

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

## 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 December 1, 2015 and it is, therefore, dated as at that date. This MD&A includes the operating and financial results for the years ending September 30, 2015 and 2014, 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](http://www.sedar.com).

## Forward-looking statements

*This document contains forward-looking statements that involve a number of risks and uncertainties, including statements that relate to, among other things, revenue forecasts, technology development progress, plans for shipment using the Company's technology, production plans, 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, and include statements concerning possible or assumed future results set out under "Our Strategy", "Marketing and Sales" and "Research and Development". 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: general business and economic conditions (including but not limited to currency rates and creditworthiness of customers); Company 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 in this document under “Risk and Uncertainties”, as well as in 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.*

## **Our Company**

We were incorporated in 1996 and listed on the Toronto Stock Exchange under the ticker symbol “EFL” in November 2000. Since 1996, much of our funding has come from government grants and product development of advanced battery systems. In addition, we have generated revenue from the sale of our rechargeable battery line of PowerPad® series of batteries as well as from sales of our Scribbler Tablet PC®, each of which targets the healthcare industry. In early 2002, we re-focused our research, development and commercial efforts on the design, development and production of advanced battery systems for the Plug in Hybrid Electric Vehicle (PHEV) and Electric Vehicle (EV) markets. Since 2010, we have also begun to focus on the stationary energy markets. Our next generation 2.0 technology was launched in the latter half of 2013 and we are showcasing the technology in diverse markets from automotive to utilities and energy storage.

On April 29, 2015, the Company acquired all of the issued outstanding shares of Litarion GmbH (Litarion) from Evonik DeGussa GmbH (Evonik), including an exclusive, perpetual license of the SEPARION™ Intellectual Property at a nominal annual fee. Pursuant to the agreement, Evonik entered into a six month transitional services agreement for certain IT and financial services.

Litarion manufactures lithium ion battery electrodes and a proprietary ceramic composite separator. The battery manufacturing facility is located in Kamenz, Saxony, Germany. The production capacity of our Kamenz plant is 0.5 GigaWatt hour and is Europe's largest Lithium Ion operation.

The purchase price of Eur 1 million was financed by a \$1,203 (Cdn\$1.5 million) shareholder loan on April 21, 2015 bearing interest at 10% with repayment terms of 18 months.

The preliminary purchase equation is based on management's current best estimates of fair value. The preliminary purchase price allocation as at April 29 is as follows:

Net assets acquired

Cash and cash equivalents	\$ 2,988
Trade and other receivables	5,083
Inventories	8,091
Prepaid expenses and other	102
Deferred income tax	940
	<u>\$ 17,204</u>
Trade and other payables	5,651
Long term liabilities	1,340
	<u>6,991</u>
Total net assets acquired	10,213
Less: Purchase price	<u>(1,061)</u>
Negative Goodwill	<u>\$ 9,152</u>

The negative goodwill is attributable to a change in the strategic direction of Seller and the discontinuation of its interest in battery technology, as well as beneficial impact of the Company's non-toxic manufacturing process. The negative goodwill arising from this acquisition is not taxable for tax purposes and is reflected as unrealized gain on purchase on the consolidated statement of comprehensive loss (gain).

We design, develop and manufacture electrodes, separators, cells, advanced battery and battery systems for the transportation, electric grid stationary storage and mobile markets. Our proprietary *Lithium Ion SuperPolymer*® technology, our expertise in the design and development of large-format prismatic (flat) battery systems, coupled with our emission-free manufacturing process, our ceramic composite separator (SEPARION™), our improved cycle life and safety provide our existing and potential customers with significant benefits.

**Our Business**

Our main business lines include:

1. Stationary Storage Products for energy grid systems, telecommunications and new green-energy solutions such as solar and wind.
2. Motive Power Products for electric vehicles, including automobiles, forklifts used in materials handling, and other transportation applications, including the maritime sector.

3. Industrial Products for energy storage.
4. Other specialty applications, which require complex power solutions, can include systems which are linked with a number of energy generating sources and also would include competencies in building systems for third parties.
5. Electrodes, Cells, Modules and our Separion™ separators for the Lithium Ion Batteries.

We continue to invest heavily in research and development, with approximately 27.7% of revenue being reinvested in research and development activities during the year ending September 30, 2015. Our team of mechanical, electrical, battery and system engineers enables us to offer clients a complete solution for their requirements while our team of chemists, physicists and material scientists offers our clients the most advanced electrodes, cells and separators.

### **Our Facilities**

Our 156,000 square foot battery and battery systems manufacturing facility in Mississauga, Ontario offers production of electrodes which eliminates the standard use of toxic NMP solvents, a modular and scalable manufacturing process, as well as lower overall capital and operating costs since we do not require solvent container and recovery equipment that is common to the industry. We also have an office in Porsgrunn, Norway where we are focused on sales to the maritime, storage grid and automotive markets and research and development.

Effective April 29, 2015, as a result of the acquisition of Litarion GmbH (formerly Evonik Litarion GmbH), we acquired one of the most advanced and automated production plants for lithium ion electrodes and ceramic composite separators, with a rated capacity of 0.5 Gigawatt hours (GWh) of electrodes and 10 million m<sup>2</sup> 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 ultra-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.

### **Intellectual Property**

We have over 118 issued and pending patents worldwide, including over 25 US patents. These patents cover our fundamental structural technology innovations, our system level designs including our intelligent battery management system for transportation, as well as some nanomaterial developments. Our patents are issued globally across Europe, India,

China, Japan and other countries where potential markets and/or manufacturing activities make patent protection desirable and economically justifiable.

With the acquisition of Litarion, we have acquired a sizeable amount of IP which consists of patents as well as know-how and knowledge through over a decade of experience. We have a global exclusive license from Evonik AG for the SEPARION™ separators. Evonik has over 200 patents covering this ceramic composite separator.

In addition, Litarion owns about 50 patents on electrodes, new materials and other aspects of the lithium ion battery.

### **Our Strategy**

We believe that our battery and battery systems contain a unique combination of important characteristics that enable us to offer battery solutions that are competitive with the most advanced currently available lithium-ion and non-lithium ion battery technologies. Our proprietary Lithium Ion SuperPolymer® technology is based on a novel electrode making process that is fundamentally different from standard lithium-ion polymer batteries. This allows superior energy density which translates into the ability to make the pack smaller and lighter. In addition, our proprietary SuperPolymer® technology is complemented by innovative battery designs, battery control systems and packaging solutions that enhance the performance and scalability of batteries and battery manufacturing processes.

Our acquisition of Litarion, allows us to add the decade long experience, knowledge and IP of this German group and gives three new capabilities to Electrovaya.

1. **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.
2. **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%.
3. **Production Capacity:** Kamenz plant is the largest production facility of its type in Europe. It provides a best in class electrode and separator manufacturing plant and positions us for global growth.

The integration of Litarion focused on four near term objectives:

1. Integration of administration and operations to improve efficiency and reduce costs;

- The Company has introduced a standalone IT system and is no longer reliant upon Evonik.
2. Build sales and marketing opportunities by integration and expansion of global sales network;
    - Key sales personnel have been identified and recruited into the organization.
  3. Improve operating efficiency, reduce operating costs and reduce environmental risk through the conversion of lines to Electrovaya's patented non-NMP production;
    - Efficiencies and cost savings have been introduced, however, manufacturing has not converted into the Non-NMP basis. This will occur when an appropriate basis of funding is secured.
  4. Dispose of redundant assets and examine opportunities for further synergies.
    - This is an ongoing initiative.

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 and maritime market and 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;
- Continue to 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.

- 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.

## **Global Market**

Advances in our battery technology and the integration of Litarion have important implications in a number of areas, including our non-NMP clean production process, safety, cycle life and high energy density, which we believe are key drivers in industries such as transportation, electric grid stationary storage and mobile power and communications.

### ***Stationary Storage Products***

#### **Large Energy Storage Systems**

The development of the smart grid, as well as the growing demand for alternative energy solutions such as wind and solar, represent tremendous opportunities for the battery industry. Lithium ion batteries can act as ancillary power units to provide frequency regulation services and help smooth the grid during fluctuations in demand. They can also be used to store electricity during off-peak hours, making it available during peak hours.

The 2013 edition of Ontario's Long-Term Energy Plan aims to include storage technologies in the government's procurement process by the end of 2014, starting with 50 MW. The new procurement process will allow consideration of proposals including energy storage for renewable energy projects larger than 500 kW.

In October, 2012, according to a report from Pike Research (a part of Navigant's Energy Practice), the market for lithium ion energy storage systems on the grid, starting from a very low \$20,000 in 2012, will surpass \$6,900,000 in annual value by 2022. The total capacity of such systems worldwide will reach almost 1,800 megawatts by 2022, the study concludes.

#### **Mid-Size Energy Storage Systems**

There is a growing demand for energy systems designed to cater to a rapidly growing mid-size residential and industrial energy storage market. Large market potential exists across segments such as residential, distributed solar generation, utility, telecom and data centres.

We believe that distributed photovoltaic generation capacity will reach more than 15 GW in the near future. In the telecom and data centre sectors, storage demands are constantly growing and lithium ion batteries are starting to be used to replace lead acid batteries.

