

Nuvolt Corporation Inc.

Consolidated Financial Statements
As at August 31, 2011 and 2010

Together with Independent Auditor's Report

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Nuvolt Corporation Inc.,

We have audited the accompanying consolidated financial statements of **NUVOLT CORPORATION INC.**, which comprise the consolidated balance sheets as at August 31, 2011 and 2010, and the consolidated statements of income and comprehensive income, deficit and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

INDEPENDENT AUDITOR'S REPORT (continued)

Observation

Without qualifying our opinion of a reserve, we bring attention to Note 2 of the financial statements which indicates the uncertainty that may cast significant doubt on the ability of the Company to continue its operations.

*Mallette*¹

Mallette
L.L.P.
Chartered Accountants

Québec City, Canada
December 21, 2011

¹ CA auditor permit No. 12506

Nuvolt Corporation Inc.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

For the years ended August 31,

2011

2010

GROSS REVENUE	\$	1,033,509	\$	993,311
COST OF GOODS SOLD		808,109		782,969
GROSS PROFIT		225,400		210,342
OTHER OPERATING EXPENSES				
Selling expenses		686,367		783,894
Administrative expenses		732,038		787,007
Research and development expenses		395,211		16,453
Financial expenses		417,412		189,980
		2,231,028		1,777,334
LOSS FROM OPERATIONS		(2,005,628)		(1,566,992)
OTHER ITEM				
Gain on debentures renegotiation		84,911		-
NET LOSS AND COMPREHENSIVE INCOME	\$	(1,920,717)	\$	(1,566,992)
Earning per share (Note 21)				
Net income, non-diluted and diluted per share	\$	(0.0253)	\$	(0.0244)

Additional information to the statements of income (Note 6)

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,

2011

2010

BALANCE , beginning of year	\$ (8,647,409)	\$ (6,923,488)
Net loss and comprehensive income	(1,920,717)	(1,566,992)
Shares issuance costs (Note 15)	<u>(438,243)</u>	<u>(156,929)</u>
BALANCE , end of year	\$ (11,006,369)	\$ (8,647,409)

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

Nuvolt Corporation Inc.

CONSOLIDATED BALANCE SHEETS

As at August 31,

2011

2010

ASSETS

CURRENT ASSETS

Cash	\$ 1,590,626	\$ 53,968
Accounts receivable (Note 7)	310,516	496,117
Inventories (Note 8)	419,694	219,999
Prepaid expenses	29,707	18,929
	<u>2,350,543</u>	789,013
CAPITAL ASSETS (Note 9)	365,993	119,926
DEPOSIT ON CAPITAL ASSETS ACQUISITION	-	157,927
INTANGIBLE ASSETS (Note 10)	<u>2,605,149</u>	2,403,575
	<u>\$ 5,321,685</u>	\$ 3,470,441

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

Nuvolt Corporation Inc.

CONSOLIDATED BALANCE SHEETS (continued)

As at August 31,

2011

2010

LIABILITIES

CURRENT LIABILITIES

Accounts payable (Note 12)	\$ 521,825	\$ 351,968
Deferred revenue	7,972	6,114
Current portion of long-term debt (Note 13)	64,341	429,446
Current portion of debenture (Note 14)	-	342,034

594,138 1,129,562

LONG-TERM DEBT (Note 13)

458,479 408,235

DEBENTURES (Note 14)

1,418,969 715,674

2,471,586 2,253,471

SHAREHOLDERS' EQUITY

Capital stock (Note 15)	10,325,353	7,172,685
Stock options (Note 17)	524,836	283,789
Warrants (Note 18)	1,395,496	821,530
Contributed surplus (Note 19)	1,610,783	1,586,375
Deficit	(11,006,369)	(8,647,409)

2,850,099 1,216,970

\$ 5,321,685 \$ 3,470,441

COMMITMENTS (Note 20)

On behalf of the Board,

(signed) Jean Lambert _____, Director

(signed) Jacques Dion _____, 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,

2011

2010

OPERATING ACTIVITIES

Net loss and comprehensive income	\$ (1,920,717)	\$ (1,566,992)
Items not affecting cash		
Amortization of capital assets	76,587	36,634
Amortization of intangible assets	266,768	8,807
Loss on disposal of capital assets	289	-
Interest capitalized on long-term debt	38,778	-
Interest capitalized on debentures	178,240	43,742
Stock-based compensation	140,335	204,242
Gain on debentures renegotiation	(84,911)	-
	(1,304,631)	(1,273,567)
Net change in non-cash working capital items (Note 22)	72,649	388,644
	(1,231,982)	(884,923)

INVESTING ACTIVITIES

Acquisition of capital assets	(113,722)	(54,382)
Deposit on acquisition of capital assets	-	(157,927)
Acquisition of intangible assets	(412,671)	(1,319,371)
	(526,393)	(1,531,680)

FINANCING ACTIVITIES

Change in bank loan	-	(40,000)
Additional financing	1,190,000	892,000
Repayment of long-term debt	(346,886)	(128,028)
Repayment of debentures	(139,821)	(52,000)
Issuance of shares	2,937,634	1,837,050
Shares issuance costs	(345,894)	(84,925)
	3,295,033	2,424,097

INCREASE IN CASH AND CASH EQUIVALENTS

	1,536,658	7,494
CASH, beginning of year	53,968	46,474
CASH, end of year	\$ 1,590,626	\$ 53,968

Cash flows related to operating activities include interest payments of \$119,308 (2010 - \$75,907) and no income tax payments.

