ZENN Motor Company Inc.

Consolidated Financial Statements

For the Years Ended September 30, 2012 and 2011

(in Canadian dollars)

Collins Barrow
Chartered Accountants

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

T. 416.480.0160
F. 416.480.2646

www.collinsbarrow.com

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
ZENN Motor Company Inc.

We have audited the accompanying consolidated financial statements of ZENN Motor Company Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at September 30, 2012, September 30, 2011 and October 1, 2010 and the consolidated statements of comprehensive loss, changes in shareholders' equity and cash flows for the years ended September 30, 2012 and September 30, 2011 and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of ZENN Motor Company Inc. and its subsidiaries as at September 30, 2012, September 30, 2011 and October 1, 2010 and its financial performance and its cash flows for the years ended September 30, 2012 and September 30, 2011 in accordance with International Financial Reporting Standards.

Emphasis of Matter

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

Collins Barrow Toronto LLP

Licensed Public Accountants
Chartered Accountants
January 24, 2013
Toronto, Ontario

ZENN Motor Company Inc.
Consolidated Statements of Financial Position
As at September 30, 2012 and 2011 and October 1, 2010
(in Canadian dollars)

	Notes	September 30, 2012	September 30, 2011 (1)	October 1, 2010 (1)
Assets				
Current				
Cash		**$ 322,569**	$ 915,165	$ 474,452
Short-term investments		**1,615,023**	765,000	4,600,200
Prepaid expenses and sundry assets		**99,745**	108,455	171,814
Current assets of discontinued operations	5	**56,940**	158,402	175,326
		2,094,277	1,947,022	5,421,792
Property and equipment	6	**1,563**	10,742	106,639
EEStor technology rights	7	**2,823,065**	2,303,275	2,303,275
EEStor advance	8	**98,690**	-	-
Investment in EEStor, Inc.	9	**8,724,229**	8,674,771	8,674,771
Long lived assets of discontinued operations	5	**51,889**	81,900	114,490
		$ 13,793,713	$ 13,017,710	$ 16,620,967
Liabilities				
Current				
Accounts payable and accrued liabilities	11	**$ 190,906**	$ 513,816	$ 455,432
Current liabilities of discontinued operations	5	**228,010**	338,101	385,984
		$ 418,916	$ 851,917	$ 841,416
Shareholders' Equity				
Share capital	13	**$ 53,470,224**	$ 52,398,685	$ 52,239,586
Contributed surplus		**4,726,093**	4,134,763	3,238,394
Warrant capital		**1,229,092**	-	170,524
Deficit		**(46,050,612)**	(44,367,655)	(39,868,953)
		$ 13,374,797	$ 12,165,793	$ 15,779,551
		$ 13,793,713	$ 13,017,710	$ 16,620,967

(1) In preparing its 2011 comparative information, the Company has adjusted amounts reported previously in financial statements prepared in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). See Note 18 to these audited consolidated financial statements for an explanation of the transition to International Financial Reporting Standards ("IFRS").

Nature of operations and going concern (Note 1)

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

See accompanying notes

ZENN Motor Company Inc.
Consolidated Statements of Comprehensive Loss
Years ended September 30, 2012 and 2011
(in Canadian dollars)

	Notes	2012	2011[1]
Expenses			
General and administrative	**15,16,17**	**$ 1,587,809**	$ 3,315,050
Engineering and development	**10,15,16,17**	**(41,666)**	510,493
Marketing and business development	**15,16,17**	**1,817**	320,789
		1,547,960	4,146,332
Interest income		**19,535**	32,001
Loss from continuing operations		**(1,528,425)**	(4,114,331)
Loss from discontinued operations	**5,15**	**(154,532)**	(384,371)
Net loss		**(1,682,957)**	(4,498,702)
Other comprehensive income		**-**	-
Total comprehensive loss		**$(1,682,957)**	$(4,498,702)
Loss per share, basic and diluted			
From continuing operations		**$(0.04)**	$(0.11)
From discontinued operations		**$(0.00)**	$(0.01)
Loss per share, basic and diluted		**$(0.04)**	$(0.12)
Weighted average number of common shares outstanding			
Basic and diluted		**38,513,705**	37,251,924

[1] In preparing its 2011 comparative information, the Company has adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP. See Note 18 to these audited consolidated financial statements for an explanation of the transition to IFRS.

See accompanying notes

ZENN Motor Company Inc.
Consolidated Statements of Changes in Shareholders' Equity
Years ended September 30, 2012 and 2011
(in Canadian dollars)

	Notes	No. of Shares	Share Capital	Contributed Surplus	Warrant Capital	Deficit	Total Shareholders' Equity
Balances, September 30, 2011[1]		**37,332,913**	**$52,398,685**	**$4,134,763**	**$ -**	**$(44,367,655)**	**$12,165,793**
Comprehensive loss for the period		-	-	-	-	(1,682,957)	(1,682,957)
Transactions with shareholders							
Exercise of options	**14**	225,000	303,750	-	-	-	303,750
Transfer to share capital on exercise of options		-	171,403	(171,403)	-	-	-
Issuance of units, net of issuance costs	**13**	2,350,000	1,825,478	-	-	-	1,825,478
Issuance of warrants	**13**	-	(1,229,092)	-	1,229,092	-	-
Stock based compensation in period	**15,16**	-	-	762,733	-	-	762,733
Balances, September 30, 2012		**39,907,913**	**$53,470,224**	**$4,726,093**	**$1,229,092**	**$(46,050,612)**	**$13,374,797**
Balances, October 1, 2010 [1]		**37,215,263**	**$ 52,239,586**	**$ 3,238,394**	**$ 170,524**	**$(39,868,953)**	**$ 15,779,551**
Comprehensive loss for the period		-	-	-	-	(4,498,702)	(4,498,702)
Transactions with shareholders							
Exercise of options		-	-	-	-	-	-
Issuance of shares	**13,21**	117,650	159,099	-	-	-	159,099
Transfer of warrants to contribution surplus	**13**	-	-	170,524	(170,524)	-	-
Stock based compensation in period	**15,16**	-	-	725,845	-	-	725,845
Balances, September 30, 2011[1]		**37,332,913**	**$52,398,685**	**$4,134,763**	**$ -**	**$(44,367,655)**	**$12,165,793**

[1] In preparing its 2011 comparative information, the Company has adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP. See Note 18 to these audited consolidated financial statements for an explanation of the transition to IFRS.

