



## MANAGEMENT REPORT

Annual report to shareholders

Fiscal year ended on August 31, 2010

This management report, prepared on December 23, 2010, presents an analysis from Management's perspective of the consolidated financial position of CORPORATION NUVOLT INC./NUVOLT CORPORATION INC. ("NUVOLT" or the "Company") as at August 31, 2010, as well as for the three-month periods ended on August 31, 2010 and 2009. Prepared in accordance with National Instrument 51-102-Continuous Disclosure Obligations, this management report should be read in conjunction with the audited consolidated financial statements of August 31, 2010 as well as the related notes.

Unless otherwise indicated, all financial data disclosed in this management report have been established according to Canadian Generally Accepted Accounting Principles (GAAP). With the exception of the amounts per share, all dollar amounts appearing in the tables are presented in thousands of Canadian dollars.

Some sections of this report present statements that are forward-looking and involve risks and uncertainties. Forward-looking statements offer no guaranties as to the future results of NUVOLT. Actual results may vary significantly from estimates contained in forward-looking statements due to several factors such as fluctuations in demand for measuring instruments, instability in currency exchange rates, difficulties obtaining financing, recruitment of qualified employees, and NUVOLT's ability to conduct business successfully under such uncertain conditions. Consequently, readers should be fully aware of the risks and uncertainties associated with these forward-looking statements. These statements are only valid as at the date of this report. Management is under no commitment to notify readers or to revise or update these statements in order reflect events or circumstances occurring after the date of this report, except as specifically required by law.

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## DESCRIPTION OF ACTIVITIES AND OVERVIEW

NUVOLT specializes in the analysis of faults on electrical networks and the manufacture of detection and correction equipment. The Company has developed a cutting edge expertise in the management of electrical network failures, wave quality, leakage current detection and neutralization as well as in electrical network monitoring systems, in particular in the agriculture sector.

Its main products are the “Potential Equalizer”, the “Relax” ground fault detector and Agrivolt Filters. At the present time, these devices are mainly used on dairy and hog farms.

NUVOLT holds patents on its technologies and there are patents pending for electrical network monitoring applications.

## VISION AND STRATEGY

NUVOLT intends to become the leader in electrical network monitoring systems and leakage current neutralization.

In recent years, the Company has invested a great deal of energy and money in the development of the **Nuvolt Sensor**. This research and development project has been motivated by the need to make a technology transfer of NUVOLT’S know-how, namely to be able to transfer its expertise and current products into ready-to-use products whose distribution can be ensured by an existing network in the United States and Canada, with a price strategy tailored to a mass-market product.

The **Nuvolt Sensor** makes it possible to achieve this technology transfer. When this sensor is integrated in the management software, the product is designated under the name of **SMARTSCAN** and provides a major innovation in the electric sector. This system is able to predict electrical failures and prevent downtime on industrial production lines, risks of fire, and equipment failures in commercial buildings. It is also a preventive maintenance tool in the livestock farming sector.

A diversification of markets in the industrial and commercial real estate sectors offers better growth potential than in the agricultural market. Consequently, NUVOLT is concentrating its agricultural activities in its subsidiary, AGRIVOLT INC., in order to devote all its efforts to the development of other markets.

For the last several months, NUVOLT has been presenting its technology to international-calibre companies for all target sectors, and a number of distribution agreements have already been signed.

The Company manufactures its own products, which are CSA International and EC certified. Outsourcing of manufacturing is however being considered. To this end, NUVOLT is currently holding discussions with companies offering manufacturing facilities.

NUVOLT has set up a dynamic and experienced team, which is complemented by marketing specialists. For the last two years, a Vice President responsible for Sales in the United States has been preparing the distribution of **SMARTSCAN** via a U.S. network. A director of sales joined the AGRIVOLT team in 2009 to establish a distribution network in Canada.

## PERFORMANCE DRIVERS

The Company uses performance drivers to monitor the implementation of its strategy and the attainment of its objectives. Here is a table presenting these performance drivers as well as the key performance indicators showing their evolution:

Performance drivers	Key performance indicators
Working capital	Cash flow, financing capacity
Reputation and customer satisfaction	# units sold/product, % of sales increase compared to past years, performance per vendor and geographical sector
Cost containment and financial performance	Production rate, table of use and cost of technical resources, gross margin
Innovation, Research& Development	Amounts invested in R&D, pace of SMARTSCAN development
Workforce	Ability to hire specialized human resources

## HIGHLIGHTS OF THE YEAR AND THE FOURTH QUARTER OF 2009-2010

### **Earnings**

The sales figure of the fiscal year ended on August 31, 2010 shows a significant decline in comparison with the two previous years, namely -43% and -29%.

