This "Management's Discussion and Analysis" ("MD&A") has been prepared as of February 25, 2011 and should be read in conjunction with the unaudited interim consolidated financial statements of ZENN Motor Company Inc. (the "Company" or "ZMC") for the three months ended December 31, 2010, the audited consolidated financial statements for the years ended September 30, 2010 and 2009 and the Company's Annual Information Form ("AIF") dated January 20, 2011. All financial amounts are expressed in Canadian dollars unless otherwise stated. Other than financial statement data for the years ended September 30, 2010 and 2009 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 20, 2011. 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 EEStor, Inc. ("EEStor") or the energy storage technology being developed by EEStor has not been reviewed by EEStor and EEStor 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 be built 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 foresees 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 more particularly during the last several months, reinforces that the timing could not be better for cost effective electric vehicles to be offered to consumers around the world. To further reinforce this shift towards socially responsible transportation and despite the recent economic downturn, 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 marketing rights, upon payment of predetermined amounts, to an energy storage technology currently under development. 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 20, 2011 in the section entitled "EEStor 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 a global leader in enabling zero emission, energy-efficient transportation through unique, yet widely applicable, technology offerings. The Company's primary business had historically been the development, production and distribution of a fully-electric low-speed vehicle (LSV) called the ZENN™ ("ZENN") which was assembled using the Microcar MC-2 host vehicle as the platform with a drivetrain system comprised primarily of conventional and generally available electrical components. In September 2009, the Company indicated its future business strategy would be in the design and development of ZENNergy™ technologies and solutions, a range of electric vehicle technologies, components and services designed to capitalize on the unique characteristics expected of EEStor's capacitor-based energy storage technology, if and when commercialized. In concert with this change in strategic focus, in December 2009, the Company announced that 2010 would be the last model year for the ZENN LSV and that it would cease production no later than April 30, 2010. In April 2010, the Company completed the closing of its Saint Jerome production facilities as planned. The Company sold off surplus LSV production assets and LSV related production inventory. The Company also eliminated a number of positions directly and indirectly related to the sales, marketing and production of the ZENN LSV.

The Company continues to leverage the broad EV technical expertise it has built up over the years. During the year, the Company's investment in key engineering initiatives, designed to further its ZENNergy™ technologies and solutions, included the following:

- Developing high-voltage drivetrain technologies and solutions that can best take advantage of the unique capabilities represented by anticipated high-voltage energy sources such as EEStor Inc.'s technology;
- Developing the requirements for power electronics and power management systems that are planned to optimize these high-voltage drivetrain technologies and solutions;
- Developing control strategies for systemic optimization and integration; and
- Identifying safety and reliability needs and specific strategies and solutions required.

As part of these initiatives, the Company is pursuing a number of related patents that share the following attributes:

- They will enhance the Company's ZENNergy™ technologies and solutions;
- They will be applicable to EEStor and/or non-EEStor energy storage systems; and,
- They are expected to create incremental revenue opportunities.

The Company is also actively engaged in opportunities to establish relationships with, or invest in, third-party companies that can provide complementary technologies that will enhance the Company's overall solutions offering.

To support its planned go-to-market activities, the Company continually assesses the numerous announcements and developments taking place within the rapidly evolving EV industry. Information gleaned through on-going discussions with various OEMs and suppliers, attendance at select conferences and other market research is all helping ZMC to define and refine the Company's market strategy to be a global leader in enabling zero emission transportation solutions. Each ZENNergy solution will be specifically engineered to support the electric vehicle strategy of an automotive or speciality vehicle OEM or Tier 1 supplier or, in the case of the retrofit strategy, a fleet owner or retrofit upfitting organization. Further details on the ZENNergy strategy are available in the Company's AIF dated January 20, 2011.

HIGHLIGHTS AND SUMMARY

The following summarizes the key events in the development of the Company during the three months ended December 31, 2010 and up to the date of this MD&A:

- On October 6, 2010, the Company announced the appointment of John Wallace to the Board of Directors. Mr. Wallace's 40 year career spans the transportation, semiconductor and energy storage industries. Concurrent with the appointment of Mr. Wallace, Peter MacKechnie resigned as a Director of the Company. Mr. MacKechnie had been a director of the Board since 2006.
- In the three months ended December 31, 2010, the Company incurred a net loss of $817,928, compared with $1,846,389 in the corresponding period of the prior year. On a per share basis, for the three months ended December 31, 2010, the Company incurred a net loss of ($0.02), compared with ($0.05) in the corresponding period in the prior year.
- The Company incurred a loss from continuing operations of $743,488, in the three months ended December 31, 2010, compared to $1,072,852 in the corresponding period of the prior year. On a per share basis, the Company's loss from continuing operations was ($0.02), compared to ($0.03) in the prior year.
- In the three months ended December 31, 2010, the Company incurred a loss from discontinued operations of $74,440 compared to $773,537 in the corresponding period of the prior year. On a per share basis, the Company's losses from discontinued operations were ($0.00), compared to ($0.02) in the prior year.
- During the three months ended December 31, 2010, the Company used $410,991 of cash in its continuing operations, as compared to $762,409 in the same period of the prior year.
- The Company continues to develop its knowledge in deployment and control of high density power storage for automotive applications. During the current quarter, and for the period since then, the Company's primary development activities continued to focus on the following three areas:
    - creating and then protecting the intellectual property associated with its planned ZENNergy solutions;
    - identifying and pursuing rights or relationships for additional complementary technology that could further enhance the capabilities of ZENNergy technologies and solutions as well as other potential applications; and
    - developing the go-to-market plans for these solutions.

  Progress on all of these initiatives will be communicated to the Company's stakeholders as they mature and when such disclosure will not impair the value of our intellectual property, breach any applicable non-disclosure agreements or otherwise negatively impact our competitive advantage.
- EEStor's progress towards commercialization of its technology continues. Management maintains its on-going confidence in EEStor but reiterates that it is within EEStor's sole purview to publicly announce information regarding their specific progress or timelines. The Company may only comment

on information directly related to EEStor's progress after EEStor makes such information public or consents to such disclosure. Although EEStor did not make any formal public announcements during the quarter ended December 31, 2010, it has been adding significantly to its patent portfolio as it relates to its energy storage technology. Additional details about EEStor's patent activity are available in the Company's AIF dated January 20, 2011.

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 warranty and rebate reserves 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 warranty and parts services.

Development stage operation

With the discontinuation of the LSV business, the Company's primary business is the development of the ZENNergy offerings based on the high density electrical storage technology being developed by EEStor. Pending the delivery of the technology by EEStor, ZMC's primary activity is engineering and business development and ZMC can be considered a development stage business.

The table on the following page summarizes the Company's operating results for continuing operations, segregating the loss from discontinued operations, for the three months ended December 31, 2010 and 2009.

(unaudited)	For the three months ended December 31	
	2010	2009
	$	$
Interest Income	**(11,086)**	(10,754)
General and administrative	**569,303**	686,751
Engineering and development	**81,270**	355,883
Marketing and business development	**81,963**	26,274
Foreign exchange (gain) loss	**30**	(1,427)
Amortization	**22,008**	16,125
Loss from continuing operations	**743,488**	1,072,852
Loss from discontinued operations	**74,440**	773,537
Net loss for the period	**817,928**	1,846,389
Loss per share		
Continued operations	**(0.02)**	(0.03)
Discontinued operations	**(0.00)**	(0.02)
Total	**(0.02)**	(0.05)

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, as well as the Company's efforts in reducing its ongoing costs of continuing operations. In the three months ended December 31, 2010 the Company incurred a loss directly related to the LSV business of $74,440, compared to $773,537 for the corresponding period of the prior year. The significantly reduced loss in the three months ended December 31, 2010 is an indication that the shutdown of the LSV business is substantially 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. As of December 31, 2010 the Company's assessment of its warranty provision indicates there are sufficient reserves to cover anticipated claims.

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

General and Administrative

(unaudited)	For the three months ended December 31	
	2010	2009
	$	$
Salaries and benefits	**278,135**	300,184
Stock based compensation	**104,155**	176,911
Insurance	**22,641**	29,744
Legal, Audit, Regulatory	**80,914**	60,507
Occupancy costs	**32,600**	30,110
Other costs	**50,858**	89,295
Total	**569,303**	686,751

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 ended December 31, 2010, decreased by approximately 7% when compared to the same period in the prior year. Stock based compensation decreased in the three months ended December 31, 2010 as compared to the prior period since fewer options remained to vest as compared to the prior period. Insurance costs for the current quarter dropped by 24% compared to the prior year period due to decreased insurance needs as the Company reduced its facilities and some of its assets. Legal, Audit and Regulatory increased during the three months due primarily to increased legal costs. Occupancy costs increased slightly due to an anticipated rent increase as per the lease agreement. Other costs decreased significantly as compared to the 2010 period due to a reduction in the use of consultants for various business activities which are no longer being pursued.

Engineering and Development

(unaudited)	For the three months ended December 31	
	2010	2009
	$	$
Salaries and benefits	**104,096**	191,183
Stock based compensation	**13,702**	24,312
Service and materials	**6,075**	75,504
Other costs	**(42,603)**	64,884
Total	**81,270**	355,883

Engineering and Development includes all costs related to ongoing product engineering and development. Technical services and warranty claims management 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.

