



News for Immediate Release

ELECTROVAYA ANNOUNCES THIRD QUARTER FISCAL 2006 FINANCIAL RESULTS

Toronto, Ontario – August 14, 2006 – Electrovaya Inc. (TSX: EFL) today announced financial results for the third quarter of fiscal 2006. All figures are in US dollars.

Highlights

For the quarter ending June 30, 2006:

- Revenue increased by \$147,000 or 17.2% from \$855,000 to \$1,002,000 compared to the quarter ending March 31, 2006.
- Revenue decreased by 8.6% or \$94,000 to \$1,002,000 from \$1,096,000 for the quarter ended June 30, 2005.
- Loss from operations, before interest, taxes, foreign exchange and amortization increased by \$559,000 or 74.0% to \$1,314,000 compared to \$755,000 in the same quarter in the prior year.
- Cash & investments were \$10.3 million as at June 30, 2006, compared to \$12.2 million as at September 30, 2005 and \$10.4 million as at March 31, 2006.
- During the quarter, there was a gain on the sale of an investment of \$887,000 (June 30, 2005 – NIL)

Summary of Financial Results

In thousands of US\$ except per share amounts	3 months ended June 30		9 months ended June 30	
	2006	2005	2006	2005
Revenue	\$ 1,002	\$1,096	\$ 2,445	\$ 3,764
Loss from operations before interest, taxes, foreign exchange and amortization*	\$ (1,314)	\$(755)	\$ (3,550)	\$(3,201)
Loss for the period*	**\$ (805)	\$(1,210)	\$ (7,460)	\$(5,522)
Loss per share	\$ (0.01)	\$ (0.02)	\$ (0.11)	\$(0.08)
Cash & investments	\$ 10,273	\$10,769	\$ 10,273	\$ 10,769

* *Net of TPC repayable contribution of \$197 and \$407 for the quarters ending June 30, 2006 and 2005 respectively and \$924 and \$716 for the nine months ending June 30, 2006 and June 30, 2005 respectively.*

** *Net of an \$887 non-recurring gain on the sale of an investment.*

Three and Nine Months Ending June 30, 2006

Total Revenue. For the three month period ended June 30, 2006, total revenue decreased by 8.6% to \$1.0 million from \$1.1 million for the quarter ended June 30, 2005. For the nine month period ended June 30, 2006, total revenue declined by 35.0% or \$1.3 million from \$3.8 million to \$2.4 million primarily due to lower consumer electronics revenue.

Direct Manufacturing Costs. For the quarter ended June 30, 2006, direct manufacturing costs increased by 11.1% or \$94,000 to \$944,000 from \$850,000 for the quarter ended June 30, 2005. For the nine months ending June 30, 2006, direct manufacturing costs decreased by 28.6% or \$969,000 to \$2.4 million from \$3.4 million for the quarter ended June 30, 2005. This was primarily a result of lower material costs related to lower sales and lower manufacturing labor costs as more time was spent on research and development activities.

Research and Development Expenses. Research and development expenses, net of investment tax credits, increased by \$21,000 or 2.6% to \$818,000 for the quarter ended June 30, 2006 from \$797,000 for the same three month period in 2005 due primarily to an increase in labor & material and subcontract expenses. During the three month period ended June 30, 2006, the Company received \$197,000 of cash contributions from Technology Partnerships Canada (TPC), compared to \$407,000 during the three months ended June 30, 2005. Compared to the nine month period ending June 30, 2005, research and development expenses increased by \$541,000 or 29.5% from \$1.8 million to \$2.4 million during the nine month period ending June 30, 2006. The Company attempts to redeploy resources wherever possible if these resources are not required for manufacturing activities, resulting in increased labor and material expenses compared to the same period the prior year.

Sales & marketing. For the quarters ended June 30, 2006 and 2005, sales and marketing expenses were \$166,000 and \$276,000 respectively. Compared to the nine month period ending June 30, 2005, sales and marketing expenses decreased by \$393,000 or 45.1% from \$872,000 to \$479,000 during the nine month period ending June 30, 2006 due to lower salaries and benefits, advertising and trade show attendance expenses.

General and administrative. General and administrative expenses increased by 74.6% or \$250,000 to \$585,000 for the quarter ended June 30, 2006 compared to \$335,000 for the same period in the prior year. The increase primarily reflects an increase in salaries and benefits and an increase in the provision for bad debts. Compared to the nine month period ending June 30, 2005, general and administration expenses of \$1.6 million remained relatively unchanged.

The loss per share for the quarter was \$0.01, compared to \$0.02 for the quarter ending June 30, 2005.

