

ELECTROVAYA INC.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE QUARTER ENDED MARCH 31, 2017**

May 10, 2017

ELECTROVAYA INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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Introduction

Management's discussion and analysis ("MD&A") provides our viewpoint on our Company, performance and strategy. "We," "us," "our," "Company" and "Electrovaya" include Electrovaya Inc. and its wholly-owned or controlled subsidiaries, as the context requires.

Our Board of Directors, on the recommendation of its Audit Committee, approved the content of this MD&A on May 10, 2017 and it is, therefore, dated as at that date. This MD&A includes the operating and financial results for the quarters ending March 31, 2017 and 2016, and should be read in conjunction with our consolidated financial statements. It includes comments that we believe are relevant to an assessment of and understanding of the Company's consolidated results of operations and financial condition. The financial information herein is presented in thousands of US dollars unless otherwise noted, in accordance with International Financial Reporting Standards ("IFRS"). Additional information about the Company, including Electrovaya's current annual information form, can be found on the SEDAR website for Canadian regulatory filings at www.sedar.com.

Forward-looking statements

This MD&A may contains forward-looking statements that involve a number of risks and uncertainties, including statements that relate to, among other things, estimated orders and volumes provided by Electrovaya by customers and potential customers, order forecasts, forecasted customer orders and estimated revenues, technology development progress, plans for shipment of products and production plans for products, the availability of supplies and other inputs required for producing the Company's products, the Company's markets, objectives, goals, strategies, intentions, beliefs, expectations and estimates, and can generally be identified by the use of words such as "may", "will", "could", "should", "would", "likely", "expect", "intend", "estimate", "anticipate", "believe", "plan", "objective" and "continue" (or the negative thereof) and words and expressions of similar import. Readers and investors should note that estimated and forecasted orders and volumes provided by customers and potential customers to Electrovaya constitute forward-looking information and Electrovaya does not have (X) knowledge of the material factors or assumptions used by the customers or potential customers to develop the estimates or forecasts or as to their reliability and (Y) the ability to monitor the performance of the business its customers and potential customers in order to confirm that the forecasts and estimates initially represented by them to Electrovaya remain valid and if such forecasts and estimates do not remain valid, or if firm irrevocable orders are not obtained, the potential estimated revenues of Electrovaya could be materially and adversely impacted.

Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, such statements involve risks and uncertainties, and undue reliance should not be placed on such statements. Certain material factors or assumptions are applied in making forward-looking statements, and actual results may differ materially from those expressed or implied in such statements. Important factors that could cause actual results to differ materially from expectations include but are not limited to: parties with whom Electrovaya has executed a memorandum of understanding or letters of intent (each, an "MoU") not entering into a definitive agreement with Electrovaya in a timely manner or at all, or on terms different than those contained in the applicable MoU; the purchase orders actually placed by customers of Electrovaya; the

customers of Electrovaya terminating the agreements or not renewing such agreements annually; general business and economic conditions (including but not limited to currency rates and creditworthiness of customers); the Company's liquidity and capital resources, including the availability of additional capital resources to fund its activities; level of competition; changes in laws and regulations; legal and regulatory proceedings; the ability to adapt products and services to the changing market; the ability to attract and retain key executives; and the ability to execute strategic plans. Additional information about material factors that could cause actual results to differ materially from expectations and about material factors or assumptions applied in making forward-looking statements may be found herein under the heading "Risk Factors" in the Company's "Annual Information Form" ("AIF") for the year ended September 30, 2016, and other public disclosure documents filed with Canadian securities regulatory authorities. The Company does not undertake any obligation to update publicly or to revise any of the forward-looking statements contained or incorporated by reference in this document, whether as a result of new information, future events or otherwise, except as required by law.

ELECTROVAYA INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

1. OUR BUSINESS

We design, develop and manufacture electrodes, separators, cells, advanced battery and battery systems for the transportation, electric grid stationary storage and mobile markets. Our main businesses include:

- (a) stationary storage for energy grid systems and green-energy solutions such as solar and wind;
- (b) electromotive power products for vehicles, including automobiles, forklifts used in materials handling, and other transportation applications;
- (c) industrial and residential products for energy storage;
- (d) specialty applications which require complex power solutions, including competencies in building systems for third parties; and
- (e) electrodes, cells, modules and our SEPARION™ separators for the lithium-ion batteries.

We have a 156,000 square foot battery and battery systems research and manufacturing facility in Mississauga, Ontario. We research in many areas of lithium ion batteries and have developed and patented a process for the production of electrodes which eliminates the standard use of industrial toxic N-Methylpyrrolidone (“NMP”) solvents. We carry out engineering development at this facility, including assembly of complete battery systems. We have a sales and engineering representative based in Taipei, Taiwan.

Effective April 29, 2015, as a result of the acquisition of Litarion GmbH (“Litarion”), we acquired an advanced automated production plant for lithium-ion electrodes and ceramic composite separators, with a rated capacity of 0.5 gigawatt hours (“GWh”) of electrodes and 10 million m² of ceramic separators along with all associated intellectual property. We own the exclusive global rights to this separator, SEPARION™, a proprietary flexible ceramic composite separator for safe lithium-ion battery applications. The plant is located in Kamenz, Germany and consists of approximately 143,000 square feet of manufacturing and warehouse space.

