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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Electrovaya Inc. as at September 30, 2006 and 2005 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Electrovaya Inc. as at September 30, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Toronto, Canada
November 30, 2006

ELECTROVAYA INC.

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

		September 30, 2006		September 30, 2005
Assets				
Current assets				
Cash and cash equivalents	$	4,305	$	3,333
Short-term investments		5,845		8,900
Accounts receivable		434		826
Investment tax credits recoverable		139		49
Goods and services tax receivable		23		29
Inventories (note 2)		1,839		1,844
Prepaid expenses and other		123		65
		12,708		15,046
Capital assets (note 3)		6,356		10,936
	$	19,064	$	25,982
Liabilities and Shareholders' Equity				
Current liabilities				
Accounts payable and accrued liabilities	$	1,167	$	1,604
Related party obligation (note 6 (f))		87		-
		1,254		1,604
Long-term portion of related party obligation (note 6 (f))		307		-
Shareholders' equity				
Share capital (note 4)		63,745		63,745
Contributed surplus		495		227
Cumulative translation adjustment		8,301		7,504
Deficit		(55,038)		(47,098)
		17,503		24,378
Commitments (note 7)				
Contingencies (notes 1(f)) and 6(c))				
	$	19,064	$	25,982

See accompanying notes to consolidated financial statements.

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ELECTROVAYA INC.

Consolidated Statements of Operations and Deficit
(Expressed in Thousands of U.S. dollars, except per share amounts)
Years ended September 30, 2006 and 2005

	2006	2005
Revenue	$ 3,358	$ 6,540
Direct manufacturing costs	3,209	5,260
	149	1,280
Expenses		
Research and development	2,690	2,631
Government assistance (note 1(f))	(1,655)	(718)
Sales and marketing	575	1,075
General and administrative	2,457	2,063
	4,067	5,051
Loss before the undernoted	3,918	3,771
Amortization	979	2,415
Capital assets write-down (note 3)	4,020	-
Loss from operations	8,917	6,186
Interest income	(366)	(279)
Foreign exchange loss	281	847
Gain on sale of investment (note 6(b))	(892)	-
	(977)	568
Loss before income taxes	7,940	6,754
Income tax recovery (notes 6(c) and 9)	-	(432)
Loss for the year	7,940	6,322
Deficit, beginning of year	47,098	40,776
Deficit, end of year	$ 55,038	$ 47,098
Basic and diluted loss per common share (note 8)	$ 0.11	$ 0.09

See accompanying notes to consolidated financial statements.

ELECTROVAYA INC.

Consolidated Statements of Cash Flows
(Expressed in Thousands of U.S. dollars, except per share amounts)
Years ended September 30, 2006 and 2005

	2006	2005
Cash provided by (used in)		
Operating activities		
Loss for the year	$ (7,940)	$ (6,322)
Gain on sale of investment (note 6(b))	(892)	-
Amortization which does not involve cash	979	2,415
Capital assets write-down (note 3)	4,020	-
Income tax recovery	-	(432)
Stock compensation expense	268	184
Increase in related party obligation	307	
Change in non-cash operating working capital (note 11)	(95)	1,145
	(3,353)	(3,010)
Investing activities		
Proceeds from short-term investments	3,055	1,997
Proceeds on sale of investment (note 6(b))	892	-
Additions to capital assets	(178)	(159)
	3,769	1,838
Financing activities		
Cash acquired on amalgamation of subsidiaries (note 6(c))	-	509
	-	509
Increase (decrease) in cash and cash equivalents	416	(663)
Effect of currency translation adjustments on cash and cash equivalents	556	1,281
Cash and cash equivalents beginning of year	3,333	2,715
Cash and cash equivalents end of year	$ 4,305	$ 3,333
Supplemental disclosure of cash flow information		
Income taxes paid	$ 22	$ 7
Interest received	365	262

See accompanying notes to consolidated financial statements.

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

1. Significant accounting policies

(a) Basis of presentation

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

(b) Cash and cash equivalents and short term investments

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

(c) Capital assets

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

Building	4%
Building improvements	7%
Production equipment	17%
Workshop equipment	20%
Patents and technology	20%
Office furniture and equipment	20%
Vehicles	20%

During the fourth quarter of the fiscal year ended September 30, 2005, the Company reviewed the estimated useful life of depreciable assets resulting in a prospective change in amortization for production equipment and building improvements.

