

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): November 17, 2000

ELECTRIC FUEL CORPORATION  
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation)	0-23336 (Commission File Number)	95-4302784 (IRS Employer Identification No.)
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120 Wood Avenue South, Suite 300, Iselin, New Jersey (Address of Principal Executive Offices)	08830 (Zip Code)
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Registrant's telephone number, including area code: (732) 635-7100

885 Third Avenue, Suite 2900, New York, New York 10022  
(Former name or former address, if changed since last report)

Page 1 of 100 Pages  
Exhibit Index appears on Page 5

Item 5. Other Events

Pursuant to the terms of a Securities Purchase Agreement dated as of November 17, 2000, by and between Electric Fuel and Capital Ventures International ("Capital Ventures"), on November 17, 2000 we issued and sold to Capital Ventures, for an aggregate purchase price of \$8,375,000: (i) 1,000,000 shares of our common stock, \$.01 par value per share; (ii) a Series A Warrant to purchase 666,667 shares of our common stock at any time prior to November 17, 2005 at a price of \$12.56 per share; and (iii) a Series B Warrant to purchase 333,333 shares of our common stock at any time prior to August 17, 2001 at a price of \$11.31 per share. The Series B Warrant has a mandatory exercise provision that allows the Company to require Capital Ventures to exercise the Series B Warrant in full if we complete primary offering with gross proceeds of at least \$35,000,000 at a time when our stock is trading above a certain price.

The shares and the warrants have been registered with the Securities and Exchange Commission in a registration statement on Form S-3, SEC File No. 333-49628. We will use the \$7,746,875 in net proceeds of this offering, before deducting estimated offering expenses of \$100,000 payable by us, for working capital purposes, including intensifying our marketing and sales efforts.

Following the offering, Electric Fuel has 21,296,032 shares of common stock outstanding, compared to 20,296,032 shares before the offering.

Under the terms of the Agreement, for 180 days following the Closing Date, we will not, without the consent of Capital Ventures, engage in any equity financing involving equity of equity-linked securities having common stock registration rights and/or public resale rights within one year after the closing of such transaction, except for an underwritten public offering, exercises or conversions of outstanding options or convertible securities, grants of options or other securities under our stock option or bonus plans, or issuances of securities as consideration in a merger, consolidation or acquisition of assets, or in connection with any strategic partnership or joint venture (the primary purpose of which is not to raise equity capital). Additionally, until November 17, 2001, Capital Ventures has the option to participate in any such equity financing on the same terms as the investor therein. In addition, for 180 days following the offering and 180 days following the mandatory exercise of the Series B Warrant, we will not issue any other securities subject to the registration statement on Form S-3 referred to above without first offering such securities to Capital Ventures.

The Agreement also restricts Capital Ventures from selling, during any 45 trading day period, more than 9.99% of the least number of shares of common stock issued and outstanding during such 45 trading day period. The warrants restrict the holder from exercising, and us from forcing the holder to exercise,

a warrant to the extent that the holder would beneficially own more than 4.99% of our common stock.

The foregoing description of the Securities Purchase Agreement is qualified in its entirety by reference to the agreement itself. A copy of the Securities Purchase Agreement (including the forms of Stock Purchase Warrant attached as exhibits thereto) is attached to this report as Exhibits 4a, 4b, 4c, and is incorporated herein by reference.

In connection with the offering to Capital Ventures, we also issued warrants to purchase 150,000 shares of our common stock to Josephthal & Co., Inc, who acted as our placement agent. A copy of the Josephthal warrants are attached to the report as Exhibits 4d and 4e, and are incorporated herein by reference. The warrants issued to Josephthal and the shares issuable upon the exercise of those warrants have also been registered with the Securities and Exchange Commission in the registration statement on Form S-3, SEC File No. 333-49628.

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Item 7. Financial Statements, Pro Forma Financial Information and Exhibits

(c) Exhibits. A list of exhibits required is given in the Exhibit Index that precedes the exhibits filed with this report.

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#### SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

ELECTRIC FUEL CORPORATION  
(Registrant)

By: /s/ Robert S. Ehrlich

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Name: Robert S. Ehrlich  
Title: Chairman of the Board and Chief  
Financial Officer

Dated: November 17, 2000

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#### EXHIBIT INDEX

The following exhibits are filed with this Current Report on Form 8-K.

Exhibit No.	Description	Sequential Page Number
4a	Securities Purchase Agreement between Electric Fuel Corporation and Capital Ventures International dated November 17, 2000.	6
4b	Series A Stock Purchase Warrant issued to Capital Ventures International	31
4c	Series B Stock Purchase Warrant issued to Capital Ventures International	48
4d	Electric Fuel Corporation Stock Purchase Warrant issued to Josephthal & Co., Inc.	68
4e	Stock Purchase Warrant issued to Josephthal & Co., Inc.	85
99	Form of Press Release regarding the Securities Purchase Agreement between Electric Fuel Corporation and Capital Ventures International.	99

SECURITIES PURCHASE AGREEMENT

SECURITIES PURCHASE AGREEMENT (this "Agreement"), dated as of November 17, 2000, between Electric Fuel Corporation, a corporation organized under the laws of the State of Delaware (the "Company"), and the purchaser (the "Purchaser") set forth on the execution page hereof (the "Execution Page").

WHEREAS:

A. The Company desires to sell, and the Purchaser desires to purchase, upon the terms and conditions stated in this Agreement, (i) 1,000,000 shares of the Company's Common Stock (the "Common Shares"), (ii) a warrant to purchase 666,667 shares of Common Stock in the form attached hereto as Exhibit A (the

"Series A Warrants"); and (iii) a warrant to purchase 333,333 shares of Common Stock in the form attached hereto as Exhibit B (the "Series B Warrants" and

together with the Series A Warrants, the "Warrants"). The shares of Common Stock issuable upon exercise of or otherwise pursuant to the Warrants are referred to herein as the "Warrant Shares." The Common Shares, the Warrants and the Warrant Shares are collectively referred to herein as the "Securities" and each of them may individually be referred to herein as a "Security."

B. On November 9, 2000, the Company filed with the United States Securities and Exchange Commission (the "SEC") a Registration Statement on Form S-3 File No. 333- 49628 in the form attached hereto as Exhibit C (the

"Registration Statement") to register under Section 5 of the Securities Act of 1933, as amended (the "Securities Act") the sale by the Company of the Company's common stock, par value \$.01 per share (the "Common Stock") and warrants to purchase Common Stock. The Registration Statement was declared effective by the SEC on November 15, 2000. On November 17, 2000 the Company filed a supplement to the Registration Statement in the form attached hereto as Exhibit D (the

"Supplement") to cover the issuance and sale of the Initial Securities (as defined below) to the Purchaser pursuant to the terms of this Agreement and the issuance of the Warrant Shares to the Purchaser upon exercise of the Warrants.

NOW, THEREFORE, the Company and the Purchaser hereby agree as follows:

1. PURCHASE AND SALE OF INITIAL SECURITIES.

(a) Purchase of Initial Securities. On the Closing Date (as defined below),

subject to the satisfaction (or waiver) of the conditions set forth in Section 6 and Section 7 below, the Company shall issue and sell to the Purchaser, and the Purchaser shall purchase from the Company, such number of Common Shares, Series A Warrants and Series B Warrants (collectively the "Initial Securities") as is set forth on the Purchaser's Execution Page attached hereto. The aggregate purchase price (the "Purchase Price") to be paid by the Purchaser for the Initial Securities shall be

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Eight Million Three Hundred Seventy-Five Thousand Dollars (\$8,375,000).

(b) Form of Payment. On the Closing Date, the Purchaser shall pay the

aggregate Purchase Price for the Initial Securities set forth on the Purchaser's Execution Page on the Closing Date in United States dollars by wire transfer of immediately available funds in accordance with the Company's written wiring instructions attached as Schedule 1, against delivery of duly executed certificates representing the Common Shares and duly executed Warrants being purchased by the Purchaser and the Company shall deliver such certificates and Warrants to the Purchaser against delivery of such aggregate Purchase Price.

(c) Closing Date. Subject to the satisfaction (or waiver) of the conditions

thereto set forth in Section 6 and Section 7 below, the date and time of the issuance and sale of the Initial Securities to the Purchaser pursuant to this Agreement (the "Closing") shall be 12:00 noon, New York City time, on November 17, 2000, or such other time as may be mutually agreed upon by the Company and the Purchaser (the "Closing Date"). The Closing shall occur at the offices of Wolf, Block, Schorr and Solis-Cohen LLP, 22nd Floor, 1650 Arch Street, Philadelphia, PA 19103.

2. PURCHASER'S REPRESENTATIONS AND WARRANTIES

The Purchaser represents and warrants to the Company as follows:

- (a) Information. The Purchaser represents that the specific information  
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about the Purchaser set forth in the Supplement is true and correct.
- (b) Governmental Review. The Purchaser understands that no United States  
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federal or state agency or any other government or governmental agency has passed upon or made any recommendation or endorsement of the Securities.
- (c) Authorization; Enforcement. This Agreement has been duly and validly  
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authorized, executed and delivered on behalf of the Purchaser and is a valid and binding agreement of the Purchaser enforceable against the Purchaser in accordance with its terms.
- (d) Residency. The Purchaser is a resident of the jurisdiction set forth  
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under the Purchaser's name on the Execution Page hereto executed by the Purchaser.
- (e) Accredited Investor. The Purchaser is an "accredited investor" as  
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defined in Rule 501 of Regulation D promulgated by the SEC under the Securities Act.
- (f) Purchase for Its Own Account, etc. The Purchaser is purchasing the  
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Securities for its own account and has no intention to engage in any special selling efforts with respect to the Securities.

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3. REPRESENTATIONS AND WARRANTIES OF THE COMPANY.  
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The Company represents and warrants to the Purchaser as follows:

- (a) Organization and Qualification. The Company and each of its  
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subsidiaries is a corporation duly organized and existing in good standing under the laws of the jurisdiction in which it is incorporated (to the extent that good standing is a recognized concept in such jurisdictions), and has the requisite corporate power to own its properties and to carry on its business as now being conducted. The Company and each of its subsidiaries is duly qualified as a foreign corporation to do business and is in good standing in every jurisdiction in which the nature of the business conducted by it makes such qualification necessary (to the extent that good standing is a recognized concept in such jurisdictions) and where the failure so to qualify would be reasonably likely to have a Material Adverse Effect. "Material Adverse Effect" means any material adverse effect on (i) the validity of, and the ability of the Company to issue, the Securities, (ii) the ability of the Company to perform its obligations hereunder or under the Warrants or (iii) the business, operations, properties or financial condition of the Company and its subsidiaries, taken as a whole.
- (b) Authorization; Enforcement. (i) The Company has the requisite corporate  
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power and authority to enter into and perform its obligations under this Agreement and the Warrants to issue and sell the Initial Securities in accordance with the terms hereof and to issue the Warrant Shares upon exercise of the Warrants in accordance with the terms of such Warrants; (ii) the execution, delivery and performance of this Agreement and the Warrants by the Company and the consummation by it of the transactions contemplated hereby and thereby (including, without limitation, the issuance of the Common Shares and Warrants and the issuance and reservation for issuance of the Warrant Shares) have been duly authorized by the Company's Board of Directors and no further consent or authorization of the Company, its Board of Directors, any or committee of the Board of Directors is required, and (iii) upon execution and delivery of this Agreement in accordance with its terms, this Agreement will constitute, and, upon execution and delivery by the Company of the Warrants, in accordance with the terms of this Agreement, such instruments will constitute, valid and binding obligations of the Company enforceable against the Company in accordance with their respective terms, except as such enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium, liquidation or similar laws relating to, or affecting generally the enforcement of creditors' rights and remedies or by other equitable principles of general application.
- (c) Stockholder Authorization. Neither the execution, delivery or  
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performance by the Company of this Agreement or the Warrants nor the consummation by the Company of the transactions contemplated hereby or thereby (including, without limitation, the issuance of the Initial Securities or the

issuance or reservation for issuance of the Warrant Shares) requires any consent or authorization of the Company's stockholders, including but not limited to consent under Rule 4460(i) promulgated by the National Association of Securities Dealers, Inc. (the "NASD") or any similar rule.

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(d) Capitalization. The capitalization of the Company as of the date

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hereof, including the authorized capital stock, the number of shares issued and outstanding, the number of shares issuable and reserved for issuance pursuant to the Company's stock option plans, the number of shares issuable and reserved for issuance pursuant to securities (other than the Warrants) exercisable or exchangeable for, or convertible into, any shares of capital stock and the number of shares reserved for issuance upon the exercise of the Warrants is set forth on Schedule 3(d). All of such outstanding shares of capital stock have

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been, or upon issuance in accordance with the terms of any such warrants, options or preferred stock, will be, validly issued, fully paid and non-assessable. No shares of capital stock of the Company (including the Common Shares and the Warrant Shares) are subject to preemptive rights or any other similar rights of the stockholders of the Company or any liens or encumbrances. Except for the Securities and as set forth on Schedule 3(d), as of the date of

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this Agreement, (i) there are no outstanding options, warrants, scrip, rights to subscribe to, calls or commitments of any character whatsoever relating to, or securities or rights convertible into or exercisable or exchangeable for, any shares of capital stock of the Company or any of its subsidiaries, or arrangements by which the Company or any of its subsidiaries is or may become bound to issue additional shares of capital stock of the Company or any of its subsidiaries, nor are any such issuances or arrangements contemplated, and (ii) there are no agreements or arrangements under which the Company or any of its subsidiaries is obligated to register the sale of any of its or their securities under the Securities Act. Schedule 3(d) sets forth all of the Company issued

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securities or instruments containing antidilution or similar provisions that will be triggered by, and all of the resulting adjustments that will be made to such securities and instruments as a result of, the issuance of the Securities in accordance with the terms of this Agreement, or the Warrants. The Company has furnished to the Purchaser true and correct copies of the Company's Certificate of Incorporation as in effect on the date hereof ("Certificate of Incorporation"), the Company's By-laws as in effect on the date hereof (the "By-laws"), and all other instruments and agreements governing securities convertible into or exercisable or exchangeable for capital stock of the Company.

(e) Issuance of Shares. The Common Shares are duly authorized and, upon

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issuance thereof by the Company and payment therefor by the Purchaser in accordance with the terms of this Agreement, will be validly issued, fully paid and non-assessable, and free from all taxes, liens, claims and encumbrances (other than any that are the result of any action or inaction of the Purchaser and that are not the result of any action or inaction on the part of the Company) and will not be subject to preemptive rights, rights of first refusal or other similar rights of stockholders of the Company and will not impose personal liability on the holders thereof. The Warrant Shares are duly authorized and reserved for issuance, and, upon exercise of the Warrants and payment therefor in accordance with the terms thereof, will be validly issued, fully paid and non-assessable, and free from all taxes, liens, claims and encumbrances (other than any that are the result of any action or inaction on the part of the Purchaser and that are not the result of any action or inaction on the part of the Company) and will not be subject to preemptive rights, rights of first refusal or other similar rights of stockholders of the Company and will not impose personal liability upon the holder thereof.

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(f) No Conflicts. The execution, delivery and performance of this Agreement

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and the Warrants by the Company and the consummation by the Company of the transactions contemplated hereby and thereby (including, without limitation, the issuance and reservation for issuance, as applicable, of the Common Shares, Warrants and Warrant Shares) will not (i) result in a violation of the Certificate of Incorporation or By-laws or (ii) conflict with, or constitute a default (or an event that with notice or lapse of time or both would become a default) under, or give to others any rights of termination, amendment (including, without limitation, the triggering of any anti-dilution provisions), acceleration or cancellation of, any agreement, indenture or instrument to which the Company or any of its subsidiaries is a party, or result in a violation of any law, rule, regulation, order, judgment or decree (including United States federal and state securities laws and regulations and rules or regulations of any self-regulatory organizations to which either the Company or its securities are subject) applicable to the Company or any of its subsidiaries or by which any property or asset of the Company or any of its subsidiaries is bound or affected (except, with respect to clause (ii), for such conflicts, defaults,

terminations, amendments, accelerations, cancellations and violations that would not, individually or in the aggregate, be reasonably likely to have a Material Adverse Effect). Neither the Company nor any of its subsidiaries is in violation of its Certificate of Incorporation, By-laws or other organizational documents and neither the Company nor any of its subsidiaries is in default (and the Company is not aware of any event that has occurred which, with notice or lapse of time or both, would put the Company or any of its subsidiaries in default) under, nor to the knowledge of the Company has there occurred any event giving others (with notice or lapse of time or both) any rights of termination, amendment, acceleration or cancellation of, any agreement, indenture or instrument to which the Company or any of its subsidiaries is a party, except for actual or possible violations, defaults or rights that would not, individually or in the aggregate, have a Material Adverse Effect. The businesses of the Company and its subsidiaries are not being conducted, and shall not be conducted so long as the Purchaser owns any of the Securities, in violation of any law, ordinance or regulation of any governmental entity, except for possible violations the sanctions for which either singly or in the aggregate would not be reasonably likely to have a Material Adverse Effect. Except as specifically contemplated by this Agreement, the Company is not required to obtain any consent, approval, authorization or order of, or make any filing or registration with, any court or governmental agency or any regulatory or self regulatory agency in order for it to execute, deliver or perform any of its obligations under this Agreement or the Warrants in each case in accordance with the terms hereof or thereof. The Company is not in violation of the listing requirements of the Nasdaq National Market ("Market/Exchange") and does not reasonably anticipate that the Common Stock will be delisted by the Market/Exchange for the foreseeable future except as a result of a possible decline in the market price of the Common Stock.

(g) SEC Documents, Financial Statements. Since December 31, 1998, the

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Company has timely filed (within applicable extension periods) all reports, schedules, forms, statements and other documents required to be filed by it with the SEC pursuant to the reporting requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act") (all of the foregoing filed prior to the date hereof, and the Registration Statement, as supplemented by the Supplement, and all exhibits included therein and financial statements and schedules thereto and documents incorporated by reference therein, being hereinafter referred to herein as the "SEC Documents"). To the extent

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that any SEC Document is available under the SEC's EDGAR filing system, such SEC Document shall be deemed to have been delivered to the Purchaser. The Company has delivered to the Purchaser true and complete copies of the SEC Documents. As of their respective dates, the SEC Documents complied in all material respects with the requirements of the Exchange Act or the Securities Act, as the case may be, and the rules and regulations of the SEC promulgated thereunder applicable to the SEC Documents, and none of the SEC Documents, at the time they were filed with the SEC, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. None of the statements made in any such SEC Documents is, or has been, required to be amended or updated under applicable law (except for such statements as have been amended or updated in or by subsequent filings made prior to the date hereof). As of their respective dates, the financial statements of the Company included in the SEC Documents complied as to form in all material respects with applicable accounting requirements and the published rules and regulations of the SEC applicable with respect thereto. Such financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"), consistently applied, during the periods involved (except (i) as may otherwise be indicated in such financial statements or the notes thereto, or (ii) in the case of unaudited interim statements, to the extent they may not include footnotes or may be condensed or summary statements) and fairly present in all material respects the consolidated financial position of the Company and its consolidated subsidiaries as of the dates thereof and the consolidated results of their operations and cash flows for the periods then ended (subject, in the case of unaudited statements, to immaterial year-end audit adjustments). Except as set forth in the financial statements of the Company included in the SEC Documents filed prior to the date hereof, the Company has no liabilities, contingent or otherwise, other than (i) liabilities incurred in the ordinary course of business subsequent to the date of such financial statements and (ii) obligations under contracts and commitments incurred in the ordinary course of business and not required under GAAP to be reflected in such financial statements, which liabilities and obligations referred to in clauses (i) and (ii), individually or in the aggregate, are not material to the financial condition or operating results of the Company.

(h) Absence of Certain Changes. Since December 31, 1999, there has been no

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material adverse change and no material adverse development in the business, properties, operations, financial condition or results of operations of the Company and its subsidiaries, taken as a whole, except as disclosed in the SEC Documents filed prior to the date hereof.

(i) Absence of Litigation. Except as disclosed in the SEC Documents filed

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prior to the date hereof, there is no action, suit, proceeding, inquiry or investigation before or by any court, public board, government agency, self-regulatory organization or body, including, without limitation, the SEC or the Market/Exchange, pending or, to the knowledge of the Company or any of its subsidiaries, threatened against or affecting the Company, any of its subsidiaries, or any of their respective directors or officers in their capacities as such. There are no facts which, if known by a potential claimant or governmental authority, could give rise to a claim or proceeding which, could reasonably be expected to have a Material Adverse Effect.

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(j) Intellectual Property. Each of the Company and its subsidiaries owns or

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is licensed to use all patents, patent applications, trademarks, trademark applications, trade names, service marks, copyrights, copyright applications, domain names, licenses, permits, inventions, discoveries, processes, scientific, technical, engineering and marketing data, object and source codes, know-how (including trade secrets and other unpatented and/or unpatentable proprietary or confidential information, systems or procedures) and other similar rights and proprietary knowledge (collectively, "Intangibles") necessary for the conduct of its business as now being conducted. To the knowledge of the Company, neither the Company nor any subsidiary of the Company infringes or is in conflict with any right of any other person with respect to any Intangibles. Neither the Company nor any of its subsidiaries has received written notice of any pending conflict with or infringement upon such third party Intangibles. Neither the Company nor any of its subsidiaries has entered into any consent agreement, indemnification agreement, forbearance to sue or settlement agreement with respect to the validity of the Company's or its subsidiaries' ownership or right to use its Intangibles and, to the best knowledge of the Company, there is no reasonable basis for any such claim to be successful. The Intangibles owned by the Company are valid and enforceable and no registration or patent relating thereto has lapsed, expired or been abandoned or canceled or is the subject of cancellation or other adversarial proceedings, and all applications therefor are pending and in good standing. The U.S. patents obtained and owned by the Company or its subsidiaries and which have expired for failure to pay the necessary maintenance fees are not necessary for the conduct of the business of the Company or its subsidiaries as it is now being conducted. To the knowledge of the Company, the Intangibles licensed by the Company from others are valid and enforceable and no registration relating thereto has lapsed, expired or been abandoned or canceled or is the subject of cancellation or other adversarial proceedings, and all applications therefor are pending and in good standing. The Company and its subsidiaries have complied, in all material respects, with their respective contractual obligations relating to the protection of the Intangibles used pursuant to licenses. To the knowledge of the Company, the Intangibles licensed by the Company from others do not infringe nor are they in conflict with any right of any other person with respect to any Intangibles. Except as set forth in Schedule 3(j), to the knowledge of the Company, no person is

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infringing on or violating the Intangibles owned or used by the Company or its subsidiaries.

(k) Foreign Corrupt Practices. Neither the Company, nor any of its

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subsidiaries, nor any director, officer, agent, employee or other person acting on behalf of the Company or any subsidiary has, in the course of his actions for, or on behalf of, the Company, used any corporate funds for any unlawful contribution, gift, entertainment or other unlawful expenses relating to political activity; made any direct or indirect unlawful payment to any foreign or domestic government official or employee from corporate funds; violated or is in violation of any provision of the U.S. Foreign Corrupt Practices Act of 1977; or made any bribe, rebate, payoff, influence payment, kickback or other unlawful payment to any foreign or domestic government official or employee.

(l) Disclosure. All information relating to or concerning the Company set

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forth in this Agreement or provided by or on behalf of the Company to the Purchaser in connection with the transactions contemplated hereby is true and correct in all material respects and the Company has not

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omitted to state any material fact necessary in order to make the statements made herein or therein, in light of the circumstances under which they were made, not misleading. No event or circumstance has occurred or exists with respect to the Company or its subsidiaries or their respective businesses, properties, operations or financial conditions, which has not been publicly disclosed but, under applicable law, rule or regulation, would be required to be disclosed by the Company in a registration statement filed on the date hereof by the Company under the Securities Act with respect to the primary issuance of the Company's securities.

(m) Acknowledgment Regarding Purchaser's Purchase of the Initial

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Securities. The Company acknowledges and agrees that the Purchaser is not acting

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as a financial advisor or fiduciary of the Company (or in any similar capacity) with respect to this Agreement or the transactions contemplated hereby, the relationship between the Company and the Purchaser is "arms-length" and any statement made by the Purchaser or any of its representatives or agents in connection with this Agreement and the transactions contemplated hereby (other than representations, warranties and covenants of the Purchaser made herein) is merely incidental to the Purchaser's purchase of Securities and has not been relied upon by the Company, its officers or directors in any way.

(n) Listing. The Company has secured the listing of the Common Shares and

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Warrant Shares upon each national securities, exchange or automated quotation system upon which shares of Common Stock are currently listed (subject to official notice of issuance).

(o) Registration; Blue Sky. The Company has filed the Registration

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Statement and the Supplement with the SEC. The Registration Statement was declared effective by the SEC on November 15, 2000. The Registration Statement covers the sale of up to 3,250,000 shares of Common Stock and 1,750,000 warrants to purchase Common Stock. The Registration Statement, as supplemented by the Supplement, covers the issuance and sale of the Initial Securities to the Purchaser pursuant to the terms of this Agreement and the issuance of the Warrant Shares upon the exercise of the Warrants. Assuming the accuracy of the Purchaser's representations, the Company is not required to take any action to qualify the Securities for sale to the Purchaser pursuant to this Agreement under the "blue sky" laws of any states of the United States. No stop order suspending the effectiveness of the Registration Statement has been issued and no proceeding therefor has been initiated or threatened by the SEC. Any request by the SEC for inclusion of additional information in the Registration Statement or otherwise has been complied with or withdrawn by the SEC. Except for the filing of the Supplement, the Company has not filed with the SEC any amendment or supplement to the Registration Statement.

(p) Intentionally Omitted.

(q) No Integrated Offering. Neither the Company, nor any of its affiliates,

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nor any person acting on its or their behalf, has directly or indirectly made any offers or sales of any security or solicited any offers to buy any security under circumstances that would cause this offering of Securities to be integrated with any prior offering of securities of the Company for purposes of any

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applicable stockholder approval provisions, including, without limitation, Rule 4460(i) of the NASD or any similar rule.

(r) No Brokers. Except as provided in the following sentence, the Company

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has taken no action which would give rise to any claim by any person for brokerage commissions, finder's fees or similar payments by the Purchaser relating to this Agreement or the transactions contemplated hereby. The Company is responsible for all brokerage commissions, finder's fees or similar payments relating to this Agreement and the transactions contemplated hereby which are required to be paid to Josephthal & Co. Inc.

(s) Acknowledgment Regarding Securities. The Company's executive officers

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have studied and fully understand the nature of the Securities being sold hereunder. The Company acknowledges that its obligation to issue Warrant Shares upon exercise of the Warrants in accordance with the terms of the Warrants is absolute and unconditional, regardless of the dilution that such issuance may have on the ownership interests of other stockholders. Taking the foregoing into account, the Company's Board of Directors has determined in its good faith business judgment that the issuance of the Common Shares and Warrants hereunder and the consummation of the other transactions contemplated hereby are in the best interests of the Company and its stockholders.

(t) Title. The Company and its subsidiaries have good and marketable title

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in fee simple to all real property and good and merchantable title to all personal property owned by them that is material to the business of the Company and its subsidiaries, in each case free and clear of all liens, encumbrances and defects except such as do not materially affect the value of such property and do not materially interfere with the use made and proposed to be made of such property by the Company and its subsidiaries. Any real property and facilities held under lease by the Company and its subsidiaries are held by them under valid, subsisting and enforceable leases with such exceptions as are not material and do not materially interfere with the use made and proposed to be

made of such property and buildings by the Company and its subsidiaries.

