

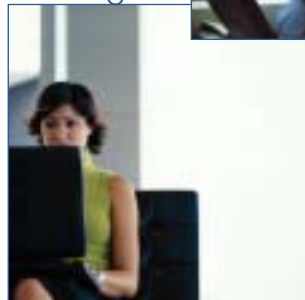


annual report 2001

Powering the



21st Century™



Global Market Opportunity

Our technology delivers unparalleled freedom to consumers.

Freedom to communicate.

Freedom to work. Freedom to move.

**Electrovaya powers
mobility and productivity.**

ELECTROVAYA

Electrovaya is redefining mobility and productivity through the development and manufacture of energy products using its patented lithium ion SuperPolymer™ technology. Its products deliver longer run-times than any other commercial rechargeable batteries - cutting the cord so that travel time is no longer synonymous with downtime. Electrovaya provides unparalleled freedom to work and communicate in wireless environments.

Electrovaya's products satisfy increased consumer demand for mobile computing and enhanced productivity. In 2001, Electrovaya produced and sold its leading power products for mobile computing to customers through corporate purchasers, value-added resellers and distributors. As production ramps up and new applications, such as mobile phone batteries, are introduced throughout 2002, Electrovaya expects to realize significant revenue gains while maintaining better than average margins.

Electrovaya is based in Mississauga, Canada and its shares trade on the Toronto Stock Exchange under the symbol EFL.

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Name change note

As announced in October 2001, Electrovaya is the new commercial name of Electrofuel Inc. The company will change its incorporated name to Electrovaya Inc., subject to shareholder approval, at the annual and special meeting in March 2002.

"...enough battery power to last easily
through a flight across the Pacific..."

Business Week Online
April 30, 2001



1

electrovaya

Electrovaya's products satisfy increased consumer demand for mobile computing and enhanced productivity.



brand awareness



PowerPad 120 battery

an external lithium ion rechargeable battery for most major portable computer brands that delivers run-times of up to 10-12 hours

PowerPad 160 battery

similar to the PowerPad 120, this external battery delivers run-times of up to 12-16 hours

standard necessity

September 1996

January 1997

June 1999

January 2000

February 2000

October 2000

Drs. Das Gupta and Jacobs found Electrofuel Inc.

Net proceeds from C\$10 million private placement of common shares are used for research, application development, and production initiatives

Introduces the PowerPad 160, a rechargeable lithium-ion polymer battery for portable computers that offers the highest energy density on the market today

Completes \$30 million private placement of special warrants

Acquires a machine tool company to design and manufacture production equipment

Establishes sales force in the US

All figures are in U.S. dollars unless otherwise indicated.

EF2100 mobile phone battery

now in test production, this battery delivers up to 500 hours of standby and 10 hours of talk-time for Nokia 5100, 6100 and 7100 series mobile phones

Financial Highlights - Five Year Summary

Years ended September 30 in \$000s except per share & percentage amounts

	2001	2000	1999	1998	1997
Revenue	\$1,017	\$152	-	-	-
R&D investment	\$2,054	\$1,029	\$714	\$466	\$554
Percentage of revenue	202%	677%	-	-	-
Net loss	\$7,169	\$1,518	\$1,315	\$844	\$869
Per share	\$0.11	\$0.03	\$0.02	\$0.02	\$0.02
Working capital	\$32,990	\$19,081	\$2,597	\$4,222	\$5,297
Capital assets	\$15,501	\$8,143	\$879	\$560	\$296
Total assets	\$49,638	\$30,895	\$3,693	\$4,981	\$5,803

November 2000

Completes C\$50 million initial public offering and commences trading on the Toronto Stock Exchange under the symbol EFL

March 2001

Company forms fifth in a series of strategic relationships with major computer distributors and catalogue houses in the US and Canada

April 2001

Company opens new, 156,000 sq. ft. manufacturing facility at a 15-acre site in Mississauga

September 2001

Launches second laptop battery, the PowerPad 120, and begins commercial testing of the EF2100, mobile phone battery

October 2001

Electrofuel adopts Electrovia as commercial name

November 2001

Electrovaya signs major distribution agreements with two leading US resellers and catalogue houses, D&H Distributing and Micro Warehouse Inc.

Electrovaya is **positioned for growth** with a proven manufacturing process, global channels to market and a **superior technology** with broad application potential.

Sankar Das Gupta, PhD
Chairman, president & chief executive officer



MESSAGE TO SHAREHOLDERS

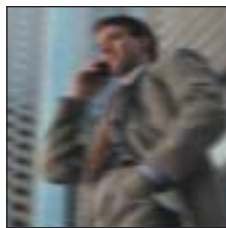
Fiscal 2001 was a year of far reaching change for Electrovaya.

It marked our first year as a public company in which we successfully raised enough capital to realize our goal of becoming a leading rechargeable battery products company. We began commercial production at our new Mississauga facility and hired a chief financial officer. We also launched a second laptop battery and began commercial testing of our power source for mobile telephones.

In spite of these achievements, Electrovaya's share value decreased considerably during the year. As substantial shareholders ourselves, we consider this situation to be unacceptable. We believe that as we ramp up production and continue to win new sales, investors again will recognize Electrovaya's investment value.



We broadened the
company's
sales and
marketing
capabilities.



We are positioned to grow as we satisfy the increased demand for more powerful and longer lasting mobile energy. We believe Electrovaya has the next generation of battery technology. Our patented lithium ion SuperPolymer™ batteries offer superior energy density over regular lithium ion polymer technology, while retaining the same advantages of compact size, light weight and flexible manufacturing characteristics that allow for a broad range of applications.

During fiscal 2001 the company achieved a number of development, production, marketing and management milestones:

- ▲ Commercial production began in April 2001 at Electrovaya's new facility in Mississauga, Ontario. We moderated our initial production ramp up to ensure excellent product quality and are now prepared to step up manufacturing in tandem with sales demand.
- ▲ We broadened Electrovaya's product offering with the launch of the PowerPad 120, aimed at the large mid-tier market of portable computer users. This model is lighter and less expensive than the PowerPad 160, which is intended for people who use their computers more intensively and for longer periods.
- ▲ We opened sales channels for our PowerPad products by forming strategic relationships with major computer distributors, value-added resellers and catalogue houses, which include such established names as D&H Distributing, Micro Warehouse and Datavision-Prologix.
- ▲ We began commercial testing of the EF2100, a mobile phone battery that is compatible with the Nokia 5100, 6100 and 7100 product series. This compact portable power source delivers over twice the talk and standby times of a standard mobile phone battery.
- ▲ We strengthened Electrovaya's management team with a new vice-president, finance and chief financial officer. Paul Van Damme has over 20 years of senior management experience plus a strong background in high growth, publicly traded technology companies. We broadened the company's sales and marketing capabilities by adding three new senior positions and hired 98 employees in other areas, principally production.

"...great promise for the future of
alternative technology ..."
Blue Sky Solar Racing,
June 2001



Electrovaya's near term goal is to **increase sales**, and the new sales and marketing positions give the company **fresh resources** to **heighten** our public profile.

In fiscal 2001 we stepped up our brand building activities aimed at generating greater awareness of our products. Continued favourable media coverage of our unique products has further increased commercial demand.

We are targeting three major market segments:

- ▲ Large to medium size corporations;
- ▲ All levels of government institutions from federal to municipal; and
- ▲ Healthcare and education.

Electrovaya's near-term goal is to increase sales by bringing new products to market and expanding distribution channels. Easy access to our products is key to a successful penetration of these markets. Our strong marketing and public relations strategies focus on brand awareness and, combined with positive consumer and media response, will continue to drive demand. We expect that our portable power solutions will soon be considered a necessity for productive mobility.

