

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 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 24, 2010 and it is, therefore, dated as at that date. This MD&A includes the operating and financial results for the years ending September 30, 2010 and 2009, 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 Canadian generally accepted accounting principles. Additional information about the Company, including Electrovaya's current annual information form, can be found on the SEDAR website for Canadian regulatory filings at www.sedar.com.

Forward-looking statements

This document contains forward-looking statements that involve a number of risks and uncertainties, including statements that relate to, among other things, the Company's objectives, goals, strategies, intentions, plans, 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. During the last year, we have also begun to focus on the stationary and data storage energy markets.

We design, develop and manufacture advanced battery and battery systems for the transportation, electric grid stationary storage and mobile computing end-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 provide our existing and potential customers with significant benefits.

Our main businesses include:

1. Electric vehicles, whereby we are developing power-system designs for clean transportation applications.
2. Stationary storage for energy grid systems, telecommunications and new green-energy solutions such as solar and wind.
3. Mobile computing, consisting of our proprietary Lithium Ion SuperPolymer® rechargeable batteries.
4. Other specialty applications, including aerospace and defence, which require complex power solutions, including competencies in building systems for third parties.

We continue to spend heavily on research and development, with approximately 34% of revenue being reinvested in research and development activities during the year ending September 30, 2010, or more than \$85 million since the inception of the Company. Our team of mechanical, electrical, battery and system engineers enables us to offer clients a complete solution for their requirements. The Company develops, manufactures and markets portable power technology products.

To finance the growth of our facilities, we are evaluating a number of alternatives including our submission of an application for funding under the U.S. Department of Energy's Advanced Technology Manufacturing Loan Program.

Core Capabilities

We believe that the transportation market, including PHEV and EVs, as well as the stationary storage end markets can benefit significantly from our proprietary technology and expertise in large-format advanced battery and battery systems experience.

Our 156,000 square foot battery and battery systems manufacturing facility in Mississauga, Ontario offers emission-free production, 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. ElectroVaya Company, a wholly owned subsidiary of ElectroVaya Inc. has been located at the Saratoga Technology + Energy Park ("STEP"), located in Malta, New York, since April, 2008. It leases approximately 7,500 square feet of office and manufacturing space to assemble battery power systems for off-road electric vehicles and pursue other alternative energy opportunities in the United States. The Company is also seeking to establish facilities in other parts of the United States, as opportunities arise.

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

We believe that our battery and battery systems contain a unique combination of 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 nanostructure that is fundamentally different from standard lithium-ion polymer batteries. This nanostructure is primarily characterized by 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 Strategy

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 zero-emission vehicles 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 emission free 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.

Marketing and Sales

1) Industries

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

Transportation Industry

Recently, President Obama announced the goal of one million electric vehicles on the road by 2015. To achieve this, the U.S. Department of Energy plans to distribute \$25 billion in loans for infrastructure development and deployment of electric vehicles under the Advanced Technology Vehicle Manufacturing Loan Program (ATVMLP). In addition, the Corporate Average Fuel Economy (CAFE) standard, the sales weighted average fuel economy of a manufacturer's fleet of passenger cars or light trucks sold in the U.S., has been increased to 35.5 miles per gallon by 2016. In addition, to encourage the purchase of electric vehicles, tax credits are available to buyers of electric cars in the

United States, the European Union, Japan, Israel and Canada. Automakers have responded to the new regulation and greater demand for more fuel efficient vehicles by ramping up production plans for hybrid, plug in hybrid and electric vehicles. Frost and Sullivan, a third party market research firm, estimates that by 2020, 7.0% of all vehicles shipped worldwide will be electric. According to A.T. Kearney, the global lithium-ion battery market for automotive applications in Hybrid Electric Vehicles (HEVs), PHEVs and EVs is estimated to grow to approximately \$21.8 billion by 2015 and \$74.1 billion by 2020.

While electric vehicles are currently more expensive than traditional gasoline powered vehicles, it is anticipated that production costs will decline as demand increases for electric vehicles, enabling battery companies to purchase materials in bulk and manufacture in large quantities. As electric vehicles become more economically feasible, we anticipate further cost efficiencies and increased adoption of Lithium Ion batteries across the transportation industry. In addition to pursuing opportunities for the light duty vehicle market, battery companies are in discussions with or working with manufacturers to develop clean alternatives for scooters, golf carts, mowing equipment, motorcycles, off-duty vehicles and heavy-duty transportation vehicles.

Stationary Storage and Smart Grid

The development of the smart grid and the growing demand for alternative energy solutions, such as wind and solar, represent tremendous opportunities for the battery industry. Under the American Recovery and Reinvestment Act, ARRA, the U.S. Government allocated \$4.5 billion for utilities to invest on the U.S. electric grid in order to stimulate investment in smart grid technologies. When considering the shift to alternative energy solutions such as wind and solar, which can provide sporadic service / energy, utility companies are faced with the challenge of ensuring reliable service. Lithium ion batteries are predicted to play a key role in the grid stabilization of the electric grid market. Lithium ion batteries act as ancillary power units to provide frequency regulation services and help smooth the grid during fluctuations in demand. Lithium ion batteries can also be used to store electricity during off-peak hours, making it available during peak hours. According to Piper Jaffray, the stationary storage market for lithium ion batteries is estimated to grow to over \$600 billion over the next ten to twelve years.

Mobile Computing and Communications

Driven by continued growth in demand for consumer electronics and mobile computing products and accessories, demand for lithium ion batteries is anticipated to remain strong. In addition, as form factors decrease in size, functionality increases and consumers seek longer lasting devices, consumer applications will need high-power energy sources. As

such, the demand for advanced battery solutions represents a large and attractive market. IDC estimates that worldwide portable PC shipments will grow from 159.9 million in 2009 to 301.5 million in 2013 and that worldwide mobile phone shipments will grow from 1.1 billion in 2009 to 1.4 billion in 2013.

2) 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. Our primary competitors include the following:

- *PHEVs.* We compete with LG Chem, Johnson Controls /SAFT, and A123 Systems.
- *EVs.* We compete with AESC, Kokam, GS Yuasa, Panasonic, Lithium Energy Japan, A123 Systems, Ener1 and Valence.
- *Electric Grid Services.* We compete with SAFT, Altairnano and A123 Systems.
- *Consumer.* We compete with Panasonic, Sony, Samsung, LG Chem, BYD, Ener1 and A123 Systems.