(u) Tax Status. Except as set forth in the SEC Documents, the Company and

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each of its subsidiaries has made or filed all foreign, U.S. federal, state and local income and all other tax returns, reports and declarations required by any jurisdiction to which it is subject (unless and only to the extent that the Company and each of its subsidiaries has set aside on its books provisions reasonably adequate for the payment of all unpaid and unreported taxes) and has paid all taxes and other governmental assessments and charges that are material in amount, shown or determined to be due on such returns, reports and declarations, except those being contested in good faith and has set aside on its books provisions reasonably adequate for the payment of all taxes for periods subsequent to the periods to which such returns, reports or declarations apply. There are no unpaid taxes in any material amount claimed to be due by the taxing authority of any jurisdiction, and the officers of the Company know of no basis for any such claim. The Company has not executed a waiver with respect to any statute of limitations relating to the assessment or collection of any federal, state or local tax. The Company has received no notice that any of its tax returns is presently being audited by any taxing authority.

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(v) Key Employees. Each of the Company's directors, officers and any Key

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Employee (as defined below) is currently serving the Company in the capacity disclosed in the SEC Documents. No Key Employee, to the best of the knowledge of the Company and its subsidiaries, is, or is now expected to be, in violation of any material term of any employment contract, confidentiality, disclosure or proprietary information agreement, non-competition agreement, or any other contract or agreement or any restrictive covenant, and the continued employment of each Key Employee does not subject the Company or any of its subsidiaries to any liability with respect to any of the foregoing matters. Except as provided in Schedule 3(v), no Key Employee has, to the best of the knowledge of the

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Company and its subsidiaries, any intention to terminate or limit his employment with, or services to, the Company or any of its subsidiaries, nor is any such Key Employee subject to any constraints which would cause such employee to be unable to devote his full time and attention to such employment or services. "Key Employee" means the persons listed on Schedule 3(v) and any individual who

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assumes or performs any of the duties of a Key Employee. The employment agreements for each of Robert S. Ehrlich and Yehuda Harats have been extended until December 31, 2002, and the Company has delivered to the Purchaser, true and correct copies of such employment agreements as so extended.

(w) Insurance. The Company has in force fire, casualty, product liability

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and other insurance policies, with extended coverage, sufficient in amount to allow it to replace any of its material properties or assets which might be damaged or destroyed or sufficient to cover liabilities to which the Company may reasonably become subject and which would be reasonably likely to have a Material Adverse Effect, and such types and amounts of other insurance with respect to its business and properties, on both a per occurrence and an aggregate basis, as are customarily carried by persons engaged in the same or similar business as the Company. No default or event has occurred that could give rise to a default under any such policy.

(x) Environmental Matters. The Company has received no notice of any

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environmental litigation or other environmental proceeding pending or threatened by any governmental regulatory authority or others with respect to the current or any former business of the Company or any partnership or joint venture currently or at any time affiliated with the Company. No state of facts exists as to environmental matters or Hazardous Substances (as defined below) that involves the reasonable likelihood of a material capital expenditure by the Company or that may otherwise have a Material Adverse Effect. The Company has not treated, stored or disposed of, or otherwise deposited, in or on the properties owned or leased by the Company or by any partnership or joint venture currently or at any time affiliated with the Company any Hazardous Substances in violation of any applicable environmental laws. The environmental compliance programs of the Company comply in all respects with all environmental laws, whether federal, state or local, currently in effect. As used herein, "Hazardous Substances" means any substance, waste, contaminant, pollutant or material that has been determined by any applicable governmental authority to be capable of posing a risk of injury to health, safety, property or the environment.

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(w) Inventory. All inventory of the Company and its subsidiaries is valued

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on the Company's consolidated books and records at the lower of cost, determined by the "first in, first out" method of accounting, or the fair market value thereof. Except, to the extent of the Company's reserves for obsolete or unmerchantable inventory reflected in the Company's SEC Documents, all such

inventory, after consideration of reserves consisting of finished goods is of merchantable quality and is saleable in the ordinary course of business consistent with past practice.

4. COVENANTS.

(a) Reasonable Best Efforts. The parties shall use their reasonable best efforts timely to satisfy each of the conditions described in Section 6 and Section 7 of this Agreement.

(b) Form 8-K. Within three (3) trading days after the Closing Date, the Company shall file a Form 8-K summarizing under Item 5 thereof this Agreement and the transactions contemplated hereby, which Form 8-K shall attach this Agreement and the Warrants, as exhibits to such Form 8-K.

(c) Reporting Status. So long as the Purchaser beneficially owns any Securities, the Company shall timely file (within applicable extension periods) all reports required to be filed with the SEC pursuant to the Exchange Act, and the Company shall not terminate its status as an issuer required to file reports under the Exchange Act even if the Exchange Act or the rules and regulations thereunder would permit such termination. In addition, the Company shall take all actions necessary to continue to meet the "registrant eligibility" requirements set forth in the general instructions to Form S-3 or any successor form thereto, to continue to be eligible to register the resale of its Common Stock on a registration statement on Form S-3 under the Securities Act.

(d) Use of Proceeds. The Company shall use the proceeds from the sale of the Common Shares and Warrants substantially as set forth in Schedule 4(d).

(e) Additional Equity Capital; Right of First Offer. During the period beginning on the date hereof and ending 180 days following the Closing Date (the "Lock-Up Period"), the Company will not, without the prior written consent of the Purchaser so long as the Purchaser owns any Securities and, without duplication, holders(s) of Warrants having a majority in-interest of the Warrant Shares, contract with any party to obtain additional financing in which any equity or equity-linked securities, having common stock registration rights and/or public resale rights effective within one (1) year after the Closing Date, are issued (including any debt financing with an equity component) (a "Future Offering"). In addition, the Company will not conduct any Future Offering during the period beginning on the date hereof and ending 180 days following the expiration of the Lock-Up Period, unless it shall have first delivered to Purchaser so long as the Purchaser owns any Securities, at least ten (10) business days prior to the closing of such Future Offering, written notice describing the proposed Future Offering, including the terms and conditions thereof, and providing the Purchaser, an option during the ten (10) business day period following delivery of such notice to purchase up to the Applicable Portion (as defined below) of the securities being offered in the Future Offering on the same terms as contemplated by such Future Offering. During the Lock-up Period and during the 180 day period following the Mandatory Exercise Date, as such term is defined in the Series B Warrant, the Company will not issue any securities subject to the Registration Statement, except for the Securities, unless it shall have first delivered to the Purchaser, so long as the Purchaser owns any Securities, at least ten (10) business days prior to the proposed issuance of such Securities, written notice describing the proposed transaction, including the terms and conditions thereof, and providing the Purchaser an option during the ten (10) business day period following the delivery of such notice to purchase any or all of the securities being offered on the same terms as contemplated by such offering. In addition, the Company will not register for sale any of its equity securities in a secondary public offering (other than pursuant to registration rights arising under obligations existing on the Closing Date and disclosed on Schedule 3(d) hereto, except for those arising under the employment agreements referred to in the last sentence of Section 4(v) hereof; provided however that registrations pursuant to registration rights arising under either or both of the employment agreements referred to in the last sentence of Section 4(v) hereof will be permitted at any time after the termination of such agreements) at any time during the Lock-Up Period and during the 180 day period following the Mandatory Exercise Date, as such term is defined in the Series B Warrant (the limitations referred to in

this and the three immediately preceding sentences are collectively referred to as the "Capital Raising Limitations"). The Capital Raising Limitations shall not apply to any transaction involving issuances of securities as consideration in a merger, consolidation or acquisition of assets, or in connection with any strategic partnership or joint venture (the primary purpose of which is not to

raise equity capital), or as consideration for the acquisition of a business, product or license by the Company. The Capital Raising Limitation also shall not apply to (i) the issuance of securities pursuant to an underwritten public offering, (ii) the issuance of securities upon exercise or conversion of the Company's options, warrants or other convertible securities outstanding as of the date hereof or (iii) the grant of additional options or warrants, or the issuance of additional securities, under any Company stock option, bonus plan or restricted stock plan for the benefit of the Company's employees, directors or consultants. The "Applicable Portion" shall mean a fraction, the numerator of which is the number of Initial Securities then held by the Purchaser and the denominator of which is the total number of Initial Securities purchased by the Purchaser hereunder.

(f) Expenses. The Company shall pay to Heights Capital Management, Inc.

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("Heights") at the Closing, reimbursement for the expenses reasonably incurred by Heights and its affiliates and advisors in connection with the negotiation, preparation, execution and delivery of this Agreement and the other agreements to be executed in connection herewith, including, without limitation, Heights' and its affiliates and advisors' reasonable due diligence and attorneys' fees and expenses (the "Expenses"); provided, however, that Capital Ventures International ("CVI") shall be permitted to deduct such Expenses (up to the maximum amount set forth below) from the Purchase Price payable by CVI hereunder and remit such Expenses to Heights. In addition, from time to time thereafter, upon CVI's written request, the Company shall pay to Heights such additional Expenses, if any, not covered by such payment, in each case to the extent reasonably incurred by Heights or its affiliates or agents in connection with the negotiation, preparation, execution and delivery of this Agreement and the other agreement executed in connection herewith. Notwithstanding the foregoing, the Company shall be obligated to reimburse Heights for no more than \$50,000 of Expenses (including additional Expenses) in the aggregate.

(g) Financial Information. The Company shall send the following reports to

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the Purchaser until the Purchaser transfers, assigns or sells all of its Securities: (i) within ten (10) days after the filing with the SEC, a copy of its Annual Report on Form 10-K, its Quarterly Reports on Form 10-Q, its proxy statements and any Current Reports on Form 8-K; and (ii) within one (1) day after release, copies of all press releases issued by the Company or any of its subsidiaries.

(h) Reservation of Shares. The Company shall at all times have authorized

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and reserved for the purpose of issuance a sufficient number of shares of Common Stock to provide for the full exercise of the Warrants and the issuance of the Warrant Shares in connection therewith and as otherwise required by the Warrants.

(i) Listing. The Company shall maintain, so long as the Purchaser (or any

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of their affiliates) owns any Securities, the listing of all Common Shares and such Warrant Shares as may from time to time be issued upon exercise of the Warrants covered by this Agreement on each

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national securities exchange or automated quotation system on which shares of Common Stock are listed at the relevant time. The Company will use its best efforts to continue the listing and trading of its Common Stock on the Market/Exchange and will comply in all respects with the reporting, filing and other obligations under the bylaws or rules of the NASD and such exchanges, as applicable.

(j) Corporate Existence. So long as the Purchaser beneficially owns any

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Warrants, the Company shall maintain its corporate existence, and in the event of a merger, consolidation or sale of all or substantially all of the Company's assets, the Company shall ensure that the surviving or successor entity in such transaction (i) assumes the Company's obligations hereunder and under the Warrants and the agreements and instruments entered into in connection herewith regardless of whether or not the Company would have had a sufficient number of shares of Common Stock authorized and available for issuance in order to effect the exercise in full of all Warrants outstanding as of the date of such transaction and (ii) is a publicly traded corporation whose common stock is listed for trading on the Market/Exchange, New York Stock Exchange or American Stock Exchange.

(k) No Integrated Offerings. The Company shall not make any offers or

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sales of any security (other than the Securities) under circumstances that would cause this offering of the Securities to be integrated with any other offering of securities by the Company for purposes of any stockholder approval provision applicable to the Company or its securities.

(l) Legal Compliance. The Company shall conduct its business and the

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business of its subsidiaries in compliance with all laws, ordinances or regulations of governmental entities applicable to such businesses, except where the failure to do so would not be reasonably likely to have a Material Adverse Effect.

(m) Intentionally omitted.

(n) Trading Restrictions. The Purchaser shall not be permitted to sell, -----  
transfer or otherwise dispose of, during any 45 trading day period, more than 9.99% of the least number of shares of Common Stock issued and outstanding during such 45 trading day period (other than dispositions to the Company).

(o) Information. Upon the request of the Purchaser, the Company will -----  
furnish via electronic transmission or otherwise, to the Purchaser, so long as it holds any Warrants:

(i) concurrently with the filing with the SEC of its annual reports and quarterly reports on Form 10-K and Form 10-Q, respectively, a certificate of the President, a Vice President or a senior financial officer of the Company stating that, based upon such examination or investigation and review of this Agreement as in the opinion of the signer is necessary to enable the signer to express an informed opinion with respect thereto, neither the Company nor any of its subsidiaries is or has during such period been in material default in the performance or observance of any of the terms, covenants or conditions hereof, or, if the Company or any of its subsidiaries shall be or shall have been in default, specifying all such defaults, and the nature and period of existence thereof, and

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what action the Company or such subsidiary has taken, is taking or proposes to take with respect thereto; and

(ii) the information the Company must deliver to any holder or to any prospective transferee of Securities in order to permit the sale or other transfer of such Securities pursuant to Rule 144A of the SEC or any similar rule then in effect; provided that the Company shall only be required to deliver such information, if at the time of such request, there is no current registration statement covering the Warrant Shares.

The Company will keep at its principal executive office a true copy of this Agreement (as at the time in effect), and cause the same to be available for inspection at such office during normal business hours by any holder of Securities or any prospective transferee of Securities designated by a holder thereof.

(p) Inspection of Properties and Books. So long as the Purchaser shall -----  
hold any Securities, the Purchaser and its representatives and agents (collectively, the "Inspectors") shall have the right, during reasonable local business hours, at the Purchaser's expense, to visit and inspect any of the properties of the Company and of its subsidiaries, to examine the books of account and records of the Company and of its subsidiaries, to make or be provided with copies and extracts therefrom, to discuss the affairs, finances and accounts of the Company and of its subsidiaries with, and to be advised as to the same by, its and their officers, employees and independent public accountants (and by this provision the Company authorizes such accountants to discuss such affairs, finances and accounts, whether or not a representative of the Company is present) all at such reasonable times and intervals and to such reasonable extent as the Purchaser may desire; provided, however, that each Inspector shall hold in confidence and shall not make any disclosure (except to the Purchaser) of any such information which the Company determines in good faith to be confidential, and of which determination the Inspectors are so notified, unless (a) the release of such information is ordered pursuant to a subpoena or other order from a court or government body of competent jurisdiction, or (b) such information has been made generally available to the public other than by disclosure in violation of this or any other agreement. The Company shall not be required to disclose any confidential information to any Inspector until and unless such Inspector shall have entered into confidentiality agreements (in form and substance satisfactory to the Company) with the Company with respect thereto, substantially in the form of this Section 4(p). The Purchaser agrees that it shall, upon learning that disclosure of such information is sought in or by a court or governmental body of competent jurisdiction or through other means, give prompt notice to the Company and allow the Company, at its expense, to undertake appropriate action to prevent disclosure of, or to obtain a protective order for, the information deemed confidential. The Purchaser acknowledges that under certain circumstances the Exchange Act may prohibit the trading of securities by persons having material non-public information about the Company.

(q) Intentionally omitted.

(r) Stockholder Approval. If, on the Closing Date, the Company is

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prohibited by Rule 4460(i) of the NASD or any successor or similar rule, or the rules of any other securities exchange on which the Common Stock is then listed or traded, from issuing the shares of Common Stock issuable hereunder and upon complete exercise of the Warrants (without giving effect to the limitations on exercise contained in Section 7(f) of the Warrants), the Company shall call a meeting of its stockholders to be held as promptly as practicable and in any event no later than 90 days after the Closing Date for the purpose of voting upon and approving this Agreement and the Warrants, the authorization and issuance of the Common Shares and the Warrants, and the issuance of the Warrant Shares upon exercise of or otherwise pursuant to the Warrants. The Company shall, through its Board of Directors, recommend to its stockholders approval of such matters. The Company shall use its best efforts to solicit from its stockholders proxies in favor of such matters sufficient to comply with all relevant legal requirements, including, without limitation, Rule 4460(i) promulgated by the NASD, and shall vote such proxies in favor of such matters.

(s) Antidilution. So long as the Purchaser beneficially owns any

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Securities, the Company will send to the holders of Securities any notice which the Company sends to holders of any debt or equity securities or instruments (including options, warrants and other convertible securities) issued by the Company which notice is occasioned by an event which triggers the application of the anti-dilution provisions of such debt or equity securities or instruments and results in an adjustment to any of the terms of such debt or equity security. The Company will send the notice required by this Section 4(s) to the holders of Securities at the same time as it sends such notice to the holders of the affected debt or equity securities.

5. TRANSFER AGENT INSTRUCTIONS.

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(a) The Company shall instruct its transfer agent to issue certificates, registered in the name of the Purchaser or its nominee for the Warrant Shares in such amounts as specified from time to time by the Purchaser to the Company upon exercise of the Warrants.

(b) The Company warrants that no instruction other than the instructions referred to in this Section 5 will be given by the Company to its transfer agent and that the Securities shall otherwise be freely transferable on the books and records of the Company as and to the extent provided in this Agreement.

(c) If the Purchaser provides the Company and the transfer agent with an opinion of counsel, which opinion of counsel shall be in form, substance and scope customary for opinions of counsel in comparable transactions, to the effect that the Securities to be sold or transferred may be sold or transferred pursuant an exemption from registration, or the Purchaser provides the Company with reasonable assurances that such Securities may be sold under Section 4(1) of the Securities Act, the Company shall permit the transfer and, in the case of the Warrant Shares, promptly instruct its transfer agent to issue one or more certificates for such Warrant Shares in such names and in such denominations as specified by the Purchaser.

6. CONDITIONS TO THE COMPANY'S OBLIGATION TO SELL.

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The obligation of the Company hereunder to issue and sell the Initial Securities to the Purchaser hereunder is subject to the satisfaction, at or before the Closing, of each of the following conditions thereto, provided that these conditions are for the Company's sole benefit and may be waived by the Company at any time in its sole discretion.

(a) The Purchaser shall have executed the Purchaser's Execution Page to this Agreement and delivered the same to the Company.

(b) The Purchaser shall have delivered the Purchase Price for the Initial Securities in the amount set forth on the Purchaser's Execution Page in accordance with Section 1(b) above.

(c) The representations and warranties of the Purchaser shall be true and correct as of the date when made and as of the Closing Date as though made at that time (except for representations and warranties that speak as of a specific date, which representations and warranties shall be true and correct as of such date), and the Purchaser shall have performed, satisfied and complied in all material respects with the covenants, agreements and conditions required by this Agreement to be performed, satisfied or complied with by the Purchaser at or prior to the Closing Date.

(d) No statute, rule, regulation, executive order, decree, ruling or injunction shall have been enacted, entered, promulgated or endorsed by any

court or governmental authority of competent jurisdiction or any self-regulatory organization having authority over the matters contemplated hereby which prohibits the consummation of any of the transactions contemplated by this Agreement.

(e) The Company shall have filed the Supplement. The Registration Statement as supplemented by the Supplement, shall be effective and shall cover the issuance and sale of the Initial Securities to the Purchaser pursuant to this Agreement and the issuance and sale of Warrant Shares upon the exercise of the Warrants. No stop order suspending the effectiveness of the Registration Statement shall have been issued and no proceeding therefor has been initiated or threatened by the SEC.

7. CONDITIONS TO EACH PURCHASER'S OBLIGATION TO PURCHASE.  
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The obligation of the Purchaser hereunder to purchase the Initial Securities set forth on the Purchaser's Execution Page to be purchased by it at the Closing is subject to the satisfaction, at or before the Closing Date, of each of the following conditions, provided that such conditions are for the Purchaser's sole benefit and may be waived by the Purchaser at any time in the Purchaser's sole discretion:

(a) The Company shall have executed this Agreement and the Warrants and delivered executed original copies of the same to the Purchaser.

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(b) The Company shall have filed the Supplement. The Registration Statement as supplemented by the Supplement, shall be effective and shall cover the issuance and sale of the Initial Securities to the Purchaser pursuant to this Agreement and the issuance and sale of Warrant Shares upon the exercise of the Warrants. No stop order suspending the effectiveness of the Registration Statement shall have been issued and no proceeding therefor has been initiated or threatened by the SEC. Any request by the SEC for inclusion of additional information in the Registration Statement or otherwise shall have been complied with and the Company shall not have filed with the SEC any subsequent amendment or supplement to the Registration Statement without the consent of the Purchaser.

(c) The Company shall have delivered or caused to be delivered to the Purchaser duly executed certificates representing the Common Shares (in such denominations as the Purchaser shall request) and duly executed warrant agreements in the forms of Exhibit A or Exhibit B, as applicable representing the Warrants (each in such denominations as the Purchaser shall request) being so purchased by the Purchaser in accordance with Section 1(b) above.

(d) The Common Stock shall be authorized for quotation and listed on the Market/Exchange and trading in the Common Stock (or the Market/Exchange generally) shall not have been suspended by the SEC or the Market/Exchange.

(e) The representations and warranties of the Company shall be true and correct as of the date when made and as of the Closing Date as though made at that time (except for representations and warranties that speak as of a specific date, which representations and warranties shall be true and correct as of such date) and the Company shall have performed, satisfied and complied in all material respects with the covenants, agreements and conditions required by this Agreement to be performed, satisfied or complied with by the Company at or prior to the Closing Date. The Purchaser shall have received a certificate, executed by the Chief Executive Officer of the Company after reasonable investigation, dated as of the Closing Date to the foregoing effect.

(f) No statute, rule, regulation, executive order, decree, ruling, injunction, action or proceeding shall have been enacted, entered, promulgated or endorsed by any court or governmental authority of competent jurisdiction or any self-regulatory organization having authority over the matters contemplated hereby which questions the validity of, challenges or prohibits the consummation of, any of the transactions contemplated by this Agreement.

(g) The Purchaser shall have received an opinion of the Company's counsel, dated as of the Closing Date, in form, scope and substance reasonably satisfactory to the Purchaser and in substantially the form of Exhibit E  
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attached hereto.

(h) There shall have been no material adverse changes and no material adverse developments in the business, properties, operations, prospects, financial condition or results of operations of the Company and its subsidiaries, taken as a whole, since the date hereof, and no

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information, of which the Purchaser is not currently aware, shall come to the attention of the Purchaser that is materially adverse to the Company.

(i) The Purchaser shall have received: (A) a copy of resolutions, duly adopted by the Board of Directors of the Company, which shall be in full force and effect at the time of the Closing, authorizing the execution, delivery and performance by the Company of this Agreement, the Warrants and the consummation by the Company of the transactions contemplated hereby and thereby, (B) the Company's certificate of incorporation, as amended to date, and (C) the Company's by-laws, as amended to date, each of the foregoing certified as such by the Secretary or Assistant Secretary of the Company.

(j) The aggregate Purchase Price for the Initial Securities being purchased hereunder by the Purchaser at the Closing shall be Eight Million Three Hundred Seventy Five Thousand Dollars (\$8,375,000).

(k) The Company shall have filed its quarterly report on Form 10-Q for the nine months ended September 30, 2000 on or prior to the Closing Date.

#### 8. INDEMNIFICATION AND CONTRIBUTION

##### (a) Indemnification

(i) To the extent permitted by law, the Company will indemnify, hold harmless and defend (A) the Purchaser and (B) the directors, officers, partners, members, employees and agents of the Purchaser and each person who controls any Investor within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act, if any, (each, an "Indemnified Person"), against any joint or several losses, claims, damages, liabilities or expenses (collectively, together with actions, proceedings or inquiries by any regulatory or self-regulatory organization, whether commenced or threatened, in respect thereof, "Claims") to which any of them may become subject insofar as such Claims arise out of or are based upon: (I) any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement or the Supplement (as amended or supplemented, if the Company files any amendment or supplement with the SEC) or the omission or alleged omission to state therein any material fact necessary to make the statements made therein, in light of the circumstances under which the statements therein were made, not misleading, or (II) any violation or alleged violation by the Company of the Securities Act, the Exchange Act, any other law, including, without limitation, any state securities law, or any rule or regulation thereunder relating to the offer or sale of the Securities (the matters in the foregoing clauses (I) and (II) being, collectively, "Violations"). Subject to the restrictions set forth in Section 8(a)(iii) with respect to the number of legal counsel, the Company shall reimburse the Purchaser and each other Indemnified Person, promptly as such expenses are incurred and are due and payable, for any reasonable legal fees or other reasonable expenses incurred by them in connection with investigating, defending or settling any such Claim. Notwithstanding anything to the contrary contained herein, the indemnification agreement contained in this Section 8(a)(i): (Y) shall not apply to a Claim arising

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out of or based upon a Violation which occurs in reliance upon and in conformity with information furnished in writing to the Company by such Indemnified Person expressly for use in the Supplement or any amendment or supplement thereto; and (Z) shall not apply to amounts paid in settlement of any Claim if such settlement is effected without the prior written consent of the Company, which consent shall not be unreasonably withheld. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of the Indemnified Person and shall survive the transfer of the Securities by the Purchaser.

(ii) In connection with the Supplement, the Purchaser agrees severally and not jointly to indemnify, hold harmless and defend, to the same extent and in the same manner set forth in Section 8(a)(i), the Company, each of its directors, each of its officers, its employees, agents and each person, if any, who controls the Company within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act, (each an "Indemnified Party"), against any Claim to which any of them may become subject, under the Securities Act, the Exchange Act or otherwise, insofar as such Claim arises out of or is based upon any Violation, in each case to the extent (and only to the extent) that such Violation occurs in reliance upon and in conformity with the representations and warranties of the Purchaser in this Agreement or written information furnished to the Company by the Purchaser expressly for use in connection with the Supplement and subject to Section 8(a)(iii), the Purchaser will reimburse any legal or other expenses (promptly as such expenses are incurred and are due and payable) reasonably incurred by them in connection with investigating, defending or settling any such Claim; provided, however, that the indemnity agreement

contained in this Section 8(a)(ii) shall not apply to amounts paid in settlement of any Claim if such settlement is effected without the prior written consent of the Purchaser, which consent shall not be unreasonably withheld; provided,

further, however, that the Purchaser shall be liable under this Agreement

(including this Section 8(a)(ii) and Section 8(b)), for only that amount as does not exceed the Purchase Price paid by the Purchaser for the Initial Securities. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of such Indemnified Party and shall survive the transfer of the Initial Securities by the Purchaser.

(iii) Promptly after receipt by an Indemnified Person or Indemnified Party under this Section 8(a) of notice of the commencement of any action (including any governmental action), such Indemnified Person or Indemnified Party shall, if indemnification is to be sought against any indemnifying party under this Section 8(a), deliver to the indemnifying party a written notice of the commencement thereof, and the indemnifying party shall have the right to participate in, and, to the extent the indemnifying party so desires, jointly with any other indemnifying party similarly noticed, to assume control of the defense thereof with counsel mutually satisfactory to the indemnifying party and the Indemnified Person or the Indemnified Party, as the case may be; provided,

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however, that such indemnifying party shall not be entitled to assume such

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defense and an Indemnified Person or Indemnified Party shall have the right to retain its own counsel with the fees and expenses to be paid by the indemnifying party, if, in the reasonable opinion of counsel retained by the indemnifying party, the representation by such counsel of the Indemnified Person or Indemnified Party and the indemnifying party would be inappropriate due to actual or potential conflicts of interest between such Indemnified Person or Indemnified Party and any other indemnified or indemnifying party

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represented by such counsel in such proceeding or the actual or potential defendants in, or targets of, any such action include both the Indemnified Person or the Indemnified Party and the indemnifying party and any such Indemnified Person or Indemnified Party reasonably determines that there may be legal defenses available to such Indemnified Person or Indemnified Party which are in conflict with those available to such indemnifying party. The indemnifying party shall pay for only one separate legal counsel for the Indemnified Persons or the Indemnified Parties, as applicable, and such legal counsel shall be selected by Purchaser acquiring a majority of the Initial Securities, if the Purchaser are entitled to indemnification hereunder, or by the Company, if the Company is entitled to indemnification hereunder, as applicable. The failure to deliver written notice to the indemnifying party within a reasonable time of the commencement of any such action shall not relieve such indemnifying party of any liability to the Indemnified Person or Indemnified Party under this Section 8(a), except to the extent that the indemnifying party is actually prejudiced in its ability to defend such action. The indemnification required by this Section 8(a) shall be made by periodic payments of the amount thereof during the course of the investigation or defense, as such expense, loss, damage or liability is incurred and is due and payable.

