

**Nuvolt Corporation Inc.**

Consolidated Financial Statements  
As at August 31, 2008 and 2007

Together with Auditors' Report

## AUDITORS' REPORT

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To the Shareholders of  
**Nuvolt Corporation Inc.,**

We have audited the consolidated balance sheets of **NUVOLT CORPORATION INC.** as at August 31, 2008 and 2007 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, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Mallette  
L.L.P.  
Chartered Accountants

Québec City, Canada  
October 10, 2008

## Nuvolt Corporation Inc.

### CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

For the years ended August 31,

	2008 (12 months)	2007 (4 months)
GROSS REVENUE	\$ 1,398,215	\$ 583,775
COST OF GOODS SOLD	<u>937,289</u>	<u>309,900</u>
GROSS PROFIT	<u>460,926</u>	<u>273,875</u>
OTHER OPERATING EXPENSES		
Selling expenses	439,802	81,692
Administrative expenses	568,007	86,666
Financial expenses	<u>148,517</u>	<u>79,944</u>
	<u>1,156,326</u>	<u>248,302</u>
INCOME (LOSS) FROM OPERATIONS	<u>(695,400)</u>	<u>25,573</u>
OTHER ITEMS		
Interest income	12,470	5,072
Gain on settlement of debt	-	8,126
Change in fair value of money market funds	8,249	2,357
Loss on disposal of capital assets	<u>(13,743)</u>	<u>-</u>
	<u>6,976</u>	<u>15,555</u>
INCOME (LOSS) BEFORE INCOME TAXES	<u>(688,424)</u>	<u>41,128</u>
INCOME TAXES (Note 6)		
Current	3,448	17,331
Tax benefit arising from the use of prior year losses carried forward	<u>-</u>	<u>(17,331)</u>
	<u>3,448</u>	<u>-</u>
NET INCOME (NET LOSS) AND COMPREHENSIVE INCOME	<u>\$ (691,872)</u>	<u>\$ 41,128</u>
Earning per share (Note 22)		
Net income, non-diluted and diluted per share	<u>\$ (0.0131)</u>	<u>\$ 0.0010</u>

Additional information to the statement 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,

	2008 (12 months)	2007 (4 months)
<b>BALANCE</b> , beginning of year	<b>\$ (5,719,041)</b>	<b>\$ (5,431,628)</b>
Net income (net loss)	<u>(691,872)</u>	<u>41,128</u>
	<b>(6,410,913)</b>	<b>(5,390,500)</b>
Shares issuance costs (Note 18)	-	328,541
Option cancellation expenses (Note 18)	<u>10,064</u>	<u>-</u>
	<b>10,064</b>	<b>328,541</b>
<b>BALANCE</b> , end of year	<b>\$ (6,420,977)</b>	<b>\$ (5,719,041)</b>

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

# Nuvolt Corporation Inc.

## CONSOLIDATED BALANCE SHEETS

As at August 31,

2008

2007

### ASSETS

#### CURRENT ASSETS

Cash	\$ 13,170	\$ 196,287
Money market funds	-	334,381
Guaranteed investment certificate, 4.30%	-	730,067
Accounts receivable (Note 8)	771,540	435,159
Inventories (Note 9)	334,640	263,211
Prepaid expenses	14,916	6,339
	<b>1,134,266</b>	1,965,444
NOTES RECEIVABLE (Note 10)	8,391	12,623
CAPITAL ASSETS (Note 11)	64,221	91,791
INTANGIBLE ASSETS (Note 12)	100,378	36,771
DEFFERED CHARGES (Note 13)	998,972	79,257
	<b>\$ 2,306,228</b>	\$ 2,185,886

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

# Nuvolt Corporation Inc.

## CONSOLIDATED BALANCE SHEETS (continued)

As at August 31,

2008

2007

### LIABILITIES

#### CURRENT LIABILITIES

Bank overdraft	\$ 21,828	\$ -
Bank loan (Note 14)	210,000	-
Accounts payable (Note 15)	821,943	236,767
Deferred revenue	11,512	23,920
Current portion of long-term debt (Note 16)	49,189	86,045
Current portion of debenture (Note 17)	167,778	69,111

