

ELECTROVAYA INC.

Consolidated Balance Sheets
(Expressed in Thousands of U.S. dollars)

	December 31, 2004 (Unaudited)	September 30, 2004 (Audited)
Assets		
Current assets		
Cash and cash equivalents	\$ 13,478	\$ 2,715
Short-term investments	-	10,897
Accounts receivable	1,158	698
Investment tax credits recoverable	95	165
Goods and Services Tax receivable	19	66
Inventories (note 2)	2,399	2,886
Prepaid expenses and other	68	52
	<u>17,217</u>	<u>17,479</u>
Capital assets	8,504	9,203
	<u>\$ 25,721</u>	<u>\$ 26,682</u>
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 1,596	\$ 1,514
Income taxes payable	-	-
	<u>1,596</u>	<u>1,514</u>
Shareholders' equity		
Share capital (note 3)	63,745	63,745
Contributed Surplus	79	43
Cumulative translation adjustment	3,029	2,156
Deficit	<u>(42,728)</u>	<u>(40,776)</u>
	24,125	25,168
Contingencies (note 1(h))		
	<u>\$ 25,721</u>	<u>\$ 26,682</u>

See accompanying notes to consolidated financial statements.

These unaudited interim financial statements should be read in conjunction with the annual audited consolidated financial statements for the year ended September 30, 2004.

ELECTROVAYA INC.

Consolidated Statements of Operations and Deficit
(Expressed in Thousands of U.S. dollars, except per share amounts)
(Unaudited)

	Three months ended December 31,	
	2004	2003
Revenue	\$ 1,488	\$ 1,581
Direct manufacturing costs	1,464	1,437
	24	144
Expenses		
Research and development	461	589
Government assistance Note 1(h)	(312)	(244)
Sales and marketing	274	556
General and administrative	657	710
	1,080	1,611
Loss before the undernoted	1,056	1,467
Amortization	745	769
Loss from operations	1,801	2,236
Interest income	(76)	(89)
Loss from foreign exchange	227	255
	151	166
Loss before income taxes	1,952	2,402
Income tax expense	-	-
Loss for the year	1,952	2,402
Deficit, beginning of year	40,776	32,313
Deficit, end of year	\$ 42,728	\$ 34,715
Basic and diluted loss per common share	\$ 0.03	\$ 0.03
Weighted average number of shares outstanding, basic and fully diluted	69,575,442	69,539,109

See accompanying notes to consolidated financial statements.

These unaudited interim financial statements should be read in conjunction with the annual audited consolidated financial statements for the year ended September 30, 2004.

ELECTROVAYA INC.

Consolidated Statements of Cash Flows

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

(Unaudited)

	Three months ended December 31,	
	2004	2003
Cash provided by (used in)		
Operating activities		
Loss for the year	\$ (1,952)	\$ (2,402)
Amortization which does not involve cash	745	769
Stock compensation expense	36	-
Change in non-cash operating working capital	211	123
	(960)	(1,510)
Investing activities		
Reductions to short-term investments	10,897	413
Additions to capital assets	(46)	(68)
	10,851	345
Increase (decrease) in cash and cash equivalents	9,891	(1,165)
Effect of currency translation adjustments on cash and cash equivalents	872	955
Cash and cash equivalents beginning of year	2,715	6,178
Cash and cash equivalents end of year	\$ 13,478	\$ 5,968
Supplemental disclosure of cash flow information		
Income taxes paid	\$ -	\$ -
Interest received	128	88

See accompanying notes to consolidated financial statements.

These unaudited interim financial statements should be read in conjunction with the annual audited consolidated financial statements for the year ended September 30, 2004.

ELECTROVAYA INC.

Notes to Consolidated Financial Statements

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

(Unaudited)

Three Months ended December 31, 2004.

Electrovaya Inc. (the "Company"), incorporated in 1996 under the Business Corporations Act (Ontario), develops, manufactures and markets portable power technology products using its patented lithium ion SuperPolymer® technology.

1. Significant accounting policies

(a) Basis of presentation

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles. These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All inter-company balances and transactions have been eliminated in consolidation.

The company has no operating assets located outside of Canada.

The disclosures contained in these un-audited interim consolidated financial statements do not include all disclosures required under Canadian generally accepted accounting principles (GAAP) for annual financial statements. The un-audited interim consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended September 30, 2004.