(b) Contribution. To the extent any indemnification by an indemnifying

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party is prohibited or limited by law, the indemnifying party agrees to make the maximum contribution with respect to any amounts for which it would otherwise be liable under Section 8(a) to the fullest extent permitted by law as is appropriate to reflect the relative fault of the indemnifying party, on the one hand, and the Indemnified Person or Indemnified Party, as the case may be, on the other hand, with respect to the Violation giving rise to the applicable Claim; provided, however, that (i) no contribution shall be made under

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circumstances where the maker would not have been liable for indemnification under the fault standards set forth in Section 8(a), (ii) no person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any seller of Securities who was not guilty of such fraudulent misrepresentation, and (iii) contribution (together with any indemnification or other obligations under this Agreement) by any seller of Securities shall be limited in amount to the net amount of proceeds received by such seller from the sale of such Securities.

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9. GOVERNING LAW; MISCELLANEOUS.  
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(a) Governing Law; Jurisdiction. This Agreement shall be governed by and

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construed in accordance with the laws of the State of Delaware applicable to contracts made and to be performed in the State of Delaware. Each of the parties hereto irrevocably consents to the jurisdiction of the United States federal courts and the state courts located in the State of Delaware in any suit or proceeding based on or arising under this Agreement and irrevocably agree that all claims in respect of such suit or proceeding may be determined in such courts. Each of the parties hereto irrevocably waives the defense of an inconvenient forum to the maintenance of such suit or proceeding. Each of the parties hereto further agrees that service of process upon the other parties

hereto mailed by first class mail shall be deemed in every respect effective service of process upon such parties in any such suit or proceeding. Nothing herein shall affect the right of any of the parties hereto to serve process in any other manner permitted by law. Each of the parties hereto agrees that a final non-appealable judgment in any such suit or proceeding to which it is a party shall be conclusive and may be enforced in other jurisdictions by suit on such judgment or in any other lawful manner.

(b) Counterparts. This Agreement may be executed in two or more

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counterparts, all of which shall be considered one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to the other party. This Agreement, once executed by a party, may be delivered to the other parties hereto by facsimile transmission of a copy of this Agreement bearing the signature of the party so delivering this Agreement. In the event any signature is delivered by facsimile transmission, the party using such means of delivery shall cause the manually executed Execution Page(s) hereof to be physically delivered to the other party within five (5) days of the execution hereof, provided that the failure to so deliver any manually executed Execution Page shall not affect the validity or enforceability of this Agreement.

(c) Headings. The headings of this Agreement are for convenience of

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reference and shall not form part of, or affect the interpretation of, this Agreement.

(d) Severability. If any provision of this Agreement shall be invalid or

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unenforceable in any jurisdiction, such invalidity or unenforceability shall not affect the validity or enforceability of the remainder of this Agreement or the validity or enforceability of this Agreement in any other jurisdiction.

(e) Entire Agreement; Amendments. This Agreement and the Warrants contain

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the entire understanding of the Purchaser, the Company, their affiliates and persons acting on their behalf with respect to the matters covered herein and therein and, except as specifically set forth herein or therein, neither the Company nor the Purchaser makes any representation, warranty, covenant or undertaking with respect to such matters. No provision of this Agreement may be waived other than by an instrument in writing signed by the waiving party and no provision of this Agreement may be amended other than by an instrument in writing signed by the Company and the Purchaser.

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(f) Notices. Any notices required or permitted to be given under the terms

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of this Agreement shall be sent by certified or registered mail (return receipt requested) or delivered personally, by responsible overnight carrier or by confirmed facsimile, and shall be effective five (5) days after being placed in the mail, if mailed, or upon receipt or refusal of receipt, if delivered personally, or by responsible overnight carrier or confirmed facsimile, in each case addressed to a party. The addresses for such communications shall be:

If to the Company:

ELECTRIC FUEL CORPORATION  
120 Wood Avenue South  
Suite 300  
Iselin, New Jersey 08830  
Tel. No.: (732) 635-7100  
Facsimile: (732) 635-7101  
Attn: Robert S. Ehrlich  
Chairman of the Board and  
Chief Financial Officer

with a copy simultaneously transmitted by like means to:

Harris Beach LLP  
130 East Main Street  
Rochester, New York 14604  
Tel. No.: (716) 232-4400  
Facsimile: (716) 232-6925  
Attn: Thomas Willett, Esq.

and to:

Yaakov Har-Oz, Adv  
Vice President and General Counsel  
Electric Fuel Limited  
Western Industrial Park  
P.O. Box 641  
Bent Shemesh 99000, Israel  
Tel. No.: 972-2-990-6623

If to the Purchaser, to such address set forth under the Purchaser's name on the Execution Page hereto executed by the Purchaser.

Each party shall provide notice to the other parties of any change in address.

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(g) Successors and Assigns. This Agreement shall be binding upon and inure

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to the benefit of the parties and their successors and assigns. Except as provided herein or therein, neither the Company nor the Purchaser shall assign this Agreement or any rights or obligations hereunder. The Purchaser may assign its rights hereunder to any of its "affiliates," as that term is defined under the Exchange Act, without the consent of the Company or to any other person or entity with the consent of the Company, which consent shall not be unreasonably withheld. This provision shall not limit a Purchaser's right to transfer the Securities pursuant to the terms of the Warrants and this Agreement, or to assign the Purchaser's rights hereunder or thereunder to any such transferee of at least ten percent of either Warrant. In addition, and notwithstanding anything to the contrary contained in this Agreement or the Warrants, the Securities may be pledged and all rights of the Purchaser under this Agreement or any other agreement or document related to the transactions contemplated hereby may be assigned, without further consent of the Company, to a bona fide pledgee in connection with the Purchaser's margin or brokerage account.

(h) Third Party Beneficiaries. This Agreement is intended for the benefit

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of the parties hereto and their respective permitted successors and assigns, and is not for the benefit of, nor may any provision hereof be enforced by, any other person; provided that Section 4(f) may be enforced by Heights.

(i) Survival. The representations and warranties of the Company and the

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agreements and covenants set forth in Sections 3, 4, 5, 8 and 9 hereof shall survive the Closing notwithstanding any due diligence investigation conducted by or on behalf of the Purchaser. Moreover, none of the representations and warranties made by the Company herein shall act as a waiver of any rights or remedies the Purchaser may have under applicable U.S. federal or state securities laws. The Company shall indemnify and hold harmless each Purchaser and each of the Purchaser's officers, directors, employees, partners, members, agents and affiliates for all losses or damages arising as a result of or related to any breach or alleged breach by the Company of any of its representations or covenants set forth herein, including advancement of expenses as they are incurred; provided that without limiting the Company's indemnification obligations for actual breaches by the Company of any of its representations or covenants set forth herein, the Company's indemnification obligations for any alleged breach of the Company's representations or covenants shall arise only in connection with allegations made by third parties unrelated to the Purchaser and its affiliates .

(j) Publicity. The Company and the Purchaser shall have the right to

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approve before issuance any press releases, SEC or NASD filings, or any other public statements with respect to the transactions contemplated hereby; provided, however, that the Company shall be entitled, without the prior approval of the Purchaser, to make any press release or SEC or NASD filings with respect to such transactions as is required by applicable law and regulations (although the Purchaser shall be consulted by the Company in connection with any such press release and filing prior to its release and shall be provided with a copy thereof).

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(k) Further Assurances. Each party shall do and perform, or cause to be

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done and performed, all such further acts and things, and shall execute and deliver all such other agreements, certificates, instruments and documents, as the other party may reasonably request in order to carry out the intent and accomplish the purposes of this Agreement and the consummation of the transactions contemplated hereby.

(l) Termination. In the event that the Closing shall not have occurred on

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or before November 17, 2000, unless the parties agree otherwise, this Agreement shall terminate at the close of business on such date. Notwithstanding any termination of this Agreement, any party not in breach of this Agreement shall preserve all rights and remedies it may have against another party hereto for a breach of this Agreement prior to or relating to the termination hereof.

(m) Joint Participation in Drafting. Each party to this Agreement has

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participated in the negotiation and drafting of this Agreement and the Warrants.

As such, the language used herein and therein shall be deemed to be the language chosen by the parties hereto to express their mutual intent, and no rule of strict construction will be applied against any party to this Agreement.

(n) Equitable Relief. The Company acknowledges that a breach by it of its

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obligations hereunder will cause irreparable harm to the Purchaser by vitiating the intent and purpose of the transactions contemplated hereby. Accordingly, the Company acknowledges that the remedy at law for a breach of its obligations hereunder (including, but not limited to, its obligations pursuant to Section 5 hereof) will be inadequate and agrees, in the event of a breach or threatened breach by the Company of the provisions of this Agreement (including, but not limited to, its obligations pursuant to Section 5 hereof), that the Purchaser shall be entitled, in addition to all other available remedies, to an injunction restraining any breach and requiring immediate issuance and transfer of the Securities, without the necessity of showing economic loss and without any bond or other security being required.

(o) Additional Acknowledgement. The Purchaser acknowledges that it has

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independently evaluated the merits of the transactions contemplated by this Agreement and the Warrants, that it has independently determined to enter into the transactions contemplated hereby and thereby, and that it is not acting in concert with any other person in making its purchase of securities hereunder. The Purchaser and, to its knowledge, the Company agree that the Purchaser has not taken any actions that would deem the Purchaser to be a member of a "group" for purposes of Section 13(d) of the Exchange Act.

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IN WITNESS WHEREOF, the undersigned Purchaser and the Company have caused this Agreement to be duly executed as of the date first above written.

ELECTRIC FUEL CORPORATION

/s/ Yehuda Harats

By:-----

Name: Yehuda Harats  
Title: President and CEO

PURCHASER:

CAPITAL VENTURES INTERNATIONAL

By: Heights Capital Management, Inc.  
its authorized agent

/s/ Martin Kobinger

By:-----

Name: Martin Kobinger  
Title: Investment Manager

RESIDENCE: Cayman Islands

ADDRESS: c/o Heights Capital Management Inc.  
425 California, Suite 1100  
San Francisco, California 94104  
Telephone No.: (415) 403-6500  
Facsimile No.: (415) 403-6525  
Attn.: Mr. Martin Kobinger

with copies of all notices to:

Wolf, Block, Schorr and Solis-Cohen LLP  
1650 Arch Street  
Philadelphia, PA 19103-2097  
Telephone No.: (215) 977-2000  
Facsimile No.: (215) 977-2334  
Attn.: Jason M. Shargel, Esq.

AGGREGATE SUBSCRIPTION AMOUNT

Percentage of Each Initial Security	100	%
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Purchase Price		\$ 8,375,000

EXHIBIT A  
to Securities  
Purchase  
Agreement

VOID AFTER 5:00 P.M., NEW YORK CITY  
TIME, ON November 17, 2005  
(UNLESS EXTENDED PURSUANT TO SECTION 2 HEREOF)

Right to Purchase 666,667 Shares of  
Common Stock, par value \$.01 per share

Date: November 17, 2000

ELECTRIC FUEL CORPORATION  
SERIES A STOCK PURCHASE WARRANT

THIS CERTIFIES THAT, for value received, CAPITAL VENTURES INTERNATIONAL, or its registered assigns, is entitled to purchase from Electric Fuel Corporation, a corporation organized under the laws of the State of Delaware (the "Company"), at any time or from time to time during the period specified in Section 2 hereof, Six Hundred Sixty-Six Thousand Six Hundred and Sixty-Seven (666,667) fully paid and nonassessable shares of the Company's common stock, par value \$.01 per share (the "Common Stock"), at an exercise price per share (the "Exercise Price") equal to \$12.56 in effect on the Issue Date (as defined in Section 2 hereof). The number of shares of Common Stock purchasable hereunder (the "Warrant Shares") and the Exercise Price are subject to adjustment as provided in Section 4 hereof. The term "Warrants" means this Warrant and the other Series A Share Warrants and Series B Shares Warrants of the Company issued pursuant to and as defined in that certain Securities Purchase Agreement, dated as of November 17, 2000, by and between the Company and the other signatories thereto (the "Securities Purchase Agreement").

This Warrant is subject to the following terms, provisions and conditions:

1. Manner of Exercise; Issuance of Certificates; Payment for Shares.  
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Subject to the provisions hereof, including, without limitation, the limitations contained in Section 7 hereof, this Warrant may be exercised by the holder hereof, in whole or in part, by the surrender of this Warrant, together with a completed exercise agreement in the form attached hereto (the "Exercise Agreement"), to the Company during normal business hours on any business day at the Company's principal executive offices (or such other office or agency of the Company as it may designate by notice to the holder hereof), and upon (i) payment to the Company in United States dollars in cash, by certified or official bank check or by wire transfer of immediately available funds for the account of the Company, of the Exercise Price for the Warrant Shares specified in the Exercise Agreement or (ii) if the holder is effectuating a Cashless Exercise (as defined in Section 11(c) hereof) pursuant to Section 11(c) hereof, delivery to the Company of a written notice of an election to effect a Cashless Exercise for the Warrant Shares specified in the Exercise Agreement. The Warrant Shares so purchased shall be deemed to be issued to the holder hereof or such holder's designee, as the record

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owner of such shares, as of the close of business on the date on which this Warrant shall have been surrendered, the completed Exercise Agreement shall have been delivered, and payment shall have been made for such shares as set forth above or, if such date is not a business date, on the next succeeding business date. The Warrant Shares so purchased, representing the aggregate number of shares specified in the Exercise Agreement, shall be delivered to the holder hereof within a reasonable time, not exceeding two business days, after this Warrant shall have been so exercised (the "Delivery Period"). If the Company's transfer agent is participating in the Depository Trust Company ("DTC") Fast Automated Securities Transfer program, the Company shall cause its transfer agent to electronically transmit the Warrant Shares so purchased to the holder by crediting the account of the holder or its nominee with DTC through its Deposit Withdrawal Agent Commission system ("DTC Transfer"). If the aforementioned conditions to a DTC Transfer are not satisfied, the Company shall deliver to the holder physical certificates representing the Warrant Shares so purchased. Further, the holder may instruct the Company to deliver to the holder physical certificates representing the Warrant Shares so purchased in lieu of delivering such shares by way of DTC Transfer. Any certificates so delivered shall be in such denominations as may be reasonably requested by the holder hereof shall be registered in the name of such holder or such other name as shall be designated by such holder, and shall not bear any restrictive legend, unless otherwise required by law. If this Warrant shall have been exercised only in part, then the Company shall, at its expense, at the time of delivery of such certificates, deliver to the holder a new Warrant representing the number of shares with respect to which this Warrant shall not then have been exercised.

If, at any time, a holder of this Warrant submits this Warrant, an Exercise Agreement and payment to the Company of the Exercise Price for each of the Warrant Shares specified in the Exercise Agreement (including pursuant to a Cashless Exercise), and the Company fails for any reason to deliver, on or prior to the fourth business day following the expiration of the Delivery Period for such exercise, the number of shares of Common Stock to which the holder is entitled upon such exercise (an "Exercise Default"), then the Company shall pay to the holder payments ("Exercise Default Payments") for an Exercise Default in the amount of (a)  $(N/365)$ , multiplied by (b) the amount by which the Market Price (as defined in Section 4(1) hereof) on the date the Exercise Agreement giving rise to the Exercise Default is transmitted in accordance with this Section 1 (the "Exercise Default Date") exceeds the Exercise Price in respect of such Warrant Shares, multiplied by (c) the number of shares of Common Stock the Company failed to so deliver in such Exercise Default, multiplied by (d)  $.24$ , where  $N$  = the number of days from the Exercise Default Date to the date that the Company effects the full exercise of this Warrant which gave rise to the Exercise Default. The accrued Exercise Default Payment for each calendar month shall be paid in cash or shall be convertible into Common Stock, at the holder's option, as follows:

(a) In the event holder elects to take such payment in cash, cash payment shall be made to holder by the fifth day of the month following the month in which it has accrued; and

(b) In the event holder elects to take such payment in Common Stock, the holder may convert such payment amount into Common Stock at the lower of the Exercise Price or the Market Price (as defined in Section 4(1)) (as in effect at the time of exercise) at any time after the fifth day of the month following the month in which it has accrued.

Nothing herein shall limit the holder's right to pursue actual damages for the Company's failure to maintain a sufficient number of authorized shares of Common Stock as required pursuant to the terms of Section 3(b) hereof or to otherwise issue shares of Common Stock upon

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exercise of this Warrant in accordance with the terms hereof, and the holder shall have the right to pursue all remedies available at law or in equity (including a decree of specific performance and/or injunctive relief).

2. Period of Exercise. This Warrant is immediately exercisable, at any

time or from time to time on or after the date of initial issuance of this Warrant (the "Issue Date") and before 5:00 p.m., New York City time, on the fifth anniversary of the Issue Date (the "Exercise Period"). The Exercise Period shall automatically be extended by one (1) business day for each day on which the Company is not in compliance with Section 3(b) hereof.

3. Certain Agreements of the Company. The Company hereby covenants and

agrees as follows:

(a) Shares to be Fully Paid. All Warrant Shares will, upon issuance

in accordance with the terms of this Warrant, be validly issued, fully paid, and nonassessable and free from all taxes, liens, claims and encumbrances.

(b) Reservation of Shares. During the Exercise Period, the Company

shall at all times have authorized, and reserved for the purpose of issuance upon exercise of this Warrant, a sufficient number of shares of Common Stock to provide for the exercise in full of this Warrant (without giving effect to the limitations on exercise set forth in Section 7(f) hereof).

(c) Listing. The Company shall promptly secure the listing of the

Warrant Shares upon each national securities exchange or automated quotation system, if any, upon which shares of Common Stock are then listed or become listed (subject to official notice of issuance upon exercise of this Warrant) and shall maintain, so long as any other shares of Common Stock shall be so listed, such listing of all Warrant shares; and the Company shall so list on each national securities exchange or automated quotation system, as the case may be, and shall maintain such listing of, any other shares of capital stock of the Company issuable upon the exercise of this Warrant if and so long as any shares of the same class shall be listed on such national securities exchange or automated quotation system.

(d) Certain Actions Prohibited. The Company will not, by amendment of

its charter or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities, or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed by it hereunder, but will at all times in good faith assist in the carrying out of all the provisions of this Warrant and in the

taking of all such action as may reasonably be requested by the holder of this Warrant in order to protect the economic benefit inuring to the holder hereof and the exercise privilege of the holder of this Warrant against dilution or other impairment, consistent with the tenor and purpose of this Warrant. Without limiting the generality of the foregoing, the Company (i) will not increase the par value of any shares of Common Stock receivable upon the exercise of this Warrant above the Exercise Price then in effect, and (ii) will take all such actions as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and nonassessable shares of Common Stock upon the exercise of this Warrant.

(e) Successors and Assigns. This Warrant will be binding upon any

entity succeeding to the Company by merger, consolidation, or acquisition of all or substantially all of the Company's assets.

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(f) Blue Sky Laws. The Company shall, on or before the date of

issuance of any Warrant Shares, take such actions as the Company shall reasonably determine are necessary to qualify the Warrant Shares for, or obtain exemption for the Warrant Shares for, sale to the holder of this Warrant upon the exercise hereof under applicable securities or "blue sky" laws of the states of the United States, and shall provide evidence of any such action so taken to the holder of this Warrant prior to such date; provided, however, that the Company shall not be required in connection therewith or as a condition thereto to (a) qualify to do business in any jurisdiction where it would not otherwise be required to qualify but for this Section 3(f), (b) subject itself to general taxation in any such jurisdiction or (c) file a general consent to service of process in any such jurisdiction.

4. Antidilution Provisions. During the Exercise Period, the Exercise

Price and the number of Warrant Shares issuable hereunder shall be subject to adjustment from time to time as provided in this Section 4.

In the event that any adjustment of the Exercise Price as required herein results in a fraction of a cent, such Exercise Price shall be rounded up or down to the nearest cent.

(a) Adjustment of Exercise Price. Except as otherwise provided in

Sections 4(c) and 4(e) hereof, if and whenever during the Exercise Period the Company issues or sells, or in accordance with Section 4(b) hereof is deemed to have issued or sold, any shares of Common Stock for no consideration or for a consideration per share less than the Market Price on the Measurement Date (as such terms are hereinafter defined) (a "Dilutive Issuance"), then effective immediately upon the Dilutive Issuance, the Exercise Price will be adjusted in accordance with the following formula:

$$E' = E \times \frac{O + P/M}{\text{CSDO}}$$

where:

E' = the adjusted Exercise Price;  
E = the Exercise Price on the Measurement Date;  
M = the Market Price on the Measurement Date;  
O = the number of shares of Common Stock outstanding immediately prior to the Dilutive Issuance;  
P = the aggregate consideration, calculated as set forth in Section 4(b) hereof, received by the Company upon such Dilutive Issuance; and  
CSDO = the total number of shares of Common Stock Deemed Outstanding (as defined in Section 4(1)(i)) immediately after the Dilutive Issuance.

Notwithstanding the foregoing, no adjustment shall be made pursuant to this Section 4(a) if such adjustment would result in an increase in the Exercise Price.

(b) Effect on Exercise Price of Certain Events. For purposes of

determining the adjusted Exercise Price under Section 4(a) hereof, the following will be applicable:

(i) Issuance of Rights or Options. If the Company in any manner

issues or grants any warrants, rights or options, whether or not immediately exercisable, to subscribe for or to purchase Common Stock or other securities exercisable, convertible into or exchangeable for

Common Stock ("Convertible Securities") (such warrants, rights and options to purchase Common Stock or Convertible Securities are hereinafter referred to as "Options") and the price per share for which Common Stock is issuable upon the exercise of such Options is less than the Market Price in effect on the Measurement Date ("Below Market Options"), then the maximum total number of shares of Common Stock issuable upon the exercise of all such Below Market Options (assuming full exercise, conversion or exchange of Convertible Securities, if applicable) will, as of the date of the issuance or grant of such Below Market Options, be deemed to be outstanding and to have been issued and sold by the Company for such price per share. For purposes of the preceding sentence, the "price per share for which Common Stock is issuable upon the exercise of such Below Market Options" is determined by dividing (i) the total amount, if any, received or receivable by the Company as consideration for the issuance or granting of all such Below Market Options, plus the minimum aggregate amount of additional consideration, if any, payable to the Company upon the exercise of all such Below Market Options, plus, in the case of Convertible Securities issuable upon the exercise of such Below Market Options, the minimum aggregate amount of additional consideration payable upon the exercise, conversion or exchange thereof (determined in accordance with the calculation method set forth in (b) (ii) below) at the time such Convertible Securities first become exercisable, convertible or exchangeable, by (ii) the maximum total number of shares of Common Stock issuable upon the exercise of all such Below Market Options (assuming full conversion of Convertible Securities, if applicable). No further adjustment to the Exercise Price will be made upon the actual issuance of such Common Stock upon the exercise of such Below Market Options or upon the exercise, conversion or exchange of Convertible Securities issuable upon exercise of such Below Market Options. If, in any case, the total number of shares of Common Stock issuable upon exercise of any Below Market Options or upon exercise, conversion or exchange of any Convertible Securities (including Convertible Securities contemplated by Section 4(b) (ii) below) is not, in fact, issued and the rights to exercise such Below Market Option or to exercise, convert or exchange such Convertible Securities shall have expired or terminated, the Exercise Price then in effect will be readjusted to the Exercise Price which would have been in effect at the time of such expiration or termination had such Below Market Options or Convertible Securities, to the extent outstanding immediately prior to such expiration or termination (other than in respect of the actual number of shares of Common Stock issued upon exercise or conversion thereof), never been issued.

(ii) Issuance of Convertible Securities.

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(A) If the Company in any manner issues or sells any Convertible Securities, which Convertible Securities do not have a fluctuating conversion or exercise price or exchange ratio, whether or not immediately convertible (other than where the same are issuable upon the exercise of Options) and the price per share for which Common Stock is issuable upon such exercise, conversion or exchange (as determined pursuant to Section 4(b) (ii) (B) if applicable) is less than the Market Price in effect on the Measurement Date, then the maximum total number of shares of Common Stock issuable upon the exercise, conversion or exchange of all such Convertible Securities will, as of the date of the issuance of such Convertible Securities, be deemed to be outstanding and to have been issued and sold by the Company for such price per share. For the purposes of the preceding sentence, the "price per share for which Common Stock is issuable upon such exercise, conversion or exchange" is determined by dividing (i) the total amount, if any, received or receivable by the Company as consideration for the issuance or sale of all such Convertible Securities, plus the minimum aggregate amount of additional consideration, if any, payable to the Company upon the exercise, conversion or exchange thereof at the time such Convertible Securities first become exercisable, convertible or exchangeable, by (ii) the maximum total number of shares of

Common Stock issuable upon the exercise, conversion or exchange of all such Convertible Securities. No further adjustment to the Exercise Price will be made upon the actual issuance of such Common Stock upon exercise, conversion or exchange of such Convertible Securities.

(B) If the Company in any manner issues or sells any Convertible Securities with a fluctuating conversion or exercise price or exchange ratio (a "Variable Rate Convertible Security"), then the "price per share for which Common Stock is issuable upon such exercise, conversion or exchange" for purposes of the calculation contemplated by Section 4(b) (ii) (A) shall be deemed to be the lowest price per share which would be applicable (assuming all holding period and other conditions to any discounts contained in such Convertible Security have been satisfied) if the Market Price on the Measurement Date of such Convertible Security were 75% of the actual Market Price on such Measurement Date (the "Assumed Variable Market Price"). Further, if the Market Price at any time or times thereafter is less than or equal to the Assumed Variable Market Price last used for making any adjustment under this Section 4 with respect to any Variable Rate Convertible Security, the Exercise

Price in effect at such time shall be readjusted to equal the Exercise Price which would have resulted if the Assumed Variable Market Price at the time of issuance of the Variable Rate Convertible Security had been 75% of the Market Price existing at the time of the adjustment required by this sentence.

(iii) Change in Option Price or Conversion Rate. If there is  
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a change at any time in (i) the amount of additional consideration payable to the Company upon the exercise of any Options; (ii) the amount of additional consideration, if any, payable to the Company upon the exercise, conversion or exchange of any Convertible Securities; or (iii) the rate at which any Convertible Securities are convertible into or exchangeable for Common Stock (in each such case, other than under or by reason of provisions designed to protect against dilution and except when an adjustment is made pursuant to (ii) (B) above), the Exercise Price in effect at the time of such change will be readjusted to the Exercise Price which would have been in effect at such time had such Options or Convertible Securities still outstanding provided for such changed additional consideration or changed conversion rate, as the case may be, at the time initially granted, issued or sold.