Looking ahead, the next challenge for Electrovaya will be to serve this market profitably. To achieve this we have set out a seven-part strategy:

- ▲ Establish additional channels to market by creating new relationships with OEM computer makers, distributors and value-added resellers;
- ▲ Increase production in line with sales at our current manufacturing facility and investigate further expansion opportunities;



As we clear each hurdle, we move closer to achieving our number one objective of **creating shareholder value.**



- ▲ Further automate production processes to enhance our fully scalable production system to accommodate new product lines;
- ▲ Establish strategic relationships in order to broaden the market potential of our products;
- ▲ Continue our investment in research and development initiatives to stay ahead of the industry;
- ▲ Develop new products which use our high energy density battery to give us a competitive advantage; and
- ▲ Achieve profitability through increased sales and production efficiencies.

Electrovaya is a growth company with tremendous opportunities. Our proven manufacturing process, global channels to market and superior, reliable technology with broad application potential all position Electrovaya to be a leading mobile energy company.

We would like to thank our employees for their best efforts, our board members for their guidance and counsel and you, our shareholders, for your confidence in the future of Electrovaya.

Sankar Das Gupta, PhD
Chairman, president & chief executive officer

James K. Jacobs, PhD
Executive vice president & chief technology officer

"...A full day of computer power..."

Mobile Letter
July 19, 2000





Electrovaya has taken a **revolutionary battery** technology one step further.

TECHNOLOGY

Electrovaya's patented lithium ion SuperPolymer™ battery has taken a revolutionary technology one step further.

It is a superior, reliable, environmentally sound energy source with three key benefits:

1. The highest energy density of any commercial rechargeable battery, providing substantially longer run-times. At 475 Watt-hours per litre and nearly 200 Watt-hours per kilogram, this energy density comfortably surpasses those of present market-dominant lithium ion batteries.
2. A thin, planar, flexible format that allows for easy customization and configuration of applications to fit most footprints.
3. An ability to be produced in almost any size required, from small cell phone batteries to large electric vehicle power sources.



Under the stewardship of its founders, the Electrovaya research team's mandate is to extend its technology lead while continuing to discover new and advanced applications. Currently, we have in excess of 100 patents issued or pending worldwide, covering our battery technology applications and products. Over the longer term there is great potential to apply our technology to many applications such as aerospace and telecommunication satellites, hybrid vehicles and energy storage systems.

Research and development is conducted from both our Mississauga and Toronto facilities, where the number of technical personnel has increased significantly from last year. In fiscal 2001, gross R&D expenditures increased substantially to \$2.1 million and we expect to maintain this level of R&D investment in the upcoming year.

Major R&D projects during the year included the commercial testing of the EF2100 cell phone battery and additions of lighter, less expensive PowerPad products. We expect that R&D spending will continue to be high as a percentage of revenue in order to fund initiatives, such as further automation of our production process and improved time-to-market of new concepts.



Our leading technology delivers
longer run-times in a
broad range of possible
applications and is one of
Electrovaya's key
competitive advantages.

"...try carrying a PowerPad from a Canadian company called Electrofuel..."

Forbes
April 19, 2001





Our unique modular
production process allows
Electrovaya to scale
manufacturing quality to meet
increasing **market demand.**

James K. Jacobs, PhD
Executive vice president & chief technology officer

MANUFACTURING

As a new technology company in the early stages of commercial production, we realize the importance of a perfect product. Our focus is on quality. We believe our strategy of manufacturing Electrovaya's products in-house at a controlled and measured pace is essential to our success. By integrating the manufacturing and R&D processes we are able to maintain tight quality control while fine-tuning our manufacturing method.





During the year, Electrovaya built a fully integrated and modular battery production process. Our in-house engineering team designed, built and refined machinery to translate the success of our low-volume operation to a viable, semi-automated system capable of manufacturing 30,000 PowerPads per month. We continue to work toward complete automation of several production functions for both PowerPad and cell phone battery products.

Perfecting our commercial production process has required resources at the expense of productivity. We are confident that we can meet the demands of our customers and maintain the resources to quickly ramp up production as brand awareness takes hold in 2002 and beyond.



Our focus is on **quality.**

"...the long lasting battery is finally a reality ..."

CRM.com
Field Force Automation
May 2001





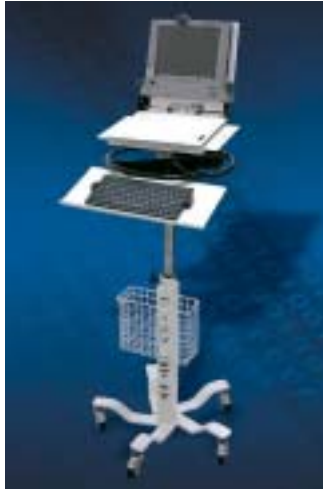
Electrovaya has a strategic and aggressive approach to build a brand value that reflects the **benefits and qualities** of its mobile energy products.

Patrick R. McCool
Vice president, sales and marketing

BRAND VALUE

To succeed in an evolving marketplace, a company needs to stand out from the crowd by differentiating itself and extending its reach. At Electrovaya, we know the value of brand recognition and our goal has been to increase the strength and awareness of the Electrovaya family of products. Establishing the Electrovaya brand as synonymous with quality, leading-edge products is a critical part of our overall market strategy.





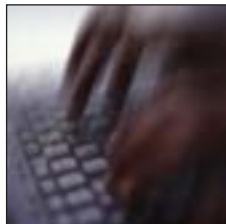
The PowerPad 160 provides mobility to this wireless LAN workstation used by healthcare professionals.

Our goal is to maximize sales volumes through brand recognition. In the past, we have succeeded in building our brand through positive print and electronic media coverage and trade shows. Additionally, we are making significant inroads with corporate users, such as a major US television network during the 2000 Summer Olympics in Sydney.

During fiscal 2001 we extended our reach by signing six contracts with major value-added resellers and high profile catalogue houses. Just recently we signed our first deal with a master distributor, D&H Distributing, thus gaining immediate access to over 40,000 value-added resellers.

The objectives for our sales and marketing team are to:

- ▲ Build strong brand recognition and demand for our PowerPad line of products through aggressive direct marketing and advertising campaigns;
- ▲ Strengthen PowerPad 160 and 120 sales through new major distributor and value-added reseller alliances;
- ▲ Establish a strong distribution network to maximize sales of new cell phone battery products; and
- ▲ Continue to work towards a strategic partnership for joint marketing and product pairing with a major computer OEM.



Our goal is
to **maximize**
sales volumes through
brand value.

"...PowerPad, a unique product that has no direct competition..."
CA Magazine
Nov. 2000





PowerPad **outlasted us**
even with power
hungry hardware in
constant use.

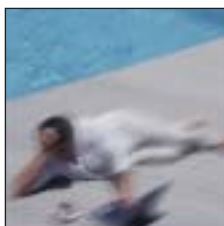
Tech TV
September 12, 2001

MARKETS & PRODUCTS

Electrovaya has the technology to meet the increasing demands of the evolving portable wireless market. Our products free users from the electrical cord, increasing productivity and reducing downtime. The unparalleled performance offered by our leading technology has helped us to establish and build positive relationships with many Fortune 500 companies, including ABC, Bank of America, Cisco Systems, Deloitte & Touche, Intel, Goldman Sachs and Proctor & Gamble.

At the same time, we have worked to broaden the PowerPad's applications beyond the corporate market to penetrate industries with excellent growth potential, such as healthcare and education.

