ZENN Motor Company Inc.

Consolidated Financial Statements

For the Years Ended September 30, 2013 and 2012

(in Canadian dollars)

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of
ZENN Motor Company Inc.

We have audited the accompanying consolidated financial statements of ZENN Motor Company Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at September 30, 2013 and September 30, 2012 and the consolidated statements of comprehensive loss, changes in shareholders' equity and cash flows for the years ended September 30, 2013 and September 30, 2012 and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of ZENN Motor Company Inc. and its subsidiaries as at September 30, 2013 and September 30, 2012 and its financial performance and its cash flows for the years ended September 30, 2013 and September 30, 2012 in accordance with International Financial Reporting Standards.

Emphasis of Matter

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

Collins Barrow Toronto LLP

Licensed Public Accountants
Chartered Accountants
January 27, 2014
Toronto, Ontario

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ZENN Motor Company Inc.
Consolidated Statements of Financial Position
As at September 30, 2013 and 2012
(in Canadian dollars)

	Notes	**September 30, 2013**	September 30, 2012
Assets			
Current			
Cash		**$ 700,824**	$ 322,569
Short-term investments		**15,045**	1,615,023
Prepaid expenses and sundry assets		**129,289**	99,745
Current assets of discontinued operations	**5**	**44,950**	56,940
		890,108	2,094,277
Property and equipment	**6**	**-**	1,563
Deposit for rent		**5,946**	-
EEStor technology rights	**7**	**2,823,065**	2,823,065
EEStor advance	**8**	**198,198**	98,690
Investment in EEStor, Inc.	**9**	**8,828,185**	8,724,229
Long lived assets of discontinued operations	**5**	**23,333**	51,889
		$ 12,768,835	$ 13,793,713
Liabilities			
Current			
Accounts payable and accrued liabilities	**11**	**$ 365,655**	$ 190,906
Current liabilities of discontinued operations	**5**	**63,161**	228,010
		428,816	418,916
Shareholders' Equity			
Share capital	**13**	**53,489,531**	53,470,224
Contributed surplus		**5,292,217**	4,726,093
Warrant capital		**1,223,960**	1,229,092
Deficit		**(47,665,689)**	(46,050,612)
		$ 12,340,019	$ 13,374,797
		$ 12,768,835	$ 13,793,713

Nature of operations and going concern (Note 1)
Commitments *(Note 19)*
Subsequent events (*Note 23*)

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

See accompanying notes

ZENN Motor Company Inc.
Consolidated Statements of Comprehensive Loss
Years ended September 30, 2013 and 2012
(in Canadian dollars)

	Notes	**2013**	2012
Expenses			
General and administrative	**15,16, 17**	**$ 1,518,169**	$ 1,587,809
Engineering and development	**10,15,16**	**30,655**	(41,666)
Marketing and business development	**15,16**	**91,777**	1,817
		1,640,601	1,547,960
Interest Income		**15,059**	19,535
Loss from continuing operations		**(1,625,542)**	(1,528,425)
Income/(Loss) from discontinued operations	**5,15**	**10,465**	(154,532)
Total Comprehensive Loss		**$(1,615,077)**	$(1,682,957)
Loss per share, basic and diluted			
From continuing operations		**$(0.04)**	$(0.04)
From discontinued operations		$ 0.00	$(0.00)
Loss per share, basic and diluted		**$(0.04)**	$(0.04)
Weighted average number of common shares outstanding			
Basic and diluted		**39,911,653**	38,513,705

See accompanying notes

ZENN Motor Company Inc.
Consolidated Statements of Changes in Shareholders' Equity
Years ended September 30, 2013 and 2012
(in Canadian dollars)

