ZENN Motor Company Inc.

Consolidated Financial Statements

For the Years Ended September 30, 2014 and 2013

(in Canadian dollars)

Collins Barrow
Chartered Accountants

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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, 2014 and September 30, 2013 and the consolidated statements of comprehensive loss, changes in shareholders' equity and cash flows for the years ended September 30, 2014 and September 30, 2013 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, 2014 and September 30, 2013 and its financial performance and its cash flows for the years ended September 30, 2014 and September 30, 2013 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 describes 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 28, 2015
Toronto, Ontario

ZENN Motor Company Inc.
Consolidated Statements of Financial Position
As at September 30, 2014 and 2013
(in Canadian dollars)

	Notes	2014 $	2013 $
Assets			
Current			
Cash		**998,181**	700,824
Short-term investments		**15,000**	15,045
Prepaid expenses and sundry assets		**146,082**	129,289
Current assets of discontinued operations		**23,333**	44,950
		1,182,596	890,108
Property and equipment	**5**	**51,330**	-
Deposit for rent		**5,946**	5,946
Long term insurance		**7,552**	-
Intangible asset - EEStor technology	**7**	**25,948,442**	-
EEStor technology rights	**7**	**-**	2,823,065
EEStor advance		**-**	198,198
Investment in EEStor, Inc.	**7**	**-**	8,828,185
Long lived assets of discontinued operations		**-**	23,333
		27,195,866	12,768,835
Liabilities			
Current			
Accounts payable and accrued liabilities	**9**	**438,292**	365,655
Current liabilities of discontinued operations		**43,220**	63,161
		481,512	428,816
Shareholders' Equity			
Share capital	**11**	**63,627,231**	53,489,531
Contributed surplus		**7,181,885**	5,292,217
Warrant capital		**2,631,839**	1,223,960
Accumulated other comprehensive income		**21,486**	-
Non-controlling interest	**7**	**3,518,809**	-
Deficit		**(50,266,896)**	(47,665,689)
		26,714,354	12,340,019
		27,195,866	12,768,835

Nature of operations and going concern (Note 1)
Commitments (Note 16)
Subsequent events (Note 20)

Approved by the Board "Stewart Somers" Director (Signed) "Ian Clifford" Director (Signed)

See accompanying notes

ZENN Motor Company Inc.
Consolidated Statements of Comprehensive Loss
Years ended September 30, 2014 and 2013
(in Canadian dollars)

	Notes	2014 $	2013 $
Expenses			
General and administrative	**13,14**	**2,230,098**	1,518,169
Engineering and development	**6,13,14**	**757,851**	30,655
Business development	**13**	**105,225**	91,777
		3,093,174	1,640,601
Interest Income		**10,375**	15,059
Share of the income/(loss) of EEStor	**7**	**(91,126)**	-
Loss from continuing operations		**(3,173,925)**	(1,625,542)
Loss from discontinued operations		**(28,000)**	10,465
Total comprehensive loss		**(3,201,925)**	(1,615,077)
Loss attributed to non-controlling interest in EEStor	**7**	**600,718**	-
Loss attributed to ZENN		**(2,601,207)**	**(1,615,077)**
Loss per share, basic and diluted		**(0.06)**	(0.04)
Weighted average number of common shares outstanding			
Basic and diluted		**50,742,403**	39,911,653

See accompanying notes

ZENN Motor Company Inc.
Consolidated Statements of Changes in Shareholders’ Equity
Years ended September 30, 2014 and 2013
(in Canadian dollars)

