

## HIGHLIGHTS – SECOND QUARTER 2007

- **Record sales of \$4.5M**
- **Sales growth of more than 20% compared with 2006**
- **Net income of \$311,000 compared with loss of \$185,000 in**
- **Six-month net income of \$98,000 compared with loss of \$419,000**
- **Gross margin improvement from 36% to 41%**

## MANAGEMENT REPORT

The management report was prepared in order to help understand the company's activities, performance, and financial position as of June 30, 2007. This management report compares the operating results and the cash position of the current period ended June 30, 2007, with those of the fiscal year ended December 31, 2006, and the quarter ended June 30, 2006. This analysis of the company's results of operations and financial position should therefore be read in conjunction with the audited and interim financial statements and related notes. The interim financial statements are expressed in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles.

The following information takes into account any significant event that occurred up until August 20, 2007, the date of the Board's approval of this management report on the recommendation of the audit committee.

## OPERATING RESULTS

NOVIK INC. for the periods ended June 30, 2007 and 2006 <i>(in thousands of dollars, except data per share)</i>	Period of three months	Period of three months	Period of six months	Period of six months
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>Operating</b>				
Revenue	4,470	3,704	6,826	6,309
Gross earnings	1,825	1,316	2,644	2,208
Earnings before interest, stock-based compensation, taxes, depreciation and amortization	932	391	1,066	477
Net income (loss)	311	(185)	98	(419)
Basic and diluted net income (loss) per share	0.007	(0.005)	0.002	(0.011)

## **Revenue**

During the course of the second quarter of fiscal year 2007, Novik recorded revenues of \$4.5M compared with \$3.7M during the same quarter of the previous fiscal year. This 21% increase can be attributed to the following factors.

First, Novik carried out a higher number of shipments totaling nearly \$300,000 to its biggest customer during the second quarter of 2007 compared with 2006. As explained in the first quarter management report, Novik sold less to its biggest customer during the previous quarter compared with the same period last year. This decrease can be attributed to a price increase announced on April 1, 2006. Since this beginning of the fiscal year, sales with this client have been greater than last year.

In addition, the Canadian construction market brought sales growth of more than 25% during the second quarter of the current fiscal year in relation to the same period of the previous year. This growth is explained by the success of our new roof coverings in this market and better representation with contractors. This improved visibility stems from our Novexpert network, our Smart program offered to contractors, and our salespeople covering every corner of Canada. On the American market, our sales team is carrying on with our marketing plan, which involves targeting potential customers offering the best short-term potential.

Lastly, the international market is continuing its momentum with growth of more than 25% in relation to the second quarter of the previous fiscal year. This market represents enormous potential for Novik, and recent marketing trips to Spain and France could contribute to continuing our rate of growth in this market. In addition, significant firm orders on the Russian market have been received, which should be realized in the next quarter, confirming supported annual growth in relation to the previous year.

Novik's cumulative sales, i.e. for the six-month period, amounted to \$6.8M compared with \$6.3M for the same period of the previous year. This 8% growth is explained by the aforementioned items.

## **Gross earnings**

The company's gross earnings for the second quarter of the current fiscal year amounted to \$1.8M, or a gross margin of 41% compared with 36% for the same period of the previous fiscal year. This improvement in the percentage of gross earnings in relation to sales is directly linked to the success of our cost-reduction program, which began during the second half of the previous fiscal year. As indicated in our most recent annual report for 2006, Novik has implemented a number of initiatives, which resulted in the reduction costs related to raw material, labor, and operations. These measures have not only allowed Novik to achieve a greater margin but have also made our operational structure more efficient and more flexible. It is also worth pointing out that this 5% improvement in the margin occurred despite the appreciation of the Canadian dollar in relation to the American dollar of around 2% for the second quarter compared with the same period of the previous year.

For the six-month period ending June 30, 2007, gross earnings amounted to \$2.6M, 39% on revenues, compared with 35% for the same period of the previous fiscal year. Sustained growth in sales in the coming months should lead the way to further improvement in the profit margin.

