



MANAGEMENT REPORT

Quarterly report to shareholders
2nd quarter ended on February 28, 2011

This management report, prepared on April 20, 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 February 28, 2011, as well as for the three-month and six-month periods ended on February, 2011 and 2010. Prepared in accordance with National Instrument 51-102-Continuous Disclosure Obligations, this management report should be read in conjunction with the interim consolidated financial statements of February 28, 2011 as well as the audited consolidated financial statements of August 31, 2010 and 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.

TABLE OF CONTENTS :

Description of activities and overview	2
Vision and strategy	2
Performance drivers	2
Highlights of the second quarter of 2010-2011	3
Consolidated annual financial information	5
Information on the subsidiary	6
Operating results	6
Cash flows	9
Financial position	10
Changes in accounting policies	12
Future changes in accounting policies	12
Financial instruments	12
Internal controls over financial reporting	13
Other information	14

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 *Agrivolt Filters* and the *SmartScan*. 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 in the maritime and industrial markets offers better growth potential than in the agriculture 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 has 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 now be ready to launch the **SmartScan** on the market and to support traditional products over all sectors targeted.

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

HIGHLIGHTS OF THE SECOND QUARTER OF 2010-2011

Earnings

The quarter was devoted to the preparation for the manufacture of **SmartScan** in Asia. The final revision of the workshop drawings, the validation of the components, the adjustment of the production lines, the setting up of bench tests to ensure adequate quality control, the training of production personnel and production start-up required most of the Company's human and financial resources.

The sales figure of the quarter ended on February 28, 2011 shows a 17% increase in comparison with the quarter ended on February 28, 2010. Since the start of the fiscal year, it is a 12.6% decline in comparison with the previous year.

A wind of optimism is being felt in the agriculture sector, notably after two years of a particularly morose climate. Sales have not reached the pre-recession level, but the demand for products has picked up and is encouraging.

We can feel that the distribution network set up in Canada and the United States recognizes NUVOLT's expertise and this has led to an increase in the demand for products and services.

NUVOLT is happy to have posted a few sales of its new **SmartScan** product at the end of the quarter with agriculture customers in Québec.

The order book for **SmartScan** is gradually being filled. The sales results for the next quarter will show growth.

Marketing of SMARTSCAN

After more than \$3.7 million in investments in Research & Development, **SmartScan** is finally ready for marketing in the agriculture sector.

The first delivery of products manufactured in Asia was received.

The distribution network in Canada and the United States in the dairy sector is in place and orders are being processed.

A program with Optimum, an insurer in Quebec, was set up for the promotion of **SmartScan** and will begin shortly. This program includes insurance cost discounts for clients. Discussions are under way with another

insurance company and their conclusion is imminent. If the results prove to be positive, a strategy will be developed to extend the program to other insurers of Canada and the United States.

A marketing agreement is being negotiated for the hog sector. For this purpose, tests to validate **SmartScan** were carried out at the research centre of a leading distributor of hog farm equipment in the United States.

Other activity markets are also being developed:

In the maritime market, agreements have been reached with the distributor *Navware* for the setting up of technology showcases for the biggest ship owner of Quebec as well as a distributor of electro-technical equipment of this sector.

For the industrial market, a technology showcase is in place at one of the biggest stevedore companies in Canada. In addition, an agreement was reached to install a technology showcase in a major company of the agri-food sector.

Financing and cash flow status

The current financial context does not promote access to capital for emerging companies. The amounts that NUVOLT has succeeded in raising so far are clearly insufficient for its needs and the time periods required to conclude financing have had considerable impacts on its performance.

The Company is holding negotiations for major financing and the chances of success are beginning to take shape. The investment will make it possible to consolidate the marketing of products in the agriculture market, to begin sales in the maritime and industrial markets, and to recruit the necessary human capital for the smooth conduct of operations. The conclusion of this financing will be completed before the end of the next quarter.

Since the start of the year, liquid assets have been supported by a private investment of \$225,500, a temporary loan of \$450,000 from Investissement Québec and advances of funds from directors, totalling \$400,000 so far.

CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NUVOLT CORPORATION INC.				
Data from consolidated interim financial statements				
PROFIT AND LOSS	Second quarter ended		Six-month period ended	
	2/28/2011	2/28/2010	2/28/2011	2/28/2010
<i>(In thousands of dollars except data per share)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>
	\$	\$	\$	\$
Gross revenue	209	178	476	544
Cost of goods sold	197	139	380	353
Gross profit	12	39	96	191
Research and Development Expenses, net	-	-	-	11
Selling expenses	175	223	349	407
Administrative expenses	214	221	387	464
Financial expenses	98	46	175	79
	487	490	911	961
Net income (Net loss)	(475)	(451)	(815)	(770)
Net income (Net loss), non diluted and diluted per share	(0.0063)	(0.0071)	(0.0110)	(0.0122)

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

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

<i>(In thousands of dollars)</i>	Quarter ended February 28, 2011	Quarter ended November 30, 2010	Quarter ended August 31, 2010	Quarter ended May 31, 2010
	\$	\$	\$	\$
Gross revenue	209	267	160	289
Net income (Net loss)	(475)	(340)	(485)	(312)
Per share	(0.0063)	(0.0046)	(0.0074)	(0.0048)

<i>(In thousands of dollars)</i>	Quarter ended February 28, 2010	Quarter ended November 30, 2009	Quarter ended August 31, 2009	Quarter ended May 31, 2009
	\$	\$	\$	\$
Gross revenue	178	366	179	462
Net income (Net loss)	(451)	(319)	(246)	(154)
Per share	(0.0071)	(0.0051)	(0.0047)	(0.0029)

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 \$209,000 for the quarter ended on February 28, 2011, as compared to \$178,000 (+ 17 %) for the quarter ended on February 28, 2010. For the six-month period ended on February 28, 2011, the sales figure is \$476,000, as compared to \$544,000 for the same period of the previous year, namely a 12.6% decline.

The results of the quarter are encouraging. This shows a certain economic recovery; one that is slow yet present. Indeed, an increase of 21% of the revenue related to the sale of the Potential Equalizer and close to 200% of the revenue associated with OEM filters has been constant since the start of the fiscal year, in comparison with the previous year.

Impact of the exchange rate

The average exchange rate for the quarter was \$1 Can for \$1 US, as compared to \$1.05 Can for \$1 US during the same quarter of the 2009-2010 year. For the six-month period, the average exchange rate was \$1 Can for \$1 US as compared to \$1.06 Can for \$1 US during the six-month period of last year. Hence there was no impact of the exchange rate on the sales figure of the quarter and of the six-month period ended on February 28, 2011. The impact in 2009-2010 was positive for an amount of \$3,000 for the quarter and \$8,000 for the six-month period.

Without the impact of the exchange rate, the variation of 2010-2011 sales, as compared to the previous year, would have been +19.5 % for the quarter and -11 % for the six-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				
	Second quarter ended		Six-month period ended	
	2/28/2011 (unaudited)	2/28/2010 (unaudited)	2/28/2011 (unaudited)	2/28/2010 (unaudited)
<i>(In thousands of dollars)</i>				
	\$	\$	\$	\$
Products	147	104	361	385
Services	62	74	115	159
Total	209	178	476	544

Revenue from products represented 70% of the revenue in the quarter ended on February 28, 2011, as compared to 58% in the quarter of the previous year. We are therefore returning to an average percentage comparable to the years prior to the economic crisis. Revenue from products represented 76 % of total revenue for the six-month period ended on February 28, 2011, as compared to 71% for the same period ended on February 28, 2010.

The following table shows the geographical breakdown of NUVOLT sales:

NUVOLT CORPORATION INC.				
Data from consolidated interim financial statements				
	Second quarter ended		Six-month period ended	
	2/28/2011 (unaudited)	2/28/2010 (unaudited)	2/28/2011 (unaudited)	2/28/2010 (unaudited)
<i>(In thousands of dollars)</i>				
	\$	\$	\$	\$
Canada	134	128	297	401
USA	75	50	179	143
Total	209	178	476	544

Sales in the United States have been progressing since the start of the fiscal year. This progress is attributable to OEM sales. Indeed, they represented 36% and 38% of the sales of the current quarter and of the six-month period, as compared to 28% and 26% for the quarter and the six-month period of the previous year. The impact of the economic context of the last two years was greater for our U.S. customers. We have noted a recovery since September 2010.

