ZENN Motor Company Inc.

Condensed Interim Consolidated Financial Statements

For the Three and Nine Months Ended June 30, 2012

(Unaudited)

Notice to Reader

The accompanying unaudited condensed interim consolidated financial statements of ZENN Motor Company Inc. (the "Company") for the three and nine months ended June 30, 2012 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 June 30, 2012 and September 30, 2011
(in Canadian dollars)

	Notes	June 30, 2012 (unaudited)	September 30, 2011 [1] (audited)
Assets			
Current			
Cash		**$ 960,367**	$ 915,165
Short-term investments		**1,215,023**	765,000
Prepaid expenses and sundry assets		**127,081**	108,455
Current assets of discontinued operations	**5**	**150,910**	158,402
		2,453,381	1,947,022
Property and equipment		**5,059**	10,742
EEStor technology rights	**6**	**2,823,065**	2,303,275
Investment in EEStor, Inc.	**7**	**8,724,229**	8,674,771
Long lived assets of discontinued operations	**5**	**59,085**	81,900
		$ 14,064,819	$ 13,017,710
Liabilities			
Current			
Accounts payable and accrued liabilities		**$ 211,389**	$ 513,816
Current liabilities of discontinued operations	**5**	**325,983**	338,101
		$ 537,372	$ 851,917
Shareholders' Equity			
Share capital		**$ 53,470,224**	$ 52,398,685
Contributed surplus		**4,489,894**	4,134,763
Warrant capital		**1,229,092**	-
Deficit		**(45,661,763)**	(44,367,655)
		$ 13,527,447	$ 12,165,793
		$ 14,064,819	$ 13,017,710

[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 the Company's 2012 first quarter 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 and nine months ended June 30
(in Canadian dollars)

		Three Months		Nine Months	
	Notes	**2012**	2011[1]	**2012**	2011[1]
Expenses					
General and administrative	**14,15**	**$ 471,736**	$ 554,289	**$ 1,186,430**	$ 1,765,533
Engineering and development	**8,14,15**	**(1,591)**	178,605	**1,739**	433,523
Marketing and business development	**14,15**	**275**	(2,163)	**1,817**	168,565
		470,420	730,731	**1,189,986**	2,367,621
Interest income		**5,521**	5,994	**11,797**	26,081
Loss from continuing operations before undernoted items		**(464,899)**	(724,737)	**(1,178,189)**	(2,341,540)
Severance costs		**-**	(448,987)	**-**	(448,987)
Legal fees and expense reimbursements		**-**	**-**	**-**	(370,486)
Investment write-off		**-**	**-**	**-**	(201,760)
Loss from continuing operations		**(464,899)**	(1,173,724)	**(1,178,189)**	(3,362,773)
Loss from discontinued operations	**5,14**	**(38,822)**	(150,664)	**(115,919)**	(291,835)
Net loss		**(503,721)**	(1,324,388)	**(1,294,108)**	(3,654,608)
Other comprehensive income		**-**	-	**-**	-
Total comprehensive loss		**$(503,721)**	$(1,324,388)	**$(1,294,108)**	**$(3,654,608)**
Loss per share, basic and diluted					
From continuing operations		**$(0.01)**	$(0.03)	**$(0.03)**	$(0.09)
From discontinued operations		**$(0.00)**	$(0.01)	**$(0.00)**	$(0.01)
Loss per share, basic and diluted		**$(0.01)**	$(0.04)	**$(0.03)**	$(0.10)
Weighted average number of common shares outstanding					
Basic and diluted		**39,478,736**	37,260,413	**38,045,577**	37,231,801