	Notes	No. of Shares	Share Capital $	Contributed Surplus $	Warrant Capital $	Non-contolling Interest $	Accumulated Other Comprehensive Income $	Deficit $	Total Shareholders' Equity $
Balances, September 30, 2013		**39,918,413**	**53,489,531**	**5,292,217**	**1,223,960**	**-**	**-**	**(47,665,689)**	**12,340,019**
Non-controlling interest since January 27, 2014	7	-	-	-	-	(600,718)	-	(2,601,207)	(3,201,925)
Total loss for the period		**-**	**-**	**-**	**-**	**(600,718)**	**-**	**(2,601,207)**	**(3,201,925)**
Translation gain/(loss)		-	-	-	-	-	21,486	-	21,486
Comprehensive loss for the period		**-**	**-**	**-**	**-**	**(600,718)**	**21,486**	**(2,601,207)**	**(3,180,439)**
Transactions with shareholders									
Non-controlling interest on investment in EEStor	7	-	-	-	-	4,284,647	-	-	4,284,647
Reduction of non-controlling interest on acquisition of EEStor Series A Preferred Shares	7	-	-	-	-	(165,120)	-	-	(165,120)
Exercise of warrants	12	92,300	124,605	-	-	-	-	-	124,605
Transfer from warrant capital	12	-	45,116	-	(45,116)	-	-	-	-
Extension of warrants in the period	12	-	-	(60,925)	60,925	-	-		-
Issuance of units - net of issuance costs	11	8,780,922	2,059,554	-	2,495,270	-	-	-	4,554,824
Issuance of compensation warrants	11	-	-	-	122,220	-	-	-	122,220
Issuance of shares for EEStor Series A Preferred Shares	11	3,756,785	2,329,208	-	-	-	-	-	2,329,208
Issuance of shares for EEStor Series A Preferred Shares	7,11	6,000,000	5,400,000	-	-	-	-	-	5,400,000
EEStor shares/warrants exchange	7,11	896,085	179,217	-	16,907	-	-	-	196,124
Expiry of EEStor warrants	12	-	-	2,558	(2,558)	-	-	-	-
Transfer from warrant capital on expiry	12	-	-	1,239,769	(1,239,769)	-	-	-	-
Stock-based compensation	13,14	-	-	708,266	-	-	-	-	708,266
Balances, September 30, 2014		**59,444,505**	**63,627,231**	**7,181,885**	**2,631,839**	**3,518,809**	**21,486**	**(50,266,896)**	**26,714,354**
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		10,500	14,175	-	-	-	-	-	14,175
Transfer to share cap on exercise of warrants		-	5,132	-	(5,132)	-	-	-	-
Stock-based compensation	13,14	-	-	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**

See accompanying notes

ZENN Motor Company Inc.
Consolidated Statements of Cash Flows
Years ended September 30, 2014 and 2013
(in Canadian dollars)

	Notes	2014 $	2013 $
Cash flows provided by (used in) operations			
Net loss from continuing operations		**(3,173,925)**	(1,625,542)
Items not affecting cash			
Depreciation and amortization	**5,14**	**30,397**	1,563
Loss/(Gain) on sale of property and equipment		**-**	(1,350)
Stock-based compensation	**13, 14**	**708,266**	566,101
Foreign exchange gain/(loss)		**1,815**	-
Write off of patents		**65,101**	-
Share of the loss of EEStor	**7**	**91,126**	-
		(2,277,220)	(1,059,228)
Net changes in non-cash working capital			
Prepaid expenses and sundry assets		**(9,793)**	(29,544)
Accounts payable and accrued liabilities		**(210,877)**	174,749
		(2,497,890)	(914,023)
Investing			
Investment in EEStor	**7**	**(2,882,793)**	(103,956)
Acquisition of cash in investement in EEStor	**7**	**954,806**	-
Short-term investments		**45**	1,599,978
Rent deposit		**-**	(5,946)
Purchase of property and equipment		**(11,653)**	-
Proceeds on disposal of property and equipment		**1,392**	1,350
Purchase of patents and trademarks		**(57,658)**	-
Long term insurance		**(7,551)**	-
Advances in technology agreements		**-**	(99,508)
		(2,003,412)	1,391,918
Financing			
Exercise of warrants	**12**	**124,605**	14,175
Issuance of shares, net of issuance costs	**11**	**4,677,045**	-
		4,801,650	14,175
Cash used in discontinued operations		**(2,991)**	(113,815)
Net change in cash		**297,357**	378,255
Cash, beginning of year		**700,824**	322,569
Cash, end of year		**998,181**	700,824

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 its common shares are listed on the TSX Venture Exchange under the symbol “ZNN”. Any specific reference to “ZENN” herein means ZENN Motor Company alone and any reference to “EEStor” a 71.3% subsidiary of ZENN, means EEStor, Inc. alone. The Company’s head office is located at 21 St. Clair Avenue East, Suite 301, Toronto, Ontario. The Company's business strategy is to focus on the licensing applications and partnership opportunities of its technology, currently under development by EEStor across a broad spectrum of industries and applications. EEStor is a subsidiary of the Company as of January 27, 2014.

