

ELECTROVAYA INC.

Condensed Interim Consolidated Statement of Financial Position
(Expressed in thousands of U.S. dollars)
(Unaudited)

As at	March 31, 2012	September 30, 2011
Assets		
Current assets		
Cash and cash equivalents (note 13)	\$ 3,578	\$ 5,265
Trade and other receivables (note 14)	2,639	2,965
Investment tax credits recoverable	279	289
Inventories (note 5)	2,016	1,750
Prepaid expenses and other	244	499
	<u>8,756</u>	<u>10,768</u>
Property, Plant and Equipment (note 6)	9,707	9,229
Investment in shares (note 10)	457	440
	<u>\$ 18,920</u>	<u>\$ 20,437</u>
Liabilities and Equity		
Current liabilities		
Trade and other payables	\$ 855	\$ 1,083
Deferred revenue	1,519	940
Deferred government grant (note 12(b))	-	1,960
	<u>2,374</u>	<u>3,983</u>
Long-term liability		
Promissory Note (note 11)	4,668	4,421
Equity		
Share capital (note 7(a))	64,829	64,829
Contributed surplus	2,441	2,234
Fair value of share purchase warrants (note 7(c))	574	574
Accumulated other comprehensive income	496	(166)
Deficit	<u>(56,462)</u>	<u>(55,438)</u>
	<u>11,878</u>	<u>12,033</u>
	<u>\$ 18,920</u>	<u>\$ 20,437</u>

See accompanying notes to unaudited condensed interim consolidated financial statements.

These unaudited condensed interim consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements for the years ended September 30, 2011 and 2010.

ELECTROVAYA INC.

Condensed Interim Consolidated Statement of Operations and Deficit
 (Expressed in Thousands of U.S. dollars, except per share amounts)
 Quarters ended March 31, 2012 and 2011
 (Unaudited)

	Three months ended March 31,		Six months ended March 31,	
	2012	2011	2012	2011
Revenue (note 4)	\$ 2,393	\$ 2,719	\$ 4,897	\$ 4,954
Direct manufacturing costs (note 5(b))	1,900	2,032	3,684	3,453
	493	687	1,213	1,501
Expenses				
Research and development	364	361	911	786
Government assistance (note 12)	(271)	(266)	(792)	(477)
Sales and marketing	72	53	235	174
Warranty (note 2(k))	-	10	-	21
General and administrative (note 8)	449	465	897	905
Stock based compensation expense	105	156	205	336
Finance cost	110	122	218	130
Patents and trademark expenses	22	55	52	68
	851	956	1,726	1,943
Loss before the undernoted	358	269	513	442
Amortization (see note 2 (h))	92	76	180	123
Repurchase of Miljobil license	-	618	-	618
	92	694	180	741
Loss from operations	450	963	693	1,183
Foreign exchange loss and interest (income)	137	141	331	287
Net loss for the period	587	1,104	1,024	1,470
Basic and diluted loss per share	\$ 0.01	\$ 0.02	\$ 0.01	\$ 0.02
Weighted average number of shares outstanding, basic and fully diluted	70,954,612	70,939,089	70,954,612	70,932,685

See accompanying notes to unaudited condensed interim consolidated financial statements.

These unaudited condensed interim consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements for the years ended September 30, 2011 and 2010.

ELECTROVAYA INC.

Condensed Interim Consolidated Statements of Comprehensive Income (Loss)
(Expressed in thousands of U.S. dollars)
Quarters ended March 31, 2012 and 2011
(Unaudited)

	Three months ended March 31,		Six months ended March 31,	
	2012	2011	2012	2011
Net loss for the period	\$ 587	\$ 1,104	\$ 1,024	\$ 1,470
Other income				
Currency translation differences	(301)	(492)	(662)	(848)
Other comprehensive income for the period	(301)	(492)	(662)	(848)
Total comprehensive loss for the period	286	612	362	622

See accompanying notes to unaudited condensed interim consolidated financial statements.

These unaudited condensed interim consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements for the years ended September 30, 2011 and 2010.

ELECTROVAYA INC.

Condensed Interim Consolidated Statement of Changes in Equity
 (Expressed in Thousands of U.S. dollars)
 Quarters ended March 31, 2012 and 2011
 (Unaudited)

	Share Capital	Contributed Surplus	Accumulated Deficit	Fair value of share purchase warrants	Accumulated Other Comprehensive Income	Total
Balance – October 1, 2010	64,779	1,619	(53,576)			12,822
Stock-based compensation	42	418		-		460
Share Purchase Warrants				565		565
Net earnings for the period			(1,470)			(1,470)
Currency translation differences					848	848
Balance – March 31, 2011	\$64,821	\$ 2,037	\$ (55,046)	565	\$ 848	\$13,225
Balance – September 30, 2011	64,829	2,234	(55,438)	574	(166)	12,033
Stock-based compensation		207				207
Share Purchase Warrants						-
Net loss for the period			(1,024)			(1,024)
Currency translation differences					662	662
Balance – March 31, 2012	\$64,829	\$ 2,441	\$ (56,462)	\$ 574	\$ 496	\$11,878

See accompanying notes to unaudited condensed interim consolidated financial statements.

These unaudited condensed interim consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements for the years ended September 30, 2011 and 2010.

ELECTROVAYA INC.

Condensed Interim Consolidated Statement of Cash Flows
(Expressed in Thousands of U.S. dollars, except per share amounts)
Six months ended March 31, 2012 and 2011
(Unaudited)

	Six months ended March 31,	
	2012	2011
Cash provided by (used in)		
Operating activities		
Loss for the period	\$ (1,024)	\$ (1,470)
Items not involving cash:		
Amortization	180	123
Stock based compensation expense (note 2(l))	205	336
Financing costs	69	-
Net changes in working capital (note 9)	(1,284)	(983)
	(1,854)	(1,994)
Investing activities		
Purchase of Property, plant and equipment	(291)	(31)
	(291)	(31)
Financing activities		
Proceeds from issuance of common shares	-	24
Proceeds from issuance of a promissory note	-	5,006
	-	5,030
Increase (Decrease) in cash and cash equivalents	(2,145)	3,005
Exchange difference	458	562
Cash and cash equivalents, beginning of period	5,265	3,001
Cash and cash equivalents, end of period	3,578	6,568

See accompanying notes to unaudited condensed interim consolidated financial statements.

These unaudited condensed interim consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements for the years ended September 30, 2011 and 2010.

ELECTROVAYA INC.