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

The clean transportation market is comprised of several small and large companies utilizing different battery system technologies. The market is highly 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. The US Department of Energy has made electric plug-in vehicles a cornerstone of its program of moving from oil dependence to clean electricity.

3) Our Solution

We believe that our battery and battery systems offer highly-competitive performance characteristics as follows:

- *Platform technology.* The primary elements of a lithium battery cell are the anode, cathode, separator and electrolyte. Unlike many other battery technologies that rely on advancements in component materials and chemistries (i.e., application of phosphate or manganese chemistries etc. to the cathode), our proprietary platform *Lithium Ion SuperPolymer®* technology ensures that our technology is not rendered obsolete by changes to the underlying battery chemistry or other component materials. We are therefore able to continuously evolve and benefit

from improvements in component materials, including advancements in electrode materials. In this way, our core advantages are maintained as battery performance metrics continue to improve. This platform characteristic differentiates us in an industry that has historically focused on component rather than structural innovations.

- *High energy and power density.* Energy density is widely considered one of the most important metrics of a battery technology as it determines the size and weight of the battery system. Higher energy density translates into smaller, lighter battery systems or applications with longer run-times or ranges. In addition, lithium batteries have been historically optimized for either higher energy (e.g. for consumer laptop or mobile phone market where longer run-times are a premium) or for high power (e.g. for the power tool or hybrid vehicle market where brief, high power pulses are a premium). In general, a trade-off in battery design is required such that a focus on one metric, e.g. power, comes at the expense of the other, e.g. energy. For plug-in hybrids or full electric vehicles, both strong power density and superior energy density is optimal.

As a result of the intrinsic energy density advantage of our battery technology, we are able to optimize our batteries for balanced energy/power density with limited apparent trade-off. Such balanced optimization offers highly-competitive energy and power density and has been developed for PHEV and EV applications.

- *Emission-free manufacturing.* To our knowledge, we are the only battery manufacturer with a production process that does not require the use of industrial solvents. For instance, our manufacturing process does not utilize N-Methylpyrrolidone (“NMP”), a solvent that is used for many different purposes, including stripping paint as well as for cleaning in the electronics and battery industries. According to the California Department of Health Services (“CDHS”), NMP has proven toxic to the reproduction systems of male and female test animals. While the toxic effects of NMP on humans have not been studied, the CDHS recommends that NMP is treated as a potential human reproductive hazard. Similarly, the European Commission labeled NMP a reproductant toxicant in 2003 and has proposed to label it a toxic chemical. In addition to operating in an NMP-free environment, our manufacturing processes meet the strictest environmental requirements making our benign environmental footprint suitable for manufacture in local urban areas. We believe that our emissions-free manufacturing process provides us with a competitive advantage unique to the industry.
- *Scalability and prismatic geometry.* We believe that large-format pouched prismatic (flat) cells represent the best long-term battery technology for use in

PHEVs and EVs and that our advances in the design and manufacture of pouched prismatic cells make our battery systems well-suited for many transportation end-markets. Today, cylindrical battery technology is the most common since the mass production of cylindrical cells has been around for some time. However, the use of cylindrical cell technology for larger applications such as for transportation has limitations. For instance, a 30kWh battery (sufficient for a battery electric vehicle) would require approximately 8,260 (commercial phosphate) “18650” cylindrical cells, and thereby necessitate 16,520 interconnects, or 16,520 possible points of failure. In contrast, for this same battery only 235 of our large-format 35Ah prismatic cells would be needed. In addition, cylindrical cells in the past have been shown to demonstrate issues with heat removal as well as safety limitations. While these challenges have been successfully managed for smaller battery systems, it is unclear whether the use of cylindrical battery technology is the best long-term commercially feasible technology for PHEVs or EVs. To efficiently and reliably meet the demand requirements of the transportation battery market, we believe that battery technology must be able to scale up to a large battery / large-format solution. Although large-scale production of large-format prismatic cells is relatively new to the industry, we have successfully designed, developed and manufactured large-format prismatic batteries suitable for the automobile industry. Based on testing of the prismatic battery systems we have been developing for commercial use, we believe that our prismatic cell technology is safer, more reliable and offers important scale-up advantages relative to competing cylindrical battery technologies.

For electric vehicles, our sales and marketing efforts are based primarily on building partnerships with key companies and groups and presenting to, and attending, key trade shows and expositions.

For battery sales and engineering services, we believe the demand for portable energy is large in the aerospace and military sectors.

For the mobile computing business, our focus is on such industry verticals as healthcare, insurance, sales force automation and education. For example, in healthcare, we attend trade shows, place advertisements in trade magazines and are working to establish partnerships with Independent Software Vendors (“ISVs”), Value Added Resellers (“VARs”) and distributors.

We currently have commercially available and in-development batteries and battery systems across various sizes and packaging for a number of end-markets. Historically, we have focused our development and marketing efforts on the consumer, governmental and aerospace and defense markets. More recently, we have invested in the design and development of our battery technology for advanced electric vehicle applications. Our

current focus is on the following end markets: transportation, stationary storage, and mobile computing.

The table below provides a summary of our products:



BEV Battery System



PHEV Battery System



Battery Bank



PowerPad



Scribbler®

	BEV Battery System	PHEV Battery System	Battery Bank	PowerPad	Scribbler®
Energy (kWh)	Varies	Varies	varies	N/A	N/A
Status	Demonstration/ In Early Production	In Development/ Prototypes being delivered	In Development	In Production	In Production
Application	Battery Electric Vehicles (BEVs) and Heavy Duty PHEVs	Light Duty PHEV Vehicles	Stationary Storage and Smart Grid for Utilities	Consumer, Commercial Applications	Consumer, Commercial Applications

Transportation

By capitalizing on our proprietary *Lithium Ion SuperPolymer®* technology, coupled with our expertise in battery management system and packaging, we have been engaged with a number of leading companies in the transportation sector for the design and development of advanced battery systems for PHEV and EVs, commercial truck and off-road applications, as well as for two-wheel vehicles. While our relationship with each of these parties is at a different stage, we expect that many of them will lead from the developmental stage, to prototyping/testing, and eventually to production.

