ZENN Motor Company Inc.

(A Development Stage Company)

Interim Consolidated Financial Statements

For the Three Months Ended December 31, 2010

(Unaudited)

Notice to Reader

The accompanying unaudited interim consolidated financial statements of ZENN Motor Company Inc. (the “Company”) for the three months ended December 31, 2010 have been prepared by management and approved by the Board of Directors of the Company. These statements have not been audited, reviewed or verified by the Company’s external auditors or any other accounting firm.

ZENN Motor Company Inc.
(A development stage company)
Consolidated Balance Sheets
As at December 31, 2010 and September 30, 2010

	Notes	December 31, 2010 (unaudited)	September 30, 2010 (audited)
Assets			
Current			
Cash and cash equivalents		**$ 2,901,545**	$ 474,452
Short-term investments		**1,600,200**	4,600,200
Prepaid expenses and sundry assets		**174,481**	171,814
Current assets of discontinued operations	6	**197,774**	175,326
		4,874,000	5,421,792
Property and equipment	7	**91,120**	106,639
EEStor technology marketing rights	8	**2,303,275**	2,303,275
Investment in EEStor, Inc.	9	**8,674,771**	8,674,771
Long lived assets of discontinued operations	6	**104,209**	114,490
		$ 16,047,375	$ 16,620,967
Liabilities			
Current			
Accounts payable and accrued liabilities		**$ 639,427**	$ 455,432
Current liabilities of discontinued operations	6	**312,285**	385,984
		951,712	841,416
Shareholders' Equity			
Share capital	12	**52,239,586**	52,239,586
Contributed surplus	13	**3,054,489**	2,920,449
Warrant capital	14	**170,524**	170,524
Deficit		**(40,368,936)**	(39,551,008)
		15,095,663	15,779,551
		$ 16,047,375	$ 16,620,967

ZENN Motor Company Inc.
(A development stage company)
Consolidated Statements of Operations and Deficit
For the three months ended December 31
(Unaudited)

	Notes	2010	2009
Expenses			
General and administrative	**16**	**$ 569,303**	$ 686,751
Engineering and development	**16**	**81,270**	355,883
Marketing and business development	**16**	**81,963**	26,274
Foreign exchange loss (gain)		**30**	(1,427)
Amortization		**22,008**	16,125
		754,574	1,083,606
Interest Income		**11,086**	10,754
Loss from continuing operations		**(743,488)**	(1,072,852)
Loss from discontinued operations	**6,16**	**(74,440)**	(773,537)
Net Loss		**(817,928)**	(1,846,389)
Deficit, beginning of period		**(39,551,008)**	(33,304,036)
Deficit, end of period		**(40,368,936)**	(35,150,425)
Loss per share, basic and diluted			
From continuing operations		**$ 0.02**	$ 0.03
From discontinued operations		**$ -**	$ 0.02
Loss per share, basic and diluted		**$ 0.02**	$ 0.05
Weighted average number of common shares outstanding			
Basic and diluted		**37,215,263**	37,086,332

ZENN Motor Company Inc.
(A development stage company)
Consolidated Statements of Cash Flows
For the Three Months Ended December 31
(Unaudited)

	2010	2009
Cash flows provided by (used in) operations		
Net loss for period	**$ (743,488)**	$ (1,072,852)
Items not affecting cash		
Amortization	**22,008**	16,125
Gain on sale of fixed asset	**(2,559)**	-
Stock based compensation	**131,720**	211,404
	(592,319)	(845,323)
Net changes in non-cash working capital		
Prepaid expenses and sundry assets	**(2,667)**	(108,383)
Accounts payable and accrued liabilities	**183,995**	191,298
	(410,991)	(762,408)
Investing		
Short-term investments	**3,000,000**	-
Acquisition of property and equipment	**(1,393)**	(18,323)
	2,998,607	(18,323)
Financing		
Exercise of warrants	**-**	124,106
	-	124,106
Cash provided by (used in) discontinued operations	**(160,523)**	**(99,787)**
Net change in cash	**2,427,093**	(756,412)
Cash and cash equivalents, beginning of period	**474,452**	2,543,540
Cash and cash equivalents, end of period	**$ 2,901,545**	$ 1,787,128
Consists of:		
Cash	**$ 2,901,545**	$ 1,787,128