Notes to the Condensed Interim Consolidated Financial Statements
(Expressed in Thousands of U.S. dollars)
Quarters ended March 31, 2012 and 2011
(Unaudited)

1. Nature of Operations

Electrovaya Inc. (“Electrovaya” or the “Company”) and its subsidiaries (the “Group”), design, develop and manufacture proprietary Lithium Ion SuperPolymer® batteries, battery systems, and battery-related products for the clean electric transportation, Utility Scale Energy Storage and smart grid power, consumer and healthcare markets. The Company's mission is to accelerate clean transportation as a commercial reality with its advanced power system for all classes of zero-emission electric vehicles and plug-in hybrid electric vehicles. The Company's other mission is to deliver Utility Scale Energy Storage Systems for the highest efficiency in electricity storage, whether the electricity is generated from intermittent wind and solar power or from other sources. Electrovaya Inc. was incorporated in 1996 under the Business Corporations Act (Ontario).

2. General Information and statement of compliance with IFRS

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.

These condensed unaudited interim consolidated financial statements of the Group have been prepared in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting, as issued by the International Accounting Standards Board (IASB) and do not include all the information required for annual financial statements. The consolidated financial statements are prepared in accordance with IAS1 “Presentation of Financial Statements.”

Our condensed unaudited interim consolidated financial statements for the three months ended December, 31, 2011 and 2010 were our first financial statements prepared in accordance with IFRS and its interpretations adopted by the IASB, including IFRS-1, *First-time Adoption of International Financial Reporting Standards* and were approved and authorized for issuance by the Board of Directors on March 13, 2012.

Our date of transition to IFRS (Transition Date) was October 1, 2010. Previously, we prepared our consolidated financial statements in accordance with Canadian generally accepted accounting principles (“GAAP”). The accounting policies set out below have been applied consistently to all periods presented in these unaudited condensed interim consolidated financial statements. They were also applied in preparing our opening IFRS Statement of Financial Position at October 1, 2010 (note 3) for the purposes of the transition to IFRS, as required by IFRS 1, First Time Adoption of International Financial Reporting Standards (IFRS 1). These unaudited interim consolidated financial

ELECTROVAYA INC.

Notes to the Condensed Interim Consolidated Financial Statements
(Expressed in Thousands of U.S. dollars)
Quarters ended March 31, 2012 and 2011
(Unaudited)

statements should be read in conjunction with our September 30, 2011 annual consolidated financial statements of the Group prepared in accordance with GAAP and the IFRS transition disclosure in note 3.

In note 3, we have presented reconciliations and descriptions of the effect of transitioning from GAAP to IFRS on our equity, net earnings and comprehensive income.

Significant Accounting Policies

(a) Basis of consolidation

The Group financial statements consolidate those of the parent company and all of its subsidiaries up to March 31, 2012. ElectroVaya exercises control through 100% of the voting rights of its subsidiaries, 1408871 Ontario Inc., ElectroVaya Corp., ElectroVaya Company, ElectroVaya USA Inc., ElectroVaya Global SRL (dormant) and ElectroVaya ApS (inactive). All subsidiaries have the same reporting dates as their parent company. All inter-company balances and transactions have been eliminated upon consolidation. Amounts reported in the financial statements of subsidiaries have been adjusted when necessary to ensure consistency with the accounting policies adopted by the Group.

(b) Functional and presentation currency:

These unaudited interim consolidated financial statements are presented in U.S. dollars. The Company's functional currency is Canadian dollars. The functional currency of the subsidiaries is Canadian dollars and US dollars. All financial information presented in U.S. dollars (except per share amounts) have been rounded to the nearest thousand.

(c) Significant management judgement in applying accounting policies and estimation uncertainty

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amount of assets and liabilities, revenue and expenses and the related disclosures of contingent assets and liabilities. Actual results could differ materially from the estimates and assumptions. We review our estimates and assumptions on an ongoing basis. Revisions are recognized in the period in which the estimates are revised and may impact future periods as well.

Significant management judgement

The following are significant management judgements in applying the accounting policies of the Group that have the most significant effect on the condensed unaudited interim consolidated financial statements.

- Recognition of contract revenues.
 - Determining when to recognize revenues from after-sales services requires an understanding of the customer's use of the related products, historical experience and knowledge of the market.
-

ELECTROVAYA INC.

Notes to the Condensed Interim Consolidated Financial Statements
(Expressed in Thousands of U.S. dollars)
Quarters ended March 31, 2012 and 2011
(Unaudited)

Recognizing contract revenue also requires significant judgment in determining milestones, actual work performed and the estimated costs to complete the work.

- Distinguishing the research and development phases of a new project and determining whether the recognition requirements for the capitalization of development costs are met requires judgement.

After capitalization, management monitors whether the recognition requirements continue to be met and whether there are any indicators that capitalized costs may be impaired (see notes 2(i & j)).

Estimation uncertainty

Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different.

Impairment

In assessing impairment, management estimates the recoverable amount of each asset or cash-generating units based on expected future cash flows and uses an interest rate to discount them. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate (see note 6).

Useful lives of depreciable assets

Management reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected utility of the assets. Uncertainties in these estimates relate to technical obsolescence that may change the utility of certain production, testing and other equipment.

Inventories

Management estimates the net realizable values of inventories, taking into account the most reliable evidence available at each reporting date. The future realization of these inventories may be affected by future technology or other market-driven changes that may reduce future selling prices.

Fair value of financial instruments

Management applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values may vary from the actual prices achieved in an arm's length transaction at the reporting date.

(d) Capital disclosures:

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.

ELECTROVAYA INC.

Notes to the Condensed Interim Consolidated Financial Statements
(Expressed in Thousands of U.S. dollars)
Quarters ended March 31, 2012 and 2011
(Unaudited)

The Group's capital management objectives are:

- to ensure the Group's ability to continue as a going concern
- to provide an adequate return to shareholders

by pricing products and services commensurately with the level of risk.

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

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

	<u>March 31,</u> <u>2012</u>	<u>September</u> <u>30, 2011</u>
Total Equity	11,878	12,033
Cash and cash equivalents	<u>(3,578)</u>	<u>(5,265)</u>
Capital	<u>8,300</u>	<u>6,768</u>
Total Equity	11,878	12,033
Promissory Note	<u>4,668</u>	<u>4,421</u>
Overall Financing	<u>16,546</u>	<u>16,454</u>
Capital to Overall financing Ratio	<u>0.50</u>	<u>0.41</u>

The Group's goal in capital management is to maintain a capital-to-overall financing ratio in a range between 0.40 and 0.80.

