



45 St. Clair Ave. West, Suite 200  
Toronto, Ontario M4V 1K6  
Tel: (416) 967-3444  
Fax: (416) 967-3945  
Email: [sggg@sggg.com](mailto:sggg@sggg.com)  
Website: [www.sggg.com](http://www.sggg.com)

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of  
**Electrovaya Inc.**

We have audited the accompanying consolidated financial statements of Electrovaya Inc., which comprise the consolidated statement of financial position as at September 30, 2012 and 2011, and October 1, 2010, the consolidated statements of operations, comprehensive loss, changes in equity and cash flows for the years ended September 30, 2012 and September 30, 2011, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated statement of financial position of Electrovaya Inc. as at September 30, 2012 and 2011, and October 1, 2010, and its consolidated financial performance and its consolidated cash flows for the years ended September 30, 2012 and September 30, 2011, in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

*SGGG LLP*

Toronto, Ontario  
December 11, 2012

Chartered Accountants  
Licensed Public Accountants

# ELECTROVAYA INC.

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

As at	September 30, 2012	September 30, 2011	October 1, 2010
<b>Assets</b>			
Current assets			
Cash and cash equivalents (note 15)	\$ 5,047	\$ 5,265	\$ 3,001
Trade and other receivables (note 16)	3,312	2,965	1,405
Investment tax credits recoverable	305	289	405
Inventories (note 5)	1,198	1,750	558
Prepaid expenses and other	470	499	427
	<u>10,332</u>	<u>10,768</u>	<u>5,796</u>
Property, Plant and Equipment (note 6)	10,841	9,229	9,241
Investment in shares (notes 10 & 11)	-	440	444
	<u>\$ 21,173</u>	<u>\$ 20,437</u>	<u>\$ 15,481</u>
<b>Liabilities and Equity</b>			
Current liabilities			
Trade and other payables	\$ 2,191	\$ 1,083	\$ 998
Deferred revenue	2,032	940	57
Deferred government grant (note 13(b))	1,210	1,960	1,604
Restructuring Provision (note 11(ii))	900	-	-
Innovation Norway (note 14)	117	-	-
	<u>6,450</u>	<u>3,983</u>	<u>2,659</u>
Long-term liability			
Promissory Note (note 12)	4,826	4,377	-
Innovation Norway (note 14)	467	-	-
	<u>5,293</u>	<u>4,377</u>	<u>-</u>
Equity			
Share capital (note 7(a))	64,829	64,829	64,769
Contributed surplus	2,587	2,228	1,719
Fair value of share purchase warrants (note 7(c))	623	623	-
Accumulated other comprehensive income	918	58	-
Minority interest	6	-	-
Deficit	(59,533)	(55,661)	(53,666)
	<u>9,430</u>	<u>12,077</u>	<u>12,822</u>
	<u>\$ 21,173</u>	<u>\$ 20,437</u>	<u>\$ 15,481</u>

See accompanying notes to consolidated financial statements.

# ELECTROVAYA INC.

## Consolidated Statement of Operations

(Expressed in Thousands of U.S. dollars, except per share amounts)

Years ended September 30, 2012 and 2011

	2012	2011
Revenue (note 4)	\$ 9,854	\$ 10,264
Direct manufacturing costs (note 5(b))	5,483	7,620
	4,371	2,644
Expenses		
Research and development (note 2(p))	3,918	1,791
Government assistance (note 13)	(1,322)	(1,328)
Sales and marketing	555	314
Warranty (note 2(k))	(3)	34
General and administrative (note 8)	1,786	1,869
Stock based compensation expense (note 7(b))	359	539
Finance cost (note 12)	550	389
Restructuring costs (note 11(ii))	900	-
Patents and trademark expenses	113	133
	6,856	3,741
Loss before the undernoted	2,485	1,097
Amortization (see note 2 (h))	429	266
Repurchase of Miljobil license (note 10)	-	621
	429	887
Loss from operations	2,914	1,984
Foreign exchange loss and interest	415	11
Writedown of goodwill (note 11)	87	-
Loss on revalue of investment (note 10)	456	-
	958	11
Net loss for the year	3,872	1,995
Basic and diluted loss per share	\$ 0.05	\$ 0.03
Weighted average number of shares outstanding, basic and fully diluted	70,954,612	70,936,211

See accompanying notes to consolidated financial statements.

# ELECTROVAYA INC.

Consolidated Statements of Comprehensive Income (Loss)

(Expressed in thousands of U.S. dollars)

Years ended September 30, 2012 and 2011

---

	2012	2011
<b>Net loss for the year</b>	\$ 3,872	\$ 1,995
<b>Other (income)</b>		
Currency translation differences	(860)	(58)
<b>Other comprehensive loss(income) for the year</b>	(860)	(58)
<b>Total comprehensive loss for the year</b>	3,012	1,937

---

See accompanying notes to consolidated financial statements.

# ELECTROVAYA INC.

Consolidated Statement of Changes in Equity  
 (Expressed in Thousands of U.S. dollars)  
 Years ended September 30, 2012 and 2011

	Share Capital	Contributed Surplus	Accumulated Deficit	Fair value of share purchase warrants	Accumulated Other Comprehensive Income	Minority Interest	Total
Balance – October 1, 2010	<b>\$64,769</b>	<b>\$ 1,719</b>	<b>\$ (53,666)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$12,822</b>
Stock-based compensation		539					539
Fair value of stock options exercised	34						34
Transfer of fair value of stock options exercised	26	(26)					-
Share Purchase Warrants				623			623
Net earnings for the year			(1,995)				(1,995)
Currency translation differences		(4)			58		54
Balance – September 30, 2011	<b>\$64,829</b>	<b>\$ 2,228</b>	<b>\$ (55,661)</b>	<b>623</b>	<b>\$ 58</b>	<b>\$ -</b>	<b>\$12,077</b>
Stock-based compensation		359					359
Share Purchase Warrants							-
Net loss for the year			(3,872)				(3,872)
Minority interest						6	6
Currency translation differences					860		860
Balance – September 30, 2012	<b>\$64,829</b>	<b>\$ 2,587</b>	<b>\$ (59,533)</b>	<b>\$ 623</b>	<b>\$ 918</b>	<b>\$ 6</b>	<b>\$9,430</b>

See accompanying notes to consolidated financial statements.

# ELECTROVAYA INC.

Consolidated Statement of Cash Flows  
(Expressed in Thousands of U.S. dollars, except per share amounts)  
Years ended September 30, 2012 and 2011

	2012	2011
Cash provided by (used in)		
Operating activities		
Loss for the year	\$ (3,872)	\$ (1,995)
Items not involving cash:		
Amortization	429	266
Stock based compensation expense (note 2(l))	359	539
Restructuring costs	900	-
Revaluation of investments	456	-
Writedown of goodwill	87	-
Financing costs	200	153
Net changes in working capital (note 9)	727	(1,384)
	(714)	(2,421)
Investing activities		
Purchase of property, plant and equipment	(389)	(316)
Increase in cash and cash equivalents on Miljobil acquisition	305	-
	(84)	(316)
Financing activities		
Proceeds from issuance of common shares	-	34
Proceeds from issuance of a promissory note	-	5,064
	-	5,098
Increase (Decrease) in cash and cash equivalents	(798)	2,361
Exchange difference	580	(97)
Cash and cash equivalents, beginning of year	5,265	3,001
Cash and cash equivalents, end of year	5,047	5,265

See accompanying notes to consolidated financial statements.

# ELECTROVAYA INC.

Notes to the Consolidated Financial Statements  
(Expressed in Thousands of U.S. dollars)  
Years ended September 30, 2012 and 2011

---

## 1. Nature of Operations

Electrovaya Inc. (“Electrovaya” or the “Company”) and its subsidiaries (the “Group”), design, develop and manufacture proprietary Lithium Ion SuperPolymer® batteries, battery systems, and battery-related products for the clean electric transportation, Utility Scale Energy Storage and smart grid power, consumer and healthcare markets. The Company's mission is to accelerate clean transportation as a commercial reality with its advanced power system for all classes of zero-emission electric vehicles and plug-in hybrid electric vehicles. The Company's other mission is to deliver Utility Scale Energy Storage Systems for the highest efficiency in electricity storage, whether the electricity is generated from intermittent wind and solar power or from other sources. Electrovaya Inc. was incorporated in 1996 under the Business Corporations Act (Ontario).

