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ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Electrovaya Inc.

We have audited the accompanying consolidated financial statements of Electrovaya Inc., which comprise the consolidated balance sheet as at September 30, 2011, and the consolidated statements of income and retained earnings and cash flows for the year then ended, and 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 Canadian generally accepted accounting principles 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 our 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, we 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 financial position of Electrovaya Inc. as at September 30, 2011, and its financial performance and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

SGGG LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Ontario
December 16, 2011

ELECTROVAYA INC.

Consolidated Balance Sheets
(Expressed in thousands of U.S. dollars)

	September 30, 2011	September, 30, 2010
Assets		
Current assets		
Cash and cash equivalents	$ 5,265	$ 3,001
Accounts receivable	2,724	1,332
Other receivables	241	73
Investment tax credits recoverable	289	405
Inventories (note 3(a))	1,750	558
Prepaid expenses and other	499	427
	10,768	5,796
Capital assets (notes 1(d) & 4)	5,286	5,708
Investment in shares (note 13)	440	444
	$ 16,494	$ 11,948
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	$ 1,083	$ 998
Deferred revenue	940	57
Deferred government grant (note 14(c & d))	1,960	1,604
	3,983	2,659
Long-term liability		
Promissory note (note 5)	4,377	-
Shareholders' equity		
Share capital (note 6(a))	64,833	64,854
Contributed surplus (note 15)	2,927	1,542
Accumulated other comprehensive income	9,483	9,555
Deficit	(69,109)	(66,662)
	8,134	9,289
	$ 16,494	$ 11,948

See accompanying notes to consolidated financial statements.

Signed by: sgd : Dr.Sankar Das Gupta

Chairman of the Board

Signed by: sgd : Dr.Michael L.Gopikanth

Chairman of the Audit Committee

ELECTROVAYA INC.

Consolidated Statements of Operations and Deficit
(Expressed in Thousands of U.S. dollars, except per share amounts)
Years ended September 30, 2011 and 2010

		2011 2010
Revenue (notes 11 & 14(c))	$ 10,264	$ 5,025
Direct manufacturing costs (note 3(b))	7,620	3,656
	2,644	1,369
Expenses		
Research and development	1,791	1,698
Government assistance (note 14(d))	(1,328)	(1,501)
Sales and marketing	314	301
Warranty (note 1(h))	34	48
General and administrative	1,941	1,703
Stock based compensation expense	711	601
Interest expense	236	-
Financing costs (note 6 (c))	153	-
	3,852	2,850
Loss before the undernoted	1,208	1,481
Amortization (see note 1 (d))	792	655
Repurchase of License (see note 13)	621	-
	1,413	655
Loss from operations	2,621	2,136
Interest income	(36)	(29)
Loss (gain) from foreign exchange	(138)	244
	(174)	215
Net loss for the year	2,447	2,351
Deficit, beginning of year	66,662	64,311
Deficit, end of year	69,109	66,662
Basic and diluted loss per common share	$ 0.03	$ 0.03
Weighted average number of shares outstanding, basic and fully diluted	70,939,211	70,518,178

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, 2011 and 2010

	2011	2010
Net loss	$ 2,447	$ 2,351
Other comprehensive loss(income) net of income taxes		
Unrealized loss(income) on translation of financial statements from the measurement currency to the reporting currency	72	(495)
Other comprehensive loss(income)	72	(495)
Comprehensive loss for the year	2,519	1,856
Accumulated other comprehensive income		
Accumulated foreign currency translation	9,483	9,555
Accumulated Other Comprehensive income	$ 9,483	$ 9,555

See accompanying notes to consolidated financial statements.

ELECTROVAYA INC.