(iv) Calculation of Consideration Received. If any Common  
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Stock, Options or Convertible Securities are issued, granted or sold for cash, the consideration received therefor for purposes of this Warrant will be the amount received by the Company therefor, after deduction of all commissions, underwriting discounts or allowances and other expenses paid or incurred by the Company in connection with such issuance, grant or sale. In case any Common Stock, Options or Convertible Securities are issued or sold for a consideration part or all of which shall be other than cash, including in the case of a strategic or similar arrangement in which the other entity will provide services to the Company, purchase services from the Company or otherwise provide intangible consideration to the Company, the amount of the consideration other than cash received by the Company (including the net present value of the consideration expected by the Company for the provided or purchased services) will be the fair market value of such consideration, except where such consideration consists of securities, in which case the amount of consideration received by the Company will be the Market Price thereof as of the date of receipt. In case any Common Stock, Options or Convertible Securities are issued in connection with any merger or consolidation in which the Company is the surviving corporation, the amount of consideration therefor will be deemed to be the fair market value of such portion of the net assets and business of the non-surviving corporation as is attributable to such Common Stock, Options or Convertible Securities, as the case may be. Notwithstanding anything else herein to the contrary, if Common Stock, Options or Convertible

Securities are issued, granted or sold in conjunction with each other as part of a single transaction or in a series of related transactions, the holder of this Warrant may elect to determine the amount of consideration deemed to be received by the Company therefore by deducting the fair value of any type of securities (the "Disregarded Securities") issued, granted or sold in such transaction or series of transactions. If the holder makes an election pursuant to the immediately preceding sentence, no adjustment to the Exercise Price shall be made pursuant to this Section 4 for the issuance of the Disregarded Securities or upon any conversion or exercise thereof. For example, if the Company were to issue convertible notes having a face value of \$1,000,000 and warrants to purchase shares of Common Stock at an exercise price equal to the market price of the Common Stock on the date of issuance of such warrants in exchange for \$1,000,000 of consideration, the fair value of the warrants would be subtracted from the \$1,000,000 of consideration received by the Company for the purposes of determining whether the shares of Common Stock issuable upon conversion of the convertible notes shall be deemed to be issued at a price per share below market price and, if so, for purposes of determining any adjustment to the Exercise Price hereunder as a result of the issuance of the Convertible Securities. The Company shall calculate, using standard commercial valuation methods appropriate for valuing such assets, the fair market value of any consideration other than cash or securities; provided, however, that if the holder hereof does not agree to such fair market value calculation within three business days after receipt thereof from the Company, then such fair market value will be determined in good faith by an investment banker or other appropriate expert of national reputation selected by the Company and reasonably acceptable to the holder hereof, with the costs of such appraisal to be borne by the Company.

(v) Issuances Pursuant to Existing Securities. If the Company,  
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at any time during the Exercise Period, issues shares of Common Stock pursuant to any antidilution or similar adjustments contained in a security or instrument outstanding on and including the Issue Date but not included on Schedule 3(d) of the Stock Purchase Agreement, then all shares of Common Stock so issued shall be deemed to have been issued for no consideration. If the Company, at any time during the Exercise Period, issues shares of Common Stock pursuant to any antidilution or similar adjustments contained in a security or instrument without complying with Section 4(s) of the Stock Purchase Agreement, all shares so issued shall be deemed to have been issued for no consideration.

(vi) Exceptions to Adjustment of Exercise Price. No adjustment to  
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the Exercise Price will be made (i) upon the exercise of any warrants, options or convertible securities issued and outstanding on and including the Issue Date and set forth on Schedule 3(d) of the Securities Purchase Agreement in accordance with the terms of such securities or instruments as of such date provided that the Company has complied with Section 4(s) of Securities Purchase Agreement; (ii) upon the grant or exercise of any stock or options which may hereafter be granted or exercised under any employee benefit plan of the Company now existing or to be implemented in the future, so long as the issuance of such stock or options is approved by a majority of the non-employee members of the Board of Directors of the Company or a majority of the members of a committee of non-employee directors established for such purpose; (iii) upon the issuance of Common Shares and Warrants pursuant to and in accordance with the terms of the Securities Purchase Agreement; or (iv) upon or exercise of the Warrants.

(c) Subdivision or Combination of Common Stock. If the Company, at any  
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time during the Exercise Period, subdivides (by any stock split, stock dividend, recapitalization, reorganization, reclassification or otherwise) its shares of Common Stock into a greater number of shares, then, after the date of record for effecting such subdivision, the Exercise Price in effect immediately prior to such

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subdivision will be proportionately reduced. If the Company, at any time during the Exercise Period, combines (by reverse stock split, recapitalization, reorganization, reclassification or otherwise) its shares of Common Stock into a smaller number of shares, then, after the date of record for effecting such combination, the Exercise Price in effect immediately prior to such combination will be proportionately increased.

(d) Adjustment in Number of Shares. Upon each adjustment of the Exercise  
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Price pursuant to the provisions of Section 4(c), the number of shares of Common Stock issuable upon exercise of this Warrant at each such Exercise Price shall be adjusted by multiplying a number equal to the Exercise Price in effect immediately prior to such adjustment by the number of shares of Common Stock issuable upon exercise of this Warrant at such Exercise Price immediately prior to such adjustment and dividing the product so obtained by the adjusted Exercise Price.

(e) Consolidation, Merger or Sale. In case of any consolidation of the  
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Company with, or merger of the Company into, any other corporation, or in case of any sale or conveyance of all or substantially all of the assets of the Company other than in connection with a plan of complete liquidation of the Company at any time during the Exercise Period, then as a condition of such consolidation, merger or sale or conveyance, adequate provision will be made whereby the holder hereof will have the right to acquire and receive upon exercise of this Warrant in lieu of the shares of Common Stock immediately theretofore acquirable upon the exercise of this Warrant, such shares of stock, securities, cash or assets as may be issued or payable with respect to or in exchange for the number of shares of Common Stock immediately theretofore acquirable and receivable upon exercise of this Warrant had such consolidation, merger or sale or conveyance not taken place. In any such case, the Company will make appropriate provision to insure that the provisions of this Section 4 hereof will thereafter be applicable as nearly as may be in relation to any shares of stock or securities thereafter deliverable upon the exercise of this Warrant. The Company will not effect any consolidation, merger or sale or conveyance unless prior to the consummation thereof, the successor corporation (if other than the Company) assumes by written instrument the obligations under this Warrant and the obligations to deliver to the holder hereof such shares of stock, securities or assets as, in accordance with the foregoing provisions, the holder may be entitled to acquire. Notwithstanding the foregoing, in the event of any consolidation of the Company with, or merger of the Company into, any other corporation, or the sale or conveyance of all or substantially all of the assets of the Company, at any time during the Exercise Period, the holder hereof shall, at its option, have the right to receive, in connection with such transaction, cash consideration equal to the fair market value of this Warrant as determined in accordance with customary valuation methodology used in the investment banking industry.

(f) Distribution of Assets. In case the Company shall declare or make any  
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distribution of its assets (or rights to acquire its assets) to holders of Common Stock as a partial liquidating dividend, stock repurchase by way of return of capital or otherwise (including any dividend or distribution to the Company's shareholders of cash or shares (or rights to acquire shares) of capital stock of a subsidiary) (a "Distribution"), at any time during the Exercise Period, then the holder hereof shall be entitled upon exercise of this Warrant for the purchase of any or all of the shares of Common Stock subject hereto, to receive the amount of such assets (or rights) which would have been

payable to the holder had such holder been the holder of such shares of Common Stock on the record date for the determination of shareholders entitled to such Distribution. If the Company distributes rights, warrants, options or any other form of convertible securities and the right to exercise or convert such securities would expire in accordance with their terms prior to the expiration of the Exercise Period,

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then the terms of such securities shall provide that such exercise or convertibility right shall remain in effect until 30 days after the date the holder hereof receives such securities pursuant to the exercise hereof.

(g) Notice of Adjustment. Upon the occurrence of any event which requires

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any adjustment of the Exercise Price, then, and in each such case, the Company shall give notice thereof to the holder hereof, which notice shall state the Exercise Price resulting from such adjustment and the increase or decrease in the number of Warrant Shares purchasable at such price upon exercise, setting forth in reasonable detail the method of calculation and the facts upon which such calculation is based. Such calculation shall be certified by the chief financial officer of the Company.

(h) Minimum Adjustment of Exercise Price. No adjustment of the Exercise

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Price shall be made in an amount of less than \$.01, but any such lesser adjustment shall be carried forward and shall be made at the time and together with the next subsequent adjustment which, together with any adjustments so carried forward, shall amount to not less than \$.01.

(i) No Fractional Shares. No fractional shares of Common Stock are to be

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issued upon the exercise of this Warrant, but the Company shall pay a cash adjustment in respect of any fractional share which would otherwise be issuable in an amount equal to the same fraction of the Market Price of a share of Common Stock on the date of such exercise.

(j) Other Notices. In case at any time:

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(i) the Company shall declare any dividend upon the Common Stock payable in shares of stock of any class or make any other distribution (other than dividends or distributions payable in cash out of retained earnings consistent with the Company's past practices with respect to declaring dividends and making distributions) to the holders of the Common Stock;

(ii) the Company shall offer for subscription pro rata to the holders of the Common Stock any additional shares of stock of any class or other rights;

(iii) there shall be any capital reorganization of the Company, or reclassification of the Common Stock, or consolidation or merger of the Company with or into, or sale of all or substantially all of its assets to, another corporation or entity; or

(iv) there shall be a voluntary or involuntary dissolution, liquidation or winding-up of the Company;

then, in each such case, the Company shall give to the holder of this Warrant (a) notice of the date or estimated date on which the books of the Company shall close or a record shall be taken for determining the holders of Common Stock entitled to receive any such dividend, distribution, or subscription rights or for determining the holders of Common Stock entitled to vote in respect of any such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding-up and (b) in the case of any such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding-up, notice of the date (or, if not then known, a reasonable estimate thereof by the Company) when the same shall take place. Such notice shall also specify the date on which the holders of Common Stock shall be entitled to receive such dividend, distribution, or subscription rights or to exchange their Common Stock for stock or other securities or property

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deliverable upon such reclassification, consolidation, merger, sale, dissolution, liquidation, or winding-up, as the case may be. Such notice shall be given at least thirty (30) days prior to the record date or the date on which the Company's books are closed in respect thereto. Failure to give any such notice or any defect therein shall not affect the validity of the proceedings referred to in clauses (i), (ii), (iii) and (iv) above. Notwithstanding the foregoing, the Company shall publicly disclose the substance of any notice delivered hereunder prior to delivery of such notice to the holder hereof.

(k) Certain Events. If, at any time during the Exercise Period, any

event occurs of the type contemplated by the adjustment provisions of this Section 4 but not expressly provided for by such provisions, the Company will give notice of such event as provided in Section 4(g) hereof, and the Company's Board of Directors will make an appropriate adjustment in the Exercise Price and the number of shares of Common Stock acquirable upon exercise of this Warrant at each such Exercise Price so that the rights of the holder shall be neither enhanced nor diminished by such event.

(1) Certain Definitions.  
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(i) "Common Stock," for purposes of this Section 4, includes the Common Stock and any additional class of stock of the Company having no preference as to dividends or distributions on liquidation, provided that the shares purchasable pursuant to this Warrant shall include only Common Stock in respect of which this Warrant is exercisable, or shares resulting from any subdivision or combination of such Common Stock, or in the case of any reorganization, reclassification, consolidation, merger, or sale of the character referred to in Section 4(e) hereof, the stock or other securities or property provided for in such Section.

(ii) "Common Stock Deemed Outstanding" shall mean the number of shares of Common Stock actually outstanding (not including shares of Common Stock held in the treasury of the Company), plus (x) in the case of any adjustment required by Section 4(a) resulting from the issuance of any Below Market Options, the maximum total number of shares of Common Stock issuable upon the exercise of the Below Market Options for which the adjustment is required (including any Common Stock issuable upon the conversion of Convertible Securities issuable upon the exercise of such Below Market Options), and (y) in the case of any adjustment required by Section 4(a) resulting from the issuance of any Convertible Securities, the maximum total number of shares of Common Stock issuable upon the exercise, conversion or exchange of the Convertible Securities for which the adjustment is required, as of the date of issuance of such Convertible Securities, if any.

(iii) "Market Price," as of any date, (i) means the average of the closing bid prices for the shares of Common Stock as reported on the Nasdaq National/SmallCap Market by Bloomberg Financial Markets ("Bloomberg") for the five consecutive business days immediately preceding such date, or (ii) if the Nasdaq National/SmallCap Market is not the principal trading market for the shares of Common Stock, the average of the reported closing bid prices reported by Bloomberg on the principal trading market for the Common Stock during the same period, or, if there is no bid price for such period, the last sales price reported by Bloomberg for such period, or (iii) if the foregoing do not apply, the last sale price of such security in the over-the-counter market on the pink sheets or bulletin board for such security as reported by Bloomberg for such period, or if no sale price is so reported for such security, the last bid price of such security as reported by Bloomberg for such period, or (iv) if market value cannot be calculated as of such date on any of the foregoing bases,

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the Market Price shall be the average fair market value as reasonably determined by an investment banking firm selected by the Company and reasonably acceptable to the holder, with the costs of the appraisal to be borne by the Company. The manner of determining the Market Price of the Common Stock set forth in the foregoing definition shall apply with respect to any other security in respect of which a determination as to market value must be made hereunder.

(iv) "Measurement Date" means (i) for purposes of any private offering of securities under Section 4(2) of the Securities Act of 1933, as amended, the date that the Company enters into legally binding definitive agreements for the issuance and sale of such securities, (ii) for purposes of the issuance of securities issuable upon the exercise of any Options, the date of issuance of such options, and (iii) for purposes of any other issuance of securities, the date of issuance thereof.

5. Issue Tax. The issuance of certificates for Warrant Shares upon the  
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exercise of this Warrant shall be made without charge to the holder of this Warrant or such shares for any issuance tax or other costs in respect thereof, provided that the Company shall not be required to pay any tax which may be payable in respect of any transfer involved in the issuance and delivery of any certificate in a name other than the holder of this Warrant.

6. No Rights or Liabilities as a Shareholder. This Warrant shall not  
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entitle the holder hereof to any voting rights or other rights as a shareholder of the Company. No provision of this Warrant, in the absence of affirmative action by the holder hereof to purchase Warrant Shares, and no mere enumeration herein of the rights or privileges of the holder hereof, shall give rise to any liability of such holder for the Exercise Price or as a shareholder of the Company, whether such liability is asserted by the Company or by creditors of the Company.

7. Transfer, Exchange, Redemption and Replacement of Warrant.  
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(a) Restriction on Transfer. This Warrant and the rights granted to  
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the holder hereof are transferable, in whole or in part, upon surrender of this Warrant, together with a properly executed assignment in the form attached hereto, at the office or agency of the Company referred to in Section 7(e) below, provided, however, that any transfer or assignment shall be subject to the conditions set forth in Section 7(f) hereof. Each transferee of this Warrant or any portion thereof shall be bound by the selling restrictions set forth in Section 4(n) of the Securities Purchase Agreement, which Section is incorporated herein by reference. Until due presentment for registration of transfer on the books of the Company, the Company may treat the registered holder hereof as the owner and holder hereof for all purposes, and the Company shall not be affected by any notice to the contrary.

(b) Warrant Exchangeable for Different Denominations. This Warrant is  
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exchangeable, upon the surrender hereof by the holder hereof at the office or agency of the Company referred to in Section 7(e) below, for new Warrants of like tenor of different denominations representing in the aggregate the right to purchase the number of shares of Common Stock which may be purchased hereunder, each of such new Warrants to represent the right to purchase such number of shares (at the Exercise Price therefor) as shall be designated by the holder hereof at the time of such surrender.

(c) Replacement of Warrant. Upon receipt of evidence reasonably  
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satisfactory to the Company of the loss, theft, destruction, or mutilation of this Warrant and, in the case of any such

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loss, theft, or destruction, upon delivery of an indemnity agreement reasonably satisfactory in form and amount to the Company, or, in the case of any such mutilation, upon surrender and cancellation of this Warrant, the Company, at its expense, will execute and deliver, in lieu thereof, a new Warrant of like tenor.

(d) Cancellation; Payment of Expenses. Upon the surrender of this  
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Warrant in connection with any transfer, exchange, or replacement as provided in this Section 7, this Warrant shall be promptly canceled by the Company. The Company shall pay all taxes (other than securities transfer taxes) and all other expenses (other than legal expenses, if any, incurred by the Holder or transferees) and charges payable in connection with the preparation, execution, and delivery of Warrants pursuant to this Section 7. The Company shall indemnify and reimburse the holder of this Warrant for all losses and damages arising as a result of or related to any breach of the terms of this Warrant, including costs and expenses (including legal fees) incurred by such holder in connection with the enforcement of its rights hereunder.

(e) Warrant Register. The Company shall maintain, at its principal  
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executive offices (or such other office or agency of the Company as it may designate by notice to the holder hereof), a register for this Warrant, in which the Company shall record the name and address of the person in whose name this Warrant has been issued, as well as the name and address of each transferee and each prior owner of this Warrant.

(f) Additional Restrictions on Exercise or Transfer. In no event  
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shall the holder hereof have the right to exercise any portion of this Warrant for shares of Common Stock or to dispose of any portion of this Warrant to the extent that such right to effect such exercise or disposition would result in the holder or any of its affiliates beneficially owning more than 4.99% of the outstanding shares of Common Stock. For purposes of this Section 7(f), beneficial ownership shall be determined in accordance with Section 13(d) of the Securities Exchange Act of 1934, as amended, and Regulation 13D-G thereunder. The restriction contained in this Section 7(f) may not be altered, amended, deleted or changed in any manner whatsoever unless the holders of a majority of the outstanding shares of Common Stock and the holder hereof shall approve, in writing, such alteration, amendment, deletion or change.

8. Intentionally Omitted.  
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9. Notices. Any notices required or permitted to be given under the  
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terms of this Warrant shall be sent by certified or registered mail (return receipt requested) or delivered personally or by courier or by confirmed telecopy, and shall be effective five days after being placed in the mail, if mailed, or upon receipt or refusal of receipt, if delivered personally or by courier, or by confirmed telecopy, in each case addressed to a party. The addresses for such communications shall be:

If to the Company:

ELECTRIC FUEL CORPORATION  
120 Wood Avenue South  
Suite 300  
Iselin, New Jersey 08830  
Facsimile: (732) 635-7101  
Attn: Robert S. Erlich

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Chief Financial Officer

with a copy simultaneously transmitted by like means to:

HARRIS BEACH LLP  
130 East Main Street  
Rochester, New York 14604  
Facsimile: (716) 232-6926  
Attn.: Thomas Willett, Esq.

and to:

Yaakov Har-Oz, Adv  
Vice President and General Counsel  
Electric Fuel Corporation  
Western Industrial Park  
P.O. Box 641  
Bent Shemesh 99000  
Israel  
Tel No.: 972-2-990-6023  
Fax No.: 972-2-990-6088

If to the holder, at such address as such holder shall have provided in writing to the Company, or at such other address as such holder furnishes by notice given in accordance with this Section 9.

10. Governing Law; Jurisdiction. This Warrant shall be governed by and

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construed in accordance with the laws of the State of Delaware. The Company irrevocably consents to the jurisdiction of the United States federal courts and state courts located in the State of Delaware in any suit or proceeding based on or arising under this Warrant and irrevocably agrees that all claims in respect of such suit or proceeding may be determined in such courts. The Company irrevocably waives any objection to the laying of venue and the defense of an inconvenient forum to the maintenance of such suit or proceeding. The Company further agrees that service of process upon the Company mailed by certified or registered mail shall be deemed in every respect effective service of process upon the Company in any such suit or proceeding. Nothing herein shall affect the holder's right to serve process in any other manner permitted by law. The Company agrees that a final non-appealable judgment in any such suit or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on such judgment or in any other lawful manner.

11. Miscellaneous.

(a) Amendments. Except as provided in Section 7(f) hereof, this

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Warrant and any provision hereof may only be amended by an instrument in writing signed by the Company and the holder hereof.

(b) Descriptive Headings. The descriptive headings of the several

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Sections of this Warrant are inserted for purposes of reference only, and shall not affect the meaning or construction of any of the provisions hereof.

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(c) Cashless Exercise. Notwithstanding anything to the contrary

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contained in this Warrant, this Warrant may be exercised at any time during the Exercise Period by presentation and surrender of this Warrant to the Company at its principal executive offices with a written notice of the holder's intention to effect a cashless exercise, including a calculation of the number of shares of Common Stock to be issued upon such exercise in accordance with the terms hereof (a "Cashless Exercise"). In the event of a Cashless Exercise, in lieu of paying the Exercise Price in cash, the holder shall surrender this Warrant for that number of shares of Common Stock determined by multiplying the number of Warrant Shares to which it would otherwise be entitled by a fraction, the numerator of which shall be the difference between the then current Market Price of a share of the Common Stock on the date of exercise and the Exercise Price, and the denominator of which shall be the then current Market Price per share of Common Stock.

(d) Business Day. For purposes of this Warrant, the term "business day" means any day, other than a Saturday or Sunday or a day on which banking institutions in the State of New York are authorized or obligated by law, regulation or executive order to close.

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IN WITNESS WHEREOF, the Company has caused this Warrant to be signed by its duly authorized officer.

ELECTRIC FUEL CORPORATION

By: \_\_\_\_\_  
Name:  
Title:

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FORM OF EXERCISE AGREEMENT

(To be Executed by the Holder in order to Exercise the Warrant)

To: ELECTRIC FUEL CORPORATION  
120 Wood Avenue South  
Suite 300  
Iselin, New Jersey 08830  
Facsimile:  
Attn:

The undersigned hereby irrevocably exercises the right to purchase \_\_\_\_\_ shares of the Common Stock of ELECTRIC FUEL CORPORATION, a corporation organized under the laws of the State of Delaware (the "Company"), evidenced by the attached Warrant, and herewith [makes payment of the Exercise Price with respect to such shares in full][elects to effect a Cashless Exercise (as defined in Section 11(c) of such Warrant)], all in accordance with the conditions and provisions of said Warrant.

The undersigned agrees not to offer, sell, transfer or otherwise dispose of any Common Stock obtained on exercise of the Warrant, except under circumstances that will not result in a violation of the Securities Act of 1933, as amended, or any state securities laws.

The undersigned requests that the Company cause its transfer agent to electronically transmit the Common Stock issuable pursuant to this Exercise Agreement to the account of the undersigned or its nominee (which is \_\_\_\_\_) with DTC through its Deposit Withdrawal Agent Commission System ("DTC Transfer"), provided that such transfer agent participates in the DTC Fast Automated Securities Transfer program.

In lieu of receiving the shares of Common Stock issuable pursuant to this Exercise Agreement by way of DTC Transfer, the undersigned hereby requests that the Company cause its transfer agent to issue and deliver to the undersigned physical certificates representing such shares of Common Stock.

The undersigned requests that a Warrant representing any unexercised portion hereof be issued, pursuant to the Warrant, in the name of the Holder and delivered to the undersigned at the address set forth below:

Dated: \_\_\_\_\_  
Signature of Holder  
Name of Holder (Print)  
Address:  
\_\_\_\_\_  
\_\_\_\_\_

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FORM OF ASSIGNMENT

FOR VALUE RECEIVED, the undersigned hereby sells, assigns, and transfers all the rights of the undersigned under the within Warrant, with respect to the number of shares of Common Stock covered thereby set forth hereinbelow, to:

Name of Assignee  
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Address  
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No. of Shares  
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, and hereby irrevocably constitutes and appoints \_\_\_\_\_  
as agent and attorney-in-fact to transfer said Warrant on the books of the  
within-named corporation, with full power of substitution in the premises.

Dated: \_\_\_\_\_, \_\_\_\_

In the presence of

\_\_\_\_\_

Name: \_\_\_\_\_

Signature: \_\_\_\_\_  
Title of Signing Officer or Agent (if any):

Address: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Note: The above signature should correspond  
exactly with the name on the face of  
the within Warrant.

EXHIBIT B  
to Securities  
Purchase  
Agreement

VOID AFTER 5:00 P.M., NEW YORK CITY  
TIME, August 17, 2001  
(UNLESS EXTENDED PURSUANT TO SECTION 2 HEREOF)

Right to Purchase 333,333 Shares of  
Common Stock, par value \$.01 per share

Date: November 17, 2000

ELECTRIC FUEL CORPORATION  
SERIES B STOCK PURCHASE WARRANT

THIS CERTIFIES THAT, for value received, Capital Ventures International, or its registered assigns, is entitled to purchase from Electric Fuel Corporation, a corporation organized under the laws of the State of Delaware (the "Company"), at any time or from time to time during the period specified in Section 2 hereof, Three Hundred Thirty-three Thousand Three Hundred and Thirty-three (333,333) fully paid and nonassessable shares of the Company's common stock, par value \$.01 per share (the "Common Stock"), at an exercise price per share (the "Exercise Price") equal to \$11.31 in effect on the Issue Date (as defined in Section 2 hereof). The number of shares of Common Stock purchasable hereunder (the "Warrant Shares") and the Exercise Price are subject to adjustment as provided in Section 4 hereof. The term "Warrants" means this Warrant and the other Series B Share Warrants and Series A Share Warrants of the Company issued pursuant to and as defined in that certain Securities Purchase Agreement, dated as of November 17, 2000, by and between the Company and the other signatories thereto (the "Securities Purchase Agreement").

This Warrant is subject to the following terms, provisions and conditions:

1. Manner of Exercise; Issuance of Certificates; Payment for Shares.  
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(a) Subject to the provisions hereof, including, without limitation, the limitations contained in Section 7 hereof, this Warrant may be exercised by the holder hereof, in whole or in part, by the surrender of this Warrant, together with a completed exercise agreement in the form attached hereto (the "Exercise Agreement"), to the Company during normal business hours on any business day at the Company's principal executive offices (or such other office or agency of the Company as it may designate by notice to the holder hereof), and upon (i) payment to the Company in United States

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dollars in cash, by certified or official bank check or by wire transfer of immediately available funds for the account of the Company, of the Exercise Price for the Warrant Shares specified in the Exercise Agreement or (ii) if the holder is effectuating a Cashless Exercise (as defined in Section 11(c) hereof) pursuant to Section 11(c) hereof, delivery to the Company of a written notice of an election to effect a Cashless Exercise for the Warrant Shares specified in the Exercise Agreement. The Warrant Shares so purchased shall be deemed to be issued to the holder hereof or such holder's designee, as the record owner of such shares, as of the close of business on the date on which this Warrant shall have been surrendered, the completed Exercise Agreement shall have been delivered, and payment shall have been made for such shares as set forth above or, if such date is not a business date, on the next succeeding business date. The Warrant Shares so purchased, representing the aggregate number of shares specified in the Exercise Agreement, shall be delivered to the holder hereof within a reasonable time, not exceeding two business days, after this Warrant shall have been so exercised (the "Delivery Period"). If the Company's transfer agent is participating in the Depository Trust Company ("DTC") Fast Automated Securities Transfer program, the Company shall cause its transfer agent to electronically transmit the Warrant Shares so purchased to the holder by crediting the account of the holder or its nominee with DTC through its Deposit Withdrawal Agent Commission system ("DTC Transfer"). If the aforementioned conditions to a DTC Transfer are not satisfied, the Company shall deliver to the holder physical certificates representing the Warrant Shares so purchased. Further, the holder may instruct the Company to deliver to the holder physical certificates representing the Warrant Shares so purchased in lieu of delivering such shares by way of DTC Transfer. Any certificates so delivered shall be in such denominations as may be reasonably requested by the holder hereof, shall be registered in the name of such holder or such other name as shall be designated by such holder, and shall not bear any restrictive legend, unless otherwise required by law. If this Warrant shall have been exercised only in part, then the Company shall, at its expense, at the time of delivery of such certificates, deliver to the holder a new Warrant representing the number of shares with

respect to which this Warrant shall not then have been exercised.