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

NOVIK INC. for the periods ended June 30, 2007 and 2006 (in thousands of dollars)	Period of	Period of	Period of	Period of
	three months	three months	six months	six months
	2007	2006	2007	2006
	\$	\$	\$	\$
Adjusted EBITDA	932	391	1,066	477
Stock-based compensation costs	(59)	(156)	(77)	(186)
Depreciation and amortization	(271)	(231)	(534)	(454)
Financial expenses	(195)	(194)	(325)	(326)
Income (loss) before income taxes	407	(190)	128	(489)

For the second quarter of fiscal year 2007, the adjusted EBITDA is greater than the second quarter of 2006 by more than \$0.5M, with sales growth of around \$0.8M. This noticeable improvement can be directly attributed to the overhaul of Novik’s operating costs as well as the sales growth observed during the quarter. This overhaul of costs has led Novik to take actions to eliminate positions and remove expenditures deemed irrelevant to the future of the company. These actions have contributed to improving Novik’s future financial position and posting a greater level of profitability than in the previous years.

For the six-month period ended June 30, 2007, the adjusted EBITDA amounted to \$1.1M compared with \$0.5M for the same period of previous fiscal year. The higher gross margin seen since the beginning of the fiscal year explains this new improvement in large part.

**Selling expenses**

Selling expenses observed during the second quarter of 2007 are at the same level as those of the same quarter of the previous fiscal year, i.e. \$0.7M. These expenses remained stable despite the 21% growth observed during the current fiscal year. Better management in the shipment of samples distributed to our current and potential customers and a lower level of warranty claims than last year explain this stability. These lower expenses were offset by greater transport fees on sales, given the increase in sales during the quarter.

Cumulative selling expenses decreased \$0.1M compared with the six-month period ended in the previous fiscal year. This decrease was caused by our overhaul of our operational cost structure, considering that our 8% sales growth observed during the current period should have contributed to increased selling expenses, due mainly to higher transport costs.

## **Administrative expenses**

Administrative expenses for the second quarter of 2007 decreased by nearly \$150,000 in relation to the second quarter of the previous fiscal year. This decrease is mainly due to lower stock-based compensation costs. The allocation of stock options in May 2007 lowered expenses by nearly \$100,000 compared with last year due to lower volume of stock options granted and a lower stock option fair value per unit. In addition, our cost-reduction program included a decrease in administrative personnel, resulting in a decrease in administrative costs.

Administrative expenses were more than \$600,000 for the six-month period ended June 30, 2007, compared with more than \$800,000 for the same period of the previous fiscal year. These lower expenses are explained by the aforementioned items.

## **Financial expenses**

Financial expenses for the second quarter of 2007 remained stable compared with the second quarter of 2006. A lower average credit line threshold during the current quarter in relation to the same quarter of the previous year allowed financial interest to decrease by nearly \$40,000. However, the appreciation of the Canadian dollar in relation to the American dollar led Novik to record exchange losses of the same amount, despite the presence of foreign currency forward contracts. The cumulative financial fees for the six-month period also remained stable.

## **Net earnings**

The company's net earnings for the second quarter of fiscal year 2007 amounted to more than \$300,000 compared with a net loss of \$190,000 for the same quarter of the previous fiscal year. This improvement of nearly \$500,000 is encouraging for Novik's future. The recent actions taken to make Novik profitable as quickly as possible are confirmed by these financial results.

For the six-month period ended June 30, 2007, net earnings were \$100,000, compared with a net loss of more than \$400,000 for the same period of the previous fiscal year. These results are positive and are encouraging management to bring Novik profitable in the near future. This expected profitability would be an important improvement considering the net loss of nearly \$1,000,000 observed during the previous fiscal year.

## SUMMARY OF RESULTS FROM RECENT QUARTERS

(in thousands of dollars except amounts per share)	Q 2 June 2007	Q 1 March 2007	Q 4 Dec. 2006	Q 3 Sept. 2006	Q 2 June 2006	Q 1 March 2006	Q 4 Dec. 2005	Q 3 Sept. 2005
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	4,470	2,356	1,809	4,052	3,704	2,605	2,320	3,159
Net earnings (Net loss)	311	(213)	(644)	106	(185)	(234)	(762)	(37)
Basic and diluted net earnings (net loss) per share	0.007	(0.005)	(0.015)	0.003	(0.005)	(0.006)	(0.030)	0.000

Considering the seasonality of the residential and commercial construction and home improvement industry, Novik's second and third quarters are often characterized by a higher demand, whereas the first and fourth quarters show a slight slowdown.