Electrovaya has a team of mechanical, electronic, battery and system engineers able to give clients a “complete solution” for their energy and power requirements.

We believe that our battery and battery systems contain a unique combination of characteristics that enable us to offer battery solutions that are competitive with currently available advanced lithium-ion and non-lithium-ion battery technologies. These characteristics include:

- *Platform technology.* The primary elements of a lithium battery cell are the anode, cathode, separator and electrolyte. Unlike many other battery technologies that rely on

advancements in component materials and chemistries (for example, application of phosphate or manganese chemistries to the cathode), our proprietary platform *Lithium Ion SuperPolymer*® technology provides comfort that our technology will not be rendered obsolete by changes to the underlying battery chemistry or other component materials. We are therefore able to continuously evolve and benefit from improvements in component materials, including advancements in electrode materials as battery performance metrics continue to improve.

- *Emission-free manufacturing.* To our knowledge, we are the only major battery manufacturer who has developed a production process that does not require the use of industrial NMP solvents. For instance, we have developed a manufacturing process that does not utilize NMP, a solvent that is used for many different purposes, including manufacturing and stripping paint, as well as for cleaning in the electronics and battery industries. According to the California Department of Health Services (“CDHS”), NMP has proven toxic to the reproduction systems of male and female test animals. While the toxic effects of NMP on humans have not been studied, CDHS recommends that NMP be treated as a potential human reproductive hazard. Similarly, the European Commission labeled NMP a reproductant toxicant in 2003 and has proposed to label it a toxic chemical. We believe that this non-toxic electrode manufacturing process can provide us with a competitive advantage. Some manufacturers use water based processing, however, we believe that water processing, especially for cathode electrodes, leads to low quality cells.

While our manufacturing facility in Kamenz, Germany currently manufactures electrodes using NMP, it is our intention to convert this facility to our non-NMP process. The timetable is dependent upon receipt of funding for the conversion process.

- *Scalability and pouch cell geometry.* We believe that large-format pouched prismatic (flat) cells represent the best long-term battery technology for use in large electro-motive and energy storage systems. Today, cylindrical battery technology is common since the mass production of cylindrical cells has been established for a long period. However, the use of cylindrical cell technology for larger applications, such as transportation or energy storage, has limitations in scale-up. In addition, cylindrical cells in the past have been shown to demonstrate issues with heat removal as well as safety limitations. We have designed, developed and manufactured large-format prismatic batteries suitable for the electro-motive and energy storage industry.
- *Safety:* We believe our flexible ceramic separator, SEPARION™ provides a high level of safety in a lithium-ion battery. Safety in lithium-ion batteries is becoming the most important performance factor and original equipment manufacturers (“OEMs”) and users of lithium-ion batteries prefer to have the highest level of safety possible in lithium-ion batteries. Recent safety incidents in the aerospace, electromotive and other applications have generated heightened concern for safety. The SEPARION™ flexible ceramic separator is in many thousands of electric Smart cars built by Daimler, and to our knowledge, without any safety incidents. SEPARION™ is protected by many patents and know-how. We own the exclusive global rights for the use of SEPARION™ in the lithium-ion battery industry in perpetuity.

- *Cycle-life*: Our cells are in the forefront of battery manufacturers with respect to cycle life, with excellent rate capabilities. Cycle life is generally controlled by the parasitic reactions inside the cell and we have a method to reduce such parasitic reactions. Higher cycle life is of importance in many intensive applications of lithium-ion batteries and we believe this represents a competitive advantage for the Company's products.

2. OUR STRATEGY

Our acquisition of Litarion allows us to add the decade-long experience, knowledge and intellectual property of the group and gives new capabilities to Electrovaya. These include:

- (a) **Safety**: the ceramic composite separator, SEPARION™ has possibly the best safety characteristics in the industry. This material was previously available exclusively to a German automaker but is now available for sale globally.
- (b) **Cycle Life**: the cycle life of lithium ion cells are essentially controlled by certain parasitic reactions mainly triggered by the moisture content of the cell, which, when appropriately reduced using SEPARION™, increases cycle life 60-80%.
- (c) **Production Capacity**: Our Kamenz plant is the largest production facility of its type in Europe. It provides a globally competitive electrode and separator manufacturing plant and positions us for global growth.

Our goal is to utilize our proprietary *Lithium Ion SuperPolymer*® battery technology and battery system expertise to develop and commercialize mass-production levels of battery systems for our targeted end markets.

To achieve these strategic objectives, we intend to pursue the following:

- Establish global strategic relationships in order to broaden the market potential of our products and services;
- Develop and commercialize leading-edge technology for the stationary grid, zero-emission vehicle as well as partnering with key large organizations to bring them to market;
- Invest in research and development initiatives related to new technologies that reduce the costs of our products, but enhance the operating performance, of our current and future products;
- Further automate our non-toxic electrode production processes and increase quality by using best practices manufacturing approaches and through continuous improvement initiatives;
- License our technology in other markets where battery manufacturing costs are more favorable, or where it is essential that we are close to key markets; and,

- Continue to look for opportunities to purchase stranded assets of large lithium ion plants which are expensive to operate in an environmentally regulated jurisdiction but can be competitive with the introduction of our non-NMP processes.

