

# ELECTROVAYA INC.

Condensed Interim Consolidated Statement of Financial Position  
(Expressed in thousands of U.S. dollars)  
(Unaudited)

| As at                                                | March 31,<br>2020 | September 30,<br>2019 |
|------------------------------------------------------|-------------------|-----------------------|
| <b>Assets</b>                                        |                   |                       |
| <b>Current assets</b>                                |                   |                       |
| Cash and cash equivalents                            | \$ 98             | \$ 333                |
| Trade and other receivables (notes 14)               | 1,394             | 346                   |
| Inventories (note 6)                                 | 2,545             | 997                   |
| Prepaid expenses and other                           | 580               | 407                   |
| <b>Total current assets</b>                          | <b>4,617</b>      | <b>2,083</b>          |
| <b>Non-current assets</b>                            |                   |                       |
| Property, plant and equipment (note 4 & 7)           | 3,419             | 5                     |
| Long-term deposit                                    | 71                | -                     |
| <b>Total non-current assets</b>                      | <b>3,490</b>      | <b>5</b>              |
| <b>Total assets</b>                                  | <b>\$ 8,107</b>   | <b>\$ 2,088</b>       |
| <b>Liabilities and Equity</b>                        |                   |                       |
| <b>Current liabilities</b>                           |                   |                       |
| Trade and other payables (note 9)                    | \$ 2,710          | \$ 2,095              |
| Bridge financing (note 5(b))                         | 4,921             | 1,060                 |
| Deferred grant income (note 12 (b))                  | 1,186             | 1,265                 |
| Deferred revenue                                     | 34                | 29                    |
| Promissory notes (note 9 & 11)                       | 1,188             | 753                   |
| 9% convertible debentures (note 16)                  | 10,621            | 11,009                |
| Lease liability – current portion (note 18)          | 37                | -                     |
| <b>Total current liabilities</b>                     | <b>20,697</b>     | <b>16,211</b>         |
| <b>Non-current liabilities</b>                       |                   |                       |
| Lease liability – non-current portion (note 18)      | 3,448             | -                     |
| Other payables (note 17)                             | 144               | 142                   |
| Lease inducement (note 18)                           | 133               | -                     |
| <b>Total non-current liabilities</b>                 | <b>3,725</b>      | <b>142</b>            |
| <b>Equity(Deficiency)</b>                            |                   |                       |
| Share capital (note 8)                               | 83,124            | 82,885                |
| Contributed surplus                                  | 4,474             | 4,416                 |
| Warrants (note 8)                                    | 6,013             | 6,013                 |
| Accumulated other comprehensive gain                 | 13,725            | 13,055                |
| Equity component of convertible debentures (note 16) | 71                | 71                    |
| Deficit                                              | (123,722)         | (120,705)             |
| <b>Total (Deficiency)</b>                            | <b>(16,315)</b>   | <b>(14,265)</b>       |
| <b>Total liabilities and equity(deficiency)</b>      | <b>\$ 8,107</b>   | <b>\$ 2,088</b>       |

See accompanying notes to unaudited condensed interim consolidated financial statements.

These unaudited condensed interim consolidated financial statements should be read in conjunction with annual audited consolidated financial statements for the year ended September 30, 2019.

# ELECTROVAYA INC.

## Condensed Interim Consolidated Statement of Operations

(Expressed in thousands of U.S. dollars, except per share amounts)

Six month periods ended March 31, 2020 and 2019

(Unaudited)

|                                                                        | Three months ended March 31, |             | Six months ended March 31, |             |
|------------------------------------------------------------------------|------------------------------|-------------|----------------------------|-------------|
|                                                                        | 2020                         | 2019        | 2020                       | 2019        |
| Revenue (note 15)                                                      | \$ 1,947                     | \$ 1,253    | \$ 2,808                   | \$ 3,225    |
| Direct manufacturing costs (note 6(b))                                 | 1,123                        | 812         | 1,664                      | 2,063       |
| Gross margin                                                           | 824                          | 441         | 1,144                      | 1,162       |
| Expenses                                                               |                              |             |                            |             |
| Research and development                                               | 1,048                        | 878         | 1,452                      | 1,805       |
| Sales and marketing                                                    | 157                          | 312         | 387                        | 670         |
| General and administrative (note 9)                                    | 578                          | 406         | 1,080                      | 945         |
| Stock based compensation (note 8(b))                                   | 15                           | 57          | 58                         | 106         |
| Finance cost                                                           | 446                          | 508         | 1,342                      | 1,090       |
| Patents and trademark expenses                                         | 12                           | 13          | 20                         | 27          |
|                                                                        | 2,256                        | 2,174       | 4,339                      | 4,643       |
| (Loss) before the undernoted                                           | (1,432)                      | (1,733)     | (3,195)                    | (3,481)     |
| Amortization (see note 3(f))                                           | 96                           | 19          | 98                         | 38          |
| (Loss) from operations                                                 | (1,528)                      | (1,752)     | (3,293)                    | (3,519)     |
| Gain on sale of property, plant and equipment (note 20)                | -                            | -           | -                          | 4,163       |
| Foreign exchange gain(loss) and interest income                        | 420                          | (132)       | 276                        | 228         |
| Net (loss) for the period                                              | (1,108)                      | (1,884)     | (3,017)                    | 872         |
| Basic (loss) per share                                                 | \$ (0.01)                    | (0.02)      | \$ (0.03)                  | 0.01        |
| Diluted (loss) per share                                               | \$ (0.01)                    | (0.02)      | \$ (0.03)                  | 0.01        |
| Weighted average number of shares outstanding, basic and fully diluted | 111,411,900                  | 107,239,459 | 111,157,802                | 105,402,397 |

See accompanying notes to unaudited condensed interim consolidated financial statements.  
These unaudited condensed interim consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements for the year ended September 30, 2019.

# ELECTROVAYA INC.

Condensed Interim Consolidated Statement of Comprehensive gain(loss)

(Expressed in thousands of U.S. dollars)

Six month periods ended March 31, 2020 and 2019

(Unaudited)

|                                               | Three months ended March 31, |            | Six months ended March 31, |          |
|-----------------------------------------------|------------------------------|------------|----------------------------|----------|
|                                               | 2020                         | 2019       | 2020                       | 2019     |
| Net gain(loss) for the period                 | \$ (1,108)                   | \$ (1,884) | \$ (3,017)                 | \$ 872   |
| Currency translation differences              | 875                          | (107)      | 670                        | 255      |
| Other comprehensive gain(loss) for the period | 875                          | (107)      | 670                        | 255      |
| Total comprehensive gain(loss) for the period | \$ (233)                     | \$ (1,991) | \$ (2,347)                 | \$ 1,127 |

See accompanying notes to unaudited condensed interim consolidated financial statements.

These unaudited condensed interim consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements for the year ended September 30, 2019.

# ELECTROVAYA INC.

Condensed Interim Consolidated Statement of Changes in Equity  
(Expressed in thousands of U.S. dollars)  
Six month periods ended March 31, 2020 and 2019  
(Unaudited)

|                                  | Share<br>Capital | Contributed<br>Surplus | Deficit     | Warrants | Accumulated<br>other<br>Comprehensive<br>gain | Equity<br>component of<br>9%<br>Convertible<br>Debentures | Revaluation<br>Surplus | Total      |
|----------------------------------|------------------|------------------------|-------------|----------|-----------------------------------------------|-----------------------------------------------------------|------------------------|------------|
| Balance – October 01, 2018       | \$81,858         | \$3,296                | \$(123,355) | \$6,013  | \$12,872                                      | \$71                                                      | \$5,487                | \$(13,758) |
| Stock-based compensation         | -                | 106                    | -           | -        | -                                             | -                                                         | -                      | 106        |
| Issue of shares                  | 514              | -                      | -           | -        | -                                             | -                                                         | -                      | 514        |
| Net gain for the period          | -                | -                      | 872         | -        | -                                             | -                                                         | -                      | 872        |
| Revaluation Surplus              |                  |                        | 5,487       |          |                                               |                                                           | (5,487)                | -          |
| Currency translation differences | -                | -                      | (2)         | -        | 255                                           | -                                                         | -                      | 253        |
| Balance–March 31, 2019           | \$82,372         | \$3,402                | \$(116,998) | \$6,013  | \$13,127                                      | \$71                                                      | -                      | \$(12,013) |
|                                  |                  |                        |             |          |                                               |                                                           |                        |            |
| Balance – October 01, 2019       | \$82,885         | \$4,416                | \$(120,705) | \$6,013  | \$13,055                                      | \$71                                                      | \$0                    | \$(14,265) |
| Stock-based compensation         | -                | 58                     | -           | -        | -                                             | -                                                         | -                      | 58         |
| Issue of shares                  | 239              | -                      | -           | -        | -                                             | -                                                         | -                      | 239        |
| Net loss for the year            | -                | -                      | (3,017)     | -        | -                                             | -                                                         | -                      | (3,017)    |
| Currency translation differences | -                | -                      | -           | -        | 670                                           | -                                                         | -                      | 670        |
| Balance–March 31, 2020           | \$83,124         | \$4,474                | \$(123,722) | \$6,013  | \$13,725                                      | \$71                                                      | -                      | \$(16,315) |

See accompanying notes to unaudited condensed interim consolidated financial statements.  
These unaudited condensed interim consolidated financial statements should be read in  
conjunction with the annual audited consolidated financial statements for the year ended September  
30, 2019.

# ELECTROVAYA INC.

Condensed Interim Consolidated Statements of Cash Flows  
(Expressed in thousands of U.S. dollars)  
Six month periods ended March 31, 2020 and 2019  
(Unaudited)

|                                                  | March 31,<br>2020 | March 31,<br>2019 |
|--------------------------------------------------|-------------------|-------------------|
| <b>Cash provided by (used in)</b>                |                   |                   |
| <b>Operating activities</b>                      |                   |                   |
| Net (loss) for the period                        | \$(3,017)         | \$872             |
| Items not involving cash:                        |                   |                   |
| Amortization                                     | 98                | 38                |
| Stock based compensation expense (note 8(b))     | 58                | 106               |
| Financing costs                                  | 550               | 409               |
| Gain on sale of property, plant and equipment    | -                 | (4,163)           |
| Net changes in working capital (note 10)         | (2,228)           | 1,376             |
| Cash (used in) operating activities              | (4,539)           | (1,362)           |
| <b>Investing activities</b>                      |                   |                   |
| Repayment of loan payable                        | -                 | (15,740)          |
| Proceeds from property, plant and equipment      | -                 | 15,178            |
| Purchase of property, plant and equipment        | (38)              | -                 |
| Increase in long-term deposit                    | 71                | -                 |
| Cash (used in) investing activities              | 33                | (562)             |
| <b>Financing activities</b>                      |                   |                   |
| Issue of shares                                  | 239               | 514               |
| Change in investment                             | -                 | 825               |
| Change in other payables                         | -                 | 9                 |
| Payment of lease liability (principal portion)   | (73)              | -                 |
| Loan financing                                   | 4,296             | -                 |
| Increase in non-current liabilities              | 135               | -                 |
| Cash from financing activities                   | 4,597             | 1,348             |
| Increase (decrease) in cash and cash equivalents | 91                | (576)             |
| Exchange difference                              | (326)             | 621               |
| Cash and cash equivalents, beginning of period   | 333               | 126               |
| Cash and cash equivalents at end of period       | \$ 98             | \$ 171            |
| Supplemental cash flow disclosures:              |                   |                   |
| Income tax paid                                  | -                 | -                 |
| Interest paid                                    | \$ 725            | 232               |

See accompanying notes to unaudited condensed interim consolidated financial statements.  
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with the annual audited consolidated financial statements for the year ended September 30, 2019.

# ELECTROVAYA INC.

Notes to the Condensed Interim Consolidated Financial Statements  
(Expressed in thousands of U.S. dollars, except where otherwise indicated)  
Six month periods ended March 31, 2020 and 2019  
(Unaudited)

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## 1. Description of Business

Electrovaya Inc. (the "Company") is domiciled in Ontario, Canada, and is incorporated under the Business Corporations Act (Ontario). The Company's registered office is at 6688 Kitimat Road, Mississauga, Ontario, L5N 1P8 Canada. The Company's common shares trade on the Toronto Stock Exchange under the symbol EFL. The Company has no immediate or ultimate controlling parent.

These unaudited condensed interim consolidated financial statements comprise the Company and its subsidiaries (together referred to as the "Group"). The Group is primarily involved in the design, development and manufacturing of Lithium Ion batteries, battery systems and battery-related products for energy storage, clean electric transportation and other specialized applications.