Meeting the
increasing demands
of the evolving portable
wireless market.



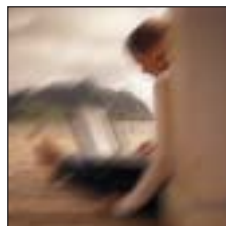


There is strong demand in our initial target markets. In the portable computer segment, we are seeing increased demand for better run-times and cost-effective replacement batteries as corporations try to meet the needs of their mobile workforces and extend the lives of older laptops.

Our confidence extends to the mobile phone industry, which continues to see strong sales and a high level of interest in ElectroVaya's replacement batteries. We expect that carriers, in an effort to increase the air-time usage on existing cell phones, will be interested in making our enhancement products available to subscribers.

Our product line will continue to reflect our target markets. We plan to duplicate the success of the PowerPad 160 with our other products. These include the PowerPad 120, with features designed to address broader markets, and the EF2100 cell phone battery.

We intend to add new products to our line as our technology further penetrates commercial markets. In 2002 we will introduce a new PowerPad. In the near term we also plan to reconfigure our battery technology to meet the growing demand in the personal hand-held, PC companion and mobile Internet device markets.



In the portable computer segment
we are seeing **increased demand**
for better run-times
and **cost effective**
replacement batteries.

"...battery for your notebook
keeps going and going..."

PC Magazine
October 3, 2000



Our **people**
are our **strength**
and we always seek
exceptional talent.

THE TEAM

Just as important as our proprietary technology is our human capital. We possess a breadth and depth of competencies ranging from electrochemical engineering to sales and marketing. Our people are our strength and we always seek exceptional talent for our team.

As of September 30, 2001, ElectroVaya employed 175 people, of when 14 were dedicated full-time to research and development, 124 were in production and manufacturing, and 37 in sales and marketing, customer service, finance, business development and administrative services.





Sankar Das Gupta, PhD

Chairman, president & chief executive officer

A co-founder of the company and its predecessor, Dr. Das Gupta became chairman of the board of directors in April 1999. He has extensive experience in the field of electrochemistry and extensive business experience in the technology sector from The Electrofuel Manufacturing Company Ltd. and HSA Reactors Limited. These companies developed unique fibres and advanced ceramic materials, and designed and constructed complex instrumentation and equipment. Dr. Das Gupta holds a PhD in Electrochemistry from Imperial College, University of London and is an adjunct professor at the University of Toronto.

James K. Jacobs, PhD

Executive vice president & chief technology officer

Dr. Jacobs' innovations have been instrumental in the development of Electrovaya's SuperPolymer™ technology. In 1986 he co-founded The Electrofuel Manufacturing Company Ltd. and has since been responsible for key projects, including the design and construction of high performance ceramic lines, payloads for micro gravity experimentation, specialized furnaces and instrumentation. He has designed and built complete production and manufacturing lines and electrochemical reactor systems. Dr. Jacobs received a BA from Oberlin College, Ohio and completed both his MA and PhD in solid-state physics at the University of Toronto.



Patrick R. McCool

Vice president, sales & marketing

Mr. McCool joined Electrovaya in September 2000 with 18 years of sales and marketing experience in the telecommunications sector. Mr. McCool has held several senior level sales positions at Mitsubishi, most recently as executive vice president of sales for Mitsubishi Wireless, where he was responsible for all sales related activities for the organization in the US, Canadian and Latin American wireless communications markets. Prior to Mitsubishi, Mr. McCool held various sales management positions with Walker Telecommunications and Novatel Communications.

Paul J. Van Damme, CA, MBA

Vice president, finance & chief financial officer

Mr. Van Damme joined Electrovaya in August 2001 with 20 years of financial expertise in a variety of publicly traded, high-growth technology based industries, including computers and wireless communications. Mr. Van Damme was most recently the vice president, finance and chief financial officer of Allelix Biopharmaceuticals Inc. Prior to Allelix, he held several senior financial positions at international and Canadian corporations including Canada Systems Group, Laidlaw Inc. and TeleZone Corporation. Mr. Van Damme received a BComm and MBA from the University of Toronto, and earned a CA designation while working at PricewaterhouseCoopers in Toronto and London, England.



"...this is the battery life you've
always dreamed of ..."
Computer World
August 7, 2000





The company is well-positioned to
accelerate its top-line growth,
with sufficient cash resources
and **no debt** on its books.

Paul J. Van Damme, CA, MBA
Vice president, finance & chief financial officer

The following discussion and analysis of Electrofuel Inc.'s ("Electrofuel" or the "Company") financial condition and results of operations for the fiscal years ended September 30, 2001 and 2000 should be read in conjunction with the Company's financial statements and related notes. Electrofuel's financial statements are presented in thousands of U.S. dollars. Electrofuel prepares its financial statements in accordance with Canadian generally accepted accounting principles. This year, the Company transitioned from a late-stage development company to an early-stage commercial manufacturer.

M D & A

This Annual Report may contain forward-looking statements that involve a number of risks and uncertainties, including statements regarding the outlook for the Company's business and results of operations. By nature, these risks and uncertainties could cause actual results to differ materially from those indicated. Such factors include, without limitation, the various factors set forth in the Risks and Uncertainties section of Management's Discussion and Analysis provided below, and discussed in public disclosure documents filed with Canadian regulatory authorities.

Electrofuel disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

The Company plans to change its name to Electrovia Inc., pending shareholder approval at the annual and special meeting to be held in Toronto, Ontario on March 26, 2002. The decision to change the name resulted from the settlement of a legal proceeding in which the plaintiff claimed that the Company's use of the name "Electrofuel" constituted an infringement of its registered trademark. No compensation was paid to the plaintiff.

Business of the Company

Electrofuel has developed a proprietary advanced alternative power technology, which has a broad spectrum of potential applications. This technology is called "SuperPolymer™" and it enables production of portable rechargeable batteries that have significantly longer run-times for their size and weight than any rechargeable batteries currently in commercial production.

Electrofuel was founded in September 1996 by Dr. Sankar Das Gupta and Dr. James K. Jacobs. They incorporated The Electrofuel Manufacturing Company Ltd. ("Electrofuel Manufacturing") to undertake a variety of technology development projects, including a lithium ion battery development project. Recognizing the potential commercial applications of lithium ion polymer battery technology, Drs. Das Gupta and Jacobs decided to form a new company, Electrofuel Inc., to engage exclusively in the development and commercialization of that technology. In October 1996, Electrofuel acquired patents and patent applications with respect to the rechargeable lithium ion polymer battery technology from Drs. Das Gupta and Jacobs. In January 1997, it acquired all assets relating to the lithium ion polymer battery technology from Electrofuel Manufacturing.

In January 1997, Electrofuel completed a private placement in Canada and used the net proceeds of \$6.5 million from the offering to continue the development of its lithium ion battery technology, develop products that utilize this battery technology, improve its research and development, establish a low-volume production facility and fund operations. In June 1999, the Company introduced its first commercial product, the PowerPad 160, a rechargeable lithium ion polymer battery designed for external use with portable computers. In February 2000, at the Wireless 2000 trade show, it exhibited its prototype EF2100 mobile telephone battery which, based on internal testing, is compatible with Nokia 5100, 6100 and 7100 series mobile telephones. The Company is beginning commercial production of this product.

In January 2000, Electrofuel raised net proceeds of \$28.4 million through the private placement of special warrants in Canada, the United States and abroad. These proceeds were used, in part, to acquire and equip its manufacturing facility in Mississauga, Ontario, which became operational in the third fiscal quarter of 2001. This facility will have a monthly production capacity of approximately five million watt hours, which is equivalent to approximately 30,000 PowerPad 160 units.

