

MANAGEMENT'S DISCUSSION & ANALYSIS

The following discussion and analysis of Electrovaya Inc.'s ("Electrovaya"; the "Company") financial condition and results of operations for the fiscal years ended September 30, 2003 and 2002 includes comments that management believes are relevant to an assessment of and understanding of the Company's consolidated results of operations and financial condition. These financial statements are presented in thousands of US dollars in accordance with Canadian generally accepted accounting principles and should be read in conjunction with the Company's financial statements and related notes.

Certain statements 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 factors include, without limitation, the various factors set forth in the Risks and Uncertainties section of Management's Discussion and Analysis provided below, and are also discussed in public disclosure documents filed with Canadian regulatory authorities.

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.

BUSINESS OF THE COMPANY

Electrovaya's goal is to become the leading provider of tablet PC's, portable power for the notebook computer and wireless sectors, and to apply its technology to a broad spectrum of alternative energy applications including UPS, stand-by power and zero-emission vehicles. Its technology is aimed at high value products globally using award winning patented proprietary lithium ion SuperPolymer[®] rechargeable battery technology. The Company is based in Mississauga, Ontario where it has a state-of-the-art 156,000 square foot manufacturing facility and office complex.

Since the Company was founded in September 1996, Electrovaya has developed and acquired patents and patent applications with respect to the rechargeable lithium ion SuperPolymer[®] battery technology, and built and purchased assets relating to the lithium ion polymer battery technology. After being launched in 1999, the PowerPad[®] battery product line has continued to address the growing demand for mobility by providing longer run-times for notebook computer users. To address the next wave of mobility requirements, the Scribbler[™] tablet PC product-line was launched in December, 2002, creating a significant opportunity to utilize the long run-times of the Electrovaya battery technology in this growing market. We have also entered into a Memorandum of Understanding with Exide Technologies Inc., a leading battery manufacturer in the world operating in 87 countries, to develop SuperPolymer[®] batteries for the telecom industry.

In October, 2003 we were awarded a US \$2.95 million contract by NASA (National Aeronautics and Space Administration - Johnson Space Center) to provide our high-energy lithium ion SuperPolymer[®] power systems as a power source for Extra-Vehicular Mobility Units (EMUs). We are especially proud of this achievement, as we believe it provides a compelling testimonial to the advantages of our technology.

Up to 2000, Electrovaya was funded through a combination of Canadian private placements totaling \$34.7 million. In November 2000, Electrovaya completed a public offering of 6,250,000 common shares providing net proceeds of \$28.4 million. Some of the proceeds were applied to an expansion of the Mississauga facility, with the balance of the funds used to further enhance the technology, develop and market new products and for general working capital purposes.

MANAGEMENT'S DISCUSSION & ANALYSIS

RESULTS OF OPERATIONS

(Years ended September 30, 2003 and September 30, 2002)

Revenue

Revenues are derived from the sale of PowerPad® and Scribbler tablet PC products as well as revenue from machines built for third parties and service revenue related to research and development activities. Revenue increased by 45.3% to \$4.3 million for the year ended September 30, 2003 from \$3.0 million for the year ended September 30, 2002. The year over year increase in revenue primarily resulted from the introduction of Scribbler Tablet PC products in December, 2002, as well as growth in revenue from the sale of machines to third parties and research and development service revenues.

Electrovaya recognizes revenue from i) its' PowerPad® and Scribbler products at the time the units are shipped to customers, net of a provision for returned units ii) machines on a completed contract basis and iii) services as each milestone is achieved and accepted by the customer.

Quarterly revenue for the last three years is as follows:

(\$ thousands)	Q1	Q2	Q3	Q4
2003	\$883	1,364	778	1,298
2002	515	1,160	640	661
2001	124	147	364	382

Expenses

Cost of Goods Sold. Cost of goods sold is comprised of the material, labor and manufacturing overhead associated with the production of SuperPolymer® batteries, the Scribbler tablet PC and machine building for third parties, as well as direct labour costs related to research service revenues. For the year ending September 30, 2003 cost of goods sold increased by 14.9% to \$5.3 million from \$4.6 million for the year ending September 30, 2002. The Company had a negative gross profit of \$1.0 million in fiscal 2003 versus \$1.7 million in fiscal 2002 for a 39.5% improvement due to changes in the product mix towards products with higher profit margins and increased labor efficiencies.