1. Significant accounting policies (continued)

This resulted in production equipment and building improvements being amortized on a straight-line basis over the next 6 and 15 years respectively. The impact of this change in the prior year was a reduction in the amortization expense for production equipment of $420 and an increase in the amortization expense for building improvements of $25.

(d) Research and development costs

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

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

Certain costs related to the Company's research and development efforts related to fast batteries and electric vehicles are being funded by repayable grants from Technology Partnerships Canada ("TPC") and Sustainable Development Technology Corp ("SDTC" (see Note 1 (f)).

(e) Inventories

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

(f) Government assistance

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

The Company has been approved for funding under the TPC initiative of Industry Canada. The funding is to support the Company's research and development efforts in fast rate batteries and electric vehicles. The Company will receive contributions of up to 29.7% of the specified costs of the development project, to a maximum amount of $6,700. Under the terms of the agreement, an amount up to a maximum of $31,100 is to be repaid by royalties, commencing in 2007 through to 2013,

1. Significant accounting policies (continued)

with payment to be deferred or reduced if certain revenue thresholds are not achieved. Cumulative claims of $2,524 were received by the Company as at September 30, 2005 from the TPC program.

During fiscal 2006, the Company received contributions totalling $1,183 (2005-$718) from the TPC program.

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

The amount is receivable in scheduled instalments as provided in the contribution agreement between SDTC and the Company and will be received upon the achievement of various project milestones. Under the terms of the agreement SDTC shall pay the lesser of 33% of the eligible project costs or CDN $ 1700, the contribution shall not exceed 50% of the eligible project costs and the Company or consortium members, or both, shall provide at least 25% of the project costs in cash, in-kind goods or services or a combination of both. SDTC shall not have any obligation to pay the contribution unless the Company has obtained a commitment and has the financial capacity to finance all the costs related to the entire project.

The project is divided into three milestones, and the first milestone was completed by July 31, 2006. The second milestone is expected to be achieved in approximately nine months and the third milestone is expected to be achieved in the second quarter of Fiscal 2008.

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

(g) Stock based Compensation

The Company applies the fair value method of accounting for employee stock options to all employee stock options granted on or after October 1, 2003. Under the fair value based method, compensation cost is measured at fair value at the date of grant and expensed over the award's vesting period. Stock based compensation expense for the year was $268 (2005 - $184)

1. Significant accounting policies (continued)

(h) Revenue recognition

Revenue from product sales is recognized upon shipment. Estimated returns and allowances and sales rebates are recorded as a reduction of revenue at the time of revenue recognition. In addition, the Company provides for the estimated cost of standard product warranties at the time of revenue recognition. The Company primarily uses a binding purchase order as evidence of its sales arrangements, and with respect to its service arrangements uses contractual agreements. The Company considers delivery to occur upon shipment, provided risks and rewards of ownership, including transfer of title have passed to the customer. At the point of sale, the Company assesses whether collection is reasonably assured. If the Company determines that collection is not reasonably assured, the Company defers recognition of the revenue until collection becomes reasonably assured, which is generally upon receipt of cash. Where an estimate of the potential sales returns cannot be made, the recognition of revenue does not occur until the distributor has sold the product.

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

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

(i) Warranty costs

Warranty costs are provided for as revenues are earned.

(j) Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the years. Actual results may differ from the estimates. Sales returns are estimated at the time of delivery based on past experience and customer specific factors. Bad debts are determined based on the ageing of accounts receivable where such amounts are not insured and considered uncollectible. Warranty accruals are based on the actual warranty experience rate for the past year and sales during the most recent warranty period.

1. Significant accounting policies (continued)

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

(k) Income taxes

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

(l) Currency translation

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

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

(m) Earnings per share

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

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

1. Significant accounting policies (continued)

(n) Impairment of Long-lived Assets

The Company reviews capital assets subject to amortization for impairment on an annual basis or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized when the carrying amount of an asset that is held and used exceeds the projected undiscounted future net cash flows expected from its use and disposal, and is measured as the amount by which the carrying amount of the asset exceeds its fair value, which is measured by discounted cash flows when quoted market prices are not available.