[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 the Company's 2012 first quarter 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 nine months ended June 30
(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		-	-	-	-	(1,294,108)	(1,294,108)
Other comprehensive loss		-	-	-	-	-	-
Total other comprehensive loss		-	-	-	-	(1,294,108)	(1,294,108)
Comprehensive loss for the period		-	-	-	-	(1,294,108)	(1,294,108)
Transactions with shareholders							
Exercise of options	10, 13	225,000	475,153	-	-	-	475,153
Issuance of shares	10	2,350,000	596,386	-	-	-	596,386
Issuance of warrants	10, 12	-	-	-	1,229,092	-	1,229,092
Transfer to share cap on exercise of options	11	-	-	(171,403)	-	-	(171,403)
Stock based compensation in period	14	-	-	526,534	-	-	526,534
Total contributions by and distributions to shareholders		2,575,000	1,071,539	355,131	1,229,092	-	2,655,762
Balances, June 30, 2012		**39,907,913**	**$53,470,224**	**$4,489,894**	**$1,229,092**	**$(45,661,763)**	**$13,527,447**
Balances, October 1, 2010		**37,215,263**	**$ 52,239,586**	**$ 3,238,394**	**$ 170,524**	**$(39,868,953)**	**$ 15,779,551**
Net loss for the period		-	-	-	-	(3,654,608)	(3,654,608)
Other comprehensive loss		-	-	-	-	-	-
Total other comprehensive loss		-	-	-	-	(3,654,608)	(3,654,608)
Comprehensive loss for the period		-	-	-	-	(3,654,608)	(3,654,608)
Transactions with shareholders							
Exercise of options		-	-	-	-	-	-
Issuance of shares	18	45,150	75,000	-	-	-	75,000
Transfer warrants to contribution surplus		-	-	170,524	(170,524)	-	-
Stock based compensation in period	14	-	-	442,955	-	-	442,955
Total contributions by and distributions to shareholders		45,150	75,000	613,479	(170,524)	-	517,955
Balances, June 30, 2011[1]		**37,260,413**	**$52,314,586**	**$3,851,873**	**$ -**	**$(43,523,561)**	**$12,642,898**

[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 the Company's 2012 first quarter 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 and nine months ended June 30
(in Canadian dollars)

		Three Months		Nine Months	
	Notes	**2012**	2011 (1)	**2012**	2011 (1)
Cash flows provided by (used in) operations					
Net loss from continuing operations for period		**$ (464,899)**	$ (1,173,724)	**$ (1,178,189)**	$ (3,362,773)
Items not affecting cash					
Amortization		**1,457**	18,186	**5,683**	61,127
Loss/(Gain) on sale of property and equipment		**-**	858	**(125)**	(951)
Write off of advances		**-**	-	**-**	201,760
Expense reimbursement through share issuance	**18**	**-**	-	**-**	75,000
Stock based compensation	**14**	**246,126**	129,105	**520,578**	439,217
		(217,316)	(1,025,575)	**(652,053)**	(2,586,620)
Net changes in non-cash working capital					
Prepaid expenses and sundry assets		**23,386**	133,267	**(18,626)**	(179,055)
Accounts payable and accrued liabilities		**5,429**	(5,616)	**(302,427)**	45,187
		(188,501)	(897,924)	**(973,106)**	(2,720,488)
Investing					
Short-term investments		**(1,200,023)**	1,085,188	**(450,023)**	3,085,188
EEStor technology rights		**(519,790)**	-	**(519,790)**	-
Investment in EEStor, Inc.		**-**	-	**(49,458)**	-
Proceeds on disposal of property and equipment		**-**	-	**125**	9,929
Acquisition of property and equipment		**-**	-	**-**	(11,129)
		(1,719,813)	1,085,188	**(1,019,146)**	3,083,988
Financing					
Exercise of options	**10, 13**	**303,750**	-	**303,750**	-
Issuance of shares	**10**	**1,825,478**	-	**1,825,478**	-
		2,129,228	-	**2,129,228**	-
Cash used in discontinued operations		**(20,197)**	(68,481)	**(91,774)**	(313,435)
Net change in cash		**200,717**	118,783	**45,202**	50,065
Cash, beginning of period		**759,650**	405,734	**915,165**	474,452
Cash, end of period		**$ 960,367**	$ 524,517	**$ 960,367**	$ 524,517

(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 the Company's 2012 first quarter 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 rights to purchase and deploy an energy storage technology currently under development by EEStor, Inc. (EEStor) (see Notes 6 and 7).

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 through fiscal 2013; 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 accounting policies are disclosed in Note 3 of the Company's 2012 first quarter condensed interim consolidated financial statements. The condensed interim consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"), certain disclosures that are required to be included in the annual consolidated financial statements prepared in accordance with IFRS were included in the Company's 2012 first quarter 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 13 to these statements, Note 18 to the Company's 2012 first quarter 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 August 28, 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 Company's "Significant Accounting Policies" section of the September 30, 2011 audited consolidated financial statements. 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.

EEStor Technology Rights

The cost incurred to acquire certain 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 June 30, 2012, 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 6).

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 June 30, 2012, no events or changes in circumstances had occurred which would lead to impairment in the value of the investment (see Note 7).

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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.

