



This "Management's Discussion and Analysis" ("MD&A") has been prepared as of January 27, 2012, and should be read in conjunction with the audited consolidated financial statements of ZENN Motor Company Inc. (the "Company" or "ZMC") for the years ended September 30, 2011 and 2010 and the Company's Annual Information Form ("AIF") dated January 27, 2012. All financial amounts are expressed in Canadian dollars unless otherwise stated. Other than financial statement data for the years ended September 30, 2011 and 2010 which are audited, all financial analysis, data and information set out in this MD&A are unaudited.

### ***FORWARD-LOOKING STATEMENTS***

This MD&A includes certain forward-looking statements that are based upon current expectations which involve risks and uncertainties associated with the Company's business and the economic environment in which the business operates. Any statements contained herein that are not statements of historical facts may be deemed to be forward-looking statements, which are often, but not always, identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar words or phrases (including negative variations) suggesting future outcomes or statements regarding an outlook. The forward-looking statements are not historical facts, but reflect the Company's current expectations regarding future results or events. Forward-looking statements contained in this MD&A are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations, including the matters discussed in the section "Risks and Uncertainties" below and the "Risk Factors" section of the Company's AIF dated January 27, 2012. Readers are cautioned that the foregoing lists of factors are not exhaustive. Although the Company has attempted to identify important factors that could cause actual events and results to differ materially from those described in the forward-looking information, there may be other factors that cause events or results to differ from those intended, anticipated or estimated.

Forward-looking information involves known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information. The Company believes the expectations reflected in the forward-looking information are reasonable, but no assurance can be given that these expectations will prove to be correct and readers are cautioned not to place undue reliance on forward-looking information contained in this MD&A.

Information contained in this MD&A relating to EESstor, Inc. ("EESstor") or the energy storage technology being developed by EESstor has not been reviewed by EESstor and EESstor does not assume any responsibility for the accuracy or completeness of such information.

The forward-looking information contained in this MD&A is provided as of the date hereof and the Company undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as otherwise required by law. All of the forward-looking information contained in this MD&A is expressly qualified by this cautionary statement.

### ***OVERVIEW OF BUSINESS***

ZENN Motor Company Inc. continues to operate on the principle and belief that zero emission electric vehicles ("EV") will be the automobiles of the future. Given the numerous financial, environmental and political issues associated with oil consumption, the Company continues to foresee an inevitable shift away from fossil fuels to the more sustainable and efficient electric drive systems for automotive transportation. The media coverage directly addressing these issues over the past several years and the significant climb in the price of crude oil and gasoline, reinforces that the timing could not be better for zero-emission, cost effective electric vehicles to be offered to consumers around the world. To further reinforce this shift towards socially responsible transportation, major automotive original



equipment manufacturers ("OEMs") continue to accelerate the promotion of their current and future pure electric and hybrid electric vehicle programs.

The Company holds certain technology rights, upon payment of predetermined amounts, to an energy storage technology currently under development by EESstor. If this technology is proven successful, it is expected to reduce the weight factor of energy storage by up to 90% when compared to conventional lead-acid batteries. The energy storage technology is explained in the Company's AIF dated January 27, 2012 in the section entitled "EESstor Technology Agreement". Management believes that this technology, if proven successful, will allow the Company to develop commercially viable technologies and solutions that will enable its customers to offer electric powered vehicles with greater speed and range and at a lower total cost of ownership than is afforded today by conventional battery systems, opening the door to a broader and more rapid acceptance of electric vehicle transportation solutions.

The Company's mission is to be the provider of leading edge power storage solutions and related technologies to the automotive industry. The Company's on-going business strategy is focused on capitalizing on EESstor's capacitor-based energy storage technology, if and when commercialized.

Following a strategic review, referred to below, the Company has decided not to spend further resources on the development of its ZENNergy™ technologies and solutions until the timeline for the commercialization of EESstor's technology is clearer.