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

Nuvolt Corporation Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at August 31, 2011 and 2010

1. STATUTES OF INCORPORATION AND NATURE OF ACTIVITIES

The Company, incorporated under Part IA of the Québec Companies Act and governed by the provisions of the Québec Business Corporations Act, manufactures and distributes stray voltage neutralization equipment and electrical network monitoring devices.

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 has accumulated a large deficit as at August 31, 2011.

The Company's ability to continue as a going concern has been secured with the closing of transactions of \$3,500,000 announced on August 23, 2011 as well as moratoria obtained on repayment of principal on debts totalling approximately \$2,000,000. Those transactions enable the Company to work with adequate financial means and to realize the full potential of the SmartScan technology for the benefits of the shareholders.

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. 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.

Nuvolt Corporation Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at August 31, 2011 and 2010

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 goods are shipped out, the risks on inherent benefits of ownership have been transferred and the collection is reasonably assured.

The maintenance and licence 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.

When 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 income is 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, loans and receivables 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.

Nuvolt Corporation Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at August 31, 2011 and 2010

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets and financial liabilities

Held-for-trading financial assets

Financial instruments, which include cash, 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 accounts receivable and other financial liabilities, including accounts payable, long-term debt and the debentures 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.

Fair value

The fair value generally corresponds to the consideration for which the instrument could be exchanged in a transaction at arm's length transaction between knowledgeable, willing parties freely under conditions of full competition.

Transaction costs

Transaction costs are deducted from the debentures and amortized using the effective interest rate on the actual expected life of the debentures concerned.

Inventory

Raw materials are valued at the lower of cost and net realizable value, 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, 2011 and 2010

3. 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% and 33%
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

Patents and trademark

Patents and the trademark are accounted for at cost.

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

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 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.

Nuvolt Corporation Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at August 31, 2011 and 2010

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Products warranties

The equipment sold is 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 17. 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, bank overdraft and highly liquid financial instruments, with an initial term of three months or less.

4. FUTURE CHANGES IN ACCOUNTING POLICIES

International Financial Reporting Standards (IFRS)

In February 2008, The Accounting Standards Board of Canada confirmed that publicly accountable enterprises will have to apply IFRS for years beginning on or after January 1, 2011. Consequently, the Company will apply IFRS from September 1, 2011. These standards will replace Canadian generally accepted accounting principles.

Nuvolt Corporation Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at August 31, 2011 and 2010

5. INCOME TAXES

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

	2011	2010
Future income tax assets		
Long-term		
Capital assets	\$ 138,139	\$ 179,983
Tax losses	1,571,417	855,430
Research and development expenses	183,647	105,553
Accounting reserve provision	3,819	3,099
Financing expenses	148,167	88,612
	2,045,189	1,232,677
Future income tax liabilities		
Long-term		
Intangible assets and research and development tax credits	(61,639)	(49,034)
	1,983,550	1,183,643
Valuation allowance	(1,983,550)	(1,183,643)
	\$ -	\$ -

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

	2011		2010	
Combined federal and provincial rate	\$ (555,087)	(28.90)%	\$ (473,702)	(30.23)%
Tax rate increase (decrease) resulting from:				
Non-deductible debenture interest	(22,653)	(1.18)	(9,117)	(0.58)
Valuation allowance	799,907	41.64	291,536	18.60
Subsidiary's losses	85,367	4.44	143,065	9.13
Gap on rates and other	(307,534)	(16.00)	48,218	3.08
Effective tax rate	\$ -	- %	\$ -	- %

Nuvolt Corporation Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at August 31, 2011 and 2010

5. INCOME TAXES (continued)

Non-capital losses likely to reduce taxes of future exercises are of \$4,562,300 at the federal level and \$4,599,300 at the provincial level. The Company could be prevailed of the tax advantage rising from the carryforward of these losses until 2031:

	Federal	Provincial
2014	\$ 57,100	\$ 128,300
2015	\$ 386,700	\$ 378,200
2025	\$ 154,500	\$ 152,000
2026	\$ 257,600	\$ 257,600
2027	\$ 8,100	\$ 8,100
2028	\$ 565,000	\$ 565,000
2029	\$ 362,000	\$ 362,000
2030	\$ 1,162,500	\$ 1,162,500
2031	\$ 1,608,800	\$ 1,585,600

Moreover, the Company has non-capital losses in the United States in the amount of \$824,700. The Company could be prevailed of the tax advantage rising from the carryforward of these losses for a period of twenty to thirty years.