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:

	June 30, 2012	September 30, 2011[1]
Current assets of discontinued operations		
Accounts receivable	**$ -**	$ 337
Inventory	**121,157**	127,205
Prepaid and sundry assets	**29,753**	30,860
	$ 150,910	$ 158,402
Long lived assets of discontinued operations		
Property and equipment	**$ 752**	$ 2,567
Prepaid insurance	**58,333**	79,333
	$ 59,085	**$ 81,900**

	June 30, 2012	September 30, 2011[1]
Current liabilities of discontinued operations		
Trade accounts payable and accrued liabilities	**$ 13,742**	$ 14,888
Warranty accrual	**312,241**	323,213
	$ 325,983	$ 338,101

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

	For the three months ended June 30,		For the nine months ended June 30,	
	2012	2011[1]	**2012**	2011[1]
Revenue	**$ 16,207**	$ 12,048	**$ 48,738**	$ 47,142
Cost of goods sold	**9,917**	6,900	**21,103**	27,204
Gross profit or (loss)	**6,290**	5,148	**27,635**	19,938
Expenses	**45,112**	155,812	**143,554**	311,773
Loss from discontinued operations	**$(38,822)**	$(150,664)	**$(115,919)**	$(291,835)

(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 the Company's 2012 first quarter unaudited condensed interim consolidated financial statements for an explanation of the transition to IFRS.

6. 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 within two business days of signing the New Technology Agreement. 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.

7. 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).

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). As a result of the three investments, the Company holds an approximate 10.7% interest in the share capital of EEStor. The Company also holds warrants to purchase common shares in EEStor; should the Company decide to exercise the total available warrants, its investment would increase to approximately 10.8%.

8. DEVELOPMENT COSTS

As of June 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.

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

The Company is not subject to any external capital requirements.

There have been no changes with respect to the overall capital management strategy during the three and nine months ended June 30, 2012.

10. CAPITAL STOCK

Authorized
Unlimited common shares

Issued and outstanding common shares:

	Numbers	Value
Balance, September 30, 2011	**37,332,913**	**$ 52,398,685**
Balance, December 31, 2011	**37,332,913**	**$ 52,398,685**
Balance, March 31, 2012	**37,332,913**	**$ 52,398,685**
Shares issued on exercise of options (i)	225,000	475,153
Non-brokered private placement April 13, 2012 (ii)	2,350,000	596,386
Balance, June 30, 2012	**39,907,913**	**53,470,224**

(i) Includes net cash proceeds of $303,750 and non-cash cost transfer from contributed surplus of $171,403.

(ii) On April 13, 2012 the Company issued an aggregate 2,350,000 common shares for gross proceeds of $1,997,500. Share issuance costs relating to the transaction were $1,401,114 including 2,514,500 warrants with an ascribed value of $1,229,092. Each warrant entitles the holder to purchase one common share at $1.35 and expire on October 13, 2013.

11. CONTRIBUTED SURPLUS

The following summarizes the change in contributed surplus:

	Amount
Balance September 30, 2011	**$ 4,134,763**
Stock-based compensation expense	160,287
Balance December 31, 2011	**$ 4,295,050**
Stock-based compensation expense	118,259
Balance March 31, 2012	**$ 4,413,309**
Stock-based compensation expense	247,988
Transfer to share capital on exercise of options	(171,403)
Balance June 30, 2012	**$ 4,489,894**

12. WARRANT CAPITAL

The following summarizes the change in warrant capital:

	Amount
Balance September 30, 2011	**$ -**
Balance December 31, 2011	**-**
Balance March 31, 2012	**-**
Issuance of warrants	1,229,092
Balance June 30, 2012	**$ 1,229,092**

13. 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 certain Senior Management 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 for Senior Management was in lieu of cash compensation. 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.

13. STOCK OPTIONS (cont'd)

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

	Outstanding		**Exercisable**	
	Number of Options	**Weighted Average Exercise Price**	Number of Options	Average Exercise Price
Balance September 30, 2011	**3,276,766**	**$ 1.99**		
Granted	-	-		
Exercised	-	-		
Expired/Cancelled	(278,200)	$ (2.44)		
Balance December 31, 2011	**2,998,566**	**$ 1.95**	**1,641,366**	$ 2.51
Granted	30,000	$ 0.78		
Exercised	-	-		
Expired/Cancelled	(258,466)	$ (2.69)		
Balance March 31, 2012	**2,770,100**	**$ 1.87**	**1,608,631**	$ 2.37
Granted(1)(2)	725,000	$ 1.35		
Transfer to share capital on exercise of option	(225,000)	$ (1.35)		
Expired/Cancelled	(444,800)	$ (3.00)		
Balance June 30, 2012	**2,825,300**	**$ 1.60**	**988,831**	$ 2.26

(1) 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.

