

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Electrovaya Inc.

We have audited the accompanying consolidated financial statements of Electrovaya Inc., which comprise the consolidated statements of financial position as at September 30, 2017 and 2016, and the consolidated statements of operations, comprehensive gain (loss), changes in equity and cash flows for the years ended September 30, 2017 and September 30, 2016, and the related notes, which comprise 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 International Financial Reporting Standards as issued by the International Accounting Standards Board, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 auditors' 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 auditors consider internal control relevant to the entity'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 entity'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 consolidated statements of financial position of Electrovaya Inc. as at September 30, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years ended September 30, 2017 and September 30, 2016, in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Emphasis of Matter

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a net loss of \$21,173,944 during the year ended September 30, 2017 and, as of that date, the Company's current liabilities exceeded its current assets by \$3,206,639. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Goodman & Associates LLP

Toronto, Ontario
December 29, 2017

Chartered Professional Accountants
Licensed Public Accountants

ELECTROVAYA INC.

Consolidated Statements of Financial Position

(Expressed in thousands of U.S. dollars, except per share amounts)

Years ended September 30, 2017 and September 30, 2016

As at	September 30, 2017	September 30, 2016
Assets		
Current assets		
Cash and cash equivalents (note 12)	\$ 3,441	\$ 668
Restricted cash (note 3)	1,000	1,000
Trade and other receivables (notes 12 & 13)	3,281	3,022
Investment tax credits recoverable	416	213
Inventories (note 4)	14,241	18,204
Prepaid expenses and other	349	204
Total current assets	22,728	23,311
Non-current assets		
Property, plant and equipment (note 5)	12,815	7,357
Deferred tax (notes 2(l) & 18)	-	163
Total non-current assets	12,815	7,520
Total assets	\$ 35,543	\$ 30,831
Liabilities and Equity		
Current liabilities		
Line of credit (note 3)	\$ 9,751	\$ 1,291
Trade and other payables (note 7)	10,722	14,134
Deferred revenue	32	17
Loan payable (note 11)	-	56
Promissory notes (notes 9 & 14)	5,429	6,500
Total current liabilities	25,934	21,998
Non-current liabilities		
9% convertible debentures (note 16)	10,082	-
Long-term provisions (note 17)	748	735
Loan payable (note 11)	-	148
Total non-current liabilities	10,830	883
Equity(Deficiency)		
Share capital (note 6)	79,700	75,339
Contributed surplus	3,007	2,947
Warrants (note 6)	4,482	241
Accumulated other comprehensive gain	6,730	8,945
Revaluation surplus (note 5)	5,487	-
Equity component of convertible debentures (note 16)	71	-
Non-controlling interest	-	2
Deficit	(100,698)	(79,524)
Total Equity(Deficiency)	(1,221)	7,950
Total Liabilities and equity(deficiency)	\$ 35,543	\$ 30,831

See accompanying notes to consolidated financial statements.

On behalf of the Board

Name of Chair of the Board:

"Alexander McLean" Director

Name of Audit committee head:

"Ralph Lean" Director

ELECTROVAYA INC.

Consolidated Statements of Operations

(Expressed in thousands of U.S. dollars, except per share amounts)

Years ended September 30, 2017 and September 30, 2016

	September 30, 2017	September 30, 2016
Revenue (note 15)	\$ 8,767	\$ 19,535
Direct manufacturing costs (note 4(b))	13,834	14,664
Gross Margin(loss)	(5,067)	4,871
Expenses		
Research and development	6,043	6,147
Government grants (note 10(c))	-	256
Sales and marketing	1,601	1,033
General and administrative (note 7)	4,879	4,203
Stock based compensation (note 6(b))	255	83
Finance costs	3,094	853
Patents and trademark expenses	68	141
	15,940	12,716
(Loss) before the undernoted	(21,007)	(7,845)
Amortization (see note 2(g))	469	579
(Loss) from operations	(21,476)	(8,424)
Foreign exchange gain(loss) and interest income	377	(190)
(Loss) before provision for tax	(21,099)	(8,614)
Provision for tax	75	177
Net (loss) for the year	(21,174)	(8,791)
Basic (loss) per share	\$ (0.24)	\$ (0.10)
Diluted (loss) per share	\$ (0.24)	\$ (0.10)
Weighted average number of shares outstanding, basic and fully diluted	88,201,533	83,792,585

See accompanying notes to consolidated financial statements.

ELECTROVAYA INC.

Consolidated Statement of Comprehensive gain (loss)

(Expressed in thousands of U.S. dollars)

Years ended September 30, 2017 and September 30, 2016

	September 30, 2017	September 30, 2016
Net loss for the year	\$ (21,174)	\$ (8,791)
Adjustment to property, plant & equipment	5,487	-
Currency translation differences	(2,215)	1,330
Other comprehensive gain for the year	3,272	1,330
Total comprehensive (loss) for the year	\$ (17,902)	\$ (7,461)

See accompanying notes to consolidated financial statements.

ELECTROVAYA INC.

Consolidated Statement of Changes in Equity
(Expressed in thousands of U.S. dollars)

Years ended September 30, 2017 and September 30, 2016

	Share Capital	Contributed Surplus	Deficit	Warrants	Accumulated other Comprehensive gain	Equity component of 9% Convertible Debentures	Non-controlling Interest	Revaluation Surplus	Total
Balance – October 01, 2015	\$69,804	\$4,163	\$(70,733)	\$1,686	\$7,615	-	\$2	-	\$12,537
Stock-based compensation	-	83	-	-	-	-	-	-	83
Issue of shares	5,535	(1,299)	-	-	-	-	-	-	4,236
Net loss for the year	-	-	(8,791)	-	-	-	-	-	(8,791)
Share purchase warrants	-	-	-	(1,445)	-	-	-	-	(1,445)
Currency translation differences	-	-	-	-	1,330	-	-	-	1,330
Balance–September 30, 2016	\$75,339	\$2,947	\$(79,524)	\$241	\$8,945	-	\$2	-	\$7,950
Balance – October 01, 2016	\$75,339	\$2,947	\$(79,524)	\$241	\$8,945	-	\$2	-	\$7,950
Stock-based compensation	-	255	-	-	-	-	-	-	255
Issue of shares	4,361	(195)	-	-	-	-	-	-	4,166
Net loss for the year	-	-	(21,174)	-	-	-	-	-	(21,174)
Share purchase warrants	-	-	-	4,241	-	-	-	-	4,241
Purchase of non-controlling interest	-	-	-	-	-	-	(2)	-	(2)
9% convertible debentures issued	-	-	-	-	-	71	-	-	71
Revaluation of land and building	-	-	-	-	-	-	-	5,487	5,487
Currency translation differences	-	-	-	-	(2,215)	-	-	-	(2,215)
Balance–September 30, 2017	\$79,700	\$3,007	\$(100,698)	\$4,482	\$6,730	\$71	-	\$5,487	\$(1,221)

See accompanying notes to consolidated financial statements.

ELECTROVAYA INC.

Consolidated Statements of Cash Flows

(Expressed in thousands of U.S. dollars)

Years ended September 30, 2017 and September 30, 2016

	September 30, 2017	September 30, 2016
Cash provided by (used in)		
Operating activities		
Net loss for the year	\$ (21,174)	\$ (8,791)
Items not involving cash:		
Amortization	469	579
Loss on disposal of property, plant and equipment	-	62
Stock based compensation (note 6(b))	255	83
Actuarial gains	-	(286)
Financing costs	1,143	127
Deferred tax expense	163	286
Net changes in working capital (note 8)	(41)	(150)
	(19,185)	(8,090)
Investing activities		
Purchase of property, plant and equipment	(105)	(614)
Increase (decrease) in long-term provisions	13	(1,264)
Repayment of loan payable	(75)	(109)
Restricted cash	-	(1,000)
	(167)	(2,987)
Financing activities		
Issue of shares	4,166	4,234
Loan financing	17,471	1,308
	21,637	5,542
Increase (decrease) in cash and cash equivalents	2,285	(5,535)
Exchange difference	488	(106)
Cash and cash equivalents, beginning of year	668	6,309
Cash and cash equivalents, end of year	\$ 3,441	\$ 668
Supplemental cash flow disclosures:		
Income tax paid	-	-
Interest paid	1,398	619

See accompanying notes to consolidated financial statements.

ELECTROVAYA INC.

Notes to the Consolidated Financial Statements

(Expressed in thousands of U.S. dollars, except where otherwise indicated)

Years ended September 30, 2017 and September 30, 2016

Electrovaya Inc. (the "Company") is domiciled in Ontario, Canada, and is incorporated under the Business Corporation Act (Ontario). The Company's registered office is at 2645 Royal Windsor Drive, Mississauga, Ontario L5J 1K9, Canada.

These consolidated financial statements comprise the Company and its subsidiaries (together referred to as the "Group"). The Group is primarily involved in the design, development and manufacturing of proprietary Lithium Ion SuperPolymer® batteries, battery systems, battery-related products for energy storage, clean electric transportation and other specialized applications.

1. Basis of Presentation

a) Statement of Compliance

The audited consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These audited consolidated financial statements were authorized for issuance by the Company's Board of Directors on December 20, 2017.

b) Basis of Accounting – Going concern

These consolidated financial statements have been prepared on a going concern basis, which assumes that the Group will be able to realize its assets and discharge its liabilities in the normal course of business as they come due into the foreseeable future and meet the mandatory repayment terms of the notes payable and banking facilities (refer Note 14).

For the year ended September 30, 2017, the Group incurred a net loss of \$21.2 million, with operating activities generating a \$19.2 million cash flow deficiency. Furthermore, during the year working capital deteriorated by \$4.5 million to a deficiency position of \$3.2 million. At September 30, 2017, the Group had unrestricted cash of \$3.4 million, current assets of \$22.7 million and a cumulative deficiency \$1.2 million.

The Group's liquidity position was adversely impacted by a significant decline in sales with free cash flow being diverted to maintain manufacturing capacities to fulfil customer orders, and to meet the mandatory repayment terms of the notes payable and banking facilities (refer notes 14 and 21). The Company is due to repay the promissory notes totaling \$5.4 million in February 2018 and April 2018 (refer Note 21).

The Group's ability to continue as a going concern is dependent on its ability to generate future cash flows and obtain additional financing to meet the Group's liabilities and commitments as they become due, although there is a risk that additional financing may not be available on a timely basis or on terms acceptable to the Group. While the Group has been successful in arranging financing in the past, and there is currently certain financing arrangements in place (refer Note 21), the success of such initiatives cannot be assured. These factors indicate the existence of a material uncertainty that may cast significant doubt upon the Group's ability to continue as a going concern.

ELECTROVAYA INC.

Notes to the Consolidated Financial Statements

(Expressed in thousands of U.S. dollars, except where otherwise indicated)

Years ended September 30, 2017 and September 30, 2016

c) Functional and Presentation Currency

These consolidated financial statements are presented in U.S. dollars and have been rounded to the nearest thousand, except per share amounts and when otherwise indicated. The functional currency of the Company's subsidiaries include Canadian dollars, US dollars, Euro and Norwegian krone.

d) Use of Judgements and Estimates.