Chrysler Dodge Ram PHEV program. In March, 2010, ElectroVaya Inc. announced that it has been chosen by Chrysler Group LLC as the battery supplier for 140 Ram plug-in hybrid electric vehicles in a demonstration program supported by the Department of Energy. The Ram PHEV will feature a 12kWh lithium ion battery from ElectroVaya. A total of 140 Ram PHEVs will be built for a demonstration program running for a period of three years at various geographic and climatic locations across the US. More than 21 Chrysler Group partners across the U.S., including utility companies, government agencies and universities will independently test the Ram PHEV and provide valuable data for the advancement of the technology. The DOE-supported programs are an important enabler for key suppliers to understand and test customer acceptance and the capability of PHEV systems in real-world conditions.

Hummer Prototype. In April, 2009, Electrovaya announced that it provided the battery pack used in the Hummer H3 ReEV range-extended electric SUV showcased at the 2009 SAE International World Congress, Cobo Center, Detroit, Michigan from April 20 to April 23, 2009. This high-voltage plug-in hybrid electric vehicle battery showcases Electrovaya's capability to provide advanced battery systems for tomorrow's plug-in hybrid light-duty passenger cars and trucks as well as medium and heavy-duty vehicles.

Chana International. In November, 2008, Electrovaya entered into a number of MOUs in Beijing, China in the areas of electric cars, trucks and manufacturing equipment, including with Chana International Corp. for zero-emission electric vehicles. Chana is one of the most renowned carmakers in China with headquarters in Chongqing. Chana has joint ventures with both Ford and Mazda.

Miljobil Grenland. Pursuant to the licensing agreement to build a battery plant in Norway, the Company purchased 850 shares, or approximately 6.4% of the shares of Miljobil Grenland AS, an Electric Vehicle company located in Norway. The investment was completed on December 8, 2008. During the quarter ended March 31, 2009, a Plan of Merger was presented whereby Miljobil Grenland AS would merge with Miljo Innovasjon AS, the battery plant company, and carry on business as Miljo Innovasjon AS. Such merger has since been completed, with the merged Company carrying on business as Miljobil Grenland.

As at March 31, 2010, the financial statements of Miljobil Grenland contained a going concern note as it was funded through loans from a major shareholder and had a negative equity position. Miljobil recently appointed a new Board of Directors and is exploring different sources of capital to fund its operations and also reviewing its business plan for opportunities to increase profitability.

US Air Force. We have built an advanced battery for a hybrid electric vehicle for the US Air Force Research Laboratory, totalling approximately \$0.4 million, which has since been delivered.

New York State Energy Research and Development Authority ("NYSERDA"). In January, 2007, the Company announced that it had received a \$100 contract from the NYSERA to develop and demonstrate a "plug-in hybrid" concept using the Ford Escape Hybrid vehicle. In August 2007, Electrovaya delivered the vehicle.

In May, 2006, the Company entered into a fixed price agreement for \$1,000 with the NYSERDA. Under the agreement, the Company expanded its operations in New York State to develop lawn and turf off-road equipment and establish sales and service capabilities for its Scribbler Tablet products. Under the agreement, the Company has received \$770 to-date.

Two-Wheelers. Electrovaya signed a Memorandum of Understanding with HEROElectric in December 2009 that sets out the general principals of a joint venture for the development and sale of zero-emission battery electric scooters and motorcycles. HEROElectric is a wholly-owned subsidiary of HEROGROUP, which ranks amongst the Top 10 Indian Business Houses with an estimated turnover of over US\$3.2-billion during the fiscal year 2005-2006. Its subsidiary Hero Honda is the world's largest two-wheeler manufacturer and controls nearly half of the market for two-wheelers in India with over 3.7 million units sold in 2008-9.

Stationary Storage

We have recently applied our *Lithium Ion SuperPolymer*® battery technology and systems solutions to the smart grid stationary storage market. On November 2, 2009, we signed a Memorandum of Understanding with Nippon Kouatsu Electric Co. Ltd for the development and sales of our integrated advanced battery storage systems for both stationary storage power and smart grid systems applications, initially targeted for the Japanese market.

In February, 2010, we announced that we were the energy storage partner for a utility demonstration project led by CEATI International Inc., headquartered in Montreal. Other partners include major utilities and universities. The project has been conditionally approved for partial funding support from the Government of Canada's Clean Energy Fund. The total project cost is estimated at approximately \$7.5 million and is intended to demonstrate the capabilities, versatility and economics of utility-scale electricity storage based on Electrovaya's modular Lithium Ion SuperPolymer® battery technology. The following clean energy challenges will be addressed:

- Electricity storage for intermittent renewable energy generation;
- Electricity storage for high-density urban applications to meet growing new electric loads; and
- Investigation into repurposing electric vehicle batteries for Smart Grid application.

This builds upon Electrovaya's previous work in 2006 where it developed stationary power systems for integrated solar powered portable energy storage.

Mobile Computing & Communications

When we first commercialized our battery technology, we initially targeted the consumer electronics market, in particular the market for mobile computing solutions. Our products consist of the PowerPad® series of batteries, a source of power for longer run times for notebook computers and other mobile applications, as well as the Scribbler® series of Tablet PCs with the longest run-times in the industry. Our mobile computing products

have been used extensively in the healthcare industry. Our PowerPad® line can meet the needs of most mobile notebook computer users, including such products as the i-Pod® and i-Pad, cell phone, PDA, Blackberry®, Palm® and Pocket PC.

Aerospace and Defense

In October 2003, NASA (National Aeronautics and Space Administration) awarded us \$3.0 to provide high-energy lithium ion SuperPolymer® power systems as a power source for Extra-Vehicular Mobility Units (EMUs).

In 2007, we completed a portable energy storage system for a solar tent application for the US Air Force. In December 2009, we delivered a battery system for a hybrid electric vehicle for the US Air Force Research Laboratory.

Other

In September, 2007, we announced that we had received an initial order from Kongsberg Maritime, Norway, an OEM for Underwater Vehicles. We subsequently signed a five-year contract to provide our proprietary *Lithium Ion Superpolymer*® cells and, at the option of Kongsberg, to complete further work related to a battery pack to power the Kongsberg Maritime Underwater Vehicle. To date, the revenue under this agreement is approximately \$1 million.

