

ELECTROFUEL INC.

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

	December 31, 2001 (Unaudited)	September 30, 2001 (Audited)
Assets		
Current assets		
Cash and cash equivalents	\$ 8,851	\$ 2,436
Short-term investments	18,388	28,269
Accounts receivable	315	301
Investment tax credits recoverable	643	652
Goods and Services Tax receivable	236	167
Inventories under consignment	60	-
Inventories (note 3)	3,244	1,836
Prepaid expenses and other	92	476
	<u>31,829</u>	<u>34,137</u>
Capital assets	15,521	15,501
	<u>\$ 47,350</u>	<u>\$ 49,638</u>

Liabilities and Shareholders' Equity

Current liabilities		
Accounts payable and accrued liabilities	\$ 575	\$ 1,110
Income taxes payable	37	37
	<u>612</u>	<u>1,147</u>
Shareholders' equity		
Share capital (note 4)	63,729	63,729
Cumulative translation adjustment	(3,178)	(2,792)
Deficit	<u>(13,813)</u>	<u>(12,446)</u>
	<u>46,738</u>	<u>48,491</u>
	<u>\$ 47,350</u>	<u>\$ 49,638</u>

See accompanying notes to consolidated financial statements.

These interim financial statements should be read in conjunction with the annual audited consolidated financial statements for the year ended September 30, 2001.

ELECTROFUEL INC.

Consolidated Statements of Operations and Deficit
(Expressed in thousands of U.S. dollars
except share and per share amounts)
(Unaudited)

	Three months ended December 31,	
	2001	2000
Revenue	\$ 515	\$ 124
Cost of goods sold	659	—
Gross margin	(144)	124
Operating expenses		
Research and development	264	505
Sales and marketing	469	344
General and administrative	445	710
	1,178	1,559
Loss before interest, taxes and amortization	1,322	1,435
Amortization	389	101
Loss from operations	1,711	1,536
Interest income	(213)	(496)
Other income	(93)	(82)
(Gain) loss from foreign exchange	(38)	17
	(344)	(561)
Net loss for the period	1,367	975
Deficit, beginning of period	12,446	5,277
Deficit, end of period	\$ 13,813	\$ 6,252
Loss per common share, basic and diluted	\$ 0.02	\$ 0.02
Weighted average number of shares outstanding, basic and diluted	69,539,109	62,761,774

See accompanying notes to consolidated financial statements.

These interim financial statements should be read in conjunction with the annual audited consolidated financial statements for the year ended September 30, 2001.

ELECTROFUEL INC.

Consolidated Statements of Cash Flows
(Expressed in thousands of U.S. dollars)
(Unaudited)

	Three months ended December 31,	
	2001	2000
Cash provided by (used in)		
Operating activities		
Loss for the period	\$ (1,367)	\$ (975)
Amortization which does not involve cash	389	101
Change in non-cash operating working capital	(1,696)	(1,251)
	(2,674)	(2,125)
Financing activities		
Proceeds from issue of common shares	–	30,006
Investing activities		
Additions to capital assets	(702)	(3,762)
Decrease in short-term investments	9,881	13,000
	9,179	9,238
Increase in cash and cash equivalents	6,505	37,119
Effect of currency translation adjustments on cash and cash equivalents	(90)	964
Cash and cash equivalents, beginning of period	2,436	6,337
Cash and cash equivalents, end of period	\$ 8,851	\$ 44,420
Supplemental disclosure of cash flow information		
Income taxes paid	\$ 33	\$ –
Interest received	580	316

See accompanying notes to consolidated financial statements.

These interim financial statements should be read in conjunction with the annual audited consolidated financial statements for the year ended September 30, 2001.

ELECTROFUEL INC.

Notes to Consolidated Financial Statements
(Expressed in Thousands of U.S. dollars)
(Unaudited)

Three months ended December 31, 2001

1. Nature of operations

Electrofuel Inc. is an early stage manufacturer and marketer of advanced, high energy, rechargeable batteries based on its patented lithium ion SuperPolymer™ technology. During the period the Company ramped up production and sales and expects to continue to develop its product lines and explore other potential applications using the developed technology.

The Company has no distinct operating segments and has no operating assets located outside of Canada. The Company has not experienced any seasonal variation in revenue as it has just commenced production and sales in the last fiscal year.

The Company prepares its financial statements in accordance with accounting principles generally accepted in Canada. These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries.

2. Significant accounting policies

The disclosures contained in these unaudited interim consolidated financial statements do not include all requirements of generally accepted accounting principles (GAAP) for annual financial statements. The unaudited interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended September 30, 2001.

The unaudited interim consolidated financial statements are based upon accounting principles consistent with those used and described in the annual consolidated financial statements, except the following:

- (i) In the first quarter of fiscal 2002, the Company adopted retroactively the new Canadian Institute of Chartered Accountants (CICA) Handbook Section 3500 "Earnings per share," which requires the use of the treasury stock method for calculating diluted earnings per share. Under this method, Electrofuel's basic loss per share is unaffected and its common share purchase options are anti-dilutive.
- (ii) In April 2001, the Company commenced production of commercial units at its new manufacturing facility in Mississauga. All of the materials, labour and overhead costs associated with the production of commercial units are included in Cost of goods sold. As production had not yet commenced in the Mississauga facility in the first quarter of 2001, there is no comparable amount for that period.

ELECTROFUEL INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in Thousands of U.S. dollars)

(Unaudited)

Three months ended December 31, 2001

The unaudited interim consolidated financial statements reflect all adjustments, consisting only of normal recurring accruals, which are, in the opinion of management, necessary to present fairly the financial position of the Company as at December 31, 2001 and the results of operations and cash flows for the three months ended December 31, 2001 and 2000.

3. Inventories

Inventories consist of

	December 31, 2001	September 30, 2001
Raw materials	\$ 1,184	\$ 924
Work in progress	1,777	767
Finished goods	283	145
	<u>\$ 3,244</u>	<u>\$ 1,836</u>

4. Share capital

As at December 31, 2001, the Company had outstanding 69,539,109 common shares and 1,612,600 options to acquire common shares under the Company's employee incentive plan.

5. Comparative figures

Certain of the comparative figures have been reclassified to conform with the financial statement presentation adopted in the current period.