



## **ZENN Motor Company Inc.**

**(A Development Stage Company)**

**Interim Consolidated Financial Statements**

**For the Three and Six Months Ended March 31, 2011**

**(Unaudited)**

### **Notice to Reader**

The accompanying unaudited interim consolidated financial statements of ZENN Motor Company Inc. (the "Company") for the three and six months ended March 31, 2011 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 March 31, 2011 and September 30, 2010**

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	Notes	March 31, 2011 (unaudited)	September 30, 2010 (audited)
<b>Assets</b>			
<b>Current</b>			
Cash and cash equivalents		\$ 405,734	\$ 474,452
Short-term investments		2,600,200	4,600,200
Prepaid expenses and sundry assets		282,376	171,814
Current assets of discontinued operations	6	181,456	175,326
		<b>3,469,766</b>	5,421,792
<b>Property and equipment</b>	<b>7</b>	<b>69,244</b>	106,639
<b>EEStor technology marketing rights</b>	<b>8</b>	<b>2,303,275</b>	2,303,275
<b>Investment in EEStor, Inc.</b>	<b>9</b>	<b>8,674,771</b>	8,674,771
<b>Long lived assets of discontinued operations</b>	<b>6</b>	<b>96,464</b>	114,490
		<b>\$ 14,613,520</b>	<b>\$ 16,620,967</b>
<b>Liabilities</b>			
<b>Current</b>			
Accounts payable and accrued liabilities		\$ 506,235	\$ 455,432
Current liabilities of discontinued operations	6	270,809	385,984
		<b>777,044</b>	841,416
<b>Shareholders' Equity</b>			
Share capital	12	52,314,586	52,239,586
Contributed surplus	13	3,491,985	2,920,449
Warrant capital	14	-	170,524
Deficit		(41,970,095)	(39,551,008)
		<b>13,836,476</b>	15,779,551
		<b>\$ 14,613,520</b>	<b>\$ 16,620,967</b>

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

		Three Months		Six Months	
	Notes	2011	2010	2011	2010
<b>Expenses</b>					
General and administrative	16	\$ 685,174	\$ 651,767	\$ 1,254,477	\$ 1,338,518
Engineering and development	10, 16	158,268	235,120	239,538	591,003
Marketing and business development	16	105,213	136,699	187,176	162,973
Foreign exchange loss (gain)		(49)	(4,501)	(19)	(5,928)
Amortization		20,933	42,027	42,941	58,152
		<b>969,539</b>	1,061,112	<b>1,724,113</b>	2,144,718
<b>Interest Income</b>		<b>9,001</b>	9,452	<b>20,087</b>	20,206
<b>Loss from continuing operations before undernoted items</b>		<b>(960,538)</b>	(1,051,660)	<b>(1,704,026)</b>	(2,124,512)
Legal fees and expense reimbursements	18	(370,486)	-	(370,486)	-
Investment write-off		(201,760)		(201,760)	
<b>Loss from continuing operations</b>		<b>(1,532,784)</b>	(1,051,660)	<b>(2,276,272)</b>	(2,124,512)
<b>Loss from discontinued operations</b>	<b>6,16</b>	<b>(68,375)</b>	(963,179)	<b>(142,815)</b>	(1,736,716)
<b>Net Loss</b>		<b>(1,601,159)</b>	(2,014,839)	<b>(2,419,087)</b>	(3,861,228)
<b>Deficit, beginning of period</b>		<b>(40,368,936)</b>	(35,150,425)	<b>(39,551,008)</b>	(33,304,036)
<b>Deficit, end of period</b>		<b>(41,970,095)</b>	(37,165,264)	<b>(41,970,095)</b>	(37,165,264)
<b>Loss per share, basic and diluted</b>					
From continuing operations		\$ 0.04	\$ 0.03	\$ 0.06	\$ 0.06
From discontinued operations		\$ 0.00	\$ 0.03	\$ 0.00	\$ 0.05
<b>Loss per share, basic and diluted</b>		<b>\$ 0.04</b>	\$ 0.06	<b>\$ 0.06</b>	\$ 0.11
<b>Weighted average number of common shares outstanding</b>					
Basic and diluted		<b>37,219,778</b>	37,194,152	<b>37,217,496</b>	37,139,650