See accompanying notes

ZENN Motor Company Inc.
Consolidated Statement of Cash Flows
Years ended September 30, 2012 and 2011
(in Canadian dollars)

	Notes	2012	2011[1]
Cash flows provided by (used in) operations			
Net loss from continuing operations for period		$ (1,528,425)	$ (4,114,331)
Items not affecting cash			
Amortization	6,17	7,809	61,122
Loss/(Gain) on sale of property and equipment	6	1,245	(4,290)
Write down of property and equipment	6	-	36,342
Write off of advances		-	51,760
Expense reimbursement through share issuance	13,21	-	159,099
Stock based compensation	15,16	754,972	720,436
		(764,399)	(3,089,862)
Net changes in non-cash working capital			
Prepaid expenses and sundry assets		8,710	63,359
Accounts payable and accrued liabilities		(322,910)	56,593
		(1,078,599)	(2,969,910)
Investing			
Short-term investments		(850,023)	3,835,200
EEStor technology rights	7	(519,790)	-
EEStor advance	8	(98,690)	-
Investment in EEStor, Inc.	9	(49,458)	-
Long term insurance		-	-
Advances made to third party		-	(201,760)
Repayment of advances to third party		-	150,000
Proceeds on disposal of property and equipment	6	125	15,643
Acquisition of property and equipment	6	-	(11,129)
		(1,517,836)	3,787,954
Financing			
Exercise of options	14	303,750	-
Issuance of shares and warrants	13,14	1,825,478	-
		2,129,228	-
Cash used in operations in discontinued operations	5	(125,389)	(377,331)
Net change in cash		(592,596)	440,713
Cash, beginning of period		915,165	474,452
Cash, end of period		$ 322,569	$ 915,165

[1] In preparing its 2011 comparative information, the Company has adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP. See Note 18 to these audited consolidated financial statements for an explanation of the transition to IFRS.

See accompanying notes

1. NATURE OF OPERATIONS AND GOING CONCERN

ZENN Motor Company Inc. (the "Company") is incorporated under the Business Corporations Act (Ontario) and is listed on the TSX Venture Exchange under the symbol ZNN. The Company's head office is located at 85 Scarsdale Road, Suite 100, Toronto, Ontario. The Company's focus is to capitalize on certain exclusive rights to purchase and deploy an energy storage technology currently under development by EEStor, Inc. ("EEStor") (see Notes 7, 8 and 9).

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

The Company's success depends on the completion and commercialization of EEStor's energy storage technology. There is no assurance that EEStor will be successful in the completion of the development and commercialization of its products. Based on its current operating and financial plans, management of the Company believes the current level of cash and short-term investments will be sufficient to fund the Company's planned operations beyond fiscal 2013; however, if the Company requires additional cash resources to fund operations including payments required if EEStor milestones are met (Note 7), there is no assurance that the Company will be able to obtain the required cash resources to fund these operations. Accordingly, the financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result from the possible inability of the Company to continue as a going concern.

2. STATEMENT OF COMPLIANCE

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standard ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These are the Company's first annual consolidated financial statements prepared in accordance with IFRS, and the Company has elected October 1, 2010 as the date of transition to IFRS (the "Transition Date"). IFRS 1, "First-time Adoption of International Financial Reporting Standards" ("IFRS1") has been applied. An explanation of how the transaction to IFRS has affected the consolidated financial statements is included in Note 18.

These consolidated financial statements of the Company for the years ended September 30, 2012 and 2011 and October 1, 2010 were approved by the Board of Directors on January 24, 2013.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

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

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair value. The Company's financial year end is September 30. The consolidated financial statements are presented in Canadian dollars, which is the Company and its subsidiaries' functional currency. The consolidated statements of income are presented using the functional classification.

Short-term Investments

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

3. SIGNIFICANT ACCOUNTING POLICIES (cont`d)

Inventory

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

Property and Equipment

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

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

The Company reviews the carrying value of its property and equipment annually to determine whether there is any indication that those assets have suffered impairment. If any such indication exists the asset is tested for impairment. The recoverable amount of the asset is estimated in order to determine the extent of the impairment. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of the fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risk specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying value, the carrying value of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying value of the assets (or cash-generating unit) is increased to the revised estimate of its recoverable amount, so that the increased carrying value does not exceed the carrying value that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

EEStor Technology Rights and Advance

The cost incurred to acquire certain exclusive rights to purchase and deploy EEStor’s electric energy storage unit (“EESU”), as set out in the new technology agreement (the “New Technology 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 test of the New Technology Agreement annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In the event that the New Technology Agreement is terminated and the Company does not fully acquire the purchase and deployment rights as set out therein, the capitalized costs will be written off to operations. As at September 30, 2012, the impairment test did not result in an impairment to the carrying amount of the rights under the New Technology Agreement (see Note 7).

3. SIGNIFICANT ACCOUNTING POLICIES (cont`d)

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 and fair value cannot be reliably measured; accordingly, the shares are carried at cost. The Company would recognize a loss on this investment if there is objective evidence that there is an impairment in the value of the investment. As at September 30, 2012, no events or changes in circumstances had occurred which would lead to an impairment in the value of the investment (see Note 9).

Research and Development Costs

Research and development costs are incurred in the design, testing and commercialization of the Company's products. Research costs, other than capital expenditures, are expensed as incurred. The costs incurred in developing new technologies are expensed as incurred unless they meet the criteria under International Accounting Standard 38 ("IAS 38") for deferral and amortization. These costs will be amortized over the estimated useful life of the product, commencing with commercial production. In the event that a product program for which costs have been deferred is modified or cancelled, the Company will assess the recoverability of the deferred costs and if considered unrecoverable, will expense the costs in the period the assessment is made.

Provisions

A provision is recognized in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, and it's probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to liability.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable costs of meeting its obligations under the contract.

