



MANAGEMENT REPORT

Quarterly report to shareholders
2nd quarter ended on February 28, 2010

This management report, prepared on March 31, 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 February 28, 2010, as well as for the three-month and six-month periods ended on February 28, 2010 and 2009. Prepared in accordance with National Instrument 51-102-Continuous Disclosure Obligations, this management report should be read in conjunction with the consolidated intermediate financial statements of February 28, 2010 and the audited consolidated financial statements of August 31, 2009 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 to 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 farm 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, 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 SECOND QUARTER OF 2009-2010

Earnings

The difficult economic situation has continued to cause a reduction in NUVOLT sales. The sales figure of the quarter ended on February 28, 2010 posted a 59% decline in comparison with the quarter ended on February 28, 2009. Since the start of the financial year, there has been a 50% drop over the previous year.

A slight economic recovery has been felt since the start of the quarter. According to the March 2010 issue of *Pork Magazine*, the demand for beef, pork and dairy products has been on the rise since the start of 2010. The U.S. hog industry even seems to once again be making a profit. However, these profits are small. The revenues of the year will allow farmers to recoup barely 1/3 of the losses accumulated since the start of the economic crisis. The price of milk is also up, generating optimism in the industry.

As for Québec, according to the March 2010 issue of the *Bulletin des Agriculteurs*, the confidence of the agricultural sector is lower than in other sectors. The government's intervention to support producers suggests, however, a rapid consolidation of their situation.

Over the last few weeks, NUVOLT has noted this economic recovery trend. Indeed, requests for interventions from the U.S. were received at the end of the quarter, the conclusion of system sales following assessments is picking up, and OEM sales have grown in strength. The marketing of **SMARTSCAN** has come at the right time, in a context where the management of equipment and costs will be a priority over the next few years.

SMARTSCAN

Investments in the development of **SMARTSCAN** represented \$499,000 for the quarter and \$672,000 since the start of the fiscal year, out of a global budget of \$1.2 million. A first commercial version has been completed. The remaining budget allocated to development will mainly be used to improve the software, to expand test banks, to put various components into simultaneous operation, and to start the production of **SMARTSCAN**.

A commercial version of the product was showcased at one of the biggest agricultural fairs in North America, namely the World Ag Expo in California, last February. Visitors were able to see firsthand the capacity of **SMARTSCAN** to continuously monitor the current in order to predict an electrical failure and to prevent production downtimes, equipment failures and risks of fire. Visitors witnessed the transfer of alarm states and the straightforward information provided to help guide users towards solutions for the various problems encountered.

This presence at the World Ag Expo allowed NUVOLT to enter into product distribution agreements for the dairy farming sector in the United States. The targeted distributors are those covering the main regions where there is a high concentration of dairy farms in the United States.

In addition to the identified sectors, namely agriculture, industrial and real-estate/commercial, another activity sector opened up to **SMARTSCAN** at the start of the quarter. A distribution agreement with **Navware Canada Inc.**, a company specializing in the distribution of equipment and product software designed for commercial vessels was signed. The senior management of **Navware** realized the product's potential for preventive maintenance on the electrical network of commercial ships. This 10-year agreement with a sales potential on the order of several million dollars will allow NUVOLT to begin the diversification of its markets.

Financing and cash flow status

The private placement, in the amount of \$1,590,050, completed during the first quarter of the fiscal year made it possible to invest the necessary amounts for the development of **SMARTSCAN** for the first two quarters of the 2009-2010 fiscal year.

Due to the low sales of the last few months, NUVOLT needs additional cash to increase its working capital to support the first phase of the commercial launch of **SMARTSCAN**. A private placement of \$500,000 is currently underway and should be completed by April 30, 2010. A first closing for \$250,000 has been made on March 29, 2010.

The Company is also taking steps to obtain at least \$2 million in additional funding for the large-scale launch of the product in the different activity sectors targeted.

CONSOLIDATED INTERMEDIARY FINANCIAL INFORMATION

NUVOLT CORPORATION INC.				
Data from consolidated interim financial statements				
PROFIT AND LOSS	Second quarter ended		Six-month period ended	
	2/28/2010 (unaudited)	2/28/2009 (unaudited)	2/28/2010 (unaudited)	2/28/2009 (unaudited)
<i>(In thousands of dollars except data per share)</i>				
	\$	\$	\$	\$
Gross revenue	178	429	544	1,096
Cost of goods sold	157	216	385	525
Gross profit	21	213	159	571
Research and Development Expenses, net	-	-	11	-
Selling expenses	224	184	412	336
Administrative expenses	202	128	427	257
Financial expenses	48	48	80	87
	474	360	930	680
Other items	2	23	1	57
Net income (Net loss)	(451)	(124)	(770)	(52)
Net income (Net loss), non diluted and diluted per share	(0.0071)	(0.0024)	(0.0122)	(0.0010)

