ZENN Motor Company Inc.

(A Development Stage Company)

Consolidated Financial Statements

For the Years Ended September 30, 2011 and 2010

Collins Barrow
Chartered Accountants

Collins Barrow Toronto LLP
Collins Barrow Place
11 King Street West
Suite 700, P.O. Box 27
Toronto, Ontario
M5H 4C7 Canada

T. 416.480.0160
F. 416.480.2646

www.collinsbarrow.com

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
ZENN Motor Company Inc.

We have audited the accompanying consolidated financial statements of ZENN Motor Company Inc. and its subsidiaries, which comprise the balance sheets as at September 30, 2011 and 2010 and the statements of operations and deficit and cash flows for the years then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of ZENN Motor Company Inc. and its subsidiaries as at September 30, 2011 and 2010 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describe material uncertainties that cast significant doubt about ZENN Motor Company Inc.'s ability to continue as a going concern.

Collins Barrow Toronto LLP

Licensed Public Accountants
Chartered Accountants
January 27, 2012
Toronto, Ontario

ZENN Motor Company Inc.
(A development stage company)
Consolidated Balance Sheets
As at September 30, 2011 and 2010

	Notes	2011	2010
Assets			
Current			
Cash		**$ 915,165**	$ 474,452
Short-term investments		**765,000**	4,600,200
Prepaid expenses and sundry assets		**108,455**	171,814
Current assets of discontinued operations	4	**158,402**	175,326
		1,947,022	5,421,792
Property and equipment	5	**10,742**	106,639
EEStor technology rights	6	**2,303,275**	2,303,275
Investment in EEStor, Inc.	7	**8,674,771**	8,674,771
Long lived assets of discontinued operations	4	**81,900**	114,490
		$ 13,017,710	$ 16,620,967
Liabilities			
Current			
Accounts payable and accrued liabilities		**$ 513,816**	$ 455,432
Current liabilities of discontinued operations	4	**338,101**	385,984
		851,917	841,416
Shareholders' Equity			
Share capital	10	**52,398,685**	52,239,586
Contributed surplus	11	**4,121,234**	2,920,449
Warrant capital	12	**-**	170,524
Deficit		**(44,354,126)**	(39,551,008)
		12,165,793	15,779,551
		$ 13,017,710	$ 16,620,967

Nature of business and going concern (Note 1)

Approved by the Board **"James Kofman"** Director (Signed) **"Ian Clifford"** Director (Signed)

See accompanying notes

ZENN Motor Company Inc.
(A development stage company)
Consolidated Statements of Operations and Deficit
Years Ended September 30, 2011 and 2010

	Notes	2011	2010
Expenses			
General and administrative	**14**	**$ 2,674,920**	$ 2,607,375
Engineering and development	**8, 14**	**427,206**	1,139,486
Marketing and business development	**14**	**341,407**	344,512
Amortization	**5**	**61,122**	90,955
		3,504,655	4,182,328
Interest Income		**32,001**	40,800
Loss from continuing operations before undernoted items		**(3,472,654)**	(4,141,528)
Severance costs		**(574,932)**	-
Legal fees and expense reimbursements	**17**	**(370,486)**	-
Loss from continuing operations		**(4,418,072)**	(4,141,528)
Loss from discontinued operations	**4,14**	**(385,046)**	(2,105,444)
Net Loss		**(4,803,118)**	(6,246,972)
Deficit, beginning of year		**(39,551,008)**	(33,304,036)
Deficit, end of year		**$(44,354,126)**	$(39,551,008)
Loss per share, basic and diluted			
From continuing operations		**$(0.12)**	$(0.11)
From discontinued operations		**$(0.01)**	$(0.06)
Loss per share, basic and diluted		**$(0.13)**	$(0.17)
Weighted average number of common shares outstanding			
Basic and diluted		**37,251,924**	37,177,560

See accompanying notes

ZENN Motor Company Inc.
(A development stage company)
Consolidated Statements of Cash Flows
Years Ended September 30, 2011 and 2010

