

# **Nuvolt Corporation Inc.**

Consolidated Interim Financial Statements  
As at May 31, 2011 and 2010

NOTICE: The interim consolidated financial statements have not been subject to a review by the Company's external auditors.

## Nuvolt Corporation Inc.

### CONSOLIDATED INTERIM STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(Unaudited)	Third Quarter Ended May 31,		Nine-Month Period Ended May 31,	
	2011	2010	2011	2010
GROSS REVENUE	\$ 359,266	\$ 289,151	\$ 835,061	\$ 833,376
COST OF GOODS SOLD	234,663	203,707	615,001	556,234
GROSS PROFIT	124,603	85,444	220,060	277,142
OTHER OPERATING EXPENSES				
Research and development expenses, net	86,427	2,459	86,427	13,607
Selling expenses	186,323	222,020	534,941	629,157
Administrative expenses	187,130	132,762	574,573	597,252
Financial expenses	90,163	40,627	264,739	119,990
	550,043	397,868	1,460,680	1,360,006
NET INCOME (NET LOSS) AND COMPREHENSIVE INCOME	\$ (425,440)	\$ (312,424)	\$ (1,240,620)	\$ (1,082,864)
Earning per share (Note 21)				
Net income, non-diluted and diluted per share	\$ (0.0057)	\$ (0.0048)	\$ (0.0167)	\$ (0.0171)

Additional information to the statement of income (Note 5)

## Nuvolt Corporation Inc.

### CONSOLIDATED INTERIM STATEMENTS OF DEFICIT

(Unaudited)	Third Quarter Ended May 31,		Nine-Month Period Ended May 31,	
	2011	2010	2011	2010
<b>BALANCE</b> , beginning of period	\$ (9,496,092)	\$ (7,693,928)	\$ (8,647,409)	\$ (6,923,488)
Net income (net loss)	(425,440)	(312,424)	(1,240,620)	(1,082,864)
Shares issuance costs	(6,360)	-	(39,863)	-
<b>BALANCE</b> , end of period	\$ (9,927,892)	\$ (8,006,352)	\$ (9,927,892)	\$ (8,006,352)

The accompanying notes are part of these consolidated interim financial statements

## Nuvolt Corporation Inc.

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### CONSOLIDATED INTERIM BALANCE SHEETS

As at	May 31, 2011 (Unaudited)	August 31, 2010 (Audited)
<b>ASSETS</b>		
CURRENT ASSETS		
Cash	\$ 8,062	\$ 53,968
Accounts receivable (Note 6)	527,254	487,726
Inventories (Note 7)	389,813	219,999
Prepaid expenses	11,593	18,929
	<u>936,722</u>	780,622
NOTES RECEIVABLE (Note 8)	8,391	8,391
CAPITAL ASSETS (Note 9)	389,750	119,926
DEPOSIT ON CAPITAL ASSETS	-	157,927
INTANGIBLE ASSETS (Note 10)	<u>2,894,461</u>	2,403,575
	<u>\$ 4,229,324</u>	\$ 3,470,441

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The accompanying notes are part of these consolidated interim financial statements

## Nuvolt Corporation Inc.

### CONSOLIDATED INTERIM BALANCE SHEETS

As at	May 31, 2011 (Unaudited)	August 31, 2010 (Audited)
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Bank loan (Note 11)	164,600	-
Accounts payable (Note 12)	956,829	351,968
Deferred revenue	153	6,114
Current portion of long-term debt (Note 13)	909,336	429,446
Current portion of debenture (Note 14)	1,155,356	342,034
	<b>3,186,274</b>	1,129,562
LONG-TERM DEBT (Note 13)	745,910	408,235
DEBENTURE (Note 14)	-	715,674
	<b>3,932,184</b>	2,253,471
<b>SHAREHOLDERS' EQUITY (DEFICIENCY)</b>		
Capital stock (Note 15)	7,353,084	7,172,685
Stock options (Note 17)	395,085	283,789
Warrants (Note 18)	866,630	821,530
Contributed surplus (Note 19)	1,610,233	1,586,375
Deficit	(9,927,892)	(8,647,409)
	<b>297,140</b>	1,216,970
	<b>\$ 4,229,324</b>	\$ 3,470,441