## 2. General Information and statement of compliance with IFRS

The products which the Company is currently developing and maintaining are in the early stages; as such the Company is dependent on external financing, including government financing, to fund its activities. In order to carry out the planned development, improve production capacity and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new products and seek to acquire an interest in additional products if it feels there is sufficient economic potential and if it has adequate financial resources to do so.

Our consolidated financial statements for the years ended September, 30, 2012 and 2011 were our first annual financial statements prepared in accordance with IFRS and its interpretations adopted by the IASB, including IFRS-1, *First-time Adoption of International Financial Reporting Standards* and were approved and authorized for issuance by the Board of Directors on December 11, 2012.

Our date of transition to IFRS (Transition Date) was October 1, 2010. Previously, we prepared our consolidated financial statements in accordance with Canadian generally accepted accounting principles (“GAAP”). The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements. They were also applied in preparing our opening IFRS Statement of Financial Position at October 1, 2010 (note 3) for the purposes of the transition to IFRS, as required by IFRS 1, *First Time Adoption of International Financial Reporting Standards* (IFRS 1). These consolidated financial statements should be read in conjunction with our September 30, 2011 annual consolidated financial statements of the Group prepared in accordance with GAAP and the IFRS transition disclosure in note 3.

In note 3, we have presented reconciliations and descriptions of the effect of transitioning from GAAP to IFRS on our equity, net earnings and comprehensive income.

---

# ELECTROVAYA INC.

Notes to the Consolidated Financial Statements  
(Expressed in Thousands of U.S. dollars)  
Years ended September 30, 2012 and 2011

---

## Significant Accounting Policies

### *(a) Basis of consolidation*

The Group financial statements consolidate those of the parent company and all of its subsidiaries up to September 30, 2012. Electrovaya exercises control through 100% of the voting rights of its subsidiaries, 1408871 Ontario Inc., Electrovaya Corp., Electrovaya Company, Electrovaya USA Inc., Electrovaya Global SRL (dormant), Electrovaya ApS (inactive) and through 99.6% of the voting rights of Miljobil Grenland A.S. ("MGB"). All subsidiaries have the same reporting dates as their parent company except for MBG which has a March 31, 2012 year-end. All inter-company balances and transactions have been eliminated upon consolidation. Amounts reported in the financial statements of subsidiaries have been adjusted when necessary to ensure consistency with the accounting policies adopted by the Group.

### *(b) Functional and presentation currency:*

These consolidated financial statements are presented in U.S. dollars. The Company's functional currency is Canadian dollars. The functional currency of the subsidiaries is Canadian dollars, US dollars and Norwegian Krone. All financial information presented in U.S. dollars (except per share amounts) have been rounded to the nearest thousand.

### *(c) Significant management judgement in applying accounting policies and estimation uncertainty*

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

## Significant management judgement

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

- Recognition of contract revenues.
- Determining when to recognize revenues from after-sales services requires an understanding of the customer's use of the related products, historical experience and knowledge of the market.
- Recognizing contract revenue also requires significant judgment in determining milestones, actual work performed and the estimated costs to complete the work.
- Distinguishing the research and development phases of a new project and determining whether the recognition requirements for the capitalization of development costs are met requires judgement.

After capitalization, management monitors whether the recognition requirements continue to be met and whether there are any indicators that capitalized costs may be impaired (see notes 2(i & j)).

---



# ELECTROVAYA INC.

Notes to the Consolidated Financial Statements  
(Expressed in Thousands of U.S. dollars)  
Years ended September 30, 2012 and 2011

---

## Estimation uncertainty

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

## Impairment

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

## Useful lives of depreciable assets

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

## Inventories

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

## Fair value of financial instruments

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

## *(d) Capital disclosures:*

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the development, manufacture and marketing of its products. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Group's capital management objectives are:

- to ensure the Group's ability to continue as a going concern
- to provide an adequate return to shareholders

by pricing products and services commensurately with the level of risk.

The Group monitors capital on the basis of the carrying amount of equity plus its long-term debt comprised of the Promissory note, less cash and cash equivalents as presented on the face of the statement of financial position.

---

# ELECTROVAYA INC.

Notes to the Consolidated Financial Statements  
(Expressed in Thousands of U.S. dollars)  
Years ended September 30, 2012 and 2011

---

The Group sets the amount of capital in proportion to its overall financing structure, comprised of equity and long term debt. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group issues new shares or increases its long-term debt. Capital for the reporting periods under review is summarized as follows:

	<b>September 30, 2012</b>	<b>September 30, 2011</b>
Total Equity	9,430	12,077
Cash and cash equivalents	<u>(5,047)</u>	<u>(5,265)</u>
Capital	<u>4,383</u>	<u>6,812</u>
Total Equity	9,430	12,077
Promissory Note	4,826	4,377
Innovation Norway	<u>467</u>	<u>-</u>
Overall Financing	<u>14,723</u>	<u>16,454</u>
Capital to Overall financing Ratio	<u>0.30</u>	<u>0.41</u>

The Group's goal in capital management is to maintain a capital-to-overall financing ratio in a range between 0.30 and 0.80.

## *(e) Foreign Currency translation*

Foreign currency transactions are translated into the functional currency of the respective Group entity. Monetary assets and liabilities of the Company which are denominated in foreign currencies are translated into Canadian dollars (which is considered to be the measurement currency) at the exchange rates prevailing at the balance sheet date, and transactions denominated in foreign currencies which are included in operations are translated at the average rates for the year with the resulting foreign exchange gains and losses recognized in profit and loss. Non-monetary items measured at historical cost are translated at the exchange rate in effect at the transaction date. Non-monetary items measured at fair value are translated using the exchange rates at the date when fair value was determined.

In the Group's consolidated financial statements, all assets, liabilities and transactions of group entities with a functional currency other than the US dollar (the Group's presentation currency) are translated into US dollars upon consolidation.

On consolidation, assets and liabilities have been translated into US dollars at the closing rate at the reporting date. Income and expenses have been translated into the Group's presentation currency at the average rate over the reporting period. Exchange differences are recognized in comprehensive income and Accumulated other comprehensive income. On disposal of a foreign operation, the cumulative translation differences recognized in equity are reclassified to profit or loss and recognized as part of the gain or loss on disposal.

---

# ELECTROVAYA INC.

Notes to the Consolidated Financial Statements  
(Expressed in Thousands of U.S. dollars)  
Years ended September 30, 2012 and 2011

---

## *(f) Cash and Cash equivalents*

Cash and cash equivalents include cash on account and short-term investments with original maturities of three months or less.

## *(g) Inventories*

Inventories are stated at the lower of cost and net realizable value. Cost includes all expenses directly attributable to the manufacturing process as well as suitable portions of related production overheads, based on normal operating capacity. Net realizable value is the estimated selling price in the ordinary course of business less any applicable selling expenses. The Company attempts to utilize excess inventory in other products the Company manufactures or return the inventory to the supplier or customer. To the extent economic circumstances have changed, previous write-downs are reversed and recognized in the consolidated statement of operations in the period the change occurs.

## *(h) Property, plant and equipment:*

Property, plant and equipment is carried at cost less related investment tax credits, accumulated depreciation and impairment losses. Cost consists of expenditures directly attributable to the acquisition of the asset, including interest for constructing qualified long-term assets, as applicable. We capitalize the cost of an asset when the economic benefits associated with that asset are probable and when the cost can be measured reliably. The costs of major renovations are capitalized and the carrying amount of replaced assets is written off. When components of an asset have a significantly different useful life than its primary asset, the components are amortized separately. All other maintenance and repair costs are expensed in the consolidated statement of operations as incurred.

