

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

The following management's discussion and analysis (MD&A) of Electrovaya Inc.'s ("Electrovaya"; the "Company") financial condition and results of operations for the quarters ended June 30, 2005 and 2004 includes comments that management believes 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 and should be read in conjunction with the Company's financial statements and related notes. This MD&A is dated as of July 18, 2005.

Additional information about the Company, including Electrovaya's current annual information form, can be found on the SEDAR website for Canadian regulatory filings at www.sedar.com.

Forward-looking statements

This MD&A may contain forward-looking statements that involve a number of risks and uncertainties, including statements regarding the outlook for the Company's business and results of operations. By nature, these risks and uncertainties could cause actual results to differ materially from those indicated. Such risks and uncertainties include, without limitation, the various factors set forth in the Risks and Uncertainties section of the MD&A provided below, and are also discussed in public disclosure documents filed with Canadian regulatory authorities. No assurance can be given that results, performance or achievement expressed in, or implied by, forward-looking statements within this disclosure will occur, or if they do, that any benefits may be derived from them. Electrovaya disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Overview of the business

Electrovaya is a leader in rechargeable lithium ion SuperPolymer[®] battery technology. It has developed and acquired patents and patent applications with respect to the technology, and has manufacturing and research and development facilities to produce and develop products for numerous industries. Electrovaya is a growing, innovative group of interrelated businesses whose products include:

- The PowerPad 80, 120, 160 and 300 series of batteries, a source of power and longer run times for notebook computers and other mobile applications;
- Mobile computers, including the Scribbler series of Tablet PCs with the longest run-times in the industry;
- Batteries for aerospace and defence, including NASA, and certain defence industries;

- Precision machine building for third parties, including companies in the robotics and other industries; and
- A prototype electric car designed for emission-free low cost urban transportation.

The PowerPad® battery product line has continued to address the growing demand for mobility by providing longer run-times for notebook computer users. Our newest product, the Powerpad 300, delivers up to 24 hours of run-time and has received positive reviews by Microsoft and others.

Our newest version of the Scribbler, the SC3000, was recently launched to service those customers that require even greater battery power . It features a battery run-time of up to 9 hours, with Electrovaya's award winning, patented SuperPolymer(R) Lithium-ion 75 Wh battery, and utilizes the latest Intel(R) Centrino mobile technology low voltage processor running at 1.5 GHz with 2MB L2.

In October 2003, the Company was awarded a US \$2.95 million contract by NASA (National Aeronautics and Space Administration - Johnson Space Center) to provide high-energy lithium ion SuperPolymer® power systems as a power source for Extra-Vehicular Mobility Units (EMUs). In October 2004, this relationship was expanded by \$0.25 million for additional batteries and chargers. In May 2005, the Company received a new contract from NASA-JSC to provide a re-chargeable flight battery and charger system to replace the non-rechargeable lithium thionyl chloride battery now used in the Internal Wireless Instrumentation System (IWIS) which monitors the structural and thermal dynamics within the International Space Station (ISS) habitable modules. As part of this project, Electrovaya will design, develop and produce an integrated flight charger and battery based on its rechargeable lithium ion technology, for an amount of \$0.29 million.

A key part of the company's strategy is research and development. This important performance driver will fuel new product development, improve existing products and enable the company to maintain its presence in existing markets and gain access to new markets. The Company is continuing to work on an emission-free prototype electric vehicle and is aggressively exploring markets for this car. In May 2005, the Company announced that it had signed a Memorandum of Understanding with Miljobil Grenland AS of Norway to market Electrovaya's Maya100 electric vehicle and promote the business of zero-emission electric vehicle technologies in Norway and neighboring countries. Miljobil also issued an initial purchase order to Electrovaya, to support activities needed to showcase Electrovaya's technology in Norway.

In June 2005, Electrovaya was awarded the 2005 Advanced Energy Storage Excellence in Technology of the Year Award in recognition of the Company's pioneering efforts in the development of the novel lithium ion SuperPolymer(R) technology.

In July 2005, the Company was awarded a \$1.7 million contribution from Sustainable Development Technology Canada (SDTC), subject to final contract negotiations. The funding will be used to develop and demonstrate ElectroVaya's patented Lithium Ion SuperPolymer(R) battery system in a zero-emission transportation project, principally for vehicle fleet applications.

