# ZENN Motor Company Inc.

**Condensed Interim Consolidated Financial Statements**

**For the Three Months Ended December 31, 2013**

**(Unaudited)**

**Notice to Reader**

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

| | Notes | December 31, 2013 (unaudited) | September 30, 2013 (audited) |
|---|---|---|---|
| **Assets** | | | |
| **Current** | | | |
| Cash | | **$ 2,289,819** | $ 700,824 |
| Short-term investments | | **15,045** | 15,045 |
| Prepaid expenses and sundry assets | | **129,007** | 129,289 |
| Current assets of discontinued operations | **5** | **41,560** | 44,950 |
| | | **2,475,431** | 890,108 |
| **Deposit for rent** | | **5,946** | 5,946 |
| **EEStor technology rights** | **6** | **2,823,065** | 2,823,065 |
| **EEStor advance** | **7** | **198,198** | 198,198 |
| **Investment in EEStor, Inc.** | **8** | **12,946,240** | 8,828,185 |
| **Long lived assets of discontinued operations** | **5** | **16,333** | 23,333 |
| | | **$ 18,465,213** | $ 12,768,835 |
| **Liabilities** | | | |
| **Current** | | | |
| Accounts payable and accrued liabilities | **11** | **$ 457,505** | $ 365,655 |
| Current liabilities of discontinued operations | **5** | **50,342** | 63,161 |
| | | **507,847** | 428,816 |
| **Shareholders' Equity** | | | |
| Share capital | **13** | **57,538,508** | 53,489,531 |
| Contributed surplus | | **6,624,956** | 5,292,217 |
| Warrant capital | | **1,916,870** | 1,223,960 |
| Deficit | | **(48,122,968)** | (47,665,689) |
| | | **17,957,366** | 12,340,019 |
| | | **$ 18,465,213** | $ 12,768,835 |

***Nature of operations and going concern (Note 1)***
**Commitments *(Note 17)***
**Subsequent events (*Note 20*)**

**See accompanying notes**

**ZENN Motor Company Inc.**

**Unaudited Condensed Interim Consolidated Statements of Comprehensive Loss**
**For the three months ended December 31**
**(in Canadian dollars)**

| | Notes | 2013 | 2012 |
|---|---|---|---|
| **Expenses** | | | |
| General and administrative | **15,16** | **$ 310,713** | $ 315,839 |
| Engineering and development | **10** | **25,799** | 9,327 |
| Business development | **15,16** | **29,406** | 888 |
| | | **365,918** | 326,054 |
| **Interest Income** | | **5,819** | 5,737 |
| **Share of the income/(loss) of associates** | **9** | **(24,123)** | - |
| **Loss from continuing operations** | | **(384,222)** | (320,317) |
| **Loss from discontinued operations** | **5,15** | **(7,000)** | (40,649) |
| **Total Comprehensive Loss** | | **$(391,222)** | $(360,966) |
| | | | |
| **Loss per share, basic and diluted** | | | |
| From continuing operations | | **$(0.01)** | $(0.01) |
| From discontinued operations | | **$(0.00)** | $(0.00) |
| **Loss per share, basic and diluted** | | **$(0.01)** | $(0.01) |
| | | | |
| **Weighted average number of common shares outstanding** | | | |
| Basic and diluted | | **42,470,963** | 39,907,913 |

**See accompanying notes**

## ZENN Motor Company Inc.
## Unaudited Condensed Interim Consolidated Statements of Changes in Shareholders' Equity
## For the three months ended December 31
## (in Canadian dollars)

