Consolidated Financial Statements
(Expressed in thousands of U.S. dollars)

ELECTROVAYA INC.

(Formerly Electrofuel Inc.)
Years ended September 30, 2002 and 2001

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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Electrovaya Inc. (formerly Electrofuel Inc.) as at September 30, 2002 and 2001 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Electrovaya Inc. as at September 30, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Toronto, Canada

November 15, 2002

ELECTROVAYA INC.

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

	September 30, 2002	2001
Assets		
Current assets		
Cash and cash equivalents	$ 2,529	$ 2,436
Short-term investments	18,089	28,696
Accounts receivable	762	301
Investment tax credits recoverable	378	652
Goods and Services Tax receivable	163	167
Inventories (note 2)	3,324	1,836
Prepaid expenses and other	113	49
	25,358	34,137
Capital assets (note 3)	14,256	15,501
	$ 39,614	$ 49,638
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	$ 1,220	$ 1,110
Income taxes payable	42	37
	1,262	1,147
Shareholders' equity		
Share capital (note 4)	63,729	63,729
Cumulative translation adjustment	(2,940)	(2,792)
Deficit	(22,437)	(12,446)
	38,352	48,491
Commitments (note 7)		
	$ 39,614	$ 49,638

See accompanying notes to consolidated financial statements.

On behalf of the Board:

"Sankar Das Gupta" Director

"George Paterson" Director

ELECTROVAYA INC.

(Formerly Electrofuel Inc.)
Consolidated Statements of Operations and Deficit
(Expressed in thousands of U.S. dollars)

	Years ended September 30, 2002	2001
Revenue	$ 2,976	$ 1,017
Cost of goods sold	4,641	–
Gross margin	(1,665)	1,017
Expenses		
Start-up and manufacturing	–	2,896
Research and development	1,845	1,759
Sales and marketing	2,221	1,553
General and administrative	2,331	2,794
	6,397	9,002
Loss before the undernoted	8,062	7,985
Amortization	2,495	1,502
Loss from operations	10,557	9,487
Interest income	(597)	(1,869)
Gain from foreign exchange	(11)	(486)
	(608)	(2,355)
Loss before income taxes	9,949	7,132
Income tax expense (note 9)	42	37
Loss for the year	9,991	7,169
Deficit, beginning of year	12,446	5,277
Deficit, end of year	$ 22,437	$ 12,446
Basic and diluted loss per common share (note 8)	$ 0.14	$ 0.11

See accompanying notes to consolidated financial statements.

ELECTROVAYA INC.

(Formerly Electrofuel Inc.)
Consolidated Statements of Cash Flows
(Expressed in thousands of U.S. dollars)

	Years ended September 30, 2002	2001
Cash provided by (used in)		
Operating activities		
Loss for the year	$ (9,991)	$ (7,169)
Amortization which does not involve cash	2,495	1,502
Change in non-cash operating working capital (note 11)	(1,620)	(2,180)
	(9,116)	(7,847)
Financing activities		
Proceeds from issue of common shares (note 4)	–	30,006
Exercise of stock options	–	177
	–	30,183
Investing activities		
Reductions (additions) to short-term investments	10,607	(15,696)
Additions to capital assets	(1,305)	(9,193)
	9,302	(24,889)
Increase (decrease) in cash and cash equivalents	186	(2,553)
Effect of currency translation adjustments on cash and cash equivalents	(93)	(1,348)
Cash and cash equivalents, beginning of year	2,436	6,337
Cash and cash equivalents, end of year	$ 2,529	$ 2,436
Supplemental disclosure of cash flow information		
Income taxes paid	$ 34	$ 21
Interest received	823	2,070

See accompanying notes to consolidated financial statements.

1. Significant accounting policies

(a) Nature of operations

On April 2, 2002, Electrovaya (the "Company") changed its name from Electrofuel Inc. Electrovaya Inc. is an early stage manufacturer and marketer of advanced, high energy, rechargeable batteries based on its patented lithium ion SuperPolymer™ technology. These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries.

The Company expects to continue to develop its product lines and explore other potential applications using the developed technology.

The Company has no distinct operating segments and has no operating assets located outside of Canada.

(b) Cash and cash equivalents

Cash and cash equivalents include temporary investments in marketable securities which are readily convertible into cash and which have a term to maturity of less than 90 days. Temporary investments in marketable securities with longer terms to maturity are recorded as short-term investments and are recorded at cost, which is equivalent to 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	4%
Production equipment	20%
Workshop equipment	20%
Patents and technology	20%
Office furniture and equipment	20%
Vehicles	20%

1. Significant accounting policies (continued)

(d) Research and development costs

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

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

(e) Start-up and manufacturing expenses

In April 2001, the Company commenced production of commercial units at its new manufacturing facility in Mississauga, Ontario. All of the materials, labour and overhead costs associated with the production of commercial units and the start-up of the plant were included in Start-up and manufacturing expenses in 2001.

(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.