(2) 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.

Options Outstanding at June 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	2.62	$ 0.74	-	-
$1.26 to $2.50	1,746,100	3.80	$ 1.49	469,631	$ 1.55
$2.51 to $3.75	400,000	1.07	$ 2.55	400,000	$ 2.55
$3.76 to $5.00	119,200	0.63	$ 4.06	119,200	$ 4.06
Total	**2,825,300**	**3.05**	**$ 1.60**	**988,831**	**$ 2.26**

14. STOCK-BASED COMPENSATION AND STOCK-BASED PAYMENTS

In the three and nine months ended June 30, 2012, the Company recorded $247,988 and $526,534 respectively (2011 - $130,810 and $442,955 respectively) in stock based compensation costs. Of this amount, $246,126 and $516,436 (2011 - $176,607 and $436,252) was included in general and administrative expenses, $nil and $4,142 (2011 - $1,195 and $23,342) in the engineering and development and $nil and $nil (2011 – $(48,697) and $(20,377)) in marketing and business development expenses. As well, $1,862 and $5,956 (2011 - $1,705 and $3,738) 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 98% (2011 - 89%), (iii) risk free interest rate of 1.19% (2011 – 1.74%), 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. The weighted average fair value of the cost of grants in the period was approximately $0.69 (2011 - $0.76) per instrument.

15. EMPLOYEE BENEFITS EXPENSE

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

	For the three months ended June 30		For the nine months ended June 30	
	2012	2011	**2012**	2011
Wages and salaries	**$ 87,861**	$ 209,235	**$ 266,481**	$ 686,065
Statutory deductions	**5,780**	10,289	**18,533**	39,454
Stock-based compensation	**246,126**	176,607	**516,436**	436,252
	$ 339,767	$ 396,131	**$ 801,450**	$ 1,161,771

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

	For the three months ended June 30		For the nine months ended June 30	
	2012	2011	**2012**	2011
Wages and salaries	**$ -**	$ 41,192	**$(120)**	$ 165,958
Statutory deductions	**-**	1,173	**-**	8,772
Stock-based compensation	**-**	(48,697)	**-**	(20,377)
	$ -	$(6,332)	**$(120)**	$ 154,353

15. EMPLOYEE BENEFITS EXPENSE (cont'd)

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

	For the three months ended June 30		For the nine months ended June 30	
	2012	2011	**2012**	2011
Wages and salaries	**$ -**	$ 99,971	**$(874)**	$ 304,739
Statutory deductions	**-**	10,078	**-**	28,863
Stock-based compensation	**-**	1,195	**4,142**	23,342
	$ -	$ 111,244	**$ 3,268**	$ 356,944

16. TRANSITION TO IFRS

The accounting policies set out in Note 3 to the Company's 2012 first quarter condensed interim consolidated financial statements for the three months ended December 31, 2011 have been applied in preparing the financial statements for the three and nine months ended June 30, 2012, the comparative information presented in these unaudited condensed interim consolidated financial statements for the three and nine months ended June 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 June 30, 2011 and 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 provided in the Company's 2012 first quarter condensed interim consolidated financial statements.

16. TRANSITION TO IFRS (cont'd)

An explanation of how the transition from previous Canadian GAAP to IFRS has affected the company's financial position, comprehensive loss and cash flow is set out in the following tables and the notes that accompanying the tables.

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

June 30, 2011	**Canadian GAAP**	**Reclassification for IFRS Presentation**	**Note**	**IFRS Balance**
Assets				
Current				
Cash	**$ 524,517**	$ -		$ 524,517
Short-term investments	**1,515,012**	-		1,515,012
Prepaid expenses and sundry assets	**149,109**	-		149,109
Current assets of discontinued operations	**179,668**	-		179,668
	2,368,306	-		2,368,306
Property and equipment	**50,590**	-		50,590
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	**88,393**	-		88,393
	$ 13,485,335	$ -		$ 13,485,335
Liabilities				
Current				
Accounts payable and accrued liabilities	**$ 500,619**	$ -		$ 500,619
Current liabilities of discontinued operations	**341,818**	-		341,818
	$ 842,437	$ -		$ 842,437
Shareholders' Equity				
Share capital	**$ 52,314,586**	$ -		$ 52,314,586
Contributed surplus	**3,837,759**	14,114	16a	3,851,873
Deficit	**(43,509,447)**	(14,114)	16a	(43,523,561)
	$ 12,642,898	$ -		$ 12,642,898
	$ 13,485,335	$ -		$ 13,485,335

