



MANAGEMENT REPORT

Quarterly report to shareholders
3rd quarter ended on May 31, 2011

This management report, prepared on July 29, 2011, 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 May 31, 2011, as well as for the three-month and nine-month periods ended on May 31, 2011 and 2010. Prepared in accordance with National Instrument 51-102-Continuous Disclosure Obligations, this management report should be read in conjunction with the consolidated interim financial statements of May 31, 2011 and 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 the agriculture, maritime and industrial sectors.

Its main products are the "Potential Equalizer", the "Agrivolt Filters" and "SmartScan". At the present time, these devices are mainly used on dairy and hog farms. The Company is currently adapting its **SmartScan** product for the maritime sector. Development of the industrial sector has begun with a first showcase industrial installation.

NUVOLT holds patents on its technologies and there are additional 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** is the successful nerve of this technology transfer. This sensor, integrated with its management software, is designated under the name of **SmartScan** and is a major innovation in the electric sector. This system is able to predict electrical failures and prevent downtime in 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 into the maritime and industrial sectors offers growth potential beyond 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.

NUVOLT has signed distribution agreements in Canada and United-States. The marketing of the **SmartScan** in the agriculture sector started in February 2011.

The Company manufactures its own traditional products and uses outsourcing in Asia for the **SmartScan** manufacturing. The products are CSA International and EC certified.

NUVOLT has set up a dynamic and experienced team, which will be shortly complemented by a few more marketing specialists. The team will be ready to launch the **SmartScan** on the market and to support traditional products across all targeted sectors.

PERFORMANCE DRIVERS

The Company uses performance drivers to monitor the implementation of its strategy and the attainment of its objectives. The table below presents these performance drivers as well as the associated key performance indicators:

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, speed of product adaptation to customer demand, competitive edge, patenting
Workforce	Ability to hire specialized human resources

HIGHLIGHTS OF THE THIRD QUARTER OF 2010-2011

The quarter was devoted to raising capital. The delay in reaching adequate funding has slowed the pace of implementation of the objectives of the business plan of the Company which are the consolidation of the marketing of products in the agriculture market, the beginning of sales in the industrial and maritime markets as well as the recruitment of necessary human capital.

The cash flow situation has not prevented the sales team of NUVOLT from continuing to stimulate the agriculture sector. Several **SmartScan** systems were sold during the quarter and resulted in revenues of approximately \$122,000. This allowed the Company to show its best quarterly results since November 30, 2009.

Strategic elements have continued to evolve during the quarter. A technology showcase has been put in place for the maritime market in order to adapt the **SmartScan** to a **ShipScan** product and assess the costs, terms and conditions for the regulatory approvals required in this sector. Also, the program with Optimum Farm Insurance for the establishment of joint promotion of the **SmartScan** is nearing completion. It will be launched in August 2011.

The speed of development of NUVOLT will resume as financing is concluded.

Financing

A private placement of up to \$ 3.5 million was announced on June 10, 2011. The closing is planned for the beginning of August 2011 and the net proceeds will be used to continue marketing the **SmartScan**, repay a portion of the debt and reinforce working capital.

In order to ensure availability of cash for the implementation of the business plan, the Company entered into a verbal agreement with Investment Quebec for a moratory of capital repayment on the current debts. This agreement is conditional to the success of the private placement financing. This agreement is prerequisite to conclude similar agreements with other creditors. The amount of debts under negotiations is representing \$ 2.3M.

CONSOLIDATED INTERIM FINANCIAL INFORMATION

NUVOLT CORPORATION INC.				
Data from consolidated interim financial statements				
PROFIT AND LOSS	Third Quarter ended May 31,		Nine-Month Period ended May 31,	
	2011	2010	2011	2010
<i>(In thousands of dollars, except data per share)</i>	(unaudited)	<i>(unaudited)</i>	(unaudited)	<i>(unaudited)</i>
	\$	\$	\$	\$
Gross revenue	359	289	835	833
Cost of goods sold	235	204	615	556
Gross profit	124	85	220	277
Research and Development				
Expenses, net	86	2	86	14
Selling expenses	186	222	535	629
Administrative expenses	187	133	574	597
Financial expenses	90	40	265	120
	549	397	1,460	1,360
Net income (Net loss)	(425)	(312)	(1,240)	(1,083)
Net income (Net loss), non diluted and diluted per share	(0.0057)	(0.0048)	(0.0167)	(0.0171)

Certain comparative figures have been reclassified to conform to the presentation used in the current period.