Gross profit

The gross profit of the second quarter of 2010-2011 totals \$12,000, representing a gross profit margin of 6%, as compared to \$39,000 or a gross profit margin of 22% for 2009-2010. The gross profit of the six-month period ended on February 28, 2011 is \$9,000 or 20%, as compared to \$192,000 or 35% for the six-month period ended on February 28, 2010.

The percentage of gross profit is at its lowest level in recent years. First, the production and service structure is fixed, which directly impacts the gross profit in the case of low sales. In addition, in the quarter ended on February 28, 2011, a major expense for delivery fees for the first order of the components of **SmartScan**, coming from Asia was recognized. These \$23,000 in expenses 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.

Research and development expenses

Investments in research and development represented \$177,000 for the quarter ended on February 28, 2011, as compared to \$499,000 for the quarter ended on February 28, 2010. They were \$470,000 for the current six-month period, as compared to \$684,000 for the six-month period of the previous fiscal year. The amounts that were capitalized are those meeting the capitalization criteria of Section 3064 of the *CICA Handbook*.

We note that the expenses incurred for the development of **SmartScan** have declined since the last fiscal year. As the product is ready for marketing, the expenses are made up of consultation time and fees for the last adjustment tests.

Selling expenses

Selling expenses totalled \$175,000 for the second quarter of 2010-2011, as compared to \$223,000 for the same quarter of 2009-2010. For the six-month period ended on February 28, 2011, selling expenses were \$349,000, as compared to \$407,000 for the same period of the previous fiscal year.

Last year, major investments had been made to set up a distribution network for **SmartScan** in Canada and the U.S. This network is now in place. The efforts to maintain this network required less travel expenses.

Administration expenses

Administration expenses reached \$214,000 for the quarter ended on February 28, 2011, as compared to \$221,000 for the quarter ended on February 28, 2010. For the six-month period ended on February 28, 2011, these expenses were \$387,000, as compared to \$464,000 for the six-month period ended on February 28, 2010.

The decline may be explained by a stock-based compensation expense recognized last year.

Financial expenses

Financial expenses totalled \$98,000 for the second quarter of the 2010-2011 fiscal year, as compared to \$46,000 for the same quarter of the previous fiscal year. They represented \$175,000 and \$79,000 for the six-month periods ended on February 28, 2011 and 2010.

This is a major increase which may be explained by the interest posted on the new debts acquired since July 2010, namely debentures as well as a note payable to Investissement Québec.

Net loss

For the second quarter of 2010-2011, the net loss stood at \$475,000 (\$0.0063/share), as compared to \$451,000 (\$0.0071/share) for the same period of the previous fiscal year. For the six-month period ended on February 28, 2011, the net loss was \$815,000 (\$0.011/share), as compared to \$770,000 (\$0.0122/share) for the same six-month period of the previous fiscal year.

Tax on earnings

NUVOLT has no income tax payable for the quarters ended on February 28, 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 six-month period ended on February 28, 2011, the EBIDTA posted a negative amount of (\$379,000) and (\$64,000), as compared to (\$410,000) and (\$679,000) for the quarter and six-month period ended on February 28, 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	Second quarter ended		Six-month period ended	
	2/28/2011 (unaudited)	2/28/2010 (unaudited)	2/28/2011 (unaudited)	2/28/2010 (unaudited)
<i>(In thousands of dollars)</i>				
	\$	\$	\$	\$
Operating activities	(254)	(48)	(386)	(168)
Investing activities	(219)	(571)	(672)	(777)
Financing activities	469	192	1,004	916
Increase (Reduction)	(4)	(427)	(54)	(29)
Cash flow at beginning	4	445	54	47
Cash flow at the end	-	18	-	18

Cash flows related to operating activities

Operating activities of the second quarter of the 2010-2011 fiscal year generated a negative cash flow of (\$254,000), as compared to (\$48,000) for the second quarter of the 2009-2010 fiscal year. They generated a negative cash flow of (\$386,000) for the six-month period ended on February 28, 2011 and (\$168,000) for the six-month period ended on February 28, 2010.