An assessment of the useful life of each piece of equipment was completed as at October 1, 2010 and amortization is provided on a straight-line basis over the estimated useful lives of the assets. The following useful lives are applied:

---

	Years
Building	20
Leasehold improvements	10
Production equipment # 1	2
Production equipment # 2	3
Production equipment # 3	4
Production equipment # 4	5
Office Furniture and Equipment # 1	5
Office Furniture and Equipment # 2	2
Vehicles	2

---

Material residual value estimates and estimates of useful life are updated as required, but at least annually. Gains or losses arising on the disposal of property, plant and equipment are determined as the difference between the disposal proceeds and the carrying amounts of the assets and are recognized in

---

# ELECTROVAYA INC.

Notes to the Consolidated Financial Statements  
(Expressed in Thousands of U.S. dollars)  
Years ended September 30, 2012 and 2011

---

profit or loss within “other income” or “other expenses.”

## *(i) Intangible assets*

The Group's intangible assets consist of patents, trademarks and software licenses. The Company records intangible assets at fair value at the date of acquisition. An intangible asset is capitalized when the economic benefit associated with an asset is probable and when the cost can be measured reliably. Intangible assets are carried at cost less accumulated depreciation and impairment losses. Cost consists of expenditures directly attributable to the acquisition of the assets.

## *(j) Impairment of property, plant and equipment*

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

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

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

## *(k) Provisions*

### *Legal:*

Provisions are recognized for present legal or constructive obligations arising from past events when the amount can be reliably estimated and it is probable that an outflow of resources will be required to settle an obligation. Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of

---

# ELECTROVAYA INC.

Notes to the Consolidated Financial Statements  
(Expressed in Thousands of U.S. dollars)  
Years ended September 30, 2012 and 2011

---

obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

At the end of each reporting period, the Company evaluates the appropriateness of the remaining balances. Adjustments to the recorded amounts may be required to reflect actual experience or to reflect the current best estimate.

In the normal course of our operations, the Company may be subject to lawsuits, investigations and other claims, including environmental, labor, product, customer disputes and other matters. The ultimate outcome or actual cost of settlement may vary significantly from our original estimates. Material obligations that have not been recognized as provisions, as the outcome is not probable or the amount cannot be reliably estimated, are disclosed as contingent liabilities, unless the likelihood of outcome is remote.

## *Warranty:*

The Company offers product and service warranties to our customers. The Company records a provision for future warranty costs based on the terms of the warranty, which vary by customer, product or service, management's best estimate of probable claims under these warranties, and historical experience. These estimates are reviewed and adjusted as necessary as experience develops or new information becomes known.

## *(I) Stock-based compensation*

Under the Company's stock option plan, all options granted under the plan have a maximum term of 10 years and have an exercise price per share of not less than the market value of the Company's common shares on the date of grant. The Board of Directors has the discretion to accelerate the vesting of options or stock appreciation rights granted under the plan in accordance with applicable laws and the rules and policies of any stock exchange on which the Company's common shares are listed.

The Company has an option plan whereby options are granted to employees and consultants as part of our incentive plans. Stock options vest in installments over the vesting period. Stock options typically vest one third each year over 3 years. The Company treats each installment as a separate grant in determining stock-based compensation expenses.

The grant date fair value of options granted to employees is recognized as stock-based compensation expense, with a corresponding charge to contributed surplus, over the vesting period. The expense is adjusted to reflect the estimated number of options expected to vest at the end of the vesting period, adjusted for the estimated forfeitures during the period. Any cumulative adjustment prior to vesting is recognized in the current period. No adjustment is made to any expense recognized in the prior periods if share options ultimately exercised are different to that estimated on vesting. The fair value of options are measured using the Black-Scholes option pricing model. Measurement inputs include the price of our Common shares on the measurement date, exercise price of the option, expected volatility of our Common shares (based on weighted average historic volatility), weighted average expected life of the

---

# ELECTROVAYA INC.

Notes to the Consolidated Financial Statements  
(Expressed in Thousands of U.S. dollars)  
Years ended September 30, 2012 and 2011

---

option (based on historical experience and general option holder behavior), expected dividends, estimated forfeitures and the risk-free interest rate.

Upon exercise of options, the proceeds received net of any directly attributable transaction costs up to the nominal value of the shares issued are allocated to share capital with any excess being recorded in retained earnings or deficit.

## *(m) Income taxes*

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity. Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with investments in subsidiaries and joint ventures is not provided if reversal of these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future. Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted by the end of the reporting period. Deferred tax assets are recognised to the extent that it is probable that they will be able to be utilised against future taxable income, based on the Group's forecast of future operating results which is adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. Deferred tax liabilities are always provided for in full.

Deferred tax assets and liabilities are offset only when the Group has a right and intention to set off current tax assets and liabilities from the same taxation authority. Changes in deferred tax assets or liabilities are recognized as a component of tax income or expense in profit or loss, except where they relate to items that are recognized in other comprehensive income or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively. A valuation allowance is recorded against any future income tax asset if it is more likely than not that the asset will be realized.

---

# ELECTROVAYA INC.

Notes to the Consolidated Financial Statements  
(Expressed in Thousands of U.S. dollars)  
Years ended September 30, 2012 and 2011

---

## *(n) Financial assets and financial liabilities*

### i) Financial assets

Financial assets are comprised primarily of cash and cash equivalents and trade and other receivables. Short term investments in money market instruments and banker's acceptances are recorded at fair value, with changes recognized through the consolidated statement of operations.

#### Recognition, initial measurement and de-recognition

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted by transaction costs, except for those carried at fair value through profit or loss which are measured initially at fair value. Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred

#### Classification and subsequent measurement of financial assets

For the purpose of subsequent measurement, financial assets are classified into the following categories upon initial recognition:

- loans and receivables
- financial assets at fair value through profit or loss (FVTPL)
- held-to-maturity (HTM) investments
- available-for-sale (AFS) financial assets.

All financial assets except for those at FVTPL are subject to review for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below. All income and expenses relating to financial assets recognized in profit or loss are presented within finance costs or finance income, except for impairment of trade receivables which is presented within other expenses.

#### *Loans and receivables:*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortized cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, trade and other receivables fall into this category of financial instruments.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other shared credit risk characteristics. The impairment loss estimate is then based on recent historical counterparty default rates for each identified

---

# ELECTROVAYA INC.

Notes to the Consolidated Financial Statements  
(Expressed in Thousands of U.S. dollars)  
Years ended September 30, 2012 and 2011

---

group.

Financial assets with fixed or determinable payments are classified as loans and receivables, such as accounts receivable. This category excludes any derivative assets, or assets that are quoted in active markets. Loans and receivables are initially recognized in the consolidated statement of financial position at fair value plus directly attributable transaction costs, and subsequently measured at amortized cost using the effective interest rate method, less any impairment losses. Trade and other receivables fall into this category.

*Fair value through profit or loss (FVPTL):*

Financial assets purchased and incurred with the intention of generating earnings in the near-term are classified as fair value through operations. Transaction costs are expensed as incurred in the consolidated statement of operations.

*Held-to-maturity investments (HTM):*

Securities that have fixed or determinable payments and a fixed maturity date, which the Company intends to and has the ability to hold to maturity, are classified as held-to-maturity which includes term deposits included in cash equivalents. Held-to-maturity financial assets are initially recognized in the consolidated statement of financial position at fair value plus directly attributable transaction costs, and subsequently measured at amortized cost using the effective interest rate method, less any impairment losses. The Company currently does not hold any financial assets designated as HTM.

*Available-for-sale (AFS):*

Available for sale financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. Gains and losses are recognised in other comprehensive income and reported within the AFS reserve within equity, except for impairment losses and foreign exchange differences on monetary assets, which are recognised in profit or loss. When the asset is disposed of or is determined to be impaired, the cumulative gain or loss recognised in other comprehensive income is reclassified from the equity reserve to profit or loss and presented as a reclassification adjustment within other comprehensive income. Interest calculated using the effective interest method and dividends are recognized in profit or loss within finance income.

