

# **Novik Inc.**

Interim Financial Statements (unaudited)  
**September 30, 2009**

**Notice from management:**

The interim financial statements have not been subject to a review by the company's external auditors.

# Novik Inc.

## Interim Balance Sheets (unaudited)

	As at September 30	As at December 31
	2009 \$ (unaudited)	2008 \$
<b>Assets</b>		
<b>Current assets</b>		
Accounts receivable (note 4, 8 and 10)	3,493,589	2,765,810
Inventories (note 5, 8 and 10)	4,102,786	4,152,812
Refundable tax credits	180,485	309,020
Prepaid expenses	576,752	439,465
	<hr/> 8,353,612	<hr/> 7,667,107
<b>Receivable governmental assistance</b>	185,076	185,076
<b>Tax credits recoverable</b>	364,933	366,468
<b>Property, plant and equipment</b> (note 6)	16,719,870	15,868,657
<b>Intangible assets</b> (note 7)	1,807,559	1,495,704
	<hr/> 27,431,050	<hr/> 25,583,012
<b>Liabilities</b>		
<b>Current liabilities</b>		
Bank loan (note 8)	1,851,652	863,043
Accounts payable and accrued liabilities (note 9)	2,703,725	1,992,908
Current portion of long-term debt (note 10)	1,893,954	1,636,355
	<hr/> 6,449,331	<hr/> 4,492,306
<b>Long-term debt</b> (note 10)	9,425,722	9,519,140
<b>Future income tax liabilities</b>	60,790	129,686
	<hr/> 15,935,843	<hr/> 14,141,132
<b>Shareholders' Equity</b>		
<b>Capital stock</b> (note 11)	9,946,318	9,946,318
<b>Stock options</b> (note 11b)	672,586	524,632
<b>Contributed surplus</b>	962,667	958,621
<b>Retained Earnings (Deficit)</b>	(86,364)	12,309
	<hr/> 11,495,207	<hr/> 11,441,880
	<hr/> 27,431,050	<hr/> 25,583,012
<b>Commitments</b> (note 16)		

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

**Approved by the Board of Directors**

(signed) MICHEL GAUDREAU, Director

(signed) LOUIS-ANDRÉ GAUDREAU, Director

## Novik Inc.

### Interim Statements of Earnings (unaudited)

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	<b>Nine Months Ended September 30,</b>	
	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
<b>Balance – Beginning of period</b>	12,309	(862,237)
Net earnings (loss) for the period	(98,673)	1,833,092
<b>Balance – End of period</b>	<b>(86,364)</b>	<b>970,855</b>

### Interim Statements of Contributed Surplus (unaudited)

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	<b>Nine Months Ended September 30,</b>	
	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
<b>Balance – Beginning of period</b>	958,621	875,235
Matured conversion option	-	19,217
Cancelled stock options (note 11b)	4,046	2,870
<b>Balance – End of period</b>	<b>962,667</b>	<b>897,322</b>

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

# Novik Inc.

## Interim Statements of Earnings and Comprehensive Income (unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009 \$	2008 \$	2009 \$	2008 \$
<b>Revenues</b>	4,871,625	7,238,622	11,688,394	17,392,576
<b>Cost of sales</b>				
Direct costs	2,543,475	3,944,330	6,217,559	9,585,340
Depreciation and amortization of property, plant and equipment and intangible assets	335,444	262,129	978,106	677,433
	2,878,919	4,206,459	7,195,665	10,262,773
<b>Gross margin</b>	1,992,706	3,032,163	4,492,729	7,129,803
<b>Operating expenses</b>				
Selling expenses	1,374,682	1,091,398	3,702,409	2,666,288
Administrative expenses*	415,201	404,775	1,317,509	1,288,154
Research and development costs	68,134	79,909	110,741	120,711
Depreciation of property, plant and equipment	9,268	4,150	26,543	15,355
Amortization of intangible assets	22,507	19,459	67,307	55,050
Amortization of development expenses	75,795	52,500	224,026	157,500
	1,965,587	1,652,191	5,448,535	4,303,058
<b>Earnings (loss) from operations</b>	27,119	1,379,972	(955,806)	2,826,745
<b>Financial expenses</b>				
Interest and bank charges	15,488	22,592	75,706	79,403
Interest on long-term debt	185,869	55,485	524,822	287,233
Exchange gain on financial items	(40,119)	(94,848)	(384,016)	(160,419)
Exchange loss (gain) realized on forward contracts	(278,548)	39,775	(336,447)	8,045
Exchange loss (gain) unrealized on forward contracts (note 14)	16,853	35,760	(668,302)	39,480
	(100,457)	58,764	(788,237)	253,742
<b>Earnings (loss) before income taxes</b>	127,576	1,321,208	(167,569)	2,573,003
<b>Income tax expense (recovery)</b>				
Future income taxes	34,461	404,555	(68,896)	739,911
<b>Net earnings (loss) and comprehensive income for the period</b>	93,115	916,653	(98,673)	1,833,092
<b>Basic and diluted net earnings (loss) per share (note 12)</b>	0.002	0.020	(0.002)	0.040
<b>Basic and diluted weighted average number of shares outstanding (note 12)</b>				
Basic	48,470,858	45,799,429	48,470,858	45,799,429
Diluted	48,557,625	46,004,331	48,584,651	45,943,133
* Stock-based compensation costs included in administrative expenses (note 11b):	-	11,227	152,000	176,425