The following table illustrates the last eight quarters for which Nuvolt published unaudited interim financial statements:

<i>(In thousands of dollars)</i>	Quarter ended May 31, 2011	Quarter ended February 28, 2011	Quarter ended November 30, 2010	Quarter ended August 31, 2010
	\$	\$	\$	\$
Gross revenue	359	209	267	160
Net income (Net loss)	(425)	(475)	(340)	(485)
Per share	(0.0057)	(0.0063)	(0.0046)	(0.0074)

<i>(In thousands of dollars)</i>	Quarter ended May 31, 2010	Quarter ended February 28, 2010	Quarter ended November 30, 2009	Quarter ended August 31, 2009
	\$	\$	\$	\$
Gross revenue	289	178	366	179
Net income (Net loss)	(312)	(451)	(319)	(246)
Per share	(0.0048)	(0.0071)	(0.0051)	(0.0047)

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.

OPERATING RESULTS

Consolidated sales figure

NUVOLT posted a sales figure of \$359,000 for the quarter ended on May 31, 2011, as compared to \$289,000 (+24%) for the quarter ended on May 31, 2010. For the nine-month period ended on May 31, 2011, the sales figure was \$835,000, as compared to \$833,000 for the same period of the previous fiscal year, namely a 0.002% increase.

SmartScan sales represented about \$122,000 during the quarter. We also note an important increase of the sales of OEM Filters, showing an economic recovery.

Impact of the currency exchange rate

The average exchange rate of the quarter was \$0.97 Can for \$1 US, as compared to \$1.02 Can for \$1 US in the same quarter of the 2009-2010 fiscal year. For the nine-month period, the average exchange rate was \$0.99 Can for \$1 US, as compared to \$1.05 Can for \$1 US during the nine-month period of last year. The impact of the exchange rate on the sales figure of the quarter ended on May 31, 2011 was (\$5,300). For the nine-month period ended on the same date, the negative impact was \$1,690. This impact was positive in 2009-2010, for \$1,600 in the quarter and \$10,800 in the nine-month period.

Had it not been for the impact of the exchange rate, the increase in the sales of 2010-2011, in comparison with the previous year, would have been 28 % for the quarter and 1.6 % for the nine-month period.

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 interim financial statements				
	Third Quarter ended May 31,		Nine-Month Period ended May 31,	
	2011	2010	2011	2010
<i>(In thousands of dollars)</i>	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	\$	\$	\$	\$
Products	306	205	667	588
Services	53	84	168	245
Total	359	289	835	833

Product revenues represented 85% of the revenues in the quarter ended on May 31, 2011, as compared to 71% in the same quarter of the previous year. Since the beginning of the current fiscal year, product revenues represent 80% of the revenues as compared to 71% for the previous fiscal year. The sales structure is beginning to change with the arrival on the market the new product **SmartScan**. The product is providing a "plug and play" technology that can be sold through a distribution network. It requires less and less on-site NUVOLT'S technicians. Sales of products will now occupy a higher percentage of sales than in previous years.

The following table illustrates the geographical distribution of NUVOLT sales:

NUVOLT CORPORATION INC.				
Data from consolidated interim financial statements				
<i>(In thousands of dollars)</i>	Third Quarter ended May 31,		Nine-Month Period ended May 31,	
	2011 (unaudited)	2010 (unaudited)	2011 (unaudited)	2010 (unaudited)
	\$	\$	\$	\$
Canada	202	207	499	607
USA	157	82	336	226
Total	359	289	835	833

Sales in United States represented 44% and 40% of the sales of the quarter and of the nine-month period of the current year, as compared to 28% and 27% for the quarter and for the nine-month period of the previous fiscal year. These percentages are similar to those experienced by the Company before the economic crisis.

Gross profit

The gross profit of the third quarter of the 2010-2011 fiscal year totals \$124,000, representing a gross profit margin of 34.7%, as compared to \$85,000 or a gross profit margin of 30% for the same quarter of 2009-2010. The gross profit margin of the nine-month period ended on May 31, 2011 is \$220,000 or 26.3%, as compared to \$277,000 or 33% in the nine-month period ended on May 31, 2010.

The gross margin for the quarter is higher than for the quarter of the previous year. The turnover has increased and this, with a fixed production and service structure and comparable to last year. Gross margin is lower for the nine-month period of the current year, as compared to the same period of last year and this, for about the same revenue. This is explained by the fact that depreciation had been recorded on the capital assets used in production of various components of **SmartScan**, such as mussels and test benches. In addition, in the second quarter of the fiscal year, a major expense for delivery fees for the first order of the components of **SmartScan**, coming from Asia was recorded. These costs were incurred in order to receive the products without delay, given the orders received. The next deliveries will be planned and transportation expenses will be much lower. Without these additional fees, the gross margin would have represented about 30%, which approximates the rate of the previous year.

