

**NOVIK INC.**

Interim Consolidated Financial Statements (unaudited)  
**June 30, 2010**

**Notice from management:**

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

# Novik Inc.

## Interim Consolidated Balance Sheet (unaudited)

	As at June 30 (unaudited)	As at December 31
	2010	2009
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Accounts receivable (note 4, 8 and 10)	3,986,198	2,369,825
Inventories (note 5, 8 and 10)	4,395,453	4,011,785
Refundable tax credits	-	174,168
Prepaid expenses	307,832	337,870
	<u>8,689,483</u>	<u>6,893,648</u>
<b>Receivable governmental assistance</b>	122,576	122,576
<b>Tax credits recoverable</b>	408,379	408,379
<b>Property, plant and equipment</b> (notes 6 and 10)	15,850,341	16,087,229
<b>Intangible assets</b> (note 7)	1,512,212	1,590,356
<b>Future income taxes assets</b>	348,976	212,140
	<u>26,931,967</u>	<u>25,314,328</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Bank loan (note 8)	2,409,088	1,794,591
Accounts payable and accrued liabilities (note 9)	3,824,156	2,251,771
Current portion of long-term debt (note 10)	2,060,729	1,390,315
	<u>8,293,973</u>	<u>5,436,677</u>
<b>Long-term debt</b> (note 10)	7,964,389	9,059,624
	<u>16,258,362</u>	<u>14,496,301</u>
<b>Shareholders' Equity</b>		
<b>Capital stock</b> (note 11)	9,946,318	9,946,318
<b>Stock options</b> (note 11)	786,498	672,586
<b>Contributed surplus</b>	964,755	962,667
<b>Deficit</b>	(1,023,966)	(763,544)
	<u>10,673,605</u>	<u>10,818,027</u>
	<u>26,931,967</u>	<u>25,314,328</u>
<b>Commitments</b>		

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

Approved by the Board of Directors,

(signed) MICHEL GAUDREAU, Director

(signed) LOUIS-ANDRÉ GAUDREAU, Director

# Novik Inc.

## Interim Consolidated Statements of Deficit (unaudited)

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	Six Months Ended June 30,	
	2010 \$	2009 \$
<b>Balance – Beginning of period</b>	(763,544)	12,309
Net loss for the period	(260,422)	(627,424)
<b>Balance – End of period</b>	<u>(1,023,966)</u>	<u>(615,115)</u>

## Interim Consolidated Statements of Contributed Surplus (unaudited)

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	Six Months Ended June 30,	
	2010 \$	2009 \$
<b>Balance – Beginning of period</b>	962,667	958,621
Cancelled Stock Options (note 11b)	2,088	-
<b>Balance – End of period</b>	<u>964,755</u>	<u>958,621</u>

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

# Novik Inc.

## Interim Consolidated Statements of Loss and Comprehensive Loss (unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
	\$	\$	\$	\$
<b>Revenues</b>				
Gross revenues	7,916,004	4,202,433	12,014,167	6,872,553
Introduction and payment discounts	(224,585)	(30,510)	(469,057)	(55,784)
	7,691,419	4,171,923	11,545,110	6,816,769
<b>Cost of sales</b>				
Direct costs	4,564,572	2,312,227	6,876,191	3,674,084
Gain on disposal of property, plant and equipment	(105,423)	-	(105,423)	-
Depreciation and amortization of property, plant and equipment and intangible assets	321,518	324,324	644,305	642,662
	4,780,667	2,636,551	7,415,073	4,316,746
<b>Gross margin</b>	2,910,752	1,535,372	4,130,037	2,500,023
<b>Operating expenses</b>				
Selling expenses	1,744,293	1,467,478	2,858,133	2,327,727
Administrative expenses*	560,461	504,336	924,429	902,308
Research and development costs	42,577	31,357	58,468	44,256
Depreciation of property, plant and equipment	7,575	8,986	14,826	17,275
Amortization of intangible assets	15,429	21,541	28,776	43,151
Amortization of development expenses	93,091	75,795	186,183	148,231
	2,463,246	2,109,493	4,070,815	3,482,948
<b>Earning (loss) from operations</b>	447,506	(574,121)	59,222	(982,925)
<b>Financial expenses</b>				
Interest and bank charges	46,276	28,887	71,577	60,218
Interest on long-term debt	186,454	171,730	348,085	338,953
Exchange loss (gain)	153,063	(1,401,218)	36,818	(1,086,951)
	385,793	(1,201,601)	456,480	(687,780)
<b>Earnings (loss) before income taxes</b>	61,713	627,480	(397,258)	(295,145)
<b>Income tax expenses (recovery)</b>	10,229	191,844	(136,836)	(103,357)
<b>Net earnings (loss) and comprehensive income (loss) for the period</b>	51,484	435,636	(260,422)	(191,788)
<b>Basic and diluted net earnings (loss) per share</b> (note 12)	0,001	0,009	(0.005)	(0,004)
<b>Basic and diluted weighted average number of shares outstanding</b> (note 12)				
Basic	48,470,858	48,470,858	48,470,858	48,470,858
Diluted	48,477,609	48,576,165	48,488,109	48,584,651
<b>Stock – based compensation costs included in administrative expenses</b> (note 11b)	116,000	152,000	116,000	152,000