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 February 28, 2010	Quarter ended November 30, 2009	Quarter ended August 31, 2009	Quarter ended May 31, 2009
	\$	\$	\$	\$
Gross revenue	178	366	193	396
Net income (Net loss)	(451)	(319)	(247)	(154)
Per share	(0.0071)	(0.0051)	(0.0047)	(0.0029)

<i>(In thousands of dollars)</i>	Quarter ended February 28, 2009	Quarter ended November 30, 2008	Quarter ended August 31, 2008	Quarter ended May 31, 2008
	\$	\$	\$	\$
Gross revenue	429	667	303	371
Net income (Net loss)	(124)	72	(163)	(147)
Per share	(0.0024)	0.0014	(0.0031)	(0.0028)

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 \$178,000 for the quarter ended on February 28, 2010, as compared to \$429,000 (-59%) for the quarter ended on February 28, 2009. For the six-month period ended on February 28, 2010, the sales figure was \$544,000, as compared to \$1,096,000 for the same period of the previous fiscal year, namely a 50% decline.

As was the case in the previous quarter, sales were down significantly over the previous year. The farming sector is still in a precarious economic situation, mainly in the United States where NUVOLT's sales fell by 75% in this quarter in comparison with the quarter ended on February 28, 2009. Farmers have postponed all investment plans. Instead, the focus is on the consolidation of assets, which explains the increase in the Company's preventive maintenance revenues.

In Canada, the situation is less dramatic; sales have not fallen as much as in the U.S. Assessment revenues have even grown. However, the conclusion of system sales is much slower. Indeed, out of 19 assessments carried out to date in Canada, only 6 system sales have been made, which represents 32%. The average percentage of past years was over 50%.

Impact of the currency exchange rate

The average exchange rate of the quarter was \$1.05 Can for \$1 US, as compared to \$1.24 Can for \$1 US in the same quarter of the 2008-2009 fiscal year. For the six-month period, the average exchange rate was \$1.06 Can for \$1 US, as compared to \$1.19 Can for \$1 US during the six-month period of last year. The impact of the exchange rate on the sales figure of the quarter ended on February 28, 2010 was \$3,000. For the six-month period ended on the same date, the positive impact was \$8,000. This impact was greater in 2008-2009, namely \$38,000 in the quarter and \$105,000 in the six-month period.

Had it not been for the impact of the exchange rate, the reduction in the sales of 2009-2010, in comparison with the previous year, would have been -55 % for the quarter and -46% 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	
	2/28/2010 (unaudited)	2/28/2009 (unaudited)	2/28/2010 (unaudited)	2/28/2009 (unaudited)
<i>(In thousands of dollars)</i>				
	\$	\$	\$	\$
Products	104	300	385	855
Services	74	129	159	241
Total	178	429	544	1,096

Product revenues represented 58% of the revenues in the quarter ended on February 28, 2010, as compared to 70% in the same quarter of the previous year. This confirms the decline in investments by the Company's target clients. They represented 70% of the total revenues for the six-month period ended on February 28, 2010, as opposed to 78% in the same period ended on February 28, 2009.

The following table illustrates the geographical distribution of NUVOLT sales:

NUVOLT CORPORATION INC.				
Data from consolidated interim financial statements				
	Second quarter ended		Six-month period ended	
	2/28/2010 (unaudited)	2/28/2009 (unaudited)	2/28/2010 (unaudited)	2/28/2009 (unaudited)
<i>(In thousands of dollars)</i>				
	\$	\$	\$	\$
Canada	128	232	401	452
USA	50	197	143	644
Total	178	429	544	1,096

Sales in Canada represented 72% and 74% of the sales of the quarter and of the six-month period of the current year, as compared to 54% and 41% for the quarter and for the six-month period of the previous fiscal year. This clearly shows the impact of the economic context which appears to be more serious in the United States than in Canada.

Gross profit

The gross profit of the second quarter of the 2009-2010 fiscal year totals \$21,000, representing a gross profit margin of 12%, as compared to \$213,000 or a gross profit margin of 50% for the same quarter of 2008-2009. The gross profit margin of the six-month period ended on February 28, 2010 is \$159,000 or 29%, as compared to \$571,000 or 52% in the six-month period ended on February 28, 2009.