The European Photovoltaic Industry Association (EPIA) forecasts that the global annual PV market can be 39GW to 68GW by 2018 and the global PV cumulative installed capacity can be 321 GW to 430 GW. The rooftop sector is estimated to have more than 35 GW installed by 2018.

#### Communications and Industrial Products

In the telecom and power back up market there is growth for back up strategic power and this demand for lithium ion will occur progressively.

#### ***Motive Power Products***

##### Automotive

According to a report by Pike Research published in January 2013, the lithium-ion battery market for light duty transportation is forecast to grow from \$1.6 billion in 2012 to almost \$22 billion in 2020. With countries including the United States, the European Union, Japan, Israel, Canada and China encouraging citizens to purchase electric vehicles through subsidy programs, sales of electric vehicles have continued to rapidly grow. For instance, the US Department of Energy reported that electric vehicles are selling more rapidly than hybrid vehicles were when they first entered the market. In 2011, approximately 17,500 electric vehicles were sold, which almost tripled in 2012 to 53,000, and grew to 97,000 in 2013. (<http://energy.gov/articles/ev-sales-skyrocketing-egallon-holds-steady>).

The Chinese government also renewed its incentive program for clean energy vehicles in September 2013. The incentive offered was only 3,000 Yuan (USD 490) for hybrid vehicles in 2012, and is now 60,000 Yuan (USD 9,800) for an all-electric passenger vehicle. Furthermore, the central government advised that it will focus on promoting clean energy vehicles in some of the country's largest cities including Shanghai, Beijing and Guangzhou. Roland Berger, Strategy Consultants, forecasted in their April 2012 report that China is expected to be one of the fastest growing markets, and the market is expected to increase to USD \$1.4 billion in 2015 and to USD \$4.5 billion in 2020. Moreover, Pike Research's report estimates that China will replace Japan as the top automotive lithium-ion battery producer by 2015.

The US Department of Energy has made electric plug-in vehicles a cornerstone of its program of moving from oil dependence to clean electricity and Europe is making a renewed thrust into e-mobility.

## Marine

With the International Maritime Organization (IMO) pressuring the marine industry to reduce Green House Gas (GHG) emissions and as the price of diesel continues to rise, there has been a high interest in developing clean propulsion systems for vessels in countries including Norway and Canada. IDTechEx has published a report stating “the rapidly growing \$2.6 billion market for marine electric vehicles (EVs) will reach \$6.3 billion in 2023.” Demand will come from both on-water and underwater electric vehicles for use both on inland waterways and the sea. The key advantages of electric powertrains for marine vehicles are the lower maintenance requirements and minimal noise, air and water pollution.

## Materials Handling

Driven by continued growth in demand for high productivity there is a trend in the logistics and distribution market to move from lead acid battery to a more advanced form of powering mobility. In the electric fork lift sector, hydrogen fuel cells are being proposed as a replacement for lead acid batteries and we believe that lithium ion is also a viable alternate.

## Competition

The battery industry is highly competitive. We compete with a large number of market participants including pure-play battery providers, diversified technology and industrial vendors and strategic joint ventures.

### Stationary Storage Products

Competition includes manufacturers and system integrators. We compete primarily with SAFT, BYD, NEC, Samsung, SK Innovation and others.

### Motive Power Products

The clean transportation market is comprised of several small and large companies utilizing different battery system technologies. The market is fragmented and consists of large companies including the large OEM automobile manufacturers in North America, Europe, India and elsewhere as well as several start-up companies.

Our primary competitors include the following:

- *EV and PHEVs.* We compete primarily with LG Chem, Johnson Controls, SAFT, Samsung, SK Innovation, Hitachi, Panasonic and others.
- *Marine.* We compete primarily with Siemens, Corvus, SAFT and some of the competitors from the EV/PHEV market.

Separator

Our primary competition in the separator market is from Polypore, Asahi Kaisei, Entek, Sumitomo, Ube, Toray and others.

To compete successfully, we intend to continue to build on the advantages offered by our technology. In addition, our sales and marketing teams continuously target new major customers.

### **Overall Performance and Selected Financial Information**

Unless otherwise indicated, all comparisons for the year ended September 30, 2015 are to the year ended September 30, 2014, and all comparisons to the fourth quarter of fiscal 2015 are to the fourth quarter of fiscal 2014. All figures are expressed in thousands of US dollars, except where otherwise indicated.

*Years ended September 30, 2015, 2014 and 2013*

#### **i) Financial Condition**

(\$ thousands)	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>Cash and Cash Equivalents</b>	\$ 6,309	\$ 969	\$ 2,604
<b>Total Assets</b>	27,343	12,340	15,435
<b>Total Long Term Liabilities</b>	3,380	5,740	369
<b>Shareholders' Equity</b>	\$12,537	\$ 5,166	\$ 4,683

Our cash and cash equivalents balance decreased from 2013 to 2014 by \$1,600 and increased from 2014 to 2015 by \$5,340.

Cash and Cash Equivalents held in US dollars were approximately \$1,091 as at September 30, 2015, \$59 as at September 30, 2014 and \$721 as at September 30, 2013.

## ii) Results of Operations and Cash Flow

(\$ thousands)	2015	2014	2013
<b>Revenue</b>	\$ 16,568	\$ 7,404	\$ 2,842
<b>Revenue, Less Direct Manufacturing Costs</b>	4,977	2,822	619
<b>Loss Before other items</b>	2,659	3,464	3,697
<b>Net Loss for the year</b>	3,193	3,446	4,561
<b>Basic and Diluted Loss per Share</b>	0.04	0.05	0.06
<b>Cash flow from Operating Activities</b>	\$ 449	\$ (5,010)	\$ (1,437)

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 94% in 2015. Revenue derived from US and European customers in US dollars as a percentage of the Company's revenue was approximately 29% in 2014 and 41% in 2013. Revenue increased for the year ended September 30, 2015 compared to 2014 due to an increase in revenues from our German operations.

For the years ended September 30, 2015, 2014 and 2013, revenues from major business activities were as follows:

	2015	2014	2013
<b>Large Format Batteries</b>	\$ 14,713	\$ 7,248	\$ 2,718
<b>Consumer electronics</b>	-	12	33
<b>Other</b>	1,855	144	91
	\$ 16,568	\$ 7,404	\$ 2,842

Consumer electronics revenue has decreased from 2013 to 2015 as the Company gradually re-directed its efforts into large scale batteries (electric vehicles & storage grids) where market opportunities are considered to be significantly better.

The increase in large format batteries revenue from 2014 to 2015 is primarily due to revenues from our German operations. The increase from 2013 to 2014 is due to the completion of the delivery of prototype battery packs for an automaker.

The other revenue increase in 2015 is due to subsidies and transitional payments received as part of the acquisition of Litarion.

For the years ended September 30, 2015, 2014 and 2013, revenues attributed to regions based on location of customer were as follows:

	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>Canada</b>	\$ 1,053	\$ 5,282	\$ 1,667
<b>United States</b>	-	13	590
<b>Germany</b>	14,548	-	-
<b>Norway</b>	16	174	502
<b>Others</b>	951	1,935	83
	\$ 16,568	\$ 7,404	\$ 2,842

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 2013 to 2014 because of an increase in revenue and an increase in profit margin.

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.

The Company has not paid a dividend since inception.

#### ***Adoption of new and revised standards and interpretations***

The IASB issued a number of new and revised International Accounting Standards, International Financial Reporting Standards, amendments and related interpretations which were effective for the Company's financial year beginning on or after October 1, 2012. For the purpose of preparing and presenting the financial information for the relevant periods, the Company has consistently adopted all these new standards for the relevant reporting periods.

At the date of authorization of these Financial Statements, the IASB and IFRIC has issued the following new and revised Standard and Interpretation which are not yet effective for the relevant reporting periods.

IFRS 9 'Financial Instruments: Classification and Measurement' – effective for annual periods beginning on or after January 1, 2015, with early adoption permitted, introduces new requirements for the classification and measurement of financial instruments. This Standard has not yet been adopted.

IFRS 15 'Revenue from Contracts with Customers' - effective for annual periods beginning on or after January 1, 2017, established principles to record revenues from contracts for the sale of goods and services.

During the year, the following new and revised Standards and Interpretations were adopted:

IFRS 10 'Consolidated Financial Statements' – effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

IFRS 11 'Joint Arrangements' - effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form.

IFRS 12 'Disclosure of Interests in Other Entities' - effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, requires the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

IFRS 13 'Fair Value Measurement' - effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, provides the guidance on the measurement of fair value and related disclosures through a fair value hierarchy.

These standards have been adopted and applied in these consolidated financial statements. The application of these standards has not had any impact on the amounts reported for the current or prior period.

*Significant management judgement in applying accounting policies and estimation uncertainty*

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amount of assets and liabilities, revenue and expenses and the related disclosures of contingent assets and liabilities. Actual results could differ materially from the estimates and assumptions. We review our estimates and assumptions on an ongoing basis. Revisions are recognized in the period in which the estimates are revised and may impact future periods as well.

Significant management judgement

The following are significant management judgements in applying the accounting policies that have the most significant effect on the consolidated financial statements.

(i) Recognition of contract revenues.