In February 2000, the Company acquired machinery and equipment from an industrial machine-building company in the Toronto area for \$1.1 million to provide it with the internal capability to manufacture the proprietary equipment it requires to make its products. In April 2000, Electrofuel acquired a site for \$2.6 million and built the equipment for its Mississauga manufacturing facility.

In November 2000, Electrofuel completed a public offering of 6,250,000 common shares providing net proceeds of \$28.2 million. Some of the proceeds will be applied to an expansion of the Mississauga facility to enable a monthly production capacity of approximately 10 million watt hours, which is equivalent to approximately 60,000 PowerPad 160 units. The balance of the proceeds will be used for general business development, to fund working capital needs and to finance operations.

During the fiscal year ended September 30, 2001, the Company added engineering and production staff and filled key senior management positions. It introduced the PowerPad 120, a product with a run time of up to 12 hours that will serve as a complement to the PowerPad 160 for those users requiring shorter run times. Its employee base increased significantly during this period to 175 staff from 74 at September 30, 2000. It expects further increases in personnel during the next 12 months as it increases commercial production of the PowerPad 120 and 160 models and the EF2100, and continues to develop and expand its product offering.

Results of Operations

Years ended September 30, 2001 and September 30, 2000

Revenue

Revenue increased to \$1.0 million for the year ended September 30, 2001 from \$152,000 for the year ended September 30, 2000. The sales of PowerPad 120 and 160 products to corporate customers, distributors, and individuals represent the beginning of the production ramp-up at the Company's new Mississauga facility. Electrofuel recognizes revenue on the sale of commercial products at the time the units are shipped to customers net of a provision for returned units.

Expenses

Start-up and Manufacturing. All of the material and labor costs and related manufacturing overhead associated with the production of commercial products and the start-up costs of the plant have been charged to start-up and manufacturing expenses. These expenses amounted to \$3.9 million in fiscal 2001. There was no comparable expense category in the prior year as commercial production commenced in April 2001. Included in start-up and manufacturing expense was \$0.8 million for building and production equipment amortization for the period from commencement of production to the year-end.

Research and Development. Research and development expenses consist primarily of compensation and related costs for research and development personnel, including independent contractors and consultants, direct materials and allocated overhead.

Research and development expenses, net of investment tax credits, increased to \$2.1 million for the year ended September 30, 2001 from \$1.0 million for fiscal 2000. This increase in net research and development expenses reflects the increased research and development efforts to improve production methodology, improve technology and enhance and develop new products.

Sales and Marketing. Sales and marketing expenses increased to \$1.6 million for fiscal 2001 from \$0.8 million for the year ended September 30, 2000. The Company enhanced its sales and marketing team significantly. It also increased its activity in marketing, trade shows, advertising and other costs associated with sales of the PowerPad product line. Electrofuel has also increased the overall awareness of its products and technology.

General and Administrative. General and administrative expenses include salaries and benefits for corporate personnel, professional fees and facilities expenses, net of any allocation to research and development activities. The Company's corporate administrative staff includes its executive officers and employees engaged in business development, financial planning and control, legal affairs, human resources and information technology.

General and administrative expenses increased to \$3.0 million for the year ended September 30, 2001 from \$1.9 million for fiscal 2000. This increase reflects the repurchase of stock options of a senior officer who left the Company and increases in corporate staff, legal and consulting fees and amortization expense.

Other Income

Other income was derived primarily from the provision of consulting, development and engineering support services to third parties net of related expenses. Other income decreased to \$57,000 for the year ended September 30, 2001 from \$130,000 for fiscal 2000.

Interest Income

Interest income increased to \$1.9 million for the year ended September 30, 2001 from \$1.1 million for the year ended September 30, 2000. The Company derived interest in both periods from cash and short-term investments. The increase primarily reflects the additional interest derived from the unused portion of the proceeds from the Company's January 2000 special warrant financing and the November 2000 public offering of shares.

Foreign Exchange Gain

The foreign exchange gain decreased to \$0.5 million in fiscal 2001 from \$0.9 million in fiscal 2000. This change was due primarily to the US dollar increasing in value relative to the Canadian dollar. The exchange rate on September 30, 2001 was \$1.5797 and on September 30, 2000 was \$1.5070.

Liquidity and Capital Resources

Since inception, Electrofuel has financed its operations primarily through private and public placements of its securities. As of September 30, 2001, it had raised aggregate net proceeds of \$63.7 million and had \$30.7 million in cash, cash equivalents and short-term investments.

Cash used in operating activities was \$8.3 million for the year ended September 30, 2001 and \$0.4 million for fiscal 2000. Net cash used in operating activities for fiscal 2001 reflects the operating loss of \$7.2 million offset by amortization of \$1.5 million and an increase in non-cash operating working capital of \$2.6 million. The increase in non-cash working capital was principally attributable to an increase in inventory of \$1.8 million and a decrease in accounts payable and accrued liabilities of \$0.7 million.

Cash provided by financing activities was \$30.2 million for the year ended September 30, 2001, compared to \$26.1 million for fiscal 2000. These financing activities consisted primarily of the public offering of shares of \$30.0 million in November 2000 and a private placement of the Company's securities amounting to \$28.4 million in January 2000.

Cash used in investing activities was \$24.5 million for the year ended September 30, 2001 compared with \$20.9 million for fiscal 2000. Cash used in investing activities reflects \$9.2 million of spending on building improvements and machinery and equipment for the Mississauga plant and \$15.3 million of net additions to short-term securities. Capital expenditures constituted 55% of the total cash consumption for the year.

Electrofuel has recorded net losses in every year since its inception. As it continues to make investments in product development and marketing activities, it expects to incur net losses at least through the fiscal year ending September 30, 2002. In the current and future quarters, the Company expects increases in expenses in all categories. It expects research and development expenses to increase as it continues to develop its mobile telephone battery product lines and explore other potential applications for its technology. Electrofuel also expects its sales and marketing expenses to increase as it rolls out a marketing programme with an extensive advertising component. General and administrative expenses are anticipated to increase moderately as the Company increases its corporate infrastructure to support the growth of its business in anticipation of high-volume production. Additional costs will be incurred for a new enterprise resource planning and management information system. It currently plans to fund these expenses with cash on hand.

Electrofuel has not yet received significant revenue from the sale of its batteries. Since April 2000, it has sold limited quantities of the PowerPad 120 and 160. As it continues to ramp up to larger scale commercial production of its PowerPad products, it expects that its principal source of revenue will be the sale of these battery products. Initially, the Company expects that its sales will be concentrated among a limited number of distributors, value-added resellers and catalogue houses. Eventually, it expects to enter into agreements with original equipment manufacturers ("OEMs"). Such agreements would involve the joint marketing and bundling of its products with those of the manufacturer.

Electrofuel expects to continue to experience negative cash flow in the foreseeable future. It expects that its capital expenditures will decrease significantly in the future as it has substantially completed the expansion of its Mississauga manufacturing capacity. It will begin to disclose cost of sales in its next fiscal year as revenues and related manufacturing costs increase.

Future liquidity and capital requirements will depend principally on the rate of growth and the means by which the Company achieves its growth. The Company believes that the cash on hand will be sufficient to meet its requirements until at least September 2003. It believes that it may be able to adjust the timing and extent of capital investment if additional capital is not available to it. Its capital needs in future periods will depend principally on its ability to generate sales of its products, the extent and timing of future increases in manufacturing capacity and the extent to which it engages in acquisitions and joint ventures.

