

Nuvolt Corporation Inc.

Consolidated Financial Statements
As at August 31, 2009 and 2008

Together with Auditors' Report

AUDITORS' REPORT

To the Shareholders of
Nuvolt Corporation Inc.,

We have audited the consolidated balance sheets of **NUVOLT CORPORATION INC.** as at August 31, 2009 and 2008 and the consolidated statements of income and comprehensive income, deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

 Mallette¹

Mallette
L.L.P.
Chartered Accountants

Québec City, Canada
October 1, 2009
(October 19, 2009, for Note 28)

¹ CA auditor permit No. 12506

Nuvolt Corporation Inc.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

For the years ended August 31,

2009

2008

GROSS REVENUE	\$ 1,737,185	\$ 1,400,862
COST OF GOODS SOLD	<u>960,463</u>	<u>937,289</u>
GROSS PROFIT	<u>776,722</u>	<u>463,573</u>
OTHER OPERATING EXPENSES		
Selling expenses	606,071	439,802
Administrative expenses	476,569	568,007
Financial expenses	<u>151,062</u>	<u>145,900</u>
	<u>1,233,702</u>	<u>1,153,709</u>
LOSS FROM OPERATIONS	<u>(456,980)</u>	<u>(690,136)</u>
OTHER ITEMS		
Interest income	159	12,470
Gain (loss) in exchange rate	4,827	(5,264)
Change in fair value of money market funds	-	8,249
Loss on disposal of capital assets	<u>-</u>	<u>(13,743)</u>
	<u>4,986</u>	<u>1,712</u>
LOSS BEFORE INCOME TAXES	<u>(451,994)</u>	<u>(688,424)</u>
INCOME TAXES (Note 6)		
Current	<u>-</u>	<u>3,448</u>
NET LOSS AND COMPREHENSIVE INCOME	<u>\$ (451,994)</u>	<u>\$ (691,872)</u>
Earning per share (Note 24)		
Net income, non-diluted and diluted per share	<u>\$ (0.0086)</u>	<u>\$ (0.0131)</u>

Additional information to the statements of income (Note 7)

The accompanying notes are an integral part of these consolidated financial statements.

Nuvolt Corporation Inc.

CONSOLIDATED STATEMENTS OF DEFICIT

For the years ended August 31,

2009

2008

BALANCE , beginning of year		
As previously reported	\$ (6,420,977)	\$ (5,719,041)
Change in accounting policy (Note 3)	(50,517)	-
Restated	(6,471,494)	(5,719,041)
Net loss and comprehensive income	(451,994)	(691,872)
Option cancellation expenses (Note 18)	-	(10,064)
BALANCE , end of year	\$ (6,923,488)	\$ (6,420,977)

The accompanying notes are an integral part of these consolidated financial statements.

Nuvolt Corporation Inc.

CONSOLIDATED BALANCE SHEETS

As at August 31,

2009

2008

ASSETS

CURRENT ASSETS

Cash	\$ 48,819	\$ 13,170
Accounts receivable (Note 8)	418,989	771,540
Inventories (Note 9)	272,169	334,640
Prepaid expenses	6,884	14,916
	<u>746,861</u>	1,134,266
NOTES RECEIVABLE (Note 10)	8,391	8,391
CAPITAL ASSETS (Note 11)	58,754	64,221
INTANGIBLE ASSETS (Note 12)	158,841	100,378
DEFERRED DEVELOPMENT COSTS (Note 13)	<u>1,326,709</u>	998,972
	<u>\$ 2,299,556</u>	\$ 2,306,228

The accompanying notes are an integral part of these consolidated financial statements.

Nuvolt Corporation Inc.

