# ELECTROVAYA INC.

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

| | March 31, 2011 (Unaudited) | September, 30, 2010 (Audited) |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | $ 6,568 | $ 3,001 |
| Accounts receivable | 2,979 | 1,332 |
| Other receivables | 209 | 73 |
| Investment tax credits recoverable | 309 | 405 |
| Inventories (note 3(a)) | 855 | 558 |
| Prepaid expenses and other | 622 | 427 |
| | 11,542 | 5,796 |
| Capital assets (notes 1(d)) | 5,759 | 5,708 |
| Investment in shares (note 11) | 470 | 444 |
| | $ 17,771 | $ 11,948 |
| **Liabilities and Shareholders' Equity** | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | $ 1,613 | $ 998 |
| Deferred revenue | 558 | 57 |
| Deferred government grant (note 12(c & d)) | 1,688 | 1,604 |
| | 3,859 | 2,659 |
| Long-term liability | | |
| Promissory Note (note 4) | 4,628 | - |
| Shareholders' equity | | |
| Share capital (note 5(a)) | 64,822 | 64,854 |
| Contributed surplus (note 13) | 2,471 | 1,542 |
| Accumulated other comprehensive income | 10,278 | 9,555 |
| Deficit | (68,287) | (66,662) |
| | 9,284 | 9,289 |
| | $ 17,771 | $ 11,948 |

See accompanying notes to consolidated financial statements.

These unaudited interim consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements for the year ended September 30, 2010.

# ELECTROVAYA INC.

Unaudited Consolidated Statements of Comprehensive Income (Loss)
(Expressed in thousands of U.S. dollars)
Quarters ended March 31, 2011 and 2010

| | Three months ended March 31, 2011 | Three months ended March 31, 2010 | Six months ended March 31, 2011 | Six months ended March 31, 2010 |
|---|---|---|---|---|
| Revenue (notes 9 & 12(c)) | $ 2,719 | $ 1,071 | $ 4,954 | $ 1,991 |
| Direct manufacturing costs (note 3(b)) | 2,032 | 681 | 3,453 | 1,414 |
| | 687 | 390 | 1,501 | 577 |
| Expenses | | | | |
| Research and development | 361 | 587 | 786 | 1,037 |
| Government assistance (note 12) | (266) | (110) | (477) | (828) |
| Sales and marketing | 53 | 79 | 174 | 132 |
| Warranty (note 1(h)) | 10 | 10 | 21 | 28 |
| General and administrative | 465 | 490 | 905 | 806 |
| Stock based compensation expense | 153 | 280 | 301 | 310 |
| Interest expense | 75 | - | 83 | - |
| Financing costs (note 5 (c)) | 47 | - | 47 | - |
| | 898 | 1,336 | 1,840 | 1,485 |
| Loss before the undernoted | 211 | 946 | 339 | 908 |
| Amortization (see note 1 (d)) | 199 | 174 | 381 | 307 |
| Repurchase of License (see note 11) | 618 | - | 618 | - |
| | 817 | 174 | 999 | 307 |
| Loss from operations | 1,028 | 1,120 | 1,338 | 1,215 |
| Interest income | (10) | (3) | (13) | (5) |
| Loss from foreign exchange | 152 | 126 | 300 | 277 |
| | 142 | 123 | 287 | 272 |
| Net loss for the period | 1,170 | 1,243 | 1,625 | 1,487 |
| Deficit, beginning of period | 67,117 | 64,555 | 66,662 | 64,311 |
| Deficit, end of period | 68,287 | 65,798 | 68,287 | 65,798 |
| Basic and diluted loss per common share | $ 0.02 | $ 0.02 | $ 0.03 | $ 0.02 |
| Weighted average number of shares outstanding, basic and fully diluted | 70,939,089 | 70,120,946 | 70,932,685 | 70,120,946 |

See accompanying notes to unaudited consolidated financial statements.

These unaudited interim consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements for the year ended September 30, 2010.