## 2. Basis of Presentation

### a) Statement of Compliance

These unaudited condensed interim consolidated financial statements have been prepared based on the principles of International Financial Reporting Standards ("IFRS") and International Accounting Standard 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board ("IASB") and the Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). The unaudited condensed interim consolidated financial statements should be read in conjunction with the Company's September 30, 2019 audited annual consolidated financial statements and accompanying notes.

These unaudited condensed interim consolidated financial statements were authorized for issuance by the Company's Board of Directors May 13, 2020.

### b) Basis of Accounting – Going concern

These unaudited condensed interim consolidated financial statements have been prepared on the going concern basis, which contemplates the realization of assets and settlement of liabilities as they fall due in the normal course of business.

For the six months ended March 31, 2020, the Group incurred a net loss of \$3,017 (2019 – net gain of \$872), with cash used in operating activities of \$4,539 (2019 - \$1,362). At March 31, 2020, the Group had a working capital deficiency of \$16,080 (2019 - \$11,966) and has incurred significant recurring losses to date.

Management has acted to contain cash costs and will continue to do so, while continuing to pursue revenue opportunities. There are no assurances that management will be successful in achieving these goals on a timely basis or on acceptable terms. In particular the ability to earn increased revenues and positive cashflows from operations is not guaranteed. These factors raise significant doubt about the Group's ability to continue as a going concern.

If the going concern assumption was not appropriate for these unaudited condensed interim consolidated financial statements, then adjustments would be necessary to the carrying values

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Notes to the Condensed Interim Consolidated Financial Statements  
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Six month periods ended March 31, 2020 and 2019  
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---

of assets and liabilities, the reported loss and the classifications used in the consolidated statement of financial position. These unaudited condensed interim consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption was not appropriate.

## **c) Functional and Presentation Currency**

These unaudited condensed interim consolidated financial statements are presented in U.S. dollars and have been rounded to the nearest thousands, except per share amounts and when otherwise indicated. The functional currency of the Company is the Canadian dollar and the functional currencies of the Group's subsidiaries include Canadian dollars and US dollars.

## **d) Use of Judgements and Estimates.**

The preparation of the unaudited condensed interim consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the unaudited condensed interim consolidated financial statements relate to the following (judgements made are disclosed in individual notes throughout the financial statements where relevant):

- Recognition of contract revenues. Recognizing contract revenue requires significant judgment in determining milestones, actual work performed and the estimated costs to complete the work;
- Determining whether to recognize revenues from after-sales services at a point in time or over time;
- Distinguishing the research and development phases of a new project and determining whether the recognition requirements for the capitalization of development costs are met requires judgement;
- Accounting for provisions including assessments of possible legal and tax contingencies, and restructuring. Whether a present obligation is probable or not requires judgement. The nature and type of risks for these provisions differ and judgement is applied regarding the nature and extent of obligations in deciding if an outflow of resources is probable or not; and,
- Acquisitions – at initial recognition and subsequent remeasurement, judgements are made both for key assumptions in the purchase price allocation for each acquisition and regarding impairment indicators in the subsequent period. The purchase price is assigned to the identifiable assets, liabilities, and contingent liabilities based on fair values. Any remaining excess value is reported as goodwill. This allocation requires judgement as well as the definition of cash generating units for impairment testing purposes. Other judgements might result in significantly different results and financial position in the future.

Information about significant areas of estimation uncertainty that have the most significant effect on the amounts recognized in the unaudited condensed interim consolidated financial statements

# ELECTROVAYA INC.

Notes to the Condensed Interim Consolidated Financial Statements  
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relate to the following (assumptions made are disclosed in individual notes throughout the financial statements where relevant):

- Inventories. Management estimates the net realizable values of inventories, taking into account the most reliable evidence available at each reporting date. The future realization of these inventories may be affected by future technology or other market-driven changes that may reduce future selling prices;
- Estimates used in testing non-financial assets for impairment including the recoverability of development costs;
- Estimates used in determining the fair value of stock option grants. These estimates include assumptions about the volatility of the Company's stock, forfeiture and expected exercise rates; and,
- Estimates of income taxes. The Company is subject to income taxes in numerous jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Company recognizes liabilities for anticipated tax audit issues, based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

The decisions made by the Company in each instance are set out under the various accounting policies in these notes.

## 3. Significant Accounting Policies

### a) Basis of consolidation

#### i) Subsidiaries

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the unaudited condensed interim consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Company.

The Company's subsidiaries and percentage of ownership are as follows:

- Electrovaya Corporation - 100%
- Electrovaya Company - 100%
- Electrovaya USA Inc. – 100%
- Electrovaya GmbH - 100% (inactive)
- Litarion GmbH – 100% (discontinued operations)
- Miljobil Grenland A.S. ("MGB") - 100% (inactive)

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All subsidiaries have the same reporting dates as their parent Company.

## ii) Transactions eliminated on consolidation

Intra-company balances and transactions, and any unrealized income and expenses arising from intra-company transactions, are eliminated in preparing the unaudited condensed interim consolidated financial statements.

This only applies to continued operations and excludes discontinued operations. As Litarion GmbH is classified as discontinued operations, the current and prior period comparative figures in the unaudited condensed interim consolidated financial statements have been restated to reflect only continued operations.

## iii) Business Combinations

For every business combination, the Company identifies the acquirer, which is the combining entity that obtains control of the other combining entities or businesses. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Company takes into consideration potential voting rights that currently are exercisable. The acquisition date is the date on which control is transferred to the acquirer. Judgement is applied in determining the acquisition date and determining whether control is transferred from one party to another.

### *Non-controlling interest:*

The Company measures, on a transaction-by-transaction basis, any non-controlling interest at fair value at the acquisition date, or at its proportionate interest in the identifiable assets and liabilities of the acquiree.

### *Measuring goodwill:*

In a business combination, the Company measures goodwill as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquired entity, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as at the acquisition date.

Consideration transferred includes the fair values of the assets transferred, including cash, liabilities incurred by the Company to the previous owners of the acquiree, and equity interests issued by the Company. Consideration transferred also includes contingent consideration and share-based payment awards exchanged in the business combination. Payments that effectively settle pre-existing relationships between the Company and the acquiree, payments to compensate employees or former owners for future services, and a reimbursement of transaction costs incurred by the acquiree on behalf of the Company are not accounted for as part of the business combination.

Transaction costs that the Company incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, are excluded from acquisition accounting, and are expensed as incurred.

# ELECTROVAYA INC.

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---

## *Contingent liabilities:*

Contingent liabilities that are present obligations that arose from past events are recognized at fair value at the acquisition date. Future changes in acquisition date contingent liabilities are recorded in earnings.

## **b) Foreign currency**

Each subsidiary of the Company maintains its accounting records in its functional currency. A Company's functional currency is the currency of the principal economic environment in which it operates.

### **i) Foreign currency transactions**

Transactions carried out in foreign currencies are translated using the exchange rate prevailing at the transaction date. Monetary assets and liabilities denominated in a foreign currency at the reporting date are translated at the exchange rate at that date. The foreign currency gain or loss on such monetary items is recognized as income or expense for the period. Non-monetary assets and liabilities denominated in a foreign currency are translated at the historical exchange rate prevailing at the transaction date.

### **ii) Translation of financial statements of foreign operations**

The assets and liabilities of subsidiaries whose functional currency is not the U.S. dollar are translated into U.S. dollars at the exchange rate prevailing at the reporting date. The income and expenses of foreign operations whose functional currency is not the U.S. dollar are translated to U.S. dollars at the exchange rate prevailing on the date of transaction. Foreign currency differences on translation are recognized in other comprehensive income in the cumulative translation account net of income tax.

## **c) Financial instruments**

The Group adopted IFRS 9 Financial Instruments beginning on or after January 1, 2018. The Group's accounting policies changed as described in the following. However, there is no change in the measurement classifications of financial instruments, which continue to be measured at amortized cost, and no adjustment was required to opening equity as at October 1, 2018.

### **Accounting policy from October 1, 2018:**

#### **Recognition**

Financial assets and financial liabilities are recognized in the Company's consolidated statement of financial position when the Company becomes a party to the contractual provisions of the instrument. On initial recognition, all financial assets and financial liabilities are recorded at fair value, net of attributable transaction costs, except for financial assets and liabilities classified as at fair value through profit or loss ('FVTPL'). The directly attributable transactions costs of financial assets and liabilities as at FVTPL are expensed in the period in which they are incurred.

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---

Subsequent measurement of financial assets and liabilities depends on the classification of such assets and liabilities.

## **Classification and Measurement**

The Company determines the classification of its financial instruments at initial recognition. Financial assets and financial liabilities are classified according to the following measurement categories:

- those to be measured subsequently at fair value either through profit or loss ("FVTPL") or through other comprehensive income ("FVTOCI"); and,
- those to be measured subsequently at amortized cost.

The classification and measurement of financial assets after initial recognition at fair value depends on the business model for managing the financial asset and the contractual terms of the cash flows. Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding, are generally measured at amortized cost at each subsequent reporting period. All other financial assets are measured at their fair values at each subsequent reporting period, with any changes recorded through FVTPL or through FVTOCI (which designation is made as an irrevocable election at the time of recognition).

After initial recognition at fair value, financial liabilities are classified and measured at either:

- amortized cost;
- FVTPL, if the Company has made an irrevocable election at the time of recognition, or when required (for items such as instruments held for trading or derivatives); or,

The Company reclassifies financial assets when and only when its business model for managing those assets changes. Financial liabilities are not reclassified.

The Company's financial assets consist of cash and cash equivalents, which are classified and subsequently measured at amortized cost. The Company's financial liabilities consist of long-term debt and trade and other payables which are classified and measured at amortized cost using the effective interest method. Interest expense is reported in profit or loss.

## **Accounting policy on September 30, 2018 and prior:**

### **Non-derivative financial assets**

The Company initially recognizes receivables and deposits at fair value on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially at fair value on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows

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---

on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

Financial assets and liabilities are offset and the net amount presented in the Statement of Financial Position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company has the following non-derivative financial assets:

*Financial assets at fair value through profit or loss:*

Financial assets are designated at fair value through profit or loss if the Company manages such assets and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognized in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

Financial assets at fair value through profit or loss consist of cash and cash equivalents.

Cash and cash equivalents comprise cash balances and highly liquid investments with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

*Loans and receivables:*

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition trade and other receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables consist of trade and other receivables.

## **Non-derivative financial liabilities**

The Company has the following non-derivative financial liabilities: long-term debt and trade and other payables.

The Company initially recognizes debt and subordinated liabilities at fair value on the date that they are originated plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method. Trade and other payables are recognized initially on the trade date at which time the Company becomes a party to the contractual provisions of the instrument and subsequently at amortized cost.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

## **d) Cash equivalents**

Cash equivalents include short-term investments with original maturities of three months or less.

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---

## **e) Inventories**

Inventories are stated at the lower of cost and net realizable value. Cost of raw material is determined using the average cost method. Cost of semi-finished and finished goods are determined using the First in First out (FIFO) method. Cost includes all expenses directly attributable to the manufacturing process as well as suitable portions of related production overheads, based on normal operating capacity. Net realizable value is the estimated selling price in the ordinary course of business less any applicable selling expenses. The Company attempts to utilize excess inventory in other products the Company manufactures or return the inventory to the supplier or customer.

## **f) Property, plant and equipment:**

### *Recognition and measurement:*

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes the cost of material and labour and other costs directly attributable to bringing the asset to a working condition for its intended use.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized net within profit or loss.

The Company capitalizes borrowing costs directly attributable to the acquisition, construction or production of qualifying property, plant and equipment as part of the cost of that asset, if applicable. Capitalized borrowing costs are amortized over the useful life of the related asset.

### *Subsequent costs:*

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. Maintenance and repair costs are expensed as incurred, except where they serve to increase productivity or to prolong the useful life of an asset, in which case they are capitalized.

Amortization is provided on a straight-line basis over the estimated useful lives of the assets.

# ELECTROVAYA INC.

Notes to the Condensed Interim Consolidated Financial Statements  
(Expressed in thousands of U.S. dollars, except where otherwise indicated)  
Six month periods ended March 31, 2020 and 2019  
(Unaudited)

---

The following useful lives are applied:

|                                     | Years |
|-------------------------------------|-------|
| Leasehold improvements              | 5     |
| Production equipment #1-7           | 2-15  |
| Office Furniture and Equipment #1-3 | 2-5   |

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted prospectively, if appropriate. Items relating to leased assets are depreciated over the shorter of the lease term and their useful lives.