(b) If, at any time, a holder of this Warrant submits this Warrant, an Exercise Agreement and payment to the Company of the Exercise Price for each of the Warrant Shares specified in the Exercise Agreement (including pursuant to a Cashless Exercise), and the Company fails for any reason to deliver, on or prior to the fourth business day following the expiration of the Delivery Period for such exercise, the number of shares of Common Stock to which the holder is entitled upon such exercise (an "Exercise Default"), then the Company shall pay to the holder payments ("Exercise Default Payments") for an Exercise Default in the amount of (a) (N/365), multiplied by (b) the amount by which the Market Price (as defined in Section 4(1) hereof) on the date the Exercise Agreement giving rise to the Exercise Default is transmitted in accordance with this Section 1 (the "Exercise Default Date") exceeds the Exercise Price in respect of such Warrant Shares, multiplied by (c) the number of shares of Common Stock the Company failed to so deliver in such Exercise Default, multiplied by (d) .24, where N = the number of days from the Exercise Default Date to the date that the Company effects the full exercise of this Warrant which gave rise to the Exercise Default. The accrued Exercise Default Payment for each calendar month shall be paid in cash or shall be convertible into Common Stock, at the holder's option, as follows:

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(i) In the event holder elects to take such payment in cash, cash payment shall be made to holder by the fifth day of the month following the month in which it has accrued; and

(ii) In the event holder elects to take such payment in Common Stock, the holder may convert such payment amount into Common Stock at the lower of the Exercise Price or the Market Price (as defined in Section 4(1)) (as in effect at the time of exercise) at any time after the fifth day of the month following the month in which it has accrued.

Nothing herein shall limit the holder's right to pursue actual damages for the Company's failure to maintain a sufficient number of authorized shares of Common Stock as required pursuant to the terms of Section 3(b) hereof or to otherwise issue shares of Common Stock upon exercise of this Warrant in accordance with the terms hereof, and the holder shall have the right to pursue all remedies available at law or in equity (including a decree of specific performance and/or injunctive relief).

(c) This Warrant is immediately exercisable, at any time or from time to time on or after the date of initial issuance of this Warrant (the "Issue Date") and before 5:00 p.m., New York City time, on the date which is the ninth (9th) month anniversary of the Issue Date (the "Exercise Period"). The Exercise Period shall automatically be extended by one (1) Trading Day (as defined in Section 2(a)) for each day on which the Company is not in compliance with Section 3(b) hereof.

## 2. Mandatory Exercise.

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(a) Subject to Section 7(f), if after the Issue Date, (i) the Company consummates a primary public offering of its Common Stock for gross proceeds to the Company of at least \$35,000,000 and (ii) if the Closing Bid Price (as defined below) of the Common Stock for each of the ten (10) consecutive Trading Days ending on the Trading Day immediately preceding the closing date of such public offering exceeded \$13.57, subject to equitable adjustment for any stock splits, stock dividends, reclassifications or similar events (the "Trigger Event"), the Company may at its sole discretion, but subject to satisfaction (or waiver) of all of the conditions set forth in Section 2(c) hereof, require the holder to exercise this Warrant in whole, but not in part, in accordance with the terms set forth below (the "Mandatory Exercise"). For purposes hereof, "Closing Bid Price" means, for the Common Stock as of any date, the closing bid price of such security on the Nasdaq National Market ("NNM"), the New York Stock Exchange ("NYSE") or the American Stock Exchange ("AMEX"). For purposes hereof "Trading Day" means any business day on which the principal United States securities exchange or trading market on which Common Stock is listed or traded and reported by Bloomberg Financial Markets (or a comparable reporting service of national reputation selected by the Company and reasonably acceptable if Bloomberg Financial Markets is not then reporting closing bid prices of such security) (collectively, "Bloomberg") is open for trading.

(b) In order to cause the Mandatory Exercise, the Company must first deliver to the holder, on or before the second (2/nd/) Trading Day immediately following the occurrence of the

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Trigger Event, written notice thereof (the "Trigger Event Notice"). The Trigger Event Notice shall set forth the date on which the Warrant Shares shall be issued to the holder, which date shall not be less than [three (3) Trading Days or more than five (5) Trading Days] following the occurrence of the Trigger Event (the "Mandatory Exercise Date"). On the Mandatory Exercise Date, the

Company shall issue to the Holder the Warrant Shares and the Holder shall pay the Exercise Price in United States dollars in cash, by certified check or official bank check or by wire transfer of immediately available funds to the account of the Company.

(c) The Holder's obligation to purchase the Warrant Shares pursuant to a Mandatory Exercise is conditioned upon the satisfaction by the Company (or waiver by the Holder) of each of the following events as of the date of the Trigger Event Notice (the "Trigger Notice Date") and the Mandatory Exercise Date (except for the event identified in subclause (v) below which shall be satisfied only on the Mandatory Exercise Date).

(i) the Registration Statement as defined in the Securities Purchase Agreement shall have been available to the holder at all times from the Issue Date up to and including the Mandatory Exercise Date for the issuance and sale of the Warrant Shares pursuant to the exercise of the Warrants;

(ii) the representations and warranties of the Company set forth in the Securities Purchase Agreement shall be true and correct in all material respects as of the Mandatory Exercise Date as if made on such date (except for representations and warranties that speak as of a specific date which representations shall be true and correct as of such date).

(iii) the Company shall have complied with or performed in all material respects all of the agreements, obligations and conditions set forth in the Securities Purchase Agreement and the Warrants that are required to be complied with or performed by the Company on or before the Mandatory Exercise Date;

(iv) the Company shall have delivered to the holder a certificate, signed by an officer of the Company, certifying that the conditions set forth in this subparagraph 2(c) have been fulfilled as of the Trigger Notice Date and the Mandatory Exercise Date, it being understood that the holder may rely on such certificate as though it were a representation and warranty of the Company made in the Securities Purchase Agreement and, in the event of any breach thereof, shall be entitled to the same remedies as may be available to the holder in the event of a breach of any such representation or warranty;

(v) the Company shall have delivered to the holder the Warrant Shares as provided in Section 1(a) hereof;

(vi) the Warrant Shares, issuable upon the Mandatory Exercise of this Warrant, shall be listed for quotation and/or trading on the NMM, NYSE or AMEX and no suspension of trading in the Common Stock on such market shall have occurred and be continuing as

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of the Mandatory Exercise Date; and

(vii) the Company shall have declared a Mandatory Exercise under all other Series B Share Warrants (as defined in the Securities Purchase Agreement) issued pursuant to the Stock Purchase Agreement.

3. Certain Agreements of the Company. The Company hereby covenants and agrees as follows:

(a) Shares to be Fully Paid. All Warrant Shares will, upon issuance in accordance with the terms of this Warrant, be validly issued, fully paid, and nonassessable and free from all taxes, liens, claims and encumbrances.

(b) Reservation of Shares. During the Exercise Period, the Company shall at all times have authorized, and reserved for the purpose of issuance upon exercise of this Warrant, a sufficient number of shares of Common Stock to provide for the exercise in full of this Warrant (without giving effect to the limitations on exercise set forth in Section 7(f) hereof).

(c) Listing. The Company shall promptly secure the listing of the Warrant Shares upon exercise of this Warrant upon each national securities exchange or automated quotation system, if any, upon which shares of Common Stock are then listed or become listed (subject to official notice of issuance upon exercise of this Warrant) and shall maintain, so long as any other shares of Common Stock shall be so listed, such listing of all Warrant Shares; and the Company shall so list on each national securities exchange or automated quotation system, as the case may be, and shall maintain such listing of, any other shares of capital stock of the Company issuable upon the exercise of this Warrant if and so long as any shares of the same class shall be listed on such national securities exchange or automated quotation system.

(d) Certain Actions Prohibited. The Company will not, by amendment of its

charter or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities, or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed by it hereunder, but will at all times in good faith assist in the carrying out of all the provisions of this Warrant and in the taking of all such action as may reasonably be requested by the holder of this Warrant in order to protect the economic benefit inuring to the holder hereof and the exercise privilege of the holder of this Warrant against dilution or other impairment, consistent with the tenor and purpose of this Warrant. Without limiting the generality of the foregoing, the Company (i) will not increase the par value of any shares of Common Stock receivable upon the exercise of this Warrant above the Exercise Price then in effect, and (ii) will take all such actions as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and nonassessable shares of Common Stock upon the exercise of this Warrant.

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(e) Successors and Assigns. This Warrant will be binding upon any

entity succeeding to the Company by merger, consolidation, or acquisition of all or substantially all of the Company's assets.

(f) Blue Sky Laws. The Company shall, on or before the date of

issuance of any Warrant Shares, take such actions as the Company shall reasonably determine are necessary to qualify the Warrant Shares for, or obtain exemption for the Warrant Shares for, sale to the holder of this Warrant upon the exercise hereof under applicable securities or "blue sky" laws of the states of the United States, and shall provide evidence of any such action so taken to the holder of this Warrant prior to such date; provided, however, that the Company shall not be required in connection therewith or as a condition thereto to (a) qualify to do business in any jurisdiction where it would not otherwise be required to qualify but for this Section 3(f), (b) subject itself to general taxation in any such jurisdiction or (c) file a general consent to service of process in any such jurisdiction.

4. Antidilution Provisions. During the Exercise Period, the Exercise

Price and the number of Warrant Shares issuable hereunder shall be subject to adjustment from time to time as provided in this Section 4.

In the event that any adjustment of the Exercise Price as required herein results in a fraction of a cent, such Exercise Price shall be rounded up or down to the nearest cent.

(a) Adjustment of Exercise Price. Except as otherwise provided in

Sections 4(c) and 4(e) hereof, if and whenever during the Exercise Period the Company issues or sells, or in accordance with Section 4(b) hereof is deemed to have issued or sold, any shares of Common Stock for no consideration or for a consideration per share less than the Market Price on the Measurement Date (as such terms are hereinafter defined) (a "Dilutive Issuance"), then effective immediately upon the Dilutive Issuance, the Exercise Price will be adjusted in accordance with the following formula:

$$E' = E \times \frac{O + P/M}{\text{CSDO}}$$

where:

E' = the adjusted Exercise Price;  
E = the Exercise Price on the Measurement Date;  
M = the Market Price on the Measurement Date;  
O = the number of shares of Common Stock outstanding immediately prior to the Dilutive Issuance;  
P = the aggregate consideration, calculated as set forth in Section 4(b) hereof, received by the Company upon such Dilutive Issuance; and  
CSDO = the total number of shares of Common Stock Deemed Outstanding (as defined in Section 4(l)(i)) immediately after the Dilutive Issuance.

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Notwithstanding the foregoing, no adjustment shall be made pursuant to this Section 4(a) if such adjustment would result in an increase in the Exercise Price.

(b) Effect on Exercise Price of Certain Events. For purposes of

determining the adjusted Exercise Price under Section 4(a) hereof, the following will be applicable:

(i) Issuance of Rights or Options. If the Company in any  
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manner issues or grants any warrants, rights or options, whether or not immediately exercisable, to subscribe for or to purchase Common Stock or other securities exercisable, convertible into or exchangeable for Common Stock ("Convertible Securities") (such warrants, rights and options to purchase Common Stock or Convertible Securities are hereinafter referred to as "Options") and the price per share for which Common Stock is issuable upon the exercise of such Options is less than the Market Price in effect on the Measurement Date ("Below Market Options"), then the maximum total number of shares of Common Stock issuable upon the exercise of all such Below Market Options (assuming full exercise, conversion or exchange of Convertible Securities, if applicable) will, as of the date of the issuance or grant of such Below Market Options, be deemed to be outstanding and to have been issued and sold by the Company for such price per share. For purposes of the preceding sentence, the "price per share for which Common Stock is issuable upon the exercise of such Below Market Options" is determined by dividing (i) the total amount, if any, received or receivable by the Company as consideration for the issuance or granting of all such Below Market Options, plus the minimum aggregate amount of additional consideration, if any, payable to the Company upon the exercise of all such Below Market Options, plus, in the case of Convertible Securities issuable upon the exercise of such Below Market Options, the minimum aggregate amount of additional consideration payable upon the exercise, conversion or exchange thereof (determined in accordance with the calculation method set forth in (b) (ii) below) at the time such Convertible Securities first become exercisable, convertible or exchangeable, by (ii) the maximum total number of shares of Common Stock issuable upon the exercise of all such Below Market Options (assuming full conversion of Convertible Securities, if applicable). No further adjustment to the Exercise Price will be made upon the actual issuance of such Common Stock upon the exercise of such Below Market Options or upon the exercise, conversion or exchange of Convertible Securities issuable upon exercise of such Below Market Options. If, in any case, the total number of shares of Common Stock issuable upon exercise of any Below Market Options or upon exercise, conversion or exchange of any Convertible Securities (including Convertible Securities contemplated by Section 4(b) (ii) below) is not, in fact, issued and the rights to exercise such Below Market Option or to exercise, convert or exchange such Convertible Securities shall have expired or terminated, the Exercise Price then in effect will be readjusted to the Exercise Price which would have been in effect at the time of such expiration or termination had such Below Market Options or Convertible Securities, to the extent outstanding immediately prior to such expiration or termination (other than in respect of the actual number of shares of Common Stock issued upon exercise or conversion thereof), never been issued.

(ii) Issuance of Convertible Securities.  
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(A) If the Company in any manner issues or sells any Convertible Securities, which Convertible Securities do not have a fluctuating conversion or exercise price or exchange ratio, whether or not immediately convertible (other than where the same are issuable upon the exercise of Options) and the price per share for which Common Stock is issuable upon such exercise, conversion or exchange (as determined pursuant to Section 4(b) (ii) (B) if applicable) is less than the Market Price in effect on the Measurement Date, then the maximum total number of shares of Common Stock issuable upon the exercise, conversion or exchange of all such Convertible Securities will, as of the date of the issuance of such Convertible Securities, be deemed to be outstanding and to have been issued and sold by the Company for such price per share. For the purposes of the preceding sentence, the "price per share for which Common Stock is issuable upon such exercise, conversion or exchange" is determined by dividing (i) the total amount, if any, received or receivable by the Company as consideration for the issuance or sale of all such Convertible Securities, plus the minimum aggregate amount of additional consideration, if any, payable to the Company upon the exercise, conversion or exchange thereof at the time such Convertible Securities first become exercisable, convertible or exchangeable, by (ii) the maximum total number of shares of Common Stock issuable upon the exercise, conversion or exchange of all such Convertible Securities. No further adjustment to the Exercise Price will be made upon the actual issuance of such Common Stock upon exercise, conversion or exchange of such Convertible Securities.

(B) If the Company in any manner issues or sells any Convertible Securities with a fluctuating conversion or exercise price or exchange ratio (a "Variable Rate Convertible Security"), then the "price per share for which Common Stock is issuable upon such exercise, conversion or exchange" for purposes of the calculation contemplated by Section 4(b) (ii) (A) shall be deemed to be the lowest price per share which would be applicable (assuming all holding period and other conditions to any discounts contained in such Convertible Security have been satisfied) if the Market Price on the Measurement Date of such Convertible Security were 75% of the Market Price on such Measurement Date (the "Assumed Variable Market Price"). Further, if the Market Price at any time or times thereafter is less then or equal to the Assumed Variable Market Price last used for making any adjustment under this

Section 4 with respect to any Variable Rate Convertible Security, the Exercise Price in effect at such time shall be readjusted to equal the Exercise Price which would have resulted if the Assumed Variable Market Price at the time of issuance of the Variable Rate Convertible Security had been 75% of the Market Price existing at the time of the adjustment required by this sentence.

(iii) Change in Option Price or Conversion Rate. If there is a  
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change at any time in (i) the amount of additional consideration payable to the Company upon the exercise of any Options; (ii) the amount of additional consideration, if any, payable to the Company upon the exercise, conversion or exchange of any Convertible Securities; or (iii) the rate at which any Convertible Securities are convertible into or exchangeable for Common Stock (in each such case, other than under or by reason of provisions designed to protect against dilution and except when an adjustment is made pursuant to (ii) (B) above), the Exercise Price in effect at the time of such change will be readjusted to the Exercise Price which would have been in effect at such time had such

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Options or Convertible Securities still outstanding provided for such changed additional consideration or changed conversion rate, as the case may be, at the time initially granted, issued or sold.

(iv) Calculation of Consideration Received. If any Common  
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Stock, Options or Convertible Securities are issued, granted or sold for cash, the consideration received therefor for purposes of this Warrant will be the amount received by the Company therefor, after deduction of all commissions, underwriting discounts or allowances and other expenses paid or incurred by the Company in connection with such issuance, grant or sale. In case any Common Stock, Options or Convertible Securities are issued or sold for a consideration part or all of which shall be other than cash, including in the case of a strategic or similar arrangement in which the other entity will provide services to the Company, purchase services from the Company or otherwise provide intangible consideration to the Company, the amount of the consideration other than cash received by the Company (including the net present value of the consideration expected by the Company for the provided or purchased services) will be the fair market value of such consideration, except where such consideration consists of securities, in which case the amount of consideration received by the Company will be the Market Price thereof as of the date of receipt. In case any Common Stock, Options or Convertible Securities are issued in connection with any merger or consolidation in which the Company is the surviving corporation, the amount of consideration therefor will be deemed to be the fair market value of such portion of the net assets and business of the non-surviving corporation as is attributable to such Common Stock, Options or Convertible Securities, as the case may be. Notwithstanding anything else herein to the contrary, if Common Stock, Options or Convertible Securities are issued, granted or sold in conjunction with each other as part of a single transaction or in a series of related transactions, the holder of this Warrant may elect to determine the amount of consideration deemed to be received by the Company therefore by deducting the fair value of any type of securities (the "Disregarded Securities") issued, granted or sold in such transaction or series of transactions. If the holder makes an election pursuant to the immediately preceding sentence, no adjustment to the Exercise Price shall be made pursuant to this Section 4 for the issuance of the Disregarded Securities or upon any conversion or exercise thereof. For example, if the Company were to issue convertible notes having a face value of \$1,000,000 and warrants to purchase shares of Common Stock at an exercise price equal to the market price of the Common Stock on the date of issuance of such warrants in exchange for \$1,000,000 of consideration, the fair value of the warrants would be subtracted from the \$1,000,000 of consideration received by the Company for the purposes of determining whether the shares of Common Stock issuable upon conversion of the convertible notes shall be deemed to be issued at a price per share below market price and, if so, for purposes of determining any adjustment to the Exercise Price hereunder as a result of the issuance of the Convertible Securities. The Company shall calculate, using standard commercial valuation methods appropriate for valuing such assets, the fair market value of any consideration other than cash or securities; provided, however, that if the holder hereof does not agree to such fair market value calculation within three business days after receipt thereof from the Company, then such fair market value will be determined in good faith by an investment banker or other appropriate expert of national reputation selected by the Company and reasonably acceptable to the holder hereof, with the costs of such appraisal to be borne by the Company.

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(v) Issuances Pursuant to Existing Securities. If the  
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Company, at any time during the Exercise Period, issues shares of Common Stock pursuant to any antidilution or similar adjustments contained in a security or instrument outstanding on and including the Issue Date but not included on Schedule 3(d) of the Stock Purchase Agreement, then all shares of Common Stock

so issued shall be deemed to have been issued for no consideration. If the Company, at any time during the Exercise Period, issues shares of Common Stock pursuant to any antidilution or similar adjustments contained in a security or instrument without complying with Section 4(s) of the Stock Purchase Agreement, all shares so issued shall be deemed to have been issued for no consideration.

(vi) Exceptions to Adjustment of Exercise Price. No  
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adjustment to the Exercise Price will be made (i) upon the exercise of any warrants, options or convertible securities issued and outstanding on and including the Issue Date and set forth on Schedule 3(d) of the Securities Purchase Agreement in accordance with the terms of such securities or instruments as of such date provided that the Company has complied with Section 4(s) of the Securities Purchase Agreement; (ii) upon the grant or exercise of any stock or options which may hereafter be granted or exercised under any employee benefit plan of the Company now existing or to be implemented in the future, so long as the issuance of such stock or options is approved by a majority of the non-employee members of the Board of Directors of the Company or a majority of the members of a committee of non-employee directors established for such purpose; (iii) upon the issuance of Common Shares and Warrants pursuant to and in accordance with the terms of the Securities Purchase Agreement; or (iv) upon or exercise of the Warrants.

(c) Subdivision or Combination of Common Stock. If the Company, at  
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any time during the Exercise Period, subdivides (by any stock split, stock dividend, recapitalization, reorganization, reclassification or otherwise) its shares of Common Stock into a greater number of shares, then, after the date of record for effecting such subdivision, the Exercise Price in effect immediately prior to such subdivision will be proportionately reduced. If the Company, at any time during the Exercise Period, combines (by reverse stock split, recapitalization, reorganization, reclassification or otherwise) its shares of Common Stock into a smaller number of shares, then, after the date of record for effecting such combination, the Exercise Price in effect immediately prior to such combination will be proportionately increased.

(d) Adjustment in Number of Shares. Upon each adjustment of the  
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Exercise Price pursuant to the provisions of Section 4(c), the number of shares of Common Stock issuable upon exercise of this Warrant at each such Exercise Price shall be adjusted by multiplying a number equal to the Exercise Price in effect immediately prior to such adjustment by the number of shares of Common Stock issuable upon exercise of this Warrant at such Exercise Price immediately prior to such adjustment and dividing the product so obtained by the adjusted Exercise Price.

(e) Consolidation, Merger or Sale. In case of any consolidation of  
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the Company with, or merger of the Company into, any other corporation, or in case of any sale or conveyance of all or substantially all of the assets of the Company other than in connection with a plan of complete liquidation of the Company at any time during the Exercise Period, then as a condition of such

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consolidation, merger or sale or conveyance, adequate provision will be made whereby the holder hereof will have the right to acquire and receive upon exercise of this Warrant in lieu of the shares of Common Stock immediately theretofore acquirable upon the exercise of this Warrant, such shares of stock, securities, cash or assets as may be issued or payable with respect to or in exchange for the number of shares of Common Stock immediately theretofore acquirable and receivable upon exercise of this Warrant had such consolidation, merger or sale or conveyance not taken place. In any such case, the Company will make appropriate provision to insure that the provisions of this Section 4 hereof will thereafter be applicable as nearly as may be in relation to any shares of stock or securities thereafter deliverable upon the exercise of this Warrant. The Company will not effect any consolidation, merger or sale or conveyance unless prior to the consummation thereof, the successor corporation (if other than the Company) assumes by written instrument the obligations under this Warrant and the obligations to deliver to the holder hereof such shares of stock, securities or assets as, in accordance with the foregoing provisions, the holder may be entitled to acquire. Notwithstanding the foregoing, in the event of any consolidation of the Company with, or merger of the Company into, any other corporation, or the sale or conveyance of all or substantially all of the assets of the Company, at any time during the Exercise Period, the holder hereof shall, at its option, have the right to receive, in connection with such transaction, cash consideration equal to the fair market value of this Warrant as determined in accordance with customary valuation methodology used in the investment banking industry.

(f) Distribution of Assets. In case the Company shall declare or make any  
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distribution of its assets (or rights to acquire its assets) to holders of Common Stock as a partial liquidating dividend, stock repurchase by way of return of capital or otherwise (including any dividend or distribution to the

Company's shareholders of cash or shares (or rights to acquire shares) of capital stock of a subsidiary) (a "Distribution"), at any time during the Exercise Period, then the holder hereof shall be entitled upon exercise of this Warrant for the purchase of any or all of the shares of Common Stock subject hereto, to receive the amount of such assets (or rights) which would have been payable to the holder had such holder been the holder of such shares of Common Stock on the record date for the determination of shareholders entitled to such Distribution. If the Company distributes rights, warrants, options or any other form of convertible securities and the right to exercise or convert such securities would expire in accordance with their terms prior to the expiration of the Exercise Period, then the terms of such securities shall provide that such exercise or convertibility right shall remain in effect until 30 days after the date the holder hereof receives such securities pursuant to the exercise hereof.

(g) Notice of Adjustment. Upon the occurrence of any event which requires  
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any adjustment of the Exercise Price, then, and in each such case, the Company shall give notice thereof to the holder hereof, which notice shall state the Exercise Price resulting from such adjustment and the increase or decrease in the number of Warrant Shares purchasable at such price upon exercise, setting forth in reasonable detail the method of calculation and the facts upon which such calculation is based. Such calculation shall be certified by the chief financial officer of the Company.

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(h) Minimum Adjustment of Exercise Price. No adjustment of the Exercise  
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Price shall be made in an amount of less than \$.01, but any such lesser adjustment shall be carried forward and shall be made at the time and together with the next subsequent adjustment which, together with any adjustments so carried forward, shall amount to not less than \$.01.

(i) No Fractional Shares. No fractional shares of Common Stock are to be  
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issued upon the exercise of this Warrant, but the Company shall pay a cash adjustment in respect of any fractional share which would otherwise be issuable in an amount equal to the same fraction of the Market Price of a share of Common Stock on the date of such exercise.

(j) Other Notices. In case at any time:  
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(i) the Company shall declare any dividend upon the Common Stock payable in shares of stock of any class or make any other distribution (other than dividends or distributions payable in cash out of retained earnings consistent with the Company's past practices with respect to declaring dividends and making distributions) to the holders of the Common Stock;

(ii) the Company shall offer for subscription pro rata to the holders of the Common Stock any additional shares of stock of any class or other rights;

(iii) there shall be any capital reorganization of the Company, or reclassification of the Common Stock, or consolidation or merger of the Company with or into, or sale of all or substantially all of its assets to, another corporation or entity; or

(iv) there shall be a voluntary or involuntary dissolution, liquidation or winding-up of the Company;

then, in each such case, the Company shall give to the holder of this Warrant (a) notice of the date or estimated date on which the books of the Company shall close or a record shall be taken for determining the holders of Common Stock entitled to receive any such dividend, distribution, or subscription rights or for determining the holders of Common Stock entitled to vote in respect of any such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding-up and (b) in the case of any such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding-up, notice of the date (or, if not then known, a reasonable estimate thereof by the Company) when the same shall take place. Such notice shall also specify the date on which the holders of Common Stock shall be entitled to receive such dividend, distribution, or subscription rights or to exchange their Common Stock for stock or other securities or property deliverable upon such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation, or winding-up, as the case may be. Such notice shall be given at least twenty (20) days prior to the record date or the date on which the Company's books are closed in respect thereto. Failure to give any such notice or any defect therein shall not affect the validity of the proceedings referred to in clauses (i), (ii), (iii) and (iv) above. Notwithstanding the foregoing, the Company shall publicly

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disclose the substance of any notice delivered hereunder prior to delivery of such notice to the holder hereof.

(k) Certain Events. If, at any time during the Exercise Period, any -----

event occurs of the type contemplated by the adjustment provisions of this Section 4 but not expressly provided for by such provisions, the Company will give notice of such event as provided in Section 4(g) hereof, and the Company's Board of Directors will make an appropriate adjustment in the Exercise Price and the number of shares of Common Stock acquirable upon exercise of this Warrant at each such Exercise Price so that the rights of the holder shall be neither enhanced nor diminished by such event.