Determining when to recognize revenues from after-sales services requires an understanding of the customer's use of the related products, historical experience and knowledge of the market. Recognizing contract revenue also requires significant judgment in determining milestones, actual work performed and the estimated costs to complete the work.

Distinguishing the research and development phases of a new project and determining whether the recognition requirements for the capitalization of development costs are met requires judgement.

After capitalization, management monitors whether the recognition requirements continue to be met and whether there are any indicators that capitalized costs may be impaired.

(ii) Estimation uncertainty

Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different.

In preparing the financial statements in conformity with International Financial Reporting Standards (IFRS) , management makes estimates and assumptions that affect the reported amounts of sales returns, bad debt reserves and warranty accruals at the date of the financial statements. In view of the current difficult economic conditions, we have again reviewed the suitability of these estimates and believe that they are appropriate under the circumstances.

The Company's existing policy allows for sales returns ranging from 15 days for direct sales to end users to longer periods for sales to key distributors. Sales returns are estimated at the time of delivery based on past experience and customer specific factors. Each quarter, a provision for sales returns is determined based on the actual experience for the most recent four quarters. Sales returns are applied against revenue for the Scribbler® and PowerPad® products, and represented Nil of revenue from consumer electronics for the year ended September 30, 2015.

The Company reviews its outstanding trade and other receivables on a regular basis. Bad debts are determined based on the ageing of trade and other receivables where such amounts are not insured and considered uncollectible.

Warranty accruals are based on the actual warranty experience rate for the past year for each product group and sales during the most recent warranty period. Warranty provisions/reversals, excluding the impact of foreign exchange, represented Nil of consumer electronic sales for the year ended September 30, 2015. The Company has a potential tax benefit resulting from non-capital losses carried forward, an undeducted pool of scientific research and experimental development expenditures and non-refundable investment tax credits carried forward. In view of the history of net losses incurred, management is of the opinion that it is more likely than not that these tax assets will not be realized in the foreseeable future and hence, a full valuation allowance has been recorded against these future tax assets. Future tax assets are recorded on the balance sheets for our German operations.

Large format battery sales have been generally comprised of prototype battery systems without warranties, with no rights of return or post-delivery obligations. Where warranties are required, these are negotiated on a case by case basis. For example, during the year, Electrovaya Company, registered in Delaware, agreed to settle for a nominal amount consisting of payments of \$75 by October 31, 2014, \$100 by April 30, 2015 and \$100 by December 15, 2015.

#### Impairment

In assessing impairment, management estimates the recoverable amount of each asset or cash-generating units based on expected future cash flows and uses an interest rate to discount them. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (“cash-generating units” or “CGU”). Cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If any such indication exists, the carrying amount of the asset is tested for impairment. Absent triggering events during the year, we conduct our impairment assessment annually to correspond with our planning cycle.

An impairment loss is recognized when the carrying amount of an asset or CGU exceeds the recoverable amount. The recoverable amount of an asset or CGU is the greater of its value-in-use or its fair value less costs to sell. The process of determining value-in-use, or discounted cash flows, is subjective and requires management to exercise judgment in making assumptions about future results, including revenue and cash flow projections and discount rates. The process of determining fair value less costs to sell requires the valuation and or discounted cash flows when market prices are not available. Impairment losses are recognized in the consolidated statement of operations. Impairment losses

recognized in respect of a CGU are allocated to reduce the other assets in the CGU on a pro rata basis.

Impairment losses are reversed if the circumstances that led to the impairment no longer exist. At each reporting date, we review for indicators that could change the estimates used to determine the recoverable amount. The amount of the reversal is limited to restoring the carrying amount to the carrying amount that would have been determined, net of depreciation or amortization, had no impairment loss been recognized in prior periods.

The Company has continued net losses for the year and the quarter ended June 30, 2015. The Company had a net gain for the quarter ended September 30, 2015. Negative cash flow from operations has been financed by a combination of debt and equity. The Company's ability to realize its assets and discharge its liabilities in the normal course of business and continue as a going concern is uncertain and is currently dependent on the continued support of its shareholders and providers of debt. To address its financial requirements, the Company may seek financing through joint venture agreements or debt and equity financing. The outcome of these matters cannot be determined at this time.

#### *Useful lives of depreciable assets*

Management reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected utility of the assets. Uncertainties in these estimates relate to technical obsolescence that may change the utility of certain production, testing and other equipment.

#### *Inventories*

Management estimates the net realizable values of inventories, taking into account the most reliable evidence available at each reporting date. The future realization of these inventories may be affected by future technology or other market-driven changes that may reduce future selling prices.

#### *Fair value of financial instruments*

Management applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values may vary from the actual prices achieved in an arm's length transaction at the reporting date.

## **Operating Results**

### *Revenue*

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

#### Sale of goods

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

#### Rendering of services

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

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

#### Contracts for large energy storage systems

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

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

either situation, when it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized immediately in profit or loss.

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

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

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

Deferred revenue represents revenues collected but not earned as of September 30, 2015.

For the three month period September 30, 2015, total revenue increased by 494.5% to \$9,762 from \$1,642 for the quarter ended September 30, 2014. The increase in total revenue primarily resulted from revenues from our German operations.

Quarterly revenue is as follows:

(\$ thousands)	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>
2015	\$ 280	\$ 573	\$ 5,953	\$ 9,762
2014	\$ 1,796	\$ 1,835	\$ 2,131	\$ 1,642
2013	\$ 1,557	\$ 369	\$ 139	\$ 777

For the years ended September 30, 2015 and 2014, revenue was \$16,568 and \$7,404 respectively. The \$9,164 or 123.8% increase primarily resulted from revenues from our German operations.

For the year ended September 30, 2015 one customer represented more than 10% of total revenue (year September 30, 2014 four customers). Our largest customer accounted for

74.2% and 33.3% of total revenue for the years ended September 30, 2015 and of 2014 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.

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

### *Expenses*

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

For the quarter ended September 30, 2015, direct manufacturing costs increased by \$5,292 to \$6,292 from \$1,000 for the quarter ended September 30, 2014 primarily due to increased revenue and hence related direct manufacturing costs of large format batteries.

For the years ended September 30, 2015 and 2014, direct manufacturing costs were \$11,591 and \$4,582 respectively. The \$7,009 or 153% increase was primarily due to increased revenue and hence related direct manufacturing costs of large format batteries.

*Revenue less Direct Manufacturing Costs* was a profit of \$3,470 or 35.6% of revenue for the three months ended September 30, 2015 compared to \$642 or 39.1% for the three months ended September 30, 2014.

For the years ended September 30, 2015 and 2014, gross margins were \$4,977 or 30% and \$2,822 or 38.1% respectively. The increase was primarily due to higher revenues on large format batteries.

*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 \$428 during the quarter ended September 30, 2015 to \$1,064 from \$636 in the same quarter in the prior year.

Compared to the year ended September 30, 2014, research and development expenses, net of investment tax credits (ITC) increased by \$2,046 or 80.7% from \$2,535 to \$4,581 during the year ended September 30, 2015.

*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 September 30, 2015 as certain pre-commercialization activities were completed.

*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 September 30, 2015 and 2014, sales and marketing expenses were \$(53) and \$66 respectively. The \$119 or 180% decrease was primarily due to reallocation of expenses during the current quarter.

Compared to the year ended September 30, 2014, sales and marketing expenses increased by \$35 or 12% from \$291 to \$326 due to an increase in salaries and benefits during the year ended September 30, 2015

*Warranty expense.* Warranty expenses are comprised of warranty accruals based on actual warranty experience for the past year for each product group and sales during the most recent period.

For both the quarters ended September, 2015 and 2014, warranty expenses were \$NIL.

For the years ended September 30, 2015 and 2014, warranty expenses were \$NIL and \$269 respectively. The \$269 or 100% decrease was primarily due to no warranty claims during the year ended September 30, 2015 as compared to the previous year ended September 30, 2014.

*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 September 30, 2015 and 2014, general and administrative expenses were \$288 and \$633, respectively. The \$345 or 54.5% decrease was primarily due to no provision for bad debts and lower consultancy costs in the current quarter as compared to the same quarter in the prior year

For the years ended September 30, 2015 and 2014, general and administrative expenses were \$1,445 and \$1,753 respectively. The \$308 or 17.6% decrease was primarily due to no provision for bad debts and lower consultancy costs during the year ended September 30, 2015 as compared to the previous year ended September 30, 2014.

*Stock based compensation.* Non-cash stock based compensation expense decreased by \$52 to \$12 for the quarter ended September 30, 2015 compared to the same quarter in 2014.

For the years ended September 30, 2015 and 2014, stock based compensation expenses were \$85 and \$1,137 respectively. The \$1,052 or 92.5% decrease was primarily due to lower expensing of the fair value of stock options that vested during the year ended September 30, 2015 as compared to the previous year ended September 30, 2014.

*Financing costs.* In 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.

In April, 2015 the Company borrowed \$1,203 (Cdn\$1.5 million) as loan from a shareholder bearing interest at 10% with repayment terms of 18 months.

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 @ 10% and is repayable on April 17, 2016.

During the quarter ended September 30, 2015, interest in the amount of \$142 was expensed and is included in total finance cost of \$176 in the statement of operations. Interest in the amount of \$119 was expensed in the prior year quarter.