This decline is attributable to the fact that the Company kept the same production and service structure despite the decline in revenues. The direct labour, manufacturing and service expenses are generally fixed, which creates a direct negative impact on the gross profit when a drop in the sales figure occurs.

Research and development expenses

Research and development expenses represented \$499,000 for the quarter ended on February 28, 2010, as compared to \$78,000 for the quarter ended on February 28, 2009. They were \$672,000 for the current six-month period, as compared to \$384,000 for the six-month period of the previous fiscal year. The capitalized

amounts are those meeting the capitalization criteria of Section 3064 of the *CICA Handbook*.

The in-house research and development team is the same as for the previous fiscal year. The main expenses were for external consultants participating in the development of **SMARTSCAN** since the start of the first quarter of the fiscal year. The sums allocated for these consultants represent \$411,000 for the quarter and \$531,000 for the six-month period.

Selling expenses

Selling expenses totaled \$224,000 for the second quarter of the 2009-2010 fiscal year, as compared to \$184,000 for the same quarter of the 2008-2009 fiscal year. For the six-month period ended on February 28, 2010, selling expenses were \$412,000, as compared to \$336,000 for the same period of the previous fiscal year.

This 22% increase is attributable to the hiring, at the end of the first quarter of the fiscal year, of a sales/marketing director, expenses related to training on Agrivolt filters offered to targeted distributors in the United States, and the major investments made for the promotion of **SMARTSCAN**. Indeed, close to \$25,000 was invested during the quarter and \$40,000 during the six-month period in promotion and advertising tools with a view to marketing this new product.

Administration expenses

Administration expenses reached \$202,000 for the quarter ended on February 28, 2010, as compared to \$128,000 for the quarter ended on February 28, 2009. For the six-month period ended on February 28, 2010, these expenses were \$427,000, as opposed to \$257,000 for the six-month period ended on February 28, 2009.

The increase of these expenses over last year can be explained by a higher share-based remuneration expense and the expenses pertaining to the private financing completed in the first quarter.

Financial expenses

The financial expenses of the quarters ended on February 28, 2010 and 2009 are the same, namely \$48,000. They represent \$80,000 and \$87,000 for the six-month periods ended on February 28, 2010 and 2009.

The decline in financial expenses for the six-month period stems from the lower interest rates on the long-term debt.

Other incomes

The exchange rate gain at the time of conversion of various asset and liability elements denominated in \$US totaled \$2,000 in the second quarter of the current fiscal year, as compared to \$12,000 for the previous fiscal year. For the six-month period, the gain is \$1,000, as compared to \$44,000 in the previous fiscal year.

The other incomes of the previous year pertain to a financial contribution within the context of a program to hire young people.

Net loss

For the second quarter of the 2009-2010 fiscal year, the net loss stands at \$451,000 (\$0.0071/ share), as compared to \$124,000 (\$0.0024/share) for the same quarter of the previous year. For the six-month period ended on February 28, 2010, the net loss is \$770,000 (\$0.0122/share), as compared to \$52,000 (\$0.0010 /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, 2010 and 2009. 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, 2010, the BAIIA posts a negative amount of (\$410,000) and (\$679,000), as compared to (\$90,000) and a positive amount of \$17,000 for the quarter and six-month period ended on February 28, 2009.

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>	Second quarter ended		Six-month period ended	
	2/28/2010 (unaudited)	2/28/2009 (unaudited)	2/28/2010 (unaudited)	2/28/2009 (unaudited)
	\$	\$	\$	\$
Operating activities	(48)	-	(168)	161
Investing activities	(571)	(104)	(777)	(413)
Financing activities	192	95	916	262
Increase (Reduction)	(427)	(9)	(29)	10
Cash flow at beginning	445	10	47	(9)
Cash flow at the end	18	1	18	1

Cash flows related to operating activities

The operating activities of the second quarter of the 2009-2010 fiscal year generated a negative cash flow of (\$48,000), whereas they did not cause any variation in the cash flows in the same quarter of the previous year. These activities generated a negative flow of (\$168,000) for the six-month period ended on February 28, 2010, whereas they generated a positive flow of \$161,000 in the six-month period ended on February 28, 2009.

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

Cash flows related to investment activities

Investment activities reduced cash flows by a sum of (\$571,000) and of (\$777,000) for the quarter and six-month period ended on February 28, 2010, as compared to (\$104,000) and (\$413,000) for the quarter and the six-month period ended on February 28, 2009.

Investments in the development of **SMARTSCAN** represented the lion's share of these activities. NUVOLT 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 the cash flows by \$192,000 for the second quarter of the 2009-2010 fiscal year, as compared to \$95,000 for the same quarter of the 2008-2009 fiscal year. They increased cash flows by \$916,000 for the six-month period ended on February 28, as compared to \$262,000 in the six-month period of the previous quarter.