Reversals of impairment losses are recognized in other comprehensive income, except for financial assets that are debt securities which are recognised in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognized. The Company currently does not hold any financial assets designated as available-for-sale.

ii) Financial liabilities

Financial liabilities are comprised primarily of trade and other payables, deferred revenue, the promissory note, the restructuring provision and the Innovation Norway liability. All financial liabilities are recorded at amortized cost. All financial liabilities are initially recorded at fair value and designated upon inception as

---



# ELECTROVAYA INC.

Notes to the Consolidated Financial Statements  
(Expressed in Thousands of U.S. dollars)  
Years ended September 30, 2012 and 2011

---

FVPTL or other-financial-liabilities. The Group's financial liabilities include trade and other payables, deferred revenue, the promissory note, the restructuring provision and the Innovation Norway liability.

Financial liabilities classified as other-financial-liabilities are initially recognized at fair value less directly attributable costs. A financial liability is derecognized when it is extinguished, discharged, cancelled or expires. Other-financial-liabilities are measured subsequently at amortized cost using the effective interest method, except for financial liabilities designated at FVTPL, that are carried subsequently at fair value with gains or losses recognised in profit or loss. All derivative financial instruments that are not designated and effective as hedging instruments are accounted for at FVTPL. The Company's trade and other payables, deferred revenue, long-term promissory note, restructuring provision and Innovation Norway liability are classified as other-financial-liabilities.

## *Fair value through profit or loss*

At September 30, 2012, the Company had not classified any financial liabilities as FVPTL.

## *(o) Revenue:*

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

## *Sale of goods*

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

## *Rendering of services*

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

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

---

# ELECTROVAYA INC.

Notes to the Consolidated Financial Statements  
(Expressed in Thousands of U.S. dollars)  
Years ended September 30, 2012 and 2011

---

## Contracts for large energy storage systems

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

When the Group cannot measure the outcome of a contract reliably, revenue is recognized only to the extent of contract costs that have been incurred and are recoverable. Contract costs are recognised in the period in which they are incurred. In either situation, when it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised immediately in profit or loss.

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

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

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

### *(p) Research and development:*

Expenditure on research is recognized as an expense in the period in which it is incurred.

Costs that are directly attributable to the development phase are recognized as intangible assets provided they meet the following recognition requirements:

- completion of the intangible asset is technically feasible so that it will be available for use or sale
  - the Group intends to complete the intangible asset and use or sell it
  - the Group has the ability to use or sell the intangible asset
  - the intangible asset will generate probable future economic benefits. Among other things, this requires that there is a market for the output from the intangible asset or for the intangible asset itself, or, if it is to be used internally, the asset will be used in generating such benefits
  - there are adequate technical, financial and other resources to complete the development and to use or sell the intangible asset
-

# ELECTROVAYA INC.

Notes to the Consolidated Financial Statements  
(Expressed in Thousands of U.S. dollars)  
Years ended September 30, 2012 and 2011

---

- the expenditure attributable to the intangible asset during its development can be measured reliably.

Development costs not meeting these criteria for capitalization are expensed as incurred.

## *(q) Interest income*

Interest income and expenses are reported on an accrual basis using the effective interest method.

## *(r) Operating expenses*

Operating expenses are recognized in profit or loss upon utilization of the service or at the date of their origin. Expenditures for warranties are charged against the associated provision when the related revenue is recognized.

## *(s) Borrowing costs*

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized during the period of time that is necessary to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed in the period in which they are incurred and reported as "Finance costs."

## *(t) Earnings per share (EPS):*

Basic earnings per share is calculated using the weighted average number of shares outstanding during the year. Diluted earnings per share is computed using the weighted average number of common and potential common shares outstanding during the year, if dilutive.

## *(u) Adoption of new and revised standards and interpretations*

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

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

- IFRS 9 'Financial Instruments: Classification and Measurement' – effective for annual periods beginning on or after January 1, 2015, with early adoption permitted, introduces new requirements for the classification and measurement of financial instruments.
  - IFRS 10 'Consolidated Financial Statements' – effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, establishes principles for the presentation and
-

# ELECTROVAYA INC.

Notes to the Consolidated Financial Statements  
(Expressed in Thousands of U.S. dollars)  
Years ended September 30, 2012 and 2011

---

preparation of consolidated financial statements when an entity controls one or more other entities.

- IFRS 11 'Joint Arrangements' - effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form.
- IFRS 12 'Disclosure of Interests in Other Entities' - effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, requires the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.
- IFRS 13 'Fair Value Measurement' - effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, provides the guidance on the measurement of fair value and related disclosures through a fair value hierarchy.

The Company anticipates that the above standards will be adopted in the Company's financial statements for the period beginning October 1, 2013, and has not yet considered the impact of the adoption of these standards.

### 3. Transition to IFRS

The date of transition to International Financial Reporting Standards ("IFRS") is October 1, 2010. These audited annual consolidated financial statements for the years ended September 30, 2012 are our first annual financial statements prepared in accordance with IFRS, including IFRS 1. In accordance with IFRS 1, we have applied IFRS retroactively to our comparative data as of October 1, 2010. In preparing these consolidated financial statements, we also applied certain exceptions and exemptions available under IFRS 1 to our conversion from GAAP to IFRS as discussed below.

#### *i) Estimates:*

Hindsight was not used to create or revise estimates. The estimates previously made by us under GAAP were not revised for IFRS unless there was objective evidence that those estimates were in error.

#### *ii) Deemed cost*

The Group has elected to use fair value as deemed cost at the date of transition for some items of property, plant and equipment (see notes 3(a) and 6).

#### *iii) Cumulative Currency Translation Adjustments*

The Group has recorded the cumulative translation differences for foreign exchange in other comprehensive income and included it in Accumulated other comprehensive income within equity. Gains or losses from the subsequent disposal of foreign operations would exclude translation differences arising prior to adopting IFRS. The Company elected to clear the cumulative currency translation balance to zero on the Transition Date.

---

# ELECTROVAYA INC.

Notes to the Consolidated Financial Statements  
(Expressed in Thousands of U.S. dollars)  
Years ended September 30, 2012 and 2011

---

## *iv) Transitional adjustments:*

### *(a) Property, Plant & Equipment*

Election to use fair value as deemed cost

At the date of transition, the Group elected to measure buildings and building improvements within property, plant and equipment at fair value as deemed cost. Depreciation under IFRS is based on this deemed cost.

The fair value amount for land, building and building improvements as at October 1, 2010 was established by independent valuers.

As at October 1, 2010, under IFRS and compared to GAAP, the fair value of land increased by \$3,761 and building and building improvements by \$261. An impairment adjustment was recognized for production, office and related equipment of \$111 and patents and technology of \$378.

As at September 30, 2011, under IFRS and compared to GAAP, the fair value of land increased by \$3,726 and building and building improvements by \$593. An impairment adjustment was recognized for production, office and related equipment of \$15 and patents and technology of \$361.

### *(b) Intangible Assets*

Election to use fair value as deemed cost

At the date of transition the Group elected to measure intangible assets at fair value as deemed cost. Depreciation under IFRS is based on this deemed cost.

Canadian GAAP has a two step approach. Under step one, if an asset's estimated undiscounted future cash flows are below its carrying amount, a write-down is required as determined in step two by the amount which the carrying amount exceeds the discounted cash flows. Under IFRS, it is a one step approach. The fair value amount as at October 1, 2010 was determined to be Nil, resulting in a revaluation decrease in the carrying amount of \$378.

### *(c) Cumulative currency translation adjustment:*

In accordance with IFRS 1, we elected to reset our cumulative currency translation balance to zero through Deficit on the Transition Date. Accordingly, \$9,555 of cumulative currency translation gains were reclassified from Accumulated other comprehensive income on October 1, 2010. Total equity was not affected.