# ELECTROVAYA INC.

Unaudited Consolidated Statements of Operations and Deficit
(Expressed in Thousands of U.S. dollars, except per share amounts)
Quarters ended March 31, 2011 and 2010

| | Three months ended March 31, 2011 | Three months ended March 31, 2010 | Six months ended March 31, 2011 | Six months ended March 31, 2010 |
|---|---|---|---|---|
| **Net loss** | $ 1,170 | $ 1,243 | $ 1,625 | $ 1,487 |
| **Other comprehensive income net of income taxes** | | | | |
| Unrealized income on translation of financial statements from the measurement currency to the reporting currency | (362) | (374) | (723) | (691) |
| **Other comprehensive income** | (362) | (374) | (723) | (691) |
| **Comprehensive loss for the period** | 808 | 869 | 902 | 796 |
| **Accumulated other comprehensive income** | | | | |
| Accumulated foreign currency translation | 10,278 | 9,751 | 10,278 | 9,751 |
| **Accumulated Other Comprehensive income** | $ 10,278 | $ 9,751 | $ 10,278 | $ 9,751 |

See accompanying notes to unaudited consolidated financial statements.

These unaudited interim consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements for the year ended September 30, 2010.

# ELECTROVAYA INC.

Unaudited Consolidated Statements of Cash Flows
(Expressed in Thousands of U.S. dollars, except per share amounts)
Quarters ended March 31, 2011 and 2010

| | Three months ended March 31, 2011 | Three months ended March 31, 2010 | Six months ended March 31, 2011 | Six months ended March 31, 2010 |
|---|---|---|---|---|
| Cash provided by (used in) | | | | |
| Operating activities | | | | |
| Loss for the period | $ (1,170) | $ (1,243) | $ (1,625) | $ (1,487) |
| Items not involving cash: | | | | |
| Amortization | 199 | 174 | 381 | 307 |
| Stock based compensation expense (note 1(g)) | 153 | 280 | 301 | 310 |
| Financing costs (note 5(c)) | 47 | - | 47 | - |
| Change in non-cash operating working capital (note 8) | (1,402) | (1,092) | (979) | (1,445) |
| | (2,173) | (1,881) | (1,875) | (2,315) |
| Investing activities | | | | |
| Additions to capital assets | (59) | (224) | (106) | (331) |
| | (59) | (224) | (106) | (331) |
| Financing activities | | | | |
| Issuance of common shares | 3 | 96 | 24 | 96 |
| Promissory note | - | - | 4,996 | - |
| | 3 | 96 | 5,020 | 96 |
| Increase(Decrease) in cash and cash equivalents | (2,229) | (2,009) | 3,039 | (2,550) |
| Effect of currency translation adjustments on cash and cash equivalents | 340 | 200 | 528 | 370 |
| Cash and cash equivalents, beginning of period | 8,457 | 5,243 | 3,001 | 5,614 |
| Cash and cash equivalents, end of period | $ 6,568 | $ 3,434 | $ 6,568 | $ 3,434 |
| Supplemental disclosure of cash flow information | | | | |
| Income taxes paid | $ - | $ - | $ 1 | $ - |
| Interest paid | 75 | - | 75 | - |

See accompanying notes to unaudited consolidated financial statements.

These unaudited interim consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements for the year ended September 30, 2010.

Electrovaya Inc. (the Company or "Electrovaya"), incorporated in 1996 under the Business Corporations Act (Ontario), develops, manufactures and markets portable power technology products and services 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, including 1408871 Ontario Inc., Electrovaya Corp., Electrovaya Company, Electrovaya USA Inc. and Electrovaya Global SRL. All inter-company balances and transactions have been eliminated upon consolidation.

*Comprehensive Income*

Comprehensive income is composed of the Company's net earnings and other comprehensive income. It includes all changes in equity during the period except those resulting from investments by owners and distributions to owners.

*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. The Company has included disclosures recommended by this Handbook section in Note 10 to these financial statements.

**1. Significant accounting policies (continued)**

*Financial instruments – Presentation*

The Company adopted the recommendations of the Canadian Institute of Chartered Accountants' Handbook Section 3863, Financial Instruments – Presentation.

The following definitions are used in the presentation and disclosures regarding Financial Instruments in which the Company engages as part of their 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, deferred revenue, deferred government grant and promissory note approximate their carrying values due to the relatively short term maturities of these instruments.

*Sensitivity analysis*

The Company has designated its cash and cash equivalents as held-to-maturity; which are measured at cost using the effective interest method. Financial instruments included in accounts receivable and other receivables are classified as accounts receivable, which are measured at amortized cost. Accounts payable and accrued liabilities, deferred revenue, deferred government grants and promissory note are classified as other financial liabilities, which are measured at amortized cost. As at March 31, 2011, 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 March 31, 2011 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.

**1. Significant accounting policies (continued)**

*Capital disclosures*

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 this 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.

