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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Electrovaya Inc. as at September 30, 2005 and 2004 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 the Company as at September 30, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Toronto, Canada

November 18, 2005

ELECTROVAYA INC.

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

As at September 30, 2005 and 2004.

	2005	2004
Assets		
Current assets		
Cash and cash equivalents	\$ 3,333	\$ 2,715
Short-term investments	8,900	10,897
Accounts receivable	826	698
Investment tax credits recoverable	49	165
Goods and Services Tax receivable	29	66
Inventories (note 3)	1,844	2,886
Prepaid expenses and other	65	52
	<u>15,046</u>	<u>17,479</u>
Capital assets (see restatement note 2, note 4)	10,936	12,207
	<u>\$ 25,982</u>	<u>\$ 29,686</u>

Liabilities and Shareholders' Equity

Current liabilities		
Accounts payable and accrued liabilities	\$ 1,604	\$ 1,514
	<u>1,604</u>	<u>1,514</u>
Shareholders' equity		
Share capital (note 5)	63,745	63,745
Contributed surplus	227	43
Cumulative translation adjustment (see restatement note 2)	7,504	5,160
Deficit	<u>(47,098)</u>	<u>(40,776)</u>
	24,378	28,172
Commitments (note 8)		
Contingencies (note 1(g))		
	<u>\$ 25,982</u>	<u>\$ 29,686</u>

See accompanying notes to consolidated financial statements.

ELECTROVAYA INC.

Consolidated Statements of Operations and Deficit
(Expressed in Thousands of U.S. dollars, except per share amounts)

Years ended September 30, 2005 and 2004

	2005	2004
Revenue	\$ 6,540	\$ 6,369
Direct manufacturing costs	5,260	5,522
	1,280	847
Expenses		
Research and development	2,631	2,843
Government assistance (note 1(g))	(718)	(666)
Sales and marketing	1,075	1,640
General and administrative	2,063	2,445
	5,051	6,262
Loss before the undernoted	3,771	5,415
Amortization	2,415	3,061
Loss from operations	6,186	8,476
Interest income	(279)	(273)
Loss from foreign exchange	847	260
	568	(13)
Loss before income taxes	6,754	8,463
Income tax recovery (notes 7c & 10)	(432)	-
Loss for the year	6,322	8,463
Deficit, beginning of year	40,776	32,313
Deficit, end of year	\$ 47,098	\$ 40,776
Basic and diluted loss per common share (note 9)	\$ 0.09	\$ 0.12

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, 2005 and 2004

	2005	2004
<hr/>		
<hr/>		
	2005	2004
<hr/>		
Cash provided by (used in)		
Operating activities		
Loss for the year	\$ (6,322)	\$ (8,463)
Amortization which does not involve cash	2,415	3,061
Income tax recovery	(432)	\$ -
Stock compensation expense	184	43
Change in non-cash operating working capital (note 12)	1,145	400
	<hr/>	<hr/>
	(3,010)	(4,959)
Investing activities		
Reductions to short-term investments	1,997	518
Additions to capital assets	(159)	(240)
	<hr/>	<hr/>
	1,838	278
Financing activities		
Issue of shares	-	16
Cash acquired on amalgamation of subsidiaries (note 7c)	509	-
	<hr/>	<hr/>
	509	16
Increase in cash and cash equivalents	(663)	(4,665)
Effect of currency translation adjustments on cash and cash equivalents	1,281	1,202
Cash and cash equivalents beginning of year	2,715	6,178
	<hr/>	<hr/>
Cash and cash equivalents end of year	\$ 3,333	\$ 2,715
Supplemental disclosure of cash flow information		
Income taxes paid	\$ 7	\$ 50
Interest received	262	243
<hr/>		
Supplemental information of non-cash transactions		
Tax Liability on amalgamation (refer note 7(c))	\$ -	-
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See accompanying notes to consolidated financial statements.

ELECTROVAYA INC.

Notes to Consolidated Financial Statements

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

Years ended September 30, 2005 and 2004

Electrovaya Inc. (the "Company"), incorporated in 1996 under the Business Corporations Act (Ontario), develops, manufactures and markets portable power technology products 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.

The company has no operating assets located outside of Canada.

(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, the Company reviewed the estimated useful life of depreciable assets resulting in a prospective change in amortization for production equipment and building improvements.

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 was

ELECTROVAYA INC.

Notes to Consolidated Financial Statements (continued)

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

Years ended September 30, 2005 and 2004

1. Significant accounting policies (continued)

a reduction in the amortization expense for production equipment of \$420 and an increase in the amortization expense for building improvements of \$25.

(d) Impairment of long-lived assets

Capital assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

(e) Research and development costs

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

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

Certain costs related to the Company's research and development efforts related to fast batteries and electric vehicles are being funded by a repayable grant from Technology Partnerships Canada (see Note 1 (g)).

(f) 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.

(g) 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.

ELECTROVAYA INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in Thousands of U.S. dollars, except per share amounts and otherwise stated.)

