ZENN Motor Company Inc.

Condensed Interim Consolidated Financial Statements

For the Three Months Ended December 31, 2011

(Unaudited)

Notice to Reader

The accompanying unaudited condensed interim consolidated financial statements of ZENN Motor Company Inc. (the "Company") for the three months ended December 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.
Unaudited Condensed Interim Consolidated Statements of Financial Position
As at December 31, 2011, September 30, 2011 and October 1, 2010
(in Canadian dollars)

	Notes	December 31, 2011	September 30, 2011 [1]	October 1, 2010 [1]
Assets				
Current				
Cash		**$ 1,249,279**	$ 915,165	$ 474,452
Short-term investments		**15,000**	765,000	4,600,200
Prepaid expenses and sundry assets		**93,945**	108,455	171,814
Current assets of discontinued operations	5	**156,878**	158,402	175,326
		1,515,102	1,947,022	5,421,792
Property and equipment	6	**8,164**	10,742	106,639
EEStor technology rights	7	**2,303,275**	2,303,275	2,303,275
Investment in EEStor, Inc.	8	**8,674,771**	8,674,771	8,674,771
Long lived assets of discontinued operations	5	**74,153**	81,900	114,490
		$ 12,575,465	$ 13,017,710	$ 16,620,967
Liabilities				
Current				
Accounts payable and accrued liabilities		**$ 322,105**	$ 513,816	$ 455,432
Current liabilities of discontinued operations	5	**330,503**	338,101	385,984
		652,608	851,917	841,416
Shareholders' Equity				
Share capital	11	**52,398,685**	52,398,685	52,239,586
Contributed surplus	12	**4,295,050**	4,134,763	3,238,394
Warrant capital	13	**-**	-	170,524
Deficit		**(44,770,878)**	(44,367,655)	(39,868,953)
		11,922,857	12,165,793	15,779,551
		$ 12,575,465	$ 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 unaudited condensed interim consolidated financial statements for an explanation of the transition to IFRS.

ZENN Motor Company Inc.
Unaudited Condensed Interim Consolidated Statements of Comprehensive Loss
For the three months ended December 31
(in Canadian dollars)

	Notes	2011	2010[1]
Expenses			
General and administrative	**15,16,17**	**$ 365,873**	$ 560,033
Engineering and development	**9,15,16,17**	**3,330**	87,727
Marketing and business development	**15,16,17**	**285**	85,971
		369,488	733,731
Interest Income		**3,698**	11,086
Loss from continuing operations		**(365,790)**	(722,645)
Loss from discontinued operations	**5,15**	**(37,433)**	(73,266)
Net Loss		**(403,223)**	(795,911)
Other Comprehensive Income		**-**	-
Total Comprehensive Loss		**$(403,223)**	**$(795,911)**

Loss per share, basic and diluted		
From continuing operations	**$(0.01)**	$(0.02)
From discontinued operations	**$(0.00)**	$(0.00)
Loss per share, basic and diluted	**$(0.01)**	$(0.02)

Weighted average number of common shares outstanding		
Basic and diluted	**37,332,913**	37,215,263

[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 unaudited condensed interim consolidated financial statements for an explanation of the transition to IFRS.

ZENN Motor Company Inc.
Unaudited Condensed Interim Consolidated Statements of Changes in Shareholders' Equity
For the three months ended December 31
(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**
Net loss for the period		-	-	-	-	(403,223)	(403,223)
Other comprehensive loss		-	-	-	-	-	-
Total other comprehensive loss		-	-	-	-	(403,223)	(403,223)
Comprehensive loss for the period		-	-	-	-	(403,223)	(403,223)
Transactions with shareholders							
Exercise of Options		-	-	-	-	-	-
Issuance of shares		-	-	-	-	-	-
Grant of Options in Period		-	-	-	-	-	-
Forfeited Options in Period		-	-	-	-	-	-
Expired/Cancelled Options in Period	14	-	-	-	-	-	-
Stock based compensation in period	15	-	-	160,287	-	-	160,287
Total contributions by and distributions to shareholders		-	-	160,287	-	-	160,287
Balances, December 31, 2011		**37,332,913**	**$52,398,685**	**$4,295,050**	**$ -**	**$(44,770,878)**	**$11,922,857**
Balances, October 1, 2010		**37,215,263**	**$ 52,239,586**	**$ 3,238,394**	**$ 170,524**	**$(39,868,953)**	**$ 15,779,551**
Net loss for the period						(795,911)	(795,911)
Other comprehensive loss		-	-	-	-	-	-
Total other comprehensive loss		-	-	-	-	(795,911)	(795,911)
Comprehensive loss for the period		-	-	-	-	(795,911)	(795,911)
Transactions with shareholders							
Exercise of Options		-	-	-	-	-	-
Issuance of shares		-	-	-	-	-	-
Grant of Options in Period		-	-	-	-	-	-
Forfeited Options in Period		-	-	-	-	-	-
Expired/Cancelled Options in Period		-	-	-	-	-	-
Stock based compensation in period		-	-	112,023	-	-	112,023
Total contributions by and distributions to shareholders		-	-	112,023	-	-	112,023
Balances, December 31, 2010[1]		**37,215,263**	**$52,239,586**	**$3,350,417**	**$170,524**	**$(40,664,864)**	**$15,095,663**