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

# Novik Inc.

## Interim Consolidated Statement of Cash Flows (unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
	\$	\$	\$	\$
<b>Cash flows from operating activities</b>				
Net earnings (loss) for the period	51,484	435,636	(260,422)	(191,788)
Items not affecting cash				
Depreciation and amortization	437,434	449,267	874,091	880,678
Future income taxes	10,229	191,844	(136,836)	(103,357)
Stock-based compensation costs	116,000	152,000	116,000	152,000
Interest capitalized on long-term debt	26,570	5,836	37,595	11,672
Gain on disposal of property, plant and equipment	(105,423)	-	(105,423)	-
Unrealized exchange loss (gain) on forward exchange contracts	127,020	(714,520)	14,327	(685,155)
	663,314	520,063	539,332	64,050
Net change in non-cash working capital items (note 13)	(698,129)	314,207	(307,308)	175,252
	(34,815)	834,270	232,024	239,302
<b>Cash flows from financing activities</b>				
Increase (decrease) in bank loan	141,153	(186,780)	614,497	872,481
Long-term debt contracted	4,385	785,372	122,742	1,526,490
Increase (decrease) in deferred financing expenses	19,470	(35,316)	(7,956)	(62,013)
Repayment of long-term debt	(150,919)	(394,965)	(577,202)	(673,018)
	14,089	168,311	152,081	1,663,940
<b>Cash flows from investing activities</b>				
Additions to property, plant and equipment	(279,055)	(682,064)	(570,999)	(1,407,516)
Proceeds from disposal of property, plant and equipment	349,538	-	349,538	-
Additions to intangible assets	(49,757)	(320,517)	(162,644)	(495,726)
	20,726	(1,002,581)	(384,105)	(1,903,242)
<b>Net change in cash</b>	-	-	-	-
<b>Cash – Beginning of period</b>	-	-	-	-
<b>Cash – End of period</b>	-	-	-	-
<b>Additional information</b> (note 13)				

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

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## Notes to Interim Consolidated 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 Summary of significant accounting policies

These interim consolidated 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 consolidated financial statements of the company, except for the new accounting standards as disclosed in note 3. All disclosures required for annual consolidated financial statements have not been included in these financial statements. These unaudited interim consolidated financial statements should therefore be read in conjunction with the Company's most recent audited annual consolidated financial statements.

The financial information as at June 30, 2010 and for three-month and six-month periods ended June 30, 2010 and 2009 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

#### 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

# Novik Inc.

## Notes to Interim Consolidated Financial Statements (unaudited)

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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.

### 4 Accounts receivable

	<b>As at June 30</b>	<b>As at December 31</b>
	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
Trade	3,453,860	1,553,685
Government assistance receivable	62,500	62,500
Commodity taxes receivable	95,326	29,906
Deposits and others	45,980	148,630
Fair value of forward exchange contracts (note 14)	328,532	575,104
	<u>3,986,198</u>	<u>2,369,825</u>

### 5 Inventories

	<b>As at June 30</b>	<b>As at December 31</b>
	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
Raw materials	1,470,397	1,044,514
Finished goods	2,925,056	2,967,271
	<u>4,395,453</u>	<u>4,011,785</u>

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## Notes to Interim Consolidated Financial Statements (unaudited)