Consolidated Statements of Cash Flows
(Expressed in Thousands of U.S. dollars, except per share amounts)
Years ended September 30, 2011 and 2010

	2011	2010
Cash provided by (used in)		
Operating activities		
Loss for the year	$ (2,447)	$ (2,351)
Items not involving cash:		
Amortization	792	655
Write-down of capital assets	71	-
Stock based compensation expense (note 1(g))	711	601
Financing costs (note 6(c))	153	-
Change in non-cash operating working capital (note 10)	(1,384)	(1,612)
	(2,104)	(2,707)
Investing activities		
Additions to capital assets	(452)	(603)
	(452)	(603)
Financing activities		
Issuance of common shares	34	427
Issuance of promissory note	5,064	-
	5,098	427
Increase(Decrease) in cash and cash equivalents	2,542	(2,883)
Effect of currency translation adjustments on cash and cash equivalents	(278)	270
Cash and cash equivalents, beginning of year	3,001	5,614
Cash and cash equivalents, end of year	$ 5,265	$ 3,001
Supplemental disclosure of cash flow information		
Income taxes paid	$ -	$ -
Interest paid	228	-

See accompanying notes to consolidated financial statements.

Electrovaya Inc. (the Company or “Electrovaya”), incorporated in 1996 under the Business Corporations Act (Ontario), develops, manufactures and markets portable power technology products and services using its patented lithium ion SuperPolymer® technology.

1. Significant accounting policies

(a) Basis of presentation and consolidation

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles. These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, including 1408871 Ontario Inc., Electrovaya Corp., Electrovaya Company, Electrovaya ApS, Electrovaya USA Inc. and Electrovaya Global SRL. All inter-company balances and transactions have been eliminated upon consolidation.

Comprehensive Income

Comprehensive income is composed of the Company’s net earnings and other comprehensive income. It includes all changes in equity during the year except those resulting from investments by owners and distributions to owners.

Financial Instruments – Disclosures

The recommendations in Section 3862, Financial Instruments – Disclosures, increases the disclosures currently required that will enable users to evaluate the significance of financial instruments for an entity’s financial position and performance, including disclosures about fair value. In addition, disclosure is required of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about liquidity risk and market risk. The quantitative disclosures must also include a sensitivity analysis for each type of market risk to which an entity is exposed, showing how net income and other comprehensive income would have been affected by reasonable possible changes in the relevant risk variable. The Company has included disclosures recommended by this Handbook section in Note 12 to these financial statements.

1. Significant accounting policies (continued)

Financial instruments – Presentation

The Company adopted the recommendations of the Canadian Institute of Chartered Accountants' Handbook Section 3863, Financial Instruments – Presentation.

The following definitions are used in the presentation and disclosures regarding Financial Instruments in which the Company engages as part of its normal operations.

Fair Value

The fair value of cash and cash equivalents, accounts receivable, other receivables, investment tax credits recoverable, accounts payable and accrued liabilities, deferred revenue, deferred government grant and promissory note approximate their carrying values due to the relatively short term maturities of these instruments.

Sensitivity analysis

The Company has designated its cash and cash equivalents as held-to-maturity; which are measured at cost using the effective interest method. Financial instruments included in accounts receivable and other receivables are classified as accounts receivable, which are measured at amortized cost. Accounts payable and accrued liabilities, deferred revenue, deferred government grants and promissory note are classified as other financial liabilities, which are measured at amortized cost. As at September 30, 2011, the carrying and fair value amounts of the Company's financial instruments are not materially different.

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are reasonably possible over a twelve month period. The Company has no short-term investments as at September 30, 2011 exceeding 90 days. Therefore, a change in interest rates will not have any significant impact on the Company relating to the holding of these investments.

The Company does have significant, but not material, reserves of foreign currency that would give rise to exposure to foreign exchange risk. Therefore a percentage change in foreign exchange rates may have a significant, but not material, impact on the Company.

1. Significant accounting policies (continued)

Capital disclosures

The Company adopted CICA Handbook Section 1535 Capital Disclosures. Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. The Company has included disclosures recommended by this Handbook section to these financial statements as described more fully below.

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 products which the Company is currently developing and maintaining are in the early stages; as such the Company is dependent on external financing and government financing to fund its activities. In order to carry out development plans, 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.

(b) Cash and cash equivalents

Cash and cash equivalents include temporary investments in marketable securities which are readily convertible into cash and which have an original term to maturity of 90 days or less.