**1,282,250** 415,843

#### LONG-TERM DEBT (Note 16)

**319,686** 346,403

#### DEBENTURE (Note 17)

**212,729** 323,530

**1,814,665** 1,085,776

#### SHAREHOLDERS' EQUITY

Capital stock (Note 18)	5,377,565	5,362,400
Stock options (Note 19)	159,464	82,940
Warrants (Note 20)	718,444	718,444
Contributed surplus (Note 18)	657,067	655,367
Deficit	(6,420,977)	(5,719,041)

**491,563** 1,100,110

**\$ 2,306,228** \$ 2,185,886

#### COMMITMENTS (Note 21)

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,

	2008 (12 months)	2007 (4 months)
<b>OPERATING ACTIVITIES</b>		
Net income (net loss)	\$ (691,872)	\$ 41,128
Items not affecting cash		
Amortization of capital assets	53,303	18,488
Amortization of intangible assets	1,759	322
Amortization of deferred development expenses	-	6,863
Amortization of deferred financing expenses	-	5,667
Interest capitalized on long-term debt	26,201	2,317
Interest capitalized on debenture	39,866	16,577
Loss on disposal of capital assets	13,743	-
Stock-based compensation	80,061	-
	<u>(476,939)</u>	91,362
Net change in non-cash working capital items (Note 23)	<u>(133,088)</u>	<u>(344,085)</u>
	<u>(610,027)</u>	<u>(252,723)</u>
<b>INVESTING ACTIVITIES</b>		
Proceeds from the disposal of capital assets	4,500	-
Collection of notes receivable	4,232	78
Acquisition of capital assets	(43,976)	(3,345)
Acquisition of intangible assets	(60,646)	(3,932)
Increase in deferred development costs	(731,702)	-
	<u>(827,592)</u>	<u>(7,199)</u>
<b>FINANCING ACTIVITIES</b>		
Change in bank loan	210,000	(215,000)
Change in note payable to a company	-	125,000
Amount payable to a shareholder	100,000	-
Advances factoring	-	(121,048)
Repayment of long-term debt	(89,774)	(27,720)
Repayment of debenture	(52,000)	(4,000)
Issuance of capital stock	-	1,475,000
Issuance costs	-	(61,099)
Reverse takeover (Note 3)	-	337,728
	<u>168,226</u>	<u>1,508,861</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(1,269,393)</b>	<b>1,248,939</b>
CASH AND CASH EQUIVALENTS, beginning of year	<u>1,260,735</u>	<u>11,796</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<b>\$ (8,658)</b>	<b>\$ 1,260,735</b>

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

## Nuvolt Corporation Inc.

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### CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

For the years ended August 31,

**2008**                      2007  
**(12 months)**                (4 months)

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Cash and cash equivalents of the Company include :

Cash	<b>\$ 13,170</b>	\$ 196,287
Bank overdraft	<b>(21,828)</b>	-
Money market funds	-	334,381
Guaranteed investment certificate, 4.30%	-	730,067
	<hr/>	<hr/>
	<b>\$ (8,658)</b>	\$ 1,260,735

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Cash flows related to operating activities include interest payments of \$90,388 (2007 - \$47,374) and income tax payments of \$6,634 (nil in 2007).

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

# Nuvolt Corporation Inc.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at August 31, 2008 and 2007

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### 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, 2008. 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. REVERSE TAKEOVER

Pursuant to the December 6, 2006 agreement, Norco Capital inc. acquired, on July 18, 2007, all of the issued and outstanding shares of Nuvolt Corporation Inc. in exchange for 33,333,333 common shares of Norco Capital inc. This acquisition constituted the qualifying transaction for Norco Capital inc. as defined in Policy 2.4 of the TSX Venture Exchange. Considering the aforementioned exchange of shares, the control of Norco Capital inc. has been transferred to the shareholders of Nuvolt Corporation Inc. Further to this exchange of shares, considered as a reverse takeover, Nuvolt Corporation Inc. is deemed to have acquired the control of the assets and business of the corporate issuer in consideration of the issuance of shares. The financial statements of the resulting company present the continuity of Nuvolt Corporation Inc.