Accounting for Stock-Based Payments and Compensation

The Company applies a fair value based method of accounting for all stock-based payments ("Payments"). Under this method the Company recognizes compensation expense for employee stock option awards, based on the grant date fair value, for each tranche installment over the vesting period of the options. Each installment is valued separately, based on assumptions determined from historical data, and recognized as compensation expense over each installment's individual tranche vesting period and the offset is credited to contributed surplus. Forfeiture estimates are recognized in the period they are estimated and are revised for actual forfeitures in subsequent periods. Consideration received upon the exercise of stock options is credited to share capital and the related contributed surplus is transferred to share capital.

In situations where non-employee stock-based compensation is issued and some or all of the goods or services received by the entity as consideration cannot be measured reliably, they are measured at the fair value of the stock-based payment.

Investment Tax Credits

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

3. SIGNIFICANT ACCOUNTING POLICIES (cont`d)

Income Taxes

The Company follows the liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are determined based on temporary differences between financial reporting and tax bases of assets and liabilities, as well as for the benefit of losses available to be carried forward to future years for tax purposes. Deferred income tax assets and liabilities are measured using enacted tax rates and laws that will be in effect when the differences are expected to reverse. Deferred income tax assets are recorded in the financial statements if realization is considered probable.

Loss Per Share

Basic loss per share is computed using the weighted average number of common shares outstanding during the period. Diluted net loss per share is computed using the weighted average number of common and potential common shares outstanding during the period. The diluted effect of outstanding stock options and warrants on earning per share is calculated by determining the proceeds for the exercise of such securities which are then assumed to be used to purchase common shares of the Company. The effect was not dilutive at year end.

Financial Instruments

Recognition and Measurement

The Company's financial instruments are classified and measured as follows:

Financial Instrument	Classification	Measurement
Cash	Fair value through profit or loss	Fair value
Short-term investments	Fair value through profit or loss	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Investment in EEStor, Inc.	Available for sale	Cost
Accounts payable and accruals	Other financial liabilities	Amortized cost

Financial assets and liabilities classified as fair value through profit or loss are measured at fair values initially and at each reporting period with changes in fair value in subsequent periods included in net loss.

Financial assets classified as loans and receivables are measured initially at the amount expect to be received. Liabilities classified as other financial liabilities are measured initially at the amount required to be paid, less, when material, a discount to reduce the liability to fair value. Subsequently loans and receivables and other financial liabilities are carried at amortized cost using the effective interest method.

Financial assets classified as available for sale are initially measured at fair values plus transaction costs and are subsequently carried at fair value with changes in fair value included in other comprehensive income, except investment in shares without a quoted market price which are measured at cost, if fair value cannot be reliably measured.

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (cont`d)

Use of Estimates

The preparation of financial statements in accordance with IFRS 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 reporting period. Actual results could differ from those estimates.

Significant areas requiring the use of management estimates relate to the inventory impairment, amounts recorded as accrued liabilities, including the warranty provision, valuation of stock options and warrants, impairment assessment of the New Technology Agreement, EEStor advance and the investment in EEStor, measurement of deferred tax assets and the fair value of financial instruments. The significant area requiring the use of management judgement relates to the assessment of going concern uncertainties.

Foreign Currency Translation

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

4. ACCOUNTING PRONOUNCEMENTS ISSUED BUT NOT YET EFFECTIVE

As at September 30, 2012, the Company has determined that a number of matters for accounting and disclosure under the standards established by the International Accounting Standards Board (the "IASB") may be applicable to the Company's operations. Accordingly the following pronouncements may impact the Company's accounting and disclosure of its activities:

IFRS 7, Financial Instruments: Disclosures:

In October 2010, the IASB issued an amendment to IFRS 7, "Financial Instruments: Disclosures" ("IFRS 7"), requiring incremental disclosures regarding transfers of financial assets. IFRS 7 is effective for annual periods beginning on or after July 1, 2011 and can be applied prospectively. The Company will apply the amendment at the beginning of its 2013 financial year and does not expect the implementation to have a significant impact on the Company's disclosures.

IFRS 10, Consolidated Financial Statements:

In May 2011, the IASB issued IFRS 10, "Consolidated Financial Statements" ("ÌFRS10"). IFRS 10 replaces the portion of IAS 27, Consolidated and Separate Financial Statements ("IAS 27") that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12, "Consolidation — Special Purpose Entities". IFRS 10 establishes a single control model that applies to all entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. Therefore, IFRS 10 may change which entities are within a group. The standard is not applicable until annual periods beginning on or after January 1, 2013, but is available for early adoption. The Company is assessing the impact of this new standard.

4. ACCOUNTING PRONOUNCEMENTS ISSUED BUT NOT YET EFFECTIVE (cont`d)

IFRS 12, Disclosure of Interests in Other Entities:

In May 2011, the IASB issued IFRS 12, "Disclosure of Interest in Other Entities" ("IFRS 12"). IFRS 12 establishes new and comprehensive disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard is effective for annual periods beginning on or after January 1, 2013. The Company is assessing the impact of this new standard.

IFRS 13, Fair Value Measurement:

In May 2011, the IASB issued IFRS 13 "Fair Value Measurement" ("IFRS 13"). IFRS 13 replaces the fair value guidance contained in individual IFRS with a single source of fair value measurement guidance. The standard also requires disclosures which enable users to assess the methods of inputs used to develop fair value measurements. The new standard is effective for the annual periods beginning on or after January 1, 2013, with earlier application permitted. The Company is assessing the impact of this new standard.

IAS 27, Separate Financial Statements:

In May 2011, the IASB amended IAS 27, "Separate Financial Statements" ("IAS 27"). This amendment removes the requirement for consolidated statements from IAS 27 and moves it over to IFRS 10, "Consolidated Financial Statements". The amendment mandates that when a company prepares separate financial statements, investment in subsidiaries, associates, and joint controlled entities are to be accounted for using either the cost method or in accordance with IFRS 9, "Financial Instruments". In addition, this amendment determines the treatment for recognizing dividends, the treatment of certain group organizations, and some disclosure requirements. The amended standard is effective for the annual periods beginning on or after January 1, 2013. The Company is assessing the impact of this amended standard.

