

AUDITORS' REPORT

To the Shareholders of
Electrovaya Inc.

We have audited the consolidated balance sheets of **Electrovaya Inc.** as at September 30, 2009 and 2008 and the consolidated statements of operations and deficit, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

SGGG LLP

Toronto, Ontario
November 20, 2009

Chartered Accountants
Licensed Public Accountants

ELECTROVAYA INC.

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

	September 30, September 30,	
	2009	2008
Assets		
Current assets		
Cash and cash equivalents	\$ 5,614	\$ 4,934
Accounts receivable	450	548
Other receivables	72	51
Investment tax credits recoverable	374	377
Inventories (note 3(a))	603	527
Prepaid expenses and other	254	293
	<u>7,367</u>	<u>6,730</u>
Capital assets (notes 1(d) & 4)	5,553	5,923
Investment in shares (note 13)	426	-
	<u>\$ 13,346</u>	<u>\$ 12,653</u>

Liabilities and Shareholders' Equity

Current liabilities		
Accounts payable and accrued liabilities	\$ 672	\$ 830
Income tax payable (note 6(a))	-	238
Current portion of long-term liability	-	24
Deferred revenue	157	1,417
Deferred government grant (note 14(d))	2,400	-
	<u>3,229</u>	<u>2,509</u>
Shareholders' equity		
Share capital (note 5(a))	64,056	63,745
Contributed surplus (note 15)	1,312	894
Accumulated other comprehensive income	9,060	9,239
Deficit	(64,311)	(63,734)
	<u>10,117</u>	<u>10,144</u>
	<u>\$ 13,346</u>	<u>\$ 12,653</u>

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, 2009 and 2008

	2009		2008
Revenue (note 11)	\$ 3,782	\$	2,541
Direct manufacturing costs (note 3(b))	1,323		1,381
	2,459		1,160
Expenses			
Research and development	3,920		3,906
Government assistance (note 14)	(3,203)		(836)
Sales and marketing	256		500
Warranty (note 1(h))	51		22
General and administrative	1,740		1,503
	2,764		5,095
Loss before the undernoted	305		3,935
Amortization (see note 1 (d))	503		565
Loss from operations	808		4,500
Interest income	(34)		(159)
Gain from foreign exchange	(197)		(386)
	(231)		(545)
Loss for the year before income tax	577		3,955
Income tax (note 6(a))	-		100
Net loss	577		4,055
Deficit, beginning of year	63,734		59,679
Deficit, end of year	64,311		63,734
Basic and diluted loss per common share	\$ (0.01)	\$	(0.06)
Weighted average number of shares outstanding, basic and fully diluted	69,776,324		69,575,442

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, 2009 and 2008

	2009	2008
Net loss	\$ 577	\$ 4,055
Other comprehensive loss net of income taxes		
Unrealized loss on translation of financial statements from the measurement currency to the reporting currency	179	862
Other comprehensive loss	179	862
Comprehensive loss for the year	756	4,917
Accumulated other comprehensive income		
Accumulated foreign currency translation	9,060	9,239
Accumulated Other Comprehensive income	\$ 9,060	\$ 9,239

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, 2009 and 2008

	2009	2008
Cash provided by (used in)		
Operating activities		
Loss for the year	\$ (577)	\$ (4,055)
Items not involving cash:		
Amortization	503	565
Accretion expense-long-term liability	-	(73)
Stock based compensation expense (note 5(b))	569	194
Change in related party receivables	-	238
Change in non-cash operating working capital (note 10)	787	1,496
	1,282	(1,635)
Investing activities		
Additions to capital assets	(251)	(190)
Investment in shares	(373)	-
	(624)	(190)
Financing activities		
Issue of shares	160	-
Repayment of long-term liability	(24)	(73)
	136	(73)
Increase (decrease) in cash and cash equivalents	794	(1,898)
Effect of currency translation adjustments on cash and cash equivalents	(114)	(415)
Cash and cash equivalents, beginning of year	4,934	7,247
Cash and cash equivalents, end of year	\$ 5,614	\$ 4,934
Supplemental disclosure of cash flow information		
Income taxes paid	\$ 211	\$ 93
Interest paid	-	-

See accompanying notes to consolidated financial statements.

ELECTROVAYA INC.

Notes to Consolidated Financial Statements

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

Years ended September 30, 2009 and 2008

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

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 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 a period except those resulting from investments by owners and distributions to owners.

Financial Instruments – Disclosures

Effective October 1, 2007, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants' Handbook Section 3862, 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 the new Handbook section in Note 12 to these financial statements.

ELECTROVAYA INC.