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements relate to the following (judgements made are disclosed in individual notes throughout the financial statements where relevant):

- Recognition of contract revenues. Recognizing contract revenue requires significant judgment in determining milestones, actual work performed and the estimated costs to complete the work;
- Determining when to recognize revenues from after-sales services requires an understanding of the customer's use of the related products, historical experience and knowledge of the market;
- Distinguishing the research and development phases of a new project and determining whether the recognition requirements for the capitalization of development costs are met requires judgement. After capitalization, management monitors whether the recognition requirements continue to be met and whether there are any indicators that capitalized costs may be impaired (see note 2(g));
- Accounting for provisions including assessments of possible legal and tax contingencies, and restructuring. Whether a present obligation is probable or not requires judgement. The nature and type of risks for these provisions differ and judgement is applied regarding the nature and extent of obligations in deciding if an outflow of resources is probable or not;
- Acquisitions – at initial recognition and subsequent remeasurement, judgements are made both for key assumptions in the purchase price allocation for each acquisition and regarding impairment indicators in the subsequent period. The purchase price is assigned to the identifiable assets, liabilities, and contingent liabilities based on fair values. Any remaining excess value is reported as goodwill. This allocation requires judgement as well as the definition of cash generating units for impairment testing purposes. Other judgements might result in significantly different results and financial position in the future.;

Information about significant areas of estimation uncertainty that have the most significant effect on the amounts recognized in the consolidated financial statements relate to the following (assumptions made are disclosed in individual notes throughout the financial statements where relevant):

ELECTROVAYA INC.

Notes to the Consolidated Financial Statements

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Years ended September 30, 2017 and September 30, 2016

- Impairment of non-financial assets. In assessing impairment of non-financial assets, management estimates the recoverable amount of each asset or cash-generating units based on expected future cash flows and uses an interest rate to discount them. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate;
- Useful lives of depreciable assets. Management reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected utility of the assets. Uncertainties in these estimates relate to technical obsolescence that may change the utility of certain production, testing and other equipment;
- Inventories. Management estimates the net realizable values of inventories, taking into account the most reliable evidence available at each reporting date. The future realization of these inventories may be affected by future technology or other market-driven changes that may reduce future selling prices;
- Estimates used in testing non-financial assets for impairment including the recoverability of development costs;
- Estimates used in determining the fair value of stock option grants. These estimates include assumptions about the volatility of the Company's stock, forfeiture rates, and expected life of the options.
- Estimates of income taxes. The Company is subject to income taxes in numerous jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Company recognizes liabilities for anticipated tax audit issues, based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made;

The decisions made by the Company in each instance are set out under the various accounting policies in these notes.

ELECTROVAYA INC.

Notes to the Consolidated Financial Statements

(Expressed in thousands of U.S. dollars, except where otherwise indicated)

Years ended September 30, 2017 and September 30, 2016

2. Significant Accounting Policies

a) Basis of consolidation

i) Subsidiaries

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Company.

The Company's subsidiaries and percentage of ownership are as follows:

- Electrovaya Corp.- 100%
- Litarion GmbH- 100%
- 1408871 Ontario Inc. – 100%
- Miljobil Grenland A.S. ("MGB")- 100%
- Electrovaya Company- 100%
- Electrovaya USA Inc. – 100%
- Electrovaya ApS (inactive)- 100%
- Electrovaya GmbH- 100%
- Maya Electric Inc.- (dormant)-100%
- Electrovaya Global SRL (dormant)- 100%

All subsidiaries have the same reporting dates as their parent Company.

ii) Transactions eliminated on consolidation

Intra-company balances and transactions, and any unrealized income and expenses arising from intra-company transactions, are eliminated in preparing the consolidated financial statements.

iii) Business Combinations

For every business combination, the Company identifies the acquirer, which is the combining entity that obtains control of the other combining entities or businesses. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Company takes into consideration potential voting rights that currently are exercisable. The acquisition date is the date on which control is transferred to the acquirer. Judgement is applied in determining the acquisition date and determining whether control is transferred from one party to another.

Non-controlling interest:

The Company measures, on a transaction-by-transaction basis, any non-controlling interest at fair value at the acquisition date, or at its proportionate interest in the identifiable assets and liabilities of the acquiree.

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Notes to the Consolidated Financial Statements

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Years ended September 30, 2017 and September 30, 2016

Measuring goodwill:

In a business combination, the Company measures goodwill as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquired entity, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as at the acquisition date.

Consideration transferred includes the fair values of the assets transferred, including cash, liabilities incurred by the Company to the previous owners of the acquiree, and equity interests issued by the Company. Consideration transferred also includes contingent consideration and share-based payment awards exchanged in the business combination. Payments that effectively settle pre-existing relationships between the Company and the acquiree, payments to compensate employees or former owners for future services, and a reimbursement of transaction costs incurred by the acquiree on behalf of the Company are not accounted for as part of the business combination.

Transaction costs that the Company incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, are excluded from acquisition accounting, and are expensed as incurred.

Contingent liabilities:

Contingent liabilities that are present obligations that arose from past events are recognized at fair value at the acquisition date. Future changes in acquisition date contingent liabilities are recorded in earnings.

b) Changes in accounting policy

During the period ended June 30, 2017, the Company changed its accounting policy to its property, plant and equipment to utilize the revaluation method of accounting. Assets were previously accounted for under the cost model unless an impairment was identified requiring a write-down to the estimated fair value. The change in accounting policy results in the assets for future use being measured initially at cost and subsequently carried at their revalued amount, being the fair value at the date of revaluation less any accumulated impairment losses, if any. This change in accounting policy has been applied prospectively in accordance with *IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors* and *IAS 16, Property, Plant and Equipment*.

c) Foreign currency

Each subsidiary of the Company maintains its accounting records in its functional currency. A subsidiary's functional currency is the currency of the principal economic environment in which it operates.

i) Foreign currency transactions

Transactions carried out in foreign currencies are translated using the exchange rate prevailing at the transaction date. Monetary assets and liabilities denominated in a foreign currency at the reporting date are translated at the exchange rate at that date. The foreign

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Notes to the Consolidated Financial Statements

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currency gain or loss on such monetary items is recognized as income or expense for the period. Non-monetary assets and liabilities denominated in a foreign currency are translated at the historical exchange rate prevailing at the transaction date.

ii) Translation of financial statements of foreign operations

The assets and liabilities of subsidiaries whose functional currency is not the U.S. dollar are translated into U.S. dollars at the exchange rate prevailing at the reporting date. The income and expenses of foreign operations whose functional currency is not the U.S. dollar are translated to U.S. dollars at the exchange rate prevailing on the date of transaction. Foreign currency differences on translation are recognized in other comprehensive income in the cumulative translation account net of income tax.

d) Financial instruments

i) Non-derivative financial assets

The Company initially recognizes receivables and deposits at fair value on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially at fair value on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

Financial assets and liabilities are offset and the net amount presented in the balance sheet when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company has the following non-derivative financial assets:

Financial assets at fair value through profit or loss:

Financial assets are designated at fair value through profit or loss if the Company manages such asset and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognized in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

Financial assets at fair value through profit or loss consist of cash and cash equivalents.

Cash and cash equivalents comprise cash balances and highly liquid investments with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

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Years ended September 30, 2017 and September 30, 2016

Loans and receivables:

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition trade and other receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables consist of trade and other receivables.

ii) **Non-derivative financial liabilities**

The Company has the following non-derivative financial liabilities: long-term debt and trade and other payables.

The Company initially recognizes debt and subordinated liabilities at fair value on the date that they are originated plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method. Trade and other payables are recognized initially on the trade date at which time the Company becomes a party to the contractual provisions of the instrument and subsequently at amortized cost.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

e) **Cash and cash equivalents**

Cash and cash equivalents include cash on account and short-term investments with original maturities of three months or less.

f) **Inventories**

Inventories are stated at the lower of cost and net realizable value. Cost of raw material is determined using the average cost method. Cost of semi-finished and finished goods are determined using the First in First out (FIFO) method. Cost includes all expenses directly attributable to the manufacturing process as well as suitable portions of related production overheads, based on normal operating capacity. Net realizable value is the estimated selling price in the ordinary course of business less any applicable selling expenses. The Company attempts to utilize excess inventory in other products the Company manufactures or return the inventory to the supplier or customer.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

All impairment losses are recognized in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost, the reversal is recognized in profit or loss.

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Notes to the Consolidated Financial Statements

(Expressed in thousands of U.S. dollars, except where otherwise indicated)

Years ended September 30, 2017 and September 30, 2016

g) Property, plant and equipment:

Recognition and measurement:

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes the cost of material and labour and other costs directly attributable to bringing the asset to a working condition for its intended use.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized net within profit or loss.

The Company capitalizes borrowing costs directly attributable to the acquisition, construction or production of qualifying property, plant and equipment as part of the cost of that asset, if applicable. Capitalized borrowing costs are amortized over the useful life of the related asset.

Subsequent costs:

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. Maintenance and repair costs are expensed as incurred, except where they serve to increase productivity or to prolong the useful life of an asset, in which case they are capitalized.

Amortization is provided on a straight-line basis over the estimated useful lives of the assets.

The following useful lives are applied:

	Years
Building	20
Leasehold improvements	10
Production equipment #1-7	2-15
Office Furniture and Equipment #1-3	2-5
Intangible assets	3

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted prospectively, if appropriate.

Building and land:

The Company uses the revaluation method of accounting for building and land. Land and building measured using the revaluation method is initially measured at cost and subsequently carried at its revalued amount, being the fair value at the date of the revaluation less any

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subsequent accumulated depreciation and any accumulated impairment losses. Revaluations are made on an annual basis to ensure that the carrying amount does not differ significantly from fair value. Where the carrying amount of an asset increases as a result of revaluation, the increase is recognized in other comprehensive income or loss and accumulated in equity in revaluation surplus, unless the increase reverses a previously recognized impairment recorded through net income, in which case that portion of the increase is recognized in net income. Where the carrying amount of an asset decreases, the decrease is recognized in other comprehensive income to the extent of any balance existing in revaluation surplus in respect of the asset, with the remainder of the decrease recognized in profit or loss. Material residual value estimates and estimates of useful life are updated as required, but at least annually. Gains or losses arising on the disposal of property, plant and equipment are determined as the difference between the disposal proceeds and the carrying amounts of the assets and are recognized in profit or loss within "other income" or "other expenses."

h) Intangible assets

The Group's intangible assets consist of software licenses. The Company records intangible assets at fair value at the date of acquisition. An intangible asset is capitalized when the economic benefit associated with an asset is probable and when the cost can be measured reliably. Intangible assets are carried at cost less accumulated depreciation and impairment losses. Cost consists of expenditures directly attributable to the acquisition of the assets.

i) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

All impairment losses are recognized in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost, the reversal is recognized in profit or loss.

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For intangible assets that are not yet available for use, the recoverable amount is estimated each year at the same time.

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The recoverable amount of an asset or cash-generating unit (“CGU”) is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. Fair value less costs to sell is the amount obtainable from the sale of an asset or CGU in an arm’s-length transaction between knowledgeable, willing parties, less the costs of disposal. Costs of disposal are incremental costs directly attributable to the disposal of an asset or CGU, excluding finance costs and income tax expense. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated to the carrying amounts of the assets in the unit (group of units).

In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

j) Provisions

Legal:

Provisions are recognized for present legal or constructive obligations arising from past events when the amount can be reliably estimated and it is probable that an outflow of resources will be required to settle an obligation. Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

At the end of each reporting period, the Company evaluates the appropriateness of the remaining balances. Adjustments to the recorded amounts may be required to reflect actual experience or to reflect the current best estimate.