(e) Foreign Currency translation

Foreign currency transactions are translated into the functional currency of the respective Group entity. 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 with the resulting foreign exchange gains and losses recognized in profit and loss. Non-monetary items measured at historical cost are translated at the exchange rate in effect at the transaction date. Non-monetary items measured at fair value are translated using the exchange rates at the date when fair value was determined.

ELECTROVAYA INC.

Notes to the Condensed Interim Consolidated Financial Statements
(Expressed in Thousands of U.S. dollars)
Quarters ended March 31, 2012 and 2011
(Unaudited)

In the Group's unaudited condensed interim consolidated financial statements, all assets, liabilities and transactions of group entities with a functional currency other than the US dollar (the Group's presentation currency) are translated into US dollars upon consolidation.

On consolidation, assets and liabilities have been translated into US dollars at the closing rate at the reporting date. Income and expenses have been translated into the Group's presentation currency at the average rate over the reporting period. Exchange differences are recognized in comprehensive income and Accumulated other comprehensive income. On disposal of a foreign operation, the cumulative translation differences recognized in equity are reclassified to profit or loss and recognized as part of the gain or loss on disposal.

(f) Cash and Cash equivalents

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

(g) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost includes all expenses directly attributable to the manufacturing process as well as suitable portions of related production overheads, based on normal operating capacity. Net realizable value is the estimated selling price in the ordinary course of business less any applicable selling expenses. We attempt to utilize excess inventory in other products we manufacture or return the inventory to the supplier or customer. To the extent economic circumstances have changed, previous write-downs are reversed and recognized in the consolidated statement of operations in the period the change occurs.

(h) Property, plant and equipment:

Property, plant and equipment is carried at cost less related investment tax credits, accumulated depreciation and impairment losses. Cost consists of expenditures directly attributable to the acquisition of the asset, including interest for constructing qualified long-term assets, as applicable. We capitalize the cost of an asset when the economic benefits associated with that asset are probable and when the cost can be measured reliably. The costs of major renovations are capitalized and the carrying amount of replaced assets is written off. When components of an asset have a significantly different useful life than its primary asset, the components are amortized separately. All other maintenance and repair costs are expensed in the consolidated statement of operations as incurred.

ELECTROVAYA INC.

Notes to the Condensed Interim Consolidated Financial Statements
(Expressed in Thousands of U.S. dollars)
Quarters ended March 31, 2012 and 2011
(Unaudited)

An assessment of the useful life of each piece of equipment was completed as at October 1, 2010 and amortization is provided on a straight-line basis over the estimated useful lives of the assets. The following useful lives are applied:

	Years
Building	20
Building improvements	10
Production equipment # 1	2
Production equipment # 2	3
Production equipment # 3	4
Production equipment # 4	5
Office Furniture and Equipment # 1	5
Office Furniture and Equipment # 2	2
Vehicles	2

Material residual value estimates and estimates of useful life are updated as required, but at least annually. Gains or losses arising on the disposal of property, plant and equipment are determined as the difference between the disposal proceeds and the carrying amounts of the assets and are recognized in profit or loss within "other income" or "other expenses."

(i) Intangible assets

The Group's intangible assets consist of patents, trademarks and software licenses. We record intangible assets at fair value at the date of acquisition. An intangible asset is capitalized when the economic benefit associated with an asset is probable and when the cost can be measured reliably.

Intangible assets are carried at cost less accumulated depreciation and impairment losses. Cost consists of expenditures directly attributable to the acquisition of the assets.

(j) Impairment of property, plant and equipment

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows ("cash-generating units" or "CGU"). Cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If any such indication exists, the carrying amount of the asset is tested for impairment. Absent triggering events during the year, we conduct our impairment assessment annually to correspond with our planning cycle.

An impairment loss is recognized when the carrying amount of an asset or CGU exceeds the recoverable amount. The recoverable amount of an asset or CGU is the greater of its value-in-use or its fair value less costs to sell. The process of determining value-in-use, or discounted cash flows, is subjective and requires management to exercise judgment in making assumptions about future results, including

ELECTROVAYA INC.

Notes to the Condensed Interim Consolidated Financial Statements
(Expressed in Thousands of U.S. dollars)
Quarters ended March 31, 2012 and 2011
(Unaudited)

revenue and cash flow projections and discount rates. The process of determining fair value less costs to sell requires the valuation and or discounted cash flows when market prices are not available. Impairment losses are recognized in the consolidated statement of operations. Impairment losses recognized in respect of a CGU are allocated to reduce the other assets in the CGU on a pro rata basis.

Impairment losses are reversed if the circumstances that led to the impairment no longer exist. At each reporting date, we review for indicators that could change the estimates used to determine the recoverable amount. The amount of the reversal is limited to restoring the carrying amount to the carrying amount that would have been determined, net of depreciation or amortization, had no impairment loss been recognized in prior periods.

(k) Provisions

Legal:

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

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

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

Warranty:

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

ELECTROVAYA INC.

Notes to the Condensed Interim Consolidated Financial Statements
(Expressed in Thousands of U.S. dollars)
Quarters ended March 31, 2012 and 2011
(Unaudited)

(l) Stock-based compensation

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

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

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

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

(m) Income taxes

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

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill or on the initial recognition of an asset or liability

ELECTROVAYA INC.

Notes to the Condensed Interim Consolidated Financial Statements
(Expressed in Thousands of U.S. dollars)
Quarters ended March 31, 2012 and 2011
(Unaudited)

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

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

(n) Financial assets and financial liabilities

i) Financial assets

Our financial assets are comprised primarily of cash and cash equivalents and trade and other receivables. Our short term investments in money market instruments and banker's acceptances are recorded at fair value, with changes recognized through our unaudited interim condensed consolidated statement of operations.

Recognition, initial measurement and de-recognition

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted by transactions costs, except for those carried at fair value through profit or loss which are measured initially at fair value. Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred

Classification and subsequent measurement of financial assets

For the purpose of subsequent measurement, financial assets are classified into the following categories upon initial recognition:

- loans and receivables
 - financial assets at fair value through profit or loss (FVTPL)
 - held-to-maturity (HTM) investments
-

ELECTROVAYA INC.

Notes to the Condensed Interim Consolidated Financial Statements
(Expressed in Thousands of U.S. dollars)
Quarters ended March 31, 2012 and 2011
(Unaudited)

- available-for-sale (AFS) financial assets.

All financial assets except for those at FVTPL are subject to review for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below. All income and expenses relating to financial assets recognized in profit or loss are presented within finance costs or finance income, except for impairment of trade receivables which is presented within other expenses.