1. INTERIM REPORTING

ZENN Motor Company Inc. ("ZMC" or the "Company") prepares its financial statements in accordance with Canadian generally accepted accounting principles. The disclosures contained in these unaudited interim consolidated financial statements do not include all requirements of Canadian generally accepted accounting principles for the presentation of annual financial statements. Notwithstanding, the unaudited interim financial statements follow the same accounting policies and methods of application as the audited financial statements of the Company for the year ended September 30, 2010. These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements of ZENN Motor Company Inc. for the years ended September 30, 2010 and 2009.

Accounting measurements at interim dates inherently involve greater reliance on estimates than at year-end. In the opinion of management, the accompanying unaudited interim consolidated financial statements include all adjustments of a normal recurring nature to present fairly the position of the Company as at December 31, 2010 and to reflect the results of operation for the three month period then ended.

2. NATURE OF THE CORPORATION'S BUSINESS

ZENN Motor Company Inc. (the "Company") is incorporated under the Business Corporation Act (Ontario). The Company's primary business was 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™ in order to focus on the development and marketing of ZENNergy™. ZENNergy is a suite of electric vehicle technologies, components and services designed to capitalize on the unique characteristics of EEStor, Inc's (EEStor's) capacitor based energy storage technology. The Company intends to capitalize on certain exclusive and non-exclusive rights to purchase and deploy an energy storage technology currently under development by EEStor (see Notes 8 and 9) through original equipment manufacturers ("OEMs") and tier 1 suppliers. The expenses for the three months ended December 31, 2010 from research and development related to this project are $81,270 ($1,220,756 from inception of the project). There are no revenues or capitalized amounts related to this project.

The Company's success depends on the completion and commercialization of both the ZENNergy™ solutions and technologies and EEStor's energy storage technology. There is no assurance that the Company and/or EEStor will be successful in the completion of the development and commercialization of their respective products. Based on its current operating and financial plans, management of the Company believes the current level of cash and cash equivalents and short-term investments will be sufficient to fund the Company's planned operations for fiscal 2011; 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.

3. 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., ZENN Vehicules Electriques Inc., ZENNergy Inc., 2186025 Ontario Inc. and ZMC America, Inc. Inter-company balances and transactions are eliminated upon consolidation.

EEStor Technology Marketing 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 December 31, 2010, 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 8).

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 December 31, 2010, no events or changes in circumstances had occurred which would lead to impairment in the value of the investment (see Note 9).

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 and warrants, impairment assessment of the Agreement and the investment in EEStor, valuation allowance on future tax assets and the fair value of financial instruments.

4. ADOPTION OF NEW ACCOUNTING POLICIES

Fair Value Hierarchy and Liquidity Risk Disclosure

In June 2009, the CICA issued an amendment to Handbook Section 3862 to provide improvements to fair value and liquidity risk disclosures. The amendment applied to the Company's fiscal year ended September 30, 2010. This adoption resulted in additional disclosure in the notes to these consolidated financial statements.

5. ACCOUNTING PRONOUNCEMENTS ISSUED BUT NOT YET EFFECTIVE

International Financial Reporting Standards ("IFRS")

The CICA plans to incorporate IFRS into the CICA Handbook as a replacement for current Canadian GAAP for most publicly accountable enterprises effective for fiscal years beginning on or after January 1, 2011. The transition date of October 1, 2011 for the Company will require restatement for comparative purposes of amounts reported by the Company for the year ended September 30, 2011. The Company has begun assessing the adoption of IFRS for 2011 and has made some initial determinations of the financial reporting impact of the transition to IFRS; however the final impact has not been determined at this time.