Recent Accounting Pronouncements

The Canadian Institute of Chartered Accountants has issued new accounting standards for "Earnings per share", which are effective for the Company's fiscal 2002 year, commencing October 1, 2001. This new standard uses the treasury stock method instead of the imputed interest approach for determining the dilutive effects of warrants, options and similar instruments. Under this method, Electrofuel's basic loss per share is unaffected and its options are anti-dilutive.

Qualitative and Quantitative Disclosures about Risks and Uncertainties

Interest Rate Risk

As of September 30, 2001, the Company had cash and short-term investments totaling \$30.7 million, which consisted of cash and cash equivalents of \$2.4 million, including investments with original maturities of two months or less at the date of purchase and \$28.3 million of short-term commercial paper with maturity of 127 days at the time of acquisition. These securities bear interest at a weighted average rate of 5.25%. As a result of their short-term maturities, the Company does not believe these investments are subject to significant interest rate risk. Recent declines in short-term interest rates will, however, significantly reduce the interest income earned in 2002 on these investments.

Foreign Currency Exchange Rate Risk

In the year ended September 30, 2001, over 90% of the Company's revenue was derived from US customers in US dollars. The Company expects that the majority of its sales will, in the future, be made in US dollars and that in the short term, the majority of its expenses will be denominated in Canadian dollars. As of September 30, 2001, \$7.7 million of cash, cash equivalents and short-term investments were denominated in US dollars. Fluctuations in the exchange rate between the Canadian dollar and the US dollar may therefore have a material effect on results of operations. The Company does not currently engage in currency hedging activities.

Credit Risk

The Company manages its credit risk with respect to accounts receivable by establishing and implementing credit limits and approval policies, as well as dealing primarily with large creditworthy customers. It has insured all of its accounts receivable with the Export Development Corporation to the extent of 90% of coverage.

Other Risks and Uncertainties

Electrofuel is an early-stage commercial company facing corresponding risks, expenses and difficulties that may affect its outlook and eventual results of its business and commercialization plan.

Electrofuel may not be able to establish high-volume production on a timely, cost-effective basis or at all. It has never manufactured batteries in large quantities and it may not be able to maintain future commercial production at planned levels. Additionally, if it is unable to secure an adequate supply of raw materials or components, its costs could increase or its production could be limited.

Electrofuel is taking a number of steps to offset these risks:

- ▲ Its manufacturing process is modular and flexible.
- ▲ Its high-volume facility utilizes machinery and equipment that is similar to the machinery and equipment that it has already designed, built and used in its pilot production plant. Since the introduction of its PowerPad in 1999 it has successfully produced finished products in its pilot and commercial plants, resulting in sales.
- ▲ It is in the process of formalizing supply arrangements with suppliers to ensure that raw materials required for high-volume production are available at a reasonable cost and on a timely basis.
- ▲ It intends to ensure it has more than one supplier for critical raw materials and components.

Until the establishment of multiple plants, Electrofuel will be dependent upon the operation of a single manufacturing facility and accidents or other operational problems at this facility could affect its ability to deliver product to its customers and therefore its ability to generate revenues. In addition, it may be subject to environmental liabilities at its facilities, which could result in material expense and adversely affect its ability to sell or finance its facilities.

Electrofuel has addressed these risks by designing and building its high-volume facility with worker safety in mind. In addition, it has adopted a formal environmental policy that requires compliance with environmental legislation and an ongoing program of monitoring its environmental compliance.

Electrofuel does not have a collaborative partner to assist it in the development of its batteries, which may limit its ability to develop and commercialize its products on a timely basis. Furthermore, it may incur significant costs and invest considerable resources designing and testing batteries for use with, or incorporation into, specific products without significant return.

Electrofuel believes that the formation of strategic partnerships will be critical for the Company to meet its business objectives. It will continue to seek arrangements with potential partners to mitigate the development and commercialization risks going forward, balanced by its objective to maximize market share and penetration by not entering into exclusivity arrangements with a single partner. In addition, it is reviewing options to work with multiple partners on OEM programs for internally designed applications, sales and distribution arrangements, outsourcing parts of its manufacturing process, and for development of specialized applications in industry segments other than portable computers and mobile phones.

Electrofuel may not be able to compete effectively with other manufacturers of compact rechargeable batteries. There is also the possibility its competitors may develop portable power technologies that match or outperform the SuperPolymer™ technology, which may diminish the demand for the Company's products. In addition, innovations in the design of portable computers, mobile telephones and other wireless devices may reduce the need for its batteries.

The market for rechargeable batteries is competitive and fragmented. Electrofuel believes it is well positioned to compete in the market for compact rechargeable batteries, which is already very large and growing rapidly. The adoption rate of lithium ion batteries is 35% per year as the nickel cadmium and nickel-metal hydride technology sectors decline. There are currently five to seven principal competitors, primarily well capitalized companies based in Japan, which have in aggregate a dominant market position in the lithium ion and lithium ion polymer battery sector. By leveraging the Company's technological advantage, moving quickly to penetrate the market, initially targeting the underserved aftermarket, and emphasizing its higher energy density to create brand differentiation, Electrofuel expects to increase revenue in the near term. Additionally, the Company believes that design innovations in the wireless sector will either not materially extend the run time of existing battery technologies or will be more than offset by the addition of new, enhanced, "power-hungry" features, which will increase the energy requirements of these wireless devices. Finally, miniature fuel cells present potential future competition to batteries in the portable and mobile power applications. However, they are expensive and still have technical hurdles to overcome, thus mitigating the threat to Electrofuel's products in the electronics markets that it targets.

While SuperPolymer™ energy density is currently superior to that of the Company's competitors in commercial production, Electrofuel will continue to invest in research and development to utilize latest generation advanced materials and improve the process and design of its batteries to maintain or widen the technological gap between its technology and that of its closest competitors. However, the Company has limited knowledge of its competitors' activities in this area.

Electrofuel is exposed to certain risks as a result of being in an industry that manufactures devices or products containing energy. All lithium ion polymer batteries can become hazardous under some circumstances. In the event of a short circuit or other physical, electrical or thermal damage to these batteries, chemical reactions may occur that release excess heat or gases, which could create dangerous situations, including fire, explosions and releases of toxic fumes. The Company's batteries may emit smoke, catch fire or emit gas, any of which may expose Electrofuel to product liability litigation. In addition, these batteries incorporate potentially hazardous materials, which may require special handling, and safety problems may develop in the future. Product failure or improper use of lithium ion polymer battery products, such as the improper management of the charging/discharging system, may also result in dangerous situations. The raising of any health or safety issues could affect the Company's reputation and sales. Moreover, changes in environmental or other regulations affecting the manufacture, transportation or sale of Electrofuel's products could adversely affect the Company's ability to manufacture or sell its products or result in increased costs or liability. Finally, Electrofuel may be required to devote significant financial and management resources to processing and remedying warranty claims. If product liability issues arise, the Company could incur significant expenses and suffer damage to its reputation and the market acceptance of its products.

To mitigate these risks of product liability, Electrofuel undertakes extensive internal and external product and safety testing. Unlike certain competing technologies, its products do not contain cadmium or lithium metal, which are considered hazardous materials for purposes of disposal or transportation.

The Company believes that there are currently no regulations in North America that would prevent it from the manufacture or sale of its batteries, and Electrofuel is fully committed to ensuring its products are environmentally friendly. It is currently examining the impact of the recent international regulation of air transportation of lithium ion batteries and expects to be in compliance shortly. In certain situations or applications, battery power may be a more attractive environmental solution than other energy sources utilizing fossil fuels or creating emissions.

