ZENN Motor Company Inc.

Condensed Interim Consolidated Financial Statements

For the Three and Six Months Ended March 31, 2013

(Unaudited)

Notice to Reader

The accompanying unaudited condensed interim consolidated financial statements of ZENN Motor Company Inc. (the "Company") for the three and six months ended March 31, 2013, 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 March 31, 2013 and September 30, 2012
(in Canadian dollars)

	Notes	March 31, 2013 (unaudited)	September 30, 2012 (audited)
Assets			
Current			
Cash		**$ 470,353**	$ 322,569
Short-term investments		**715,023**	1,615,023
Prepaid expenses and sundry assets		**149,895**	99,745
Current assets of discontinued operations	**5**	**51,856**	56,940
		1,387,127	2,094,277
Property and equipment	**6**	**124**	1,563
EEStor technology rights	**7**	**2,823,065**	2,823,065
EEStor advance	**8**	**198,198**	98,690
Investment in EEStor, Inc.	**9**	**8,776,179**	8,724,229
Long lived assets of discontinued operations	**5**	**37,412**	51,889
		$ 13,222,105	$ 13,793,713
Liabilities			
Current			
Accounts payable and accrued liabilities	**11**	**$ 209,425**	$ 190,906
Current liabilities of discontinued operations	**5**	**221,696**	228,010
		$ 431,121	$ 418,916
Shareholders' Equity			
Share capital		**$ 53,470,224**	$ 53,470,224
Contributed surplus		**4,987,538**	4,726,093
Warrant capital		**1,229,092**	1,229,092
Deficit		**(46,895,870)**	(46,050,612)
		$ 12,790,984	$ 13,374,797
		$ 13,222,105	$ 13,793,713

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

		Three Months		Six Months	
	Notes	2013	2012	2013	2012
Expenses					
General and administrative	14,15	$ 433,809	$ 337,228	$ 749,648	$ 703,101
Engineering and development	10,14,15	1,239	11,593	10,566	14,923
Marketing and business development	14,15	18,149	1,257	19,037	1,542
		453,197	350,078	779,251	719,566
Interest Income		4,216	2,578	9,953	6,276
Loss from continuing operations		(448,981)	(347,500)	(769,298)	(713,290)
Loss from discontinued operations	5,14	(35,311)	(39,664)	(75,960)	(77,097)
Net Loss		(484,292)	(387,164)	(845,258)	(790,387)
Other Comprehensive Income		-	-	-	-
Total Comprehensive Loss		$(484,292)	$(387,164)	$(845,258)	$(790,387)
Loss per share, basic and diluted					
From continuing operations		$(0.01)	$(0.01)	$(0.02)	$(0.02)
From discontinued operations		$(0.00)	$(0.00)	$(0.00)	$(0.00)
Loss per share, basic and diluted		$(0.01)	$(0.01)	$(0.02)	$(0.02)
Weighted average number of common shares outstanding					
Basic and diluted		39,907,913	37,332,913	39,907,913	37,332,913

ZENN Motor Company Inc.
Unaudited Condensed Interim Consolidated Statements of Changes in Shareholders' Equity
For the six months ended March 31
(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		-	-	-	-	(845,258)	(845,258)
Transactions with shareholders							
Exercise of options		-	-	-	-	-	-
Issuance of units, net of issuance costs		-	-	-	-	-	-
Issuance of warrants		-	-	-	-	-	-
Stock based compensation in period	**14,15**	-	-	261,445	-	-	261,445
Balances, March 31, 2013		**39,907,913**	**$53,470,224**	**$4,987,538**	**$1,229,092**	**$(46,895,870)**	**$12,790,984**
Balances, September 30, 2011		**37,332,913**	**$ 52,398,685**	**$ 4,134,763**	**$ -**	**$(44,367,655)**	**$ 12,165,793**
Comprehensive loss for the period		-	-	-	-	(790,387)	(790,387)
Transactions with shareholders							
Exercise of options		-	-	-	-	-	-
Issuance of units, net of issuance costs		-	-	-	-	-	-
Issuance of warrants		-	-	-	-	-	-
Stock based compensation in period	**14,15**	-	-	278,546	-	-	278,546
Balances, March 31, 2012		**37,332,913**	**$52,398,685**	**$4,413,309**	**$ -**	**$(45,158,042)**	**$11,653,952**