	Notes	No. of Shares	Share Capital	Contributed Surplus	Warrant Capital	Deficit	Total Shareholders' Equity
Balances, September 30, 2012		**39,907,913**	**$53,470,224**	**$4,726,093**	**$ 1,229,092**	**$(46,050,612)**	**$13,374,797**
Comprehensive loss for the period		-	-	-	-	(1,615,077)	(1,615,077)
Transactions with shareholders							
Exercise of warrants	14	10,500	14,175	-	-	-	14,175
Transfer to share cap on exercise of warrants	14	-	5,132	-	(5,132)	-	-
Stock-based compensation	15,16	-	-	566,124	-	-	566,124
Balances, September 30, 2013		**39,918,413**	**$53,489,531**	**$5,292,217**	**$1,223,960**	**$(47,665,689)**	**$12,340,019**
Balances, September 30, 2011		**37,332,913**	**$ 52,398,685**	**$ 4,134,763**	**$ -**	**$(44,367,655)**	**$ 12,165,793**
Comprehensive loss for the period		-	-	-	-	(1,682,957)	(1,682,957)
Transactions with shareholders							
Exercise of options	14	225,000	303,750	-	-	-	303,750
Transfer to share cap on exercise of options	-	-	171,403	(171,403)	-	-	-
Issuance of units, net of issuance costs	13	2,350,000	1,825,478	-	-	-	1,825,478
Issuance of warrants	13	-	(1,229,092)	-	1,229,092	-	-
Stock-based compensation	15,16	-	-	762,733	-	-	762,733
Balances, September 30, 2012		**39,907,913**	**$53,470,224**	**$4,726,093**	**$1,229,092**	**$(46,050,612)**	**$13,374,797**

See accompanying notes

ZENN Motor Company Inc.
Consolidated Statements of Cash Flows
Years ended September 30, 2013 and 2012
(in Canadian dollars)

	Notes	2013	2012
Cash flows provided by (used in) operations			
Net loss from continuing operations		**$ (1,625,542)**	$ (1,528,425)
Items not affecting cash			
Amortization	**17**	**1,563**	7,809
(Gain)/Loss on sale of property and equipment	**6**	**(1,350)**	1,245
Stock-based compensation	**15**	**566,101**	754,972
		(1,059,228)	(764,399)
Net changes in non-cash working capital			
Prepaid expenses and sundry assets		**(29,544)**	8,710
Accounts payable and accrued liabilities		**174,749**	(322,910)
		(914,023)	(1,078,599)
Investing			
Short-term investments		**1,599,978**	(850,023)
Rent deposit		**(5,946)**	-
EEStor technology rights	**7**	**-**	(519,790)
EEStor advance	**8**	**(99,508)**	(98,690)
EEStor equity investment	**9**	**(103,956)**	(49,458)
Proceeds on disposal of property and equipment	**6**	**1,350**	125
		1,391,918	(1,517,836)
Financing			
Exercise of warrants/options	**14**	**14,175**	303,750
Issuance of shares		**-**	1,825,478
		14,175	2,129,228
Cash used in discontinued operations		**(113,815)**	(125,389)
Net change in cash		**378,255**	(592,596)
Cash, beginning of year		**322,569**	915,165
Cash, end of year		**$ 700,824**	$ 322,569

See accompanying notes

1. NATURE OF OPERATIONS AND GOING CONCERN

ZENN Motor Company Inc. (the "Company") is incorporated under the Business Corporations Act (Ontario) and is listed on the TSX Venture Exchange under the symbol ZNN. The Company's head office is located at 21 St. Clair Avenue East, Suite 301, Toronto, Ontario. The Company's focus is to capitalize on certain exclusive rights to purchase and deploy an energy storage technology currently under development by EEStor, Inc. ("EEStor") (see Notes 7, 8 and 9).

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

The Company's success depends on the completion and commercialization of EEStor's energy storage technology. There is no assurance that EEStor will be successful in the completion of the development and commercialization of its products. Based on its current operating and financial plans, management of the Company believes the current level of cash and short-term investments will be sufficient to fund the Company's planned operations through fiscal 2014; however, if the Company requires additional cash resources to fund operations including payments required if EEStor milestones are met (Note 7), there is no assurance that the Company will be able to obtain the required cash resources to fund these operations. Accordingly, the financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result from the possible inability of the Company to continue as a going concern.

2. STATEMENT OF COMPLIANCE

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standard ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements of the company for the years ended September 30, 2013 and 2012 were approved by the Board of Directors on January 27, 2014.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

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

The consolidated financial statements have been prepared on the historical cost. The Company's financial year end is September 30. The consolidated financial statements are presented in Canadian dollars, which is the Company and its subsidiaries' functional currency. The consolidated statements of income are presented using the functional classification.