6. ADDITIONAL INFORMATION TO THE STATEMENTS OF INCOME

The income statements include the following items:

	2011	2010
Amortization of capital assets	\$ 76,587	\$ 36,634
Amortization of intangible assets	\$ 266,768	\$ 8,807
Expenses related to stock-based compensation		
Salaries	\$ 128,618	\$ 176,642
Professional services	\$ 11,717	\$ 27,600
Debenture and long-term debt interest	\$ 358,447	\$ 142,695
Interest on short-term debt	\$ 6,692	\$ 2,437
Loss in exchange rate	\$ 22,620	\$ 6,015

Nuvolt Corporation Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at August 31, 2011 and 2010

7. ACCOUNTS RECEIVABLE

	2011		2010
Trade	\$ 177,133	\$	169,645
Bad debt provision	-		38,222
	177,133		131,423
Security deposit	4,590		135,166
Travelling expenses advances, without interest	2,935		3,200
Advances to shareholders, without interest	3,200		3,200
Commodity taxes	22,658		23,962
Research and development tax credits*	100,000		199,166
	\$ 310,516	\$	496,117

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

8. INVENTORIES

	2011		2010
Raw materials	\$ 111,911	\$	106,432
Goods in process	-		8,850
Finished goods	307,783		104,717
	\$ 419,694	\$	219,999

Nuvolt Corporation Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at August 31, 2011 and 2010

9. CAPITAL ASSETS

			2011		2010	
	Cost	Accumulated amortization	Net book value		Net book value	
Reference works	\$ 71,824	\$ 71,824	\$ -	\$ -		
Tools and equipment	527,349	232,050	295,299		9,073	
Data processing equipment and software	48,561	40,152	8,409		14,937	
Commercial booths	70,137	46,089	24,048		43,613	
Rolling stock	71,949	42,203	29,746		42,431	
Furniture and fittings	71,493	63,002	8,491		9,872	
	\$ 861,313	\$ 495,320	\$ 365,993	\$	119,926	

During the year 2011, some capital assets of a net book value of \$290,108 were not amortized. They were taken out of service for an extended period. As at August 31, 2011, all capital assets are in use.

10. INTANGIBLE ASSETS

			2011		2010	
	Cost	Accumulated amortization	Net book value		Net book value	
Patents	\$ 254,038	\$ 37,938	\$ 216,100	\$	162,232	
Development costs	2,908,779	530,369	2,378,410	\$	2,233,326	
Trademark	10,639	-	10,639		8,017	
	\$ 3,173,456	\$ 568,307	\$ 2,605,149	\$	2,403,575	

During the year 2011, the Company incurred \$54,594 (2010 - \$12,917) for patents and \$2,622 (2010 - \$2,074) for a trademark.

The Company also incurred development costs of \$475,251 (2010 - \$1,111,007) and recognized research and development tax credits of \$64,125 (2010 - \$199,166) in reduction of the development costs.

As at August 31, 2011, patents of a cost of \$180,319 (2010 - \$164,107) were not amortized. As at August 31, 2010, a trademark of a cost of \$8,017 and development costs, net of research and development tax credits, of \$2,189,948 were not amortized.

Nuvolt Corporation Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at August 31, 2011 and 2010

11. BANK LOAN

The Company has available credit facility amounting to \$250,000, bearing interest at the bank prime rate plus 4%, secured by accounts receivable and by inventories. The credit facility is renewable on December 31, 2011.

As at August 31, 2011, the credit facility was not used and a letter of credit for a total amount of \$10,000 expiring January 16, 2012 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, 2011, the Company was in compliance with this debt covenant.

12. ACCOUNTS PAYABLE

	2011		2010
Accounts payable and accrued liabilities	\$ 425,439	\$	261,715
Salaries and commitment fees	90,420		85,643
Provision for warranties	5,966		4,610
	\$ 521,825	\$	351,968

Nuvolt Corporation Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at August 31, 2011 and 2010