	Note	2011	2010
Cash flows provided by (used in) operations			
Net loss from continuing operations for period		**$ (4,418,072)**	$ (4,141,528)
Items not affecting cash			
Amortization	**5**	**61,122**	90,955
Gain on sale of property and equipment	**5**	**(4,290)**	-
Write down of property and equipment	**5**	**36,342**	-
Write off of advances		**51,760**	-
Expense reimbursement and professional and advisory services settled through share issuance	**10, 17**	**159,099**	-
Stock based compensation	**14**	**1,024,177**	867,222
		(3,089,862)	(3,183,351)
Net changes in non-cash working capital			
Prepaid expenses and sundry assets		**63,359**	219,913
Accounts payable and accrued liabilities		**56,593**	(142,049)
		(2,969,910)	(3,105,487)
Investing			
Short-term investments		**3,835,200**	2,999,800
Repayment of rental deposits		**-**	13,358
Advances made to third party		**(201,760)**	-
Repayment of advances to third party		**150,000**	-
Proceeds on disposal of property and equipment		**15,643**	-
Acquisition of property and equipment		**(11,129)**	(43,440)
		3,787,954	2,969,718
Financing			
Exercise of warrants		**-**	181,106
		-	181,106
Cash used in discontinued operations		**(377,331)**	**(2,114,425)**
Net change in cash		**440,713**	(2,069,088)
Cash, beginning of year		**474,452**	2,543,540
Cash, end of year		**$ 915,165**	$ 474,452

See accompanying notes

1. NATURE OF OPERATIONS AND GOING CONCERN

ZENN Motor Company Inc. (the "Company") is incorporated under the Business Corporations Act (Ontario). The Company's focus is to capitalize on certain exclusive and non-exclusive rights to purchase and deploy an energy storage technology currently under development by EEStor, Inc. (EEStor) (see Notes 6 and 7). The expenses for the year from research and development related to this project are $427,206 ($1,566,692 since inception of the project). There are no revenues or capitalized amounts related to this project.

Previously, the Company was involved in the development, assembly and distribution of a fully electric low speed vehicle (LSV) called the ZENN™. In April 2010, the Company discontinued the manufacturing of the ZENN™.

The Company's success depends on the completion and commercialization of EEStor's energy storage technology. There is no assurance that EEStor will be successful in the completion of the development and commercialization of its products. Based on its current operating and financial plans, management of the Company believes the current level of cash and short-term investments will be sufficient to fund the Company's planned operations for fiscal 2012; however, if the Company requires additional cash resources to fund operations, there is no assurance that the Company will be able to obtain the required cash resources to fund operations. Accordingly, the financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result from the possible inability of the Company to continue as a going concern.

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles ("GAAP") in Canada, within the framework of the significant accounting policies summarized below:

Basis of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly- owned subsidiaries ZENN Motor Company Limited, ZENN Capital Inc., ZENNergy Inc., and ZMC America, Inc. Inter-company balances and transactions are eliminated upon consolidation.

Short-term Investments

Short-term investments include short-term instruments with terms to maturity from date of issue of between three and twelve months.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Inventory

Inventory is valued at the lower of cost and net realizable value, with cost determined on a first in, first out basis. Reversals of previous write-downs to net realizable value are recorded when there is a subsequent increase in the value of inventories.

Property and Equipment

Property and equipment are recorded at cost and are amortized on a straight-line basis over their estimated useful lives as follows:

Computer equipment	36 months
Office furniture and equipment	48 months
Tools and equipment	48 months
Leasehold improvements	48 months

The Company performs an impairment assessment of property and equipment held for use whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. If the sum of the undiscounted expected future cash flows expected to result from the use and eventual disposition of an asset is less than its carrying amount, it is considered to be impaired, in which event the asset will be written down to fair value.

EEStor Technology Rights

The cost incurred to acquire certain exclusive and non-exclusive rights to purchase and deploy EEStor's electric energy storage unit ("EESU"), as set out in the Technology Agreement (the "Agreement") between the two companies is being capitalized. The amortization period will be determined once the EESU technology is available for use. The Company performs an impairment evaluation of the Agreement yearly or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In the event that the Agreement is terminated and the Company does not fully acquire the purchase and deployment rights as set out therein, the capitalized costs will be written off to operations. As at September 30, 2011, no events or changes in circumstances had occurred which indicated that the carrying amount of the rights under the Agreement may not be fully recoverable (see Note 6).

Investment in EEStor, Inc.