### ***HIGHLIGHTS AND SUMMARY***

The following summarizes the key events in the development of the Company during the three months and year ended September 30, 2011 and up to the date of this MD&A:

#### **Board and Management**

- Following the strategic review that began with the appointment of the new Board members on March 23, 2011, the Company began to implement a plan to re-focus and restructure the Company and to build value through the technologies that EESstor is developing. The Company focused its financial resources towards supporting its investment in EESstor and its technology agreement with EESstor.
- On May 16, 2011, Richard McGraw, founding Chair of the Board of Directors, resigned from the Board. James Kofman was named Chair of the Board. Additionally, on May 16, 2011, as a result of the strategic review and the focus of the Company on EESstor, Brian Cott resigned as President and CEO of the Company.
- On May 29, 2011, the Company announced the appointment of James Kofman, as the Interim CEO to oversee the refocus of the Company's business activities. In addition, the Company's Chief Financial Officer, Vice-President Business Development and Vice-President Engineering began to reduce their full time activities as part of a plan to transition out of the Company at various times over a six month period.
- On September 1, 2011, the Company announced the appointment of Ms. Natasha Vandesluis as Interim Chief Financial Officer. Ms. Vandesluis has been a member of the finance team since January 2007.

#### **Financial Highlights**

- In the three months and year ended September 30, 2011, the Company incurred net losses of \$844,679 and \$4,803,118, respectively, compared with \$1,109,228 and \$6,246,972, respectively, in the corresponding periods of the prior year. On a per share basis, for the three months and year ended September 30, 2011, the Company incurred net losses of (\$0.02) and (\$0.13), respectively, compared with (\$0.03) and (\$0.17), respectively, in the corresponding periods in the prior year.



- The Company incurred losses from continuing operations of \$752,780, and \$4,418,072, respectively, in the three months and year ended September 30, 2011, compared to \$980,423 and \$4,141,528, respectively, in the corresponding periods of the prior year. On a per share basis, the Company's losses from continuing operations were (\$0.02) and (\$0.12), respectively, compared to (\$0.03) and (\$0.11), respectively, in the prior year.
- In the three months and year ended September 30, 2011, the Company incurred losses from discontinued operations of \$91,899 and \$385,046, respectively, compared to \$128,805 and \$2,105,444, respectively, in the corresponding periods of the prior year. On a per share basis, the Company's losses from discontinued operations for the three months and year ended September 30, 2011, were (\$0.00) and (\$0.01), respectively, compared to (\$0.00) and (\$0.06), respectively, in the prior year.
- During the three months and year ended September 30, 2011, the Company used \$301,182 and \$2,969,910, respectively, of cash in its continuing operations, as compared to \$650,420 and \$3,105,487, respectively, in the same periods of the prior year.

**Other**

- The development of EESstor's technology is within EESstor's sole control, and further, it is within EESstor's sole purview to publicly announce information regarding its specific progress or timelines. The Company may only comment on information directly related to EESstor's progress after EESstor makes such information public or consents to such disclosure. Although EESstor did not make any formal public announcements during the year ended September 30, 2011, it has continued to add to its patent portfolio as it relates to its energy storage technology. Additional details about EESstor's patent activity are available in the Company's AIF dated January 27, 2012.

**SELECTED FINANCIAL INFORMATION**

The following table sets out selected information for the three most recently completed financials years and has been prepared in accordance with Canadian generally accepted accounting principles.

(audited)	Years ended September 30		
	2011 \$	2010 \$	2009 \$
Loss from continuing operations	( 4,418,072)	( 4,141,528)	( 4,687,097)
Loss from discontinued operations	( 385,046)	( 2,105,444)	( 5,402,030)
Net loss in period	( 4,803,118)	( 6,246,972)	( 10,089,127)
Loss per share	( 0.13)	( 0.17)	( 0.29)
Weighted average number of shares outstanding	37,251,924	37,177,560	34,662,139
Total assets on hand	13,017,710	16,620,967	22,526,106
Cash, cash equivalents, short term investments	1,680,165	5,074,652	10,143,540
Working capital	1,095,105	4,580,376	9,655,369
Shareholders' equity	12,165,793	15,779,551	20,884,649



**DISCUSSION OF OPERATING RESULTS**

***Discontinued Operations***

As of April 30, 2010 the Company closed its LSV production and sales operation. In concert with the closing, effective with the June 30, 2010 financial reporting period, the Company segregated and reported the assets, liabilities, revenue and costs related to the LSV business as discontinued operations. The discontinued assets include all accounts receivables, inventory and prepaid expenses specifically attributable to the LSV business. The liabilities include a warranty reserve as well as specific payables related to the LSV business. All of the Company's operating revenues to date are from LSV related operations and are included in this category. Also included as discontinued operations are the expenses relating to the Saint-Jerome operation, the sales and service departments as well as substantially all of the marketing department's expenses. While most of the departmental expenses have been or will be eliminated, there will be some ongoing expenses related to provision of warranty and parts services.

