

# ELECTROVAYA INC.

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

As at	December 31, 2018	September 30, 2018
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents (note 12)	\$ 446	\$ 126
Restricted cash (note 12)	-	1,012
Trade and other receivables (notes 12 &13)	1,187	916
Investment tax credits recoverable	108	114
Inventories (note 5)	1,149	1,757
Prepaid expenses and other	357	408
<b>Total current assets</b>	<b>3,247</b>	<b>4,333</b>
<b>Non-current assets</b>		
Property, plant and equipment (note 6)	92	145
Assets held for sale (note 6)	-	11,352
<b>Total non-current assets</b>	<b>92</b>	<b>11,497</b>
<b>Total assets</b>	<b>\$ 3,339</b>	<b>\$ 15,830</b>
<b>Liabilities and Equity</b>		
<b>Current liabilities</b>		
Line of credit (note 4)	\$ 269	\$ 9,043
Trade and other payables (note 8)	2,364	2,563
Deferred revenue	552	97
Promissory notes (note 10)	454	7,223
<b>Total current liabilities</b>	<b>3,639</b>	<b>18,926</b>
<b>Non-current liabilities</b>		
9% convertible debentures (note 15)	10,176	10,548
Other payables (note 16)	115	114
<b>Total non-current liabilities</b>	<b>10,291</b>	<b>10,662</b>
<b>Equity(Deficiency)</b>		
Share capital (note 7)	81,858	81,858
Contributed surplus	3,345	3,296
Warrants (note 7)	6,013	6,013
Accumulated other comprehensive gain	13,234	12,872
Revaluation surplus (note 6)	-	5,487
Equity component of convertible debentures (note 15)	71	71
Deficit	(115,112)	(123,355)
<b>Total (Deficiency)</b>	<b>(10,591)</b>	<b>(13,758)</b>
<b>Total liabilities and equity(deficiency)</b>	<b>\$ 3,339</b>	<b>\$ 15,830</b>

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 year ended September 30, 2018.

# ELECTROVAYA INC.

Condensed Interim Consolidated Statement of Operations  
(Expressed in thousands of U.S. dollars, except per share amounts)  
Three month periods ended December 31, 2018 and 2017  
(Unaudited)

	2018	2017
Revenue (note 14)	\$ 1,972	\$ 748
Direct manufacturing costs (note 5(b))	1,251	469
Gross margin	721	279
Expenses		
Research and development	927	719
Sales and marketing	358	316
General and administrative (note 8)	539	733
Stock based compensation (note 7(b))	49	78
Finance costs	582	986
Patents and trademark expenses	14	8
	2,469	2,840
(Loss) before the undernoted	(1,748)	(2,561)
Amortization (note 2(g))	19	92
(Loss) from operations	(1,767)	(2,653)
Gain on sale of property, plant and equipment	4,163	-
Foreign exchange gain(loss) and interest income	360	(30)
Gain(Loss) from continued operations	2,756	(2,683)
(Loss) from discontinued operations (note 3)	-	(12,485)
Net gain(loss) for the period	2,756	(15,168)
Basic (loss) per share	\$ 0.03	\$ (0.16)
Diluted (loss) per share	\$ 0.03	\$ (0.16)
Weighted average number of shares outstanding, basic and fully diluted	103,605,271	94,128,653

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conjunction with the annual audited consolidated financial statements for the year ended  
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# ELECTROVAYA INC.

Condensed Interim Consolidated Statement of Comprehensive gain(loss)

(Expressed in thousands of U.S. dollars)

Three month periods ended December 31, 2018 and 2017

(Unaudited)

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	2018	2017
Net gain(loss) for the period	\$ 2,756	\$ (15,168)
Currency translation differences	362	(35)
Other comprehensive gain(loss) for the period	362	(35)
Total comprehensive gain(loss) for the period	\$ 3,118	\$ (15,203)

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 year ended September 30, 2018.

# ELECTROVAYA INC.

Condensed Interim Consolidated Statement of Changes in Equity

(Expressed in thousands of U.S. dollars)

Three month periods ended December 31, 2018 and 2017

(Unaudited)

	Share Capital	Contributed Surplus	Deficit	Warrants	Accumulated other Comprehensive gain	Equity component of 9% Convertible Debentures	Revaluation Surplus	Total
Balance – October 01, 2017	\$79,700	\$3,007	\$(100,698)	\$4,482	\$6,730	\$71	\$5,487	\$(1,221)
Stock-based compensation	-	78	-	-	-	-	-	78
Issue of shares	1,065	-	-	-	-	-	-	1,065
Net loss for the period	-	-	(15,168)	-	-	-	-	(15,168)
Share purchase warrants	-	-	-	1,348	-	-	-	1,348
Currency translation differences	183	-	-	-	(35)	-	(4)	144
Balance–December 31, 2017	\$80,948	\$3,085	\$(115,866)	\$5,830	\$6,695	\$71	\$5,483	\$(13,754)
Balance – October 01, 2018	\$81,858	\$3,296	\$(123,355)	\$6,013	\$12,872	\$71	\$5,487	\$(13,758)
Stock-based compensation	-	49	-	-	-	-	-	49
Net gain for the period	-	-	2,756	-	-	-	-	2,756
Revaluation Surplus	-	-	5,487	-	-	-	(5,487)	-
Currency translation differences	-	-	-	-	362	-	-	362
Balance–December 31, 2018	\$81,858	\$3,345	\$(115,112)	\$6,013	\$13,234	\$71	-	\$(10,591)

See accompanying notes to unaudited condensed interim consolidated financial statements.

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# ELECTROVAYA INC.