Upon the business combination, the net value of assets acquired from Norco Capital inc. was detailed as follows:

Cash and cash equivalents and other assets	\$	780,565
Liabilities		<u>82,494</u>
	\$	698,071

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# Nuvolt Corporation Inc.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at August 31, 2008 and 2007

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### 3. REVERSE TAKEOVER (continued)

The consideration issued as part of that business combination was allocated as follows:

33,333,333 common shares (Note 18)	\$ 632,056
687,656 stock options at fair value (Note 19)	<u>66,015</u>
	<u>\$ 698,071</u>

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As of August 31, 2007, Norco Capital inc. and Nuvolt Corporation Inc. merged to form Nuvolt Corporation Inc.

### 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 his historical cost. All exchange gains and losses are current in nature and are included in the statements of income.

# Nuvolt Corporation Inc.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at August 31, 2008 and 2007

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### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 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.

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

#### 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, accounts receivable, the bank overdraft and money market funds, 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.

##### *Held-to-maturity investments and other financial liabilities*

Financial instruments classified as held-to-maturity investments, 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.

# Nuvolt Corporation Inc.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at August 31, 2008 and 2007

### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 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.

#### Capital assets

Capital assets are accounted for at cost.

Amortization is based on their estimated useful 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 expenses

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 expenses are amortized on a straight-line basis over a five-year period.

Investment tax credits for research and development expenses 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 differed of the accounted amount.

#### Impairment of long-lived assets

Long-lived 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-lived asset exceeds its fair value. No impairment loss has been recognized as at August 31, 2008 and 2007.

# Nuvolt Corporation Inc.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at August 31, 2008 and 2007

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### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Products warranties

Estimated warranty repairs are accounted for by the Company at the time of sale of the products under warranty.

#### 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 19. The Company recognizes as an expense in the statement 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

#### Financial instruments

The Canadian Institute of Chartered Accountants issued Sections 3862 « Financial Instruments - Disclosures » and 3863 « Financial Instruments - Presentation ». These standards are effective for financing years beginning on or after October 1, 2007. Consequently, the Company will have to adopt these standards for the financial year ending August 31, 2009. Section 3862 establishes new disclosure standards for financial instruments, however, its adoption will have no impact on the amounts reported in the Company's financial statements. Section 3863 carries forward the same presentation standards previously established in Section 3861 « Financial Instruments - Disclosures and Presentation » and will consequently have no impact on the Company's financial statements.

#### Capital disclosures

The Canadian Institute of Chartered Accountants issued Section 1535 « Capital Disclosures ». These standards are effective for financial years beginning on or after October 1, 2007. Consequently, the Company will have to adopt these standards for the financial year ending August 31, 2009. This section requires the Company to disclose qualitative and quantitative information on its objectives, policies and processes for managing capital.

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

# Nuvolt Corporation Inc.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at August 31, 2008 and 2007

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### 5. FUTURE CHANGES TO SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Inventories**

The Canadian Institute of Chartered Accountants issued Section 3031 « Inventories », which supersedes Section 3030, of the same name. These standards are effective for financial years beginning on or after January 1, 2008. Consequently, the Company will have to adopt these standards for the financial year ending August 31, 2009. This section establishes standards for the measurement of inventories and the communication of information about them.

The Company is currently evaluating the impact of these new standards on its financial statements.