### *(d) Other adjustments and reclassifications:*

#### *(i) Stock-based compensation:*

Under GAAP, each grant was treated as a single arrangement and compensation expense was

---

# ELECTROVAYA INC.

Notes to the Consolidated Financial Statements  
(Expressed in Thousands of U.S. dollars)  
Years ended September 30, 2012 and 2011

---

determined at the time of grant and amortized over the three year vesting period on a straight-line basis. IFRS requires a separate calculation of stock-based compensation expense for awards that vest in installments. Under IFRS, stock-based compensation expense differs from GAAP based on the changing fair values used for each installment and the timing of recognizing stock-based compensation expense. Generally this results in accelerated expense recognition under IFRS. On the Transition Date, the Company recognized additional compensation expense of \$177 which increased the deficit with a corresponding offset to contributed surplus. Under IFRS as compared to GAAP, stock-based compensation expense for the year ended September 30, 2011 decreased by \$172 to \$539.

As at September 30, 2011, under IFRS and compared to GAAP, share capital decreased by \$4 and contributed surplus decreased by \$699.

The decrease of \$699 in contributed surplus is due to i) a cumulative decrease in stock based compensation of \$80, and ii) an adjustment to the fair value of the share purchase warrants of \$4 from \$619 to \$623 along with a reclassification of the fair value of the warrants from contributed surplus to a separate line item.

*(ii) Expenses by nature:*

The Company has presented its audited consolidated statement of operations by function.

## RECONCILIATION OF GAAP TO IFRS:

The following tables set forth, for the periods indicated, a reconciliation from GAAP to IFRS, of equity, net earnings and comprehensive income:

---

# ELECTROVAYA INC.

Notes to the Consolidated Financial Statements  
(Expressed in Thousands of U.S. dollars)  
Years ended September 30, 2012 and 2011

	1st October, 2010			30th September, 2011		
	Previous GAAP	Effect of transition to IFRS	IFRS	Previous GAAP	Effect of transition to IFRS	IFRS
<b>Assets</b>						
<b>Current assets</b>						
Cash and cash equivalents	3,001	-	3,001	5,265	-	5,265
Trade and other receivables	1,405	-	1,405	2,965	-	2,965
Investment tax credits recoverable	405	-	405	289	-	289
Inventories	558	-	558	1,750	-	1,750
Prepaid expenses and other	427	-	427	499	-	499
	<b>5,796</b>	<b>-</b>	<b>5,796</b>	<b>10,768</b>	<b>-</b>	<b>10,768</b>
Property, Plant and Equipment (see note 3(a))	5,708	3,533	9,241	5,286	3,943	9,229
Investment in shares	444	-	444	440	-	440
	<b>11,948</b>	<b>3,533</b>	<b>15,481</b>	<b>16,494</b>	<b>3,943</b>	<b>20,437</b>
<b>Liabilities and Shareholders' Equity</b>						
<b>Current liabilities</b>						
Trade and other payables	998	-	998	1,083	-	1,083
Deferred revenue	57	-	57	940	-	940
Deferred government grant	1,604	-	1,604	1,960	-	1,960
	<b>2,659</b>	<b>-</b>	<b>2,659</b>	<b>3,983</b>	<b>-</b>	<b>3,983</b>
<b>Long-term liability</b>						
Promissory note	-	-	-	4,377	-	4,377
<b>Shareholders' equity</b>						
Share capital	64,854	(85)	64,769	64,833	(4)	64,829
Contributed Surplus	1,542	177	1,719	2,927	(699)	2,228
Fair value of share purchase warrants	-	-	-	-	623	623
Accumulated other comprehensive income	9,555	(9,555)	-	9,483	(9,425)	58
Deficit	(66,662)	12,996	(53,666)	(69,109)	13,448	(55,661)
	<b>9,289</b>	<b>3,533</b>	<b>12,822</b>	<b>8,134</b>	<b>3,943</b>	<b>12,077</b>
	<b>11,948</b>	<b>3,533</b>	<b>15,481</b>	<b>16,494</b>	<b>3,943</b>	<b>20,437</b>

# ELECTROVAYA INC.

Notes to the Consolidated Financial Statements

(Expressed in Thousands of U.S. dollars)

Years ended September 30, 2012 and 2011

---

	Year ended 30 <sup>th</sup> September, 2011		
	Previous	Effect of	
	GAAP	transition	IFRS
		to IFRS	
Revenue	\$10,264	-	\$10,264
Cost of goods sold	7,620	-	7,620
Gross margin	<b>2,644</b>	-	<b>2,644</b>
Expenses			
Research and development	1,791	-	1,791
Government assistance	(1,328)	-	(1,328)
Sales and marketing	314	-	314
Warranty	34	-	34
General and administrative	1,941	(72)	1,869
Stock based compensation expense	711	(172)	539
Finance cost	389	-	389
Patents and trademark	-	133	133
	<b>3,852</b>	<b>(111)</b>	<b>3,741</b>
Loss before the undernoted	<b>1,208</b>	<b>(111)</b>	<b>1,097</b>
Amortization	792	(526)	266
Repurchase of License	621	-	621
	<b>1,413</b>	<b>(526)</b>	<b>887</b>
Loss from operations	<b>2,621</b>	<b>(637)</b>	<b>1,984</b>
Interest income	(36)	-	(36)
Loss (gain) from foreign exchange	(138)	185	47
	<b>(174)</b>	<b>185</b>	<b>11</b>
Net Loss for the year	<b>\$2,447</b>	<b>\$(452)</b>	<b>\$1,995</b>

---



# ELECTROVAYA INC.

Notes to the Consolidated Financial Statements  
(Expressed in Thousands of U.S. dollars)  
Years ended September 30, 2012 and 2011

Equity reconciliation:	As at 30th September, 2011		
	Previous GAAP	Effect of transition to IFRS	IFRS
Share capital	\$64,833	\$(4)	\$64,829
Contributed surplus	2,927	(699)	2,228
Fair value of share purchase warrants	-	623	623
Accumulated other comprehensive income	9,483	(9,425)	58
Deficit	(69,109)	13,448	(55,661)
Equity	\$8,134	\$3,943	\$12,077

Total comprehensive income reconciliation:	As at 30th September, 2011		
	Previous GAAP	Effect of transition to IFRS	IFRS
Net loss for the year	\$2,447	\$(452)	\$1,995
Other comprehensive loss (income)			
Currency translation reserve	72	(130)	(58)
Other comprehensive loss (income) for the year	72	(130)	(58)
Total comprehensive loss (income) for the year	\$2,519	\$(582)	\$1,937

#### 4. Segment and customer reporting

In identifying its operating segments, management has considered the different services and products offered by the Company and determined that there was no effect on the recognition and measurement of financial statement items upon transition to IFRS. 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 using its patented lithium ion SuperPolymer® technology.

Revenues from major business activities for the years ended September 30, 2012 and 2011 were as follows:

	September 30,	
	2012	2011
Large Format Batteries	\$ 6,722	\$ 10,067
Licensing	2,900	-
Consumer electronics	108	61
Other	124	136
	\$ 9,854	\$ 10,264

# ELECTROVAYA INC.

Notes to the Consolidated Financial Statements  
(Expressed in Thousands of U.S. dollars)  
Years ended September 30, 2012 and 2011

Revenues attributed to regions based on location of customer were as follows:

	September 30,	
	2012	2011
Canada	\$ 4,595	\$ 2,558
United States	2,352	7,275
Norway*	2,900	-
Other	7	431
	\$ 9,854	\$ 10,264

\* Licensing revenue from Tata Motors European Technical Centre.

## Customers:

For the year ended September 30, 2012 four customers represented more than 10% of total revenue (year ended September 30, 2011 two customers). Our largest customers accounted for 32% and 24% of total revenue for the years ended September 30, 2012 and of 2011, respectively.

## 5. Inventories

(a) Total inventories on hand as at September 30, 2012 and September 30, 2011 are as follows:

	September 30,	
	2012	2011
Raw materials	\$ 1,142	\$ 566
Semi finished goods	-	1,129
Finished goods	56	55
	\$ 1,198	\$ 1,750

(b) At the years ended September 30, 2012 and 2011, the following inventory revaluations and obsolescence provisions were included in direct manufacturing costs:

	September 30,	
	2012	2011
Loss on material revaluation	\$ -	\$ 90
Provision for obsolescence	47	4
	\$ 47	\$ 94

## 6. Property, Plant and Equipment:

Details of the Company's property, plant and equipment and their carrying amounts are as follows:  
The Group's property, plant and equipment are comprised of land, buildings and building improvements, production and other equipment.