1. Significant accounting policies (continued)

(c) Inventories

Inventory is valued at the lower of actual cost or net realizable value. In accordance with the Canadian Institute of Chartered Accountants Handbook Section 3031, *Inventory*, the definition of 'cost' of inventory includes all costs of purchase, costs of conversion and other costs incurred to bringing the inventories to their present location and condition. As a result, companies are required to systematically allocate fixed and variable production overheads that are incurred in converting materials into finished goods. The allocation of fixed production overheads is based on normal production capacity of the production facilities. In addition, the standard requires companies to assess the recoverability of inventory costs in comparison to net realizable value. Declines in replacement cost below carrying values for raw materials inventories do not require write downs if the finished goods in which they will be incorporated are expected to be sold at, or above cost.

(d) Capital assets

Capital assets are recorded at cost less related investment tax credits and accumulated amortization. Amortization is provided on a straight-line basis over the estimated useful lives of the assets at the number of years indicated below:

	Years
Building	25
Building improvements	15
Production equipment	6
Workshop equipment	5
Patents and technology	5
Office furniture and equipment	5
Vehicles	5

(e) Research and development costs

Research costs, net of related investment tax credits, are expensed in the period in which they are incurred.

Development costs, net of related investment tax credits, are expensed in the period incurred unless such costs meet the criteria under Canadian generally accepted accounting principles for deferral and amortization. To date, the Company has not deferred any development costs.

Certain costs related to the Company's research and development efforts related to fast-rate batteries and electric vehicles were being funded by repayable grants from Technology

1. Significant accounting policies (continued)

Partnerships Canada ("TPC") until December, 2009, Sustainable Development Technology Corp ("SDTC") and Ministry of Economic Development and Trade "Next Generation of Jobs Fund" Conditional Grant ("MEDT"). (see Note 14(d))

(f) Revenue recognition

Revenue from product sales is recognized upon shipment. Estimated returns and allowances and sales rebates are recorded as a reduction of revenue at the time of revenue recognition. In addition, the Company provides for the estimated cost of standard product warranties at the time of revenue recognition. The Company primarily uses a binding purchase order as evidence of its sales arrangements, and with respect to its service arrangements uses contractual agreements. The Company considers delivery to occur upon shipment, provided risks and rewards of ownership, including transfer of title have passed to the customer. At the point of sale, the Company assesses whether collection is reasonably assured. If the Company determines that collection is not reasonably assured, the Company defers recognition of the revenue until collection becomes reasonably assured, which is generally upon receipt of cash. Where an estimate of the potential sales returns cannot be made, the recognition of revenue does not occur until the distributor has sold the product. Revenue from large format batteries and engineering services provided to third parties under contracts is recognized as services are performed and as each milestone in the contract is achieved and accepted by the customer. Revenue from custom machine building is recognized based on the percentage of completion method of accounting for contracts. Under such contracts, revenue is recognized based on the ratio of total costs incurred to date to overall estimated costs. Provisions for estimated losses on contracts are recognized when identified.

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

(g) Stock based compensation

The Company applies the fair value method of accounting for employee stock options. Under this method, compensation cost is measured at fair value at the date of grant and expensed over the award's vesting period. The offset to the expense is recorded in contributed surplus.

(h) Warranty costs

Warranty costs are provided for as revenues are earned.

1. Significant accounting policies (continued)

(i) Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the years. Actual results may differ from the estimates. Sales returns are estimated at the time of delivery based on past experience and customer specific factors. Bad debts are determined based on the ageing of accounts receivable where such amounts are not insured and considered uncollectible. Warranty accruals are based on the actual warranty experience rate for the past year and sales during the most recent warranty period.

The Company operates in a competitive market subject to fast-paced technological changes. The Company has estimated the provisions for sales returns, warranty costs and obsolete inventory based on historical patterns, communication with its distributors, industry trends and existing competitive pressures. Significant changes in technology or competitors' products could result in a material change in the rate of sales returns.

(j) Income taxes

The Company uses the asset and liability method of accounting for income taxes. Future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and non-capital loss carry-forwards. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in the Statement of Operations in the year that includes the date of enactment or substantive enactment. A valuation allowance is recorded against any future income tax asset if it is more likely than not that the asset will be realized.