At the close of the fiscal year ended on August 31, 2009, NUVOLT announced that the economic slowdown had affected the results of the last quarter. In the United States, the losses in the farming sector were enormous and a decline in revenues on the order of 38% was announced. This state of crisis in the dairy and hog sectors persisted throughout the 2009-2010 fiscal year. The equity of farms collapsed. Several U.S. banks withdrew from the financing of agricultural activities. As a result, all new investments were delayed.

A certain degree of optimism emerged during the second quarter with the greater demand for dairy and hog products, allowing stakeholders to earn some profits. This tendency towards an economic recovery has remained very timid. Hog producers have once again begun to generate cash flows but remain cautious and must consolidate their losses before making any new investments. For the dairy sector, milk prices are at the breakeven point. NUVOLT's expertise and products lie in the secondary needs of a livestock farm. Primary needs dominate in survival mode and it is in this mode which the farming sector found itself for almost the entire year.

However, at the end of the third quarter and during the fourth quarter, the requests for farm assessments and OEM filters grew, suggesting that the agricultural market is recovering gradually.

### **SMARTSCAN**

2009-2010 was devoted to the development of **SmartScan** as well as to the setting up of its elements for its manufacturing and marketing.

#### ***Its development***

Despite the economic difficulties, NUVOLT chose to continue making investments in **SmartScan**. This proved to be a wise choice since it generated a current of optimism and motivation among investors, in the market and within the team of employees.

The total amounts invested to date in the development of the system are on the order of \$2.8 million. For the fiscal

year, the investments represent \$1.1 million. The product is at the real life validation and production start-up stage. Agreements have been reached to install technological showcases in various places and sectors beginning in the first six-month period of 2010-2011.

### ***Its production***

**SmartScan** will be produced in Asia. NUVOLT signed a manufacturing agreement with ProdExport Technologie at the end of the fiscal year to have **SmartScan** manufactured abroad at costs that allow the Company to remain highly competitive.

A deposit was paid to ProdExport in order to begin the design of the moulds and the first sensors.

### ***Its marketing in the agriculture market***

In the first quarter of 2009-2010, a marketing/agricultural sales director in Canada was hired. He joined Agrivolt's existing sales team in the United States. The mandate of this team is to set up a distribution network for **SmartScan** in Canada and the United States.

This distribution network is almost complete in the dairy and hog sectors. In all, approximately 40 major farm equipment distributors should represent the product. The development strategy with these distributors is also complete. A training course has been set up to prepare the intervention of distributors with the clientele and to provide a clear understanding of NUVOLT's expertise and its products.

At the start of the fourth quarter, a collaboration agreement was reached with Optimum Assurance Agricole Inc. aiming to set up joint activities to promote **SmartScan** among Quebec farm producers. Premium discounts and training programs will be offered to Optimum clients who purchase the system.

### ***Its diversification in the navigation market***

The potential of **SmartScan** permits the diversification of its applications to markets other than the farming market. A case in point is the navigation market where **SmartScan** can be used for the preventive maintenance of the electrical network on ships.

A distribution agreement with Navware Canada Inc., a firm specializing in the distribution of equipment and product software intended for commercial vessels, was reached in the second quarter of 2009-2010. This distribution agreement allows NUVOLT to begin the diversification of its markets towards industrial sectors.

The product will be ready for marketing and production in the first quarter of 2010-2011. The first sales should be made in February 2011 taking into account manufacturing times.

### **Financing and cash flow status**

Various private placements were arranged during the year to support the development of **SmartScan**, its manufacturing, the first phase of its commercial launch and the Company's working capital.

NUVOLT announced a total of \$5 million in financing initiatives throughout the fiscal year. With a difficult economic context that is not very conducive to financing, fundraising activities yielded results that were less than those hoped for, but which have made it possible to implement a portion of the strategy developed by senior management.

The private placements of the year, in the form of capital stock and debentures, made it possible to issue 19,866,999 Company shares, the proceeds of which totaled \$2.6 million.

During the first quarter of 2010-2011, the following events helped to improve the Company's cash flow:

New conditions for the repayment of the note payable were arranged. This note will be repaid over three years, with 12% interest.

A temporary loan of \$450,000 was obtained from Investissement Québec under the RENFORT program allowing the Company to meet its short-term working capital needs, until it can complete the private placement in progress announced on June 15, 2010.

A new closing of this private placement was made in November 2010, resulting in the issue of 2,255,000 NUVOLT shares and generating \$225,500 in proceeds.