CONSOLIDATED BALANCE SHEETS (continued)

As at August 31,

2009

2008

LIABILITIES

CURRENT LIABILITIES

Bank overdraft	\$	2,345	\$	21,828
Bank loan (Note 14)		40,000		210,000
Accounts payable (Note 15)		256,859		721,943
Due to a shareholder, without interest		-		100,000
Deferred revenue		17,354		11,512
Current portion of long-term debt (Note 16)		213,748		49,189
Current portion of debenture (Note 17)		241,537		167,778

771,843 1,282,250

LONG-TERM DEBT (Note 16) 1,391,537 319,686

DEBENTURE (Note 17) 129,860 212,729

2,293,240 1,814,665

SHAREHOLDERS' EQUITY

Capital stock (Note 18)	5,377,565	5,377,565
Stock options (Note 20)	164,293	159,464
Warrants (Note 21)	114,462	718,444
Contributed surplus (Note 22)	1,273,484	657,067
Deficit	(6,923,488)	(6,420,977)

6,316 491,563

\$ 2,299,556 \$ 2,306,228

COMMITMENTS (Note 23)

On behalf of the Board,

_____, Director

_____, Director

The accompanying notes are an integral part of these consolidated financial statements.

Nuvolt Corporation Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended August 31,

2009

2008

OPERATING ACTIVITIES

Net loss and comprehensive income	\$	(451,994)	\$	(691,872)
Items not affecting cash				
Amortization of capital assets		28,631		53,303
Amortization of intangible assets		6,377		1,759
Amortization of deferred development costs		8,999		-
Interest capitalized on long-term debt		18,337		26,201
Interest capitalized on debenture		34,890		39,866
Loss on disposal of capital assets		-		13,743
Stock-based compensation		17,264		80,061
		<u>(337,496)</u>		<u>(476,939)</u>
Net change in non-cash working capital items (Note 25)		<u>495,518</u>		<u>(133,088)</u>
		<u>158,022</u>		<u>(610,027)</u>

INVESTING ACTIVITIES

Proceeds from the disposal of capital assets		-		4,500
Collection of notes receivable		-		4,232
Acquisition of capital assets		(23,164)		(43,976)
Acquisition of intangible assets		(22,999)		(60,646)
Increase in deferred development costs		(591,825)		(731,702)
		<u>(637,988)</u>		<u>(827,592)</u>

FINANCING ACTIVITIES

Change in bank loan		(170,000)		210,000
Change in note payable to a shareholder		-		100,000
Additional funding		1,228,799		-
Repayment of long-term debt		(479,701)		(89,774)
Repayment of debenture		(44,000)		(52,000)
		<u>535,098</u>		<u>168,226</u>

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

		55,132		(1,269,393)
CASH AND CASH EQUIVALENTS, beginning of year		<u>(8,658)</u>		<u>1,260,735</u>
CASH AND CASH EQUIVALENTS, end of year	\$	46,474	\$	(8,658)

Cash and cash equivalents of the Company include:

Cash	\$	48,819	\$	13,170
Bank overdraft		<u>(2,345)</u>		<u>(21,828)</u>
	\$	46,474	\$	(8,658)

Cash flows related to operating activities include interest payments of \$82,952 (2008 - \$90,388) and income tax payments of \$262 (2008 - \$6,634).

The accompanying notes are an integral part of these consolidated financial statements.

Nuvolt Corporation Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at August 31, 2009 and 2008

1. STATUTES OF INCORPORATION AND NATURE OF ACTIVITIES

The Company, incorporated under Part IA of the Québec Companies Act, manufactures and distributes stray voltage neutralization equipment and electrical network monitoring devices to agriculture market.

2. GOING CONCERN ASSUMPTION

These financial statements have been prepared in accordance with accounting principles applicable to a going concern, which assumes that the Company will continue its operation in the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

The Company incurred significant operating loss during the year and has an accumulated deficit as at August 31, 2009. As a result, its ability to continue as a going concern depends on the financial support of its creditors and shareholders, as well as the Company's ability to generate an operating profit. The Company is currently seeking new investors.

These financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. Management feels that the measures the Company took or intends to take will mitigate the effect of the conditions and facts that raise doubt about the appropriateness of the going concern assumption on which it based the preparation of these financial statements.

If the Company were not able to respect the going concern principle, some assets could be subject to impairment or a significant reduction in value.

3. 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.

Nuvolt Corporation Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at August 31, 2009 and 2008

3. CHANGES IN ACCOUNTING POLICIES (continued)

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.

Nuvolt Corporation Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at August 31, 2009 and 2008

4. SIGNIFICANT ACCOUNTING POLICIES

Principle of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiary Agrivolt Inc.

Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates.

Currency translation

Monetary assets and liabilities are translated at the exchange rate in effect at the balance sheet date, whereas other assets and liabilities are translated at the rates in effect at the date of the transaction. Revenue and expense items are translated at the average year rate, except for amortization, which is translated at its historical cost. All exchange gains and losses are current in nature and are included in the statements of income.

Revenue recognition

The principal revenues of the Company are equipment sales and maintenance revenues. Revenues are recognized when the following conditions are respected:

- Persuasive evidence of an arrangement exists;
- The seller's price to the buyer is fixed or determinable.

The Company accounts for its equipment sales when the customer has confirmed its acceptance of the equipment or at the end of the satisfaction guarantee period if any, and when the collection is reasonably assured.

The maintenance revenues are accounted for on a straight-line basis over the contract period. The amounts billed or received according to the terms of the contract with customers, that are not satisfying those accounting criterias, are recognized as deferred revenues.

Where an agreement provides for multiple deliverables, the Company allocates the proceeds of the sale between the various components according to the relative value method.

The interest incomes are accounted for according to the accrual method.

Nuvolt Corporation Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at August 31, 2009 and 2008

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes

The Company accounts for as income tax expense or revenue the amount of income taxes payable or recoverable for the year and the change of the future income tax assets and liabilities accounts based on current income tax rate applied to temporary difference between the carrying value of the Company's assets and liabilities and their tax base. A future income tax asset is accounted for when it is more likely than not that the Company will benefit from the tax relief related to deductible temporary differences.

Financial assets and financial liabilities

Financial assets and financial liabilities are initially recognized at fair value and classified in one of the following categories: held-for-trading financial assets or liabilities, investments held-to-maturity, loans and receivables, available-for-sale financial assets and other financial liabilities. They are subsequently recognized according to their classification as described below. Their classification depends on the purpose for which the financial instruments were acquired.

Held-for-trading financial assets

Financial instruments, which include cash and the bank overdraft, are classified as held-for-trading financial assets and are recognized at fair value at each balance sheet date. Any change in fair value is included in net income during the period in which it arises.

Loans and receivables and other financial liabilities

Financial instruments classified as loans and receivables, including the guaranteed investment certificate and other financial liabilities, including bank loan, accounts payable, long-term debt, and the debenture are recognized at amortized cost using the effective interest rate method. Interest income or expense is included in net income over the expected term of the instrument.

Inventory

Raw materials are valued at the lower of cost and replacement cost, the cost being determined using the first in, first out method. Finished goods and goods in process inventories are valued at the lower of cost (including raw materials, direct labour and manufacturing overhead) and net realizable value, the cost being determined using the first in, first out method.

Nuvolt Corporation Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at August 31, 2009 and 2008

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital assets

Capital assets are accounted for at cost.

Amortization is based on their estimated life using the following methods and rates:

	Amortization methods	Rates
Reference works	straight-line	33.33%
Tools and equipment	straight-line	20%
Data processing equipment and software	straight-line	33.33%
Commercial booths	straight-line	33.33%
Rolling stock	diminishing balance	30%
Furniture and fittings	straight-line	12.5% and 20%

Intangible assets

Intangible assets are accounted for at cost.

Amortization is based on their estimated life using the straight-line method at the rate of 10%.

Deferred development costs

Research and development costs are expensed as incurred. However, development expenses are deferred when they meet generally accepted criterias for deferral up to the amount that is reasonably certain to be recovered. Deferred development costs are amortized on a straight-line basis over a five-year period.

Investment tax credits for research and development expenses and government assistance are recognized in deduction in the period when the cost is incurred, on condition that the Company is reasonably certain of the materialization of the credits. Investment tax credits must be examined and approved by the fiscal authority in a way that the amount accepted may differ of the accounted amount.

Impairment of long-term assets

Long-term assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount exceeds the undiscounted cash flows expected to result from their use and eventual disposition. An impairment loss should be measured as the amount by which the carrying amount of a long-term asset exceeds its fair value. No impairment loss was recognized as at August 31, 2009 and 2008.

Nuvolt Corporation Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at August 31, 2009 and 2008

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Products warranties

The equipment sold are covered by a one year warranty. Estimated warranty repairs are accounted for by the Company at the time of sale of the products under warranty based on their past experience.