Intellectual Property

We have approximately 146 issued and pending patents worldwide, including over 29 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.

Overall Performance and Selected Financial Information

Unless otherwise indicated, all comparisons for the year ended September 30, 2010 are to the year ended September 30, 2009, and all comparisons to the fourth quarter of fiscal 2010 are to the fourth quarter of fiscal 2009.

The Company reviews capital assets subject to amortization for impairment on an annual basis or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable in accordance with the accounting standard CICA Handbook

Section 3063 “Impairment of Long-Lived Assets.” An impairment loss is recognized when the carrying amount of an asset that is held and used exceeds the projected undiscounted future net cash flows expected from its use and disposal, and is measured as the amount by which the carrying amount of the asset exceeds its fair value, which is measured by discounted cash flows when quoted market prices are not available. No additional capital asset write-downs were made during the most recent year.

Years ended September 30, 2010, 2009 and 2008

i) Financial Condition

(\$ thousands)	2010	2009	2008
Cash & Cash Equivalents	3,001	5,614	4,934
Total Assets	11,948	13,346	12,653
Total Long Term Liabilities ^(a)	-	-	-
Shareholders’ Equity	9,289	10,117	10,144

(a) Additional potential long-term financial liabilities are described below (See Financial Condition - TPC Contribution Agreement)

Our cash balance increased from 2008 to 2009 by \$0.7 million and decreased from 2009 to 2010 by \$2.6 million.

Cash & Cash Equivalents held in US dollars were approximately \$1.6 million as at September 30, 2010, \$1.2 million as at September 30, 2009 and \$2.5 million as at September 30, 2008.

ii) Results of Operations and Cash Flow

(\$ thousands)	2010	2009	2008
Revenue	\$ 5,025	\$ 3,782	\$ 2,541
Revenue, Less Direct Manufacturing Costs	1,369	2,459	1,160
Loss Before Interest, Foreign Exchange, Taxes and Amortization	1,481	305	3,935
Net Loss	2,351	577	4,055
Basic and Diluted Loss per Share	0.03	0.01	0.06
Cash flow from Operating Activities	\$ (2,707)	\$ 1,282	\$ (1,635)

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

Revenue derived from US customers in US dollars, as a percentage of the Company's revenue, was approximately 85% in 2010, 39% in 2009 and 49% in 2008. Revenue increased for the year ended September 30, 2010, compared to 2009 due to an increase in Services revenue.

For the years ended September 30, 2010, 2009 and 2008, revenues from major business activities were as follows:

	2010	2009	2008
Large Format Batteries and Licensing*	\$ 4,353	\$ 3,022	\$ 1,313
Consumer electronics	497	546	993
Other	175	214	235
	\$ 5,025	\$ 3,782	\$ 2,541

* Previously described as "Services."

Consumer electronics revenue has decreased over the last three years as the Company gradually re-directed its efforts into large scale batteries (electric vehicles, etc.) where market opportunities are considered to be significantly better. The consumer electronics market is extremely competitive, especially from Far East manufacturers, and has become commoditized, resulting in severe pressure on pricing, margins and market share opportunities. The majority of the world's production of laptop computers is from China, Korea, Taiwan and Japan where they enjoy significant cost advantages, and this has resulted in a decline in Scribbler sales by ElectroVaya. There are multiple battery companies situated in the Far East, where they also enjoy significant cost advantages and economies of scale.

Services revenue increases are due to the Company gradually redirecting its efforts into the clean transportation markets, as discussed above, where large format batteries are required. These efforts consist of engineering services activities, including planning, design and prototyping, thereafter completing large format batteries. The increase from the prior year is primarily due to the PHEV program.

For the years ended September 30, 2010, 2009 and 2008, revenues attributed to regions based on location of customer were as follows:

	2010	2009	2008
Canada	\$ 623	\$ 289	\$ 516
United States	4,286	1,493	1,249
Others	116	2,000	776
	\$ 5,025	\$ 3,782	\$ 2,541

The fluctuation in exchange rates has resulted in an increase in labour and manufacturing overhead production costs and other expenses, as these expenses are in Canadian dollars.

Operating losses reduced from 2008 to 2009 due to increased government grants, lower spending on sales and marketing, a reversal of overprovisions for warranty expenses in earlier quarters and higher margins on service income.

Operating losses before amortization increased from 2009 to 2010 because of a significant decrease in government grants, lower margin on service income and increase in general and administrative costs.

The Company has not paid a dividend since inception.

Results of Operations

Use of Estimates

In preparing the financial statements in conformity with generally accepted accounting principles, 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 approximately 0.6% of revenue from consumer electronics for the year ended September 30, 2010.

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

Warranty accruals are based on the actual warranty experience rate for the past year for each product group and sales during the most recent warranty period. Warranty provisions, excluding the impact of foreign exchange, represented approximately 9.66% of consumer electronic sales for the year ended September 30, 2010. 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. Accordingly, no future tax assets are recorded on the balance sheets.

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, such warranties have been limited to replacing those cells not meeting the specifications as per the agreement between Electrovaya and the customer. Such warranties are not included in a separate agreement or priced separately.

The Company's consolidated financial statements have been prepared on the basis of accounting principles applicable to a "going concern", which assume the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. If the "going concern" assumption is not appropriate, then material adjustments may be necessary in the carrying amounts and/or classifications of assets and liabilities in the Company's financial statements.

Revenue

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

Revenues are also derived from the sale of PowerPad® and Scribbler ® Tablet PC products, as well as from machines built for third parties, sales of custom batteries and from services provided for research and development activities. During the third quarter of fiscal 2008, the Company changed the description of "Services" revenue to "Large Format Batteries" revenue to better reflect its actual activities. Beginning the third quarter ended June 30, 2009, this category included licensing revenue.

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

Distributors have historically been used to sell the Company's consumer electronic products. With the change in focus away from consumer electronics to large format batteries over the last several years, there has been less reliance on distributors and an increased focus on Value Added Resellers "VAR." Due to recent declines in demand for mobile computing devices, distributors and resellers have been maintaining only small inventories (generally up to only five units) of Electrovaya products and placing purchase orders only as required. Title passes to the distributor and/or reseller at the time of shipment by the Company. End-users of the Company's consumer electronics products are allowed to return the goods within 15 days of sale, subject to a restocking fee. All distributors and resellers are compensated on a commission basis.

