MANAGEMENT DISCUSSION AND ANALYSIS
Annual report to shareholders
Year ended August 31, 2009

This management report, prepared on December 4, 2009, presents an analysis, from the Management's perspective, of the consolidated financial situation of CORPORATION NUVOLT INC. / NUVOLT CORPORATION INC. («NUVOLT» or the «Company») as at August 31, 2009, as well as for the three month periods ended August 31, 2009 and 2008. Prepared in accordance with National instrument 51-102-Continuous Disclosure Obligations, this MD&A should be read in conjunction with the audited consolidated financial statements at August 31, 2009, and related notes.

Unless otherwise indicated, financial statements have been prepared in accordance with generally accepted Canadian accounting principles (GAAP). With the exception of the amounts per share, all amounts in the tables of this analysis are expressed in thousands of Canadian dollars.

Some sections of this report present statements which 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 on forward-looking statements, due to numerous factors such as fluctuations of demand for measuring instruments, instability in currency exchange, difficulty in financing, hiring of qualified employees and NUVOLT's capacity to conduct business successfully in such uncertain conditions. Consequently, readers should be fully aware of the uncertainties and risks arising from these forward-looking statements. These statements are only valid as at the date of the report. There is no commitment to notify readers nor to revise or update these statements in order for them to reflect events or circumstances occurring after the date of this report, except as specifically required by law.

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ACTIVITY DESCRIPTION AND OVERVIEW

NUVOLT specializes in monitoring electrical networks in livestock farm facilities and in manufacturing detection and correction devices. The Company has developed an expertise focused on the management of the electrical network failures, leakage current detection and neutralization as well as in electrical network monitoring systems, particularly in the agriculture sector.

Its main products are the “Potential Equalizer”, the “Relax” ground fault detector and filters. They are mainly presently in use on dairy and hog farms.

NUVOLT holds patents on its technologies and patents are pending on applications aimed at serving electrical network monitoring.

VISION AND STRATEGY

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

NUVOLT, through its subsidiary AGRIVOLT INC., has developed a recognized expertise in electrical network management in the agricultural market. The development of ***SMARTSCAN***, a technology linked to an active sensor, makes it possible to transform a case-by-case approach into a specialized “plug and play” product line, to be marketed through a network of dealers, first in North America, then eventually in Europe, Asia and Oceania. Market diversification towards the industrial production and commercial real estate sectors offers a best potential than the agricultural sector alone. Therefore, NUVOLT concentrated its activities in the agricultural sector in its subsidiary, AGRIVOLT INC., in order to better focus, on it side, on the development of these other markets.

Over the past few months, NUVOLT has been presenting its technology to enterprises of international scope in all the targeted sectors, hoping to conclude distribution agreements under private labels distribution deals or licence.

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 in discussion with companies offering manufacturing facilities.

NUVOLT can rely on a dynamic team with experience in all sectors, to whom expert marketing specialists may also be added.

KEY PERFORMANCE DRIVERS

The Company uses key performance drivers to follow the implementation of its strategy and achievement of its goals. The following table presents those key performance drivers and the related key performance indicators:

Key performance drivers	Key performance indicators
Working capital	Cash flow, capacity of financing
Reputation and customer satisfaction	# units sold/product, % of sales increase compared to past years, performance per vendor and geographic 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 the SMARTSCAN development
Workforce	Ability to hire specialized human resources

HIGHLIGHTS OF THE YEAR AND FOURTH QUARTER

Earnings

Revenues for the year ended August 31, 2009 show an increase of 24% compared to the year ended August 31, 2008. This increase was most marked during the first two quarters. Sales development in the United States, primarily in California and Texas, was important. Major farms have been clients of the Company and the results are very satisfactory.