Issuance costs

Share issuance costs have been applied against retained earnings.

Stock-based compensation and other stock-based products

The Company offers a stock-based compensation plan that is described in Note 20. The Company recognizes as an expense in the statements of income the fair value of the stock options at the grant date. Any consideration paid by employees on exercise or purchase of stock options is credited to share capital. Compensation expense for options granted under the stock option plan is recognized on a straight-line basis over the vesting period of the options. The value allocated to the stock options is transferred to capital stock once the common shares are issued.

Cash and cash equivalents

The Company's cash and cash equivalents include cash and highly liquid financial instruments, with an initial term of three months or less.

5. 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 (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.

Nuvolt Corporation Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at August 31, 2009 and 2008

6. INCOME TAXES

The future income tax assets and liabilities are related to the following items:

	2009	2008
Future income tax assets		
Long-term		
Capital assets	\$ 185,812	\$ 177,852
Tax losses	541,609	445,582
Research and development expenses	131,717	111,444
Accounting reserve provision	7,425	5,852
Financing expenses	72,346	106,947
	938,909	847,677
Future income tax liabilities		
Long-term		
Intangible assets and research and development tax credits	(46,802)	(29,801)
	892,107	817,876
Valuation allowance	(892,107)	(817,876)
	\$ -	\$ -

The Company's effective tax rate differs from the combined statutory rate (federal and provincial). This difference is attributable to the following elements:

	2009		2008	
Combined federal and provincial rate	\$ (139,666)	(30.90)%	\$ (215,270)	(31.27)%
Tax rate increase (decrease) resulting from:				
Non-deductible debenture interest	(12,326)	(2.72)	(12,466)	(1.81)
Valuation allowance	145,336	32.15	235,175	34.16
Other	6,656	1.47	(10,887)	(1.58)
Effective tax rate	\$ -	- %	\$ (3,448)	(0.50)%

Nuvolt Corporation Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at August 31, 2009 and 2008

6. INCOME TAXES (continued)

Non-capital losses likely to reduce taxes of future exercises are of \$1,855,400 at the federal level and \$1,840,100 at the provincial level. The Company could be prevailed of the tax advantage rising from the carryforward of these losses until 2029.

	Federal	Provincial
2014	\$ 132,600	\$ 128,300
2025	\$ 386,700	\$ 378,200
2026	\$ 154,500	\$ 152,000
2027	\$ 265,600	\$ 265,600
2028	\$ 554,000	\$ 554,000
2029	\$ 362,000	\$ 362,000

7. ADDITIONAL INFORMATION TO THE STATEMENTS OF INCOME

The income statements include the following items:

	2009	2008
Amortization of capital assets	\$ 28,631	\$ 53,303
Amortization of intangible assets	\$ 6,377	\$ 1,759
Amortization of deferred development costs	\$ 8,999	\$ -
Expenses related to stock-based compensation	\$ 17,264	\$ 80,061
Debenture and long-term debt interest	\$ 109,380	\$ 126,653
Interest on short-term debt	\$ 8,463	\$ 3,601

8. ACCOUNTS RECEIVABLE

	2009	2008
Trade	\$ 262,289	\$ 417,464
Security deposit	6,323	-
Travelling expenses advances, without interest	5,753	5,100
Advances to shareholders, without interest	3,200	3,505
Recoverable income taxes	-	3,186
Commodity taxes	12,148	64,461
Research and development tax credits*	129,276	277,824
	\$ 418,989	\$ 771,540

* Research and development tax credits are related to a submission that have not yet been examined by tax authorities.