2. Inventories

	September 30, 2006	September 30, 2005
Raw materials	$ 856	$ 816
Work in progress	844	896
Finished goods	139	132
	$ 1,839	$ 1,844

3. Capital assets:

September 30, 2006	Cost	Accumulated amortization	Net book value
Land	$ 2,690	$ –	$ 2,690
Building	844	494	350
Building improvements	7,475	4,346	3,129
Production equipment	12,585	12,504	81
Workshop equipment	1,438	1,437	1
Patents and technology	1,948	1,857	91
Office furniture and equipment	703	689	14
Vehicles	48	48	-
	$ 27,731	$ 21,375	$ 6,356

September 30, 2005	Cost	Accumulated amortization	Net book value
Land	$ 2,585	$ –	$ 2,585
Building	810	191	619
Building improvements	6,972	1,332	5,640
Production equipment	12,081	10,443	1,638
Workshop equipment	1,381	1,380	1
Patents and technology	1,727	1,384	343
Office furniture and equipment	662	555	107
Vehicles	46	43	3
	$ 26,264	$ 15,328	$ 10,936

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

3. Capital assets (continued)

Amortization expense for the year is $979 (2005 - $2,415).

The Company has reported a current-period operating and cash flow loss and has a history of operating and cash flow losses. The recent and historical performance of the Company and its near-term forecast indicated that the carrying amount of the capital assets may not be recoverable.

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

4. Share capital

(a) Authorized and issued capital stock

Authorized
Unlimited common shares

	Common Shares	
Issued	Number	Amount
Balance, September 30, 2003	69,539,109	63,729
Stock options exercised in 2004	36,333	16
Balance, September 30, 2005 & 2006	69,575,442	$ 63,745

(b) Stock options

The Company has reserved up to 5,400,000 common shares for issuance under the stock option plan. 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. To date, the Company has granted options to purchase 4,760,833 common shares and 3,194,271 remain outstanding (2005 - 2,703,937) at prices ranging from $ 0.26 to $8.00 per share. These options have a weighted average remaining life of 6.21 years.

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

4. Share capital (continued)

The following table reflects activity under the Plan from September 30, 2004 through September 30, 2006 and the weighted average exercise prices:

	Number	Weighted average exercise prices
Outstanding, September 30, 2004	2,000,934	1.75
Granted	753,000	0.42
Cancelled or expired	(49,997)	0.67
Outstanding, September 30, 2005	2,703,937	1.93
Granted	685,000	0.26
Cancelled or expired	(194,666)	0.35
Outstanding, September 30, 2006	3,194,271	1.31

During the year, the Company granted options to purchase common shares to certain employees totaling 685,000 at a price of $0.26 per share.

During the previous year, the Company granted options to purchase common shares to certain employees totaling 493,000 at a price of $0.48 per share as well as 260,000 options at a price of $0.31 per share.

The weighted average grant date fair value of the 685,000 (2005 – 753,000) options issued during the year was $0.26 (2005 - $0.42). The compensation cost related to these options was calculated using the Black-Scholes option pricing model assuming a risk-free interest rate of approximately 3.75% (2005 – 4.4%), a dividend yield of 0% (2005 – 0%), an expected volatility of 110% (2005 – 111%) and expected lives of stock options of 10 years. The costs are amortized over the vesting period which is zero to three years.

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

4. Share capital (continued)

Exercise price		Options outstanding as at September 30, 2006 Number outstanding	Weighted average remaining life (years)	Options exercisable as at September 30, 2006 Number exercisable	Weighted average exercise price
$ 0.56	(Cdn$0.62)	249,671	5.86	249,671	$ 0.56
0.61	(Cdn$0.68)	25,000	6.17	25,000	0.61
0.81	(Cdn$0.90)	29,333	7.86	18,665	0.81
0.99	(Cdn$1.10)	411,667	7.64	273,335	0.99
1.50	(Cdn$1.67)	908,100	2.89	908,100	1.50
2.69	(Cdn$3.00)	83,000	4.87	83,000	2.69
5.24		96,666	4.09	96,666	5.24
5.33		85,500	3.37	85,500	5.33
7.17	(Cdn$8.00)	19,000	4.09	19,000	7.17
8.00		60,000	3.95	60,000	8.00
0.50	(Cdn$0.56)	456,667	8.20	150,002	0.50
0.32	(Cdn$0.36)	100,000	8.93	100,000	0.32
0.26	(Cdn$0.29)	669,667	9.23	-	-
		3,194,271	6.21	2,068,939	1.79

For the options outstanding as at September 30, 2006, the weighted average exercise price is $1.31 (2005 - $1.47).