During the year ended September 30, 2015, interest in the amount of \$504 was expensed and is included in total finance cost of \$653 in the statement of operations. Interest in the amount of \$393 was expensed in the prior year.

*Patent and trademark costs.* Patent and trademark expense decreased from \$68 in the same quarter in the prior year to \$41 for the quarter ended September 30, 2015.

For the years ended September 30, 2015 and 2014, patents and trademark expenses were \$146 and \$154 respectively.

### *Net Profit/(Loss)*

Quarterly net profit/(losses) are as follows:

(\$ thousands)	<b><u>Q1</u></b>	<b><u>Q2</u></b>	<b><u>Q3</u></b>	<b><u>Q4</u></b>
2015	\$ (1,891)	\$ (955)	\$ (1,685)	\$ 1,338
2014	\$ (156)	\$ (1,295)	\$ (1,332)	\$ (663)
2013	\$ (394)	\$ (1,493)	\$ (1,488)	\$ (1,186)

The decrease in the net loss from the fourth quarter of fiscal 2014 to the fourth quarter of fiscal 2015 is primarily due to 1) an increase in revenue, 2) a decrease in stock based compensation expense, 3) a decrease in patents and trademark expenses, 4) a decrease in general and administration cost and 5) a decrease in sales and marketing expense offset by 1) an increase in cost of goods sold, 2) an increase in research and development expense, 3) a decrease in government assistance, 4) an increase in financing costs, 5) an increase in foreign exchange loss and interest expense, 6) an increase in amortization costs and 7) an increase in provision for tax.

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

(\$ thousands)	<b><u>Q1</u></b>	<b><u>Q2</u></b>	<b><u>Q3</u></b>	<b><u>Q4</u></b>
2015	\$ (0.02)	\$ (0.01)	\$ (0.02)	\$ 0.01
2014	\$ (0.00)	\$ (0.02)	\$ (0.02)	\$ (0.01)
2013	\$ (0.01)	\$ (0.02)	\$ (0.02)	\$ (0.01)

### **Liquidity and Capital Resources**

As of September 30, 2015, the Company had \$6,309 in cash and cash equivalents compared to \$3,192 and \$969 as at June 30, 2015 and September 30, 2014 respectively.

Cash generated from operating activities was \$449 during the year ended September 30, 2015 compared to cash used \$5,010 during the year ended September 30, 2014. Net cash used in operating activities during the year ended September 30, 2015 primarily reflects the operating loss of \$3,193 offset by an increase in non-cash operating working capital of \$2,301, an increase in deferred tax assets of \$487, non-cash financing costs of \$149, stock based compensation expense of \$85 and amortization of \$620.

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

2016	\$ 853
2017	\$ 754
2018	\$ 748
2019	\$ 665

2020	\$ 657
2021	\$ 657
2022	<u>\$ 657</u>
Total	<u>\$ 4,991</u>

These future minimum lease payments relate to our German operations.

The Company completes an ongoing review of its requirements for additional capital resources. In December, 2010, the Company received \$1,700 from SDTC for Plug-in Hybrid Electric Vehicle Battery Development and also raised Cdn \$5 million in consideration of a 6% secured promissory note and 500,000 common share purchase warrants exercisable for a period of 36 months. In August, 2011, the Company received another \$1,600 from SDTC for Plug-in Hybrid Electric Vehicle Battery Development. During the quarter ended December 31, 2011, the Company received \$1,300 from Hydro One and \$100 from Manitoba Hydro. During the quarter ended June 30, 2012, the Company received another \$1,200 from SDTC for Plug-in Hybrid Electric Vehicle Battery Development and \$100 from Manitoba Hydro. During the quarter ended March 31, 2013, the Company received another \$100 from Manitoba Hydro. During the quarter ended September 30, 2013, the Company received \$100 from Ontario Power Authority.

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 Cnd \$0.65 per share exercisable immediately for a period of 24 months.

On June 13, 2014, Electrovaya raised \$2,800 (Cdn \$2.9 million) through the private placement of 3,237,601 units, with each unit consisting of 1 common share at Cdn \$0.90 and one-half share purchase warrant. Each share warrant is exercisable into one common share of the Company within a period of 18 months at a price of Cdn \$1.25 per share.

In December, 2014, Electrovaya raised \$1,700 (Cdn \$2 million) through the brokered private placement of 2,908,845 units, with each unit consisting of 1 common share at Cdn \$0.70 and one share purchase warrant. Each share warrant is exercisable into one common share of the Company within a period of 36 months at a price of Cdn \$1.05 per share.

In January, 2015, Electrovaya raised \$80 (Cdn \$100,000) through the brokered private placement of 154,161 units, with each unit consisting of 1 common share at Cdn \$0.70 and one share purchase warrant. Each share warrant is exercisable into one common share of the Company within a period of 36 months at a price of Cdn \$1.05 per share.

In March, 2015, Electrovaya raised \$800 (Cdn \$1 million) through the brokered private placement of 2,194,662 units, with each unit consisting of 1 common share at Cdn \$0.49

and one share purchase warrant. Each share warrant is exercisable into one common share of the Company within a period of 36 months at a price of Cdn \$0.75 per share.

In April, 2015 the Company borrowed \$1,203 (Cdn\$1.5 million) as loan from a shareholder bearing interest at 10% with repayment terms of 18 months.

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 @ 10% and is repayable on April 17, 2016.

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

	Number	Amount
Balance, October 1, 2010	70,910,278	\$ 64,769
Add: Shares issued during the quarter ended Dec 31, 2010	25,500	31
Fair value of stock options exercised	-	11
Balance, December 31, 2010	70,935,778	64,811
Add: Shares issued during the quarter ended Mar 31, 2011	4,000	3
Fair value of stock options exercised	-	7
Balance, March 31, 2011	70,939,778	64,821
Add: Shares issued during the quarter ended June 30, 2011	3,500	2
Fair value of stock options exercised	-	(2)
Balance, June 30, 2011	70,943,278	64,821
Add: Shares issued during the quarter ended Sept 30, 2011	11,334	7
Fair value of stock options exercised	-	1
Balance, Sep 30, 2011, Sep 30, 2012 and September 30, 2013	70,954,612	64,829
Add: Shares issued during the quarter ended Dec 31, 2013	18,000	8
Fair value of stock options exercised	-	5
Balance, December 31, 2013	70,972,612	64,842
Add: Shares issued during the quarter ended Mar 31, 2014	309,000	84
Fair value of stock options exercised	-	72
Balance, March 31, 2014	71,281,612	64,998
Add: Shares issued during the quarter ended June 30, 2014	3,860,933	2,712
Fair value of stock options exercised	-	385
Balance, June 30, 2014	75,142,545	68,095
Add: Shares issued during the quarter ended Sept 30, 2014	175,000	58
Fair value of stock options exercised	-	93
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.	<u>80,954,024</u>	<u>\$ 69,804</u>

\*Net of issuance costs of \$210.

The following table reflects the quarterly stock option activities for the period from September 30, 2010 to September 30, 2015:

Outstanding September 30, 2010	3,079,835
Granted	392,000
Options exercised	(25,500)
Cancelled or expired	(115,666)
Outstanding December 31, 2010	3,330,669
Options exercised	(4,000)
Outstanding March 31, 2011	3,326,669
Options exercised	(3,500)
Outstanding June 30, 2011	3,323,169
Options exercised	(11,334)
Cancelled or expired	(83,000)
Outstanding September 30, 2011	3,228,835
Granted	250,000
Outstanding Dec 31, 2011, Mar 31 and June 30, 2012	3,478,835
Cancelled or expired	(131,002)
Outstanding September 30, 2012	3,347,833
Granted	332,000
Cancelled or expired	(20,000)
Outstanding December 31, 2012	3,659,833
Granted	32,000
Outstanding March 31, 2013 and June 30, 2013	3,691,833
Cancelled or expired	(40,002)
Outstanding September 30, 2013	3,651,831
Options exercised	(18,000)
Outstanding December 31, 2013	3,633,831
Granted	1,687,000
Options exercised	(309,000)
Outstanding March 31, 2014	5,011,831
Granted	256,000
Options exercised	(623,332)
Cancelled or expired	(123,000)

Outstanding June 30, 2014	4,521,499
Granted	80,000
Options exercised	(175,000)
Cancelled or expired	(19,666)
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

In March, 2014, 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 7,100,000 to 8,600,000. 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.

### **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 \$6,309 as at September 30, 2015, \$3,192 as at June 30, 2015 and \$721 as at March 31, 2015.

**Capital assets.** Approximately \$115 of capital assets were acquired during the fiscal year 2015.

**Current Liabilities.** Current liabilities were \$11,426 as at September 30, 2015 as compared to \$1,434 as at September 30, 2014.

## **SDTC Contribution Agreements.**

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

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

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

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

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

The company received Cdn \$1.190 million as advance payment on the third milestone of Phase 2 for work completed since November, 2011.

The Company recognized Cdn \$1.190 million during the year ended September 30, 2013 under this grant.

