MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

Management's discussion and analysis (MD&A) provides our viewpoint on our Company, performance and strategy. "We," "us," "our," "Company" and "Electrovaya" include Electrovaya Inc. and its wholly-owned subsidiaries, as the context requires.

Our Board of Directors, on the recommendation of its Audit Committee, approved the content of this MD&A on December 2, 2008 and it is, therefore, dated as at that date. This MD&A includes the operating and financial results for the years ending September 30, 2008 and 2007, and should be read in conjunction with our Consolidated Financial Statements. It includes comments that we believe are relevant to an assessment of and understanding of the Company's consolidated results of operations and financial condition. The financial information herein is presented in thousands of US dollars unless otherwise noted, in accordance with Canadian generally accepted accounting principles. Additional information about the Company, including Electrovaya's current annual information form, can be found on the SEDAR website for Canadian regulatory filings at www.sedar.com.

Forward-looking statements

This MD&A may contain forward-looking statements that involve a number of risks and uncertainties, including statements regarding the outlook for the Company's business and results of operations. By nature, these risks and uncertainties could cause actual results to differ materially from those indicated. Such risks and uncertainties include, without limitation, the various factors set forth in the Risks and Uncertainties section of the MD&A provided below, and are also discussed in public disclosure documents filed with Canadian regulatory authorities. No assurance can be given that results, performance or achievement expressed in, or implied by, forward-looking statements within this disclosure will occur, or if they do, that any benefits may be derived from them. Electrovaya disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Our Company

Electrovaya has been in business since 1996 and became listed on the Toronto Stock Exchange under the ticker symbol "EFL" in November 2000.

Our main businesses include:

1. Electric vehicles, whereby we are developing our power-system designs for clean transportation applications.

2. Lithium Ion SuperPolymer ® rechargeable batteries such as showcased in our PowerPad ® 95, 130 and 300 series of batteries for the notebook market.

3. Aerospace and defence, which require larger power solutions, including competencies in building systems for third parties.

In addition, the Company is reviewing its initiatives and involvement in the Tablet PC market, to determine the importance of the Scribbler Tablet PC to its future business plan.

Core Capabilities

In addition to developing and acquiring approximately 167 patents and patent applications with respect to rechargeable Lithium Ion SuperPolymer® battery technology, we have approximately 150,000 square feet of manufacturing and research and development facilities capable of producing Lithium Ion SuperPolymer® materials and battery systems for numerous industries.

In April, 2008, the Company moved its U.S. office into new space at the Saratoga Technology + Energy Park ("STEP"). The Company leased approximately 7,500 square feet of office and manufacturing space to assemble battery power systems for off-road electric vehicles and pursue other alternative energy opportunities in the United States.

Electrovaya continues to spend heavily on research and development, with approximately 154% of revenue being reinvested in research and development activities during the year ending September 30, 2008.

Electrovaya also has a team of mechanical, electronic, battery and system engineers able to give clients a "complete solution" for their energy and power requirements.

Our Strategy

Our long-term success is measured by our success in building new strategic partnerships, new product creation, improved distribution channels, and enhanced technology development. Through these initiatives, our objective is to achieve significant growth in revenue, profitability and cash flow.

The Company's strategic plan involves the following key elements:

- Establish global, strategic relationships in order to broaden the market potential of Electrovaya's products and services.
- Establish additional channels to market by creating new relationships with distributors, value-added resellers and independent software vendors for our various portable power products for the mobile computing market.
- Further automate production processes to lower product costs and increase quality by using best practices manufacturing approaches and through continuous improvement initiatives.
- Invest in research and development initiatives related to new technologies that reduce the cost, but enhance the operating performance, of our current and future products.
- Develop new products that use Electrovaya's high energy density batteries to give a competitive advantage.
- Develop and commercialize leading-edge technology for zero-emission vehicles, including electric drive trains and partnering with key large organizations to bring them to market.
- Further licencing our technology in other jurisdictions where battery manufacturing costs are more favourable, or where it is essential that we are close to key markets.

Marketing and Sales

The market for rechargeable batteries is competitive. To compete successfully, we intend to continue to build on the advantages offered by our technology by adding strategic partnerships and increasing distribution capabilities through channels, including master distributors, Independent Software Vendors ("ISVs") and Value Added Resellers ("VARs"). In addition, our direct sales team is continuously prospecting new major customers, and programs are underway to increase sales though ecommerce, trade shows and other advertising initiatives.

For the mobile computing business, our focus is on such industry verticals as healthcare, insurance, sales force automation and education. For example, in healthcare, we attend trade shows, place advertisements in trade magazines and are working to establish partnerships with ISVs, VARs and distributors.

For electric vehicles, our sales and marketing efforts are based more on building partnerships with key companies and groups and presenting to, and attending, key trade shows and expositions.

For battery and engineering services sales, we believe the demand for portable energy is large in the aerospace and military sectors.

Electrovaya's products include:

- Mobile computing solutions. These consist of the PowerPad ® series of batteries, a source of power and longer run times for notebook computers and other mobile applications, as well as the Scribbler ® series of Tablet PCs with the longest run-times in the industry. Our newest PowerPad line can meet the needs of not only mobile notebook computer users, but also powers such products as the I-Pod, cell phone, PDA, Blackberry, Palm and Pocket PC.
- Batteries for aerospace and defence. These products consist of specialized battery systems and includes precision machining of metal, plastics and other materials for specific applications. These products are typically large format and with significant technological sophistication, with some component of research and development with each application.
- Clean transportation. Power systems for electric vehicles, including plug-in hybrid electric vehicle applications and pure battery electric vehicles. Projects include electric drive delivery vans, small urban vehicles and off-road vehicles.

In May, 2006, the Company entered into a fixed price agreement for $1,000 with the New York State Energy Research and Development Authority ("NYSERDA"). Under the agreement, the Company will expand its operations in New York State to develop lawn and turf off-road equipment and establish sales and service capabilities for its Scribbler Tablet products. The Company recently moved its U.S. office into new space at the Saratoga Technology + Energy Park ("STEP"). During the year ended September 30, 2007 milestone payments of $550 were received for work completed to date. A milestone payment of $220 was received during the year ended September 30, 2008.

In January, 2007, the Company announced that it had received a US$100 contract from the State of New York (New York State Energy Research Agency) to develop and demonstrate a "plug-in hybrid" concept using the Ford Escape Hybrid vehicle, using its new MN - Series Lithium Ion SuperPolymer battery® to provide a longer run time of the vehicle in pure "electric motor driven" mode, hence reducing substantially the usage of gasoline and air pollution. During the year ended September 30, 2007, the Company received a milestone payment of $32. No additional payments were received during the year ended September 30, 2008 while NYSERDA continues its testing of the plug-in hybrid.

In August 2007, Electrovaya announced that its subsidiary, Electrovaya Company, located in Ballston Spa, New York, had delivered the Ford Escape SUV Plug-in Hybrid Electric Vehicle (PHEV) to the New York State Energy Research and Development Authority (NYSERDA). This is the first Ford Escape to be converted to a PHEV by Electrovaya and to be operated and tested by NYSERDA as part of a $10 million project

aimed at converting the State's 500-plus standard hybrids to plug-in capability. NYSERDA continues to test the Ford Escape PHEV.