However the last quarter is down from the same quarter last year. The economic downturn has caught up with NUVOLT. In the United States, the agricultural sector has suffered huge losses. The dairy and pork industries have announced a drop in income of around 38%. And so U.S. customers have delayed any investment project. In Canada, the hog industry is in a worse state than in the U.S. whereas the dairy sector is doing somewhat better. Sales that NUVOLT recorded during the last quarter were mainly conducted with customers who have little choice other than to try and reduce their production costs.

The economic trend in the forthcoming months is not reassuring. NUVOLT with its solutions for reducing production costs, and with a new affordable product offering a very short return on investment period, is optimistic that it will continue to post good sales results, particularly following the marketing of ***SMARTSCAN***.

SMARTSCAN, development

The total amount invested so far in developing ***SMARTSCAN*** represents approximately $1.7M. The expert system is in the pre-commercial phase. What remains is to complete the miniaturization and final choice of components. The related software is at the engineering stage. The establishment of two real-life test sites has ensured that all the technological challenges have been met.

In the first quarter of 2008-2009, NUVOLT decided to slow down its R&D activities. Cash flow decrease and financing difficulties due to deteriorating economic context are what motivated this decision. Nevertheless, the R&D team continued its activities in researching cost reducing components and management software metrics. The team has also been busy developing a new generation of filters for management of electronic noise on lighting equipment.

During the fourth quarter of the year, research funding has been successful and allowed resumption of the development of ***SMARTSCAN*** at an accelerated rate. The specifications for the various product modules have been assembled and allowed calls for bids from outside consultants to complete the project. The tenders have taken place early in fiscal year 2009-2010. It has been possible to determine budgets and timelines as required.

Patents

The United States patent regarding the *Nuvolt Sensor*'s technology was obtained during the second quarter of 2008-2009. PCT filing for the software and the trademark has not been resolved to date.

Marketing strategy

SMARTSCAN

The Agrivolt sales team in the United States has completed the establishment of a distribution network for ***SMARTSCAN***. Marketing agreements were signed in the last quarter of 2008-2009 with distributors in the dairy sector and agreements were under way with distributors in the pig sector. Negotiations initiated during the third quarter for marketing ***SMARTSCAN*** through a major distributor are still ongoing.

The target date for marketing ***SMARTSCAN*** is March 2010.The credibility of the product was proven when it was selected among the five best technological innovations of the year at the World Ag Expo in February.

The launch of ***SMARTSCAN*** is on preparation. Support material and marketing documentation are on production. The marketing plan is under consideration.

FILTERS

The distribution network of the ***SMARTSCAN*** will be used for Agrivolt filters. A technical training course on the filters has been prepared. More than forty distributors are currently being trained.

An agreement for the sale of Agrivolt filters was signed with CBM Lighting Electronics, a leading manufacturer of specialized lighting, during the fourth quarter of fiscal 2008-2009. Agrivolt Filters developed by NUVOLT during the last fiscal year are the best response to the needs of CBM product designers and their integration in CBM lighting solutions enables new opportunities for NUVOLT Solutions. For NUVOLT, this agreement could total several hundred thousand dollars, as additionnal revenues, in the short and medium term. A first order of $125,000 was received in July 2009. The filters will be delivered early in the first quarter of fiscal year 2009-2010. Production of these filters will be subcontracted.

RECRUITMENT

A Sales Manager for the agricultural sector in Canada has been recruited at the beginning of 2009-2010.

Funding and cash flow status

Working capital at August 31, 2009 did not lead the reader to believe that the Company would have sufficient cash to complete ***SMARTSCAN*** and its marketing. The funding raised on the current quarter has filled this gap.

A private placement in the amount of $1,590,050, has been completed. This amount includes the conversion of $275,000 of notes payable and $500,000 of amounts due to directors. The injection of new cash is $815,050. This sum will be used to improve the working capital of the Company and to complete and launch the ***SMARTSCAN*** in its commercial phase. The Company is examining other sources of funding for the marketing of the ***SMARTSCAN***.

