

Novik Inc.

Interim Financial Statements (unaudited)
September 30, 2008

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)

	<u>As at September 30</u>	<u>As at December 31</u>
	2008	2007
	\$	\$
	(unaudited)	
Assets		
Current assets		
Accounts receivable (note 4, 9 and 11)	4,988,750	2,325,204
Inventories (note 5, 9 and 11)	3,979,346	2,758,138
Refundable tax credits	245,875	184,364
Prepaid expenses	219,324	183,972
	<u>9,433,295</u>	<u>5,451,678</u>
Tax credits recoverable	377,589	278,557
Future income tax assets	-	296,365
Property, plant and equipment (note 6)	15,071,339	8,975,945
Intangible assets (note 7)	416,013	430,233
Deferred charges (note 8)	872,142	816,956
	<u>26,170,378</u>	<u>16,249,734</u>
Liabilities		
Current liabilities		
Bank loan (note 9)	1,393,309	411,458
Accounts payable and accrued liabilities (note 10)	3,003,256	1,770,713
Current portion of long-term debt (note 11)	951,111	1,083,902
	<u>5,347,676</u>	<u>3,266,073</u>
Long-term debt (note 11)	9,188,183	3,795,473
Future income tax liabilities	440,546	-
	<u>14,979,405</u>	<u>7,061,546</u>
Shareholders' Equity		
Capital stock (note 12)	8,524,681	8,531,413
Stock options and warrants (note 12b and c)	796,551	622,996
Conversion option	1,564	20,781
Contributed surplus	897,322	875,235
Earnings (deficit)	970,855	(862,237)
	<u>11,190,973</u>	<u>9,188,188</u>
	<u>26,170,378</u>	<u>16,249,734</u>

Commitments and Subsequent Events (notes 18 et 19)

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)

	<u>Nine Months Ended September 30,</u>	
	2008	2007
	\$	\$
Deficit – Beginning of period	(862,237)	(1,308,692)
Net earnings for the period	1,833,092	402,279
Earnings (deficit) – End of period	<u>970,855</u>	<u>(906,413)</u>

Interim Statements of Contributed Surplus (unaudited)

	<u>Nine Months Ended September 30,</u>	
	2008	2007
	\$	\$
Balance – Beginning of period	875,235	167,311
Matured conversion option	19,217	20,454
Cancelled stock options (note 12b)	2,870	681,116
Balance – End of period	<u>897,322</u>	<u>868,881</u>

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

Novik Inc.

Interim Statements of Earnings and Comprehensive Income (unaudited)

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2008</u> \$	<u>2007</u> \$	<u>2008</u> \$	<u>2007</u> \$
Revenues	7,238,622	5,056,436	17,392,576	11,882,129
Cost of sales				
Direct costs	3,944,330	2,840,664	9,585,340	6,636,892
Depreciation and amortization of property, plant and equipment and intangible assets	262,129	201,356	677,433	586,563
	<u>4,206,459</u>	<u>3,042,020</u>	<u>10,262,773</u>	<u>7,223,455</u>
Gross margin	<u>3,032,163</u>	<u>2,014,416</u>	<u>7,129,803</u>	<u>4,658,674</u>
Operating expenses				
Selling expenses	1,091,398	858,568	2,666,288	2,200,141
Administrative expenses*	404,775	300,429	1,288,154	940,027
Research and development costs	79,909	23,800	120,711	84,144
Depreciation of property, plant and equipment	4,150	6,706	15,355	18,867
Amortization of intangible assets	19,459	20,527	55,050	58,964
Amortization of development expenses	52,500	55,760	157,500	131,168
	<u>1,652,191</u>	<u>1,265,790</u>	<u>4,303,058</u>	<u>3,433,311</u>
Earnings from operations	<u>1,379,972</u>	<u>748,626</u>	<u>2,826,745</u>	<u>1,225,363</u>
Financial expenses				
Interest and bank charges	22,592	30,928	79,403	61,564
Interest on long-term debt	55,485	114,253	287,233	356,452
Exchange loss (gain)	(19,313)	155,257	(112,894)	230,969
	<u>58,764</u>	<u>300,438</u>	<u>253,742</u>	<u>648,985</u>
Earnings before income taxes	<u>1,321,208</u>	<u>448,188</u>	<u>2,573,003</u>	<u>576,378</u>
Income tax expense				
Future income taxes	404,555	143,813	739,911	174,099
Net earnings and comprehensive income for the period	<u>916,653</u>	<u>304,375</u>	<u>1,833,092</u>	<u>402,279</u>
Basic and diluted net earnings per share (note 13)	<u>0.020</u>	<u>0.007</u>	<u>0.040</u>	<u>0.009</u>
Basic and diluted weighted average number of shares outstanding (note 13)				
Basic	45,799,429	45,799,429	45,799,429	45,799,429
Diluted	<u>46,004,331</u>	<u>45,799,429</u>	<u>45,943,133</u>	<u>45,799,429</u>
* Stock-based compensation costs included in administrative expenses (note 12b):				
	<u>11,227</u>	<u>12,941</u>	<u>176,425</u>	<u>89,616</u>