Short-term Investments

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

3. SIGNIFICANT ACCOUNTING POLICIES (cont`d)

Property and Equipment

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

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

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

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

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

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

EEStor Technology Rights and Advance

The cost incurred to acquire certain exclusive rights to purchase and deploy EEStor's electric energy storage unit ("EESU"), as set out in the new technology agreement (the "New Technology Agreement") between the Company and EEStor is being capitalized. The amortization period will be determined once the EESU technology is available for use. The Company performs an impairment test of the New Technology Agreement annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In the event that the New Technology Agreement is terminated and the Company does not fully acquire the purchase and deployment rights as set out therein, the capitalized costs will be written off to operations. As at September 30, 2013, the impairment test did not result in an impairment to the carrying amount of the rights under the New Technology Agreement (see Note 7 & 8).

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. As at the date of these consolidated financial statements, the Company does not have significant influence, control or joint control over EEStor. The common shares of EEStor do not have a quoted market price in an active market and fair value cannot be reliably measured; accordingly, the shares are carried at cost. The Company would recognize a loss on this investment if there is objective evidence that there is an impairment in the value of the investment. As at September 30, 2013, no events or changes in circumstances had occurred which would lead to an impairment in the value of the investment (see Note 9).

3. SIGNIFICANT ACCOUNTING POLICIES (cont`d)

Research and Development Costs

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

Provisions

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

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

Accounting for Stock-Based Payments and Compensation

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

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

Investment Tax Credits

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

3. SIGNIFICANT ACCOUNTING POLICIES (cont`d)

Income Taxes

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

Loss Per Share

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

Financial Instruments

Recognition and Measurement

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

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

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (cont`d)

Use of Estimates

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenue and expenses during the reporting period. Actual results could differ from those estimates.

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

Foreign Currency Translation

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

4. ACCOUNTING PRONOUNCEMENTS ISSUED BUT NOT YET EFFECTIVE

As at September 30, 2013, the Company has determined that a number of matters for accounting and disclosure under the standards established by the International Accounting Standards Board (“IASB”) may be applicable to the future periods of the Company’s operations. Accordingly the following pronouncements may impact the Company’s accounting and disclosure of its activities in the future as noted below:

IFRS 10, Consolidated Financial Statements:

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

IFRS 12, Disclosure of Interests in Other Entities:

In May 2011, the IASB issued IFRS 12, “Disclosure of Interest in Other Entities” (“IFRS 12”). IFRS 12 integrates and provides consistent disclosure requirements for all interests in other entitis such as subsidiaries, joint ventures, associates and unconsolidated structured entities. The standard is effective for annual periods beginning on or after January 1, 2013. The Company is assessing the impact of this new standard.

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

IFRS 13, Fair Value Measurement:

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

IAS 27, Separate Financial Statements:

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

IAS 28, Investment in Associates:

In May 2011, the IASB amended IAS 28, "Investments in Associates and Joint Ventures" ("IAS 28"). This amendment requires any retained portion of an investment in an associate or joint venture that has not been classified as held for sale to be measured using the equity method until disposal. After disposal, if the retained interest continues to be an associate or joint venture, the amendment requires it to continue to be accounted for under the equity method. The amendment also disallows the remeasurement of any retained interest in an investment upon the cessation of significant influence or joint control. The amended standard is effective for the annual periods beginning on or after January 1, 2013. The Company is assessing the impact of this amended standard.

IFRS 9, Financial Instruments:

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

5. DISCONTINUED OPERATIONS

The Company completed the wind down of its LSV business operations announced in December 2009, and ceased providing its service support as of June 30, 2013. 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:

	2013 **$**	2012 $
Current assets of discontinued operations		
Accounts receivable[1]	**16,950**	28
Inventory	**-**	27,617
Prepaid and sundry assets[2]	**28,000**	29,295
	44,950	56,940
Long lived assets of discontinued operations		
Property and equipment	**-**	556
Prepaid insurance[2]	**23,333**	51,333
	23,333	51,889

(1) Reflects sale of inventory to third party provider, payments are to be made in five quaterly installments.
(2) Relates to current and long-term run off insurance related to the LSV business, expires July 2015.

	2013 **$**	2012 $
Current liabilities of discontinued operations		
Accounts payable and accrued liabilities	**-**	5,888
Severance accrual[3]	**13,161**	-
Warranty accrual[4]	**50,000**	222,122
	63,161	228,010

(3) Reflects severance payments outstanding at year end related to the closure of the service support.
(4) Reflects potential obligations related to service support at year-end.