Negotiations with a creditor have permitted to benefit from reduced capital payments on a debenture. The impact of these negotiations has improved liquidity by approximately $12,000 per month, from September 2009.

CONSOLIDATED ANNUAL FINANCIAL INFORMATION

NUVOLT CORPORATION INC.
DATA FROM CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of dollars, except data per share)	Year ended 31-août-09 (audited)		Year ended 31-août-08 (unaudited)		Year ended 31-août-07 (unaudited)	
	$	%	$	%	$	%
Gross revenue	1 737		1 401		1 472	
Cost of goods sold	960		937		876	
Gross profit	777	45%	464	33%	596	40%
Research and development expenses	494	28%	1 197	85%	19	1%
Capitalized portion	(494)		(1 197)		(9)	
Net amount	0	0%	0	0%	10	1%
Selling expenses	606	35%	440	31%	283	19%
Administrative expenses	477	27%	568	41%	261	18%
Financial expenses	151	9%	146	10%	245	17%
	1 234	71%	1 154	82%	799	54%
Other items	5		1		17	
Income taxes	0		3			
Net loss	**(452)**	**-26%**	**(692)**	**-49%**	**(186)**	**-13%**
Net loss, non-diluted and diluted per share	**(0.0086)**		**(0.0131)**		**(0.0050)**	

NUVOLT CORPORATION INC. DATA FROM CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2009										
(In thousands of dollars, except data per share)	First Quarter		Second Quarter		Third Quarter		Fourth Quarter		Total	
	$	%	$	%	$	%	$	%	$	%
Gross revenue	703		445		396		193		1 737	
Cost of goods sold	314		219		256		171		960	
Gross profit	389	55%	226	51%	140	35%	22	11%	777	45%
Research and development	306	44%	78	18%	58	15%	52	27%	494	28%
expenses, net	(306)		(78)		(58)		(52)		(494)	
Selling expenses	0		0		0		0		0	
Administrative expenses	152	22%	184	41%	150	38%	120	62%	606	35%
Financial expenses	128	18%	128	29%	111	28%	110	57%	477	27%
	40	6%	48	11%	34	9%	29	15%	151	9%
	320	46%	360	81%	295	74%	259	134%	1 234	71%
Other items										
	3		11		1		(10)		5	
Net income (Net loss)										
	72	**10%**	**(123)**	**-28%**	**(154)**	**-39%**	**(247)**	**-128%**	**(452)**	**-26%**
Net income (Net loss), non-diluted and diluted per share	0.0014		(0.0023)		(0.0029)		(0.0047)		(0.0086)	

NUVOLT CORPORATION INC. DATA FROM CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2008										
(In thousands of dollars, except data per share)	First Quarter		Second Quarter		Third Quarter		Fourth Quarter		Total	
	$	%	$	%	$	%	$	%	$	%
Gross revenue	348		379		371		303		1 401	
Cost of goods sold	226		279		252		180		937	
Gross profit	122	35%	100	26%	119	32%	123	41%	464	33%
Research and development expenses	65	19%	102	27%	510	137%	520	172%	1 197	85%
Capitalized portion	(97)		(70)		(510)		(520)		(1 197)	
Net amount	(32)	-5%	32	7%	0	0%	0	0%	0	0%
Selling expenses	97	14%	89	20%	114	29%	140	73%	440	25%
Administrative expenses	154	22%	188	42%	121	31%	105	54%	568	33%
Financial expenses	42	6%	48	11%	36	9%	20	10%	146	8%
	261	75%	357	94%	271	73%	265	87%	1 154	82%
Other items	17				5		(21)		1	
Income taxes							3		3	
Net loss	**(122)**	**-35%**	**(257)**	**-68%**	**(147)**	**-40%**	**(163)**	**-54%**	**(692)**	**-49%**
Net loss, non-diluted and diluted per share	(0.0023)		(0.0049)		(0.0028)		(0.0031)		(0.0131)	

INFORMATION ON THE SUBSIDIARY

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

Except for OEM Sales, direct sales of products and services in United-States territory go through AGRIVOLT. It bills clients and pays royalties to NUVOLT for each device sold.