In the normal course of our operations, the Company may be subject to lawsuits, investigations and other claims, including environmental, labor, product, customer disputes and other matters. The ultimate outcome or actual cost of settlement may vary significantly from our original estimates. Material obligations that have not been recognized as provisions, as the outcome is not probable or the amount cannot be reliably estimated, are disclosed as contingent liabilities, unless the likelihood of outcome is remote.

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Warranty:

The Company offers product and service warranties to our customers. The Company records a provision for future warranty costs based on the terms of the warranty, which vary by customer, product or service, management's best estimate of probable claims under these warranties, and historical experience. These estimates are reviewed and adjusted as necessary as experience develops or new information becomes known.

k) Share-based payments

The Company accounts for all share-based payments to employees and non-employees using the fair value based method of accounting. The Company measures the compensation cost of stock-based option awards to employees at the grant date using the Black-Scholes option pricing model to determine the fair value of the options. The share-based compensation cost of the options is recognized as stock-based compensation expense over the relevant vesting period of the stock options.

Under the Company's stock option plan, all options granted under the plan have a maximum term of 10 years and have an exercise price per share of not less than the market value of the Company's common shares on the date of grant. The Board of Directors has the discretion to accelerate the vesting of options or stock appreciation rights granted under the plan in accordance with applicable laws and the rules and policies of any stock exchange on which the Company's common shares are listed.

The Company has an option plan whereby options are granted to employees and consultants as part of our incentive plans. Stock options vest in installments over the vesting period. Stock options typically vest one third each year over 3 years or immediately as approved by the Board. The Company treats each installment as a separate grant in determining stock-based compensation expenses.

The grant date fair value of options granted to employees is recognized as stock-based compensation expense, with a corresponding charge to contributed surplus, over the vesting period. The expense is adjusted to reflect the estimated number of options expected to vest at the end of the vesting period, adjusted for the estimated forfeitures during the period. Any cumulative adjustment prior to vesting is recognized in the current period. No adjustment is made to any expense recognized in the prior periods if share options ultimately exercised are different to that estimated on vesting. The fair value of options are measured using the Black-Scholes option pricing model. Measurement inputs include the price of our Common shares on the measurement date, exercise price of the option, expected volatility of our Common shares (based on weighted average historic volatility), weighted average expected life of the option (based on historical experience and general option holder behavior), expected dividends, estimated forfeitures and the risk-free interest rate.

Upon exercise of options, the proceeds received net of any directly attributable transaction costs up to the nominal value of the shares issued are allocated to share capital with any excess being recorded in retained earnings or deficit.

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l) Income taxes

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity. Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with investments in subsidiaries and joint ventures is not provided if reversal of these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future. Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period. Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilised against future taxable income, based on the Group's forecast of future operating results which is adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. Deferred tax liabilities are always provided for in full.

Deferred tax assets and liabilities are offset only when the Group has a right and intention to set off current tax assets and liabilities from the same taxation authority. Changes in deferred tax assets or liabilities are recognized as a component of tax income or expense in profit or loss, except where they relate to items that are recognized in other comprehensive income or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively. A valuation allowance is recorded against any future income tax asset if it is more likely than not that the asset will be realized.

m) Revenue

Revenue arises from the sale of goods and the rendering of services. It is measured by reference to the fair value of consideration received or receivable, excluding sales taxes, rebates, and trade discounts. The Group often enters into sales transactions involving a range of the Group's products and services, for example for the delivery of battery systems and related services. The Group applies the revenue recognition criteria set out below to each separately identifiable component of the sales transaction. The consideration received from these multiple-component transactions is allocated to each separately identifiable component in proportion to its relative fair value.

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Government Grants

Government grants are recognized when there is reasonable assurance that the Corporation has met the requirements of the approved grant program and there is reasonable assurance that the grant will be received. Government grants that compensate for expenses already incurred are recognized in income on a systematic basis in the same year in which the expenses are incurred. Government grants for immediate financial support, with no future related costs, are recognized in income when receivable. Government grants that compensate the Corporation for the cost of an asset are recognized on a systematic basis over the useful life of the asset. Government grants consisting of investment tax credits are recorded as a reduction of the related expense or cost of the asset acquired. If a government grant becomes repayable, the repayment is treated as a change in estimate. Where the original grant related to income, the repayment is applied first against any related deferred government grant balance, and any excess as an expense. Where the original grant related to an asset, the repayment is treated as an increase to the carrying amount of the asset or as a reduction to the deferred government grant balance.

Sale of goods

Sale of goods is recognized when the Group has transferred to the buyer the significant risks and rewards of ownership, generally when the customer has taken undisputed delivery of the goods. Revenue from the sale of goods with no significant service obligation is recognized on delivery. Where significant tailoring, modification or integration is required, revenue is recognized in the same way as contracts for large energy storage systems described below.

Rendering of services

The Group generates revenues from design engineering services and construction of large-scale battery systems. Consideration received for these services is initially deferred, included in other liabilities and is recognized as revenue in the period when the service is performed. Revenue from services is recognized when the services are provided by reference to the contract's stage of completion at the reporting date.

The Group also earns rental income from operating leases of its properties. Rental income is recognized on an accrual basis.

Contracts for large energy storage systems

Contracts for large energy storage systems specify a price for the development and installation of complete systems. When the outcome can be assessed reliably, contract revenue and associated costs are recognized by reference to the stage of completion of the contract activity at the reporting date. Revenue is measured at the fair value of consideration received or receivable in relation to that activity.

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When the Group cannot measure the outcome of a contract reliably, revenue is recognized only to the extent of contract costs that have been incurred and are recoverable. Contract costs are recognized in the period in which they are incurred. In either situation, when it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized immediately in profit or loss.

The contract's stage of completion is assessed by management based on milestones (usually defined in the contract) for the activities to be carried out under the contract and other available relevant information at the reporting date. The maximum amount of revenue recognized for each milestone is determined by estimating relative contract fair values of each contract phase, ie by comparing the Group's overall contract revenue with the expected profit for each corresponding milestone. Progress and related contract revenue in-between milestones is determined by comparing costs incurred to date with the total estimated costs estimated for that particular milestone (a procedure sometimes referred to as the cost-to-cost method).

The gross amount due from customers for contract work is presented within trade and other receivables for all contracts in progress for which costs incurred plus recognized profits (less recognized losses) exceeds progress billings. The gross amount due to customers for contract work is presented within other liabilities for all contracts in progress for which progress billings exceed costs incurred plus recognized profits (less recognized losses).

Revenue from licensing is recognized as amounts are earned under the terms of the applicable agreements, provided no significant obligations exist and collection of the resulting receivable is reasonably assured.

n) Research and development

Expenditure on research is recognized as an expense in the period in which it is incurred.

Costs that are directly attributable to the development phase are recognized as intangible assets provided they meet the following recognition requirements:

- completion of the intangible asset is technically feasible so that it will be available for use or sale.
- the Group intends to complete the intangible asset and use or sell it .
- the Group has the ability to use or sell the intangible asset.
- the intangible asset will generate probable future economic benefits. Among other things, this requires that there is a market for the output from the intangible asset or for the intangible asset itself, or, if it is to be used internally, the asset will be used in generating such benefits.
- there are adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- the expenditure attributable to the intangible asset during its development can be measured reliably.

Development costs not meeting these criteria for capitalization are expensed in profit or loss as incurred.

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o) Finance income and finance expense

Interest income are reported on an accrual basis using the effective interest method.

Finance costs is comprised of interest expense on 9% convertible debentures, promissory notes, loan payable and line of credit. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

p) Earnings per share (EPS)

The Company presents basic and diluted earnings per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for own shares held, for the effects of all dilutive potential common shares, which comprise share options granted to employees.

q) Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. All operating segments' operating results are regularly reviewed by the Company's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

r) Guarantees

The Company accounts for guarantees in accordance with IAS 39, Financial Instruments, Recognition and Measurement ("IAS 39"). A guarantee is a contract (including indemnity) that contingently requires the Company to make payments to the guaranteed party based on (i) changes in an underlying interest rate, foreign exchange rate, equity or commodity instrument, index or other variable, that is related to an asset, liability or equity security of the counterparty, (ii) failure of another party to perform under an obligating agreement or (iii) failure of a third party to pay indebtedness when due.

Under IAS 39, guarantees are fair valued upon initial recognition. Subsequent to initial recognition, the guarantees are re-measured at the higher of (i) the amount determined in accordance with IAS 37, Provisions, Contingent Liabilities, and Contingent Assets and (ii) the amount initially recognized less cumulative amortization.

s) Recently issued accounting standards

The IASB issued the following new standards and amendments to existing standards:

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- IFRS 9 'Financial Instruments':

In July 2014, the IASB issued the final publication of the IFRS 9 standard, superseding IAS 39 Financial Instruments: Recognition and Measurement standard. IFRS 9 establishes principles for the reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. This new standard also includes a new general hedge accounting standard which will align hedge accounting more closely with risk management. It does not fully change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however, it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. The standard is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted.

- IFRS 15 'Revenue from Contracts with Customers'

In May 2014, the IASB issued IFRS 15 which introduces a single model for recognizing revenue from contracts with customers except leases, financial instruments and insurance contracts. The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the Company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively and improve guidance for multiple-element arrangements. The standard is effective for annual periods beginning on or after January 1, 2018.

- IFRS 16, 'Leases'

In January 2016, the IASB issued the final publication of IFRS 16, superseding IAS 17, Leases and IFRIC 4, Determining Whether an Arrangement Contains a Lease. The standard applies a control model to the identification of leases, distinguishing between leases and service contracts on the basis of whether there is an identified asset controlled by the customer. The standard removes the distinction between operating and finance leases with assets and liabilities recognized in respect of all leases. The standard is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted if IFRS 15 has been adopted.

- Amendments to IFRS 2, 'Share-Based Payments'

In June 2016, the IASB issued amendments to IFRS 2 Share-Based Payment. The amendments provide clarification on how to account for certain types of share-based payment transactions. The Company intends to adopt the amendments to IFRS 2 in its consolidated financial statements for the annual period beginning January 1, 2018.

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- Amendments to IAS 7, 'Statement of Cash Flows'
In January 2016, the IASB issued amendments to IAS 7, Statement of Cash Flows. The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Company intends to adopt the amendments to IAS 7 in its consolidated financial statements for the annual period beginning January 1, 2017.

The Company is assessing the impact of these standards, if any, on the consolidated financial statements.

3. Line of credit

In July, 2016, the Company entered into a definitive loan agreement with a Schedule 1 Canadian Chartered Bank. The agreement provides a \$10 million credit facility comprised of a \$4 million Letter of Credit and a \$6 million revolving working capital facility. Under the \$6 million revolving working capital facility, the Company may borrow up to 90% on EDC insured accounts receivable and 60% on inventory held in Canada and EDC insured export contracts. Interest is at prime rate plus 1% per annum.

Assignment of a term deposit of \$1,000 was made with the bank as a collateral for the line of credit.

As at September 30, 2017, the Company has fully drawn the available facility bringing the total amount drawn to \$9,751 (i.e. \$5.7 million on revolving facility and \$4 million on Letter of Credit Facility).

In November, 2017, the amount drawn under the \$6 million revolving working capital facility exceeded the amount available under the loan agreement. The bank and the Company entered into an accommodation agreement whereby the Company could draw up to \$5 million as an overdraft facility not subject to 90% of EDC insured accounts receivable and 60% of inventory test. In exchange, the Company provided a third mortgage of Cdn \$4 million charge to the bank on the Mississauga land and building. The accommodation agreement is for an indefinite time period but may be withdrawn at any time by the bank.