Condensed Interim Consolidated Statements of Cash Flows  
 (Expressed in thousands of U.S. dollars)  
 Three month periods ended December 31, 2018 and 2017  
 (Unaudited)

	2018	2017
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net gain(loss) for the period	\$2,756	\$ (15,168)
Loss from discontinued operations	-	12,485
Items not involving cash:		
Amortization	19	92
Stock based compensation expense (note 7(b))	49	78
Financing costs	218	434
Gain on sale of property, plant and equipment	(4,163)	-
Net changes in working capital (note 9)	650	318
Cash from (used in) operating activities-continued operations	(471)	(1,761)
Cash (used in) operating activities-discontinued operations	-	(1,827)
Cash from (used in) operating activities	(471)	(3,588)
<b>Investing activities</b>		
Repayment of loan payable	(16,151)	-
Proceeds from property, plant and equipment	15,178	-
Cash (used in) investing activities-continued operations	(973)	-
Cash (used in) investing activities-discontinued operations	-	(138)
Cash (used in) investing activities	(973)	(138)
<b>Financing activities</b>		
Issue of shares	-	1,065
Change in GIC investment	1,012	-
Loan financing	-	16
Cash from financing activities-continued operations	1,012	1,081
Cash from financing activities-discontinued operations	-	-
Cash from financing activities	1,012	1,081
Increase (decrease) in cash and cash equivalents	(432)	(2,645)
Exchange difference	752	1,082
Cash and cash equivalents, beginning of period	126	3,402
Cash and cash equivalents, end of period	446	1,839
Less: Cash and cash equivalents of discontinued operations at end of period	-	(633)
Cash and cash equivalents of continued operations at end of period	\$ 446	\$ 1,206
Supplemental cash flow disclosures:		
Income tax paid	-	-
Interest paid	\$ 202	\$ 498

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# ELECTROVAYA INC.

Notes to the Condensed Interim Consolidated Financial Statements  
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Electrovaya Inc. (the "Company") is domiciled in Ontario, Canada, and is incorporated under the Business Corporations Act (Ontario). The Company's registered office is at 2645 Royal Windsor Drive, Mississauga, Ontario L5J 1K9, Canada.

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

## 1. Basis of Presentation

### a) Statement of Compliance

These unaudited condensed interim consolidated financial statements have been prepared based on the principles of International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and the Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). The unaudited interim consolidated financial statements should be read in conjunction with the Company's September 30, 2018 audited annual consolidated financial statements and accompanying notes.

These unaudited condensed interim consolidated financial statements were authorized for issuance by the Company's Board of Directors on February 5, 2019.

### b) Basis of Accounting – Going concern

These unaudited condensed interim consolidated financial statements have been prepared on a going concern basis, which assumes that the Group will be able to realize its assets and discharge its liabilities in the normal course of business as they come due into the foreseeable future.

For the quarter ended December 31, 2018, the Group incurred a net gain of \$2.8 million, with cash used in operating activities \$0.5 million. Furthermore, during the quarter, working capital generated from continued operations was \$0.7 million as compared to \$0.3 million in the quarter ended December 31, 2017. At December 31, 2018, the Group had unrestricted cash of \$0.4 million, current assets of \$3.3 million and a cumulative deficiency \$10.5 million.

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

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## **c) Functional and Presentation Currency**

These unaudited condensed interim consolidated financial statements are presented in U.S. dollars and have been rounded to the nearest thousands, except per share amounts and when otherwise indicated. The functional currencies of the Company's subsidiaries of continued operations include Canadian dollars and US dollars.

## **d) Use of Judgements and Estimates.**

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

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

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

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

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

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

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

## 2. Significant Accounting Policies

### a) Basis of consolidation

#### i) Subsidiaries

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



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

- Electrovaya Corporation - 100%
- Electrovaya Company - 100%
- 1408871 Ontario Inc.\* – 100% (amalgamated with Electrovaya Corporation)
- Electrovaya USA Inc. – 100%
- Electrovaya GmbH - 100% (inactive)
- Miljobil Grenland A.S. ("MGB") - 100% (inactive)

\*On September 1, 2018, 1408871 Ontario Inc. and Electrovaya Corporation were amalgamated under the Business Corporations Act (Ontario) and the amalgamated company continued as Electrovaya Corporation.

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

## ii) Transactions eliminated on consolidation

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

This only applies to continued operations and excludes discontinued operations. As Litarion GmbH is classified as discontinued operations, the current and prior period comparative figures in the unaudited condensed interim financial statements have been restated to reflect only continued operations.

## iii) Business Combinations

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

### *Non-controlling interest:*

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

### *Measuring goodwill:*

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

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

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

#### *Contingent liabilities:*

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

#### **b) Changes in accounting policy**

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

#### **c) Foreign currency**

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

##### **i) Foreign currency transactions**

Transactions carried out in foreign currencies are translated using the exchange rate prevailing at the transaction date. Monetary assets and liabilities denominated in a foreign currency at the reporting date are translated at the exchange rate at that date. The foreign currency gain or loss on such monetary items is recognized as income or expense for the period. Non-monetary assets and liabilities denominated in a foreign currency are translated at the historical exchange rate prevailing at the transaction date.

##### **ii) Translation of financial statements of foreign operations**

The assets and liabilities of subsidiaries whose functional currency is not the U.S. dollar are

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

## **d) Financial instruments**

### **i) Non-derivative financial assets**

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

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

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

The Company has the following non-derivative financial assets:

#### *Financial assets at fair value through profit or loss:*

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

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

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

Loans and receivables:

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition trade and other receivables are

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measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables consist of trade and other receivables.

## ii) **Non-derivative financial liabilities**

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

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

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

## e) **Cash and cash equivalents**

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

## f) **Inventories**

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

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

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

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## **g) Property, plant and equipment:**

### *Recognition and measurement:*

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

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

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

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

### *Subsequent costs:*

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

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

The following useful lives are applied:

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

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

## **h) Intangible assets**

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

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

## **i) Impairment**

### **(i) Financial assets**

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

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

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

### **(ii) Non-financial assets**

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

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

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

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Impairment losses recognized in respect of CGUs are allocated to the carrying amounts of the assets in the unit (group of units).