#### **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.

# Nuvolt Corporation Inc.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at August 31, 2008 and 2007

### 6. INCOME TAXES

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

	2008	2007
Future income tax assets		
Long-term		
Capital assets	\$ 177,852	\$ 179,215
Tax losses carried forward	445,582	364,432
Research and development expenses	111,444	72,996
Accounting reserve provision	5,852	9,860
Financing expenses	106,947	152,502
	<b>847,677</b>	779,005
Future income tax liabilities		
Long-term		
Intangible assets and research and development tax credits	<b>(29,801)</b>	(12,497)
	<b>817,876</b>	766,508
Valuation allowance	<b>(817,876)</b>	(766,508)
	<b>\$ -</b>	\$ -

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

	2008		2007	
Combined federal and provincial rate	\$ (215,270)	(31.27) %	\$ 13,169	32.02 %
Tax rate increase (decrease) resulting from:				
Non deductible debenture interest	(12,466)	(1.81)	(5,308)	(12.90)
Valuation allowance	235,175	34.16	(11,692)	(28.43)
Other	(10,887)	(1.58)	3,831	9.31
Effective tax rate	<b>\$ (3,448)</b>	<b>(0.50) %</b>	-	-

# Nuvolt Corporation Inc.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at August 31, 2008 and 2007

### 6. INCOME TAXES (continued)

Non-capital losses likely to reduce taxes of future exercises are of \$1,568,191 at the federal level and \$1,552,890 at the provincial level. The Company could be prevailed of the tax advantage rising from the carryforward of these losses until 2028.

	Federal		Provincial	
2009	\$	77,466	\$	77,466
2013	\$	132,685	\$	128,300
2014	\$	386,735	\$	378,262
2025	\$	154,490	\$	152,047
2026	\$	257,607	\$	257,607
2027	\$	8,085	\$	8,085
2028	\$	551,123	\$	551,123

### 7. ADDITIONAL INFORMATION TO THE STATEMENT OF INCOME

The income statement includes the following items :

	2008 (12 months)		2007 (4 months)	
Amortization of capital assets	\$	53,303	\$	18,488
Amortization of intangible assets	\$	1,759	\$	322
Amortization of deferred development expenses	\$	-	\$	6,863
Amortization of deferred financing expenses	\$	-	\$	5,667
Expenses related to stock-based compensation	\$	80,061	\$	-
Exchange loss	\$	5,264	\$	2,585
Debenture and long-term debt interest	\$	126,653	\$	53,482
Interest on short-term debt	\$	3,601	\$	12,007

# Nuvolt Corporation Inc.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at August 31, 2008 and 2007

### 8. ACCOUNTS RECEIVABLE

	2008	2007
Trade	\$ 417,464	\$ 407,663
Security deposit	-	1,557
Travelling expenses advances, without interest	5,100	4,100
Advances to shareholders, without interest	3,505	3,200
Recoverable income taxes	3,186	-
Commodity taxes	64,461	18,639
Research and development tax credits*	277,824	-
	<b>\$ 771,540</b>	<b>\$ 435,159</b>

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

### 9. INVENTORIES

	2008	2007
Raw materials	\$ 86,600	\$ 100,477
Goods in process	66,780	55,848
Finished goods	181,260	106,886
	<b>\$ 334,640</b>	<b>\$ 263,211</b>

### 10. NOTES RECEIVABLE

	2008	2007
Notes receivable from shareholders, without interest, maturing upon dividend payment	\$ 8,391	\$ 12,623

# Nuvolt Corporation Inc.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at August 31, 2008 and 2007

### 11. CAPITAL ASSETS

	2008			2007	
	Cost	Accumulated amortization	Net book value	Net book value	
Leasehold improvements	\$ 2,277	\$ 2,277	\$ -	\$ -	
Reference works	71,824	69,831	1,993	25,935	
Tools and equipment	228,204	203,251	24,953	20,632	
Data processing equipment and software	130,370	118,015	12,355	5,534	
Commercial booths	18,118	11,983	6,135	3,999	
Rolling stock	29,126	21,483	7,643	31,188	
Furniture and fittings	65,527	54,385	11,142	4,503	
	<b>\$ 545,446</b>	<b>\$ 481,225</b>	<b>\$ 64,221</b>	<b>\$ 91,791</b>	

### 12. INTANGIBLE ASSETS

	2008			2007	
	Cost	Accumulated amortization	Net book Value	Net book Value	
Patents	\$ 127,630	\$ 27,252	\$ 100,378	\$ 36,771	

During the year 2008, the Company incurred \$65,366 (2007 - \$3,932) for patents.