(h) Stock-based compensation

In December 2001, the Accounting Standards Board of the CICA issued *Handbook* Section 3870. Section 3870 establishes standards for the recognition, measurement, and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services provided by employees and non-employees. It applies to transactions in which shares of common stock, stock options, or other equity instruments

1. Significant accounting policies (continued)

are granted or liabilities incurred based on the price of common stock or other equity instruments.

The new standard permits the Company to continue its existing policy that no compensation cost is recorded on the grant of stock options to employees. Consideration paid by employees on the exercise of stock options is credited to share capital.

The Company will adopt Section 3870 for its fiscal year beginning October 1, 2002. The Company does not believe that the adoption of this standard will have a material impact on the Company's financial condition or results of operations.

(i) Equity instruments issued to non-employees in exchange for services

When equity instruments are issued to non-employees in exchange for services, the equity instruments are recorded at the fair value of the services received, where such value can be reliably measured, or, otherwise, at the fair value of the equity instrument issued as consideration.

(j) Revenue recognition

Revenue is recognized when title to the goods transfers to customers and collectibility is reasonably assured. Provision is made for potential sales returns at the time of shipment.

(k) Warranty costs

Warranty costs are provided for as revenues are earned.

(l) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

The Company operates in a competitive market subject to fast-paced technological changes. The Company has estimated the rate of sales returns of its products based on historical patterns, communication with its distributors, industry trends and existing

1. Significant accounting policies (continued)

competitive pressures. Significant changes in technology or competitors' products could result in a material change in the rate of sales returns.

(m) 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 carryforwards. Future tax assets and liabilities are measured using 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 statement of operations in the period that includes the enactment date.

(n) 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. 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.

(o) Change in accounting policy

Effective October 1, 2001, the Company adopted, on a retroactive basis, the CICA Handbook Section 3500, Earnings per Share. This new standard uses the treasury stock method, instead of the imputed interest approach for determining the dilutive effects of options, warrants and similar instruments in the calculation of diluted earnings per share. The adoption of this standard did not impact the Company's basic and diluted loss per share amounts in either 2002 or 2001.

(Expressed in Thousands of U.S. dollars)

2. Inventories

Inventories consist of

	September 30, 2002	2001
Raw materials	$ 1,744	$ 924
Work in progress	1,524	767
Finished goods	56	145
	$ 3,324	$ 1,836

3. Capital assets

September 30, 2002	Cost	Accumulated amortization	value
Land	$ 1,899	$ –	$ 1,899
Building	596	68	528
Building improvements	5,096	343	4,753
Production equipment	8,958	3,136	5,822
Workshop equipment	1,013	520	493
Patents and technology	774	334	440
Office furniture and equipment	480	181	299
Vehicles	34	12	22
	$ 18,850	$ 4,594	$ 14,256

September 30, 2001	Cost	Accumulated amortization	value
Land	$ 1,899	$ –	$ 1,899
Building	596	45	551
Building improvements	5,096	127	4,969
Production equipment	8,011	1,362	6,649
Workshop equipment	1,013	321	692
Patents and technology	548	190	358
Office furniture and equipment	448	93	355
Vehicles	34	6	28
Leasehold improvements	2	2	–
	$ 17,647	$ 2,146	$ 15,501

(Expressed in Thousands of U.S. dollars)

4. Share capital

(a) Authorized and issued capital stock

	Common Shares		Special Warrants	
Authorized				
Unlimited common shares				
Issued	Number of Shares	Amount	Number of Warrants	Amount
Balance, September 30, 2000	54,535,287	6,946	1,875,000	28,439
Issued during fiscal 2001				
Public offering (i)	6,250,000	28,167	–	–
Conversion of special warrants (ii)	8,589,922	28,439	(1,875,000)	(28,439)
Stock options exercised	163,900	177	–	–
Balance, September 30, 2001 & 2002	69,539,109	$ 63,729	–	$ –

(i) On November 10, 2000, the Company issued 6,250,000 common shares at $5.24 per common share, resulting in proceeds of $30,006, net of costs of $2,744. Including related deferred financing charges of $1,839 accumulated prior to September 30, 2000, the net proceeds received from this issuance is $28,167.

(ii) The Company entered into an agency agreement with Yorkton Securities Inc. to offer for sale, on a private placement basis, 1,875,000 special warrants at a price of $16 per special warrant for net proceeds of $28,439 after deducting issue costs of $1,561. This private placement was completed on January 10, 2000. Each special warrant entitled the holder to receive, subject to the adjustment described below, three common shares of the Company without payment of additional consideration. The special warrants were exchanged to common shares at the closing of the public offering of common shares on November 10, 2000.

Each special warrant entitled the holder to acquire, for no additional consideration, such additional number of common shares as was necessary to ensure that the value the special warrant holder received for each special warrant was equal to $24.00, subject to a maximum adjustment of an additional three common shares for each special warrant held. As a result of the offering price per common share described in note 4(a)(i) being

4. Share capital (continued)

less than $8.00, each special warrant holder received 1.58 additional common shares for each special warrant held for no additional consideration. The Company filed a prospectus dated November 1, 2000 relating to the qualification for distribution of 8,589,922 common shares of the Company upon the exercise, without payment of additional consideration, of 1,875,000 special warrants.