13. LONG-TERM DEBT

	2011	2010
Notes payable to Investment Quebec, of an originally amount of \$458,333, plus capitalized cost, interest at the prime rate plus 7.5%, secured by a floating load on the present and future assets, repayable in one annual capital instalment on December 31, 2014, corresponding to 15% of the excess of generated funds ending on August 31, 2014 and in thirty-six equal monthly capital instalments beginning August 31, 2014, maturing in July 2017 ^{a) b)}	\$ 304,894	\$ 336,439
Note payable to Investment Quebec, of an originally amount of \$450,000, interest at the prime rate plus 9%, secured by a floating load on the present and future assets, repayable in four annual equal instalments of \$50,000, beginning June 30, 2012, maturing June 30, 2015	200,000	-
Note payable, secured by rolling stock with a net value of \$27,124, effective interest at 2.9%, repayable in monthly instalments of \$1,195, maturing in November 2012	17,926	32,267
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 research and development tax credits recoverable on years 2010 and 2011 ^{c)}	-	368,975
Note payable to a shareholder, interest at 12%, repayable over three years by monthly capital instalments of \$1,000 the first year, \$2,000 the second year and eleven capital instalments of \$5,000 thereafter and a final payment of \$9,000	-	100,000
	522,820	837,681
Current portion	64,341	429,446
	\$ 458,479	\$ 408,235

Nuvolt Corporation Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at August 31, 2011 and 2010

13. LONG-TERM DEBT (continued)

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

2012 -	\$	64,341
2013 -	\$	53,585
2014 -	\$	58,469
2015 -	\$	151,631
2016 -	\$	101,631

- a) The Company has concluded a twenty-four month moratorium for the capital repayment maturing on August 31, 2013. Only the thirty-six monthly equal instalments have been considered in the capital repayments to make over the next fiscal years because of the difficulty of estimating the annual capital repayment of December 31, 2014.
- b) Under the terms of the credit agreement, the Company must comply with financial ratios. As at August 31, 2011, the Company was in compliance with these ratios. As at August 31, 2010, the Company was not in compliance with these ratios. The creditor has signified his tolerance at this regard.
- c) On August 23, 2011, the note payable and the accrued interest of \$38,778 have been change to a non-guaranteed and non-convertible debenture, including a thirty-six month moratorium on capital repayment.
- d) On August 23, 2011, the balance of the note payable to a shareholder has been converted into capital stock.

Nuvolt Corporation Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at August 31, 2011 and 2010

14. DEBENTURES

	2011	2010
Debenture, non-guaranteed and non-convertible, nominal rate of 15%, implicit rate of 25%, including a moratorium on capital repayment until April 30, 2014, repayable in monthly capital instalments of \$8,778 until April 2017	\$ 235,212	\$ 342,034
Debentures, non guaranteed, nominal rate of 12%, calculated semi-annually, implicit rate of 23.5%, convertible in common shares at a conversion price of \$0.20 per share, repayable, capital and interest, on January 9, 2012*	776,004	715,674
Debenture, non-guaranteed and non-convertible, nominal rate of 12%, including a moratorium on capital repayment until August 31, 2014, repayable in thirty-six equal monthly capital instalments of \$11,326 until July 2017	407,753	-
	1,418,969	1,057,708
Current portion	-	342,034
	\$ 1,418,969	\$ 715,674

* On September 30, 2011, the Company has concluded a thirty-six month moratorium for the capital repayment maturing on August 31, 2014. At the end of the moratorium, the capital will be repayable into thirty-six monthly equal instalments until July 2017. Accrued interest until August 9, 2011 has been paid to holders of the debentures. Interest from August 9, 2011 to January 9, 2012 will be payable on January 9, 2012. Interest will be repayable monthly thereafter.

During the year 2010, the Company issued non guaranteed debentures. The Company chose to determine the liability component by discounting cash flows at market rates charged for similar debt which no associated equity component and determine the equity component by default. Upon initial recognition, the Company recorded a liability in the amount of \$694,569 and an equity component of a \$105,431 that was charged to contributed surplus, for a total of \$800,000. Implicit interest rate of 23.5% is reflected in income.

Nuvolt Corporation Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at August 31, 2011 and 2010

15. 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, 2011 and 2010:

	2011		2010	
	Number	Stated value	Number	Stated value
BALANCE , beginning of year	72,777,328	\$ 7,172,685	52,810,329	\$ 5,377,565
Issuance of shares	60,607,246	3,152,668	19,966,999	1,795,120
BALANCE , end of year	133,384,574	\$ 10,325,353	72,777,328	\$ 7,172,685

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 thirty-six 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 shares and warrants was estimated at \$889,600 and \$500,400 respectively at the grant date 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

Nuvolt Corporation Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at August 31, 2011 and 2010

15. CAPITAL STOCK (continued)

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 thirty-six months from the closing date. Of this amount, 166,667 units were subscribed by a conversion of a note payable. The fair value of the shares and warrants was estimated at \$130,032 and \$70,018 respectively at the grant date 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

On February 9, 2010, 100,000 stocks options have been exercised at a price of \$0.12 per share. The fair value of the 100,000 shares is \$16,600.