Nuvolt Corporation Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at August 31, 2009 and 2008

9. INVENTORIES

	2009		2008	
	\$		\$	
Raw materials	107,143		86,600	
Goods in process	67,678		66,780	
Finished goods	97,348		181,260	
	\$	272,169	\$	334,640

10. NOTES RECEIVABLE

	2009		2008	
	\$		\$	
Notes receivable from shareholders, without interest, maturing upon dividend payment	8,391		8,391	

11. CAPITAL ASSETS

	2009		2008	
	Cost	Accumulated amortization	Net book value	Net book value
Reference works	\$ 71,824	\$ 71,824	\$ -	\$ 1,993
Tools and equipment	208,355	192,555	15,800	24,953
Data processing equipment and software	69,934	59,671	10,263	12,355
Commercial booths	32,280	14,170	18,110	6,135
Rolling stock	29,126	23,776	5,350	7,643
Furniture and fittings	65,134	55,903	9,231	11,142
	\$ 476,653	\$ 417,899	\$ 58,754	\$ 64,221

12. INTANGIBLE ASSETS

	2009		2008	
	Cost	Accumulated amortization	Net book value	Net book value
Patents	\$ 192,471	\$ 33,630	\$ 158,841	\$ 100,378

Nuvolt Corporation Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at August 31, 2009 and 2008

12. INTANGIBLE ASSETS (continued)

During the year 2009, the Company incurred \$64,840 (2008 - \$65,366) for patents.

Intangible assets of a cost of \$158,841 (2008 - \$94,737) were not amortized.

13. DEFERRED DEVELOPMENT COSTS

During the year 2009, the Company incurred deferred development costs charges of \$493,567 (2008 - \$1,197,539), recognized research and development tax credits of \$129,276 (2008 - \$277,824) and government contributions of \$27,555 (2008 - \$0).

As at August 31, 2009, the deferred development costs of a cost, net of research and development tax credits and government contributions, of \$1,309,242 (2008 - \$972,506) were not amortized.

14. BANK LOAN

The Company has available credit facility amounting to \$250,000, bearing interest at the bank prime rate plus 3%, secured by accounts receivable and by inventories. The credit facility is renewable on December 31, 2009.

As at August 31, 2009, \$40,000 of the credit facility was used and a letter of credit for a total amount of \$10,000 expiring January 16, 2010 had been issued.

Under the terms of the credit agreement, the Company must comply with a debt covenant relating to the maintenance of a financial ratio. As at August 31, 2009, the Company was not in compliance with this debt covenant.

15. ACCOUNTS PAYABLE

	<u>2009</u>	<u>2008</u>
Accounts payable and accrued liabilities	\$ 162,371	\$ 650,743
Salaries and commitment fees	62,283	56,280
Provision for warranties	7,205	7,182
Customer deposits	<u>25,000</u>	<u>7,738</u>
	<u>\$ 256,859</u>	<u>\$ 721,943</u>

Nuvolt Corporation Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at August 31, 2009 and 2008

16. LONG-TERM DEBT

	2009	2008
Note payable, without interest, repayable in one instalment of \$185,000 on June 2010 and one of \$183,975 on January 2011, secured by all the Company's present and future assets, included tax credits recoverable on years 2010 and 2011	\$ 368,975	\$ -
Notes payable to Investissement Québec, of an originally amount of \$458,333, plus capitalized cost, interest at the prime rate to the prime rate plus 2.75%, secured by a guarantee provided by a shareholder and by a floating load on the assets present and future, payable in monthly instalments of \$1,295 until July 2010, in monthly instalments of \$5,170, thereafter and a final payment of \$2,799, maturing from December 2015 to April 2016 ^{a) b)}	351,977	338,812
Note payable, without interest, repayable in annual instalments of \$7,507, maturing in October 2009 ^{c)}	7,507	14,562
Notes payable, 11%, repayable in monthly instalments of \$652 including principal and interest, maturing from December 2008 to October 2009	858	6,540
Note payable, secured by rolling stock with a net value of \$5,350, without interest, repayable in monthly instalments of \$485, maturing in October 2009	968	6,795
Note payable, secured by a first moveable hypothec on all the Company's present and future assets, inventories and by a guarantee provided by a shareholder, at prime rate plus 2.25%, repayable in monthly capital instalments of \$2,166, maturing in September 2008	-	2,166
Amounts due to directors, without interest and repayment terms	500,000	-
Note payable to directors, without interest, repayable in one instalment, maturing in September 2010	375,000	-
	1,605,285	368,875
Current portion	213,748	49,189
	\$ 1,391,537	\$ 319,686

Nuvolt Corporation Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at August 31, 2009 and 2008