Years ended September 30, 2005 and 2004

1. Significant accounting policies (continued)

The Company has been approved for funding under the Technology Partnerships Canada 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, with payment to be deferred or reduced if certain revenue thresholds are not achieved. During 2003, the initial claim for \$1,140 was received. Additional claims for \$718 were received by the company during the year ended September 30, 2005 (2004-\$666).

(h) Stock based Compensation

In accordance with Handbook section 3870 "Stock-based Compensation and Other Stock-based Payments," 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 \$184 (\$ 43 – 2004)

(i) Revenue recognition

Revenue from product sales is recognized upon shipment, since persuasive evidence of an arrangement exists, risks and rewards of ownership have been transferred to customers, selling price is fixed and determinable and collectability is reasonably assured. 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.

ELECTROVAYA INC.

Notes to Consolidated Financial Statements (continued)

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

Years ended September 30, 2005 and 2004

1. Significant accounting policies (continued)

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.

(j) Warranty costs

Warranty costs are provided for as revenues are earned.

(k) Use of estimates

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

Warranty accruals are based on the actual warranty experience rate for the past year and sales during the most recent warranty period.

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

(l) 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.

ELECTROVAYA INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in Thousands of U.S. dollars, except per share amounts and otherwise stated.)

Years ended September 30, 2005 and 2004

1. Significant accounting policies (continued)

(m) 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 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.

(n) 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.

2. Restatement

Due to a recalculation relating to the prior year foreign currency translation, the September 30, 2004 Capital assets and cumulative translation adjustment comparative amounts have been increased by a cumulative amount of \$ 3,003. This correction had no impact on the Company's net loss or cash flows for the current or prior years.

3. Inventories

	September 30,	
	2005	2004
Raw materials	\$ 816	\$ 1,052
Work in progress	896	1,725
Finished goods	132	109
	<hr/>	<hr/>
	\$ 1,844	\$ 2,886

ELECTROVAYA INC.

Notes to Consolidated Financial Statements (continued)

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

Years ended September 30, 2005 and 2004

4. Capital assets

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

September 30, 2004	Cost (Restated note 2)	Accumulated amortization (Restated note 2)	Net book value (Restated note 2)
Land	\$ 2,372	\$ –	\$ 2,372
Building	744	145	599
Building improvements	6,590	1,133	5,457
Production equipment	11,082	8,106	2,976
Workshop equipment	1,267	1,160	107
Patents and technology	1,442	953	489
Office furniture and equipment	599	402	197
Vehicles	42	32	10
	\$ 24,138	\$ 11,931	\$ 12,207

5. Share capital

(a) Authorized and issued capital stock

Authorized
Unlimited common shares

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

ELECTROVAYA INC.

Notes to Consolidated Financial Statements (continued)

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

Years ended September 30, 2005 and 2004

5. Share capital (continued)

(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 4,075,833 common shares and 2,703,937 remain outstanding (2004 - 2,000,934) at prices ranging from \$ 0.31 to \$8.00 per share. These options have a weighted average remaining life of 6.63 years.

The following table reflects activity under the Plan from September 30, 2003 through September 30, 2005 and the weighted average exercise prices:

	Number	Weighted average exercise prices
Outstanding, September 30, 2003	1,594,933	\$ 1.91
Granted	475,000	0.81
Cancelled or expired	(32,666)	1.35
Exercised	(36,333)	0.46
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

ELECTROVAYA INC.

Notes to Consolidated Financial Statements (continued)

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

Years ended September 30, 2005 and 2004

5. Share capital (continued)

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

The weighted average grant date fair value of the 753,000 options issued during the year was \$0.42. The compensation costs related to these options were calculated using the Black-Scholes option pricing model assuming a risk-free interest rate of approximately 4.4%, a dividend yield of 0%, an expected volatility of 111% and expected lives of stock options of 10 years. The costs are amortized over the vesting period which is 3 years.

Exercise price	Options outstanding as at September 30, 2005			Options exercisable as at September 30, 2005	
	Number outstanding	Weighted average price	Weighted average remaining life (years)	Number exercisable	Weighted average exercise price
\$ 0.53 (Cdn\$0.62)	249,671	\$ 0.53	6.86	249,671	\$ 0.53
0.59 (Cdn\$0.68)	25,000	0.59	7.17	16,665	0.59
0.78 (Cdn\$0.90)	32,000	0.78	8.86	10,668	0.78
0.95 (Cdn\$1.10)	415,000	0.95	8.64	138,332	0.95
1.44 (Cdn\$1.67)	908,100	1.44	3.89	908,100	1.44
2.58 (Cdn\$3.00)	83,000	2.58	5.87	83,000	2.58
5.24	96,666	5.24	5.09	96,666	5.24
5.33	85,500	5.33	4.37	85,500	5.33
6.89 (Cdn\$8.00)	19,000	6.89	5.09	19,000	6.89
8.00	60,000	8.00	4.95	60,000	8.00
0.48 (Cdn\$0.56)	470,000	0.48	9.20	-	0.48
0.31 (Cdn\$0.36)	260,000	0.31	9.93	100,000	0.31
	2,703,937	1.47	6.63	1,767,602	1.93

6. 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.

ELECTROVAYA INC.