On March 29, 2010, the Company announced a closing of a private placement by issuing 1,666,666 units at a price of \$0.15 per unit, for a total of \$250,000. 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 \$0.20 per share for a period of thirty-six months from the closing date. The fair value of the shares and warrants was estimated at \$162,500 and \$87,500 respectively at the grant date using the Black & Scholes option pricing model based on the following weighted average hypothesis:

Risk-free interest rate	1.61%
Expected life	3 years
Expected volatility	100%
Dividend yield	Nil

On August 23, 2010, the Company announced a closing of a private placement by issuing 4,900,000 units at a price of \$0.10 per unit, for a total of \$490,000. Each unit is composed of one common share and one-half of a warrant. Each warrant entitles the holder to acquire one common share of the Company at a price of \$0.20 per share for a period of thirty-six months from the closing date. The fair value of the shares and warrants was estimated at \$381,818 and \$108,182 respectively at the grant date using the Black & Scholes option pricing model based on the following weighted average hypothesis:

Risk-free interest rate	1.22%
Expected life	3 years
Expected volatility	100%
Dividend yield	Nil

Nuvolt Corporation Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at August 31, 2011 and 2010

15. CAPITAL STOCK (continued)

On August 27, 2010, the Company announced a closing of a private placement by issuing 2,700,000 units at a price of \$0.10 per unit, for a total of \$270,000. Each unit is composed of one common share and one-half of a warrant. Each warrant entitles the holder to acquire one common share of the Company at a price of \$0.20 per share for a period of thirty-six months from the closing date. The fair value of the shares and warrants was estimated at \$214,570 and \$55,430 respectively at the grant date using the Black & Scholes option pricing model based on the following weighted average hypothesis:

Risk-free interest rate	1.28%
Expected life	3 years
Expected volatility	100%
Dividend yield	Nil

On November 18, 2010, the Company announced the closing of a private placement by issuing 2,255,000 units at a price of \$0.10 per unit, for a total of \$225,500. Each unit is composed of one common share and one-half of a warrant. Each warrant entitles the holder to acquire one common share of the Company at a price of \$0.20 per share for a period of thirty-six months from the closing date. The fair value of the shares and warrants was estimated at \$180,400 and \$45,100 respectively at the grant date using the Black & Scholes option pricing model based on the following weighted average hypothesis:

Risk-free interest rate	1.57%
Expected life	3 years
Expected volatility	100%
Dividend yield	Nil

Nuvolt Corporation Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at August 31, 2011 and 2010

15. CAPITAL STOCK (continued)

On August 23, 2011, the Company announced the closing of a private placement by issuing 45,202,246 units at a price of \$0.06 per unit, for a total of \$2,712,134. Each unit is composed of one common share and one-half of a warrant. Each warrant entitles the holder to acquire one common share of the Company at a price of \$0.12 per share for a period of thirty-six months from the closing date. The fair value of the shares and warrants was estimated at \$2,183,268 and \$528,866 respectively at the grant date using the Black & Scholes option pricing model based on the following weighted average hypothesis:

Risk-free interest rate	0.99%
Expected life	3 years
Expected volatility	100%
Dividend yield	Nil

On August 23, 2011, the Company announced the conversion of notes payable and debts to directors and shareholders by issuing 13,150,000 units at a price of \$0.06 per unit, for a total of \$789,000.

To distribute the proceed of the stock issuances, the Company has opted for the proportional method by which the value is distributed based on market values of shares and warrants.

Issuance costs in the amount of \$438,243, including professional fees and the fair value of stock options, have been charged to deficit.

16. 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.

The Company's objectives and policies in terms of capital management have not changed since September 1, 2010.

In order to maintain and adjust its capital structure, the Company can issue new shares and new debts.

The Company is subject to capital requirements imposed by third parties. These requirements were modified during the fiscal year as follows:

- A ratio debt/equity of 1;
- A ratio of working capital of 1.5;

Nuvolt Corporation Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at August 31, 2011 and 2010

16. CAPITAL MANAGEMENT (continued)

As at August 31, 2011, the Company was in compliance with those ratios [Notes 11 and 13 b)].

As at August 31, 2010, the Company had to comply with a ratio debt/equity of 0.5; a ratio of working capital of 1.5 and a minimum working capital of \$75,000. The Company was not in compliance with those ratios as at August 31, 2010.

17. 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 9,000,000 (2010 - 6,341,000). 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 ten years and the vesting period is determined at the time of the stock options issue.