**ZENN Motor Company Inc.**  
**(A development stage company)**  
**Consolidated Statements of Cash Flows**  
**For the three and six months ended March 31**  
**(Unaudited)**

	Note	Three Months		Six Months	
		2011	2010	2011	2010
<b>Cash flows provided by (used in) operations</b>					
Net loss for period		\$ (1,532,784)	\$ (1,051,660)	\$ (2,276,272)	\$ (2,124,512)
Items not affecting cash					
Amortization		20,933	42,027	42,941	58,152
Loss (Gain) on sale of fixed asset		748	-	(1,810)	-
Expense reimbursement through share issuance	18	75,000	-	75,000	-
Stock based compensation		265,614	196,820	397,335	408,224
		(1,170,489)	(812,813)	(1,762,806)	(1,658,136)
Net changes in non-cash working capital					
Prepaid expenses and sundry assets		(107,895)	(22,291)	(110,562)	86,092
Accounts payable and accrued liabilities		(133,192)	(346,480)	50,804	(155,182)
		(1,411,576)	(1,181,584)	(1,822,564)	(1,727,226)
<b>Investing</b>					
Short-term investments		(1,000,000)	500,000	2,000,000	500,000
Rental Deposits		-	9,700	-	9,700
Proceeds on disposal of assets		196	-	9,929	-
Acquisition of property and equipment		-	-	(11,129)	(18,326)
		(999,804)	509,700	1,998,800	491,374
<b>Financing</b>					
Exercise of warrants		-	57,000	-	181,107
		-	57,000	-	181,107
<b>Cash used in discontinued operations</b>					
		(84,431)	(789,254)	(244,954)	(1,105,805)
Net change in cash		(2,495,811)	(1,404,138)	(68,718)	(2,160,550)
Cash and cash equivalents, beginning of period		2,901,545	1,787,128	474,452	2,543,540
<b>Cash and cash equivalents, end of period</b>		<b>\$ 405,734</b>	<b>\$ 382,990</b>	<b>\$ 405,734</b>	<b>\$ 382,990</b>

**ZENN Motor Company Inc.**  
**(A development stage company)**  
**Notes to Interim Consolidated Financial Statements**  
**March 31, 2011**  
**(Unaudited)**

**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 March 31, 2011 and to reflect the results of operation for the three and six month periods then ended.

**2. NATURE OF THE CORPORATION'S BUSINESS**

ZENN Motor Company Inc. (the "Company") is incorporated under the Business Corporations 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™. The Company intends to capitalize on certain exclusive and non-exclusive rights to purchase and deploy an energy storage technology currently under development by EESor (see Notes 8 and 9).. The expenses for the three and six months ended March 31, 2011 from research and development related to this project are \$158,268 and \$239,538, respectively (\$1,379,024 since 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 EESor's energy storage technology. There is no assurance that EESor will be successful in the completion of the development and commercialization of its products. Based on its current operating and financial plans, management of the Company believes the current level of cash and 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.

**ZENN Motor Company Inc.**  
**(A development stage company)**  
**Notes to Interim Consolidated Financial Statements**  
**March 31, 2011**  
**(Unaudited)**

**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., ZMC America, Inc. and ZENN Limited Partnership. Inter-company balances and transactions are eliminated upon consolidation.

**EESstor Technology Marketing Rights**

The cost incurred to acquire certain exclusive and non-exclusive rights to purchase and deploy EESstor'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 March 31, 2011, no events or changes in circumstances had occurred which indicated that the carrying amount of the rights under the Agreement may not be fully recoverable (see Note 8).