Revenue from product sales is recognized upon shipment, since persuasive evidence of an arrangement exists, risks and rewards of ownership have been transferred to customers, selling price is fixed and determinable, and collectibility is reasonably assured. Estimated returns and allowances and sales rebates are recorded as a reduction of revenue at the time of revenue recognition. In addition, the Company provides for the estimated cost of standard product warranties at the time of revenue recognition.

The Company primarily uses a binding purchase order as evidence of its product sales arrangements and, with respect to its service arrangements, uses contractual agreements. The Company considers delivery to occur upon shipment, provided risks and rewards of ownership, including transfer of title, have passed to the customer. At the point of sale, the Company assesses whether collection is reasonably assured. If the Company determines that collection is not reasonably assured, the Company defers recognition of the revenue until collection becomes reasonably assured, which is generally upon receipt of cash. Where an estimate of the potential sales returns cannot be made, the recognition of revenue does not occur until the distributor has sold the product.

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

Deferred revenue represents revenues collected but not earned as of September 30, 2010.

For the three month period ended September 30, 2010, total revenue increased by 21% to \$1,736 from \$1,435 for the quarter ended September 30, 2009. The increase in total revenue primarily resulted from an increase in revenue from work on large format batteries and engineering services.

Quarterly revenue is as follows:

(\$ thousands)	Q1	Q2	Q3	Q4
2010	\$ 920	\$ 1,071	\$ 1,298	\$ 1,736
2009	\$ 792	\$ 675	\$ 880	\$ 1,435
2008	\$ 495	\$ 476	\$ 916	\$ 654

For the years ended September 30, 2010 and 2009, revenue was \$5,025 and \$3,782, respectively. The \$1,243 or 32.9% increase was primarily due to an increase in service revenue.

During 2010, three customers represented 79% (2009 – three customers represented 60%) of total revenue and 90% (2009 - 91%) of accounts receivable.

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[®] batteries, battery packs for Electric Vehicles, machine building for third parties and research service revenues. All expenses related to the generation of licensing revenue have been expensed in previous periods.

For the quarter ended September 30, 2010, direct manufacturing costs increased by \$1,160 to \$1,694 from \$534 for the quarter ended September 30, 2009 due to increased work on large format battery and engineering services in the quarter ended September 30, 2010.

For the years ended September 30, 2010 and 2009, direct manufacturing costs were \$3,656 and \$1,323 respectively. The \$2,333 or 176.3% increase was primarily due to increased work on large format battery and engineering services.

Revenue less Direct Manufacturing Costs was a profit of \$42 for the three months ended September 30, 2010 compared to \$901 for the three months ended September 30, 2009.

For the years ended September 30, 2010 and 2009 respectively, Revenue less Direct Manufacturing Costs was \$1,369 or 27.2% of revenue and \$2,459 or 65% of revenue, respectively. The Company benefited from licensing revenue during the previous year ending September 30, 2009, whereas there was no licensing revenue in the current year ending September 30, 2010.

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), decreased by \$705 for the quarter ended September 30, 2010 from \$439 for the same three month period in 2009.

During the three month period ended September 30, 2010, the Company completed \$295 of work related to the MEDT project. During the three month period ended September 30, 2009, the Company received cash contributions of \$623 from Technology Partnerships Canada (TPC) and completed \$706 of work related to the MEDT project. An Ontario ITC of \$191 was accounted for during the fiscal year ended September 30, 2010.

Compared to the year ended September 30, 2009, research and development expenses decreased by \$2,222 or 56.7% from \$3,920 to \$1,698 during the year ended September 30, 2010.

Electrovaya received an advance of \$ 2.9 million (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. \$706 was earned during fiscal 2009 and an additional \$888 was earned during the year ended September 30, 2010 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, 2010 and 2009, sales and marketing expenses were \$80 and \$41, respectively. The \$39 or 95.1% increase was primarily due to an increase in travel expenses to trade shows and consulting fees as compared to the same quarter in the prior year.

For the years ended September 30, 2010 and 2009, sales and marketing expenses were \$301 and \$256, respectively. The \$45 or 17.6% increase was primarily due to a increase in travel expenses to trade shows as compared to the prior year.

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.

During the quarter ended September 30, 2010, warranty expenses decreased by \$7 compared to the prior quarter due primarily due to reversal of warranty provisions during the current ending September 30, 2009 on products where the warranties have expired.

For the years ended September 30, 2010 and 2009, warranty expenses were \$48 and \$51 due to reversal of warranty provisions during the year ending September 30, 2010 on products where the warranties have expired.

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, 2010 and 2009, general and administrative expenses were \$457 and \$346, respectively. The \$111 or 32% increase was primarily due to consulting fees, legal fees and software lease expenses in the current quarter as compared to the same quarter in the prior year.

For the years ended September 30, 2010 and 2009, general and administrative expenses were \$1,703 and \$1,171, respectively. The \$532 or 45.4% increase was primarily due to

salaries and benefits, consulting fees, legal fees and software lease expenses in the current year as compared to the twelve month period in the prior year.

Stock based compensation. Stock based compensation expense decreased from \$447 to \$191 for the quarter ended September 30, 2010 compared to the same quarter in 2009.

For the years ended September 30, 2010 and 2009, Stock based compensation expenses were \$601 and \$569, respectively. The \$32 or 5.6% increase was primarily due to increased stock compensation expenses in the current year as compared to the same period in the prior year.

Net Profit/(Loss)

Quarterly net profit/(losses) are as follows:

(\$ thousands)	Q1	Q2	Q3	Q4
2010	\$ (244)	\$ (1,243)	\$ (363)	\$ (501)
2009	\$ 26	\$ (237)	\$ (915)	\$ 549
2008	\$ (1,392)	\$ (694)	\$ (1,070)	\$ (899)

The increase in the net loss from the fourth quarter of fiscal 2009 to the fourth quarter of fiscal 2010 is primarily due to 1) an increase in Direct manufacturing costs, 2) a decrease in government assistance, 3) an increase in general and administration costs, 4) an increase in foreign exchange loss, 5) an increase in amortization costs, 6) an increase in sales and marketing costs and 7) a decrease in interest income offset by 1) a decrease in research and development cost, 2) an increase in revenue, 3) a decrease in warranty costs and 4) an decrease in stock based compensation costs

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

(\$)	Q1	Q2	Q3	Q4
2010	\$ 0.00	\$ 0.02	\$ 0.01	\$ 0.00
2009	\$ 0.00	\$ 0.01	\$ 0.01	\$ (0.01)
2008	\$ 0.02	\$ 0.01	\$ 0.02	\$ 0.01

Liquidity and Capital Resources

As of September 30, 2010, the Company had \$3 million in cash and cash equivalents, an increase of \$1 million compared to \$2 million as at June 30, 2010 and a decrease of \$2.6 million compared to \$5.6 million as at September 30, 2009.