Liquidity and Capital Resources

As of June 30, 2006, the Company had \$10.3 million in cash, cash equivalents, and short-term investments, a decrease of \$1.9 million compared to \$12.2 million as at September 30, 2005 and a decrease of \$0.1 million compared to \$10.4 million as at March 31, 2006.

About ElectroVaya Inc.

Electrovaya (TSX: EFL) is a developer and manufacturer of portable power solutions with its proprietary Lithium Ion SuperPolymer® battery technology. Its goal is to become the preferred provider of tablet PCs, portable power for aerospace and wireless sectors, and the developer of alternative energy applications including UPS, stand-by power, plug-in hybrids and zero-emission vehicles. The Company's shares trade on the Toronto Stock Exchange under the symbol EFL. For more information on ElectroVaya and its products, please visit www.electrovaya.com.

For more information about the Company and its products, please visit our website at www.electrovaya.com

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Forward-Looking Statements

This news release may contain forward-looking statements that involve a number of risks and uncertainties, including statements regarding the outlook for the Company's business and results of operations. Risks are outlined in the Company's MD&A for the year ending September 30, 2005 and are set forth in public disclosure documents filed with Canadian regulatory authorities. By nature, these risks and uncertainties could cause actual results to differ materially from those indicated. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

ELECTROVAYA INC.

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

	June 30, 2006	September 30, 2005
Assets		
Current assets		
Cash and cash equivalents	\$ 4,428	\$ 3,333
Short-term investments	5,845	8,900
Accounts receivable	544	826
Investment tax credits recoverable	-	49
Goods and Services Tax receivable	51	29
Inventories (note 2)	1,649	1,844
Prepaid expenses and other	112	65
	<u>12,629</u>	<u>15,046</u>
Capital assets (note 1(c), 3)	6,481	10,936
	<u>\$ 19,110</u>	<u>\$ 25,982</u>

Liabilities and Shareholders' Equity

Current liabilities		
Accounts payable and accrued liabilities	\$ 1,200	\$ 1,604
	<u>1,200</u>	<u>1,604</u>
Shareholders' equity		
Share capital (note 4)	63,745	63,745
Contributed surplus	429	227
Cumulative translation adjustment	8,294	7,504
Deficit	<u>(54,558)</u>	<u>(47,098)</u>
	17,910	24,378
Contingencies (note 1(f)), 6(b))		
	<u>\$ 19,110</u>	<u>\$ 25,982</u>

See accompanying notes to consolidated financial statements.

These unaudited interim consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements for the year ended September 30, 2005.

ELECTROVAYA INC.

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

	Three months ended		Nine months ended	
	June 30,		June 30,	
	2006	2005	2006	2005
Revenue	\$ 1,002	\$ 1,096	\$ 2,445	\$ 3,764
Direct manufacturing costs	944	850	2,425	3,394
	58	246	20	370
Expenses				
Research and development	818	797	2,373	1,832
Government assistance (Note 1(f))	(197)	(407)	(924)	(716)
Sales and marketing	166	276	479	872
General and administrative	585	335	1,642	1,583
	1,372	1,001	3,570	3,571
Loss before the undernoted	1,314	755	3,550	3,201
Amortization (note 3)	220	582	796	2,047
Capital assets write-down (note 3)	-	-	4,020	-
Loss from operations	1,534	1,337	8,366	5,248
Interest income	(89)	(62)	(251)	(206)
(Gain)/Loss from foreign exchange	247	(65)	232	480
	158	(127)	(19)	274
Loss for the period before undernoted	1,692	1,210	8,347	5,522
Gain on sale of investment (note 6(a))	(887)	-	(887)	-
Loss for the period	805	1,210	7,460	5,522
Deficit, beginning of period	53,753	45,088	47,098	40,776
Deficit, end of period	54,558	46,298	54,558	46,298
Basic and diluted loss per common share	\$ (0.01)	\$ (0.02)	\$ (0.11)	\$ (0.08)
Weighted average number of shares outstanding, basic and fully diluted	69,575,442	69,575,442	69,575,442	69,575,442

See accompanying notes to interim consolidated financial statements.

These unaudited interim consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements for the year ended September 30, 2005.

ELECTROVAYA INC.