## ANNUAL CONSOLIDATED FINANCIAL INFORMATION

NUVOLT CORPORATION INC. DATA FROM CONSOLIDATED FINANCIAL STATEMENTS						
(In thousands of dollars, except data per share)	Year ended 31-Aug-10 (audited)		Year ended 31-Aug-09 (audited)		Year ended 31-Aug-08 (audited)	
	\$	%	\$	%	\$	%
Gross revenue	993		1,737		1,401	
Cost of goods sold	783		903		893	
Gross profit	210	21%	834	48%	508	36%
Research and development expenses	1,127	113%	477	27%	1,197	85%
Capitalized portion	(1,111)		(468)		(1,197)	
Net amount	16	2%	9	1%	-	0%
Selling expenses	784	79%	600	35%	438	31%
Administrative expenses	787	79%	531	31%	614	44%
Financial expenses	190	19%	146	8%	145	10%
	1,777	179%	1,286	74%	1,197	85%
Income taxes	-		-		3	
<b>Net loss</b>	<b>(1,567)</b>	<b>-158%</b>	<b>(452)</b>	<b>-26%</b>	<b>(692)</b>	<b>-49%</b>
Net loss, non-diluted and diluted per share	<b>-0.0244</b>		<b>-0.0086</b>		<b>-0.0131</b>	

*Some comparative figures were adjusted to comply with the presentation of the current year.*

The following tables present the last eight quarters for which NUVOLT published financial statements:

NUVOLT CORPORATION INC. DATA FROM CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2010										
(In thousands of dollars, except data per share)	First Quarter		Second Quarter		Third Quarter		Fourth Quarter		Total	
	\$	%	\$	%	\$	%	\$	%	\$	%
Gross revenue	366		178		289		160		993	
Cost of goods sold	213		139		204		227		783	
Gross profit	153	42%	39	22%	85	29%	(67)	-42%	210	21%
Research and development expenses	185	51%	499	280%	286	99%	157	98%	1,127	113%
Capitalized portion	(174)		(499)		(284)		(154)		(1,111)	
Net amount	11	3%	-	0%	2	1%	3	2%	16	2%
Selling expenses	184	50%	223	125%	222	77%	155	97%	784	79%
Administrative expenses	243	66%	221	124%	133	46%	190	119%	787	79%
Financial expenses	34	9%	46	26%	40	14%	70	44%	190	19%
	472	129%	490	275%	397	137%	418	261%	1,777	179%
<b>Net loss</b>	<b>(319)</b>	<b>-87%</b>	<b>(451)</b>	<b>-253%</b>	<b>(312)</b>	<b>-108%</b>	<b>(485)</b>	<b>-303%</b>	<b>(1,567)</b>	<b>-158%</b>
Net loss, non-diluted and diluted per share	-0.0023		-0.0071		-0.0048		-0.0074		-0.0244	

*Some comparative figures were adjusted to comply with the presentation of the current year.*

NUVOLT CORPORATION INC. DATA FROM CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2009										
(In thousands of dollars, except data per share)	First Quarter		Second Quarter		Third Quarter		Fourth Quarter		Total	
	\$	%	\$	%	\$	%	\$	%	\$	%
Gross revenue	667		429		462		179		1,737	
Cost of goods sold	302		205		257		139		903	
Gross profit	365	55%	224	52%	205	44%	40	22%	834	48%
Research and development expenses, net	304	46%	76	18%	56	12%	41	23%	477	27%
	(306)		(78)		(58)		(26)		(468)	
Selling expenses	(2)	0%	(2)	0%	(2)	0%	15	8%	9	1%
Administrative expenses	152	23%	184	43%	148	32%	116	65%	600	35%
Financial expenses	137	21%	141	33%	126	27%	127	71%	531	31%
	6	1%	25	6%	87	19%	28	16%	146	8%
	293	44%	348	81%	359	78%	286	160%	1,286	74%
<b>Net income (Net loss)</b>	<b>72</b>	<b>11%</b>	<b>(124)</b>	<b>-29%</b>	<b>(154)</b>	<b>-33%</b>	<b>(246)</b>	<b>-137%</b>	<b>(452)</b>	<b>-26%</b>
Net income (Net loss), non-diluted and diluted per share	0.0014		-0.0024		-0.0029		-0.0047		-0.0086	

*Some comparative figures were adjusted to comply with the presentation of the current year.*

## **INFORMATION ON THE SUBSIDIARY**

The Company has an American subsidiary (AGRIVOLT INC) incorporated in Wisconsin under Chapter 180 of the Wisconsin Statutes. This entity was born out of the buy-out of an American partner during the first quarter of 2004-2005.