16. LONG-TERM DEBT (continued)

Long-term debt principal repayments for the next five years are as follows:

2010 -	\$ 213,748
2011 -	\$ 246,014
2012 -	\$ 62,040
2013 -	\$ 62,040
2014 -	\$ 62,040

- a) In addition to the monthly payments, the Company will have to carry out beginning February 28, 2013 a return of capital annually corresponding to 20% of the generated net funds of the Company. Interest of an amount of \$18,337 (2008 - \$26,201) was capitalized with the notes payable during the exercise 2009.
- b) Under the terms of the credit agreement, the Company must comply with financial ratios. As at August 31, 2009 and 2008, the Company was not in compliance with these ratios. The creditor has signified his tolerance at this regard.
- c) This note payable is made out in US dollars and represents US\$6,856 (2008 - US\$13,712).

17. DEBENTURE

	2009	2008
Debenture, non-guaranteed and non-convertible, nominal rate of 12%, implicit rate of 25%, repayable in monthly capital installments of \$15,846, maturing in June 2011	\$ 371,397	\$ 380,507
Current portion	241,537	167,778
	\$ 129,860	\$ 212,729

Principal debenture repayments for the next two years are as follows:

2010 -	\$ 241,537
2011 -	\$ 158,452

As at August 31, 2009, the Company had defaulted on capital repayments. However, on September 2009, debenture's terms has been changed. Under the new terms, the debenture is repayable into monthly installments of \$4,000 until May 2011 and bears interest of 15%, beginning October 2009. The balance will be payable in one final installment of \$312,000 upon maturity of the debenture, on June 2011.

Nuvolt Corporation Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at August 31, 2009 and 2008

18. CAPITAL STOCK

Authorized an unlimited number of shares, without par value

Common shares, participating and voting

The following summary illustrates the changes in the Company's capital stock for the years ended August 31, 2009 and 2008:

	2009		2008	
	Number	Stated value	Number	Stated value
BALANCE , beginning of year	52,810,329	\$ 5,377,565	52,743,234	\$ 5,362,400
Issuance of shares	-	-	67,095	15,165
BALANCE , end of year	52,810,329	\$ 5,377,565	52,810,329	\$ 5,377,565

In accordance with the requirements of the Exchange, common shares are escrowed pursuant to a CPC escrow arrangement. Under the terms of the arrangement, 10% of the escrowed common shares have been released on issuance of the final exchange bulletin and 15% of the additional common shares will be released at six-month intervals thereafter, that is on the 6th, 12th, 18th, 24th, 30th and 36th month following the initial release. As at August 31, 2009, 10,888,889 shares (2008 - 21,777,779) are escrowed.

On December 6, 2007, Investissement Québec exercised its stock option that grants it the right to purchase 89,460 shares. Under an agreement between the Company and Investissement Québec, the Company issued 67,095 shares, equivalent to 75% of the shares available for purchase in exchange for a receipt for the remaining 25%. Consequently, an amount of \$15,165 was allocated to capital stock, option cancellation expenses of \$10,064 were charged to the deficit, the value allocated to options was reduced by \$6,801 and \$1,700 were credited to the contributed surplus.

19. CAPITAL MANAGEMENT

The Company includes the total of the equity in the capital definition.

In terms of capital management, the Company's objectives are to preserve its ability to continue its operation to ensure its sustainability and to provide an adequate return to its shareholders. The Company uses its capital to fund its research and development expenses, the marketing strategy and to insure an adequate level of cash flow.

In order to maintain and adjust its capital structure, the Company can issue new shares and new debts. The Company must comply with a ratio debt/Equity of 0.5 [Note 16b)].

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20. STOCK OPTIONS

Stock option plan

The Company has established a stock option plan under which certain directors, officers, employees and consultants can be granted Company stock options. The maximum number of options that can be issued under this plan is 10% of the common shares issued and outstanding at the date of grant. The exercise price of each option corresponds to the determined price at the date of grant. The determined price cannot be less than the market value on the day prior to the attribution date. The maximum term of an option is five years and the vesting period is determined at the time of the stock options issue.