## LIQUIDITY, FINANCIAL POSITION, AND COMMITMENTS

### Liquidity

#### *Operating activities*

The net earnings showing for the current quarter of the fiscal year in large part explain the positive cash flows from operations of \$0.7M, compared with a threshold of \$0.2M. For the six-month period ended June 30, 2007, these cash flows are at a threshold comparable to the current quarter, considering the seasonal cycle of Novik's sales.

#### *Financing activities*

For the second quarter of the current fiscal year, financing activities used more than \$350,000 of the cash to repay the current long-term debt. No new long-term debt was contracted during the second quarter. Cumulatively, the cash flows associated with the financing activities decreased by nearly \$1.5M, given the reduced use of the bank loan. Novik's positive breakeven point and good management of accounts receivable and accounts payable have lead to a better use of the bank loan.

#### *Investing activities*

Investing activities used a lower amount of funds of \$120,000 during the second quarter of the current fiscal year compared with the same period of the previous fiscal year. This decrease is explained by increased acquisition of equipment and moulds during the previous fiscal year. This situation also explains the lower amount of funds used during the current year to date in relation to the previous year.

## Financial position

<b>NOVIK INC.</b>	<b>June 30</b>	December 31
<i>(in thousands of dollars, except data per share)</i>	<b>2007</b>	2006
<b>Financial position</b>	<b>\$</b>	<b>\$</b>
Total assets	<b>17,368</b>	16,442
Working capital	<b>2,240</b>	2,203
Total debt, net of cash, excluding accounts payable and accrued expenses	<b>6,510</b>	6,055
Total liabilities	<b>8,545</b>	7,793
Shareholders' equity	<b>8,823</b>	8,649
Shareholders' equity per share	<b>0.193</b>	0.189
Number of outstanding shares	<b>45,799,429</b>	45,799,429

Novik's working capital as of June 30, 2007, is noticeably comparable to the figure as of December 31, 2006.

### *Total assets*

Total assets showed a rise for the period ended June 30, 2007, compared with December 31, 2006. This rise is partially attributable to the increased accounts receivable due to higher sales observed in the second quarter of the current fiscal year in relation to the last quarter of the previous fiscal year, as well as the acquisition of property, plant, and equipment greater than the recorded depreciation.

### *Financial liabilities*

Total liabilities increased at June 30, 2007, compared with December 31, 2006, due to a previously explained increase in long-term debt and the increased accounts payable and accrued expenses brought about by the higher level of business volume observed during the last quarter of the previous fiscal year.

### *Financial ratios*

Novik is required by its financial institutions to meet specific financial ratios. As of June 30, 2007, all of the financial ratios were met. As of December 31, 2006, a liquidity coverage ratio was not met. However, the company obtained a waiver from the financial institution in that regard.

## Capital stock

### Shares

As of the date of this management report, no change has occurred regarding the number of Class A shares since the end of fiscal year 2006.

<b>DATA ON THE SHARES</b>	
<b>Issued and outstanding as of June 30, 2007</b>	<b>Issued</b>
Class A shares	<b>45,799,429</b>
<b>Outstanding stock options as of June 30, 2007</b>	
Options issued under the stock option plan	<b>1,986,000</b>
<b>CLASS A SHARES</b>	
	<b>Six-month period ended June 30, 2007</b>
	<b>\$</b>
Volume traded	<b>1,730,500</b>
Average price	<b>0.27</b>
Closing price	<b>0.20</b>
Price range	<b>0.20 - 0.41</b>

### Stock options

During the second quarter ended June 30, 2007, the company granted 330,000 stock options to its directors and certain officers of the company at the exercise price of \$0.19. These options generated total stock-based compensation costs of \$43,500 during their period in place and will mature on May 24, 2012. An expense of \$43,500 has been recorded for the second quarter of 2007 for these new stock options, as they are immediately exercisable.

As of the date of this management report, no change has occurred regarding the exercise of stock options under the plan.

### Unit options and warrants

As of the date of this management report, no change has occurred regarding the unit options and warrants since the end of fiscal year 2006.

Note 13 related to the company's audited financial statements at December 31, 2006, also provides other information relating to capital stock.

## **Commitments**

The company offers a limited, transferable warranty on its products which reduces proportionally with the number of years. The typical warranty terms require that the company to replace defective material during the warranty period at its own expense. The company posts a warranty provision when the products are shipped based on the estimated incurred costs of the warranty.

As part of its continual work to improve current moulds, the company has made deposits of nearly \$19,000 as of June 30, 2007.