## g) Intangible assets

The Company records intangible assets at fair value at the date of acquisition. An intangible asset is capitalized when the economic benefit associated with an asset is probable and when the cost can be measured reliably. Intangible assets are carried at cost less accumulated depreciation and impairment losses. Cost consists of expenditures directly attributable to the acquisition of the assets.

## h) Impairment

### (i) Financial assets

#### Accounting policy from October 1, 2018

The Company recognizes an allowance for credit losses equal to lifetime credit losses for trade and other receivables. None of these assets include a financing component. Significant receivable balances are assessed for impairment individually based on information specific to the customer. The remaining receivables are grouped, where possible, based on shared credit risk characteristics, and assessed for impairment collectively. The allowance assessment incorporates past experience, current and expected future conditions.

#### Accounting policy on September 30, 2018 and prior

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

All impairment losses are recognized in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost, the reversal is

# ELECTROVAYA INC.

Notes to the Condensed Interim Consolidated Financial Statements  
(Expressed in thousands of U.S. dollars, except where otherwise indicated)  
Six month periods ended March 31, 2020 and 2019  
(Unaudited)

---

recognized in profit or loss.

## **(ii) Non-financial assets**

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For intangible assets that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit ("CGU") is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. Fair value less costs to sell is the amount obtainable from the sale of an asset or CGU in an arm's-length transaction between knowledgeable, willing parties, less the costs of disposal. Costs of disposal are incremental costs directly attributable to the disposal of an asset or CGU, excluding finance costs and income tax expense. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated to the carrying amounts of the assets in the unit (group of units).

In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

## **i) Provisions**

### *Legal:*

Provisions are recognized for present legal or constructive obligations arising from past events when the amount can be reliably estimated and it is probable that an outflow of resources will be

# ELECTROVAYA INC.

Notes to the Condensed Interim Consolidated Financial Statements  
(Expressed in thousands of U.S. dollars, except where otherwise indicated)  
Six month periods ended March 31, 2020 and 2019  
(Unaudited)

---

required to settle an obligation. Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

At the end of each reporting period, the Company evaluates the appropriateness of the remaining balances. Adjustments to the recorded amounts may be required to reflect actual experience or to reflect the current best estimate.

In the normal course of our operations, the Company may be subject to lawsuits, investigations and other claims, including environmental, labor, product, customer disputes and other matters. The ultimate outcome or actual cost of settlement may vary significantly from our original estimates. Material obligations that have not been recognized as provisions, as the outcome is not probable or the amount cannot be reliably estimated, are disclosed as contingent liabilities, unless the likelihood of outcome is remote.

## *Warranty:*

The Company offers product and service warranties to our customers. When necessary, the Company records a provision for future warranty costs based on the terms of the warranty, which vary by customer, product or service, management's best estimate of probable claims under these warranties, and historical experience. These estimates are reviewed and adjusted as necessary as experience develops or new information becomes known.

## **j) Share-based payments**

The Company accounts for all share-based payments to employees and non-employees using the fair value based method of accounting. The Company measures the compensation cost of stock-based option awards to employees at the grant date using the Black-Scholes option pricing model to determine the fair value of the options. The share-based compensation cost of the options is recognized as stock-based compensation expense over the relevant vesting period of the stock options.

Under the Company's stock option plan, all options granted under the plan have a maximum term of 10 years and have an exercise price per share of not less than the market value of the Company's common shares on the date of grant. The Board of Directors has the discretion to accelerate the vesting of options or stock appreciation rights granted under the plan in accordance with applicable laws and the rules and policies of any stock exchange on which the Company's common shares are listed.

The Company has an option plan whereby options are granted to employees and consultants as part of our incentive plans. Stock options vest in installments over the vesting period. Stock options typically vest one third each year over 3 years or immediately as approved by the Board.

# ELECTROVAYA INC.

Notes to the Condensed Interim Consolidated Financial Statements  
(Expressed in thousands of U.S. dollars, except where otherwise indicated)  
Six month periods ended March 31, 2020 and 2019  
(Unaudited)

---

The Company treats each installment as a separate grant in determining stock-based compensation expenses.

The grant date fair value of options granted to employees is recognized as stock-based compensation expense, with a corresponding charge to contributed surplus, over the vesting period. The expense is adjusted to reflect the estimated number of options expected to vest at the end of the vesting period, adjusted for the estimated forfeitures during the period. Any cumulative adjustment prior to vesting is recognized in the current period. No adjustment is made to any expense recognized in the prior periods if share options ultimately exercised are different to that estimated on vesting. The fair value of options are measured using the Black-Scholes option pricing model. Measurement inputs include the price of our Common shares on the measurement date, exercise price of the option, expected volatility of our Common shares (based on weighted average historic volatility), weighted average expected life of the option (based on historical experience and general option holder behavior), expected dividends, estimated forfeitures and the risk-free interest rate.

Upon exercise of options, the proceeds received net of any directly attributable transaction costs up to the nominal value of the shares issued are allocated to share capital with any excess being recorded in retained earnings or deficit.

## **k) Income taxes**

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity. Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with investments in subsidiaries and joint ventures is not provided if reversal of these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future. Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period. Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income, based on the Group's forecast of future operating results which is adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. Deferred tax liabilities are always provided for in full.

# ELECTROVAYA INC.

Notes to the Condensed Interim Consolidated Financial Statements  
(Expressed in thousands of U.S. dollars, except where otherwise indicated)  
Six month periods ended March 31, 2020 and 2019  
(Unaudited)

---

Deferred tax assets and liabilities are offset only when the Group has a right and intention to set off current tax assets and liabilities from the same taxation authority. Changes in deferred tax assets or liabilities are recognized as a component of tax income or expense in profit or loss, except where they relate to items that are recognized in other comprehensive income or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively. A valuation allowance is recorded against any future income tax asset if it is more likely than not that the asset will be realized.

## **I) Revenue**

### **Accounting policies applied to both periods presented**

The Group adopted, retroactively without restatement of comparative information, IFRS 15 Revenue from Contracts with Customers beginning on or after January 1, 2018. The Group's adoption of IFRS 15 had no effect on the following accounting policies which have been applied to both periods presented.

Revenue arises from the sale of goods and the rendering of services. It is measured by reference to the fair value of consideration received or receivable, excluding sales taxes, rebates, and trade discounts. The Group often enters into sales transactions involving a range of the Group's products and services, for example for the delivery of battery systems and related services. The Group applies the revenue recognition criteria set out below to each separately identifiable component of the sales transaction. The consideration received from these multiple-component transactions is allocated to each separately identifiable component in proportion to its relative fair value.

#### **Sale of goods**

Sale of goods is recognized when the Group has transferred to the buyer the significant risks and rewards of ownership, generally when the customer has taken undisputed delivery of the goods. Revenue from the sale of goods with no significant service obligation is recognized on delivery. Where significant tailoring, modification or integration is required, revenue is recognized in the same way as contracts for large energy storage systems described below.

#### **Rendering of services**

The Group generates revenues from design engineering services and construction of large-scale battery systems. Consideration received for these services is initially deferred, included in other liabilities and is recognized as revenue in the period when the service is performed. Revenue from services is recognized when the services are provided by reference to the contract's stage of completion at the reporting date.

# ELECTROVAYA INC.

Notes to the Condensed Interim Consolidated Financial Statements  
(Expressed in thousands of U.S. dollars, except where otherwise indicated)  
Six month periods ended March 31, 2020 and 2019  
(Unaudited)

---

## Contracts for large energy storage systems

Contracts for large energy storage systems specify a price for the development and installation of complete systems. When the outcome can be assessed reliably, contract revenue and associated costs are recognized by reference to the stage of completion of the contract activity at the reporting date. Revenue is measured at the fair value of consideration received or receivable in relation to that activity.

When the Group cannot measure the outcome of a contract reliably, revenue is recognized only to the extent of contract costs that have been incurred and are recoverable. Contract costs are recognized in the period in which they are incurred. In either situation, when it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized immediately in profit or loss.

The contract's stage of completion is assessed by management based on milestones (usually defined in the contract) for the activities to be carried out under the contract and other available relevant information at the reporting date. The maximum amount of revenue recognized for each milestone is determined by estimating relative contract fair values of each contract phase, i.e. by comparing the Group's overall contract revenue with the expected profit for each corresponding milestone. Progress and related contract revenue in-between milestones is determined by comparing costs incurred to date with the total estimated costs estimated for that particular milestone (a procedure sometimes referred to as the cost-to-cost method).

The gross amount due from customers for contract work is presented within trade and other receivables for all contracts in progress for which costs incurred plus recognized profits (less recognized losses) exceeds progress billings. The gross amount due to customers for contract work is presented within other liabilities for all contracts in progress for which progress billings exceed costs incurred plus recognized profits (less recognized losses).

## Government Grants

Government grants are recognized when there is reasonable assurance that Electrovaya has met the requirements of the approved grant program and there is reasonable assurance that the grant will be received. Government grants that compensate for expenses already incurred are recognized in income on a systematic basis in the same year in which the expenses are incurred. Government grants for immediate financial support, with no future related costs, are recognized in income when receivable. Government grants that compensate Electrovaya for the cost of an asset are recognized on a systematic basis over the useful life of the asset. Government grants consisting of investment tax credits are recorded as a reduction of the related expense or cost of the asset acquired. If a government grant becomes repayable, the repayment is treated as a change in estimate. Where the original grant related to income, the repayment is applied first against any related deferred government grant balance, and any excess as an expense. Where the original grant related to an asset, the repayment is treated as

# ELECTROVAYA INC.

Notes to the Condensed Interim Consolidated Financial Statements  
(Expressed in thousands of U.S. dollars, except where otherwise indicated)  
Six month periods ended March 31, 2020 and 2019  
(Unaudited)

---

an increase to the carrying amount of the asset or as a reduction to the deferred government grant balance.

## **m) Research and development**

Expenditure on research is recognized as an expense in the period in which it is incurred. Costs that are directly attributable to the development phase are recognized as intangible assets provided they meet the following recognition requirements:

- completion of the intangible asset is technically feasible so that it will be available for use or sale.
- the Group intends to complete the intangible asset and use or sell it .
- the Group has the ability to use or sell the intangible asset.
- the intangible asset will generate probable future economic benefits. Among other things, this requires that there is a market for the output from the intangible asset or for the intangible asset itself, or, if it is to be used internally, the asset will be used in generating such benefits.
- there are adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- the expenditure attributable to the intangible asset during its development can be measured reliably.

Development costs not meeting these criteria for capitalization are expensed in profit or loss as incurred.

## **n) Finance income and finance expense**

Interest income is reported on an accrual basis using the effective interest method.

Finance costs are comprised of interest expense on 9% convertible debentures, promissory notes, bridge financing (see notes 5, 11 & 16). Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

## **o) Earnings per share (EPS)**

The Company presents basic and diluted earnings per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for own shares held, for the effects of all dilutive potential common shares, which comprise share options granted to employees.

# ELECTROVAYA INC.

Notes to the Condensed Interim Consolidated Financial Statements  
(Expressed in thousands of U.S. dollars, except where otherwise indicated)  
Six month periods ended March 31, 2020 and 2019  
(Unaudited)

---

## **p) Segment reporting**

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. All operating segments' operating results are regularly reviewed by the Company's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

## **4. Changes in significant accounting policies**

### **a) Adoption of New Accounting Standards**

#### **Adoption of IFRS 16- Leases**

The Company has initially applied IFRS 16 Leases ("IFRS 16") from January 1, 2019 ("Initial Application") which replaces IAS 17 Leases and related interpretations. IFRS 16 establishes a single, on-balance sheet accounting model for leases. As a result, the Company, as a lessee, has recognized a right-of-use asset representing its rights to use the underlying assets and a lease liability representing its obligation to make lease payments. The right-of-use asset, where it relates to an operating lease, has been presented net of accumulated amortization and is disclosed under property, plant and equipment. The lease liability has been disclosed as a separate line item, allocated between current and non-current liabilities. The Company has adopted IFRS 16 using the modified retrospective approach, with the effect of initially applying this standard at the date of Initial Application. Accordingly, this election means that the comparative information has not been restated and the disclosure requirements in IFRS 16 have not generally been applied to comparative information. Following a review of the Company's leases, no adjustment is required to the retained earnings.