With the exception of OEM sales, direct sales of products and services on the territory of the U.S. are made through AGRIVOLT. It bills clients and pays a royalty to NUVOLT for each device sold.

The services related to diagnosis, product warranty and device start-ups are provided by NUVOLT technicians.

## OPERATING RESULTS

### **Consolidated sales figure**

NUVOLT posted a sales figure of \$993,000 for the fiscal year ended on August 31, 2010, as compared to \$1,737,000 (-43%) for the fiscal year ended on August 31, 2009 and to \$1,401,000 (-29%) for the fiscal year ended on August 31, 2008.

There has been a major decline in system sales in comparison with the two previous fiscal years. Indeed, system sales have fallen by just over 63% since last year. Due to the difficult economic context, farmers have been consolidating their assets and have only been making those investments required to ensure the minimum operation of their business. The agricultural sector has been in survival mode since the third quarter of 2008-2009, namely for more than a year.

The agriculture market was in a critical state in the United States and Canada. However, during the fourth quarter ended on August 31, 2010, requests for assessments and OEM filters from U.S. clients began to pick up.

### Impact of the exchange rate

The average exchange rate for the quarter was \$1.04 CAN for \$1 US, as compared to \$1.1. CAN for \$1 US in the same quarter of 2008-2009.

For the year, the average exchange rate was \$1.04 CAN for \$1 US as compared to \$1.18 CAN for \$1 US for the fiscal year ended on August 31, 2009 and to \$1.01 CAN for \$1 US for the fiscal year ended on August 31, 2008.

Had it not been for the impact of the exchange rate, the decline in sales for 2009-2010 would have been -38% as compared to the previous year and -30% as compared to 2007-2008.

### Revenue split

NUVOLT's sales figure is composed of two types of revenue, namely the sale of products and the sale of services. The sale of products includes direct sales to users and OEM product sales. The sale of products for the detection and correction of electrical network failures takes place in two steps, first the electrical network diagnosis, then the installation and start-up of the equipment. Revenue from spare part sales, service and preventive maintenance is added to this base revenue. Revenue is broken down as follows:

NUVOLT CORPORATION INC. DATA FROM CONSOLIDATED FINANCIAL STATEMENTS						
(In thousands of dollars)	Year ended 31-Aug-10 (audited)		Year ended 31-Aug-09 (audited)		Year ended 31-Aug-08 (audited)	
	\$	%	\$	%	\$	%
Products	679	68.4%	1,263	72.7%	970	69.2%
Services	314	31.6%	474	27.3%	431	30.8%
<b>Total</b>	<b>993</b>	<b>100.0%</b>	<b>1,737</b>	<b>100.0%</b>	<b>1,401</b>	<b>100.0%</b>

Product sales constitute a major share of total sales. They represented a smaller percentage this year than in the previous year. This is related to the fact that clients have reduced their investments but nevertheless require the services and expertise of NUVOLT to monitor their system and equipment.

The following table shows the geographical breakdown of NUVOLT sales:

NUVOLT CORPORATION INC. DATA FROM CONSOLIDATED FINANCIAL STATEMENTS						
(In thousands of dollars)	Year ended 31-Aug-10 (audited)		Year ended 31-Aug-09 (audited)		Year ended 31-Aug-08 (audited)	
	\$	%	\$	%	\$	%
Canada	675	68.0%	808	46.5%	867	61.9%
United States	318	32.0%	929	53.5%	534	38.1%
<b>Total</b>	<b>993</b>	<b>100.0%</b>	<b>1,737</b>	<b>100.0%</b>	<b>1,401</b>	<b>100.0%</b>

In comparison with past years, sales in Canada for 2009-2010 represented a considerable share of total sales. The United States has remained much more fragile following the economic crisis. The price of milk, which rose at the start of January 2010, is once again just at the breakeven point for producers.

### Gross profit

The gross profit of 2009-2010 totals \$210,000, representing a gross profit margin of 21%, as compared to \$834,000 or a gross profit margin of 48% for 2008-2009 and to \$508,000 or 36% for 2007-2008.

This decline is explained by the fact that the Company has kept the same production and service structure, despite the drop in revenues. The direct labor, manufacturing and service costs are fairly fixed, which creates a direct negative impact on the gross profit when there is a decline in the sales figure.

### Research and development expenses

Investments in research and development represented \$1,127,000 for the fiscal year ended on August 31, 2010 as compared to \$477,000 for the fiscal year ended on August 31, 2009 and to \$1,197,000 for the fiscal year ended on August 31, 2008. The capitalized amounts are those meeting the capitalization criteria of Section 3064 of the *CICA Handbook*.