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 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 its planned operations for the first half of fiscal 2015; 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 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, 2014 and 2013 were approved by the Board of Directors on January 28, 2015.

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., ZMC America, Inc., and the 71.3% (on an as converted basis) owned subsidiary, EEStor, Inc. The loss incurred by EEStor from January 27, 2014, (date of acquisition) and onward has been included in the statement of comprehensive loss. Intercompany transactions and balances are eliminated on consolidation.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair value. The Company's wholly-owned subsidiaries’ financial year end is September 30. The consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company and wholly-owned subsidiaries. EEStor’s financial year end is December 31 and its functional currency is US dollars.

3. SIGNIFICANT ACCOUNTING POLICIES (cont`d)

Short-term Investments

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

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	48 months	Straight Line
Production tools	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 of disposal 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. The value of these Rights form part of the consideration on the investment in EEStor.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Investment in EEStor, Inc.

Prior to acquisition of control, the Company had an investment in the common shares of EEStor which was categorized as an "available for sale" financial instrument. The common shares of EEStor did not have a quoted market price in an active market and fair value could not be reliably measured; accordingly, the shares were carried at cost. The Company would recognize a loss on this investment if there is objective evidence that there was 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. Upon acquisition of significant influence on December 20, 2013, the Company accounted for the investment using the equity method. Under the equity method, on initial recognition the investment was recognised at cost and the carrying amount was increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The investor's share of the investee's profit or loss was recognised in the investor's profit or loss. Distributions received from an investee reduce the carrying amount of the investment.

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. Deferred costs will be amortized over the estimated useful life of the product, commencing when the product is available for sale. 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.

Intangible Assets

Intangible assets with a finite useful life are recorded at cost (being direct acquisition costs) less the accumulated amortization and the accumulated impairment losses. Amortization of intangible assets is recognized in profit and loss by applying the straight-line method to the cost of the asset based on the legal life of the patent. The amortization method, residual values and useful lives are reviewed on each reporting date and adjusted as needed.

Any gain or loss resulting from the disposal of an intangible asset is equal to the difference between the proceeds on the disposal and the carrying amount of the asset, and is recognized in net profit or loss as engineering and development expenses.

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.

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.

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.

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
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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. Transaction costs are expensed when incurred.

Financial assets classified as loans and receivables are measured initially at fair value and transaction costs. 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 and transaction costs. 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.

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 share based transactions, amounts recorded as accrued liabilities, impairment assessment of the investment in EEStor intangible assets, the measurement of the non controlling interest in EEStor on the date of acquisition of control and measurement of deferred tax assets.

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.

Financial statements of subsidiaries for which the functional currency is not the Canadian Dollar are translated into Canadian Dollar as follows: all asset and liability accounts are translated at the reporting date exchange rate and all earnings and expense accounts are translated at average exchange rates for the period. The resulting translation gains and losses are recorded as foreign currency translation adjustments in other comprehensive income and recorded in "Accumulated Other Comprehensive Income" in equity.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

The following new standards and amendments have been adopted and are effective for the Company's interim and annual consolidated statements commencing October 1, 2013:

IFRS 10, Consolidated Financial Statements

The IASB issued a new standard, IFRS 10, "Consolidated Financial Statements" ("IFRS 10"), which establishes the principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 establishes control as the basis for consolidation and defines the principle of control. An investor controls an investee if the investor has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the investor's returns. IFRS 10 is effective for annual periods beginning on or after January 1, 2013 and must be applied retrospectively. The adoption of IFRS 10 did not have an impact on the Company's results of operations, financial position and disclosures.

IFRS 12, Disclosure of Interests in Other Entities

The IASB issued a new standard, IFRS 12, "Disclosure of Interests in Other Entities" ("IFRS 12"), which integrates and provides consistent disclosure requirements for all interests in other entities such as subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013 and must be applied retrospectively. The adoption of IFRS 12 did not have an impact on the Company's results of operations, and financial position. The adoption of IFRS 12 has resulted in additional disclosures in Note 6 to these consolidated financial statements.