On April 1, 2009, the Company granted 3,000 stock options to an employee. The acquisition of the rights is on December 31, 2009. When exercised, each option entitles the holder the right to purchase one common share at an exercise price of \$0.10, expiring in five years. The fair value of the options was estimated at \$21 using the Black & Scholes option pricing model based on the following weighted average hypothesis:

Risk-free interest rate	1.50%
Expected life	5 years
Expected volatility	100%
Dividend yield	Nil

On September 17, 2007, the Company granted to directors and employees 2,504,000 stock options. The acquisition of rights is as follows: 1/3 at the granted date, 1/3 on November 30, 2007 and 1/3 on November 30, 2008. When exercised, each option entitles the holder the right to purchase one common share at an exercise price of \$0.10, expiring in five years. The fair value of the options was estimated at \$82,632 using the Black & Scholes option pricing model based on the following weighted average hypothesis:

Risk-free interest rate	4.27%
Expected life	5 years
Expected volatility	100%
Dividend yield	Nil

On February 11, 2008, the Company granted 500,000 stock options to an employee. The acquisition of the rights will be as follows: ½ on September 11, 2009 and ½ on September 10, 2011. When exercised, each option entitles the holder the right to purchase one common share at an exercise price of \$0.10, expiring in five years. The fair value of the options was estimated at \$25,000 using the Black & Scholes option pricing model based on the following weighted average hypothesis:

Risk-free interest rate	3.31%
Expected life	5 years
Expected volatility	100%
Dividend yield	Nil

Nuvolt Corporation Inc.

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20. STOCK OPTIONS (continued)

On February 25, 2008, the Company granted 50,000 stock options to an employee. The acquisition of the rights will be after ten months following the grant date. When exercised, each option entitles the holder the right to purchase one common share at an exercise price of \$0.10, expiring in 1.1 year. The fair value of the options was estimated at \$550 using the Black & Scholes option pricing model based on the following weighted average hypothesis:

Risk-free interest rate	3.23%
Expected life	1.1 year
Expected volatility	100%
Dividend yield	Nil

The following table summarizes the situation of the Company's stock option plan as at August 31, 2009 and 2008:

	2009		2008	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding, beginning of year	3,840,656	\$ 0.11	902,116	\$ 0.15
Granted	3,000	0.10	3,054,000	0.10
Cancelled	(195,000)	0.13	(26,000)	0.10
Exercised	-	-	(89,460)	0.15
Outstanding, end of year	3,648,656	\$ 0.11	3,840,656	\$ 0.11
Options exercisable, end of year	3,145,656		2,464,656	
Weighted average fair value of options granted during the year	\$ 0.007		\$ 0.035	

The following table summarizes information about fixed stock options outstanding August 31, 2009:

Range of exercise price	Options outstanding			Options exercisable	
	Number of options outstanding	Weighted average remaining contractual life	Weighted average exercise price	Number of options exercisable	Weighted average exercise price
\$0.10	2,961,000	3.11 years	\$ 0.10	2,458,000	\$ 0.10
\$0.15	687,656	0.88 year	0.15	687,656	0.15
\$0.10 - \$0.15	3,648,656	2.69 years	\$ 0.11	3,145,656	\$ 0.11

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21. WARRANTS

The summary of the changes during the years ended August 31, 2009 and 2008, relative to the warrants is as follows:

	2009		2008	
	Warrants	Weighted average exercise price	Warrants	Weighted average exercise price
Outstanding, beginning of year	15,866,666	\$ 0.19	15,866,666	\$ 0.19
Cancelled	(12,533,333)	0.20	-	-
Outstanding, end of year	3,333,333	\$ 0.15	15,866,666	\$ 0.19
Warrants that might be exercised, end of year	3,333,333	\$ 0.15	15,466,666	\$ 0.19

The warrant attached to the debenture enables the holder to buy 3,333,333 common shares at a price of \$0.15. The warrant expires March 11, 2010. The amount allocated to the warrant is \$114,462 (Note 17).