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

## **j) Provisions**

### *Legal:*

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

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

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

### *Warranty:*

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

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## **k) Share-based payments**

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

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

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

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

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

## **l) Income taxes**

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity. Current income tax assets



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and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

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

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

## **m) Revenue**

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

### Government Grants

Government grants are recognized when there is reasonable assurance that Electrovaya has

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

## Sale of goods

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

## Rendering of services

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

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

## Contracts for large energy storage systems

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

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

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total contract costs will exceed total contract revenue, the expected loss is recognized immediately in profit or loss.

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

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

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

## **n) Research and development**

Expenditure on research is recognized as an expense in the period in which it is incurred. Costs that are directly attributable to the development phase are recognized as intangible assets provided they meet the following recognition requirements:

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

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

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## **o) Finance income and finance expense**

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

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

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

## **p) Earnings per share (EPS)**

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

## **q) Segment reporting**

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

## **r) Guarantees**

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

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

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amount initially recognized less cumulative amortization.

## s) Recently issued accounting standards

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

- IFRS 9 'Financial Instruments':

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

- IFRS 15 'Revenue from Contracts with Customers'

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

- IFRS 16, 'Leases'

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

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

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

- Amendments to IAS 7, 'Statement of Cash Flows'

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

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

### 3. Discontinued operations

#### Financial information for discontinued operations:

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	31-Dec-17	30-Sep-17
Total revenue and other income	\$ 865	\$ 6,492
Loss from discontinued operations before income tax	12,485	16,445
Provision for income tax	-	75
Loss from discontinued operations, net of income tax	\$12,485	\$ 16,520

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### 4. Line of credit

In November, 2017, the amount drawn under the \$6 million revolving working capital facility exceeded the amount available under the loan agreement. The bank and the Company entered into an accommodation agreement whereby the Company could draw up to \$5 million as an overdraft facility not subject to 90% of EDC insured accounts receivable and 60% of inventory test. The credit facility also included a \$4 million line of credit which was cash collateralized with \$1 million. The credit facility had been fully drawn and with the working capital facility, the total debt was \$9 million. The outstanding balance on December 31, 2018 of the line of credit was \$269. Subsequent to the quarter end December 31, 2018, this line of credit was fully repaid and all security released (note 20(a)).

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Balance as on October 01, 2018	\$9,043
Repayments	
Applied Restricted Cash	1,012
Applied proceeds from sale of property	5,862
Other payments	1,900
	<u>8,774</u>
Balance as on December 31, 2018	<u>\$269</u>

## 5. Inventories

(a) Total inventories on hand as at December 31, 2018 and September 30, 2018 are as follows:

	December 31, 2018	September 30, 2018
Raw materials	\$ 326	\$ 383
Semi finished	558	1,338
Finished goods	265	36
	<u>\$ 1,149</u>	<u>\$ 1,757</u>

(b) At the quarters ended December 31, 2018 and 2017, the following inventory revaluations and obsolescence provisions were included in direct manufacturing costs:

	December 31, 2018	2017
Provision(recovery) for obsolescence	\$ -	\$ 47
	<u>\$ -</u>	<u>\$ 47</u>

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## 6. Property, Plant and Equipment

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

	Property, plant and equipment				Assets held for sale		
	Leasehold Improvements	Production Equipment	Office Furniture and Equipment	Total	Land	Building	Total
Gross carrying amount	\$400	\$1,525	\$68	\$1,993	\$8,747	\$3,165	\$11,912
Balance October 1, 2017							
Additions							
Reductions/Disposals							
Exchange differences	(13)	(49)	(2)	(64)	(280)	(101)	(381)
Balance September 30, 2018	387	1,476	66	1,929	8,467	3,064	11,531
Depreciation and impairment							
Balance October 1, 2017	(280)	(1,349)	(43)	(1,672)	-	(40)	(40)
Additions	(39)	(116)	(11)	(166)	-	(140)	(140)
Reductions/Disposals					-		
Exchange differences	9	44	1	54	-	1	1
Balance September 30, 2018	(310)	(1,421)	(53)	(1,784)	-	(179)	(179)
Net Book Value – September 30, 2018	\$77	\$55	\$13	\$145	\$8,467	\$2,885	\$11,352

	Property, plant and equipment				Assets held for sale		
	Leasehold Improvements	Production Equipment	Office Furniture and Equipment	Total	Land	Building	Total
Gross carrying amount							
Balance October 1, 2018	\$387	\$1,476	\$66	\$1,929	\$8,467	\$3,064	\$11,531
Additions	-	-	-	-	-	-	-
Reductions/Disposals	-	(555)	(7)	(562)	(8,019)	(2,902)	(10,921)
Exchange differences	(20)	(78)	(4)	(102)	(448)	(162)	(610)
Balance December 31, 2018	367	843	55	1,265	-	-	-
Depreciation and impairment							
Balance October 1, 2018	(310)	(1,421)	(53)	(1,784)	-	(179)	(179)
Additions	(9)	(8)	(2)	(19)	-	-	-
Reductions/Disposals	-	528	7	535	-	169	169
Exchange differences	16	76	3	95	-	10	10
Balance December 31, 2018	(303)	(825)	(45)	(1,173)	-	-	-
Net Book Value – December 31, 2018	\$64	\$18	\$10	\$92	\$-	\$-	\$-

The carrying amount can be analyzed as follows:



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

All amortization and impairment charges are included within amortization and impairment of non-financial assets.

On October 23, 2018 the company completed the sale of the land and buildings of its Headquarters in Mississauga for gross proceeds of \$16,491 (Cdn \$22.5 million) for a gain of \$4,163 after selling expenses.

The revaluation surplus of land \$3,250 and building \$2,237 was transferred to Deficit as a result of sale of premises.