(b) Cash and cash equivalents

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.

**1. Significant accounting policies (continued)**

(c) Inventories

In accordance with the Canadian Institute of Chartered Accountants Handbook Section 3031*, Inventory*, the definition of 'cost' of inventory includes 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.

(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 number of years indicated below:

| | Years |
|---|---|
| Building | 25 |
| Building improvements | 15 |
| Production equipment | 6 |
| Workshop equipment | 5 |
| Patents and technology | 5 |
| Office furniture and equipment | 5 |
| Vehicles | 5 |

(e) 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-rate batteries and electric vehicles are being funded by grants from Technology Partnerships Canada ("TPC") and Sustainable Development Technology Corp ("SDTC") (see Note 12).

**1. Significant accounting policies (continued)**

(f) Revenue recognition

Revenue from product sales is recognized upon shipment. 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 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 based on the 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.

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

(g) Stock based compensation

The Company applies the fair value method of accounting for employee stock options. Under this method, compensation cost is measured at fair value at the date of grant and expensed over the award's vesting period. The offset to the expense is recorded in contributed surplus.

(h) Warranty costs

Warranty costs are provided for as revenues are earned.

**1. Significant accounting policies (continued)**

(i) 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.

(j) 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 Statement of Operations 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 more likely than not that the asset will be realized.

(k) Foreign 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 year. Non-monetary assets and liabilities are translated at the exchange rate in effect at the transaction date. Exchange gains and losses resulting from the translation of these amounts are reflected in the consolidated statement of operations in the year in which they occur.

**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 year. Cumulative net translation adjustments are included as a separate component of other comprehensive income.

(l) Earnings per share

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

(m) Impairment of long-lived assets

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. 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. Management determined that there is no impairment charge for the quarter ended March 31, 2011.

(n) Transaction costs

The Company has adopted section 3855 of the CICA Handbook “Financial Instruments – Recognition and Measurement” concerning the transaction costs directly attributed to the issuance of financial liabilities. The costs related to these financings have been deferred and amortized over the life of the related liability (See Note 4).

**2. Future accounting changes**

**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 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 is required to implement IFRS for the fiscal year 2012 and the Company has commenced the process to transition from current Canadian GAAP to IFRS.

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

**2. Future accounting changes (continued)**

IFRS will require increased financial statement disclosures. Although IFRS uses a conceptual framework similar to Canadian GAAP, differences in accounting policies, if any, will still need to be addressed.

We are currently assessing the impact IFRS will have on our consolidated financial statements and established a changeover plan to convert to the new standards.

Transition Plan:

The following summarizes the Company's status with respect to its IFRS transition plan:

| | |
|---|---|
| Initial scoping and analysis of key areas for which accounting policies may be impacted by the transition to IFRS. | Completed |
| Detailed evaluation of potential changes required to accounting policies, information systems and business processes, including the application of IFRS 1 First-time Adoption of International Financial Reporting Standards. | In progress, completion expected Q3 FY 2011 |
| Final determination of changes to accounting policies and choices to be made with respect to first-time adoption alternatives. | In progress, completion expected during Q3 FY 2011 |
| Resolution of the accounting policy change implications on information technology, business processes and contractual arrangements. | In progress, completion expected during Q3 FY 2011 |
| Qualification of the financial statement impact of changes in accounting policies. | Throughout 2011 |
| Management and employee education and training. | Throughout the transition process |

The Company's first interim reporting under IFRS will be for the three months ended December 31, 2011 and will include comparative financial information under IFRS for the three months ended December 31, 2010. We will be required to disclose reconciliation from Canadian GAAP to IFRS of our equity at October 1, 2010, December 31, 2010 and September 30, 2011. We will also be required to disclose reconciliations from Canadian GAAP to IFRS of our comprehensive loss for the three months ended December 31, 2010 and for the year ended September 30, 2011. An explanation of material adjustments to the cash flow statements for those periods would also be required.

We have not yet determined the full effects of adopting IFRS. Our preliminary assessments of the key areas where changes in accounting policies are expected to impact the Company’s consolidated financial statements are listed below. The list and the comments below should not be regarded as a complete list of changes that will result from the

**2. Future accounting changes (continued)**

transition to IFRS. It is intended to highlight those areas that we believe to be most significant, however, analysis of changes is still in progress and not all decisions have been made where choices of accounting policies are available. At this stage, we have not quantified the impacts expected on the Company's consolidated financial statements for these differences.