The Company is not aware of any material seasonal aspects of its business.

Strategic Plan Objectives

The Company's business strategy involves the following key elements:

- establish additional channels to market by creating new global relationships with OEM computer makers, distributors and value-added resellers for our PowerPad and mobile computing products;
- increase production in line with sales at the current manufacturing facility and investigate further expansion opportunities and further automate production processes to lower product costs and increase quality;
- establish strategic relationships in order to broaden the market potential of ElectroVaya products;
- continue our investment in research and development initiatives to be a leader in the industry;
- develop new products which use ElectroVaya high energy density batteries to give a competitive advantage; and
- achieve profitability through increased sales and production efficiencies.

Overall Performance and Selected Annual Information

The market for rechargeable batteries is competitive and fragmented. ElectroVaya believes it is well positioned to compete in the market for compact rechargeable batteries, which is already very large and growing rapidly. By continuing to leverage the Company's technological advantage, move quickly to penetrate the market, target the underserved aftermarket, and emphasize its higher energy density to create brand differentiation, ElectroVaya expects to increase revenue.

Years ended September 30, 2004, 2003 and 2002

i) Financial Condition

(\$ thousands)	2004	2003	2002
Cash & Cash Equivalents	13,612	17,593	20,618
Total Assets	26,682	34,136	39,897
Total Long Term Liabilities ^(a)	-	-	-
Shareholders' Equity	25,168	32,370	38,635

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

The Company's financial condition has been effected by continued losses, resulting in a decrease in Cash & Cash Equivalents of \$3.0 million from 2002 to 2003 and a further \$4.0 million from 2003 to 2004. Cash & Cash Equivalents held in US dollars were approximately \$3.6 million as at September 30, 2004, \$4.0 million as at September 30, 2003 and \$5.0 million as at September 30, 2002. As at September 30, 2002, 2003 and 2004, one US dollar was worth \$1.5872 Canadian, \$1.3507 Canadian and \$1.2648 Canadian, respectively.

ii) Results of Operations and Cash Flow

(\$ thousands)	2004	2003	2002
Revenue	\$ 6,369	\$ 4,323	\$ 2,976
Revenue, Less Direct Manufacturing Costs	847	(1,008)	(1,665)
Loss Before Interest, Taxes and Amortization	5,415	6,891	8,062
Net Loss	8,463	9,876	9,991
Basic and Diluted Loss per Share	0.12	0.14	0.14
Cash flow from Operating Activities	\$ (4,959)	\$ (6,405)	\$ (9,116)

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 80% in 2004, 80% in 2003 and 95% in 2002. Revenue has increased during the three year period due to the addition of new products (e.g.: December 2002-Scribbler tablet PC, October 2002-Powerpad 80), increased service revenues in 2004 from NASA and a gradual increase in machine building revenues.

For the years ended September 30, 2004, 2003 and 2002, revenues from major business activities were as follows:

	2004	2003	2002
Aerospace	\$ 1,357	\$ 10	-
Consumer electronics	4,481	3,774	2,780
Other	531	539	196
	\$ 6,369	\$ 4,323	\$ 2,976

For the years ended September 30, 2004, 2003 and 2002, revenues attributed to regions based on location of customer were as follows:

	2004	2003	2002
Canada	\$ 962	\$ 1,026	380
United States & Others	5,407	3,297	2,596
	\$ 6,369	\$ 4,323	2,976

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.

Losses have declined as the Company added more profitable product lines (e.g.: Scribbler) and increased the amount of service revenue. Concurrently, control over manufacturing activities and increased utilization has resulted in improved margins.

Cash used in operating activities has decreased over the three year period due to a reduction in losses and improved working capital management.

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.

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 prior quarters. Sales returns are applied against revenue for the Scribbler and PowerPad products, and represented approximately 4.6% of revenue from consumer electronics for the four quarters ended June 30, 2005.

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. These amounts are reviewed quarterly and included in sales and marketing expenses. Warranty provision represented approximately 10.1% of consumer electronic sales for the four quarters ended June 30, 2005.

Revenue

Revenues are derived from the sale of PowerPad® and Scribbler tablet PC products, as well as from machines built for third parties, and from services provided for research and development activities.

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

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.