The company also has contractual obligations on long-term financing agreements, rental/use agreements, and storage spaces. Note 16 pertaining to the interim financial statements provides a status of these commitments.

## **Related party transactions**

During the second quarter of fiscal year 2007, Novik made no related party transactions. The related party expenses recorded during the previous fiscal year are detailed in note 14 of the interim financial statements.

## **SIGNIFICANT ACCOUNTING ESTIMATES**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts of assets and liabilities reported on 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 period. Significant estimates include the allowance for doubtful accounts receivable, provisions for obsolete inventories, refundable tax credits, the useful lives and recoverable amount of property, plant, and equipment and intangible assets, future income taxes, capitalized development costs, warranty provisions, certain accrued liabilities, and the fair value of options granted to employees, officers, and directors. Management believes that these estimations are adequate; however, actual results could differ from those estimates.

The main accounting policies are described in note 3 to the audited financial statements as at December 31, 2006.

## **NEW ACCOUNTING POLICIES**

During the first quarter 2007, the company adopted three new accounting standards issued by the Canadian Institute of Chartered Accounts (CICA): Section 1530, Comprehensive Income; section 3855, Financial Instruments – Recognition and Measurement; and section 3865, Hedges. These sections establish standards for recognizing and measuring financial instruments, namely financial assets, financial liabilities and derivatives and require the company to account for those financial instruments at fair market value and to determine their appropriate classes. The adoption of the recommendations has no effect on the company's financial statements.

## **FINANCIAL INSTRUMENTS**

### **Fair value**

The financial instruments that the company included on the balance sheet are cash, accounts receivable, the bank loan, accounts payable and accrued expenses, as well as long-term debt. The fair value of these financial instruments is close to their accounting value because of their short-term maturity or current market rates for long-term debt.

The fair value of government assistance receivable stood at approximately \$112,500 as of June 30, 2007, and the fair value of the long-term debt amounted to approximately \$5,570,000 as of the same date.

### **Interest rate risk**

Cash, accounts receivable, government assistance receivable, as well as accounts payable and accrued expenses do not carry interest. The bank loan and most of the long-term debt have variable interest rates. The interest rates of the bank loan and the long-term debt are described respectively in notes 8 and 10 to the interim financial statements as of June 30, 2007.

### **Credit risk**

In the normal course of its operations, the company evaluates the financial position of its customers on a continual basis and examines the credit histories of every new customer. No account currently presents a significant risk to the company. As such, a provision for doubtful accounts receivable is established by considering the specific customer credit risks, historical trends, and the economic climate. As of June 30, 2007, 37% (33% as of December 31, 2006) of the company's accounts receivable is due from a group of two customers (two as of December 31, 2006).

## **Exchange rate risk**

The company makes a portion of its sales in U.S. dollars and is therefore exposed to currency fluctuations. These risks are partially offset by purchases in U.S. dollars and foreign currency forward contracts.

## **Financial derivatives**

The financial derivatives used by the company are foreign currency forward contracts, which are financial instruments whose values are based on fluctuations in currency rates. The use of derivatives allows the transfer, modification, or reduction of current or expected risks, including exchange rate risks and other market risks. The derivatives are used by the company to manage its risks related to the exchange rates. The company has chosen not to apply hedge accounting. Consequently, the foreign currency forward contracts are recorded at their fair value. The asset value or unrealized liability value on foreign currency forward contracts is shown in assets or short-term liabilities on the balance sheet. The gain or unrealized loss is recorded in the results. During the second quarter of fiscal year 2007, an unrealized gain on foreign currency forward contracts of nearly \$44,000 (\$0 in 2006) was included in the results. As of June 30, 2007, the company had open foreign currency forward contracts for US\$600,000 with an average exchange rate of 1.1694. As of December 31, 2006, Novik had committed to a sum of US\$300,000 for foreign currency forward contracts.

## **RISK FACTORS**

The company's risk factors are presented in the management report for the fiscal year ending December 31, 2006.

## **DISCLOSURE CONTROLS AND PROCEDURES**

The President and Chief Financial Officer assessed the disclosure controls and procedures (as defined in Regulation 52-109 respecting Certification of Disclosure in Issuers' Annual and Interim Filings) as at June 30, 2007, and concluded that the controls and procedures gave reasonable assurance that the material information with respect to the company is communicated to management.