(k) Foreign currency translation

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. Non-monetary assets and liabilities are translated at the exchange rate in effect at the transaction date. Exchange gains and losses resulting from the translation of these amounts are reflected in the consolidated statement of operations in the year in which they occur.

1. Significant accounting policies (continued)

As the Company's reporting currency is the U.S. dollar, the Company translates assets and liabilities denominated in Canadian dollars into U.S. dollars at the exchange rate prevailing at the balance sheet date, and the results of operations at the average rate for the year. Cumulative net translation adjustments are included as a separate component of other comprehensive income.

(l) Earnings per share

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.

(m) Impairment of long-lived assets

The Company reviews capital assets subject to amortization for impairment on an annual basis or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized when the carrying amount of an asset that is held and used exceeds the projected undiscounted future net cash flows expected from its use and disposal, and is measured as the amount by which the carrying amount of the asset exceeds its fair value, which is measured by discounted cash flows when quoted market prices are not available. Management determined that there is no impairment charge for the year ended September 30, 2011.

(n) Transaction costs

The Company has adopted section 3855 of the CICA Handbook “Financial Instruments – Recognition and Measurement” concerning the transaction costs directly attributed to the issuance of financial liabilities. The costs related to these financings have been deferred and amortized over the life of the related liability (See Note 5).

2. Future accounting changes

International Financial Reporting Standards (“IFRS”)

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

IFRS will require increased financial statement disclosures. Although IFRS uses a conceptual framework similar to Canadian GAAP, differences in accounting policies, if any, will still need to be addressed.

We have assessed the impact IFRS will have on our consolidated financial statements based upon existing standards and have established a transition plan to convert to the new standards.

Transition Plan:
The following summarizes the Company's status with respect to its IFRS transition plan:

Initial scoping and analysis of key areas for which accounting policies may be impacted by the transition to IFRS.	Completed
Detailed evaluation of potential changes required to accounting policies, information systems and business processes, including the application of IFRS 1 First-time Adoption of International Financial Reporting Standards.	Substantially complete
Final determination of changes to accounting policies and choices to be made with respect to first-time adoption alternatives.	Substantially complete
Resolution of the accounting policy change implications on information technology, business processes and contractual arrangements.	Substantially complete
Qualification of the financial statement impact of changes in accounting policies.	Substantially complete
Management and employee education and training.	Education and training related to conversion substantially complete. Ongoing education and training expected especially during the early part of fiscal 2012.

2. Future accounting changes (continued)

The Company's first interim reporting under IFRS will be for the three months ended December 31, 2011 and will include comparative financial information under IFRS for the three months ended December 31, 2010. We will be required to disclose a reconciliation from Canadian GAAP to IFRS of our equity at October 1, 2010, December 31, 2010 and September 30, 2011. We will also be required to disclose reconciliations from Canadian GAAP to IFRS of our comprehensive loss for the three months ended December 31, 2010 and for the year ended September 30, 2011. An explanation of material adjustments to the cash flow statements for those periods would also be required.

The key areas where changes in accounting policies are expected to impact the Company’s consolidated financial statements are listed below. The list and the comments below should not be regarded as a complete list of changes that will result from the transition to IFRS. It is intended to highlight those areas that we believe to be most significant, however, analysis of changes is still in progress and not all decisions have been made where choices of accounting policies are available. At this stage, we have not quantified the impacts expected on the Company’s consolidated financial statements for these differences.

Most adjustments required on transition to IFRS will be made retrospectively against opening retained earnings in the first comparative balance sheet. Transitional adjustments relating to those standards where comparative figures are not required to be restated because they are applied prospectively will only be made as of October 1, 2010, being the first day of the year of transition for the Company. IFRS 1 provides entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions, in certain areas, to the general requirement for full retrospective application of IFRS.

Property and Equipment

International Accounting Standard (IAS) 16 – Property, Plant & Equipment and Canadian GAAP contain the same basic principles, however there are some differences. IFRS requires that significant parts of an asset be depreciated separately and depreciation commences when the asset is available for use. IFRS also permits property and equipment to be measured using the fair value model or the historical cost model. The Company is not planning on adopting the fair value measurement model for the Company’s property and equipment.