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

Opening Balance, September 30, 2011	**$323,213**
Claims paid out	(11,744)
Adjustment to estimate	(89,347)
Ending Balance, September 30, 2012	**$222,122**
Claims paid out	(5,247)
Adjustment to estimate	(166,875)
Ending Balance, September 30, 2013	**$50,000**

5. DISCONTINUED OPERATIONS (cont'd)

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

	2013 **$**	2012 $
Revenue	**61,299**	62,578
Cost of goods sold	**45,562**	28,797
Gross profit or (loss)	**15,737**	33,781
Expenses[1]	**5,272**	188,313
Profit/(Loss) from discontinued operations	**10,465**	(154,532)

[1] Includes an adjustment to the warranty accrual of $166,875 in the current period and $89,347 in the prior year, offset by severance costs related to the closure of the service support department in the current period of ($25,731).

6. PROPERTY AND EQUIPMENT

September 30, 2013

	Computer equipment **$**	**Tools and equipment** **$**	**Leasehold improvements** **$**	**Office furniture and equipment** **$**	**Total** **$**
Cost					
Balance, September 30, 2012	82,405	7,408	8,200	93,400	191,413
Disposal	(30,339)	(7,408)	(8,200)	(51,371)	(97,318)
Balance, September 30, 2013	**52,066**	**-**	**-**	**42,029**	**94,095**
Accumulated Depreciation					
Balance, September 30, 2012	81,932	7,408	8,200	92,310	189,850
Provision	473	-	-	1,090	1,563
Disposal	(30,339)	(7,408)	(8,200)	(51,371)	(97,318)
Balance, September 30, 2013	**52,066**	**-**	**-**	**42,029**	**94,095**
Net Book Value	**-**	**-**	**-**	**-**	**-**

6. PROPERTY AND EQUIPMENT (cont'd)

September 30, 2012

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

7. EESTOR TECHNOLOGY RIGHTS

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

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

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

8. EESTOR ADVANCE

In September 2012, the Company agreed to advance US$200,000 to EEStor to assist in its working capital needs, which is to be applied against payments payable under the milestones in the New Technology Agreement. The advance consists of two installments, the first US$100,000 (CDN$98,690) was paid upon signing the advance agreement and the second instalment of US$100,000 (CDN$99,508) was advanced to EEStor on October 2, 2012.

The Company is entitled to deduct two dollars for every dollar advanced from certain milestone amounts payable under the New Technology Agreement, relating to provisions set out in the advance agreement.

9. INVESTMENT IN EESTOR, INC

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

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

In March 2012, the Company made an additional investment in the common shares of EEStor, in the amount of US$50,084 (CDN$49,458) for 708 common shares and 472 common share purchase warrants exerciseable at $212.22 The warrants expired without being exercised.

In March 2013, the Company made an additional investment in the common shares of EEStor, in the amount of US$50,000 (CDN$51,950) for 828 common shares, included in the investment agreement are 1,213 common share purchase warrants, available upon achievement of specific milestones by EEStor.

In April 2013, the Company entered into an agreement with EEStor, which provided for certified test results to be verified by an independent third party laboratory of recently produced layers of its electrical energy storage units. Under the agreement the Company invested an initial US$50,000 (CDN$52,006) for 829 common shares, included in the investment agreement are 1,213 common share purchase warrants, available upon achievement of specific milestones by EEStor.

On August 6, 2013, the Company entered into an agreement to acquire additional shares of EEStor, Inc. Under the agreement, the Company has agreed to purchase 502,344 shares of Series A Preferred Shares of EEStor and certain rights associated with the ownership of such shares from three arm's length vendors. The aggregate purchase price for the Series A Shares is US$2.0 million in cash and the issuance of 3.0 million shares of the Company's common stock. (see "Subsequent Events – Series A Preferred Shares Acquisition" for amendment to the purchase price and closing date).

10. DEVELOPMENT COSTS

As of September 30, 2013, the Company has not deferred any development costs to future periods. Projects were considered to be in the research phase and therefore were expensed to engineering and development expense.