In September, 2007, we announced that we had received an initial order from Kongsberg Maritime, Norway, an OEM for Underwater Vehicles. We subsequently signed a five-year contract to provide our proprietary Lithium Ion Superpolymer® cells and, at the option of Kongsberg, to complete further work related to a battery pack to power the Kongsberg Maritime Underwater Vehicle. This agreement supports an initial order of USD $0.5 million, announced in September, 2007 and additional work could increase the order value to USD $0.9 million. The total revenues over the term of the agreement will depend upon the number of vehicles sold by Kongsberg.

In October, 2007, we entered into a Memorandum of Understanding ("MOU") for an advanced hybrid electric powertrain for the US Air Force Research Laboratory, totalling approximately $0.4 million.

In May, 2008, we announced the negotiation of a purchase and supply agreement related to a battery pack design and production program with Phoenix Motorcars, a California-based electric vehicle manufacturer. The program is focused on the production of integrated battery systems for Phoenix Motorcars' long-range, zero-emission, electric, sports utility vehicles ("SUVs") and sport utility trucks ("SUTs"). These battery systems will feature Electrovaya's proprietary Lithium Ion SuperPolymer(R) battery technology and integrated intelligent battery management system ("iBMS"). Phoenix Motorcars will develop and manufacture the vehicles at its facility in Ontario, California.

After initially entering into a licensing agreement with Miljobil Grenland (Miljobil") and Miljo Innovasjon AS ("Miljo") in 2007 for a license of Electrovaya's technology related to battery chemistry and the manufacture of battery modules, there was no further activity until September 2008 as Miljo/Miljobil worked to raise capital to enable it to execute their business plan. In September 2008, following an investment by Tata Motors Ltd. to acquire a controlling interest in Miljobil, Electrovaya and Miljobil entered into a new licensing agreement so that Miljobil could establish a battery plant for electric cars. The agreement provides for a mix of license fee ($US 2 million), equity in the car company ($US 500,000) and royalties based on a percentage of the sales from the battery company. Additional revenues may be available to Electrovaya for equipment and engineering services related to the new battery plant.

In November, 2008, Electrovaya entered into a number of MOU's in Beijing, China in the areas of electric cars, trucks and manufacturing equipment, including Chana International Corp. for zero-emission electric vehicles. Chana is one of the most renowned carmakers in China with headquarters in Chongqing. Chana has joint ventures with both Ford and Mazda. As part of this MOU, Electrovaya intends to roll out 30 electric cars over the next few quarters.

Research and Development

Our primary objectives are to research, develop and commercialize higher rate, high energy density and safe batteries.

We plan to continue to improve all aspects of our battery technology by partnering with key technology partners. Our research includes work on new electrodes and materials, improved processing methods, further automation of equipment, optimization of various processing unit processes, nano materials and cell fabrication processes. To support the commercialization of these products in a cost-effective manner, we are also developing a high-speed production capability for high-rate and high energy cells.

For those markets where large power systems are required, we are also developing large format cells and battery management systems and high efficiency electronics.

Through continuous improvements to our technology, we intend to continue to improve the energy density of our products, promote such advances into production and achieve a cost structure that enables us to be competitive.

In January, 2007 the Company announced the launch of its "MN-Series" Lithium Ion SuperPolymer® battery technology. The MN-Series Lithium Ion SuperPolymer® technology complements Electrovaya's existing roster of Phosphate-Series and (industry standard) Cobaltate-Series Lithium Ion SuperPolymer® technology solutions. The MN-Series, which is a Lithiated Manganese Oxide based system, distinguishes itself with up to 50% higher energy density. Electrovaya is phasing out its batteries which use cobalt oxide as the cathode, and moving to newer materials including mixed oxides.

Overall Performance and Selected Financial Information

Unless otherwise indicated, all comparisons for the year ended September 30, 2008 are to the year ended September 30, 2007, and all comparisons to the fourth quarter of fiscal 2008 are to the fourth quarter of fiscal 2007.

The Company has reported a current-period operating and cash flow loss and has a history of operating and cash flow losses. During the quarter ended March 31, 2006, the Company completed its regular impairment analysis which indicated that the estimated undiscounted future cash flows generated by the capital assets were less than their carrying values. The carrying values of the capital assets were therefore reduced to fair market value, with a resulting capital assets write-down of $4,020. Where possible, management estimated fair market value using third party appraisals.

The Company reviews capital assets subject to amortization for impairment on an annual basis or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable in accordance with the accounting standard CICA Handbook Section 3063 "Impairment of Long-Lived Assets." An impairment loss is recognized

when the carrying amount of an asset that is held and used exceeds the projected undiscounted future net cash flows expected from its use and disposal, and is measured as the amount by which the carrying amount of the asset exceeds its fair value, which is measured by discounted cash flows when quoted market prices are not available. No additional capital asset write-downs were made during the most recent year.

Years ended September 30, 2008, 2007 and 2006

i) Financial Condition

($ thousands)	2008	2007	2006
Cash & Cash Equivalents	4,934	7,247	10,150
Total Assets	12,653	16,630	19,064
Total Long Term Liabilities [(a)]	-	260	307
Shareholders' Equity	10,144	14,867	17,503

*(a) Additional potential long-term financial liabilities are described below (See **Financial Condition - TPC Contribution Agreement**)*

Our cash utilization from 2006 to 2007 was approximately $2.9 million and from 2007 to 2008 was $2.3 million.

Cash & Cash Equivalents held in US dollars were approximately $2.5 million as at September 30, 2008, $4.2 million as at September 30, 2007 and $3.2 million as at September 30, 2006.

ii) Results of Operations and Cash Flow

($ thousands)	2008	2007	2006
Revenue	$ 2,541	$ 2,344	$ 3,358
Revenue, Less Direct Manufacturing Costs	1,160	(1,007)	149
Loss Before Interest, Taxes and Amortization	3,935	3,573	3,918
Net Loss	4,055	4,641	7,940*
Basic and Diluted Loss per Share	0.06	0.07	0.11
Cash flow from Operating Activities	$ (1,708)	$ (3,741)	$ (3,353)

* *Includes a non-recurring, non-cash capital asset writedown of $4,020 and a one-time gain on the sale of an investment for $892.*

The Company has reviewed its operations and determined that it operates in one business segment and has only one reporting unit. The Company develops, manufactures and markets portable power technology products.

Revenue derived from US customers in US dollars, as a percentage of the Company's revenue, was approximately 49% in 2008, 65% in 2007 and 77% in 2006. Revenue increased for the 12 months ending September 30, 2008, compared to the same period in 2007, due to an increase in Services* revenue.