## 7. Share Capital

### a) Authorized and issued capital stock

Authorized  
Unlimited common shares  
Issued

	Common Shares	
	Number	Amount
Balance, October 01, 2016	87,193,642	\$75,339
Issuance of shares	517,000	398
Fair value of stock options exercised	-	2
Fair value of share warrants exercised	-	121
Balance, December 31, 2016	87,710,642	\$75,860
Issuance of shares	152,365	108
Fair value of stock options exercised	-	72
Fair value of share warrants exercised	-	2
Balance, March 31, 2017	87,863,007	\$76,042
Issuance of shares	253,928	273
Balance, June 30, 2017	88,116,935	\$76,315
Issuance of shares	4,000,000	3,385
Balance, September 30, 2017	92,116,935	\$79,700
Issuance of shares	4,781,060	1,248
Balance, December 31, 2017 & March, 2018	96,897,995	\$80,948
Issuance of shares	4,450,001	387
Balance, June 30, 2018	101,347,996	\$81,335
Issuance of shares	2,257,275	523
Balance, September 30, 2018 & December 31, 2018	103,605,271	\$81,858

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## b) Stock Options

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

	Number outstanding	Weighted average exercise price
Outstanding, October 1, 2016	3,760,834	\$0.89
Granted during quarter ended December 31, 2016	651,000	\$1.59
Exercised during quarter ended December 31, 2016	(13,000)	\$0.24
Outstanding, December 31, 2016	4,398,834	\$0.87
Exercised during quarter ended March 31, 2017	(140,165)	\$0.70
Cancelled or expired	(16,000)	\$0.59
Outstanding, March 31, 2017	4,242,669	\$0.87
Cancelled or expired	(121,666)	\$1.31
Outstanding, June 30, 2017	4,121,003	\$0.89
Granted during quarter ended September 30, 2017	120,000	\$0.98
Outstanding, September 30, 2017	4,241,003	\$0.92
Cancelled or expired	(100,000)	\$0.54
Outstanding, December 31, 2017	4,141,003	\$0.97
Granted during quarter ended March 31, 2018	775,000	\$0.22
Outstanding, March 31, 2018	4,916,003	\$0.92
Cancelled or expired	(40,000)	\$1.62
Outstanding, June 30 & September 30, 2018	4,876,003	\$0.91
Cancelled or expired	(25,400)	\$1.04
Outstanding, December 31, 2018	4,850,603	\$0.89

Options exercisable						
Exercise price		Number Outstanding	Weighted average remaining life (years)	Number exercisable	Weighted average exercise price	
\$0.18	( Cdn \$0.24 )	16,000	0.13	16,000	\$0.18	
\$0.70	( Cdn \$0.95 )	260,000	0.62	260,000	\$0.70	
\$0.59	( Cdn \$0.80 )	5,000	1.17	5,000	\$0.59	
\$1.35	( Cdn \$1.84 )	470,000	1.24	470,000	\$1.35	
\$2.07	( Cdn \$2.82 )	20,000	1.52	20,000	\$2.07	
\$1.98	( Cdn \$2.70 )	25,000	1.55	25,000	\$1.98	
\$2.04	( Cdn \$2.78 )	357,000	2.00	357,000	\$2.04	
\$0.59	( Cdn \$0.81 )	89,998	2.96	89,998	\$0.59	

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\$0.23 ( Cdn \$0.32 )	59,000	3.95	59,000	\$0.23
\$0.52 ( Cdn \$0.71 )	32,000	4.15	32,000	\$0.52
\$0.53 ( Cdn \$0.72 )	1,312,000	5.14	1,312,000	\$0.53
\$0.76 ( Cdn \$1.04 )	15,000	5.19	15,000	\$0.76
\$0.75 ( Cdn \$1.02 )	41,000	5.39	41,000	\$0.75
\$0.48 ( Cdn \$0.65 )	279,171	6.14	279,171	\$0.48
\$0.48 ( Cdn \$0.65 )	30,000	6.14	30,000	\$0.48
\$0.67 ( Cdn \$0.91 )	60,000	6.39	60,000	\$0.67
\$0.51 ( Cdn \$0.69 )	280,834	6.75	280,834	\$0.51
\$0.58 ( Cdn \$0.79 )	98,000	7.12	69,666	\$0.58
\$1.56 ( Cdn \$2.13 )	505,600	8.00	347,132	\$1.56
\$0.89 ( Cdn \$1.22 )	120,000	8.59	40,000	\$0.89
\$0.21 ( Cdn \$0.28 )	775,000	9.15	0	\$0.21
	4,850,603	3.95	3,808,801	\$0.89

Stock based compensation expense related to the portion of the outstanding stock options that vested during the quarter ended December 31, 2018 was \$49 (December 31, 2018-\$78).

As at December 31, 2018, the Company had outstanding 4,850,603 options (4,876,003 as at September 30, 2018) to acquire common shares under the Company's employee stock option plan.

- c) As a condition of the first renewal of the a Cdn \$6.25 million secured promissory note, the Company issued new 1,000,000 warrants for a 24 months period on February 19, 2016 that vested immediately at the exercise price of Cdn \$0.79. The fair value of the share warrants is \$241.

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

As a condition of the third renewal of the promissory note, the Company issued new 1,000,000 warrants for a 24 months period on June 1, 2018 that vested immediately at the exercise price of Cdn \$0.18. The fair value of the share warrants is \$53.

The following table summarizes the assumptions used with the Black-Scholes valuation model for the determination of the fair value of share purchase warrants issued during the year ended September 30, 2018:

Grant date	June 01, 2018
No. of warrants	1,000,000
Exercise price	\$ 0.14

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Average Expected life in years	2
Volatility	75.74%
Risk-free weighted interest rate	1.88%
Dividend yield	-

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

Grant date March 27, 2017

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

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

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

Grant date September 29, 2017

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

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- f) The Company issued 604,347 share purchase warrants and 42,304 compensation options related to the issuance of the shares under the second tranche of a brokered private placement on October 4, 2017. The expiry date of these warrants is October 3, 2022. The warrants and compensation vested immediately and the exercise price is Cdn \$1.45. The original fair value of the share purchase warrants and compensation options were \$284 and \$20 respectively.