5. Financial instruments

(a) Fair values

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

(b) Foreign currency risk

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

(c) Credit risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of accounts receivable. The Company performs periodic credit

5. Financial instruments (continued)

evaluations of the financial condition of its customers and typically does not require collateral from them. Allowances are maintained for potential credit losses consistent with the credit risk of specific customers, historical trends and other information. Credit losses have been within management's range of expectations. The Company also insures some of its accounts receivable.

6. Related Party Transactions

a) The Company, in previous years, leased 11,800 square feet at an annual rent of $80 at its Hanna premises in Toronto, Ontario, from a company owned by its controlling shareholders. On May 1, 2005, the Company vacated the premises and moved into the Company's existing facilities in Mississauga.

b) Electrovaya in previous years invested $115 in a private unrelated company. In return for its investment, the Company received 6% of the Class A and 21% of the Class B shares of this private company. Additionally, during the previous years, Electrovaya provided research and development services totaling $153 to this private company, and received an additional 30% of the outstanding non-voting, participating Class B shares as consideration for the services rendered. The Class B shares were convertible into Class A voting, participating shares in the event the private company became registered on a stock exchange. During the previous years, Electrovaya provided a $38 loan and space at no additional charge to the private company to assist with the operation of a pilot plant, resulting in the potential for Electrovaya to exert significant influence over the activities of the private company. The private company was owned by arm's length private investors and had not yet reached commercial levels of production. The private company was seeking additional funding and, in the event these efforts were unsuccessful, would have not been a going concern. As a result, the original investment, additional shares and loan were valued at NIL as at September 30, 2005. In April, 2006, the Company sold its class A and B shares of the private company to a third party and recorded a gain of $892 on the sale.

c) In August 2005, the Company purchased all of the issued and outstanding shares of 1020204 Ontario Limited ("102") from its two principal shareholders, Dr. Sankar Das Gupta, who is a director and officer of the Company and Dr. James Jacobs who was an officer of the Company. The Company then transferred all of its shares in Electrovaya Corp. to 102 in exchange for shares of 102. 102 and Electrovaya Corp. then completed a statutory vertical amalgamation and continued as Electrovaya Corp. (the "amalgamation transaction").

The amalgamation transaction had been accounted for based on CICA Handbook Section 3840, *Related Party Transactions* at the exchange amounts of the assets and liabilities transferred as there has been a substantive change in the ultimate unrelated parties'

6. Related Party Transactions (continued)

ownership interests in the subsidiaries. In addition, the Company had obtained independent evidence on the exchange amounts involved in the amalgamation transaction. An independent committee of the Board was constituted to review the amalgamation transaction.

Upon amalgamation, the Company received $509 of cash and assumed a liability of $77 relating to interest payable on an income taxes liability of 102. The offset to the $432 of net assets assumed had been recorded as a credit to income tax recovery in the statement of operations for the fiscal year ended September 30, 2005.

In addition, as at September 30, 2005, Electrovaya Corp. carried back income tax losses of $4,787, eliminating a $1,148 income tax liability of 102. This transaction had no impact on the statement of operations as a full valuation allowance had been recorded against the income tax losses.

During the quarter ended March 31, 2006, it was determined that 102 may have an additional tax liability of approximately $361. Pursuant to the terms of the share purchase agreement among Electrovaya, the shareholders of 102 and the principals thereof, Electrovaya has provided notice of its claim for an indemnity in respect of the full amount of this tax liability and consequently this liability had not been recorded in the financial statements.

During the quarter ended June 30, 2006, 102 was served with a Statement of Claim ("Claim") by the purchaser of the land and building at Hanna Avenue, seeking damages in the amount of $986. The Company is indemnified for such matters under the terms of the purchase and sale agreement mentioned above. Management believes that it is too early to determine the ultimate outcome of these proceedings and that the claim is without merit.

d) During the year ended September 30, 2006, the Company paid $159 (2005 - $138) to a director of a wholly owned subsidiary company for services rendered to the Company in his capacity as an executive officer.

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

f) Pursuant to a termination of employment agreement between the Company and the co-founder and former Chief Technology Officer of the Company, the Company is obligated to pay 130 biweekly instalments totalling $448 beginning September 2006. In the event of a change in control, insolvency or wind-up of the Company, all amounts become due and

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

6. Related Party Transactions (continued)

payable immediately. The Company has accounted for the present value of the expected future payments of $394 as a charge to income during the year ended September 30, 2006.