(l) Certain Definitions. -----

(i) "Common Stock," for purposes of this Section 4, includes the Common Stock and any additional class of stock of the Company having no preference as to dividends or distributions on liquidation, provided that the shares purchasable pursuant to this Warrant shall include only Common Stock in respect of which this Warrant is exercisable, or shares resulting from any subdivision or combination of such Common Stock, or in the case of any reorganization, reclassification, consolidation, merger, or sale of the character referred to in Section 4(e) hereof, the stock or other securities or property provided for in such Section.

(ii) "Common Stock Deemed Outstanding" shall mean the number of shares of Common Stock actually outstanding (not including shares of Common Stock held in the treasury of the Company), plus (x) in the case of any adjustment required by Section 4(a) resulting from the issuance of any Below Market Options, the maximum total number of shares of Common Stock issuable upon the exercise of the Below Market Options for which the adjustment is required (including any Common Stock issuable upon the conversion of Convertible Securities issuable upon the exercise of such Below Market Options), and (y) in the case of any adjustment required by Section 4(a) resulting from the issuance of any Convertible Securities, the maximum total number of shares of Common Stock issuable upon the exercise, conversion or exchange of the Convertible Securities for which the adjustment is required, as of the date of issuance of such Convertible Securities, if any.

(iii) "Market Price," as of any date, (i) means the average of the closing bid prices for the shares of Common Stock as reported on the Nasdaq National/SmallCap Market by Bloomberg for the five consecutive business days immediately preceding such date, or (ii) if the Nasdaq National/SmallCap Market is not the principal trading market for the shares of Common Stock, the average of the reported closing bid prices reported by Bloomberg on the principal trading market for the Common Stock during the same period, or, if there is no bid price for such period, the last sales price reported by Bloomberg for such period, or (iii) if the foregoing do not apply, the last sale price of such security in the over-the-counter market on the pink sheets or bulletin board for such security as reported by Bloomberg for such period, or if no sale price is so reported for such security, the last bid price of such security as reported by Bloomberg for such period, or (iv) if market value cannot be calculated as of such date on any of the foregoing bases, the Market Price shall be the

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average fair market value as reasonably determined by an investment banking firm selected by the Company and reasonably acceptable to the holder, with the costs of the appraisal to be borne by the Company. The manner of determining the Market Price of the Common Stock set forth in the foregoing definition shall apply with respect to any other security in respect of which a determination as to market value must be made hereunder.

(iv) "Measurement Date" means (i) for purposes of any private offering of securities under Section 4(2) of the Securities Act of 1933, as amended, the date that the Company enters into legally binding definitive agreements for the issuance and sale of such securities, (ii) for purposes of the issuance of securities issuable upon the exercise of any Options, the date of issuance of such Option, and (iii) for purposes of any other issuance of securities, the date of issuance thereof.

5. Issue Tax. The issuance of certificates for Warrant Shares upon the ----- exercise of this Warrant shall be made without charge to the holder of this Warrant or such shares for any issuance tax or other costs in respect thereof, provided that the Company shall not be required to pay any tax which may be payable in respect of any transfer involved in the issuance and delivery of any certificate in a name other than the holder of this Warrant.

6. No Rights or Liabilities as a Shareholder. This Warrant shall not ----- entitle the holder hereof to any voting rights or other rights as a shareholder of the Company. No provision of this Warrant, in the absence of affirmative action by the holder hereof to purchase Warrant Shares, and no mere enumeration

herein of the rights or privileges of the holder hereof, shall give rise to any liability of such holder for the Exercise Price or as a shareholder of the Company, whether such liability is asserted by the Company or by creditors of the Company.

7. Transfer, Exchange, Redemption and Replacement of Warrant.

(a) Restriction on Transfer. This Warrant and the rights granted to

the holder hereof are transferable, in whole or in part, upon surrender of this Warrant, together with a properly executed assignment in the form attached hereto, at the office or agency of the Company referred to in Section 7(e) below, provided, however, that any transfer or assignment shall be subject to the conditions set forth in Sections 7(f) hereof. Each transferee of this Warrant or any portion thereof shall be bound by the selling restrictions set forth in Section 4(n) of the Securities Purchase Agreement, which Section is incorporated herein by reference. Until due presentment for registration of transfer on the books of the Company, the Company may treat the registered holder hereof as the owner and holder hereof for all purposes, and the Company shall not be affected by any notice to the contrary.

(b) Warrant Exchangeable for Different Denominations. This Warrant

is exchangeable, upon the surrender hereof by the holder hereof at the office or agency of the Company referred to in Section 7(e) below, for new Warrants of like tenor of different denominations representing in the aggregate the right to purchase the number of shares of Common Stock which may be purchased hereunder, each of such new Warrants to represent the right to purchase such

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number of shares (at the Exercise Price therefor) as shall be designated by the holder hereof at the time of such surrender.

(c) Replacement of Warrant. Upon receipt of evidence reasonably

satisfactory to the Company of the loss, theft, destruction, or mutilation of this Warrant and, in the case of any such loss, theft, or destruction, upon delivery of an indemnity agreement reasonably satisfactory in form and amount to the Company, or, in the case of any such mutilation, upon surrender and cancellation of this Warrant, the Company, at its expense, will execute and deliver, in lieu thereof, a new Warrant of like tenor.

(d) Cancellation; Payment of Expenses. Upon the surrender of this

Warrant in connection with any transfer, exchange, or replacement as provided in this Section 7, this Warrant shall be promptly canceled by the Company. The Company shall pay all taxes (other than securities transfer taxes) and all other expenses (other than legal expenses, if any, incurred by the Holder or transferees) and charges payable in connection with the preparation, execution, and delivery of Warrants pursuant to this Section 7. The Company shall indemnify and reimburse the holder of this Warrant for all losses and damages arising as a result of or related to any breach of the terms of this Warrant, including costs and expenses (including legal fees) incurred by such holder in connection with the enforcement of its rights hereunder.

(e) Warrant Register. The Company shall maintain, at its principal

executive offices (or such other office or agency of the Company as it may designate by notice to the holder hereof), a register for this Warrant, in which the Company shall record the name and address of the person in whose name this Warrant has been issued, as well as the name and address of each transferee and each prior owner of this Warrant.

(f) Additional Restrictions on Exercise or Transfer. In no event

shall the holder hereof have the right to exercise any portion of this Warrant for shares of Common Stock or to dispose of any portion of this Warrant to the extent that such right to effect such exercise or disposition would result in the holder or any of its affiliates beneficially owning more than 4.99% of the outstanding shares of Common Stock. For purposes of this Section 7(f), beneficial ownership shall be determined in accordance with Section 13(d) of the Securities Exchange Act of 1934, as amended, and Regulation 13D-G thereunder. The restriction contained in this Section 7(f) may not be altered, amended, deleted or changed in any manner whatsoever unless the holders of a majority of the outstanding shares of Common Stock and the holder hereof shall approve, in writing, such alteration, amendment, deletion or change.

8. Intentionally Omitted.

9. Notices. Any notices required or permitted to be given under the

terms of this Warrant shall be sent by certified or registered mail (return

receipt requested) or delivered personally or by courier or by confirmed telecopy, and shall be effective five days after being placed in the mail,

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if mailed, or upon receipt or refusal of receipt, if delivered personally or by courier, or by confirmed telecopy, in each case addressed to a party. The addresses for such communications shall be:

If to the Company:

ELECTRIC FUEL CORPORATION  
120 Wood Avenue South  
Suite 300  
Iselin, New Jersey 08830  
Facsimile: (732) 635-7101  
Attn: Robert S. Ehrlich  
Chief Financial Officer

with a copy simultaneously transmitted by like means to:

HARRIS BEACH LLP  
130 East Main Street  
Rochester, New York 14604  
Facsimile: (716) 232-6926  
Attn: Thomas Willett, Esq.

and to:

Yaakov Har-Oz, Adv  
Vice President and General Counsel  
Electric Fuel Corporation  
Western Industrial Park  
P.O. Box 641  
Bent Shemesh 99000  
Israel  
Tel No.: 972-2-990-6023  
Fax No.: 972-2-990-6088

If to the holder, at such address as such holder shall have provided in writing to the Company, or at such other address as such holder furnishes by notice given in accordance with this Section 9.

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10. Governing Law; Jurisdiction. This Warrant shall be governed by and

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construed in accordance with the laws of the State of Delaware. The Company irrevocably consents to the jurisdiction of the United States federal courts and state courts located in the State of Delaware in any suit or proceeding based on or arising under this Warrant and irrevocably agrees that all claims in respect of such suit or proceeding may be determined in such courts. The Company irrevocably waives any objection to the laying of venue and the defense of an inconvenient forum to the maintenance of such suit or proceeding. The Company further agrees that service of process upon the Company mailed by certified or registered mail shall be deemed in every respect effective service of process upon the Company in any such suit or proceeding. Nothing herein shall affect the holder's right to serve process in any other manner permitted by law. The Company agrees that a final non-appealable judgment in any such suit or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on such judgment or in any other lawful manner.

11. Miscellaneous.

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(a) Amendments. Except as provided in Section 7(f) hereof, this

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Warrant and any provision hereof may only be amended by an instrument in writing signed by the Company and the holder hereof.

(b) Descriptive Headings. The descriptive headings of the several

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Sections of this Warrant are inserted for purposes of reference only, and shall not affect the meaning or construction of any of the provisions hereof.

(c) Cashless Exercise. Notwithstanding anything to the contrary

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contained in this Warrant, if the issuance and sale of Warrant Shares by the holder is not then registered pursuant to an effective registration statement under the Securities Act, this Warrant may be exercised at any time during the Exercise Period by presentation and surrender of this Warrant to the Company at its principal executive offices with a written notice of the holder's intention to effect a cashless exercise, including a calculation of the number of shares of Common Stock to be issued upon such exercise in accordance with the terms hereof (a "Cashless Exercise"). In the event of a Cashless Exercise, in lieu of

paying the Exercise Price in cash, the holder shall surrender this Warrant for that number of shares of Common Stock determined by multiplying the number of Warrant Shares to which it would otherwise be entitled by a fraction, the numerator of which shall be the difference between the then current Market Price of a share of the Common Stock on the date of exercise and the Exercise Price, and the denominator of which shall be the then current Market Price per share of Common Stock.

(d) Business Day. For purposes of this Warrant, the term "business day" means any day, other than a Saturday or Sunday or a day on which banking institutions in the State of New York are authorized or obligated by law, regulation or executive order to close.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the Company has caused this Warrant to be signed by its duly authorized officer.

ELECTRIC FUEL CORPORATION

By: \_\_\_\_\_  
Name:  
Title:

FORM OF EXERCISE AGREEMENT

(To be Executed by the Holder in order to Exercise the Warrant)

To: ELECTRIC FUEL CORPORATION  
120 Wood Avenue South  
Suite 300  
Iselin, New Jersey 08830  
Facsimile:  
Attn:

The undersigned hereby irrevocably exercises the right to purchase \_\_\_\_\_ shares of the Common Stock of ELECTRIC FUEL CORPORATION, a corporation organized under the laws of the State of Delaware (the "Company"), evidenced by the attached Warrant, and herewith [makes payment of the Exercise Price with respect to such shares in full][elects to effect a Cashless Exercise (as defined in Section 11(c) of such Warrant)], all in accordance with the conditions and provisions of said Warrant.

The undersigned agrees not to offer, sell, transfer or otherwise dispose of any Common Stock obtained on exercise of the Warrant, except under circumstances that will not result in a violation of the Securities Act of 1933, as amended, or any state securities laws.

The undersigned requests that the Company cause its transfer agent to electronically transmit the Common Stock issuable pursuant to this Exercise Agreement to the account of the undersigned or its nominee (which is \_\_\_\_\_) with DTC through its Deposit Withdrawal Agent Commission System ("DTC Transfer"), provided that such transfer agent participates in the DTC Fast Automated Securities Transfer program.

In lieu of receiving the shares of Common Stock issuable pursuant to this Exercise Agreement by way of DTC Transfer, the undersigned hereby requests that the Company cause its transfer agent to issue and deliver to the undersigned physical certificates representing such shares of Common Stock.

The undersigned requests that a Warrant representing any unexercised portion hereof be issued, pursuant to the Warrant, in the name of the Holder and delivered to the undersigned at the address set forth below:

Dated: \_\_\_\_\_  
Signature of Holder  
\_\_\_\_\_  
Name of Holder (Print)  
Address:  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

FOR VALUE RECEIVED, the undersigned hereby sells, assigns, and transfers all the rights of the undersigned under the within Warrant, with respect to the number of shares of Common Stock covered thereby set forth hereinbelow, to:

Name of Assignee	Address	No. of Shares
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, and hereby irrevocably constitutes and appoints \_\_\_\_\_ as agent and attorney-in-fact to transfer said Warrant on the books of the within-named corporation, with full power of substitution in the premises.

Dated: \_\_\_\_\_, \_\_\_\_

In the presence of

\_\_\_\_\_

Name: \_\_\_\_\_

Signature: \_\_\_\_\_  
Title of Signing Officer or Agent (if any):

Address: \_\_\_\_\_  
\_\_\_\_\_

Note: The above signature should correspond exactly with the name on the face of the within Warrant.

VOID AFTER 5:00 P.M., NEW YORK CITY  
TIME, ON NOVEMBER 17, 2005  
(UNLESS EXTENDED PURSUANT TO SECTION 2 HEREOF)

Right to Purchase 50,000 Shares of  
Common Stock, par value \$.01 per share

Date: November 17, 2000

ELECTRIC FUEL CORPORATION  
STOCK PURCHASE WARRANT

THIS CERTIFIES THAT, for value received, Josephthal & Co., Inc., or its registered assigns, is entitled to purchase from Electric Fuel Corporation, a corporation organized under the laws of the State of Delaware (the "Company"), at any time or from time to time during the period specified in Section 2 hereof, FIFTY THOUSAND (50,000) fully paid and nonassessable shares of the Company's common stock, par value \$.01 per share (the "Common Stock"), at an exercise price per share (the "Exercise Price") equal to \$12.56 in effect on the Issue Date (as defined in Section 2 hereof). The number of shares of Common Stock purchasable hereunder (the "Warrant Shares") and the Exercise Price are subject to adjustment as provided in Section 4 hereof. The term "Warrants" means this Warrant.

This Warrant is subject to the following terms, provisions and conditions:

1 Manner of Exercise; Issuance of Certificates; Payment for Shares  
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Subject to the provisions hereof, including, without limitation, the limitations contained in Section 7 hereof, this Warrant may be exercised by the holder hereof, in whole or in part, by the surrender of this Warrant, together with a completed exercise agreement in the form attached hereto (the "Exercise Agreement"), to the Company during normal business hours on any business day at the Company's principal executive offices (or such other office or agency of the Company as it may designate by notice to the holder hereof), and upon (i) payment to the Company in United States dollars in cash, by certified or official bank check or by wire transfer of immediately available funds for the account of the Company, of the Exercise Price for the Warrant Shares specified in the Exercise Agreement or (ii) if the holder is effectuating a Cashless Exercise (as defined in Section 11(c) hereof) pursuant to Section 11(c) hereof, delivery to the Company of a written notice of an election to effect a Cashless Exercise for the Warrant Shares specified in the Exercise Agreement. The Warrant Shares so purchased shall be deemed to be issued to the holder hereof or such holder's designee, as the record owner of such shares, as of the close of business on the date on which this Warrant shall have been surrendered, the completed Exercise Agreement shall have been delivered, and payment shall have been made for such shares as set

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forth above or, if such date is not a business date, on the next succeeding business date. The Warrant Shares so purchased, representing the aggregate number of shares specified in the Exercise Agreement, shall be delivered to the holder hereof within a reasonable time, not exceeding two business days, after this Warrant shall have been so exercised (the "Delivery Period"). If the Company's transfer agent is participating in the Depository Trust Company ("DTC") Fast Automated Securities Transfer program, the Company shall cause its transfer agent to electronically transmit the Warrant Shares so purchased to the holder by crediting the account of the holder or its nominee with DTC through its Deposit Withdrawal Agent Commission system ("DTC Transfer"). If the aforementioned conditions to a DTC Transfer are not satisfied, the Company shall deliver to the holder physical certificates representing the Warrant Shares so purchased. Further, the holder may instruct the Company to deliver to the holder physical certificates representing the Warrant Shares so purchased in lieu of delivering such shares by way of DTC Transfer. Any certificates so delivered shall be in such denominations as may be reasonably requested by the holder hereof shall be registered in the name of such holder or such other name as shall be designated by such holder, and shall not bear any restrictive legend, unless otherwise required by law. If this Warrant shall have been exercised only in part, then the Company shall, at its expense, at the time of delivery of such certificates, deliver to the holder a new Warrant representing the number of shares with respect to which this Warrant shall not then have been exercised.

If, at any time, a holder of this Warrant submits this Warrant, an Exercise Agreement and payment to the Company of the Exercise Price for each of the Warrant Shares specified in the Exercise Agreement (including pursuant to a

Cashless Exercise), and the Company fails for any reason to deliver, on or prior to the fourth business day following the expiration of the Delivery Period for such exercise, the number of shares of Common Stock to which the holder is entitled upon such exercise (an "Exercise Default"), then the Company shall pay to the holder payments ("Exercise Default Payments") for an Exercise Default in the amount of (a)  $(N/365)$ , multiplied by (b) the amount by which the Market Price (as defined in Section 4(l) hereof) on the date the Exercise Agreement giving rise to the Exercise Default is transmitted in accordance with this Section 1 (the "Exercise Default Date") exceeds the Exercise Price in respect of such Warrant Shares, multiplied by (c) the number of shares of Common Stock the Company failed to so deliver in such Exercise Default, multiplied by (d) 24, where  $N$  = the number of days from the Exercise Default Date to the date that the Company effects the full exercise of this Warrant which gave rise to the Exercise Default. The accrued Exercise Default Payment for each calendar month shall be paid in cash or shall be convertible into Common Stock, at the holder's option, as follows:

(a) In the event holder elects to take such payment in cash, cash payment shall be made to holder by the fifth day of the month following the month in which it has accrued; and

(b) In the event holder elects to take such payment in Common Stock, the holder may convert such payment amount into Common Stock at the lower of the Exercise Price or the Market Price (as defined in Section 4(l)) (as in effect at the time of exercise) at any time after the fifth day of the month following the month in which it has accrued.

Nothing herein shall limit the holder's right to pursue actual damages for the Company's failure to maintain a sufficient number of authorized shares of Common Stock as required pursuant to the terms of Section 3(b) hereof or to otherwise issue shares of Common Stock upon exercise of this Warrant in accordance with the terms hereof, and the holder shall

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have the right to pursue all remedies available at law or in equity (including a decree of specific performance and/or injunctive relief).

2     Period of Exercise This Warrant is immediately exercisable, at any  
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time or from time to time on or after the date of initial issuance of this Warrant (the "Issue Date") and before 5:00 p.m., New York City time, on the fifth anniversary of the Issue Date (the "Exercise Period").

3     Certain Agreements of the Company. The Company hereby covenants and  
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agrees as follows:

(a) Shares to be Fully Paid. All Warrant Shares will, upon issuance  
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in accordance with the terms of this Warrant, be validly issued, fully paid, and nonassessable and free from all taxes, liens, claims and encumbrances.

(b) Reservation of Shares During the Exercise Period, the Company  
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shall at all times have authorized, and reserved for the purpose of issuance upon exercise of this Warrant, a sufficient number of shares of Common Stock to provide for the exercise in full of this Warrant (without giving effect to the limitations on exercise set forth in Section 7(f) hereof).

(c) Listing The Company shall promptly secure the listing of the  
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Warrant Shares upon each national securities exchange or automated quotation system, if any, upon which shares of Common Stock are then listed or become listed (subject to official notice of issuance upon exercise of this Warrant) and shall maintain, so long as any other shares of Common Stock shall be so listed, such listing of all Warrant shares; and the Company shall so list on each national securities exchange or automated quotation system, as the case may be, and shall maintain such listing of, any other shares of capital stock of the Company issuable upon the exercise of this Warrant if and so long as any shares of the same class shall be listed on such national securities exchange or automated quotation system.

(d) Certain Actions Prohibited The Company will not, by amendment of  
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its charter or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities, or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed by it hereunder, but will at all times in good faith assist in the carrying out of all the provisions of this Warrant and in the taking of all such action as may reasonably be requested by the holder of this Warrant in order to protect the economic benefit inuring to the holder hereof and the exercise privilege of the holder of this Warrant against dilution or other impairment, consistent with the tenor and purpose of this Warrant. Without

limiting the generality of the foregoing, the Company (i) will not increase the par value of any shares of Common Stock receivable upon the exercise of this Warrant above the Exercise Price then in effect, and (ii) will take all such actions as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and nonassessable shares of Common Stock upon the exercise of this Warrant.

(e) Successors and Assigns This Warrant will be binding upon any  
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entity succeeding to the Company by merger, consolidation, or acquisition of all or substantially all of the Company's assets.

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(f) Blue Sky Laws The Company shall, on or before the date of  
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issuance of any Warrant Shares, take such actions as the Company shall reasonably determine are necessary to qualify the Warrant Shares for, or obtain exemption for the Warrant Shares for, sale to the holder of this Warrant upon the exercise hereof under applicable securities or "blue sky" laws of the states of the United States, and shall provide evidence of any such action so taken to the holder of this Warrant prior to such date; provided, however, that the Company shall not be required in connection therewith or as a condition thereto to (a) qualify to do business in any jurisdiction where it would not otherwise be required to qualify but for this Section 3(f), (b) subject itself to general taxation in any such jurisdiction or (c) file a general consent to service of process in any such jurisdiction.

4 Antidilution Provisions During the Exercise Period, the Exercise  
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Price and the number of Warrant Shares issuable hereunder shall be subject to adjustment from time to time as provided in this Section 4.

In the event that any adjustment of the Exercise Price as required herein results in a fraction of a cent, such Exercise Price shall be rounded up or down to the nearest cent.

(a) Adjustment of Exercise Price. Except as otherwise provided in  
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Sections 4(c) and 4(e) hereof, if and whenever during the Exercise Period the Company issues or sells, or in accordance with Section 4(b) hereof is deemed to have issued or sold, any shares of Common Stock for no consideration or for a consideration per share less than the Market Price on the Measurement Date (as such terms are hereinafter defined) (a "Dilutive Issuance"), then effective immediately upon the Dilutive Issuance, the Exercise Price will be adjusted in accordance with the following formula:

$$E' = E \times \frac{O + P/M}{\text{CSDO}}$$

where:

E' = the adjusted Exercise Price;  
E = the Exercise Price on the Measurement Date;  
M = the Market Price on the Measurement Date;  
O = the number of shares of Common Stock outstanding immediately prior to the Dilutive Issuance;  
P = the aggregate consideration, calculated as set forth in Section 4(b) hereof, received by the Company upon such Dilutive Issuance; and  
CSDO = the total number of shares of Common Stock Deemed Outstanding (as defined in Section 4(1)(i)) immediately after the Dilutive Issuance.

Notwithstanding the foregoing, no adjustment shall be made pursuant to this Section 4(a) if such adjustment would result in an increase in the Exercise Price and no adjustment shall be made upon the Company's sale of the Initial Securities as defined in and pursuant to that certain Securities Purchase Agreement (the "Securities Purchase Agreement") dated as of November 16, 2000 between the Company and Capital Ventures International, or pursuant to exercise of the Series A and Series B Warrants as such terms are defined in the Securities Purchase Agreement.

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(b) Effect on Exercise Price of Certain Events. For purposes of  
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determining the adjusted Exercise Price under Section 4(a) hereof, the following will be applicable:

(i) Issuance of Rights or Options If the Company in any manner  
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issues or grants any warrants, rights or options, whether or not immediately exercisable, to subscribe for or to purchase Common Stock or other securities exercisable, convertible into or exchangeable for Common Stock ("Convertible Securities") (such warrants, rights and options to purchase Common Stock or Convertible Securities are hereinafter referred to as "Options") and the price per share for which Common Stock is issuable upon the exercise of such Options is less than the Market Price in effect on the Measurement Date ("Below Market Options"), then the maximum total number of shares of Common Stock issuable upon the exercise of all such Below Market Options (assuming full exercise, conversion or exchange of Convertible Securities, if applicable) will, as of the date of the issuance or grant of such Below Market Options, be deemed to be outstanding and to have been issued and sold by the Company for such price per share. For purposes of the preceding sentence, the "price per share for which Common Stock is issuable upon the exercise of such Below Market Options" is determined by dividing (i) the total amount, if any, received or receivable by the Company as consideration for the issuance or granting of all such Below Market Options, plus the minimum aggregate amount of additional consideration, if any, payable to the Company upon the exercise of all such Below Market Options, plus, in the case of Convertible Securities issuable upon the exercise of such Below Market Options, the minimum aggregate amount of additional consideration payable upon the exercise, conversion or exchange thereof (determined in accordance with the calculation method set forth in (b) (ii) below) at the time such Convertible Securities first become exercisable, convertible or exchangeable, by (ii) the maximum total number of shares of Common Stock issuable upon the exercise of all such Below Market Options (assuming full conversion of Convertible Securities, if applicable) No further adjustment to the Exercise Price will be made upon the actual issuance of such Common Stock upon the exercise of such Below Market Options or upon the exercise, conversion or exchange of Convertible Securities issuable upon exercise of such Below Market Options. If, in any case, the total number of shares of Common Stock issuable upon exercise of any Below Market Options or upon exercise, conversion or exchange of any Convertible Securities (including Convertible Securities contemplated by Section 4(b) (ii) below) is not, in fact, issued and the rights to exercise such Below Market Option or to exercise, convert or exchange such Convertible Securities shall have expired or terminated, the Exercise Price then in effect will be readjusted to the Exercise Price which would have been in effect at the time of such expiration or termination had such Below Market Options or Convertible Securities, to the extent outstanding immediately prior to such expiration or termination (other than in respect of the actual number of shares of Common Stock issued upon exercise or conversion thereof), never been issued.

(ii) Issuance of Convertible Securities.  
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(A) If the Company in any manner issues or sells any Convertible Securities, which Convertible Securities do not have a fluctuating conversion or exercise price or exchange ratio, whether or not immediately convertible (other than where the same are issuable upon the exercise of Options) and the price per share for which Common Stock is issuable upon such exercise, conversion or exchange (as determined pursuant to Section 4(b) (ii) (B) if applicable) is less than the Market Price in effect on the Measurement Date, then the maximum total number of shares of Common Stock issuable upon the exercise, conversion or exchange of all such Convertible Securities will, as of the date of the issuance of such

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Convertible Securities, be deemed to be outstanding and to have been issued and sold by the Company for such price per share. For the purposes of the preceding sentence, the "price per share for which Common Stock is issuable upon such exercise, conversion or exchange" is determined by dividing (i) the total amount, if any, received or receivable by the Company as consideration for the issuance or sale of all such Convertible Securities, plus the minimum aggregate amount of additional consideration, if any, payable to the Company upon the exercise, conversion or exchange thereof at the time such Convertible Securities first become exercisable, convertible or exchangeable, by (ii) the maximum total number of shares of Common Stock issuable upon the exercise, conversion or exchange of all such Convertible Securities. No further adjustment to the Exercise Price will be made upon the actual issuance of such Common Stock upon exercise, conversion or exchange of such Convertible Securities.