The following table summarizes the assumptions used with the Black-Scholes valuation model for the determination of the fair value of share purchase warrants issued during the quarter ended December 31, 2017:

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Grant date	October 04, 2017
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No. of warrants	604,347
No. of broker warrants	42,304
Exercise price	\$ 1.16
Average Expected life in years	5
Volatility	100.74%
Risk-free weighted interest rate	1.22%
Dividend yield	-

- g) The Company issued 3,333,333 share purchase warrants to an existing shareholder related to issuance of shares under a private placement basis on December 22, 2017. The expiry date of these warrants is December 21, 2022. The warrants vested immediately and the exercise price is Cdn \$0.73. The original fair value of the share purchase warrants is \$1,053.

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, 2017:

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Grant date	December 22, 2017
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No. of warrants	3,333,333
Exercise price	\$ 0.58
Average Expected life in years	5
Volatility	99.43%
Risk-free weighted interest rate	1.41%
Dividend yield	-

- h) The Company issued 2,224,999 share purchase warrants to certain directors, officers and employees of the Company related to issuance of shares under a private placement basis on May 30, 2018. The expiry date of these warrants is May 30, 2021. The warrants vested immediately and the exercise price is Cdn \$0.20. The original fair value of the share purchase warrants is \$126.

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Grant date	May 30, 2018
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No. of warrants	2,224,999
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Exercise price	\$ 0.15
Average Expected life in years	3
Volatility	77.5%
Risk-free weighted interest rate	1.88%
Dividend yield	-

## Details of Share Warrants

	<b>Number Outstanding</b>	<b>Exercise Price</b>
Outstanding as on October 01, 2016	1,348,868	
Exercised during the quarter ended Dec 31, 2016	-504,000	\$0.78
Outstanding, Dec 31, 2016	844,868	
Exercised during the quarter ended Mar 31, 2017	-12,200	\$0.79
Issued during the quarter ended Mar 31, 2017	1,000,000	\$2.06
Issued during the quarter ended Mar 31, 2017	1,740,000	\$2.10
Outstanding, Mar 31, 2017 & Jun 30, 2017	3,572,668	
Issued during the quarter ended Sep 30, 2017	4,000,000	\$1.16
Outstanding, Sep 30, 2017	7,572,668	
Issued during the quarter ended Dec 31, 2017	604,347	\$1.16
Issued during the quarter ended Dec 31, 2017	3,333,333	\$0.58
Expired during the quarter ended Dec 31, 2017	-446,000	\$0.91
Outstanding, Dec 31, 2017	11,064,348	
Expired during the quarter ended Mar 31, 2018	-386,668	\$0.60
Outstanding, Mar 31, 2018	10,677,680	
Issued during the quarter ended Jun 30, 2018	2,224,999	\$0.15
Issued during the quarter ended Jun 30, 2018	1,000,000	\$0.14
Outstanding, June 30, Sep 30 and Dec 31, 2018	13,902,679	

## Details of Compensation Options to Brokers

	<b>Number Outstanding</b>	<b>Exercise Price</b>
Outstanding as on Oct 1, 2016	-	
Issued during the quarter ended Mar 31, 2017	279,069	\$1.70
Outstanding, Mar 31 & Jun 30, 2017	279,069	
Issued during the quarter ended Sep 30, 2017	280,000	\$1.16
Outstanding, Sep 30, 2017	559,069	
Issued during the quarter ended Dec 31, 2017	42,304	\$1.16
Outstanding, Dec 31, 2017, Mar 31, Jun 30, Sep 30, & Dec 31, 2018	601,373	

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## 8. Related Party Transactions

### *Transactions with Electrovaya Corp Director*

There were no balances outstanding as at December 31, 2018 and December 31, 2017. During the quarter ended December 31, 2018, the Company paid \$31 (2017 - \$27) to a director of Electrovaya Corp for services rendered in his capacity as an executive officer of Electrovaya Inc. These amounts, which are recorded at their exchange amount, have been expensed in General and administrative.

### *Transactions with controlling shareholder of Electrovaya Inc.*

There is an outstanding payable balance of \$18 relating to raising of capital on behalf of the Company, as at December 31, 2018 (2017-\$19). During the quarter ended December 31, 2018, the Company paid \$47 (2017 - \$49) to the Chief Executive Officer, who is also a controlling shareholder of the Company. These amounts, which are recorded at their exchange amount, have been expensed in General and administrative.

On December 4, 2017, the primary shareholder guaranteed a loan to the Company \$399 (Cdn \$500K) for 6 month terms at 2% interest per month fully repayable on June 01, 2018. This arrangement also carries a commitment fee of 4% deducted from the principal amount of Cdn \$500K. The note also carries a penalty clause for payment of Cdn \$20K in the event of a default in paying the principal amount on the due date (June 01, 2018). The note was renewed for a further period of one month on May 24, 2018 after payment of Cdn \$20K as penalty as per the original promissory note. The renewed note was repayable on July 01, 2018, but has been renewed to December 1, 2018 for a commitment fee of Cdn \$5,000 with a penalty clause for payment of Cdn \$20K in the event of a default in paying the principal amount on the due date (December 01, 2018). In November 2018 the Promissory Note was renewed. The renewed note is repayable on March 1st 2019, with a penalty clause for payment of Cdn \$20K in the event of a default in paying the principal amount on the due date (March 01, 2019).