11. TRADE PAYABLES AND ACCRUED LIABILITIES

	September 30, 2013 $	September 30, 2012 $
Current liabilities of continued operations		
Trade accounts payable	**40,326**	7,753
Severance accrual	**3,066**	-
Accrued liabilities	**322,263**	183,153
Total current liabilities of continued operations	**365,655**	190,906

12. MANAGEMENT OF CAPITAL

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

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

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

The Company is not subject to any external capital requirements.

There have been no changes with respect to the overall capital management strategy during the year ended September 30, 2013.

13. SHARE CAPITAL

The Company has authorized an unlimited number of common shares.

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

13. SHARE CAPITAL(cont'd)

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

14. STOCK OPTIONS

Stock Option Plan

The Company has a stock option plan (the "Plan") which authorizes the Board to issue options to employees, directors and consultants providing services to the Company or its subsidiaries. The Plan is structured as a "floating plan". Under the terms of the Plan, the number of shares issuable under stock options and the performance warrants cannot exceed 10% of the outstanding common shares of the Company. The Company sets the exercise price based on the closing market price at the time of the grant. The Company may grant options for a term not to exceed ten years. Vesting periods are assessed at the time of the grant and are documented in more detail in the table below. 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:

	2013		2012	
	Number of Options	Weighted Average Exercise Price $	Number of Options	Weighted Average Exercise Price $
Outstanding, beginning of year	**2,814,100**	**1.59**	3,276,766	1.99
Granted(i)(ii)(iii)(iv)	**674,500**	**1.09**	755,000	1.33
Exercised(v)	**-**	**-**	(225,000)	(1.35)
Expired	**(397,100)**	**2.43**	(992,666)	(2.77)
Forfeited	**(22,337)**	**0.88**	-	-
Outstanding, end of year	**3,069,163**	**1.38**	2,814,100	1.59
Exercisable	**1,949,888**	**1.42**	1,454,297	1.75

(i) 300,000 options granted to certain Directors on January 31, 2013, vest equally on the 6, 18 and 24 month anniversary with an expiry date five years from the grant date.

(ii) 60,000 options granted to certain Senior Management on October 26, 2012, vest equally on the 6, 18 and 24 month anniversary with an expiry date five years from the grant date.

(iii) 300,000 options granted to certain Senior Management on January 31, 2013, vest equally on the 6, 12 and 18 month anniversary with an expiry date five years from the grant date.

(iv) 14,500 options granted to certain Employees on January 31, 2013, vest equally over 3 years with an expiry date five years from the grant date.

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

14. STOCK OPTIONS (cont'd)

Options Outstanding at the end of September 30, 2013:

	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 $0.75	**591,665**	**1.51**	**0.73**	526,664	0.74
$0.76 to $1.25	**623,832**	**4.31**	**1.12**	207,829	1.12
$1.26 to $1.75	**1,198,866**	**3.09**	**1.35**	677,264	1.35
$1.76 to $2.25	**354,800**	**2.44**	**1.99**	238,131	1.99
$2.26 to $2.75	**300,000**	**0.04**	**2.55**	300,000	2.55
Total	**3,069,163**	**2.66**	**1.38**	1,949,888	1.42

Warrant Transactions

The following table outlines the warrant transactions and numbers outstanding:

	2013		2012	
	Number of Warrants	**Weighted Average Exercise Price $**	Number of Warrants	Weighted Average Exercise Price $
Outstanding and exercisable, beginning of year	**2,514,500**	**1.35**	-	-
Issued	**-**	**-**	2,514,500	1.35
Exercised[(i)]	**(10,500)**	**(1.35)**	-	-
Outstanding and exercisable, end of year	**2,504,000**	**1.35**	2,514,500	1.35

[(i)]The weighted average share price at the date of exercise was $1.64 for warrants exercised during the year ended September 30, 2013.

The warrants issued in the year ended September 30, 2012 were set to expire on October 13, 2013 (Note 13). The 2,350,000 warrants issued to investors were extended to October 31, 2013, with a further extension to December 10, 2013. The warrants have subsequently expired without being exercised (Note 23).

15. STOCK-BASED COMPENSATION AND STOCK-BASED PAYMENTS

In the year ended September 30, 2013, the Company recorded $566,124 (2012 - $762,733) in stock based compensation costs. Of this amount, $23 (2012 - $7,761) was included in the loss from discontinued operations.