Business Combinations

In January 2009, the CICA issued Section 1582 "Business Combinations". This section is effective January 1, 2011 and applies prospectively to business combinations for which the acquisition date is on or after the first annual reporting period of the Company beginning on or after January 1, 2011, specifically October 1, 2011 for the Company. Early adoption is permitted. This section replaces Section 1581 "Business Combinations" and harmonizes the Canadian standards with IFRS. The Company does not anticipate that the adoption of this standard will impact its financial results.

6. DISCONTINUED OPERATIONS

The Company has 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:

	December 31, 2010	September 30, 2010
Current assets of discontinued operations		
Accounts receivable	**$ 15,429**	$ 20,019
Inventory	**152,941**	155,307
Prepaid and sundry assets	**29,404**	-
	$ 197,774	$ 175,326
Long lived assets of discontinued operations		
Property and equipment	**$ 3,876**	$ 7,157
Prepaid insurance	**100,333**	107,333
	$ 104,209	**$ 114,490**

	December 31, 2010	September 30, 2010
Current liabilities of discontinued operations		
Trade accounts payable and accrued liabilities	**$ 85,185**	$ 104,930
Warranty accrual	**192,873**	207,761
Severance accrual	**34,227**	73,293
	$ 312,285	$ 385,984

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

	December 31, 2010	December 31, 2009
Revenue	**$ 18,996**	$ 589,504
Costs of goods sold	**10,262**	525,611
Gross profit (loss)	**8,734**	63,893
Expenses	**83,174**	837,430
Loss from discontinued operations	**$ (74,440)**	$ (773,537)

7. PROPERTY AND EQUIPMENT

December 31, 2010

	Cost	Accumulated Amortization	Net
Computer equipment	**$ 205,833**	**$ 165,143**	**$ 40,690**
Office furniture and equipment	**133,628**	**98,084**	**35,544**
Tools and equipment	**94,828**	**89,741**	**5,087**
Leasehold improvements	**32,273**	**22,474**	**9,799**
	$ 466,562	**$ 375,442**	**$ 91,120**

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

8. EESTOR TECHNOLOGY MARKETING 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 December 31, 2010, 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.

9. 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 concluded 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.

10. DEVELOPMENT COSTS

As of December 31, 2010, the Company has not deferred any development costs to future periods. Current projects are considered to be in the research phase and therefore are expensed to Engineering and Development.

11. 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. As a company focusing on development (see Note 2), 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, warrant capital, 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 three months ended December 31, 2010.

12. 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**
Balance, December 31, 2010	**37,215,263**	**$ 52,239,586**

(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.

13. CONTRIBUTED SURPLUS

The following summarizes the change in contributed surplus:

	December 31, 2010	September 30, 2010
Balance, beginning of period	**$ 2,920,449**	$ 1,946,725
Stock-based compensation expense	134,040	960,768
Transfer from warrant capital on expiry	-	12,956
Balance, end of period	**$ 3,054,489**	**$ 2,920,449**

14. WARRANT CAPITAL

The following summarizes the change in warrant capital:

	December 31, 2010	September 30, 2010
Balance, beginning of period	**$ 170,524**	$ 232,479
Transferred to contributed surplus on expiry	**-**	(12,956)
Less: Exercise of warrants	**-**	(48,999)
Balance, end of period	**$ 170,524**	$ 170,524

15 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. 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.