[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 unaudited condensed interim consolidated financial statements for an explanation of the transition to IFRS.

ZENN Motor Company Inc.
Unaudited Condensed Interim Consolidated Statements of Cash Flows
For the three months ended December 31
(in Canadian dollars)

	Note	2011	2010[1]
Cash flows provided by (used in) operations			
Net loss from continuing operations for period		**$ (365,790)**	$ (722,645)
Items not affecting cash			
Amortization	**6**	**2,578**	22,008
Gain on sale of property and equipment	**6**	**-**	(2,559)
Stock based compensation	**15**	**158,073**	110,877
		(205,139)	(592,319)
Net changes in non-cash working capital			
Prepaid expenses and sundry assets		**14,510**	(2,667)
Accounts payable and accrued liabilities		**(191,711)**	183,995
		(382,340)	(410,991)
Investing			
Short-term investments		**750,000**	3,000,000
Acquisition of property and equipment		**-**	(1,393)
		750,000	2,998,607
Cash used in discontinued operations		**(33,546)**	**(160,523)**
Net change in cash		**334,114**	2,427,093
Cash, beginning of period		**915,165**	474,452
Cash, end of period		**$ 1,249,279**	$ 2,901,545

[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 unaudited condensed interim consolidated financial statements for an explanation of the transition to IFRS.

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 and non-exclusive rights to purchase and deploy an energy storage technology currently under development by EEStor, Inc. (EEStor) (see Notes 7 and 8).

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 for fiscal 2012; 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.

2. STATEMENT OF COMPLIANCE

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34"), as issued by the International Accounting Standards Board ("IASB"), using the accounting policies the Company expects to adopt in its consolidated financial statements as at and for the financial year ending September 30, 2012.

These are the Company's first quarterly condensed interim consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), and certain disclosures that are required to be included in the annual consolidated financial statements prepared in accordance with IFRS have been included in these unaudited condensed interim consolidated financial statements for the comparative annual period in Notes 19 through 20. The Company's date of transition to IFRS (the "Transition Date") was October 1, 2010.

These unaudited condensed 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, 2011 and 2010 with consideration given to the IFRS transition disclosures included in Note 18 to these unaudited condensed interim consolidated financial statements and the additional annual disclosures in Notes 19 through 20.

These unaudited condensed interim consolidated financial statements were authorized for issuance by the Board of Directors of the Company on March 26, 2012.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The unaudited condensed interim 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 unaudited condensed interim consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair value, as explained in the accounting policy below. The Company's financial year end is September 30. The unaudited condensed interim consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

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 determination of the useful lives of property and equipment for amortization purposes, inventory impairment, amounts recorded as accrued liabilities, valuation of stock options, impairment assessment of the Technology Agreement and the investment in EEStor, valuation allowance on future tax assets and the fair value of financial instruments.

Short-term Investments

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

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 assets 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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

The cost incurred to acquire certain exclusive and non-exclusive rights to purchase and deploy EEStor's electric energy storage unit ("EESU"), as set out in the Technology Agreement (the "Agreement") between the two companies is being capitalized. The amortization period will be determined once the EESU technology is available for use. The Company performs an impairment evaluation of the Agreement yearly or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In the event that the Agreement is terminated and the Company does not fully acquire the purchase and deployment rights as set out therein, the capitalized costs will be written off to operations. As at December 31, 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 7).