IFRS 9, Financial Instruments:

In October 2010, the IASB issued IFRS 9, "Financial Instruments" ("IFRS 9"). IFRS 9, which replaces IAS 39, "Financial Instruments: Recognition and Measurement", establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. This standard is effective for annual periods beginning on or after January 1, 2015. The Company is assessing the impact of this new standard.

5. DISCONTINUED OPERATIONS

The Company completed the wind down of its LSV business operations announced in December 2009 in April 2010, with the exception of continuing to provide customer support. The Company has segregated assets, liabilities and results of operations specifically identifiable with the discontinued operations from those of the ongoing business.

5. DISCONTINUED OPERATIONS (cont`d)

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

	2012 **$**	2011[(1)] $	2010[(1)] $
Current assets of discontinued operations			
Accounts receivable	**28**	337	20,019
Inventory	**27,617**	127,205	155,307
Prepaid and sundry assets	**29,295**	30,860	-
Total current assets of discontinued operations	**56,940**	158,402	175,326
Long lived assets of discontinued operations			
Property and equipment	**556**	2,567	7,157
Prepaid insurance	**51,333**	79,333	107,333
Total long lived assets of discontinued operations	**51,889**	81,900	114,490

	2012 **$**	2011[(1)] $	2010[(1)] $
Current liabilities of discontinued operations			
Accounts payable and accrued liabilities	**5,888**	14,888	104,930
Warranty accrual	**222,122**	323,213	207,761
Severance accrual	**-**	-	73,293
Total current liabilities of discontinued operations	**228,010**	338,101	385,984

The following table sets out the warranty accrual related to discontinued operations:

Opening Balance October 1, 2010	**207,761**
Claims paid out	(52,498)
Adjustment to estimate	167,950
Ending balance, September 30, 2011	**323,213**
Claims paid out	(11,744)
Adjustment to estimate	(89,347)
Ending balance, September 30, 2012	**222,122**

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

	2012 **$**	2011[(1)] $
Revenue	**62,578**	64,321
Cost of goods sold	**28,797**	35,441
Gross profit or (loss)	**33,781**	28,880
Expenses	**188,313**	413,251
Loss from discontinued operations	**(154,532)**	(384,371)

[(1)] In preparing its 2011 comparative information, the Company has adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP. See Note 18 to these audited consolidated financial statements for an explanation of the transition to IFRS.

6. PROPERTY AND EQUIPMENT

September 30, 2012

	Computer equipment	Tools and equipment	Leasehold improvements	Office furniture and equipment	Total
	$	$	$	$	$
Cost					
Balance, September 30, 2011	82,405	7,408	8,200	126,558	224,571
Disposal	-	-	-	(33,158)	(33,158)
Balance, September 30, 2012	**82,405**	**7,408**	**8,200**	**93,400**	**191,413**
Accumulated Depreciation					
Balance, September 30, 2011	80,152	7,408	8,200	118,069	213,829
Provision	1,780	-	-	6,029	7,809
Disposal	-	-	-	(31,788)	(31,788)
Balance, September 30, 2012	**81,932**	**7,408**	**8,200**	**92,310**	**189,850**
Net Book Value	**473**	**-**	**-**	**1,090**	**1,563**

September 30, 2011

	Computer equipment	Tools and equipment	Leasehold improveme nts	Office furniture and equipment	Vehicles & Trailers	Total
	$	$	$	$	$	$
Cost						
Balance, September 30, 2010	190,184	94,828	32,273	132,095	17,932	467,312
Additions	11,129	-	-	-	-	11,129
Transfers	2,251	(650)	-	-	-	1,601
Disposal	(121,159)	(86,770)	(24,073)	(5,537)	(17,932)	(255,471)
Balance, September 30, 2011	**82,405**	**7,408**	**8,200**	**126,558**	**-**	**224,571**
Accumulated Depreciation						
Balance, September 30, 2010	153,808	86,796	20,457	89,794	9,818	360,673
Provision	26,678	5,540	5,026	22,940	938	61,122
Transfers	447	(637)	-	-	-	(190)
Disposal	(119,723)	(84,560)	(24,073)	(5,006)	(10,756)	(244,118)
Impairment loss	18,942	269	6,790	10,341	-	36,342
Balance, September 30, 2011	**80,152**	**7,408**	**8,200**	**118,069**	**-**	**213,829**
Net Book Value	**2,253**	**-**	**-**	**8,489**	**-**	**10,742**

Impairment Loss

During the financial year ended September 30, 2011, the Company reviewed its long-lived assets for indicators of impairment at the cash-generating unit level and determined that a test for impairment was necessary on certain assets. This resulted in the identification of an impairment charge of $36,342. The impaired assets consist primarily of office equipment, leasehold improvements and computer equipment.

The Company did not record any reversals of previously recorded impairment charges.

7. EESTOR TECHNOLOGY RIGHTS

On May 15, 2012, the Company entered into a new technology agreement (the "New Technology Agreement") with EEStor, a privately owned corporation based in the United States, which increases and improves the Company's exclusive rights to purchase electrical energy storage units ("EESUs") under development by EEStor.

Under the New Technology Agreement, among other rights, the Company has received the exclusive, worldwide right to purchase EESUs from EEStor for any vehicle, new or used, that uses electrical energy (excluding only one, two and three wheeled vehicles and those produced exclusively for the U.S. military or government) (a "Vehicle"). Under the old technology agreement ("Old Agreement") the Company had exclusive rights to vehicles with a curb weight up to 1,400 kilograms, net of the battery weight, but exclusions included pick-ups, trucks, SUVs, trams, buses and high performance sports cars. Under the New Technology Agreement there are no exclusions other than those described above.

In consideration for the new expanded technology rights awarded, the Company paid EEStor US$500,000 (CDN$519,790). In addition, the agreement provides for five staged payments tied to specific technical milestones aggregating US$1.2 million. Each milestone must be independently verified and meet specific performance metrics including those relating to energy storage. Once EEStor begins delivery of production quality EESUs, the Company is to pay US$3.8 million to EEStor and a further US$5 million on each anniversary of such payment for five years. Total payments under the New Technology Agreement are US$30.5 million (including the US$500,000 that was payable under the Old Agreement).