The Company has an investment in the common shares of EEStor which is categorized as an "available for sale" financial instrument. The Company does not have significant influence, control or joint control over EEStor. The common shares of EEStor do not have a quoted market price in an active market; accordingly, the shares are carried at cost. The Company would recognize a loss on this investment if there were a permanent impairment in the value of the investment. As at September 30, 2011, no events or changes in circumstances had occurred which would lead to impairment in the value of the investment (see Note 7).

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Research and Development Costs

Research and development costs are incurred in the design, testing and commercialization of the Company's products. Research costs, other than capital expenditures, are expensed as incurred. The costs incurred in developing new technologies are expensed as incurred unless they meet the criteria under Canadian GAAP for deferral and amortization. These costs will be amortized over the estimated useful life of the product, commencing with commercial production. In the event that a product program for which costs have been deferred is modified or cancelled, the Company will assess the recoverability of the deferred costs and if considered unrecoverable, will expense the costs in the period the assessment is made.

Investment Tax Credits

Investment tax credits are accrued when qualifying expenditures are incurred and there is reasonable assurance that the credits will be realized. Investment tax credits earned with respect to current expenditures for qualified research and development activities are included in the statements of operations as a reduction of engineering and development costs. Investment tax credits associated with capital expenditures are reflected as reductions in the carrying amounts of capital assets.

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historical exchange rates at the respective transaction dates. Revenue and expenses are translated at the rate of exchange at each transaction date. Gains or losses on translation are included in operations.

Income Taxes

The Company follows the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on temporary differences between financial reporting and tax bases of assets and liabilities, as well as for the benefit of losses available to be carried forward to future years for tax purposes. Future income tax assets and liabilities are measured using enacted tax rates and laws that will be in effect when the differences are expected to reverse. Future income tax assets are recorded in the financial statements if realization is considered more likely than not.

Accounting for Stock-Based Payments and Compensation

The Company applies a fair value based method of accounting for all stock-based payments ("Payments"). Payments are measured at the fair value of the consideration received or the fair value of the equity instruments issued or liabilities incurred, whichever is more reliably measurable. Stock-based compensation is charged to operations over the vesting period and the offset is credited to contributed surplus. Consideration received upon the exercise of stock options is credited to share capital and the related contributed surplus is transferred to share capital. If options are forfeited when unvested, the associated costs are reversed in the period of forfeiture.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Loss Per Share

Basic loss per share is calculated on the basis of the weighted average number of shares outstanding for the year. The Company uses the treasury stock method to determine the dilutive effect of stock options and other dilutive instruments. Under the treasury stock method, only in-the-money dilutive instruments impact the diluted calculations in computing diluted earnings per share. Diluted calculations reflect the weighted average incremental common shares that would be issued upon exercise of dilutive options assuming the proceeds would be used to repurchase shares at average market prices for the period.

Warrants and options have been excluded from the calculation of diluted loss per share as the effect would be anti-dilutive.

Use of Estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenue and expenses during the year. Actual results could differ from those estimates.

Significant areas requiring the use of management estimates relate to the determination of the useful lives of property and equipment for amortization purposes, inventory impairment, amounts recorded as accrued liabilities, valuation of stock options, impairment assessment of the Technology Agreement and the investment in EEStor, valuation allowance on future tax assets and the fair value of financial instruments.

Financial Instruments

Recognition and Measurement

The Company has classified its financial instruments as follows:

Financial Instrument	Classification
Cash	Held for trading
Short-term investments	Held for trading
Accounts receivable	Loans and receivables
Investment in EEStor, Inc.	Available for sale
Accounts payable and accruals	Other financial liabilities

Financial assets and liabilities classified as held for trading are measured at fair values at each reporting period with changes in fair value in subsequent periods included in net earnings.

Financial assets classified as loans and receivables and liabilities classified as other financial liabilities are measured at amortized cost using the effective interest method.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial assets classified as available for sale are measured at fair values at each reporting period with changes in fair value in subsequent periods included in other comprehensive income, except investment in shares without a quoted market price which are measured at cost.

The Company has not presented a statement of comprehensive income as it has no other comprehensive income.

Financial Instruments measured at fair value are required to be categorized into one of three hierarchy levels that are based on the transparency of the inputs used to measure the fair values of assets and liabilities.

Level 1 inputs are determined by reference to quoted prices in active markets for identical assets and liabilities.