### **b) Standards issued but not yet effective**

At the date of authorization of these unaudited condensed interim consolidated financial statements, certain new standards, amendments, and interpretations to existing IFRS standards have been published but are not yet effective and have not been adopted early by the Company.

Management anticipates that all the pronouncements will be adopted in the Company's accounting policy for the first period beginning after the effective date of the pronouncement. The new standards and interpretations that have been issued are not expected to have a material impact on the Company's financial statements.

## **5. Bank Loan & Working Capital Facilities**

### **(a) Bank loan**

In March, 2019 a Canadian Chartered Bank provided a demand loan to finance specific purchase orders, bearing interest rate at prime plus 3.75% per annum. The loan was cash

# ELECTROVAYA INC.

Notes to the Condensed Interim Consolidated Financial Statements  
(Expressed in thousands of U.S. dollars, except where otherwise indicated)  
Six month periods ended March 31, 2020 and 2019  
(Unaudited)

---

collateralized with a \$187 (Cdn \$250K) cash deposit. During the quarter ended September 30, 2019, the bank loan was fully repaid and the cash collateral were released by the bank.

## (b) Working Capital Facilities

### Bridge Loan Facility

In August 2019 a Canadian Financial Institution provided a \$1.06 million (Cdn \$1.5 million) of which \$0.99 million (Cdn \$1.4 million) was advanced on closing. The bridge loan facility is secured non-revolving bridge facility for the fulfilment of purchase orders and general working capital purposes. In November 2019 a further draw of \$0.07 million (Cdn \$0.1 million) was made under the bridge facility to fully draw the funds of \$1.06 million (Cdn \$1.5 million). As at March 31, 2020 the balance owing under the facility is \$1.06 million (Cdn \$1.5 million). The interest on the Bridge Facility is the greater of a) 8.05% per annum above the Prime Rate or b) 12% per annum. Interest is payable monthly. The bridge facility matures on September 25, 2020.

### Purchase Order Facility

In November 2019 the Original Credit Agreement was amended to include a \$3.9 million (Cdn \$5.5 million) non-revolving Purchase Order financing Facility. The facility is secured. An initial draw of \$1.8 million (Cdn \$2.5 million) was made under the Purchase Order Facility. In January 2020 a second draw of \$0.9 million (Cdn \$1.3 million) was made under the Purchase Order Facility. In February 2020 a third draw of \$693K (Cdn \$979K) was made and in March 2020 a fourth draw of \$460 (Cdn \$650K) was drawn bring the total owing under the Purchase Order Facility at March 31, 2020 to \$3,858 (Cdn \$5,449K). Subsequent to the quarter end in April 2020 a final draw of \$35 (Cdn \$50K) was made to fully draw the funds of \$3.9 million (Cdn \$5.5 million).

The interest on the Purchase Order Facility is the greater of a) 10.05% per annum above the Prime Rate or b) 14% per annum. Interest is payable monthly. In addition the Company issued 1.5 million common shares to the Lender. The Purchase Order Facility matures on September 25, 2020. The Purchase Order Facility will be repaid from the Accounts Receivable collections associated with the specific purchase orders the facility financed.

Subsequent to the quarter end \$1,430 (Cdn \$2,020K) of accounts receivable receipts were used to pay down the Purchase Order Facility.

### Promissory Note

In January 2020 an advance of \$480 (Cdn \$680k) was made on a Promissory Note bearing interest at the greater of a) 11% per annum or b) 7% per annum above the Prime Rate. The Note is repayable on demand.

### Subsequent Event

In April 2020 a Second Amendment was entered into with the Canadian Financial Institution providing the Working Capital Facilities. The Bridge Loan Facility was amended to become a Revolving Credit Facility with a maximum limit of \$1.06 million (Cdn \$1.5 million). The Purchase Order Facility was amended to be non-revolving with a maximum limit of \$7.08 million (Cdn \$10 million). Two further advances were made under the Purchase Order Facility in April 2020

# ELECTROVAYA INC.

Notes to the Condensed Interim Consolidated Financial Statements  
(Expressed in thousands of U.S. dollars, except where otherwise indicated)  
Six month periods ended March 31, 2020 and 2019  
(Unaudited)

---

totaling \$2,589 (Cdn \$3,656K). The interest rate remains the same. The maturity date for the facilities is September 25, 2020.

Also in April 2020 the Promissory Note was amended and a further amount of \$1.52 million (Cdn \$2.15 million) was advanced bring the total Promissory Note to \$2 million (Cdn \$2.83 million). The Promissory Note matures on the earlier of a) September 25, 2020 or b) on demand. The Promissory Note bears interest at the greater of a) 11% per annum or b) 7% per annum above the Prime Rate.

The additional proceeds were used to pay fees and obligations under the Company's 9% convertible debentures – refer Note 16.

The increase in borrowing under the Amended and Restated Promissory Note was secured by Dr. Das Gupta personally guaranteeing the Company's payment obligation to the Facility Lender as well as pledging an additional 17,000,000 Common Shares in favour of the Facility Lender, and the Company paid a fee of \$106 (Cdn \$150,000) to the Facility Lender for the increase to the amount available under the Amended and Restated Promissory Note.

## 6. Inventories

(a) Total inventories on hand as at March 31, 2020 and September 30, 2019 are as follows:

|                | March 31,<br>2020 | September 30,<br>2019 |
|----------------|-------------------|-----------------------|
| Raw materials  | \$ 1,304          | \$ 374                |
| Semi finished  | 1,201             | 511                   |
| Finished goods | 40                | 112                   |
|                | \$ 2,545          | \$ 997                |

(b) At the quarters ended March 31, 2020 and 2019, the following inventory revaluations and obsolescence provisions were included in direct manufacturing costs:

|                                      | Mar 31, 2020 | Mar 31, 2019 |
|--------------------------------------|--------------|--------------|
| Provision(recovery) for obsolescence | \$ -         | \$ -         |

# ELECTROVAYA INC.

Notes to the Condensed Interim Consolidated Financial Statements  
(Expressed in thousands of U.S. dollars, except where otherwise indicated)  
Six month periods ended March 31, 2020 and 2019  
(Unaudited)

## 7. Property, Plant and Equipment

Details of the Company's property, plant and equipment and their carrying amounts are as follows:

|                                     | Property, plant and equipment |                         |                                   |         |
|-------------------------------------|-------------------------------|-------------------------|-----------------------------------|---------|
|                                     | Leasehold<br>Improvements     | Production<br>Equipment | Office Furniture<br>and Equipment | Total   |
| Gross carrying amount               |                               |                         |                                   |         |
| Balance October 1, 2018             | \$387                         | \$1,476                 | \$66                              | \$1,929 |
| Additions                           | -                             | -                       | -                                 | -       |
| Reductions/Disposals                | -                             | (555)                   | (7)                               | (562)   |
| Exchange differences                | (9)                           | (52)                    | (2)                               | (63)    |
| Balance September 30, 2019          | 378                           | 869                     | 57                                | 1,304   |
| Depreciation and impairment         |                               |                         |                                   |         |
| Balance October 1, 2018             | (310)                         | (1,421)                 | (53)                              | (1,784) |
| Additions                           | (75)                          | (26)                    | (8)                               | (109)   |
| Reductions/Disposals                | -                             | 543                     | 8                                 | 551     |
| Exchange differences                | 7                             | 35                      | 1                                 | 43      |
| Balance September 30, 2019          | (378)                         | (869)                   | (52)                              | (1,299) |
| Net Book Value – September 30, 2019 | \$0                           | \$0                     | \$5                               | \$5     |

|                                 | Property, plant and equipment |                           |                         |                         |         |
|---------------------------------|-------------------------------|---------------------------|-------------------------|-------------------------|---------|
|                                 | Right of Use<br>Asset         | Leasehold<br>Improvements | Production<br>Equipment | Office<br>Furniture and | Total   |
| Gross carrying amount           |                               |                           |                         |                         |         |
| Balance October 1, 2019         | -                             | \$378                     | \$869                   | \$57                    | \$1,304 |
| Additions                       | 3,469                         | 38                        | -                       | -                       | 3,507   |
| Reductions/Disposals            | -                             | (354)                     | (147)                   | -                       | (501)   |
| Exchange differences            | -                             | (24)                      | (54)                    | (3)                     | (81)    |
| Balance March 31, 2020          | 3,469                         | 38                        | 668                     | 54                      | 4,229   |
| Depreciation and impairment     |                               |                           |                         |                         |         |
| Balance October 1, 2019         | -                             | (378)                     | (869)                   | (52)                    | (1,299) |
| Additions                       | (87)                          | (2)                       | -                       | (4)                     | (93)    |
| Reductions/Disposals            | -                             | 354                       | 147                     | -                       | 501     |
| Exchange differences            | -                             | 24                        | 54                      | 3                       | 81      |
| Balance March 31, 2020          | (87)                          | (2)                       | (668)                   | (53)                    | (810)   |
| Net Book Value – March 31, 2020 | 3,382                         | \$36                      | \$0                     | \$1                     | \$3,419 |

The Group's property, plant and equipment are comprised of leasehold improvements, production equipment, and office furniture and equipment.

# ELECTROVAYA INC.

Notes to the Condensed Interim Consolidated Financial Statements  
(Expressed in thousands of U.S. dollars, except where otherwise indicated)  
Six month periods ended March 31, 2020 and 2019  
(Unaudited)

Property, plant and equipment includes a right-of-use asset, which relates to the office lease at 6688 Kitimat Road, Mississauga, ON L5N 1P8.

## 8. Share Capital

### a) Authorized and issued capital stock

Authorized

Unlimited common shares

Issued

|                                                 | Common Shares |          |
|-------------------------------------------------|---------------|----------|
|                                                 | Number        | Amount   |
| Balance, October 01, 2017                       | 92,116,935    | \$79,700 |
| Issuance of shares                              | 4,781,060     | 1,248    |
| Balance, December 31, 2017 & March 31, 2018     | 96,897,995    | \$80,948 |
| Issuance of shares                              | 4,450,001     | 387      |
| Balance, June 30, 2018                          | 101,347,996   | \$81,335 |
| Issuance of shares                              | 2,257,275     | 523      |
| Balance, September 30, 2018 & December 31, 2018 | 103,605,271   | \$81,858 |
| Issuance of shares                              | 3,634,188     | 514      |
| Balance, March 31 & June 30, 2019               | 107,239,459   | \$82,372 |
| Issuance of shares                              | 2,672,441     | 513      |
| Balance, September 30, 2019                     | 109,911,900   | \$82,885 |
| Issuance of shares                              | 1,500,000     | 239      |
| Balance, December 31, 2019 & March 31, 2020     | 111,411,900   | \$83,124 |

### b) Stock Options

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.

On July 31, 2019 the Board approved the grant of 1,202,000 stock options under the Stock Option Plan with a further grant of 4,250,000 conditional on obtaining the approval of shareholders at the next meeting of shareholders of the Company to increase the pool of options available to be granted such that there are sufficient options in the pool to permit the additional grant.

On December 20, 2019 at a Special Meeting of the Shareholders, a resolution was passed to (i) authorize amendments to the company's Stock Option Plan to increase the maximum number of common shares issuable upon the exercise of stock options thereunder from 10,100,000 to 15,100,000 and to remove the restriction that the maximum number of shares that may be issuable to any one participant under all of the company's security based compensation arrangements shall not exceed 5% of the issued and outstanding common shares; and (ii) to ratify the grant of 4,250,000 as mentioned above.