On September 27, 2018, the primary shareholder loaned to the Company \$93 (Cdn \$120K) on an interest free promissory notes repayable on demand. This arrangement also carries a commitment and legal fee of Cdn \$10,000.

### **Secured promissory note**

On August 8, 2018, the Company entered into an agreement with a corporation controlled by a director of the Company for a secured demand promissory note for Cdn \$1.5 million payable on demand with interest accruing at a combination of 3.5% per annum for funds not utilized and 10% per annum for all funds utilized by the Company. The Company's obligations under the loan facility was guaranteed by Electrovaya Corp. and 1408871 Ontario Inc., subsidiaries of the Company. The guarantee of 1408871 Ontario Inc. was secured by a fourth charge on the Company's property at 2645 Royal Windsor Dr., Mississauga, Ontario, L5J 1K9. The note was fully repaid on October 23, 2018. (note 19).

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## 9. Change In Non-Cash Operating Working Capital

	December 31,	
	2018	2017
Trade and other receivables	\$ (271)	\$ (84)
Investment tax credits recoverable	6	224
Inventories	608	519
Prepaid expenses and other	51	(100)
Trade and other payables	(199)	(232)
Deferred revenue	455	(9)
	<u>\$ 650</u>	<u>\$ 318</u>

## 10. Promissory Notes

	December 31, September 30,	
Current portion	2018	2018
Secured promissory note	\$ -	\$ 4,809
Second mortgage loan	-	774
Shareholder's loan	454	1,640
	<u>\$ 454</u>	<u>\$ 7,223</u>

### Secured promissory note

In February, 2014, the Company raised a principal amount of Cdn \$6.25 million in consideration of issuance of a two-year secured promissory note bearing interest at 8.25% per annum and 1,000,000 common share purchase warrants at an exercise price of Cdn \$0.65 exercisable immediately for a period of 24 months. The promissory note matured on February 11, 2016. It was renewed for a further 12 months maximum period under the same terms and issue of new 1,000,000 warrants for a 24 months period at an exercise price of Cdn \$0.79 exercisable immediately. The Company again renewed the note for a further one year period on February 17, 2017 under the same terms and issue of new 1,000,000 warrants for a 24 months period at an exercise price of Cdn \$2.74. The term sheet for the note renewal was agreed with effect from February 11, 2018 at 8.25% per annum for a period of 12 months. The Company issued 1,000,000 new common share purchase warrants on June 01, 2018 at Cdn \$0.18 exercisable immediately for a 24 month period.

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



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

As at	December 31 2018	September 30, 2018
Promissory Note	\$ 4,809	\$ 4,630
Less: equity component	(1,169)	(1,234)
Add: Accretion	1,169	1,206
Less: Currency translation adjustments	-	207
Less: Repayment	(4,809)	-
	\$ -	\$ 4,809

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

The note was fully repaid on October 23, 2018 (note 19).

## Second Mortgage loan

In April, 2015, the Company raised an additional \$802 (Cdn \$1 million) by placing a second mortgage on the property owned by its wholly owned subsidiary, 1408871 Ontario Inc. The loan bearing interest at 10% per annum was to mature on April 17, 2017. This loan was renewed for further periods of one year in April 2016, April 2017 and April 2018. The loan has been renewed under the same terms for a period of one year to April, 2019. The balance of the loan as at December 31, 2018, net of currency translation adjustments is \$Nil and as at September 30, 2018, net of currency translation adjustments is \$774.

The second mortgage was fully repaid on October 23, 2018 (note 19).

## Shareholder's loan

On December 4, 2017, the primary shareholder guaranteed a loan to the Company \$399 (Cdn \$500K) for 6 month terms at 2% interest per month fully repayable on June 01, 2018. This arrangement also carries a commitment fee of 4% deducted from the principal amount of Cdn \$500K. The Company issued a series of post-dated checks for Cdn \$10k payable from 1<sup>st</sup> of each month from January through June, 2018. The note also carries a penalty clause for payment of Cdn \$20K in the event of a default in paying the principal amount on the due date (June 01, 2018). The note was renewed for a further period of one month on May 24, 2018 after payment of Cdn \$20K as penalty as per the original promissory note. The renewed note was repayable on July 01, 2018, but has been renewed to December 1, 2018 for a commitment fee of Cdn \$5,000 with a penalty clause for payment of Cdn \$20K in the event of a default in paying the principal amount on the due date (December 01, 2018). In November 2018 the Promissory Note was renewed. The renewed note is repayable on March 1st 2019, with a penalty clause for payment of Cdn \$20K in the event of a default in paying the principal amount on the due date (March 01, 2019).

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On September 27, 2018, the primary shareholder loaned to the Company \$93 (Cdn \$120K) in the form of an interest free promissory notes repayable on demand. This arrangement also carries a commitment and legal fee of Cdn \$10,000.

On August 8, 2018, the Company entered into an agreement with a corporation controlled by a director for a secured demand promissory note for Cdn \$1.5 million payable on demand with interest accruing at a combination of 3.5% per annum for funds not utilized and 10% per annum for all funds utilized by the Company. The Company's obligations under the loan facility were guaranteed by Electrovaya Corp. and 1408871 Ontario Inc., subsidiaries of the Company. The guarantee of 1408871 Ontario Inc. was secured by a fourth charge on the Company's property at 2645 Royal Windsor Dr., Mississauga, Ontario, L5J 1K9.

The note was fully repaid on October 23, 2018 (note 19).

## 11. 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, where applicable (note 18(a)).

### (b) Sustainable Development Technology Corp (SDTC)

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

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

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

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

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

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

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

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

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

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

In November 2018, Electrovaya and Sustainable Development Technology Canada (SDTC) signed a contract of Cdn \$3.8 million to fund the development of safe and long-lasting Lithium Ion Ceramic batteries for electric buses and commercial vehicles and the initial payment on this contract for Milestone 1 for Cdn \$669K has been received by Electrovaya.