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,	
	2008	2007	2008	2007
	\$	\$	\$	\$
Cash flows from operating activities				
Net earnings for the period	916,651	304,375	1,833,092	402,279
Items not affecting cash				
Depreciation and amortization	338,238	284,349	905,338	795,562
Interest accumulated on long-term debt	60,719	11,402	72,269	34,070
Future income taxes	404,555	143,813	739,911	174,099
Stock-based compensation costs	11,227	12,941	176,425	89,616
Unrealized loss (gain) on foreign exchange forward contracts (note 16)	35,760	(12,650)	39,480	(75,050)
	1,767,150	744,230	3,766,515	1,420,576
Net change in non-cash working capital items (note 14)	(1,266,249)	426,496	(3,239,138)	33,849
	500,901	1,170,726	527,377	1,454,425
Cash flows from financing activities				
Variation in bank loan	(821,318)	(98,659)	981,851	(22,752)
Long-term debt contracted	4,370,717	47,127	6,049,884	732,000
Deferred financing expenses	(15,964)	-	(53,076)	(42,822)
Long-term debt redemption	(283,762)	(348,207)	(809,158)	(982,980)
Issue expenses	(6,732)	-	(6,732)	-
	3,242,941	(399,739)	6,162,769	(316,554)
Cash flows from investing activities				
Additions to property, plant and equipment	(3,659,962)	(167,814)	(6,500,034)	(779,202)
Increase in intangible assets	(44,885)	(35,081)	(89,926)	(81,604)
Increase in deferred charges	(38,995)	(69,692)	(212,686)	(220,598)
Government assistance	-	-	(112,500)	112,500
Increase in term deposit	-	(498,400)	-	(498,400)
	(3,743,842)	(770,987)	(6,690,146)	(1,467,304)
Net change in cash	-	-	-	(329,433)
Cash – Beginning of period	-	-	-	329,433
Cash – End of period	-	-	-	-

Additional disclosures (note 14)

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

Novik Inc.

Notes to Interim Financial Statements (unaudited)

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, 2008 and for the nine-month periods ended September 30, 2008 and 2007 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

Effective October 1, 2007, the company adopted Sections 1506 "Accounting Changes", 1535 "Capital Disclosures", 3862 "Financial Instruments – Disclosures" and 3863 "Financial Instruments – Presentation" issued by the Canadian Institute of Chartered Accountants.

Section 1506 "Accounting Changes" establishes criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. In particular, this Section allows for voluntary changes in accounting policies only when they result in the financial statements providing reliable and more relevant information. Furthermore, this Section requires disclosure of when an entity has not applied a new source of GAAP that has been issued but is not yet effective.

The company has applied these new accounting standards prospectively in note 15 – Capital disclosures for Section 1535 "Capital Disclosures" and in note 16 – Financial instruments for Sections 3862 "Financial Instruments – Disclosures" and 3863 "Financial Instruments – Presentation".

Novik Inc.

Notes to Interim Financial Statements (unaudited)

New Accounting Standards Not Yet Adopted

Going concern

The CICA amended Section 1400, “General Standards of Financial Statement Presentation” to include requirements to assess and disclose an entity’s ability to continue as a going concern. The new requirements are effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. The company does not expect any effects on its financial statements.

Goodwill and Intangible Assets

In February 2008, the CICA issued Section 3064, “Goodwill and intangible assets”, which supersedes Section 3062, “Goodwill and other intangible assets” and Section 3450, “Research and Development Costs”. Various changes have been made to other sections of the CICA Handbook for consistency purposes. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of intangible assets. These changes clarify that costs may only be deferred when they relate to an item that meets the definition of an asset. The concept of matching revenues and expenses remains appropriate only for allocating the cost of an asset that is consumed in generating revenue over multiple reporting periods. Standards relating to goodwill are unchanged from those included in Section 3062. The new requirements are effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2009. The company is currently evaluating the impact of the adoption of this new standard on its consolidated financial statements.