(B) If the Company in any manner issues or sells any Convertible Securities with a fluctuating conversion or exercise price or exchange ratio (a "Variable Rate Convertible Security"), then the "price per share for which Common Stock is issuable upon such exercise, conversion or exchange" for purposes of the calculation contemplated by Section 4(b) (ii) (A) shall be deemed to be the lowest price per share which would be applicable (assuming all holding period and other conditions to any discounts contained in such Convertible Security have been satisfied) if the Market Price on the Measurement Date of such Convertible Security were 75% of the actual Market Price on such Measurement Date (the "Assumed Variable Market Price"). Further, if the Market Price at any time or times thereafter is less than or equal to the Assumed Variable Market Price last used for making any adjustment under this Section 4 with respect to any Variable Rate Convertible Security, the Exercise

Price in effect at such time shall be readjusted to equal the Exercise Price which would have resulted if the Assumed Variable Market Price at the time of issuance of the Variable Rate Convertible Security had been 75% of the Market Price existing at the time of the adjustment required by this sentence.

(iii) Change in Option Price or Conversion Rate If there is a change

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at any time in (i) the amount of additional consideration payable to the Company upon the exercise of any Options; (ii) the amount of additional consideration, if any, payable to the Company upon the exercise, conversion or exchange of any Convertible Securities; or (iii) the rate at which any Convertible Securities are convertible into or exchangeable for Common Stock (in each such case, other than under or by reason of provisions designed to protect against dilution and except when an adjustment is made pursuant to (ii)(B) above), the Exercise Price in effect at the time of such change will be readjusted to the Exercise Price which would have been in effect at such time had such Options or Convertible Securities still outstanding provided for such changed additional consideration or changed conversion rate, as the case may be, at the time initially granted, issued or sold.

(iv) Calculation of Consideration Received If any Common Stock,

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Options or Convertible Securities are issued, granted or sold for cash, the consideration received therefor for purposes of this Warrant will be the amount received by the Company therefor, after deduction of all commissions, underwriting discounts or allowances and other expenses paid or incurred by the Company in connection with such issuance, grant or sale. In case any Common Stock, Options or Convertible Securities are issued or sold for a consideration part or all of which shall be other than cash, including in the case of a strategic or similar arrangement in which the other entity will provide services to the Company, purchase services from the Company or otherwise provide intangible consideration to the Company, the amount of the

consideration other than cash received by the Company (including the net present value of the consideration expected by the Company for the provided or purchased services) will be the fair market value of such consideration, except where such consideration consists of securities, in which case the amount of consideration received by the Company will be the Market Price thereof as of the date of receipt. In case any Common Stock, Options or Convertible Securities are issued in connection with any merger or consolidation in which the Company is the surviving corporation, the amount of consideration therefor will be deemed to be the fair market value of such portion of the net assets and business of the non-surviving corporation as is attributable to such Common Stock, Options or Convertible Securities, as the case may be. Notwithstanding anything else herein to the contrary, if Common Stock, Options or Convertible Securities are issued, granted or sold in conjunction with each other as part of a single transaction or in a series of related transactions, the holder of this Warrant may elect to determine the amount of consideration deemed to be received by the Company therefore by deducting the fair value of any type of securities (the "Disregarded Securities") issued, granted or sold in such transaction or series of transactions. If the holder makes an election pursuant to the immediately preceding sentence, no adjustment to the Exercise Price shall be made pursuant to this Section 4 for the issuance of the Disregarded Securities or upon any conversion or exercise thereof. For example, if the Company were to issue convertible notes having a face value of \$1,000,000 and warrants to purchase shares of Common Stock at an exercise price equal to the market price of the Common Stock on the date of issuance of such warrants in exchange for \$1,000,000 of consideration, the fair value of the warrants would be subtracted from the \$1,000,000 of consideration received by the Company for the purposes of determining whether the shares of Common Stock issuable upon conversion of the convertible notes shall be deemed to be issued at a price per share below market price and, if so, for purposes of determining any adjustment to the Exercise Price hereunder as a result of the issuance of the Convertible Securities. The Company shall calculate, using standard commercial valuation methods appropriate for valuing such assets, the fair market value of any consideration other than cash or securities; provided, however, that if the holder hereof does not agree to such fair market value calculation within three business days after receipt thereof from the Company, then such fair market value will be determined in good faith by an investment banker or other appropriate expert of national reputation selected by the Company and reasonably acceptable to the holder hereof, with the costs of such appraisal to be borne by the Company.

(v) Issuances Pursuant to Existing Securities. If the Company, at

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any time during the Exercise Period, issues shares of Common Stock pursuant to any antidilution or similar adjustments contained in a security or instrument other than the Initial Securities, the Series A Warrants, the Series B Warrants, or any other security or instruments outstanding on and including the Issue Date and identified on Schedule 3(d) of the Stock Purchase Agreement, then all shares of Common Stock so issued shall be deemed to have been issued for no consideration.

(vi) Exceptions to Adjustment of Exercise Price No adjustment to the

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Exercise Price will be made (i) upon the exercise of any warrants, options or convertible securities issued and outstanding on and including the Issue Date in accordance with the terms of such securities or instruments as of such date; (ii) upon the grant or exercise of any stock or options which may hereafter be granted or exercised under any employee benefit plan of the Company now existing or to be implemented in the future, so long as the issuance of such stock or options is approved by a majority of the non-employee members of the Board of Directors of the Company or a majority of the members of a committee of non-employee directors established

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for such purpose; (iii) upon the issuance of the Initial Securities pursuant to and in accordance with the terms of the Securities Purchase Agreement; (iv) upon the exercise of the Series A Warrants and Series B Warrants as such terms are defined in the Securities Purchase Agreement; or (v) upon the exercise of the Warrants.

(c) Subdivision or Combination of Common Stock If the Company, at any

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time during the Exercise Period, subdivides (by any stock split, stock dividend, recapitalization, reorganization, reclassification or otherwise) its shares of Common Stock into a greater number of shares, then, after the date of record for effecting such subdivision, the Exercise Price in effect immediately prior to such subdivision will be proportionately reduced. If the Company, at any time during the Exercise Period, combines (by reverse stock split, recapitalization, reorganization, reclassification or otherwise) its shares of Common Stock into a smaller number of shares, then, after the date of record for effecting such combination, the Exercise Price in effect immediately prior to such combination will be proportionately increased.

(d) Adjustment in Number of Shares Upon each adjustment of the Exercise

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Price pursuant to the provisions of Section 4(c), the number of shares of Common Stock issuable upon exercise of this Warrant at each such Exercise Price shall be adjusted by multiplying a number equal to the Exercise Price in effect immediately prior to such adjustment by the number of shares of Common Stock issuable upon exercise of this Warrant at such Exercise Price immediately prior to such adjustment and dividing the product so obtained by the adjusted Exercise Price.

(e) Consolidation, Merger or Sale In case of any consolidation of the

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Company with, or merger of the Company into, any other corporation, or in case of any sale or conveyance of all or substantially all of the assets of the Company other than in connection with a plan of complete liquidation of the Company at any time during the Exercise Period, then as a condition of such consolidation, merger or sale or conveyance, adequate provision will be made whereby the holder hereof will have the right to acquire and receive upon exercise of this Warrant in lieu of the shares of Common Stock immediately theretofore acquirable upon the exercise of this Warrant, such shares of stock, securities, cash or assets as may be issued or payable with respect to or in exchange for the number of shares of Common Stock immediately theretofore acquirable and receivable upon exercise of this Warrant had such consolidation, merger or sale or conveyance not taken place. In any such case, the Company will make appropriate provision to insure that the provisions of this Section 4 hereof will thereafter be applicable as nearly as may be in relation to any shares of stock or securities thereafter deliverable upon the exercise of this Warrant. The Company will not effect any consolidation, merger or sale or conveyance unless prior to the consummation thereof, the successor corporation (if other than the Company) assumes by written instrument the obligations under this Warrant and the obligations to deliver to the holder hereof such shares of stock, securities or assets as, in accordance with the foregoing provisions, the holder may be entitled to acquire. Notwithstanding the foregoing, in the event of any consolidation of the Company with, or merger of the Company into, any other corporation, or the sale or conveyance of all or substantially all of the assets of the Company, at any time during the Exercise Period, the holder hereof shall, at its option, have the right to receive, in connection with such transaction, cash consideration equal to the fair market value of this Warrant as determined in accordance with customary valuation methodology used in the investment banking industry.

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(f) Distribution of Assets. In case the Company shall declare or make any

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distribution of its assets (or rights to acquire its assets) to holders of Common Stock as a partial liquidating dividend, stock repurchase by way of return of capital or otherwise (including any dividend or distribution to the Company's shareholders of cash or shares (or rights to acquire shares) of capital stock of a subsidiary) (a "Distribution"), at any time during the

Exercise Period, then the holder hereof shall be entitled upon exercise of this Warrant for the purchase of any or all of the shares of Common Stock subject hereto, to receive the amount of such assets (or rights) which would have been payable to the holder had such holder been the holder of such shares of Common Stock on the record date for the determination of shareholders entitled to such Distribution. If the Company distributes rights, warrants, options or any other form of convertible securities and the right to exercise or convert such securities would expire in accordance with their terms prior to the expiration of the Exercise Period, then the terms of such securities shall provide that such exercise or convertibility right shall remain in effect until 30 days after the date the holder hereof receives such securities pursuant to the exercise hereof.

(g) Notice of Adjustment. Upon the occurrence of any event which requires

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any adjustment of the Exercise Price, then, and in each such case, the Company shall give notice thereof to the holder hereof, which notice shall state the Exercise Price resulting from such adjustment and the increase or decrease in the number of Warrant Shares purchasable at such price upon exercise, setting forth in reasonable detail the method of calculation and the facts upon which such calculation is based. Such calculation shall be certified by the chief financial officer of the Company.

(h) Minimum Adjustment of Exercise Price. No adjustment of the Exercise

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Price shall be made in an amount of less than \$.01, but any such lesser adjustment shall be carried forward and shall be made at the time and together with the next subsequent adjustment which, together with any adjustments so carried forward, shall amount to not less than \$.01.

(i) No Fractional Shares. No fractional shares of Common Stock are to be

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issued upon the exercise of this Warrant, but the Company shall pay a cash adjustment in respect of any fractional share which would otherwise be issuable in an amount equal to the same fraction of the Market Price of a share of Common Stock on the date of such exercise.

(j) Other Notices. In case at any time:

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(i) the Company shall declare any dividend upon the Common Stock payable in shares of stock of any class or make any other distribution (other than dividends or distributions payable in cash out of retained earnings consistent with the Company's past practices with respect to declaring dividends and making distributions) to the holders of the Common Stock;

(ii) the Company shall offer for subscription pro rata to the holders of the Common Stock any additional shares of stock of any class or other rights;

(iii) there shall be any capital reorganization of the Company, or reclassification of the Common Stock, or consolidation or merger of the Company with or into, or sale of all or substantially all of its assets to, another corporation or entity; or

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(iv) there shall be a voluntary or involuntary dissolution, liquidation or winding-up of the Company;

then, in each such case, the Company shall give to the holder of this Warrant (a) notice of the date or estimated date on which the books of the Company shall close or a record shall be taken for determining the holders of Common Stock entitled to receive any such dividend, distribution, or subscription rights or for determining the holders of Common Stock entitled to vote in respect of any such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding-up and (b) in the case of any such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding-up, notice of the date (or, if not then known, a reasonable estimate thereof by the Company) when the same shall take place. Such notice shall also specify the date on which the holders of Common Stock shall be entitled to receive such dividend, distribution, or subscription rights or to exchange their Common Stock for stock or other securities or property deliverable upon such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation, or winding-up, as the case may be. Such notice shall be given at least thirty (30) days prior to the record date or the date on which the Company's books are closed in respect thereto. Failure to give any such notice or any defect therein shall not affect the validity of the proceedings referred to in clauses (i), (ii), (iii) and (iv) above. Notwithstanding the foregoing, the Company shall publicly disclose the substance of any notice delivered hereunder prior to delivery of such notice to the holder hereof.

(k) Certain Events If, at any time during the Exercise Period, any

event occurs of the type contemplated by the adjustment provisions of this Section 4 but not expressly provided for by such provisions, the Company will give notice of such event as provided in Section 4(g) hereof, and the Company's Board of Directors will make an appropriate adjustment in the Exercise Price and the number of shares of Common Stock acquirable upon exercise of this Warrant at each such Exercise Price so that the rights of the holder shall be neither enhanced nor diminished by such event.

(1) Certain Definitions.  
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(i) "Common Stock," for purposes of this Section 4, includes the Common Stock and any additional class of stock of the Company having no preference as to dividends or distributions on liquidation, provided that the shares purchasable pursuant to this Warrant shall include only Common Stock in respect of which this Warrant is exercisable, or shares resulting from any subdivision or combination of such Common Stock, or in the case of any reorganization, reclassification, consolidation, merger, or sale of the character referred to in Section 4(e) hereof, the stock or other securities or property provided for in such Section.

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(ii) "Common Stock Deemed Outstanding" shall mean the number of shares of Common Stock actually outstanding (not including shares of Common Stock held in the treasury of the Company), plus (x) in the case of any adjustment required by Section 4(a) resulting from the issuance of any Below Market Options, the maximum total number of shares of Common Stock issuable upon the exercise of the Below Market Options for which the adjustment is required (including any Common Stock issuable upon the conversion of Convertible Securities issuable upon the exercise of such Below Market Options), and (y) in the case of any adjustment required by Section 4(a) resulting from the issuance of any Convertible Securities, the maximum total number of shares of Common Stock issuable upon the exercise, conversion or exchange of the Convertible Securities for which the adjustment is required, as of the date of issuance of such Convertible Securities, if any.

(iii) "Market Price," as of any date, (i) means the average of the closing bid prices for the shares of Common Stock as reported on the Nasdaq National/SmallCap Market by Bloomberg Financial Markets ("Bloomberg") for the five consecutive business days immediately preceding such date, or (ii) if the Nasdaq National/SmallCap Market is not the principal trading market for the shares of Common Stock, the average of the reported closing bid prices reported by Bloomberg on the principal trading market for the Common Stock during the same period, or, if there is no bid price for such period, the last sales price reported by Bloomberg for such period, or (iii) if the foregoing do not apply, the last sale price of such security in the over-the-counter market on the pink sheets or bulletin board for such security as reported by Bloomberg for such period, or if no sale price is so reported for such security, the last bid price of such security as reported by Bloomberg for such period, or (iv) if market value cannot be calculated as of such date on any of the foregoing bases, the Market Price shall be the average fair market value as reasonably determined by an investment banking firm selected by the Company and reasonably acceptable to the holder, with the costs of the appraisal to be borne by the Company. The manner of determining the Market Price of the Common Stock set forth in the foregoing definition shall apply with respect to any other security in respect of which a determination as to market value must be made hereunder.

(iv) "Measurement Date" means (i) for purposes of any private offering of securities under Section 4(2) of the Securities Act of 1933, as amended, the date that the Company enters into legally binding definitive agreements for the issuance and sale of such securities, (ii) for purposes of the issuance of securities issuable upon the exercise of any Options, the date of issuance of such options, and (iii) for purposes of any other issuance of securities, the date of issuance thereof.

5 Issue Tax The issuance of certificates for Warrant Shares upon the  
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exercise of this Warrant shall be made without charge to the holder of this Warrant or such shares for any issuance tax or other costs in respect thereof, provided that the Company shall not be required to pay any tax which may be payable in respect of any transfer involved in the issuance and delivery of any certificate in a name other than the holder of this Warrant.

6. No Rights or Liabilities as a Shareholder This Warrant shall not  
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entitle the holder hereof to any voting rights or other rights as a shareholder of the Company. No provision of this Warrant, in the absence of affirmative action by the holder hereof to purchase Warrant Shares, and no mere enumeration herein of the rights or privileges of the holder hereof, shall give rise to any liability of such holder for the Exercise Price or as a shareholder of the Company, whether such liability is asserted by the Company or by creditors of the Company.

## 7. Transfer, Exchange, Redemption and Replacement of Warrant.

## (a) Restriction on Transfer This Warrant and the rights granted to

the holder hereof are transferable, in whole or in part, upon surrender of this Warrant, together with a properly executed assignment in the form attached hereto, at the office or agency of the Company referred to in Section 7(e) below, provided, however, that any transfer or assignment shall be subject to the conditions set forth in Section 7(f) hereof, and provided further that such transfer or assignment shall only be to any affiliate or employee of Josephthal. Each transferee of this Warrant or any portion thereof shall be bound by the selling restrictions set forth in Section 4(n) of the Securities Purchase Agreement, which Section is incorporated herein by reference. Until due presentment for registration of transfer on the books of the Company, the Company may treat the registered holder hereof as the owner and holder hereof for all purposes, and the Company shall not be affected by any notice to the contrary.

## (b) Warrant Exchangeable for Different Denominations. This Warrant

is exchangeable, upon the surrender hereof by the holder hereof at the office or agency of the Company referred to in Section 7(e) below, for new Warrants of like tenor of different denominations representing in the aggregate the right to purchase the number of shares of Common Stock which may be purchased hereunder, each of such new Warrants to represent the right to purchase such number of shares (at the Exercise Price therefor) as shall be designated by the holder hereof at the time of such surrender.

## (c) Replacement of Warrant. Upon receipt of evidence reasonably

satisfactory to the Company of the loss, theft, destruction, or mutilation of this Warrant and, in the case of any such loss, theft, or destruction, upon delivery of an indemnity agreement reasonably satisfactory in form and amount to the Company, or, in the case of any such mutilation, upon surrender and cancellation of this Warrant, the Company, at its expense, will execute and deliver, in lieu thereof, a new Warrant of like tenor.

## (d) Cancellation; Payment of Expenses Upon the surrender of this

Warrant in connection with any transfer, exchange, or replacement as provided in this Section 7, this Warrant shall be promptly canceled by the Company. The Company shall pay all taxes (other than securities transfer taxes) and all other expenses (other than legal expenses, if any, incurred by the Holder or transferees) and charges payable in connection with the preparation, execution, and delivery of Warrants pursuant to this Section 7. The Company shall indemnify and reimburse the holder of this Warrant for all losses and damages arising as a result of or related to any breach of the terms of this Warrant, including costs and expenses (including legal fees) incurred by such holder in connection with the enforcement of its rights hereunder.

## (e) Warrant Register The Company shall maintain, at its principal

executive offices (or such other office or agency of the Company as it may designate by notice to the holder hereof), a register for this Warrant, in which the Company shall record the name and address of the person in whose name this Warrant has been issued, as well as the name and address of each transferee and each prior owner of this Warrant.

## (f) Additional Restrictions on Exercise or Transfer. In no event

shall the holder hereof have the right to exercise any portion of this Warrant for shares of Common Stock or to dispose of any portion of this Warrant to the extent that such right to effect such exercise or disposition would result in the holder or any of its affiliates beneficially owning more than

4.99% of the outstanding shares of Common Stock. For purposes of this Section 7(f), beneficial ownership shall be determined in accordance with Section 13(d) of the Securities Exchange Act of 1934, as amended, and Regulation 13D-G thereunder. The restriction contained in this Section 7(f) may not be altered, amended, deleted or changed in any manner whatsoever unless the holders of a majority of the outstanding shares of Common Stock and the holder hereof shall approve, in writing, such alteration, amendment, deletion or change.

## 8 Intentionally Omitted.

## 9 Notices Any notices required or permitted to be given under the terms

of this Warrant shall be sent by certified or registered mail (return receipt requested) or delivered personally or by courier or by confirmed telecopy, and shall be effective five days after being placed in the mail, if mailed, or upon receipt or refusal of receipt, if delivered personally or by courier, or by confirmed telecopy, in each case addressed to a party. The addresses for such communications shall be:

If to the Company:

ELECTRIC FUEL CORPORATION  
120 Wood Avenue South  
Suite 300  
Iselin, New Jersey 08830  
Facsimile:  
Attn:

with a copy simultaneously transmitted by like means to:

HARRIS BEACH LLP  
130 East Main Street  
Rochester, New York 14604  
Facsimile: (716) 232-6926  
Attn.: Thomas Willett, Esq.

and to:

Yaakov Har-Oz, Adv  
Vice President and General Counsel  
Electric Fuel Corporation  
Western Industrial Park  
P.O. Box 641  
Bent Shemesh 99000  
Israel  
Tel No.: 972-2-990-6023  
Fax No.: 972-2-990-6088

If to the holder, at such address as such holder shall have provided in writing to the Company, or at such other address as such holder furnishes by notice given in accordance with this Section 9.

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10. Governing Law; Jurisdiction. This Warrant shall be governed by and

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construed in accordance with the laws of the State of Delaware. The Company irrevocably consents to the jurisdiction of the United States federal courts and state courts located in the State of Delaware in any suit or proceeding based on or arising under this Warrant and irrevocably agrees that all claims in respect of such suit or proceeding may be determined in such courts. The Company irrevocably waives any objection to the laying of venue and the defense of an inconvenient forum to the maintenance of such suit or proceeding. The Company further agrees that service of process upon the Company mailed by certified or registered mail shall be deemed in every respect effective service of process upon the Company in any such suit or proceeding. Nothing herein shall affect the holder's right to serve process in any other manner permitted by law. The Company agrees that a final non-appealable judgment in any such suit or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on such judgment or in any other lawful manner.

11. Miscellaneous.

(a) Amendments Except as provided in Section 7(f) hereof, this

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Warrant and any provision hereof may only be amended by an instrument in writing signed by the Company and the holder hereof.

(b) Descriptive Headings. The descriptive headings of the several

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Sections of this Warrant are inserted for purposes of reference only, and shall not affect the meaning or construction of any of the provisions hereof.

(c) Cashless Exercise Notwithstanding anything to the contrary

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contained in this Warrant, this Warrant may be exercised at any time during the Exercise Period by presentation and surrender of this Warrant to the Company at its principal executive offices with a written notice of the holder's intention to effect a cashless exercise, including a calculation of the number of shares of Common Stock to be issued upon such exercise in accordance with the terms hereof (a "Cashless Exercise"). In the event of a Cashless Exercise, in lieu of paying the Exercise Price in cash, the holder shall surrender this Warrant for that number of shares of Common Stock determined by multiplying the number of Warrant Shares to which it would otherwise be entitled by a fraction, the numerator of which shall be the difference between the then current Market Price

of a share of the Common Stock on the date of exercise and the Exercise Price, and the denominator of which shall be the then current Market Price per share of Common Stock.

(d) Business Day. For purposes of this Warrant, the term "business day" means any day, other than a Saturday or Sunday or a day on which banking institutions in the State of New York are authorized or obligated by law, regulation or executive order to close.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

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IN WITNESS WHEREOF, the Company has caused this Warrant to be signed by its duly authorized officer.

ELECTRIC FUEL CORPORATION

By: \_\_\_\_\_  
Name:  
Title:

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FORM OF EXERCISE AGREEMENT

(To be Executed by the Holder in order to Exercise the Warrant)

To: ELECTRIC FUEL CORPORATION  
120 Wood Avenue South  
Suite 300  
Iselin, New Jersey 08830  
Facsimile:  
Attn:

The undersigned hereby irrevocably exercises the right to purchase \_\_\_\_\_ shares of the Common Stock of ELECTRIC FUEL CORPORATION, a corporation organized under the laws of the State of Delaware (the "Company"), evidenced by the attached Warrant, and herewith [makes payment of the Exercise Price with respect to such shares in full][elects to effect a Cashless Exercise (as defined in Section 11(c) of such Warrant)], all in accordance with the conditions and provisions of said Warrant.

The undersigned agrees not to offer, sell, transfer or otherwise dispose of any Common Stock obtained on exercise of the Warrant, except under circumstances that will not result in a violation of the Securities Act of 1933, as amended, or any state securities laws.

The undersigned requests that the Company cause its transfer agent to electronically transmit the Common Stock issuable pursuant to this Exercise Agreement to the account of the undersigned or its nominee (which is \_\_\_\_\_) with DTC through its Deposit Withdrawal Agent Commission System ("DTC Transfer"), provided that such transfer agent participates in the DTC Fast Automated Securities Transfer program.

In lieu of receiving the shares of Common Stock issuable pursuant to this Exercise Agreement by way of DTC Transfer, the undersigned hereby requests that the Company cause its transfer agent to issue and deliver to the undersigned physical certificates representing such shares of Common Stock.

The undersigned requests that a Warrant representing any unexercised portion hereof be issued, pursuant to the Warrant, in the name of the Holder and delivered to the undersigned at the address set forth below:

Dated: \_\_\_\_\_  
Signature of Holder  
\_\_\_\_\_  
Name of Holder (Print)  
Address:  
\_\_\_\_\_  
\_\_\_\_\_

FORM OF ASSIGNMENT

FOR VALUE RECEIVED, the undersigned hereby sells, assigns, and transfers

all the rights of the undersigned under the within Warrant, with respect to the number of shares of Common Stock covered thereby set forth hereinbelow, to:

Name of Assignee	Address	No. of Shares
- - - - -	- - - - -	- - - - -

, and hereby irrevocably constitutes and appoints \_\_\_\_\_ as agent and attorney-in-fact to transfer said Warrant on the books of the within-named corporation, with full power of substitution in the premises.

Dated: \_\_\_\_\_, \_\_\_\_\_

In the presence of

\_\_\_\_\_

Name: \_\_\_\_\_

Signature: \_\_\_\_\_  
Title of Signing Officer or Agent (if any): \_\_\_\_\_

Address: \_\_\_\_\_  
\_\_\_\_\_

Note: The above signature should correspond exactly with the name on the face of the within Warrant.

STOCK PURCHASE WARRANT  
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Date of Issuance: November 17, 2000

Certificate No. W-[\_\_\_\_\_]

FOR VALUE RECEIVED, Electric Fuel Corporation, a Delaware corporation (the "Company"), hereby grants to Josephthal & Co., Inc. or its registered assigns (the "Registered Holder") the right to purchase from the Company 100,000 shares of common stock of the Company, par value \$.01 per share ("Common Stock") (as adjusted from time to time hereunder) at a price per share of \$9.63 (as adjusted from time to time hereunder, the "Exercise Price"). Certain capitalized terms used herein are defined in Section 5 hereof. The amount and kind of securities obtainable pursuant to the rights granted hereunder and the purchase price for such securities are subject to adjustment pursuant to the provisions contained in this Warrant.

This Warrant is subject to the following provisions:

Section 1. Exercise of Warrant.  
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1.1. Exercise Period. The Registered Holder may exercise, in whole  
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or in part, the purchase rights represented by this Warrant at any time and from time to time after November 17, 2000 (hereinafter, the "Closing Date") to and including 5:00 p.m., New York time, on the fifth anniversary thereof (the "Exercise Period").