Loans and receivables:

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortized cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other shared credit risk characteristics. The impairment loss estimate is then based on recent historical counterparty default rates for each identified group.

Financial assets with fixed or determinable payments are classified as loans and receivables, such as our accounts receivable. This category excludes any derivative assets, or assets that are quoted in active markets. Loans and receivables are initially recognized in the unaudited consolidated statement of financial position at fair value plus directly attributable transaction costs, and subsequently measured at amortized cost using the effective interest rate method, less any impairment losses. Trade and other receivables fall into this category.

Fair value through profit or loss (FVPTL):

Financial assets purchased and incurred with the intention of generating earnings in the near-term are classified as fair value through operations. Transaction costs are expensed as incurred in the unaudited consolidated statement of operations.

Held-to-maturity investments (HTM):

Securities that have fixed or determinable payments and a fixed maturity date, which we intend to and have the ability to hold to maturity, are classified as held-to-maturity which includes our term deposits included in cash equivalents. Held-to-maturity financial assets are initially recognized in the unaudited consolidated balance sheet at fair value plus directly attributable transaction costs, and subsequently measured at amortized cost using the effective interest rate method, less any impairment losses. The

ELECTROVAYA INC.

Notes to the Condensed Interim Consolidated Financial Statements
(Expressed in Thousands of U.S. dollars)
Quarters ended March 31, 2012 and 2011
(Unaudited)

Company currently does not hold any financial assets designated as HTM.

Available-for-sale (AFS):

Available for sale financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. Gains and losses are recognised in other comprehensive income and reported within the AFS reserve within equity, except for impairment losses and foreign exchange differences on monetary assets, which are recognised in profit or loss. When the asset is disposed of or is determined to be impaired, the cumulative gain or loss recognised in other comprehensive income is reclassified from the equity reserve to profit or loss and presented as a reclassification adjustment within other comprehensive income. Interest calculated using the effective interest method and dividends are recognized in profit or loss within finance income.

Reversals of impairment losses are recognized in other comprehensive income, except for financial assets that are debt securities which are recognised in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognized. The Company currently does not hold any financial assets designated as available-for-sale.

ii) Financial liabilities

Our financial liabilities are comprised primarily of trade and other payables, as well as a promissory note. The majority of our financial liabilities are recorded at amortized cost. All financial liabilities are initially recorded at fair value and designated upon inception as FVPTL or other-financial-liabilities. The Group's financial liabilities include trade and other payables and the long-term promissory note.

Financial liabilities classified as other-financial-liabilities are initially recognized at fair value less directly attributable costs. A financial liability is derecognized when it is extinguished, discharged, cancelled or expires. Other-financial-liabilities are measured subsequently at amortized cost using the effective interest method, except for financial liabilities designated at FVTPL, that are carried subsequently at fair value with gains or losses recognised in profit or loss. All derivative financial instruments that are not designated and effective as hedging instruments are accounted for at FVTPL. The Company's trade and other payables and the long-term promissory note are classified as other-financial-liabilities.

Fair value through profit or loss

At March 31, 2012, the Company had not classified any financial liabilities as FVPTL.

(o) Revenue:

Revenue arises from the sale of goods and the rendering of services. It is measured by reference to the fair value of consideration received or receivable, excluding sales taxes, rebates, and trade discounts. The Group often enters into sales transactions involving a range of the Group's products and services, for

ELECTROVAYA INC.

Notes to the Condensed Interim Consolidated Financial Statements
(Expressed in Thousands of U.S. dollars)
Quarters ended March 31, 2012 and 2011
(Unaudited)

example for the delivery of battery systems and related services. The Group applies the revenue recognition criteria set out below to each separately identifiable component of the sales transaction. The consideration received from these multiple-component transactions is allocated to each separately identifiable component in proportion to its relative fair value.

Sale of goods

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

Rendering of services

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

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

Contracts for large energy storage systems

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

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

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

ELECTROVAYA INC.

Notes to the Condensed Interim Consolidated Financial Statements
(Expressed in Thousands of U.S. dollars)
Quarters ended March 31, 2012 and 2011
(Unaudited)

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

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

(p) Research and development:

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

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

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

Development costs not meeting these criteria for capitalization are expensed as incurred.

(q) Interest income

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

(r) Operating expenses

Operating expenses are recognized in profit or loss upon utilization of the service or at the date of their origin. Expenditures for warranties are charged against the associated provision when the related revenue is recognized.

(s) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized during the period of time that is necessary to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed in the period in which they are incurred and reported as

ELECTROVAYA INC.

Notes to the Condensed Interim Consolidated Financial Statements
(Expressed in Thousands of U.S. dollars)
Quarters ended March 31, 2012 and 2011
(Unaudited)

“Finance costs.”

(t) *Earnings per share (EPS):*

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.

(u) *Adoption of new and revised standards and interpretations*

The IASB issued a number of new and revised International Accounting Standards, International Financial Reporting Standards, amendments and related interpretations which are effective for the Company's financial year beginning on or after October 1, 2011. For the purpose of preparing and presenting the Financial Information for the relevant periods, the Company has consistently adopted all these new standards for the relevant reporting periods.

At the date of authorization of these Financial Statements, the IASB and IFRIC has issued the following new and revised Standards and Interpretations which are not yet effective for the relevant reporting periods.

- IFRS 9 'Financial Instruments: Classification and Measurement' – effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, introduces new requirements for the classification and measurement of financial instruments.
- IFRS 10 'Consolidated Financial Statements' – effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.
- IFRS 11 'Joint Arrangements' - effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form.
- IFRS 12 'Disclosure of Interests in Other Entities' - effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, requires the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.
- IFRS 13 'Fair Value Measurement' - effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, provides the guidance on the measurement of fair value and related disclosures through a fair value hierarchy.

The Company anticipates that the above standards will be adopted in the Company's financial statements for the period beginning October 1, 2013, and has not yet considered the impact of the adoption of these standards.

ELECTROVAYA INC.