Most adjustments required on transition to IFRS will be made retrospectively against opening retained earnings in the first comparative balance sheet. Transitional adjustments relating to those standards where comparative figures are not required to be restated because they are applied prospectively will only be made as of October 1, 2010, being the first day of the year of transition for the Company. IFRS 1 provides entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions, in certain areas, to the general requirement for full retrospective application of IFRS.

*Property and Equipment*

International Accounting Standard (IAS) 16 – Property, Plant & Equipment and Canadian GAAP contain the same basic principles, however there are some differences. IFRS requires that significant parts of an asset be depreciated separately and depreciation commences when the asset is available for use. IFRS also permits property and equipment to be measured using the fair value model or the historical cost model. We are not planning on adopting the fair value measurement model for the Company's property and equipment.

IFRS 1 contains an elective exemption where an entity may elect to reset as the new cost basis for property and equipment, its fair value at the date of transition.

*Impairment of Assets*

Impairments under IAS 36 – Impairment of Assets are based on discounted cash flows. Under Canadian GAAP, if an asset's estimated undiscounted future cash flows are below its carrying amount a write-down is required and is determined by the amount which the carrying amount exceeds the discounted cash flows. There is no undiscounted test under IFRS. This may result in more frequent write-downs where carrying values of assets were previously supported under Canadian GAAP on an undiscounted cash flow basis, but could not be supported on a discounted cash flow basis.

In addition, under IAS 36 a favorable change in the circumstance that resulted in an impairment of an asset, other than goodwill, would trigger the requirement for a redetermination of the amount of the impairment with any reversal being recognized in income to the extent the asset had previously been impaired. Under Canadian GAAP, impairments are not reversed.

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

## 2. Future accounting changes (continued)

*Stock Based Compensation*

The Company currently measures stock-based compensation for stock options grants at their fair value determined using the Black-Scholes option pricing formula and expenses this equally over the options' vesting terms. IFRS requires the same fair value of stock options granted to be expensed on an accelerated basis over the options' vesting term. Further, the Company currently assumes that all stock options will vest and recognizes the effect of forfeitures as they occur. In determining the fair value of options granted, IFRS requires an adjustment for expected forfeitures. This GAAP difference may result in an adjustment on transition to IFRS.

## 3. Inventories

(a) Total inventories on hand as at March 31, 2011 and September 30, 2010 are as follows:

| | March 31, 2011 | September 30, 2010 |
|---|---|---|
| Raw materials | $ 790 | $ 423 |
| Semi finished goods | 11 | 22 |
| Finished goods | 54 | 113 |
| | $ 855 | $ 558 |

(b) As per accounting policies (note 1(c)), during the quarters ended March 31, 2011 and 2010, the following inventory revaluations and obsolescence provisions were included in direct manufacturing costs:

| | March 31, 2011 | 2010 |
|---|---|---|
| Loss (Gain) on material revaluation | $ - | $ (81) |
| Provision for obsolescence | 29 | 11 |
| | $ 29 | $ (70) |

## 4. Promissory Note

In December, 2010, the Company raised Cdn $5 million in consideration of a 6% secured promissory note and 500,000 common share purchase warrants exercisable for a period of 36 months. The promissory note matures on December 21, 2013. The loan is secured by a fixed charge over land and building and interest is payable monthly.

| | March 31, 2011 | September 30, 2010 |
|---|---|---|
| Promissory Note | $ 5,146 | - |
| Less: Fair value of Share Purchase Warrants (note 5(c)) | (518) | - |
| | $ 4,628 | $ - |

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

**5. Share capital**

(a) Authorized and issued capital stock

Authorized
Unlimited common shares

| Issued | Number | Common Shares Amount |
|---|---|---|
| Balance, September 30, 2009 | 70,221,442 | $ 64,056 |
| Issuance of shares upon exercise of stock options | 688,836 | 427 |
| Fair value of stock options exercised | - | 371 |
| Balance, September 30, 2010 | 70,910,278 | $ 64,854 |
| Issuance of shares upon exercise of stock options | 29,500 | 24 |
| Fair value of stock options exercised | - | (56) |
| Balance, March, 31, 2011 | 70,939,778 | $ 64,822 |

(b) Stock options

As at March 31, 2011, the Company had outstanding 3,326,669 options (3,330,669 as at December 31, 2010) to acquire common shares under the Company's employee stock option plan.