3. OVERALL PERFORMANCE AND SELECTED FINANCIAL INFORMATION

Unless otherwise indicated, all comparisons for the year ended September 30, 2016 are to the year ended September 30, 2015, and all comparisons to the second quarter of fiscal 2017 are to the second quarter of fiscal 2016. All figures are expressed in thousands of US dollars, except where otherwise indicated.

Years ended September 30, 2016, 2015 and 2014

i) Financial Condition

(\$ thousands)	2016	2015	2014
Cash and Cash Equivalents	\$668	\$6,309	\$969
Total Assets	30,831	27,343	12,340
Total Long Term Liabilities	883	3,380	5,740
Shareholders' Equity	\$7,950	\$12,537	\$5,166

Our cash and cash equivalents balance decreased from 2015 to 2016 by \$5,641. This is generally due to cash being used in operations to fund the increase in finished goods of \$5,883 which is necessary to meet existing orders to be fulfilled in calendar year 2017.

Cash and Cash Equivalents (owed)/held in US dollars were approximately \$(4) as at September 30, 2016, and \$1,203 as at September 30, 2015.

ii) Results of Operations and Cash Flow

(\$ thousands)	2016	2015	2014
Revenue	\$19,535	\$16,568	\$7,404
Revenue, Less Direct Manufacturing Costs	4,871	4,977	2,822
Loss Before other items	7,845	2,659	3,464
Net Loss for the year	8,791	3,193	3,446
Basic and Diluted Loss per Share	0.10	0.04	0.05
Cash flow (used in) from Operating Activities	\$(8,090)	\$449	\$(5,010)

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 power technology products.

Revenue derived from US and European customers in US dollars, as a percentage of the Company's revenue, was approximately 96% in 2016. Revenue derived from US and European customers in US dollars as a percentage of the Company's revenue was approximately 94% in 2015. Revenue increased for the year ended September 30, 2016 compared to 2015 due to an increase in revenues from our German operations.

For the years ended September 30, 2016, 2015 and 2014, revenues from major business activities were as follows:

	2016	2015	2014
Large Format Batteries	\$8,525	\$14,713	\$7,248
Other	11,010	1,855	156
	\$19,535	\$16,568	\$7,404

The decrease in large format batteries revenue of \$6,188 from 2015 to 2016 is primarily due to the loss of a single automotive OEM contract at our German operations.

The other revenue increased by \$9,155 in 2016 is due primarily to subsidies and transitional payments received as part of the acquisition of Litarion.

For the years ended September 30, 2016, 2015 and 2014, revenues attributed to regions based on location of customer were as follows:

	2016	2015	2014
Canada	\$474	\$1,053	\$5,282
United States	2,741	-	13
Germany	15,977	14,548	-
Norway	127	16	174
Others	216	951	1,935
	\$19,535	\$16,568	\$7,404

The fluctuation in exchange rates has resulted in a decrease in labour and manufacturing overhead production costs and other expenses, denominated in Canadian dollars.

Operating losses, represented by Loss Before Foreign Exchange and Interest, Write-down of Goodwill and Plant and Equipment, Revaluation of investments, Taxes and Amortization, decreased from 2014 to 2015 primarily because of a significant increase in revenue and operating margin due to the acquisition of Litarion.

Operating losses, represented by Loss Before Foreign Exchange and Interest, Write-down of Goodwill and Plant and Equipment, Revaluation of investments, Taxes and Amortization, increased by \$5,186 from 2015 to 2016 because of an increase in research and development costs of \$1,566 due to the development of new products for the OEM markets and an increase in general and administrative costs of \$2,758 due primarily to an increase in the allowance for credit losses of \$2,547 in our German operations.

The Company has not paid a dividend from the date of its inception.

iii) Quarterly Financial Results

For the three month period March 31, 2017, total revenue decreased by 53.5% to \$2,009 from \$4,317 for the quarter ended March 31, 2016. The decrease in total revenue primarily resulted from lower revenues from large format batteries as the Company transitions away from a single automotive customer and component manufacturer to a supplier to multiple OEMs. While our recent OEM customers have placed orders fulfilment will predominately occur later in calendar year 2017.

Quarterly revenue is as follows:

(\$ thousands)	Q1	Q2	Q3	Q4
2017	\$1,099	\$2,009	-	-
2016	\$8,240	\$4,317	\$2,571	\$4,407
2015	\$280	\$573	\$5,953	\$9,762

For the quarter ended March 31, 2017 one customer represented more than 10% of total revenue (quarter March 31, 2016 three customers). Our largest customer accounted for 43.9% and 49.7% of total revenue for the quarters ended March 31, 2017 and of 2016 respectively.

Continued advances in technology and a highly competitive market are more significant factors than general economic conditions and specific price changes when considering major impacts on revenue. In particular, the alternative energy market continues to be robust and the Company believes that new and important opportunities will potentially be available to it despite the current economic environment.