Notes to the Condensed Interim Consolidated Financial Statements
(Expressed in Thousands of U.S. dollars)
Quarters ended March 31, 2012 and 2011
(Unaudited)

3. Transition to IFRS

The date of transition to International Financial Reporting Standards ("IFRS") is October 1, 2010. These unaudited interim consolidated financial statements for the three months ended March 31, 2012 are our second interim financial statements prepared in accordance with IFRS, including IFRS 1. In accordance with IFRS 1, we have applied IFRS retroactively to our comparative data as of October 1, 2010. In preparing these unaudited interim consolidated financial statements, we also applied certain exceptions and exemptions available under IFRS 1 to our conversion from GAAP to IFRS as discussed below.

i) Estimates:

Hindsight was not used to create or revise estimates. The estimates previously made by us under GAAP were not revised for IFRS unless there was objective evidence that those estimates were in error.

ii) Deemed cost

The Group has elected to use fair value as deemed cost at the date of transition for some items of property, plant and equipment (see notes 3(a) and 6).

iii) Cumulative Currency Translation Adjustments

The Group has recorded the cumulative translation differences for foreign exchange in other comprehensive income and included it in Accumulated other comprehensive income within equity. Gains or losses from the subsequent disposal of foreign operations would exclude translation differences arising prior to adopting IFRS. The Company elected to clear the cumulative currency translation balance to zero on the Transition Date.

iv) Transitional adjustments:

(a) Property, Plant & Equipment

Election to use fair value as deemed cost

At the date of transition, the Group elected to measure buildings and building improvements within property, plant and equipment at fair value as deemed cost. Depreciation under IFRS is based on this deemed cost.

The fair value amount for land, building and building improvements as at October 1, 2010 was established by independent valuers.

As at October 1, 2010, under IFRS and compared to GAAP, the fair value of land increased by \$3,761 and building and building improvements by \$261. An impairment adjustment was recognized for production, office and related equipment of \$111 and patents and technology of \$378.

ELECTROVAYA INC.

Notes to the Condensed Interim Consolidated Financial Statements
(Expressed in Thousands of U.S. dollars)
Quarters ended March 31, 2012 and 2011
(Unaudited)

As at September 30, 2011, under IFRS and compared to GAAP, the fair value of land increased by \$3,726 and building and building improvements by \$593. An impairment adjustment was recognized for production, office and related equipment of \$15 and patents and technology of \$361.

Depreciation rates of property, plant and equipment

Under previous GAAP, depreciation was based on the useful life of the asset, which accelerated the charge compared to IFRS, under which depreciation reflects the useful of the asset and its residual value. Depreciation is based on a review of the useful life of the assets and adjustments were booked as necessary.

(b) Intangible Assets

Election to use fair value as deemed cost

At the date of transition the Group elected to measure intangible assets at fair value as deemed cost. Depreciation under IFRS is based on this deemed cost.

Canadian GAAP has a two step approach. Under step one, if an asset's estimated undiscounted future cash flows are below its carrying amount a write-down is required as determined in step two by the amount which the carrying amount exceeds the discounted cash flows. Under IFRS, it is a one step approach. The fair value amount as at October 1, 2010 was determined to be Nil, resulting in a revaluation decrease in the carrying amount of \$378.

(b) Cumulative currency translation adjustment:

In accordance with IFRS 1, we elected to reset our cumulative currency translation balance to zero through Deficit on the Transition Date. Accordingly, \$9,555 of cumulative currency translation gains were reclassified from Accumulated other comprehensive income on October 1, 2010. Total equity was not affected.

(c) Other adjustments and reclassifications:

(i) Stock-based compensation:

Under GAAP, each grant was treated as a single arrangement and compensation expense was determined at the time of grant and amortized over the three year vesting period on a straight-line basis. IFRS requires a separate calculation of stock-based compensation expense for awards that vest in installments. Under IFRS, stock-based compensation expense differs from GAAP based on the changing fair values used for each installment and the timing of recognizing stock-based compensation expense. Generally this results in accelerated expense recognition under IFRS. On the Transition Date, we recognized additional compensation expense of \$94 which increased our deficit with a corresponding offset to contributed surplus. Total equity was not affected. Under IFRS as compared to GAAP, stock-

ELECTROVAYA INC.

Notes to the Condensed Interim Consolidated Financial Statements
(Expressed in Thousands of U.S. dollars)
Quarters ended March 31, 2012 and 2011
(Unaudited)

based compensation expense for the year ended September 30, 2011 decreased by \$172 to \$539 (three months ended December 31, 2010; increased by \$32).

As at September 30, 2011, under IFRS and compared to GAAP, share capital decreased by \$4 and contributed surplus decreased by \$484.

As at March 31, 2011, under IFRS and compared to GAAP, share capital decreased by \$4 and contributed surplus increased by \$134.

(ii) Expenses by nature:

We have presented our unaudited consolidated statement of operations by function.

RECONCILIATION OF GAAP TO IFRS:

The following tables set forth, for the periods indicated, a reconciliation from GAAP to IFRS, of our equity, net earnings and comprehensive income:

	30th September, 2011		
	Previous GAAP	Effect of transition to IFRS	IFRS
Assets			
Current assets			
Cash and cash equivalents	5,265	-	5,265
Trade and other receivables	2,965	-	2,965
Investment tax credits recoverable	289	-	289
Inventories	1,750	-	1,750
Prepaid expenses and other	499	-	499
	<u>10,768</u>	<u>-</u>	<u>10,768</u>
Property, Plant and Equipment (see note 3(a))	5,286	3,943	9,229
Investment in shares	440	-	440
	<u>16,494</u>	<u>3,943</u>	<u>20,437</u>
Liabilities and Shareholders' Equity			
Current liabilities			
Trade and other payables	1,083	-	1,083
Deferred revenue	940	-	940
Deferred government grant	1,960	-	1,960
	<u>3,983</u>	<u>-</u>	<u>3,983</u>
Long-term liability			
Promissory note	4,377	44	4,421

ELECTROVAYA INC.

Notes to the Condensed Interim Consolidated Financial Statements
 (Expressed in Thousands of U.S. dollars)
 Quarters ended March 31, 2012 and 2011
 (Unaudited)

Shareholders' equity			
Share capital	64,833	(4)	64,829
Contributed Surplus	2,927	(693)	2,234
Fair value of share purchase warrants	-	574	574
Accumulated other comprehensive income	9,483	(9,649)	(166)
Deficit	(69,109)	13,671	(55,438)
	<u>8,134</u>	<u>3,899</u>	<u>12,033</u>
	<u>16,494</u>	<u>3,943</u>	<u>20,437</u>

	31st March, 2011		
	Previous	Effect of	IFRS
	GAAP	transition	
		to IFRS	
Revenue	\$2,719	-	\$2,719
Cost of goods sold	2,032	-	2,032
Gross margin	<u>687</u>	<u>-</u>	<u>687</u>
Expenses			
Research and development	361	-	361
Government assistance	(266)	-	(266)
Sales and marketing	53	-	53
Warranty	10	-	10
General and administrative	465	-	465
Stock based compensation expense	153	3	156
Financing costs	122	-	122
Patents and trademark expenses	-	55	55
	<u>898</u>	<u>58</u>	<u>956</u>
Loss before the undernoted	211	58	269
Amortization	199	(123)	76
Repurchase of License	618	-	618
	<u>817</u>	<u>(123)</u>	<u>694</u>
Loss from operations	<u>1,028</u>	<u>(65)</u>	<u>963</u>
Interest income	(10)	-	(10)
Loss (gain) from foreign exchange	152	(1)	151
	<u>142</u>	<u>(1)</u>	<u>141</u>
Net Loss of the quarter	<u>\$1,170</u>	<u>\$(66)</u>	<u>\$1,104</u>

ELECTROVAYA INC.