### COMMITMENTS (Note 20)

The accompanying notes are part of these consolidated interim financial statements

# Nuvolt Corporation Inc.

## CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

(Unaudited)

Third Quarter  
Ended May 31,  
2011

2010

Nine-Month Period  
Ended May 31,  
2011

2010

### OPERATING ACTIVITIES

Net income (net loss)	\$	(425,440)	\$	(312,424)	\$	(1,240,620)	\$	(1,082,864)
Items not affecting cash								
Amortization of capital assets		15,799		10,622		54,136		27,473
Amortization of intangible assets		-		3,343		181		4,825
Interest capitalized on debenture		18,886		9,840		55,500		28,640
Stock-based compensation		70,850		15,906		124,571		227,614
		(319,905)		(272,713)		(1,006,232)		(794,312)
Net change in non-cash working capital items (Note 22)		17,878		(1,313)		318,331		352,330
		(302,027)		(274,026)		(687,901)		(441,982)

### INVESTING ACTIVITIES

Acquisition of capital assets		-		(12,115)		(166,033)		(105,905)
Acquisition of intangible assets		(7,358)		(6,446)		(44,537)		(16,928)
Increase in deferred development expenses		(9,938)		(284,323)		(477,964)		(956,655)
		(17,296)		(302,884)		(688,534)		(1,079,488)

### FINANCIAL ACTIVITIES

Change in bank loan		66,600		(70,000)		164,600		5,000
Tax credit financing		-		92,000		-		92,000
Change in note payable to directors		-		-		-		-
Additional funding		260,000		550,000		711,969		1,390,050
Change in long-term debt		(16,267)		(8,665)		412,638		20,036
Repayment of debenture		17,462		(12,000)		42,105		(40,000)
		327,795		551,335		1,331,312		1,467,086

### INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

		8,472		(25,575)		(45,123)		(54,384)
CASH AND CASH EQUIVALENTS, beginning of period		(410)		17,665		53,968		46,474
CASH AND CASH EQUIVALENTS, end of period	\$	8,061	\$	(7,910)	\$	8,844	\$	(7,910)

Cash and cash equivalents include :

Cash	\$	8,062	\$	-	\$	8,062	\$	-
Bank overdraft		-		(7,910)		-		(7,910)
	\$	8,062	\$	(7,910)	\$	8,062	\$	(7,910)

The accompanying notes are part of these consolidated interim financial statements

# NUVOLT CORPORATION INC.

## Notes to interim consolidated financial statements

As at May 31, 2011 and 2010

### 1 - STATUTES OF INCORPORATION AND NATURE OF ACTIVITIES

The Company, incorporated under Part 1A of the Québec Companies Act, specializes in the analysis of faults on electrical networks and the manufacture of detection and correction equipment.

### 2 - GOING CONCERN ASSUMPTION

These interim 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 past year and has an accumulated deficit as at May 31, 2011. 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 interim 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 interim 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 interim financial statements and the reported amounts of revenues and expenses during the reporting quarter. 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 quarter 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.

#### 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.

# NUVOLT CORPORATION INC.

## Notes to interim consolidated financial statements

As at May 31, 2011 and 2010

### 3 - SIGNIFICANT ACCOUNTING POLICIES (continued)

The Company accounts for its equipment sales when the customer has confirmed its acceptance of the equipment and when the collection is reasonably assured.

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

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

The interest income are accounted for according to the actual 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 and the bank overdraft, are classified as held-for-trading financial assets and are recognized at fair value at each balance sheet date. Any change in fair value is included in net income during the period in which it arises.

##### *Loans and receivables and other financial liabilities*

Financial instruments classified as loans and receivables, including the accounts receivable and the notes receivable 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.