Notes to Consolidated Financial Statements (continued)

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

Years ended September 30, 2009 and 2008

1. Significant accounting policies (continued)

Financial instruments – Presentation

Effective October 1, 2007, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants' Handbook Section 3863, Financial Instruments – Presentation. Handbook Section 3863, Financial Instruments – Presentation, replaces the existing requirements on presentation of financial instruments which have been carried forward unchanged to this new section.

The following definitions are used in the presentation and disclosures regarding Financial Instruments in which the Company engages as part of their 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, and deferred revenue 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 are classified as accounts receivable, which are measured at amortized cost. Accounts payable and accrued liabilities and deferred revenue are classified as other financial liabilities, which are measured at amortized cost. As at September 30, 2009, 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, 2009 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.

ELECTROVAYA INC.

Notes to Consolidated Financial Statements (continued)

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

Years ended September 30, 2009 and 2008

1. Significant accounting policies (continued)

Capital disclosures

Effective October 1, 2007, 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 the new 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 the planned development, improve production capacity and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed.

The Company will continue to assess new products and seek to acquire an interest in additional products if it feels there is sufficient economic potential and if it has adequate financial resources to do so.

(b) Changes in Accounting Policy

(i) Goodwill and Intangible Assets

In February 2008, the Canadian Institute of Chartered Accountants issued Handbook Section 3064, Goodwill and intangible assets, replacing Handbook Section 3450, Goodwill and other intangibles and Handbook Section 3450, Research and development costs. Various changes have been made to other sections of the Canadian Institute of Chartered Accountants Handbook for consistency purposes.

The new sections establish standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit oriented enterprises. This new standard is applicable to fiscal years beginning on or after October 1, 2008. The Company implemented this standard on October 1, 2008. The Company believes that there is no impact from this new standard on its financial statements.

ELECTROVAYA INC.

Notes to Consolidated Financial Statements (continued)

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

Years ended September 30, 2009 and 2008

1. Significant accounting policies (continued)

(ii) Inventories

Effective October 1, 2008, the Company adopted the Canadian Institute of Chartered Accountants Handbook Section 3031, *Inventory*. The adoption of this new inventory standard requires changes for accounting of inventory including the requirement to allocate overhead costs based on normal production levels and changes to the definition of net realizable value. The adoption of the new standard did not have a material impact to the Company's financial statements.

The new inventory standard clarifies the definition of 'cost' to include 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. There was no impact of this change to the financial statements of the Company.

(c) 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.

(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

ELECTROVAYA INC.

Notes to Consolidated Financial Statements (continued)

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

Years ended September 30, 2009 and 2008

1. Significant accounting policies (continued)

(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 are being funded by repayable grants from Technology Partnerships Canada ("TPC") and Sustainable Development Technology Corp ("SDTC") (see Note 14).

(f) 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.

(g) 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 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

ELECTROVAYA INC.

Notes to Consolidated Financial Statements (continued)

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

Years ended September 30, 2009 and 2008

1. Significant accounting policies (continued)

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 certain.

(h) Warranty costs

Warranty costs are provided for as revenues are earned.

(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 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 Statement of Operations in the period that includes

ELECTROVAYA INC.

Notes to Consolidated Financial Statements (continued)

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

Years ended September 30, 2009 and 2008

1. Significant accounting policies (continued)

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.

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, 2009.

ELECTROVAYA INC.

Notes to Consolidated Financial Statements (continued)

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

Years ended September 30, 2009 and 2008

1. Significant accounting policies (continued)

(n) Going concern

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a "going concern", which assume the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. If the "going concern" assumption is not appropriate, then material adjustments may be necessary in the carrying amounts and/or classifications of assets and liabilities in these financial statements.

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 fiscal years beginning on or after January 1, 2011 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 anticipates implementation of these standards in its first quarter of fiscal year 2012 and is currently evaluating the impact of their adoption on its consolidated financial statements.

3. Inventories

(a) Total inventories on hand as at September 30, 2009 and 2008 are as follows:

	September 30,	
	2009	2008
Raw materials	\$ 408	\$ 136
Semi finished goods	48	216
Finished goods	147	175
	\$ 603	\$ 527

(b) As per accounting policies (note 1(b)), during the years ended September 30, 2009 and 2008, the following inventory revaluations and obsolescence provisions were included in direct manufacturing costs:

	September 30,	
	2009	2008
Gain on material revaluation	\$ 80	\$ 4
Provision for obsolescence(reversal)	84	(148)
	\$ 164	\$ (144)

ELECTROVAYA INC.