International Financial Reporting Standards (“IFRS”)

In February 2008, the AcSB confirmed that Canadian generally accepted accounting principles for publicly accountable enterprises will be converged with IFRS effective in calendar year 2011, with early adoption possibly allowed starting in calendar year 2009. The conversion to IFRS will be required, for the company, for interim and annual financial statements beginning on January 1, 2012. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement and disclosures. In the period leading up to the conversion, the AcSB will continue to issue accounting standards that are converged with IFRS such as IAS 2 “Inventories” and IAS 38 “Intangible assets”, thus mitigating the impact of adopting IFRS at the mandatory transition date. The company is currently evaluating the impact of the adoption of IFRS on its financial statements.

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Notes to Interim Financial Statements (unaudited)

4 Accounts receivable

	<u>As at September 30, 2008</u>	<u>As at December 31, 2007</u>
	\$	\$
Trade	4,193,673	1,887,447
Government assistance receivable	-	112,500
Commodity taxes receivable	778,739	148,401
Deposits and others	16,338	134,196
Fair value of forward contracts	-	42,660
	<u>4,988,750</u>	<u>2,325,204</u>

5 Inventories

	<u>As at September 30, 2008</u>	<u>As at December 31, 2007</u>
	\$	\$
Raw materials	1,488,929	720,338
Finished goods	2,490,417	2,037,800
	<u>3,979,346</u>	<u>2,758,138</u>

Novik Inc.

Notes to Interim Financial Statements (unaudited)

6 Property, plant and equipment

	As at September 30, 2008		As at December 31, 2007	
	Cost \$	Accumulated depreciation \$	Cost \$	Accumulated depreciation \$
Land	476,348	-	180,659	-
Plant	5,302,109	418,006	2,697,177	347,365
Equipment	7,590,305	1,561,778	4,278,131	1,249,197
Molds	5,078,092	1,485,032	4,581,953	1,242,734
Office furniture	65,446	42,775	62,939	39,217
Computer equipment	171,391	104,761	143,746	90,147
	18,683,691	<u>3,612,352</u>	11,944,605	<u>2,968,660</u>
Less:				
Accumulated depreciation	<u>3,612,352</u>		<u>2,968,660</u>	
Net amount	<u>15,071,339</u>		<u>8,975,945</u>	

7 Intangible assets

	As at September 30, 2008		As at December 31, 2007	
	Cost \$	Accumulated amortization \$	Cost \$	Accumulated amortization \$
Software	943,688	569,854	883,568	471,664
Web site	37,235	15,380	25,020	10,217
Trademark	25,487	5,163	7,896	4,370
	1,006,410	<u>590,397</u>	916,484	<u>486,251</u>
Less:				
Accumulated amortization	<u>590,397</u>		<u>486,251</u>	
Net amount	<u>416,013</u>		<u>430,233</u>	

Novik Inc.

Notes to Interim Financial Statements (unaudited)

8 Deferred charges

	<u>As at September 30, 2008</u>	<u>As at December 31, 2007</u>
	\$	\$
Development expenses, at cost	1,294,823	1,082,137
Less:		
Accumulated amortization	422,681	265,181
Net amount	<u>872,142</u>	<u>816,956</u>

During the period ended September 30, 2008, the company applied research and development tax credits amounting to \$160,543 (\$141,786 in 2007) against deferred development expenses.

9 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. As at September 30, 2008, a balance of \$2,394,000 (\$1,772,000 as at December 31, 2007) was available.

10 Accounts payable and accrued liabilities

	<u>As at September 30, 2008</u>	<u>As at December 31, 2007</u>
	\$	\$
Trade payable	1,896,068	1,118,824
Salaries and employee benefits payable	417,413	160,449
Accrued liabilities	650,295	491,440
Fair value of forward contracts (note 16)	39,480	-
	<u>3,003,256</u>	<u>1,770,713</u>

Novik Inc.