All amortization and impairment charges are included within amortization and impairment of non-financial assets. Land and building have been pledged as security for the long-term promissory note (See note 12).

# ELECTROVAYA INC.

Notes to the Consolidated Financial Statements  
 (Expressed in Thousands of U.S. dollars)  
 Years ended September 30, 2012 and 2011

The carrying amount can be analysed as follows:

	Land	Building	Leasehold Improvements	Production Equipment	Office Furniture and Equipment	Vehicles	Total
<b>Gross carrying Amount</b>							
Balance October 1, 2011	6,614	1,664	481	693	27	3	9,482
Additions/Reductions	0	0	0	1,494	25	(3)	1,516
Exchange Differences	371	93	27	39	1	0	531
Balance September 30, 2012	6,985	1,757	508	2,226	53	0	11,529
<b>Depreciation and impairment</b>							
Balance October 1, 2011	0	(83)	(48)	(112)	(9)	(1)	(253)
Additions/Reductions	0	(88)	(51)	(276)	(14)	1	(428)
Exchange Differences	0	(5)	(3)	2	(1)	0	(7)
Balance September 30, 2012	0	(176)	(102)	(386)	(24)	(0)	(688)
<b>Net Book Value - September 30, 2012</b>	6,985	1,581	406	1,840	29	0	10,841

<b>Gross carrying Amount</b>							
Balance October 1, 2010	6,676	1,679	486	382	18	0	9,241
Additions	0	0	0	313	9	3	325
Exchange Differences	(62)	(15)	(5)	(2)	(0)	0	(84)
Balance September 30, 2011	6,614	1,664	481	693	27	3	9,482
<b>Depreciation and impairment</b>							
Balance October 1, 2010	0	0	0	0	0	0	0
Additions	0	(83)	(48)	(112)	(9)	(1)	(253)
Exchange Differences	0	0	0	0	0	0	0
Balance September 30, 2011	0	(83)	(48)	(112)	(9)	(1)	(253)
<b>Net Book Value - September 30, 2011</b>	6,614	1,581	433	581	18	2	9,229

# ELECTROVAYA INC.

Notes to the Consolidated Financial Statements  
(Expressed in Thousands of U.S. dollars)  
Years ended September 30, 2012 and 2011

## 7. Share capital

### (a) Authorized and issued capital stock

Authorized  
Unlimited common shares

Issued	Common Shares	
	Number	Amount
Balance, October 1, 2010	70,910,278	\$ 64,769
Issuance of shares upon exercise of stock options	44,334	34
Fair value of stock options exercised	-	26
Balance, September 30, 2011 and September 30, 2012	70,954,612	\$ 64,829

- (b) In March, 2012, the Company received approval at its Annual Shareholders Meeting to increase the number of shares reserved for issuance under the stock option plan by 1,700,000 from 5,400,000 to 7,100,000. Options to purchase common shares of the Company under its stock option plan may be granted by the Board of Directors of the Company to certain full-time and part-time employees, directors and consultants of the Company and its affiliates. Stock options are non-assignable and may be granted for terms of up to 10 years. Stock options vest at various periods from zero to three years.

The following table reflects the activity under the Plan:

	Number outstanding	Weighted average exercise price
Outstanding, October 1, 2010	3,079,835	\$1.03
Granted	392,000	\$2.68
Cancelled or expired	(198,666)	\$5.12
Exercised	(44,334)	\$0.77
Outstanding, September 30, 2011	3,228,835	\$0.83
Granted during quarter ended Dec 31, 2011	250,000	\$0.80
Cancelled or expired	(131,002)	\$0.62
Outstanding, September 30, 2012	3,347,833	\$1.13

# ELECTROVAYA INC.

Notes to the Consolidated Financial Statements  
 (Expressed in Thousands of U.S. dollars)  
 Years ended September 30, 2012 and 2011

Exercise price	Number Outstanding	Weighted average remaining life (years)	Options exercisable	
			Number exercisable	Weighted average exercise price
\$0.69 ( Cdn \$0.68 )	20,000	0.17	20,000	\$0.69
\$1.12 ( Cdn \$1.10 )	398,334	1.64	398,334	\$1.12
\$0.91 ( Cdn \$0.90 )	19,666	1.86	19,666	\$0.91
\$0.57 ( Cdn \$0.56 )	305,001	2.20	305,001	\$0.57
\$0.30 ( Cdn \$0.29 )	266,666	3.23	266,666	\$0.30
\$0.68 ( Cdn \$0.67 )	616,666	5.23	616,666	\$0.68
\$0.24 ( Cdn \$0.24 )	219,000	6.39	219,000	\$0.24
\$0.97 ( Cdn \$0.95 )	272,000	6.87	272,000	\$0.97
\$0.81 ( Cdn \$0.80 )	73,500	7.42	73,500	\$0.81
\$1.87 ( Cdn \$1.84 )	470,000	7.49	470,000	\$1.87
\$2.87 ( Cdn \$2.82 )	20,000	7.78	20,000	\$2.87
\$2.74 ( Cdn \$2.70 )	25,000	7.81	25,000	\$2.74
\$2.83 ( Cdn \$2.78 )	392,000	8.26	170,665	\$2.83
\$0.82 ( Cdn \$0.81 )	250,000	9.22	20,000	\$0.82
	3,347,833	5.58	2,896,498	\$1.03

The following table summarizes the assumptions used with the Black-Scholes valuation model for the determination of the stock-based compensation costs for the stock options granted during the year ended September 30, 2012:

Grant date	Dec 16, 2011
No. of options	250,000
Exercise price	\$ 0.82
Average Expected life in years	10
Volatility	98.03%
Risk-free weighted interest rate	1.85%
Dividend yield	-
Fair-value of options granted	\$ 199

# ELECTROVAYA INC.

Notes to the Consolidated Financial Statements  
(Expressed in Thousands of U.S. dollars)  
Years ended September 30, 2012 and 2011

---

The following table summarizes the assumptions used with the Black-Scholes valuation model for the determination of the stock-based compensation costs for the stock options granted during the year ended September 30, 2011:

---

Grant date	Dec 31, 2010
No. of options	392,000
Exercise price	\$ 2.68
Average Expected life in years	10
Volatility	96.74%
Risk-free weighted interest rate	2.86%
Dividend yield	-
Fair-value of options granted	\$ 1,049

---

Stock based compensation expense related to the portion of the outstanding stock options that vested during the year ended September 30, 2012 was \$359 (2011-\$539).

As at September 30, 2012, the Company had outstanding 3,347,833 options (3,228,835 as at September 30, 2011) to acquire common shares under the Company's employee stock option plan.

- (c) The Company has 500,000 share purchase warrants outstanding related to the issuance of the C\$5,000 promissory note on December 22, 2010. The expiry date of these warrants is December 22, 2013. The warrants vested immediately and the exercise price is C\$2.30. The original fair value of the share purchase warrants was \$623.

The following table summarizes the assumptions used with the Black-Scholes valuation model for the determination of the fair value of share purchase warrants issued during the quarter ended December 31, 2010:

---

Grant date	Dec 22, 2010
No. of options	500,000
Exercise price	\$ 2.30
Average Expected life in years	2
Volatility	108.46%
Risk-free weighted interest rate	1.7%
Dividend yield	-

---

## 8. Related party Transactions

### *Transactions with Electrovaya Corp Director*

There were no balances outstanding as at September 30, 2011 and September 30, 2012. During the year ended September 30, 2012, the Company paid \$220 (2011- \$224) to a director of Electrovaya Corp for

---

# ELECTROVAYA INC.

Notes to the Consolidated Financial Statements  
(Expressed in Thousands of U.S. dollars)  
Years ended September 30, 2012 and 2011

---

services rendered in his capacity as an executive officer of Electrovaya Inc. These amounts, which are recorded at their exchange amount, have been expensed in General and administrative.