Level 2 inputs, other than quoted prices included in Level 1, are based on either directly or indirectly observable market data.

Level 3 inputs used in a valuation technique are not based on observable market data.

The Company's cash and short-term investments are categorized as Level 1.

3. ACCOUNTING PRONOUNCEMENTS ISSUED BUT NOT YET EFFECTIVE

International Financial Reporting Standards ("IFRS")

Effective January 1, 2011 the CICA has adopted International Financial Reporting Standards ("IFRS"). The Company will be required to adopt IFRS for its 2012 fiscal year. The transition date of October 1, 2010 for the Company will require restatement for comparative purposes of amounts reported by the Company for the year ended September 30, 2011. Starting in the first quarter of fiscal 2012, the Company will provide consolidated financial information in accordance with IFRS including comparative figures for 2011.

4. DISCONTINUED OPERATIONS

The Company completed the wind down of its LSV business operations announced in December 2009, with the exception of continuing to provide customer support. In accordance with CICA Handbook Section 3475, the Company has segregated assets, liabilities and results of operations specifically identifiable with the discontinued operations from those of the ongoing business.

The following tables set out the assets and liabilities related to discontinued operations:

4. DISCONTINUED OPERATIONS (Cont'd)

	2011	2010
Current assets of discontinued operations		
Accounts receivable	**$ 337**	$ 20,019
Inventory	**127,205**	155,307
Prepaid and sundry assets	**30,860**	-
	$ 158,402	$ 175,326
Long lived assets of discontinued operations		
Property and equipment	**$ 2,567**	$ 7,157
Prepaid insurance	**79,333**	107,333
	$ 81,900	**$ 114,490**

	2011	2010
Current liabilities of discontinued operations		
Trade accounts payable and accrued liabilities	**$ 14,888**	$ 104,930
Warranty accrual	**323,213**	207,761
Severance accrual	**-**	73,293
	$ 338,101	$ 385,984

The following table sets out the results of operations related to discontinued operations:

	2011	2010
Revenue	**$ 64,321**	$ 1,034,437
Costs of goods sold	**35,441**	923,624
Gross profit (loss)	**28,880**	110,813
Expenses	**413,926**	2,216,257
Loss from discontinued operations	**$ (385,046)**	$ (2,105,444)

In the year ended September 30, 2010, the Company disposed of long-lived assets related to its discontinued operations. Many of the production tools and some of the production equipment were retained by the Company's Engineering Department and are included in the ongoing assets of the Company. Accordingly, the Company realized gross proceeds of $19,276 on the sale of its assets and the loss on sale of assets of $1,940 is included in the results related to discontinued operations.

5. PROPERTY AND EQUIPMENT

September 30, 2011

	Cost	**Accumulated Amortization**	**Net**
Computer equipment	**$ 82,405**	**$ 80,152**	**$ 2,253**
Office furniture and equipment	**126,558**	**118,069**	**8,489**
Tools and equipment	**7,408**	**7,408**	**-**
Leasehold improvements	**8,200**	**8,200**	**-**
	$ 224,571	**$ 213,829**	**$ 10,742**

During the year ended September 30, 2011, the Company recorded a write down of certain office equipment and computer software related to continuing operations in the amount of $36,342, included in general and administrative costs in the statement of operations.

September 30, 2010

	Cost	Accumulated Amortization	Net
Computer equipment	$ 190,184	$ 153,808	$ 36,376
Office furniture and equipment	150,027	99,612	50,415
Tools and equipment	94,828	86,796	8,032
Leasehold improvements	32,273	20,457	11,816
	$ 467,312	$ 360,673	$ 106,639

6. EESTOR TECHNOLOGY RIGHTS

On August 24, 2004, the Company entered into the Agreement with EEStor, a privately owned corporation based in the United States. Under the terms of the Agreement, and subsequent amendments on November 26, 2004, September 30, 2005, August 16, 2006 and January 22, 2007, the Company may at its discretion and upon payment of defined milestone payments totaling US$2,500,000, acquire the right to purchase and deploy EEStor's electrical energy storage unit (the "EESU") in certain exclusive and non-exclusive markets.