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

2. Future accounting changes (continued)

Impairment of Assets

Impairments under IAS 36 – Impairment of Assets are based on discounted cash flows. Under Canadian GAAP, if an asset's estimated undiscounted future cash flows are below its carrying amount a write-down is required and is determined by the amount which the carrying amount exceeds the discounted cash flows. There is no undiscounted test under IFRS. This may result in more frequent write-downs where carrying values of assets were previously supported under Canadian GAAP on an undiscounted cash flow basis, but could not be supported on a discounted cash flow basis.

In addition, under IAS 36 a favorable change in the circumstance that resulted in an impairment of an asset, other than goodwill, would trigger the requirement for a redetermination of the amount of the impairment with any reversal being recognized in income to the extent the asset had previously been impaired. Under Canadian GAAP, impairments are not reversed.

Stock Based Compensation

The Company currently measures stock-based compensation for stock options granted at their fair value determined using the Black-Scholes option pricing formula and expenses the fair value equally over the options' vesting terms. IFRS requires the same fair value of stock options granted to be expensed on an accelerated basis over the options' vesting term. Further, the Company currently assumes that all stock options will vest and recognizes the effect of forfeitures as they occur. In determining the fair value of options granted, IFRS requires an adjustment for expected forfeitures. This GAAP difference may result in an adjustment on transition to IFRS.

3. Inventories

(a) Total inventories on hand as at September 30, 2011 and September 30, 2010 are as follows:

	September 30, 2011	September 30, 2010
Raw materials	$ 566	$ 423
Semi finished goods	1,129	22
Finished goods	55	113
	$ 1,750	$ 558

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

3. Inventories (continued)

(b) As per accounting policy (note 1(c)), during the years ended September 30, 2011 and 2010, the following inventory revaluations and obsolescence provisions were included in direct manufacturing costs:

	September 30, 2011	2010
Loss (Gain) on material revaluation	$ 90	$ (67)
Provision for obsolescence	4	43
	$ 94	$ (24)

4. Capital assets:

September 30, 2011	Cost	Accumulated amortization	Net book value
Tangible assets			
Land	$ 2,888	$ –	$ 2,888
Building	906	711	195
Building improvements	7,795	6,569	1,226
Production equipment	759	181	578
Workshop equipment	24	5	19
Office furniture and equipment	28	12	16
Vehicles	6	3	3
Intangible assets			
Patents and technology	2,865	2,504	361
	$ 15,271	$ 9,985	$ 5,286

September 30, 2010	Cost	Accumulated amortization	Net book value
Tangible assets			
Land	$ 2,915	$ –	$ 2,915
Building	914	681	233
Building improvements	8,105	6,434	1,671
Production equipment	14,243	13,756	487
Workshop equipment	1,560	1,559	1
Office furniture and equipment	476	454	22
Vehicles	54	53	1
Intangible assets			
Patents and technology	2,764	2,386	378
	$ 31,031	$ 25,323	$ 5,708

As of September 30, 2011, the Company recorded a loss of $71 on the write-down of capital assets, comprised primarily of production equipment no longer in use.

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

5. Promissory Note

In December, 2010, the Company raised Cdn $5 million in consideration of a 6% secured promissory note and 500,000 common share purchase warrants exercisable for a period of 36 months. The promissory note matures on December 31, 2013. The loan is secured by a fixed charge over land and building and interest is payable monthly.