### 6 Property, plant and equipment

	As at June 30, 2010		As at December 31, 2009	
	Cost \$	Accumulated depreciation \$	Cost \$	Accumulated depreciation \$
Land	476,348	-	476,348	-
Plant	5,297,182	728,294	5,291,324	635,126
Equipment	8,124,097	2,375,950	8,254,810	2,351,538
Molds	7,113,150	2,169,209	6,873,863	1,936,436
Office furniture	72,879	50,794	72,759	48,353
Computer equipment	257,417	166,485	241,779	152,201
	21,341,073	5,490,732	21,210,883	5,123,654
Less:				
Accumulated depreciation	5,490,732		5,123,654	
Net amount	15,850,341		16,087,229	

### 7 Intangible assets

	As at June 30, 2010		As at December 31, 2009	
	Cost \$	Accumulated depreciation \$	Cost \$	Accumulated depreciation \$
Deferred development expenses	2,126,753	998,854	1,989,563	812,671
Software	1,117,298	807,115	1,117,298	755,457
Web site	37,720	25,641	37,720	23,689
Trademarks	39,023	9,854	37,681	8,859
Patents	32,882	-	8,770	-
	3,353,676	1,841,464	3,191,032	1,600,676
Less:				
Accumulated amortization	1,841,464		1,600,676	
Net amount	1,512,212		1,590,356	

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## Notes to Interim Consolidated Financial Statements (unaudited)

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### 8 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 1.5 % and the US prime rate plus 1.5 %. The line of credit is renewable annually. Accounts receivable and inventories have been given as security for the line of credit.

As at June 30th, 2010, the company has outstanding letter of credit of \$USD 300,000.

### 9 Accounts payable and accrued liabilities

	<u>As at June 30</u>	<u>As at December 31</u>
	<b>2010</b>	<b>2009</b>
	\$	\$
Trade payable	2,623,146	1,168,528
Salaries and employee benefits payable	313,315	288,117
Accrued liabilities	887,695	795,126
	<u>3,824,156</u>	<u>2,251,771</u>

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## Notes to Interim Consolidated Financial Statements (unaudited)

### 10 Long-term debt

	As at March 31	As at December 31
	2010 \$	2009 \$
Immoveable hypothec without delivery, bearing interest at prime rate plus 1%, payable in monthly principal instalment 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 June 30, 2010 from prime rate plus 0.65%, libor rate plus 8.55% and fixe rate of 4.37% to 4.5%, maturing between 2011 and 2014	3,095,458	3,503,538
Notes payable secured by a moveable hypothec on equipment and molds, bearing interest varying at June 30, 2010, from prime rate plus 0.5% to 1.9%, bank acceptance rate plus 2.7% to 2.9% and fix rate of 6.35%, maturing between 2010 and 2015	1,134,452	1,294,915
Notes payable to Canada Economic Development, non-interest bearing, payable in equal and consecutive annual instalment totalling \$76,440, maturing between 2011 and 2013, discounted with an effective rate of 15%	184,610	174,812
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%	210,529	90,178
Note payable under a Strategic Support of 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%	384,242	362,713
Deferred financing costs	(134,173)	(126,217)
	10,025,118	10,449,939
Less: Current portion	2,060,729	1,390,915
	<u>7,964,389</u>	<u>9,059,624</u>

# Novik Inc.

## Notes to Interim Consolidated Financial Statements (unaudited)

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As at June 30, 2010, the effective weighted average rate was 6,41 % (6,40 % as at December 31, 2009).

The company has a long-term debt totaling 1 877 814 \$ which is payable in US dollars.

The annual principal instalments required over the next five years are as follow: 839,060 \$ in 2010, 2,443,338 \$ in 2011, 889,797 \$ in 2012, 776,163 \$ in 2013 and 497,571 \$ in 2014.

### 11 Capital stock

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

Issued and fully paid:

	<u>As at June 30</u>	<u>As at December 31</u>
	<b>2010</b>	<b>2009</b>
	\$	\$
48,470,858 common shares	9,946,318	9,946,318
	<u>9,946,318</u>	<u>9,946,318</u>

# Novik Inc.

## Notes to Interim Consolidated Financial Statements (unaudited)

### b) Stock options

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 consolidated statement of earnings as the new stock options are exercisable immediately.

Under the existing plan, on May 27, 2010, the company granted 705,000 stock options to its directors and certain officers at an exercise price of \$0.20, which will mature on May 27, 2015. A compensation expense of \$116,000 has been accounted for in the consolidated statement of earnings as the new stock options are exercisable immediately.