The financing activities of the quarter come from the use of the line of credit as well as a sum received in advance from a director in view of the private placement announced during the quarter and which is expected to be completed on April 30, 2010.

FINANCIAL POSITION

NUVOLT CORPORATION INC.		
Data from consolidated interim financial statements		
BALANCE SHEETS	As at February 28, 2010 (unaudited)	As at August 31, 2009 (audited)
<i>(In thousands of dollars)</i>	\$	\$
Current Assets	852	747
Total Assets	3,028	2,300
	-	-
Current Liabilities	1,318	772
Long-Term Debt	383	1,391
Debenture	318	130
Total liabilities	2,019	2,293
	-	-
Capital Stock	6,518	5,378
Stock options	308	164
Warrants	576	114
Contributed surplus	1,300	1,273
Deficit	(7,694)	(6,923)
Shareholders' Equity	1,008	6

Short term

NUVOLT had \$852,000 in short-term assets and \$1,318 000 in short-term liabilities as of February 28, 2010, as compared to \$747,000 in short-term assets and \$772,000 in short-term liabilities as of August 31, 2009.

The increase in short-term assets comes from higher accounts-receivable; among other things, the investment tax credits and tax refunds still to be received.

The short-term liabilities increased in comparison with August 31, 2009. This is attributable to the use of the line of credit, the increase in operating debts and the short-term portion of the debt. Operating debts are higher because large invoices of research and development service providers have been recorded. This is in connection with the acceleration of R&D investments with a view to marketing **SMARTSCAN**. The short-term portion of the debt also increased. A note payable for an amount of close to \$369,000 is now considered due in the short term.

As of February 28, 2010, NUVOLT posted a working capital ratio of 0.65, as compared to 0.97 as of August 31, 2009. This ratio does not respect loan conditions.

Long term

Total assets rose from \$2,300,000 as of August 31, 2009 to \$3,028,000 as of February 28, 2010. In addition to the increase in the short-term assets, major sums were invested for the development of **SMARTSCAN** and its intellectual property. These amounts represent a total of approximately \$548,000. Investments were also made in fixed assets, namely \$38,000 in the improvement of the exhibition stand, \$10,000 in the updating of the computer network and \$43,000 in the purchase of two new vehicles for service technicians.

The long-term debt has declined since August 31, 2009. The completion of the private placement of the first quarter of the fiscal year made it possible to reclassify under shareholders' equity an amount of \$775,000 appearing as of August 31, 2009 as sums due and notes payable to directors.

The liability component of the debenture increased. This follows a new repayment schedule adopted in the first quarter of the fiscal year.

Capital stock

Common shares, warrants and stock options outstanding as at:

	March 29, 2010	February 28, 2010	August 31, 2009
Common shares	65,177,328	63,510,662	52,810,329
Warrants	12,266,999	13,933,666	3,333,333
Stock options	5,848,656	5,848,656	3,648,656
Total	83,292,983	83,292,984	59,792,318

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 of the placement. By using the Black & Scholes evaluation method, the fair value of shares and warrants was estimated at \$1,128,970 and \$461,080 at the date of granting.

On September 24, 2009, the Company granted a total of 1,600,000 stock options at an exercise price of \$0.11 per share to directors, managers and employees under its stock option plan. The acquisition of rights takes place at a rate of 1/3 at the date of granting, 1/3 on November 30, 2009 and 1/3 on November 30, 2010. Each option, once exercised, gives the holder the right to purchase one share. Options may be exercised up until September 4, 2014. By using the Black & Scholes evaluation method, the fair value of the options was estimated at \$132,800 at the date of granting.

On November 17, 2009, the Company granted 100,000 stock options at an exercise price of \$0.10 per share to an employee under his stock option plan. The acquisition of the rights takes place at a rate of 1/3 at the date of granting, 1/3 on January 31, 2010 and 1/3 on November 17, 2010. Each option, once exercised, gives the holder the right to purchase one share. Options may be exercised up until November 17, 2014. The fair value of the options was estimated at \$7,500 at the date of granting by using the Black & Scholes evaluation method.

On January 7, 2010, the Company granted 600,000 stock options at an exercise price of \$0.12 per share to members of the Board and managers. The acquisition of the rights takes place at a rate of 1/3 at the date of granting, 1/3 on March 31, 2010 and 1/3 on January 7, 2011. Each option, once exercised, gives the holder the right to purchase one share. Options may be exercised up until January 7, 2015. The fair value of the options was estimated at \$54,000 at the date of granting by using the Black & Scholes evaluation method.