(c) The Company has 500,000 share purchase warrants outstanding related to the issuance of the C$5 million promissory note. The expiry date of these warrants is December 21, 2013. The warrants vested immediately and the exercise price is C$2.30.

| | March 31, 2011 | September 30, 2010 |
|---|---|---|
| Fair value of Share Purchase Warrants | $ 565 | - |
| Less: Amortization to Financing Costs | (47) | - |
| | $ 518 | $ - |

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

**6. Related party transactions**

a) During the quarter ended March 31, 2011, the Company paid $51 (2010- $57) to a director of a wholly owned subsidiary company for services rendered to the Company in his capacity as an executive officer. During the quarter ended March 31, 2011, the Company paid $58 (2010 - $64) to the Chief Executive Officer, who is also a controlling shareholder of the Company. Since the payments to the CEO and director of the wholly owned subsidiary are fixed and made in Canadian dollars while the Company reports in US dollars, the difference is attributable to the change in exchange rates.

b) 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. As of March 31, 2011, the lawsuit has not yet been settled, but the Company is fully insured for the amount of the claim. In April, 2011, the matter was settled, with no amounts payable by the Company and no further action required.

**7. Income taxes**

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.

**8. Changes in non-cash operating working capital**

| | Six months ended March 31, | |
|---|---|---|
| | 2011 | 2010 |
| Accounts receivable | $ (1,647) | $ (1,028) |
| Investment tax credits recoverable | 96 | (21) |
| Other receivables | (136) | (11) |
| Inventories | (297) | (13) |
| Prepaid expenses and other | (195) | (337) |
| Accounts payable and accrued liabilities | 615 | 139 |
| Deferred revenue | 501 | (88) |
| Deferred government grant | 84 | (86) |
| | $ (979) | $ (1,445) |

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

## 9. Segmented information

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 using its patented lithium ion SuperPolymer ® technology.

Revenues from major business activities for the six months ended March 31, 2011 and 2010 were as follows

| | March 31, 2011 | 2010 |
|---|---|---|
| Large Format Batteries, licensing | $ 4,844 | $ 1,638 |
| Consumer electronics | 50 | 272 |
| Other | 60 | 81 |
| | $ 4,954 | $ 1,991 |

Revenues attributed to regions based on location of customer were as follows:

| | March 31, 2011 | 2010 |
|---|---|---|
| Canada | $ 1,347 | $ 335 |
| United States | 3,493 | 1,404 |
| Others | 114 | 252 |
| | $ 4,954 | $ 1,991 |

Two customers represented 10% or more of the Company's revenues representing 87% of revenue from large format batteries.

As at March 31, 2011, 99.5% of all the Company's capital assets were located in Canada.

## 10. Management of financial risk

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

*Capital risk*

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

**10. Management of financial risk (continued)**

*Credit risk*

Credit risk is the risk that a client will be unable to pay any amounts owed to 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, Harmonized Sales Tax due from the Federal Government of Canada which is included in other receivables, and investment tax credits recoverable. 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 to fulfill its obligations.

*Market risk*

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

*Interest rate risk*

The Company has cash balances and fixed interest-bearing debt at 6%. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions.

*Foreign currency risk*

The Company'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.

## 10. Management of financial risk (continued)

*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.

## 11. Investment in shares

The Company owns 850 shares, or approximately 6.4% of the shares of Miljobil Grenland AS (“Miljobil”), an Electric Vehicle company located in Norway.

As at March 31, 2010, the financial statements of Miljobil contained a going concern note as it was funded through loans from a major shareholder and had a negative equity position. Miljobil recently appointed a new Board of Directors and is exploring different sources of capital to fund its operations and also reviewing its business plan for opportunities to increase profitability.

Miljobil has determined it would no longer manufacture cells and batteries in Norway and has instead requested Electrovaya to produce cells and batteries for sale to Miljobil. During the quarter, Electrovaya entered into an agreement to repurchase the license to manufacture its’ cells in the Nordic countries, which enables Electrovaya to license its technology in an unfettered manner to all of Europe, including all Nordic countries. Consideration for the license is a cash payment of $618 and future deliveries of cells and batteries at discounted prices, in cash or product sales, totaling $1,236. The Company paid $400 of the total outstanding consideration in February, 2011.