For the three month period ended June 30, 2005, total revenue decreased by 29.7% to \$1.1 million from \$1.6 million for the quarter ended June 30, 2004. The decrease in total revenue primarily resulted from a decrease in revenue from consumer electronics and R&D services income.

Quarterly revenue is as follows:

(\$ thousands)	Q1	Q2	Q3	Q4
2005	\$ 1,488	\$1,180	\$ 1,096	N/A
2004	1,581	\$ 1,593	\$ 1,559	\$ 1,636
2003	883	1,364	778	1,298
2002	515	1,160	640	661

For the nine month period ended June 30, 2005 and 2004, revenue was \$3,764 and \$4,733, respectively. The \$969 or 20.5% decrease was primarily due to a decrease in consumer electronics revenue.

Continued advances in technology and a highly competitive market are more significant factors than general inflationary conditions and specific price changes when considering major impacts on revenue.

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 and the Scribbler tablet PC, machine building for third parties and research service revenues. For the quarter ended June 30, 2005, direct manufacturing costs decreased by 40.1% or \$570 to \$0.9 million from \$1.4 million for the quarter ended June 30, 2004.

For the nine months ended June 30, 2005 and 2004, direct manufacturing costs was 3,394 and 4,311 respectively. The \$917, or 21.3% decrease arose mainly because of \$969, or 20.5% decrease in revenue in 2005 compared to 2004.

Revenue less Direct Manufacturing Costs was \$246 for the three months ended June 30, 2005, or 22.4% compared to \$139 or 8.9% for the three months ended June 30, 2004.

For the nine months ended June 30, 2005 and 2004 respectively, Revenue less Direct Manufacturing Costs was \$370 or 9.8% and \$422 or 8.9%, respectively. The increase

was due to better capacity utilization and higher margins from service income in 2005 compared to 2004.

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

Research and development expenses, net of investment tax credits, increased by \$67 or 9.2% to \$797 for the quarter ended June 30, 2005 from \$730 for the same three month period in 2004. During the three month period ended June 30, 2005, the Company received \$407 of cash contributions from the Technology Partnerships Canada (TPC), compared to \$146 received during the three months ended June 30, 2004.

For the nine months ended June 30, 2005 and 2004, research and development expenses were \$1,832 and \$1,884, respectively. The \$52, or 2.8% decrease arose mainly because of lower premises costs resulting from the move of the machine building team to Mississauga from the Hanna location in May 2005, as well as lower subcontract and consulting fees, offset by an increase in salaries and benefits.

Sales and Marketing. Sales and marketing expenses are comprised of the salaries and benefits of sales and marketing personnel, marketing activities, warranty provisions, advertising and other costs associated with the sales of the PowerPad® and Scribbler product lines.

For the quarters ended June 30, 2005 and 2004, sales and marketing expenses were \$276 and \$608, respectively. The \$332 decrease was primarily due to decreased warranty expense compared to the prior year quarter.

For the nine months ended June 30, 2005 and 2004, sales and marketing expenses were \$872 and \$1,419, respectively. The \$547 decrease was primarily due to a decrease in warranty expense.

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.

General and administrative expenses decreased by 37.6% or \$202, to \$335 for the quarter ended June 30, 2005 compared to \$537 for the same period in the prior year. The decrease primarily reflects a decrease in provisions for bad debts.

For the nine months ended June 30, 2005 and 2004, general and administrative expenses were \$1,583 and \$1,917, respectively. The \$334 decrease was primarily due to a decrease in provisions for bad debts, lower insurance and computer lease costs, partially offset by increased consulting fees.

Net Income

Quarterly net losses are as follows:

(\$ thousands)	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
2005	\$ 1,952	\$ 2,360	\$ 1,210	N/A
2004	2,402	\$ 1,861	2,085	\$ 2,114
2003	2,901	2,379	3,121	1,475
2002	1,367	2,251	3,924	2,407

Quarterly net losses per share are as follows:

(\$ thousands)	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
2005	\$ 0.03	\$ 0.03	\$ 0.02	N/A
2004	0.03	0.03	0.03	\$0.03
2003	0.04	0.03	0.04	0.02
2002	0.02	0.03	0.06	0.03

There were no material unusual or infrequent events or transactions during the year ended September 30, 2004 or during the nine months ended June 30, 2005.