On January 7, 2010, the Company granted 600,000 stock options to a consultant, replacing the stock options

granted when he was a member of the Board of directors. The acquisition of the rights is 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 evaluation method.

On February 8, 2010, 100 000 stock options have been exercised at a price of \$ 0.12 per share.

On March 29, 2010, the Company made a first closing of a private placement of \$500,000 by issuing 1,666,666 units at the price of \$0.15, resulting in \$250,000 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 \$0.20 per share for a 36-month period following the closing date of the placement. By using the Black & Scholes evaluation method, the fair value of shares and warrants was estimated at \$170,000 and \$80,000 at the date of granting.

CHANGES IN ACCOUNTING POLICIES

Goodwill and tangible assets

The Canadian Institute of Chartered Accountants issued Section 3064 “Goodwill and Intangible Assets”, replacing Section 3062 “Goodwill and Other Intangible Assets” and Section 3450 “Research and Development Costs”. These standards apply to financial years beginning on or after October 1, 2008. Accordingly, the Company adopted these standards for the financial year ending on August 31, 2010. This section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. These changes have had no impact on the amounts recorded in the financial statements.

FUTURE CHANGES IN ACCOUNTING POLICIES

International Financial Reporting Standards (IFRS)

The Accounting Standards Board (ASB) has published an exposure draft proposing the adoption of IFRS for the recognition and presentation of financial information of publicly accountable enterprises. These standards would replace current generally accepted accounting principles and would take effect for years beginning on or after January 1, 2011. The Company is currently evaluating the future impact of these new standards on its commercial operations, financial information systems and financial statements.

RISK FACTORS

Cash flow risk

The cash flow risk corresponds to the Company's risk of not being able to meet all of its cash flow commitments in a timely manner.

The Company's survival and its ability to continue its activities may depend on its ability to find external sources of financing. The private placement made in the first quarter of this fiscal year has met the Company's short-term financial needs and has made it possible to complete **SMARTSCAN** and to prepare its commercial launch. The Company is in the process of examining other sources of financing for the marketing of **SMARTSCAN**. There is no guarantee that such financing is available and that the related conditions will be favourable for the Company. If the Company does not succeed in obtaining such financing, it could have to scale back or even cease its operations.

Currency exchange risk

The Company makes a large share of its purchases and sales in foreign currency, namely the U.S. dollar. Consequently, some assets or liabilities are exposed to currency exchange fluctuations. As at February 28, 2010, the net assets denominated in U.S. dollars and converted into Canadian dollars represented \$107,415 (August 31, 2009 – \$165,764). The Company does not use any financial instrument to manage currency exchange rate fluctuation risks.

With all other variables remaining constant, an upward fluctuation of 1% of the Canadian dollar in relation to the U.S. dollar would have resulted in a \$559 increase in the net loss. A 1% reduction of the Canadian dollar in relation to the U.S. dollar would have resulted in a \$2,480 reduction in the net loss.

Credit risk

The Company's credit risk corresponds to the risk that a debtor will not fulfill his financial obligations. The Company does not believe that it is exposed to a higher than normal credit risk in relation to its clients. Indeed, the Company has clients spread out over various geographical sectors. It checks the credit of new clients and makes provision for uncollectable accounts receivable when Management considers that there is a high risk of not being able to collect the sum recorded as an account receivable. In addition, the Company has a credit insurance with an insurer for most of its accounts receivable. The maximum risk is equal to the accounting value of the accounts receivable and of the notes receivable.

Risk related to interest rates

The Company has long-term loans and a bank loan bearing interest at variable rates. Consequently, the Company is exposed to a risk related to the interest rate based on the fluctuation of the preferential rate. However, a 1% change in the preferential rate would not have a significant impact on the Company's earnings or financial position. The effect of a 1% increase in the preferential rate would be to raise the net loss by \$46 for the quarter ended on February 28, 2010.

Fair value

The fair value of the notes receivable and the notes payable to directors could not be determined since it is practically impossible to find on the market a financial instrument having essentially the same economic characteristics.

For the notes payable bearing interest at variable rates, the fair value is comparable to the accounting value due to the variable interest rate associated with them.

For the other notes payable, the fair value is comparable to their accounting value due to their approaching maturity.

For the debenture, the fair value is comparable to its accounting value due to the interest rate which is close to the rate at which the Company could take out a loan under similar conditions and with a similar maturity date.

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 February 28, 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 financial statements as at February 28, 2010, 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 February 28, 2010; 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, March 31, 2010

(s) Dominique Dion
Dominique Dion CMA
Chief of finances