# ELECTROVAYA INC.

Notes to the Condensed Interim Consolidated Financial Statements  
(Expressed in thousands of U.S. dollars, except where otherwise indicated)  
Six month periods ended March 31, 2020 and 2019  
(Unaudited)

|                                                 | Number<br>outstanding | Weighted<br>average<br>exercise price |
|-------------------------------------------------|-----------------------|---------------------------------------|
| Outstanding, October 01, 2017                   | 4,241,003             | \$0.92                                |
| Cancelled or expired                            | (100,000)             | \$0.54                                |
| Outstanding, December 31, 2017                  | 4,141,003             | \$0.97                                |
| Granted during quarter ended March 31, 2018     | 775,000               | \$0.22                                |
| Outstanding, March 31, 2018                     | 4,916,003             | \$0.92                                |
| Cancelled or expired                            | (40,000)              | \$1.62                                |
| Outstanding, June 30 & September 30, 2018       | 4,876,003             | \$0.91                                |
| Cancelled or expired                            | (25,400)              | \$1.04                                |
| Outstanding, December 31, 2018                  | 4,850,603             | \$0.89                                |
| Cancelled or expired                            | (16,000)              | \$0.18                                |
| Outstanding, March 31 and June 30, 2019         | 4,834,603             | \$0.87                                |
| Granted                                         | 5,452,000             | \$0.23                                |
| Cancelled or expired                            | (260,000)             | \$0.72                                |
| Outstanding, September 30 and December 31, 2019 | 10,026,603            | \$0.50                                |
| Cancelled or expired                            | (475,000)             | \$1.30                                |
| Outstanding, March 31, 2020                     | 9,551,603             | \$0.44                                |

| Options exercisable |   |     |          |                       |                                                     |                       |                                          |
|---------------------|---|-----|----------|-----------------------|-----------------------------------------------------|-----------------------|------------------------------------------|
| Exercise price      |   |     |          | Number<br>Outstanding | Weighted<br>average<br>remaining<br>life<br>(years) | Number<br>exercisable | Weighted<br>average<br>exercise<br>price |
| \$2.00              | ( | Cdn | \$2.82 ) | 20,000                | 0.27                                                | 20,000                | \$2.00                                   |
| \$1.91              | ( | Cdn | \$2.70 ) | 25,000                | 0.30                                                | 25,000                | \$1.91                                   |
| \$1.97              | ( | Cdn | \$2.78 ) | 357,000               | 0.75                                                | 357,000               | \$1.97                                   |
| \$0.57              | ( | Cdn | \$0.81 ) | 89,998                | 1.71                                                | 89,998                | \$0.57                                   |
| \$0.23              | ( | Cdn | \$0.32 ) | 59,000                | 2.70                                                | 59,000                | \$0.23                                   |
| \$0.50              | ( | Cdn | \$0.71 ) | 32,000                | 2.90                                                | 32,000                | \$0.50                                   |
| \$0.51              | ( | Cdn | \$0.72 ) | 1,312,000             | 3.89                                                | 1,312,000             | \$0.51                                   |
| \$0.74              | ( | Cdn | \$1.04 ) | 15,000                | 3.94                                                | 15,000                | \$0.74                                   |
| \$0.72              | ( | Cdn | \$1.02 ) | 41,000                | 4.15                                                | 41,000                | \$0.72                                   |
| \$0.46              | ( | Cdn | \$0.65 ) | 279,171               | 4.89                                                | 279,171               | \$0.46                                   |
| \$0.46              | ( | Cdn | \$0.65 ) | 30,000                | 4.89                                                | 30,000                | \$0.46                                   |
| \$0.64              | ( | Cdn | \$0.91 ) | 60,000                | 5.14                                                | 60,000                | \$0.64                                   |
| \$0.49              | ( | Cdn | \$0.69 ) | 280,834               | 5.50                                                | 280,834               | \$0.49                                   |
| \$0.56              | ( | Cdn | \$0.79 ) | 98,000                | 5.87                                                | 98,000                | \$0.56                                   |
| \$1.51              | ( | Cdn | \$2.13 ) | 505,600               | 6.75                                                | 505,600               | \$1.51                                   |
| \$0.86              | ( | Cdn | \$1.22 ) | 120,000               | 7.34                                                | 80,000                | \$0.86                                   |
| \$0.20              | ( | Cdn | \$0.28 ) | 775,000               | 7.90                                                | 516,664               | \$0.20                                   |
| \$0.21              | ( | Cdn | \$0.30 ) | 5,452,000             | 9.34                                                | 5,452,000             | \$0.21                                   |
|                     |   |     |          | 9,551,603             | 7.47                                                | 9,253,267             | \$0.44                                   |

# ELECTROVAYA INC.

Notes to the Condensed Interim Consolidated Financial Statements  
(Expressed in thousands of U.S. dollars, except where otherwise indicated)  
Six month periods ended March 31, 2020 and 2019  
(Unaudited)

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Stock based compensation expense related to the portion of the outstanding stock options that vested during the quarter ended March 31, 2020 was \$15 (March 31, 2019-\$57).

As at March 31, 2020, the Company had outstanding 9,551,603 options (10,026,603 as at December 31, 2019) to acquire common shares under the Company's employee stock option plan.

- c) As a condition of the first renewal of the Cdn \$6.25 million secured promissory note, the Company issued 1,000,000 warrants exercisable for a 24 months on February 19, 2016 that vested immediately at the exercise price of Cdn \$0.79. The fair value of the share warrants is \$241.

As a condition of the second renewal of the promissory note, the Company issued new 1,000,000 warrants for a 24 months period on February 17, 2017 that vested immediately at the exercise price of Cdn \$2.74. The fair value of the share warrants is \$915.

As a condition of the third renewal of the promissory note, the Company issued new 1,000,000 warrants for a 24 months period on June 1, 2018 that vested immediately at the exercise price of Cdn \$0.18. The fair value of the share warrants is \$53.

The following table summarizes the assumptions used with the Black-Scholes valuation model for the determination of the fair value of share purchase warrants issued during the year ended September 30, 2018:

| Grant date                       | June 01, 2018 |
|----------------------------------|---------------|
| No. of warrants                  | 1,000,000     |
| Exercise price                   | \$ 0.14       |
| Average Expected life in years   | 2             |
| Volatility                       | 75.74%        |
| Risk-free weighted interest rate | 1.88%         |
| Dividend yield                   | -             |

- d) The Company issued 1,740,000 share purchase warrants and 279,069 compensation options related to the issuance of the Cdn \$15 million convertible debentures on March 27, 2017. The expiry date of these warrants and compensation options is and was March 26, 2020 and March 26, 2019 respectively. The warrants and compensation options vested immediately and the exercise price is Cdn \$2.80 and Cdn \$2.26 respectively. The original fair value of the share purchase warrants and compensation options were \$1,176 and \$198 respectively. The compensation options expired during the quarter ended March 31, 2019 and the warrants expired during the quarter ended March 31, 2020. The following table summarizes the assumptions used with the Black-Scholes valuation model for the determination of the fair value of share purchase warrants and compensation options issued during the quarter ended March 31, 2017:

# ELECTROVAYA INC.

Notes to the Condensed Interim Consolidated Financial Statements  
(Expressed in thousands of U.S. dollars, except where otherwise indicated)  
Six month periods ended March 31, 2020 and 2019  
(Unaudited)

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| Grant date | March 27, 2017 |
|------------|----------------|
|------------|----------------|

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|                                  |           |
|----------------------------------|-----------|
| No. of warrants                  | 1,740,000 |
| No. of compensation options      | 279,069   |
| Exercise price                   | \$ 2.10   |
| Average Expected life in years   | 3         |
| Volatility                       | 96.54%    |
| Risk-free weighted interest rate | 0.75%     |
| Dividend yield                   | -         |

- e) The Company issued 4,000,000 share purchase warrants and 280,000 compensation options related to the issuance of the shares under the first tranche of a brokered private placement on September 29, 2017. The expiry date of these warrants is September 28, 2022. The warrants and compensation options vested immediately and the exercise price is Cdn \$1.45. The original fair value of the share purchase warrants and compensation options were \$1,832 and \$128 respectively.

The following table summarizes the assumptions used with the Black-Scholes valuation model for the determination of the fair value of share purchase warrants issued during the quarter ended September 30, 2017:

---

| Grant date | September 29, 2017 |
|------------|--------------------|
|------------|--------------------|

---

|                                  |           |
|----------------------------------|-----------|
| No. of warrants                  | 4,000,000 |
| No. of broker warrants           | 280,000   |
| Exercise price                   | \$ 1.16   |
| Average Expected life in years   | 5         |
| Volatility                       | 100.56%   |
| Risk-free weighted interest rate | 1.22%     |
| Dividend yield                   | -         |

- f) The Company issued 604,347 share purchase warrants and 42,304 compensation options related to the issuance of the shares under the second tranche of a brokered private placement on October 4, 2017. The expiry date of these warrants is October 3, 2022. The warrants and compensation options vested immediately and the exercise price is Cdn \$1.45. The original fair value of the share purchase warrants and compensation options were \$284 and \$20 respectively.

The following table summarizes the assumptions used with the Black-Scholes valuation model for the determination of the fair value of share purchase warrants issued during the quarter ended December 31, 2017:

---

| Grant date | October 04, 2017 |
|------------|------------------|
|------------|------------------|

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|                        |         |
|------------------------|---------|
| No. of warrants        | 604,347 |
| No. of broker warrants | 42,304  |
| Exercise price         | \$ 1.16 |

# ELECTROVAYA INC.

Notes to the Condensed Interim Consolidated Financial Statements  
(Expressed in thousands of U.S. dollars, except where otherwise indicated)  
Six month periods ended March 31, 2020 and 2019  
(Unaudited)

|                                  |         |
|----------------------------------|---------|
| Average Expected life in years   | 5       |
| Volatility                       | 100.74% |
| Risk-free weighted interest rate | 1.22%   |
| Dividend yield                   | -       |

- g) The Company issued 3,333,333 share purchase warrants to an existing shareholder related to issuance of shares under a private placement basis on December 22, 2017. The expiry date of these warrants is December 21, 2022. The warrants vested immediately and the exercise price is Cdn \$0.73. The original fair value of the share purchase warrants is \$1,053.

The following table summarizes the assumptions used with the Black-Scholes valuation model for the determination of the fair value of share purchase warrants issued during the quarter ended December 31, 2017:

|            |                   |
|------------|-------------------|
| Grant date | December 22, 2017 |
|------------|-------------------|

|                                  |           |
|----------------------------------|-----------|
| No. of warrants                  | 3,333,333 |
| Exercise price                   | \$ 0.58   |
| Average Expected life in years   | 5         |
| Volatility                       | 99.43%    |
| Risk-free weighted interest rate | 1.41%     |
| Dividend yield                   | -         |

- h) The Company issued 2,224,999 share purchase warrants to certain directors, officers and employees of the Company related to the issuance of shares on a private placement basis on May 30, 2018. The expiry date of these warrants is May 30, 2021. The warrants vested immediately and the exercise price is Cdn \$0.20. The original fair value of the share purchase warrants is \$126.

|            |              |
|------------|--------------|
| Grant date | May 30, 2018 |
|------------|--------------|

|                                  |           |
|----------------------------------|-----------|
| No. of warrants                  | 2,224,999 |
| Exercise price                   | \$ 0.15   |
| Average Expected life in years   | 3         |
| Volatility                       | 77.5%     |
| Risk-free weighted interest rate | 1.88%     |
| Dividend yield                   | -         |

## Details of Share Warrants

|                                                 | Number Outstanding | Exercise Price |
|-------------------------------------------------|--------------------|----------------|
| Outstanding, Dec 31, 2016                       | 844,868            |                |
| Exercised during the quarter ended Mar 31, 2017 | (12,200)           | \$0.79         |
| Issued during the quarter ended Mar 31, 2017    | 1,000,000          | \$2.06         |
| Issued during the quarter ended Mar 31, 2017    | 1,740,000          | \$2.10         |
| Outstanding, Mar 31, 2017 & Jun 30, 2017        | 3,572,668          |                |
| Issued during the quarter ended Sep 30, 2017    | 4,000,000          | \$1.16         |
| Outstanding, Sep 30, 2017                       | 7,572,668          |                |
| Issued during the quarter ended Dec 31, 2017    | 604,347            | \$1.16         |

# ELECTROVAYA INC.

Notes to the Condensed Interim Consolidated Financial Statements  
(Expressed in thousands of U.S. dollars, except where otherwise indicated)  
Six month periods ended March 31, 2020 and 2019  
(Unaudited)

|                                                       |             |        |
|-------------------------------------------------------|-------------|--------|
| Issued during the quarter ended Dec 31, 2017          | 3,333,333   | \$0.58 |
| Expired during the quarter ended Dec 31, 2017         | (446,000)   | \$0.91 |
| Outstanding, Dec 31, 2017                             | 11,064,348  |        |
| Expired during the quarter ended Mar 31, 2018         | (386,668)   | \$0.60 |
| Outstanding, Mar 31, 2018                             | 10,677,680  |        |
| Issued during the quarter ended Jun 30, 2018          | 2,224,999   | \$0.15 |
| Issued during the quarter ended Jun 30, 2018          | 1,000,000   | \$0.14 |
| Outstanding, June 30, Sep 30 and Dec 31, 2018         | 13,902,679  |        |
| Expired during the quarter ended Mar 31, 2019         | (1,000,000) | \$2.05 |
| Outstanding, March 31, June 30, Sep 30 & Dec 31, 2019 | 12,902,679  |        |
| Expired during the quarter ended Mar 31, 2020         | 1,740,000   | \$1.98 |
| Outstanding, Mar 31, 2020                             | 11,162,679  |        |

## Details of Compensation Options to Brokers

|                                                                  | Number Outstanding | Exercise Price |
|------------------------------------------------------------------|--------------------|----------------|
| Outstanding as on Oct 1, 2016                                    | -                  |                |
| Issued during the quarter ended Mar 31, 2017                     | 279,069            | \$1.70         |
| Outstanding, Mar 31 & Jun 30, 2017                               | 279,069            |                |
| Issued during the quarter ended Sep 30, 2017                     | 280,000            | \$1.16         |
| Outstanding, Sep 30, 2017                                        | 559,069            |                |
| Issued during the quarter ended Dec 31, 2017                     | 42,304             | \$1.16         |
| Outstanding, Dec 31, 2017, Mar 31, Jun 30, Sep 30 & Dec 31, 2018 | 601,373            |                |
| Expired during the quarter ended Mar 31, 2019                    | (279,069)          | \$1.70         |
| Outstanding, Mar 31, Jun 30, Sep 30, Dec 31, 2019 & Mar 31, 2020 | 322,304            |                |

## 9. Related Party Transactions

### *Transactions with Chief Executive Officer and controlling shareholder of Electrovaya Inc.*

There is an outstanding payable balance of \$18 relating to raising of capital on behalf of the Company, as at March 31, 2020 (2019-\$18).