Electrofuel may not be able to successfully market its battery technology and products, and because its SuperPolymer™ technology is new, these batteries may not perform as well as anticipated. The Company expects to sell its products directly to corporate customers and through value-added resellers and distributors. But if these parties do not purchase these products or purchase them in lower quantities or over longer time periods than expected, Electrofuel's revenue profile and cash flows may be severely affected. Initially, the Company expects to rely upon a limited number of customers for a significant portion of its sales and the loss of any customer could have a material adverse effect on its sales and operating results and make it more difficult to attract and retain other customers.

The PowerPad 120 and 160 products have undergone extensive user testing and have now been sold in limited quantities to well-established corporate users, distributors and value-added resellers with positive early results. Electrofuel has an aggressive marketing program in place, including trade show participation and advertising campaigns. The Company has hired a dedicated sales team to aggressively market and sell its products in the United States and Canada. Electrofuel is adopting a multi-channel distribution strategy to reduce its reliance on a single customer or distributor. The Company is targeting different types of users, applications and industries to mitigate the risk if its products do not achieve acceptance in a single market and to minimize reliance on one customer.

If the Company fails to manage growth successfully, it could experience delays, cost overruns or other problems. Similarly, if it is unable to hire or retain qualified, key personnel, its business may be jeopardized.

Electrofuel has identified and is acting on the need to hire additional staff for its manufacturing facility, at the senior management levels and for specialized personnel in various disciplines or areas of expertise, to help ensure the Company continues to effectively manage its rapid growth as it moves to a multi-plant operation. Additionally, its senior management team has significant breadth and depth of expertise in managing start-up situations, which will assist the Company in making a smooth transition from a small private company to a large public company. It has implemented a market-driven compensation structure and benefits plan to assist it in attracting and retaining key personnel.

If Electrofuel fails to protect its proprietary technology, it may lose any competitive advantage it provides. Others may claim that the Company's products infringe on their intellectual property rights, which could result in significant expenses for litigation, developing new technology or licensing existing technologies from third parties. If Electrofuel is unable to register its trademarks, or if its trademarks or trade name are found to violate the rights of others, the Company may have to change its trademarks or name and lose the goodwill created in them.

Electrofuel will continue to register patents resulting from ongoing research and development activity, acquire or license patents from third parties if appropriate and further develop the trade secrets related to its manufacturing process and the design and operation of the equipment used to manufacture its products.

Outlook

Electrofuel is well positioned to meet the growing demand for mobility and productivity from portable computer users. The Company has a cluster of unique products to meet this demand and has successfully commissioned the Mississauga manufacturing plant. Electrofuel is rapidly opening up distribution channels to meet the challenge of the global market for mobile energy.

The Company's primary objective is to achieve profitability through a combination of increasing revenue and controlling costs. It will further support sales through the appointment of additional major distribution channels in North America and by partnering with OEMs. Concurrently, it is focussing its research and development on expanding its markets through the development of new products.

While overall information technology spending has declined with the economic slowdown, the cell phone market remains strong. In the laptop market Electrofuel is seeing an increasing demand for batteries with maximum runtime as corporations are meeting the needs of a mobile workforce and extending the life of older laptops. While the Company will benefit most from a strong economy, its high-energy-density battery applications are also well suited for today's environment. Electrofuel is well positioned to meet the vigorous demands for increased mobility and productivity in the global economy.

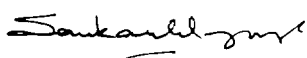
MANAGEMENT RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

Management of Electrofuel Inc. is responsible for the integrity of the accompanying consolidated financial statements and all other information in this Annual Report. The financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. Their preparation necessarily involves the use of estimates and careful judgment, particularly in those circumstances where transactions affecting a current period are dependent upon future events. All financial information in the Annual Report is consistent with the consolidated financial statements.

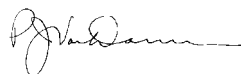
To discharge its responsibilities for financial reporting and safeguarding of assets, management believes that it has established appropriate systems of internal accounting control which provide reasonable assurance that the financial records are reliable and form a proper basis for the timely and accurate preparation of financial statements. Consistent with the concept of reasonable assurance, the Company recognizes that the relative costs of maintaining these controls should not exceed their expected benefits. Management further assures the quality of the financial records through careful selection and training of personnel, and the adoption and communication of financial and other relevant policies.

The Board of Directors discharges its responsibilities for the financial statements primarily through the activities of its Audit Committee, which is composed solely of directors who are neither officers nor employees of the Company. This committee meets quarterly with management, and annually with the independent auditors, to review performance and to discuss audit, internal control, accounting policy and financial reporting matters. The consolidated financial statements were reviewed by the Audit Committee and approved by the Board of Directors.

The financial statements have been audited by KPMG LLP. Their report is presented below.



Sankar Das Gupta
Chairman, president & chief executive officer



Paul J. Van Damme
Vice president, finance & chief financial officer

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Electrofuel Inc. as at September 30, 2001 and 2000 and the consolidated statements of operations and deficit and cash flows for each of the years ended September 30, 2001 and 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Electrofuel Inc. as at September 30, 2001 and 2000 and the results of its operations and its cash flows for each of the years ended September 30, 2001 and 2000 in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

Toronto, Canada
November 19, 2001

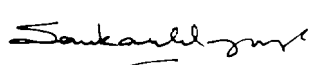
CONSOLIDATED FINANCIAL STATEMENTS

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

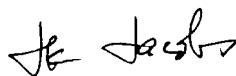
	September 30	
	2001	2000
Assets		
Current assets		
Cash and cash equivalents	\$ 2,436	\$ 6,337
Short-term investments	28,269	13,000
Accounts receivable	301	185
Investment tax credits recoverable	652	594
Goods and Services Tax receivable	167	255
Inventories (note 2)	1,836	81
Prepaid expenses and other	476	461
	34,137	20,913
Deferred finance charges	-	1,839
Capital assets (note 3)	15,501	8,143
	\$ 49,638	\$ 30,895
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 1,110	\$ 1,767
Income taxes payable	37	65
	1,147	1,832
Shareholders' equity		
Share capital (note 4)	63,729	35,385
Cumulative translation adjustment	(2,792)	(1,045)
Deficit	(12,446)	(5,277)
	48,491	29,063
Commitments (note 7)		
	\$ 49,638	\$ 30,895

See accompanying notes to consolidated financial statements.

On behalf of the Board:



Director



Director

Consolidated Statements of Operations and Deficit
(Expressed in thousands of U.S. dollars)

	Years ended September 30,	
	2001	2000
Revenue	\$ 1,017	\$ 152
Expenses		
Start-up and manufacturing	3,911	-
Research and development	2,054	1,029
Sales and marketing	1,553	829
General and administrative	3,043	1,902
	10,561	3,760
Loss from operations	9,544	3,608
Other income	(57)	(130)
Interest income	(1,869)	(1,128)
Gain from foreign exchange	(486)	(853)
	(2,412)	(2,111)
Loss before income taxes	7,132	1,497
Income tax expense (note 9)	37	21
Loss for the year	7,169	1,518
Deficit, beginning of year	5,277	3,294
Loss on redemption of shares (note 4(c))	-	465
Deficit, end of year	\$ 12,446	\$ 5,277
Loss per common share (note 8)	\$ 0.11	\$ 0.03

See accompanying notes to consolidated financial statements.