4. Inventories

(a) Total inventories on hand as at September 30, 2017 and September 30, 2016 are as follows:

	September 30,	
	2017	2016
Raw materials	\$ 1,879	\$ 4,182
Semi finished	4,070	5,935
Finished goods	8,292	8,087
	\$ 14,241	\$ 18,204

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(b) At the years ended September 30, 2017 and 2016, the following inventory revaluations and obsolescence provisions were included in direct manufacturing costs:

	September 30,	
	2017	2016
Loss(gain) on material revaluation	\$ 959	\$ (844)
Provision(recovery) for obsolescence	1,039	(475)
	\$ 1,998	\$ (1,319)

5. Property, Plant and Equipment

Details of the Company's property, plant and equipment and their carrying amounts are as follows:

The Group's property, plant and equipment are comprised of land, buildings and building improvements, production equipment, and office furniture and equipment.

All amortization and impairment charges are included within amortization and impairment of non-financial assets. Land and building have been pledged as security for the promissory note and mortgages reflected in note 9, as well as for the line of credit (see note 3).

The carrying amount can be analyzed as follows:

	Intangible Assets	Land	Building	Leasehold Improvements	Production Equipment	Office Furniture and Equipment	Total
Gross carrying amount							
Balance October 1, 2016	\$121	\$5,239	\$1,318	\$381	\$2,484	\$561	\$10,104
Revaluation	-	*3,253	*1,783	-	-	-	5,036
Additions	-	-	-	-	74	31	105
Reductions	-	-	-	-	(24)	-	(24)
Exchange Differences	7	254	64	19	83	32	459
Balance September 30, 2017	128	8,746	3,165	400	2,617	624	15,680
Depreciation and impairment							
Balance October 1, 2016	(29)	-	(396)	(229)	(1,949)	(144)	(2,747)
Revaluation	-	-	*416	-	-	-	416
Additions	(41)	-	(40)	(40)	(216)	(124)	(461)
Reductions	-	-	-	-	24	-	24
Exchange Differences	(2)	-	(20)	(11)	(57)	(7)	(97)
Balance September 30, 2017	(72)	-	(40)	(280)	(2,198)	(275)	(2,865)
Net Book Value - September 30, 2017	\$56	\$8,746	\$3,125	\$120	\$419	\$349	\$12,815

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	Intangible Assets	Land	Building	Leasehold Improvements	Production Equipment	Office Furniture and Equipment	Total
Gross carrying amount							
Balance October 1, 2015	-	\$5,130	\$1,316	\$373	\$2,678	\$173	\$9,670
Additions	121	-	-	-	-	386	507
Reductions	-	-	-	-	(281)	-	(281)
Exchange Differences	-	109	2	8	87	2	208
Balance September 30, 2016	121	5,239	1,318	381	2,484	561	10,104
Depreciation and impairment							
Balance October 1, 2015	-	-	(351)	(187)	(1,843)	(59)	(2,440)
Additions	(29)	-	(65)	(38)	(313)	(86)	(531)
Reductions	-	-	-	-	281	-	281
Exchange Differences	-	-	20	(4)	(74)	1	(57)
Balance September 30, 2016	(29)	-	(396)	(229)	(1,949)	(144)	(2,747)
Net Book Value - September 30, 2016	\$92	\$5,239	\$922	\$152	\$535	\$417	\$7,357

*In accordance with IFRS, Electrovaya has elected to revalue its Land and Building on a five year basis, as at June 30th of those years. As a result, Land and Building are carried at revalued amounts as opposed to historical cost. The Land and Building assets have been revalued based on the report of an independent qualified valuer. If the revalued assets were stated on the historical cost basis, the net book value of these assets would be Land at September 30, 2017 \$5,493 (September 30, 2016 \$5,239) and Building at September 30, 2017 \$896 (September 30, 2016 \$922).

The revaluation surplus of Land \$3,253 and Building \$2,234 was recorded through Other Comprehensive Income.

6. Share Capital

a) Authorized and issued capital stock

Authorized

Unlimited common shares

Issued

	Common Shares	
	Number	Amount
Balance, October 01, 2015	80,954,024	\$69,804
Issuance of shares	30,000	7
Fair value of stock options exercised	-	5
Balance, December 31, 2015	80,984,024	\$69,816
Issuance of shares	801,187	450
Fair value of stock options exercised	-	30
Fair value of share warrants exercised	-	176
Balance, March 31, 2016	81,785,211	\$70,472
Issuance of shares	4,887,097	3,410

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Fair value of stock options exercised	-	332
Fair value of share warrants exercised	-	598
Balance, June 30, 2016	86,672,308	\$74,812
Issuance of shares	521,334	368
Fair value of stock options exercised	-	81
Fair value of share warrants exercised	-	78
Balance, September 30, 2016	87,193,642	\$75,339
Issuance of shares	517,000	398
Fair value of stock options exercised	-	2
Fair value of share warrants exercised	-	121
Balance, December 31, 2016	87,710,642	\$75,860
Issuance of shares	152,365	108
Fair value of stock options exercised	-	72
Fair value of share warrants exercised	-	2
Balance, March 31, 2017	87,863,007	\$76,042
Issuance of shares	253,928	273
Balance, June 30, 2017	88,116,935	\$76,315
Issuance of shares	4,000,000	3,385
Balance, September 30, 2017	92,116,935	\$79,700

b) Stock Options

In March, 2017, the Company received approval at its Annual Shareholders Meeting to increase the number of shares reserved for issuance under the stock option plan by 1,500,000 from 8,600,000 to 10,100,000. Options to purchase common shares of the Company under its stock option plan may be granted by the Board of Directors of the Company to certain full-time and part-time employees, directors and consultants of the Company and its affiliates. Stock options are non-assignable and may be granted for terms of up to 10 years. Stock options vest at various periods from zero to three years.

	Number outstanding	Weighted average exercise price
Outstanding, October 01, 2015	4,985,166	\$0.80
Exercised during quarter ended December 31, 2015	(30,000)	\$0.21
Cancelled or expired	(186,666)	\$0.23
Outstanding, December 31, 2015	4,768,500	\$0.80
Granted during quarter ended March 31, 2016	150,000	\$0.61
Exercised during quarter ended March 31, 2016	(78,330)	\$0.53
Cancelled or expired	(90,000)	\$0.50
Outstanding, March 31, 2016	4,750,170	\$0.85
Exercised during quarter ended June 30, 2016	(769,336)	\$0.58
Cancelled or expired	(13,332)	\$0.50
Outstanding, June 30, 2016	3,967,502	\$0.84
Exercised during quarter ended September 30, 2016	(206,668)	\$0.84
Outstanding, September 30, 2016	3,760,834	\$0.89
Granted during quarter ended December 31, 2016	651,000	\$1.59

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Exercised during quarter ended December 31, 2016	(13,000)	\$0.24
Outstanding, December 31, 2016	4,398,834	\$0.87
Exercised during quarter ended March 31, 2017	(140,165)	\$0.70
Cancelled or expired	(16,000)	\$0.59
Outstanding, March 31, 2017	4,242,669	\$0.87
Cancelled or expired	(121,666)	\$1.31
Outstanding, June 30, 2017	4,121,003	\$0.89
Granted during quarter ended September 30, 2017	120,000	\$0.98
Outstanding, September 30, 2017	4,241,003	\$0.92

Exercise price	Number Outstanding	Weighted average remaining life (years)	Number exercisable	Weighted average exercise price
\$0.54 (Cdn \$0.67)	100,000	0.23	100,000	\$0.54
\$0.19 (Cdn \$0.24)	16,000	1.39	16,000	\$0.19
\$0.76 (Cdn \$0.95)	260,000	1.87	260,000	\$0.76
\$0.64 (Cdn \$0.80)	5,000	2.42	5,000	\$0.64
\$1.47 (Cdn \$1.84)	470,000	2.49	470,000	\$1.47
\$2.25 (Cdn \$2.82)	20,000	2.77	20,000	\$2.25
\$2.16 (Cdn \$2.70)	25,000	2.80	25,000	\$2.16
\$2.22 (Cdn \$2.78)	357,000	3.25	357,000	\$2.22
\$0.65 (Cdn \$0.81)	89,998	4.21	89,998	\$0.65
\$0.26 (Cdn \$0.32)	59,000	5.20	59,000	\$0.26
\$0.57 (Cdn \$0.71)	32,000	5.40	32,000	\$0.57
\$0.58 (Cdn \$0.72)	1,312,000	6.39	1,312,000	\$0.58
\$0.83 (Cdn \$1.04)	15,000	6.44	15,000	\$0.83
\$0.82 (Cdn \$1.02)	41,000	6.65	41,000	\$0.82
\$0.52 (Cdn \$0.65)	279,171	7.39	181,676	\$0.52
\$0.52 (Cdn \$0.65)	30,000	7.39	15,000	\$0.52
\$0.73 (Cdn \$0.91)	60,000	7.64	60,000	\$0.73
\$0.55 (Cdn \$0.69)	280,834	8.01	190,167	\$0.55
\$0.63 (Cdn \$0.79)	103,000	8.37	36,333	\$0.63
\$1.70 (Cdn \$2.13)	566,000	9.25	-	\$1.70
\$0.98 (Cdn \$1.22)	120,000	9.84	-	\$0.98
	4,241,003	5.59	3,285,174	\$0.92

Stock based compensation expense related to the portion of the outstanding stock options that vested during the year ended September 30, 2017 was \$255 (September 30, 2016-\$83).

As at September 30, 2017, the Company had outstanding 4,241,003 options (3,760,834 as at September 30, 2016) to acquire common shares under the Company's employee stock option plan.

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The following tables summarizes the assumptions used with the Black-Scholes valuation model for the determination of the stock-based compensation costs for the stock options granted during the year ended September 30, 2017:

Grant date	December 30, 2016
No of options	651,000
Exercise price	\$ 1.59
Average expected life in years	10
Volatility	90.69%
Risk-free weighted interest rate	1.35%
Dividend yield	-
Fair-value of options granted	\$770

Grant date	August 01, 2017
No of options	120,000
Exercise price	\$ 0.98
Average expected life in years	10
Volatility	91.22%
Risk-free weighted interest rate	1.48%
Dividend yield	-
Fair-value of options granted	\$89

The following table summarizes the assumptions used with the Black-Scholes valuation model for the determination of the stock-based compensation costs for the stock options granted during the year ended September 30, 2016:

Grant date	February 09, 2016
No of options	150,000
Exercise price	\$ 0.61
Average expected life in years	10
Volatility	91.17%
Risk-free weighted interest rate	0.01%
Dividend yield	-
Fair-value of options granted	\$91

- c) The Company issued 1,000,000 share purchase warrants related to the issuance of the Cdn \$6.25 million promissory note on February 10, 2014. A total of 386,666 share warrants were exercised before the share warrant expiry date February 11, 2016. The original warrants vested immediately and the exercise price was Cdn \$0.65. The original fair value of the share purchase warrants was \$278.

As a condition of the first renewal of the promissory note, the Company issued new 1,000,000 warrants for a 24 months period on February 19, 2016 that vested immediately at the exercise

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price of Cdn \$0.79. The fair value of the share warrants is \$241. A total of 613,334 share warrants has been exercised as of September 30, 2017.