Unaudited Consolidated Statements of Cash Flows
(Expressed in Thousands of U.S. dollars, except per share amounts)

	Three months ended June 30,		Nine months ended June 30,	
	2006	2005	2006	2005
Cash provided by (used in)				
Operating activities				
Loss for the period	\$ (805)	(1,210)	\$ (7,460)	\$ (5,522)
Gain on sale of investments(note 6(a))	(887)	-	(887)	-
Amortization which does not involve cash (note 3)	220	582	796	2,047
Capital assets write-down (note 3)	-	-	4,020	-
Stock compensation expense	75	54	202	127
Change in non-cash operating working capital	(225)	(860)	53	88
	(1,622)	(1,434)	(3,276)	(3,260)
Investing activities				
(Increase)/decrease in short-term investments	(5,845)	(8,548)	3,055	2,349
Proceeds on sale of investments (note 6(a))	887	-	887	-
Additions to capital assets	(52)	(30)	(120)	(115)
	(5,010)	(8,578)	3,822	2,234
Increase (decrease) in cash and cash equivalents	(6,632)	(10,012)	546	(1,026)
Effect of currency translation adjustments on cash and cash equivalents	618	(270)	549	532
Cash and cash equivalents, beginning of year	10,442	12,503	3,333	2,715
Cash and cash equivalents, end of period	\$ 4,428	\$ 2,221	\$ 4,428	\$ 2,221
Supplemental disclosure of cash flow information				
Income taxes paid	\$ 1	\$ 1	\$ 22	\$ 7
Interest received	86	62	322	257

See accompanying notes to interim consolidated financial statements.

These unaudited interim consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements for the year ended September 30, 2005.

ELECTROVAYA INC.

Unaudited Notes to Consolidated Financial Statements (continued)
(Expressed in Thousands of U.S. dollars, except per share amounts and otherwise stated.)

Three months ended June 30, 2006 and 2005

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

1. Significant accounting policies

(a) Basis of presentation

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. All inter-company balances and transactions have been eliminated during consolidation.

The disclosures contained in these unaudited interim consolidated financial statements do not include all disclosures required under Canadian generally accepted accounting principles (GAAP) for annual financial statements. The unaudited interim consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended September 30, 2005.

The unaudited interim consolidated financial statements are based upon accounting policies consistent with those used and described in the annual consolidated financial statements. The interim financial statements are not considered to be materially affected by seasonal or cyclical factors.

Management believes these unaudited interim consolidated financial statements include all adjustments, including normal recurring adjustments, necessary to present fairly the financial position of the Company as at June 30, 2006 and the results of its operations and its cash flows for the nine months and three months ended June 30, 2006. Results for the nine months ended June 30, 2006 are not necessarily indicative of the results to be expected for the entire year.

(b) Cash and cash equivalents and short term investments

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. Short term investments consist of temporary investments in marketable securities with longer terms to maturity and are recorded at cost, which is equivalent to their market value.

ELECTROVAYA INC.

Unaudited Notes to Consolidated Financial Statements (continued)
(Expressed in Thousands of U.S. dollars, except per share amounts and otherwise stated.)

Three months ended June 30, 2006 and 2005

1. Significant accounting policies (continued)

(c) 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 following annual rates:

Building	4%
Building improvements	7%
Production equipment	17%
Workshop equipment	20%
Patents and technology	20%
Office furniture and equipment	20%
Vehicles	20%

During the fourth quarter of the fiscal year ended September 30, 2005, the Company reviewed the estimated useful life of depreciable assets resulting in a prospective change in amortization for production equipment and building improvements.

This resulted in production equipment and building improvements being amortized on a straight line basis over the next 6 and 15 years respectively.

(d) 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 batteries and electric vehicles are being funded by a repayable grant from Technology Partnerships Canada (see Note 1 (f)).

ELECTROVAYA INC.

Unaudited Notes to Consolidated Financial Statements (continued)
(Expressed in Thousands of U.S. dollars, except per share amounts and otherwise stated.)

Three months ended June 30, 2006 and 2005

1. Significant accounting policies (continued)

(e) Inventories

Inventories are comprised of raw materials, work in progress and finished goods. Raw materials and work in progress are recorded at the lower of cost and replacement cost. Finished goods are recorded at the lower of cost and net realizable value.

(f) Government assistance

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.

The Company has been approved for funding under the Technology Partnerships Canada initiative of Industry Canada. The funding is to support the Company's research and development efforts in fast rate batteries and electric vehicles. The Company will receive contributions of up to 29.7% of the specified costs of the development project, to a maximum amount of \$6,700. Under the terms of the agreement, an amount up to a maximum of \$31,100 is to be repaid by royalties, commencing in 2007 through to 2013, with payment to be deferred or reduced if certain revenue thresholds are not achieved. For the fiscal year ended September 30, 2005, cumulative claims of \$2,524 have been received. Additional claims for \$219, \$508 and \$197 were received by the company during the quarter ended December 31, 2005, quarter ended March 31, 2006 and quarter ended June 30, 2006 respectively.