***Operating results***

The following table summarizes the Company's operating results for continuing operations, segregating the loss from discontinued operations, for the three months and year-ended September 30, 2011 and 2010.

	Three Months Ended September 30 (unaudited)		Year Ended September 30 (audited)	
	2011	2010	2011	2010
	\$	\$	\$	\$
Interest Income	(5,920)	(12,408)	(32,001)	(40,800)
General and administrative	584,164	663,053	2,674,920	2,607,375
Engineering and development	7,234	213,727	427,206	1,139,486
Marketing and business development	5,020	86,370	341,407	344,512
Amortization	36,337	29,681	61,122	90,955
<b>Loss from continuing operations before undernoted items</b>	<b>626,835</b>	980,423	<b>3,472,654</b>	4,141,528
Undernoted items	125,945	-	945,418	-
<b>Loss from continuing operations</b>	<b>752,780</b>	980,423	<b>4,418,072</b>	4,141,528
<b>Loss from discontinued operations</b>	<b>91,899</b>	128,805	<b>385,046</b>	2,105,444
Net loss for the period	<b>844,679</b>	1,109,228	<b>4,803,118</b>	6,246,972
Loss per share				
Continuing operations	(0.02)	(0.03)	(0.12)	(0.11)
Discontinued operations	0.00	0.00	(0.01)	(0.06)
Total	<b>(0.02)</b>	(0.03)	<b>(0.13)</b>	(0.17)

The financial results above, which segregate the Company's continuing operations from its discontinued operations (the LSV business), indicate the substantial savings going forward from the discontinuation of the LSV business. In the three months and year ended September 30, 2011 the Company incurred losses directly related to the LSV business of \$91,899 and \$385,046, respectively, compared to \$128,805 and \$2,105,444, respectively, for the corresponding periods of the prior year. The significantly reduced losses in the three months and year ended September 30, 2011 is an



indication that the shutdown of the LSV business is complete, although the Company will have continuing warranty and service obligations which are, and will continue to be, included in discontinued operations. The Company's practice had been to take a provision for warranty costs upon the sale of each LSV. In the year ended September 30, 2011, the Company provided for an additional \$100,016 of warranty provision.

"Undernoted items" includes legal fees and reimbursement of a Director's expenses in the three and twelve month periods totalling \$0 and \$370,486, respectively, (see Related Party Transactions later in this MD&A) in connection with changes in the composition of the Board of Directors. As a result of the management changes noted in the Highlights and Summary section, the Company incurred severance costs for the three and twelve month periods of \$125,228 and \$574,932 respectively, which is also included in the "Undernoted items".

The following tables present an analysis of the **continuing operations** of the Company.

**General and Administrative**

(unaudited)	For the three months ended September 30 (unaudited)		Year ended September 30 (audited)	
	2011	2010	2011	2010
	\$	\$	\$	\$
Salaries and benefits	<b>137,884</b>	250,650	<b>863,403</b>	1,064,747
Stock based compensation	<b>250,699</b>	225,501	<b>795,635</b>	686,244
Insurance	<b>22,433</b>	24,608	<b>89,966</b>	119,935
Legal, Audit, Regulatory	<b>257,907</b>	70,310	<b>503,920</b>	317,357
Occupancy costs	<b>32,657</b>	32,600	<b>130,543</b>	131,895
Other costs	<b>(117,416)</b>	59,413	<b>291,453</b>	293,323
Total	<b>584,164</b>	663,082	<b>2,674,920</b>	2,613,501

General and Administrative includes a broad range of costs including salaries and benefits, travel, and department specific costs for a number of functional areas including Executive, Finance, Investor Relations, Public Relations, and Administration. This group of expenses also includes rent, voice and data services, insurance and corporate compliance costs. Unallocated production of the Saint-Jerome facility, included in previous General and Administrative cost analyses, is excluded from the above table, as it is now included in discontinued operations.