On December 4, 2017, the primary shareholder guaranteed a loan to the Company \$354 (Cdn \$500K) for 6 month terms at 2% interest per month fully repayable on June 01, 2018. This arrangement also carries a commitment fee of 4% deducted from the principal amount of Cdn \$500K. The note also carries a penalty clause for payment of Cdn \$20K in the event of a default in paying the principal amount on the due date (June 01, 2018). The note was renewed for a further period of one month on May 24, 2018 after payment of Cdn \$20K as penalty as per the original promissory note. The renewed note was repayable on July 01, 2018, but has been renewed to December 1, 2018 for a commitment fee of Cdn \$5,000 with a penalty clause for payment of Cdn \$20K in the event of a default in paying the principal amount on the due date (December 01, 2018). The Promissory Note was subsequently renewed in November, 2018 and again thrice in March, 2019, July, 2019 and January, 2020. The latest renewed note is repayable on February 01, 2021, with a penalty clause for payment of Cdn \$20K in the event of a default in paying the principal amount on the due date (February 01, 2021) or if the note is not rolled

# ELECTROVAYA INC.

Notes to the Condensed Interim Consolidated Financial Statements  
(Expressed in thousands of U.S. dollars, except where otherwise indicated)  
Six month periods ended March 31, 2020 and 2019  
(Unaudited)

---

over. The promissory note has the option of paying out the principal amount anytime before the maturity date without any penalty.

On September 27, 2018, the primary shareholder loaned to the Company \$85 (Cdn \$120K) on an interest free promissory notes repayable on demand. This arrangement also carries a commitment and legal fee of Cdn \$10,000. Again in March, 2019, the primary shareholder loaned to the Company \$71 (Cdn \$100K) on an interest free promissory notes repayable on demand. As of March 31, 2020, \$16 (Cdn \$22K) has been repaid to the primary shareholder on demand.

## *Transactions with private companies controlled by shareholders of the Company*

On June 25, 2019, two private companies each loaned to the Company \$106 (Cdn \$150K) for a total of \$212 (Cdn \$300k) on promissory notes for 3 month terms at 2% interest per month both fully repayable on September 24, 2019. This arrangement also carries a commitment fee of 5% deducted from the principal amount of \$212 (Cdn \$300K). The loans are guaranteed by the primary shareholder. The notes were renewed to an on demand basis with no specific maturity.

In January 2020 the Canadian Financial Institution providing the Bridge loan Facility provided \$480 (Cdn \$680K) by way of a Promissory Note. The loan is guaranteed by the primary shareholder. The proceeds from the Promissory Note were used to cash pay the January interest payment due under the 9% convertible debentures – refer note 5 b). In April 2020 the Promissory Note was amended and a further amount of \$1.52 million (Cdn \$2.15 million) was advanced bring the total Promissory Note to \$2 million (Cdn \$2.83 million). The additional proceeds were used to pay fees and obligations under the the Company's 9% convertible debentures – refer Note 16.

The increase in borrowing under the Amended Promissory Note was secured by Dr. Das Gupta personally guaranteeing the Company's payment obligation to the Facility Lender as well as pledging an additional 17,000,000 Common Shares in favour of the Facility Lender, and the Company paid a fee of \$106 (Cdn \$150,000) to the Facility Lender for the increase to the amount available under the Amended and Restated Promissory Note.

In April 2020 the terms of its outstanding \$10.6 million (Cdn \$15 million) principal amount unsecured 9% convertible debentures due March 27, 2020 was amended (the "**Amendments**"). Pursuant to the Amendments, the Company and its lender under the debentures, an institutional investor (the "**Debenture Lender**") agreed that the Company could satisfy the entire \$10.6 million (Cdn \$15 million) principal amount and any accrued but unpaid interest owing under the debentures by issuing the Debenture Lender 11,111,111 Common Shares at a deemed price of CDN\$0.18 per Common Share on or before April 3, 2020, paying the Debenture Lender \$1.4 million (Cdn \$2 million) in cash on or before April 13, 2020, and paying the Debenture Lender an additional \$1.4 million (Cdn \$2 million) in cash on or before September 29, 2020, an equivalent of about Cdn \$6 million dollars. The Company granted the Debenture Lender subordinated security in connection with the deferred payment obligation under the Amendments. Dr. Sankar Das Gupta, the Chief Executive Officer and a director of the Company, personally guaranteed the Company's \$1.4 million (Cdn \$2 million) deferred payment obligation under the Amendments.

# ELECTROVAYA INC.

Notes to the Condensed Interim Consolidated Financial Statements  
(Expressed in thousands of U.S. dollars, except where otherwise indicated)  
Six month periods ended March 31, 2020 and 2019  
(Unaudited)

As consideration for the significant personal risk involved in granting the Company's lenders personal guarantees and share pledges in order to effect the Amendments and increase the amount available under the Amended and Restated Promissory Note, the Company's independent directors approved the issuance to Dr. Das Gupta of 4,000,000 Common Shares at a price of \$0.13 (Cdn \$0.18), and 7,100,000 warrants to purchase Common Shares, each exercisable at a price of \$0.13 (Cdn \$0.18) until April 2, 2030 as consideration for the guarantees and pledges described above, as well as for other prior personal guarantees and share pledges to secure debt incurred by the Company.

## 10. Change In Non-Cash Operating Working Capital

|                                    | March 31,  |        |
|------------------------------------|------------|--------|
|                                    | 2020       | 2019   |
| Trade and other receivables        | \$ (1,048) | \$ 51  |
| Investment tax credits recoverable | -          | 114    |
| Inventories                        | (1,548)    | 691    |
| Prepaid expenses and other         | (173)      | 211    |
| Trade and other payables           | 615        | (214)  |
| Deferred grant income              | (79)       | -      |
| Deferred revenue                   | 5          | 523    |
|                                    | \$ (2,228) | \$ 650 |

## 11. Promissory Notes

|                             | March 31, | September 30, |
|-----------------------------|-----------|---------------|
| Current portion             | 2020      | 2019          |
| Secured promissory note     | \$ -      | \$ -          |
| Second mortgage loan        | -         | -             |
| Shareholder's loan - Note 9 | 707       | 753           |
| Promissory note – Note 5(b) | 480       | -             |
|                             | \$ 1,187  | \$ 753        |

### Secured promissory note

In February, 2014, the Company raised a principal amount of Cdn \$6.25 million in consideration of issuance of a two-year secured promissory note bearing interest at 8.25% per annum and 1,000,000 common share purchase warrants at an exercise price of Cdn \$0.65 exercisable immediately for a period of 24 months. The promissory note matured on February 11, 2016. It was renewed for a further 12 months maximum period under the same terms and issue of new 1,000,000 warrants for a 24 months period at an exercise price of Cdn \$0.79 exercisable immediately. The Company again renewed the note for a further one year period on February 17, 2017 under the same terms and issue of new

# ELECTROVAYA INC.

Notes to the Condensed Interim Consolidated Financial Statements  
(Expressed in thousands of U.S. dollars, except where otherwise indicated)  
Six month periods ended March 31, 2020 and 2019  
(Unaudited)

1,000,000 warrants for a 24 months period at an exercise price of Cdn \$2.74. The term sheet for the note renewal was agreed with effect from February 11, 2018 at 8.25% per annum for a period of 12 months. The Company issued 1,000,000 new common share purchase warrants on June 01, 2018 at Cdn \$0.18 exercisable immediately for a 24 month period.

For accounting purposes, the Promissory note was separated into its liability and equity components based on their fair value. The fair value of equity component was calculated using the Black-Scholes valuation model. The fair value of the liability component was determined as the difference between the fair value of the Promissory note and the fair value of the equity component.

The loan was secured by a fixed charge over land and building and interest was payable monthly.

| As at                                  | March 31,<br>2020 | September 30,<br>2019 |
|----------------------------------------|-------------------|-----------------------|
| Promissory Note                        | \$ -              | \$ 4,809              |
| Less: equity component                 | -                 | (1,169)               |
| Add: Accretion                         | -                 | 1,169                 |
| Less: Currency translation adjustments | -                 | -                     |
| Less: Repayment                        | -                 | (4,809)               |
|                                        | \$ -              | \$ -                  |

Accretion costs during the year are included in "Finance cost" in the Consolidated Statements of Operations.

The note was fully repaid on October 23, 2018 (note 20).

## Second Mortgage loan

In April, 2015, the Company raised an additional \$802 (Cdn \$1 million) by placing a second mortgage on the property owned by its wholly owned subsidiary, 1408871 Ontario Inc. The loan bearing interest at 10% per annum was to mature on April 17, 2017. This loan was renewed for further periods of one year in April 2016, April 2017 and April 2018. The loan has been renewed under the same terms for a period of one year to April, 2019. The balance of the loan as at December 31, 2018, net of currency translation adjustments is \$Nil and as at September 30, 2018, net of currency translation adjustments is \$774.

The second mortgage was fully repaid on October 23, 2018 (note 20).

**Shareholder's loan – Refer Note 9**

**Promissory note – Refer Note 5(b)**

# ELECTROVAYA INC.

Notes to the Condensed Interim Consolidated Financial Statements  
(Expressed in thousands of U.S. dollars, except where otherwise indicated)  
Six month periods ended March 31, 2020 and 2019  
(Unaudited)

---

## 12. 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, where applicable. Due to the uncertainty of collection, no tax credits have been recognized in either period presented (see Note 19(b)).

### (b) Sustainable Development Technology Corp (SDTC)

In November 2018, Electrovara and Sustainable Development Technology Canada (SDTC) signed a contract of Cdn \$3.8 million to fund the development of safe and long-lasting Lithium Ion Ceramic batteries for electric buses and commercial vehicles and the initial payment on this contract for Milestone 1 for Cdn \$669K has been received by Electrovara. The first claim on milestone 1 was submitted during the quarter ended June 30, 2019 for \$467 (Cdn \$621K). The second milestone advance payment for Cdn \$1,627K was received on July 24, 2019 and recorded in deferred grant income. The recognition conditions related to the deferred grant income at September 30, 2019 are expected to be met in the third quarter of the 2020 year, at which time it will be recognized in income.

### (c) 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 Electrovara 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. In August 2011, the Company received confirmation from Minister of Economic Development and Trade that the project has been extended to December 31, 2015. The grant is 15% of the targeted project cost of Cdn \$111.62 million and is subject to certain targets related to new job creation and investment, which if not achieved, could result in only a portion of the grant being received, or a potential claw-back of funds received by the end of the seven year period.

Electrovara received an advance of \$3,300 (Cdn \$3.3 million) on June 5, 2009 and recorded this as deferred revenue. During the year ended September 30, 2011, \$1,300 and cumulative of \$3,000 of activities considered to be eligible costs and therefore reimbursable under the grant were recorded as Government assistance. During the year ended September 30, 2012, \$1,200 and cumulative of \$4,200 of activities considered to be eligible costs and therefore reimbursable under the grant were recorded as Government assistance. The full amount of the advance has

# ELECTROVAYA INC.

Notes to the Condensed Interim Consolidated Financial Statements  
(Expressed in thousands of U.S. dollars, except where otherwise indicated)  
Six month periods ended March 31, 2020 and 2019  
(Unaudited)

---

now been recognized as revenue. During the year ended September 30, 2013, \$700 and cumulative of \$4,900 of activities considered to be eligible costs and therefore reimbursable under the grant were recorded as Government assistance.