**Investment in EESstor, Inc.**

The Company has an investment in the common shares of EESstor which is categorized as an "available for sale" financial instrument. The Company does not have significant influence, control or joint control over EESstor. The common shares of EESstor 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 March 31, 2011, 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 EESstor, valuation allowance on future tax assets and the fair value of financial instruments.

**ZENN Motor Company Inc.**  
**(A development stage company)**  
**Notes to Interim Consolidated Financial Statements**  
**March 31, 2011**  
**(Unaudited)**

**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 is currently assessing the adoption of IFRS for 2011 and has made some initial determinations of the financial reporting impact of the transition to IFRS. Although, the final impact has not been determined at this time, management currently believes that the financial impact of the Company's transition to IFRS will not be material.

**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.

**ZENN Motor Company Inc.**  
**(A development stage company)**  
**Notes to Interim Consolidated Financial Statements**  
**March 31, 2011**  
**(Unaudited)**

**6. DISCONTINUED OPERATIONS**

The Company completed the wind down of its LSV business operations announced in December 2009, with the exception of continuing to provide customer support, which will be ongoing. 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:

	<b>March 31, 2011</b>	September 30, 2010
<b>Current assets of discontinued operations</b>		
Accounts receivable	<b>\$ 4,260</b>	\$ 20,019
Inventory	<b>149,094</b>	155,307
Prepaid and sundry assets	<b>28,102</b>	-
	<b>\$ 181,456</b>	\$ 175,326
<b>Long lived assets of discontinued operations</b>		
Property and equipment	<b>\$ 3,131</b>	\$ 7,157
Prepaid insurance	<b>93,333</b>	107,333
	<b>\$ 96,464</b>	\$ 114,490

	<b>March 31, 2011</b>	September 30, 2010
<b>Current liabilities of discontinued operations</b>		
Trade accounts payable and accrued liabilities	<b>\$ 85,964</b>	\$ 104,930
Warranty accrual	<b>172,618</b>	207,761
Severance accrual	<b>12,227</b>	73,293
	<b>\$ 270,809</b>	\$ 385,984

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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>March 31,</b>		<b>March 31,</b>	
	<b>2011</b>	2010	<b>2011</b>	2010
Revenue	<b>\$ 16,098</b>	\$ 250,950	<b>\$ 35,094</b>	\$ 840,454
Costs of goods sold	<b>10,042</b>	221,529	<b>20,304</b>	747,140
Gross profit (loss)	<b>6,056</b>	29,421	<b>14,790</b>	93,314
Expenses	<b>74,431</b>	992,600	<b>157,605</b>	1,830,030
Loss from discontinued operations	<b>\$ (68,375)</b>	\$ (963,179)	<b>\$ (142,815)</b>	\$ (1,736,716)



**ZENN Motor Company Inc.**  
**(A development stage company)**  
**Notes to Interim Consolidated Financial Statements**  
**March 31, 2011**  
**(Unaudited)**

**7. PROPERTY AND EQUIPMENT**

**March 31, 2011**

	Cost	Accumulated Amortization	Net
Computer equipment	\$ 199,445	\$ 167,603	\$ 31,842
Office furniture and equipment	132,618	103,780	28,838
Tools and equipment	81,301	77,636	3,665
Leasehold improvements	32,273	27,374	4,899
	<b>\$ 445,637</b>	<b>\$ 376,393</b>	<b>\$ 69,244</b>

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
	<b>\$ 467,312</b>	<b>\$ 360,673</b>	<b>\$ 106,639</b>

**8. EESTOR TECHNOLOGY MARKETING RIGHTS**

On August 24, 2004, the Company entered into the Agreement with EESor, 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 EESor's electrical energy storage unit (the "EESU") in certain exclusive and non-exclusive markets.

As of March 31, 2011, the Company has made a total of US\$2,000,000 (CDN\$2,303,275) in defined milestone payments to EESor pursuant to the Agreement, including a milestone payment of US\$700,000 (CDN\$793,130) in May 2009 following independent verification of EESor'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.