	September 30, 2011	2010
Promissory Note	$ 4,843	$ -
Less: Fair value of Share Purchase Warrants (note 6(c))	(466)	-
	$ 4,377	$ -

6. Share capital

(a) Authorized and issued capital stock

Authorized
Unlimited common shares

Issued	Common Shares Number	Amount
Balance, September 30, 2009	70,221,442	$ 64,056
Issuance of shares upon exercise of stock options	688,836	427
Fair value of stock options exercised	-	371
Balance, September 30, 2010	70,910,278	$ 64,854
Issuance of shares upon exercise of stock options	44,334	34
Fair value of stock options exercised	-	(55)
Balance, September, 30, 2011	70,954,612	$ 64,833

(b) Stock options

The Company has reserved up to 5,400,000 common shares for issuance under the stock option plan. 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:

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

6. Share capital (continued)

	Number Outstanding		Weighted average exercise price
Outstanding, September 30, 2009	3,260,171	$	1.24
Granted	634,000		1.66
Cancelled or expired	(125,500)		6.61
Exercised	(688,836)		0.62
Outstanding, September 30, 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

Exercise price		Number outstanding	Weighted average remaining life (years)	Options exercisable Number exercisable	Options exercisable Weighted average exercise price
$ 0.23	(Cdn$0.24)	219,000	7.39	219,000	$ 0.23
0.28	(Cdn$0.29)	266,666	4.23	266,666	0.28
0.54	(Cdn$0.56)	305,001	3.21	305,001	0.54
0.60	(Cdn$0.62)	130,668	0.86	130,668	0.60
0.64	(Cdn$0.67)	617,000	6.23	617,000	0.64
0.65	(Cdn$0.68)	20,000	1.18	20,000	0.65
0.77	(Cdn$0.80)	73,500	8.42	73,500	0.77
0.87	(Cdn$0.90)	19,666	2.86	19,666	0.87
0.91	Cdn$0.95)	272,000	7.87	272,000	0.91
1.06	(Cdn$1.10)	398,334	2.64	398,334	1.06
1.77	(Cdn$1.84)	470,000	8.49	285,000	1.77
2.60	(Cdn$2.70)	25,000	8.81	25,000	2.60
2.71	(Cdn$2.82)	20,000	8.78	20,000	2.71
2.68	(Cdn$2.78)	392,000	9.26	60,000	2.68
		3,228,835	5.29	2,711,835	$ 0.83

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

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

6. Share capital (continued)

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, 2010:

Grant date	Mar 01, 2010	Mar 26,2010	Jul 08,2010	Jul 19, 2010	Total
No. of options	119,000	470,000	20,000	25,000	634,000
Exercise price	$ 0.78	$ 1.79	$ 2.74	$ 2.62	
Average expected life in years	10	10	10	10	
Volatility	92.26%	98.29%	98.09%	97.99%	
Risk-free weighted interest rate	3.09%	3.09%	2.84%	2.84%	
Dividend yield	-	-	-	-	
Fair-value of options granted	$ 70	$ 813	$ 43	$ 52	

Stock based compensation expense related to the portion of the outstanding stock options that vested during the year ended September 30, 2011 was $711 (2010-$601). The weighted average grant date fair value of stock options granted during the year was $2.68 (2010 - $1.66)

c) The Company has 500,000 share purchase warrants outstanding related to the issuance of the C$5 million promissory note. The expiry date of these warrants is December 22, 2013. The warrants vested immediately and the exercise price is C$2.30.

	September 30, 2011	2010
Fair value of Share Purchase Warrants	$ 619	$ -
Less: Cumulative Amortization to Financing Costs	(153)	-
	$ 466	$ -

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 year ended September 30, 2011:

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	-
Fair-value of share purchase warrants granted	$ 619

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

7. Statement of Claim

During the year ended September 30, 2006, the Company was served with a Statement of Claim for $1,100 by an executive officer related to an automobile accident involving one of the Company-owned automobiles. In April, 2011, the matter was settled, with no amounts payable by the Company and no further action required.

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8. Commitments

(a) The Company's future minimum lease payments under operating leases for the years ending September 30, are as follows:

2012	$ 148
2013	77
2014	2
	$ 227

(b) In May, 2006, the Company entered into a fixed price agreement for $1,000 with the New York State Energy Research and Development Authority (“NYSERDA”). Under the agreement, the Company will expand its operations in New York State to develop lawn and turf off-road equipment and establish sales and service capabilities for its Scribbler Tablet products. The Company has entered into a five year lease for approximately 600 square feet of office space and manufacturing space of 6,900 square feet commencing April 1, 2008 at a building constructed at the Saratoga Technology + Energy Park (“STEP”).