Engineering efforts continue to be focused on the development and understanding of solutions for the automotive and specialty vehicle markets to capitalize on and optimize the high voltage and energy density capabilities expected from EEStor's solid state energy storage technology, as discussed earlier in the "Overview of Business" section. Current projects include studies in the area of high voltage power electronics and components and assessing where the Company can offer the greatest potential benefits to OEM and Tier 1 companies. The decrease in Salaries and Benefits in the current periods versus the prior year period 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. Services and materials costs dropped significantly in the current quarter and fiscal year versus the respective periods in the previous year, reflecting the Company's needs due to reduced headcount. Other costs have declined significantly as compared to the prior year. Current period expenses were offset by the receipt of SR&ED funding, for which no accrual was made. Net of the effect of that receipt, other costs decreased substantially, to approximately $22,000 as compared to $64,884 in the prior period. Again, the decrease is due primarily to a reduction in headcount and a focus on specific engineering activities.

Marketing and Business Development

(unaudited)	For the three months ended December 31	
	2010	2009
	$	$
Salaries and benefits	**62,557**	-
Stock based compensation	**13,863**	10,181
Other marketing related costs	**5,543**	16,093
Total	**81,963**	26,274

Marketing and Business Development in the three months ended December 31, 2010 focused primarily on business development activities with respect to ZENNergy offerings, as well as ongoing brand management and development. As such, salaries and benefits and stock based compensation costs now include a business development component, which did not exist in the prior year. The costs reflected above exclude those marketing and sales costs associated with the LSV business, which are now included in discontinued operations.

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 $
March 31, 2009	(1,052,615)	(920,401)	(1,973,016)	(0.03)	(0.03)	(0.06)
June 30, 2009	(1,058,540)	(1,517,481)	(2,576,021)	(0.04)	(0.04)	(0.08)
September 30, 2009	(1,595,709)	(2,158,010)	(3,753,719)	(0.04)	(0.06)	(0.10)
December 31, 2009	(1,097,871)	(748,518)	(1,846,389)	(0.03)	(0.02)	(0.05)
March 31, 2010	(1,051,370)	(963,483)	(2,014,853)	(0.03)	(0.02)	(0.05)
June 30, 2010	(1,085,206)	(191,299)	(1,276,505)	(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)

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 9 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 declined on a quarterly basis throughout the year as the Company exited this business segment. During the year ended September 30, 2010 the Company realized a write-up of inventory of $206,788. There was no inventory adjustment in the current period. The losses related to continuing operations shows a general downward trend reflecting the Company's ongoing cost reduction programs.

EESTOR

The Company will only provide status updates with regard to EEStor's progress after EEStor 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 EEStor from completing the development of its technology and as outlined in the overview of the Company's engineering activity, ZMC continues to develop its solutions in anticipation of EEStor delivering its technology. Reference should be made to the Company's AIF dated January 20, 2011 for details related to EEStor's patent activities during and since the last fiscal year.

ANALYSIS OF USE OF FUNDS

On July 14, 2009, the Company completed a prospectus offering of common shares raising gross proceeds of $9,275,000. In the prospectus, the Company indicated that the net proceeds combined with cash resources on hand, were expected to be disbursed as follows:

- ZENNergy engineering and development $1,000,000
- ZENNergy business development $750,000
- Capital expenditures $500,000
- Operating costs $7,200,000
- EEStor milestone payment $580,000

In the three months ended September 30, 2010 and cumulative since the July 2009 prospectus, the Company expended the following amounts against the planned use of funds:

	Planned Expenditures	**Expended in Current Period**	**Cumulative Expenditures**
ZENNergy engineering and development	$1,000,000	$67,407	$1,565,056
ZENNergy business development	750,000	55,216	591,928
Capital expenditures	500,000	1,393	34,856
Operating costs	7,200,000	465,148	6,504,788
EEStor milestone payment	$580,000 (US$500,000 at the rate of exchange at the time of payment)	nil	nil

The Company has refrained from executing on certain business development efforts pending delivery of the EEStor technology. The variance in capital expenditures reflects the nature of the engineering projects being undertaken.

LIQUIDITY AND CAPITAL RESOURCES

In the three months ended December 31, 2010 and up to the date of this MD&A, the Company continued to incur losses and is drawing on its cash resources as it develops its business.

The Company's financial liquidity is currently supported by cash, cash equivalents 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 development of ZENNergy solutions and EEStor's development 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 its ability to raise capital to fund the development of the business (see "Risks and Uncertainties").

The Company's total cash, cash equivalents and short-term investments at December 31, 2010 was $4,501,745 compared to a combined balance of $5,074,652 at September 30, 2010. Working capital as at the same two dates was $3,922,288 and $4,580,376, respectively, with a reduction of $658,088 experienced in the current quarter.