Services related to diagnosis, warranty or device start-ups are provided by NUVOLT technicians.

OPERATING RESULTS

Consolidated Revenues

NUVOLT has recorded net revenues of $1,737,000 for the fiscal year ended August 31, 2009 comparatively to $1,401,000 (+24%) for the fiscal year ended August 31, 2008, and $ 1,472,000 (+18%) for the fiscal year ended August 31, 2007.

The increase was most noticeable in the first quarter of 2008-2009. During that quarter, sales of systems in the United States were very important. This recognition of NUVOLT's expertise and team by elite farms has also boosted sales in the two following quarters. Both resources employed in the United States provide a presence that appears popular with U.S. customers.

The economic downturn in agriculture has been felt in the fourth quarter of the fiscal year ended August 31, 2009. A 51% decrease in turnover was observed from the third quarter. The sales represented $193,000 compared to $300,000 in the same quarter last year.

The annual sales results are satisfactory considering the economic context. Compared to last year, revenue from diagnoses has declined while the percentage of system sales resulting from this service remained much the same. However, the systems sold were to major farms requiring more extensive equipment. And so, average sales per customer have increased.

Impact of currency exchange

The average currency exchange rate has been $1.18 CAD for $1 USD, compared to $1.01 CAD for $1 USD for the fiscal year 2007-2008 and to $1.12 CAD for $1 USD for the fiscal year 2006-2007. Earnings for the year ended August 31, 2009 were positively affected by increased rates while the impact was negative for the year ended August 31, 2008.

Without taking the currency rate into consideration, sale increase for the fiscal year 2008-2009 would have been 14% compared to 2007-2008 and 13.6% compared to 2006-2007. Yearly profit on currency exchange represents $115,700.

Revenues split

NUVOLT's revenues are of two types, product sales and the service sales. Product sales include direct sales to users and sales to OEM. Selling products for detection and correction of electrical networks failures is done in two steps, first the electric network diagnosis, then the installation and launching of the equipment. To this base revenue are added revenues from spare parts, various services and preventive maintenance.

These revenues are split as follows:

NUVOLT CORPORATION INC. DATA FROM CONSOLIDATED FINANCIAL STATEMENTS						
(In thousands of dollars)	Year ended 31-août-09 (audited)		Year ended 31-août-08 (unaudited)		Year ended August 31, 20067 (unaudited)	
	$	%	$	%	$	%
Products	1 245	71,7%	970	69,2%	1092	74,2%
Services	492	28,3%	431	30,8%	380	25,8%
Total	**1 737**	**100,0%**	**1 401**	**100,0%**	**1 472**	**100,0%**

Revenues from products still make up the largest share of total revenues. The percentage change in each year is not very important. Revenues from sales of Service have held a lower percentage this year. Revenues from sales of diagnoses were lower than in previous years.

In the fourth quarter of the fiscal year ended August 31, 2009, 51% of revenues were from services compared to 41% for the same quarter last year. Compared to other quarters of 2008-2009 and to the yearly average, the increase occurring over the last quarter of the fiscal year remains significant. This is because the earnings from product sales have occupied the bulk of revenues in the first three quarters, following significant sales of systems. The services provided to customers who bought the systems were undertaken primarily in the fourth quarter.