##### *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 cost*

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

# NUVOLT CORPORATION INC.

## Notes to interim consolidated financial statements

As at May 31, 2011 and 2010

### 3 - 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 life using the following methods and rates:

	Amortization method	Rate
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

##### *Patents and trademark*

Patents and trademark are accounted for at cost.

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

##### *Deferred development costs*

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

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

#### Impairment of long-lived assets

Long-term assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount exceeds the undiscounted cash flows expected to result from their use and eventual disposition. An impairment loss should be measured as the amount by which the carrying amount of a long-term asset exceeds its fair value. No impairment loss was recognized as at May 31, 2011 and 2010.

#### Products warranties

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

# NUVOLT CORPORATION INC.

## Notes to interim consolidated financial statements

As at May 31, 2011 and 2010

### 3 - SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 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 and highly liquid financial instruments, with an initial term of three months or less.

### 4. FUTURE CHANGES TO SIGNIFICANT ACCOUNTING POLICIES

#### International financial reporting standards (IFRS)

In February 2008, The Accounting Standards Board has confirmed that publicly accountable enterprises must adopt IFRS for years beginning on or after January 1<sup>st</sup>, 2011. Consequently, the Company will apply IFRS from September 1, 2011. These standards will replace current generally accepted accounting principles of Canada. The Company is currently evaluating the future impact of these new standards on its commercial operations, financial information systems and financial statements.

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

The income statement includes the following items:

	May 31, 2011 (3 months)	May 31, 2010 (3 months)	May 31, 2011 (9 months)	May 31, 2010 (9 months)
Amortization of capital assets	\$ 15,799	\$ 10,622	\$ 54,136	\$ 27,473
Amortization of intangible assets	\$ -	\$ 3,343	\$ 181	\$ 4,825
Expenses related to stock-based compensation				
Salaries	\$ 33,638	\$ 12,317	\$ 66,078	\$ 105,028
Professional services	\$ 37,212	\$ 3,589	\$ 58,493	\$ 122,586
Debenture and long-term debt interest	\$ 76,193	\$ 28,759	\$ 139,920	\$ 85,396
Interests on short-term debt	\$ 7,059	\$ 7,306	\$ 12,907	\$ 17,969

# NUVOLT CORPORATION INC.

## Notes to interim consolidated financial statements

As at May 31, 2011 and 2010

### 6 - ACCOUNTS RECEIVABLE

	May 31, 2011	August 31, 2010
	\$	\$
Trade	228,017	161,254
Bad debt provision	-	38,222
	<b>228,017</b>	123,032
Security deposit	13,734	135,166
Travelling expenses advances, without interest	-	3,200
Advances to shareholders, without interest	3,200	3,200
Commodity taxes	51,704	23,962
Research and development tax credits*	230,599	199,166
	<b>527,254</b>	487,726

\*Research and development tax credits of fiscal year ended August 31, 2010 has been examined by tax authorities and has been accepted as submitted.

### 7 - INVENTORIES

	May 31, 2011	August 31, 2010
	\$	\$
Raw materials	115,241	106,432
Goods in process	-	8,850
Finished goods	274,572	104,717
	<b>389,813</b>	219,999

### 8 - NOTES RECEIVABLE

	May 31, 2011	August 31, 2010
	\$	\$
Notes receivable from shareholders, without interest, maturing upon dividend payment	8,391	8,391

### 9 - CAPITAL ASSETS

	May 31, 2011		August 31, 2010	
	Cost	Accumulated amortization	Net book value	Net book value
	\$	\$	\$	\$
Reference works	71,824	71,824	-	-
Tools and equipment	528,947	220,432	308,515	9,073
Data processing equipment and software	84,070	74,214	9,856	14,937
Commercial booths	70,136	36,305	33,831	43,613
Rolling stock	71,949	39,012	32,937	42,431
Furniture and fittings	71,493	66,882	4,611	9,872
	<b>898,418</b>	<b>508,669</b>	<b>389,750</b>	119,926

# NUVOLT CORPORATION INC.

## Notes to interim consolidated financial statements

As at May 31, 2011 and 2010

### 10 - INTANGIBLE ASSETS

	May 31, 2011		August 31, 2010	
	Cost	Accumulated amortization	Net book value	Net book value
Patents	\$ 243,306	\$ 37,756	\$ 205,549	\$ 162,232
Development costs	3,100,230	420,375	2,679,855	2,233,326
Trademark	9,056	-	9,056	8,017
	<b>3,352,592</b>	<b>458,131</b>	<b>2,894,461</b>	<b>2,403,575</b>

During the quarter, the Company incurred \$ 9,329 (2010 - \$ 5,562) for patents.