In Q2 2017 the Company has not seen a major impact on revenue from our 2016 initiatives previously announced. Significant progress is being made, however, the anticipated volume production has not yet occurred as OEMs continue to refine their end market products. These are complex products with sophisticated systems and only one component, the battery module, is under the Company's control. This has delayed the orders as the Company waits for the customers OEMs to roll out end market products.

Management is not aware of any fluctuations in revenue due to seasonality.

Expenses

Direct Manufacturing Costs. Direct manufacturing costs are comprised of the material, labour and manufacturing overhead, excluding amortization, associated with the production of SuperPolymer® batteries, battery packs for Electric Vehicles, stationary grid applications and research and engineering service revenues.

For the quarter ended March 31, 2017, direct manufacturing costs increased by \$340 to \$3,950 from \$3,610 for the quarter ended March 31, 2016 primarily due to several non-recurring items related to transport, disposal and revaluation of stock.

Revenue less Direct Manufacturing Costs was a loss of \$1,941 or 96.6% of revenue for the three months ended March 31, 2017 compared to \$707 or 16.4% for the three months ended March 31,

2016. This increase is due largely to a decrease in revenue of \$2,308 without a corresponding decrease in manufacturing costs. This is due to all factory overheads and plant costs being allocated as period costs and not allocated to inventory as inventory decreased in Q2 2017 by \$2,228 in the quarter as compared to a \$1,970 increase in the quarter for Q2 2016. The manufacturing overheads increased by \$340 while revenue decreased \$2,308 resulting in a swing in gross margin of \$2,648 from positive \$707 to negative \$1,941.

Research and Development. Research and development expenses consist primarily of compensation and premises costs for research and development personnel and activities, including independent contractors and consultants, direct materials and allocated overhead.

Research and development expenses, net of investment tax credits (ITC), increased by \$22 during the quarter ended March 31, 2017 to \$1,839 from \$1,817 in the same quarter in the prior year.

Government Assistance.

Electrovaya received an advance of \$3,300 (Cdn \$3.3 million) on June 5, 2009 from the Province of Ontario, as represented by the Ministry of Economic Development & Trade (“MEDT”) through a grant from the Next Generation of Jobs Fund Program. \$4,900 has been earned up to December 31, 2015 as certain pre-commercialization activities were completed. The company has received funds and incurred costs under the Ministry’s “Next Generation of Jobs Fund”. 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 \$252 (CDN 339). The Company paid \$15 during the quarter ended March 31, 2017. As of March 31, 2017, the claw-back balance payable is \$210 (Cdn \$279).

Sales and Marketing. Sales and marketing expenses are comprised of the salaries and benefits of sales and marketing personnel, marketing activities, advertising and other costs associated with the sales of Electrovaya’s product lines.

For the quarters ended March 31, 2017 and 2016, sales and marketing expenses were \$358 and \$261 respectively. The \$97 or 37.2% increase was primarily due to an increase in salaries and benefits, shows and travel costs during the quarter ended March 31, 2017.

General and Administrative. General and administrative expenses include salaries and benefits for corporate personnel, insurance, professional fees, reserves for bad debts and facilities expenses. The Company’s corporate administrative staff includes its executive officers and employees engaged in business development, financial planning and control, legal affairs, human resources and information technology.

For the quarters ended March 31, 2017 and 2016, general and administrative expenses were \$1,072 and \$777 respectively. The \$295 or 38% increase was primarily due to non-recurring domestic and international fees in the current quarter as compared to the same quarter in the prior year.

Stock based compensation. Non-cash stock based compensation expense increased by \$67 to \$79 for the quarter ended March 31, 2017 compared to the same quarter in 2016.

Financing costs. For the quarters ended March 31, 2017 and 2016, finance costs were \$646 and \$195 respectively. The \$451 or 231.3% increase was primarily due to additional costs recorded for

the renewal of the Cdn \$6.25 million first mortgage and the Cdn \$15 million convertible debenture issued on March 27, 2017. See “Liquidity and Capital Resources”.

Patent and trademark costs. Patent and trademark expense decreased from \$9 in the same quarter in the prior year to \$12 for the quarter ended March 31, 2017.

Net Profit/(Loss)

Quarterly net profit/(losses) are as follows:

(\$ thousands)	Q1	Q2	Q3	Q4
2017	\$(2,368)	\$(6,299)	-	-
2016	\$2,959	\$(3,099)	\$(3,062)	\$(5,589)
2015	\$(1,891)	\$(955)	\$(1,685)	\$1,338

The increase in the net loss from the second quarter of fiscal 2016 to the second quarter of fiscal 2017 is primarily due to 1) a decrease in revenue, 2) an increase in direct manufacturing costs, 3) an increase in research and development expense, 4) an increase in sales and marketing expense, 5) an increase in general and administration cost, 6) an increase in stock based compensation expense, 7) an increase in financing costs, 8) a decrease in reversal of government assistance and 9) an increase in tax provision, offset by 1) a decrease in amortization costs, 2) a decrease in patents and trademark expenses and 3) a decrease in foreign exchange loss.