## **INTERNAL CONTROLS OVER FINANCIAL REPORTING**

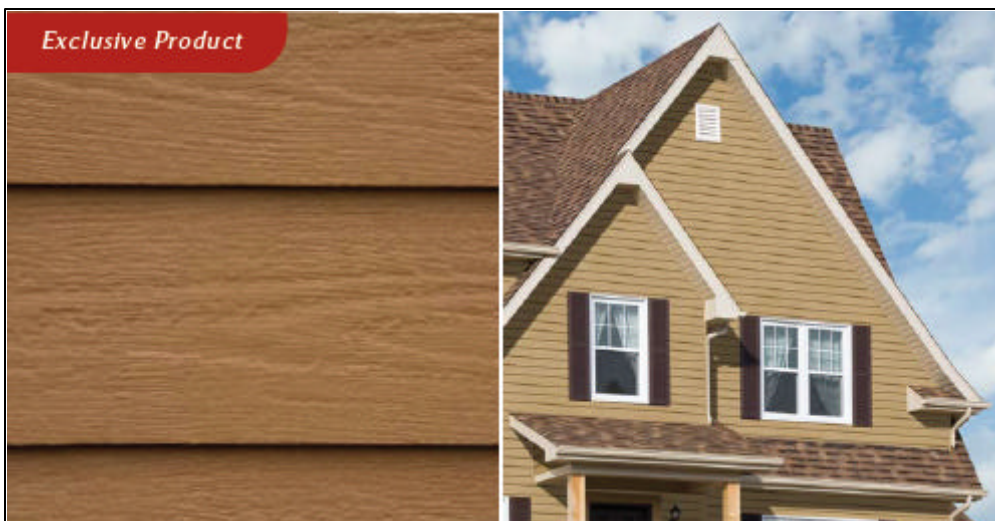
Internal control over financial reporting (“IFCR”) is designed to provide reasonable assurance regarding the reliability of the Company’s financial reporting and its compliance with GAAP in its financial statements. The President and Chief Financial Officer have evaluated whether there were changes to its IFCR during the three months ended June 30, 2007 that have materially affected, or are reasonably likely to materially affect, its IFCR. No such changes were identified through their evaluation.

## **OUTLOOK**

The success of our recent cost-reduction program is confirmed by the second quarter's financial results. Improved profitability of around \$500,000 for the six-month period ending June 30, 2007, compared with the previous year demonstrates that Novik is now more competitive in its operational cost structure. These positive financial results are motivating Novik’s management to continue its vigilance in initiating projects that could contribute to better efficiency of its operational processes.

Sustained sales growth for the coming quarters will also support Novik in achieving its planned financial objectives for fiscal year 2007. The launch of a new exterior covering announced in July 2007 (see below), the firm orders received by our international distributors for the third quarter, Novik’s stronger representation on the North American market, and a marketing strategy targeting customers offering the most short-term potential make it possible for Novik’s management to face the quarters and years to come with confidence.

### **New polymer cedar plank**



## **FORWARD-LOOKING STATEMENTS AND WARNING**

This document may contain forward-looking statements reflecting the management's current expectations with respect to future events. Such forward-looking statements are dependent upon a certain number of factors and are subject to risks and uncertainties. Actual results may differ from those expected. The company's management does not assume any obligation to update except for items requested by legislation or revise these forward-looking statements as a result of new information or future events.

Earnings before interest, stock-based compensation costs, taxes, depreciation, and amortization (adjusted EBITDA) is a measure that has no standardized meaning prescribed by Canadian generally accepted accounting principles. It is therefore considered to be a non-GAAP measure in Canada. Accordingly, the measure may not be comparable to similar measures presented by other issuers. This measure is presented and described in this management report in order to provide shareholders and potential investors with additional information regarding the company's liquidity and ability to generate funds to finance its activities.

## **OTHER INFORMATION**

Additional information about Novik is available on the Company's website at the address [www.novik.com](http://www.novik.com). The documents produced by Novik as part of its obligation of continuous disclosure, in particular its annual and quarterly management reports and its annual and quarterly financial statements, its 2006 annual report, its management proxy circular, as well as the company's various press releases can also be obtained directly through SEDAR at the following Internet address: [www.sedar.com](http://www.sedar.com).

*(s) Michel Gaudreau*

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Michel Gaudreau  
President

*(s) Pascal Bouthot*

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Pascal Bouthot, CA  
Chief Financial Officer

August 20, 2007