The Company also incurred deferred development costs of \$96,365 (2010 - \$284,323) and recognized research and development tax credits of \$0 (2010 - \$52,403) in reduction of the development costs.

As at May 31, 2011, patents of a cost of \$207,968 (2010 - \$167,966), a trademark of a cost of \$9,056 (2010 - \$0) and development costs of a cost, net of research and development tax credits, of \$533,739 (2010 - \$2,168,211) were not amortized.

### 11 - BANK LOAN

The Company has available credit facility amounting \$ 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 May 31, 2011, \$164,600 of credit facility was used and a letter of credit for a total amount of \$ 10,000, expiring January 16, 2012 has 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 May 31, 2011, the Company was not in compliance with this debt covenant.

### 12 - ACCOUNTS PAYABLE

	May 31, 2011	August 31, 2010
Accounts payable and accrued liabilities	\$ 711,325	\$ 260,933
Salaries and commitment fees	124,782	85,643
Provision for warranties	6,468	4,610
Customer deposits	4,254	782
Advances from directors, without interest	110,000	-
	<b>956,829</b>	<b>351,968</b>

# NUVOLT CORPORATION INC.

## Notes to interim consolidated financial statements

As at May 31, 2011 and 2010

### 13 - LONG-TERM DEBT

	May 31, 2011	August 31, 2010
	\$	\$
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 <sup>a)</sup>	<b>368,975</b>	368,975
\$458,333, plus capitalized cost, interest at the prime rate to the prime rate plus 2.75%, secured by a floating load on the assets present and future, payable in monthly instalments of \$2,585 until July 2011, in monthly installments of \$5,685 thereafter and a final payment of \$5,764, maturing from December 2015 to April 2016 <sup>b)</sup>	<b>315,759</b>	336,439
Note payable to Investissement Quebec, interest at the prime rate plus 9%, secured by a floating load on the assets present and future, including the first rank of research and development tax credits recoverable, repayable at the collection from a private placement or any other fundraising, or no later than June 30, 2011.	<b>450,000</b>	-
Note payable, secured by a rolling stock with a net value of \$38,686, effective interest at 2.9%, repayable in monthly instalments of \$ 1,195, maturing in November 2012	<b>21,512</b>	32,267
Note payable to a shareholder, without interest, repayable in one instalment in September 2010 <sup>c)</sup>	-	100,000
Note payable to a shareholder, bearing 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 installments of \$5,000 thereafter and a final payment of \$9,000	<b>99,000</b>	-
Advances from directors, convertible into debentures at the closing of the next private placement	<b>400,000</b>	-
	<hr/>	<hr/>
Subtotal	<b>1,655,246</b>	837,681
Current portion	<b>909,336</b>	429,446
	<hr/>	<hr/>
	<b>745,910</b>	408,235

# NUVOLT CORPORATION INC.

## Notes to interim consolidated financial statements

As at May 31, 2011 and 2010

### 13 - LONG-TERM DEBT (continued)

a) As at May 31, 2011, the Company had an outstanding amount of \$185,000 on a note payable. This amount is included in the current portion.

b) In addition to the monthly payments, the Company will have to reimburse annually beginning February 28, 2013 an amount of capital corresponding to 20% of the net generated funds of the Company.

Under the terms of the credit agreement, the Company must comply with financial ratios. As at May 31, 2011, the Company was not in compliance with these ratios.