The fair value of options is determined using the Black-Scholes option pricing model with the following weighted average assumptions: (i) dividend yield of 0% (2012 - 0%), (ii) expected volatility of approximately 120% (2012 - 96%), (iii) risk free interest rate of 1.13% (2012 – 1.19%), (iv) the average expected life of 2 years (2012 - 2 years), (v) share price of $1.11 (2012 - $1.33). Expected volatility is based on historical volatility. The Company includes an estimated forfeiture rate, with actual forfeitures reversed in the period they occur. The weighted average fair value of the cost of grants in the period was approximately $0.64 (2012 - $0.68) per instrument.

16. EMPLOYEE BENEFITS EXPENSE

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

	2013	2012
	$	$
Wages and salaries	**535,827**	352,959
Statutory deductions	**35,573**	24,698
Severance costs	**10,168**	-
Stock-based compensation	**520,783**	750,830
	1,102,351	1,128,487

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

	2013	2012
	$	$
Wages and salaries	-	(874)
Statutory deductions	-	-
Stock-based compensation	-	4,142
	-	3,268

Salaries and employee benefits expense included in the business development expenses is as follows:

	2013	2012
	$	$
Wages and salaries	**33,333**	(120)
Statutory deductions	**-**	-
Stock-based compensation	**45,318**	-
	78,651	(120)

17. DEPRECIATION EXPENSE

The components of the Company's depreciation and amortization expense included in the general and administrative expenses for the year ended September 30, 2013 is $1,563 (2012 - $7,809).

18. INCOME TAXES

Income Tax Expense

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

	2013	2012
	$	$
Loss from continuing operations	**(1,625,542)**	(1,528,425)
Statutory rate	**26.5%**	26.5%
Expected income tax recovery	**(430,769)**	(405,033)
Share issue costs	**-**	(45,586)
Non-deductible expenses	**150,124**	200,169
Non capital losses expiring	**58,699**	
Change in deferred taxes not recognized related to operations	**219,705**	809,870
Change in expected future tax rates and other	**2,241**	(559,420)
Income tax expense	**-**	-

Deferred Income Taxes

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

	2013	2012
	$	$
Amounts related to tax loss and other credits carry forwards	**10,836,271**	10,520,058
Property and equipment	**57,846**	57,284
Reserves	**13,250**	58,862
Share issue costs	**27,351**	78,808
Less: Deferred taxes not recognized	**(10,934,718)**	(10,715,012)
	-	-

18. INCOME TAXES (cont`d)

Loss and Tax Credit Carryforwards

As at September 30, 2013, the Company has non-capital losses of approximately $39,078,759 expiring as follows:

Year	Amount
2014	$ 470,332
2015	75,933
2025	518,757
2026	2,514,783
2027	6,441,398
2028	6,741,762
2029	9,815,725
2030	5,416,106
2031	4,237,476
2032	1,431,725
2033	1,414,762
	$ 39,078,759

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

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

19. COMMITMENTS

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

Year	Amount
2014	$ 71,349
2015	71,349
	$ 142,698

20. RELATED PARTY TRANSACTIONS

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

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

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

	2013 **$**	2012 $
Wages and salaries	**475,333**	255,509
Statutory deductions	**13,917**	8,204
Stock-based compensation	**561,997**	743,609
	1,051,247	1,007,322

As at September 30, 2013, the outstanding balance payable to the Company's Board of Directors was $43,625.

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

The fair value of accounts receivable and accounts payable and accrued liabilities approximates their carrying value due to the short term nature of these financial instruments.

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.

21. FINANCIAL INSTRUMENTS (cont`d)

Credit Risk (cont`d)

Credit risk can also arise from the inability of the institutions in which the Company invests its cash and short term investments to return the funds to the Company when due. As described in Note 12, the Company's investment policy restricts the investment of its cash balances to term deposits and bankers' acceptances. As well, short term investments are invested only in high quality instruments of financial institutions, providing the Company with very low levels of liquidity risk on its invested financial instruments. As such, the Company believes it is exposed to a very low level of credit risk on its investments.