Notes to Consolidated Financial Statements (continued)

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

Years ended September 30, 2005 and 2004

6. Financial instruments (continued)

(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 trade accounts receivable. The Company performs periodic credit 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.

7. Related Party Transactions

a) The Company in the previous years leased 11,800 square feet at an annual rental amount of \$80 at its Hanna Avenue 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. All the Company's divisions are now located at 2645 Royal Windsor Drive, Mississauga, Ontario.

b) Electrovaya in the 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 has 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 are convertible into Class A voting, participating shares in the event the private company becomes registered on a stock exchange. During the previous year, Electrovaya provided a \$38 loan and space at no additional charge to the 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 is owned by arm's length private investors and has not yet reached commercial levels of production. The private company is currently seeking additional funding and, in the event these efforts are unsuccessful, may not be a going concern. As a result, the original investment, additional shares and loan were valued at NIL as at September 30, 2005 and September 30, 2004. Subsequent to year-end, the

ELECTROVAYA INC.

Notes to Consolidated Financial Statements (continued)

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

Years ended September 30, 2005 and 2004

7. Related Party Transactions (continued)

Company entered into negotiations to sell its class A and B shares of the private company to a third party.

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

The amalgamation transaction has 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' ownership interests in the subsidiaries. Further the Company 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 the amalgamation, the Company received \$509 of cash and assumed a liability of \$77 relating to interest payable on an income taxes liability of 1020204 Ontario Limited. The offset to the \$432 of net assets assumed has been recorded as a credit to income tax recovery in the statement of operations.

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 1020204 Ontario Ltd. This transaction had no impact on the statement of operations as a full valuation allowance had been recorded against the income tax losses.

- d) During the year ended September 30, 2005, the Company paid \$ 138 (2004 - \$119) to a director of a wholly owned subsidiary company for services rendered to the Company in his capacity as an executive officer.

8. Commitments

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

2006	13
2007	12
2008	11
	<hr/>
	\$ 36

ELECTROVAYA INC.

Notes to Consolidated Financial Statements (continued)

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

Years ended September 30, 2005 and 2004

9. 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, 2005	69,575,442
September 30, 2004	69,553,913

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.

10. Income taxes

The income tax recovery differs from the amount computed by applying the Canadian statutory income tax rate of 36.1% (2004 – 36.23%) to the loss before income taxes as a result of the following:

	Years ended September 30,	
	2005	2004
Loss before income taxes	\$ (6,754)	\$ (8,463)
Recovery of income taxes based on statutory rates	(2,438)	(3,066)
Reduction in income tax recovery resulting from:		
Lower rate on manufacturing profits	135	70
Permanent differences	105	(712)
Change in valuation allowance	644	5,314
Change in enacted tax rates	-	(375)
Foreign operations taxed at a lower rate	1	2
Rate differential on utilization of losses	1,121	-
Benefit of previous unrecorded losses	-	(1,233)
Income tax recovery	\$ (432)	\$ -

ELECTROVAYA INC.

Notes to Consolidated Financial Statements (continued)

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

Years ended September 30, 2005 and 2004

10. Income taxes (continued)

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,	
	2005	2004
Future tax assets		
Non-capital losses carried forward	\$13,523	\$ 10,552
Share issue costs	-	37
Capital assets	3,621	1,922
Unclaimed research and development expenses	2,032	2,750
Other deductible differences	166	116
	19,342	15,377
Less valuation allowance	(19,342)	(15,377)
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 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 ("ITCs") amounting to approximately \$2,615 which begin to expire in 2007.

As at September 30, 2005, the expiration dates of the Company's federal non-capital income tax losses carried forward are as follows:

2006	949
2007	1,125
2008	6,321
2009	13,653
2010	594
2013	4,364
2014	3,277
2022	978
2023	106
2024	337
2025	38
	\$ 31,742

ELECTROVAYA INC.

Notes to Consolidated Financial Statements (continued)

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

Years ended September 30, 2005 and 2004

11. Major customers

During 2005, one customer represented 28% (2004 – 2 customers represented 18% & 21%) of total revenue and 27% (2004 - 37% & 0%) of trade accounts receivable.

12. Change in non-cash operating working capital

	Years ended September 30,	
	2005	2004
Accounts receivable	\$ (128)	\$ 349
Investment tax credits recoverable	116	262
Goods and Services Tax receivable	38	(11)
Inventories	1041	(34)
Prepaid expenses and other	(12)	86
Accounts payable and accrued liabilities	90	(246)
Income taxes payable	-	(6)
	<hr/>	<hr/>
	\$ 1,145	\$ 400

13. 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:

	2005	2004
Services	\$ 2,211	\$ 1,357
Consumer electronics	4,131	4,481
Other	198	531
	<hr/>	<hr/>
	\$ 6,540	\$ 6,369

ELECTROVAYA INC.

Notes to Consolidated Financial Statements (continued)

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

Years ended September 30, 2005 and 2004

13. Segmented information (continued)

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

	2005	2004
Canada	\$ 1,200	\$ 962
United States & Others	5,340	5,407
	<hr/>	<hr/>
	\$ 6,540	\$ 6,369