22. CONTRIBUTED SURPLUS

The following table presents the changes in contributed surplus during the years ended August 31, 2009 and 2008:

	2009		2008	
BALANCE , beginning of year	\$ 657,067	\$	655,367	
Gain resulting from exercise of stock options	-		1,700	
Cancellation of stock options	12,435		-	
Cancellation of warrants	603,982		-	
BALANCE , end of year	\$ 1,273,484	\$	657,067	

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at August 31, 2009 and 2008

23. COMMITMENTS

The Company has leases commitments until 2012 for the rental of warehouses and rolling stock. The balance of the commitments under such leases is \$49,849. Minimum payments payable required for the next three years are as follows:

2010 -	\$ 41,121
2011 -	\$ 7,481
2012 -	\$ 1,247

The Company is currently negotiating the terms of the lease renewal for rental of warehouse ending November 30, 2009.

24. EARNING PER SHARE

The basic earning per common share is calculated by dividing the net income (net loss) assumed by the common shareholders by the weighted average number of common shares outstanding during the year. Diluted net income (net loss) per share is calculated giving effect to the potential dilution that could occur if stock options and warrants to issue common shares were exercised at the later of the beginning of the period or the issuance date. The treasury stock method is used to determine the dilutive effect of stock options and warrants.

The following table shows the basic weighted average number of common shares outstanding:

	<u>2009</u>	<u>2008</u>
Basic weighted average number of shares outstanding	\$ 52,810,329	\$ 52,792,498

Items excluded from the calculation of diluted net income per share because the exercise price was greater than the average market price of the common shares

Stock options	3,815,379	3,509,733
Warrants	14,321,461	15,866,666

For the years 2009 and 2008, the diluted net loss per share was the same as the basic net loss per share since the dilutive effect of the stock options and of the warrants was not included in the calculation: otherwise the effect would have been anti-dilutive. Accordingly, the diluted net loss per share was calculated using the basic weighted average number of shares outstanding.

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25. ADDITIONAL INFORMATION TO THE STATEMENTS OF CASH FLOWS

The net change in non-cash working capital is as follows:

	2009	2008
Accounts receivable	\$ 481,827	\$ (58,557)
Inventories	11,954	(71,429)
Prepaid expenses	8,032	(8,577)
Accounts payable	(12,137)	17,883
Deferred revenue	5,842	(12,408)
	\$ 495,518	\$ (133,088)

During the year 2009, the Company offset a tax credit receivable of \$129,276 (2008 - \$277,824) against deferred development costs.

During the year 2009, the Company acquired \$46,561 in intangible assets and deferred expenses of \$174,282, which are financed by accounts payable of \$220,843.

During the year 2009, an account of \$368,975 due to a supplier was converted into a long-term note payable. Also, an amount due to a director, of \$100,000 was converted into a note payable.

In 2008, the Company issued \$15,165 in common shares in exchange of an option release (Note 18).

During the year 2008, the Company acquired \$4,720 in intangible assets and deferred expenses of \$465,837, which are financed by accounts payable of \$467,293 and by stock options of \$3,264.

26. FINANCIAL INSTRUMENTS

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.

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26. FINANCIAL INSTRUMENTS (continued)

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.

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.

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.

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27. SEGMENT INFORMATIONS

The Company has examined its activities and has determined that it operates only under one reportable operating sector. This segment is the selling of neutralization equipment of stray voltage and control system of farm electric equipment.

The Company operates from only one localisation. All of the Company's capital assets and intangible assets are located in Canada.

Revenues by geographic region are detailed as follows:

	<u>2009</u>	<u>2008</u>
Canada	\$ 807,793	\$ 869,466
United States	929,392	531,396
	<u>\$ 1,737,185</u>	<u>\$ 1,400,862</u>

Revenues have been allocated to geographic regions based on the country of residence of the related customers.

During the year ending August 31, 2009, the Company did make 9% of its total revenues with one client (2008 - 15%).

28. 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 based on the following weighted average hypothesis:

Risk-free interest rate	1.33%
Expected life	3 years
Expected volatility	100%
Dividend yield	Nil

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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28. SUBSEQUENT EVENTS (continued)

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

Risk-free interest rate	2.36%
Expected life	5 years
Expected volatility	100%
Dividend yield	Nil

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 based on the following weighted average hypothesis:

Risk-free interest rate	1.48%
Expected life	3 years
Expected volatility	100%
Dividend yield	Nil

29. COMPARATIVE FIGURES

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