IFRS 13, Fair Value Measurement

On January 1, 2013, the Company adopted IFRS 13, which provides a single source of guidance on how fair value is measured, replacing the fair value measurement guidance contained in individual IFRSs. The standard defines fair value and establishes a framework for measuring fair value. It does not introduce new fair value measurements, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards. The adoption of IFRS 13 did not have an impact on the Company's results of operations, financial position and disclosures.

IAS 27, Separate Financial Statements

The IASB issued a revised standard, IAS 27, "Separate Financial Statements" ("IAS 27"), which contains the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate (non-consolidated) financial statements. IAS 27 is effective for annual periods beginning on or after January 1, 2013 and must be applied retrospectively. The adoption of IAS 27 did not have an impact on the Company's results of operations, financial position and disclosures.

IAS 28, Investment in Associates

The IASB issued a revised standard, IAS 28, "Investments in Associates and Joint Ventures" ("IAS 28"), which prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IAS 28 is effective for annual periods beginning on or after January 1, 2013 and must be applied retrospectively. The adoption of IAS 28 did not have an impact on the Company's results of operations, financial position and disclosures.

(in Canadian dollars)

4. ACCOUNTING PRONOUNCEMENTS ISSUED BUT NOT YET EFFECTIVE

As at September 30, 2014, the Company has determined that the following matter 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 pronouncement may impact the Company's accounting and disclosure of its activities in the future as noted below:

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. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 and must be applied retrospectively. The Company is assessing the impact of this new standard.

5. PROPERTY AND EQUIPMENT

September 30, 2014

	Computer equipment	Office furniture	Production tools	Total
	$	$	$	$
Cost				
Balance, September 30, 2013	52,066	42,029	-	94,095
Investment in EEStor	3,989	1,456	51,396	56,841
Purchase	5,819	-	6,131	11,950
Disposal	(1,430)	-	-	(1,430)
Balance, September 30, 2014	**60,444**	**43,485**	**57,527**	**161,456**
Accumulated Depreciation				
Balance, September 30, 2013	52,066	42,029	-	94,095
Provision	2,661	670	12,738	16,069
Disposal	(38)	-	-	(38)
Balance, September 30, 2014	**54,689**	**42,699**	**12,738**	**110,126**
Net Book Value	**5,755**	**786**	**44,789**	**51,330**

(in Canadian dollars)

5. PROPERTY AND EQUIPMENT (cont'd)

September 30, 2013

	Computer equipment	Tools and equipment	Leasehold improvements	Office furniture	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. DEVELOPMENT COSTS

As of September 30, 2014, 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. Research and development costs in the year ended September 30, 2014 of $144,316 are included in "engineering and development" in the Statement of Comprehensive Loss.

7. INVESTMENT IN EESTOR, INC.

In April 2007, the Company made a US$2,500,000 investment for 58,879 common stock 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 stock of EEStor, in the amount of US$50,084 (CDN$49,458) for 708 common stock and 472 common stock purchase warrants exercisable at $212.22 The warrants expired without being exercised.

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

(in Canadian dollars)

7. INVESTMENT IN EESTOR, INC. (cont'd)

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

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

On December 20, 2013, the Company purchased 502,344 Series A Preferred Stock of EEStor and associated rights in consideration for US$1.5 million (CDN$1,594,800) in cash and the issuance of 3,756,785 ZENN common shares**.** As a result of this acquisition, the Company obtained the ability to significantly influence EEStor and recorded the investment in EEStor in accordance with IAS 28 and recorded an equity loss of $91,126 for the period of significant influence from December 20, 2013 to January 26, 2014.

On January 27, 2014, the Company acquired 367,093 Series A Preferred stock from EEStor's treasury for cash consideration of US$1.0 million ($CDN1,107,390) resulting in the Company having a 51% controlling interest in EEStor. The acquisition was completed for the specific purpose of ensuring integration and alignment of EEStor with the Company. Concurrently, the Company also acquired 360,000 EEStor common stock from certain founders, directors and officers of EEStor (the "EEStor Principals") and their immediate family members in exchange for 5,400,000 common stock of the Company pursuant to the exercise of a put right by the EEStor Principals resulting in a 68.4% voting and equity interest in EEStor on an as converted basis. The Company also issued an additional 600,000 common shares to the EEStor Principals for facilitating the financing transaction and certain changes in the management and board of directors of EEStor.