| | Notes | No. of Shares | Share Capital | Contributed Surplus | Warrant Capital | Deficit | Total Shareholders' Equity |
|---|---|---|---|---|---|---|---|
| **Balances, September 30, 2013** | | **39,918,413** | **$53,489,531** | **$5,292,217** | **$ 1,223,960** | **$(47,665,689)** | **$12,340,019** |
| Comprehensive loss for the period | | - | - | - | - | (391,222) | (391,222) |
| Transactions with shareholders | | | | | | | |
| Exercise of warrants | 14 | 92,300 | 124,605 | - | - | - | 124,605 |
| Transfer from warrant capital | 14 | - | 45,116 | - | (45,116) | - | - |
| Extension of warrants in the period | 14 | - | - | - | 66,057 | (66,057) | - |
| Issuance of units - net of issuance costs | 8,13 | 3,704,000 | 1,512,481 | - | 1,916,870 | - | 3,429,351 |
| Issuance of shares for EEStor Pref Shares | 13 | 3,756,785 | 2,366,775 | - | - | - | 2,366,775 |
| Transfer from warrant capital on expiry | 14 | - | - | 1,244,901 | (1,244,901) | - | - |
| Stock-based compensation | 15,16 | - | - | 87,838 | - | - | 87,838 |
| **Balances, December 31, 2013** | | **47,471,498** | **$57,538,508** | **$6,624,956** | **$1,916,870** | **$(48,122,968)** | **$17,957,366** |
| | | | | | | | |
| **Balances, September 30, 2012** | | **39,907,913** | **$ 53,470,224** | **$ 4,726,093** | **$ 1,229,092** | **$(46,050,612)** | **$ 13,374,797** |
| Comprehensive loss for the period | | - | - | - | - | (360,966) | (360,966) |
| Transactions with shareholders | | | | | | | |
| Exercise of options | | - | - | - | - | - | - |
| Transfer to share cap on exercise of options | | - | - | - | - | - | - |
| Issuance of units, net of issuance costs | | - | - | - | - | - | - |
| Issuance of warrants | | - | - | - | - | - | - |
| Stock-based compensation | 15,16 | - | - | 100,222 | - | - | 100,222 |
| **Balances, December 31, 2012** | | **39,907,913** | **$53,470,224** | **$4,826,315** | **$1,229,092** | **$(46,411,578)** | **$13,114,053** |

**See accompanying notes**

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

| | Notes | 2013 | 2012 |
|---|---|---|---|
| **Cash flows provided by (used in) operations** | | | |
| Net loss from continuing operations | | **$ (384,222)** | $ (320,317) |
| Items not affecting cash | | | |
| Amortization | | **-** | 720 |
| Stock-based compensation | **15** | **87,838** | 98,809 |
| Share of the loss of associates | **9** | **24,123** | - |
| | | **(272,261)** | (220,788) |
| Net changes in non-cash working capital | | | |
| Prepaid expenses and sundry assets | | **282** | 6,435 |
| Accounts payable and accrued liabilities | | **91,850** | 46,312 |
| | | **(180,129)** | (168,041) |
| **Investing** | | | |
| Short-term investments | | **-** | 600,000 |
| EEStor advance | **7** | **-** | (99,508) |
| EEStor equity investment | **8** | **(1,775,403)** | - |
| | | **(1,775,403)** | 500,492 |
| **Financing** | | | |
| Exercise of warrants | **14** | **124,605** | - |
| Issuance of shares, net of issuance costs | **13** | **3,429,351** | - |
| | | **3,553,956** | - |
| Cash used in discontinued operations | | **(9,429)** | (31,134) |
| Net change in cash | | **1,588,995** | 301,317 |
| Cash, beginning of period | | **700,824** | 322,569 |
| **Cash, end of period** | | **$ 2,289,819** | $ 623,886 |

**See accompanying notes**

## 1. NATURE OF OPERATIONS AND GOING CONCERN

ZENN Motor Company Inc. (the "Company") is incorporated under the Business Corporations Act (Ontario) and is listed on the TSX Venture Exchange under the symbol ZNN. The Company's head office is located at 21 St. Clair Avenue East, Suite 301, Toronto, Ontario. The Company's focus is to capitalize on certain exclusive rights to purchase and deploy an energy storage technology currently under development by EEStor, Inc. ("EEStor") (see Notes 6, 7, 8 and 9).

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

The Company's success depends on the completion and commercialization of EEStor's energy storage technology. There is no assurance that EEStor will be successful in the completion of the development and commercialization of its products. Based on its current operating and financial plans, management of the Company believes the current level of cash and short-term investments will be sufficient to fund the Company's planned operations through fiscal 2014; however, if the Company requires additional cash resources to fund operations including payments required if EEStor milestones are met (Note 6), 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, 2013 and 2012.

These unaudited condensed interim consolidated financial statements were authorized for issuance by the Board of Directors of the Company on February 26, 2014.

## 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 wholly-owned 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 amounts recorded as accrued liabilities, including the 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.

### 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 December 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 6 & 7).

### Investment in EEStor, Inc.

The Company has an investment in the common and preferred shares of EEStor which is categorized as an "available for sale" financial instrument. As at the date of these unaudited condensed interim consolidated financial statements, the Company has significant influence over EEStor. Significant influence is presumed to exist when the Company holds between 20% and 50% of the voting power of another entity. The investment is accounted for using the equity method of accounting. Under the equity method, the investments in associates are initially recognized at cost. The carrying amount is increased or decreased to recognize, in net income, the Company's share of the income or loss of the investee after the date of acquisition. Distributions received from an investee reduce the carrying amount of the investment. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Company's interest in the investee. Unrealized losses are eliminated the same as unrealized gains, but only to the extent that there is no evidence of impairment (see Note 8 & 9).