Quarterly net (losses) gains per share are as follows:

(\$ thousands)	Q1	Q2	Q3	Q4
2017	\$(0.03)	\$(0.07)	-	-
2016	\$0.04	\$(0.04)	\$(0.04)	\$(0.06)
2015	\$(0.02)	\$(0.01)	\$(0.02)	\$0.01

4. LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2017, the Company had \$8,185 in cash and cash equivalents compared to \$668 and \$4,288 as at September 30, 2016 and March 31, 2016 respectively.

Cash used in operating activities was \$9,600 during for the six months ended March 31, 2017 compared to \$566 used during the six months ended March 31, 2016. Net cash used in operating activities during the quarter ended March 31, 2017 primarily reflects the operating loss of \$8,667, a decrease in non-cash operating working capital of \$1,613 offset by an increase in non-cash financing costs of \$294, deferred tax assets \$155, stock based compensation expense of \$120, loan forgiveness \$117 and amortization of \$228.

To fund the operations the Company has put in place a credit facility with a Schedule 1 Canadian Chartered Bank. The agreement with the Bank provides a \$10 million credit facility comprised at a \$4 million letter of credit and a \$6 million revolving working capital facility. Under the \$6 million revolving working capital facility the Company may borrow up to 90% on EDC insured accounts receivable and 60% on inventory held in Canada and EDC insured export contracts. As at March 31, 2017 the Company has drawn \$3,715 on the revolving facility. As at March 31, 2017, the

Company has fully drawn the available facility including the \$4 million letter of credit facility. As collateral for the credit facility the Company has assigned \$1,000 of term deposits, this amount is reflected as restricted cash in the financial statements as at March 31, 2017.

On March 27, 2017, the Company closed an offering for 9% unsecured convertible debentures (the “Debentures”), for an aggregate gross proceeds of \$11,260,416 (Cdn \$15,000,000). The issue costs were \$751,102 (Cdn \$1,000,543) resulting in net proceeds of \$10,509,314 (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 holders 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.

Management believes that the bank facility, funds provided by the convertible debenture plus, the monetizing of its finished and semi-finished inventory of \$12,904 will provide adequate working capital for the near term. The Company does, however, believe that further debt or equity will be necessary as anticipated sales growth is achieved.

The Company has a promissory note falling due at the end of May 2017 for \$1,126. It is intention to repay this note from available cash resources.

Management believes that the repayment of the remaining notes will occur as required and is confident that a renewal or refinancing will be possible, and that the proceeds will be sufficient to

meet the repayment requirements at that date. Management anticipates that any additional repayments required will be met out of operating cash flows or from alternative forms of capital raising such as asset sales, a rights or note issue or private placement. Management has access to underwriters and a plan for equity raising if required.

Management acknowledges that uncertainty remains over the Group's ability to meet its funding requirements and to refinance or repay its notes payable as they fall due. However, as described above, management has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. If for any reason the Group is unable to continue as a going concern, then this could have an impact on the Group's ability to realise assets at their recognised values, in particular goodwill and other intangible assets, and to extinguish liabilities in the normal course of business at the amounts stated in the consolidated financial statements.

At March 31, 2017, we had the following contractual obligations:

Year of Payment Obligation	Lease Obligations	Debt Repayment
2017	\$412	\$1,126
2018	\$825	\$4,487
2019	\$668	-
2020	\$658	\$11,260
2021	\$652	-
2022	\$645	-
2023	\$442	-
Total	\$4,304	\$16,873

The future minimum lease payments relate to our German operations.

5. OUTSTANDING SHARE DATA

The authorized and issued capital stock of the Company consists of an unlimited authorized number of Common shares as follows:

	Number	Amount
Balance, September 30, 2014	75,317,545	68,246
Add: Shares issued during the quarter ended Dec 31, 2014	2,965,151	1,024
Fair value of stock options exercised	-	19
Balance, December 31, 2014	78,282,696	69,289
Add: Shares issued during the quarter ended Mar 31, 2015*	2,348,823	322
Balance, March 31, 2015	80,631,519	69,611
Add: Shares issued during the quarter ended June 30, 2015	322,505	193
Balance, June 30, 2015 and September 30, 2015.	80,954,024	\$ 69,804
Add: Shares issued during the quarter ended Dec 31, 2015	30,000	7
Fair value of stock options exercised	-	5
Balance, December 31, 2015	80,984,024	69,816

Add: Shares issued during the quarter ended Mar 31, 2016	801,187	450
Fair value of stock options exercised	-	30
Fair value of warrants exercised		176
Balance, March 31, 2016	81,785,211	70,472
Add: Shares issued during the quarter ended June 30, 2016	4,887,097	3,410
Fair value of stock options exercised	-	332
Fair value of warrants exercised		598
Balance, June 30, 2016	86,672,308	74,812
Add: Shares issued during the quarter ended Sep 30, 2016	521,334	368
Fair value of stock options exercised	-	81
Fair value of warrants exercised		78
Balance, September 30, 2016	87,193,642	75,339
Add: Shares issued during the quarter ended Dec 31, 2016	517,000	398
Fair value of stock options exercised	-	2
Fair value of warrants exercised	-	121
Balance, December 31, 2016	87,710,642	75,860
Add: Shares issued during the quarter ended Mar 31, 2017	152,365	108
Fair value of stock options exercised	-	72
Fair value of warrants exercised	-	2
Balance, March 31, 2017	87,863,007	76,042