When the Company acquired control as described above, EEStor was evaluated to determine if it is considered a business for purposes of IFRS 3 business combinations. Based on the status of EEStor as a development stage company, which does not yet have fully defined processes and output, the Company determined that the acquisition was not a business combination. The purchase price for the asset acquisition of $26,456,771 was allocated as follows:

Net Assets Acquired	**USD$**	**CDN$**
Cash	862,283	954,806
Prepaid expenses	29,552	32,723
Property and equipment	51,333	56,841
Accounts payable and accrued liabilities	(253,138)	(280,300)
Customer deposit	(21,150)	(23,419)
Advanced for technology agreements	(200,000)	(221,460)
Non-controlling interest preferred shares	(28,000)	(31,004)
Net identifiable assets acquired	**440,880**	**488,187**
Intangible asset - EEStor technology, rights and patents		25,968,584
Total investment in EEStor		**26,456,771**

(in Canadian dollars)

7. INVESTMENT IN EESTOR, INC. (cont'd)

	2014
	CDN$
Cash consideration for EEStor Series A Preferred Shares	2,702,190
Cash consideration for EEStor Common shares	8,917,662
Fair value of common shares issued for EEStor Series A Preferred Shares	2,869,207
Fair value of common shares issued for EEStor common shares	4,860,000
Technology rights previously acquired	2,823,065
Non-controlling interest	4,284,647
Consideration paid	**26,456,771**

On May 8, 2014, the Company acquired 59,739 common stock and Series A Preferred Stock of EEStor, on the basis of fifteen (15) ZENN common shares for each EEStor stock exchanged. The Company also acquired warrants of EEStor to acquire 18,099 common stock of EEStor in exchange for warrants of ZENN having the same terms and conditions except that upon exercise the former EEStor warrant holders will receive fifteen (15) ZENN common shares for each share they otherwise would have received. Following the transaction, the Company owns 50.1% of the EEStor common stock and an additional 21.2% of voting stock as a result of its ownership of Series A preferred stock on as is converted basis. The total consideration for this transaction was $196,124, which eliminates the previous preferred stock liabilities of $31,004. As a result, there was an adjustment to the non-controlling interest in the amount of $165,120.

EESTOR FINANCIAL INFORMATION

The following tables set out the financial information related to EEStor:

	September 30, 2014 US $	September 30, 2013 US $
Current assets	**349,500**	88,180
Long-term assets	**275,314**	357,139
Current liabilities	**-**	154,404
Long-term liabilities (1)	**4,049,150**	3,249,150
Total net assets	**(3,424,336)**	(2,958,235)

(1) Includes preferred stock totalling $4,028,000 at September 30, 2014 and $3,028,000 at September 30, 2013.

(in Canadian dollars)

7. INVESTMENT IN EESTOR, INC. (cont'd)

EEStor's operating expenses included in the consolidated Statement of Comprehensive Loss for the period January 27, 2014 to September 30, 2014 are as follows:

	US $
General and administrative expenses	393,910
Engineering and development	661,216
Interest income	(4)
Net loss	**1,055,122**

Loss attributed to ZENN	506,617
Non-controlling interest	548,505
Net Loss	**1,055,122**

The amount of non-controlling interest is determined by multiplying the net loss for the period by the percentage of common stock held by a third party. As at September 30, 2014 the Company holds 50.1% of the common stock outstanding and there are 5,955 warrants outstanding to purchase EEStor common stock which could dilute the Company's current ownership percentage.

8. TECHNOLOGY AGREEMENTS

Light Electric Vehicles

On March 10, 2013, EEStor entered into a new technology agreement with Light Electric Vehicles Company ("LEV") a privately held corporation in the state of Oregon, that provides LEV with the transferable, perpetual, worldwide exclusive rights to purchase EEStor's electrical energy storage units ("EESU") for one, two and three wheeled commercial passenger vehicles using electricity as the nonhuman energy source for the vehicle's propulsion system. The technology agreement has staged payments that tie to specific technical milestones and the delivery of production quality EESUs. The aggregate potential payments to be made under the agreement is $29.95 million. Previous payments received to date from LEV regarding the technology rights from prior agreements total $1.45 million.