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 were a permanent impairment in the value of the investment. As at December 31, 2011, no events or changes in circumstances had occurred which would lead to impairment in the value of the investment (see Note 8).

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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.

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 operations.

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.

Investment Tax Credit

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 operations as a reduction of research and development costs. Investment tax credits associated with capital expenditures are reflected as reductions in the carrying amounts of capital assets.

Income Taxes

The Company follows the asset and 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 or substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Deferred tax assets are recorded in the financial statements, to the extent that it is probable that future taxable profits will be available against which they can be utilized, for unused tax loses, investment tax credits and deductible temporary differences.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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.

Financial Instruments

Recognition and Measurement

The Company' 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 to payable 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.

4. ACCOUNTING PRONOUNCEMENTS ISSUED BUT NOT YET EFFECTIVE

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 new standard is effective for annual periods beginning on or after January 1, 2013. The Company is assessing the impact of this new standard on its consolidated financial statements.

IFRS 10, Consolidated Financial Statements

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.

IFRS 12, Disclosure of Interests in Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31, Investment in Joint Ventures and IAS 28, Investment in Associates. These disclosures relate to an entity’s interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. 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.

IFRS 13 Fair Value Measurement

In May 2011, the IASB issued IFRS 13 Fair Value Measurement (“IFRS 13”). IFRS 13, which is to be applied prospectively, is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

IFRS 13 defines fair value, provides a framework for measuring fair value and includes disclosure requirements for fair value measurements. IFRS 13 will be applied in most cases when another IFRS requires (or permits) fair value measurement. 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, 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.

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

	December 31, 2011	September 30, 2011[(1)]
Current assets of discontinued operations		
Accounts receivable	**$ 935**	$ 337
Inventory	**125,558**	127,205
Prepaid and sundry assets	**30,385**	30,860
	$ 156,878	$ 158,402
Long lived assets of discontinued operations		
Property and equipment	**$ 1,819**	$ 2,567
Prepaid insurance	**72,334**	79,333
	$ 74,153	**$ 81,900**

	December 31, 2011	September 30, 2011[(1)]
Current liabilities of discontinued operations		
Trade accounts payable and accrued liabilities	**$ 16,321**	$ 14,888
Warranty accrual	**314,182**	323,213
	$ 330,503	$ 338,101

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

	December 31, 2011	December 31, 2010[(1)]
Revenue	**$ 17,800**	$ 18,996
Cost of goods sold	**5,045**	10,262
Gross profit or (loss)	**12,755**	8,734
Expenses	**50,188**	82,000
Loss from discontinued operations	**$(37,433)**	$(73,266)

[(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 unaudited condensed interim consolidated financial statements for an explanation of the transition to IFRS.

6. PROPERTY AND EQUIPMENT

December 31, 2011

	Computer	Tools	Leaseholds	Office Equipment	Total
Cost					
Balance, September 30, 2011	82,405	7,408	8,200	126,558	224,571
Additions	-	-	-	-	-
Transfers	-	-	-	-	-
Disposal	-	-	-	-	-
Balance, December 31, 2011	**82,405**	**7,408**	**8,200**	**126,558**	**224,571**
Accumulated Depreciation					
Balance, September 30, 2011	80,152	7,408	8,200	118,069	213,829
Provision	1,110	-	-	1,468	2,578
Transfers	-	-	-	-	-
Disposal	-	-	-	-	-
Balance, December 31, 2011	**81,262**	**7,408**	**8,200**	**119,537**	**216,407**
Net Book Value	**1,143**	**-**	**-**	**7,021**	**8,164**

September 30, 2011

	Computer	Tools	Leaseholds	Office Equipment	Vehicles & Trailers	Total
Cost						
Balance, October 1, 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, October 1, 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 August 24, 2004, the Company entered into the Agreement with EEStor, a privately owned corporation based in the United States. Under the terms of the Agreement, and subsequent amendments on November 26, 2004, September 30, 2005, August 16, 2006 and January 22, 2007, the Company may at its discretion and upon payment of defined milestone payments totaling US$2,500,000, acquire the right to purchase and deploy EEStor's electrical energy storage unit (the "EESU") in certain exclusive and non-exclusive markets.