For the years ended September 30, 2008, 2007 and 2006, revenues from major business activities were as follows:

	2008	2007	2006
Services*	$1,313	$ 691	891
Consumer electronics	993	1,491	2,438
Other	235	162	29
	$ 2,541	$ 2,344	$ 3,358

** Described as "Large Format Batteries" beginning the quarter ending June 30, 2008 to better reflect actual activities.*

For the years ended September 30, 2008, 2007 and 2006, revenues attributed to regions based on location of customer were as follows:

	2008	2007	2006
Canada	$ 516	$ 369	398
United States & Others	2,025	1,975	2,960
	$ 2,541	$ 2,344	3,358

The fluctuation in exchange rates has resulted in an increase in labour and manufacturing overhead production costs and other expenses, as these expenses are in Canadian dollars.

Operating losses reduced from 2006 to 2007 due to lower research and development expense levels, lower spending on sales and marketing, a reversal of overprovisions for warranty expenses in earlier quarters and lower general & administrative expenses. Much of the equipment originally acquired to begin manufacturing operations in 2001 is almost completed depreciated, resulting in a decline in amortization from 2006 to 2007. Operating losses before amortization increased from 2007 to 2008 because of a significant increase in spending on research and development activities related to cell modules and systems.

The Company has not paid a dividend since inception.

Results of Operations

Use of Estimates

In preparing the financial statements in conformity with generally accepted accounting principles, management makes estimates and assumptions that affect the reported amounts of sales returns, bad debt reserves and warranty accruals at the date of the financial statements.

The Company's existing policy allows for sales returns ranging from 15 days for direct sales to end users to longer periods for sales to key distributors. Sales returns are estimated at the time of delivery based on past experience and customer specific factors. Each quarter, a provision for sales returns is determined based on the actual experience for the most recent four quarters. Sales returns are applied against revenue for the Scribbler ® and PowerPad ® products, and represented approximately 4.2% of revenue from consumer electronics for the year ended September 30, 2008.

The Company reviews its outstanding accounts receivable on a regular basis. Bad debts are determined based on the ageing of accounts receivable where such amounts are not insured and considered uncollectible.

Warranty accruals are based on the actual warranty experience rate for the past year for each product group and sales during the most recent warranty period. These amounts are reviewed quarterly and included in sales and marketing expenses. Warranty provisions, excluding the impact of foreign exchange, represented approximately 2.2% of consumer electronic sales for the year ended September 30, 2008. 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.

Going concern

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a "going concern", which assume the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. If the "going concern" assumption is not appropriate, then material adjustments may be necessary in the carrying amounts and/or classifications of assets and liabilities in the Company's financial statements.

Revenue

Revenues are derived from the sale of PowerPad® and Scribbler ® Tablet PC products, as well as from machines built for third parties, sales of custom batteries and from services provided for research and development activities. During the previous quarter, the Company changed the description of “Services” revenue to “Large Format Batteries” revenue to better reflect its actual activities.

Revenue from product sales is recognized upon shipment, since persuasive evidence of an arrangement exists, risks and rewards of ownership have been transferred to customers, selling price is fixed and determinable, and collectibility is reasonably assured. Estimated returns and allowances and sales rebates are recorded as a reduction of revenue at the time of revenue recognition. In addition, the Company provides for the estimated cost of standard product warranties at the time of revenue recognition.

The Company primarily uses a binding purchase order as evidence of its product sales arrangements and, with respect to its service arrangements, uses contractual agreements. The Company considers delivery to occur upon shipment, provided risks and rewards of ownership, including transfer of title, have passed to the customer. At the point of sale, the Company assesses whether collection is reasonably assured. If the Company determines that collection is not reasonably assured, the Company defers recognition of the revenue until collection becomes reasonably assured, which is generally upon receipt of cash. Where an estimate of the potential sales returns cannot be made, the recognition of revenue does not occur until the distributor has sold the product.

Revenue from large format batteries provided to third parties under contracts is recognized as services are performed and as each milestone in the contract is achieved and accepted by the customer.

Revenue from custom machine-building is recognized on a percentage of completion method of accounting for contracts. Under such contracts, revenue is recognized based on the ratio of total costs incurred to date to overall estimated costs. Provisions for estimated losses on contracts are recognized when identified.

For the three month period ended September 30, 2008, total revenue increased by 16.8% to $0.65 million from $0.56 million for the quarter ended September 30, 2007. The increase in total revenue primarily resulted from a net increase in service revenue offset by a decrease in consumer electronics revenue.

Quarterly revenue is as follows:

($ thousands)	**Q1**	**Q2**	**Q3**	**Q4**
2008	$ 495	$ 476	$ 916	$ 654
2007	$ 502	$ 806	$ 476	$ 560
2006	$ 588	$ 855	$ 1,002	$ 913

For the twelve month period ended September 30, 2008 and 2007, revenue was $2,541 and $2,344, respectively. The $197 or 8.4% increase was primarily due to an increase in service revenue.

During 2008, three customers represented 59% (2007 – three customers represented 47%) of total revenue and 85% (2007 - 52%) of accounts receivable.

Continued advances in technology and a highly competitive market are more significant factors than general inflationary conditions and specific price changes when considering major impacts on revenue.

Management is not aware of any seasonal fluctuations in revenue.

Expenses

Direct Manufacturing Costs and *Revenue, less Direct Manufacturing Costs. Direct Manufacturing Costs* are comprised of the material, labour and manufacturing overhead, excluding amortization, associated with the production of SuperPolymer® batteries and the Scribbler ® Tablet PC, machine building for third parties and research service revenues.

For the quarter ended September 30, 2008, direct manufacturing costs decreased by 112.6% or $474 to $(53) from $421 for the quarter ended September 30, 2007 due to higher margin on large format battery revenue and an increased focus on consumer electronic products with better margins, reallocation of overheads to research and development expenses and reversal of provison for stock obsolescence and reduced purchase cost.

For the twelve months ended September 30, 2008 and 2007, direct manufacturing costs were $1,381 and $3,351 respectively. The $1,970, or 58.8% decrease was primarily a result of lower cost of sales on service income and overhead costs, favourable production variances, material revaluations and reversal of provision for stock obsolescence.

Revenue less Direct Manufacturing Costs was a profit of $707 for the three months ended September 30, 2008 compared to $139 for the three months ended September 30, 2007.

For the twelve months ended September 30, 2008 and 2007 respectively, Revenue less Direct Manufacturing Costs was $1,160 or 45.7% of revenue and $(1,007) or (43. 0%) of revenue, respectively. In the current year, the Company benefited from more profitable service revenue and lower overhead costs, favourable production variances, material revaluations and reversal of provision for stock obsolescence and reduced purchase cost due to sourcing of materials directly from China.

Research and Development. Research and development expenses consist primarily of compensation and premises costs for research and development personnel and activities,

including independent contractors and consultants, direct materials and allocated overhead.

Research and development expenses, net of investment tax credits (ITC), increased by $335 or 36.1% to $1,264 for the quarter ended September 30, 2008 from $929 for the same three month period in 2007 primarily due to increased spending and reallocation of more resources to research activities related to cell modules and systems.