Notes to Consolidated Financial Statements (continued)

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

Years ended September 30, 2009 and 2008

4. Capital assets:

September 30, 2009	Cost	Accumulated amortization	Net book value
Tangible assets			
Land	\$ 2,799	\$ -	\$ 2,799
Building	878	619	259
Building improvements	7,782	5,763	2,019
Production equipment	13,264	13,126	138
Workshop equipment	1,498	1,496	2
Office furniture and equipment	480	455	25
Vehicles	52	51	1
Intangible assets			
Patents and technology	2,508	2,198	310
	\$ 29,261	\$ 23,708	\$ 5,553
September 30, 2008			
	Cost	Accumulated amortization	Net book value
Tangible assets			
Land	\$ 2,831	\$ -	\$ 2,831
Building	888	590	298
Building improvements	7,872	5,411	2,461
Production equipment	13,278	13,247	31
Workshop equipment	1,515	1,513	2
Office furniture and equipment	481	451	30
Vehicles	52	51	1
Intangible assets			
Patents and technology	2,427	2,158	269
	\$ 29,344	\$ 23,421	\$ 5,923

5. Share capital

(a) Authorized and issued capital stock

Authorized
Unlimited common shares

Issued	Common Shares	
	Number	Amount
Balance, September 30, 2007 & 2008	69,575,442	\$ 63,745
Issuance of shares upon exercise of stock options	646,000	160
Fair value of stock options exercised	-	151
Balance, September 30, 2009	70,221,442	\$ 64,056

ELECTROVAYA INC.

Notes to Consolidated Financial Statements (continued)

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

Years ended September 30, 2009 and 2008

5. Share capital (continued)

On January 25, 2007, the Company announced a Normal Course Issuer Bid ("Bid") through the Toronto Stock Exchange ("TSX") in effect for a twelve-month period commencing on January 29, 2007. The maximum number of common shares which could be purchased during the Bid was 3,478,772 common shares, being approximately 5% of Electrovaya's issued and outstanding common shares as at January 22, 2007. The Bid period has now expired and no Common shares were purchased by the Company.

(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:

	Weighted average exercise prices	
	Number	
Outstanding, September 30, 2007	3,175,938	\$ 1.42
Granted	700,000	0.63
Cancelled or expired	(31,667)	0.27
Outstanding, September 30, 2008	3,844,271	1.45
Granted	1,000,000	0.57
Cancelled or expired	(938,100)	1.67
Exercised	(646,000)	0.28
Outstanding, September 30, 2009	3,260,171	\$ 1.24

ELECTROVAYA INC.

Notes to Consolidated Financial Statements (continued)

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

Years ended September 30, 2009 and 2008

5. Share capital (continued)

Exercise price	Options outstanding as at September 30, 2009		Options exercisable as at September 30, 2009		
	Number outstanding	Weighted average remaining life (years)	Number exercisable	Weighted average exercise price	
\$ 0.22 (Cdn\$0.24)	242,000	9.39	242,000	\$ 0.22	
0.27 (Cdn\$0.29)	410,333	6.23	410,333	0.27	
0.52 (Cdn\$0.56)	425,001	5.21	425,001	0.52	
0.58 (Cdn\$0.62)	249,671	2.86	249,671	0.58	
0.63 (Cdn\$0.67)	670,000	8.23	223,333	0.63	
0.63 (Cdn\$0.68)	25,000	3.17	25,000	0.63	
0.84 (Cdn\$0.90)	27,666	4.86	27,666	0.84	
0.89 (Cdn\$0.95)	458,000	9.87	458,000	0.89	
1.03 (Cdn\$1.10)	408,334	4.63	408,334	1.03	
2.81 (Cdn\$3.00)	83,000	1.87	83,000	2.81	
5.24	96,666	1.08	96,666	5.24	
5.33	85,500	0.37	85,500	5.33	
7.46 (Cdn\$8.00)	19,000	1.08	19,000	7.46	
8.00	60,000	0.95	60,000	8.00	
	3,260,171	6.22	2,813,504	\$ 1.24	

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, 2009:

Grant date	February 18, 2009	August 13, 2009	Total
No. of options	542,000	458,000	1,000,000
Exercise price	\$ 0.22	\$ 0.89	
Average Expected life in years	10	10	
Volatility	102%	102%	
Risk-free weighted interest rate	2.85%	2.85%	
Dividend yield	-	-	
Fair-value of options granted	\$118	\$ 390	

ELECTROVAYA INC.