The un-audited interim consolidated financial statements are based upon accounting policies consistent with those used and described in the annual consolidated financial statements. The interim financial statements are not considered to be materially affected by seasonal or cyclical factors.

Management believes these un-audited interim consolidated financial statements include all adjustments, including normal recurring adjustments, necessary to present fairly the financial position of the Company as at December 31, 2004 and the results of its operations and its cash flows for the three months ended December 31, 2004. Results for the three months ended December 31, 2004 are not necessarily indicative of the results to be expected for the entire year.

(b) Change in accounting policy

Prior to October 1, 2003, the Company applied the fair value based method of accounting prescribed by CICA Handbook Section 3870, *Stock-based Compensation and Other Stock-based Payments*, only to employee stock appreciation rights, and applied the settlement method of accounting to employee stock options. Under the settlement method, any consideration paid by employees on the exercise of stock options or purchase of stock is credited to share capital and no compensation expense was recognized.

ELECTROVAYA INC.

Notes to Consolidated Financial Statements

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

(Unaudited)

Three Months ended December 31, 2004.

1. Significant accounting policies (continued)

Effective October 1, 2003, in accordance with one of the transitional options permitted under amended Section 3870, the Company has prospectively applied the fair value based method to all employee stock options granted on or after October 1, 2003. Under the fair value based method, compensation cost is measured at fair value at the date of grant and is expensed over the award's vesting period. During the quarter, due to the effect of prospectively adopting the fair value based method, there was an increase in stock based compensation expense of \$36, with a negligible impact on loss per share.

(c) Cash and cash equivalents and short term investments

Cash and cash equivalents include temporary investments in marketable securities which are readily convertible into cash and which have an original term to maturity of 90 days or less. Short term investments consist of temporary investments in marketable securities with longer terms to maturity are recorded at cost, which is equivalent to their market value.

(d) Capital assets

Capital assets are recorded at cost less related investment tax credits and accumulated amortization. Amortization is provided on a straight-line basis over the estimated useful lives of the assets at the following annual rates:

Building	4%
Building improvements	4%
Production equipment	20%
Workshop equipment	20%
Patents and technology	20%
Office furniture and equipment	20%
Vehicles	20%

(e) Impairment of long-lived assets

The Company reviews capital and intangible assets for impairment on a regular basis or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Recoverability is assessed by comparing the carrying amount to the projected future net cash flows that the long-lived assets are expected to generate.

ELECTROVAYA INC.

Notes to Consolidated Financial Statements

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

(Unaudited)

Three Months ended December 31, 2004.

1. Significant accounting policies (continued)

(f) Research and development costs

Research costs, net of related investment tax credits, are expensed in the period in which they are incurred.

Development costs, net of related investment tax credits, are expensed in the period incurred unless such costs meet the criteria under Canadian generally accepted accounting principles for deferral and amortization. To date, the Company has not deferred any development costs.

Certain costs related to the Company's research and development efforts related to fast batteries and electric vehicles are being funded by a repayable grant from Technology Partnerships Canada (see Note 1 (h)).

(g) Inventories

Inventories are comprised of raw materials, work in progress and finished goods. Raw materials and work in progress are recorded at the lower of cost and replacement cost. Finished goods are recorded at the lower of cost and net realizable value.

(h) Government assistance

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.

The Company has been approved for funding under the Technology Partnerships Canada initiative of Industry Canada. The funding is to support the Company's research and development efforts in fast rate batteries and electric vehicles. The Company will receive contributions of up to 29.7% of the specified costs of the development project, to a maximum amount of \$6,700. Under the terms of the agreement, an amount up to a maximum of \$31,075 is to be repaid by royalties, commencing in 2007 through to 2013, with payment to be deferred or reduced if certain revenue thresholds are not achieved. Additional claims for \$312 were received during the quarter ending December 31, 2004 (Quarter ending December 31, 2003: \$244).

ELECTROVAYA INC.

Notes to Consolidated Financial Statements

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

(Unaudited)

Three Months ended December 31, 2004.

1. Significant accounting policies (continued)

(i) Revenue recognition

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 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 return cannot be made, the recognition of revenue does not occur until the distributor has sold the product.

Revenue from services 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.”

(j) Warranty costs

Warranty costs are provided for as revenues are earned.

ELECTROVAYA INC.

Notes to Consolidated Financial Statements

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

(Unaudited)

Three Months ended December 31, 2004.