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

On May 5, 2009, the Province of Ontario, as represented by the Minister of Economic Development, signed a Conditional Grant Agreement with Electrovaya Corp. awarding Cdn \$ 16.7 million as a grant. The grant is for pre-commercialization activities over a period of five years ending on December 31, 2013. In August 2011, the Company received confirmation from Minister of Economic Development and Trade that the project has been extended to December 31, 2015. The grant is 15% of the targeted project cost of Cdn \$111.62 million and is subject to certain

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targets related to new job creation and investment, which if not achieved, could result in only a portion of the grant being received, or a potential claw-back of funds received by the end of the seven year period.

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

The program ended on December 31, 2015. The company has booked a liability for a claw-back of the excess of funds received over eligible costs. The Company paid \$30 during the quarter ended December 31, 2016, \$15 during the quarter ended March 31, 2017 and \$62 during the quarter ended June 30, 2017. As of December 31, 2018 and 2017, the claw-back balance payable is \$153 (Cdn \$199k) plus interest.

## 12. Financial Instruments

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

### Fair Value

IFRS 13 "Fair Value Measurement" provides guidance about fair value measurements. Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value are required to maximize the use of observable inputs and minimize the use of unobservable inputs. The fair value hierarchy is based on three levels of inputs. The first two levels are considered observable and the last unobservable. These levels are used to measure fair values as follows:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities, either directly or indirectly.
- Level 2 – Inputs, other than Level 1 inputs that are observable for assets and liabilities, either directly or indirectly. Level 2 inputs include quoted market prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

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- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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

	As at December 31, 2018				As at September 30, 2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Financial assets:</b>								
Cash and cash equivalents	\$446	-	-	<b>\$446</b>	\$126	-	-	<b>\$126</b>
Restricted cash	-	-	-	-	1,012	-	-	<b>1,012</b>
Trade and other receivables	1,187	-	-	<b>1,187</b>	916	-	-	<b>916</b>
<b>Financial liabilities:</b>								
Line of credit	269	-	-	<b>269</b>	9,043	-	-	<b>9,043</b>
Trade and other payable	2,364	-	-	<b>2,364</b>	2,563	-	-	<b>2,563</b>
Promissory Notes	-	454	-	<b>454</b>	-	7,223	-	<b>7,223</b>
Other payables	-	115	-	<b>115</b>	-	114	-	<b>114</b>
9% convertible debentures	-	10,176	-	<b>10,176</b>	-	10,548	-	<b>10,548</b>

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

## Risk Management

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

### *Capital risk*

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

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

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The Group's capital management objectives are:

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

The Group monitors capital on the basis of the carrying amount of equity plus its short-term debt comprised of the promissory notes, 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:

	31-Dec-18	30-Sep-18
Total (Deficiency)	\$ (10,591)	\$ (13,758)
Cash and cash equivalents (Deficiency)	(446)	(126)
	<u>(11,037)</u>	<u>(13,884)</u>
Total (Deficiency)	(10,591)	(13,758)
Promissory Notes	454	7,223
Line of Credit	269	9,043
Other payables	115	114
9% Convertible Debentures	10,176	10,548
Overall Financing	\$ 423	\$ 13,170
Capital to Overall financing Ratio	(26.1)	(1.05)

## *Credit risk*

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

---

	December 31, 2018	September 30, 2018
Cash and cash equivalents	\$ 446	\$ 126
Restricted cash	-	1,012
Trade and other receivables	1,187	916
Carrying amount	\$ 1,633	\$ 2,054

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Cash and cash equivalents are comprised of the following:

	December 31, 2018	September 30, 2018
Cash	\$ 446	\$ 126
Cash equivalents	-	-
	\$ 446	\$ 126

The Company's current portfolio consists of certain banker's acceptance and high interest yielding saving accounts deposits. The majority of cash and cash equivalents are held with financial institutions, each of which had at December 31, 2018 a rating of R-1 mid or above.

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

## *Liquidity risk*

The Company is exposed to liquidity risk from trade and other payables in the amount of \$2,364 (2017-\$1,446), Promissory Note and loan financing of \$454 (2017-\$6,065), and long-term liabilities of \$115 (2017-Nil). Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due. The Company manages its liquidity risk by carefully monitoring the cash requirements and balancing them against the cash received from operations and government grants. There can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favorable. The Company may seek additional financing through debt or equity offerings, but there can be no assurance that such financing will be available on terms acceptable to the Company or at all. Any equity offering will result in dilution to the ownership interest of the Company's shareholders and may result in dilution to the value of such interests. The Company intends to fulfill its obligations.

## *Market risk*

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

## *Interest rate risk*

The Company has cash balances and fixed interest-bearing debt at 24% and prime plus 1%. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions.

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## *Foreign currency risk*

The Company is exposed to foreign currency risk. The Company's functional currency is the Canadian dollar. Purchases are transacted in Canadian dollars, United States dollars and Euro. Management believes the foreign exchange risk derived from any currency conversions may have a material effect on the results of its operations. The financial instruments impacted by a change in exchange rates include our exposures to the above financial assets or liabilities denominated in non-functional currencies. The cash and cash equivalent in US dollars were \$82 (December 31, 2018) and \$1,002 (September 30, 2018).

If the US dollar to Canadian foreign exchange rate changed by 2% this would change the recorded Net gain by \$24.

## *Price risk*

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

## **13. Trade and Other Receivables**

	December 31, 2018	September 30, 2018
Trade receivables, gross	\$ 867	\$ 679
Allowance for credit losses	(6)	-
Trade receivables	861	679
Other receivables	326	237
Trade and other receivables	\$1,187	\$916

As at December 31, 2018, 6.84% of the Company's accounts receivable is over 90 days past due (September 30, 2018- 0.06%)

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

Certain trade receivables were found to be impaired and an allowance for credit losses has been recorded accordingly in quarter ended December 31, 2018.