Notes to Consolidated Financial Statements (continued)

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

Years ended September 30, 2009 and 2008

5. 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, 2008:

Grant date	December 22, 2007	Total
No. of options	700,000	700,000
Exercise price	\$ 0.63	
Average Expected life in years	10	
Volatility	102%	
Risk-free weighted interest rate	3.98%	
Dividend yield	-	
Fair-value of options granted	\$ 408	

Stock based compensation expense related to the portion of the outstanding stock Option that vested during the year ended September 30, 2009 was \$569 (2008-\$194). The weighted average grant date fair value of stock options granted during the year was \$0.51 (2008 - \$0.58)

6. Related party transactions

- a) In August 2005, the Company purchased all of the issued and outstanding shares of 1020204 Ontario Limited ("102") from its two principal shareholders at the time, 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 was accounted for based on CICA Handbook Section 3840, Related Party Transactions at the exchange amounts of the assets and liabilities transferred as there was a substantive change in the ultimate unrelated parties' ownership interests in the subsidiaries. In addition, 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. In addition, as at September 30, 2005, Electrovaya Corp carried back income tax losses of \$4,787, eliminating a \$1,148

ELECTROVAYA INC.

Notes to Consolidated Financial Statements (continued)

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

Years ended September 30, 2009 and 2008

6. Related party transactions (continued)

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.

In August, 2007, 102 received a Notice of Reassessment for a tax liability of approximately \$498 (including accumulated interest) relating to the sale of property by 102 prior to the amalgamation with Electrovaya Corp. A final collection notice was received in December, 2007 and a lien was placed by the Ministry of Revenue on Electrovaya Corp's assets in January 2008 as security for the outstanding amount. Pursuant to the terms of the share purchase agreement, the former shareholders of 102 were required to indemnify Electrovaya in respect of the full amount, including legal and administrative expenses of any resulting tax liability. A settlement agreement was reached between the former shareholders of 102 and the Company and the Board also approved a one-time payment of \$100 by the Company to the Ministry of Finance to finalize the matter. Pursuant to the settlement agreement, the tax liability will be repaid to the former shareholders on a prorata basis in the future if the Company earns taxable income. During the quarter ended March 31, 2009, all remaining outstanding tax liabilities were paid and the lien placed on Electrovaya Corp's assets was removed.

- b) During the year ended September 30, 2009, the Company paid \$187 (2008- \$219) to a director of a wholly owned subsidiary company for services rendered to the Company in his capacity as an executive officer. During the year ended September 30, 2009, the Company paid \$245 (2008 - \$247) to the Chief Executive Officer, who is also a controlling shareholder of the Company. Since the payments to the CEO are fixed and made in Canadian dollars while the Company reports in US dollars, the difference is attributable to the change in exchange rates.
- c) 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. The Company is fully insured for the amount of the claim.

7. Commitments

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

2010	\$	138
2011		141
2012		142
2013		71
	\$	492

ELECTROVAYA INC.

Notes to Consolidated Financial Statements (continued)

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

Years ended September 30, 2009 and 2008

7. Commitments (continued)

(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").

8. Loss per share

The basic and diluted loss per share has been calculated using the weighted average number of common shares outstanding during the year, which are as follows:

September 30, 2009	69,776,324
September 30, 2008	69,575,442

Common share purchase options or other potential dilutive common share issuances were not considered in the calculation of diluted loss per share for each of the years presented since their effect would be anti-dilutive.

9. Income taxes

The income tax recovery differs from the amount computed by applying the Canadian statutory income tax rate of 33.1% (2008 – 34.1%) to the loss before income taxes as a result of the following:

	Years ended September 30,	
	2009	2008
Loss before income taxes	\$ (577)	\$ (4,055)
Expected Recovery of income taxes based on statutory rates	(191)	(1,385)
Reduction in income tax recovery resulting from:		
Lower rate on manufacturing profits	12	99
Non-taxable portion of capital gain	(38)	(99)
Other permanent differences	199	68
Change in valuation allowance	9	1,385
Change in enacted tax rates	9	(68)
Income tax recovery	\$ -	\$ -

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:

ELECTROVAYA INC.

Notes to Consolidated Financial Statements (continued)

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

Years ended September 30, 2009 and 2008

9. Income taxes (continued)

	Years ended September 30,	
	2009	2008
Future tax assets		
Non-capital losses carried forward	\$ 13,225	\$ 16,833
Capital assets	(218)	180
Unclaimed research and development expenses	4,036	4,405
Other deductible differences	379	413
	17,422	21,831
Less valuation allowance	(17,422)	(21,831)
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 \$4,534 (2008 – \$5,218) which begin to expire in 2010. During the year, the Company recognized \$170 (2008-\$198) of refundable investment tax credits.