All payments under the New Technology Agreement, after the initial payment, are entirely at the discretion of the Company. In the event that the Company elects not to make any of the payments when due, its exclusive rights would revert to vehicles with a curb weight of 1,400 kilograms or less, net of battery weight and its rights would be non-exclusive with respect to all other Vehicles.

Prior to the signing of the New Technology Agreement the Company had made a total of US$2,000,000 (CDN$2,303,275) in defined milestone payments to EEStor pursuant to the Old Agreement.

A redacted version of the New Technology Agreement can be found on SEDAR at www.sedar.com.

8. EESTOR ADVANCE

In September 2012, the Company agreed to advance US$200,000 to EEStor to assist in its working capital needs, which is to be applied against payments payable under the milestones in the New Technology Agreement (See Note 7), subject to certain adjustments depending on when its EESUs are certified. The advance consists of two installments, the first US$100,000 (CDN$98,690) was paid upon signing the advance agreement and the second installment of US$100,000 is to be issued three weeks from the date of the agreement. The second installment was paid subsequent to year end (Note 24).

9. INVESTMENT IN EESTOR, INC

In April 2007, the Company made a US$2,500,000 investment for 58,879 common shares of EEStor. The carrying cost of the investment, including all related costs totaled CDN$2,857,815. Under the terms of the investment, the Company acquired the right to invest up to an additional US$5,000,000 at the same price per share, upon independent verification of permittivity results of EEStor's work product.

In May 2009, the Company received independent verification of the permittivity results permitting it to exercise its option to make an additional investment in EEStor. In July 2009, the Company made an additional investment in EEStor in the amount of US$5,000,000 (CDN$5,816,956) for 117,757 common shares.

9. INVESTMENT IN EESTOR, INC (cont`d)

In March 2012, the Company made an additional investment in the common shares of EEStor, in the amount of US$50,084 (CDN$49,458) for 708 common shares and 472 common share purchase warrants exerciseable at $212.22.

10. DEVELOPMENT COSTS

As of September 30, 2012, the Company has not deferred any development costs to future periods. Projects were considered to be in the research phase and therefore were expensed to engineering and development expense.

11. TRADE PAYABLES AND ACCRUED LIABILITIES

	2012 **$**	2011 $	2010 $
Current liabilities of continued operations			
Trade accounts payable	**7,753**	49,811	31,533
Accrued liabilities	**183,153**	253,593	423,899
Severance accrual	**-**	210,412	-
Total current liabilities of continued operations	**190,906**	513,816	455,432

12. MANAGEMENT OF CAPITAL

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

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

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

The Company is not subject to any external capital requirements.

There have been no changes with respect to the overall capital management strategy during the year ended September 30, 2012.

13. SHARE CAPITAL

The Company has authorized an unlimited number of common shares.

On April 13, 2012 the Company completed a non-brokered private placement of 2,350,000 units of the Company at $0.85 per unit for gross of $1,997,500. Each unit consists of one common share and one common share purchase warrant. Each common share purchase warrant entitles the holder to purchase one common shares at a price of $1.35 and expires on October 13, 2013. The proceeds from the issuance of units are allocated between share capital and warrant capital, with the fair value of the warrants of $1,148,684 being allocated to warrant capital and the residual allocated to share capital. The fair value of the warrants are estimated using Black-Scholes pricing model with the following assumptions: share price $1.17, dividend yield 0%, risk free interest rate 1.19%, volatility 98% and an expected life of 1 year. Expected volatility is based on historical volatility.

In connection with the private placement, the Company paid a finder's fee of $139,825 and issued 164,500 compensation warrants expiring on October 13, 2013. Each compensation warrant is exercisable into one common share at a price of $1.35. The fair value of the compensation warrants was estimated at $80,408 using the Black-Scholes pricing model with the following assumptions: share price $1.17, dividend yield 0%, risk free interest rate 1.19%, volatility 98% and an expected life of 1 year. Expected volatility is based on historical volatility. Compensation warrants were not measured at the fair value of the services received as the fair value for such services was not reliably measurable. The total share issuance costs were $220,233.

During the year ended September 30, 2011, the Company issued 45,150 common shares in connection with settlement of professional and advisory services, as described in Note 21, and 72,500 common shares were issued in connection with settlement of a dispute obligation to a former employee at a price of $1.16 per share.

14. STOCK OPTIONS

Stock Option Plan

The Company has a stock option plan (the "Plan") which authorizes the Board to issue options to employees, directors and consultants providing services to the Company or its subsidiaries. The Plan is structured as a "floating plan". Under the terms of the Plan, the number of shares issuable under stock options and the performance warrants cannot exceed 10% of the outstanding common shares of the Company. The Company sets the exercise price based on the closing market price at the time of the grant. The Company may grant options for a term not to exceed ten years. The Company's practice has been to vest options over a three year period; however in the current year, as part of its annual compensation review the Company granted options to certain Directors that vest on the 6, 18 and 24 month anniversaries. Also, in the current year the Company granted to the Chairman and Interim Chief Executive Office options with a vesting schedule of 225,000 options on the 6 month anniversary, 50,000 options on the 18 month anniversary and 50,000 options on the 24 month anniversary. The grant was in lieu of cash compensation. During the year ended September 30, 2011, options were granted to certain Senior Management and Directors that had the potential to vest within a twelve month period, expiring two years from the set vesting date. The vesting of the options was conditional on a public announcement from the Company's partner EEStor showing significant progress in its technology development. The condition related to the vesting of these options has been met. The options were granted in lieu of cash compensation and additional responsibilities as a result of the significant reduction made in personnel and resources. 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.

