

# **ELECTROFUEL INC.**

## **ANNUAL INFORMATION FORM**

**February 18, 2002**

### **1.0 Material Incorporated by Reference**

Our 2001 Annual Report containing a message to our shareholders, a review of various areas of operation (e.g., technology, manufacturing, brand value, marketing and products), including management's discussion and analysis and our audited consolidated financial statements for the fiscal years ended September 30, 2001 and 2000, is incorporated herein by reference.

### **2.0 Corporate Structure**

We were incorporated under the *Business Corporations Act* (Ontario) in September 1996. With the approval of our shareholders, we split our common shares on a three for one basis on September 18, 2000.

In October 2001, we announced that we would change our name to 'Electrovaya Inc.', subject to shareholder approval. At our next annual shareholders' meeting, which will be held on Tuesday, March 26, 2002, our shareholders will be asked, among other things, to approve changing our name to Electrovaya Inc.

We have three wholly-owned subsidiaries:

- 1408871 Ontario Inc., an Ontario corporation, which was incorporated on March 23, 2000 to hold our real property;
- Electrofuel Sales Company, a Delaware corporation, which was incorporated on February 15, 2001 for the purpose of carrying out our sales efforts in the United States; and
- Electrofuel USA Inc., a Delaware corporation, which was incorporated on April 7, 2000 for the purpose of carrying out our corporate business activities in the United States.

Our head office is located 2645 Royal Windsor Drive, Mississauga, Ontario L5J 1K9. Our telephone number, fax number and website address are 905 822 6573, 905 822 7953 and [www.electrovaya.com](http://www.electrovaya.com), respectively.

### **3.0 History of the Corporation**

We develop, market and sell products using our proprietary lithium ion SuperPolymer™ rechargeable battery technology under the business name Electrovaya. We believe that we produce portable rechargeable batteries that have significantly longer run times for their size and weight than any rechargeable batteries currently in commercial production. Our SuperPolymer™ rechargeable battery technology has a number of potential applications, including products for portable computers, mobile phones, wireless devices, and over the long term, transportation and energy storage.

We were founded in September 1996. Our founders, Dr. Sankar Das Gupta and Dr. James K. Jacobs, began work on lithium rechargeable battery technology in 1983, and in 1987 they incorporated The Electrofuel Manufacturing Company Ltd. to undertake a variety of technology development projects, including a lithium ion battery development project. Recognizing the potential commercial applications of lithium ion polymer battery technology, Drs. Das Gupta and Jacobs decided to form a new company, Electrofuel Inc., to engage exclusively in the development and commercialization of that technology. In October 1996, we acquired from Drs. Das Gupta and Jacobs all of the patents and patent applications they held with respect to our rechargeable lithium ion polymer battery technology. In January 1997, we also acquired from The Electrofuel Manufacturing Company Ltd. all of its assets relating to its lithium ion polymer battery technology.

In January 1997, we completed a private placement in Canada and used the net proceeds of U.S. \$6.5 million to continue the development of our lithium ion battery technology, to develop products that utilize our battery technology, to improve on research and development, to establish a low-volume production facility and to fund operations. In June 1999, we introduced our first commercial product, the PowerPad 160, a rechargeable lithium ion polymer battery designed for external use with portable computers. In February 2000, at the Wireless 2000 trade show, we exhibited our prototype EF2100 mobile telephone battery.

In January 2000, we raised net proceeds of U.S. \$28.4 million through the private placement of special warrants in Canada, the United States and Europe. These proceeds were used, in part, to acquire and equip our manufacturing facility in Mississauga, Ontario.

In February 2000, we acquired machinery and equipment from an industrial machine-building corporation in the Toronto area for U.S. \$1.1 million to give us the internal capacity to manufacture the proprietary equipment we require to make our products.

During the same period, we devoted resources toward building equipment for our Mississauga high-volume manufacturing facility, funding research and development relating to new products and creating awareness of our PowerPad 160 rechargeable portable batteries and SuperPolymer™ technology through marketing efforts. Our employee base increased significantly during this period.