7. Commitments

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

2007	41
2008	12
	$ 53

b) In May, 2006, the Company entered into a fixed price agreement for $1,000 with the New York State Energy Research and Development Authority ("NYSERDA"). Under the agreement, the Company will expand its operations in New York State to develop lawn and turf off-road equipment and establish sales and service capabilities for its Scribbler Tablet products. To date, the Company has entered into a one year lease for approximately 2,200 square feet of manufacturing and office space and a lease commencing January 1, 2008, for 7,500 square feet of new space at a building to be constructed at the Saratoga Technology + Energy Park ("STEP"). The STEP lease is subject to the landlord obtaining the necessary financing to complete the new building and the availability of space that meets the requirements of the Company.

NYSERDA will pay the Company based on various project milestones achieved. As of September 30, 2006, the Company has not yet achieved any milestones but has incurred certain nominal costs, which are included in the inventory work in progress.

8. Loss per share

The basic and diluted loss per share has been calculated using the weighted average number of common shares outstanding during the periods, which are as follows:

September 30, 2006	69,575,442
September 30, 2005	69,575,442

Common share purchase options or other potential dilutive common share issuances were not considered in the calculation of diluted loss per share for each of the periods presented since their effect would be anti-dilutive.

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

9. Income taxes

The income tax recovery differs from the amount computed by applying the Canadian statutory income tax rate of 36.1% (2005 – 36.1%) to the loss before income taxes as a result of the following:

	Years ended September 30, 2006	2005
Loss before income taxes	$(7,940)	$ (6,754)
Expected Recovery of income taxes based on statutory rates	(2,868)	(2,438)
Reduction in income tax recovery resulting from:		
Lower rate on manufacturing profits	172	135
Non-taxable portion of capital gain	(161)	-
Other permanent differences	118	105
Change in valuation allowance	1,115	644
Change in enacted tax rates	1,620	-
Foreign operations taxed at a lower rate	4	1
Rate differential on utilization of losses	-	1,121
Income tax recovery	$ -	$ (432)

The income tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities are as follows:

	Years ended September 30, 2006	2005
Future tax assets		
Non-capital losses carried forward	$13,098	$ 13,523
Capital assets	4,607	3,621
Unclaimed research and development expenses	3,107	2,032
Other deductible differences	314	166
	21,126	19,342
Less valuation allowance	(21,126)	(19,342)
Net future tax assets	$ -	$ -

In assessing the realizability of future tax assets, management considers whether it is more likely than not that some portion or all of the future tax assets will be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible.

Management considers projected future taxable income, uncertainties related to the industry in which the Company operates and tax planning strategies in making this assessment. To the extent that management believes that the realization of future income

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

9. Income taxes (continued)

tax assets does not meet the more likely than not realization criterion, a valuation allowance is recorded against the future tax assets.

In addition to the above temporary differences, the Company has unrecorded non-refundable investment tax credits amounting to approximately $3,109 (2005 – 2,615) which begin to expire in 2007.

During the year, the Company recognized $139 (2005-NIL) of refundable investment tax credits.

As at September 30, 2006, the expiration dates of the Company's federal non-capital income tax losses carried forward are as follows:

2007	1,078
2008	6,586
2009	8,560
2010	5,843
2013	4,852
2014	2,386
2022	978
2023	106
2024	337
2025	39
2026	913
	$ 31,678

10. Major customers

During 2006, two customers represented 23% (2005 – one customer represented 28%) of total revenue and 30% (2005 - 27%) of accounts receivable.

11. Change in non-cash operating working capital

	Years ended September 30, 2006	2005
Accounts receivable	$ 392	$ (128)
Investment tax credits recoverable	(90)	116
Goods and services tax receivable	6	38
Inventories	5	1,041
Prepaid expenses and other	(58)	(12)
Accounts payable and accrued liabilities	(437)	90
Related party obligation	87	-
	$ (95)	$ 1,145

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

12. Segmented information

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

Revenues from major business activities were as follows:

	2006	2005
Services	$ 891	$ 2,211
Consumer electronics	2,438	4,131
Other	29	198
	$ 3,358	$ 6,540

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

	2006	2005
Canada	$ 398	$ 1,200
United States & Others	2,960	5,340
	$ 3,358	$ 6,540

As at September 30, 2006, all of the Company's material assets are located in Canada.