Intangible assets of a cost of \$94,737 (2007 - \$36,771) were not amortized.

### 13. DEFERRED CHARGES

	2008		2007	
Development costs	\$	<b>998,972</b>	\$	79,257

During the year 2008, the Company incurred development costs of \$1,197,539 (2007 - \$0) and recognized research and development tax credits of \$277,824.

As at August 31, 2008, the development costs for a cost, net of research and development tax credits, of \$998,972 (2007 - \$79,257) were not amortized.

# Nuvolt Corporation Inc.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at August 31, 2008 and 2007

### 14. BANK LOAN

The Company has available credit facility amounting to \$250,000, bearing interest at the bank prime rate plus 2%, secured by accounts receivable and by inventories. The credit facility was renewable on December 31, 2008.

As at August 31, 2008, \$210,000 of the credit facility was used and a letter of credit for a total amount of \$10,000 expiring January 16, 2009 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, 2008, the Company was not in compliance with this debt covenant.

### 15. ACCOUNTS PAYABLE

	2008	2007
Accounts payable and accrued liabilities	\$ 650,743	\$ 171,231
Salaries and commitment fees	56,280	36,057
Provision for warranties	7,182	9,032
Customer deposits	7,738	20,447
Amount payable to a shareholder, 10%*	100,000	-
	<b>\$ 821,943</b>	<b>\$ 236,767</b>

\* The terms and conditions of the amount payable to a shareholder are currently under negotiation.

### 16. LONG-TERM DEBT

	2008	2007
Notes payable to Investissement Québec, of an originally amount of \$458,333, plus capitalized cost, 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 from March 31, 2009 in monthly instalments of \$5,647, maturing in March 2014 (a) and (b)	\$ 338,812	\$ 312,610
Notes payable, 11%, repayable in monthly instalments of \$652 including principal and interest, maturing from December 2008 to October 2009	6,540	13,241
Carried forward	<b>\$ 345,352</b>	<b>\$ 325,851</b>

# Nuvolt Corporation Inc.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at August 31, 2008 and 2007

### 16. LONG-TERM DEBT (continued)

	2008	2007
Brought forward	\$ 345,352	\$ 325,851
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	28,167
Note payable, secured by rolling stock with a net value of \$7,643, without interest, repayable in monthly instalments of \$485, maturing in October 2009	6,795	12,621
Note payable, without interest, repayable in annual instalments of \$7,281, maturing in October 2009 (c)	14,562	21,765
Loans reimbursed during the year	-	44,044
	<b>368,875</b>	432,448
Current portion	<b>49,189</b>	86,045
	<b>\$ 319,686</b>	<b>\$ 346,403</b>

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

2009 -	\$ 49,189
2010 -	\$ 76,872
2011 -	\$ 67,762
2012 -	\$ 67,762
2013 -	\$ 67,762

- a) The Company profits from a moratorium for the refunding of its notes payable, and this, until March 31, 2009 as one period of capitalization of two years interest which will end on July 31, 2009. At the end of the moratorium, the notes payable will be refundable in equal payments over a five year period. Moreover, in addition to the monthly payments, the Company will have to carry out a return of capital annually corresponding to 20% of the generated net funds of the Company. Interest of an amount of \$26,201 (2007 - \$2,317) was capitalized with the notes payable during the exercise.
- b) Under the terms of the credit agreement, the Company must comply with financial ratios. As at August 31, 2008 and 2007, 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\$13,712 (2007 - US\$20,568).