During the three month period ended September 30, 2008, the Company received no government assistance and during the period ended September 30, 2007, the Company received cash contributions of $244 from Technology Partnerships Canada (TPC). An Ontario ITC of $198 was accounted for during the current quarter of the fiscal year ended September 30, 2008.

Compared to the twelve month period ending September 30, 2007, research and development expenses increased by $1,845 or 89.5% from $2,061 to $3,906 during the twelve month period ending September 30, 2008. The increase was primarily due to a increased allocation of salaries and benefits, overhead expenses, higher consulting expenses and higher material costs. Certain R&D activities related to battery packs and systems have been completed, resulting in the sale of prototypes. These costs have been included in direct manufacturing costs.

Sales and Marketing. Sales and marketing expenses are comprised of the salaries and benefits of sales and marketing personnel, marketing activities, warranty provisions, advertising and other costs associated with the sales of Electrovaya's product lines.

For the quarters ended September 30, 2008 and 2007, sales and marketing expenses were $113 and $83, respectively. The $30 or 36.1% increase was primarily due to an increase in consulting fees as compared to the same quarter in the prior year.

For the twelve months ended September 30, 2008 and 2007, sales and marketing expenses were $500 and $346, respectively. The $154 or 44.5% increase was primarily due to an increase in consulting fees.

Warranty expense. During the quarter ended September 30, 2008, warranty expenses increased by $155 compared to the prior year due primarily due to reversal of warranty provisions during the quarter ending September 30, 2007 on products where the warranties have expired.

For the twelve months ended September 30, 2008 and 2007, warranty expenses were $22 and $(229) due to reversal of warranty provision in the previous year.

*General and Administrativ*e. General and administrative expenses include salaries and benefits for corporate personnel, insurance, professional fees, reserves for bad debts and facilities expenses. The Company's corporate administrative staff includes its executive

officers and employees engaged in business development, financial planning and control, legal affairs, human resources and information technology.

For the quarters ended September 30, 2008 and 2007, general and administrative expenses were $439 and $308, respectively. The $131 or 42.5% increase was primarily due to an increase in salaries and utilities expenses as compared to the same quarter in the prior year

For the twelve months ended September 30, 2008 and 2007, general and administrative expenses were $1,503 and $1,562, respectively. The $(59) or (3.8%) decrease was primarily due to decrease in salaries and benefit, insurance expenses, audit and legal expenses.

Net Loss

Quarterly net losses are as follows:

($ thousands)	**Q1**	**Q2**	**Q3**	**Q4**
2008	$ 1,392	$ 694	$ 1,070	$ 899
2007	$ 657	$ 1,167	$ 1,581	$ 1,236
2006	$ 1,193	$ 5,462	$ 805	$ 480
2005	$ 1,952	$ 2,360	$ 1,210	$ 800

The significant decrease in the net loss from the fourth quarter of fiscal 2008 to the fourth quarter of fiscal 2007 is primarily due to 1) a significant increase in revenue, 2) a decrease in direct manufacturing costs, 3) a decrease in amortization costs, and 4) an increase in foreign exchange gains offset by 1) a significant increase in research and development costs, 2) an increase in sales and marketing costs, 3) an increase in general and administration costs and 4) a decrease in interest income.

Quarterly net losses per share are as follows:

($ thousands)	**Q1**	**Q2**	**Q3**	**Q4**
2008	$ 0.02	$ 0.01	$ 0.02	$ 0.01
2007	$ 0.01	$ 0.02	$ 0.02	$ 0.02
2006	$ 0.02	$ 0.07	$ 0.01	$ 0.01
2005	$ 0.03	$ 0.03	$ 0.02	$ 0.01

Liquidity and Capital Resources

As of September 30, 2008, the Company had $4.9 million in cash and cash equivalents, a decrease of $0.2 million compared to $5.1 million as at June 30, 2008 and a decrease of $2.3 million compared to $7.2 million as at September 30, 2007.

Cash used in operating activities was $1.7 million for the year ended September 30, 2008 compared to $3.7 million for the year ended September 30, 2007. Net cash used in operating activities during fiscal year 2008 primarily reflects the operating loss of $4.1 million, related party obligations of $0.3 million offset by non-cash operating working capital of $1.5 million, amortization of $0.6 million, stock compensation expense of $0.2 million and related party receivables of $0.2 million.

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

2009	$134
2010	$138
2011	$141
2012	$142
2013	$ 71
Total	$626

There were no material changes in specified contractual commitments during the quarter.

The Company is currently reviewing its requirements for additional capital resources and no commitments exist at the present time. In addition to discussions with various Government agencies concerning the potential funding of certain research and development and pre-commercialization activities, the Company is, on a regular basis investigating potential funding from other public and private sources.

The authorized and issued capital stock of the Company consists of an unlimited number of Common shares as follows:

	Number	Amount (US $ '000)
Balance, September 30, 2005, 2006, 2007, December 31, 2007 , March 31, 2008 ,June 30, 2008 and September 30, 2008.	69,575,442	63,745

The following table reflects the number of options outstanding as at December 31, 2005, March 31, 2006, June 30, 2006, September 30, 2006, December 31, 2006, March 31, 2007, June 30, 2007, September 30, 2007, December 31, 2007, March 31, 2008, June 30, 2008 and September 30, 2008:

Outstanding, December 31, 2005	3,388,937
Cancelled or expired	(10,000)
Outstanding, March 31, 2006	3,378,937
Cancelled or expired	(179,666)
Outstanding, June 30, 2006	3,199,271
Cancelled or expired	(5,000)
Outstanding, September 30, 2006	3,194,271
Cancelled or expired	(18,333)
Outstanding, December 31, 2006, March 31, 2007, June 30, 2007 and September 30, 2007	3,175,938
Granted	700,000
Outstanding, December 31, 2007 and March 31, 2008	3,875,938
Cancelled or expired	(31,667)
Outstanding, June 30, 2008 and September 30, 2008	3,844,271

Transactions with Related Parties

a) In August 2005, the Company purchased all of the issued and outstanding shares of 1020204 Ontario Limited ("102") from its two principal shareholders at the time, Dr. Sankar Das Gupta, who is a director and officer of the Company and Dr. James Jacobs who was an officer of the Company. Electrovaya Inc. then transferred all of its shares in Electrovaya Corp. to 102 in exchange for shares of 102. 102 and Electrovaya Corp. then completed a statutory vertical amalgamation and continued as Electrovaya Corp. (the "amalgamation transaction"). The amalgamation transaction was accounted for based on CICA Handbook Section 3840, Related Party Transactions at the exchange amounts of the assets and liabilities transferred as there was a substantive change in the ultimate unrelated parties' ownership interests in the subsidiaries. In addition, the Company had obtained independent evidence on the exchange amounts involved in the amalgamation transaction. An independent committee of the Board was constituted to review the amalgamation transaction.