The following table reflects the quarterly stock option activities for the period from September 30, 2014 to March 31, 2017:

Outstanding September 30, 2014	4,406,833
Options exercised	(56,666)
Cancelled or expired	(200,001)
Outstanding December 31, 2014	4,150,166
Granted	525,000
Outstanding March 31, 2015	4,675,166
Granted	60,000
Options exercised	(50,000)
Outstanding June 30, 2015	4,685,166
Granted	300,000
Outstanding September 30, 2015	4,985,166
Options exercised	(30,000)
Cancelled or expired	(186,666)
Outstanding December 31, 2015	4,768,500
Granted	150,000
Options exercised	(78,330)
Cancelled or expired	(90,000)
Outstanding March 31, 2016	4,750,170
Options exercised	(769,336)
Cancelled or expired	(13,332)
Outstanding June 30, 2016	3,967,502

Options exercised	(206,668)
Outstanding September 30, 2016	3,760,834
Granted	651,000
Options exercised	(13,000)
Outstanding December 31, 2016	4,398,834
Options exercised	(140,165)
Cancelled or expired	(16,000)
Outstanding March 31, 2017	4,242,669

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.

The following table reflects the outstanding warrant activities for the period from January 1, 2014 to March 31, 2017:

	Number of warrants outstanding	Exercise price
Outstanding as on 1st Jan, 2014		
Issued	-	
Outstanding, Mar 31, 2014	1,000,000	\$0.50
Exercised during the quarter ended Jun 30, 2014	1,000,000	
Outstanding Jun 30 & Sep, 2014	-306,666	\$0.50
Issued during the quarter ended Dec 31, 2014	693,334	
Outstanding, Dec 31, 2014	3,112,079	\$0.79
Issued during the quarter ended Mar 31, 2015	3,805,413	
Issued during the quarter ended Mar 31, 2015	128,400	\$0.79
Outstanding, Mar 31, Jun 30, Sep 30 & Dec 31, 2015	2,183,673	\$0.57
Issued during the quarter ended Mar 31, 2016	6,117,486	
Exercised during the quarter ended Mar 31, 2016	1,000,000	\$0.60
Expired during the quarter ended Mar 31, 2016	-80,000	\$0.50
Exercised during the quarter ended Mar 31, 2016	-613,334	\$0.50
Outstanding, Mar 31, 2016	-642,857	\$0.57
Exercised during the quarter ended Jun 30, 2016	5,781,295	
Exercised during the quarter ended Jun 30, 2016	-1,540,816	\$0.57
Exercised during the quarter ended Jun 30, 2016	-2,270,279	\$0.80
Outstanding, Jun 30, 2016	-306,666	\$0.60
Exercised during the quarter ended Sep 30, 2016	1,663,534	
Exercised during the quarter ended Sep 30, 2016	-306,666	\$0.60
Outstanding, Sep 30, 2016	-8,000	\$0.80
Exercised during the quarter ended Dec 31, 2016	1,348,868	
Outstanding, Dec 31, 2016	-504,000	\$0.78
Exercised during the quarter ended Mar 31, 2017	844,868	

Issued during the quarter ended Mar 31, 2017	-12,200	\$0.79
Issued during the quarter ended Mar 31, 2017	1,000,000	\$2.06
Outstanding, Mar 31, 2017	1,740,000	\$2.10
	<u>3,572,668</u>	

As of May 10, 2017, the Corporation had 87,863,007 common shares outstanding, 4,242,669 options to purchase common shares outstanding, 279,069 compensation options and 3,572,668 warrants to purchase common shares outstanding.

6. FINANCIAL CONDITION

Current Assets. Cash and cash equivalents includes cash and investments with maturities of less than 90 days. Short-term investments include banker acceptances, commercial paper and term deposits with maturities of up to 90 days. Inventories include raw materials, semi-finished and finished goods.

Cash and cash equivalents were \$8,185 as at March 31, 2017, \$4,288 as at March 31, 2016 and \$668 as at September 30, 2016.

Capital assets. Approximately \$76 of capital assets were acquired during the quarter ended March 31, 2017.

Current Liabilities. Current liabilities were \$23,462 as at March 31, 2017 as compared to \$21,998 as at September 30, 2016.

Share capital. Of an authorized unlimited number of Common shares, 87,863,007 in the amount of \$76,042 are issued and outstanding as at March 31, 2017.

Present Status

During the quarter ended March 31, 2017, the loss before amortization, foreign exchange, interest income and provision for tax increased by \$3,319 or 126.3% compared to the quarter ended March 31, 2016.

The Company manages its financial condition 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 and maintain a positive financial condition.