On September 2010, the notes payable terms have changed.

c) On September 14, 2010, an amount due to a shareholder has been changed to a note payable, repayable over three years.

On November 1st 2010, the Company concluded a moratorium for the refunding of the note payable. This moratorium will end when the Company will have refunded the debt to Investment Quebec incurred at the same moment.

d) Negotiations are underway with holders of long-term debts in order to obtain moratoria on capital repayment. The new repayable terms would begin at the closing of the next private placement.

### 14 - DEBENTURE

	<u>May 31, 2011</u>	<u>August 31, 2010</u>
	\$	\$
Debenture, non guaranteed and non convertible, nominal rate of 15%, implicit rate of 25%, repayable in monthly capital instalments of \$4,000 until May 2011 and an amount of \$312,000, in June 2011	<b>316,967</b>	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	<b>838,389</b>	715,674
	<b>1,155,356</b>	1,057,708
Current portion	<b>1,155,356</b>	342,034
	-	715,674

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

2011- \$348,000

2012- \$800,000

Negotiations are underway with holders of debentures in order to obtain moratoria on capital repayment. The new repayable terms would begin at the closing of the next private placement.

# NUVOLT CORPORATION INC.

## Notes to interim consolidated financial statements

As at May 31, 2011 and 2010

### 15 - CAPITAL STOCK

Authorized and 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 current year and for the previous year:

	May 31, 2011		August 31, 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	2,255,000	\$ 180,399	19,966,999	\$ 1,795,120
BALANCE, end of period	75,032,328	\$ 7,353,084	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 36 months from the closing date. Of this amount, a total of 5,666,667 Units were subscribed by members of the board of directors, including 5,000,000 issued in conversion of a note payable and amounts due. The fair value of the units and warrants was estimated at \$889,600 and \$500,400 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

On October 19, 2009, the Company announced the second closing of its private placement by issuing 1,333,667 units at a price of \$0.15 per unit, for a total of \$200,050. Each unit is composed of one common share and one warrant. Each warrant entitles the holder to acquire one common share of the Company, at a price of \$0.15 per share for a period of 36 months from the closing date. Of this amount, 166,667 units were subscribed by a conversion of a note payable to a director. The fair value of the shares and warrants was estimated at \$130,032 and \$70,018 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 stock options have been exercised at a price of \$ 0.12 per share. The fair value of the 100,000 shares is \$16,600.

# NUVOLT CORPORATION INC.

## Notes to interim consolidated financial statements

As at May 31, 2011 and 2010

### 15 - CAPITAL STOCK (continued)

On March 29, 2010, following the first closing of a private placement, the Company issued 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 36 months from the closing date. The fair value of the shares and warrants was estimated at \$162,500 and \$87,500 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 36 months from the closing date. The fair value of the shares and warrants was estimated at \$381,818 and \$108,182 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

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 36 months from the closing date. The fair value of the shares and warrants was estimated at \$214,570 and \$55,430 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 a closing of a private placement by issuing 2,255,000 units at a price of \$0.10 per unit, for a total of \$255,500. 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 36 months from the closing date. The fair value of the shares and warrants was estimated at \$180,400 and \$75,100 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 interim consolidated financial statements

As at May 31, 2011 and 2010

### 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.

In order to maintain and adjust its capital structure, the Company can issue new shares and new debts. The Company must comply with:

- A ratio debt/Equity of 0.5;
- A ratio of working capital of 1.5;
- A minimum working capital of \$75,000

As at May 31, 2011 and 2010, the Company was not in compliance with those ratios [Note 11 and 13b)].