(g) Stock based Compensation

In accordance with Handbook section 3870 "Stock-based Compensation and Other Stock-based Payments," the Company applies the fair value method of accounting for employee stock options to all employee stock options granted on or after October 1, 2003. Under the fair value based method, compensation cost is measured at fair value at the date of grant and expensed over the award's vesting period. Stock based compensation expense for the quarter ended June 30, 2006 was \$75 (2005:\$54)

(h) Revenue recognition

Revenue from product sales is recognized upon shipment, since persuasive evidence of an arrangement exists, risks and rewards of ownership have been transferred to customers, selling price is fixed and determinable and collectability is reasonably assured. 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

ELECTROVAYA INC.

Unaudited Notes to Consolidated Financial Statements (continued)
(Expressed in Thousands of U.S. dollars, except per share amounts and otherwise stated.)

Three months ended June 30, 2006 and 2005

1. Significant accounting policies (continued)

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 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.

(i) Warranty costs

Warranty costs are provided for as revenues are earned.

(j) 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.

ELECTROVAYA INC.

Unaudited Notes to Consolidated Financial Statements (continued)
(Expressed in Thousands of U.S. dollars, except per share amounts and otherwise stated.)

Three months ended June 30, 2006 and 2005

1. Significant accounting policies (continued)

(k) 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 operating 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 income in the period that includes the date of enactment or substantive enactment. A valuation allowance is recorded against any future income tax asset if it is not more likely than not that the asset will be realized.

(l) 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 period. 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 statement of operations in the period in which they occur.

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 period. Cumulative net translation adjustments are included as a separate component of shareholders' equity.

(m) 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.

(n) Impairment of Long-lived Assets

The Company reviews capital assets for impairment on an annual basis or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable in accordance with the accounting standard CICA Handbook Section 3063

ELECTROVAYA INC.

Unaudited Notes to Consolidated Financial Statements (continued)
(Expressed in Thousands of U.S. dollars, except per share amounts and otherwise stated.)

Three months ended June 30, 2006 and 2005

1. Significant accounting policies (continued)

“Impairment of Long-Lived Assets.” 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.

2. Inventories

	June 30, 2006	September 30, 2005
Raw materials	\$ 807	\$ 816
Work in progress	732	896
Finished goods	110	132
	\$ 1,649	\$ 1,844

3. Capital assets:

	Cost	Accumulated depreciation	Net book value 2006	Net Book value 2005
Land	\$ 2,691	-	\$ 2,691	2,585
Buildings	844	485	359	619
Building improvements	7,475	4,247	3,228	5,640
Production equipment	12,578	12,432	146	1,638
Workshop equipment	1,437	1,436	1	1
Patent and technology	1,904	1,857	47	343
Office furniture and equipment	698	690	8	107
Vehicles	48	47	1	3
	\$ 27,675	21,194	6,481	10,936

Amortization expense for three month ended is \$220 (2005 - \$582) and 9 months ended is \$796 (2005-\$2,047)

The Company has reported a current-period operating and cash flow loss and have a history of operating and cash flow losses. The recent and historical performance of the Company and its near-term forecast indicated that the carrying amount of the capital assets may not be recoverable in accordance with the accounting standard CICA Handbook Section 3063 “Impairment of Long-Lived Assets.”

During the quarter ended March 31, 2006, the Company performed an impairment analysis.

ELECTROVAYA INC.

Unaudited Notes to Consolidated Financial Statements (continued)
(Expressed in Thousands of U.S. dollars, except per share amounts and otherwise stated.)

Three months ended June 30, 2006 and 2005

3. Capital assets (continued)

which indicated that the estimated undiscounted future cash flows generated by the capital assets were less than their carrying values. The carrying values of the capital assets were reduced to fair market value, resulting in a capital assets write-down of \$4,020. Where possible, management estimated fair market value using third party appraisals.

4. Share capital

As at June 30, 2006, the Company had 69,575,442 common shares (69,575,442 as at March 31, 2006) outstanding and 3,199,271 options (3,378,937 as at March 31, 2006) to acquire common shares under the Company's employee incentive plan.

5. Financial instruments

(a) Fair values

The reported values of the financial instruments, which consist of cash and cash equivalents, short-term investments, accounts receivable and accounts payable and accrued liabilities, approximate their fair values due to the near-term maturity of those instruments.

(b) Foreign currency risk

The Company is exposed to foreign currency fluctuations to the extent that the Company is holding significant cash and cash equivalent balances denominated in U.S. dollars. The Company does not hedge the risk related to fluctuations of the exchange rate between U.S. and Canadian dollars.