Cash used in operating activities was \$2.7 million during the year ended September 30, 2010 compared to \$1.3 million cash generated during the year ended September 30, 2009. Net cash used in operating activities during the year ended September 30, 2010 primarily reflects the operating loss of \$2.4 million, the decline in non-cash operating working

capital of \$1.6 million offset by amortization of \$0.7 million and stock compensation expense of \$0.6 million.

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

2011	\$141
2012	\$142
<u>2013</u>	<u>\$ 71</u>
Total	<u>\$354</u>

There were no material changes in specified contractual commitments during the year.

The Company completes an ongoing review of its requirements for additional capital resources and holds discussions with various Government agencies concerning the potential funding of certain research and development and pre-commercialization activities, as well as investigating potential funding from other public and private sources. Subsequent to the end of the quarter and year-end, in December, 2010, the Company received \$1.7M 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.

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

	Number	Amount (US \$ '000)
Balance, September 30, 2005, 2006, 2007, 2008, December 31, 2008 and March 31, 2009	69,575,442	\$ 63,745
Add: Shares issues during the quarter ended June 30, 2009	463,000	203
Add: Shares issued during the quarter ended Sept 30, 2009	<u>183,000</u>	<u>108</u>
Balance, September 30, 2009 and December 31, 2009.	70,221,442	\$ 64,056
Add: Shares issued during the quarter ended Mar 31, 2010	<u>265,000</u>	<u>171</u>
Balance, March 31, 2010.	70,486,442	\$ 64,227
Add: Shares issued during the quarter ended June 30, 2010	<u>283,666</u>	<u>373</u>
Balance, June 30, 2010	70,770,108	\$ 64,600
Add: Shares issued during the quarter ended Sept 30, 2010	<u>140,170</u>	<u>254</u>
Balance, September 30, 2010	<u>70,910,278</u>	<u>\$ 64,854</u>

The following table reflects the quarterly stock option activities for the period from March 31, 2007 to September 30, 2010:

Outstanding, March 31, 2007, June, 2007 and September 30, 2007	3,175,938
Granted	700,000
Outstanding, December 31, 2007 and March 31, 2008	3,875,938

Cancelled or expired	(31,667)
Outstanding, June 30, 2008, September 30, 2008 and December 31, 2008	3,844,271
Granted	542,000
Outstanding March 31, 2009	4,386,271
Options exercised	(463,000)
Cancelled or expired	(30,000)
Outstanding June 30, 2009	3,893,271
Granted	458,000
Options exercised	(183,000)
Cancelled or expired	(908,100)
Outstanding September 30, 2009, December 31, 2009	3,260,171
Granted	589,000
Options exercised	(265,000)
Cancelled or expired	(64,000)
Outstanding March 31, 2010	3,520,171
Options exercised	(283,666)
Cancelled or expired	(1,500)
Outstanding June 30, 2010	3,235,005
Granted	45,000
Options exercised	(140,170)
Cancelled or expired	(60,000)
Outstanding September 30, 2010	3,079,835

Transactions with Related Parties

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

The amalgamation transaction was accounted for based on CICA Handbook Section 3840, Related Party Transactions at the exchange amounts of the assets and liabilities transferred as there was a substantive change in the ultimate unrelated parties’ ownership interests in the subsidiaries. In addition, the Company had obtained independent evidence on the exchange amounts involved in the amalgamation transaction. An independent committee of the Board was constituted to review the amalgamation transaction.

Upon amalgamation, the Company received \$509 of cash and assumed a liability of \$77 relating to interest payable on an income taxes liability of 102. The offset to the \$432 of net assets assumed had been recorded as a credit to income tax recovery in the statement of operations for the fiscal year ended September 30, 2005. In addition, as at September 30, 2005, Electrovaya Corp carried back income tax losses of \$4,787, eliminating a \$1,148 income tax liability of 102. This transaction had no impact on the statement of operations as a full valuation allowance had been recorded against the income tax losses.

In August, 2007, 102 received a Notice of Reassessment for a tax liability of approximately \$498 (including accumulated interest) relating to the sale of property by 102 prior to the amalgamation with Electrovaya Corp. A final collection notice was received in December, 2007 and a lien was placed by the Ministry of Revenue on Electrovaya Corp's assets in January 2008 as security for the outstanding amount. Pursuant to the terms of the share purchase agreement, the former shareholders of 102 were required to indemnify Electrovaya in respect of the full amount, including legal and administrative expenses of any resulting tax liability. A settlement agreement was reached between the former shareholders of 102 and the Company and the Board also approved a one-time payment of \$100 by the Company to the Ministry of Finance to finalize the matter. Pursuant to the settlement agreement, the tax liability will be repaid to the former shareholders on a prorata basis in the future if the Company earns taxable income. During the quarter ended March 31, 2009, all remaining outstanding tax liabilities were paid and the lien placed on Electrovaya Corp's assets was removed.

- b) During the year ended September 30, 2010, the Company paid \$211 (2009-\$187) to a director of a wholly owned subsidiary company for services rendered to the Company in his capacity as an executive officer. During the year ended September 30, 2010, the Company paid \$239 (2009 - \$245) to the Chief Executive Officer, who is also a controlling shareholder of the Company. Since the payments to the CEO and director of the wholly owned subsidiary are fixed and made in Canadian dollars while the Company reports in US dollars, the difference is attributable to the change in exchange rates.
- c) During the year ended September 30, 2006, the Company was served with a Statement of Claim for \$1,100 by an executive officer related to an automobile accident involving one of the Company-owned automobiles. The lawsuit has not yet been settled, but the Company is fully insured for the amount of the claim.