16. TRANSITION TO IFRS (cont'd)

Reconciliation of comprehensive loss for the three months ended June 30, 2011:

June 30, 2011	Canadian GAAP	Reclassification for IFRS presentation	Notes	Adjustments	Notes	IFRS
Expenses						
General and administrative	$ 598,211	$ 5,931	16b	$(49,853)	16a	$ 554,289
Engineering and development	180,434	11,991	16b	(13,820)	16a	178,605
Marketing and business development	149,211	249	16b	(151,623)	16a	(2,163)
Foreign exchange loss (gain)	(15)	15	16b	-		-
Amortization	18,186	(18,186)	16b	-		-
	946,027	-		(215,296)		730,731
Interest income	5,994	-		-		5,994
Loss from continuing operations	(940,033)	-		215,296		(724,737)
Severance	(448,987)	-		-		(448,987)
Loss from continuing operations	(1,389,020)	-		215,296		(1,173,724)
Loss from discontinued operations	(150,332)	-		(332)	16a	(150,664)
Net loss and comprehensive loss	$ (1,539,352)	$ -		$ 214,964		$ (1,324,388)

Reconciliation of comprehensive loss for the nine months ended June 30, 2011:

June 30, 2011	Canadian GAAP	Reclassification for IFRS presentation	Notes	Adjustments	Notes	IFRS
Expenses						
General and administrative	$ 1,852,688	$ 21,529	16b	$(108,684)	16a	$ 1,765,533
Engineering and development	419,972	38,817	16b	(25,266)	16a	433,523
Marketing and business development	336,387	747	16b	(168,569)	16a	168,565
Foreign exchange loss (gain)	(34)	34	16b	-		-
Amortization	61,127	(61,127)	16b	-		-
	2,670,140	-		(302,519)		2,367,621
Interest income	26,081	-		-		26,081
Loss from continuing operations	(2,644,059)	-		302,519		(2,341,540)
Severance	(448,987)	-		-		(448,987)
Legal fees and expense reimbursements	(370,486)	-		-		(370,486)
Investment write-off	(201,760)	-		-		(201,760)
Loss from continuing operations	(3,665,292)	-		302,519		(3,362,773)
Loss from discontinued operations	(293,147)	-		1,312	16a	(291,835)
Net loss and comprehensive loss	$ (3,958,439)	$ -		$ 303,831		$ (3,654,608)

16. TRANSITION TO IFRS (cont'd)

(a) IFRS 2 Stock-based compensation ("IFRS 2")

As described in Notes 13 and 14, 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.

The impact arising from the change is summarized as follows:

	For the three months ended June 30, 2011	For the nine months ended June 30, 2011
Consolidated statement of comprehensive income:		
Operating costs		
Continued operations	$ 215,296	$ 302,519
Discontinued operations	(332)	1,312
Decrease in stock-based compensation	**$ 214,964**	**$ 303,831**

	June 30, 2011
Consolidated statement of financial position:	
Increase (Decrease) to contributed surplus	$ 14,114
Increase (Decrease) in deficit	**$ 14,114**

(b) 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 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.

17. COMMITMENTS

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

2012	$	30,410
2013		40,546
	$	**70,956**

18. 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 13 above.

The remunerations of key management personnel during the three and nine months ended were as follows:

	For the three months ended June 30		For the nine months ended June 30	
	2012	2011[(1)]	**2012**	2011[(1)]
Wages and salaries	**$ 63,375**	$ 148,284	**$ 193,625**	$ 508,634
Statutory deductions	**1,425**	3,183	**6,853**	22,224
Stock-based compensation	**245,467**	173,746	**509,872**	429,919
	$ 310,267	$ 325,213	**$ 710,350**	$ 960,777

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

As at June 30, 2012 the outstanding balance payable to the Company's Board of Directors was $32,125 for Director's fees.

Related party transactions included in prior year results

In the prior year quarter ended March 31, 2011, the Company provided Mr. Clifford, in his capacity as a non-management Director and former CEO of the Company, a $45,000 consulting retainer subsequent to the expiry of his employment.

As previously disclosed in the prior year quarter ended March 31, 2011, the Company reimbursed Mr. Clifford a total of $325,000 for certain professional and advisory fees incurred by him in connection with various discussions and arrangements which the Company undertook with certain shareholders of the Company which resulted in the resignation and replacement of three directors. Of the total amount reimbursed, $75,000 was satisfied by the issuance of 45,150 shares of the Company to Mr. Clifford with the remainder paid in cash.

19. SEGMENTED INFORMATION

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

20. COMPARATIVE FIGURES

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