## 12. Government Assistance

(a) Investment Tax Credits

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

(b) TPC grant

The Company has been approved for funding under the TPC 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 expects to receive contributions of up to 29.7% of the specified costs of the development project, to a maximum amount of Cdn $9,870 ($9,432). Under the terms of the amended agreement, the Company is forecasting that an amount up to a maximum of $5,608 is to be repaid by royalties, commencing in 2009 through to 2015, with payment to be deferred or reduced if certain revenue thresholds

**12. Government Assistance (continued)**

(b) TPC grant (continued)

are not achieved. These revenue thresholds were not achieved during the quarter ended March 31, 2011.

Cumulative claims of $5,942 were received by the Company as at September 30, 2008 from the TPC program and recognized after approval and payment of each claim. During fiscal 2009, the Company received contributions totaling $2,870 (2008-$619) from the TPC program. The program expired on March 31, 2009. Reimbursements for Claims for the quarter ending March 31, 2009 for $620 (2008-$619) were received during the quarter ended December 31, 2009. All monies owing under the TPC grant have been received.

(c) SDTC

SDTC 1

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 amended terms of the agreement SDTC shall pay the lesser of 33% of the eligible project costs or Cdn $ 1,859, 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 expired on July 31, 2010.

No cash contribution was received by the Company during the quarter ended March, 31, 2011. As of December 31, 2010, cumulative claims of $1,113 have been received from SDTC. The final claim for $ 426 was submitted for the year ended September 30, 2010 but has not yet been received.

SDTC 2

In December 2010, the Company became eligible for a Cdn $5,065 grant from SDTC representing 33% of a Cdn $15,417 project related to the development and demonstration of Electrovaya's Lithium Ion SuperPolymer® Battery for application in Plug-In Hybrid Electric

**12. Government Assistance (continued)**

(c) SDTC (continued)

SDTC 2 (continued)

Vehicles, automation of its cell production process and a feasibility study about the potential for repurposing automotive batteries for grid storage applications. The Company received $1,700 of this grant in late December for work completed since November, 2009. The amount is receivable in scheduled instalments as provided in the contribution agreement between SDTC and the Company and will be received upon the achievement of various project milestones. The Contribution shall not exceed fifty percent (50%) of the Eligible Project Costs for the Project and Electrovaya shall contribute a minimum of twenty-five percent (25%) of the Eligible Project Costs for the Project in cash, in-kind goods or services, or a combination. thereof.

The Company recognized $243 as revenue during the current quarter and $1,262 during the six month period. (quarter and six months ending March 31, 2010 – NIL).

(d ) Ministry of Economic Development and Trade “Next Generation of Jobs Fund” Conditional Grant

On May 5, 2009, the Province of Ontario, as represented by the Minister of Economic Development, signed a Conditional Grant Agreement with Electrovaya Corp. awarding Cdn $ 16.7 million as a grant. The grant is for pre-commercialization activities over a period of five years ending on December 31, 2013. The grant is 15% of the targeted project cost of Cdn $111.49 million and is subject to certain targets related to new job creation and investment, which if not achieved, could result in only a portion of the grant being received, or a potential claw-back of funds received by the end of the five year period. The Company continues to review 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.

Electrovaya received an advance of $ 2.9 million (Cdn $3.3 million) on June 5, 2009 and recorded this as deferred revenue. During the quarter ended March 31, 2011 $0.2 million and cumulative of $2.2 million of activities considered to be eligible costs and therefore reimbursable under the grant were recorded as a reduction of expenses.

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

**13. Contributed surplus**

Contributed surplus arises from the recognition of estimated fair value of stock options as follows:

| | March 31, 2011 (unaudited) | September 30, 2010 (audited) |
|---|---|---|
| Balance – beginning of period | $ 1,750 | $ 1,312 |
| Fair value of vested stock options | 153 | 601 |
| Exercise of options | 3 | (371) |
| Fair value of share purchase warrants | 565 | - |
| Balance – end of period | $ 2,471 | $ 1,542 |

**14. Commitment and contingencies**

The Company has been named as a defendant in a $97 lawsuit related to a low-ranking employee dismissal. The Company believes this lawsuit has no merit whatsoever and that its outcome would have no material effect on the Company's operations or financial condition.

The Company has been named as a defendant in a lawsuit for $174 plus interest of 6% per annum requesting a refund of monies paid for services rendered related to a low-speed Electric Vehicle demonstration program. The Company believes this lawsuit has no merit whatsoever and that its outcome would have no material effect on the Company's operations or financial condition.