As a condition of the second renewal of the promissory note, the Company issued new 1,000,000 warrants for a 24 months period on February 17, 2017 that vested immediately at the exercise price of Cdn \$2.74. The fair value of the share warrants is \$915.

The following table summarizes the assumptions used with the Black-Scholes valuation model for the determination of the fair value of share purchase warrants issued during the year ended September 30, 2017:

Grant date	Feb 17, 2017
No. of warrants	1,000,000
Exercise price	\$ 2.06
Average Expected life in years	2
Volatility	108.78%
Risk-free weighted interest rate	0.76%
Dividend yield	-

The following table summarizes the assumptions used with the Black-Scholes valuation model for the determination of the fair value of share purchase warrants issued during the year ended September 30, 2016:

Grant date	Feb 19, 2016
No. of warrants	1,000,000
Exercise price	\$ 0.61
Average Expected life in years	2
Volatility	98.14%
Risk-free weighted interest rate	0.43%
Dividend yield	-

- d) The Company issued 2,183,673 share purchase warrants related to the issuance of the shares under the second tranche of a brokered private placement on March 19, 2015. The expiry date of these warrants is March 18, 2018. The warrants vested immediately and the exercise price is Cdn \$0.75. The original fair value of the share purchase warrants was \$316. All share warrants have been exercised as of March 31, 2017. The following table summarizes the assumptions used with the Black-Scholes valuation model for the determination of the fair value of share purchase warrants issued during the quarter ended March 31, 2015:

Grant date	March 19, 2015
No. of warrants	2,183,673
Exercise price	\$ 0.59
Average Expected life in years	3
Volatility	78.12%
Risk-free weighted interest rate	0.46%
Dividend yield	-

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- e) The Company issued 128,400 share purchase warrants related to the issuance of the shares under the third tranche of a brokered private placement on January 30, 2015. The expiry date of these warrants is January 29, 2018. The warrants vested immediately and the exercise price is Cdn \$1.05. All share purchase warrants have been exercised as of March 31, 2017. The original fair value of the share warrants was \$18. The following table summarizes the assumptions used with the Black-Scholes valuation model for the determination of the fair value of share purchase warrants issued during the quarter ended March 31, 2015:

Grant date	January 30, 2015
------------	------------------

No. of warrants	128,400
Exercise price	\$ 0.83
Average Expected life in years	3
Volatility	75.55%
Risk-free weighted interest rate	1.00%
Dividend yield	-

- f) The Company issued 2,095,579 share purchase warrants related to the issuance of the shares under the second tranche of a brokered private placement on December 31, 2014. The expiry date of these warrants is December 30, 2017. The warrants vested immediately and the exercise price is Cdn \$1.05. The original fair value of the share purchase warrants was \$322. All share purchase warrants have been exercised as of March 31, 2017. The following table summarizes the assumptions used with the Black-Scholes valuation model for the determination of the fair value of share warrants issued during the quarter ended December 31, 2014:

Grant date	December 31, 2014
------------	-------------------

No. of warrants	2,095,579
Exercise price	\$ 0.91
Average Expected life in years	3
Volatility	71.99%
Risk-free weighted interest rate	1.02%
Dividend yield	-

- g) The Company issued 1,016,500 share purchase warrants related to the issuance of the shares under the first tranche of a brokered private placement on December 24, 2014. The expiry date of these warrants is December 23, 2017. The warrants vested immediately and the exercise price is Cdn \$1.05. The original fair value of the share purchase warrants was \$282. A total of 570,500 share warrants were exercised as of September 30, 2017.

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The following table summarizes the assumptions used with the Black-Scholes valuation model for the determination of the fair value of share purchase warrants issued during the quarter ended December 31, 2014:

Grant date	December 24, 2014
------------	-------------------

No. of warrants	1,016,500
Exercise price	\$ 0.91
Average Expected life in years	3
Volatility	71.99%
Risk-free weighted interest rate	1.02%
Dividend yield	-

- h) The Company issued 1,740,000 share purchase warrants and 279,069 compensation options related to the issuance of the Cdn \$15 million convertible debentures on March 27, 2017. The expiry date of these warrants and compensation options is March 26, 2020 and March 26, 2019 respectively. The warrants and compensation options vested immediately and the exercise price is Cdn \$2.80 and Cdn \$2.26 respectively. The original fair value of the share purchase warrants and compensation options were \$1,176 and \$198 respectively. The following table summarizes the assumptions used with the Black-Scholes valuation model for the determination of the fair value of share purchase warrants and compensation options issued during the quarter ended March 31, 2017:

Grant date	March 27, 2017
------------	----------------

No. of warrants	1,740,000
No. of compensation options	279,069
Exercise price	\$ 2.10
Average Expected life in years	3
Volatility	96.54%
Risk-free weighted interest rate	0.75%
Dividend yield	-

- i) The Company issued 4,000,000 share purchase warrants and 280,000 compensation options related to the issuance of the shares under the first tranche of a brokered private placement on September 29, 2017. The expiry date of these warrants is September 28, 2022. The warrants and compensation vested immediately and the exercise price is Cdn \$1.45. The original fair value of the share purchase warrants and compensation options were \$1,832 and \$128 respectively.

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The following table summarizes the assumptions used with the Black-Scholes valuation model for the determination of the fair value of share purchase warrants issued during the quarter ended September 30, 2017:

Grant date September 29, 2017

No. of warrants	4,000,000
No. of broker warrants	280,000
Exercise price	\$ 1.16
Average Expected life in years	5
Volatility	100.56%
Risk-free weighted interest rate	1.22%
Dividend yield	-

Details of Share Warrants

	<u>Number Outstanding</u>	<u>Exercise Price</u>
Outstanding, Dec 31, 2015	6,117,486	
Issued during the quarter ended Mar 31, 2016	1,000,000	\$0.60
Exercised during the quarter ended Mar 31, 2016	-80,000	\$0.50
Expired during the quarter ended Mar 31, 2016	-613,334	\$0.50
Exercised during the quarter ended Mar 31, 2016	-642,857	\$0.57
Outstanding, Mar 31, 2016	5,781,295	
Exercised during the quarter ended Jun 30, 2016	-1,540,816	\$0.57
Exercised during the quarter ended Jun 30, 2016	-2,270,279	\$0.80
Exercised during the quarter ended Jun 30, 2016	-306,666	\$0.60
Outstanding, Jun 30, 2016	1,663,534	
Exercised during the quarter ended Sep 30, 2016	-306,666	\$0.60
Exercised during the quarter ended Sep 30, 2016	-8,000	\$0.80
Outstanding, Sep 30, 2016	1,348,868	
Exercised during the quarter ended Dec 31, 2016	-504,000	\$0.78
Outstanding, Dec 31, 2016	844,868	
Exercised during the quarter ended Mar 31, 2017	-12,200	\$0.79
Issued during the quarter ended Mar 31, 2017	1,000,000	\$2.06
Issued during the quarter ended Mar 31, 2017	1,740,000	\$2.10
Outstanding, Mar 31, 2017 & Jun 30, 2017	3,572,668	
Issued during the quarter ended Sep 30, 2017	4,000,000	\$1.16
Outstanding, Sep 30, 2017	<u>7,572,668</u>	

Details of Compensation Options to Brokers

	<u>Number Outstanding</u>	<u>Exercise Price</u>
Outstanding as on Oct 1, 2016	-	
Issued during the quarter ended Mar 31, 2017	279,069	\$1.70
Outstanding, Mar 31 & Jun 30, 2017	279,069	
Issued during the quarter ended Sep 30, 2017	280,000	\$1.16
Outstanding, Sep 30, 2017	<u>559,069</u>	

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7. Related Party Transactions

Transactions with Electrovaya Corp Director

There were no balance outstanding as at September 30, 2017 and September 30, 2016. During the year ended September 30, 2017, the Company paid \$107 (2016 - \$108) to a director of Electrovaya Corp for services rendered in his capacity as an executive officer of Electrovaya Inc. These amounts, which are recorded at their exchange amount, have been expensed in General and administrative.

Transactions with controlling shareholder of Electrovaya Inc.

There is an outstanding payable balance of \$18 relating to raising of capital on behalf of the Company, as at September 30, 2017 (2016-\$37). During the year ended September 30, 2017, the Company paid \$234 (2016 - \$196) to the Chief Executive Officer, who is also a controlling shareholder of the Company. These amounts, which are recorded at their exchange amount, have been expensed in General and administrative.

On April 1, 2017 the Company entered into a Consultant Services Agreement with a Member of the Board of Directors with respect to the provision of certain strategic advisory services. The contract is for a one year period, renewable annually unless terminated by either party. The annual fee for the consulting services is \$38 (Cdn \$50K). By mutual agreement this Consultant Service Agreement was terminated in December 2017.

8. Change In Non-Cash Operating Working Capital

	September 30,	
	2017	2016
Trade and other receivables	\$ (259)	\$ 1,142
Investment tax credits recoverable	(203)	11
Inventories	3,963	(10,654)
Prepaid expenses and other	(145)	168
Trade and other payables	(3,412)	9,379
Deferred revenue	15	-
Deferred government grant	-	(196)
	\$ (41)	\$ (150)

9. Promissory Notes

	September 30,	
Current portion	2017	2016
Secured promissory note (See Note 14(a))	\$ 4,630	\$ 4,594
Second mortgage loan (See Note 14(f))	799	762
Shareholder's loan (See Note 14(g))	-	1,144
	\$ 5,429	\$ 6,500

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Secured promissory note

In February, 2014, the Company raised a principal amount of Cdn \$6.25 million in consideration of issuance of a two-year secured promissory note bearing interest at 8.25% per annum and 1,000,000 common share purchase warrants at an exercise price of Cdn \$0.65 per share exercisable immediately for a period of 24 months. The promissory note matured on February 11, 2016. It was renewed for a further 12 months maximum period under the same terms and issue of new 1,000,000 warrants for a 24 months period at an exercise price of Cdn \$0.79 per warrant exercisable immediately. The Company again renewed the note for a further one year period on February 17, 2017 under the same terms and issue of new 1,000,000 warrants for a 24 months period at an exercise price of Cdn \$2.74.

For accounting purpose, the Promissory note was separated into their liability and equity components based on their fair value. The fair value of equity component was calculated using the Black-Scholes valuation model. The fair value of the liability component was determined as the difference between the fair value of the Promissory note and the fair value of the equity component.

The loan is secured by a fixed charge over land and building and interest is payable monthly.

As at	September 30,	
	2017	2016
Promissory Note	\$ 4,594	\$ 4,617
Less: repayment	-	(4,433)
Add: additions	-	4,766
Less: equity component	(1,219)	(247)
Add: Accretion	853	260
Less: Currency translation adjustments	402	(369)
	<u>\$ 4,630</u>	<u>\$ 4,594</u>

Accretion costs during the year are included in "Finance cost" in the Consolidated Statements of Operations.

Second Mortgage loan

In April, 2015, the Company raised an additional \$802 (Cdn \$1 million) by placing a second mortgage on the property owned by its wholly owned Subsidiary, 1408871 Ontario Inc. The loan bearing interest at 10% per annum was to mature on April 17, 2017. This loan has been renewed for a further period of one year to April 17, 2018. The balance of the loan as at September 30, 2017, net of currency translation adjustments is \$799 and as at September 30, 2016, net of currency translation adjustments is \$762.

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Shareholder's loan

On April 21, 2015, a shareholder of the Company advanced a loan in the amount of \$1,203 (Cdn \$1.5 million) bearing interest at 10% per annum with repayment terms of 18 months. The loan was fully paid on May 31, 2017.