As of September 30, 2011, the Company has made a total of US$2,000,000 (CDN$2,303,275) in defined milestone payments to EEStor pursuant to the Agreement, including a milestone payment of US$700,000 (CDN$793,130) in May 2009 following independent verification of EEStor’s work product meeting or exceeding predefined permittivity standards.

The remaining and final milestone payment under the Agreement of US$500,000 is payable 15 business days following independent verification of a production quality EESU meeting defined operating parameters.

7. INVESTMENT IN EESTOR, INC.

In April 2007, the Company made a US$2,500,000 investment in the common shares of EEStor for an approximate 3.8% equity interest. The carrying cost of the investment, including all related costs totaled CDN$2,857,815. Under the terms of the investment, the Company acquired the right to invest up to an additional US$5,000,000 at the same price per share, upon independent verification of permittivity results of EEStor's work product.

In May 2009, the Company received independent verification of the permittivity results permitting it to exercise its option to make an additional investment in EEStor. In July, 2009 the Company made an additional investment in EEStor in the amount of US$5,000,000 (CDN$5,816,956). As a result of the two investments, the Company holds an approximate 10.7% interest in the share capital of EEStor.

8. DEVELOPMENT COSTS

As of September 30, 2011, the Company has not deferred any development costs to future periods. Projects were considered to be in the research phase and therefore were expensed to engineering and development expense, net of Investment tax credit refund of $164,137 (2010 - $65,159).

9. MANAGEMENT OF CAPITAL

The Company's objective when managing capital is to maintain its ability to continue as a going concern for the benefit of shareholders and other stakeholders by balancing cash conservation and prudent investment in its operations in order to further its business objectives.

Working capital management is fundamental to the broader management of capital. The Company has a defined investment policy restricting the investment of cash balances to term deposits and bankers' acceptances. Non-cash working capital is managed with defined business practices and policies intended to optimize the investment and safeguard the assets.

The Company includes equity in its definition of capital. Equity is comprised of capital stock, contributed surplus and deficit. The Company's approach to raising equity has been to raise sufficient capital to take the Company toward a target milestone, with an objective of successive capital raises being at a higher price and therefore less dilutive for shareholders. To secure additional capital to pursue its objectives, the Company may raise additional funds through the issuance of equity. The Company's ability to continue with its incremental raise strategy is a function of many factors, including the state of the capital markets, and there is no assurance that this approach will be practical on a go forward basis.

The Company is not subject to any external capital requirements.

There have been no changes with respect to the overall capital management strategy during the year ended September 30, 2011.

10. CAPITAL STOCK

Authorized
Unlimited common shares

Issued and outstanding common shares:

	Numbers	Value
Balance, September 30, 2009	**37,055,502**	**$ 52,009,481**
Shares issued on exercise of warrants (i)	33,095	173,105
Shares issued on exercise of options (ii)	126,666	57,000
Balance, September 30, 2010	**37,215,263**	**$ 52,239,586**
Shares issued (iii)	45,150	75,000
Shares issued (iv)	72,500	84,099
Balance, September 30, 2011	**37,332,913**	**$ 52,398,685**

(i) Includes net cash proceeds of $124,106 and non-cash cost transfer from warrant capital and contributed surplus of $48,999.

(ii) Includes cash proceeds of $57,000. The contributed surplus associated with this grant of options was rolled into share capital when accounting for the Qualifying Transaction in 2006 and consequently there is no contributed surplus adjustment for this specific transaction.

(iii) Issued in connection with settlement of professional and advisory services, as described in Note 17.

(iv) 72,500 common shares issued in connection with settlement of a disputed obligation to a former employee at a price of $1.16 per share.

11. CONTRIBUTED SURPLUS

The following summarizes the change in contributed surplus:

	2011	2010
Balance at the beginning of the year	**$ 2,920,449**	$ 1,946,725
Stock-based compensation expense	1,030,261	960,768
Transfer from warrant capital on warrant expiry	170,524	12,956
Balance end of year	**$ 4,121,234**	$ 2,920,449

12. WARRANT CAPITAL

The following summarizes the change in warrant capital:

	2011	2010
Balance beginning of year	**$ 170,524**	$ 232,479
Transferred to contributed surplus on warrant expiry	**(170,524)**	(12,956)
Less: Exercise of warrants	-	(48,999)
Balance end of year	**-**	$ 170,524