14. STOCK OPTIONS (cont`d)

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

	2012		2011	
	Number of Options	**Weighted Average Exercise Price**	Number of Options	Weighted Average Exercise Price
		$		$
Outstanding, beginning of year	**3,276,766**	**1.99**	2,537,883	2.73
Granted[(i)(ii)]	**755,000**	**1.33**	2,049,300	1.31
Expired/Cancelled	**(992,666)**	**(2.77)**	(897,483)	(2.60)
Exercised[(iii)]	**(225,000)**	**(1.35)**	-	-
Forfeited	**-**	**-**	(412,934)	(1.72)
Outstanding, end of year	**2,814,100**	**1.59**	3,276,766	1.99
Exercisable	**1,454,297**	**1.75**	1,697,127	2.55

[(i)] Options granted to certain Directors on April 18, 2012, vest equally on the 6, 18 and 24 month anniversary with an expiry date five years from the grant date.

[(ii)] 325,000 options granted to certain Senior Management have a vesting schedule of 225,000 options vesting on the 6 month anniversary, 50,000 options vesting on the 18 month anniversary and 50,000 options vesting on the 24 month anniversary, with the options expiring five years from the grant date.

[(iii)]The weighted average share price at the date of exercise was $1.81 for options exercised during the year ended September 30, 2012.

Options outstanding at September 30, 2012:

	Options outstanding			**Options exercisable**	
Range of exercise prices	**Number outstanding**	**Weighted average remaining contractual life (years)**	**Weighted average exercise price**	**Number outstanding**	**Weighted average exercise price**
			$		**$**
$0.25 to $1.25	560,000	1.99	0.74	476,666	0.74
$1.26 to $2.50	1,744,500	3.55	1.49	468,031	1.55
$2.51 to $3.75	400,000	0.82	2.55	400,000	2.55
$3.76 to $5.00	109,600	0.42	4.04	109,600	4.04
Total	**2,814,100**	**2.81**	**1.59**	**1,454,297**	**1.75**

14. STOCK OPTIONS (cont`d)

Warrant Transactions

The following table outlines the warrant transactions and numbers outstanding:

	2012		2011	
	Number of Warrants	**Weighted Average Exercise Price**	Number of Warrants	Weighted Average Exercise Price
		$		$
Outstanding and exercisable, beginning of	**-**	**-**	106,000	3.50
Granted	**2,514,500**	**1.35**	-	-
Cancelled/Expired	**-**	**-**	(106,000)	(3.50)
Outstanding and exercisable, end of year	**2,514,500**	**1.35**	-	-

15. STOCK-BASED COMPENSATION AND STOCK-BASED PAYMENTS

In the year ended September 30, 2012, the Company recorded $762,733 (2011 - $725,845) in stock based compensation costs. Of this amount, $7,761(2011 - $5,409) was included in the loss from discontinued operations.

The fair value of options is determined using the Black-Scholes option pricing model with the following weighted average assumptions: (i) dividend yield of 0% (2011 - 0%), (ii) expected volatility of approximately 96% (2011 - 86%), (iii) risk free interest rate of 1.19% (2011 – 1.55%), (iv) the average expected life of 2 years (2011 - 3 years), and (v) the average share price on date of issuance of $1.33 (2011 - $1.31). Expected volatility is based on historical volatility. The Company includes an estimated forfeiture rate, with actual forfeitures reversed in the period they occur. The weighted average fair value of the cost of grants in the period was approximately $0.68 (2011 - $0.70) per instrument.

16. EMPLOYEE BENEFITS EXPENSE

Employee benefits expense included in the general and administrative expenses is as follows:

	2012	2011 (1)
	$	$
Wages and salaries	**352,959**	815,156
Statutory deductions	**24,698**	48,247
Stock-based compensation	**750,830**	694,739
	1,128,487	1,558,142

Employee benefits expense included in the engineering and development expenses is as follows:

	2012	2011 (1)
	$	$
Wages and salaries (recovery)	**(874)**	349,221
Statutory deductions	**-**	32,976
Stock-based compensation	**4,142**	44,627
	3,268	426,824

Employee benefits expense included in the marketing and business development expenses is as follows:

	2012	2011 (1)
	$	$
Wages and salaries	**(120)**	165,958
Statutory deductions	**-**	8,868
Stock-based compensation (recovery)	**-**	(18,930)
	(120)	155,896

(1) In preparing its 2011 comparative information, the Company has adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP. See Note 18 to these audited consolidated financial statements for an explanation of the transition to IFRS.

17. DEPRECIATION EXPENSE

The components of the Company's depreciation and amortization expense included in the expenses are as follows:

	2012	2011
	$	$
Property and equipment		
General and administrative	**7,809**	26,517
Engineering and development	**-**	33,675
Marketing and business development	**-**	930
	7,809	61,122

18. TRANSITION TO IFRS

As stated in Note 2, these are the Company's first audited consolidated financial statements prepared in accordance with IFRS.

The accounting policies set out in Note 3 have been applied in preparing the financial statements for the year ended September 30, 2012, the comparative information presented in these consolidated financial statements for the year ended September 30, 2011 and in preparation of an opening IFRS statement of financial position at October 1, 2010 (the Company's date of transition to IFRS) and statements of financial position at September 30, 2011.

In preparing its opening IFRS statement of financial position, the Company has adjusted amounts reported previously in financial statements prepared in accordance with previous Canadian GAAP. An explanation of how the transition from previous Canadian GAAP to IFRS has affected the Company's financial position, comprehensive income and cash flows is set out in the following tables and the notes that accompany the tables.