10. Government Assistance/Economic Dependence

(a) Investment Tax Credits

The Company receives indirect financial assistance from the government by way of the investment tax credit program. This program provides assistance, by way of direct payments and reductions in corporate income taxes, for specially defined qualifying expenditures. Investment tax credits are credited against the related research and development expenses, or capital assets, where applicable.

(b) Sustainable Development Technology Corp (SDTC)

In December 2010, the Company became eligible for a Cdn \$5.065 million grant from SDTC representing 33% of a Cdn \$15.417 million project related to the development and demonstration of ElectroVaya's Lithium Ion SuperPolymer® Battery for application in Plug-In Hybrid Electric Vehicles, automation of its cell production process and a feasibility study about the potential for repurposing automotive batteries for grid storage applications. The Company received Cdn \$1.742 million of this grant in December, 2010 for work completed since November, 2009.

The amount is receivable in scheduled instalments as provided in the contribution agreement between SDTC and the Company and will be received upon the achievement of various project milestones. The Contribution shall not exceed fifty percent (50%) of the Eligible Project Costs for the Project and ElectroVaya shall contribute a minimum of twenty-five percent (25%) of the Eligible Project Costs for the Project in cash, in-kind goods or services, or a combination thereof.

The Company recognized Cdn \$1.674 million during the year ended September 30, 2011 under this grant.

The Company received Cdn \$1.627 million in August 2011 as advance payment on the second milestone of Phase 2 for work completed since November, 2010.

The Company recognized Cdn \$1.695 million during the year ended September 30, 2012.

The company received Cdn \$1.19 million as advance payment on the third milestone of Phase 2 for work completed since November, 2011.

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The Company recognized Cdn \$1.19 million during the year ended September 30, 2013 under this grant.

A modification to the previous agreement with SDTC increased the available funding by Cdn \$3.159 million and adds two more milestones to the project related to the automation of the Company's proprietary manufacturing process and additional design work on an integrated BMS and new battery interconnect solutions. The SDTC funding will be 31.25% of eligible project costs. An advance payment of Cdn \$2.003 million was received during the year ended September 30, 2014. This work was completed by December 2015. A payment of Cdn \$270,000 was received in February, 2016 towards Milestone 6.

To date, the Company has incurred costs of approximately Cdn \$6.6 million towards Milestone 4, Cdn \$4.2 million towards Milestone 5 and Cdn \$2.4 million towards Milestone 6, of which \$142 was recognized for milestone 5 during the quarter ended December 31, 2014 under this grant and \$200 was recognized for milestone 6 during the quarter ended March 31, 2016. Reversal of excess revenue \$106 recognized for milestone 4 was adjusted during the quarter ended March 31, 2016. During the quarter ended June 30, 2016, additional revenue of \$107 was recognized for milestone 6. During the quarter ended December 31, 2016, additional revenue of \$636 was recognized which was subsequently received in April, 2017.

Progress and related contract revenue toward this milestone has been determined by comparing costs incurred to date with the total estimated costs estimated for that particular milestone.

(c) Ministry of Economic Development and Trade "Next Generation of Jobs Fund" Conditional Grant

On May 5, 2009, the Province of Ontario, as represented by the Minister of Economic Development, signed a Conditional Grant Agreement with Electrovaya Corp. awarding Cdn \$ 16.7 million as a grant. The grant is for pre-commercialization activities over a period of five years ending on December 31, 2013. In August 2011, the Company received confirmation from Minister of Economic Development and Trade that the project has been extended to December 31, 2015. The grant is 15% of the targeted project cost of Cdn \$111.62 million and is subject to certain targets related to new job creation and investment, which if not achieved, could result in only a portion of the grant being received, or a potential claw-back of funds received by the end of the seven year period.

Electrovaya received an advance of \$ 3,300 (Cdn \$3.3 million) on June 5, 2009 and recorded this as deferred revenue. During the year ended September 30, 2011, \$1,300 and cumulative of \$3,000 of activities considered to be eligible costs and therefore reimbursable under the grant were recorded as Government assistance. During the year ended September 30, 2012, \$1,200 and cumulative of \$4,200 of activities considered to be eligible costs and therefore reimbursable under the grant were recorded as Government assistance. The full amount of the advance has now been recognized as revenue. During the year ended September 30, 2013, \$700 and cumulative of \$4,900 of activities considered to be eligible costs and therefore reimbursable under

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the grant were recorded as Government assistance.

The program ended on December 31, 2015. The company has booked a liability for a claw-back of the excess of funds received over eligible costs. The Company paid \$30 during the quarter ended December 31, 2016, \$15 during the quarter ended March 31, 2017 and \$62 during the quarter ended June 30, 2017. As of September 30, 2017, the claw-back balance payable is \$153 (Cdn \$199k) plus interest.

(d) Smart Grid Fund

The Company has entered into a contract with the Ontario Ministry of Energy, Smart Grid Fund program, to develop an innovative advanced energy storage and power management system and Intelligent Energy Storage System (IESS), which will help utilities and their end users to have reliable power quality. The Company will be working with three Ontario energy utilities to benefit Local Distribution Company (LDC) collaborators.

The IESS will have three components including the energy storage system, the power management system and the system controller. This system will be used to mitigate the issues associated with electric vehicle charging stations for peak management, peak charging management, infrastructure deferral, harmonics and voltage and frequency regulation.

The total value of the contract to the Company is approximately \$840 (Cdn\$0.97 million).

During the year ended September 30, 2015, the Company has recognised Cdn \$568k towards Milestone 1 & 2 under this grant and additional revenue of \$197 was recognized during the quarter ended June 30, 2016. The project was cancelled in June, 2016.

(e) Investment subsidy (Investitionszulage) to Litarion

The Company received direct financial assistance from the government by way of investment subsidy (Investitionszulage) for the financial years 2010 and 2011. Litarion accounted for a subsidy of \$6,262 (€5.767 million) from the financial authorities in Germany for a subsidised investment programme in the current period. The investments were made in the years 2010 and 2011. The money was received in Nov 2015, \$1,143 (€1.053 million) and the balance amount of \$5,120 (€4.715 million) was received in Jan 2016 and was recorded in other receivable as at December 31, 2015. The investment subsidy is shown as revenue during the quarter ended December 31, 2015 under the Consolidated Statement of Operations and has been fully realised.

During the quarter ended June 30, 2016, the company received the confirmation from the tax Authority in relation to the investment subsidy \$1,203 (€ 1,092 million) for the tax year 2012. The investment subsidy was shown as non taxable income and is in the balance under Other Receivables. The amount was received at the beginning of July, 2016.

During the quarter ended September 30, 2016, the company received the investment subsidy

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\$503 (€ 0.5 million) for the tax year 2009 and \$134 (€ 0.1 million) for the tax year 2013.

(f) NMP-free Production Process Cell Production (SAB)

It's planned to implement the ElectroVaya-patented Process of NMP-free production together with a new Cell technology. The approximated costs will be € 15 million and the project time will be 3 years. The Company is pursuing various avenues and programs for funding.

g) German Federal Ministry of Education and Research R&D Project "Embatt"

This R&D project funded by the Federal Ministry of Education and Research is for the EMBATT 2.0 - material and process development for the efficient manufacturing of the large-size bipolar battery EMBATT.

The project commenced July 1, 2016 and is scheduled to run until June 30, 2019. The project cost is 500k€ with funding at 40% for a subsidy of 200k€. During the fiscal year ended September 30, 2017, the company incurred cost of approximately 50 k€ EUR and 33 k€ EUR of funds were received during the quarter ended September 30, 2017.

h) New Projects

It is planned to start a joint research project under the public funding (BMBF) in November. Target of the project is to develop anodes and cathodes with characteristics of high energy density and by usage of NMP-free process. The application is for a grant of 707 k€ EUR on total project costs of 1,537 k€ EUR.

11. Loan Payable

Loan payable to Innovation Norway from May 2011 was \$722 (4.0 million Norwegian Kroner). As of March 31, 2017, the balance payable as per new agreement with Innovation Norway was \$75, (2016 - \$282). \$117 (NOK 993,954) was written off during the quarter ended March 31, 2017 and the remaining balance owing \$75 (NOK 641,590) was fully settled in April, 2017.

12. Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, trade and other receivables, trade and other payables, long-term debt.

Fair Value

IFRS 13 "Fair Value Measurement" provides guidance about fair value measurements. Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation

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techniques used to measure fair value are required to maximize the use of observable inputs and minimize the use of unobservable inputs. The fair value hierarchy is based on three levels of inputs. The first two levels are considered observable and the last unobservable. These levels are used to measure fair values as follows:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities, either directly or indirectly.
- Level 2 – Inputs, other than Level 1 inputs that are observable for assets and liabilities, either directly or indirectly. Level 2 inputs include quoted market prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following table presents the carrying and approximate fair values of the Company's financial instruments:

	As as September 30, 2017				As as September 30, 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets:								
Cash and cash equivalents	\$3,441	-	-	\$3,441	\$668	-	-	\$668
Restricted cash	1,000	-	-	1,000	1,000	-	-	1,000
Trade and other receivables	3,281	-	-	3,281	3,022	-	-	3,022
Financial liabilities:								
Trade and other payable	10,722	-	-	10,722	14,134	-	-	14,134
Line of credit	9,751	-	-	9,751	1,291	-	-	1,291
Promissory Notes	-	5,429	-	5,429	-	6,500	-	6,500
9% convertible debentures	-	10,082	-	10,082	-	-	-	-

There were no transfer between levels of the fair value hierarchy during the period presented.

Risk Management

The Company may be exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives. The main objectives of the Company's risk management processes are to ensure that the risks are properly identified and that the capital base is adequate in relation to those risks. The principal risks to which the Company is exposed are described below.

Capital risk

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The Company manages its capital to ensure that there are adequate capital resources for the Company to maintain and develop its products. The capital structure of the Company consists of shareholders' equity and depends on the underlying profitability of the Company's operations.

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the development, manufacture and marketing of its products. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Group's capital management objectives are:

- to ensure the Group's ability to continue as a going concern.
- to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group monitors capital on the basis of the carrying amount of equity plus its short-term debt comprised of the Promissory note, less cash and cash equivalents as presented on the face of the statement of financial position.

The Group sets the amount of capital in proportion to its overall financing structure, comprised of equity and long term debt. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group issues new shares or increases its long-term debt.

Capital for the reporting periods under review is summarized as follows:

	30-Sep-17	30-Sep-16
Total Equity(Deficiency)	\$ (1,221)	\$ 7,950
Cash and cash equivalents	<u>(3,441)</u>	<u>(668)</u>
Capital(Deficiency)	<u>(4,662)</u>	<u>7,282</u>
Total Equity(Deficiency)	(1,221)	7,950
Promissory Note	5,429	6,500
Line of Credit	9,751	1,291
9% Convertible Debentures	10,082	-
Other Long term liabilities	<u>748</u>	<u>883</u>
Overall Financing	\$ <u>24,789</u>	\$ <u>16,624</u>
Capital to Overall financing Ratio	<u>(0.19)</u>	<u>0.44</u>

Credit risk

Credit risk is the risk that the counter-party fails to discharge an obligation to the Company. The Company is exposed to this risk for various financial instruments, for example, by granting loans and receivables to customers, placing deposits, etc. The Company's maximum exposure to credit risk is limited to the carrying amount of financial assets recognized at the reporting date, as summarized below:

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		September 30,	
		2017	2016
Cash and cash equivalents	\$	3,441	\$ 668
Restricted cash		1,000	1,000
Trade and other receivables		3,281	3,022
Carrying amount	\$	7,722	\$ 4,690

Cash and cash equivalents are comprised of the following:

		September 30,	
		2017	2016
Cash	\$	3,441	\$ 610
Cash equivalents		-	58
	\$	3,441	\$ 668

The Company's current portfolio consists of certain banker's acceptance and high interest yielding saving accounts deposits. The majority of cash and cash equivalents are held with financial institutions, each of which had at September 30, 2017 a rating of R-1 mid or above.