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 over \$0.8 million or 44.0% to \$2.7 million for the year ended September 30, 2003 from \$1.8 million in 2002. The change from fiscal 2002 to fiscal 2003 was due to an increase in salaries and benefits, third party consulting fees, and subcontract charges. In fiscal 2003, the company received grants under Technology Partnerships Canada of \$1.1 million for research work related to high rate batteries and the electric car since January 1, 2002. There were no similar grants in fiscal 2002.

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® product line and the launch of the Scribbler. These expenses increased to \$2.4 million for fiscal 2003 from \$2.2 million for fiscal 2002. In 2003, the Company enhanced its provision for warranty expenses by \$0.3 million, increased advertising expense by \$0.3 million, decreased salary and benefits expenses by \$0.2 million and decreased travel and other expenses by \$0.2 million.

MANAGEMENT'S DISCUSSION & ANALYSIS

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 \$0.4 million to \$1.9 million for the year ended September 30, 2003 from \$2.3 million for the previous year. The decrease primarily reflected a \$0.4 million decline in salaries and benefits.

Interest Income

Interest income decreased by 25.5% to \$0.4 million for the year ended September 30, 2003 from \$0.6 million for the year ended September 30, 2002. The Company derived interest in both periods from cash and short-term investments. The decrease in interest income resulted from the significantly lower interest rates earned on its Canadian and U.S. dollar-denominated investments as well as the lower level of investments held during 2003.

Foreign Exchange Gain

The foreign exchange loss was \$0.7 million in fiscal 2003 compared to an \$0.01 million gain in fiscal 2002. The exchange rate on September 30, 2003 improved by approximately 14.9% to \$1.3507 from \$1.5872 on September 30, 2002.

Net Loss

Quarterly net loss for the last three years is as follows:

(\$ Thousands)	Q1	Q2	Q3	Q4
2003	\$2,901	2,379	3,122	1,475
2002	1,367	2,251	3,925	2,448
2001	975	1,639	2,169	2,386

LIQUIDITY AND CAPITAL RESOURCES

Since inception, Electrovaya has financed its operations primarily through private and public placements of its securities. Since inception, the Company has raised aggregate net proceeds of \$63.1 million. As of September 30, 2003, it had \$17.6 million in cash, cash equivalents and short-term investments.

Cash used in operating activities was \$6.4 million for the year ended September 30, 2003 and \$9.1 million for the year ended September 30, 2002. Net cash used in operating activities for fiscal 2003 reflects the operating loss of \$9.9 million offset by amortization of \$2.7 million and a decrease in non-cash operating working capital of \$0.7 million. The decrease in non-cash working capital of \$0.7 million was principally attributable to decreases in inventory of \$0.5 million and an increase in accounts payable of \$0.5 million, less an increase in accounts receivable of \$0.3 million.

Cash provided by investing activities of \$6.4 million for the year ended September 30, 2003 was comprised of a reduction in short-term investments of \$6.6 million offset by capital expenditures of \$0.2 million. Cash provided by investing activities in fiscal 2002 was \$9.3 million reflecting \$1.3 million of spending on building improvements and machinery and equipment for the Mississauga plant and \$10.6 million of net reductions in short-term investments.

MANAGEMENT'S DISCUSSION & ANALYSIS

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 and short-term investments decreased by \$3.0 million from September 30, 2002 to September 30, 2003 due to continued losses from operations. Inventories decreased by net \$0.4 million due to a reduction in PowerPad® and raw material inventories.

Capital assets. Approximately \$0.2 million of patent and technology capital assets were acquired during the year.

Current Liabilities. Accounts payable and accrued liabilities increased by \$0.4 million from September 30, 2002 to September 30, 2003 due to increases in the provision for returns and warranty expenses.

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 the eligible costs related to the Company's research and development efforts in high rate batteries and electric vehicles, 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 ending September, 2003 the Company received \$1.1 million from TPC related to eligible research and development expenses for the period from January 1, 2002 to March 31, 2003. An additional claim for \$0.2 million was made in August 2003 and subsequently received in October, 2003.