As at September 30, 2009, the expiration dates of the Company's federal non-capital income tax losses carried forward are as follows:

2010	\$ 5,427
2014	4,786
2015	2,097
2022	978
2023	106
2024	337
2025	38
2026	20,607
2027	4,970
2028	4,962
2029	223
	\$ 44,531

ELECTROVAYA INC.

Notes to Consolidated Financial Statements (continued)

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

Years ended September 30, 2009 and 2008

10. Change in non-cash operating working capital

	Years ended September 30,	
	2009	2008
Accounts receivable	\$ 98	\$ (330)
Investment tax credits recoverable	3	13
Other receivables	(21)	(15)
Inventories	(76)	921
Prepaid expenses and other	39	(172)
Accounts payable and accrued liabilities	(158)	(2)
Income tax payable	(238)	(260)
Deferred revenue	(1,260)	1,341
Deferred government grant	2,400	-
	\$ 787	\$ 1,496

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, 2009 were as follows:

	September 30,	
	2009	2008
Large Format Batteries* and licensing	\$ 3,022	\$ 1,313
Consumer electronics	546	993
Other **	214	235
	\$ 3,782	\$ 2,541

* Formerly described as "Services."

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

	September 30,	
	2009	2008
Canada	\$ 289	\$ 516
United States	1,493	1,249
Others	2,000	776
	\$ 3,782	\$ 2,541

ELECTROVAYA INC.

Notes to Consolidated Financial Statements (continued)

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

Years ended September 30, 2009 and 2008

11. Segmented information (continued)

One customer represented 10% or more of the Company's revenues representing 42.4% of revenue from large format batteries and licensing.

As at September 30, 2009, 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

Credit risk is the risk that a client will be unable to pay any amounts owed to the Company. Management's assessment of the Company's risk is low as it is primarily attributable to money market funds held in Canadian banks, trade accounts receivables, Goods and Service Tax due from the Federal Government of Canada which is included in amounts receivable, and investment tax credits recoverable. The Company manages its credit risk by establishing procedures to establish credit limits and approval policies.

Liquidity risk

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due. 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 on fulfilling its obligations.

ELECTROVAYA INC.

Notes to Consolidated Financial Statements (continued)

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

Years ended September 30, 2009 and 2008

12. Management of financial risk (continued)

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 has no interest-bearing debt. 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'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.

Price risk

The Company is exposed to price risk with respect to the price of its products as the Company has a few key competitors.

13. Investment in shares

Pursuant to the licensing agreement to build a battery plant in Norway, the Company purchased 850 shares, or approximately 6.4% of the shares of Miljobil Grenland AS, an Electric Vehicle company located in Norway. The investment was completed on December 8, 2008. During the quarter ended March 31, 2009, a Plan of Merger was presented whereby Miljobil Grenland AS would merge with Miljo Innovasjon AS, the battery plant company, and carry on business as Miljo Innovasjon AS. Such merger has now been completed.

ELECTROVAYA INC.

Notes to Consolidated Financial Statements (continued)

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

Years ended September 30, 2009 and 2008

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. Investment tax credits are credited against the related research and development expenses, or capital assets.

(b) TPC grant

The Company has been approved for funding under the TPC 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 expects to receive contributions of up to 29.7% of the specified costs of the development project, to a maximum amount of Cdn \$10,000 (\$9,439). Under the terms of the amended agreement, the Company is 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 fiscal 2009.

Cumulative claims of \$5,076 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 \$2,548 (2008-\$642) from the TPC program. The program expired on March 31, 2009. Reimbursements for Claims for the quarter ending March 31, 2009 have been submitted but not yet received.

(c) SDTC grant

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 terms of the agreement, SDTC shall pay the lesser of 33% of the eligible project costs or CDN \$ 1,700, 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 is expected to be completed in 2010.

ELECTROVAYA INC.

Notes to Consolidated Financial Statements (continued)

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

Years ended September 30, 2009 and 2008

14. Government Assistance (continued)

No cash contribution was received by the Company during fiscal 2009 (2008 -\$194). As of September 30, 2009, cumulative claims of \$1,113 have been received from SDTC.

(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.

Electrovaya received an advance of \$ 2.9 million (Cdn \$3.3 million) on June 5, 2009 and recorded this as deferred revenue. During the year \$0.7 million of activities considered to be eligible costs and therefore reimbursable under the grant were recorded as a reduction of expenses.

15. Contributed surplus

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

	September 30,	
	2009	2008
Balance – beginning of year	\$ 894	\$ 700
Stock-based compensation expense	569	194
Exercise of options	(151)	-
Balance – end of year	\$ 1,312	\$ 894

16. Subsequent event

The Company has been named as a defendant in a \$420 lawsuit related to a low-ranking employee dismissal. 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 conditions.