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

		Three Months		Six Months	
	Notes	**2013**	2012	**2013**	2012
Cash flows provided by (used in) operations					
Net loss from continuing operations for period		**$ (448,981)**	$ (347,500)	**$ (769,298)**	$ (713,290)
Items not affecting cash					
Amortization	**16**	**719**	1,648	**1,439**	4,226
Loss/(Gain) on sale of property and equipment		**-**	(125)	**-**	(125)
Stock based compensation	**14**	**159,484**	116,379	**258,293**	274,452
		(288,778)	(229,598)	**(509,566)**	(434,737)
Net changes in non-cash working capital					
Prepaid expenses and sundry assets		**(56,585)**	(56,522)	**(50,150)**	(42,012)
Accounts payable and accrued liabilities		**(27,793)**	(116,145)	**18,519**	(307,856)
		(373,156)	(402,265)	**(541,197)**	(784,605)
Investing					
Short-term investments		**300,000**	-	**900,000**	750,000
EEStor Advance		**-**	-	**(99,508)**	-
EEStor Equity Investment		**(51,950)**	(49,458)	**(51,950)**	(49,458)
Proceeds on disposal of property and equipment		**-**	125	**-**	125
		248,050	(49,333)	**748,542**	700,667
Cash used in discontinued operations		**(28,427)**	(38,031)	**(59,561)**	(71,577)
Net change in cash		**(153,533)**	(489,629)	**147,784**	(155,515)
Cash, beginning of period		**623,886**	1,249,279	**322,569**	915,165
Cash, end of period		**$ 470,353**	$ 759,650	**$ 470,353**	$ 759,650

1. NATURE OF OPERATIONS AND GOING CONCERN

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

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

The Company's success depends on the completion and commercialization of EEStor's energy storage technology. There is no assurance that EEStor will be successful in the completion of the development and commercialization of its products. Based on its current operating and financial plans, management of the Company believes the current level of cash and short-term investments will be sufficient to fund the Company's planned operations through the first half of 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 unaudited condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standard 34, "Interim Financial Reporting" ("IAS 34"), as issued by the International Accounting Standards Board ("IASB").

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, 2012 and 2011.

These unaudited condensed interim consolidated financial statements were authorized for issuance by the Board of Directors of the Company on May 28, 2013.

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. 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 and its subsidiaries' functional currency.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont`d)

Use of Estimates

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

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

EEStor Technology Rights and Advance

The cost incurred to acquire certain exclusive rights to purchase and deploy EEStor’s electric energy storage unit (“EESU”), as set out in the new technology agreement (the “New Technology Agreement”) between the two companies is being capitalized. The amortization period will be determined once the EESU technology is available for use. The Company performs an impairment test of the New Technology Agreement annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In the event that the New Technology Agreement is terminated and the Company does not fully acquire the purchase and deployment rights as set out therein, the capitalized costs will be written off to operations. As at March 31, 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. 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 March 31, 2013, no events or changes in circumstances had occurred which would lead to an impairment in the value of the investment (see Note 9).

Accounting for Stock-Based Compensation and Payments

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

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

4. ACCOUNTING PRONOUNCEMENTS ISSUED BUT NOT YET EFFECTIVE

As at March 31, 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 Company's operations. Accordingly the following pronouncements may impact the Company's accounting and disclosure of its activities:

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 establishes new and comprehensive disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard is effective for annual periods beginning on or after January 1, 2013. The Company is assessing the impact of this new standard.

IFRS 13, Fair Value Measurement:

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

IAS 27, Separate Financial Statements:

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

IFRS 9, Financial Instruments:

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

5. DISCONTINUED OPERATIONS

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

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

	March 31, 2013	September 30, 2012
	$	$
Current assets of discontinued operations		
Accounts receivable	**16**	28
Inventory	**23,773**	27,617
Prepaid and sundry assets	**28,067**	29,295
	51,856	56,940
Long lived assets of discontinued operations		
Property and equipment	**79**	556
Prepaid insurance	**37,333**	51,333
	37,412	51,889

	March 31, 2013	September 30, 2012
	$	$
Current liabilities of discontinued operations		
Accounts payable and accrued liabilities	**4,421**	5,888
Warranty accrual	**217,275**	222,122
	221,696	228,010

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

Opening balance, September 30, 2012	**$222,122**
Claims paid out	(4,847)
Ending balance, March 31, 2013	**$217,275**

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

	Three Months Ended March 31		**Six Months Ended March 31**	
	2013	2012	**2013**	2012
	$	$	**$**	$
Revenue	**15,691**	14,730	**33,097**	32,530
Cost of goods sold	**12,171**	6,140	**21,313**	11,185
Gross profit or (loss)	**3,520**	8,590	**11,784**	21,345
Expenses	**38,831**	48,254	**87,744**	98,442
Loss from discontinued operations	**(35,311)**	(39,664)	**(75,960)**	(77,097)

6. PROPERTY AND EQUIPMENT

March 31, 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	-	-	-	-	-
Balance, March 31, 2013	**82,405**	**7,408**	**8,200**	**93,400**	**191,413**
Accumulated Depreciation					
Balance, September 30, 2012	81,932	7,408	8,200	92,310	189,850
Provision	349	-	-	1,090	1,439
Disposal	-	-	-	-	-
Balance, March 31, 2013	**82,281**	**7,408**	**8,200**	**93,400**	**191,289**
Net Book Value	**124**	**-**	**-**	**-**	**124**

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.

7. EESTOR TECHNOLOGY RIGHTS (Cont`d)

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

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

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

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

8. EESTOR ADVANCE

In September 2012, the Company agreed to advance US$200,000 to EEStor to assist in its working capital needs, which is to be applied against payments payable under the milestones in the New Technology Agreement. 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.