In the three months ended December 31, 2010, the Company recorded a loss related to the discontinued LSV operation of $74,440 compared to a loss of $773,537 for the same period 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 beyond the end of fiscal 2011.

CAPITAL COMMITMENTS

Except as noted below, the Company does not have any material commitments for capital assets as at December 31, 2010 or the date of this MD&A.

The Company has a commitment with respect to its EEStor technology rights whereby payment is contingent on EEStor achieving specific milestones. As at December 31, 2010 and the date of this MD&A, there remains one milestone payment due to EEStor 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 EEStor 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. As a company focusing on development, 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 year ended December 31, 2010.

RELATED PARTY TRANSACTIONS

During the three months ended December 31, 2010, the Company did not engage in any related party transactions.

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 December 31, 2010 the Company had short-term investments totaling approximately $1,600,000, earning a weighted average return of 0.67%.

The estimated sensitivity of the Company's net after-tax income for the three months ended December 31, 2010, 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 it's 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 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.

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 Vehicules Electriques Inc., ZENN Capital Inc., ZENNergy Inc., 2186025 Ontario 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. The more significant assumptions made by management in the preparation of the Company's financial statements relate to the impairment test of the Company's investment in the EEStor technology marketing rights, the fair value of the investment in shares of EEStor and the fair value of stock based payments.

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 three months ended December 31, 2010 and 2009, the following inputs were used in the Black Scholes options pricing model:

Black-Scholes assumptions used:	**2010**
Expected volatility	86.0%
Expected dividend yield	0.0%
Risk free interest rate	1.4%
Expected options life in years	3
Fair value per stock option granted on October 6, 2010	$ 0.91

Black-Scholes assumptions used:	**2009**
Expected volatility	82.0%
Expected dividend yield	0.0%
Risk free interest rate	1.3%
Expected options life in years	3
Fair value per stock option granted on December 8, 2009	$ 2.13

The following table summarizes stock options granted during the three months ended December 31, 2010:

Date Granted	Number Granted	Exercise Price	Expiry Date
October 6, 2010	100,000	$1.65	October 6, 2015
Total Granted	100,000		

ADOPTION OF NEW ACCOUNTING POLICIES

In the three months ended December 31, 2010, the Company did not adopt any new accounting policies.

ACCOUNTING PRONOUNCEMENTS ISSUED BUT NOT YET EFFECTIVE

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.

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.

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 three months ended December 31, 2010 is a requirement and must be available for presentation in accordance with IFRS.

The Company is however obliged to report under Canadian GAAP up to and including September 30, 2011. It should be apparent from the above timelines, that the transition to IFRS will involve some overlap of accounting policies and the ability to reconcile between the two standards.

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". These tables will be updated in subsequent MD&A reports and areas where there may be significant differences between Canadian GAAP and IFRS, an explanation provided.

At the date of this MD&A, after an initial examination of IFRS and the Company's current reporting, there would 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 preliminary findings, management of the Company will continue to execute its detailed plan and its views and conclusions may be subject to change.

The following tables 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	Continuing analysis by management reinforces the Company's earlier reporting that there will not be any significant accounting policy differences. However, additional investigation is being carried out into the possible impacts on the Company's accounting of the following IFRS pronouncements relative to GAAP: 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	Activity in progress
Develop Financial Statement format for IFRS reporting	Audit Committee approval of financial statement and notes format prior to October 1, 2011	Activity not started
Quantify effects of changes in initial IFRS 1 disclosures and F2012 financial statements	Audit Committee approval prior to October 1, 2011	Activity not started

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 in progress
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. Development of detailed plans is in progress
Define and introduce appropriate level of IFRS expertise to Investor Relations personnel	Scope of knowledge determined, training plan documented	Knowledge definition is in progress
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.

2. Training, Infrastructure and Technology		
Key Activity	Milestones/Target Dates	Management Comments
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.	Activity not started
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	Activity not started
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	Preliminary review has been completed, 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	Preliminary review has been completed, 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 started for Q1 FY2011
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, 2010.
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 20, 2011 available on SEDAR at 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 EEStor 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,
- EEStor equity investment,
- Ability to successfully develop ZENNergy technologies,
- Additional financing requirements.

ADDITIONAL DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE

As of December 31, 2010 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 February 25, 2011:

	Number
Common shares outstanding	37,215,263
Issuable under options	3,521,783
Total diluted common shares	**40,737,046**

Features of the options are described in the Notes to the unaudited consolidated financial statements for the period ended December 31, 2010.

ADDITIONAL INFORMATION

Additional information relating to the Company, including the Company's AIF dated January 20, 2011, can be found on SEDAR at www.sedar.com and at the Company's website at www.zenncars.com.