In November 2000, we completed a public offering of 6,250,000 common shares providing net proceeds of U.S. \$28.2 million. We used approximately U.S. \$5 million of these proceeds to increase the monthly production capacity of our Mississauga facility.

In April 2001, we commenced volume production of our PowerPad 160 rechargeable portable batteries at our Mississauga facility. The plant currently has a monthly capacity of approximately five million watt hours, which is equivalent to approximately 30,000 PowerPad 160s per month. We are continuing to expand our production capacity at our Mississauga plant .

In June 2001, we announced plans to enhance our product line with the addition of the PowerPad 120, a new external lithium ion SuperPolymer™ battery for portable computers.

In addition, we have entered into a number of distribution agreements with various value-added resellers, catalogue houses and distributors to market and distribute our products throughout North America and around the world.

#### **4.0 Description of the Business of the Corporation**

##### **4.1 Overview of Products**

As stated, we have developed a proprietary lithium ion SuperPolymer™ rechargeable battery technology and we believe that we produce portable rechargeable batteries that have significantly longer run times for their size and weight than any other batteries currently in commercial production.

We believe that our SuperPolymer™ rechargeable battery technology is well positioned to meet the current needs for higher density portable power and the long-term needs for alternative power sources across multiple industries such as:

- portable computers;
- mobile telephones and other wireless devices;
- transportation: electric vehicles and hybrid vehicles;
- energy storage: solar energy systems, uninterruptable power sources and utility load levelling; and
- consumer products, medical devices and defense and aerospace.

To date, we have developed two product lines, our PowerPad batteries for external use with portable computers and EF2100 batteries for Nokia mobile telephones. Our PowerPad 160 batteries have a capacity of approximately 160 watt hours and a typical run-time of approximately 12 to 16 hours for many portable computers, compared to single batteries typically installed in portable computers, which generally have between 30-40 watt hours and three to four hour run-times. Our EF2100 telephone batteries can provide up to seven hours of talk time.

In June 2001, we announced plans to enhance our product line with the addition of our PowerPad 120 external battery for portable computers which has an average run time of approximately 10 to 12 hours. Our PowerPad 120 is designed to address the broad mid-tier segment of users.

## **4.2 Strategy for Growth**

Our goal is to become the leading provider of portable power for the notebook computer and wireless sectors, and to apply our technology to a broad spectrum of alternative energy applications over the long term.

Our business strategy to achieve our goal involves the following key elements:

- establish additional channels to market by creating new relationships with OEM computer makers, distributors and value-added resellers;
- increase production in line with sales at our current manufacturing facility and investigate further expansion opportunities;
- further automate production processes to enhance our fully scalable production system to accommodate new product lines;
- establish strategic relationships in order to broaden the market potential of our products;
- continue our investment in research and development initiatives to stay ahead of the industry;
- develop new products which use our high energy density battery to give us a competitive advantage; and
- achieve profitability through increased sales and production efficiencies.

## **4.3 Sale of Products**

We began to sell our products commercially in the latter part of fiscal 2001. As a result, our total revenue increased to U.S. \$1.0 million in fiscal 2001 from U.S. \$152,000 in fiscal 2000. We sold our lithium ion SuperPolymer™ rechargeable batteries to corporate customers, distributors and individuals.

## **4.4 Competition**

The market for compact rechargeable batteries is very large and growing rapidly. There are currently five to seven principal competitors, primarily well-capitalized companies in Japan, which have, in the aggregate, a dominant market position in the lithium ion and lithium ion polymer battery sector. By leveraging our technological advantage, moving quickly to penetrate the market, initially targeting the underserved after market, and emphasizing our higher energy density batteries to create brand differentiation, we believe we can achieve significant sales growth in the near term. Additionally, we believe that design innovations in the wireless sector

will either not materially extend the run time of existing battery technologies or will be more than offset by the addition of new, enhanced, “power-hungry” features, which will increase the energy requirements of these wireless devices. Finally, miniature fuel cells present potential future competition to batteries in the portable and mobile power applications. However, they are expensive and still have technical hurdles to overcome, thus mitigating the threat to our products in the electronics markets that we target.