The following table shows the geographical distribution of NUVOLT sales:

NUVOLT CORPORATION INC. DATA FROM CONSOLIDATED FINANCIAL STATEMENTS						
(In thousands of dollars)	Year ended 31-août-09 (audited)		Year ended 31-août-08 (unaudited)		Year ended 31-août-07 (unaudited)	
	$	%	$	%	$	%
Canada	808	46,5%	867	61,9%	847	57,5%
United States	929	53,5%	534	38,1%	620	42,1%
Israel	-	0,0%	-	0,0%	5	0,3%
Total	**1 737**	**100,0%**	**1 401**	**100,0%**	**1 472**	**100,0%**

Sales in the United States for the year ended August 31, 2009 have increased compared to the previous two years. This is explained once again by higher sales of systems in the United States during the first quarters of the year.

For the third and fourth quarters, sales in the United States represented a lower percentage compared to the previous year. The limited demand for OEM filters and the more difficult economic context in the USA than in Canada explain this discrepancy.

Gross profit

Gross profit for the year 2008-2009 is $777,000, which represents a gross margin of 45%, compared to $464,000 or a gross margin of 33% for the 2007-2008 and $596,000 or 40% for 2006-2007.

This increase reflects the higher productivity and manufacturing overheads, which grew at a slower pace than sales. The existing structure of production and service could support increased sales without additional costs.

Research and development expenses

Investments in research and development amounted to $494,000 for the year ended August 31, 2009 compared to $1,197,000 for the year ended August 31, 2008 and $19,000 for the year ended August 31, 2007. Amounts, net of subsidies, have been capitalized in full. They meet the criteria for capitalization in Chapter 3064 of the CICA handbook.

During the first quarter of fiscal 2008-2009, the Company decided to suspend development activities of ***SMARTSCAN*** which were outsourced to consultants, for lack of funds. The in-house R&D team was retained to fine tune the ***SMARTSCAN*** and bring it to a commercial product stage.

The team has also been busy developing a new generation of filters to meet requirements for the management of electronic noise in the lighting systems of farms.

In the fourth quarter of the fiscal year ended August 31, 2009, fundraising begun in the first quarter of fiscal year, came to fruition. The funds will allow the Company to complete ***SMARTSCAN*** and lead to its commercial phase. External consultants were approached to assess costs and schedule. R&D resumed at an accelerated rate early in the fiscal year 2009-2010.

Financial contributions obtained are from the *National Research Council of Canada* (NRC), through its IRAP program for $25,000 and from the *Ministry of Economic Development, Innovation and Export* (MDEIE), via their assistance program for businesses, Design-Innovation Measure, in the amount of $2,555.

Selling Expenses

Selling expenses have reached $606,000 for 2008-2009, compared to $440,000 for 2007-2008 and $283,000 for 2006-2007.

The gradual increase in selling expenses over the last two years comes from the fact that the Company has two more resources allocated to sales, in United States. Additionally, sales efforts have been invested in the establishment of the marketing strategy for ***SMARTSCAN***.

In the fourth quarter of the fiscal year ended August 31, 2009, the cost of sales decreased compared to the same quarter of the previous year. To match the reduction of sales and cash, travel for sales personnel has been reduced.

Administrative expenses

Administrative expenses amounted to $477,000 for the year ended August 31, 2009, compared to $568,000 for the year ended August 31, 2008 and $261,000 for the year ended August 31, 2007.

The 16% decrease in these costs compared to the previous year is due to the fact that the Company has reduced its need for professional fees, primarily related to the Stock Exchange. The expense for stock-based compensation is also reduced by the fact that most of it had been recorded in 2007-2008.

Financial expenses

Financial expenses amounted to $151,000 for 2008-2009, compared to $146,000 the previous year and $245,000 for 2006-2007.

The increase in financial costs compared to 2007-2008 arises from finance charges due to tax credit financing and the use of the credit facility.

Net loss

For the fiscal year 2008-2009, the after-tax net loss amounts to $452,000 ($0.0086/share) against $692,000 ($0.0131/share) for the fiscal year 2007-2008 and $186,000 ($0.0050/share) for fiscal year 2006-2007.