The sums committed for external consultants represented \$859,000 for the fiscal year. These amounts were used for the development of **SmartScan** in collaboration with the internal R&D team, which is made up of three persons. Last year, development activities with external consultants had been suspended due to the limited cash flows. Fundraising activities at the start of the year made it possible to accelerate R&D activities in order to bring **SmartScan** to the commercial phase.

### Sales expenses

Sales expenses totaled \$784,000 for the 2009-2010 fiscal year, as compared to \$600,000 for 2008-2009 and to \$438,000 for the 2007-2008 fiscal year.

The increase of these expenses over the last two years is attributable to investments in human resources, advertising and travel to promote Nuvolt products and to set up a marketing strategy for **SmartScan**. This year, a director of agricultural sales for Canada joined two sales resources hired during the previous two years. The mandate of this team is to consolidate current sales and to set up a distribution network for the marketing of **SmartScan** in the agriculture market.

The setting up of the distribution network is well under way. Major distributors in the dairy equipment field have been targeted. A training program for distributors has been set up and a few distributors have received training on Agrivolt filters.

### **Administration expenses**

Administration expenses totaled \$787,000 for the fiscal year ended on August 31, 2010, as compared to \$531,000 for the fiscal year ended on August 31, 2009 and to \$614,000 for the fiscal year ended on August 31, 2008.

The increase of these expenses in comparison with previous years is explained by the share-based remuneration expenses noted during the granting of share purchase options in the first and second quarters of the year.

### **Financial expenses**

Financial expenses totaled \$190,000 for the 2009-2010 fiscal year, as compared to \$146,000 for 2008-2009 and \$145,000 for 2007-2008.

The increase of these expenses is mainly attributable to the interest noted on placements in the form of debentures, closed during the fourth quarter of the fiscal year.

### **Net loss**

For the 2009-2010 fiscal year, the net loss stands at \$1,567,000 (\$0.0244/ share), as compared to \$452,000 (\$0.0086/ share) for 2008-2009 and to \$692,000 \$ (\$0.0131/share) for 2007-2008.

### **Tax on earnings**

NUVOLT has no income tax payable for the quarters ended on August 31, 2010 and 2009, and tax payable of \$3,000 for the fiscal year ended on August 31, 2008. No future income tax on temporary variations between the accounting value and the tax value has been recorded.

### **Earnings/Losses Before Interest, Depreciation, Tax and Amortization**

The calculation of the EBIDTA corresponds to revenues minus operating costs, before interest charges, depreciation and losses in value of the fixed assets, and tax on earnings. Its result allows for better assessment of the financial performance of the Company. It is not used for any purpose other than internal analysis.

For the fiscal year ended on August 31, 2010, the BAIIA posts a negative amount of (\$1,379,000 ) as compared to (\$299,000) for the fiscal year ended on August 31, 2009 and to (\$507,000) for the fiscal year ended on August 31, 2008.

The EBIDTA is not a measurement of results defined in accordance with the Generally Accepted Accounting Principles (GAAP). Thus it does not have a normalized meaning as prescribed by GAAP. The financial measurement most directly comparable and in accordance with GAAP is the net loss.

## **CASH FLOWS**

NUVOLT CORPORATION INC. DATA FROM CONSOLIDATED FINANCIAL STATEMENTS			
(In thousands of dollars)	Year ended 31-Aug-10 (audited)	Year ended 31-Aug-09 (audited)	Year ended 31-Aug-08 (audited)
Operating activities	(885)	158	(610)
Investing activities	(1,531)	(638)	(828)
Financing activities	2,424	535	168
<b>Increase (Reduction)</b>	<b>8</b>	<b>55</b>	<b>(1,270)</b>
Cash flow at beginning	46	(9)	1,261
<b>Cash flow at the end</b>	<b>54</b>	<b>46</b>	<b>(9)</b>

### **Cash flows related to operating activities**

The operating activities of the 2009-2010 fiscal year generated a negative cash flow of (\$885,000), as compared to a positive cash flow of \$158,000 in 2008-2009 and to (\$610,000) in 2007-2008.

This decline in cash flows is explained by the bigger net loss and the increase in accounts-payable.

### **Cash flows related to operating activities**

Investment activities reduced liquid assets by an amount of (\$1,531,000) for the fiscal year ended on August 31, 2010, as compared to (\$638,000) for the fiscal year ended on August 31, 2009 and to (\$828,000) for the fiscal year ended on August 31, 2008.

The investments in the development of **SMARTSCAN** represented the major part of these activities. Since the start of the fiscal year, NUVOLT has also invested amounts in the improvement of the exhibition stand as well as in the updating of the computer network.