Research and development expenses

Research and development expenses represented \$96,000 for the quarter ended on May 31, 2011, as compared to \$284,000 for the quarter ended on May 31, 2010. They were \$565,000 for the current nine-month period, as compared to \$968,000 for the nine-month period of the previous fiscal year.

The **SmartScan** is ready for marketing. Some R&D activities continue to take place to resolve adjustments required after the first installations as well as to adapt the product to new target markets: the industrial and maritime.

The capitalized amounts are those meeting the capitalization criteria of Section 3064 of the *CICA Handbook*. The depreciation of the research and development expenses has not been capitalized. The product is in its

marketing phase, the Company started depreciation of costs capitalized since 2007.

Selling expenses

Selling expenses totaled \$186,000 for the third quarter of the 2010-2011 fiscal year, as compared to \$222,000 for the same quarter of the 2009-2010 fiscal year. For the nine-month period ended on May 31, 2011, selling expenses were \$535,000, as compared to \$629,000 for the same period of the previous fiscal year.

The distribution network for **SmartScan** in Canada and the U.S is now in place. The efforts to maintain this network required less travel expenses.

Administration expenses

Administration expenses reached \$187,000 for the quarter ended on May 31, 2011, as compared to \$133,000 for the quarter ended on May 31, 2010. For the nine-month period ended on May 31, 2011, these expenses were \$574,000, as opposed to \$597,000 for the nine-month period ended on May 31, 2010.

The increase of these expenses may be explained by a stock-based compensation expense.

Financial expenses

The financial expenses of the quarters ended on May 31, 2011 and 2010 are \$90,000 and \$41,000. They represent \$265,000 and \$120,000 for the nine-month periods ended on May 31, 2011 and 2010.

This increase may be explained by the interests posted on the new debts acquired since July 2010.

Net loss

For the third quarter of the 2010-2011 fiscal year, the net loss stands at \$425,000 (\$0.0057/ share), as compared to \$312,000 (\$0.0048/share) for the same quarter of the previous year. For the nine-month period ended on May 31, 2011, the net loss is \$1,240,000 (\$0.0167/share), as compared to \$1,083,000 (\$0.0171 /share) for the same nine-month period of the previous fiscal year.

Tax on earnings

NUVOLT has no income tax payable for the quarters ended on May 31, 2011 and 2010. 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 quarter and the nine-month period ended on May 31, 2011, the BAIIA posts a negative amount of (\$339,000) and (\$988,000), as compared to (\$270,000) and (\$943,000) for the quarter and nine-month period ended on May 31, 2010.

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 interim financial statements				
CASH FLOW <i>(In thousands of dollars)</i>	Third Quarter ended May 31,		Nine-Month Period ended May 31,	
	2011 (unaudited)	2010 (unaudited)	2011 (unaudited)	2010 (unaudited)
	\$	\$	\$	\$
Operating activities	(302)	(274)	(688)	(442)
Investing activities	(17)	(303)	(689)	(1,079)
Financing activities	327	551	1,331	1,467
Increase (Reduction)	8	(26)	(46)	(54)
Cash flow at beginning	-	18	54	46
Cash flow at the end	8	(8)	8	(8)

Cash flows related to operating activities

The operating activities of the third quarter of the 2010-2011 fiscal year generated a negative cash flow of (\$302,000), as compared to (\$274,000) for the same quarter of the previous fiscal year. These activities generated a negative flow of (\$688,000) for the nine-month period ended on May 31, 2011, and a negative flow of (\$442,000) in the nine-month period ended on May 31, 2010.

This decline in cash flows for the quarter ended May 31, 2011 is explained by the net loss, by the increase in accounts-receivable and the decrease in accounts-payable. The decline in cash flows for the current fiscal year is also explained by the net loss as well as the increase in accounts-receivable and inventory.

Cash flows related to investment activities

Investment activities reduced cash flows by a sum of (\$17,000) and of (\$689,000) for the quarter and nine-month period ended on May 31, 2011, as compared to a decrease of (\$303,000) and (\$1,079,000) for the quarter and the nine-month period ended on May 31, 2010.

| Those activities are less than the previous year given the state of completion of the **SmartScan**.

Cash flows related to financing activities

Financing activities increased the cash flows by \$327,000 for the third quarter of the 2010-2011 fiscal year, as compared to \$551,000 for the same quarter of the 2009-2010 fiscal year. They increased cash flows by \$1,331,000 for the nine-month period ended on May 31, 2011 as compared to \$1,467,000 in the nine-month period of the previous quarter.