Tax on Consolidated Earnings

NUVOLT has no payable tax for the fiscal years ended August 31, 2009 and 2007 and a payable tax of $3,000 for the exercise ended August 31, 2008. No future tax on temporary discrepancies between accounting value and tax value was ever accounted for.

Earnings/Losses Before Interest Depreciation Tax and Amortization

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

For the fiscal year ended August 31, 2009, the EBIDTA posts a negative amount of ($373,000) compared to ($477,000) for the fiscal year 2007-2008 and $70,000 for fiscal year 2006-2007.

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

CASH FLOWS

NUVOLT CORPORATION INC.
DATA FROM CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of dollars)	Year ended 31-août-09 (audited)	Year ended 31-août-08 (unaudited)	Year ended 31-août-07 (unaudited)
Operating activities	158	(610)	(172)
Investing activities	(638)	(828)	(50)
Financing activities	535	168	1 492
Increase (Reduction)	**55**	**(1 270)**	**1 270**
Cash flow at beginning	**(9)**	**1 261**	**(9)**
Cash flow at the end	**46**	**(9)**	**1 261**

Cash flows related to operating activities

The operating activities for the fiscal year 2008-2009 have changed cash flows positively in the amount of $158,000 compared to ($610,000) for fiscal year 2007-2008 and ($172,000) for fiscal year 2006-2007.

This increase in cash flow related to operating activities for the fiscal year ended August 31, 2009 compared to fiscal year ended at August 31, 2008 is explained by a lower net loss and also a decrease in accounts receivable and inventory, which is higher than the decrease in accounts payable.

Cash flows related to investing activities

Investing activities resulted in lower liquidity amounting to ($638,000) for the year ended August 31, 2009 compared to ($828,000) for the year ended August 31, 2008 and ($50,000) for the year ended August 31, 2007.

The development of ***NUVOLT SENSOR*** and ***SMARTSCAN*** are the main activities having used the cash flows with regards to investments. These development activities were lower in the year ended August 31, 2009, compared to previous year.

Cash flows related to financing activities

Financing activities have increased the liquidity by $535,000 for 2008-2009 compared to $168,000 for 2007-2008 and $1,492,000 for the year 2006-2007.

Financing activities for fiscal year 2008-2009 come from the collection of notes and amounts due to directors, and also the reclassification of the debt amount owed to a supplier. Financing activities for the year 2007-2008 were an advance from a director, repayment of debt and the use of the credit margin. Financing activities for 2006-2007 were from a Private Placement in relation with Stock Exchange listing.

FINANCIAL SITUATION

NUVOLT CORPORATION INC. DATA FROM CONSOLIDATED FINANCIAL STATEMENTS			
(In thousands of dollars)	As at August 31, 2009 (audited)	As at August 31, 2008 (unaudited)	As at August 31, 2007 (unaudited)
	$	$	$
Current Assets	747	1 134	1 965
Total Assets	2 300	2 306	2 186
Current Liabilities	772	1 282	416
Lond-Term Debt	1 392	320	346
Debenture	130	213	324
Total Liabilities	2 293	1 815	1 086
Capital Stock	5 378	5 378	5 362
Stock Options	164	159	83
Warrants	114	718	718
Contributed Surplus	1 273	657	655
Deficit	**(6 923)**	**(6 421)**	**(5 719)**
Shareholder's Equity	**6**	**491**	**1 100**

Short Term

NUVOLT has short term assets of $747,000 and short term liability of $772,000 as at August 31 2009, compared to short term assets of $1,134,000 and short term liability of $1,282,000, as at August 31 2008 and to short term assets of $1,965,000 and short term liability of $416,000 as at August 31 2007.

The decrease of the short-term assets at August 31, 2009 compared to the two previous fiscal years comes mainly from decrease of available cash and accounts receivable and from lower stock.

Short term liabilities have decreased compared to August 31, 2008. This is explained by the reclassification of promissory notes and debt to a major supplier to long-term liabilities. In the fourth quarter of the fiscal year ended August 31, 2009, an agreement was signed with this supplier under which a payment of $200,000 has been made at the signing of the agreement and further payments are as follows: $185,000 on June 2010 and the balance on January 2011.