### 17 - STOCK OPTIONS

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

As at May 31, 2011 and 2010

### 17 - STOCK OPTIONS (continued)

On January 7, 2010, the Company granted 600,000 stock options to directors and employees. 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 January 7, 2011. When exercised, each option entitles the holders 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 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, replacing the stock options granted to him as a director. The acquisition of rights are at the grant date. Each options 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 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 of Nuvolt at an exercise price of \$0.10 par 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 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

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 of Nuvolt at an exercise price of \$0.10 par unit until November 18, 2012. Each unit is composed of one common share and one-half of a common share warrant. The fair value of the options was estimated at \$7,494 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, members of the Board 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 holders 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 using the Black & Scholes option pricing model based on the following weighted average hypothesis:

# NUVOLT CORPORATION INC.

## Notes to interim consolidated financial statements

As at May 31, 2011 and 2010

### 17 - STOCK OPTIONS (continued)

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, members of the Board 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 holders 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 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

On March 24, 2011, the Company granted 600,000 stock options to a consultant. 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 holders 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 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

The following table summarizes the situation of the Company's stock option plan as at:

	May 31, 2011		August 31, 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	2,822,850	\$ 0.10	3,089,000	\$ 0.11
Cancelled	-	\$ -	(750,000)	\$ 0.10
Exercised	-	\$ -	(100,000)	\$ 0.12
Forfeited	(526,000)	\$ 0.12	(687,656)	\$ 0.15
Outstanding, end of period	7,496,850	\$ 0.11	5,200,000	\$ 0.11
Options exercisable, end of period	6,313,517		4,216,667	
Weighted average fair value of options granted during the period	\$ 0.052		\$ 0.076	

# NUVOLT CORPORATION INC.

## Notes to interim consolidated financial statements

As at May 31, 2011 and 2010

### 17 - STOCK OPTIONS (continued)

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

Range of exercise price	Number outstanding	Options outstanding		Options exercisable	
		Weighted average remaining contractual life	Weighted average exercise price	Number of Options exercisable	Weighted average exercise price
\$0.10	5,396,850	3.08 years	\$ 0.10	4,213,517	\$ 0.10
\$0.11	1,500,000	3.26 years	\$ 0.11	1,500,000	\$ 0.11
\$0.12	600,000	3.61 years	\$ 0.12	600,000	\$ 0.12
\$0.10 - \$0.12	7,496,850	3.16 years	\$ 0.10	6,313,517	\$ 0.10

### 18 - WARRANTS

The summary of the changes during the current year and the previous year:

	May 31, 2011		August 31, 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	1,127,500	\$ 0.20	16,066,999	\$ 0.17
Forfeited	-	\$ -	(3,333,333)	\$ 0.15
Outstanding, end of period	17,194,499	\$ 0.17	16,066,999	\$ 0.17
Warrants that might be exercised, end of period	17,194,499	\$ 0.17	16,066,999	\$ 0.17
Weighted average fair value of warrants granted during the period		\$ 0.067		\$ 0.051

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

Range of exercise price	Number outstanding	Warrants outstanding		Warrants exercisable	
		Weighted average remaining contractual life	Weighted average exercise price	Number of warrants exercisable	Weighted average exercise price
\$0.15	10,600,333	1.28 years	\$ 0.15	10,600,333	\$ 0.15
\$0.20	6,594,166	2.17 years	\$ 0.20	6,594,166	\$ 0.20
\$0.15 - \$0.20	17,194,499	1.62 years	\$ 0.17	17,194,499	\$ 0.17

# NUVOLT CORPORATION INC.

## Notes to interim consolidated financial statements

As at May 31, 2011 and 2010

### 19 - CONTRIBUTED SURPLUS

The following table presents the changes in contributed surplus during the current and the previous year:

	May 31, 2011	August 31, 2010
	\$	\$
<b>BALANCE</b> , beginning of year	<b>1,586,375</b>	1,273,484
Gain resulting from exercise of stock options	-	105,431
Cancellation of stock options	<b>23,858</b>	92,998
Cancellation of warrants	-	114,462
<b>BALANCE</b> , end of the period	<b>1,610,233</b>	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 \$ 108,168. Minimum payments payable required for the next two years are as follows:

2011- \$ 87,774

2012- \$ 20,394

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.