Salaries and Benefits costs in the three months and year ended September 30, 2011, decreased by approximately 45% and 19%, respectively, when compared to the same periods in the prior year, as the Company continues to carefully manage its costs. Severance costs applicable to General and Administration totalling \$41,340 and \$344,023 for the three months and year ended September 30, 2011, respectively, has been disclosed separately on the Statement of Operations included in the Company's 2011 audited consolidated financial statements. Stock based compensation increased in the current periods versus the prior periods due primarily to the accelerated vesting of options for certain senior management as part of severance agreements and the issuance of 2,049,300 options to directors, officers and employees in the twelve month period.

The Company's reimbursement of certain professional and advisory fees incurred by a Director (see "Related Party Transactions" later in this MD&A) together with the Company's legal costs relating to these same events and activities, totalling \$370,486, were excluded from General and Administrative expenses and are disclosed separately on the Statement of Operations for the year ended September



30, 2011. Legal costs increased in the current period by approximately \$134,000, attributable in part to the settlement of a disputed obligation to a former employee.

Other costs decreased as compared to the 2010 period due to the reduction of voice and data costs as a result of the reduction in headcount.

**Engineering and Development**

	For the three months ended September 30 (unaudited)		Year ended September 30 (audited)	
	2011	2010	2011	2010
	\$	\$	\$	\$
Salaries and benefits	48,595	153,772	382,197	721,611
Stock based compensation	30,295	13,197	78,903	77,949
Service and materials	-	9,362	32,508	136,016
Other costs	(71,656)	37,396	(66,402)	203,910
Total	7,234	213,727	427,206	1,139,486

Engineering and Development includes all costs related to ongoing product research, engineering and development. Technical services and warranty claims costs, included in previous analyses of Engineering and Development, have been excluded from the above analysis as they are now part of discontinued operations. The Company did not defer any development costs in the period.

The decrease in Salaries and Benefits in the current periods versus the prior year periods is due to decreased headcount in the Company's engineering group as part of the Company's continued effort to minimize the use of its cash resources. Severance costs applicable to Engineering totalling \$83,888 for the three months and year ended September 30, 2011, has also been disclosed separately on the Statement of Operations included in the Company's 2011 audited consolidated financial statements. Services and materials costs dropped significantly on a year-to-date basis versus the respective periods in the previous year, due to the reduction in headcount. Other costs have declined significantly as compared to the prior year. The current quarter and year-to-date expenses were offset by the net receipt of SR&ED refunds of \$73,833 and \$139,043 respectively, for which no accruals were previously made. Net of the effect of that receipt, other costs decreased substantially, to \$2,177 and \$72,641 in the current periods as compared to \$37,396 and \$203,910 in the same prior periods, due primarily to a reduction in headcount.

**Marketing and Business Development**

	For the three months ended September 30 (unaudited)		Year ended September 30 (audited)	
	2011	2010	2011	2010
	\$	\$	\$	\$
Salaries and benefits	96	54,181	174,826	186,347
Stock based compensation	1,447	31,154	149,639	103,028
Other marketing related costs	3,477	1,035	16,942	55,137
Total	5,020	86,370	341,407	344,512



Marketing and Business Development in the year ended September 30, 2011 focused primarily on business development activities with respect to ZENNergy™ offerings, as well as ongoing brand management and development. The Company ceased expenditures on ZENNergy™ technology in June 2011 and will evaluate future expenditures as and when developments occur at EESstor. Stock based compensation increased in the current period versus the prior period due primarily to the accelerated vesting of options for certain senior management as part of their severance arrangements. Other marketing related costs for the prior year included recruiting and legal costs specific to issues materializing at that time, and which were not repeated in the current year. The costs reflected above exclude those marketing and sales costs associated with the LSV business, which are now included in discontinued operations. Severance costs applicable to Marketing and Business Development totalling \$147,022, has also been disclosed separately on the Statement of Operations included in the Company's 2011 audited consolidated financial statements for the year ended September 30, 2011.