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

To date, the Company has incurred costs of approximately Cdn \$6.6 million towards Milestone 4 and Cdn \$3.7 million towards Milestone 5, of which \$142 was recognized for milestone 5 during the quarter ended December 31, 2014 under this grant. Progress and related contract revenue toward this milestone has been determined by comparing costs incurred to date with the total estimated costs estimated for that particular milestone.

## **Ministry of Economic Development & Trade Conditional Grant Agreement**

On May 5, 2009, the Province of Ontario, as represented by the Minister of Economic Development, signed a Conditional Grant Agreement with ElectroVaya Corp. awarding Cdn \$ 16.7 million as a grant. The grant is for pre-commercialization activities over a period of five years ending on December 31, 2013. In August 2011, the Company received confirmation from the Ministry of Economic Development and Trade that the project has been extended to December 31, 2015. The grant is 15% of the targeted project cost of Cdn \$111.62 million and is subject to certain targets related to new job creation and investment, which if not achieved, could result in only a portion of the grant being received, or a potential claw-back of funds received by the end of the seven year period. The Company continues to review its requirements for additional capital resources and no commitments exist at the present time. In addition to discussions with various Government agencies concerning the potential funding of certain research and development and pre-commercialization activities, the Company is, on a regular basis investigating potential funding from other public and private sources.

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

## **Smart Grid Fund**

The Company has entered into a contract with the Ontario Ministry of Energy, Smart Grid Fund program, to develop an innovative advanced energy storage and power management system and Intelligent Energy Storage System (IESS), which will help utilities and their end users to have reliable power quality. The Company will be working with three Ontario energy utilities to benefit Local Distribution Company (LDC) collaborators.

The IESS will have three components including the energy storage system, the power management system and the system controller. This system will be used to mitigate the issues associated with electric vehicle charging stations for peak management, peak charging management, infrastructure deferment, harmonics and voltage and frequency regulation.

The total value of the contract to the Company is approximately \$840 (Cdn\$0.97 million).

During the year ended September 30, 2015, the Company has recognised Cdn \$568 towards Milestone 1 & 2 under this grant.

### **Norwegian Research Council**

Miljobil Grenland AS (“MBG”) has entered into three research programs with the Norwegian Research Council related to cell, battery module and battery pack design, manufacturing and testing. These projects fund up to 50% of eligible expenditures and currently expire at various times throughout 2013. The programs are currently on hold pending a review of MBG’s updated business strategy. Since 2010, MBG has received approximately \$4,000 under these programs. During the fiscal year ended September 30, 2014, the programs were cancelled.

### **Industry Canada**

Electrovaya has modified an earlier repayment schedule with Technology Partnerships Canada. Fixed repayments of a nominal amount will begin on October 1, 2017.

**Share capital.** Of an authorized unlimited number of Common shares, 80,954,024 in the amount of \$69,804 are issued and outstanding as at September 30, 2015.

### **Present Status**

During the fiscal year ended September 30, 2015, the loss before amortization, foreign exchange, interest income and provision for tax decreased by \$805 or 23.3% compared to the fiscal year ended September 30, 2014.

### **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 Cnd \$0.65 per share exercisable immediately for a period of 24 months.

On June 13, 2014, Electrovaya raised \$2,800 (Cdn \$2.9 million) through the private placement of 3,237,601 units, with each unit consisting of 1 common share at Cdn \$0.90 and one-half share purchase warrant. Each share warrant is exercisable into one common share of the Company within a period of 18 months at a price of Cdn \$1.25 per share.

In November, 2014, the Company entered into an agreement for a private placement on a “best-efforts” basis in accordance with the “accredited investor” exemption found in section 2.3 of National Instrument 45-106, Prospectus and Registration Exemptions. The Board has approved a raise of up to Cdn \$3,500,000 or 5,000,000 Units, with each Unit

consisting of one common share and one common share purchase warrant. The conditional approval letter from the TSX allows for the closing of the transaction at any time up to February 1, 2015 at a subscription price of Cdn \$0.70 per Unit, each Unit consisting of one common shares of the Company and on common share purchase warrant (the "Warrant"), each whole Warrant exercisable for one common share at a price of Cdn \$1.05 per share, with a term of 36 months from the closing date. TSX understands that up to an additional 700,000 Units may be issued as broker warrants with the same terms as the Units and Warrants described above.

The TSX has confirmed that the controlling shareholder may participate in a share loan and pledge transaction, loaning freely tradable shares to certain subscribers. TSX also further confirms that the controlling shareholder will not be receiving any fees or other consideration in connection with the loan and pledge transaction.

TSX has accepted notice of the proposed private placement, and has conditionally approved for listing up to an additional 10,700,000 common shares issuable thereto. In December 2014, the Company received the first and second tranche of this financing, totaling \$1,700 and the third tranche of this financing totaling \$800.

In March 2015, pursuant to a private placement, the Company issued 2,040,816 units at Cdn \$0.49 per Unit. Each Unit consisting of one common shares of the Company and on common share purchase warrant (the "Warrant"), each whole Warrant exercisable for one common share at a price of Cdn \$0.75 per share, with a term of 36 months from the closing date..

Each unit consisted of 1 unit and 1 share purchase warrant. Gross proceeds of this financing was Cdn \$1 Million less brokerage commission of Cdn \$70,000. The share purchase warrants expire in 36 months

### **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 debt and 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 Electrovaya. 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:

	September 30,	
	2015	2014
Cash and cash equivalents	\$ 6,309	\$ 969
Restricted cash	1,043	-
Trade and other receivables	4,164	1,076
Carrying amount	\$ 11,516	\$ 2,045

Cash and cash equivalents are comprised of the following:

	September 30,	
	2015	2014
Cash	\$ 5,174	\$ 172
Cash equivalents	1,135	797
	\$ 6,309	\$ 969

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 September 30, 2015 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 and harmonized sales tax due from the federal Government of Canada which is included in other receivables. In the opinion of management, the credit risk is low and is not material.

### *Liquidity risk*

The Company is exposed to liquidity risk from trade and other payables in the amount of \$4,775 (2014- \$1,358), Promissory Note and loan financing of \$6,483 (2014-\$5,362), long-term provisions \$1,999 (2014-\$Nil), Letter of Credit \$1,043(2014-\$Nil) and the loan from Innovation Norway for \$313 (2014-\$412). 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.

The Company has a history of operating losses with the exception of the quarter ended September 30, 2015 and as on September 30, 2015 has an accumulated deficit of \$70,733 (September 30, 2014 - \$67,540). The ability of the Company to continue as a going concern is dependent on the renegotiation of current liabilities, securing additional financing through additional government assistance, issuing additional equity, debt instruments, joint ventures or the sale of Company assets.

The Company's audited consolidated financial statements for the fiscal years ended September 30, 2015 and 2014 have been prepared assuming that the Company will continue as a going concern which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. Accordingly, the consolidated financial statements do not include any adjustments related to the recoverability and classification of asset amounts or the amounts and classification of liabilities that might be necessary if the Company is unable to obtain additional financing.

#### *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% and 10% as well as a loan from Innovation Norway at 5.75%. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions which are not influenced by fluctuating interest rates.

#### *Foreign currency risk*

The Company is exposed to foreign currency risk. The Company's functional currency is the Canadian dollar and Euro while a majority of its revenue is derived in United States dollars and Euros. Purchases are transacted in Canadian dollars, United States dollars, Euro and Norwegian krone. The majority of the Company's operations are located primarily in Canada and 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 amounts (owed)/held in US dollars were \$1,203 (September 30, 2015) and \$74 (June 30, 2015).

If the US dollar to Canadian, Euro and Norwegian Kroner foreign exchange rate changed by 2% this would change the recorded Net Loss by \$15.

#### *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 International Financial Reporting Standards (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 September 30, 2015.

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 Risks and Uncertainties

In April 2015, Electroveya completed the acquisition of Evonik Litarion GmbH ("Litarion") (formerly, Evonik Litarion GmbH) and licensing of SEPARION™ ("Separion") intellectual property, a unique ceramic composite separator, from Evonik. The transaction comprises one of the most advanced and automated production plants for lithium ion electrodes and ceramic composite separators, with a rated capacity of 0.5 Gigawatt hours (GWh) of electrodes and 10 million m<sup>2</sup> of ceramic separators along with all associated intellectual property.

This is a transformational acquisition for Electroveya as it instantly brings best-in-class manufacturing, and capacity to meet exciting growth prospects for the company's energy storage and other products.

SEPARION™ is a proprietary ceramic composite separator for ultra-safe lithium ion battery applications. The acquisition includes an exclusive license to distribute as well as the ability to sub-license, form joint ventures, expand production within Germany, establish additional plants in Asia and elsewhere. Previously Separion had a restricted customer base, however now this exciting and desirable material will be marketed and made available globally. Over 170 protective rights relate to the Separion separator.

Furthermore, Litarion owns numerous patents concerning chemical cell components for lithium ion batteries. The portfolio contains more than 70 protective rights. Collectively, this portfolio of intellectual property and patents accompanies the purchase of Litarion.

*Electrovaya is in the early stages of developing revenues from its commercialization efforts. The Company is facing corresponding risks, expenses and difficulties that may affect its outlook and eventual results of its business and commercialization plan.*

Electrovaya has a three pronged approach to generate revenue for the company. The first approach is to grow organically from its operations in Mississauga and Kamenz, Germany; the second approach is growth through further acquisition of stranded assets in the area of lithium ion batteries and pursue opportunities to transform those assets into Electrovaya's non-NMP green production process; and, the third approach is to license Electrovaya's technology to other lithium ion battery companies.