Notes to Interim Financial Statements (unaudited)

11 Long-term debt

	<u>As at September 30,</u>	<u>As at December 31,</u>
	2008	2007
	\$	\$
Immoveable hypothec, at prime rate plus 1%, payable in monthly principal instalments of \$15,500 plus interest, starting June 2010 and maturing May 2035*	4,617,131	1,923,720
Notes payable for which a moveable hypothec on equipment, molds and all tangible assets has been given as security		
Prime rate plus 0.50%, payable in monthly principal instalments of \$9,443 maturing in January 2011**	306,986	387,155
Prime rate plus 0.40%, payable in monthly instalments of \$12,500, plus interest, maturing in September 2013	684,388	-
LIBOR rate plus 3.80%, payable in monthly instalments of \$30,390 USD (\$32,341 CAD) including principal and interest, maturing 60 months following last portion of long-term debt contracted	1,486,333	-
LIBOR rate plus 4.50%, payable in monthly instalments of \$19,614 USD (\$20,873 CAD) including principal and interest, maturing 60 months following last portion of long-term debt contracted	719,559	-
Notes payable for which a moveable hypothec on equipment, molds, office furniture, computer system and software has been given as security		
Prime rate plus 0.80%, payable in monthly instalments of \$2,250, plus interest, matured in September 2008	-	18,250
9.25%, payable in monthly instalments of \$4,976 including principal and interest, until January 2008 and of \$4,536 until January 2010	67,448	98,900
Bankers' acceptance rate plus 2.65%, payable in monthly instalments of \$6,203 including principal and interest, maturing in October 2010	154,040	202,618
Prime rate plus 2.90%, payable in monthly instalments of \$20,900 including principal and interest, until August 2009 and in instalments of \$10,455 including principal and interest, maturing in July 2011	420,853	582,810
Prime rate plus 0.50%, payable in monthly instalments of \$11,905 plus interest, maturing in August 2011	416,667	523,810
6.35%, payable in monthly instalments of \$6,117 USD (\$6,510 CAD) including principal and interest, until March 2015	419,416	-
	<hr/>	<hr/>
(forward)	9,292,821	3,737,263

Novik Inc.

Notes to Interim Financial Statements (unaudited)

	<u>As at September 30,</u>	<u>As at December 31,</u>
	2008	2007
	\$	\$
(brought forward)	9,292,821	3,737,263
Note payable, 12% payable since November 2004 in monthly principal instalments of \$1,410 for the first 24 months, \$2,340 for the following 22 months and \$1,347 for the last instalment, plus interest, convertible into shares in case of default, maturing in September 2008	-	20,067
Note payable, 12% payable since November 2004 in monthly principal instalments of \$3,910 for the first 24 months, \$6,510 for the following 23 months and \$2,263 for the last instalment, plus interest, convertible into shares in case of default, maturing in October 2008	2,263	60,853
Note payable to Canada Economic Development, non-interest bearing, payable in five equal and consecutive annual instalments, the first payment being due 24 months after the end of the project, that is July 1, 2005	82,218	107,408
Note payable, bearing interest at prime rate plus 1% payable in monthly principal instalments of \$12,963 plus interest, starting in July 2007 and maturing in December 2011. A moveable hypothec on molds has been given as security.	505,556	622,222
Note payable, bearing interest at prime rate plus 1.9% payable in monthly principal instalments of \$3,125, starting in August 2007 and maturing in March 2014. A moveable hypothec on equipment has been given as security.	206,250	234,375
Note payable to Canada Economic Development, non-interest bearing, payable in five equal and consecutive annual instalments, the first payment being due 24 months after the end of the project, that is July 1, 2007.	161,506	155,431
Deferred financing charges	(111,320)	(58,244)
	10,139,294	4,879,375
Less: Current portion	951,111	1,083,902
	<u>9,188,183</u>	<u>3,795,473</u>

The annual principal instalments required over the next five years are as follow: \$220,441 in 2008, \$960,374 in 2009, \$1,040,548 in 2010, \$919,853 in 2011 and \$526,644 in 2012.

The company has committed to meeting certain financial ratios in connection with certain of these loans. As at September 30, 2008, all financial ratios have been met.

Novik Inc.

Notes to Interim Financial Statements (unaudited)

- * On May 2, 2008, the company refinanced its immovable hypothec with the same financial partner. An authorized immovable hypothec of \$4,650,000 has been signed with the financial partner. This refinancing will be used for the extension of the current plant, for the purchase of the adjacent land and for the purchase 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 moved from prime rate plus 1.25% to prime rate plus 0.50%.