Liquidity and Capital Resources

As of June 30, 2005, the Company had \$10.8 million in cash, cash equivalents, and short-term investments, a decrease of \$1.7 million and \$2.8 million compared to \$12.5 million as at March 31, 2005 and \$13.6 million as at September 30, 2004, respectively.

Cash used in operating activities was \$1.4 million for the three months ended June 30, 2005 compared to \$0.8 million for the quarter ended September 30, 2004. Net cash used in operating activities during the three months ended June 30, 2005 reflects the operating loss of \$1.2 million offset by amortization of \$0.6 million, an increase in non-cash operating working capital of \$0.9 million and \$0.05 million of non-cash stock compensation expenses.

The Company continues to strive to introduce new profitable lines of business, control expenses and reduce its cash burn.

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

2005	21
2006	7
2007	<u>2</u>
Total	<u>30</u>

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

The Company is currently reviewing its requirements for additional capital resources and no commitments exist at the present time.

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, 2002 & 2003	69,539,109	63,729
Stock options exercised	36,333	16
Balance, September 30, 2004, June 30, 2005 and July 18, 2005	69,575,442	\$ 63,745

The following table reflects the number of options outstanding as at September 30, 2004, December 31, 2004, March 31, 2005, June 30, 2005 and July 18, 2005:

Outstanding, September 30, 2003	1,594,933
Granted	475,000
Cancelled or expired	(32,666)
Exercised	(36,333)
Outstanding, September 30, 2004	2,000,934
Granted	493,000
Cancelled or expired	(5,000)
Outstanding, December 31, 2004	2,488,934
Cancelled or expired	(20,000)
Outstanding, March 31, 2005	2,468,934
Cancelled or expired	(25,000)
Outstanding, June 30, 2005 & July 18, 2005	2,443,934

Transactions with Related Parties

The Company previously leased an additional 11,800 square feet at an annual rental amount of \$80 at its Hanna Avenue premises in Toronto, Ontario, from a company owned by its controlling shareholders. In April 2004, the premises were sold to an arms-length third party. On May 1, 2005, the Company vacated the premises and moved into the Company's existing facilities in Mississauga. All the Company's divisions are now located at 2645 Royal Windsor Drive, Mississauga, Ontario.

Electrovaya has invested \$115 in a private unrelated company engaged in the business of producing and evaluating new battery materials. In return for its investment, the Company received 6% of the Class A and 21% of the Class B shares of this private company. Additionally, Electrovaya has provided research and development services totaling \$153 to this private company, and received an additional 30% of the outstanding non-voting, participating Class B shares as consideration for the services rendered. The Class B shares are convertible into Class A voting, participating shares

in the event the private company becomes registered on a stock exchange. During the first quarter of 2004, Electrovaya provided a \$38 loan and space to the company to assist with the operation of a pilot plant, resulting in the potential for Electrovaya to exert significant influence over the activities of the private company. The private company is owned by arm's length private investors and has not yet reached commercial levels of production. The private company is currently seeking additional funding and, in the event these efforts are unsuccessful, may not be a going concern. As a result, the original investment, additional shares and loan were valued at NIL as at June 30, 2005.

Financial Condition

Current Assets. Cash and cash equivalents consist of 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, cash equivalents and short-term investments decreased by \$2.8 million from September 30, 2004 to June 30, 2005.

Capital assets. Approximately \$0.03 million of patent and technology capital assets were acquired during the quarter.

Current Liabilities. Accounts payable and accrued liabilities were \$1.7 million on June 30, 2005 and \$1.5 million on September 30, 2004.

TPC Contribution Agreement. During the quarter ended June 30, 2005 the Company received contributions totaling \$407 from TPC.

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 \$6.7 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 \$31.1 million is to be repaid by royalties charged on new revenue created from products developed, commencing in 2007 through to 2013, with payment to be deferred or reduced if certain revenue thresholds are not achieved. During the quarter ended September 30, 2003, the Company received \$1.1 million related to eligible research and development expenses for the period from January 1, 2002 to March 31, 2003. Additional claims for \$0.7 million were received in fiscal 2004. During the nine months ended June 30, 2005, the Company received a total of \$0.7 million from TPC.

Share capital. The authorized and issued capital stock of the Company remained unchanged from September 30, 2004. Of an authorized unlimited number of Common shares, 69,575,442 or \$63.7 million are issued and outstanding.