### **Cash flows related to financing activities**

Financing activities increased liquid assets by \$2,424,000 for the 2009-2010 fiscal year, as compared to \$535,000 for 2008-2009 and to \$168,000 for 2007-2008.

The financing activities of 2009-2010 come from various types of financing in the form of private placements and convertible debentures closed during the fiscal year.

## FINANCIAL STATUS

NUVOLT CORPORATION INC. DATA FROM CONSOLIDATED FINANCIAL STATEMENTS			
(In thousands of dollars)	As at August 31, 2010 (audited)	As at August 31, 2009 (audited)	As at August 31, 2008 (audited)
	\$	\$	\$
Current Assets	781	747	1,134
Total Assets	3,470	2,300	2,306
Current Liabilities	1,129	772	1,282
Long-Term Debt	408	1,392	320
Debenture	716	130	213
Total Liabilities	2,253	2,294	1,815
Capital Stock	7,173	5,378	5,378
Stock Options	284	164	159
Warrants	821	114	718
Contributed Surplus	1,586	1,273	657
<b>Deficit</b>	<b>(8,647)</b>	<b>(6,923)</b>	<b>(6,421)</b>
<b>Shareholder's Equity</b>	<b>1,217</b>	<b>6</b>	<b>491</b>

### Short term

NUVOLT had short-term assets of \$781,000 and short-term liabilities of \$1,129,000 as at August 31, 2010, as compared to short-term assets of \$747,000 and short-term liabilities of \$772,000 as at August 31, 2009 and short-term assets of \$1,134,000 and short-term liabilities of \$1,282,000 as at August 31, 2008.

The increase of the short-term assets as compared to the previous fiscal year comes from higher accounts-payable, among others concerning the investment tax credits receivable as well as an advance to a supplier with a view to the preparation of the production of **SmartScan**.

The increase of the short-term liabilities as at August 31, 2010 as compared to August 31, 2009 is explained by the accounts-payable as well as the short-term portions of the debt and the debenture which are higher; some debts will mature during the upcoming fiscal year.

As at August 31, 2010, NUVOLT had a working capital ratio of 0.69 as compared to 0.97 as at August 31, 2009 and to 0.88 as at August 31, 2008. This ratio does not respect loan conditions. However, our creditors indicated their tolerance in this respect.

### Long term

Total assets rose from \$2,306,000 as at August 31, 2008, to \$2,300,000 as at August 31, 2009 and to \$3,470,000 as at August 31, 2010.

In addition to the increase in short-term assets, major sums were invested in the development of **SmartScan** and its intellectual property. These amounts represent a total of approximately \$1,100,000. In addition, investments of \$97,000 were also made in fixed assets, among other things, in the improvement of the exhibition stand, in the upgrading of the computer network and in the purchase of two new vehicles for service technicians. Finally, a deposit of \$158,000 has been paid for moulds that will be used in the manufacture of the components of the **SmartScan**.

The long-term debt has declined since August 31, 2009. The closing of the private placement of the first quarter of the fiscal year made it possible to reclassify as Equity an amount of \$775,000 appearing as at August 31,

2009 as sums owing and as notes payable to directors.

The liability component of the debenture increased. This followed the issue of new debentures.

## Capital stock

Shares, warrants and options outstanding as of:

	December 23, 2010	August 31, 2010	August 31, 2009	August 31, 2008
Common shares	75,032,328	72,777,328	52,810,329	52,810,329
Warrants	17,194,499	16,066,999	3,333,333	15,866,666
Stock options	5,296,850	5,200,000	3,648,656	3,840,656
<b>Total</b>	<b>97,523,677</b>	<b>94,044,327</b>	<b>59,792,318</b>	<b>72,517,651</b>

On September 4 and October 19, 2009, the Company closed a private placement by issuing 10,600,333 units at the price of \$0.15, resulting in \$1,590,000 in proceeds. Each unit is composed of a common share and a warrant. Each warrant allows its holder to redeem it for a common share at the price of \$0.15 per share for a 36-month period following the closing date. The fair value of the shares and warrants was estimated at \$1,019,632 and \$570,418 respectively at the grant date using the Black & Scholes option pricing model.

On September 24, 2009, the Company granted 1,600,000 stock options to directors, board's members and employees. The acquisition of the rights will be as follows: 1/3 at the grant date, 1/3 on November 30, 2009 and 1/3 on November 30, 2010. When exercised, each option entitles the holder the right to purchase one common share at an exercise price of \$0.11, until September 14, 2014. The fair value of the options was estimated at \$132,800 using the Black & Scholes option pricing model.