Reconciliation of shareholders' equity as at October 1, 2010:

October 1, 2010	**Canadian GAAP**	**Reclassification for IFRS Presentation**	**Notes**	**IFRS Balance**
	$	**$**		**$**
Assets				
Current				
Cash	474,452	-		474,452
Short-term investments	4,600,200	-		4,600,200
Prepaid expenses and sundry assets	171,814	-		171,814
Current assets of discontinued operations	175,326	-		175,326
	5,421,792	-		5,421,792
Property and equipment	106,639	-		106,639
EEStor technology rights	2,303,275	-		2,303,275
Investment in EEStor, Inc.	8,674,771	-		8,674,771
Long lived assets of discontinued operations	114,490	-		114,490
	16,620,967	-		16,620,967
Liabilities				
Current				
Accounts payable and accrued liabilities	455,432	-		455,432
Current liabilities of discontinued operations	385,984	-		385,984
	841,416	-		841,416
Shareholders' Equity				
Share capital	52,239,586	-		52,239,586
Contributed surplus	2,920,449	317,945	18b	3,238,394
Warrant capital	170,524	-		170,524
Deficit	(39,551,008)	(317,945)	18b	(39,868,953)
	15,779,551	-		15,779,551
	16,620,967	-		16,620,967

18. TRANSITION TO IFRS (cont`d)

Reconciliation of financial position and shareholders' equity as at September 30, 2011:

September 30, 2011	Canadian GAAP	Reclassification for IFRS Presentation	Note	IFRS Balance
	$	$		$
Assets				
Current				
Cash	915,165	-		915,165
Short-term investments	765,000	-		765,000
Prepaid expenses and sundry assets	108,455	-		108,455
Current assets of discontinued operations	158,402	-		158,402
	1,947,022	-		1,947,022
Property and equipment	10,742	-		10,742
EEStor technology rights	2,303,275	-		2,303,275
Investment in EEStor, Inc.	8,674,771	-		8,674,771
Long lived assets of discontinued operations	81,900	-		81,900
	13,017,710	-		13,017,710
Liabilities				
Current				
Accounts payable and accrued liabilities	513,816	-		513,816
Current liabilities of discontinued operations	338,101	-		338,101
	851,917	-		851,917
Shareholders' Equity				
Share capital	52,398,685	-		52,398,685
Contributed surplus	4,121,234	13,529	18b	4,134,763
Warrant capital	-	-		-
Deficit	(44,354,126)	(13,529)	18b	(44,367,655)
	12,165,793	-		12,165,793
	13,017,710	-		13,017,710

18. TRANSITION TO IFRS (cont`d)

Reconciliation of comprehensive loss for the year ended September 30, 2011:

September 30, 2011	Canadian GAAP	Reclassification for IFRS presentation	Notes	Adjustments	Notes	IFRS
	$	$		$		$
Expenses						
General and administrative	2,674,920	741,026	18c	(100,896)	18b	3,315,050
Engineering and development	427,206	117,563	18c	(34,276)	18b	510,493
Marketing and business developmen	341,407	147,951	18c	(168,569)	18b	320,789
Depreciation	61,122	(61,122)	18c	-		-
	3,504,655	945,418		(303,741)		4,146,332
Interest income	32,001	-		-		32,001
Loss from continuing operations	(3,472,654)	(945,418)		303,741		(4,114,331)
Severance costs	(574,932)	574,932		-		-
Legal fees and expense reimbursem	(370,486)	370,486		-		-
Loss from continuing operations	(4,418,072)	-		303,741		(4,114,331)
Loss from discontinued operations	(385,046)	-		675	18b	(384,371)
Net loss and comprehensive loss	(4,803,118)	-		304,416		(4,498,702)
Loss per share, basic and diluted						
From continuing operations	(0.12)					(0.11)
From discontinued operations	(0.01)					(0.01)
Loss per share, basic and diluted	(0.13)					(0.12)
Weighted average number of common shares outstanding						
Basic and diluted	37,251,924					37,251,924

18. TRANSITION TO IFRS (cont`d)

September 30, 2011	Canadian GAAP $	Adjustments $	Notes	IFRS $
Cash flows provided by (used in) operations				
Net loss from continuing operations for period	$ (4,418,072)	303,741	18b	$ (4,114,331)
Items not affecting cash				
Amortization	61,122			61,122
Loss/(Gain) on sale of property and equipment	(4,290)			(4,290)
Write down of property and equipment	36,342			36,342
Write off of advances	51,760			51,760
Expense reimbursement through share issuance	159,099			159,099
Stock based compensation	1,024,177	(303,741)	18b	720,436
	(3,089,862)			(3,089,862)
Net changes in non-cash working capital				
Prepaid expenses and sundry assets	63,359			63,359
Accounts payable and accrued liabilities	56,593			56,593
	(2,969,910)			(2,969,910)
Investing				
Short-term investments	3,835,200			3,835,200
Advances made to third party	(201,760)			(201,760)
Repayment of advances to third party	150,000			150,000
Proceeds on disposal of property and equipment	15,643			15,643
Acquisition of property and equipment	(11,129)			(11,129)
	3,787,954			3,787,954
Financing				
Exercise of options	-			-
Issuance of shares	-			-
	-			-
Cash used in discontinued operations	(377,331)			(377,331)
Net change in cash	440,713			440,713
Cash, beginning of period	474,452			474,452
Cash, end of period	$ 915,165			$ 915,165

18. TRANSITION TO IFRS (cont`d)

Notes to the Reconciliations

(a) Elections under IFRS 1, First-time Adoption of International Financial Reporting Standards ("IFRS 1")

IFRS 1 sets out the requirements that the Company must follow when it adopts IFRS for the first time as the basis for preparing its consolidated financial statements. The Company is required to establish its IFRS accounting policies for the year ended September 30, 2012, and apply these retroactively to determine the IFRS opening consolidated statement of financial position at the date of transition of October 1, 2010. To assist companies in the transition process, the standard permits a number of specific exemptions from the general principle of retrospective statement. The Company has identified the following possible exemptions applicable to the Company and its decision regarding the election of the exemption:

i) Business Combinations

IFRS 1 permits a first-time adopter to elect not to apply IFRS 3, "Business Combinations" ("IFRS 3"), to business combinations that occurred prior to the date of transition to IFRS. A first-time adopter can also elect to choose a date prior to the date of transition and apply IFRS 3 to all subsequent business combinations. The Company has elected to not apply IFRS 3 retrospectively to business combinations that occurred on or before October 1, 2010 (or "the date of transition to IFRS").

ii) Share-based Payment Transactions

IFRS 1 does not require first-time adopters to apply the requirements of IFRS 2, "Share-based Payment" ("IFRS 2"), to equity instruments that were granted on or prior to November 7, 2002 or to equity instruments that were granted after November 7, 2002 and vested before the date of transition to IFRS. The Company has not applied IFRS 2 to stock options issued on or prior to November 7, 2002 or granted after November 7, 2002 and vested before the transition date to IFRS.

iii) Extinguishing financial liabilities with equity instruments

IFRS 1 allows, but does not require, first-time adopters to apply IFC 19 Extinguishing financial liabilities with equity instruments that occurred before the date of transition of IFRS. The Company has taken advantage of this election and has not applied IFRIC 19 to extinguishments of financial liabilities with equity instruments that occurred before October 1, 2010.

iv) Estimates – Mandatory Exemption

The estimates used under IFRS are consistent with those made, for the same dates, in accordance with previous GAAP, except where they were impacted by a difference in accounting policy.