Short-term portion of debenture is lower a the beginning of 2009-2010. A negotiation with the financial stakeholder from whom the Company has obtained a moratorium on principal repayment has resulted in lighter repayment schedule for the coming months.

At August 31, 2009, NUVOLT showed a working capital ratio of 0.97 compared to 0.88 at August 31, 2008 and 4.72 at August 31, 2007. This ratio and the debt/equity ratio do not respect some loans' conditions. The creditors have indicated some leeway in this regard. If the new repayment schedule of the debenture, negotiated in September 2009, has been applied to August 30, 2009, the working capital ratio would have been $169,000 or 1.29.

Long Term

The total asset went from $2,186,000 at August 31, 2007 to $2,306,000 at August 31, 2008 and to $2,300,000 at August 31, 2009. The long term portion of the assets went from $221,000 at August 31, 2007 to $1,172,000 at August 31, 2008 and to $1,553,000 at August 31, 2009. The variation over the last few years is mainly due to investments for the patent for ***SMARTSCAN***, as well as to an increase of deferred development expenses. For the year ended August 31, 2009, $64,000 has been invested in patent filings and $494,000 in research & development. Of this amount, grants in the amount of $27,555 and estimated tax credits receivable in the amount of $129,000 have been deducted.

The long-term debt increased significantly in August 31, 2009 compared to the last two years. This debt includes notes payable and amounts received from directors for promissory notes and have been converted into equity shares at the closing of the private placement in September and October 2009. The amount of these notes converted is $775,000.

Capital Stock

Common shares, warrants and stock options as at August 31, 2009 and December 4, 2009:

Common Shares	52,810,329	63,410,662
Warrants	3,333,333	13,933,666
Stock Options	3,648,656	5,348,656
Total	59,792,318	**82,692,984**

On April 1st, 2009, the Company granted 3,000 stock options to an employee. The fair value of these options was estimated at $21 at the date of grant, using the Black & Scholes option pricing model.

On July 31, 2009, the Company cancelled 195,000 expired stock options. The value of these options was $12,435.

On July 31, 2009, the Company cancelled 12,533,333 expired warrants. The value of these warrants was $603,982.

CHANGES IN ACCOUNTING POLICIES

Going concern

During the year 2009, the Company has adopted the recommendations of the Canadian Institute of Chartered Accountants relating to Section 1400 "General Standards of Financial Statement Presentation". This section was amended with the addition of the following requirement: when preparing financial statements, management must make an assessment of the Company's ability to continue as a going concern. These changes, including the related requirements regarding disclosures had no impact on the amounts recognized in the financial statements.

Inventories

During the year 2009, the Company has adopted the recommendations of the Canadian Institute of Chartered Accountants relating to Section 3031 "Inventories". This section establishes standards for the measurement of inventories and the communication of information about them.

This change was applied in accordance with the transitional provisions of the sections and the financial statements of previous exercises have not been restated. The balance of retained earnings as at September 1, 2008 has been reduced by $50,517 and the "Inventories" item was reduced by as much.

Capital disclosures

During the year 2009, the Company has adopted the recommendations of the Canadian Institute of Chartered Accountants relating to Section 1535 "Capital disclosures". This section requires the Company to disclose qualitative and quantitative information about the Company's objectives, policies and processes for managing capital.

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

Financial instruments - Disclosures and presentation

Section 3862 establishes new disclosure standards for financial instruments to enable users to evaluate the significance of financial instruments in relation to the Company's financial position and performance, as well as the nature and extent of risks arising from financial instruments to which the Company is exposed during the period and at the balance sheet date, and how it manages those risks.

Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, corresponding losses and gains, and the circumstances in which financial assets and financial liabilities are offset.