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 decreased by \$2.6 million from September 30, 2009 to September 30, 2010.

Capital assets. Approximately \$0.6 million of capital assets were acquired during the fiscal year 2010.

Current Liabilities. Current liabilities were \$2.7 million as at September 30, 2010 as compared to \$3.2 million as at September 30, 2009.

TPC Contribution Agreement.

On March 31, 2003 the Company entered into an agreement with the Technology Partnerships Canada (“TPC”) initiative of Industry Canada, whereby TPC agreed to fund up to 29.7% of eligible costs related to the Company’s research and development efforts in high rate batteries, up to a maximum amount of Cdn \$9.9 million (US \$9.4 million) during the work period beginning in January 2002, and ending by September 2007. Under the terms of the agreement, an amount up to a maximum of \$5,608 is to be repaid by royalties charged on new revenue created from products developed, commencing in 2009 through to 2015, with payment to be deferred or reduced if certain revenue thresholds are not achieved. These revenue thresholds were not achieved during Fiscal 2010.

Cumulative claims of \$5,942 were received by the Company as at September 30, 2008 from the TPC program and recognized after approval and payment of each claim. During fiscal 2009, the Company received contributions totaling \$2,870 (2008-\$619) from the TPC program. The program expired on March 31, 2009. Reimbursements for Claims for the quarter ending March 31, 2009 for \$620 (2008-\$619) were received during the quarter ended December 31, 2009. All monies owing under the TPC grant have now been received.

SDTC Contribution Agreement.

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

The amount is receivable in scheduled instalments as provided in the contribution agreement between SDTC and the Company and will be received upon the achievement of various project milestones. Under the amended terms of the agreement SDTC shall pay the lesser of 33% of the eligible project costs or Cdn \$ 1,859, the contribution shall not exceed 50% of the eligible project costs and the Company or consortium members, or both, shall provide at least 25% of the project costs in cash, in-kind goods or services or a combination of both. SDTC shall not have any obligation to pay the contribution unless

the Company has obtained a commitment and has the financial capacity to finance all the costs related to the entire project.

The project expired on July 31, 2010.

A cash contribution of \$447 was received by the company during the quarter ended December 31, 2006 (2005-NIL). Further contributions of \$194 were received by the Company during the quarter ended June 30, 2008.

During the fiscal year 2006 the Company received contributions totaling \$472 from SDTC (2005 – NIL) for Milestone 1. Cumulative claims of \$1,113 have been received as at September 30, 2009 from SDTC. Additional claim of \$426 was submitted during the year ended September 30, 2010.

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. The grant is 15% of the targeted project cost of Cdn \$111.49 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 five 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 \$ 2.9 million (Cdn \$3.3 million) on June 5, 2009 and recorded this as deferred revenue. During the year ended September 30, 2010 \$0.9 million and cumulative of \$1.6 million of activities considered to be eligible costs and therefore reimbursable under the grant were recorded as a reduction of expenses.

Share capital. The authorized and issued capital stock of the Company increased 688,836 from September 30, 2009. Of an authorized unlimited number of Common shares, 70,910,278 or \$65 million are issued and outstanding.

Present Status

During the fiscal year ended September 30, 2010, the loss before amortization, interest income and foreign exchange increased by \$1,176 or 385.6% compared to the fiscal year ended September 30, 2009.

Recent Accounting Pronouncements

(i) International Financial Reporting Standards (“IFRS”)

In February 2008, the Canadian Accounting Standards Board confirmed that the use of International Financial Reporting Standards (“IFRS”) will be required for publicly accountable profit-oriented enterprises. IFRS will replace Canada’s current generally accepted accounting principles. Companies will be required to provide comparative IFRS information for the previous fiscal year. The Company is required to implement IFRS for the fiscal year 2012 and the Company has commenced the process to transition from current Canadian GAAP to IFRS.

Transition Process:

The transition process consists of three primary phases: scoping and diagnostic phase, impact analysis, evaluation and design phase and implementation and review phase.

Scoping and diagnostic phase – A preliminary diagnostic review to determine the financial reporting differences under IFRS compared to Canadian GAAP are underway. The full impact on future financial reporting cannot be fully determined or estimated at this time, however, the Company is actively reviewing the impact of the first-time adoption of IFRS and those areas that may result in differences. The Company anticipates completing this assessment during the first quarter of 2011.

Analysis, quantification and evaluation phase – In this phase, each area identified from the scoping and diagnostic phase will be addressed, including specification of changes to existing accounting policies, information systems and business processes, together with an analysis of policy alternatives allowed under IFRS and development of draft IFRS financial statement content.

Implementation and review phase – This phase includes execution of any changes to information systems and business processes and completing formal authorization processes to approve recommended accounting policy changes. It will also include the collection of financial information necessary to compile IFRS compliant financial statements and audit committee approval of IFRS financial statements.

Financial reporting expertise:

The Company has identified resource requirements to establish appropriate IFRS financial reporting expertise at all levels of the business. Training of key finance and operational staff began during the quarter.

The Company has also held an IFRS information session with members of the Board of Directors (including Audit Committee members). During this session, management and external consultants provided the Board with a review of the timeline for implementation, the implications of the IFRS standards to the business and an overview of the impact to the financial statements.

Business Activities:

The Company currently has no third-party debt covenants or executive compensation arrangements that will be impacted by the change to IFRS.

Qualitative and Quantitative Disclosures about Risks and Uncertainties

Interest Rate Risk

As of September 30, 2010, the Company had cash and cash equivalents totaling \$3 million. All short-term investments have maturities that are less than 90 days and consist of bankers acceptances which are not influenced by fluctuating interest rates.

Foreign Currency Exchange Rate Risk

In the fiscal year ended September 30, 2010, approximately 85% of the Company's revenue was derived from U.S. customers in U.S. dollars. The Company expects that the majority of its sales will, in the future, be made in U.S. dollars and that in the short term, the majority of its expenses will be denominated in Canadian dollars. As of September 30, 2010, \$1.6 million of cash and short-term investments were denominated in U.S. dollars. Fluctuations in the exchange rate between the Canadian dollar and the U.S. dollar may therefore have a material effect on results of operations. The Company does not currently engage in currency hedging activities.