**QUARTERLY FINANCIAL INFORMATION**

The following table sets out the quarterly results for the most recently completed eight quarters. The results have been reclassified to reflect continuing and discontinued operations:

Quarters Ended	Loss continuing operations \$	Loss discontinued operations \$	Net loss in period \$	Loss per share continuing operations \$	Loss per share discontinued operations \$	Loss per share in period \$
December 31, 2009	(1,072,852)	(773,537)	(1,846,389)	(0.03)	(0.02)	(0.05)
March 31, 2010	(1,027,639)	(987,200)	(2,014,839)	(0.03)	(0.02)	(0.05)
June 30, 2010	(1,060,614)	(215,902)	(1,276,516)	(0.03)	(0.01)	(0.04)
September 30, 2010	(980,423)	(128,805)	(1,109,228)	(0.03)	0.00	(0.03)
December 31, 2010	(743,488)	(74,440)	(817,928)	(0.02)	0.00	(0.02)
March 31, 2011	(1,532,784)	(68,375)	(1,601,159)	(0.04)	0.00	(0.04)
June 30, 2011	(1,389,020)	(150,332)	(1,539,352)	(0.04)	(0.01)	(0.05)
September 30, 2011	(752,780)	(91,899)	(844,679)	(0.02)	0.00	(0.02)

During the three months ended September 30, 2010, the Company finalized its discontinued operations disclosure which resulted in a reallocation in the loss from continuing to discontinued operations in the amount of \$75,059 for the nine months ended June 30, 2010. This has resulted in changes to the figures previously reported.

The losses related to discontinued operations reflect the results of the LSV business which, has declined on a year over year basis, as the Company exited this business segment. In the current year ended September 30, 2011, the loss related to discontinued operations includes an adjustment of \$100,016 added to the provision for warranty claims. During the year ended September 30, 2010 the Company realized a write-up of inventory of \$206,788. The current year period includes an adjustment to increase the inventory provision of \$21,316. The loss related to continuing operations has decreased on a year over year basis reflecting the Company's ongoing cost reduction programs. In the current year, the loss from continued operations includes severance related to senior management departures. The cost reductions were offset by an increase in the stock based compensation expense and increased legal and professional fees comprised for the most part of the reimbursement of a Director's expenses as described in the "Related Party Transaction" section later in this MD&A and the disputed obligation to a former employee.



### ***EESTOR***

The Company will only provide status updates with regard to EESor's progress after EESor itself has either made or approved the public disclosure of such information. As of the date of this MD&A, the Company has not been made aware of any issue that would prevent EESor from completing the development of its technology. Reference should be made to the Company's AIF dated January 27, 2012 for details related to EESor's patent activities during and since the last fiscal year. The Company does note that EESor's ability to continue development of its technology is dependent on EESor's ability to access sufficient capital to fund these efforts. Should EESor fail to access such capital its ability to move its technology forward could be limited.

### ***LIQUIDITY AND CAPITAL RESOURCES***

In the year ended September 30, 2011 and up to the date of this MD&A, the Company continued to incur losses and is drawing on its cash resources.

The Company's financial liquidity is currently supported by cash and short-term investments. The Company is a development stage enterprise and is not cash flow positive. The Company's ongoing ability to remain liquid will depend on a number of factors including EESor's successful commercialization of its EESU, timing and volume of sales, future profit margins, the rate of cash expenditure to fund ongoing operations, investments in non-cash working capital and the Company's ability to raise capital to fund the development of the business (see "Risks and Uncertainties"). The Company is exploring alternatives to enhance the strength of its balance sheet.

The Company's total cash and short-term investments at September 30, 2011 was \$1,680,165 compared to a combined balance of \$5,074,652 at September 30, 2010. Working capital as at the same two dates was \$1,095,105 and \$4,580,376, respectively, a reduction of \$430,764 in the current quarter.

In the three months and year ended September 30, 2011, the Company recorded a loss related to its discontinued LSV operation of \$91,899 and \$385,046, respectively, compared to a loss of \$128,805 and \$2,105,444, respectively, for the same periods in the prior year. Substantially all of the losses related to the LSV operation in the current year are cash losses, and reflect the ongoing provision of warranty and service support.

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.

The Company has no long-term debt.

Based on its current operating and financial plans, management is confident the Company has adequate cash resources on hand to fund its operations to at least the end of fiscal 2012.

### ***CAPITAL COMMITMENTS***

Except as noted below, the Company does not have any material commitments for capital assets as at September 30, 2011, or the date of this MD&A.

The Company has a commitment with respect to its EESor technology rights whereby payment is contingent on EESor achieving specific milestones. As at September 30, 2011 and the date of this MD&A, there remains one milestone payment due to EESor in the amount of US\$500,000 which is due within 15 days of independent verification of a production quality EESU meeting defined specifications. The timing of the final payment in accordance with the EESor Technology Agreement



is dependent on EEStor's development and independent verification and accordingly, is not within the control of the Company.