As of December 31, 2011, the Company has made a total of US$2,000,000 (CDN$2,303,275) in defined milestone payments to EEStor pursuant to the Agreement, including a milestone payment of US$700,000 (CDN$793,130) in May 2009 following independent verification of EEStor's work product meeting or exceeding predefined permittivity standards.

The remaining and final milestone payment under the Agreement of US$500,000 is payable 15 business days following independent verification of a production quality EESU meeting defined operating parameters.

8. INVESTMENT IN EESTOR, INC.

In April 2007, the Company made a US$2,500,000 investment in the common shares of EEStor for an approximate 3.8% equity interest. The carrying cost of the investment, including all related costs totaled CDN$2,857,815. Under the terms of the investment, the Company acquired the right to invest up to an additional US$5,000,000 at the same price per share, upon independent verification of permittivity results of EEStor's work product.

In May 2009, the Company received independent verification of the permittivity results permitting it to exercise its option to make an additional investment in EEStor. In July, 2009 the Company made an additional investment in EEStor in the amount of US$5,000,000 (CDN$5,816,956). As a result of the two investments, the Company holds an approximate 10.7% interest in the share capital of EEStor.

9. DEVELOPMENT COSTS

As of December 31, 2011, 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.

10. 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.

10. MANAGEMENT OF CAPITAL (cont'd)

The Company includes equity in its definition of capital. Equity is comprised of capital stock, contributed surplus and deficit. The Company's approach to raising equity has been to raise sufficient capital to take the Company toward 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 quarter ended December 31, 2011.

11. CAPITAL STOCK

Authorized

Unlimited common shares

Issued and outstanding common shares:

	Numbers	Value
Balance, September 30, 2010	**37,215,263**	**$ 52,239,586**
Shares issued on exercise of warrants (i)	45,150	75,000
Shares issued on exercise of options (ii)	72,500	84,099
Balance, September 30, 2011	**37,332,913**	**$ 52,398,685**
		-
Balance, December 31, 2011	**37,332,913**	**$ 52,398,685**

(i) Issued in connection with settlement of professional and advisory services 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, with the remainder settled in cash.

(ii) 72,500 common shares issued in connection with settlement of a disputed obligation to a former employee at a price of $1.16 per share.

12. CONTRIBUTED SURPLUS

The following summarizes the change in contributed surplus:

	December 31, 2011	September 30, 2011
Balance, beginning of period	**$ 4,134,763**	$ 3,238,394
Stock-based compensation expense	160,287	725,845
Transfer from warrant capital on warrant expiry	-	170,524
Balance, end of period	**$ 4,295,050**	$ 4,134,763

13. WARRANT CAPITAL

The following summarizes the change in warrant capital:

	December 31, 2011	September 30, 2011
Balance, beginning of peroid	**$ -**	$ 170,524
Transferred to contributed surplus on warrant expiry	**-**	(170,524)
Balance, end of period	**-**	-

14. 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; however during the year ended September 30, 2011, options were granted to certain Senior Management and Directors that have the potential to vest within a twelve month period, expiring two years from the set vesting date. The vesting of the options is conditional on a public announcement from the Company's partner EEStor showing significant progress in its technology development. The options were granted in lieu of cash compensation and additional responsibilities as a result of the significant reduction made in personnel and resources. If the required public announcement does not transpire within the specified time frame, the options will expire at the end of the twelve month period. In the event of a takeover bid which results in the Offeror exercising control of the Company, stock options which might otherwise not be vested may be exercised and tendered as part of the takeover transaction.

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

	December 31, 2011		December 30, 2010	
	Number of Options	**Weighted Average Exercise Price**	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of period	**3,276,766**	**$ 1.99**	2,537,883	$ 2.73
Granted	**-**	**-**	100,000	$ 1.65
Exercised	**-**	**-**	-	**-**
Expired/Cancelled	**(278,200)**	**$ (2.44)**	-	**-**
Forfeited	**-**	**-**	(35,400)	$ (2.40)
Outstanding, end of period	**2,998,566**	**$ 1.95**	2,602,483	$ 2.67
Exercisable	**1,641,366**	**$ 2.51**	1,985,734	$ 2.75

14. STOCK OPTIONS AND WARRANTS (cont'd)

Options Outstanding at December 31, 2011:

	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	530,000	3.00	$ 0.74	-	-
$1.26 to $2.50	1,315,166	2.86	$ 1.54	487,966	$ 1.42
$2.51 to $3.75	894,200	0.88	$ 2.68	894,200	$ 2.68
$3.76 to $5.00	259,200	0.73	$ 4.00	259,200	$ 4.00
Total	**2,998,566**	**2.11**	**$ 1.95**	**1,641,366**	**$ 2.51**

Warrant Transactions

The following table outlines the warrant transactions and numbers outstanding:

	December 31, 2011		September 30, 2011	
	Number of Warrants	**Weighted Average Exercise Price**	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of period	**-**	**-**	106,000	$ 3.50
Granted	-	-	-	-
Exercised	-	-	-	-
Cancelled/Expired	**-**	**-**	(106,000)	$(3.50)
Outstanding, end of period	**-**	**-**	-	-

15. STOCK-BASED COMPENSATION AND STOCK-BASED PAYMENTS

The Company recorded $160,287 (2011 - $112,023) in stock based compensation costs in the period. Of this amount, $153,931 (2011 - $86,194) was included in general and administrative expenses, $4,142 (2011 - $7,061) in the engineering and development and $nil (2011 - $17,622) in marketing and business development expenses and $2,214 (2011 - $1,146) in the 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% (2011 - 0%), (ii) expected volatility of approximately 82% (2011 - 86%), (iii) risk free interest rate of 1.2% (2011 – 1.4%), and (iv) the expected life of 3 years (2011 - 3 years). The Company includes an estimated forfeiture rate, with actual forfeitures reversed in the period they occur. There were no options granted in the current quarter. The weighted average fair value of the cost of grants in the prior period was approximately $0.91per instrument.

16. EMPLOYEE BENEFITS EXPENSE

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

	December 31, 2011	**December 31, 2010**
Wages and salaries	83,674	262,899
Statutory deductions	5,309	15,236
Stock-based compensation	153,931	86,194
	242,914	**364,329**

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

	December 31, 2011	**December 31, 2010**
Wages and salaries	(874)	97,169
Statutory deductions	-	6,927
Stock-based compensation	4,142	7,061
	3,268	**111,157**

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

	December 31, 2011	**December 31, 2010**
Wages and salaries	-	59,588
Statutory deductions	-	2,969
Stock-based compensation	-	17,622
	-	**80,179**

17. DEPRECIATION EXPENSE

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

	December 31, 2011	December 31, 2010
Property and equipment		
General and administrative	2,578	8,661
Engineering and development	-	13,098
Marketing and business development	-	249
	2,578	**22,008**

18. TRANSITION TO IFRS

As stated in Note 2, these are the Company's first condensed interim 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 three months ended December 31, 2011, the comparative information presented in these unaudited condensed interim consolidated financial statements for the three months ended December 31, 2010 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 December 31, 2010 and September 30, 2010.

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 at October 1, 2010:

	Canadian GAAP	Reclassification for IFRS Presentation	Notes	IFRS Balance
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)
Total Shareholders` Equity	**15,779,551**	**-**	**-**	**15,779,551**

18. TRANSITION TO IFRS (cont'd)

Reconciliation of financial position and shareholders' equity at December 31, 2010:

December 31, 2010	Canadian GAAP	Reclassification for IFRS Presentation	Note	IFRS Balance
Assets				
Current				
Cash	**$ 2,901,545**	$ -		$ 2,901,545
Short-term investments	**1,600,200**	-		1,600,200
Prepaid expenses and sundry assets	**174,481**	-		174,481
Current assets of discontinued operations	**197,774**	-		197,774
	4,874,000	-		4,874,000
Property and equipment	**91,120**	-		91,120
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	**104,209**	-		104,209
	$ 16,047,375	$ -		$ 16,047,375
Liabilities				
Current				
Accounts payable and accrued liabilities	**$ 639,427**	$ -		$ 639,427
Current liabilities of discontinued operations	**312,285**	-		312,285
	951,712	-		951,712
Shareholders' Equity				
Share capital	**52,239,586**	$ -		52,239,586
Contributed surplus	**3,054,489**	295,928	18b	3,350,417
Warrant capital	**170,524**	-		170,524
Deficit	**(40,368,936)**	(295,928)	18b	(40,664,864)
	15,095,663	-		15,095,663
	$ 16,047,375	**$ -**		$ 16,047,375