The financing activities of the quarter come from the financial contribution of directors in preparation for the closure of the next financing operation.

FINANCIAL POSITION

NUVOLT CORPORATION INC.		
Data from consolidated interim financial statements		
BALANCE SHEETS	As at May 31, 2011 (unaudited)	As at August 31, 2010 (audited)
<i>(In thousands of dollars)</i>	\$	\$
Current Assets	937	781
Total Assets	4,229	3,474
Current Liabilities	3,186	1,129
Long-Term Debt	746	408
Debenture	-	716
Total Liabilities	3,932	2,253
Capital Stock	7,353	7,173
Stock options	395	284
Warrants	867	821
Contributed surplus	1,610	1,586
Deficit	(9,928)	(8,647)
Shareholders' Equity	297	1,217

Short term

NUVOLT had \$937,000 in short-term assets and \$3,186,000 in short-term liabilities as of May 31, 2011, as compared to \$781,000 in short-term assets and \$1,129,000 in short-term liabilities as of August 31, 2010.

The increase in the short-term assets mainly comes from stocks. The level of stocks coming from the **SmartScan** outsourcing manufacturing is more important than traditional products made of "just in time" at the Company's plant.

The increase in the short-term liabilities as at May 31, 2011, as compared to August 31, 2010 is important. Operating debts are higher. The lack of cash-flow forced the Company to delay payments to important suppliers until the closing of the financing. In addition, several debts and debentures maturing within the next 12 months are recognized over the short term.

As of May 31, 2011, NUVOLT posted a working capital ratio of 0.29, as compared to 0.69 as of August 31, 2010. This ratio does not respect loan conditions.

To comply with requirements of the current private placement, negotiations are underway with holders of long-term debts and debentures in order to obtain moratoria on capital repayment. The new repayment terms will begin at the closing of the financing. This will ensure that the financial picture of NUVOLT presents more efficient ratios.

Long term

Total assets rose from \$3,474,000 as of August 31, 2010 to \$4,229,000 as of May 31, 2011. The increase comes not only from the short-term assets but also from the various investments this year to finalize the **SmartScan** and to set up the production structure.

The long-term debt has declined since August 31, 2010. A greater portion is presented under short-term debt based on the repayments schedules.

Capital stock

Common shares, warrants and stock options outstanding as at:

	July 29 , 2011	May 31, 2011	August 31, 2010
Common shares	75,032,328	75,032,328	72,777,328
Warrants	17,194,499	17,194,499	16,066,999
Stock options	7,496,850	7,496,850	5,200,000
Total	99,723,677	99,723,677	94,044,327

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 per 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.

On January 11, 2011, the Company granted 1,050,000 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 March 31, 2011 and 1/3 on January 11, 2012. When exercised, each option entitles the holder the right to purchase one common share at an exercise price of \$0.10, until January 11, 2016. The fair value of the options was estimated at \$65,100 using the Black & Scholes option pricing model.

On March 14, 2011, the Company granted 1,050,000 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 May 31, 2011 and 1/3 on March 14, 2012. When exercised, each option entitles the holder the right to purchase one common share at an exercise price of \$0.10, until March 14, 2016. The fair value of the options was estimated at \$60,900 using the Black & Scholes option pricing model.

On March 24, 2011, the Company granted 600,000 stock options to a consultant. The acquisition of the rights will be as follows: 1/3 at the grant date, 1/3 on May 31, 2011 and 1/3 on March 24, 2012. When exercised, each option entitles the holder the right to purchase one common share at an exercise price of \$0.10, until March 24, 2013. The fair value of the options was estimated at \$14,400 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. 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 IN 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 1st, 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 \$199 (2010 - \$50) for the quarter ended May 31, 2011.

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 May 31, 2011, net assets denominated in US dollars and converted to Canadian dollars totalled \$55,615 (August 31, 2010 - \$296,743). 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 \$200 (2010 – increase of \$489). A decrease of 1% of the Canadian dollar against the American dollar would increase the net loss of \$454 (2010 – decrease of \$489).

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. 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 May 31, 2011, the Company had accounts payable of \$956,829 (August 31, 2010 – \$351,968).

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 May 31, 2011, 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 financial statements as at May 31, 2011, established in accordance with Canadian GAAP, together with the other financial information included in the interim filings fairly present in all material respects the Company's financial position as well as the results of operations and cash flows as at May 31, 2011; and
- ii) the interim 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, July 29, 2011

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