#### **4.5 Intellectual Property**

We seek to protect our intellectual property, including our proprietary processes, know-how and technology and our trademarks, through a combination of patents, trade secrets, copyright and trademark and non-disclosure agreements.

We have filed over 70 patent applications in the United States and Canada to protect many of our inventions, discoveries and improvements related to our battery components and assemblies. In the United States, we have 15 issued patents which expire between 2014 and 2019, one allowed patent application, which we anticipate will be issued in the near future and one pending patent application. In Canada, we have eight issued patents which will expire between 2015 and 2019, one allowed patent applications which we anticipate will be issued in the near future and five pending patent applications. We are not aware of any of our patents having been challenged by any third parties.

Some of the most important characteristics of our batteries and proprietary manufacturing processes are our trade secrets and know-how. We try to protect our proprietary processes in part by designing and internally constructing some of the critical machinery we need to manufacture our SuperPolymer™ batteries. We also seek to protect our trade secrets and know-how by only disclosing information on a need-to-know basis and by entering into non-disclosure agreements with our potential customers, employees, consultants and potential strategic partners, and by treating the information as confidential.

We will continue to register patents resulting from ongoing research and development activities, acquire, or license patents from third parties if appropriate and further develop the trade secrets related to our manufacturing process and the design and operation of the equipment we use in our manufacturing processes.

#### **4.6 Employees**

As of December 31, 2001 we had 186 employees. None of our employees is covered by a collective bargaining agreement and our relationship with our employees is good.

#### **4.7 Facilities**

We have a product manufacturing facility in Mississauga, Ontario, a research and development facility in Toronto, Ontario and a machine manufacturing facility in Concord, Ontario.

## 4.8 Risk Factors

A discussion of the risks related to our business is included under the heading “Qualitative and Quantitative Disclosures about Risks and Uncertainties” in the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” section of our Annual Report for the year ended September 30, 2001, which is incorporated herein by reference.

## 5.0 Selected Consolidated Financial Information

### 5.1 Financial Statement Data

Selected consolidated financial information about us for each of the last three years is as follows:

	Years ended September 30, In thousands of U.S. dollars		
	2001	2000	1999
Revenues	1,017	152	-
Loss from Operations	9,544	3,608	1,554
Net Loss	7,169	1,518	1,316
Loss Per Common Share	0.11	0.03	0.02
Dividends	-	-	-
Total Assets	49,638	30,895	3,693
Total Long Term Debt	-	-	-
Shareholders' Equity	48,491	29,063	3,476

Selected consolidated quarterly information for the last eight quarters is as follows:

**For the Year ended September 30, 2000**  
In thousands of U.S. dollars  
Except per share amounts

Statement of Operations	1 <sup>st</sup> Quarter	2 <sup>nd</sup> Quarter	3 <sup>rd</sup> Quarter	4 <sup>th</sup> Quarter
Revenue	-	-	11	141
Expenses	606	1,082	1,217	1,383
Net Loss	580	656	367	(85)
Loss Per Common Share	0.01	0.01	0.01	-
<b>Balance Sheet Data</b>				
Cash & Investments	1,846	28,764	23,498	19,337
Working Capital	2,125	28,650	23,221	19,081
Capital Assets	916	2,235	5,951	8,143
Total Assets	3,248	31,802	30,832	30,895

**For the Year ended September 30, 2001**  
**In thousands of U.S. dollars**  
**Except per share amounts**

<b>Statement of Operations</b>	<b>1<sup>st</sup> Quarter</b>	<b>2<sup>nd</sup> Quarter</b>	<b>3<sup>rd</sup> Quarter</b>	<b>4<sup>th</sup> Quarter</b>
Revenue	124	146	365	382
Expenses	1,659	2,898	2,540	3,464
Net Loss	975	1,640	2,168	2,387
Loss Per Common Share	0.02	0.02	0.03	0.04
<b>Balance Sheet Data</b>				
Cash & Investments	44,420	38,347	34,997	30,705
Working Capital	45,540	38,871	36,233	32,990
Capital Assets	11,844	14,051	16,625	15,501
Total Assets	58,529	54,073	53,971	49,638

## **5.2 Dividends**

We have never declared or paid any dividends on our common shares in the past and do not expect to declare any dividends on our common shares in the future. We intend to retain any earnings we make to further fund the growth and development of our business.