9. Income taxes

The income tax recovery differs from the amount computed by applying the Canadian statutory income tax rate of 28.75% (2010 – 31.75%) to the loss before income taxes as a result of the following:

	September 30, 2011	September 30, 2010
Loss before income taxes	$ (2,447)	$ (2,351)
Expected Recovery of income taxes based on statutory rates	(703)	(746)
Reduction in income tax recovery resulting from:		
Lower rate on manufacturing profits	22	34
Non-taxable portion of capital gain	(75)	(32)
Other permanent differences	60	66
Change in valuation allowance	(853)	(77)
Change in enacted tax rates	1,549	755
Income tax recovery	$ -	$ -

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

9. Income taxes (continued)

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, 2011	September 30, 2010
Future tax assets		
Non-capital losses carried forward	$ 10,865	$ 12,537
Capital assets	(41)	(180)
Unclaimed research and development expenses	5,286	4,785
Other deductible differences	299	348
	16,409	17,490
Less valuation allowance	(16,409)	(17,490)
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 $5,564 (2010 – $4,093) which begin to expire in 2014. During the year, the Company recognized $495 (2010-$191) of refundable investment tax credits.

As at September 30, 2011, the expiration dates of the Company's federal non-capital income tax losses carried forward are as follows:

2014	$ 1,880
2015	2,164
2022	978
2023	106
2024	337
2025	38
2026	20,850
2027	5,106
2028	5,118
2029	223
2030	1,126
2031	1,152
	$ 39,078

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

9. Income taxes (continued)

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.

10. Change in non-cash operating working capital

	September 30, 2011	2010
Accounts receivable	$ (1,392)	$ (882)
Investment tax credits recoverable	116	(31)
Other receivables	(168)	(1)
Inventories	(1,192)	45
Prepaid expenses and other	(72)	(173)
Accounts payable and accrued liabilities	85	326
Deferred revenue	883	(100)
Deferred government grant	356	(796)
	$ (1,384)	$ (1,612)

11. Segmented information

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 year ended September 30, 2011 were as follows

	September 30, 2011	2010
Large Format Batteries, licensing	$ 10,067	$ 4,353
Consumer electronics	61	497
Other	136	175
	$ 10,264	$ 5,025

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

11. Segmented information (continued)

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

	September 30, 2011	September 30, 2010
Canada	$ 2,558	$ 623
United States	7,275	4,286
Others	431	116
	$ 10,264	$ 5,025

Two customers represented 10% or more of the Company's revenues representing 76% of revenue from large format batteries.

As at September 30, 2011, all the Company's capital assets were located in Canada.

12. Management of financial risk

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

The Company is exposed to credit risk due to its accounts receivable and other receivables in the amount of $2,965 (2010-$1,405). Credit risk is the risk that a client will be unable to pay any amounts owed to the Company. 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.

12. Management of financial risk (continued)

Liquidity risk

The Company is exposed to liquidity risk of accounts payable in the amount of $1,083 (2010-$998). Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due. The Company manages its liquidity risk by carefully monitoring the cash requirements and balancing them against the cash received from operations and government grants. There can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favorable. The Company may seek additional financing through debt or equity offerings, but there can be no assurance that such financing will be available on terms acceptable to the Company or at all. Any equity offering will result in dilution to the ownership interest of the Company's shareholders and may result in dilution to the value of such interests. The Company intends to fulfill its obligations. 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%. 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. The major purchases are transacted in Canadian dollars as the Company operations are located primarily in Canada. Therefore, management believes the foreign exchange risk derived from any currency conversions may have a material effect on the results of its operations. If the foreign exchange rate changed by 2% this would change the recorded Net Loss by $320.

12. Management of financial risk (continued)

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 liquidity risk is low and is not material.

13. Investment in shares

The Company owns 850 shares, or approximately 6.4% of the shares of Miljobil Grenland AS ("Miljobil"), an Electric Vehicle company located in Norway.