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

	December 31, 2010		September 30, 2010	
	Number of Options	**Weighted Average Exercise Price**	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of period	**2,537,883**	**$ 2.73**	2,457,166	$ 2.61
Granted	**100,000**	**$ 1.65**	300,000	$ 2.88
Exercised	**-**	**-**	(126,666)	$ (0.45)
Expired/Cancelled	**(35,400)**	**$ (2.40)**	(92,617)	$ (3.27)
Outstanding, end of period	**2,602,483**	**$ 2.67**	**2,537,883**	$ 2.73
Exercisable	**1,985,734**	**$ 2.75**	1,637,602	$ 2.76

Options Outstanding at December 31, 2010:

	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**
$1.26 to $2.50	947,394	1.89	$ 1.99	694,590	$ 2.14
$2.51 to $3.75	1,164,029	2.62	$ 2.67	905,689	$ 2.70
$3.76 to $5.00	477,727	2.35	$ 4.00	372,122	$ 3.99
$5.01 to $10.00	13,333	1.54	$ 5.03	13,333	$ 5.03
Total	**2,602,483**	**2.30**	**$ 2.67**	**1,985,734**	**$ 2.75**

15 STOCK OPTIONS AND WARRANTS (cont'd)

Warrant Transactions

The following tables outline the warrant transactions and numbers outstanding:

	December 31, 2010		September 30, 2010	
	Number of Warrants	**Weighted Average Exercise Price**	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of period	**106,000**	**$ 3.50**	147,845	$ 3.57
Exercised	**-**		(33,095)	$ (1.48)
Cancelled/Expired	**-**		(8,750)	$ (1.48)
Outstanding, end of period	**106,000**	**$ 3.50**	106,000	$ 3.50

Warrants Outstanding at December 31, 2010:

Expiry Date	**Number of Warrants**	**Exercise Price**
January 14, 2011	106,000 (i)	$ 3.50

(i) All of these warrants expired subsequent to end of the reporting period (see note 21).

16. STOCK-BASED COMPENSATION AND STOCK-BASED PAYMENTS

The Company recorded $131,720 (2010 - $211,404) in stock based compensation costs in the year. Of this amount, $104,155 (2010 - $176,911) was included in general and administrative expenses, $13,702 (2010 - $24,312) in the engineering and development and $13,863 (2010 - $10,181) in marketing and business development expenses. As well, $2,320 (2010 - $45,478) was included in 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 - 82%), (iii) risk free interest rate of 1.4% (2010 – 1.3%), 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 $0.91 (2010 - $2.44) per instrument.

17. COMMITMENTS AND CONTINGENCIES

Operating Lease

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

2011	$	104,982
2012		41,400
	$	**146,382**

Contingencies

(i) A claim has been brought against the Company in the State of Washington for violation of certain Washington State laws and breach of warranties related to the purchase of a ZENN LSV. The Company is of the opinion that the claim is without merit and that the outcome is not determinable; accordingly, no amount has been accrued as at December 31, 2010.

(ii) A claim has been brought against the Company by a former employee for wrongful dismissal. The Company is of the opinion that the claim is without merit and that the outcome is not determinable; accordingly, no amount has been accrued as at December 31, 2010.

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 December 31, the Company had cash equivalents totaling $1,600,200, earning a weighted average return of 0.67%.

The estimated sensitivity of the Company's net after-tax income for the year ended December 31, 2010 from an increase in the interest rate of 0.20% on the average interest risk liabilities with all other variables held constant as at December 31, 2010 would be $3,200. A decrease in the interest rate of 0.20% would have had the equal but opposite effect.

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 11 – Management of Capital, 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

In the three months ended December 31, 2010, all of the Company's revenue, with the exception of interest income, is now included in discontinued operations. 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

Comparative information has been reclassified to conform to the required reporting of discontinued operations and the related assets and liabilities.

21. SUBSEQUENT EVENTS

Subsequent to the period end, the 106,000 warrants outstanding at December 31, 2010, with an exercise price of $3.50, expired unexercised.

On February 1, 2011, the Company announced the issuance of stock options granted to certain officers, directors and employees in the aggregate amount of 919,300. Each option is exercisable to acquire one common share at a price of $1.35. The options vest as to one-third each year over three years and will expire five years from the date of grant.