13. STOCK OPTIONS AND WARRANTS

Stock Option Plan

The Company has a stock option plan (the "Plan") which authorizes the Board to issue options to employees, directors and consultants providing services to the Company or its subsidiaries. The Plan is structured as a "floating plan". Under the terms of the Plan, the number of shares issuable under stock options and the performance warrants cannot exceed 10% of the outstanding common shares of the Company. The Company sets the exercise price based on the closing market price at the time of the grant. The Company may grant options for a term not to exceed ten years. The Company's practice has been to vest options over a three year period; however during the year ended September 30, 2011, options were granted to certain Senior Management and Directors that have the potential to vest within a twelve month period, expiring two years from the set vesting date. The vesting of the options is conditional on a public announcement from the Company's partner EEStor showing significant progress in its technology development. The options were granted in lieu of cash compensation and additional responsibilities as a result of the significant reduction made in personnel and resources. If the required public announcement does not transpire within the specified time frame, the options will expire at the end of the twelve month period. In the event of a takeover bid which results in the Offeror exercising control of the Company, stock options which might otherwise not be vested may be exercised and tendered as part of the takeover transaction.

13. STOCK OPTIONS AND WARRANTS (Cont'd)

The following tables outline the stock option transactions and numbers outstanding:

	2011		2010	
	Number of Options	**Weighted Average Exercise Price**	Number of Options	Weighted Average Exercise Price
Outstanding beginning of year	**2,537,883**	**$ 2.73**	2,457,166	$ 2.61
Granted	**2,049,300**	**$ 1.31**	300,000	$ 2.88
Exercised	**-**	**-**	(126,666)	$ (0.45)
Expired/Cancelled	**(897,483)**	**$ (2.60)**	(92,617)	$ (3.27)
Forfeited	**(412,934)**	**$ 1.72**	-	-
Outstanding end of year	**3,276,766**	**$ 1.99**	2,537,883	$ 2.73
Exercisable	**1,697,127**	**$ 2.55**	1,637,601	$ 2.76

Options Outstanding at September 30, 2011:

	Options outstanding			**Options exercisable**	
Range of exercise prices	**Number outstanding**	**Weighted average remaining contractual life (years)**	**Weighted average exercise price**	**Number outstanding**	**Weighted average exercise price**
$0.25 to $1.25	530,000	3.25	$ 0.74	-	$ -
$1.26 to $2.50	1,540,966	2.60	$ 1.67	624,663	$ 1.76
$2.51 to $3.75	944,200	1.07	$ 2.67	810,864	$ 2.69
$3.76 to $5.00	261,600	1.28	$ 4.00	261,600	$ 4.00
Total	**3,276,766**	**2.17**	**$ 1.99**	**1,697,127**	**$ 2.55**

Warrant Transactions

The following table outlines the warrant transactions and numbers outstanding:

	2011		2010	
	Number of Warrants	**Weighted Average Exercise Price**	Number of Warrants	Weighted Average Exercise Price
Outstanding beginning of year	**106,000**	**$ 3.50**	147,845	$ 3.57
Granted	-	-	-	-
Exercised	-	-	(33,095)	$(1.48)
Cancelled/Expired	**(106,000)**	**$(3.50)**	(8,750)	$(1.48)
Outstanding end of year	**-**	**-**	106,000	$ 3.50

14. STOCK-BASED COMPENSATION AND STOCK-BASED PAYMENTS

The Company recorded $1,030,261 (2010 - $960,768) in stock based compensation costs in the year. Of this amount, $795,635 (2010 - $686,244) was included in general and administrative expenses, $78,903 (2010 - $77,949) in the engineering and development and $149,639 (2010 - $103,028) in marketing and business development expenses and $6,084 (2010 - $93,547) in the loss from discontinued operations.

The fair value of options and warrants is determined using the Black-Scholes option pricing model with the following weighted average assumptions: (i) dividend yield of 0% (2010 - 0%), (ii) expected volatility of approximately 86% (2010 - 84%), (iii) risk free interest rate of 1.55% (2010 – 1.8%), and (iv) the expected life of 3 years (2010 - 3 years). The Company has assumed no forfeiture rate as adjustments for actual forfeiture are made in the period they occur. The weighted average fair value of the cost of grants in the period was approximately $0.70 (2010 - $1.57) per instrument.