Upon amalgamation, the Company received $509 of cash and assumed a liability of $77 relating to interest payable on an income taxes liability of 102. The offset to the $432 of net assets assumed had been recorded as a credit to income tax recovery in the statement of operations for the fiscal year ended September 30, 2005. In addition, as at September 30, 2005, Electrovaya Corp carried back income tax losses of $4,787, eliminating a $1,148 income tax liability of 102. This transaction had no impact on the

statement of operations as a full valuation allowance had been recorded against the income tax losses. In August, 2007, 102 received a Notice of Reassessment for a tax liability of approximately $498 (including accumulated interest) relating to the sale of property by 102 prior to the amalgamation with Electrovaya Corp. A final collection notice was received in December, 2007 and a lien was placed by the Ministry of Revenue on Electrovaya Corp's assets in January 2008 as security for the outstanding amount. Pursuant to the terms of the share purchase agreement, the former shareholders of 102 were required to indemnify Electrovaya in respect of the full amount, including legal and administrative expenses of any resulting tax liability. A settlement agreement has been reached between the former shareholders of 102, their tax advisors and the Company. The Board has also approved a one-time payment of $100 by the Company to the Ministry of Finance to finalize the matter.

b) During the year ended September 30, 2008, the Company paid $219 (2007- $200) to a director of a wholly owned subsidiary company for services rendered to the Company in his capacity as an executive officer. During the year ended September 30, 2008, the Company paid $247 (2007 - $260) to the Chief Executive Officer, who is also a controlling shareholder of the Company. Since the payments to the CEO are fixed and made in Canadian dollars while the Company reports in US dollars, the difference is attributable to the change in exchange rates.

c) Pursuant to a termination of employment agreement between the Company and the co-founder and former Chief Technology Officer of the Company, the Company is obligated to pay 130 biweekly instalments totalling $448 beginning September 2006. In the event of a change in control, insolvency or wind-up of the Company, all amounts become due and payable immediately. The Company has accounted for the present value of the expected future payments of $394 as a charge to income during the year ended September 30, 2006. Pursuant to the settlement agreement reached with the former shareholders of 102, payment of this amount now has been postponed as part of the repayment of the tax liability described above.

d) During the year ended September 30, 2006, the Company was served with a Statement of Claim for $1,100 by an executive officer related to an automobile accident involving one of the Company-owned automobiles. The Company is fully insured for the amount of the claim.

Financial Condition

Current Assets. Cash and cash equivalents consist of investments with maturities of less than 90 days. Short-term investments include banker acceptances, commercial paper and term deposits with maturities of up to 90 days. Inventories include raw materials, semi-finished and finished goods.

Cash, cash equivalents and short-term investments decreased by $2.3 million from September 30, 2007 to September 30, 2008.

Capital assets. Approximately $0.2 million of patent and technology capital assets were acquired during the fiscal year 2008.

Current Liabilities. Accounts payable and accrued liabilities were $2.5 million as at September 30, 2008 as compared to $1.5 million as at September 30, 2007.

TPC Contribution Agreement. During the fiscal year 2008 the Company received contributions totaling approximately $0.6 million from TPC.

On March 31, 2003 the Company entered into an agreement with the Technology Partnerships Canada ("TPC") initiative of Industry Canada, whereby TPC agreed to fund up to 29.7% of eligible costs related to the Company's research and development efforts in high rate batteries, up to a maximum amount of Cdn$ 10 million (US $10 million) during the work period beginning in January 2002, and ending by September 2007. Under the terms of the agreement, an amount up to a maximum of Cdn $31.1 million is to be repaid by royalties charged on new revenue created from products developed, commencing in 2007 through to 2013, with payment to be deferred or reduced if certain revenue thresholds are not achieved. During the quarter ended September 30, 2003, the Company received $1.1 million related to eligible research and development expenses for the period from January 1, 2002 to March 31, 2003. Additional claims for $0.7 million were received in fiscal 2004. During fiscal year ended September 30, 2005, the Company received a total of $0.7 million from TPC. Contributions for fiscal year ended September 30, 2006 were $1.1 million and $ 0.7 million was received for the year ended September 30, 2007.

SDTC Contribution Agreement. In July, 2005, the Company became eligible for a Cdn $1,700 grant from SDTC towards a Cdn $5,100 project related to the development and demonstration of Electrovaya's Lithium Ion SuperPolymer® Battery for application in zero-emission commercial fleet vehicles.

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. Under the terms of the agreement SDTC shall pay the lesser of 33% of the eligible project costs or Cdn $ 1,700, the contribution shall not

exceed 50% of the eligible project costs and the Company or consortium members, or both, shall provide at least 25% of the project costs in cash, in-kind goods or services or a combination of both. SDTC shall not have any obligation to pay the contribution unless the Company has obtained a commitment and has the financial capacity to finance all the costs related to the entire project.

The project is divided into three milestones, and the first milestone was completed by July 31, 2006. The second milestone was originally budgeted to be completed in the quarter ended June 30, 2007 but the Company has requested SDTC to extend tenure of the project due to certain constraints. The second milestone is likely to be extended further to February 2009 from the current due date of April 2008. The third milestone completion date is yet to be determined. (original completion date of January 2008).

A cash contribution of $447 was received by the company during the quarter ended December 31, 2006 (2005-NIL) for work to be completed for the second milestone. Further contributions of $194 was received by the Company during the quarter ended June 30, 2008.

During the fiscal year 2006 the Company received contributions totaling $472 from SDTC (2005 – NIL) for Milestone 1. Cumulative claims of $1,113 have been received as at September 30, 2008 from SDTC.

Share capital. The authorized and issued capital stock of the Company remained unchanged from September 30, 2007. Of an authorized unlimited number of Common shares, 69,575,442 or $63.7 million are issued and outstanding.

Present Status

During the fiscal year ended September 30, 2008, the loss before amortization, interest income and foreign exchange increased by $362 or 10.1% compared to the fiscal year ended September 30, 2007.

Recent Accounting Pronouncements

(i) Comprehensive Income

Effective October 1, 2006, the Company adopted CICA Handbook Section 1530, Comprehensive Income. Comprehensive income is composed of the Company's net earnings and other comprehensive income. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners.

(ii) Financial Instruments – Disclosures

Effective October 1, 2007, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants' Handbook Section 3862, Financial Instruments – Disclosures.

The recommendations in Section 3862, Financial Instruments – Disclosures, increases the disclosures currently required that will enable users to evaluate the significance of financial instruments for an entity's financial position and performance, including disclosures about fair value. In addition, disclosure is required of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about liquidity risk and market risk. The quantitative disclosures must also include a sensitivity analysis for each type of market risk to which an entity is exposed, showing how net income and other comprehensive income would have been affected by reasonable possible changes in the relevant risk variable.

(iii) Financial instruments – Presentation

Effective April 1, 2008, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants' Handbook Section 3863, Financial Instruments – Presentation. Handbook Section 3863, Financial Instruments – Presentation, replaces the existing requirements on presentation of financial instruments which have been carried forward unchanged to this new section.

The following definitions are used in the presentation and disclosures regarding Financial Instruments in which the Company engages as part of its normal operations.