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 at the grant date 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 November 17, 2009, the Company granted 100,000 stock options to an employee. The acquisition of the rights will be as follows: 1/3 at the grant date, 1/3 on January 31, 2010 and 1/3 on November 17, 2010. When exercised, each option entitles the holder the right to purchase one common share at an exercise price of \$0.10, until November 17, 2014. The fair value of the options was estimated at \$7,500 at the grant date using the Black & Scholes option pricing model based on the following weighted average hypothesis:

Risk-free interest rate	2.30%
Expected life	5 years
Expected volatility	100%
Dividend yield	Nil

Nuvolt Corporation Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at August 31, 2011 and 2010

17. STOCK OPTIONS (continued)

Stock option plan

On January 7, 2010, the Company granted 600,000 stock options to directors and board's members. The acquisition of the rights will be as follows: 1/3 at the grant date, 1/3 on March 31, 2010 and 1/3 on March 31, 2011. When exercised, each option entitles the holder the right to purchase one common share at an exercise price of \$0.12, until January 7, 2015. The fair value of the options was estimated at \$54,000 at the grant date using the Black & Scholes option pricing model based on the following weighted average hypothesis:

Risk-free interest rate	2.48%
Expected life	5 years
Expected volatility	100%
Dividend yield	Nil

On January 7, 2010, the Company granted 600,000 stock options to a consultant according to its stock option plan. The acquisition of the rights will be at the grant date. When exercised, each option entitles the holder the right to purchase one common share at an exercise price of \$0.12, until January 7, 2011. The fair value of the options was estimated at \$27,600 at the grant date using the Black & Scholes option pricing model based on the following weighted average hypothesis:

Risk-free interest rate	1.37%
Expected life	1 year
Expected volatility	100%
Dividend yield	Nil

On August 27, 2010, following the closing of a private placement, the Company granted 189,000 stock options to Northern Securities as compensation options. The acquisition of the rights will be at the grant date. When exercised, each option entitles the holder the right to purchase one unit at an exercise price of \$0.10 per unit until August 27, 2012. Each unit is comprised of one common share and one-half of a common share warrant. The fair value of the options was estimated at \$12,852 at the grant date using the Black & Scholes option pricing model based on the following weighted average hypothesis:

Risk-free interest rate	1.28%
Expected life	2 years
Expected volatility	100%
Dividend yield	Nil

Nuvolt Corporation Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at August 31, 2011 and 2010

17. STOCK OPTIONS (continued)

Stock option plan

On November 18, 2010, following the closing of a private placement, the Company granted 122,850 stock options to Northern Securities as compensation options. The acquisition of the rights will be at the grant date. When exercised, each option entitles the holder the right to purchase one unit at an exercise price of \$0.10 per unit until November 18, 2012. Each unit is comprised of one common share and one-half of a common share warrant. The fair value of the options was estimated at \$7,494 at the grant date using the Black & Scholes option pricing model based on the following weighted average hypothesis:

Risk-free interest rate	1.57%
Expected life	2 years
Expected volatility	100%
Dividend yield	Nil

On January 11, 2011, the Company granted 1,050,000 stock options to directors, board's members and employees. The acquisition of the rights will be as follows: 1/3 at the grant date, 1/3 on March 31, 2011 and 1/3 on January 11, 2012. When exercised, each option entitles the holder the right to purchase one common share at an exercise price of \$0.10, until January 11, 2016. The fair value of the options was estimated at \$65,100 at the grant date using the Black & Scholes option pricing model based on the following weighted average hypothesis:

Risk-free interest rate	2.29%
Expected life	5 years
Expected volatility	100%
Dividend yield	Nil

On March 14, 2011, the Company granted 1,050,000 stock options to directors, board's members and employees. The acquisition of the rights will be as follows: 1/3 at the grant date, 1/3 on May 31, 2011 and 1/3 on March 14, 2012. When exercised, each option entitles the holder the right to purchase one common share at an exercise price of \$0.10, until March 14, 2016. The fair value of the options was estimated at \$60,900 at the grant date using the Black & Scholes option pricing model based on the following weighted average hypothesis:

Risk-free interest rate	2.26%
Expected life	5 years
Expected volatility	100%
Dividend yield	Nil

Nuvolt Corporation Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at August 31, 2011 and 2010

17. STOCK OPTIONS (continued)

Stock option plan

On March 24, 2011, the Company granted 600,000 stock options to a consultant according to its stock option plan. The acquisition of the rights will be as follows: 1/3 at the grant date, 1/3 on May 31, 2011 and 1/3 on March 24, 2012. When exercised, each option entitles the holder the right to purchase one common share at an exercise price of \$0.10, until March 24, 2013. The fair value of the options was estimated at \$14,400 at the grant date using the Black & Scholes option pricing model based on the following weighted average hypothesis:

Risk-free interest rate	1.65%
Expected life	2 years
Expected volatility	100%
Dividend yield	Nil

On August 23, 2011, following the closing of a private placement, the Company granted 3,179,085 stock options to Agents as compensation options. The acquisition of the rights will be at the grant date. When exercised, each option entitles the holder the right to purchase one unit at an exercise price of \$0.06 per unit until August 22, 2014. The fair value of the options was estimated at \$117,626 at the grant date using the Black & Scholes option pricing model based on the following weighted average hypothesis:

Risk-free interest rate	0.99%
Expected life	3 years
Expected volatility	100%
Dividend yield	Nil

