, the company has also committed to pay an amount of approximately \$1,600,000 in molds and \$233,000 in equipment. An amount of \$512,000 has been paid on December 31, 2008 regarding these commitments and has been accounted for as "Deposits on property, plant and equipment".

22 Comparative figures

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