12 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.

45,799,429 common shares, issued and fully paid

	<u>As at September 30, 2008</u> \$	<u>As at December 31, 2007</u> \$
Balance – Beginning of period	8,531,413	8,531,413
Share issue expenses	(6,732)	-
	<hr/>	<hr/>
Balance – End of period	8,524,681	8,531,413

- (b) Stock options

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. Stock-based compensation costs of \$141,490 have been accounting for in this regard. A cost of \$176,425 has been accounted for in the second quarter of current fiscal year as these new stock options are exercisable immediately.

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

	<u>Number</u>	<u>Carrying value</u> \$	<u>Weighted average exercise price</u> \$
Outstanding – Beginning of period	1,620,000	339,850	0.41
Granted during the period	425,000	141,490	0.40
Cancelled during the period	(15,000)	(2,870)	-
Stock-based compensation costs	-	34,935	-
	<hr/>	<hr/>	<hr/>
Outstanding – End of period	2,030,000	513,405	0.41
	<hr/>	<hr/>	<hr/>
Exercisable – End of period	1,825,000		0.41

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Notes to Interim Financial Statements (unaudited)

The following table summarizes information on outstanding and exercisable stock options under the plan as at September 30, 2008:

Exercise price	Options outstanding		Options exercisable	
	Number	Weighted average contractual life (years)	Number	Weighted average contractual life (years)
\$0.19	330,000	3.65	330,000	3.65
\$0.40	425,000	4.67	425,000	4.67
\$0.45	400,000	2.65	400,000	2.65
\$0.46	120,000	2.50	105,000	2.50
\$0.50	755,000	2.03	565,000	2.03
	<u>2,030,000</u>	<u>2.99</u>	<u>1,825,000</u>	<u>3.10</u>

(c) Warrants (note 19)

The following table summarizes information about warrants outstanding since January 1, 2008:

	Number	Carrying value \$	Weighted average exercise price \$	Weighted average remaining contractual life (years)
Outstanding and exercisable – Beginning and End of period	<u>3,385,715</u>	<u>283,146</u>	<u>0.45</u>	<u>0.14</u>

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Notes to Interim Financial Statements (unaudited)

13 Earnings per share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008 \$	2007 \$	2008 \$	2007 \$
Basic weighted average number of shares outstanding	45,799,429	45,799,429	45,799,429	45,799,429
Dilutive stock options	204,902	-	143,704	-
Diluted weighted average number of shares outstanding	46,004,331	45,799,429	45,943,133	45,799,429

For the three-month period ended September 30, 2008 and 2007, the following securities were not included in the calculation of dilutive shares as the effect is anti-dilutive: 1,275,000 stock options (1,630,000 in 2007), and 3,385,715 warrants (3,435,715 in 2007).

For the nine-month period ended September 30, 2008 and 2007, the following securities were not included in the calculation of dilutive shares as the effect is anti-dilutive: 1,700,000 stock options (1,630,000 in 2007) and 3,385,715 warrants (3,435,715 in 2007).

14 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,	
	2008 \$	2007 \$	2008 \$	2007 \$
Accounts receivable	(803,010)	169,770	(2,776,046)	(1,124,848)
Inventories	(465,189)	121,642	(1,221,208)	165,259
Refundable tax credits	(45,702)	(66,030)	(160,543)	332,565
Prepaid expenses	(21,243)	18,151	(35,352)	(39,997)
Accounts payable and accrued liabilities	68,895	182,963	954,011	700,870
	(1,266,249)	426,496	(3,239,138)	33,849

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Notes to Interim Financial Statements (unaudited)

(b) Items not affecting cash related to:

i) Operating and investing activities

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	\$	\$	\$	\$
Acquisition of property, plant and equipment included in accounts payable and accrued liabilities	239,052	-	239,052	-

ii) Financing activities

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	\$	\$	\$	\$
Transfer of a portion of the conversion option to the contributed surplus	6,405	6,818	19,217	20,454
Stock options applied against capital stock	11,227	12,941	176,425	89,616
Cancelled stock options accounted for as an increase of the contributed surplus	-	667,040	2,870	681,116
Tax credits receivable applied against deferred charges	45,702	60,776	160,543	141,786

(c) Additional information

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	\$	\$	\$	\$
Interest paid	40,641	133,780	247,301	383,947

Novik Inc.