Fair Value

The fair value of cash and cash equivalents, accounts receivable, other receivables, investment tax credits recoverable, accounts payable and accrued liabilities, and deferred revenue approximate their carrying values due to the relatively short term maturities of these instruments.

Capital risk

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 shareholder's equity and depends on the underlying profitability of the Company's operations.

Credit risk

Credit risk is the risk that a client or vendor will be unable to pay or receive any amounts owed or owing by the Company. Management's assessment of the Company's risk is low as it is primarily attributable to money market funds held in Canadian banks, trade accounts receivables and Goods and Service Tax due from the Federal Government of Canada which is included in amounts receivable. The Company manages its credit risk by establishing procedures to establish credit limits and approval policies.

Liquidity risk

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due. 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 on fulfilling 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.

Interest rate risk

The Company has cash balances and has interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The present value of the debt and the associated interest payments are approximately the same, hence no discount has been applied to the debt.

Foreign currency risk

The Company's functional currency is the United States dollar and a majority of its revenue is derived from that source. The major purchases are transacted in Canadian dollars as the Company operations are located primarily in Canada. Therefore, management believes the foreign exchange risk derived from any currency conversions may have a material effect on the results of its operations.

Price risk

The Company is exposed to price risk with respect to the price of its products as the Company has a few key competitors.

Sensitivity analysis

The Company has designated its cash and short-term investments as held-to-maturity; which are measured at cost using the effective interest method. Financial instruments included in amounts receivable are classified as accounts receivable, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other

financial liabilities, which are measured at amortized cost. As at September 30, 2008, the carrying and fair value amounts of the Company's financial instruments are not materially different.

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are reasonably possible over a twelve month period. The Company has no short-term investments as at September 30, 2008 exceeding 90 days. Therefore, a change in interest rates, will not have any significant impact on the Company relating to the holding of these investments.

The Company does have significant, but not material, reserves of foreign currency that would give rise to exposure to foreign exchange risk. Therefore a percentage change in foreign exchange rates may have a significant, but not material, impact on the Company.

(iv) Capital disclosures

Effective October 1, 2007, the Company adopted CICA Handbook Section 1535 Capital Disclosures. Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. The Company has included disclosures recommended by the new Handbook section to these financial statements as described more fully below.

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 products which the Company is currently developing and maintaining are in the early stages; as such the Company is dependent on external financing and government financing to fund its activities. In order to carry out the planned development, improve production capacity and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed.

The Company will continue to assess new products and seek to acquire an interest in additional products if it feels there is sufficient economic potential and if it has adequate financial resources to do so. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There is no change in the Company's approach to capital management during the quarter ended September 30, 2008.

Goodwill and Intangible Assets

In February 2008, Canadian Institute of Chartered Accountants issued Handbook Section 3064, *Goodwill and intangible assets*, replacing Handbook Section 3450, *Goodwill and other intangibles* and Handbook Section 3450, *Research and development costs*. Various changes have been made to other sections of the Canadian Institute of Chartered Accountants Handbook for consistency purposes. The new sections establish standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit oriented enterprises. This new standard is applicable to fiscal years beginning on or after October 1, 2008. The Company will implement this standard on October 1, 2008. The Company has not evaluated the impact this new standard will have on its financial statements.

International Financial Reporting Standards ("IFRS")

In February 2008, the Canadian Accounting Standards Board confirmed that the use of International Financial Reporting Standards ("IFRS") will be required for fiscal years beginning on or after January 1, 2011 for publicly accountable profit-oriented enterprises. IFRS will replace Canada's current generally accepted accounting principles. Companies will be required to provide comparative IFRS information for the previous fiscal year. The Company anticipates implementation of these standards in its first quarter of fiscal year 2012 and is currently evaluating the impact of their adoption on its consolidated financial statements.

Inventory

Effective on or after October 1, 2008, the Company adopted the Canadian Institute of Chartered Accountants Handbook Section 3031*, Inventory*. The adoption of this new inventory standard requires changes for accounting of inventory including the requirement to allocate overhead costs based on normal production levels and changes to the definition of net realizable value. The adoption of the new standard did not have a material impact to the Company's financial statements.

The new inventory standard clarifies the definition of 'cost' to include all costs of purchase, costs of conversion and other costs incurred to bringing the inventories to their present location and condition. As a result, companies are required to systematically allocate fixed and variable production overheads that are incurred in converting materials into finished goods. The allocation of fixed production overheads is based on normal production capacity of the production facilities. In addition, the standard requires companies to assess the recoverability of inventory costs in comparison to net realizable value. Declines in replacement cost below carrying values for raw materials inventories do not require write downs if the finished goods in which they will be incorporated are

expected to be sold at or above cost. There was no impact of this change to the financial statements of the Company.

Qualitative and Quantitative Disclosures about Risks and Uncertainties

Interest Rate Risk

As of September 30, 2008, the Company had cash, cash equivalents and short-term investments totaling $4.9 million. All short-term investments have maturities that are less than 90 days and consist of bankers acceptances which are not influenced by fluctuating interest rates.

Foreign Currency Exchange Rate Risk

In the fiscal year ended September 30, 2008, approximately 49% of the Company’s revenue was derived from U.S. customers in U.S. dollars. The Company expects that the majority of its sales will, in the future, be made in U.S. dollars and that in the short term, the majority of its expenses will be denominated in Canadian dollars. As of September 30, 2008, $2.5 million of cash, cash equivalents and short-term investments were denominated in U.S. dollars. Fluctuations in the exchange rate between the Canadian dollar and the U.S. dollar may therefore have a material effect on results of operations. The Company does not currently engage in currency hedging activities

Credit Risk

The Company manages its credit risk with respect to accounts receivable by establishing and implementing credit limits and approval policies, as well as dealing primarily with large creditworthy customers. It has also insured its accounts receivable.

Disclosure Control Risks

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by the Company is accumulated and communicated to our management as appropriate to allow timely decisions regarding required disclosure. The Company's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation of the effectiveness of our disclosure controls and procedures as of the date of this Management’s Discussion and Analysis, that disclosure controls and procedures provide reasonable assurance that material information is made known to them by others within the Company. Certain weaknesses, however, have been identified and the Company's Chief Executive Officer and Chief Financial Officer do not expect that the disclosure controls and procedures will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Internal Control Risks

The Chief Executive Officer and Chief Financial Officer of the Company are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. The design of our internal control over financial reporting was assessed as of the date of this Management's Discussion and Analysis.

The Company relies on entity-wide controls and programs including written codes of conduct and controls over initiating, recording, processing and reporting significant account balances and classes of transactions. Other controls include centralized processing controls, including a shared services environment and monitoring of operating results.

The weaknesses in the Company's internal controls over financial reporting, discussed below, result in a more than remote likelihood that a material misstatement would not be prevented or detected. Management and the board of directors work to mitigate the risk of a material misstatement in financial reporting, however, there can be no assurance that this risk can be reduced to less than a remote likelihood of a material misstatement.