On November 17, 2009, the Company granted 100,000 stock options to an employee. The acquisition of the rights will be as follows: 1/3 at the grant date, 1/3 on January 31, 2010 and 1/3 on November 17, 2010. When exercised, each option entitles the holder the right to purchase one common share at an exercise price of \$0.10, until November 17, 2014. The fair value of the options was estimated at \$7,500 using the Black & Scholes option pricing model.

On January 7, 2010, the Company granted 600,000 stock options to directors and board's members. The acquisition of the rights will be as follows: 1/3 at the grant date, 1/3 on March 31, 2010 and 1/3 on March 31, 2011. When exercised, each option entitles the holder the right to purchase one common share at an exercise price of \$0.12, until January 7, 2015. The fair value of the options was estimated at \$54,000 using the Black & Scholes option pricing model.

On January 7, 2010, the Company granted 600,000 stock options to a consultant, according to its stock option plan. The acquisition of the rights will be at the grant date. When exercised, each option entitles the holders the right to purchase one common share at an exercise price of \$0.12, until January 7, 2011. The fair value of the options was estimated at \$27,600 using the Black & Scholes option pricing model.

On March 29, 2010, the Company made a closing of a private placement by issuing 1,666,666 units at the price of \$0.15, for a total of \$250,000. Each unit is composed of one common share and one warrant. Each warrant entitles the holder to acquire one common share of the Company, at the price of \$0.20 per share for a period of 36 months following the closing date. The fair value of the shares and warrants was estimated at \$162,500 and \$87,500 respectively at the grant date using the Black & Scholes option pricing model.

On August 23, 2010, the Company announced a closing of a private placement by issuing 4,900,000 units at a price of \$0.10 per unit, for a total of \$490,000. Each unit is composed of one common share and one-half of a warrant. Each warrant entitles the holder to acquire one common share of the Company, at a price of \$0.20 per

share for a period of 36 months from the closing date. The fair value of the units and warrants was estimated at \$381,818 and \$108,182 using the Black & Scholes option pricing model.

On August 27, 2010, the Company announced a closing of a private placement by issuing 2,700,000 units at a price of \$0.10 per unit, for a total of \$270,000. Each unit is composed of one common share and one-half of a warrant. Each warrant entitles the holder to acquire one common share of the Company, at a price of \$0.20 per share for a period of 36 months from the closing date. The fair value of the units and warrants was estimated at \$214,570 and \$55,430 using the Black & Scholes option pricing model.

On August 27, 2010, following the closing of a private placement, the Company granted 189,000 stock options to Northern Securities as compensation options. The acquisition of the rights will be at the grant date. When exercised, each option entitles the holder the right to purchase one unit of Nuvolt at an exercise price of \$0.10 par unit until August 27, 2012. Each unit is comprised of one common share and one-half of a common share warrant. The fair value of the options was estimated at \$12,852 using the Black & Scholes option pricing model.

On November 18, 2010, the Company announced a closing of a private placement by issuing 2,255,000 units at a price of \$0.10 per unit, for a total of \$225,500. Each unit is composed of one common share and one-half of a warrant. Each warrant entitles the holder to acquire one common share of the Company, at a price of \$0.20 per share for a period of 36 months from the closing date. The fair value of the units and warrants was estimated at \$180,400 and \$45,100 using the Black & Scholes option pricing model.

On November 18, 2010, following the closing of a private placement, the Company granted 122,850 stock options to Northern Securities as compensation options. The acquisition of the rights will be at the grant date. When exercised, each option entitles the holder the right to purchase one unit of Nuvolt at an exercise price of \$0.10 par unit until November 18, 2012. Each unit is comprised of one common share and one-half of a common share warrant. The fair value of the options was estimated at \$7,494 using the Black & Scholes option pricing model.

## **CHANGES IN ACCOUNTING POLICIES**

### **Goodwill and intangible assets**

During the year 2010, the Company has adopted the recommendations of the Canadian Institute of Chartered Accountants relating to Section 3064 "Goodwill and intangible assets". This section establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets.

The adoption of these new standards had no impact on the amounts recognized in the financial statements.

### **Financial instruments – Disclosures and presentation**

In June 2009, the Canadian Institute of Chartered Accountants modified Section 3862 "Financial instruments – Disclosures and presentation" in order to improve disclosure about fair value assessments, including on the relative reliability of data on which these assessments are based. The hierarchy of fair value consists of different levels which are explained on Note 3 in the annual consolidated financial statements of the year ended August 31, 2010.

These new requirements have had an impact only on the information provided and therefore have no impact on the results of the Company.