Notes to the Condensed Interim Consolidated Financial Statements
(Expressed in Thousands of U.S. dollars)
Quarters ended March 31, 2012 and 2011
(Unaudited)

	30 th September, 2011		
	Previous GAAP	Effect of transition to IFRS	IFRS
Revenue	\$10,264	-	\$10,264
Cost of goods sold	7,620	-	7,620
Gross margin	2,644	-	2,644
Expenses			
Research and development	1,791	-	1,791
Government assistance	(1,328)	-	(1,328)
Sales and marketing	314	-	314
Warranty	34	-	34
General and administrative	1,941	(72)	1,869
Stock based compensation expense	711	(172)	539
Interest expense	236	-	236
Financing costs	153	-	153
	3,852	(244)	3,608
Loss before the undernoted	1,208	(244)	964
Amortization	792	(526)	266
Repurchase of License	621	-	621
	1,413	(526)	887
Loss from operations	2,621	(770)	1,851
Interest income	(36)	-	(36)
Loss (gain) from foreign exchange	(138)	185	47
	(174)	185	11
Net Loss for the year	\$2,447	\$(585)	\$1,862

ELECTROVAYA INC.

Notes to the Condensed Interim Consolidated Financial Statements
(Expressed in Thousands of U.S. dollars)
Quarters ended March 31, 2012 and 2011
(Unaudited)

Equity reconciliation:	Three months ended 31st March, 2011		
	Previous GAAP	Effect of transition to IFRS	IFRS
Share capital	\$64,822	\$(1)	\$64,821
Contributed surplus	2,471	(434)	2,037
Fair value of share purchase warrants	-	565	565
Accumulated other comprehensive income	10,278	(9,430)	848
Deficit	(68,287)	13,241	(55,046)
Equity	\$9,284	\$3,941	\$13,225

Total comprehensive income reconciliation:	Three months ended 31st March, 2011		
	Previous GAAP	Effect of transition to IFRS	IFRS
Net loss for the period	\$1,170	\$(66)	\$1,104
Other comprehensive loss (income)			
Currency translation reserve	(362)	(130)	(492)
Other comprehensive loss (income) for the period	(362)	(130)	(492)
Total comprehensive loss (income) for the period	\$808	\$(196)	\$612

Total comprehensive income reconciliation:	Six months ended 31st March, 2011		
	Previous GAAP	Effect of transition to IFRS	IFRS
Net loss for the period	\$1,625	\$(155)	\$1,470
Other comprehensive loss (income)			
Currency translation reserve	(723)	(125)	(848)
Other comprehensive loss (income) for the period	(723)	(125)	(848)
Total comprehensive loss (income) for the period	\$902	\$(280)	\$622

4. Segment and customer reporting

In identifying its operating segments, management has considered the different services and products offered by the Company and determined that there was no effect on the recognition and measurement of financial statement items upon transition to IFRS. The Company has reviewed its operations and determined that it operates in one business segment and has only one reporting unit. The Company develops, manufactures and markets portable power technology products using its patented lithium ion SuperPolymer ® technology.

ELECTROVAYA INC.

Notes to the Condensed Interim Consolidated Financial Statements
(Expressed in Thousands of U.S. dollars)
Quarters ended March 31, 2012 and 2011
(Unaudited)

Revenues from major business activities for the six months ended March 31, 2012 and 2011 were as follows:

	March 31,	
	2012	2011
Large Format Batteries, licensing	\$ 4,755	\$ 4,844
Consumer electronics	80	50
Other	62	60
	\$ 4,897	\$ 4,954

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

	March 31,	
	2012	2011
Canada	\$ 2,638	\$ 1,347
United States	2,233	3,493
Others	26	114
	\$ 4,897	\$ 4,954

Customers:

For the three months ending March 31, 2012 two customers represented more than 10% of total revenue (three months ending March 31, 2011 two customers). Our largest customer accounted for 61.2% and 20.1% of total revenue for the second quarters of 2011 and of 2012 respectively.

5. Inventories

(a) Total inventories on hand as at March 31, 2012 and September 30, 2011 are as follows:

	March 31, 2012	September 30, 2011
Raw materials	\$ 946	\$ 566
Semi finished goods	1,065	1,129
Finished goods	5	55
	\$ 2,016	\$ 1,750

(b) At the quarters ended March 31, 2012 and 2011, the following inventory revaluations and obsolescence provisions were included in direct manufacturing costs:

	March 31, 2012	March 31, 2011
Loss on material revaluation	\$ -	\$ -
Provision for obsolescence	32	29
	\$ 32	\$ 29

ELECTROVAYA INC.

Notes to the Condensed Interim Consolidated Financial Statements
(Expressed in Thousands of U.S. dollars)
Quarters ended March 31, 2012 and 2011
(Unaudited)

6. Property, Plant and Equipment:

Details of the Company's property, plant and equipment and their carrying amounts are as follows:
The Group's property, plant and equipment are comprised of land, buildings and building improvements, production and other equipment.