### 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 period. 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:

	May 31, 2011 (3 months)	May 31, 2010 (3 months)	May 31, 2011 (9 months)	May 31, 2010 (9 months)
Basic weighted average number of shares	<b>75,032,328</b>	64,615,727	<b>74,388,042</b>	63,488,122

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

Stock options	<b>7,496,850</b>	<b>5,848,656</b>	<b>7,496,850</b>	5,462,942
Warrants	<b>17,194,499</b>	<b>12,067,721</b>	<b>17,194,499</b>	12,968,525

For the three-month and nine-month periods ended May 31, 2011 and 2010, 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 loss per share for this period was calculated using the basic weighted average number of shares outstanding.

# NUVOLT CORPORATION INC.

## Notes to interim consolidated financial statements

As at May 31, 2011 and 2010

### 22 - ADDITIONAL INFORMATION TO THE STATEMENT OF CASH FLOWS

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

	May 31, 2011 (3 months)	May 31, 2010 (3 months)	May 31, 2011 ( 9 months)	May 31, 2010 ( 9 months)
Accounts receivable	<b>(97,815)</b>	(41,468)	<b>20,527</b>	44,378
Inventories	<b>47,545</b>	19,636	<b>(169,814)</b>	17,798
Prepaid expenses	<b>(5,244)</b>	7,075	<b>7,336</b>	(15,333)
Accounts payable	<b>74,673</b>	10,492	<b>466,243</b>	316,005
Deferred revenue	<b>(1,281)</b>	2,952	<b>(5,961)</b>	(10,518)
	<b>17,878</b>	(1,313)	<b>318,331</b>	352,330

The Company acquired intangible assets including patents in the amount of \$4,329 (2010 - \$5,447) and development expenses of \$36,157 (2010 - \$261,579), which are financed by accounts payable of \$40,486 (2010 - \$267,026).

During the quarter, the Company offset a tax credit receivable of \$0 (2010- \$ 52,403) against intangible assets.

### 23 - FINANCIAL INSTRUMENTS

#### 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 in Long-Term Debts, net loss would have increased by \$199 (2010 - \$50) for the quarter ended May 31, 2011.

#### 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 May 31, 2011, net assets denominated in US dollars and converted to Canadian dollars totalled \$ 55,615 (August 31, 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 \$200 ( 2010 - increase of \$489). A decrease of 1% of the Canadian dollar against the American dollar would increase the net loss of \$454 (2010 - decrease of \$489).

# NUVOLT CORPORATION INC.

## Notes to interim consolidated financial statements

As at May 31, 2011 and 2010

### 23 - FINANCIAL INSTRUMENTS *(continued)*

#### **Credit risk**

The Credit risk is primarily attributable to a debtor not respecting its financial obligations. The Company does not believe to be exposed to a risk of credit higher than normal in regards to its customers. The Company has several customers in various geographical areas, verifies new customers' credit and recognizes a provision for bad debt when management believes that there is a risk not to recover the amount receivable. Moreover, the Company has credit insurance for most of its accounts receivable. The maximal exposure is equal to the book of notes receivable.

#### **Cash flow risk**

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

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

As at May 31, 2011, the Company had accounts payable of \$956,829 (31 août 2010 – \$351,968). The maturity date of the long-term debt, the debenture and commitments are presented in Notes 13, 14 and 20.

#### **Fair value**

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

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

For the debentures, other notes payable and 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 and bank overdraft are 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 quarter ended May 31, 2011, there was no transfer in assessments of financial assets between the different levels.

# NUVOLT CORPORATION INC.

## Notes to interim consolidated financial statements

As at May 31, 2011 and 2010

### 24 - 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:

	May 31, 2011 (3 months)	May 31, 2010 (3 months)	May 31, 2011 ( 9 months)	May 31, 2010 ( 9 months)
Canada	\$ 201,992	\$ 206,870	\$ 498,804	\$ 606,996
United-States	\$ 157,274	\$ 82,281	\$ 336,257	\$ 226,380
	\$ 359,266	\$ 289,151	\$ 835,061	\$ 833,376

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

During the quarter, the Company did make 15% of its total revenues with one client (2010 - 16%)

### 25 - COMPARATIVE FIGURES

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