18. TRANSITION TO IFRS (cont'd)

Reconciliation of financial position and shareholders' equity 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 three months ended December 31, 2010:

December 31, 2010	**Canadian GAAP**	**Reclassification for IFRS presentation**	**Notes**	**Adjustments**	**Notes**	**IFRS**
Expenses						
General and administrative	$ 569,303	$ 8,691	18c	(17,961)	18b	$ 560,033
Engineering and development	81,270	13,098	18c	(6,641)	18b	87,727
Marketing and business development	81,963	249	18c	3,759	18b	85,971
Foreign exchange loss (gain)	30	(30)	18c	-		-
Amortization	22,008	(22,008)	18c	-		-
	754,574	-		(20,843)		733,731
Interest Income	11,086	-		-		11,086
Loss from continuing operations	(743,488)	-		20,843		(722,645)
Loss from discontinued operations	(74,440)	-		1,174	18b	(73,266)
Net loss and comprehensive loss	(817,928)	-		22,017		(795,911)

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	$ 26,517	18c	(100,896)	18b	$ 2,600,541
Engineering and development	427,206	33,675	18c	(34,276)	18b	426,605
Marketing and business development	341,407	930	18c	(168,569)	18b	173,768
Amortization	61,122	(61,122)	18c	-		-
	3,504,655	-		(303,741)		3,200,914
Interest Income	32,001	-		-		32,001
Loss from continuing operations	(3,472,654)	-		303,741		(3,168,913)
Severance costs	(574,932)	-		-		(574,932)
Legal fees and expense reimbursements	(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)

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) 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 unsettled 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 retained earnings at transition.

18. TRANSITION TO IFRS (cont'd)

The impact arising from the change is summarized as follows:

	Three months ended December 31, 2010	Year-end September 30, 2011
Consolidated statement of comprehensive income:		
Operating Costs		
Continued Operations	20,843	303,741
Discontinued Operations	1,174	675
Decrease in stock-based compensation	**22,017**	**304,416**

	October 1, 2010	December 31, 2010	September 30, 2011
Consolidated statement of financial position:			
Increase (Decrease) to contributed surplus	(317,945)	(295,928)	(13,529)
Increase (Decrease) in deficit	(317,945)	(295,928)	(13,529)

(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. A reclassification of the depreciation and amortization and foreign exchange expense previously presented is required. In selecting the function classification the Company is required to provide further details such as employee benefits and property and amortization expense included in the function.

SELECTED ANNUAL DISCLOSURES

As these unaudited condensed interim consolidated financial statements are the Company's first consolidated financial statements prepared using IFRS, certain disclosures that are required to be included in the annual financial statements prepared in accordance with IFRS, that were not included in the Company's most recent annual financial statements prepared in accordance with Canadian GAAP, have been included in these financial statements for the comparative annual period as Notes 19 through 20.

19. EMPLOYEE BENEFITS EXPENSE

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

	September 30, 2011
Wages and salaries	661,073
Statutory deductions	47,443
Stock-based compensation	345,324
	1,053,840

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

	September 30, 2011
Wages and salaries	349,221
Statutory deductions	32,976
Stock-based compensation	44,628
	426,825

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

	September 30, 2010
Wages and salaries	165,958
Statutory deductions	8,868
Stock-based compensation	(18,930)
	155,896

20. DEPRECIATION EXPENSE

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

	September 30, 2011
Property and equipment	
General and adminstrative	26,517
Engineering and development	33,675
Marketing and business development	930
	61,122

21. 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. 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.

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 10, 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.

22. COMMITMENTS

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

2012	$	91,229
2013		40,546
	$	**131,775**

23. RELATED PARTY TRANSACTIONS

Key Management Personnel Compensation

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 13 to the Company's 2011 annual financial statements reported under Canadian GAAP and Note 14 above.

The remuneration of key management personnel during the three months ended was as follows:

	December 31, 2011	December 31, 2010 [1]
Wages and Salaries	58,894	205,264
Statutory Deductions	2,066	8,170
Stock-based compensation	148,607	85,435
	209,567	298,869

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

As at December 31, 2011 the outstanding balance payable to the Company's Board of Directors was $25,625.

24. SEGMENTED INFORMATION

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

25. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation, if necessary.