All amortization and impairment charges are included within amortization and impairment of non-financial assets. Land and building have been pledged as security for the long-term promissory note (See note 11). The carrying amount can be analysed as follows:

	Land	Building	Building Improvements	Production Equipment	Office Furniture and Equipment	Vehicles	Total
Gross carrying Amount							
Balance January 1, 2012	6,758	1,700	491	925	27	3	9,904
Additions	0	0	0	75	0	0	75
Exchange Differences	120	30	10	11	1	0	172
Balance March 31, 2012	6,878	1,730	501	1,011	28	3	10,151

Depreciation and impairment							
Balance January 1, 2012	0	(106)	(61)	(165)	(12)	(1)	(345)
Additions	0	(22)	(13)	(59)	(3)	(0)	(97)
Exchange Differences	0	(2)	(2)	2	(0)	(0)	(2)
Balance March 31, 2012	0	(130)	(76)	(222)	(15)	(1)	(444)
Net Book Value – March 31, 2012	6,878	1,600	425	789	13	2	9,707

	Land	Building	Building Improvements	Production Equipment	Office Furniture and Equipment	Vehicles	Total
Gross carrying Amount							
Balance January 1, 2011	6,865	1,727	500	425	20	0	9,537
Additions	0	0	0	0	0	0	0
Exchange Differences	207	52	14	12	1	0	286
Balance March 31, 2011	7,072	1,779	514	437	21	0	9,823
Depreciation and impairment							
Balance January 1, 2011	0	(22)	(12)	(25)	(2)	0	(61)
Additions	0	(23)	(13)	(27)	(3)	0	(66)
Exchange Differences	0	0	0	0	0	0	0
Balance March 31, 2011	0	(45)	(25)	(52)	(5)	0	(127)
Net Book Value – March 31, 2011	7,072	1,734	489	385	16	0	9,696

ELECTROVAYA INC.

Notes to the Condensed Interim Consolidated Financial Statements
 (Expressed in Thousands of U.S. dollars)
 Quarters ended March 31, 2012 and 2011
 (Unaudited)

Gross carrying Amount							
Balance October 1, 2010	6,676	1,679	486	382	18	0	9,241
Additions	0	0	0	313	9	3	325
Exchange Differences	(62)	(15)	(5)	(2)	(0)	0	(84)
Balance September 30, 2011	6,614	1,664	481	693	27	3	9,482
Depreciation and impairment							
Balance October 1, 2010	0	0	0	0	0	0	0
Additions	0	(83)	(48)	(112)	(9)	(1)	(253)
Exchange Differences	0	0	0	0	0	0	0
Balance September 30, 2011	0	(83)	(48)	(112)	(9)	(1)	(253)
Net Book Value - September 30, 2011	6,614	1,581	433	581	18	2	9,229

7. Share capital

(a) Authorized and issued capital stock

Authorized
 Unlimited common shares

Issued	Common Shares	
	Number	Amount
Balance, October 1, 2010	70,910,278	\$ 64,779
Issuance of shares upon exercise of stock options	44,334	34
Fair value of stock options exercised	-	16
Balance, September 30, 2011 and March 31, 2012	70,954,612	\$ 64,829

(b) In March, 2012, the Company received approval at its Annual Shareholders Meeting to increase the number of shares reserved for issuance under the stock option plan by 1,700,000 from 5,400,000 to 7,100,000. Options to purchase common shares of the Company under its stock option plan may be granted by the Board of Directors of the Company to certain full-time and part-time employees, directors and consultants of the Company and its affiliates. Stock options are non-assignable and may be granted for terms of up to 10 years. Stock options vest at various periods from zero to three years.

ELECTROVAYA INC.

Notes to the Condensed Interim Consolidated Financial Statements
 (Expressed in Thousands of U.S. dollars)
 Quarters ended March 31, 2012 and 2011
 (Unaudited)

The following table reflects the activity under the Plan:

	Number outstanding	Weighted average exercise price
Outstanding, October 1, 2010	3,079,835	\$1.03
Granted	392,000	\$2.68
Cancelled or expired	(198,666)	\$5.12
Exercised	(44,334)	\$0.77
Outstanding, September 30, 2011	3,228,835	\$0.83
Granted	250,000	\$0.80
Outstanding, December 31, 2011 and March 31, 2012	3,478,835	\$1.09

Exercise price	Number Outstanding	Weighted average remaining life (years)	Options exercisable	
			Number exercisable	Weighted average exercise price
\$0.62 (Cdn \$0.62)	130,668	0.36	130,668	\$0.62
\$0.68 (Cdn \$0.68)	20,000	0.67	20,000	\$0.68
\$1.10 (Cdn \$1.10)	398,334	2.14	398,334	\$1.10
\$0.90 (Cdn \$0.90)	19,666	2.36	19,666	\$0.90
\$0.56 (Cdn \$0.56)	305,001	2.70	305,001	\$0.56
\$0.36 (Cdn \$0.36)	0	3.44	0	\$0.36
\$0.29 (Cdn \$0.29)	266,666	3.73	266,666	\$0.29
\$0.67 (Cdn \$0.67)	617,000	5.73	617,000	\$0.67
\$0.24 (Cdn \$0.24)	219,000	6.89	219,000	\$0.24
\$0.95 (Cdn \$0.95)	272,000	7.37	272,000	\$0.95
\$0.80 (Cdn \$0.80)	73,500	7.92	73,500	\$0.80
\$1.84 (Cdn \$1.84)	470,000	7.99	285,000	\$1.84
\$2.82 (Cdn \$2.82)	20,000	8.28	20,000	\$2.82
\$2.70 (Cdn \$2.70)	25,000	8.31	25,000	\$2.70
\$2.78 (Cdn \$2.78)	392,000	8.76	170,665	\$2.78
\$0.81 (Cdn \$0.81)	250,000	9.72	0	\$0.81
	3,478,835	5.86	2,822,500	\$1.01

Stock based compensation expense related to the portion of the outstanding stock options that vested during the quarter ended March 31, 2012 was \$105 (2011-\$156).

As at March 31, 2012, the Company had outstanding 3,478,835 options (3,326,669 as at March 31, 2011) to acquire common shares under the Company's employee stock option plan.

ELECTROVAYA INC.

Notes to the Condensed Interim Consolidated Financial Statements
(Expressed in Thousands of U.S. dollars)
Quarters ended March 31, 2012 and 2011
(Unaudited)

- (c) The Company has 500,000 share purchase warrants outstanding related to the issuance of the C\$5,000 promissory note on December 22, 2010. The expiry date of these warrants is December 22, 2013. The warrants vested immediately and the exercise price is C\$2.30. The original fair value of the share purchase warrants was \$574. The following table summarizes the assumptions used with the Black-Scholes valuation model for the determination of the fair value of share purchase warrants issued during the quarter ended December 31, 2010:

Grant date	Dec 22, 2010
No. of options	500,000
Exercise price	\$ 2.30
Average Expected life in years	2
Volatility	108.46%
Risk-free weighted interest rate	1.7%
Dividend yield	-

8. Related party Transactions

Transactions with Electrovaya Corp Director

There were no balances outstanding as at September 30, 2011 and March 31, 2012. During the quarter ended March 31, 2012, the Company paid \$51 (2011- \$51) to a director of Electrovaya Corp for services rendered in his capacity as an executive officer of Electrovaya Inc. These amounts have been expensed in General and administrative.