Nuvolt Corporation Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at August 31, 2011 and 2010

17. STOCK OPTIONS (continued)

The following table summarizes the situation of the Company's stock option plan as at August 31, 2011 and 2010:

	2011		2010	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding, beginning of year	5,200,000	\$ 0.11	3,648,656	\$ 0.11
Granted	6,001,935	0.08	3,089,000	0.11
Cancelled	(76,000)	0.10	(750,000)	0.10
Exercised	-	-	(100,000)	0.12
Forfeited	(500,000)	0.12	(687,656)	0.15
Outstanding, end of year	10,625,935	\$ 0.09	5,200,000	\$ 0.11
Options exercisable, end of year	9,442,602		4,216,667	
Weighted average fair value of options granted during the year	\$ 0.044		\$ 0.076	

The following table summarizes information about stock options outstanding August 31, 2011:

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
\$0.06	3,179,085	2.98 years	\$ 0.06	3,179,085	\$ 0.06
\$0.10	5,346,850	2.52 years	0.10	4,163,517	0.10
\$0.11	1,500,000	3.01 years	0.11	1,500,000	0.11
\$0.12	600,000	3.35 years	0.12	600,000	0.12
\$0.06 - \$0.12	10,625,935	2.77 years	\$ 0.09	9,442,602	\$ 0.09

Nuvolt Corporation Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at August 31, 2011 and 2010

18. WARRANTS

The summary of the changes during the years ended August 31, 2011 and 2010, relative to the warrants is as follows:

	2011		2010	
	Warrants	Weighted average exercise price	Warrants	Weighted average exercise price
Outstanding, beginning of year	16,066,999	\$ 0.17	3,333,333	\$ 0.15
Granted	23,728,623	0.12	16,066,999	0.17
Forfeited	-	-	(3,333,333)	0.15
Outstanding, end of year	39,795,622	\$ 0.14	16,066,999	\$ 0.17
Warrants that might be exercised, end of year	39,795,622	\$ 0.14	16,066,999	\$ 0.17
Weighted average fair value of warrants granted during the year	\$ 0.024		\$ 0.051	

The following table summarizes information about fixed warrants outstanding August 31, 2011:

Range of exercise price	Warrants outstanding			Warrants exercisable	
	Number of warrants outstanding	Weighted average remaining contractual life	Weighted average exercise price	Number of warrants exercisable	Weighted average exercise price
\$0.12	22,601,123	2.98 years	\$ 0.12	22,601,123	\$ 0.12
\$0.15	10,600,333	1.03 years	0.15	10,600,333	0.15
\$0.20	6,594,166	1.92 years	0.20	6,594,166	0.20
\$0.12 - \$0.20	39,795,622	2.28 years	\$ 0.14	39,795,622	\$ 0.14

On March 11, 2010, the warrant attached to the non-convertible debenture enabling the holder to buy 3,333,333 common shares at a price of \$0.15 has expired and was forfeited. The amount allocated to the warrant is \$114,462.

Nuvolt Corporation Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at August 31, 2011 and 2010

19. CONTRIBUTED SURPLUS

The following table presents the changes in contributed surplus during the years ended August 31, 2011 and 2010:

	2011	2010
BALANCE , beginning of year	\$ 1,586,375	\$ 1,273,484
Conversion privilege on the debentures	-	105,431
Cancellation of stock options	24,408	92,998
Cancellation of warrants	-	114,462
BALANCE , end of year	\$ 1,610,783	\$ 1,586,375

20. 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 \$20,394 (2010 - \$108,168).

During the year 2010, the Company has entered into an employment contract of indefinite duration with two directors. The Company must pay a severance payment in the event that it would terminate the contract for any reason other than serious misconduct.

Following moratorium agreement on debentures' capital repayment, the Company has committed not to repay any advance, not to make any dividends declaration, not to make any purchase or redemption affecting any class of actions, until full repayment of the debentures.

21. 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.

Nuvolt Corporation Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at August 31, 2011 and 2010

21. EARNING PER SHARE (continued)

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

	2011	2010
Basic weighted average number of shares outstanding	\$ 75,989,260	\$ 64,085,412

Items excluded from the calculation of diluted net income per share

Stock options	6,441,725	5,468,109
Warrants	17,510,842	12,884,307

For the years ended August 31, 2011 and 2010, 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.

22. ADDITIONAL INFORMATION TO THE STATEMENTS OF CASH FLOWS

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

	2011	2010
Accounts receivable	\$ 249,726	\$ 130,429
Inventories	(199,695)	52,170
Prepaid expenses	(10,778)	(12,045)
Accounts payable	31,538	229,330
Deferred revenue	1,858	(11,240)
	\$ 72,649	\$ 388,644

The Company acquired capital assets of \$51,294 (2010 - \$0) as well as acquired intangible assets including patents in the amount of \$2,114 (2010 - \$11,628) and development expenses of \$145,152 (2010 - \$15,842), which are financed by accounts payable of \$198,560 (2010 - \$27,470).