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

# Novik Inc.

## Interim Statements of Cash Flows (unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009 \$	2008 \$	2009 \$	2008 \$
<b>Cash flows from operating activities</b>				
Net earnings (loss) for the period	93,115	916,651	(98,673)	1,833,092
Items not affecting cash				
Depreciation and amortization	415,304	338,238	1,295,982	905,338
Future income taxes	34,461	404,555	(68,896)	739,911
Stock-based compensation costs	-	11,227	152,000	176,425
Interest capitalized on long-term debt	5,836	60,719	17,508	72,269
Unrealized loss (gain) on foreign currency forward contracts (note 14)	16,853	35,760	(668,302)	39,480
	565,569	1,767,150	629,619	3,766,515
Net change in non-cash working capital items (note 13)	494,077	(1,266,249)	669,329	(3,239,138)
	1,059,646	500,901	1,298,948	527,377
<b>Cash flows from financing activities</b>				
Variation in bank loan	116,128	821,318	988,609	981,851
Long-term debt contracted	104,132	4,370,717	1,630,622	6,049,884
Deferred financing expenses	(72,862)	(15,964)	(134,875)	(53,076)
Long-term debt redemption	(676,057)	(283,762)	(1,349,075)	(809,158)
Issue expenses	-	(6,732)	-	(6,732)
	(528,659)	3,242,941	1,135,281	6,162,769
<b>Cash flows from investing activities</b>				
Additions to property, plant and equipment	(368,934)	(3,659,962)	(1,776,450)	(6,500,034)
Increase in intangible assets	(162,053)	(83,880)	(657,779)	(302,612)
Government assistance	-	-	-	112,500
	(530,987)	(3,743,842)	(2,434,229)	(6,690,146)
<b>Net change in cash</b>	-	-	-	-
<b>Cash – Beginning of period</b>	-	-	-	-
<b>Cash – End of period</b>	-	-	-	-

### Additional information (note 13)

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

# Novik Inc.

## Notes to Interim Financial Statements (unaudited)

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### 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 siding and roofing 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 Interim financial information

These interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles and use the same accounting policies and methods used in the preparation of the most recent annual financial statements of the company, except for the new accounting standards as disclosed in note 3. All disclosures required for annual financial statements have not been included in these financial statements. These unaudited interim financial statements should therefore be read in conjunction with the Company's most recent audited annual financial statements.

The financial information as at September 30, 2009 and for nine-month periods ended September 30, 2009 and 2008 is unaudited. However, in the opinion of management, all adjustments necessary to present fairly the results of these periods have been included. The adjustments made were of a normal recurring nature. Interim results may not necessarily be indicative of results anticipated for the year. As well, the company's overall business cycle determines the evolution of its working capital.

### 3 Changes in accounting policies

#### Adopted accounting policies

On January 1, 2009, the company adopted Section 3064, "Goodwill and Intangible Assets", of the Canadian Institute of Chartered Accountants (CICA) Handbook. 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".

The adoption of this section had no impact on the company's financial position or results of operations.

#### Future accounting changes

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.

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

# Novik Inc.

## Notes to Interim Financial Statements (unaudited)

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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:

- 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".
- Section 1601, "Consolidated Financial Statements", which replaces the former Section 1600 with the same title, establishes standards for the preparation of consolidated financial statements.
- 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.