Transactions with controlling shareholder of Electrovaya Inc.

There were no balances outstanding as at September 30, 2011 and March 31, 2012. During the quarter ended March 31, 2012, Electrovaya Corp paid \$58 (2011 - \$58) to the Chief Executive Officer, who is also a controlling shareholder of the Company. These amounts have been expensed in General and administrative.

9. Change in non-cash operating working capital

	March 31,	
	2012	2011
Trade and other receivables	\$ 326	\$ (1,783)
Investment tax credits recoverable	10	96
Inventories	(266)	(297)
Prepaid expenses and other	255	(195)
Trade and other payables	(228)	611
Deferred revenue	579	501
Deferred government grant	(1,960)	84
	<u>\$ (1,284)</u>	<u>\$ (983)</u>

ELECTROVAYA INC.

Notes to the Condensed Interim Consolidated Financial Statements
(Expressed in Thousands of U.S. dollars)
Quarters ended March 31, 2012 and 2011
(Unaudited)

10. 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. The shares are not publicly listed on a stock exchange and hence published price quotes are not available. These investments are accounted at cost.

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 year ending September 30, 2011, 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 \$621 and future deliveries of cells and batteries at discounted prices, in cash or product sales, totaling \$1,236. The Company made a cash payment of \$621 during the year ending September 30, 2011.

The Company has not incurred any contingent liabilities or other commitments relating to its investment in Miljobil.

11. Promissory Note

In December, 2010, the Company raised a principal amount of Cdn \$5,000 in consideration of issuance of a three-year secured promissory note bearing interest at 6% and 500,000 common share purchase warrants at an exercise price of C\$2.30 per share exercisable immediately for a period of 36 months. The promissory note matures on December 31, 2013.

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

	March 31, 2012	September 30 2011
Promissory Note	\$ 4,633	\$ 4,268
Plus: Accretion during the quarter/year	35	153
	<u>\$ 4,668</u>	<u>\$ 4,421</u>

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.

ELECTROVAYA INC.

Notes to the Condensed Interim Consolidated Financial Statements
(Expressed in Thousands of U.S. dollars)
Quarters ended March 31, 2012 and 2011
(Unaudited)

(b) Sustainable Development Technology Corp (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 installments 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, and 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.

A cash contribution of \$625 was received by the Company during the quarter ended December, 31, 2011. As of December 31, 2011, cumulative claims of \$1,738 have been received from SDTC. All monies owing under the SDTC 1 grant have 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 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 December 2010 for work completed since November, 2009. The amount is receivable in scheduled instalments as provided in the contribution agreement between SDTC and the Company and will be received upon the achievement of various project milestones. The Contribution shall not exceed fifty percent (50%) of the Eligible Project Costs for the Project and Electrovaya shall contribute a minimum of twenty-five percent (25%) of the Eligible Project Costs for the Project in cash, in-kind goods or services, or a combination. thereof.

The company received \$1.6 million as advance payment on the second milestone of Phase 2 for work completed since November, 2010. The Company recognized \$1,695 as revenue under this grant. As at March 31, 2012, the deferred government grant is \$Nil (2011 -\$464).

ELECTROVAYA INC.

Notes to the Condensed Interim Consolidated Financial Statements
(Expressed in Thousands of U.S. dollars)
Quarters ended March 31, 2012 and 2011
(Unaudited)

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

On May 5, 2009, the Province of Ontario, as represented by the Minister of Economic Development, signed a Conditional Grant Agreement with Electrovaya Corp. awarding Cdn \$ 16.7 million as a grant. The grant is for pre-commercialization activities over a period of five years ending on December 31, 2013. 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 \$ 3.3 million (Cdn \$3.3 million) on June 5, 2009 and recorded this as deferred revenue. During the quarter ended December 31, 2011, \$0.3 million and cumulative of \$3.3 million of activities considered to be eligible costs and therefore reimbursable under the grant were recorded as Government assistance. The full amount of the advance has now been recognized as revenue. During the quarter ended March 31, 2012, \$0.3 million and cumulative of \$3.6 million of activities considered to be eligible costs and therefore reimbursable under the grant were recorded as Government assistance.

13. Financial Instruments and Risk Management

Cash and cash equivalents are comprised of the following:

	March 31, 2012	September 30, 2011
Cash	1,842	2,629
Cash equivalents	1,736	2,636
	3,578	5,265

Our current portfolio consists of certain money market funds that hold exclusively U.S. government securities, and certificates of deposit. The majority of our cash and cash equivalents are held with financial institutions each of which had at March 31, 2012 a rating of R-1 mid or above.

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.

ELECTROVAYA INC.

Notes to the Condensed Interim Consolidated Financial Statements
(Expressed in Thousands of U.S. dollars)
Quarters ended March 31, 2012 and 2011
(Unaudited)

Foreign currency risk sensitivity analysis:

The financial instruments impacted by a change in exchange rates include our exposures to the above financial assets or liabilities denominated in non- functional currencies. The amounts held in US dollars were \$1,857 (March 31, 2012) and \$2,022 (Sept 30, 2011).

14. Trade and other receivables

	March 31, 2012	September 30, 2011
Trade receivables, gross	\$2,479	\$2,734
Allowance for credit losses	-	(10)
Trade receivables	2,479	2,724
Other receivables	160	241
Trade and other receivables	<u>\$2,639</u>	<u>\$2,965</u>

All amounts are short-term. The net carrying value of trade receivables is considered a reasonable approximation of fair value.

All of the Group's trade and other receivables have been reviewed for indicators of impairment. Certain trade receivables were found to be impaired and an allowance for credit losses has been recorded accordingly.

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

	<u>2011</u>	<u>2012</u>
Balance 1st January	\$66	\$11
Impairment loss	(43)	(13)
Allowance (reversed)/provided	(12)	2
Balance 31st March	<u>\$11</u>	<u>\$ -</u>

15. Credit risk analysis

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

ELECTROVAYA INC.

Notes to the Condensed Interim Consolidated Financial Statements
(Expressed in Thousands of U.S. dollars)
Quarters ended March 31, 2012 and 2011
(Unaudited)

Total comprehensive income reconciliation:

	March 31, 2012	September 30, 2011
Cash and cash equivalents	\$3,578	\$5,265
Trade and other receivables	2,639	2,965
Carrying amount	\$6,217	\$8,230

16. Commitment and contingencies

In 2009 the Company was named as a defendant in a lawsuit related to a low-ranking employee dismissal. Pursuant to recent discussions, the amount under consideration is approximately \$63. 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.