The decline in cash flow is explained by the net loss and by the increase in stocks.

Cash flows related to investment activities

Investment activities reduced cash flows by a sum of (\$219,000) and of (\$672,000) for the quarter and six-month period ended on February 28, 2011 as compared to (\$571,000) et (\$777,000) for the quarter and six-month period ended on February 28, 2010.

Investments in the development of **SmartScan**, in the purchase of moulds for its production as well as in the setting up of bench tests represented the major share of these activities. They are less than the previous year given the state of completion of the product.

Cash flows related to financing activities

Financing activities increased cash flows by \$469,000 for the second quarter of the 2010-2011 fiscal year, as compared to \$192,000 for the same quarter of the 2009-2010 fiscal year. They increased cash flows by \$1,004,000 for the six-month period ended on February 28, 2011, as compared to \$916,000 for the six-month period of the fiscal year.

The financing activities of the quarter come from advances from directors as well as the second instalment of a note payable agreed upon with Investissement Québec.

FINANCIAL POSITION

NUVOLT CORPORATION INC.		
Data from consolidated interim financial statements		
BALANCE SHEETS	As at	As at
<i>(In thousands of dollars)</i>	February 28, 2011	August 31, 2010
	(unaudited)	(audited)
	\$	\$
Current Assets	914	781
Total Assets	4,205	3,470
	-	-
Current Liabilities	3,181	1,129
Long-Term Debt	367	408
Debenture	-	716
Total liabilities	3,548	2,253
	-	-
Capital Stock	7,353	7,173
Stock options	323	284
Warrants	867	821
Contributed surplus	1,610	1,586
Deficit	(9,496)	(8,647)
Shareholders' Equity	657	1,217

Short term

NUVOLT had short-term assets of \$914,000 and short-term liabilities of \$3,181,000 as at February 28, 2011, as compared to short-term assets of \$781,000 and short-term liabilities of \$1,129,000 as at August 31, 2010.

The increase in the short-term assets mainly comes from stocks. The first delivery of the components of **SmartScan** was received during the quarter. The quantity received is based on the estimated sales for the next two months.

Short-term liabilities also increased in comparison with August 31, 2010. Operating debts are higher owing to the sum due for the purchase of the components of **SmartScan** coming from Asia. In addition, several debts maturing within the next 12 months are recognized over the short term. Finally, advances from members of the board of directors were received in order to serve as bridge loan until greater financing arrives.

As at February 2011, NUVOLT posted a cash flow ratio of 0.29, as compared to 0.69 as at August 31, 2010. This ratio does not respect loan conditions.

Long term

Total assets rose from \$3,470,000 as at August 31, 2010 to \$4,205,000 as at February 28, 2011. In addition to the increase in short-term assets, tangible assets and intangible assets also rose. Indeed, \$320,000 was invested in the purchase of moulds and in the setting up of bench tests for the production of **SmartScan**. In addition, \$34,000 in investments was made in patents and \$470,000 was capitalized for research & development.

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

Capital Stock

Shares, warrants and options outstanding as of:

	April 20, 2011	February 28, 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	5,846,850	5,200,000
Total	99,723,677	98,073,677	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 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.

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 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 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 increased by \$272 (2010 - \$46) for the quarter ended February 28, 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 February 28, 2011, net assets denominated in US dollars and converted to Canadian dollars totalled \$80,650 (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 increase the net loss of \$1,700 (2010 – \$559). A decrease of 1% of the Canadian dollar against the American dollar would decrease the net loss of \$7,600 (2010 - \$559).

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 February 28, 2011, the Company had accounts payable of \$1,062,523 (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 CONTROLS OVER FINANCIAL REPORTING

As at February 28, 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 interim consolidated financial statements as at February 28, 2011, established in accordance with Canadian GAAP, together with the other financial information included in the quarterly filings fairly present in all material respects the Company's financial position as well as the results of operations and cash flows as at February 28, 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, April 20, 2011

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