## **FUTURE CHANGES TO SIGNIFICANT ACCOUNTING POLICIES**

### **International financial reporting standards (IFRS)**

In February 2008, The Accounting Standards Board has confirmed that publicly accountable enterprises must adopt IFRS for years beginning on or after January 1<sup>st</sup>, 2011. Consequently, the Company will apply IFRS from September 1, 2011. These standards will replace current generally accepted accounting principles of Canada. The Company is currently evaluating the future impact of these new standards on its commercial operations, financial information systems and financial statements.

## **FINANCIAL INSTRUMENTS**

### **Market risk**

Market risk is the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market factors. Market risk comprises three types of risk: interest rate risk, currency risk and price risk. The Company is exposed to two of these risks; the risk associated with interest rate and currency risk.

#### *Interest rate risk*

The Company has borrowings bearing interest at variable rates. Consequently, the Company is exposed to interest rate risk based on changes in the prime rate. However, a 1% change in the prime rate would not have a significant effect on the Company's results and financial position. Assuming a 1% increase of the interest rate on the amounts reported in Long-Term Debts, net loss would have increase by \$3,364 (2009 - \$3,919) for the exercise ended August 31, 2010.

#### *Currency risk*

Part of the Company's purchases and sales are denominated in foreign currency, namely in US dollars. Consequently, the Company has a foreign currency exposure on certain assets and liabilities. As at August 31, 2010, net assets denominated in US dollars and converted to Canadian dollars totalled \$296,743 (2009 - \$165,764). The Company does not use financial instruments to manage its exposure to changes in currency exchange rates.

An increase of 1% of the Canadian dollar against the American dollar, all other variables remaining constant, would decrease the net loss of \$2,359 (2009 – increase of the net loss of \$5,241). A decrease of 1% of the Canadian dollar against the American dollar would increase the net loss of \$2,359 (2009 – decrease of the net loss of \$5,241).

### **Credit risk**

The credit risk is primarily attributable to a debtor not respecting its financial obligations. The Company does not believe to be exposed to a risk of credit higher than normal in regards to its customers. The Company has several customers in various geographical areas, verifies new customers' credit and recognizes a provision for bad debt when management believes that there is a risk not to recover the amount receivable. Moreover, the Company has credit insurance for most of its accounts receivable. Accordingly, the Company made a provision for a debt in the amount of \$38,222. The maximal exposure is equal to the book of notes receivable.

### **Cash flow risk**

Liquidity risk is the risk that the Company may not be able to meet all its commitments regarding net cash flow in a timely manner.

The Company has a credit facility, which allows it to have sufficient funds to meet its short-term financial needs associated with its regular operations. The Company monitors its cash flow weekly, which allows it to seek additional liquidity in a timely manner, when required. The necessary funding comes from debt and the contribution of share capital, and allows the Company to pursue its activities.

As at August 31, 2010, the Company had accounts payable of \$351,968 (2009 – \$256,859). The maturity date of the long-term debt, the debenture and commitments are presented in Notes 15, 16 and 22 of the annual financial statements.

### **Fair value**

The fair value of notes receivable could not be determined because it is virtually impossible to find on the market a financial instrument with basically the same economic characteristics.

For the notes payable bearing interest at variable rates, the fair value is comparable to the book value, since their variable rate.

For the debentures, other notes payable and amount payable, the fair value is comparable to the book value due to the interest rate that is comparable to the rate to which the Company could negotiate a loan with similar conditions and expiry.

### **Other risks**

The Company's business is subject to some other risk factors, in particular the following: exclusive intellectual property rights, non-respect of financial ratios, competition and technological obsolescence, growth management and market development, conflicts of interest, manpower, acquisitions, product errors, stock price variations and the securities market.

## **INTERNAL CONTROL OVER FINANCIAL REPORTING**

As at August 31, 2010, the design of internal procedures, processes and controls was not complete. However, Management is of the opinion that it has implemented adequate and sufficient procedures to provide reasonable assurance that:

- i) the Company's audited consolidated financial statements as at August 31, 2010, established in accordance with Canadian GAAP, together with the other financial information included in the annual filings fairly present in all material respects the Company's financial position as well as the results of operations and cash flows as at August 31, 2010; and
- ii) the annual filings do not contain any untrue or misleading information concerning a material fact or do not fail to disclose a material fact, the disclosure of which is required or necessary to make a statement that is not misleading in light of the circumstances under which it was made, for the period covered by the interim filings.

## **OTHER INFORMATION**

For further information, please note that you can consult the Internet site of SEDAR at: <http://www.sedar.com>

Levis, December 23, 2010

(s) Dominique Dion  
Dominique Dion CMA  
Chief of finances