*Transactions with controlling shareholder of Electrovaya Inc.*

There were no balances outstanding as at September 30, 2011 and September 30, 2012. During the year ended September 30, 2012, Electrovaya Corp paid \$337 (2011 - \$268) to the Chief Executive Officer, who is also a controlling shareholder of the Company. These amounts, which are recorded at their exchange amount, have been expensed in General and administrative.

## 9. Change in non-cash operating working capital

	September 30,	
	2012	2011
Trade and other receivables	\$ (121)	\$ (1,560)
Investment tax credits recoverable	(16)	116
Inventories	737	(1,192)
Prepaid expenses and other	136	(72)
Trade and other payables	58	85
Deferred revenue	683	883
Deferred government grant	(750)	356
	<u>\$ 727</u>	<u>\$ (1,384)</u>

## 10. Investment in shares

Prior to August 30, 2012, the Company owned 850 shares, or approximately 6.4% of the shares of Miljobil Grenland AS ("Miljobil"), an Electric Vehicle company located in Norway and accounted for this investment on a cost basis. The shares are not publicly listed on a stock exchange and hence published price quotes are not available.

During the year ending September 30, 2011, Electrovaya entered into an agreement to repurchase the license to manufacture its' cells in the Nordic countries from Miljobil. Consideration for the license was a cash payment of \$621 and future deliveries of cells and batteries at discounted prices, in cash or product sales, totaling \$1,236. The Company made a cash payment of \$621 during the year ending September 30, 2011.

During the quarter ending September 30, 2012, the Company acquired an additional 93.2% of the shares held by the minority shareholders of Miljobil for nominal consideration (see Note 11), resulting in total holdings of 99.6% as at September 30, 2012. The incremental investment in Miljobil was accounted for as a step acquisition which requires that we re-measure the pre-existing investment in Miljobil at fair value and recognize any losses in income. The estimated fair value of our interest was \$456, which resulted in the recognition of a non-cash loss of \$456, which is recorded in "Loss on revalue of investment" in the Consolidated Statement of Operations.

---

# ELECTROVAYA INC.

Notes to the Consolidated Financial Statements  
(Expressed in Thousands of U.S. dollars)  
Years ended September 30, 2012 and 2011

---

## 11. Purchase of Miljobil Grenland AS

(i) During the quarter ending September 30, 2012, the Company acquired an additional 93.2% of the shares held by the minority shareholders of Miljobil for nominal consideration, resulting in total holdings of 99.6% as at September 30, 2012. The purchase price was comprised of the following:

Cash and cash equivalents	\$ 304
Trade and other receivables	225
Inventories	185
Prepaid expenses and other	106
Property, plant and equipment	1,127
	<hr/>
	1,947
Trade and other payables	(1,050)
Deferred revenue	(407)
Innovation Norway	(583)
	<hr/>
	(2,040)
Fair value of net assets	-
Goodwill	87

During the quarter ending September 30, 2012 and following an assessment of the fair value of goodwill on the transaction, there was recognition of a non-cash loss of \$87, which is recorded in the Consolidated Statement of Operations.

## ii) Restructuring Provision

With respect to the business combination that occurred in August 2012, the Company recorded a restructuring provision concerning costs related to the termination of certain employees as well as proposed plans to restructure the business.

## 12. Promissory Note

In December, 2010, the Company raised a principal amount of Cdn \$5,000 in consideration of issuance of a three-year secured promissory note bearing interest at 6% and 500,000 common share purchase warrants at an exercise price of C\$2.30 per share exercisable immediately for a period of 36 months. The promissory note matures on December 31, 2013.

---



# ELECTROVAYA INC.

Notes to the Consolidated Financial Statements  
(Expressed in Thousands of U.S. dollars)  
Years ended September 30, 2012 and 2011

---

The loan is secured by a fixed charge over land and building and interest is payable monthly.

As at	September 30, 2012	September 30 2011
Promissory Note	\$ 4,377	\$ 4,523
Plus: Accretion during the year	200	153
Plus : Currency translation adjustments	249	(299)
	<u>\$ 4,826</u>	<u>\$ 4,377</u>

Accretion costs during the year are included in "Finance cost" in the Consolidated Statement of Operations.

### 13. Government Assistance/Economic Dependence

#### (a) Investment Tax Credits

The Company receives indirect financial assistance from the government by way of the investment tax credit program. This program provides assistance, by way of direct payments and reductions in corporate income taxes, for specially defined qualifying expenditures. Investment tax credits are credited against the related research and development expenses, or capital assets.

#### (b) Sustainable Development Technology Corp (SDTC)

##### SDTC 1

In July, 2005 and subsequent amended terms, the Company became eligible for a Cdn \$1,859 grant from SDTC towards a Cdn \$5,600 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 installments as provided in the contribution agreement between SDTC and the Company and will be received upon the achievement of various project milestones. Under the terms of the agreement SDTC shall pay the lesser of 33% of the eligible project costs or Cdn \$1,859, and 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 Cdn \$631 was received by the Company during the quarter ended December, 31, 2011. As of December 31, 2011, cumulative claims of Cdn \$1,859 have been received from SDTC. All monies owing under the SDTC 1 grant have been received.

---

# ELECTROVAYA INC.

Notes to the Consolidated Financial Statements  
(Expressed in Thousands of U.S. dollars)  
Years ended September 30, 2012 and 2011

---

## SDTC 2

In December 2010, the Company became eligible for a Cdn \$5,065 grant from SDTC representing 33% of a Cdn \$15,417 project related to the development and demonstration of Electroveya's Lithium Ion SuperPolymer® Battery for application in Plug-In Hybrid Electric Vehicles, automation of its cell production process and a feasibility study about the potential for repurposing automotive batteries for grid storage applications. The Company received Cdn \$1,742 of this grant in December, 2010 for work completed since November, 2009.

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

The Company recognized Cdn \$1,674 during the year ended September 30, 2011 under this grant.

The Company received Cdn \$1,627 in August 2011 as advance payment on the second milestone of Phase 2 for work completed since November, 2010.

The Company recognized Cdn \$1,695 during the quarter ended March 31, 2012 under this grant and NIL during the quarter ending June 30, 2012.

The company received Cdn \$1,190 as advance payment on the third milestone of Phase 2 for work started since November, 2011.

As at September 30, 2012, the deferred government grant is \$1,210 (2011 -\$1,600).

In November, 2012, the Company received confirmation from SDTC that the project has been extended to June 30, 2017.

### (c) Ministry of Economic Development and Trade "Next Generation of Jobs Fund" Conditional Grant

On May 5, 2009, the Province of Ontario, as represented by the Minister of Economic Development, signed a Conditional Grant Agreement with Electroveya 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

---

# ELECTROVAYA INC.

Notes to the Consolidated Financial Statements  
(Expressed in Thousands of U.S. dollars)  
Years ended September 30, 2012 and 2011

---

pre-commercialization activities, the Company is, on a regular basis investigating potential funding from other public and private sources.

Electrovaya received an advance of \$ 3.3 million (Cdn \$3.3 million) on June 5, 2009 and recorded this as deferred revenue. During the year ended September 30, 2011, \$1.3 million and cumulative of \$3 million of activities considered to be eligible costs and therefore reimbursable under the grant were recorded as Government assistance. During the year ended September 30, 2012, \$1.2 million and cumulative of \$4.5 million of activities considered to be eligible costs and therefore reimbursable under the grant were recorded as Government assistance. The full amount of the advance has now been recognized as revenue.

## 14. Innovation Norway

Innovation Norway made a loan to Miljobil Grenland AS repayable from May 2011 for \$722 (4.0 million Norwegian Kroner). As of September 30, 2012, the balance of the loan is \$584 (3.3 million Norwegian Kroner). The loan bears interest at 5.75%. The principle balance is repayable in 18 equal installments every 6 months over nine years at \$ 39 semi-annually.

The loan is secured by the property, equipment and intellectual property of Miljobil Grenland AS.