Electrovaya feels that this three pronged approach will continue to lead to growth in 2016 and onwards. Electrovaya has a large pipeline of potential orders and revenues. Electrovaya's acquisition of Litarion results in significant opportunities for increases in revenue in future years.

*Even after the acquisition, there are risks that the combined companies will fail. Such merger and acquisition risks include key personnel, technical, market and financial risks. Electrovaya aims to reduce such market, technology, personnel and financial risks however these risks do remain.*

*There are many risks that Electrovaya may not be able to meet its internal growth targets. These risks could be from many factors as discussed elsewhere in the MD&A, including higher cost of production, inability to produce its products in sufficient quantity and quality, inability to sell its technology and products, inability to produce in large enough quantities, inability to find stranded assets in the lithium ion battery field and even if those assets are located inability to convert those assets to revenue generation or production of products; inability to license its technology and the possibility of technology obsolescence such that licensing interests disappear. Other risks that Electrovaya may not be able to meet its targets includes inability to convert pipeline to purchase orders or if such purchase orders are received, inability to deliver on those purchase orders or the inability to collect on those purchase orders, even if the product is delivered. Available human resources are a risk as well as the inability of Electrovaya to have the necessary financial capital to carry out its plans.*

*Electrovaya may not be able to establish anticipated levels of high-volume production on a timely, cost-effective basis or at all. It has never manufactured batteries in substantially large quantities and it may not be able to maintain future commercial production at planned levels. Additionally, if it is unable to maintain an adequate supply of raw materials or components, its costs could increase or its production could be limited. Because of the above or similar other reasons, Electrovaya may not be able to fulfill new sales purchase orders or deliver them in a timely manner.*

Electrovaya has taken a number of steps to offset these risks:

- Its acquisition of Litarion gives it higher volume manufacturing capabilities.
- It has formalized supply arrangements with suppliers to ensure that raw materials required for high-volume production are available at a reasonable cost and on a timely basis.
- It has more than one supplier for critical raw materials and components.
- Its production team plans to increase staff and continue to improve efficiency to make it easier to fulfill sales purchase orders in a timely manner.

*We have had a history of losses, and we may be unable to achieve or sustain profitability.*

We have never been profitable on an annual basis. We expect to incur expenses as we continue to develop and expand our business and our manufacturing capacity. We may incur significant losses in the future for a number of reasons, including the other risks described in this MD&A, and we may encounter unforeseen expenses, difficulties, complications, delays and other unknown events. Accordingly, we may not be able to achieve or maintain profitability. The acquisition of Litarion may burden us with higher costs for labour, overheads and materials.

*Our ability to generate positive cash flow is uncertain.*

To rapidly develop and expand our business, we have made significant up-front investments in our manufacturing capacity and incurred research and development, sales and marketing and general and administrative expenses. In addition, our growth has required a significant investment in working capital over the last several years. We have had positive cash flow of \$2,300 for the year ending September 30, 2011, after including \$5,000 of financing raised in December 2010, negative cash flow of \$ 200, \$2,400 and \$1,600 for the years ending September 30, 2012, 2013 and 2014 respectively, a positive cash flow of \$700 for the quarter ended December 31, 2014, a negative cash flow of \$1,000 for the quarter ended March 31, 2015 and a positive cash flow of \$2,500 and \$3,117 due to the acquisition of Litarion in Germany for the quarters ended June 30, 2015 and September 30, 2015 respectively. We may have negative cash flow in the future as we continue to incur increased research and development, sales and marketing, and general and administrative expenses along with acquisition expenses. Our business will also require significant amounts of working capital to support our growth. Therefore, we may need to raise additional capital from investors to achieve our expected growth, and we may not achieve sufficient revenue growth to generate positive future cash flow. An inability to generate positive cash flow for the foreseeable future or raise additional capital on reasonable terms may decrease our viability. Our acquisition brings higher costs and overheads which may increase financing requirements.

*The demand for batteries in the transportation and other markets depends on the continuation of current trends resulting from dependence on fossil fuels. Extended*

*periods of low gasoline prices could adversely affect demand for electric and hybrid electric vehicles.*

We believe that much of the present and projected demand for advanced batteries in the transportation and other markets results from increases in the cost of oil, the dependency of the United States on oil from unstable or hostile countries, government regulations and economic incentives promoting fuel efficiency and alternate forms of energy, as well as the belief that climate change results in part from the burning of fossil fuels. If the cost of oil decreased significantly, the outlook for the long-term supply of oil to the United States improved, the government eliminated or modified its regulations or economic incentives related to fuel efficiency and alternate forms of energy, or if there is a change in the perception that the burning of fossil fuels negatively impacts the environment, the demand for our batteries could be reduced, and our business and revenue may be harmed.

Gasoline prices have been extremely volatile, and this continuing volatility is expected to persist. Lower gasoline prices over extended periods of time may lower the perception in government and the private sector that cheaper, more readily available energy alternatives should be developed and produced. If gasoline prices remain at deflated levels for extended periods of time, the demand for hybrid and electric vehicles may decrease, which would have an adverse effect on our business. Recently gasoline prices have decreased significantly and it is possible that this price deflation will continue for a long period of time and have a material adverse effect on Electrovaya's business.

*Our principal competitors have, and any future competitors may have, greater financial and marketing resources than we do, and they may therefore develop batteries or other technologies similar or superior to ours or otherwise compete more successfully than we do.*

Competition in the battery industry is intense. The industry consists of major domestic and international companies, most of which have existing relationships in the markets into which we sell as well as financial, technical, marketing, sales, manufacturing, scaling capacity, distribution and other resources and name recognition substantially greater than ours. These companies may develop batteries or other technologies that perform as well as or better than our batteries. We believe that our primary competitors are existing suppliers of cylindrical lithium-ion, nickel cadmium, nickel metal-hydride and in some cases, non-starting/lighting/ignition lead-acid batteries. A number of our competitors have existing and evolving relationships with our target customers. For example, Bosch and Samsung formed LiMotive to focus on the development, production and marketing of lithium-ion battery systems for application in hybrid and other electric vehicles, and Dow Chemical announced the establishment of a joint venture with Kokam America and others, pending receipt of government incentive funding, to build a facility in Michigan for the manufacture of lithium polymer batteries for use in HEVs and EVs. However, in October, 2012 Dow announced a charge of up to \$1.1 billion related to closing 20 plants, write down the value of its lithium ion battery business and lay off thousands of workers. NEC and Nissan have entered into a joint venture to develop lithium-ion batteries in prismatic form, Sanyo and Volkswagen agreed to develop lithium-ion batteries for HEVs,

Sanyo already provides nickel metal hydride batteries for Ford and Honda, and Toyota and Panasonic are engaged in a joint venture to make batteries for HEVs and EVs. In the large utility grid energy storage market, it is expected that the major incumbent Companies such as General Electric, Siemens, and others will become significant competitors, in addition to the current competitors. Potential customers may choose to do business with our more established competitors, because of their perception that our competitors are more stable, are more likely to complete various projects, can scale operations more quickly, have greater manufacturing capacity, are more likely to continue as a going concern and lend greater credibility to any joint venture. If we are unable to compete successfully against manufacturers of other batteries or technologies in any of our targeted applications, our business could suffer, and we could lose or be unable to gain market share.

Electrovaya will continue to invest in research and development to utilize latest generation advanced materials and improve the process and design of its batteries to maintain or widen the technological gap between its technology and that of its closest competitors. However, the Company has limited knowledge of its competitors' activities in this area.

*Our failure to raise additional capital necessary to expand our operations and invest in our products and manufacturing facilities could reduce our ability to compete successfully.*

We may require additional capital in the future and we may not be able to obtain additional debt or equity financing on favorable terms, if at all. If we raise additional equity financing, our shareholders may experience significant dilution of their ownership interests, and the per-share value of our common shares could decline. If we engage in debt financing, we may be required to accept terms that restrict our ability to incur additional indebtedness and force us to maintain specified liquidity or other ratios. We also seek German, Canadian and U.S. federal, provincial and state grants, loans and tax incentives some of which we intend to use to expand our operations. We may not be successful in obtaining these funds or incentives. If we need additional capital and cannot raise or otherwise obtain it on acceptable terms, we may not be able to, among other things:

- develop or enhance our products or introduce new products;
- continue to expand our development, sales and marketing and general and administrative organizations and manufacturing operations;
- attract top-tier companies as customers or as our technology and product development partners;
- acquire complementary technologies, products or businesses;
- expand our operations, in Canada, Germany or internationally;
- expand and maintain our manufacturing capacity;

- hire, train and retain employees; or
- respond to competitive pressures or unanticipated working capital requirements.