## **6.0 Management's Discussion and Analysis for 2001**

Management's discussion and analysis of our financial condition and results of operations for our fiscal years ended September 30, 2001 and 2000 is contained in our 2001 Annual Report and is incorporated herein by reference.

## **7.0 Market for Shares**

Our common shares are listed for trading on the Toronto Stock Exchange under the symbol 'EFL'.

## **8.0 Directors and Officers**

The following table sets forth, as of the date hereof, the names and municipalities of residence of our directors, and officers, the position they hold with us and their principal occupation:

<b>Name, Office (if any) and Principal Occupation</b>	<b>Director Since</b>	<b>Common Shares Beneficially Owned</b>	<b>Stock Options Held</b>
Dr. Sankar Das Gupta, Mississauga, Ontario, Chairman of the Board, President and Chief Executive Officer of the Corporation	1996	23,953,739	150,000
Dr. James K. Jacobs, Toronto, Ontario, Executive Vice-President, Chief Technology Officer and Secretary of the Corporation	1996	23,953,739	150,000
Dr. Bejoy Das Gupta <sup>(2)</sup> , Washington, D.C., U.S.A., Deputy Director, Institute of International Finance.	1999	99,672	14,000
Sydney R. McMorran <sup>(1)(2)</sup> , Toronto, Ontario, Corporate Director, retired Vice Chairman, Toronto-Dominion Bank.	1999	9,814	14,000
George Paterson <sup>(1)(2)</sup> , Toronto, Ontario, Board member of Northern Trust of Canada since 1991; Board member of BEST Labour Fund since 1996; retired Treasurer of IBM Canada Inc.	1999	9,814	14,000
Michael L. Gopikanth <sup>(1)(3)</sup> , Woodinville, Washington, U.S.A., Senior Marketing Manager, Macrovision Inc.; prior to that Product Manager, Global Mobile Phone Accessories, Ericsson Inc.	2001	-	2,000
Patrick McCool, Alpharetta, Georgia, U.S.A., Vice President, Sales and Marketing, formerly Executive Vice President of Sales for Mitsubishi Wireless.	N/A	-	120,000
Paul Van Damme, Toronto, Ontario, Vice President, Finance and Chief Financial Officer, formerly Vice President, Finance and Chief Financial Officer of Allelix Biopharmaceuticals Inc.	N/A	-	166,000

(1) Audit Committee Member

(2) Corporate Governance and Compensation Committee Member

(3) Mr. Gopikanth was appointed as a director effective February 8, 2001

All of our current directors are standing for re-election at our shareholders meeting on Tuesday, March 26, 2002.

## **9.0 Additional Information**

We shall provide to any person or corporation, upon request to our secretary at 2645 Royal Windsor Drive, Mississauga, Ontario, L5J 1K9:

- (a) when we are selling our common shares pursuant to a preliminary short form prospectus or a short form prospectus:



- (i) one copy of this annual information form together with one copy of any document, or the pertinent pages of any document, incorporated by reference therein;
  - (ii) one copy of our comparative financial statements for our most recently completed financial year together with the report of our auditors thereon and one copy of our interim financial statements, if any, that have been filed subsequent to the financial statements for our most recently completed financial year;
  - (iii) one copy of the management information circular to our most recent annual meeting of shareholders; and
  - (iv) one copy of any other documents that are incorporated by reference into our preliminary short form prospectus or short form prospectus and are not referred to above; or
- (b) at any other time, one copy of any documents referred to in (a)(i), (ii) and (iii) above, provided that we may require the payment of a reasonable charge if the request is made by a person or corporation who is not a security holder of our common shares.

Additional information including directors' and officers' remuneration and indebtedness, principal holders of our securities, options to purchase securities and interests of insiders in material transactions, where applicable, is contained in the management and information circular to our most recent annual meeting of shareholders. Additional information is also included in our financial statements for our most recently completed financial year.