The program ended on December 31, 2015. The company has booked a liability for a claw-back of the excess of funds received over eligible costs. The Company paid \$30 during the quarter ended December 31, 2016, \$15 during the quarter ended March 31, 2017 and \$62 during the quarter ended June 30, 2017. As of March 31, 2020 and 2019, the claw-back balance payable is \$153 (Cdn \$199k) and is included in trade and other payables.

## 13. Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, trade and other receivables, trade and other payables, promissory notes, convertible debentures and other payables.

### Fair Value

IFRS 13 "Fair Value Measurement" provides guidance about fair value measurements. Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value are required to maximize the use of observable inputs and minimize the use of unobservable inputs. The fair value hierarchy is based on three levels of inputs. The first two levels are considered observable and the last unobservable. These levels are used to measure fair values as follows:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities, either directly or indirectly.
- Level 2 – Inputs, other than Level 1 inputs that are observable for assets and liabilities, either directly or indirectly. Level 2 inputs include quoted market prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

# ELECTROVAYA INC.

Notes to the Condensed Interim Consolidated Financial Statements  
(Expressed in thousands of U.S. dollars, except where otherwise indicated)  
Six month periods ended March 31, 2020 and 2019  
(Unaudited)

The following table presents the carrying and approximate fair values of the Company's financial instruments:

|                                 | As at March 31, 2020 |         |         |               | As at September 30, 2019 |         |         |               |
|---------------------------------|----------------------|---------|---------|---------------|--------------------------|---------|---------|---------------|
|                                 | Level 1              | Level 2 | Level 3 | Total         | Level 1                  | Level 2 | Level 3 | Total         |
| <b>Financial assets:</b>        |                      |         |         |               |                          |         |         |               |
| Cash and cash equivalents       | \$98                 | -       | -       | <b>\$98</b>   | \$333                    | -       | -       | <b>\$333</b>  |
| Trade and other receivables (i) | 1,394                | -       | -       | <b>1,394</b>  | 346                      | -       | -       | <b>346</b>    |
| <b>Financial liabilities:</b>   |                      |         |         |               |                          |         |         |               |
| Bridge financing (i)            | 4,922                | -       | -       | <b>4,922</b>  | 1,060                    | -       | -       | <b>1,060</b>  |
| Trade and other payable (i)     | 2,710                | -       | -       | <b>2,710</b>  | 2,095                    | -       | -       | <b>2,095</b>  |
| Promissory notes                | -                    | 1,187   | -       | <b>1,187</b>  | -                        | 753     | -       | <b>753</b>    |
| Other payables                  | -                    | 3,725   | -       | <b>3,725</b>  | -                        | 142     | -       | <b>142</b>    |
| 9% convertible debentures       | -                    | 10,621  | -       | <b>10,621</b> | -                        | 11,009  | -       | <b>11,009</b> |

(i) The fair value of the Company's restricted cash, trade and other receivables, bridge financing, trade and other payables approximate fair values due to the short term or demand nature of these instruments.

There were no transfer between levels of the fair value hierarchy during the period presented.

## Risk Management

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. There have been no changes in risk exposure since the prior year unless otherwise noted.

### *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.

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.

# ELECTROVAYA INC.

Notes to the Condensed Interim Consolidated Financial Statements  
(Expressed in thousands of U.S. dollars, except where otherwise indicated)  
Six month periods ended March 31, 2020 and 2019  
(Unaudited)

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The Group's capital management objectives are:

- to ensure the Group's ability to continue as a going concern.
- to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group monitors capital on the basis of the carrying amount of equity plus its short-term debt comprised of the promissory notes, less cash and cash equivalents as presented on the face of the statement of financial position.

The Group sets the amount of capital in proportion to its overall financing structure, comprised of equity and long term debt. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group issues new shares or increases its long-term debt.

Capital for the reporting periods under review is summarized as follows:

|                                    | 31-Mar-20   | 30-Sep-19   |
|------------------------------------|-------------|-------------|
| Total (Deficiency)                 | \$ (16,315) | \$ (14,265) |
| Cash and cash equivalents          | (98)        | (333)       |
| (Deficiency)                       | (16,413)    | (14,598)    |
|                                    |             |             |
| Total (Deficiency)                 | (16,315)    | (14,265)    |
| Promissory Notes                   | 1,187       | 753         |
| Bridge financing                   | 4,922       | 1,060       |
| Other payables                     | 3,725       | 142         |
| 9% Convertible Debentures          | 10,621      | 11,009      |
| Overall Financing                  | \$ (4,140)  | \$ (1,301)  |
| Capital to Overall financing Ratio | 3.96        | (11.22)     |

## *Credit risk*

Credit risk is the risk that the counter-party fails to discharge an obligation to the Company. The Company is exposed to this risk due to its cash and cash equivalents, trade and other receivables.

Cash is held with financial institutions, each of which had at March 31, 2020 a rating of R-1 mid or above.

The Company manages its credit risk related to trade and other receivables by establishing procedures to establish credit limits and approval policies. The balance in trade and other receivables is primarily attributable to trade accounts receivables. In the opinion of management, the credit risk is moderate and no credit losses are expected. Management is taking appropriate action to mitigate this risk by adjusting credit terms.

# ELECTROVAYA INC.

Notes to the Condensed Interim Consolidated Financial Statements  
(Expressed in thousands of U.S. dollars, except where otherwise indicated)  
Six month periods ended March 31, 2020 and 2019  
(Unaudited)

---

## *Liquidity risk*

See Note 2(b).

## *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 variable interest debt as described in Notes 5 and 16. Changes in interest rates will affect future interest expense and cash flows. The Company does not enter into derivative instruments to reduce this exposure.

## *Foreign currency risk*

The Company is exposed to foreign currency risk. The Company's functional currency is the Canadian dollar and the financial statements are presented in United States dollars. Changes in the relative values of these currencies will give rise to changes in other comprehensive income.

Purchases are transacted in Canadian dollars, United States dollars and Euro. Management believes the foreign exchange risk derived from any currency conversions may have a material effect on the results of its operations. The financial instruments impacted by a change in exchange rates include our exposures to the above financial assets or liabilities denominated in non-functional currencies. Cash held by the Company in US dollars at March 31, 2020 was \$4 (December 31, 2019 - \$44).

If the US dollar to Canadian foreign exchange rate changed by 2% this would change the recorded Net gain by \$12.

## *Price risk*

The Company is exposed to price risk. Price risk is the risk that the commodity prices that the Company charges are significantly influenced by its competitors and the commodity prices that the Company must charge to meet its competitors may not be sufficient to meet its expenses. The Company reduces the price risk by ensuring that it obtains information regarding the prices set by its competitors to ensure that its prices are appropriate to the unique attributes of our product. In the opinion of management, the price risk is low and is not material.

# ELECTROVAYA INC.

Notes to the Condensed Interim Consolidated Financial Statements  
(Expressed in thousands of U.S. dollars, except where otherwise indicated)  
Six month periods ended March 31, 2020 and 2019  
(Unaudited)

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## 14. Trade and Other Receivables

|                             | March 31,<br>2020 | September 30,<br>2019 |
|-----------------------------|-------------------|-----------------------|
| Trade receivables, gross    | \$ 1,277          | \$ 254                |
| Allowance for credit losses | (63)              | -                     |
| Trade receivables           | 1,214             | 254                   |
| Other receivables           | 180               | 92                    |
| Trade and other receivables | \$1,394           | \$346                 |

As at March 31, 2020, 5.16% of the Company's accounts receivable is over 90 days past due (December 31, 2019 - 1.07%)

All of the Company's trade and other receivables have been reviewed for indicators of impairment.

Certain trade receivables were found to be impaired and an allowance for credit losses has been recorded accordingly during the quarter ended March 31, 2020.

The movement in the allowance for credit losses can be reconciled as follows:

|                               | March 31, 2020 | September 30,<br>2019 |
|-------------------------------|----------------|-----------------------|
| Beginning balance             | \$ -           | \$ -                  |
| Impairment loss               | -              | 1                     |
| Allowance provided (reversed) | (63)           | (1)                   |
| Exchange translation          | -              | -                     |
| Ending balance                | \$ (63)        | \$ -                  |

## 15. Segment and Customer Reporting

The Company develops, manufactures and markets power technology products. It conducts its operations through divisions, which function as autonomous business units, following a corporate policy of functional and operational decentralization.

The Company defines its operating segments as components of its business where separate financial information is available and routinely evaluated by management. The Company's chief operating decision maker ("CODM") is the Chief Executive Officer. Given the size and nature of the products produced, the Company's operations are segmented based on large format batteries, with the remaining smaller product line categorized as "Other".

# ELECTROVAYA INC.

Notes to the Condensed Interim Consolidated Financial Statements  
(Expressed in thousands of U.S. dollars, except where otherwise indicated)  
Six month periods ended March 31, 2020 and 2019  
(Unaudited)

Segment profits are assessed based on revenues, which for the quarters ended March 31, 2020 and 2019 were as follows:

|                        | 2020 |       | 2019 |       |
|------------------------|------|-------|------|-------|
| Large format batteries | \$   | 1,928 | \$   | 1,253 |
| Other                  |      | 19    |      | -     |
|                        | \$   | 1,947 | \$   | 1,253 |

Revenues based can be analyzed as follows based on the nature of the underlying deliverables :

|                                       | 2020 |       | 2019 |       |
|---------------------------------------|------|-------|------|-------|
| Revenue with customers                |      |       |      |       |
| Sale of batteries and battery systems | \$   | 1,928 | \$   | 1,253 |
| Sale of services                      |      | 7     |      | -     |
| Grant Income                          |      |       |      |       |
| Research grant (Note 12(b))           |      | -     |      | -     |
| Others                                |      | 12    |      | -     |
|                                       | \$   | 1,947 | \$   | 1,253 |

Sales of batteries and battery systems and research grants are recognized at a point in time once the conditions for recognition are met. Service revenue is recognized over time as the service is rendered.

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

|               | 2020 |       | 2019 |       |
|---------------|------|-------|------|-------|
| Canada        | \$   | 1,615 | \$   | 163   |
| United States |      | 332   |      | 1,090 |
| Other         |      | -     |      | -     |
|               | \$   | 1,947 | \$   | 1,253 |

*Customers:*

For the quarter ended March 31, 2020 one customer represented more than 10% of total revenue (quarter ended March 31, 2019 four customers). Our largest customer accounted for 82% and 42% of total revenue for the quarters ended March 31, 2020 and of 2019 respectively.

## 16. Convertible Debentures

On March 27, 2017, the Company closed an offering for 9% unsecured convertible debentures (the "Debentures"), for an aggregate gross proceeds of \$11,260 (Cdn \$15,000,000). The issue costs were \$751 (Cdn \$1,000,543) resulting in net proceeds of \$10,509 (Cdn \$13,999,457). The Company also issued 279,069 compensation options (the "Compensation Options"), with each Compensation Option exercisable to purchase one Common Share at a price of Cdn \$2.26 until 5:00 p.m. on March 26, 2019.

# ELECTROVAYA INC.

Notes to the Condensed Interim Consolidated Financial Statements  
(Expressed in thousands of U.S. dollars, except where otherwise indicated)  
Six month periods ended March 31, 2020 and 2019  
(Unaudited)

---

The Debentures bear interest from the date of issue at 9% per annum, payable semi-annually in arrears on June 30 and December 31 in each year commencing June 30, 2017. The Debentures have a maturity date of March 27, 2020 (the "Maturity Date"). The Debentures are convertible at the holder's option at any time prior to the close of business on the earlier of the Maturity Date and the business day immediately preceding the date specified by the Company for redemption of the Debentures into ElectroVaya's shares at a conversion price of \$1.61 (Cdn \$2.15) per common share, being a conversion rate of 465.116 Common Shares for each \$1,000 principal amount of this Debentures. The Debentures are subject to accelerated conversion in certain circumstances, and the Conversion Price may be adjusted in certain circumstances, all as more particularly described in the Company's news release dated March 15, 2017 and material change report dated March 22, 2017.

The lead subscriber was also issued 1,740,000 warrants (the "Warrants"). Each Warrant is exercisable to purchase one Common Share in the capital of the Company at a price of Cdn \$2.80 per Common Share until 5:00 p.m. on March 26, 2020.