The adoption of these new accounting standards has no impact on the Company's financial statements, since they are primarily related to disclosures.

FUTURE CHANGES TO SIGNIFICANT ACCOUNTING POLICIES

Goodwill and intangible 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 will adopt these standards for the financial year ending August 31, 2010. This section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets.
The Company is currently evaluating the impact of these new standards on its financial statements.

International financial reporting standards

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

Survival of the Company and its ability to continue operations may depend on its ability to find external funding. The private placement in the first quarter of this fiscal year has filled the financial needs in the short term and allows the Company to complete the ***SMARTSCAN*** and prepare its commercial launch. The Company is examining other sources of financing for the marketing of the ***SMARTSCAN***. There is no guarantee that such financing is available and that the conditions attached thereto will be favorable to the Company. If the Company fails to obtain such financing, it might have to reduce or even cease operations.

Currency risk

Part of the Company's purchases and sales are denominated in foreign currency, namely in US dollars. Consequently, the Company has a foreign currency exposure on certain assets and liabilities. As at August 31, 2009, net assets denominated in US dollars and converted to Canadian dollars totalled $165,764 (2008 - $143,322). 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 $5,241. A decrease of 1% of the Canadian dollar against the American dollar would decrease the net loss of the same amount.

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.

Interest rate risk

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

Fair value

The fair value of notes receivable, notes payable and amounts due to directors 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 other notes payable, the book value is close to their fair value, since their short-term maturity.

For the debenture, 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 risks factors, namely the following: proprietary technology, need for capital, non-respect of financial ratios, competition and technology obsolescence, growth management and market development, conflicts of interest, manpower, acquisitions, product errors, stock price variations and the securities market.

SUBSEQUENT EVENTS

On September 4, 2009, following the first closing of a private placement, the Company issued 9,266,666 Units at a price of $0.15 per unit, for a total of $1,390,000. Each unit is composed of one common share and one warrant. Each warrant entitles the holder to acquire one common share of the Company, at a price of $0.15 per share for a period of 36 months from the closing date. Of this amount, a total of 5,666,667 Units were subscribed by members of the board of directors, including 5,000,000 issued in conversion of a note payable and amounts due. The fair value of the units and warrants was estimated at $982,267 and $407,733 using the Black & Scholes option pricing model.

On September 24, 2009, the Company granted 1,600,000 stock options to directors, board's members and employees. The acquisition of the rights will be as follows: 1/3 at the grant date, 1/3 on November 30, 2009 and 1/3 on November 30, 2010. When exercised, each option entitles the holders the right to purchase one common share at an exercise price of $0.11, until September 4, 2014. The fair value of the options was estimated at $132,800 using the Black & Scholes option pricing model.

On October 19, 2009, the Company announced the second closing of its private placement by issuing 1,333,667 units at a price of $0.15 per unit, for a total of $200,050. Each unit is composed of one common share and one warrant. Each warrant entitles the holder to acquire one common share of the Company, at a price of $0.15 per share for a period of 36 months from the closing date. Of this amount, 166,667 units were subscribed by a conversion of a note payable to a director. The fair value of the units and warrants was estimated at $146,703 and $53,347 using the Black & Scholes option pricing model.

INTERNAL CONTROL OVER FINANCIAL REPORTING

As at August 31, 2009, the design of a final document on internal controls was not complete. However, the management is of the opinion that it has implemented adequate and sufficient procedures to provide reasonable assurance that:

i) the financial statements of the Company as at August 31, 2009 established in accordance with GAAP, together with the other financial information included in the annual filings fairly present in all material respects the financial condition of the Company as well as results of operations and cash flows as at August 31, 2009; and

ii) the annual filings do not contain any untrue statement of a material fact or omit to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, for the period covered by the annual filings.

OTHER INFORMATION

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

Levis, December 4, 2009

(S) Dominique Dion
Dominique Dion
CFO