(b) IFRS 2, Stock-based compensation ("IFRS 2")

As described in Notes 14 and 15, the Company has granted stock-based compensation to directors, officers and employees. The Company applied IFRS 2 to its unvested stock-based compensation arrangements at October 1, 2010 which requires that stock-based compensation be measured based at the fair value at the time of the grant for each vesting instalment, over the vesting period of the options. Forfeiture estimates are recognized in the period they are estimated and are revised for actual forfeitures in subsequent periods.

The Company previously accounted for these stock-based compensation arrangements as one grant and expensed over the vesting period under previous Canadian GAAP. The contributed surplus has been adjusted to reflect the change in method for the outstanding stock-based compensation to be consistent with the Company's accounting policies, with the difference recorded in deficit at transition.

The impact arising from the change is summarized as follows:

18. TRANSITION TO IFRS (cont`d)

	2011 $
Consolidated statement of comprehensive income:	
Operating costs	
Continued operations	303,741
Discontinued operations	675
Decrease in stock-based compensation	**304,416**

	2011 $	2010 $
Consolidated statement of financial position:		
Increase (Decrease) to contributed surplus	13,529	317,945
Increase (Decrease) in deficit	**13,529**	**317,945**

(c) Expense classification

IFRS 1 requires the Company to present an analysis of expenses recognized in the profit or loss using a classification based on either the nature or the function within the Company. The Company has elected to present the consolidated condensed statement of comprehensive loss using the function classification for expense; accordingly a reclassification of the depreciation, severance costs, and legal fees and expense reimbursements previously presented is required. In selecting the function classification the Company is required to provide further details such as employee benefits and property and depreciation expense included in the function.

19. INCOME TAXES

Income Tax Expense

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

	2012 **$**	2011 $
Loss from continuing operations	**(1,528,425)**	(4,114,331)
Statutory rate	**26.5%**	28.5%
Expected income tax recovery	**(405,033)**	(1,172,584)
Share issue costs	**(45,586)**	-
Non-deductible expenses	**200,169**	205,804
Change in deferred taxes not recognized related to operations	**809,870**	935,569
Change in expected future tax rates and other	**(559,420)**	31,211
Income tax expense	**-**	-

19. INCOME TAXES (cont`d)

Deferred Income Taxes

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

	2012	2011
	$	$
Amounts related to tax loss and other credits carry forwards	**$ 10,520,058**	9,625,977
Property and equipment	**57,284**	60,685
Reserves	**58,862**	81,126
Share issue costs	**78,808**	137,353
Less: Deferred taxes not recognized	**(10,715,012)**	(9,905,141)
	-	-

Loss and Tax Credit Carryforwards

As at September 30, 2012, the Company has non-capital losses of approximately $37,885,503 expiring as follows:

2013	$ 221,506
2014	470,332
2015	75,933
2025	518,757
2026	2,514,783
2027	6,441,398
2028	6,741,762
2029	9,815,725
2030	5,416,106
2031	4,237,476
2032	1,431,725
	$ 37,885,503

The Company has undeducted scientific research and experimental development costs of approximately $1,812,830 and investment tax credits relating to scientific research and development costs of approximately $450,537 available to apply against future taxable income.

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

20. COMMITMENTS

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

2013	$ 101,365
	$ 101,365

21. RELATED PARTY TRANSACTIONS

Key management personnel are those individuals having authority and responsibility for planning, directing and controlling the activities of the Company, including members of the Company's Board of Directors. The Company considers key management to be the members of the Board of Directors, the Chief Executive Officer and the Chief Financial Officer.

Key management personnel may also participate in the Company's stock-based compensation plans. See Note 14 above.

The remuneration of key management personnel for the years ended were as follows:

	2012	2011[1]
	$	$
Wages and salaries	**255,509**	594,296
Statutory deductions	**8,204**	25,149
Stock-based compensation	**743,609**	686,901
	1,007,322	1,306,346

[1] also includes remuneration for the President and Chief Operating Officer, not applicable in current year

Related party transactions included in prior year results

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

In addition, during the year ended September 30, 2011, the Company reimbursed the director and former officer for certain professional and advisory fees in the amount of $325,000 incurred in connection with various discussions and arrangements which the Company undertook with certain shareholders of the Company resulting in the resignation and replacement of three directors. Of the total amount, $75,000 was satisfied by the issuance of 45,150 common shares of the Company at $1.66 per share to the director and former officer (Note 13), with the remainder settled in cash.

22. 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 and the variability in the range of reasonable fair value estimates is significant and the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value. The information about the market for the instrument is currently unknown as the technology is in the developmental stages. As of the date of the financial statements the Company does not intend to dispose of the financial instrument.

Interest Rate Risk

Interest rate risk is the impact that changes in interest rates could have on the Company's income and liabilities. The Company's exposure to interest rate risk is negligible.

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.

22. 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 12, 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.

23. SEGMENTED INFORMATION

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

24. SUBSEQUENT EVENTS

EEStor Advance

A second instalment of US$100,000 (CDN$99,508) was advanced to EEStor on October 2, 2012, as per the advance agreement with EEStor (See Note 8).

Also in relation to the advance agreement, the Company is entitled to deduct two dollars for every dollar advanced from certain milestone amounts payable under the New Technology Agreement.

Stock Options

On October 26, 2012, as part of an annual review the Company granted the Chief Financial Officer 60,000 options. Each option is exercisable to acquire one common share at a price of $0.73. The options vest as to one-third on each of the six, eighteen and twenty-four month anniversaries following the date of grant and will expire five years from the date of grant.