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

	Years ended September 30,	
	2001	2000
Cash provided by (used in)		
Operating activities		
Loss for the year	\$ (7,169)	\$ (1,518)
Amortization which does not involve cash	1,502	449
Common shares issued for services	-	176
Change in non-cash operating working capital (note 11)	(2,607)	481
	(8,274)	(412)
Financing activities		
Proceeds from issue of common shares (note 4)	30,006	-
Issue of special warrants (note 4)	-	28,439
Deferred finance charges	-	(1,878)
Exercise of stock options	177	-
Repurchase of stock options	-	(465)
	30,183	26,096
Investing activities		
Additions to short-term investments	(15,269)	(13,000)
Additions to capital assets	(9,193)	(7,876)
	(24,462)	(20,876)
Increase (decrease) in cash and cash equivalents	(2,553)	4,808
Effect of currency translation adjustments on cash and cash equivalents	(1,348)	(849)
Cash and cash equivalents, beginning of year	6,337	2,378
Cash and cash equivalents, end of year	\$ 2,436	\$ 6,337
Supplemental disclosure of cash flow information		
Income taxes paid	\$ 21	\$ -
Interest received	2,070	871

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of U.S. dollars)

Years ended September 30, 2001 and 2000

1. Significant accounting policies

(a) Nature of operations

Electrofuel Inc. is an early stage manufacturer and marketer of advanced, high energy, rechargeable batteries based on its patented lithium ion SuperPolymer™ technology. These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries.

During the year the company began commercial production and expects to continue to develop its product lines and explore other potential applications using the developed technology.

The Company has no distinct operating segments and has no operating assets located outside of Canada.

(b) Cash and cash equivalents

Cash and cash equivalents include temporary investments in marketable securities which are readily convertible into cash and which have a term to maturity of less than 90 days. Temporary investments in marketable securities with longer terms to maturity are recorded as short-term investments and are recorded at cost, which is equivalent to market value.

(c) Capital assets

Capital assets are recorded at cost less related investment tax credits and accumulated amortization. Amortization is provided on a straight-line basis over the estimated useful lives of the assets at the following annual rates:

Building	4%
Building improvements	4%
Production equipment	20%
Workshop equipment	20%
Patents and technology	20%
Office furniture and equipment	20%
Vehicles	20%
Leasehold improvements	Term of lease

1. Significant accounting policies (continued)

(d) Research and development costs

Research costs, net of related investment tax credits, are expensed in the period in which they are incurred. Development costs, net of related investment tax credits, are expensed in the period incurred unless such costs meet the criteria under Canadian generally accepted accounting principles for deferral and amortization. To date, the Company has not deferred any development costs.

(e) Start-up and manufacturing expenses

In April 2001, the Company commenced production of commercial units at its new manufacturing facility in Mississauga. All of the materials, labour and overhead costs associated with the production of commercial units and the start-up of the plant are included in start-up and manufacturing expenses.

(f) Inventories

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

(g) Government assistance

The Company receives indirect financial assistance from the government by way of the investment tax credit program. This program provides assistance, by way of direct payments and reductions in corporate income taxes, for specially defined qualifying expenditures. Investment tax credits are credited against research and development expenses.

(h) Equity instruments issued to non-employees in exchange for services

When equity instruments are issued to non-employees in exchange for services, the equity instruments are recorded at the fair value of the services received, where such value can be reliably measured, or, otherwise, at the fair value of the equity instrument issued as consideration.

(i) Revenue recognition

Revenue is recognized on the sale of commercial units produced at the Company's production plant at the time the units are shipped to customers net of a provision for returned units.

1. Significant accounting policies (continued)

(j) Warranty costs

Warranty costs are provided for as revenues are earned.

(k) Deferred finance charges

Direct costs incurred in connection with the issuance of share capital are deferred until such time as the shares are issued.

(l) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

(m) Income taxes

The Company uses the asset and liability method of accounting for income taxes. Future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carryforwards. Future tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in the statement of operations in the period that includes the enactment date.

(n) Currency translation

Monetary assets and liabilities of the Company which are denominated in foreign currencies are translated into Canadian dollars (which is considered to be the measurement currency) at the exchange rates prevailing at the balance sheet date, and transactions denominated in foreign currencies which are included in operations are translated at the average rates for the period. Exchange gains and losses resulting from the translation of these amounts are reflected in the statement of operations in the period in which they occur. As the Company's reporting currency is the U.S. dollar, the Company translates assets and liabilities denominated in Canadian dollars into U.S. dollars at the exchange rate prevailing at the balance sheet date, and the results of operations at the average rate for the period. Cumulative net translation adjustments are included as a separate component of shareholders' equity.

2. Inventories

Inventories consist of

	2001	September 30, 2000
Raw materials	\$ 924	\$ 81
Work in progress	767	-
Finished goods	145	-
	\$ 1,836	\$ 81

3. Capital assets

September 30, 2001	Cost	Accumulated amortization	Net book value
Land	\$ 1,899	\$ -	\$ 1,899
Building	596	45	551
Building improvements	5,096	127	4,969
Production equipment	8,011	1,362	6,649
Workshop equipment	1,013	321	692
Patents and technology	548	190	358
Office furniture and equipment	448	93	355
Vehicles	34	6	28
Leasehold improvements	2	2	-
	\$ 17,647	\$ 2,146	\$ 15,501

September 30, 2000	Cost	Accumulated amortization	Net book value
Land	\$ 1,899	\$ -	\$ 1,899
Building	596	-	596
Building improvements	1,075	-	1,075
Production equipment under construction	2,326	-	2,326
Production equipment	1,425	446	979
Workshop equipment	1,062	124	938
Patents and technology	314	111	203
Office furniture and equipment	150	35	115
Vehicles	12	1	11
Leasehold improvements	3	2	1
	\$ 8,862	\$ 719	\$ 8,143

4. Share capital

On August 2, 2000, the Company's shareholders authorized a three-for-one stock split, which became effective on September 18, 2000. All references to common shares, common shares outstanding, stock options and per share amounts in these financial statements have been restated to reflect this three-for-one stock split on a retroactive basis.

(a) Authorized and issued capital stock

	Common Shares		Special Warrants	
	Number of Shares	Amount	Number of Warrants	Amount
Authorized				
Unlimited common shares				
Issued				
Balance, September 30, 1999	54,394,602	\$ 6,770	-	\$ -
Issued during 2000				
Private placement (iii)	-	-	1,875,000	28,439
For consulting services	117,429	133	-	-
For directors' compensation	23,256	43	-	-
Balance, September 30, 2000	54,535,287	6,946	1,875,000	28,439
Issued during 2001				
Public offering (i)	6,250,000	28,167	-	-
Conversion of special warrants (iii)	8,589,922	28,439	(1,875,000)	(28,439)
Stock options exercised	163,900	177	-	-
Balance, September 30, 2001	69,539,109	\$ 63,729	-	\$ -

4. Share capital (continued)

- (i) On November 10, 2000, the Company issued 6,250,000 common shares at \$5.24 per common share, resulting in proceeds of \$30,006, net of costs of \$2,562, for net proceeds of \$27,444.
- (ii) On November 9, 2000, the Company issued, for no consideration, a total of 25,000 charitable warrants to three charitable organizations. Each charitable warrant entitles the holder to receive, for cash consideration of \$5.24 (Cdn \$8.00), one common share. The charitable warrants are fully vested, non-transferable and will expire on November 9, 2010. The warrants remain outstanding at September 30, 2001.
- (iii) The Company entered into an agency agreement with Yorkton Securities Inc. to offer for sale, on a private placement basis, 1,875,000 special warrants at a price of \$16 per special warrant for net proceeds of \$28,439 after deducting issue costs of \$1,561. This private placement was completed on January 10, 2000. Each special warrant entitled the holder to receive three common shares of the Company without payment of additional consideration. The special warrants were exchanged to common shares at the closing of the public offering of common shares on November 10, 2000.