Lockheed Martin Corporation

On December 10, 2007, EEStor entered into a technology agreement with Lockheed Martin Corporation ("LMC") a Maryland corporation acting through its Missiles and Fire Control business unit located in Grand Prairie, Texas, that provides LCM with a non-transferable, non-sublicensable worldwide exclusive rights to purchase EESU for the Government Defense and Homeland Security fields. The technology agreement has staged payments that tie to purchasing requirements of EESUs. The aggregate potential payments to be made under the agreement is $120.0 million.

(in Canadian dollars)

8. TECHNOLOGY AGREEMENTS (cont'd)

ZENN agreement with EEStor

On May 15, 2012, the Company entered into a new technology agreement (the "New Technology Agreement") with EEStor which increases and improves the Company's exclusive rights to purchase 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.

9. TRADE PAYABLES AND ACCRUED LIABILITIES

	2014 **$**	2013 $
Current liabilities of continued operations		
Trade accounts payable	**69,307**	40,326
Severance accrual	**-**	3,066
Accrued liabilities	**368,985**	322,263
Total current liabilities of continued operations	**438,292**	365,655

10. MANAGEMENT OF CAPITAL

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

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

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, 2014.

11. SHARE CAPITAL

The Company has authorized an unlimited number of common shares.

On November 14, 2013, the Company completed a non-brokered private placement of 3,704,000 units of the Company at $1.00 per unit for gross proceeds of $3,704,000. 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 $1.50 and expires on May 14, 2015. The proceeds from the issuance of units are allocated between share capital and warrant capital, with the fair value of the warrants of $1,808,368 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 $1.04, dividend yield 0%, risk free interest rate 1.09%, volatility 123% and an expected life of 1.5 years. Expected volatility is based on historical volatility. In connection with the private placement, the Company paid a finder's fee of $222,240 and issued 222,240 compensation warrants expiring on May 14, 2015. Each compensation warrant is exercisable into one common share at a price of $1.50. The fair value of the compensation warrants was estimated at $108,502 using the Black-Scholes pricing model with the following assumptions: share price $1.04, dividend yield 0%, risk free interest rate 1.09%, volatility 123% and an expected life of 1.5 years. 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 $383,151.

On December 20, 2013, the Company completed the acquisition of EEStor Series A Preferred Stock and associated rights from third party vendors in consideration for US$1.5 million in cash and the issuance of 3,756,785 common stock of the Company with a fair value of $2,329,207.

On January 27, 2014, the Company completed the acquisition of control of EEStor. The Company received Series A Preferred Stock and associated rights in consideration for US$1.0 million in cash and the issuance of 600,000 common shares of the Company with a fair value of $540,000. EEStor also exercised a put right on the closing date and received an additional 5,400,000 common shares of the Company with a fair value of $4,860,000.

11. SHARE CAPITAL (cont'd)

On May 8, 2014, the Company completed the share exchanged offered to all shareholders of EEStor who did not participate in the share exchange announced by the Company on January 27, 2014. The Company acquired 59,739 common stock and Series A Preferred Stock of EEStor, on the basis of fifteen (15) the Company common shares for each EEStor share exchanged. In addition the Company also entered into an agreement by which outstanding warrants of EEStor in the amount of 18,099 could be exchange for shares of ZENN at the rate of fifteen (15) ZENN common shares for each EEStor share they otherwise would have received. Following the offer, the Company owns 71.3% of the voting and equity stock of EEStor on an as converted basis.

On September 15, 2014, the Company completed a non-brokered private placement of 5,076,922 units of the Company at $0.26 per unit for gross proceeds of $1,320,000. 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 $0.39 and expires on March 15, 2016. The proceeds from the issuance of units are allocated between share capital and warrant capital, with the fair value of the warrants of $686,902 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 $0.25, dividend yield 0%, risk free interest rate 1.09%, volatility 152% and an expected life of 1.5 years. Expected volatility is based on historical volatility. In connection with the private placement, the Company paid a finder's fee of $35,724 and issued 101,400 compensation warrants expiring on March 15, 2016. Each compensation warrant is exercisable into one common share at a price of $0.39. The fair value of the compensation warrants was estimated at $13,718 using the Black-Scholes pricing model with the following assumptions: share price $0.25, dividend yield 0%, risk free interest rate 1.09%, volatility 152% and an expected life of 1.5 years. 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 $86,025.