PRESENT STATUS

Electrovaya has recorded a net loss in every year since its inception. In the current and future quarters, the Company expects research and development expenses to increase as it continues to develop its Scribbler tablet PC and mobile computer battery product lines and explore other potential applications for its technology. Electrovaya also expects its sales and marketing expenses to increase as it rolls out a marketing programme with an extensive advertising component for the tablet PC. It also expects to grow its research and development expenses as revenues from research and development activities, such as the development of batteries for NASA, increase.

Future liquidity and financing requirements will depend principally on the rate of growth and the means by which the Company achieves its business plan. Although the Company believes that the cash on hand will be sufficient to meet its requirements, financing needs in future periods will depend principally on its ability to generate sales from its products and services and the extent and timing of future acquisitions and joint ventures.

MANAGEMENT'S DISCUSSION & ANALYSIS

RECENT ACCOUNTING PRONOUNCEMENTS

Effective October 1, 2002, the Company adopted CICA Handbook Section 3870, which requires that a fair value based method of accounting be applied to all stock-based payments to non-employees and to direct awards of stock to employees. However, the standard permits the Company to continue its existing policy of recording no compensation cost on the grant of stock options to employees with the addition of proforma information. The Company granted 25,000 stock options in December, 2002 to its Directors, but there is no material proforma effect on net earnings and earnings per share.

Effective January 1, 2003, the Company adopted CICA Accounting Guideline AcG-14, which requires certain disclosures of obligations under guarantees. As at September 30, 2003 the Company has not issued any guarantees.

QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT RISKS AND UNCERTAINTIES

Interest Rate Risk

As of September 30, 2003, the Company had cash and short-term investments totaling \$17.6 million. As a result of their short-term maturities, the Company does not believe these investments are subject to significant interest rate risk.

Foreign Currency Exchange Rate Risk

In the year ended September 30, 2003, approximately 80% 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, 2003, \$4.0 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 insured all of its accounts receivable to the extent of \$1.7 million of coverage.

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

MANAGEMENT'S DISCUSSION & ANALYSIS

successfully produced finished products in its pilot and commercial plants, resulting in increasing levels of sales.

- 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 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 an 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 and mobile phones.

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, mobile telephones 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 seven or more principal competitors, primarily well capitalized companies based in Japan, China and Korea, which have in aggregate a

MANAGEMENT'S DISCUSSION & ANALYSIS

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, Electroveya 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 Electroveya's products in the electronics markets that it targets.

While SuperPolymer[®] energy density is currently superior to that of the Company's competitors in commercial production, Electroveya 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.

Electroveya 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 Electroveya 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 Electroveya's products could adversely affect the Company's ability to manufacture or sell its products or result in increased costs or liability. Finally, Electroveya 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, Electroveya undertakes extensive internal and external product and safety testing.

Electroveya 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. However if these parties do not purchase these products or purchase them in lower quantities or over longer time periods than expected, Electroveya'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, mobile telephones and other portable electronic devices declines significantly, and consumer and corporate spending for such products declines, Electroveya'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.

MANAGEMENT'S DISCUSSION & ANALYSIS

The PowerPad® 80, 120 and 160 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 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, to help ensure that the Company continues to effectively manage its anticipated growth as it ultimately moves to a multi-plant operation. Additionally, its senior management team has significant breadth and depth of expertise in managing startup situations, which will assist the Company in continuing its transition from a small private company to a large public company.

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 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

We continue to leverage the growing demand for portable power, mobility and alternative energy using our award winning lithium ion SuperPolymer® rechargeable battery technology. Our product offerings continue to grow, as we target the government, education and healthcare industries where there is a clear and immediate need for technology that offers mobility, long battery life and ease of use. We are also pursuing new potential strategic partnerships globally that offer exciting opportunities for growth.

As we grow, we continue to review all aspects of the business for opportunities to improve profitability and cash-flow. We have capacity to grow sales without adding further overhead, and we look forward to increasing revenues and profitability to drive cash-flow breakeven.