Each special warrant entitled the holder to acquire, for no additional consideration, such additional number of common shares as is necessary to ensure that the value the special warrant holder received for each special warrant was equal to \$24.00, subject to a maximum adjustment of an additional three common shares for each special warrant held. As a result of the offering price per common share described in note 4(a)(i) being less than \$8.00, each special warrant holder received 1.58 additional common shares for each special warrant held for no additional consideration. The Company filed a prospectus dated November 1, 2000 relating to the qualification for distribution of 8,589,922 common shares of the Company upon the exercise, without payment of additional consideration, of 1,875,000 special warrants.

As additional compensation to the agent, the Company granted 93,750 compensation warrants. Each compensation warrant entitles the holder to receive, without additional payment, one compensation option. Each compensation option entitles the holder to acquire three common shares of the Company for \$5.33 per common share until January 10, 2002. The compensation options are subject to a similar adjustment to that described above as a result of the offering price per common share being less than \$8.00.

4. Share capital (continued)

(b) Stock options

The Company has reserved up to 5,400,000 common shares for issuance under the stock option plan. 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.

Details of stock option transactions are as follows:

	Number of options	Weighted average exercise prices of options
Outstanding, September 30, 1999	1,351,500	\$ 1.13
Granted	865,500	4.88
Cancelled	(163,500)	1.28
Outstanding, September 30, 2000	2,053,500	2.70
Granted	359,000	3.23
Exercised	(163,900)	1.13
Cancelled	(636,000)	4.66
Outstanding, September 30, 2001	1,612,600	\$ 2.21

4. Share capital (continued)

Exercise price	Options outstanding as at September 30, 2001		Options exercisable as at September 30, 2001	
	Number outstanding	Weighted average remaining life (years)	Number exercisable	Weighted average exercise price
\$ 1.13 (Cdn \$1.67)	1,078,100	7.90	718,733	\$ 1.13
1.95 (Cdn \$3.00)	219,000	9.87	-	-
5.24 (Cdn \$8.00)	140,000	9.10	-	-
5.33	85,500	8.38	28,500	5.33
8.00	90,000	8.96	30,000	8.00
	1,612,600	8.36	777,233	\$ 1.55

(c) Loss on redemption of shares

During 2000, the Company paid \$465 to an employee upon the surrender and cancellation of 150,000 vested stock options. The cash payment represents the excess of the fair value of the options over the aggregate exercise price and has been charged to retained earnings as a loss on the redemption of shares.

5. Financial instruments

(a) Fair values

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

(b) Foreign currency risk

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

6. Related party transactions

The Company leases its Hanna Avenue premises from a company owned by its controlling shareholders for \$262 per year. This lease expires on December 31, 2002. The Company's related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

7. Commitments

The Company's future minimum lease payments under operating leases, being principally for its premises, for the years ending September 30 are as follows:

2002	\$ 196
2003	52
2004	4
	<hr/>
	\$ 252

8. Loss per share

The net loss per share has been calculated using the weighted average number of common shares outstanding during the periods, which are as follows:

September 30, 2001	67,767,257
September 30, 2000	54,515,619

Common share purchase options or other potential dilutive common shares were not considered for each of the periods presented since their effect would be anti-dilutive.

9. Income taxes

- (a) The provision for income taxes differs from the amount computed by applying the combined federal and provincial income tax rate of 42.5% (2000 - 44.2%) to the loss before income tax recovery as a result of the following:

	Years ended September 30,	
	2001	2000
Loss before income taxes	\$ (7,169)	\$ (1,497)
Computed expected tax recovery	(3,047)	(661)
Reduction in income tax recovery resulting from:		
Lower rate on manufacturing profits	574	93
Permanent differences	2	4
Non-recognition of tax benefit of losses	2,471	564
Large Corporations Tax	37	21
Income tax expense	\$ 37	\$ 21
Change in valuation allowance	\$ 1,352	\$ 1,302

- (b) The tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities are as follows:

	Years ended September 30,	
	2001	2000
Future tax assets		
Non-capital tax losses carried forward	\$ 2,236	\$ 1,902
Share issue costs	422	346
Capital assets	621	-
Unclaimed research and development expenses	834	778
	4,113	3,026
Less valuation allowance	(4,113)	(2,761)
Future tax liability		
Investment tax credits accrued	-	179
Capital assets	-	77
Other	-	9
	-	265
Net future tax assets	\$ -	\$ -

In addition to the above temporary differences, the Company has unrecorded non-refundable investment tax credits ("ITCs") amounting to approximately \$427, which begin to expire in 2007.

As at September 30, 2001, the expiration dates of the Company's tax losses carried forward are as follows:

2004	\$ 641
2005	480
2006	719
2007	923
2008	4,692
	\$ 7,455

In assessing the realizability of future tax assets, management considers whether it is more likely than not that some portion or all of the future tax assets will not be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers projected future taxable income, uncertainties related to the industry in which the Company operates and tax planning strategies in making this assessment.

- (c) The Company is entitled to ITCs, which are earned as a percentage of eligible current and capital research and development expenditures incurred in each taxation year. ITCs are typically available to be applied against future income tax liabilities, subject to a 10-year carryforward period. ITCs are accounted for as a reduction of the related expenditure for items of a current nature and a reduction of the related asset cost of items of a long-term nature, provided that the Company has reasonable assurance that the tax credits will be realized.

10. Major customers

During 2001, two customers individually represented 52% and 10% of revenue and comprised 48% and 17% of accounts receivable respectively at year end. In 2000, one customer represented 59% of revenue and 3 customers comprised 34%, 21% and 11% of accounts receivable as at September 30, 2000.

11. Change in non-cash operating working capital

	Years ended September 30,	
	2001	2000
Accounts receivable	\$ (116)	\$ (174)
Investment tax credits recoverable	(58)	(301)
Goods and Services		
Tax receivable	88	(231)
Inventories	(1,756)	(33)
Prepaid expenses and other	(15)	(434)
Accounts payable and accrued liabilities	(722)	1,588
Income taxes payable	(28)	66
	\$ (2,607)	\$ 481

Directors

Sankar Das Gupta, PhD, Chairman
President & chief executive officer
Electrofuel Inc.

Bejoy Das Gupta, DPhil²
Deputy director, Asia Pacific Department
Institute of International Finance,
Washington, D.C.

Michael L. Gopikanth, PhD, MBA¹
Senior product marketing manager
Macrovision Inc.

James K. Jacobs, PhD
Executive vice president &
chief technology officer
Electrofuel Inc.

Sydney R. McMorran, MBA^{1,2}
Director

Arif Maskatia
Vice president, Advanced Technology &
Portable Development Group
Acer America Corporation
(Retired from Board December 1, 2001)

George R. Paterson^{1,2}
Director

¹ Audit committee

² Corporate governance & compensation
committee

Officers

Sankar Das Gupta, PhD
President & chief executive officer

James K. Jacobs, PhD
Executive vice president,
chief technology officer & secretary

Patrick R. McCool
Vice president, sales & marketing

Paul J. Van Damme, CA, MBA
Vice president, finance &
chief financial officer

Auditors

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Stock Listing

Toronto Stock Exchange (TSE)
Symbol: EFL

Annual & Special Meeting

The annual and special meeting of
shareholders will be held at 4:00 pm EST
on Tuesday, March 26, 2002 at the TSE
Conference Centre. The Centre is located at
ground level in the Exchange Tower, 130 King
Street West (at York Street) in Toronto, Ontario.

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