### 4 Accounts receivable

	<b>As at September 30, 2009 \$</b>	<b>As at December 31, 2008 \$</b>
Trade	2,623,372	2,552,678
Government assistance receivable	62,500	62,500
Commodity taxes receivable	37,641	70,380
Deposits and others	101,774	80,252
Fair value of forward contracts (note 14)	668,302	-
	<b>3,493,589</b>	<b>2,765,810</b>

### 5 Inventories

	<b>As at September 30, 2009 \$</b>	<b>As at December 31, 2008 \$</b>
Raw materials	1,395,147	1,298,555
Finished goods	2,707,639	2,854,257
	<b>4,102,786</b>	<b>4,152,812</b>

# Novik Inc.

## Notes to Interim Financial Statements (unaudited)

### 6 Property, plant and equipment

	As at September 30, 2009		As at December 31, 2008	
	Cost \$	Accumulated depreciation \$	Cost \$	Accumulated depreciation \$
Land	476,348	-	476,348	-
Plant	5,291,324	586,632	5,123,308	441,910
Equipment	8,639,339	2,209,245	8,279,097	1,695,667
Molds	6,806,361	1,822,406	5,055,046	1,563,968
Office furniture	72,759	47,255	65,923	43,961
Computer equipment	241,779	142,502	215,303	112,477
Deposits on property, plant and equipment	-	-	511,615	-
	21,527,910	4,808,040	19,726,640	3,857,983
Less:				
Accumulated depreciation	4,808,040		3,857,983	
Net amount	16,719,870		15,868,657	

### 7 Intangible assets

	As at September 30, 2009		As at December 31, 2008	
	Cost \$	Accumulated depreciation \$	Cost \$	Accumulated depreciation \$
Development expenses	1,911,037	704,714	1,531,267	480,688
Software	1,116,165	717,298	1,007,684	608,517
Certification expenses	152,913	-	-	-
Web site	37,720	22,167	37,720	17,419
Trademark	36,063	13,869	32,806	7,149
Brevets	13,358	1,649	-	-
	3,267,256	1,459,697	2,609,477	1,113,773
Less:				
Accumulated amortization	1,459,697		1,113,773	
Net amount	1,807,559		1,495,704	

# Novik Inc.

## Notes to Interim Financial Statements (unaudited)

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### 8 Credit Facilities

The company has an available authorized line of credit of \$4,000,000, bearing interest at prime rate plus 1.50% and renewable annually. Accounts receivable and inventories have been given as security for the line of credit.

### 9 Accounts payable and accrued liabilities

	<b>As at September 30, 2009 \$</b>	<b>As at December 31, 2008 \$</b>
Trade payable	1,445,597	1,039,932
Salaries and employee benefits payable	229,240	316,087
Accrued liabilities	1,028,888	542,059
Fair value of forward contracts	-	94,830
	<hr/> 2,703,725	<hr/> 1,992,908 <hr/>

# Novik Inc.

## Notes to Interim Financial Statements (unaudited)

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### 10 Long-term debt

	As at September 30,	As at December 31,
	2009 \$	2008 \$
Immoveable hypothec, at prime rate plus 1%, payable in monthly principal instalments plus interest, starting in December 2010 and maturing in November 2035	5,150,000	5,150,000
Notes payable for which a moveable hypothec on equipment, molds and all tangible assets has been given as security, at prime rate plus 1.5% to 8.6% and to fixe rate of 4.5%, payable in monthly principal instalment plus interest, maturing between 2011 and 2013	3,840,150	3,846,813
Notes payable for which a moveable hypothec on equipment and molds has been given as security, at prime rate plus 1.0% to 2.9% and to fixe rate of 9.3%, payable in monthly principal instalment plus interest, maturing between 2009 and 2015	1,487,299	2,032,777
Notes payable to Canada Economic Development, non-interest bearing, payable in equal and consecutive monthly or annual instalment, maturing between 2011 and 2017, discounted with an effective rate of 15%	261,247	249,499
Note payable under a Strategic Support for Investment Program, non-interest bearing, payable in equal and consecutive monthly principal instalment, starting in April 2012 and maturing in March 2019	715,855	-
Deferred financing charges	(134,875)	(123,594)
	11,319,676	11,155,495
Less: Current portion	1,893,954	1,636,355
	<u>9,425,722</u>	<u>9,519,140</u>

The company has a long-term debt totaling \$2,463,686 which is payable in US dollars.

The annual principal instalments required over the next five years are as follow: \$514,310 in 2009, \$1,928,940 in 2010, \$2,358,508 in 2011, \$796,661 in 2012 and \$673,967 in 2013.

The company has committed to meeting certain financial ratios in connection with certain of these loans. As at September 30, 2009, all financial ratios have been met.