1. Segregation of Duties:

Control deficiencies have been identified within the Company's accounting and finance departments and its financial information systems over segregation of duties and user access respectively. Specifically, certain duties within the accounting and finance departments were not properly segregated due to the small number of individuals employed in these areas. In addition, the Company identified instances whereby personnel had the ability to initiate transactions or accounting entries within certain financial reporting applications that were not compatible with their other roles and responsibilities. None of the segregation of duty or access control deficiencies has resulted in a misstatement to the financial statements. However, these deficiencies may be considered a material weakness resulting in a more-than remote likelihood that a material misstatement of the Company's annual or interim financial statements would not be prevented or detected.

As the Company incurs future growth, we plan to expand the number of individuals involved in the accounting function. At the present time, the CEO and CFO oversee all material transactions and related accounting records. In addition, the Audit Committee reviews on a quarterly basis the financial statements and key risks of the Company and queries management about significant transactions, there is a quarterly review of the company's financial statements by the Company's auditors and there is daily oversight by the senior management of the Company.

2. Information Technology General Controls:

The Company has determined that many of its information systems are subject to general control deficiencies. Although these have not resulted in a misstatement of the financial statements, when aggregated, these represent a material weakness in the Company's control environment because of the pervasiveness and significance of the deficiencies. Specifically, these deficiencies are as follows:

- Change management procedures were not well defined and implemented;
- Access controls were not well maintained.

The Company has now documented change management procedures and implemented new access control procedures including regular password changes and review of existing access authority levels and personnel to mitigate these risks.

3. Income Taxes:

On a quarterly basis, the Company makes the necessary provision for income tax and other tax related expenses. Income tax is a highly technical area that requires an in-depth understanding of federal, provincial and state tax laws and the Company's accounting staff has only a fair and reasonable knowledge of the rules related to income tax accounting and reporting. Although these have not resulted in a material misstatement of the financial statements, this lack of knowledge represents a material weakness in the Company's control environment as a material error relating to income tax accounting or disclosure could go undetected.

To address this risk, the Company consults with its third party expert advisors on a regular basis for advice, and also has quarterly reviews of the financial statements completed by the Company's auditors. The quarterly reviews and annual audit are presented to the Audit Committee for its review and approval.

As the Company grows, we plan to expand the number of individuals involved in the accounting function who have an enhanced level of tax knowledge.

4. Complex and non-routine transactions

As required, the Company records complex and non-routine transactions. These sometimes are extremely technical in nature and require an in-depth understanding of Generally Accepted Accounting Principles ("GAAP"). The Company's accounting staff has only a fair and reasonable knowledge of the rules related to GAAP and reporting and the transactions may not be recorded correctly, potentially resulting in material misstatement of the financial statements of the Company.

To address this risk, the Company consults with its third party expert advisors as needed in connection with the recording and reporting of complex and non-routine transactions. In addition, quarterly reviews of the financial statements are completed by the

Company's auditors, and an annual audit is completed and presented to the Audit Committee for its review and approval. During such reviews and audits, material misstatements detected are corrected by the Company. As the Company incurs future growth, we plan to expand the technical competence of the individuals involved in the accounting function.

Other Risks and Uncertainties

Electrovaya is an early-stage developmental company with revenues from its commercialization efforts. The Company is facing corresponding risks, expenses and difficulties that may affect its outlook and eventual results of its business and commercialization plan.

Electrovaya may not be able to establish anticipated levels of high-volume production on a timely, cost-effective basis or at all. It has never manufactured batteries in substantially large quantities and it may not be able to maintain future commercial production at planned levels. Additionally, if it is unable to maintain an adequate supply of raw materials or components, its costs could increase or its production could be limited. Because of the above or similar other reasons, Electrovaya may not be able to fulfill new sales purchase orders or deliver them in a timely manner.

Electrovaya has taken a number of steps to offset these risks:

- Its manufacturing process is modular and flexible.
- Its high-volume facility utilizes machinery and equipment that is similar to the machinery and equipment that it has already designed, built and used in its pilot production plant. Since the introduction of its PowerPad®, it has successfully produced finished products in its pilot and commercial plants, resulting in increasing levels of sales.
- It has formalized supply arrangements with suppliers to ensure that raw materials required for high-volume production are available at a reasonable cost and on a timely basis.
- It has more than one supplier for critical raw materials and components.
- Its production team plans to increase staff and upgrade the production machinery to make it easier to fulfill sales purchase orders in a timely manner.

Until the establishment of multiple plants, Electrovaya will be dependent upon the operation of a single manufacturing facility and accidents or other operational problems at this facility, or at neighbouring facilities operated by other businesses, could affect its ability to deliver product to its customers and therefore its ability to generate revenues. In addition, it may be subject to environmental liabilities at its facilities, which could result in material expense and adversely affect its ability to sell or finance its facilities.

Electrovaya's plant has been established in a modular manner in such a way that production may continue in the event of non-catastrophic operational problems. In addition, it has adopted a formal environmental policy that requires compliance with

environmental legislation and an ongoing program of monitoring its environmental compliance.

The Company recently moved its U.S. office into new space at the Saratoga Technology + Energy Park ("STEP").

Electrovaya relies upon manufacturers in Taiwan to produce the Scribbler ® Tablet PC and has no long-term supply contracts with them.

There are numerous suppliers in Taiwan and throughout Asia capable of producing a tablet PC and it is possible to arrange alternative sources of manufacturing, however, this may require additional time and resources, thereby straining the capacity of the Company.

Electrovaya does not have a collaborative partner to assist it in the development of its batteries, which may limit its ability to develop and commercialize its products on a timely basis. Furthermore, it will continue to incur significant costs and invest considerable resources designing and testing batteries for use with, or incorporation into, specific products. Significant revenue from these investments may not be achieved for a number of years, if at all. Moreover, these batteries may never be profitable and even if they are profitable, operating margins may be low.

The development by the Company of new applications for its rechargeable batteries is a complex and time-consuming process. New battery designs and enhancements to existing battery models can require long development and testing periods. Significant delays in new product releases or significant problems in creating new products could negatively impact the Company's revenues.

Electrovaya believes that the formation of strategic partnerships will be critical for the Company to meet its business objectives. It will continue to seek arrangements with potential partners to mitigate development and commercialization risks going forward, balanced by its objective to maximize market share and penetration by not entering into exclusivity arrangements with a single partner.

Electrovaya may not be able to compete effectively with other manufacturers of compact or large format rechargeable batteries. There is also the possibility its competitors may develop portable power technologies that match or outperform the SuperPolymer® technology, which may diminish the demand for the Company's products. In addition, innovations in the design of portable computer, wireless devices and various power systems may reduce the need for its batteries.

The market for rechargeable batteries is competitive. Electrovaya believes it is well positioned to compete in the market for compact rechargeable batteries, which is already very large and growing rapidly. There are currently eleven or more principal competitors, primarily well capitalized companies based in China, Japan and Korea, which have in aggregate a dominant market position in the lithium ion and lithium ion polymer battery

sector. The Company believes that design innovations in the wireless sector will either not materially extend the run time of existing battery technologies or will be more than offset by the addition of new, enhanced, "power-hungry" features, which will increase the energy requirements of these wireless devices. Finally, miniature fuel cells present potential future competition to batteries in the portable and mobile power applications. However, they are expensive and still have technical hurdles to overcome, thus mitigating the threat to Electrovaya's products in the electronics markets that it targets.