### ***OFF BALANCE SHEET ARRANGEMENTS***

The Company has not entered into any off balance sheet transactions.

### ***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. The Company must manage the balance between 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 the next target milestone, with an objective of being less dilutive for shareholders. To secure additional capital to pursue its objectives, the Company may raise additional funds through the issuance of equity. There can be no assurance that such capital will be available to the Company when required or on acceptable terms.

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.

### ***RELATED PARTY TRANSACTIONS***

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. The Company wished to resolve these discussions in an amicable manner, and a condition of that resolution was the reimbursement of a portion of the expenses. Of the total amount reimbursed, \$75,000 was satisfied by the issuance of 45,150 shares of the Company, with the remainder settled in cash.

## ***FINANCIAL INSTRUMENTS***

### Fair Value

The fair value of the investment in EEStor is not readily 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 totaling \$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 on the Company's short-term investments is not considered to be material.

### 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 believes its exposure to currency risk is negligible.

### 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 the "Management of Capital" section, 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.

## ***CRITICAL ACCOUNTING ESTIMATES AND POLICIES***

The consolidated financial statements of the Company include the statements of the Company and its wholly-owned subsidiaries ZENN Motor Company Limited, ZENN Capital Inc., ZENNergy Inc., and ZMC America, Inc.

The Company's financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Management has made certain estimates and assumptions that affect the reported amount of assets and liabilities. 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.

Management of the Company conducts a review of the carrying value of its Technology Agreement with EEStor on a regular basis. Management of the Company would be obliged to revalue the carrying value of the Technology Agreement if it was in possession of information that indicated or if it believed that the technology under development by EEStor would not or could not be developed, or if EEStor were abandoning its development efforts for any reason. A similar assessment is applied to the



carrying value of the Company's investment in the share capital of EEStor. Since EEStor is a private company with no ready market for its shares, the investment is carried at cost and changes in value are not reflected in comprehensive income.

Inventory included in discontinued operations is valued at the lower of cost and net realizable value. Cost is determined on a first in, first out basis for production and service stock and a combination of direct costs for materials with an allocation of labour and overhead at standard cost for work in progress and finished goods.

Amortization of investments in property and equipment is calculated at various rates intended to reflect the useful life of the asset.

The fair value of stock based compensation and payments are calculated using the Black Scholes option pricing model. For stock based payments that vest on a calendar or periodic basis, such as director or management options, the Company accrues the fair value cost during the vesting period. The Company charges the fair value of all other stock based payments at the time of vesting.

For options granted during the year ended September, 2011 and 2010, the inputs on the following page were used in the Black Scholes options pricing model:

<b>Black-Scholes assumptions used:</b>	<b>2011</b>
Expected volatility	86.0%
Expected dividend yield	0.0%
Risk free interest rate	1.55%
Expected options life in years	3
Fair value per stock option granted on October 6, 2010	\$ 0.91
Fair value per stock option granted on January 31, 2011	\$ 0.76
Fair value per stock option granted on March 22, 2011	\$ 1.14
Fair value per stock option granted on May 16, 2011	\$ 0.77
Fair value per stock option granted on September 1, 2011	\$ 0.38
Fair value per stock option granted on September 12, 2011 <sup>(1)</sup>	\$ 0.42
Fair value per stock option granted on September 12, 2011 <sup>(2)</sup>	\$ 0.23
<b>Black-Scholes assumptions used:</b>	<b>2010</b>
Expected volatility	84.0%
Expected dividend yield	0.0%
Risk free interest rate	1.8%
Expected options life in years	3
Fair value per stock option granted on December 8, 2009	\$ 2.13
Fair value per stock option granted on August 3, 2010	\$ 0.84

- (1) Options vest equally over a three year period and expire five years from the grant date
- (2) Options have a potential to vest in a twelve month period, expiring two years from set vesting date. Vesting and expiration is conditional on a public announcement from the Company partner EEStor showing significant progress in its technology development



The following table summarizes stock options granted during the year ended September 30, 2011:

Date Granted	Number Granted	Exercise Price	Expiry Date
October 6, 2010	100,000	\$1.65	October 6, 2015
January 31, 2011	919,300	\$1.35	January 31, 2016
March 22, 2011	350,000	\$1.99	March 22, 2016
May 16, 2011	150,000	\$1.34	May 16, 2016
September 1, 2011	30,000	\$0.66	September 1, 2016
September 12, 2011	50,000	\$0.74	September 12, 2016
September 12, 2011	450,000	\$0.74	September 12, 2014
Total Granted	2,049,300		

#### ***ADOPTION OF NEW ACCOUNTING POLICIES***

In the year ended September 30, 2011, the Company did not adopt any new accounting policies.