15. INCOME TAXES

(a) Income Tax Expense

The following table reconciles income taxes calculated at combined Canadian federal/ provincial tax rates with the income tax expense in the financial statements:

	2011	2010
Loss from continuing operations	**$ (4,418,072)**	$ (4,141,528)
Statutory rate	**28.5%**	31.6%
Expected income tax recovery	**$ (1,259,151)**	$ (1,308,723)
Non-deductible expenses	**294,105**	254,373
Change in valuation allowance related to operations	**935,569**	(405,269)
Change in expected future tax rates and other	**29,477**	1,459,619
Income tax expense	**$ -**	$ -

(b) Future Income Taxes

The temporary differences and unused tax losses that give rise to future income tax assets are presented below:

	2011	2010
Amounts related to tax loss and other credits carry forwards	**$ 9,625,977**	$ 8,492,653
Property and equipment	**60,685**	99,449
Reserves	**81,126**	52,148
Share issue costs	**137,353**	307,753
	9,905,141	8,952,003
Less: Valuation allowance	**(9,905,141)**	(8,952,003)
	$ -	$ -

15. INCOME TAXES (Cont'd)

(c) Loss and Tax Credit Carryforwards

As at September 30, 2011, the Company has non-capital losses of approximately $37,067,637 expiring as follows:

2013	$ 221,506
2014	470,332
2015	75,933
2025	518,757
2026	2,514,783
2027	6,441,398
2028	6,741,762
2029	9,815,725
2030	6,029,965
2031	4,237,476
	$ 37,067,637

The Company has undeducted scientific research and experimental development costs of approximately $1,282,870 and investment tax credits relating to scientific research and development costs of approximately $297,911 available to apply against future taxable income.

The potential tax benefit relating to the non-capital losses and tax credit carryforwards has not been reflected in these financial statements.

16. COMMITMENTS

The Company is contracted for minimum lease payments relating to premises as follows:

2012	$ 121,638
2013	40,546
	$ 162,184

17. RELATED PARTY TRANSACTIONS

The following transactions with a related party occurred in the normal course of business and were measured at the exchange amount.

During the year ended September 30, 2011, the Company incurred consulting fees of $45,000, included in general and administrative expenses, to a director and former officer of the Company, subsequent to the expiry of his employment agreement as an officer of the Company.

In addition, during the year ended September 30, 2011, the Company reimbursed the director and former officer for certain professional and advisory fees in the amount of $325,000 incurred in connection with various discussions and arrangements which the Company undertook with certain shareholders of the Company resulting in the resignation and replacement of three directors. Of the total amount, $75,000 was satisfied by the issuance of 45,150 common shares of the Company at $1.66 per share to the director and former officer (Note 10), with the remainder settled in cash.

18. FINANCIAL INSTRUMENTS

Fair Value

The fair value of the investment in EEStor is not reliably determinable as the common shares of EEStor, Inc. are not traded in a public market.

Interest Rate Risk

Interest rate risk is the impact that changes in interest rates could have on the Company's income and liabilities. As at September 30, 2011 the Company had short term investments of $765,000, earning a weighted average return of 1.2%.

The estimated sensitivity of the Company's net after-tax income for the year ended September 30, 2011 from a change in the interest rate of 0.20% on the average interest risk liabilities with all other variables held constant as at September 30, 2011 would be $1,530.

Currency Risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's exposure to currency risk is negligible.

18. FINANCIAL INSTRUMENTS (Cont'd)

Credit Risk

Credit risk arises from the possibility that the entities to which the Company sells products may experience financial difficulties and be unable to fulfill their contractual obligations. Since the Company no longer sells its LSV products, its sales credit risk is negligible.

Credit risk can also arise from the inability of the institutions in which the Company invests its cash and short term investments to return the funds to the Company when due. As described in Note 9, the Company's investment policy restricts the investment of its cash balances to term deposits and bankers' acceptances. As well, short term investments are invested only in high quality instruments of financial institutions, providing the Company with very low levels of liquidity risk on its invested financial instruments. As such, the Company believes it is exposed to a very low level of credit risk on its investments.

19. SEGMENTED INFORMATION

All of the Company's continuing operations and assets are located in Canada, which is the Company's single reportable geographical segment.

20. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation, if necessary.