Financing

On February 10, 2014, ElectroVaya Inc. issued a promissory note to a syndicate of lenders for Cdn \$6.25 million at 8.25% per annum for 24 months, secured by a first mortgage on its land and building, a General Security Agreement, an assignment of an interest reserve for \$485, intercorporate guarantees from 1408871 Ontario Inc. and ElectroVaya Corp, a guarantee from the controlling shareholder and one million common share purchase warrants at an exercise price of Cdn \$0.65 per share exercisable immediately for a period of 24 months. The Company has renewed the facility for up to 12 months under the same terms and issued new 1,000,000 warrants for a 24 month period at an exercise price of Cdn \$0.79 per share warrant exercisable immediately. There is an option to repay anytime after the first 6 months of the renewal term at the discretion of the Company. The Company renewed the note on February 17, 2017 for a further 12 months period under the same terms and issued 1,000,000 new warrants for a 24 months period at an exercise price of Cdn \$2.74.

In April, 2015 the Company borrowed \$1,203 (Cdn\$1.5 million) as a loan from a shareholder bearing interest at 10% per annum with repayment terms of 18 months. The loan has been renewed to May 31, 2017. It is the Company's intention to repay the loan at maturity.

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 bears interest at 10% per annum was to mature on April 17, 2016. This loan was renewed for a further period of one year to April 17, 2017. The loan was subsequently renewed for a further period of one year to April 17, 2018.

In July, 2016, the Company entered into a definitive loan agreement with a Schedule 1 Canadian Chartered Bank. The agreement provides a \$10 million credit facility comprised of a \$4 million Letter of Credit and a \$6 million revolving working capital facility. Under the \$6 million revolving working capital facility, the Company may borrow up to 90% on EDC insured accounts receivable and 60% on inventory held in Canada and EDC insured export contracts. Interest is at prime rate plus 1% per annum.

Assignment of a term deposit of \$1,000 was made with the bank as a collateral for the line of credit.

As at March 31, 2017, the Company has fully drawn the available facility including \$4 million against the Letter of Credit facility bringing the total amount drawn to \$7,715 (i.e. \$3.7 million on revolving facility and \$4 million on Letter of Credit Facility).

On March 27, 2017, the Company closed an offering for 9% unsecured convertible debentures (the "Debentures"), for an aggregate gross proceeds of \$11,260,416 (Cdn \$15,000,000). The issue costs were \$751,102 (Cdn \$1,000,543) resulting in net proceeds of \$10,509,314 (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 holders 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.

7. OFF-BALANCE SHEET ARRANGEMENTS

We did not have any off balance sheet arrangements for the quarter ended March 31, 2017.

8. RELATED PARTY TRANSACTIONS

There were no balance outstanding as at March 31, 2017 and March 31, 2016. During the quarter ended March 31, 2017, the Company paid \$28 (2016 - \$22) 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.

There is an outstanding payable balance of \$37 relating to raising of capital on behalf of the Company, as at March 31, 2017 (2016-\$39). During the quarter ended March 31, 2017, the Company paid \$97 (2016 - \$43) 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 April 21, 2015, a shareholder of the Company advanced a loan in the amount of \$1,203 (Cdn \$1,500) bearing interest at 10% per annum with repayment terms of 18 months (see note 4). The balance of the loan as at March 31, 2017, net of currency translation adjustments is \$1,126 and as

at December 31, 2016, net of currency translation adjustments is \$1,117. The loan has been renewed to May 31, 2017. It is the Company's intention to repay the loan at maturity.

9. CRITICAL ACCOUNTING ESTIMATES

The Company's management make judgments in its process of applying the Company's accounting policies in the preparation of its consolidated financial statements. In addition, the preparation of financial information requires that the Company's management make assumptions and estimates of effects of uncertain future events on the carrying amounts of the Company's assets and liabilities at the end of the reporting period and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates as the estimation process is inherently uncertain. Estimates are reviewed on an ongoing basis based on historical experience and other factors that are considered to be relevant under the circumstances. Revisions to estimates and the resulting effects on the carrying amounts of the Company's assets and liabilities are accounted for prospectively.

The critical judgments, estimates and assumptions applied in the preparation of Company's financial information are reflected in Note 3 of the Company's March 31, 2017 condensed interim consolidated financial statements.

10. CHANGES IN ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS

Our accounting policies and information on the adoption and impact of new and revised accounting standards the Company was required to adopt effective January 1, 2015 are disclosed in Note 3 of our condensed interim consolidated financial statements and their related notes for the quarter ended March 31, 2017.

11. FINANCIAL AND OTHER INSTRUMENTS

We do not have any material obligations under forward foreign exchange contracts, guarantee contracts, retained or contingent interests in transferred assets, outstanding derivative instruments or non-consolidated variable interests.

12. DISCLOSURE CONTROLS

We have established disclosure controls and procedures that are designed to ensure that the information required to be disclosed by the Company in the reports that it files or submits under securities legislation is recorded, processed, summarized, and reported within the time periods specified in such rules and forms and that such information is accumulated and communicated to management, including our principal executive officer and principal financial officer (who are our Chief Executive Officer and Chief Financial Officer, respectively) as appropriate to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognized that disclosure controls and procedures can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met.