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.

10. DEVELOPMENT COSTS

As of March 31, 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

	March 31, 2013 **$**	September 30, 2012 $
Current liabilities of continued operations		
Trade accounts payable	**26,205**	7,753
Accrued liabilities	**183,220**	183,153
Total current liabilities of continued operations	**209,425**	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 three and six months ended March 31, 2013.

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. 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.

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	Weighted Average Exercise Price
		$		$
Balance September 30, 2012	**2,814,100**	**1.59**		
Granted[(1)]	60,000	0.73		
Expired/Cancelled	(239,900)	(1.96)		
Balance December 31, 2012	**2,634,200**	**1.54**	**1,572,729**	1.63
Granted[(2)(3)]	614,500	1.13		
Expired/Cancelled	(150,000)	(3.13)		
Balance March 31, 2013	**3,098,700**	**1.38**	**1,658,459**	1.49

[(1)] Vests equally on the 6, 18 and 24 month anniversaries
[(2)] 300,000 granted to certain senior management vest equally on the 6, 12 and 18 month anniversaries
[(3)] 300,000 granted to directors vest equally on the 6, 18 and 24 month anniversaries

Options outstanding at March 31, 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 $1.25	**1,234,500**	**3.45**	**0.93**	486,664	0.74
$1.26 to $2.50	**1,557,000**	**3.44**	**1.49**	864,595	1.53
$2.51 to $3.75	**300,000**	**0.54**	**2.55**	300,000	2.55
$3.76 to $5.00	**7,200**	**0.18**	**4.25**	7,200	4.25
Total	**3,098,700**	**3.16**	**1.38**	1,658,459	1.49

14. STOCK-BASED COMPENSATION AND STOCK-BASED PAYMENTS

In the three and six months ended March 31, 2013, the Company recorded $161,223 and $261,445 (2012 - $118,259 and $278,546), respectively, in stock based compensation costs. Of this amount, $1,739 and $3,152 (2012 - $1,880 and $4,094), respectively, 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 - 92%), (iii) risk free interest rate of 1.13% (2012 – 1.08%), (iv) the average expected life of 1.79 years (2012 - 3 years), and (v) the average share price on date of issuance of $1.09 (2012 - $0.78). 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 - $0.78) per instrument.

15. EMPLOYEE BENEFITS EXPENSE

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

	Three Months Ended March 31		Six Months Ended March 31	
	2013	2012	**2013**	2012
	$	$	**$**	$
Wages and salaries	**161,873**	94,946	**264,778**	178,620
Statutory deductions	**15,787**	7,444	**22,209**	12,753
Stock-based compensation	**146,366**	116,379	**245,175**	270,310
	324,026	218,769	**532,162**	461,683

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

	Three Months Ended March 31		Six Months Ended March 31	
	2013	2012	**2013**	2012
	$	$	**$**	$
Wages and salaries	-	-	-	(874)
Statutory deductions	-	-	-	-
Stock-based compensation	-	-	-	4,142
	-	-	**-**	3,268

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

	Three Months Ended March 31		Six Months Ended March 31	
	2013	2012	**2013**	2012
	$	$	**$**	$
Wages and salaries	**4,167**	(120)	**4,167**	(120)
Statutory deductions	**-**	-	**-**	-
Stock-based compensation	**13,118**	-	**13,118**	-
	17,285	(120)	**17,285**	(120)

16. DEPRECIATION EXPENSE

The components of the Company's depreciation and amortization expense included in the general and administrative expenses for the three and six months ended March 31, 2013, are $719 and $1,439 (2012 - $1,648 and $4,226), respectively.

17. COMMITMENTS

The Company is contracted for minimum lease payments of $40,546 relating to premises for the 2013 year.

18. RELATED PARTY DISCLOSURES

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 13 above.

The remuneration of key management personnel during the three and six months ended March 31, 2013 and 2012 were as follows:

	Three Months Ended March 31		**Six Months Ended March 31**	
	2013	2012	**2013**	2012
	$	$	**$**	$
Wages and salaries	**141,939**	71,356	**218,756**	130,250
Statutory deductions	**8,424**	3,362	**10,353**	5,428
Stock-based compensation	**158,097**	115,798	**256,247**	264,405
	308,460	190,516	**485,356**	400,083

As at March 31, 2013, the outstanding balance payable to the Company's Board of Directors was $38,125.

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. SUBSEQUENT EVENTS

EEStor, Inc. Testing Agreement

On April 24, 2013, the Company entered into an agreement with EEStor, Inc., which provides for testing to be completed on its recently produced layers of its electrical energy storage units. The testing is to be conducted and certified by an independent third party laboratory on May 30, 2013.

Under the agreement the Company invested an initial US$50,000 (CDN$52,005) in common shares of EEStor. If satisfied with the test results, and at its discretion, the Company may invest an additional US$100,000.

Closure of Service Support

On May 1, 2013, the Company announced that it will close its service operations and cease to provide parts and service support currently offered for ZENN LSVs, effective June 30, 2013.