Notes to Interim Financial Statements (unaudited)

15 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; and
2. deploy capital to provide an appropriate investment return to its shareholders; and
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:

1. shareholders' equity;
2. long-term debt, including the current portion;
3. bank loan;
4. cash and cash equivalents.

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 (EBITDA) to the current portion of the long-term debt and interests 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.

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

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

	Guidelines (up to)	As at September 30, 2008	As at December 31, 2007
Long-term debt, including the current portion		\$10,139,294	\$4,879,375
Shareholders' equity		\$11,190,973	\$9,188,188
Less:			
Future income tax assets		-	\$(296,365)
Intangible assets		\$(416,013)	\$(430,233)
Deferred charges		\$(872,142)	\$(816,956)
Plus:			
Future income tax liabilities		\$324,285	-
Net tangible value		\$10,227,103	\$7,644,634
Earnings from operations		\$2,878,687	\$1,325,921
Plus:			
Amortization and depreciation		\$1,235,802	\$1,080,551
Stock-based compensation		\$190,938	\$104,127
EBITDA		\$4,305,427	\$2,510,599
Current portion of the long-term debt		\$951,111	\$1,083,902
Plus:			
Interest and bank charges		\$88,681	\$70,844
Interest on long-term debt		\$426,683	\$495,902
Fixed costs		\$1,466,475	\$1,650,648
Long-term debt, including the current portion		\$10,139,294	\$4,879,375
Net tangible value		\$10,227,103	\$7,644,634
Long-term debt to net tangible value	1.5:1	1:1	0.61:1
EBITDA		\$4,305,427	\$2,510,599
Fixed costs		\$1,466,475	\$1,650,648
Coverage ratio of fixed costs	1.2:1	2.9:1	1.5:1

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16 Financial instruments

Risk Management Policies

The company, through its financial assets and liabilities, is exposed to various risks. The following analysis provides a measurement of risks as at the balance sheet date of September 30, 2008.

Fair value

The company's financial instruments recognized in the balance sheet are accounts receivable, bank loan, accounts payable and accrued liabilities and long-term debt. The fair values of these financial instruments approximate their carrying values due to their short-term maturity. The fair value of long-term debt amounts to approximately \$10,119,474 as at September 30, 2008 (\$4,879,375 as at December 31, 2007).

Credit Risk

The company's principal financial assets are accounts receivable, inventories and property plant and equipment.

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 93% of trade receivables is outstanding for less than 60 days.
- Though 64% of the company's revenue in the first nine months of the fiscal 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 September 30, 2008 was \$57,395 and was \$15,000 as at December 31, 2007. All bad debt write-offs are charged to administrative expenses.

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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 September 30, 2008:

	Carrying Amount	Contractual Cash Flows	0 to 6 months	6 to 12 months	12 to 24 months	After 24 months
Accounts payable and accrued liabilities	3,122,517	3,122,517	3,122,517	-	-	-
Long-term debt	10,139,294	10,139,294	470,924	480,187	1,020,504	8,167,679
	13,261,811	13,261,811	3,593,441	480,187	1,020,504	8,167,679

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

Based on historic movements and volatilities in the above market variables, and management current assessment of the financial markets, the company believes the following variations are reasonably possible over a 12-month period, net of income taxes using an estimated effective tax rate of 32%:

- 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 1.0642.
- Proportional variation of +1% / -1% in the prime interest rates applicable in the company's respective financial instruments.

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	Interest rate risk				Foreign exchange rate risk			
		-1%		+1%		-10%		+10%	
		Earnings	Equity	Earnings	Equity	Earnings	Equity	Earnings	Equity
Financial assets									
Accounts receivable ⁽¹⁾	4,989	-	-	-	-	194	194	(195)	(195)
Financial liabilities									
Bank loan ⁽²⁾	1,393	-	-	-	-	(90)	(90)	91	91
Accounts payable and accrued liabilities ⁽³⁾	3,123	-	-	-	-	(69)	(69)	70	70
Long-term debt ^{(4) (5)}	10,139	67	67	(67)	(67)	(114)	(114)	114	114
TOTAL INCREASE (DECREASE)		67	67	(67)	(67)	(79)	(79)	80	80

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The calculations presented below are pre-tax.