Annual principle payments over the next five years are as follows:

<u>Year Ending September 30</u>	
2013	\$ 78
2014	78
2015	78
2016	78
2017	78

## 15. Financial Instruments and Risk Management

The Company may be exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives. The main objectives of the Company's risk management processes are to ensure that the risks are properly identified and that the capital base is adequate in relation to those risks. The principal risks to which the Company is exposed are described below.

### *Capital risk*

The Company manages its capital to ensure that there are adequate capital resources for the Company to maintain and develop its products. The capital structure of the Company consists of shareholders' equity and depends on the underlying profitability of the Company's operations.

### *Credit risk*

---

# ELECTROVAYA INC.

Notes to the Consolidated Financial Statements  
(Expressed in Thousands of U.S. dollars)  
Years ended September 30, 2012 and 2011

---

Cash and cash equivalents are comprised of the following:

Credit risk is the risk that the counter-party fails to discharge an obligation to the Group. The Group is exposed to this risk for various financial instruments, for example, by granting loans and receivables to customers, placing deposits etc. The Group's maximum exposure to credit risk is limited to the carrying amount of financial assets recognized at the reporting date, as summarized below:

---

	September 30,	
	2012	2011
Cash and cash equivalents	5,047	5,265
Trade and other receivables	3,312	2,965
Carrying amount	8,359	8,230

---

---

	September 30,	
	2012	2011
Cash	3,865	2,629
Cash equivalents	1,182	2,636
	5,047	5,265

---

The Company's current portfolio consists of certain banker's acceptance and high interest yielding saving accounts deposits. The majority of cash and cash equivalents are held with financial institutions, each of which had at September 30, 2012 a rating of R-1 mid or above.

The Company manages its credit risk by establishing procedures to establish credit limits and approval policies. The balance in accounts receivable and other receivables is primarily attributable to trade accounts receivables and harmonized sales tax due from the federal Government of Canada which is included in other receivables. In the opinion of management, the credit risk is low and is not material.

## *Liquidity risk*

The Company is exposed to liquidity risk from accounts payable in the amount of \$2,191 (2011-\$1,083), Promissory Note of \$4,826 (2011-\$4,377) and the loan from Innovation Norway for \$584 (2011-NIL). Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due. The Company manages its liquidity risk by carefully monitoring the cash requirements and balancing them against the cash received from operations and government grants. There can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favorable. The Company may seek additional financing through debt or equity offerings, but there can be no

---

# ELECTROVAYA INC.

Notes to the Consolidated Financial Statements  
(Expressed in Thousands of U.S. dollars)  
Years ended September 30, 2012 and 2011

---

assurance that such financing will be available on terms acceptable to the Company or at all. Any equity offering will result in dilution to the ownership interest of the Company's shareholders and may result in dilution to the value of such interests. The Company intends to fulfill its obligations. In the opinion of management's the liquidity risk is low and is not material.

## *Market risk*

Market risk incorporates a range of risks. Movement in risk factors, such as market price risk and currency risk, affect the fair value of financial assets and liabilities. The Company is exposed to these risks as the ability of the Company to develop or market its products and the future profitability of the Company is related to the market price of its primary competitors for similar products.

## *Interest rate risk*

The Company has cash balances and fixed interest-bearing debt at 6% as well as a loan from Innovation Norway at 5.75%. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions.

## *Foreign currency risk*

The Company is exposed to foreign currency risk. The Company's functional currency is the United States dollar and a majority of its revenue is derived from that source. Purchases are transacted in Canadian dollars and Norwegian krone. The majority of the Company's operations are located primarily in Canada. Management believes the foreign exchange risk derived from any currency conversions may have a material effect on the results of its operations. The financial instruments impacted by a change in exchange rates include our exposures to the above financial assets or liabilities denominated in non-functional currencies. The amounts held in US dollars were \$1,000 (September 30, 2012) and \$2,022 (Sept 30, 2011).

If the US dollar to Canadian and Norwegian Kroner foreign exchange rate changed by 2% this would change the recorded Net Loss by \$61.

## *Price risk*

The Company is exposed to price risk. Price risk is the risk that the commodity prices that the Company charges are significantly influenced by its competitors and the commodity prices that the Company must charge to meet its competitors may not be sufficient to meet its expenses. The Company reduces the price risk by ensuring that it obtains information regarding the prices set by its competitors to ensure that its prices are appropriate. In the opinion of management, the price risk is low and is not material.

---

# ELECTROVAYA INC.

Notes to the Consolidated Financial Statements  
(Expressed in Thousands of U.S. dollars)  
Years ended September 30, 2012 and 2011

## 16. Trade and other receivables

	September 30,	
	2012	2011
Trade receivables, gross	\$3,191	\$2,734
Allowance for credit losses	-	(10)
Trade receivables	3,191	2,724
Other receivables	121	241
Trade and other receivables	\$3,312	\$2,965

All amounts are short-term. The net carrying value of trade receivables is considered a reasonable approximation of fair value.

All of the Group's trade and other receivables have been reviewed for indicators of impairment. Certain trade receivables were found to be impaired and an allowance for credit losses has been recorded accordingly.

The movement in the allowance for credit losses can be reconciled as follows:

	2012	2011
Balance October 1 <sup>st</sup>	\$ -	\$11
Impairment loss	2	(13)
Allowance (reversed)/provided	2	2
Balance 30 <sup>th</sup> September	\$ -	\$ -

## 17. Income taxes

The income tax recovery differs from the amount computed by applying the Canadian statutory income tax rate of 26.75% (2011 – 28.75%) to the loss before income taxes as a result of the following:

	September 30,	
	2012	2011
Loss before income taxes	\$ (3,872)	\$ (1,995)
Expected Recovery of income taxes based on statutory rates	(1,035)	(574)
Reduction in income tax recovery resulting from:		
Lower rate on manufacturing profits	61	13
Non-taxable portion of capital gain	1	(75)
Other permanent differences	101	47
Change in valuation allowance	894	(974)
Change in enacted tax rates	(22)	1,563
Income tax recovery	\$ -	\$ -

# ELECTROVAYA INC.

Notes to the Consolidated Financial Statements  
(Expressed in Thousands of U.S. dollars)  
Years ended September 30, 2012 and 2011

The income tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities are as follows:

	September 30,	
	2012	2011
Future tax assets		
Non-capital losses carried forward	\$ 11,183	\$ 10,865
Capital assets	(267)	(118)
Unclaimed research and development expenses	3,882	5,286
Other deductible differences	351	299
	15,149	16,332
Less valuation allowance	(15,149)	(16,332)
Net future tax assets	\$ -	\$ -

In assessing the realizability of future tax assets, management considers whether it is more likely than not that some portion or all of the future tax assets will be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible.

Management considers projected future taxable income, uncertainties related to the industry in which the Company operates and tax planning strategies in making this assessment. To the extent that management believes that the realization of future income tax assets does not meet the more likely than not realization criterion, a valuation allowance is recorded against the future tax assets.

In addition to the above temporary differences, the Company has unrecorded non-refundable investment tax credits amounting to approximately \$5,670 (2011 – \$5,564) which begin to expire in 2014. During the year, the Company recognized \$277 (2011-\$495) of refundable investment tax credits.

As at September 30, 2012, the expiration dates of the Company's federal non-capital income tax losses carried forward are as follows:

2014	\$ 1,802
2015	2,286
2022	978
2023	106
2024	337
2025	38
2026	21,722
2027	5,354
2028	5,403
2029	223
2030	1,150
2031	283
2032	884
	\$ 40,566

# ELECTROVAYA INC.

Notes to the Consolidated Financial Statements  
(Expressed in Thousands of U.S. dollars)  
Years ended September 30, 2012 and 2011

---

Miljobil Grenland AS has \$4,069 of tax losses which, under Norwegian law, have no defined expiry period.

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.

## **18. Commitment and contingencies**

In 2009 the Company was named as a defendant in a lawsuit related to a low-ranking employee dismissal. Pursuant to recent discussions, the amount under consideration is approximately \$48. The Company believes this lawsuit has no merit whatsoever and that its outcome would have no material effect on the Company's operations or financial condition.