1. Significant accounting policies (continued)

(k) Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the years. Actual results may differ from the estimates. Sales returns are estimated at the time of delivery based on past experience and customer specific factors. 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 and sales during the most recent warranty period.

The Company operates in a competitive market subject to fast-paced technological changes. The Company has estimated the provisions for sales returns, warranty costs and obsolete inventory based on historical patterns, communication with its distributors, industry trends and existing competitive pressures. Significant changes in technology or competitors' products could result in a material change in the rate of sales returns.

(l) Income taxes

The Company uses the asset and liability method of accounting for income taxes. Future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carry-forwards. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in the income in the period that includes the date of enactment or substantive enactment. A valuation allowance is recorded against any future income tax asset if it is not more likely than not that the asset will be realized.

(m) Currency translation

Monetary assets and liabilities of the Company which are denominated in foreign currencies are translated into Canadian dollars (which is considered to be the measurement currency) at the exchange rates prevailing at the balance sheet date, and transactions denominated in foreign currencies which are included in operations are translated at the average rates for the period. Exchange gains and losses resulting from the translation of these amounts are reflected in the statement of operations in the period in which they occur.

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Notes to Consolidated Financial Statements

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

(Unaudited)

Three Months ended December 31, 2004.

1. Significant accounting policies (continued)

As the Company's reporting currency is the U.S. dollar, the Company translates assets and liabilities denominated in Canadian dollars into U.S. dollars at the exchange rate prevailing at the balance sheet date, and the results of operations at the average rate for the period. Cumulative net translation adjustments are included as a separate component of shareholders' equity.

(n) Earnings per share

Basic earnings per share is calculated using the weighted average number of shares outstanding during the year. Diluted earnings per share is computed using the weighted average number of common and potential common shares outstanding during the year, if dilutive.

2. Inventories

	December 31, 2004	September 30 2004
Raw materials	\$ 1,013	\$ 1,052
Work in progress	1,245	1,725
Finished goods	141	109
	<u>\$ 2,399</u>	<u>\$ 2,886</u>

3. Share capital

As at December 31, 2004, the Company had 69,575,442 common shares (69,575,442 as at September 30, 2004) outstanding and 2,488,934 options (2,000,934 as at September 30, 2004) to acquire common shares under the Company's employee incentive plan.

4. Financial instruments

(a) Fair values

The reported values of the financial instruments, which consist of cash and cash equivalents, short-term investments, accounts receivable and accounts payable and accrued liabilities, approximate their fair values due to the near-term maturity of those instruments.

(b) Foreign currency risk

The Company is exposed to foreign currency fluctuations to the extent that the Company is holding significant cash and cash equivalent balances denominated in U.S. dollars. The Company does not hedge the risk related to fluctuations of the exchange rate between U.S. and Canadian dollars.

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Notes to Consolidated Financial Statements

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

(Unaudited)

Three Months ended December 31, 2004.

4. Financial instruments (continued)

(c) Credit risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of trade accounts receivable. The Company performs periodic credit evaluations of the financial condition of its customers and typically does not require collateral from them. Allowances are maintained for potential credit losses consistent with the credit risk of specific customers, historical trends and other information. Credit losses have been within management's range of expectations. The company also insures some of its accounts receivable.

5. Related Party Transactions

The Company leased its Hanna Avenue premises in Toronto, Ontario, from a company owned by its controlling shareholders for \$209 per year plus GST and business tax. The lease was renewed from January 1, 2003 to December 31, 2003. In June 2003, the Company secured an additional 11,800 square feet at \$80 per year plus GST and business tax until December, 2003, with one rent-free month. Beginning in January 2004, the Company occupied these premises on a monthly basis. In April 2004, the premises were sold by the controlling shareholders to an independent third party for consideration that included a vendor-take back mortgage. The measurement basis for the transaction is fair market value, as it is approximately the same rates as other tenants of the same tenure in the building, with similar size space and location.

Electrovaya has invested \$115 in a private company engaged in the business of producing and evaluating new materials in return for 6% of its Class A and 21% of its Class B shares, subsequently providing research and development services totaling \$153 in consideration of 30% of additional non-voting, participating Class B shares. The Class B shares are convertible into Class A voting, participating shares in the event the company becomes registered on a stock exchange. During the second quarter, Electrovaya provided a \$38 loan to the company to assist with the operation of a pilot plant. The original investment, additional shares and loan have been valued at Nil as at the end of December 31, 2004.