#### ***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.

#### ***IFRS TRANSITION PLAN***

In January 2009, the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, the AcSB confirmed in February 2008 that International Financial Reporting Standards ("IFRS") will replace Canadian GAAP for profit-oriented Canadian publicly accountable enterprises.

Because the Company has a September 30 year end, the date of the Company's first reported audited financial statements under IFRS will be for the year ended September 30, 2012 ("Fiscal 2012"). The Fiscal 2012 audited financial statements will require comparative data for the year ended September 30, 2011 to be prepared in accordance with IFRS.

Similarly, the Company's first interim financial statements reported under IFRS will be for the first quarter of Fiscal 2012 (the three months ended December 31, 2011). Again, comparative information for the interim periods in fiscal 2011 is a requirement and must be available for presentation in accordance with IFRS.

In order to manage the complexity of not only reporting under new accounting standards, but also transitioning from the old to the new, management of the Company initiated a plan in 2009, led by the CFO, to effect the transition from Canadian GAAP to IFRS in a planned and controlled manner. The

transition plan includes five major groups of activities that need to be examined and where decisions need to be made with respect to the transition:

- Financial statement preparation
- Training, infrastructure and technology
- Business policy assessment
- Internal controls over financial reporting, and
- Disclosure controls and procedures

The following tables set out the key activities within each group, provide a milestone or target date for each activity and report management's progress under the heading of "management comments".

At the date of this MD&A, after its examination of IFRS and the Company's current reporting, there appear to be no major differences in the line items appearing in the Company's balance sheet and statement of operations from what has been reported under Canadian GAAP if the provision of IFRS were applied. Notwithstanding these findings, management of the Company will continue to execute its detailed plan and its views and conclusions may be subject to change.

The tables on the following pages set out an overview of the work plan activities and the current status of each. The work plan details may change as the Company gets deeper into its discovery and analysis.

1. Financial Statement Preparation		
Key Activity	Milestones/Target Dates	Management Comments
Identify major differences between Canadian GAAP and IFRS	High level review to be completed before March 31, 2011	Management has determined that the significant accounting policy differences will be:  IFRS1: First time adoption; IFRS2: Share-based payments; and IFRS36: Impairment of assets.
Select Company's ongoing IFRS policies	Audit Committee review and approval by June 30, 2011.	Activity in progress
Select Company's IFRS 1 elections on conversion	Elections which might create a material change in the financial statements to be identified by March 30, 2011; all elections approved by Audit Committee by June 30, 2011	Effects of IFRS 1 elections have been identified and approved by the Audit Committee. None will create a material change in the financial statements.
Develop Financial Statement format for IFRS reporting	Audit Committee approval of financial statement and notes format prior to October 1, 2011	Activity in progress
Quantify effects of changes in initial IFRS 1 disclosures and F2012 financial statements	Audit Committee approval prior to October 1, 2011	Completed. Changes are not material.



2. Training, Infrastructure and Technology		
Key Activity	Milestones/Target Dates	Management Comments
Define and introduce appropriate level of IFRS expertise for Senior Executives and Board	Scope of knowledge determined; training plan documented	Knowledge definition is continuing
Define and introduce appropriate level of IFRS expertise for Finance and Accounting Department roles	Scope of knowledge determined for each position, training plan documented and implemented	Activity started and high level training has been conducted for internal accounting staff. Training continues on an on-going basis.
Define and introduce appropriate level of IFRS expertise to Investor Relations personnel	Scope of knowledge determined, training plan documented	Investor Relation activities to be carried out by knowledgeable Finance and/or Senior Management personnel.
Determine data requirements and sources of data for IFRS reporting including C-GAAP reconciliation during transition	Data requirements determined and sourced by March 31, 2011	Preliminary assessment of data requirements would indicate that with changes recently made to accounting system, there should be no major issues. Additional investigation has to be done on data content for IFRS notes. This is in progress.
Determine one-time calculations for IFRS 1 reporting requirements and C-GAAP reconciliation	Preliminary assessment completed by September 30, 2010; final assessment approved by Audit Committee by June 30, 2011.	Final calculations completed.
Determine and implement changes to key automated business systems to support IFRS reporting and C-GAAP reconciliation	Changes to automated systems to be completed by April 30 2011	Changes were made to accounting system effective October 1, 2009 in anticipation of certain reporting requirements under IFRS.  Additional changes may come about as a result of the outcome work in the Financial Statement Preparation section