- (1) Accounts receivable include \$3,045 of USD denominated receivables. USD amount of foreign-denominated debtors as at September 30, 2008 = $\$3,045 / 1.0642 = \text{US\$ } 2,861$.
Sensitivity to a -10% variation in this foreign exchange rate = $(\text{US\$}2,861 \times 1.1642) - \$3,045 = \$286$.
Sensitivity to a +10% variation in this foreign exchange rate = $(\text{US\$}2,861 \times 0.9642) - \$3,045 = (\$287)$.
- (2) Bank loan include (\$1,419) of USD bank loan. USD amount of bank loan as at September 30, 2008 = $(\$1,419) / 1.0642 = \text{US\$}(1,333)$.
Sensitivity to a -10% variation in this foreign exchange rate = $(\text{US\$}1,333 \times 1.1642) - (\$1,419) = (\$133)$.
Sensitivity to a +10% variation in this foreign exchange rate = $(\text{US\$}1,333 \times 0.9642) - (\$1,419) = \$134$.
- (3) Accounts payable and accrued liabilities include \$1,089 of USD denominated payables. USD amount of foreign-denominated trade creditors as at September 30, 2008 = $\$1,089 / 1.0642 = \text{US\$}1,023$.
Sensitivity to a -10% variation in this foreign exchange rate = $(\text{US\$}1,023 \times 1.1642) - \$1,089 = (\$102)$.
Sensitivity to a +10% variation in this foreign exchange rate = $(\text{US\$}1,023 \times 0.9642) - \$1,089 = \$103$.
- (4) Long-term debt includes \$1,791 of USD long-term debt. USD amount of long-term debt as at September 30, 2008 = $(\$1,791) / 1.0642 = \text{US\$}1,683$.
Sensitivity to a -10% variation in this foreign exchange rate = $(\text{US\$}1,683 \times 1.1642) - \$1,791 = (\$168)$.
Sensitivity to a +10% variation in this foreign exchange rate = $(\text{US\$}1,683 \times 0.9642) - \$1,791 = \$168$.
- (5) Long-term debt includes \$8,833 of debt bearing at a variable rate.
Sensitivity to a -1% variation in this interest rates = $\$8,833 \times 1\% = \99 .
Sensitivity to a +1% variation in this interest rates = $(\$99)$.

Interest rate risk

Accounts receivable and accrued liabilities bear no interest. The interest rates of bank loan and long-term debt are mentioned in notes 9 and 11, respectively.

Currency risk

Since a part of the company's revenues is denominated in US dollars, the company is exposed to currency risk. These risks are partially hedged by its purchases in US dollars and by foreign currency forward contracts.

The fair value of foreign currency forward contracts at the end of the year is as follows as at September 30, 2008:

Purchasing currency	Selling currency	Par value in selling currency \$	Maturity	Fair value as at September 30, 2008 (a) \$	Average rate \$
CAN\$	US\$	2,150,000	from October 2008 to February 2009	(39,480)	1.0521

(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.

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17 Segment information

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

Revenues by geographic region are detailed as follows:

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	2008 \$	2007 \$	2008 \$	2007 \$
Canada	1,793,114	1,445,459	3,820,509	3,734,765
United States	2,175,156	1,861,859	4,860,844	5,253,857
North America	3,968,270	3,307,318	8,681,353	8,988,622
Europe and Asia-Pacific	3,270,352	1,749,118	8,711,223	2,893,507
	<u>7,238,622</u>	<u>5,056,436</u>	<u>17,392,576</u>	<u>11,882,129</u>

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:

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	2008 %	2007 %	2008 %	2007 %
Customer 1	9.86	7.99	22.70	7.50
Customer 2	28.58	23.85	22.40	15.01
Customer 3	23.76	24.38	19.64	27.84

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18 Commitments

As at September 30, 2008, the company's minimum aggregate commitments under long-term equipment and vehicle lease agreements amount to \$87,793. Minimum lease payments required over the next four years amount to \$11,112 in 2008, \$44,446 in 2009, \$28,769 in 2010 and \$3,466 in 2011.

In addition, the company has initiated an important capital expenditure project in 2008 in the amount of approximately \$7,000,000. This project includes the extension of the current plant and the acquisition of equipments and molds in order for the company to support the current and anticipated sales growth. This project will be financed by the company's working capital and long-term debt. Financing has been agreed with financial partners. This project is expected to finish by the end of the current fiscal year.

19 Subsequent Events

In October 2008, 2,671,429 warrants were exercised for a price of \$0.45 per share. Therefore, the company received an amount of \$1,202,143 in cash by issuing 2,671,429 common shares.