As additional compensation to the agent, the Company granted 93,750 compensation warrants. Each compensation warrant entitled the holder to receive, without additional payment, one compensation option. Each compensation option entitled the holder to acquire three common shares of the Company for $5.33 per common share until January 10, 2002. The compensation options are subject to a similar adjustment to that described above as a result of the offering price per common share being less than $8.00. The 93,750 compensation warrants expired on January 10, 2002 unexercised.

(iii) On November 9, 2000, the Company issued, for no consideration, a total of 25,000 charitable warrants to three charitable organizations. Each charitable warrant entitles the holder to receive, for cash consideration of $5.24 (Cdn $8.00), one common share. The charitable warrants are fully vested, non-transferable and will expire on November 9, 2010. The warrants remain outstanding at September 30, 2002.

(b) Stock options

The Company has reserved up to 5,400,000 common shares for issuance under the stock option plan. 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.

(Expressed in Thousands of U.S. dollars)

4. Share capital (continued)

Details of stock option transactions are as follows:

	Number of options	Weighted average exercise prices of options
Outstanding, September 30, 2000	2,053,500	$ 2.70
Granted	359,000	3.23
Exercised	(163,900)	1.13
Cancelled	(636,000)	4.66
Outstanding, September 30, 2001	1,612,600	$ 2.21
Granted	410,333	0.39
Cancelled	(67,333)	1.51
Outstanding, September 30, 2002	1,955,600	$ 1.80

		Options outstanding as at September 30, 2002		Options exercisable as at September 30, 2002	
Exercise price		Number outstanding	Weighted average remaining life (years)	Number exercisable	Weighted average exercise price
$ 0.39	(Cdn$0.62)	410,333	9.86	–	$ –
1.05	(Cdn$1.67)	1,018,100	6.90	1,018,100	1.05
1.89	(Cdn$3.00)	219,000	8.87	73,000	1.89
5.24	(Cdn$8.00)	132,667	8.10	46,667	5.24
5.33		85,500	7.38	57,000	5.33
8.00		90,000	7.96	60,000	8.00
		1,955,600	7.89	1,254,767	$ 1.78

(Expressed in Thousands of U.S. dollars)

5. Financial instruments

(a) Fair values

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

(b) Foreign currency risk

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

6. Related party transactions

The Company leases its Hanna Avenue premises in Toronto, Ontario, from a company owned by its controlling shareholders for $262 per year. This lease expires on December 31, 2002. The Company's related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

7. Commitments

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

2003	135
2004	70
2005	14
	$ 219

(Expressed in Thousands of U.S. dollars)

8. Loss per share

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

September 30, 2002	69,539,109
September 30, 2001	67,767,257

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.

9. Income taxes

(a) The provision for income taxes differs from the amount computed by applying the combined federal and provincial income tax rate of 39.1% (2001 – 42.5%) to the loss before income tax recovery as a result of the following:

	Years ended September 30, 2002	2001
Loss before income taxes	$ (9,949)	$ (7,132)
Computed expected tax recovery	(3,890)	(3,047)
Reduction in income tax recovery resulting from:		
Lower rate on manufacturing profits	597	574
Permanent differences	5	2
Non-recognition of tax benefit of losses	3,298	2,471
Large Corporations Tax	32	37
Income tax expense	$ 42	$ 37
Change in valuation allowance	$ 2,849	$ 1,352

(Expressed in Thousands of U.S. dollars)

9. Income taxes (continued)

(b) The 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, 2002	2001
Future tax assets		
Non-capital tax losses carried forward	$ 4,601	$ 2,236
Share issue costs	288	422
Capital assets	895	621
Unclaimed research and development expenses	1,178	834
	6,962	4,113
Less valuation allowance	(6,962)	(4,113)
Net future tax assets	$ –	$ –

In addition to the above temporary differences, the Company has unrecorded non-refundable investment tax credits ("ITCs") amounting to approximately $709, which begin to expire in 2007.

As at September 30, 2002, the expiration dates of the Company's tax losses carried forward are as follows:

2004	$ 618
2005	462
2006	693
2007	807
2008	4,533
2009	6,062
	$ 13,175

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 not 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.

(Expressed in Thousands of U.S. dollars)

10. Major customers

In 2002, three customers each represented 32%, 25% and 14% of revenue and these customers comprised 18%, 28% and 20% of accounts receivable respectively as at September 30, 2002. During 2001, two customers each represented 52% and 10% of revenue and comprised 48% and 17% of accounts receivable respectively as at September 30, 2001.

11. Change in non-cash operating working capital

	Years ended September 30, 2002	2001
Accounts receivable	$ (461)	$ (116)
Investment tax credits recoverable	274	(58)
Goods and Services Tax receivable	4	88
Inventories	(1,488)	(1,756)
Prepaid expenses and other	(64)	412
Accounts payable and accrued liabilities	110	(722)
Income taxes payable	5	(28)
	$ (1,620)	$ (2,180)

12. Comparative figures

Certain of the comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.