The Company manages its credit risk by establishing procedures to establish credit limits and approval policies. The balance in trade and other receivables is primarily attributable to trade accounts receivables. In the opinion of management, the credit risk is moderate as some receivables are falling into arrears. Management is taking appropriate action to mitigate this risk by adjusting credit terms.

Liquidity risk

The Company is exposed to liquidity risk from trade and other payables in the amount of \$10,722 (2016-\$14,134), Promissory Note and loan financing of \$5,429 (2016-\$6,500), long-term provisions \$748 (2016-\$735), line of credit \$9,751 (2016-\$1,291) and loan payable for \$Nil (2016-\$204). Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due. The Company manages its liquidity risk by carefully monitoring the cash requirements and balancing them against the cash received from operations and government grants. There can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favorable. The Company may seek additional financing through debt or equity offerings, but there can be no assurance that such financing will be available on terms acceptable to the Company or at all. Any equity offering will result in dilution to the ownership interest of the Company's shareholders and may result in dilution to the value of such interests. The Company intends to fulfill its obligations.

Market risk

Market risk incorporates a range of risks. Movement in risk factors, such as market price risk and currency risk, affect the fair value of financial assets and liabilities. The Company is exposed to these risks as the ability of the Company to develop or market its products and the future profitability of the Company is related to the market price of its primary competitors for similar products.

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Interest rate risk

The Company has cash balances and fixed interest-bearing debt at 8.25%, 9%, 10% and prime plus 1%. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions.

Foreign currency risk

The Company is exposed to foreign currency risk. The Company's functional currency is the Canadian dollar and a majority of its revenue is derived in Euro. Purchases are transacted in Canadian dollars, United States dollars, Euro and Norwegian krone. The majority of the Company's operations are located primarily in Germany. Management believes the foreign exchange risk derived from any currency conversions may have a material effect on the results of its operations. The financial instruments impacted by a change in exchange rates include our exposures to the above financial assets or liabilities denominated in non-functional currencies. The cash and cash equivalent in US dollars were \$1,117 (September 30, 2017) and \$1,288 (September 30, 2016).

If the US dollar to Canadian, Euro and Norwegian Kroner foreign exchange rate changed by 2% this would change the recorded Net loss by (\$120).

Price risk

The Company is exposed to price risk. Price risk is the risk that the commodity prices that the Company charges are significantly influenced by its competitors and the commodity prices that the Company must charge to meet its competitors may not be sufficient to meet its expenses. The Company reduces the price risk by ensuring that it obtains information regarding the prices set by its competitors to ensure that its prices are appropriate. In the opinion of management, the price risk is low and is not material.

13. Trade and Other Receivables

	September 30,	
	2017	2016
Trade receivables, gross	\$ 3,550	\$ 5,423
Allowance for credit losses	(529)	(2,547)
Trade receivables	3,021	2,876
Other receivables	260	146
Trade and other receivables	\$ 3,281	\$ 3,022

As at September 30, 2017, 74% of the Company's accounts receivable is over 90 days past due (September 30, 2016-31%)

All of the Company's trade and other receivables have been reviewed for indicators of impairment.

Certain trade receivables were found to be impaired and an allowance for credit losses has been recorded accordingly.

The movement in the allowance for credit losses can be reconciled as follows:

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	September 30,	
	2017	2016
Beginning balance	\$2,547	\$148
Impairment loss	(2,424)	(151)
Allowance provided	406	2,547
Exchange translation	-	3
Ending balance	\$529	\$2,547

14. Financing

- a) On February 10, 2014, Electrovaya Inc. issued a promissory note to a syndicate of lenders for Cdn \$6.25 million at 8.25% per annum for 24 months, secured by a first mortgage on its land and building, a General Security Agreement, an assignment of an interest reserve for \$485, intercorporate guarantees from 1408871 Ontario Inc. and Electrovaya Corp, a guarantee from the controlling shareholder and one million common share purchase warrants at an exercise price of Cdn \$0.65 per share exercisable immediately for a period of 24 months. The Company has renewed the facility for up to 12 months under the same terms and issued new 1,000,000 warrants for a 24 month period at an exercise price of Cdn \$0.79 per share warrant exercisable immediately. The Company renewed the note on February 17, 2017 for a further 12 months period under the same terms and issue of new 1,000,000 warrants for a 24 months period at an exercise price of Cdn \$2.74.
- b) On June 13, 2014, Electrovaya raised \$2,800 (Cdn \$2.9 million) through the private placement of 3,237,601 units, with each unit consisting of 1 common share at Cdn \$0.90 and one-half share purchase warrant. Each share warrant is exercisable into one common share of the Company within a period of 18 months at a price of Cdn \$1.25 per share. The share warrants expired on December 12, 2015.
- c) In December, 2014, Electrovaya raised \$1,700 (Cdn \$2 million) through the brokered private placement of 2,908,845 units, with each unit consisting of 1 common share at Cdn \$0.70 and one share purchase warrant. Each share warrant is exercisable into one common share of the Company within a period of 36 months at a price of Cdn \$1.05 per share.
- d) In January, 2015, Electrovaya raised \$80 (Cdn \$100,000) through the brokered private placement of 154,161 units, with each unit consisting of 1 common share at Cdn \$0.70 and one share purchase warrant. Each share warrant is exercisable into one common share of the Company within a period of 36 months at a price of Cdn \$1.05 per share.
- e) In March, 2015, Electrovaya raised \$800 (Cdn \$1 million) through the brokered private placement of 2,194,662 units, with each unit consisting of 1 common share at Cdn \$0.49 and one share purchase warrant. Each share warrant is exercisable into one common share of the Company within a period of 36 months at a price of Cdn \$0.75 per share.
- f) In April, 2015, the Company raised an additional \$802 (Cdn \$1 million) by placing a second mortgage on the property owned by its wholly owned Subsidiary, 1408871 Ontario Inc. The loan bears interest at 10% per annum was to mature on April 17, 2016. This loan has been renewed for a further period of one year to April 17, 2018. The balance of the loan as at September 30,

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2017, net of currency translation adjustments is \$799 and as at September 30, 2016, net of currency translation adjustments is \$762.

- g) On April 21, 2015, a shareholder of the Company advanced a loan in the amount of \$1,203 (Cdn \$1.5 million) bearing interest at 10% per annum with repayment terms of 18 months. The loan was fully paid on May 31, 2017.
- h) On March 27, 2017, the Company closed an offering for 9% unsecured convertible debentures (the "Debentures"), for an aggregate gross proceeds of \$11,260,416 (Cdn \$15,000,000). The issue costs were \$751,102 (Cdn \$1,000,543) resulting in net proceeds of \$10,509,314 (Cdn \$13,999,457). The Company also issued 279,069 compensation options (the "Compensation Options"), with each Compensation Option exercisable to purchase one Common Share at a price of Cdn \$2.26 until 5:00 p.m. on March 26, 2019.
- i) On September 29, 2017, Electrovaya raised \$3,677 (Cdn \$4.6 million) through the brokered private placement of 4,000,000 units, with each unit consisting of 1 common share at Cdn \$1.15 and one share purchase warrant. Each share warrant is exercisable into one common share of the Company within a period of 60 months at a price of Cdn \$1.45 per share.

15. Segment And Customer Reporting

The Company develops, manufactures and markets power technology products. It conducts its operations through divisions, which function as autonomous business units, following a corporate policy of functional and operational decentralization.

The Company defines its operating segments as components of its business where separate financial information is available and routinely evaluated by management. The Company's chief operating decision maker ("CODM") is the Chief Executive Officer. Given the size and nature of the products produced, the Company's operations are segmented based on large format batteries, with the remaining smaller product line categorized as "Other".

In identifying its operating segments, management has considered the different services and products offered by the Company and determined that there was no effect on the recognition and measurement of financial statement items upon transition to IFRS. The Company has reviewed its operations and determined that it operates in one business segment and has only one reporting unit.

Revenues from major business activities for the years ended September 30, 2017 and 2016 were as follows:

	2017		2016	
Large format batteries	\$	7,462	\$	8,525
Other		1,305		*11,010
	\$	8,767	\$	19,535

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Years ended September 30, 2017 and September 30, 2016

*Litarion had applied for subsidies under German Investment Subsidy Rule (InvZuIG) for investments made in 2010 and 2011. The Company received \$6,241 (€5.767 million), \$1,139 (€1.053 million) was received in November, 2015 with the remaining \$5,102 (€4.714 million) received in January, 2016. Due to the respective investment having been written down on acquisition the full balance was released to income. During the quarter ended June 30, 2016, the company received the confirmation from the tax Authority in relation to the investment subsidy \$1,203 (k€ 1.092 million) for the tax year 2012. The investment subsidy was shown as non taxable income. This amount was received at the beginning of July, 2016.

Revenues attributed to regions based on location were as follows:

	2017		2016	
Canada	\$	1,237	\$	474
United States		944		2,741
Germany		3,625		15,977
Norway		-		127
Other		2,961		216
	\$	8,767	\$	19,535

Customers:

For the year ended September 30, 2017 two customers represented more than 10% of total revenue (year ended September 30, 2016 one customer and German Investment subsidy). Our largest customer accounted for 30.2% and 19.7% of total revenue for the years ended September 30, 2017 and of 2016 respectively.

16. Convertible Debentures

On March 27, 2017, the Company closed an offering for 9% unsecured convertible debentures (the "Debentures"), for an aggregate gross proceeds of \$11,260,416 (Cdn \$15,000,000). The issue costs were \$751,102 (Cdn \$1,000,543) resulting in net proceeds of \$10,509,314 (Cdn \$13,999,457). The Company also issued 279,069 compensation options (the "Compensation Options"), with each Compensation Option exercisable to purchase one Common Share at a price of Cdn \$2.26 until 5:00 p.m. on March 26, 2019.

The Debentures bear interest from the date of issue at 9% per annum, payable semi-annually in arrears on June 30 and December 31 in each year commencing June 30, 2017. The Debentures have a maturity date of March 27, 2020 (the "Maturity Date"). The Debentures are convertible at the holder's option at any time prior to the close of business on the earlier of the Maturity Date and the business day immediately preceding the date specified by the Company for redemption of the Debentures into ElectroVaya's shares at a conversion price of \$1.61 (Cdn \$2.15) per common share, being a conversion rate of 465.116 Common Shares for each \$1,000 principal amount of this Debentures. The Debentures are subject to accelerated conversion in certain circumstances, and the Conversion Price may be adjusted in certain circumstances, all as more particularly described in the Company's news release dated March 15, 2017 and material change report dated March 22, 2017.

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The lead subscriber was also issued 1,740,000 warrants (the "Warrants"). Each Warrant is exercisable to purchase one Common Share in the capital of the Company at a price of Cdn \$2.80 per Common Share until 5:00 p.m. on March 26, 2020.