# Nuvolt Corporation Inc.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at August 31, 2008 and 2007

### 17. DEBENTURE

	<u>2008</u>	<u>2007</u>
Debenture, non-guaranteed and non-convertible, nominal rate of 12%, implicate rate of 25%, repayable in monthly capital instalments of \$12,556, maturing in June 2011	<b>\$ 380,507</b>	\$ 392,641
Current portion	<b>167,778</b>	69,111
	<b>\$ 212,729</b>	\$ 323,530

Under the terms of the recommendation of the Section 3861 of the Canadian Institute of Chartered Accountants Manual, the non-convertible debenture to which is attached a warrant is a financial instrument which comprises at the same time a liability and an element of stockholders' equity which must be presented distinctly at the moment of their initial observation. The Company chose to determine the component of liability actualizing future cash flows at the rate of the market practiced for similar debts with which no component stockholders' equity is associated, and to determine the component of stockholders' equity by difference.

At the time of the initial observation, the Company has accounted for a component liability of an amount of \$385,538 and a component shareholders' equity of an amount of \$114,462, the whole adding up \$500,000. Interest at the implicit annual rate of 25% is entered in the results (see also Note 20 b) for the characteristics of the warrant). Following the realization of the qualifying transaction during the year 2007, the calendar of refunding was modified. The actualization of cash flows according to new conditions' of refunding involved a reduction of the liability of an amount of \$67,248 which was carried against the shares issuance costs as at August 31, 2007.

As at August 31, 2008, the Company had defaulted on capital repayments. However, the creditor waived his right to collect the receivable until September 1, 2009.

The Company is currently negotiating with the creditor to change the repayment schedule.

# Nuvolt Corporation Inc.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at August 31, 2008 and 2007

### 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, 2008 and 2007:

	2008		2007	
	Number	Stated value	Number	Stated value
Outstanding, beginning of year	52,743,234	\$ 5,362,400	6,876,568	\$ 3,454,326
Issuance of shares at the time of the reverse takeover (a)	-	-	33,333,333	632,056
Issuance of shares in connection with a private placement (b)	-	-	9,833,333	1,001,131
Issuance of shares in refunding of loans and notes payable (c)	-	-	2,700,000	274,887
Issuance of shares (d)	67,095	15,165	-	-
Outstanding, end of year	52,810,329	\$ 5,377,565	52,743,234	\$ 5,362,400

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, 2008, 21,777,779 shares (2007 - 32,666,668) are escrowed.

- On July 18, 2007, as part of the qualifying transaction, Norco Capital inc. issued 33,333,333 common shares in exchange of the 4,500,000 common shares of Nuvolt Corporation Inc.
- On July 19, 2007, following the completion of a private placement, the Company issued 9,833,333 units at a price of \$0.15 per unit. Each unit is composed of one common share and one warrant. The gross issue proceeds for the shares was divided between capital stock and warrants based on the proportional method. The amount allowed to common shares is \$1,001,131 (Note 20 a).
- On July 19, 2007, the Company issued 2,700,000 units at \$0.15 per unit in refunding of loans and notes payable. Each unit is composed of one common share and one warrant. The gross issue proceeds for the shares was divided between capital stock and warrants based on the proportional method. The amount allowed to common shares is \$274,887 (Note 20 a).

# Nuvolt Corporation Inc.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at August 31, 2008 and 2007

### 18. CAPITAL STOCK (continued)

- d) 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.
- e) As at August 31, 2007, the share issuing expenses amounting to \$328,541, composed of professional fees, of the fair value of the options and of the adjustment of debenture were charged to the deficit.

### 19. 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 July 18, 2007, the Company revalued the 687,656 stock options granted to directors before the reversed takeover. Each option when exercises, entitles the holder the right to buy one common share at a price of exercise of \$0.15. The fair value of the options was estimated at \$66,015 using the Black & Scholes option pricing model based on the following weighted average hypothesis:

Risk-free interest rate	4.60%
Expected life	3 years
Expected volatility	100%
Dividend yield	Nil

On September 17, 2007, the Company granted 2,504,000 stock options to directors and employees. The acquisition of the rights is as follows: 1/3 on the grant 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