(c) Credit risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of trade accounts receivable. The Company performs periodic credit evaluations of the financial condition of its customers and typically does not require collateral from them. Allowances are maintained for potential credit losses consistent with the credit risk of specific customers, historical trends and other information. Credit losses have been within management's range of expectations. The company also insures some of its accounts receivable.

ELECTROVAYA INC.

Unaudited Notes to Consolidated Financial Statements (continued)
(Expressed in Thousands of U.S. dollars, except per share amounts and otherwise stated.)

Three months ended June 30, 2006 and 2005

6. Related Party Transactions

- a) Electrovaya in previous years invested \$115 in a private unrelated company. In return for its investment, the Company received 6% of the Class A and 21% of the Class B shares of this private company. Additionally, during the previous years, Electrovaya had provided research and development services totaling \$153 to this private company, and received an additional 30% of the outstanding non-voting, participating Class B shares as consideration for the services rendered. The Class B shares were convertible into Class A voting, participating shares in the event the private company became registered on a stock exchange. During the previous years, Electrovaya provided a \$38 loan and space at no additional charge to the private company to assist with the operation of a pilot plant, resulting in the potential for Electrovaya to exert significant influence over the activities of the private company. The private company was owned by arm's length private investors and had not yet reached commercial levels of production. The private company was seeking additional funding and, in the event these efforts were unsuccessful, would have not been a going concern. As a result, the original investment, additional shares and loan were valued at NIL as at September 30, 2005. On April 24, 2006, the Company sold its class A and B shares of the private company to a third party and recorded a gain of \$887 on its sale.

- b) In August 2005, the Company purchased all of the issued and outstanding shares of 1020204 Ontario Limited ("102") from its two principal shareholders, Dr. Sankar Das Gupta, who is a director and officer of the Company and Dr. James Jacobs who was an officer of the Company. Electrovaya Inc. then transferred all of its shares in Electrovaya Corp. to 102 in exchange for shares of 102. 102 and Electrovaya Corp. then completed a statutory vertical amalgamation and continued as Electrovaya Corp. (the "amalgamation transaction").

The amalgamation transaction had been accounted for based on CICA Handbook Section 3840, *Related Party Transactions* at the exchange amounts of the assets and liabilities transferred as there has been a substantive change in the ultimate unrelated parties' ownership interests in the subsidiaries. Further the Company had obtained independent evidence on the exchange amounts involved in the amalgamation transaction. An independent committee of the Board was constituted to review the amalgamation transaction. Upon amalgamation, the Company received \$509 of cash and assumed a liability of \$77 relating to interest payable on an income taxes liability of 102. The offset to the \$432 of net assets assumed had been recorded as a credit to income tax recovery in the statement of operations for the fiscal year ended September 30, 2005.

ELECTROVAYA INC.

Unaudited Notes to Consolidated Financial Statements (continued)
(Expressed in Thousands of U.S. dollars, except per share amounts and otherwise stated.)

Three months ended June 30, 2006 and 2005

6. Related Party Transactions (continued)

In addition, as at September 30, 2005, Electrovaya Corp carried back income tax losses of \$4,787, eliminating a \$1,148 income tax liability of 102. This transaction had no impact on the statement of operations as a full valuation allowance had been recorded against the income tax losses.

During the previous quarter, it was determined that 102 may have an additional liability to pay an Ontario "corporate minimum tax" of approximately \$343. Pursuant to the terms of the share purchase agreement among Electrovaya, the shareholders of 102 and the principals thereof, Electrovaya had provided notice of its claim for an indemnity in respect of the full amount of this tax liability and consequently this liability had not been recorded in the financial statements.

During the quarter, 102 was served with a Statement of Claim ("Claim") by the purchaser of the land and building at Hanna Avenue, seeking damages in the amount of \$857. The Company is indemnified for such matters under the terms of the purchase and sale agreement mentioned above. Management believes that it is too early to determine the ultimate outcome of these proceedings. However they believe that this claim is without merit.

- c) During the quarter ended June 30, 2006, the Company paid \$ 41 (2005 - \$36) to a director of a wholly owned subsidiary company for services rendered to the Company in his capacity as an executive officer.

7. Change in non-cash operating working capital

	Nine months ended June 30,	
	2006	2005
Accounts receivable	\$ 282	\$ (81)
Investment tax credits recoverable	49	109
Goods and Services Tax receivable	(22)	(9)
Inventories	195	(50)
Prepaid expenses and other	(47)	(100)
Accounts payable and accrued liabilities	(404)	219
	\$ 53	\$ 88