For accounting purposes, the Debentures are separated into their liability and equity components using the effective interest rate method. The fair value of the liability component at the time of issue was determined based on an estimated rate of 13.5% for the Debentures without the conversion feature. The fair value of the equity component was determined as the difference between the face value of the Debentures and the fair value of the liability component.

The Debentures are direct, unsecured obligations of the Company, subordinated to other indebtedness of the Company for borrowed money and ranking equally with all other unsecured subordinated indebtedness.

The interest of \$273 due on June 30, 2017 was settled by issuing 253,928 common shares of the Company.

Principal

Balance as at September 30, 2017 \$11,260

Liability

Gross proceeds 11,260

Issue costs (751)

Equity component (71)

Liability component initially recognized 10,438

Accretion of finance expense during the period from Mar 27, 2017 to Sep 30, 2017 426

Currency translation adjustments (782)

Balance at September 30, 2017 \$10,082

17. Long-term Provisions

As of September 30, 2017, the Company's long-term liabilities of \$748 (€ 634K) (2016-\$735 (€655K)) were comprised of personnel related provisions.

The obligations reflected in the statement of financial position for pensions – post-employment benefits were \$471 (2016 - \$564)

The amounts recognized in the present value of pension liabilities can be reconciled as follows:

	September 30,	
	2017	2016
Beginning balance	\$564	\$375
Interest cost	7	7
Actuarial losses recognized	129	182
Exchange translation	29	-
Ending balance	\$729	\$564

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The main actuarial assumptions used were as follows:

	September 30,	
	2017	2016
Discount rate	2.00%	1.25%
Expected return on plan assets	0.00%	0.00%
Future wage increases	2.50%	2.50%
Increase of future liabilities with pensions	1.75%	1.75%

18. Income-tax

North America

The income tax recovery differs from the amount computed by applying the Canadian statutory income tax rate of 26.50% (2016 – 26.50%) to the loss before income taxes as a result of the following:

	September 30,	
	2017	2016
Loss before income taxes	\$ (20,937)	\$ (8,870)
Expected recovery of income taxes based on statutory rates	(5,830)	(2,363)
Reduction in income tax recovery resulting from:		
Lower rate on manufacturing profits	33	30
Non-taxable portion of capital gain	109	(69)
Other permanent differences	4,599	(10)
Change in valuation allowance	1,089	2,412
Income tax recovery	\$ -	\$ -

The income tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities are as follows:

	September 30,	
	2017	2016
Future tax assets		
Non-capital losses carried forward	\$ 9,888	\$ 10,429
Capital assets	(92)	(216)
Unclaimed research and development expenses	4,475	4,302
Other deductible differences	164	55
	14,435	14,570
Less valuation allowance	(14,435)	(14,570)
Net future tax assets	\$ -	\$ -

In assessing the realizability of future tax assets, management considers whether it is more likely than not that some portion or all of the future tax assets will be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the year in which those temporary differences become deductible.

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Management considers projected future taxable income, uncertainties related to the industry in which the Company operates and tax planning strategies in making this assessment. To the extent that management believes that the realization of future income tax assets does not meet the more likely than not realization criterion, a valuation allowance is recorded against the future tax assets.

In addition to the above temporary differences, the Company has unrecorded non-refundable investment tax credits amounting to approximately \$6,259 (2016 – \$6,231) which begin to expire in 2017. During the year, the Company recognized \$183 (2016-\$213) of refundable investment tax credits.

As at September 30, 2017, the expiration dates of the Company's federal non-capital income tax losses carried forward are as follows:

2022	\$	978
2023		106
2024		337
2025		38
2026		17,198
2027		4,356
2028		4,208
2029		223
2030		1,038
2031		203
2032		1,841
2033		1,198
2034		196
2035		2,471
2036		1,041
2037		3,161
	\$	38,593

The Company has a potential tax benefit resulting from non-capital losses carried forward, an undeducted pool of scientific research and experimental development expenditures and non-refundable investment tax credits carried forward. In view of the history of net losses incurred, management is of the opinion that it is more likely than not that these tax assets will not be realized in the foreseeable future and hence, a full valuation allowance has been recorded against these future tax assets. Accordingly, no future tax assets are recorded on the balance sheets.

Germany

The income tax recovery differs from the amount computed by applying the German statutory income tax rate of 30% (2016 – 30%) to the loss before income taxes as a result of the following:

	September 30,	
	2017	2016

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Loss before income taxes	\$ (17,199)	\$ (6,480)
Expected recovery of income taxes based on statutory rates	(5,160)	-
Reduction in income tax recovery resulting from:		
Lower rate on manufacturing profits	-	-
Non-taxable portion of capital gain	-	-
Other permanent differences	-	-
Change in valuation allowance	5,242	-
Change in enacted tax rates	-	-
Income tax recovery	\$ 82	\$ -

The income tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities are as follows:

	September 30,	
	2017	2016
Future tax assets		
Non-capital losses carried forward	\$ (9,835)	\$ (4,452)
Capital assets	-	-
Unclaimed research and development expenses	-	-
Other deductible differences	(97)	163
Less valuation allowance	9,932	4,452
Net future tax assets	\$ -	\$ 163

In assessing the realizability of future tax assets, management considers whether it is more likely than not that some portion or all of the future tax assets will be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the year in which those temporary differences become deductible.

Management considers projected future taxable income, uncertainties related to the industry in which the Company operates and tax planning strategies in making this assessment. To the extent that management believes that the realization of future income tax assets does not meet the more likely than not realization criterion, a valuation allowance is recorded against the future tax assets.

Miljobil Grenland AS has \$5,310 of tax losses which, under Norwegian law, have no defined expiry period.

b) Deferred tax assets

The income tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities are as follows:

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	September 30, 2017	September 30, 2016
Deferred tax assets	163	451
Change in temporary differences	(152)	(290)
Exchange translation	(11)	2
Net future tax assets	\$ -	163

19. Lease commitments

The Company's future minimum lease payments under operating leases for the years ended September 30 are as follows:

2018	\$ 878
2019	\$ 812
2020	\$ 803
2021	\$ 503
2022	\$ 403
2023	<u>\$ 193</u>
Total	<u>\$ 3,592</u>

These future minimum lease payments relate to our German operations.

20. Contingencies

a) Industry Canada

Electrovaya has modified an earlier repayment schedule with Technology Partnerships Canada. Fixed monthly repayments of a nominal amount \$ 2 began on October 1, 2016. The monthly repayment amount for 2017 was \$3. The repayment for future years are as follows:

2018	\$29
2019	\$35
2020	\$43
2021	\$46
2022	\$46

b) Miljobil

In 2016, Miljobil agreed a payment schedule with Innovation Norway to pay \$152 (GBP 103K) and electrovaya Inc. gave \$147 (GBP 100K) guarantee as a security. Miljobil paid the last tranche in the period ended June 30, 2017. Miljobil fulfilled all its obligations to get back the guarantee from Innovation Norway. Miljobil will be wound up in the next few months, likely by the end of calendar year 2018.

c) Legal Action

The Company has been named as a party of a lawsuit filed with the Ontario Superior Court pertaining to placement fees for a private placement of securities in December 2014 and March 2015. The plaintiff is

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seeking Cnd \$300K. The Company believes the lawsuit is without merit and will vigorously defend its position.

21. Subsequent events

a) Second and final tranche of private placement

On October 04, 2017, Electrovaya raised \$556 (Cdn \$695k) through the brokered private placement of 604,347 units, with each unit consisting of 1 common share at Cdn \$1.15 and one share purchase warrant. Each share warrant is exercisable into one common share of the Company within a period of 60 months at a price of Cdn \$1.45 per share

b) Private placement and Equity Line

An existing shareholder has agreed to purchase, on a private placement basis, 3,333,333 units from the Company at a price of Cdn \$0.60 per unit, with each unit consisting of one common share and one common share purchase warrant. Each warrant entitles the holder thereof to acquire one common share at a price of Cdn \$0.73 for a period of 60 months from the date of issuance. The private placement closed December 27, 2017 for proceeds of \$2 million.

On December 19, 2017, the Company also entered into a binding term sheet for a drawdown equity facility (the "Facility") with the same existing shareholder of up to Cdn \$8,000,000 for a term of twelve months, subject to TSX approval. Under the Facility, the Company may, in one or more drawdowns, sell to the shareholder on a private placement basis, and in accordance with the terms of the definitive agreements to be entered into in respect of the Facility, that number of common shares of the Company specified in a drawdown notice at a purchase price equal to the volume-weighted average trading price ("VWAP") of the common shares on the TSX for the five trading days after the applicable drawdown notice date, provided that aggregate drawdowns in any calendar month shall not exceed Cdn \$2,000,000.

The Company may only initiate a drawdown under the Facility provided that, among other things: (i) the VWAP of the common shares on the TSX for the five trading days preceding the applicable drawdown date exceeds Cdn \$0.50 per common share; (ii) the market capitalization of the Company exceeds Cdn \$50,000,000; and (iii) the terms to any drawdown in the definitive agreements in respect of the Facility are satisfied. A minimum of ten trading days must pass between the completion of one drawdown and the initiation of another, subject to waiver by the purchaser. The Facility is subject to the entering into of definitive agreements between the purchaser and the Company.

As consideration for the purchaser's commitment under the Facility, the Company shall issue 4,000,000 common share purchase warrants to the purchaser, with each warrant being exercisable to purchase one common share at a price of Cdn \$0.74 for a period of 60 months from the date the definitive agreements governing the Facility are entered into.

c) Sale and lease of Land and Building

The Company has entered into a definitive purchase and sale agreement for its 2645 Royal Windsor Drive premises for proceeds of Cdn \$17.1 million subject to normal closing conditions.

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The Company will lease a portion of the premises for up to 9 months subject to mutual agreement. The transaction is expected to close on or around February 28, 2018.

Proceeds from the sale are anticipated to be used to repay the 1st and 2nd mortgages totaling \$5,429 and to repay the shareholder guaranteed loan of Cdn \$500k.

d) Shareholder loan

On December 4, 2017, the primary shareholder guaranteed a loan to the Company Cdn \$500K for 6 month terms at 2% interest per month fully repayable on June 01, 2018. This arrangement also carries a commitment fee of 4% deducted from the principal amount of Cdn \$500K. The Company issued a series of post-dated checks for Cdn \$10k payable from 1st of each month from January through June, 2018. The note also carries a penalty clause for payment of Cdn \$20K in the event of a default in paying the principal amount on the due date (June 01, 2018).

e) Litarion

Li-Tec Battery GmbH, the owner of the premises of Litarion in Kamenz, has given notification it will not renew the lease expiring January 31, 2018 unless certain conditions are met including payment of all rent arrears and other expenses of the premises totaling €2 million prior to January 31, 2018. It is the Company's intention to pay this amount and renew the lease. Li-Tec is ultimately controlled by Daimler, one of the founding shareholders of Litarion along with Evonik DeGussa GmbH.

f) Accommodation

In November, 2017, the amount drawn under the \$6 million revolving working capital facility exceeded the amount available under the loan agreement. The bank and the Company entered into an accommodation agreement whereby the Company could draw up to \$5 million as an overdraft facility not subject to 90% of EDC insured accounts receivable and 60% of inventory test. In exchange, the Company provided a third mortgage on land and buildings at 2645 Royal Windsor Drive of Cdn \$ 4 million charge to the bank. The accommodation agreement is for an indefinite time period but may be withdrawn at any time by the bank.