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

	December 31, 2018	September 30, 2018
Beginning balance	\$ -	\$ 129
Impairment loss	-	(105)
Allowance provided (reversed)	(6)	(18)
Exchange translation	-	(6)
<b>Ending balance</b>	<b>\$ (6)</b>	<b>\$ -</b>

## 14. Segment and Customer Reporting

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

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

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

Revenues from major business activities for the quarters ended December 31, 2018 and 2017 were as follows:

	2018	2017
Large format batteries	\$ 1,970	\$ 712
Other	2	36
	<b>\$ 1,972</b>	<b>\$ 748</b>

Revenues attributed to regions based on location were as follows:

	2018	2017
Canada	\$ 54	\$ 46
United States	1,888	673
Other	30	29
	<b>\$ 1,972</b>	<b>\$ 748</b>

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## *Customers:*

For the quarter ended December 31, 2018 four customers represented more than 10% of total revenue (quarter ended December 31, 2017 two customers). Our largest customer accounted for 25% and 38.9% of total revenue for the quarters ended December 31, 2018 and of 2017 respectively.

## **15. Convertible Debentures**

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

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

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

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

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

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

The interest of \$535 due on December 31, 2017 was settled by issuing 843,380 common shares of the Company.

The interest of \$509 due on June 30, 2018 was settled by issuing 2,257,275 common shares of the Company in the first week of July, 2018.

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The interest of \$510 due on December 31, 2018 was settled by issuing 3,634,188 common shares of the Company in the second week of January, 2019.

	Dec 31, 2018	Sep 30, 2018
<b>Principal</b>		
Balance	\$11,260	\$11,260
<b>Liability</b>		
Gross proceeds	11,260	11,260
Issue costs	(751)	(751)
Equity component	(71)	(71)
Liability component initially recognized	10,438	10,438
Accretion of finance expense	1,400	1,214
Currency translation adjustments	(1,662)	(1,104)
Balance	\$10,176	\$10,548

## 16. Other payables

The Company has expensed \$8 for the repayment made to Technology Partnership Canada ("TPC") during the quarter ended December 31, 2018 and recorded a liability of \$214 representing the Net Present Value for the current and anticipated future payments (note 18(a)). This charge has been recorded as an expense in Research and Development.

The movement in the carrying amount for TPC is follows:

	December 31, 2018	September 30, 2018
Beginning balance	\$ 192	\$ -
Provision provided	33	192
Less: current portion of the provision	(110)	(78)
<b>Ending balance of long-term portion</b>	<b>\$ 115</b>	<b>\$ 114</b>

## 17. Lease commitments

The Company's future minimum lease payments under operating leases for the years ended September 30 for the continued operations is as under:

Year	Amount
2019	\$ 212
2020	283
2021	283
2022	24
Total	\$ 802

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## 18. Contingencies

### a) Industry Canada

Technology Partnerships Canada (“TPC”) projects were long-term (up to 30 years) commencing with an R&D phase, followed by a benefits phase – the period in which a product, or a technology, could generate revenue for the company. In such cases, repayments would flow back to the program according to the terms and conditions of the company's contribution agreement.

In June 2018 the contribution agreement was amended. The latest repayment schedule starting July 1, 2018 for current and future years are as follows:

2019	\$116
2020	157
2021	242
2022	281
2023	310
2024 & thereafter	759

### b) Legal Action

The Company has been named as a party of a lawsuit filed with the Ontario Superior Court pertaining to placement fees for a private placement of securities in December 2014 and March 2015. The plaintiff is seeking Cdn \$300K. The Company believes the lawsuit is without merit and will vigorously defend its position.

### c) Litarion

On April 30, 2018, the Administrator commenced insolvency proceedings and assumed control of the assets of Litarion GmbH. At this time we do not know what the likely outcome of the process will be. There exists a possibility that claims against Electrovaya could arise from the process but the likelihood and amount is not determinable. There also exists a possibility of funds being returned to Electrovaya but again this is uncertain at this time.

### d) Investment of refundable Ontario Tax Credits

The CRA issued 2014 & 2015 reassessment notices for Cdn \$322K and Cdn \$321K including interest respectively. On November 7, 2018 we filed a Notice of Objection. The Company is working with advisors to substantiate our claim and reverse the reassessment.

### e) Ministry of Energy

In earlier October we were notified that of a Statement of Claim for Cdn \$830k filed with the Ontario Superior Court of Justice. The claim filed by the Ministry of Energy relates to a dispute regarding funding and fulfilment of the Intelligent Energy Storage System under the Smart Grid Fund program. The Company has filed an Intent to Defend and will vigorously defend its position.

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## 19. Sale of Building and Repayment of Debt

On October 23, 2018 the company completed the sale of its Headquarters in Mississauga for gross proceeds of \$16,491 (Cdn \$22.5 million) and will lease 54,000 sq.ft of the same premises for 3 years expiry October 31, 2021. After purchase price adjustment, commission and other expenses, the net proceeds of \$14,781 (Cdn \$20.2 million) were applied to reduce debt with the remaining balance available for working capital purposes.

		CDN		USD
Gross Proceeds	\$	22,500	\$	16,491
Less: Purchase Price Adjustment, Commission & Other Expenses		(2,333)		(1,710)
<b>Net Proceeds</b>	\$	20,167	\$	14,781
Debt Repayment & Accrued Interest				
Secured promissory note	\$	6,418	\$	4,704
Second mortgage loan		1,012		742
Secured Line of Credit		8,000		5,862
Secured Shareholder Loan		1,533		1,124
Debt Repayment	\$	16,963	\$	12,433
Available for working capital purposes		3,204		2,348

## 20. Subsequent Events

### a) Repayment to Bank

On January 30, 2019, the outstanding balance on the line of credit of \$173 was fully repaid releasing all bank security.