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

	2010			2009		
	Number	Carrying value \$	Weighted average exercise price \$	Number	Carrying Value \$	Weighted Average Exercise Price \$
Outstanding and exercisable -						
Beginning and End of period	2,583,500	672,586	0.39	2,024,000	524,632	0.42
Granted during the period	705,000	116,000	0.20	575,000	152,000	0.32
Cancelled during the period	(8,000)	(2,088)	0.50	-	-	-
Outstanding and exercisable –						
End of period	3,280,500	786,498	0.35	2,599,000	676,632	0.39

The following table summarizes information on outstanding and exercisable stock options under the plan as at June 30, 2010:

Options outstanding and exercisable		
Exercise price	Number	Weighted average contractual life (years)
\$0.19	330,000	1.90
\$0.20	705,000	4.91
\$0.32	575,000	3.91
\$0.40	425,000	2.92
\$0.45	400,000	0.90
\$0.46	120,000	0.75
\$0.50	725,500	0.28
	3,280,500	2.51

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

	Granted under the plan on May 27, 2010	Granted under the plan on May 28, 2009
Risk free interest rate	0.41%	0.44%
Expected volatility	120%	120%
Dividend yield	Nil	Nil
Expected life	60 months	60 months
Free value on the date of grant	\$0.16	\$0.26

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## Notes to Interim Consolidated Financial Statements (unaudited)

### 12 Earnings per share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Basic weighted average number of shares outstanding	48,470,858	48,470,858	48,470,858	48,470,858
Dilutive stock options	6,751	105,307	17,251	113,793
Basic weighted average number of shares outstanding	<u>48,477,609</u>	<u>48,576,165</u>	<u>48,488,109</u>	<u>48,584,651</u>

A number of stock options corresponding to 2,878,500 shares (2,269,000 in June 2009) for the three-month and six-months periods ended June 30, 2010 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.

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

a) Net change in non-cash working capital items

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010 \$	2009 \$	2010 \$	2009 \$
Accounts receivable	(1,367,614)	30,937	(1,630,700)	(130,967)
Inventories	106,490	(182,162)	(383,668)	(575,133)
Refundable tax credits	-	-	174,168	-
Prepaid expenses	(956)	(14,354)	30,038	(82,840)
Accounts payable and accrued liabilities	563,951	479,786	1,502,854	964,192
	<u>(698,129)</u>	<u>314,207</u>	<u>(307,308)</u>	<u>175,252</u>

b) Operating and investing activities

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010 \$	2009 \$	2010 \$	2009 \$
Acquisition of property, plant and equipment included in accounts payable and accrued liabilities	<u>69,531</u>	<u>181,761</u>	<u>69,531</u>	<u>181,761</u>

# Novik Inc.

## Notes to Interim Consolidated Financial Statements (unaudited)

c) Additional information

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Interest paid	163,483	153,109	309,762	309,594

### 14 Financial instruments

The fair value of foreign currency forward contracts as at June 30, 2010 is as follows:

<b>Purchasing currency</b>	<b>Selling currency</b>	<b>Par value in selling currency</b>	<b>Maturity</b>	<b>Fair value (a) \$</b>	<b>Average rate</b>
CAN\$	US\$	4,661,000	2010-2011	328,532	1.1232

- (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.

### 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 June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Canada	2,437,829	1,531,582	3,492,587	2,119,539
United States	4,434,000	2,252,314	7,124,213	3,097,844
Mexico	-	241,236	-	241,236
North America	6,871,829	4,025,132	10,616,800	5,458,619
Europe and Asia-Pacific	819,587	146,791	928,310	1,358,150
	<b>7,691,416</b>	<b>4,171,923</b>	<b>11,545,110</b>	<b>6,816,769</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.

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## Notes to Interim Consolidated Financial Statements (unaudited)

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### Major customers

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010 %	2009 %	2010 %	2009 %
Customer 1	18.17	2.70	26.28	3.33
Customer 2	21.58	36.00	20.28	29.02

### 16 Commitments

As at June 30, 2010, the company's minimum aggregate commitments under long-term equipment and vehicle lease agreements amount to 118,577 \$. Minimum lease payments required over the next five years amount to 24,187 \$ in 2010, 37,309 \$ in 2011, 34,511 \$ in 2012, 21,639 \$ en 2013 and 911 \$ in 2014.