Miljobil has determined it would no longer manufacture cells and batteries in Norway and has instead requested Electrovaya to produce cells and batteries for sale to Miljobil. During fiscal 2011, Electrovaya entered into an agreement to repurchase the license to manufacture its cells in the Nordic countries, which enables Electrovaya to license its technology in an unfettered manner to all of Europe, including all Nordic countries. Consideration for the license is 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 paid $400 of the total outstanding consideration in February, 2011 and $221 in June, 2011.

14. Government Assistance

(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. When the Company has reasonable assurance that the investment tax credits will be received, they are accounted for as a reduction in the related expenditure of items that are an expense and as a reduction to the cost of a capital asset.

14. Government Assistance (continued)

(b) TPC grant

The Company was approved for funding under the TPC initiative of Industry Canada. The funding was to support the Company's research and development efforts in fast rate batteries and electric vehicles. The Company expected to receive contributions of up to 29.7% of the specified costs of the development project, to a maximum amount of Cdn $9,870 ($9,432). Under the terms of the amended agreement, the Company was forecasting that an amount up to a maximum of $5,608 is to be repaid by royalties, commencing in 2009 through to 2015, with payment to be deferred or reduced if certain revenue thresholds are not achieved. These revenue thresholds were not achieved during the year ended September 30, 2011.

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

(c) SDTC

SDTC 1

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

The amount is receivable in scheduled instalments as provided in the contribution agreement between SDTC and the Company and will be received upon the achievement of various project milestones. Under the amended terms of the agreement SDTC shall pay the lesser of 33% of the eligible project costs or Cdn $ 1,859, the contribution shall not exceed 50% of the eligible project costs and the Company or consortium members, or both, shall provide at least 25% of the project costs in cash, in-kind goods or services or a combination of both. SDTC shall not have any obligation to pay the contribution unless the Company has obtained a commitment and has the financial capacity to finance all the costs related to the entire project. The project expired on July 31, 2010.

No cash contribution was received by the Company during the year ended September 30, 2011. As of September 30, 2011, cumulative claims of $1,113 have been received from SDTC. The final claim for $ 426 was submitted for the year ended September 30, 2010 but has not yet been received.

14. Government Assistance (continued)

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 Electrovaya's Lithium Ion SuperPolymer® Battery for application in Plug-In Hybrid Electric Vehicles, automation of its cell production process and a feasibility study about the potential for repurposing automotive batteries for grid storage applications. The Company received $1,700 of this grant in late December for work completed since November, 2009. The amount is receivable in scheduled instalments as provided in the contribution agreement between SDTC and the Company and will be received upon the achievement of various project milestones. The Contribution shall not exceed fifty percent (50%) of the Eligible Project Costs for the Project and Electrovaya shall contribute a minimum of twenty-five percent (25%) of the Eligible Project Costs for the Project in cash, in-kind goods or services, or a combination thereof.

The Company received $1.6 million as advance payment on the second milestone of Phase 2 for work completed since November, 2010.

The Company recognized $1,695 during the year ended September 30, 2011.

(d) 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 Electrovaya Corp. awarding Cdn $ 16.7 million as a grant. The grant is for pre-commercialization activities over a period of five years ending on December 31, 2013. The grant is 15% of the targeted project cost of Cdn $111.49 million and is subject to certain targets related to new job creation and investment, which if not achieved, could result in only a portion of the grant being received, or a potential claw-back of funds received by the end of the five year period. The Company continues to review its requirements for additional capital resources and no commitments exist at the present time. In addition to discussions with various Government agencies concerning the potential funding of certain research and development and pre-commercialization activities, the Company is, on a regular basis investigating potential funding from other public and private sources.

Electrovaya received an advance of $ 3.3 million (Cdn $3.3 million) on June 5, 2009 and recorded this as deferred revenue. During 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.

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

15. Contributed surplus

Contributed surplus arises from the recognition of estimated fair value of stock options as follows:

	September 30, 2011	2010
Balance – beginning of year	$ 1,542	$ 1,312
Fair value of vested stock options	711	601
Exercise of options	55	(371)
Fair value of share purchase warrants	619	-
Balance – end of year	$ 2,927	$ 1,542

16. 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 $63. 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.