Electrovaya will continue to invest in research and development to utilize latest generation advanced materials and improve the process and design of its batteries to maintain or widen the technological gap between its technology and that of its closest competitors. However, the Company has limited knowledge of its competitors' activities in this area.

Electrovaya is exposed to certain risks as a result of being in an industry that manufactures devices or products containing energy. All lithium ion polymer batteries can become hazardous under some circumstances. In the event of a short circuit or other physical, electrical or thermal damage to these batteries, chemical reactions may occur that release excess heat or gases, which could create dangerous situations, including fire, explosions and releases of toxic fumes. The Company's batteries may emit smoke, catch fire or emit gas, any of which may expose Electrovaya to product liability litigation. In addition, these batteries incorporate potentially hazardous materials, which may require special handling, and safety problems may develop in the future. Product failure or improper use of lithium ion polymer battery products, such as the improper management of the charging/discharging system, may also result in dangerous situations. The raising of any health or safety concerns could affect the Company's reputation and sales. Moreover, changes in environmental or other regulations affecting the manufacture, transportation or sale of Electrovaya's products could adversely affect the Company's ability to manufacture or sell its products or result in increased costs or liability. Finally, Electrovaya may be required to devote significant financial and management resources to processing and remedying warranty claims. If product liability issues arise, the Company could incur significant expenses and suffer damage to its reputation and the market acceptance of its products.

To mitigate the risks of product liability, Electrovaya undertakes extensive internal and external product and safety testing. Unlike certain competing technologies, its products do not contain cadmium or lithium metal, which are considered hazardous materials for purposes of disposal or transportation. In certain situations or applications, battery power may be a more attractive environmental solution than other energy sources utilizing fossil fuels or creating emissions.

Electrovaya has developed and manufactured batteries for applications such as life support systems for NASA where a power failure could be catastrophic, adversely affecting the Company's reputation and resulting in increased costs or liability.

However, it is unlikely that NASA will use these batteries in manned flight, due to complexities in qualifying these cells for the Critical 1 mission requirements of NASA.

Electrovaya may not be able to successfully market its battery technology and products, and because its SuperPolymer® technology is relatively new, these batteries may not perform as well as anticipated. The Company expects to continue to sell its products directly to corporate customers and through value-added resellers and distributors. But if these parties do not purchase these products or purchase them in lower quantities or over longer time periods than expected, Electrovaya's revenue profile and cash flows may be severely affected. The Company continues to rely upon a limited number of customers for a significant portion of its sales and the loss of any customer could have a material adverse effect on its sales and operating results and make it more difficult to attract and retain other customers.

If overall market demand for laptop computers and other portable electronic devices declines significantly, and consumer and corporate spending for such products declines, Electrovaya's revenue growth will be adversely affected. Additionally, the Company's revenues would be unfavorably impacted if customers reduce their purchases of new products or upgrades to the Company's existing product lineup if such new offerings are not perceived to add significant new functionality or other value to prospective purchasers.

The PowerPad® 95, 130 and 160 products and Scribbler ® Tablet PC series of products have undergone extensive user testing and have now been sold commercially to well-established corporate users, distributors and value added resellers with positive early results. Electrovaya has a marketing program in place, including trade show participation and advertising campaigns. The Company has a dedicated sales team to market and sell its products in Canada, the United States and elsewhere. Electrovaya has adopted a multi-channel distribution strategy to reduce its reliance on a single customer or distributor. The Company is targeting different types of users, applications and industries to mitigate the risk if its products do not achieve acceptance in a single market and to ensure it minimizes reliance on any one customer.

Electrovaya occasionally receives purchase orders that contain a series of milestones or deliverables, all or a portion of which may need to be completed in serial fashion before each subsequent activity and revenue generating milestones can be achieved. If each required milestone is not achieved, the entire amount of the purchase order may not be realized.

In January 2007, Electrovaya launched its "MN-Series" Lithium Ion SuperPolymer® battery technology. The MN-Series Lithium Ion SuperPolymer® technology will complement Electrovaya's existing roster of Phosphate-Series and (industry standard) Cobaltate-Series Lithium Ion SuperPolymer® technology solutions. The MN-Series, which is a Lithiated Manganese Oxide based system, distinguishes itself with higher energy density and comparable safety characteristics to Electrovaya's Phosphate-Series

solution. Electrovaya's proprietary Lithium Ion SuperPolymer® technology is independent of the composition of the positive electrode active material. As such, ongoing advances in positive electrode chemistry, such as the MN-Series, are expected to enable better technical performance and safety characteristics at more economical price-points

Electrovaya is outsourcing certain production, including cells, electronics and mechanical systems. Outsourcing has inherent risks, including the lack of application of internal quality assurance processes, potential loss of control of the supply chain, potentisl supplier credit risk, and third party product and financial liability.

If the Company fails to manage growth successfully, it could experience delays, cost overruns or other problems. Similarly, the Company is in a specialized industry where qualified, key personnel may be difficult to retain or replace on a cost-effective basis.

Electrovaya will continue to monitor its staffing requirements for its manufacturing facility and its needs at the senior management levels and for specialized personnel in various disciplines or areas of expertise.

If Electrovaya fails to protect its proprietary technology, it may lose any competitive advantage it provides. Others may claim that the Company's products infringe on their intellectual property rights, which could result in significant expenses for litigation, developing new technology or licensing existing technologies from third parties. If Electrovaya is unable to maintain registration of its trademarks, or if its trademarks or trade name are found to violate the rights of others, the Company may have to change its trademarks or name and lose the goodwill created in them. Recently Electrovaya was served with a claim that its Scribbler Tablet PC product infringes on certain US patents Electrovaya has settled this claim. The terms of settlement of this claim may eliminate the US market for any sale of the Scribbler or increase the cost of sales for the Scribbler into the US market. Generally, the margins are low for hardware sales, hence the terms of settlement of this patent infringement claim may make any sale of the Scribbler into the US market uneconomical.

Electrovaya will continue to file patent applications and register patents resulting from ongoing research and development activity, acquire or license patents from third parties if appropriate and further develop the trade secrets related to its manufacturing process and the design and operation of the equipment used to manufacture its products.

There is no formal process concerning management of the major risks to the Company resulting from changing business conditions and internal organizational changes. The lack of a formal process to manage these risks could result in a lack of timely or thorough review of the impact and severity of these risks on the business. Furthermore the current economic and credit crisis can decimate the business opportunities for the Company and lead to further losses.

Senior management continues to closely monitor changing business conditions to determine the impact, if any, on the success of the business. Where such changes are considered to have a potentially significant adverse effect on the business of the Company, all strategy options are thoroughly reviewed and discussed and the most appropriate course of action implemented as quickly as possible.