3. Business Policy Assessment		
Key Activity	Milestones/Target Dates	Management Comments
Identify impact on Compensation Arrangements and modify as needed	Assessment to be made on the impact of IFRS on Compensation arrangements including executive performance targets, commissions etc. by start of Fiscal 2012	There will be no impacts.
Evaluate impact on financial covenants, banking arrangements and capital requirements and implement remedial plans if required	Initial review to be completed by September 1, 2010; Company will have ongoing review of performance arrangements and covenants	Review has been completed and no changes are required to any major agreements.
Evaluate impact on customer and supplier contracts and implement remedial plans if required	Determine if any customer or supplier contracts have ties into IFRS GAAP generated data	Review has been completed and no changes are required to agreements.

4. Internal Controls over Financial Reporting (ICFR)		
Key Activity	Milestones/Target Dates	Management Comments
Assess if new controls are required and if so, design new controls and test plans to address initial reporting of IFRS financial statements and the comparative data created for Q1F2011	For identified changes in accounting policy, assess and if necessary, design control processes prior to October 1, 2011	This will be an outcome of work in the Financial Statements Preparation section.

5. Disclosure Controls and Procedures		
Key Activity	Milestones/Target Dates	Management Comments
For all accounting policy changes identified, assess the DC&P design and effectiveness	Begin to publish impact of IFRS accounting changes as information is available, but begin no later than December 31 2010 interim for major items	Activity initiated and under quarterly review.
Ensure investor communications clearly explain the changes in accounting policy and quantify the implications of the changes	All communication of financial matters commencing October 1, 2010 to include if known and possible, assessment of IFRS changes that might result in future statement presentation	Management prepared to begin activity effective with financial disclosure starting on October 1, 2011.
Update MD&A package to reflect increasing explanation of changes and implications thereof.	Ongoing as required	Activity initiated and under quarterly review.



### ***RISKS AND UNCERTAINTIES***

An investment in the Company should be considered highly speculative due to the nature of the Company's activities and that it is a development stage company. These risk factors and uncertainties could materially affect the Company's future operating results and could cause actual events to differ materially from those described in forward-looking statements contained herein relating to the Company.

This section should be read in conjunction with and is qualified by the "Risk Factors" section of the Company's AIF dated January 27, 2012 available on SEDAR at [www.sedar.com](http://www.sedar.com), which is hereby incorporated by reference herein. Some of these risks, presented in greater detail in the AIF, include the following:

- Dependence on the successful development, commercialization and integration of the EESstor technology and potential impact on the Company if this does not occur at all or in a timely manner, or if the commercial EESU does not possess the anticipated functionality and benefits,
- Early stage of development, history of losses,
- EESstor equity investment,
- Additional financing requirements.

### ***ADDITIONAL DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE***

As of September 30, 2011 the Company had no deferred costs related to development or start up. Additional required disclosure for venture issuers without significant revenue is included in the section "Discussion of Operating Results" above.

### ***OUTSTANDING SHARES***

The following table outlines all outstanding voting or equity securities of the Company and all other securities of the Company which are convertible into, or exercisable or exchangeable for, voting or equity securities as of January 27, 2012:

	<b>Number</b>
Common shares outstanding	37,332,913
Issuable under options	2,998,566
<b>Total diluted common shares</b>	<b>40,331,479</b>

Features of the options are described in the Notes to the audited consolidated financial statements for the year ended September 30, 2011.

### ***ADDITIONAL INFORMATION***

Additional information relating to the Company, including the Company's AIF dated January 27, 2012, can be found on SEDAR at [www.sedar.com](http://www.sedar.com) and at the Company's website at [www.zenncars.com](http://www.zenncars.com).