Credit Risk

The Company manages its credit risk with respect to accounts receivable by establishing and implementing credit limits and approval policies, as well as dealing primarily with large creditworthy customers.

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.

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 GAAP 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, 2010.

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 financial statements by the Company's auditors and there is daily oversight by the senior management of the Company.

Other Risks and Uncertainties

Electrovaya is an early-stage developmental company with 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 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 manufacturing process is modular and flexible.
- Its high-volume facility utilizes machinery and equipment that is similar to the machinery and equipment that it has already designed, built and used in its pilot production plant.
- Since the introduction of its PowerPad®, it has successfully produced finished products in its pilot and commercial plants, resulting in increasing levels of sales.
- 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 upgrade the production machinery 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 significant future expenses as we 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.

We have yet to achieve positive cash flow, and 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 before financing activities of \$0.7 million for 2009 and negative cash flow of \$3.3 million for 2010. We anticipate that we will continue to have negative cash flow for the foreseeable future as we continue to incur increased research and development, sales and marketing, and general and administrative 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 long-term viability.

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 recent 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 a material adverse effect on our 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 recently 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. In addition, NEC and Nissan 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. Competitors such as A123 Systems, Inc., Ener1, Inc., and Valence Technology, Inc., all based in the United States, are also competing in the battery market. 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.

The United States stimulus package, as managed by the Department of Energy, includes loan and grant monies for the battery industry. These new monies may benefit Electrovaya's competitors by increasing their financial resources. The effect of the increased competition is not known but may make it more difficult for Electrovaya to increase its market share and revenues. To finance the growth of our facilities, we are evaluating a number of alternatives including our submission of an application for funding under the U.S. Department of Energy's Advanced Technology Manufacturing Loan Program.

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.

Electrovaya may not be able to compete effectively with other manufacturers of compact or large format rechargeable batteries. There is also the possibility its competitors may develop portable power technologies that match or outperform the SuperPolymer® technology, which may diminish the demand for the Company's products. In addition, innovations in the design of portable computer, wireless devices and various power systems may reduce the need for its batteries.

The market for rechargeable batteries is competitive. Electrovaya believes it is well positioned to compete in the market for compact rechargeable batteries, which is already very large and growing rapidly. There are currently eleven or more principal competitors, primarily well capitalized companies based in USA, China, Japan and Korea, which have in aggregate a dominant market position in the lithium ion and lithium ion polymer battery sector. The Company believes that design innovations in the wireless sector will either not materially extend the run time of existing battery technologies or will be more

than offset by the addition of new, enhanced, “power-hungry” features, which will increase the energy requirements of these wireless devices. Finally, miniature fuel cells present potential future competition to batteries in the portable and mobile power applications. However, they are expensive and still have technical hurdles to overcome, thus mitigating the threat to ElectroVaya’s products in the electronics markets that it targets.

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 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, the United States 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.

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 relies upon manufacturers in Taiwan to produce the Scribbler® Tablet PC and has no long-term supply contracts with them.

There are numerous suppliers in Taiwan and throughout Asia capable of producing a tablet PC and it is possible to arrange alternative sources of manufacturing, however, this

may require additional time and resources, thereby straining the capacity of the Company.

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.

The Company has moved its U.S. office into new space at the Saratoga Technology + Energy Park ("STEP"). The Company is also seeking to establish facilities in other parts of the United States, as opportunities arise.

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.

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.

Electrovaya may not be able to successfully market its battery technology to the clean transportation industry because the long-term efficacy of Lithium IonSuperPolymer® battery technology is not known and these batteries may not perform as well as anticipated in Electric Vehicle applications. 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 transportation 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.

However, 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.

Electrovaya may not be able to successfully market its battery technology and products, and because its SuperPolymer® technology is relatively new, these batteries may not perform as well as anticipated. The Company expects to continue to sell its products directly to corporate customers and through value-added resellers and distributors. 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 laptop computers and other portable electronic devices 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.

The PowerPad® products and Scribbler ® Tablet PC series of products have undergone extensive user testing and have now been sold commercially to well-established corporate users, distributors and value added resellers with positive early results. Electrovaya has a marketing program in place, including trade show participation and advertising campaigns. The Company has a dedicated sales team to market and sell its products in Canada, the United States and elsewhere. Electrovaya has adopted a multi-channel distribution strategy to reduce its reliance on a single customer or distributor. The Company is targeting different types of users, applications and industries to mitigate the risk if its products do not achieve acceptance in a single market and to ensure it minimizes reliance on any one customer.

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.

In January 2007, Electrovaya launched its "MN-Series" Lithium Ion SuperPolymer® battery technology. The MN-Series Lithium Ion SuperPolymer® technology will complement Electrovaya's existing roster of Phosphate-Series and (industry standard) Cobaltate-Series Lithium Ion SuperPolymer® technology solutions. The MN-Series, which is a Lithiated Manganese Oxide based system, distinguishes itself with higher energy density and comparable safety characteristics to Electrovaya's Phosphate-Series solution. Electrovaya's proprietary Lithium Ion SuperPolymer® technology is

independent of the composition of the positive electrode active material. As such, ongoing advances in positive electrode chemistry, such as the MN-Series, are expected to enable better technical performance and safety characteristics at more economical price-points

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.

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. Recently Electrovaya was served with a claim that its Scribbler Tablet PC product infringes on certain US patents. Electrovaya has settled this claim. The terms of settlement of this claim may eliminate the US market for any sale of the Scribbler or increase the cost of sales for the Scribbler into the US market. Generally, the margins are low for hardware sales, hence the terms of settlement of this patent infringement claim may make any sale of the Scribbler into the US market uneconomical.

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 industry 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 and the United States and the global automobile industry. The effect of the continued economic difficulties of the major automobile manufacturers on our business is unclear. Two major auto manufacturers have filed for bankruptcy and it is possible that more of these companies may encounter financial difficulties. The impact of any such financial difficulties on the automobile industry and its suppliers is unclear and difficult to predict. Possible effects could include reduced spending on alternative energy systems for automobiles, 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 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. While we have sold most of our products to date into the consumer market, as we expand our business we expect to sell new battery and battery system products into other markets and for other 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 and illiquidity may affect our ability to raise capital to finance our operations and growth.

The credit markets have experienced extreme volatility during the last year, 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.