12. 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.

(in Canadian dollars)

12. STOCK OPTIONS (cont'd)

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

	2014		2013	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
		$		$
Outstanding, beginning of year	**3,069,163**	**1.38**	2,814,100	1.59
Granted[(1)(2)]	**2,266,000**	**0.52**	674,500	1.09
Exercised	**-**	**-**	-	-
Expired	**(778,363)**	**(1.46)**	(397,100)	(2.43)
Forfeited	**(187,500)**	**(0.85)**	(22,337)	(0.88)
Outstanding, end of year	**4,369,300**	**0.94**	3,069,163	1.38
Exercisable	**2,985,123**	**1.16**	1,949,888	1.42

(1) Includes 820,000 options granted to certain senior management and directors on January 14, 2014, vest equally on the 6, 12, 18 and 24 month anniversary with an expiry date five years from the grant date.

(2) Includes 1,300,000 options granted to officers and directors on June 4, 2014, vest equally over a twelve month period and will expiry five years from the date of grant.

Options Outstanding at the end of September 30, 2014:

	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	**1,570,000**	**4.49**	**0.36**	490,824	0.43
$0.76 to $1.25	**1,259,500**	**1.93**	**0.99**	954,499	1.01
$1.26 to $1.75	**1,189,800**	**1.14**	**1.35**	1,189,800	1.35
$1.76 to $2.25	**350,000**	**0.62**	**1.99**	350,000	1.99
Total	**4,369,300**	**2.53**	**0.94**	2,985,123	1.16

(in Canadian dollars)

12. STOCK OPTIONS (cont'd)

Warrant Transactions

The following table outlines the warrant transactions and numbers outstanding:

	2014		2013	
	Number of Warrants	**Weighted Average Exercise Price**	Number of Warrants	Weighted Average Exercise Price
		$		$
Outstanding and exercisable, beginning of year	**2,504,000**	**1.35**	2,514,500	1.35
Issued	**9,104,562**	**0.87**	-	-
Exercised	**(92,300)**	**(1.35)**	(10,500)	(1.35)
Expired	**(2,411,700)**	**(1.35)**	-	-
EEStor warrants exchange	**271,485**	**2.52**	-	-
EEStor warrants expired	**(37,275)**	**(2.18)**	-	-
Outstanding and exercisable, end of year	**9,338,772**	**0.91**	2,504,000	1.35

13. STOCK-BASED COMPENSATION AND STOCK-BASED PAYMENTS

In the year ended September 30, 2014, the Company recorded $708,266 (2013 - $566,124) in stock based compensation costs.

The fair value of options is determined using the Black-Scholes option pricing with the following weighted average assumptions: (i) dividend yield of 0% (2013 – 0%), (ii) expected volatility if approximately 150% (2013 – 120%), (iii) risk free interest rate of 1.06% (2013 – 1.13%), (iv) the average expected life of 1.17 years (2013 – 2 years), and (v) the average share price on date of issuance of $0.52 (2013 - $1.11). 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 $0.33 (2013 - $0.64) per instrument.

14. EMPLOYEE BENEFITS EXPENSE

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

	2014	2013
	$	$
Wages and salaries	**810,999**	535,827
Statutory deductions	**63,077**	35,573
Severance	**(200)**	10,168
Stock-based compensation	**646,998**	520,783
	1,520,874	1,102,351

(in Canadian dollars)

14. EMPLOYEE BENEFITS EXPENSE (cont'd)

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

	2014	2013
	$	$
Wages and salaries	**458,274**	-
Statutory deductions	**90,838**	-
Stock-based compensation	**6,265**	-
	555,377	-

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

	2014	2013
	$	$
Wages and salaries	**31,945**	33,333
Statutory deductions	**5,346**	-
Stock-based compensation	**55,003**	45,318
	92,294	78,651

15. 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:

	2014	2013
	$	$
Loss from continuing operations	**(3,173,925)**	(1,625,542)
Statutory rate	**26.5%**	26.5%
Expected income tax recovery	**(841,090)**	(430,769)
Share issue costs	**91,943**	-
Non-deductible expenses	**229,784**	150,124
Non capital losses expiring	**65,437**	-
Change in deferred taxes not recognized related to operations	**321,079**	219,705
Change in expected future tax rates and other	**132,847**	2,241
Income tax expense	**-**	-

(in Canadian dollars)

15. INCOME TAXES (cont`d)

Deferred Income Taxes

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

	2014	2013
	$	$
Amounts related to tax loss and other credits carry forwards	**13,419,571**	10,836,271
Property and equipment	**926,150**	57,846
Reserves	**11,453**	13,250
Share issue costs	**91,789**	27,351
Less: Deferred taxes not recognized	**(14,448,963)**	(10,934,718)
	-	-

Loss and Tax Credit Carryforwards

As at September 30, 2014, the Company has non-capital losses of approximately $40,015,808 expiring as follows:

2015	520,840
2025	824,771
2026	2,696,943
2027	7,005,069
2028	7,143,713
2029	11,165,545
2030	7,221,918
2031	5,834,433
2032	1,859,444
2033	3,012,811
2034	1,541,575
	$48,827,062

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.

16. COMMITMENTS

The Company is contracted for minimum lease payments relating to premises in 2015 for $71,349.

(in Canadian dollars)

17. 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, Chief Executive Officer and the Chief Financial Officer.

Key management personnel may also participate in the Company's stock-based compensation plans. See Note 12 above.

The remuneration of key management personnel during the years ended September 30. 2014 and 2013 were as follows:

	2014	2013
	$	$
Wages and salaries	**624,265**	475,333
Statutory deductions	**30,862**	13,917
Stock-based compensation	**654,201**	561,997
	1,309,328	1,051,247

As at September 30, 2014, the outstanding balance payable to the Company's directors was $32,610.

Consulting Agreement

An agreement was entered into with Mr. J. Gregory Gooch, a member of the EEStor Board of Directors for his consulting services relating to the EEStor technology for the 3 months ended September 30, 2014 and thereafter on a weekly basis as required. During the period July 1, 2014 to September 30, 2014 total fees and disbursements of $23,099 were incurred and unpaid.

Employee Advance

The Company entered into an agreement to advance $13,500 to Mr. Ian Clifford, a director and CEO of the Company. The promissory note provides for a 2% interest charge and is due on March 31, 2015.

18. FINANCIAL INSTRUMENTS

Fair Value

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.

18. FINANCIAL INSTRUMENTS (cont'd)

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 only significant financial instrument of the Company denominated in US dollars is cash of $359,196. 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.

19. SEGMENTED INFORMATION

As at September 30, 2014, the operations and assets of the Company's wholly-owned subsidiaries are located in Canada. The operations and assets of EEStor are located in Cedar Park, Texas and are summarized in Note 7.

20. SUBSEQUENT EVENTS

Investor Relations Agreement

On December 22, 2014, the Company announced that, subject to regulatory approval, it has retained the services of Mr. John Zammit of Providenciales, Turks and Caicos to provide investor relations consulting services to the Company.

In consideration for the services to be provided, the Company has, subject to regulatory approval, granted to Mr. Zammit stock options under the Company's stock option plan to acquire 440,000 common shares exercisable as to one-half for a 6 month period and the remaining one-half for a 12 month period at a price of $0.35 per share. Mr. Zammit holds a direct or indirect interest in 583,000 common shares and 300,000 warrants of the Company, in addition to the 440,000 stock options granted to him under the investor relations arrangement. One-quarter of the options granted shall vest and become exercisable on each of the 3, 6, 9 and 12 month anniversaries of the date of grant.

Grant of Options

On December 22, 2014, the Company announced that it has granted options to acquire an aggregate of 856,000 common shares to officers, directors and employees of the Company under the Company's stock option plan. Each option is exercisable to acquire one common share at a price of $0.57; 400,000 options vest equally over a twelve month period and 456,000 vest equally over an eighteen month period. These options will expire five years from the date of grant.