Nuvolt Corporation Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at August 31, 2011 and 2010

22. ADDITIONAL INFORMATION TO THE STATEMENTS OF CASH FLOWS (continued)

The Company accounted for a tax credit receivable of \$64,125 (2010 - \$199,166) as a reduction of intangible assets - development expenses.

The Company issued shares, totaling \$789,000 (2010 - \$775,000) in exchange for repayment of notes and amounts payable to directors.

The Company incurred share issuance costs in the amount of \$26,381 (2010 - \$59,152) which are financed by accounts payable and it also incurred the fair value of the stock options in the amount of \$125,120 (2010 - \$12,852).

During the year 2010, a note payable to a director in the amount of \$100,000 has been converted into a note payable to a shareholder.

During the year 2010, the Company acquired capital assets of \$43,424 which are financed by a long-term debt.

23. TRANSACTIONS BETWEEN RELATED PARTIES

During the year 2011, the Company accounted interest of \$85,914 (2010 - \$11,325) on debentures issued to companies owned by directors and a shareholder as well as on the note payable to a shareholder.

24. FINANCIAL INSTRUMENTS

In the normal course of business, the Company is exposed to risks, the most significant of which are market risk, credit risk and liquidity risk. It has established policies and procedures that govern the extent of the Company's exposure to the most significant risks.

Market risk

Market risk is the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market factors. Market risk comprises three types of risk: interest rate risk, currency risk and price risk. The Company is exposed to two of these risks; the risk associated with interest rate and currency risk.

Interest rate risk

The Company has borrowings bearing interest at variable rates. Consequently, the Company is exposed to interest rate risk based on changes in the prime rate. However, a 1% change in the prime rate would not have a significant effect on the Company's results and financial position. Assuming a 1% increase of the interest rate on the amounts reported as long-term debts, net loss would have increase by \$5,049 (2010 - \$3,364) for the exercise ended August 31, 2011.

Nuvolt Corporation Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at August 31, 2011 and 2010

24. FINANCIAL INSTRUMENTS (continued)

Market risk

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, 2011, net assets denominated in US dollars and converted to Canadian dollars totalled \$30,689 (2010 - \$296,743). The Company does not use financial instruments to manage its exposure to changes in currency exchange rates.

An increase of 1% of the Canadian dollar against the American dollar, all other variables remaining constant, would decrease the net loss of \$4,996 (2010 - \$2,359). A decrease of 1% of the Canadian dollar against the American dollar would increase the net loss of \$4,996 (2010 - \$2,359).

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. During the year 2011, the Company did not make any provision for a debt (2010 - \$38,222). The maximal exposure is equal to the book value of cash and accounts receivable.

Liquidity risk

Liquidity risk is the risk that the Company may not be able to meet all its commitments regarding net cash flow in a timely manner.

The Company has a credit facility, which allows it to have sufficient funds to meet its short-term financial needs associated with its regular operations. The Company monitors its cash flow weekly, which allows it to seek additional liquidity in a timely manner, when required. The necessary funding comes from debt and the contribution of share capital, and allows the Company to pursue its activities.

As at August 31, 2011, the Company had accounts payable of \$479,744 (2010 - \$351,968). The maturity date of the long-term debt, the debenture and commitments are presented in Notes 13, 14 and 20.

Nuvolt Corporation Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at August 31, 2011 and 2010

24. FINANCIAL INSTRUMENTS (continued)

Fair value

For the notes payable bearing interest at variable rates, the fair value is comparable to the book value, since their variable rate.

For the debentures and the other amount payable, the fair value is comparable to the book value due to the interest rate that is comparable to the rate to which the Company could negotiate a loan with similar conditions and expiry.

Financial instruments carried at fair value are classified into a hierarchy which reflects the importance of data used to compile the ratings. This hierarchy includes three levels:

Level 1 - Prices (unadjusted) in active markets for identical assets and liabilities; cash is classified in this level.

Level 2 - Evaluation data from observable market for the asset or liability, directly or indirectly obtained.

Level 3 - Evaluation based on data other than observable market for the asset or liability.

During the year 2011, there was no transfer in assessments of financial assets between the different levels.

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 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 except for capital assets of a net book value of \$290,108 which are located at a supplier in Taiwan.

Nuvolt Corporation Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at August 31, 2011 and 2010

25. SEGMENT INFORMATIONS (continued)

Revenues by geographic region are detailed as follows:

	<u>2011</u>	<u>2010</u>
Canada	\$ 581,810	\$ 675,416
United States	451,699	317,895
	<u>\$ 1,033,509</u>	<u>\$ 993,311</u>

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

During the year 2011, the Company did make 14% (2010 - 15%) of its total revenues with one client.