For accounting purposes, the Debentures are separated into their liability and equity components using the effective interest rate method. The fair value of the liability component at the time of issue was determined based on an estimated rate of 13.5% for the Debentures without the conversion feature. The fair value of the equity component was determined as the difference between the face value of the Debentures and the fair value of the liability component.

The Debentures are direct, unsecured obligations of the Company, subordinated to other indebtedness of the Company for borrowed money and ranking equally with all other unsecured subordinated indebtedness. As the Debentures matured on March 27, 2020 they have been classified as current liabilities in this quarter.

The interest expense for the 6 months ended December 31, 2019 of \$519 (2018 - \$510) was paid in cash in January 2020.

The interest expense of \$510 due on December 31, 2018 was settled by issuing 3,634,188 common shares of the Company in January, 2019.

|                                          | Mar 31,<br>2020 | Sep 30,<br>2019 |
|------------------------------------------|-----------------|-----------------|
| <b>Principal</b>                         |                 |                 |
| Balance                                  | \$11,260        | \$11,260        |
| <b>Liability</b>                         |                 |                 |
| Gross proceeds                           | 11,260          | 11,260          |
| Issue costs                              | (751)           | (751)           |
| Equity component                         | (71)            | (71)            |
| Liability component initially recognized | 10,438          | 10,438          |
| Accretion of finance expense             | 2,243           | 1,931           |
| Currency translation adjustments         | (2,060)         | (1,360)         |
| Balance                                  | \$10,621        | \$11,009        |

# ELECTROVAYA INC.

Notes to the Condensed Interim Consolidated Financial Statements  
(Expressed in thousands of U.S. dollars, except where otherwise indicated)  
Six month periods ended March 31, 2020 and 2019  
(Unaudited)

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In April 2020 the terms of its outstanding \$10.6 million (Cdn \$15 million) principal amount unsecured 9% convertible debentures due March 27, 2020 was amended (the “**Amendments**”). Pursuant to the Amendments, the Company and its lender under the debentures, an institutional investor (the “**Debenture Lender**”) agreed that the Company could satisfy the entire \$10.6 million (Cdn \$15 million) principal amount and any accrued but unpaid interest owing under the debentures by issuing the Debenture Lender 11,111,111 Common Shares at a deemed price of CDN\$0.18 per Common Share on or before April 3, 2020, paying the Debenture Lender \$1.4 million (Cdn \$2 million) in cash on or before April 10, 2020, and paying the Debenture Lender an additional \$1.4 million (Cdn \$2 million) in cash on or before September 29, 2020, an equivalent of about Cdn \$6 million dollars. The Company granted the Debenture Lender subordinated security in connection with the deferred payment obligation under the Amendments. Dr. Sankar Das Gupta, the Chief Executive Officer and a director of the Company, personally guaranteed the Company's CDN\$2 million deferred payment obligation under the Amendments. - refer Note 9.

The Company satisfied the initial \$1.4 million (Cdn \$2 million) cash payment pursuant to the Amendments effective as of April 7, 2020, by amending and restating an existing promissory note from a third-party lender, a Canadian financial institution, to increase the principal amount available thereunder. – refer Note 5 b)

## 17. Other payables

The following table represents changes in the provision for repayments to Industry Canada (note 19(a)).

|                                            | March 31,<br>2020 | September 30,<br>2019 |
|--------------------------------------------|-------------------|-----------------------|
| Beginning balance                          | \$ 370            | \$ 114                |
| Finance cost recognized                    | 80                | 256                   |
|                                            | 450               | 370                   |
| Repayments                                 | -                 | (44)                  |
| Currency translation                       | (43)              | -                     |
| Less: current portion of the provision     | (263)             | (184)                 |
| <b>Ending balance of long-term portion</b> | <b>\$ 144</b>     | <b>\$ 142</b>         |

# ELECTROVAYA INC.

Notes to the Condensed Interim Consolidated Financial Statements  
(Expressed in thousands of U.S. dollars, except where otherwise indicated)  
Six month periods ended March 31, 2020 and 2019  
(Unaudited)

## 18. Lease liability

As of March 31, 2020 lease liability consists of:

|                                          | March 31,<br>2020 | September 30,<br>2019 |
|------------------------------------------|-------------------|-----------------------|
| Current                                  | \$ 37             | \$ -                  |
| Non-current                              | \$3,448           | \$ -                  |
| <b>Carrying amount – lease liability</b> | <b>\$3,485</b>    | <b>\$ -</b>           |

Information about leases for which the Company is a lessee is as follows:

|                                                  | 2020   | 2019 |
|--------------------------------------------------|--------|------|
| Interest on lease liabilities                    | \$ 127 | \$ - |
| Incremental borrowing rate at time of transition | 14.00% | -    |
| Total cash outflow for the lease                 | \$ 73  | \$ - |

The Company entered into a lease agreement for 61,327 sq.ft for its premises as its Headquarters in Mississauga, Ontario at 6688 Kitimat Road. The lease is for 10 years starting January 1, 2020 with expiry December 31, 2029. In addition, the Company is required to pay certain occupancy costs.

Under the lease agreement, the landlord provides the Company \$243 (Cdn\$320) to utilize towards Leasehold Improvement to the leased premises. As of March 31, 2020 the Company has incurred \$108 (Cdn \$143). Any unused portion of the tenant improvement allowance will be refunded back to landlord by December 31, 2022.

## 19. Contingencies

### a) Industry Canada

Technology Partnerships Canada ("TPC") projects were long-term (up to 30 years) commencing with an R&D phase, followed by a benefits phase – the period in which a product, or a technology, could generate revenue for the company. In such cases, repayments would flow back to the program according to the terms and conditions of the company's contribution agreement.

In June 2018 the contribution agreement was amended and is included in other payables (Note 17). The latest repayment schedule starting July 1, 2018 for current and future years are as follows:

|                   |       |
|-------------------|-------|
| 2020              | \$229 |
| 2021              | 242   |
| 2022              | 281   |
| 2023              | 310   |
| 2024 & thereafter | 758   |

# ELECTROVAYA INC.

Notes to the Condensed Interim Consolidated Financial Statements  
(Expressed in thousands of U.S. dollars, except where otherwise indicated)  
Six month periods ended March 31, 2020 and 2019  
(Unaudited)

---

The Company is currently in discussions with the TPC regarding a reduction/revision to the current payment schedule. This is expected to be resolved in the quarter ending June 30, 2020.

## **b) Refundable Ontario Investment Tax Credits**

The CRA issued 2014 and 2015 reassessment notices for Cdn \$348K and Cdn \$344K including interest respectively. On November 7, 2018 the Company filed a Notice of Objection. The Company is working with advisors to substantiate our claim and reverse the reassessment and believes the reassessment will be reversed or substantially reduced. The outcome cannot be determined.

## **c) Ministry of Energy**

In earlier October we were notified that of a Statement of Claim for Cdn \$830k had been filed with the Ontario Superior Court of Justice. The claim filed by the Ministry of Energy relates to a dispute regarding funding and fulfilment of the Intelligent Energy Storage System under the Smart Grid Fund program. The Company has filed an Intent to Defend and will vigorously defend its position.

## **d) Litarion**

On April 30, 2018, the Administrator commenced insolvency proceedings and assumed control of the assets of Litarion GmbH. At this time we do not know the time line for completion of the process or what the likely outcome will be. There exists a possibility of claims against Electrovaya or its officers in their capacity as Directors of Litarion under German law. Any claim should one arise will be vigorously defended.

## **20. Sale of Building and Repayment of Debt**

On October 23, 2018 the Company completed the sale of its Headquarters in Mississauga for gross proceeds of \$16,491 (Cdn \$22.5 million) and leased 54,000 sq.ft of the same premises for 3 years expiry October 31, 2021. After purchase price adjustment, commission and other expenses, the net proceeds of \$14,781 (Cdn \$20.2 million) were applied to reduce debt with the remaining balance available for working capital purposes. The Company terminated its lease for the 54,000 sq. ft. premises and entered into a new lease agreement for 61,327 sq.ft as its Headquarters in Mississauga, Ontario at 6688 Kitimat Road (Note 18).

# ELECTROVAYA INC.

Notes to the Condensed Interim Consolidated Financial Statements  
(Expressed in thousands of U.S. dollars, except where otherwise indicated)  
Six month periods ended March 31, 2020 and 2019  
(Unaudited)

## Use of Proceeds – Sale of Building

|                                                              |    | CDN     |    | USD     |
|--------------------------------------------------------------|----|---------|----|---------|
| <b>Gross Proceeds</b>                                        | \$ | 22,500  | \$ | 16,491  |
| Less: Purchase Price Adjustment, Commission & Other Expenses |    | (2,333) |    | (1,710) |
| <b>Net Proceeds</b>                                          | \$ | 20,167  | \$ | 14,781  |
| Debt Repayment & Accrued Interest                            |    |         |    |         |
| Secured promissory note                                      | \$ | 6,418   | \$ | 4,704   |
| Second mortgage loan                                         |    | 1,012   |    | 742     |
| Secured Line of Credit                                       |    | 8,000   |    | 5,862   |
| Secured Shareholder Loan                                     |    | 1,533   |    | 1,124   |
| <b>Debt Repayment</b>                                        | \$ | 16,963  | \$ | 12,432  |
| <b>Available for working capital purposes</b>                |    | 3,204   |    | 2,349   |

## 21. Subsequent Events

### a) Working Capital Facilities – refer – Note 5 b)

In April 2020 a Second Amendment was entered into with the Canadian Financial Institution providing the Working Capital Facilities. The Bridge Loan Facility was amended to become a Revolving Credit Facility with a maximum limit of \$1.06 million (Cdn \$1.5 million). The Purchase Order Facility was amended to be non-revolving with a maximum limit of \$7.08 million (Cdn \$10 million). Two further advances were made under the Purchase Order Facility in April 2020 totaling \$2,588 (Cdn \$3,656k).

Also in April 2020 the Promissory Note was amended and a further amount of \$1.52 million (Cdn \$2.15 million) was advanced bring the total Promissory Note to \$2 million (Cdn \$2.83 million). The Promissory Note matures on the earlier of a) September 25, 2020 or b) on demand. The Promissory Note bears interest at the greater of a) a) 11% per annum or b) 7% per annum above the Prime Rate.

The additional proceeds were used to pay fees and obligations under the Company's 9% convertible debentures – refer Note 16. The increase in borrowing under the Amended and Restated Promissory Note was secured by Dr. Das Gupta personally guaranteeing the Company's payment obligation to the Facility Lender as well as pledging an additional 17,000,000 Common Shares in favour of the Facility Lender, and the Company paid a fee of \$106 (Cdn \$150,000) to the Facility Lender for the increase to the amount available under the Amended and Restated Promissory Note.

# ELECTROVAYA INC.

Notes to the Condensed Interim Consolidated Financial Statements  
(Expressed in thousands of U.S. dollars, except where otherwise indicated)  
Six month periods ended March 31, 2020 and 2019  
(Unaudited)

---

## b) Settlement of 9% convertible debentures – refer Note 16

In April 2020 the terms of its outstanding \$10.6 million (Cdn \$15 million) principal amount unsecured 9% convertible debentures due March 27, 2020 was amended (the “**Amendments**”). Pursuant to the Amendments, the Company and its lender under the debentures, an institutional investor (the “**Debenture Lender**”) agreed that the Company could satisfy the entire \$10.6 million (Cdn \$15 million) principal amount and any accrued but unpaid interest owing under the debentures by issuing the Debenture Lender 11,111,111 Common Shares at a deemed price of \$0.13 (Cdn \$0.18) per Common Share on or before April 3, 2020, paying the Debenture Lender \$1.4 million (Cdn \$2 million) in cash on or before April 10, 2020, and paying the Debenture Lender an additional \$1.4 million (Cdn \$2 million) in cash on or before September 29, 2020, an equivalent of about \$4.2 million (Cdn \$6 million) dollars. The Company granted the Debenture Lender subordinated security in connection with the deferred payment obligation under the Amendments. Dr. Sankar Das Gupta, the Chief Executive Officer and a director of the Company, personally guaranteed the Company's \$1.4 million (Cdn \$2 million) deferred payment obligation under the Amendments.

The Company satisfied the initial \$1.4 million (Cdn \$2 million) cash payment pursuant to the Amendments effective as of April 7, 2020, by amending and restating an existing promissory note from a third-party lender, a Canadian financial institution, to increase the principal amount available thereunder. – refer Note 5 b)

## c) Related Party Transactions - refer Note 9