Present Status

During the quarter ended June 30, 2005, the loss before amortization, interest income and foreign exchange decreased by \$835 or 52.5% compared to the quarter ended June 30, 2004. Electrovia continues to work to identify markets where its technology is best utilized and where it believes profitability and positive cash flow are attainable. The launch of our new PowerPad 300, along with an emphasis on R&D services income from specialty battery applications, is an important part of this strategy. The Company also continuously reviews its expenses, streamlining operations at every opportunity. For example, all divisions of the Company have now been consolidated at its Mississauga location.

Recent Accounting Pronouncements

In accordance with one of the transitional options permitted under the amended Handbook section 3870 "Stock-based Compensation and Other Stock-based Payments," the Company applies the fair value method of accounting for employee stock options to all employee stock options granted on or after October 1, 2003. Under the fair value based method, compensation cost is measured at fair value at the date of grant and expensed over the award's vesting period. During the quarter, due to the effect of prospectively adopting the fair value method, there was an increase in stock based compensation of \$54, with a negligible impact on loss per share.

Qualitative and Quantitative Disclosures about Risks and Uncertainties

Interest Rate Risk

As of June 30, 2005, the Company had cash and cash equivalents totaling \$10.8 million.

Foreign Currency Exchange Rate Risk

In the quarter ended June 30, 2005, approximately 77% 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 June 30, 2005, \$3.4 million of cash, cash equivalents 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. It has also insured a majority of its accounts receivable.

Other Risks and Uncertainties

Electrovaya is an early-stage commercial company 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.

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® in 1999, 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.

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 has addressed these risks by designing and building its high-volume facility with worker safety in mind. In addition, it has adopted a formal environmental policy that requires compliance with environmental legislation and an ongoing program of monitoring its environmental compliance.

Electrovaya 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, if required.

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. In addition, it is reviewing options to work with multiple partners on OEM programs for internally designed applications, sales and distribution arrangements, outsourcing parts of its manufacturing process, and for development of specialized applications in industry segments other than portable computers.

Electrovaya may not be able to compete effectively with other manufacturers of compact 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 computers and other wireless devices may reduce the need for its batteries.

The market for rechargeable batteries is competitive and fragmented. 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 five to seven principal competitors, primarily well capitalized companies based in Japan and Korea, which have in aggregate a dominant market position in the lithium ion and lithium ion polymer battery sector. By continuing to leverage the Company's technological advantage, move quickly to penetrate the market, target the underserved aftermarket, and emphasize its higher energy density to create brand differentiation, Electrovaya expects to increase revenue in the near term. Additionally, 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.

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 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 issues 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 these 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. The Company believes that there are currently no regulations in North America that would prevent it from the manufacture or sale of its batteries, and Electrovaya is fully committed to ensuring its products are environmentally friendly. 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 is developing and manufacturing 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.

To mitigate the risks associated with the use of batteries for life support systems, Electrovaya has increased quality control activities and closely followed the specifications provided by NASA. The Company believes it is using amongst the safest materials available for these applications, and all flight-grade batteries are thoroughly tested.

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® 80, 120 and 160 products and our Scribbler Tablet 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 an aggressive marketing program in place, including trade show participation and advertising campaigns. The Company has a dedicated sales team to aggressively market and sell its products in the United States and Canada. 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.

If the Company fails to manage growth successfully, it could experience delays, cost overruns or other problems. Similarly, if it is unable to hire or retain qualified, key personnel, its business may be jeopardized.

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.

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.

Outlook

Quarterly financial performance continues to fluctuate as R&D service milestones, especially NASA, are achieved. Although work continued throughout the quarter ended June 30, 2005, no significant milestones were completed. Work to complete these activities, as well as additional milestones, continues into the next quarter, with this project expected to be substantially completed during the quarter ended September 30, 2005

During the quarter ended June 30, 2005, we 1) launched two new products, the Scribbler 3000 and PowerPad 300; 2) obtained our first notable contract for our electric vehicle technology with our new Norwegian partners; and 3) received financial and other recognition of our efforts from the SDTC and Frost and Sullivan. We intend to build on these accomplishments into the coming quarters by pushing hard into new and existing verticals such as aerospace, defence, and health-care, as well as the market for emission free electric transportation.