# Nuvolt Corporation Inc.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at August 31, 2008 and 2007

### 19. STOCK OPTIONS (continued)

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

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

#### Other options

On July 18, 2007, the Company granted the transaction sponsor an option entitling the holder, upon exercise, the right to buy 125,000 common shares at a price of \$0.15, expiring in two years. The fair value of the option was estimated at \$10,125 at the grant date using the Black & Scholes option pricing model based on the following weighted average hypothesis:

Risk-free interest rate	4.60%
Expected life	2 years
Expected volatility	100%
Dividend yield	Nil

During the year 2007, the Company extended the expiring date of the stock option held by Investissement Québec. This option entitles the holder, upon exercised, the right to buy 89,460 common shares at a price of \$0.15 and to require the repurchase with a 30 days written notice. The fair value of the options was estimated at \$6,800 using the Black & Scholes option pricing model based on the following weighted average hypothesis:

Risk-free interest rate	4.60%
Expected life	1.7 year
Expected volatility	100%
Dividend yield	Nil

As at August 31, 2008, this option had been exercised.

# Nuvolt Corporation Inc.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at August 31, 2008 and 2007

### 19. STOCK OPTIONS (continued)

The following table summarizes the situation of the Company's stock option plan as at August 31, 2008 and 2007, and the changes during the years ended on those dates are presented below:

	2008		2007	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Oustanding, beginning of year	902,116	\$ 0.15	777,116	\$ 0.15
Granted	3,054,000	0.10	125,000	0.15
Cancelled	(26,000)	0.10	-	-
Exercised	(89,460)	0.15	-	-
Oustanding, end of year	3,840,656	\$ 0.11	902,116	\$ 0.15
Options exercisable, end of year	2,464,656		902,116	
Weighted average fair value of options granted during the year	\$ 0.035		\$ 0.080	

The following table summarizes information about fixed stock options outstanding August 31, 2008:

Range of exercise price	Options outstanding			Options exercisable	
	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price	Number of exercisable options	Weighted average exercise price
\$0.10	3,028,000	4.06 years	\$ 0.10	1,652,000	\$ 0.10
\$0.15	812,656	1.66 year	0.15	812,656	0.15
\$0.10 - \$0.15	3,840,656	3.55 years	\$ 0.11	2,464,656	\$ 0.12

# Nuvolt Corporation Inc.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at August 31, 2008 and 2007

### 20. WARRANTS

The summary of the changes during the years ended August 31, 2008 and 2007, relative to the warrants is as follows:

	2008		2007	
	Warrants	Weighted average exercise price	Warrants	Weighted average exercise price
Outstanding, beginning of year	15,866,666	\$ 0.19	3,333,333	\$ 0.15
Granted	-	-	12,533,333	0.20
Outstanding, end of year	15,866,666	\$ 0.19	15,866,666	\$ 0.19
Warrants that might be exercised, end of year	15,466,666	\$ 0.19	15,266,666	\$ 0.19

- a) On July 19, 2007, the Company issued 12,533,333 units at a price of \$0.15 per unit. Each unit is composed of one common share and one warrant. Each warrant, upon exercise, entitles the holder the right to subscribe to one common share of the Company at a price of \$0.20, until the expiring in two years. The fair value of the option was estimated at \$889,867 at the grant date using the Black & Scholes option pricing model based on the following weighted average hypothesis:

Risk-free interest rate	4.60%
Expected life	2 years
Expected volatility	100%
Dividend yield	Nil

The proceed of the issuance was allocated between the common shares and the warrants based on the proportional method. The amount allocated to the warrants is \$603,982.

- b) 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).

# Nuvolt Corporation Inc.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at August 31, 2008 and 2007

### 21. 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 \$166,792. Minimum payments payable required for the next four years are as follows :

2009 -	\$	117,647
2010 -	\$	40,417
2011 -	\$	7,481
2012 -	\$	1,247

#### Service contract

During the year 2008, the Company entered into a product development service agreement. As at August 31, 2008, the balance of the commitment was \$60,700.