1.2. Exercise Procedure.  
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(i) This Warrant shall be deemed to have been exercised when the Company has received all of the following items (the "Exercise Time"):

(a) a completed Exercise Agreement, as described in paragraph 1.3 below, executed by the Person exercising all or part of the purchase rights represented by this Warrant (the "Purchaser");

(b) this Warrant, or a replacement Warrant issued pursuant to Section 9 hereof, or a new Warrant issued pursuant to Section 1.2(ii) hereof;

(c) if this Warrant is not registered in the name of the Purchaser, an Assignment or Assignments evidencing the assignment of this Warrant to the Purchaser, in which case the Registered Holder shall have complied with the provisions set forth in Section 7 hereof; and

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(d) either (1) a check or wire transfer in immediately available funds payable in US Dollars to the Company in an amount equal to the product of the Exercise Price multiplied by the number of shares of Common Stock being purchased upon such exercise (the "Aggregate Exercise Price"), (2) the surrender to the Company of debt or equity securities of the Company having a Fair Market Value equal to the Aggregate Exercise Price of the Common Stock being purchased upon such exercise (provided, that for purposes of this subparagraph, the Fair Market Value of any note or other debt security or any preferred stock shall be deemed to be equal to the aggregate outstanding principal amount or liquidation value thereof plus all accrued and unpaid interest thereon or accrued or declared and unpaid dividends thereon) or (3) a written notice to the Company that the Purchaser is exercising the Warrant (or a portion thereof) on a "cashless" basis in exchange for that number of shares of Common Stock equal to the product of (x) the number of shares as to which such Warrants are being exercised multiplied by (y) a fraction, the numerator of which is the Market Price (as defined herein) of the Common Stock less the Exercise Price and the denominator of which is such Market Price. Solely for the purposes of this Section 1.2(i)(d), Market Price shall be calculated either (i) on the date on which the Form of Election to Purchase annexed to such Warrant Certificate as to such exercise is deemed to have been sent to the Company pursuant to Section 10 hereof (the "Notice Date") or (ii) as the average of the Market Prices for each of the five trading days preceding the Notice Date, whichever results in a higher Market Price.

(ii) Certificates for shares of Common Stock purchased upon exercise of this Warrant shall be delivered by the Company to the Purchaser within three (3) Business Days after the date of the Exercise Time. Unless this Warrant has expired or all of the purchase rights represented hereby have been exercised, the Company shall prepare a new Warrant, substantially identical hereto, representing the rights formerly represented by this Warrant which have not expired or been exercised and shall within such three-day period, deliver

such new Warrant to the Person designated for delivery in the Exercise Agreement.

(iii) The Common Stock issuable upon the exercise of this Warrant shall be deemed to have been issued to the Purchaser at the Exercise Time, and the Purchaser shall be deemed for all purposes to have become the record holder of such Common Stock at the Exercise Time.

(iv) The issuance of certificates for shares of Common Stock upon exercise of this Warrant (the "Warrant Shares") shall be made without charge to the Registered Holder or the Purchaser for any issuance tax in respect thereof or other cost incurred by the Company in connection with such exercise and the related issuance of shares of Common Stock. Each share of Common Stock issuable upon exercise of this Warrant shall upon payment of the Exercise Price therefor, be fully paid and nonassessable and free from all liens and charges with respect to the issuance thereof.

(v) The Company shall not close its books against the transfer of this Warrant or of any share of Common Stock issued or issuable upon the exercise of this Warrant in any manner which interferes with the timely exercise of this Warrant. The Company shall from time to time take all such action as may be necessary to assure that the par value per share of the unissued Common

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Stock acquirable upon exercise of this Warrant is at all times equal to or less than the Exercise Price then in effect.

(vi) The Company shall assist and cooperate with any Registered Holder or Purchaser required to make any governmental filings or obtain any governmental approvals prior to or in connection with any exercise of this Warrant (including, without limitation, making any filings required to be made by the Company); provided, however, in no event will the Company be required to (i) qualify generally to do business in any jurisdiction where it is not then so qualified, (ii) subject itself to taxation in any such jurisdiction, (iii) consent to general service of process in any such jurisdiction or (iv) provide any undertaking required by such other securities or "blue sky" laws or make any change in its charter or bylaws that the Board of Directors determines in good faith to be contrary to the best interest of the Company and its stockholders.

(vii) Notwithstanding any other provision hereof, if an exercise of all or any portion of this Warrant is to be made in connection with a registered public offering, a sale of the Company or any transaction or event, including a Qualified Public Offering, such exercise may, at the election of the holder hereof, be conditioned upon the consummation of such transaction or event in which case such exercise shall not be deemed to be effective until the consummation of such transaction or event.

(viii) The Company shall at all times reserve and keep available out of its authorized but unissued shares of Common Stock solely for the purpose of issuance upon the exercise of the Warrants, such number of shares of Common Stock as are issuable upon the exercise of all outstanding Warrants. All shares of Common Stock which are so issuable shall, when issued, be duly and validly issued, fully paid and nonassessable and free from all taxes, liens and charges with respect to the issuance thereof. The Company shall take all such actions as may be reasonably necessary to assure that all such shares of Common Stock may be so issued without violation of any applicable law or governmental regulation or any requirements of any domestic securities exchange upon which shares of Common Stock may be listed (except for official notice of issuance which shall be promptly delivered by the Company upon each such issuance). The Company shall not take any action which would cause the number of authorized but unissued shares of Common Stock to be less than the number of such shares required to be reserved hereunder for issuance upon exercise of the Warrants. The Company will use its best efforts to cause the shares of Common Stock, promptly upon such exercise, to be listed on any domestic securities exchange upon which shares of Common Stock or other securities constituting such shares of Common Stock are listed at the time of such exercise.

(ix) So long as any Warrants remain outstanding, the Company shall timely file (within applicable extension periods) all reports required to be filed with the SEC pursuant to the Exchange Act, and the Company shall not terminate its status as an issuer required to file reports under the Exchange Act even if the Exchange Act or the rules and regulations thereunder would permit such termination. In addition, the Company shall take all actions necessary to continue to meet the "registrant eligibility" requirements set forth in the general instructions to Form S-3 or any successor form thereto, to continue to be eligible to register the resale of its unissued Common Stock

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acquirable upon exercise of this Warrant on a registration statement on Form S-3

under the Securities Act.

1.3. Exercise Agreement. Upon any exercise of this Warrant, the  
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Exercise Agreement shall be substantially in the form set forth in either Exhibit I or Exhibit II attached hereto, except that if the shares of Common

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Stock are not to be issued in the name of the Person in whose name this Warrant is registered, the Exercise Agreement shall also state the name of the Person to whom the certificates for the shares of Common Stock are to be issued, and if the number of shares of Common Stock to be issued does not include all the shares of Common Stock purchasable hereunder, it shall, subject to applicable Federal and state securities laws, also state the name of the Person to whom a new Warrant for the unexercised portion of the rights hereunder is to be delivered. Such Exercise Agreement shall be dated the actual date of execution thereof.

1.4. Fractional Shares. If the Common Stock is listed on any  
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securities exchange or quoted on the Nasdaq Stock Market System or the over-the-counter market and a fractional share of Common Stock would, but for the provisions of this paragraph 1.4, be issuable upon exercise of the rights represented by this Warrant, the Company shall, within five (5) Business Days after the date of the Exercise Time, deliver to the Purchaser a check payable to the Purchaser in lieu of such fractional share in an amount equal to the difference between Fair Market Value of such fractional share as of the date of the Exercise Time and the Exercise Price of such fractional share.

Section 2. Adjustment of Exercise Price and Number of Shares of  
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Common Stock. In order to prevent dilution of the rights granted under this  
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Warrant and grant the holder hereof certain additional rights, the Exercise Price and the number of shares of Common Stock obtainable upon exercise of this Warrant shall be subject to adjustment from time to time as provided in this Section 2.

2.1. Subdivision or Combination of Common Stock. If the Company at  
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any time subdivides (by any stock split, stock dividend, recapitalization or otherwise) one or more classes of its outstanding shares of Common Stock into a greater number of shares, the Exercise Price in effect immediately prior to such subdivision shall be proportionately reduced and the number of shares of Common Stock obtainable upon exercise of this Warrant shall be proportionately increased. If the Company at any time combines (by reverse stock split or otherwise) one or more classes of its outstanding shares of Common Stock into a smaller number of shares, the Exercise Price in effect immediately prior to such combination shall be proportionately increased and the number of shares of Common Stock obtainable upon exercise of this Warrant shall be proportionately decreased.

2.2. Reorganization, Reclassification, Consolidation, Merger or Sale.  
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Any recapitalization, reorganization, reclassification, consolidation, merger, sale of all or substantially all of the Company's assets or other transaction, in each case which is effected in such a way that the holders of Common Stock are entitled to receive (either directly or upon subsequent liquidation) stock, securities or assets with respect to or in exchange for Common Stock is referred to herein as "Organic Change." Prior to the consummation of any Organic Change, the Company shall make appropriate provision (in form and substance satisfactory to the Registered Holders of the Warrants representing a majority of the Common Stock obtainable upon exercise of all Warrants then

outstanding) to insure that each of the Registered Holders of the Warrants shall thereafter have the right to acquire and receive, in lieu of or addition to (as the case may be) the shares of Common Stock immediately theretofore acquirable and receivable upon the exercise of such holder's Warrant, such shares of stock, securities or assets as may be issued or payable with respect to or in exchange for the number of shares of Common Stock immediately theretofore acquirable and receivable upon exercise of such holder's Warrant had such Organic Change not taken place. In any such case, the Company shall make appropriate provision (in form and substance satisfactory to the Registered Holders of the Warrants representing a majority of the Common Stock obtainable upon exercise of all Warrants then outstanding) with respect to such holders' rights and interests to insure that the provisions of this Section 2 and Sections 3 and 4 hereof shall thereafter be applicable to the Warrants. The Company shall not effect any such consolidation, merger or sale, unless prior to the consummation thereof, the successor entity (if other than the Company) resulting from consolidation or merger or the entity purchasing such assets assumes by written instrument (in form and substance satisfactory to the Registered Holders of Warrants representing a majority of the Common Stock obtainable upon exercise of all of the Warrants then outstanding), the obligation to deliver to each such holder

such shares of stock, securities or assets as, in accordance with the foregoing provisions, such holder may be entitled to acquire.

2.3. Notices.  
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(i) Immediately upon any adjustment of the Exercise Price, the Company shall give written notice thereof to the Registered Holder, setting forth in reasonable detail and certifying the calculation of such adjustment.

(ii) The Company shall give written notice to the Registered Holder at least twenty (20) days prior to the date on which the Company closes its books or takes a record (A) with respect to any dividend or distribution upon the Common Stock, (B) with respect to any pro rata subscription offer to holders of Common Stock or (C) for determining rights to vote with respect to any Qualified Public Offering, Liquidation Event, Organic Change or other dissolution or liquidation.

(iii) The Company shall also give written notice to the Registered Holders at least twenty (20) days prior to the date on which any Qualified Public Offering, Liquidation Event, Organic Change or other dissolution or liquidation shall take place.

Section 3. Liquidating Dividends. If the Company declares or pays a  
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dividend upon the Common Stock payable otherwise than in cash out of earnings or earned surplus (determined in accordance with generally accepted accounting principles, consistently applied) except for a stock dividend payable in shares of Common Stock (a "Liquidating Dividend"), then the Company shall pay to the Registered Holder of this Warrant at the time of payment thereof the Liquidating Dividend which would have been paid to such Registered Holder on the Common Stock had this Warrant been fully exercised immediately prior to the date on which a record is taken for such Liquidating Dividend, or, if no record is taken, the date as of which the record holders of Common Stock entitled to such dividends are to be determined.

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Section 4. Purchase Rights. If at any time the Company grants,  
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issues or sells any Options, Convertible Securities or rights to purchase stock, warrants, securities or other property pro rata to the record holders of any class of Common Stock (the "Purchase Rights"), then the Registered Holder of this Warrant shall be entitled to acquire, upon the terms applicable to such Purchase Rights, the aggregate Purchase Rights which such holder could have acquired if such holder had held the number of shares of Common Stock acquirable upon complete exercise of this Warrant immediately before the date on which a record is taken for the grant, issuance or sale of such Purchase Rights, or, if no such record is taken, the date as of which the record holders of Common Stock are to be determined for the grant, issue or sale of such Purchase Rights.

Section 5. Definitions. The following terms have meanings set forth  
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below:

"Board of Directors" means the board of directors of the Company.  
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"Business Day" means any day other than a Saturday, a Sunday or a day  
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on which banks in New York City are authorized or obligated by law or executive order to close.

"Common Stock" means the Company's Common Stock, par value \$0.01 per  
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share, and except for purposes of the shares obtainable upon exercise of this Warrant, any capital stock of any class of the Company hereafter authorized which is not limited to a fixed sum or percentage of par or stated value in respect to the rights of the holders thereof to participate in dividends or in the distribution of assets upon any liquidation, dissolution or winding up of the Company.

"Convertible Securities" means any stock or securities (directly or  
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indirectly) convertible into or exchangeable for Common Stock.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.  
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"Fair Market Value" means as to any security, the greater of either  
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(i) the closing price on the day "Fair Market Value" is to be determined or (ii) the average of the closing prices of such security's sales on the New York Stock Exchange, the American Stock Exchange or any other domestic securities exchanges

on which such security may at the time be listed, or, if there have been no sales on any such exchange on any day, the average of the highest bid and lowest asked prices on all such exchanges at the end of such day, or, if on any day such security is not so listed, the average of the representative bid and asked prices quoted in the Nasdaq Stock Market as of 4:00 P.M., New York time, on such day, or, if on any day such security is not quoted in the Nasdaq Stock Market, the average of the highest bid and lowest asked prices on such day in the domestic over-the-counter market as reported by the National Quotation Bureau, Incorporated, or any similar successor organization (collectively, a "Securities Exchange"), in each such case averaged over a period of three (3) days consisting of the day as of which "Fair Market Value" is being determined and the two (2) consecutive Business Days prior to such day. If at any time such security is not listed or quoted on any Securities Exchange, the "Fair Market Value" shall be the fair value thereof determined jointly by the Company and the Registered Holders of Warrants representing a Majority of the Common Stock purchasable upon exercise of all the Warrants then outstanding; provided, that if such parties are unable to reach agreement within a reasonable period of time, such fair value shall

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be determined by an appraiser jointly selected by the Company and the Registered Holders of Warrants representing a majority of the Common Stock purchasable upon exercise of all the Warrants then outstanding. The determination of such appraiser shall be final and binding on the Company and the Registered Holders of the Warrants, and the fees and expenses of such appraiser shall be paid by the Company.

"Liquidation Event" means (a) the liquidation, dissolution or winding

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up of the Company, (b) any merger, reorganization or consolidation to which the Company is a party, except for a merger, reorganization or consolidation in which the Company is the surviving Company, the terms of the Warrants or Common Stock are not changed and neither the Warrants nor Common Stock are exchanged for cash, securities or other property, and after giving effect to such merger, reorganization or consolidation, the holders of the Company's outstanding capital stock possessing a majority of the voting power (under ordinary circumstances) to elect a majority of the Board of Directors immediately prior to the merger, reorganization or consolidation shall continue to own the Company's outstanding capital stock possessing the voting power (under ordinary circumstances) to elect a majority of the Board of Directors, (c) any sale or transfer of more than 50% of the assets of the Company and its Subsidiaries on a consolidated basis (measured either by book value in accordance with generally accepted accounting principles consistently applied or by fair market value determined in the reasonable good faith judgment of the Board of Directors) in any transaction or series of transactions and (d) any sale, transfer or issuance or series of sales, transfers and/or issuances of Common Stock or other securities by the Company or any holders thereof which results in either (i) any Person or group of Persons (as the term "group" is used under the Exchange Act), beneficially owning (as such term is used in the Exchange Act) more than 50% of the Common Stock outstanding or on a fully diluted basis at the time of such sale, transfer or issuance or series of sales, transfers and/or issuances or (ii) Persons beneficially owning the Common Stock outstanding or on a fully diluted basis at the time of such sale, transfer or issuance or series of sales, transfers and/or issuances beneficially owning less than 50% of the Common Stock outstanding or on a fully diluted basis following such sale, transfer or issuance or series of sales, transfers and/or issuances.

"Options" means any rights or options to subscribe for or purchase

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Common Stock or Convertible Securities.

"Person" means an individual, a partnership, a joint venture, a

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corporation, a limited liability company, a trust, an unincorporated organization and a government or any department or agency thereof.

"Qualified Public Offering" means the sale, in an underwritten public

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offering registered under the Securities Act, of shares of Common Stock having an aggregate per share value (based on the aggregate proceeds received by the Company in such offering, prior to applicable underwriting discounts or commissions) of at least \$20 million.

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Section 6. No Voting Rights; Limitations of Liability. This Warrant

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shall have no voting rights. No provision hereof, in the absence of affirmative action by the Registered Holder to purchase Warrant Shares, and no enumeration herein of the rights or privileges of the Registered Holder shall give rise to any liability of such Registered Holder for the Exercise Price of Warrant Shares acquirable by exercise hereof or as a stockholder of the Company.

Section 7. Warrant Transferable. This Warrant and all rights

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hereunder are transferable, only to any affiliates or employees of Josephthal in whole or in part, without charge to the Registered Holder, upon surrender of this Warrant with a properly executed Assignment (in the form of Exhibit III ----- hereto) at the principal office of the Company.

Section 8. Warrant Exchangeable for Different Denominations. This

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Warrant is exchangeable, upon the surrender hereof by the Registered Holder at the principal office of the Company, for new Warrants of like tenor representing in the aggregate the purchase rights hereunder, and each of such new Warrants shall represent such portion of such rights as is designated by the Registered Holder at the time of such surrender. All Warrants representing portions of the rights hereunder are referred to herein as the "Warrants."

Section 9. Replacement. Upon receipt of evidence reasonably

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satisfactory to the Company (an affidavit of the Registered Holder shall be satisfactory) of the ownership and the loss, theft, destruction or mutilation of any certificate evidencing this Warrant, and in the case of any such loss, theft or destruction, upon receipt of an unsecured indemnity agreement of the Registered Holder in form reasonably satisfactory to the Company, or, in the case of any such mutilation upon surrender of such certificate, the Company shall (at its expense) execute and deliver in lieu of such certificate a new certificate of like kind representing the same rights represented by such lost, stolen, destroyed or mutilated certificate and dated the date of such lost, stolen, destroyed or mutilated certificate.

Section 10. Notices. Except as otherwise expressly provided

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hereunder, all notices referred to herein shall be in writing and shall be (i) delivered in person, (ii) transmitted by facsimile, (iii) sent by registered or certified mail, postage prepaid with return receipt requested, or (iv) sent by reputable overnight courier service, fees prepaid, to (x) the Company, at its principal executive offices and (y) to any Registered Holder, at such Registered Holder's address as it appears in the records of the Company (unless otherwise indicated by any such Registered Holder). Notices shall be deemed given upon personal delivery, upon receipt of return receipt in the case of delivery by mail, upon acknowledgment by the receiving facsimile machine or one day following deposit with an overnight courier service.

Section 11. Amendment and Waiver. Except as otherwise provided

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herein, the provisions of the Warrants may be amended and the Company may take any action herein prohibited, or omit to perform any act herein required to be performed by it, only if the Company has obtained the written consent of the Registered Holders of Warrants representing a majority of the shares of Common Stock obtainable upon exercise of outstanding Warrants; provided, that no such action may change the Exercise Price of the Warrants or the number of shares or class of stock obtainable upon exercise of each Warrant without the written consent of the Registered Holders of

Warrants representing a majority of the shares of Common Stock obtainable upon exercise of the Warrants represented by this Warrant and the attached Warrant Certificate.

Section 12. Warrant Register. The Company shall maintain at its

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principal executive offices books for the registration and the registration of transfer of Warrants. The Company may deem and treat the Registered Holder as the absolute owner hereof (notwithstanding any notation of ownership or other writing hereon made by anyone) for all purposes and shall not be affected by any notice to the contrary.

Section 13. GOVERNING LAW. THIS WARRANT SHALL BE GOVERNED BY AND

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CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK WITHOUT GIVING EFFECT TO ITS CONFLICT OF LAWS PRINCIPLES. THE PARTIES HERETO FURTHER AGREE AND ACKNOWLEDGE THAT ANY DISPUTE OR CONTROVERSY ARISING OUT OF OR IN ANY MANNER WHATSOEVER RELATING TO THIS WARRANT SHALL BE BROUGHT IN THE COURTS OF THE STATE OF NEW YORK OR THE UNITED STATES OF AMERICA FOR THE SOUTHERN DISTRICT OF NEW YORK LOCATED IN THE STATE OF NEW YORK, AND BY EXECUTION AND DELIVERY OF THIS WARRANT HEREBY (i) ACCEPTS THE JURISDICTION OF THE AFORESAID COURTS; (ii) IRREVOCABLY AGREES TO BE BOUND BY ANY JUDGMENT OF ANY SUCH COURT WITH RESPECT TO THIS WARRANT; AND (iii) IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY OBJECTION WHICH IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE, COURT, ACTION OR PROCEEDING WITH RESPECT TO THIS WARRANT BROUGHT IN ANY SUCH COURT AND FURTHER IRREVOCABLY WAIVES ANY SUCH CLAIM THAT ANY SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT HAS BEEN BROUGHT IN AN INCONVENIENT

FORUM.

Section 14. Specific Performance. The Company, on the one hand, and

the holder of this Warrant, on the other hand, acknowledge that money damages would not be a sufficient remedy for any breach of this Warrant. It is accordingly agreed that the parties shall be entitled to specific performance and injunctive relief as remedies for any such breach, these remedies being in addition to any of the remedies to which they may be entitled at law or equity.

Section 16. Remedies Cumulative. Except as otherwise provided

herein, the remedies provided herein shall be cumulative and shall not preclude the assertion by any party hereto of any other rights or the seeking of any other remedies against any other party hereto.

Section 17. No Third Party Beneficiaries. Except as specifically set

forth or referred to herein, nothing herein is intended or shall be construed to confer upon any person or entity other than the parties hereto and their successors or assigns, any rights or remedies under or by reason of this Warrant.

Section 18. Severability. If any term, provision, covenant or

restriction of this Warrant is held by a court of competent jurisdiction to be invalid, void or unenforceable, the

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remainder of the terms, provisions, covenants and restrictions of this Warrant shall remain in full force and effect and shall in no way be affected, impaired or invalidated.

Section 19. Entire Agreement; Modification. This Warrant contains

the entire understanding between the parties hereto with respect to the subject matter hereof and may not be modified or amended except by a writing duly signed by the party against whom enforcement of the modification or amendment is sought.

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IN WITNESS WHEREOF, the Company has caused this Warrant to be signed and attested by its duly authorized officers under its corporate seal and to be dated the Closing Date hereof.

ELECTRIC FUEL CORPORATION

\_\_\_\_\_  
Witness

By: \_\_\_\_\_  
Name:  
Title:

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EXHIBIT I

[FORM OF ELECTION TO PURCHASE PURSUANT TO SECTION 1.2(i)(d)]  
(Exercise and payment by check or securities)

To: Dated:

The undersigned, pursuant to the provisions set forth in the attached Warrant (Certificate No. W-\_\_\_\_), hereby agrees to subscribe for the purchase of \_\_\_\_\_ shares of the Common Stock covered by such Warrant and makes payment herewith in full therefor at the price per share provided by such Warrant.

Signature: \_\_\_\_\_

Address: \_\_\_\_\_

EXHIBIT II

[FORM OF ELECTION TO PURCHASE PURSUANT TO SECTION 1.2(i)(d)(3)]  
(Cashless Exercise)

The undersigned hereby irrevocably elects to exercise the right, represented by this Warrant Certificate, to purchase \_\_\_\_\_ shares of Common Stock all in accordance with the terms hereof and Section 1.2(i)(d)(3) of the Warrant Agreement. The undersigned requests that a certificate for such securities be registered in the name of \_\_\_\_\_ whose address is \_\_\_\_\_ and that such Certificate be delivered to \_\_\_\_\_ whose address is \_\_\_\_\_.

Dated:

Signature \_\_\_\_\_

(Signature must conform in all respects to name of holder as specified on the face of the Warrant Certificate.)

\_\_\_\_\_  
(Insert Social Security or Other Identifying Number of Holder)

EXHIBIT III

[FORM OF ASSIGNMENT PURSUANT TO SECTION 1.2(i)(c)]

(To be executed by the registered holder if such holder desires to transfer the Warrant Certificate.)

FOR VALUE RECEIVED  
hereby sells, assigns and transfers unto

\_\_\_\_\_  
(Please print name and address of transferee)

this Warrant Certificate, together with all right, title and interest therein, and hereby irrevocably constitutes and appoints \_\_\_\_\_ Attorney, to transfer the within Warrant Certificate on the books of the within-named Company, with full power of substitution.

Dated:

Signature: \_\_\_\_\_

(Signature must confirm in all respects to name of holder as specified on the face of the Warrant Certificate.)

(Insert Social Security or Other Identifying Number of Assignee).

[LOGO] Electric Fuel(R)

Electric Fuel Corporation

120 Wood Avenue South, Suite 300  
Iselin, New Jersey 08830  
Tel: (732) 635-7100 Fax: (732) 635-7101  
<http://www.electric-fuel.com>

FOR IMMEDIATE RELEASE:

Electric Fuel Contact:	IR Contacts (KCSA):
Robert S. Ehrlich, CFO	Joseph A. Mansi/Adam J. Rosen
732-635-7100	212-682-6300
<a href="mailto:ehrllich@electric-fuel.com">ehrllich@electric-fuel.com</a>	<a href="mailto:jmansi@kcsa.com">jmansi@kcsa.com</a> / <a href="mailto:arosen@kcsa.com">arosen@kcsa.com</a>

Electric Fuel Raises \$8,375,000  
Through Sale of Previously-Registered Securities

ISELIN, N.J., Nov. 17 -- Electric Fuel Corporation (Nasdaq: EFCX) announced today that an institutional investor has invested \$8,375,000 in the Company, through the purchase of one million shares of common stock and warrants to purchase up to an additional one million shares. Both the shares sold initially and the shares underlying the warrants, as well as the warrants themselves, were previously registered with the Securities and Exchange Commission. Electric Fuel intends to use the proceeds of the offering for working capital and general corporate purposes and to promote the growth of its business, including increasing its marketing presence in the United States and elsewhere, and expanding its production capabilities.

Yehuda Harats, President and CEO of Electric Fuel, stated: "We are pleased to announce this successful financing. The capital raised will allow Electric Fuel to continue development and marketing of its Zinc Air technology products."

Pursuant to the terms of the offering, the purchase price for the common stock was priced at \$8.375 per share and all of the warrants have an exercise price at a premium to the stock's current market price.

About Electric Fuel:

Electric Fuel Corporation (Nasdaq: EFCX), with corporate and sales offices in New Jersey and London, England, and manufacturing and R&D facilities in Israel and Alabama, is a world leader in the application of primary and refuelable Zinc Air fuel cell technology to innovative energy solutions. The Company's popular line of Instant Power(TM) disposable cellphone batteries is on sale at retail outlets throughout the U.S., Europe and Israel. For more information, visit the Company's website at <http://www.electric-fuel.com>. Reference to the Company's website does not incorporate by reference any of the information contained therein into this press release.

Except for the historical information herein, the matters discussed in this news release include forward-looking statements that may involve a number of risks and uncertainties. Actual results may vary significantly based on a number of factors, including but not limited to risks relating to: product and technology development; market acceptance of new products and continuing product demand; the impact of competitive products and pricing on Electric Fuel's and its customers' products and markets; the stage of development of Electric Fuel's products, the uncertainty of the market for disposable cellular telephone batteries, significant future capital requirements, changing economic conditions and exchange rates (both in the United States and abroad); development, release and sales of new products by strategic suppliers and customers; development and growth of anticipated markets for Electric Fuel's and its customers' products; and other risk factors detailed in Electric Fuel's most recent annual report on Form 10-K for the fiscal year ended December 31, 1999, and other filings with the Securities and Exchange Commission. Electric Fuel assumes no obligation to update the information in this release.

Other product and company names herein may be the trademarks of their respective owners.

This release and prior releases are available on the KCSA Public Relations

Worldwide website at <http://www.kcsa.com>.