**ZENN Motor Company Inc.**  
**(A development stage company)**  
**Notes to Interim Consolidated Financial Statements**  
**March 31, 2011**  
**(Unaudited)**

**9. INVESTMENT IN EESTOR, INC.**

In April 2007, the Company made a US\$2,500,000 investment in the common shares of EESstor 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 permissivity results of EESstor's work product.

In May 2009, the Company received independent verification of the permissivity results permitting it to exercise its option to make an additional investment in EESstor. In July, 2009 the Company concluded an additional investment in EESstor 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 EESstor.

**10. DEVELOPMENT COSTS**

As of March 31, 2011, 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 and six months ended March 31, 2011.

**ZENN Motor Company Inc.**  
**(A development stage company)**  
**Notes to Interim Consolidated Financial Statements**  
**March 31, 2011**  
**(Unaudited)**

**12. CAPITAL STOCK**

**Authorized**

Unlimited common shares

**Issued and outstanding common shares:**

	Numbers	Value
<b>Balance, September 30, 2009</b>	<b>37,055,502</b>	<b>\$ 52,009,481</b>
Shares issued on exercise of warrants <sup>(i)</sup>	33,095	173,105
Shares issued on exercise of options <sup>(ii)</sup>	126,666	57,000
<b>Balance, September 30, 2010</b>	<b>37,215,263</b>	<b>\$ 52,239,586</b>
<b>Balance, December 31, 2010</b>	<b>37,215,263</b>	<b>\$ 52,239,586</b>
Shares issued <sup>(iii)</sup>	45,150	75,000
<b>Balance, March 31, 2011</b>	<b>37,260,413</b>	<b>\$ 52,314,586</b>

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

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

(iii) See note 18 - Related Party Transaction.

**13. CONTRIBUTED SURPLUS**

The following summarizes the change in contributed surplus:

	Amount
<b>Balance September 30, 2010</b>	<b>\$ 2,920,449</b>
Stock-based compensation expense	134,040
<b>Balance December 31, 2010</b>	<b>\$ 3,054,489</b>
Stock-based compensation expense	266,972
Transfer from warrant capital on warrant expiry	170,524
<b>Balance March 31, 2011</b>	<b>\$ 3,491,985</b>

**ZENN Motor Company Inc.**  
**(A development stage company)**  
**Notes to Interim Consolidated Financial Statements**  
**March 31, 2011**  
**(Unaudited)**

**14. WARRANT CAPITAL**

The following summarizes the change in warrant capital:

	Amount
<b>Balance September 30, 2010</b>	<b>\$ 170,524</b>
<b>Balance December 31, 2010</b>	<b>\$ 170,524</b>
Transferred to contributed surplus on warrant expiry	( 170,524)
<b>Balance March 31, 2011</b>	<b>-</b>

**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:

	Outstanding		Exercisable	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
<b>Balance September 30, 2010</b>	<b>2,537,883</b>	<b>\$ 2.73</b>		
Granted	100,000	\$ 1.65		
Exercised	-	-		
Expired/Cancelled	(35,400)	\$ (2.40)		
<b>Balance December 31, 2010</b>	<b>2,602,483</b>	<b>\$ 2.67</b>	<b>1,985,734</b>	<b>\$ 2.75</b>
Granted	1,269,300	\$ 1.53		
Exercised	-	-		
Expired/Cancelled	(525,023)	\$ (2.47)		
<b>Balance March 31, 2011</b>	<b>3,346,760</b>	<b>\$ 2.30</b>	<b>1,691,714</b>	<b>\$ 2.75</b>

ZENN Motor Company Inc.  
(A development stage company)  
Notes to Interim Consolidated Financial Statements  
March 31, 2011  
(Unaudited)

15. STOCK OPTIONS AND WARRANTS (cont'd)

Options Outstanding at March 31, 2011:

Range of exercise prices	Options outstanding			Options exercisable	
	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number outstanding	Weighted average exercise price
\$1.26 to \$2.50	1,865,764	3.56	\$ 1.74	549,661	\$ 2.22
\$2.51 to \$3.75	1,096,197	1.86	\$ 2.65	862,859	\$ 2.68
\$3.76 to \$5.00	384,799	2.05	\$ 4.00	279,194	\$ 3.98
<b>Total</b>	<b>3,346,760</b>	<b>2.83</b>	<b>\$ 2.67</b>	<b>1,691,714</b>	<b>\$ 2.75</b>

Warrant Transactions

The following table outlines the warrant transactions and numbers outstanding:

	Outstanding		Exercisable	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Balance September 30, 2010	106,000	\$ 3.50	106,000	\$ 3.50
Balance December 31, 2010	106,000	\$ 3.50	106,000	\$ 3.50
Expired	( 106,000)	\$( 3.50)	( 106,000)	\$( 3.50)
Balance March 31, 2011	-	-	-	-

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**Notes to Interim Consolidated Financial Statements**  
**March 31, 2011**  
**(Unaudited)**

**16. STOCK-BASED COMPENSATION AND STOCK-BASED PAYMENTS**

In the three and six months ended March 31, 2011, the Company recorded \$266,972 and \$401,012 respectively (2010 - \$162,582 and \$419,464 respectively) in stock based compensation costs. Of this amount, \$214,320 and \$318,476 (2010 - \$145,623 and \$322,534) was included in general and administrative expenses, \$19,891 and \$33,593 (2010 - \$20,650 and \$44,962) in the engineering and development and \$31,403 and \$45,266 (2010 - \$30,547 and \$40,728) in marketing and business development expenses. As well, \$1,358 and \$3,677 (2010 - \$(34,238) and \$11,240) 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 88% (2010 - 82%), (iii) risk free interest rate of 1.7% (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 \$0.86 (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	\$	70,481
2012		41,400
	\$	<b>111,881</b>

**Contingency**

- (i) 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 March 31, 2011.

**18. RELATED PARTY TRANSACTIONS**

During the three months ended March 31, 2011, the Company provided Mr. Clifford, in his capacity as a non-management Director and former CEO of the Company, a \$45,000 consulting retainer subsequent to the expiry of his employment agreement as CEO of the Company.

In addition, during the three months ended March 31, 2011, the Company reimbursed Mr. Clifford a total of \$325,000 for certain professional and advisory fees incurred by him in connection with various discussions and arrangements which the Company undertook with certain shareholders of the Company resulting in the resignation and replacement of three directors. Of the total amount reimbursed, \$75,000 was satisfied by the issuance of 45,150 shares of the Company to Mr. Clifford (Note 12), with the remainder settled in cash.

**ZENN Motor Company Inc.**  
**(A development stage company)**  
**Notes to Interim Consolidated Financial Statements**  
**March 31, 2011**  
**(Unaudited)**

**19. 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 March 31, the Company had cash equivalents totaling \$2,600,200, earning a weighted average return of 0.95%.

The estimated sensitivity of the Company's net after-tax income for the year ended March 31, 2011 from an increase in the interest rate of 0.20% on the average interest risk liabilities with all other variables held constant as at March 31, 2011 would be \$5,200. 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.

**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.

**20. SEGMENTED INFORMATION**

In the three and six months ended March 31, 2011, 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.

**ZENN Motor Company Inc.**  
**(A development stage company)**  
**Notes to Interim Consolidated Financial Statements**  
**March 31, 2011**  
**(Unaudited)**

**21. COMPARATIVE FIGURES**

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

**22. SUBSEQUENT EVENT**

On May 13, 2011, the Company announced the issuance of 150,000 stock options granted to Mr. James Kofman upon his election as Chairman of the Board from his previous capacity as Lead Director. Each option is exercisable to acquire one common share at a price of \$1.34. The options vest equally over a three year period and will expire five years from the date of grant.