Our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures. Based on this evaluation and as described below under “Internal Control over Financial Reporting”, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2017.

13. INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of, the CEO and the CFO and effected by the Board of Directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS.

Our management, including our CEO and CFO, believes that any disclosure controls and procedures or internal control over financial reporting, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, have been prevented or detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud might occur and not be detected.

Management assessed the effectiveness of the Company’s internal control over financial reporting at March 31, 2017, based on the criteria set forth in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission as published in 2013. Based on this evaluation, management believes, at March 31, 2017, the Corporation’s internal control over financial reporting is effective. Also, management determined there were no material weaknesses in the Corporation’s internal control over financial reporting at March 31, 2017.

The effectiveness of the Company’s internal control over financial reporting as of September 30, 2016, has been audited by Goodman & Associates LLP, an independent registered public accounting firm, as stated in their report, which is included in the Company’s audited financial statements.

14. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT RISKS AND UNCERTAINTIES

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.

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:

	March 31, 2017	September 30, 2016
Cash and cash equivalents	\$ 8,185	\$ 668
Restricted cash	1,002	1,000
Trade and other receivables	2,922	3,022
Carrying amount	\$ 12,109	\$ 4,690

Cash and cash equivalents are comprised of the following:

	March 31, 2017	September 30, 2016
Cash	\$ 8,185	\$ 610
Cash equivalents	-	58
	\$ 8,185	\$ 668

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 March 31, 2017 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 low and is not material.

Liquidity risk

The Company is exposed to liquidity risk as at March 31, 2017 from: trade and other payables in the amount of \$9,871 (2016- \$8,066); promissory note and loan financing of \$5,774 (2016-\$6,511); long-term provisions \$755 (2016-\$507); line of credit \$7,715 (2016-\$Nil); and, the loan from Innovation Norway for \$75 (2016-\$282). 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 8.25%, 9%, 10% 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.

Foreign currency risk

The Company is exposed to foreign currency risk. The Company's functional currency is the Canadian dollar and a majority of its revenue is derived in Euro. Purchases are transacted in Canadian dollars, United States dollars, Euro and Norwegian krone. The majority of the Company's operations are located primarily in Germany. 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 owed in US dollars were \$6,438 (March 31, 2017) and \$4,044 (December 31, 2016).

If the US dollar to Canadian, Euro and Norwegian Kroner foreign exchange rate changed by 2% this would change the recorded Net loss by (\$120).

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. In the opinion of management, the price risk is low and is not material.

Disclosure Control Risks

The Company's management, with the participation of the Chief Executive Officer and Chief Financial Officer of the Company, have designed disclosure controls and procedures ("DC&P"),

or caused them to be designed under their supervision, to provide reasonable assurance that material information relating to the issuer, including its consolidated subsidiaries, is made known, particularly during the period in which interim or annual filings are being prepared, and information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. Although certain weaknesses, however, have been identified, these items do not constitute a material weakness or a weakness in DC&P that are significant. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. DC&P are reviewed on an ongoing basis.

Internal Control Risks

The Company's management, with the participation of the Chief Executive Officer and Chief Financial Officer of the Company, have designed such internal control over financial reporting ("ICFR"), or caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS and using the framework and criteria established in Internal Control over Financial Reporting - Guidance for Smaller Public Companies, issued by The Committee of Sponsoring Organizations of the Treadway Commission. The Company relies on entity-wide controls and programs including written codes of conduct and controls over initiating, recording, processing and reporting significant account balances and classes of transactions. Other controls include centralized processing controls, including a shared services environment and monitoring of operating results.

Based on the evaluation of the design and operating effectiveness of the Company's ICFR, the CEO and CFO concluded that the company's ICFR was effective as at March 31, 2017.

The Company does not believe that it has any material weakness or a weakness in ICFR that are significant. Control deficiencies have been identified within the Company's accounting and finance departments and its financial information systems over segregation of duties and user access respectively. Specifically, certain duties within the accounting and finance departments were not properly segregated due to the small number of individuals employed in these areas. To our knowledge, none of the control deficiencies has resulted in a misstatement to the financial statements. However, these deficiencies may be considered a material weakness resulting in a more-than remote likelihood that a material misstatement of the Company's annual or interim financial statements would not be prevented or detected.

As the Company incurs future growth, we plan to expand the number of individuals involved in the accounting function. At the present time, the CEO and CFO oversee all material transactions and related accounting records. In addition, the Audit Committee reviews on a quarterly basis the financial statements and key risks of the Company and queries management about significant transactions, there is a quarterly review of the company's condensed interim unaudited financial statements by the Company's auditors and daily oversight by the senior management of the Company.

Other Risk Factors

The risks described above are not the only risks and uncertainties that we face. Additional risks and uncertainties not presently known to us or that we currently consider immaterial may also impair our business operations. These risk factors could materially affect our future operating results and could cause actual events to differ materially from those described in our forward-looking statements. Additional risks the Corporation faces are described under the heading “Risk Factors” in the Company’s annual information form for the year ended September 30, 2016.

Additional information relating to the Company, including our annual information form for the year ended September 30, 2016, is available on SEDAR.