# Novik Inc.

## Notes to Interim Financial Statements (unaudited)

### 11 Capital stock

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

Issued and fully paid

	As at September 30, 2009 \$	As at December 31, 2008 \$
48,470,858 common shares	9,946,318	9,946,318
	<u>9,946,318</u>	<u>9,946,318</u>

- (b) Stock options

The following table summarizes information about outstanding and exercisable stock options under of the plan since January 1, 2009:

	Number	Carrying value \$	Weighted average exercise price \$
Outstanding – Beginning of period	2,024,000	524,632	0.42
Granted during the period	575,000	152,000	0.32
Cancelled during the period	(15,500)	(4,046)	0.50
Outstanding and exercisable – End of period	<u>2,583,500</u>	<u>672,586</u>	<u>0.39</u>

The following table summarizes information on outstanding and exercisable stock options under the plan as at September 30, 2009:

<u>Options outstanding and exercisable</u>		
<u>Exercise price</u>	<u>Number</u>	<u>Weighted average contractual life (years)</u>
\$0.19	330,000	2.65
\$0.32	575,000	4.66
\$0.40	425,000	3.67
\$0.45	400,000	1.65
\$0.46	120,000	1.50
\$0.50	733,500	1.03
	<u>2,583,500</u>	<u>2.60</u>

# Novik Inc.

## Notes to Interim Financial Statements (unaudited)

### 12 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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009 \$	2008 \$	2009 \$	2008 \$
Basic weighted average number of shares outstanding	48,470,858	45,799,429	48,470,858	45,799,429
Dilutive stock options	86,767	204,902	113,793	143,704
Diluted weighted average number of shares outstanding	48,557,625	46,004,331	48,584,651	45,943,133

For the three month periods ended September 30, 2009 and 2008, the following securities were not included in the calculation of dilutive shares as the effect is anti-dilutive: 2,269,000 stock options (1,275,000 in 2008) and nil warrants (3,385,715 in 2008).

For the nine month periods ended September 30, 2009 and 2008, the following securities were not included in the calculation of dilutive shares as the effect is anti-dilutive: 2,269,000 stock options (1,700,000 in 2008) and nil warrants (3,385,715 in 2008).

### 13 Additional disclosures on the statements of cash flows

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009 \$	2008 \$	2009 \$	2008 \$
Accounts receivable	71,490	(803,010)	(59,477)	(2,776,046)
Inventories	625,159	(465,189)	50,026	(1,221,208)
Refundable tax credits	130,070	(45,702)	130,070	(160,543)
Prepaid expenses	(54,447)	(21,243)	(137,287)	(35,352)
Accounts payable and accrued liabilities	(278,195)	68,895	685,997	1,954,011
	494,077	(1,266,249)	669,329	(3,239,138)

# Novik Inc.

## Notes to Interim Financial Statements (unaudited)

b) Items not affecting cash related to:

Operating and investing activities

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009 \$	2008 \$	2009 \$	2008 \$
Acquisition of property, plant and equipment included in accounts payable and accrued liabilities	24,820	239,052	24,820	239,052

c) Additional information

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009 \$	2008 \$	2009 \$	2008 \$
Interest paid	162,532	40,641	472,126	247,301

## 14 Financial instruments

The fair value of foreign currency forward contracts at the end of the year is as follows as at September 30, 2009:

Purchasing currency	Selling currency	Par value in selling currency \$	Maturity	Fair value as at March 31, 2009 (a) \$	Average rate \$
CAN\$	US\$	3,592,500	2009 - 2010	668,302	1.25

(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.

# Novik Inc.

## Notes to Interim Financial Statements (unaudited)

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### 15 Segment information

The company is organized under one single operating segment, as described in note 1.

Revenues by geographic region are detailed as follows:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Canada	2,155,237	1,793,114	4,389,380	3,820,509
United States	1,599,064	2,175,156	4,938,142	4,860,844
North America	3,754,301	3,968,270	9,327,522	8,681,353
Central America	478,671	261,817	719,905	641,317
Europe and Asia-Pacific	638,653	3,008,835	1,640,967	8,069,906
	<b>4,871,625</b>	<b>7,238,622</b>	<b>11,688,394</b>	<b>17,392,576</b>

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:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Customer 1	28.43	23.76	28.77	19.64
Customer 2	3.45	9.86	6.85	22.70
Customer 3	-	28.58	5.44	22.40

## **Novik Inc.**

### Notes to Interim Financial Statements (unaudited)

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#### **16 Commitments**

As at September 30, 2009, the company's minimum aggregate commitments under long-term equipment and vehicle lease agreements amount to \$32,601. Minimum lease payments required over the next three years amount to \$9,291 in 2009, \$19,844 in 2010 and \$3,466 in 2011.

#### **17 Comparative figures**

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