### 22. 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>2008</u>	<u>2007</u>
Basic weighted average number of shares outstanding	<b>52,792,498</b>	40,332,620

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	<b>3,509,733</b>	822,848
Warrants	<b>15,866,666</b>	7,816,802

For the year ended August 31, 2007, there is no difference between the basic and diluted net income (net loss) per share since the average market price is lower than the exercise price of the stock option and the warrants. Consequently, the diluted net income (net loss) per share for this year was calculated using the basic weighted average number of shares outstanding.

For the year ended August 31, 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 for this year was calculated using the basic weighted average number of shares outstanding.

# Nuvolt Corporation Inc.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at August 31, 2008 and 2007

### 23. ADDITIONAL INFORMATION TO THE STATEMENT OF CASH FLOWS

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

	2008 (12 months)	2007 (4 months)
Accounts receivable	\$ (58,557)	\$ (166,521)
Inventories	(71,429)	9,324
Prepaid expenses	(8,577)	(3,197)
Accounts payable	17,883	(182,323)
Deferred revenue	(12,408)	(1,368)
	<b>\$ (133,088)</b>	<b>\$ (344,085)</b>

During the year 2007, following the reverse takeover, the Company accounted for accounts receivable for an amount of \$23,851 and accounts payable for an amount of \$82,494. This transaction did not have any impact on cash flows.

At the time of the merger at August 31, 2007, the note payable to a company of an amount of \$250,000 was carried against the same amount receivable accounted in the books of the amalgamated company.

In 2007, the Company also accounted for shares issuance costs including the value of the options granted, adjustment of the debenture's balance, as well as fees amounting to \$118,663.

The Company issued shares and warrants during the year 2007 against the reimbursement of long-term debts, demand loans and a note payable adding up \$405,000.

During the year 2008, the Company offset a tax credit receivable of \$277,824 against deferred development costs.

The Company issued \$15,165 in shares in exchange for a receipt related to an option (Note 18 d).

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 stock options in the amount of \$3,264.

### 24. 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, 2008, net assets denominated in US dollars and converted to Canadian dollars totalled \$143,322 (2007 - \$221,650). The Company does not use financial instruments to manage its exposure to changes in currency exchange rates.

# Nuvolt Corporation Inc.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at August 31, 2008 and 2007

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### 24. FINANCIAL INSTRUMENTS (continued)

#### **Credit risk**

The Company monitors the financial situation of its clients in the normal course of its operations. The Company does not believe to be exposed to a risk of credit higher than normal in regards to its customers.

#### **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.

#### **Fair value**

The fair value of short-term financial instruments approximates their book value due to their short-term maturities and the normal commercial conditions that they bear.

The fair value of notes receivable and advances to shareholders could not be determined because it is virtually impossible to find on the market a financial instrument with basically the same economic characteristics.

For long-term debts, the book value is close to their fair value, since their variable rate and/or 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.

# Nuvolt Corporation Inc.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at August 31, 2008 and 2007

### 25. 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 neutralisation 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:

	<b>2008</b>	2007
Canada	<b>\$ 866,819</b>	\$ 317,585
United States	<b>531,396</b>	266,190
	<b>\$ 1,398,215</b>	\$ 583,775

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

During the year ending August 31, 2008, the Company did make 15% of its total revenues with one client (2007 - 16%).

### 26. SUBSEQUENT EVENT

In September 2008, the Company signed a financial contribution agreement with the National Research Council of Canada. The agreement states that the National Research Council of Canada will make a financial contribution of up to \$350,000 over one year to reimburse a portion of salaries and subcontractors' costs incurred to carry out research work.

Furthermore, in September 2008, the Company received \$125,000 in shareholder advances. The terms and conditions of the advances are currently under negotiation.

Lastly, in November 2008, the Company took out a \$75,000 term loan, bearing interest at the bank prime rate plus 4%. The term loan is repayable upon obtaining financing from the research and development tax credits.

### 27. COMPARATIVE FIGURES

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