*We may not be able to successfully recruit and retain skilled employees, particularly scientific, technical and management professionals.*

We believe that our future success will depend in large part on our ability to attract and retain highly skilled technical, managerial and marketing personnel who are familiar with our key customers and experienced in the battery industry. Industry demand for such employees, especially employees with experience in battery chemistry and battery manufacturing processes exceeds the number of personnel available, and the competition for attracting and retaining these employees is intense. This competition will intensify if the advanced battery market continues to grow, possibly requiring increases in compensation for current employees over time. We compete in the market for personnel against numerous companies, including larger, more established competitors who have significantly greater financial resources than we do and may be in a better financial position to offer higher compensation packages to attract and retain human capital. We cannot be certain that we will be successful in attracting and retaining the skilled personnel necessary to operate our business effectively in the future. Because of the highly technical nature of our batteries and battery systems, the loss of any significant number of our existing engineering and project management personnel could have a material adverse effect on our business and operating results. In Litarion we have a unionized labour force which may cause unexpected operational difficulties.

*Our working capital requirements involve estimates based on demand expectations and may decrease or increase beyond those currently anticipated, which could harm our operating results and financial condition.*

In order to fulfill the product delivery requirements of our customers, we plan for working capital needs in advance of customer orders. As a result, we base our funding and inventory decisions on estimates of future demand. If demand for our products does not increase as quickly as we have estimated or drops off sharply, our inventory and expenses could rise, and our business and operating results could suffer. Alternatively, if we experience sales in excess of our estimates, our working capital needs may be higher than those currently anticipated. Our ability to meet this excess customer demand depends on our ability to arrange for additional financing for any ongoing working capital shortages, since it is likely that cash flow from sales will lag behind these investment requirements.

*Laws regulating the manufacture or transportation of batteries may be enacted which could result in a delay in the production of our batteries or the imposition of additional costs that could harm our ability to be profitable.*

Laws and regulations exist today, and additional laws and regulations may be enacted in the future, which impose environmental, health and safety controls on the storage, use and disposal of certain chemicals and metals used in the manufacture of lithium-ion

batteries. Complying with any laws or regulations could require significant time and resources from our technical staff and possible redesign of one or more of our products, which may result in substantial expenditures and delays in the production of one or more of our products, all of which could harm our business and reduce our future profitability. The transportation of lithium and lithium-ion batteries is regulated both domestically and internationally. Compliance with these regulations, when applicable, increases the cost of producing and delivering our products.

*Electrovaya does not have a collaborative partner to assist it in the development of its batteries, which may limit its ability to develop and commercialize its products on a timely basis. Furthermore, it will continue to incur significant costs and invest considerable resources designing and testing batteries for use with, or incorporation into, specific products. Significant revenue from these investments may not be achieved for a number of years, if at all. Moreover, these batteries may never be profitable and even if they are profitable, operating margins may be low.*

*The development by the Company of new applications for its rechargeable batteries is a complex and time-consuming process. New battery designs and enhancements to existing battery models can require long development and testing periods. Significant delays in new product releases or significant problems in creating new products could negatively impact the Company's revenues*

Electrovaya believes that the formation of strategic partnerships will be critical for the Company to meet its business objectives. It will continue to seek arrangements with potential partners to mitigate development and commercialization risks going forward, balanced by its objective to maximize market share and penetration by not entering into exclusivity arrangements with a single partner.

*Until the establishment of multiple plants, Electrovaya will be dependent upon the operation of a single manufacturing facility and accidents or other operational problems at this facility, or at neighbouring facilities operated by other businesses, could affect its ability to deliver product to its customers and therefore its ability to generate revenues. In addition, it may be subject to environmental liabilities at its facilities, which could result in material expense and adversely affect its ability to sell or finance its facilities.*

Electrovaya's plant has been established in a modular manner in such a way that production may continue in the event of non-catastrophic operational problems. In addition, it has adopted a formal environmental policy that requires compliance with environmental legislation and an ongoing program of monitoring its environmental compliance.

*Electrovaya is exposed to certain risks as a result of being in an industry that manufactures devices or products containing energy. All lithium ion polymer batteries can become hazardous under some circumstances. In the event of a short circuit or other*

*physical, electrical or thermal damage to these batteries, chemical reactions may occur that release excess heat or gases, which could create dangerous situations, including fire, explosions and releases of toxic fumes. The Company's batteries may emit smoke, catch fire or emit gas, any of which may expose Electrovaya to product liability litigation. In addition, these batteries incorporate potentially hazardous materials, which may require special handling, and safety problems may develop in the future. Product failure or improper use of lithium ion polymer battery products, such as the improper management of the charging/discharging system, may also result in dangerous situations. The raising of any health or safety concerns could affect the Company's reputation and sales. Moreover, changes in environmental or other regulations affecting the manufacture, transportation or sale of Electrovaya's products could adversely affect the Company's ability to manufacture or sell its products or result in increased costs or liability.*

With the acquisition of Litarion included the licensing of SEPARION™ our proprietary ceramic composite separator for ultra-safe lithium ion battery applications. While risk of a short circuit remain, we believe our products with separion are among the safest in the industry.

*Litarion is manufacturing with the toxic solvent NMP (N-methyl-pyrrolidone) and this is an expensive operation and fraught with environmental challenges with controlling any emission of NMP.*

While it is our intention to covert to the patented Non-NMP process, the timetable is dependent upon receipt of funding for the conversion process. We will be filing an application with the SAB-Bank to support the process. The SAB-Bank is the state development institution for the state of Saxony, Germany.

*Finally, Electrovaya may be required to devote significant financial and management resources to processing and remedying warranty claims. If product liability issues arise, the Company could incur significant expenses and suffer damage to its reputation and the market acceptance of its products.*

To mitigate the risks of product liability, Electrovaya undertakes extensive internal and external product and safety testing. Unlike certain competing technologies, its products do not contain cadmium or lithium metal, which are considered hazardous materials for purposes of disposal or transportation. In certain situations or applications, battery power may be a more attractive environmental solution than other energy sources utilizing fossil fuels or creating emissions.

*The Company expects to continue to sell its products directly to corporate customers, but if these parties do not purchase these products or purchase them in lower quantities or over longer time periods than expected, Electrovaya's revenue profile and cash flows may be severely affected. The Company continues to rely upon a limited number of customers for a significant portion of its sales and the loss of any customer could have a material adverse effect on its sales and operating results and make it more difficult to attract and retain other customers.*

*If overall market demand for clean energy declines significantly, and consumer and corporate spending for such products declines, Electrovaya's revenue growth will be adversely affected. Additionally, the Company's revenues would be unfavorably impacted if customers reduce their purchases of new products or upgrades to the Company's existing product lineup if such new offerings are not perceived to add significant new functionality or other value to prospective purchasers.*

*Electrovaya has developed and manufactured batteries for applications such as life support systems for NASA where a power failure could be catastrophic, adversely affecting the Company's reputation and resulting in increased costs or liability.*

It is unlikely that NASA will use these batteries in manned flight, due to complexities in qualifying these cells for the Critical 1 mission requirements of NASA and the closure of the Space Shuttle program as announced by Former President Bush.

*Electrovaya occasionally receives purchase orders that contain a series of milestones or deliverables, all or a portion of which may need to be completed in serial fashion before each subsequent activity and revenue generating milestones can be achieved. If each required milestone is not achieved, the entire amount of the purchase order may not be realized.*

*Our acquisition of Litarion has multiple risks, many of these risks are both general and particular to the lithium ion business and are the same as those identified for parent company Electrovaya. These risks are financial, technical, marketing, technology, operational and product driven. These risks have been discussed elsewhere in this MD&A and those are all relevant to the operation of Litarion.*

*In addition there are other risks to this acquisition some of which are discussed in the following.*

- 1. Litarion was the critical technology in the efforts by Evonik and Daimler to create the largest lithium ion battery operation in Europe. These two giant companies planned to exit this business as reported in Wall Street Journal, June 10, 2013. Despite the support of Evonik and Daimler, two giants of German industry, and the goodwill and support from the Saxony and German governments to keep this lithium ion battery complex operational, there were significant challenges to maintaining and growing the business. Electrovaya may face similar challenges when trying to to make Litarion a successful business enterprise.*
- 2. Since mid-2013, the Litarion operations were for sale, with the Wall Street Journal reporting a high price-tag for the exit by Evonik and Daimler. Other potential purchasers did not materialize, but the complete reasons are not fully understood. There are massive operational risks associated with this acquisition, and it is uncertain that Electrovaya management will be able to integrate the two companies and operate them successfully together.*
- 3. Litarion has a single customer (Daimler). That customer's supply contract will cease at the end of October 2015. While management is diligently working to*

*replace this contact with other customers the shortfall left by Daimler will have a major impact upon the business. Litarion has a very short time window to replace this revenue from Daimler. This is a key risk.*

4. *Litarion is completely dependent on IT and accounting services provided by Evonik. Litarion may not be able to replace those services quickly and cost effectively.*

Electrovaya is taking steps to mitigate these risks. It has started a business development and sales initiative and has secured a number of new customers. This sales effort will continue and has resulted in a very robust pipeline. The conversion of the pipeline to revenue, however, will take some lead time as qualification, supplier, manufacture and shipping arrangements are put in place so there will be a lag before full production levels can be reached.