22. SEGMENTED INFORMATION

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

23. SUBSEQUENT EVENTS

Warrant Expiry Date Extension

On October, 2, 2013, the Company announced that it had applied for the extension of the expiry date of the 2,350,000 warrants issued to investors in connection with its April 13, 2012 private placement financing. The warrants were originally set to expire October 13, 2013, with an extension date set at October 31, 2013, and a futher extension to December 10, 2013. An adjustment of $66,057 was processed relating to the extension granted. The warrants have subsequently expired without being exercised.

Exercise of Warrants

Subsequent to the period end, 92,300 finder warrants were exercised at $1.35 for gross proceeds of $124,605, the remaining 61,700 finder warrants expired unexercised. The expiry date for finder's warrants is not permitted to be extended under TSXV rules.

Investment in EEStor

In October 2013, the Company made two additional investment in the common shares of EEStor, in the aggregate amount of US$50,000 (CDN$51,565) for an aggregate 828 common shares and 828 common share purchase warrants.

In November 2013, the Company made an additional investment in the common shares of EEStor, in the amount of US$50,000 (CDN$52,830) for 1,401 common shares and 1,401 common share purchase warrants.

23. SUBSEQUENT EVENTS (cont'd)

Non-brokered Private Placement

On November 14, 2013 the Company completed a non-brokered private placement. The Company issued and sold 3,704,000 units at a price of $1.00 per unit raising gross proceeds of $3,704,000. Each unit consisted of one common share and one common share purchase warrant. Each share purchase warrant entitles the holder to acquire one common share at a price of $1.50 until May 14, 2015. All securities issued pursuant to the private placement are subject to a 4-month hold period until March 15, 2014.

The Company paid cash finders' fee of $222,240 and issued 222,240 non-transferable finder's warrants to registered dealers in connection with the offering. Each finder's warrant entitles the holder to acquire one common share at a price of $1.50 until May 14, 2015.

Series A Preferred Shares Acquisition

On December 20, 2013, the Company announced that it had completed its previously announced purchase of 502,344 Series A Prefered Shares of EEStor and associated rights in consideration for US$1.5 million in cash and the issuance of 3,756,785 ZENN common shares**.**

Agreement to Controlling Interest in EEStor

On January 23, 2014, the Company completed its previously announced investment agreement with EEStor and certain principals of EEStor. In consideration for an aggregate investment of US$1.0 million (CDN$1,107,360), ZENN received a number of Series A1 Preferred Shares of EEStor that provided it with 51% of the outstanding equity and voting shares of EEStor on an as-converted and fully-diluted basis. In addition, 360,000 additional common shares of EEStor were acquired from existing EEStor shareholders in exchange for 5,400,000 ZENN common shares providing ZENN with an approximate 68.4% equity and voting interest in EEStor on an as-converted basis. ZENN has also been granted the right to acquire all remaining EEStor shares held by the EEStor principals and their immediate family members at an agreed upon value or fair value as determined by an independent valuator if agreement cannot be reached at any time before a merger of ZENN and EEStor, which the parties have agreed to explore.

The board of directors of EEStor was also been reconstituted to six members, two of whom are to be nominated by the EEStor principals provided that they and their immediate family members continue to hold at least 15% of the EEStor voting shares, and four of whom will be nominated by ZENN, provided that two must be independent of ZENN and EEStor. Upon closing, Stewart Somers and Roger Hammock, current directors of ZENN were appointed to the EEStor board. The EEStor board now is comprised of five directors with a sixth independent director to be nominated by ZENN to fill the current vacancy.

At closing, Richard Weir, a co-founder of EEStor, resigned as Chief Executive Officer and was appointed as Honorary Chairman, Founder and Chief Science Officer of EEStor. The current CFO of EEStor will stay on for a transitional period of three months.

In consideration for their facilitation of the financing transaction and changes in the board and management of EEStor, the EEStor principals were issued an aggregate of 600,000 common shares of ZENN, 150,000 of which are held in escrow and will be released after 4-months subject to the satisfaction of certain conditions.

23. SUBSEQUENT EVENTS (cont'd)

Stock Option

On January 13, 2014, as part of its annual compensation review the Company granted stock options to acquire an aggregate of 826,000 common shares to its officers and directors under the Company's stock option plan. Each option is exercisable to acquire one common share at a price of $0.85. The options vest as to one-quarter on each of the 6, 12,18, and 24 month anniversaries of the date of grant and will expire five years from the date of grant.