The SEPARION™ ceramic composite separator is also being actively sold and some early sales have started. The Saxony government has been approached to finance the project to implement the Electrovaya non NMP process at Litarion. If this non NMP process is successfully implemented, this will reduce operating costs for electrode manufacturing at Litarion substantially. The NMP equipment will be surplus and surplus equipment will be sold. Business Development teams have been augmented in both Canada and Germany to reduce the risk from a single large customer.

*Our international operations and sales subject us to a number of risks, including unfavorable political, regulatory, labor and tax conditions.*

Risks inherent to international operations and sales, include, but are not limited to, the following:

- difficulty in enforcing agreements, judgments and arbitration awards in foreign legal systems;
- fluctuations in exchange rates may affect product demand and may adversely affect our profitability in U.S. dollars to the extent the cost of raw materials and labor is denominated in a foreign currency;
- impediments to the flow of foreign exchange capital payments and receipts due to exchange controls instituted by certain foreign governments and the fact that the local currencies of these countries are not freely convertible;
- inability to obtain, maintain or enforce intellectual property rights;
- changes in general economic and political conditions;
- changes in foreign government regulations and technical standards, including additional regulation of rechargeable batteries, power technology, or the transport of lithium or phosphate, which may reduce or eliminate our ability to sell or license in certain markets;

- requirements or preferences of foreign nations for domestic products could reduce demand for our products;
- trade barriers such as export requirements, tariffs, taxes and other restrictions and expenses, which could increase the prices of our products and make us less competitive; and
- longer payment cycles typically associated with international sales and potential difficulties in collecting accounts receivable, which may reduce the future profitability of foreign sales.

Our business in foreign jurisdictions requires us to respond to rapid changes in market conditions in these countries. Our overall success as a global business depends on our ability to succeed in different legal, regulatory, economic, social and political situations and conditions. We may not be able to develop and implement effective policies and strategies in each foreign jurisdiction where we do business.

*Electrovaya is outsourcing certain production items. Outsourcing has inherent risks, including the lack of application of internal quality assurance processes, potential loss of control of the supply chain, potential supplier credit risk, and third party product and financial liability.*

*If the Company fails to manage growth successfully, it could experience delays, cost overruns or other problems. Similarly, the Company is in a specialized industry where qualified, key personnel may be difficult to retain or replace on a cost-effective basis.*

Electrovaya will continue to monitor its staffing requirements for its manufacturing facility and its needs at the senior management levels and for specialized personnel in various disciplines or areas of expertise.

Electrovaya has started building and delivering large MWh sized energy storage systems for Grid Energy Storage. These systems operate at elevated voltages of over 400 V and are large. All the safety concerns noted earlier are further heightened in these systems because now they are even larger contained in a small space with even higher voltages. Furthermore these systems are going into utilities and other electrical energy delivery applications where typical service life is longer than automotive or similar applications. There is a large risk that are our systems will not meet utility and similar industry standards. Furthermore, competition in this industry includes both battery companies listed elsewhere and additional incumbent companies such as General Electric, Siemens, Hitachi, and others and Electrovaya may not be able to compete with these multinationals.

*If Electrovaya fails to protect its proprietary technology, it may lose any competitive advantage it provides. Others may claim that the Company's products infringe on their intellectual property rights, which could result in significant expenses for litigation, developing new technology or licensing existing technologies from third parties. If Electrovaya is unable to maintain registration of its trademarks, or if its trademarks or*

*trade name are found to violate the rights of others, the Company may have to change its trademarks or name and lose the goodwill created in them.*

Electrovaya will continue to file patent applications and register patents resulting from ongoing research and development activity, acquire or license patents from third parties if appropriate and further develop the trade secrets related to its manufacturing process and the design and operation of the equipment used to manufacture its products.

*There is no formal process concerning management of the major risks to the Company resulting from changing business conditions and internal organizational changes. The lack of a formal process to manage these risks could result in a lack of timely or thorough review of the impact and severity of these risks on the business. Furthermore the current economic and credit crisis can decimate the business opportunities for the Company and lead to further losses.*

Senior management continues to closely monitor changing business conditions to determine the impact, if any, on the success of the business. Where such changes are considered to have a potentially significant adverse effect on the business of the Company, all strategy options are thoroughly reviewed and discussed and the most appropriate course of action implemented as quickly as possible.

*If securities or industry analysts do not publish or cease publishing research or reports about us, our business or our market, or if they change their recommendations regarding our shares adversely, our share price and trading volume could decline.*

The trading market for our common shares will be influenced by the research and reports that industry or securities analysts may publish about us, our business, our market or our competitors. If any of the analysts who may cover us change their recommendation regarding our shares adversely, or provide more favorable relative recommendations about our competitors, our share price would likely decline. If any analyst who may cover us were to cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause our share price or trading volume to decline.

*Our share price may be volatile.*

The market price of our common shares could be subject to significant fluctuations, and it may decline below the price at which you purchased it. Market prices for securities of early stage companies have historically been particularly volatile. As a result of this volatility, you may not be able to sell your common shares at or above the price you paid. Some of the factors that may cause the market price of our common shares to fluctuate include:

- fluctuations in our quarterly financial results or the quarterly financial results of companies perceived to be similar to us;

- fluctuations in our recorded revenue, even during periods of significant sales order activity;
- changes in estimates of our financial results or recommendations by securities analysts;
- failure of any of our products to achieve or maintain market acceptance;
- product liability issues involving our products or our competitors' products;
- changes in market valuations of similar companies;
- success of competitive products or technologies;
- changes in our capital structure, such as future issuances of securities or the incurrence of debt;
- announcements by us or our competitors of significant services, contracts, acquisitions or strategic alliances;
- regulatory developments in Canada, the United States or foreign countries;
- litigation involving us, our general industry or both;
- additions or departures of key personnel; investors' general perception of us; and
- changes in general economic, industry and market conditions.

In addition, if the market for technology stocks or the stock market in general experiences a loss of investor confidence, the trading price of our common stock could decline for reasons unrelated to our business, financial condition or results of operations. If any of the foregoing occurs, it could cause our share price to fall and may expose us to class action lawsuits that, even if unsuccessful, could be costly to defend and a distraction to management.

*We do not expect to declare any dividends in the foreseeable future.*

We do not anticipate declaring any cash dividends to holders of our common shares in the foreseeable future. Consequently, investors may need to rely on sales of their common shares after price appreciation, which may never occur, as the only way to realize any future gains on their investment. Investors seeking cash dividends should not purchase our common shares.

*Adverse business or financial conditions affecting the automobile and energy storage industries may have a material adverse effect on our development and marketing partners and our battery business.*

*Much of our business depends on and is directly affected by the general economic state of Canada, Germany and the United States and the global energy storage industry. Possible effects could include reduced spending on alternative energy systems, a delay in the introduction of new, or the cancellation of new and existing, hybrid and electric vehicles*

*and programs, and a delay in the conversion of existing batteries to lithium-ion batteries, each of which would have a material adverse effect on our business.*

*Our financial results may vary significantly from period-to-period due to the long and unpredictable sales cycles for some of our products and changes in the mix of products we sell during a period, which may lead to volatility in our operating results and share price.*

The size and timing of our revenue from sales to our customers is difficult to predict and is market dependent. Our sales efforts often require us to educate our customers about the use and benefits of our products, including their technical and performance characteristics. Customers typically undertake a significant evaluation process that has in the past resulted in a lengthy sales cycle for us, typically many months. In some markets such as the transportation market, there is usually a significant lag time between the design phase and commercial production. We spend substantial amounts of time and money on our sales efforts and there is no assurance that these investments will produce any sales within expected time frames or at all. Given the potentially large size of battery development and supply contracts, the loss of or delay in the signing of a contract or a customer order could reduce significantly our revenue in any period. Since most of our operating and capital expenses are incurred based on the estimated number of design wins and their timing, they are difficult to adjust in the short term. As a result, if our revenue falls below our expectations or is delayed in any period, we may not be able to reduce proportionately our operating expenses or manufacturing costs for that period, and any reduction of manufacturing capacity could have long-term implications on our ability to accommodate future demand.

Our profitability from period-to-period may also vary significantly due to the mix of products that we sell in different periods. As we expand our business we expect to sell new battery and battery system products into new markets and applications. These products are likely to have different cost profiles and will be sold into markets governed by different business dynamics. Consequently, sales of individual products may not necessarily be consistent across periods, which could affect product mix and cause gross and operating profits to vary significantly.

As a result of these factors, we believe that quarter-to-quarter comparisons of our operating results are not necessarily meaningful and that these comparisons cannot be relied upon as indicators of future performance. Moreover, our operating results may not meet expectations of equity research analysts or investors. If this occurs, the trading price of our common shares could fall substantially either suddenly or over time.

*Credit market volatility, illiquidity and many other circumstances may affect our ability to raise capital to finance our operations and growth.*

The credit markets have experienced extreme volatility, and worldwide credit markets have remained illiquid despite injections of capital by the Canadian and U.S. federal governments and foreign governments. Despite the capital injections and government

actions, banks and other lenders have significantly increased credit requirements and reduced the amounts available to borrowers. Companies with low credit ratings may not have access to the debt markets until the liquidity improves, if at all. If current credit market conditions do not improve, we may not be able to access debt markets to finance our operations and growth. Electrovaya had difficulty in raising funds to finance our operations and growth and may find it even more difficult to do so in the future.