### 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.

## 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, financial position and disclosures. The adoption of IFRS 12 has resulted in additional disclosures in Note 9 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 December 31, 2013, 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. The effective date for IFRS 9, which is to be applied retrospectively, has not yet been determined. The Company is assessing the impact of this new standard.

## 5. DISCONTINUED OPERATIONS

The Company completed the wind down of its LSV business operations announced in December 2009, and ceased providing its service support as of June 30, 2013. The Company has segregated assets, liabilities and results of operations specifically identifiable with the discontinued operations from those of the ongoing business.

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

| | **December 31, 2013** **$** | September 30, 2013 $ |
|---|---|---|
| **Current assets of discontinued operations** | | |
| Accounts receivable[1] | **13,560** | 16,950 |
| Prepaid and sundry assets[2] | **28,000** | 28,000 |
| | **41,560** | 44,950 |
| **Long lived assets of discontinued operations** | | |
| Prepaid insurance[2] | **16,333** | 23,333 |
| | **16,333** | 23,333 |

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

| | **December 31, 2013** **$** | September 30, 2013 $ |
|---|---|---|
| **Current liabilities of discontinued operations** | | |
| Severance accrual[3] | **342** | 13,161 |
| Warranty accrual[4] | **50,000** | 50,000 |
| | **50,342** | 63,161 |

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

**(in Canadian dollars)**

## 5. DISCONTINUED OPERATIONS (cont'd)

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

| | **December 31, 2013** **$** | December 31, 2012 $ |
|---|---|---|
| Revenue | **-** | 17,406 |
| Cost of goods sold | **-** | 9,142 |
| Gross profit or (loss) | **-** | 8,264 |
| Expenses | **7,000** | 48,913 |
| **Profit/(Loss) from discontinued operations** | **(7,000)** | (40,649) |

## 6. EESTOR TECHNOLOGY RIGHTS

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

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

In consideration for the new expanded technology rights awarded, the Company paid EEStor US$500,000 (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.

## 7. 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.

## 8. INVESTMENT IN EESTOR, INC

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

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

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

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

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

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

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

On December 20, 2013, the Company completed the acquisition of 502,344 shares of Series A Preferred Shares of EEStor and certain rights associated with the ownership of such shares from three arm's length vendors. The aggregate purchase price for the Series A Shares is US$1,500,000 (CDN$1,594,800) in cash and the issuance of 3,756,785 shares of the Company's common stock. The total carry cost of the transaction, including all related costs, totaled CDN$4,037,783.

**(in Canadian dollars)**

## 8. INVESTMENT IN EESTOR, INC (cont'd)

Following the acquisition of the Series A Preferred Shares of EEStor, the Company holds appromimately 41% of the outstanding equity and voting shares of EEStor. EEStor is a privately owned corporation based in Cedar Park, Texas, USA. Effective December 20, 2013, the investment is accounted for using the equity method. There were no fair value adjustments or adjustments related to differences in accounting policies made at the time of the acquisition. 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 December 31, 2013, no events or changes in circumstances had occurred which would lead to an impairment in the value of the investment

| | **2014** |
|---|---|
| | **$** |
| Balance, beginning of period | 8,828,185 |
| Investments in Common Shares | 104,395 |
| Acquisition of Preferred Shares | 4,037,783 |
| Proportionate share of loss | (24,123) |
| **Balance, end of period** | **12,946,240** |

## 9. EESTOR FINANCIAL INFORMATION

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

| | **December 31, 2013 US $** | September 30, 2013 US $ |
|---|---|---|
| Current assets | **94,089** | 78,918 |
| Long-term assets | **694,121** | 692,296 |
| Current liabilities | **384,271** | 159,619 |
| Long-term liabilities | **221,150** | 221,150 |
| **Total net assets** | **182,789** | 390,445 |

| | **December 31, 2013 US $** | December 31, 2012 US $ |
|---|---|---|
| Revenue | **-** | - |
| Expenses | **395,155** | 460,793 |
| **Net loss** | **395,155** | **460,793** |
| **Proportionate share of loss (Dec 20 - 31, 2013)** | **22,666** | **-** |

The proportionate share of loss reported in the Company's financial statements is for the period following the acquisition converted to CDN$24,123 at the average exchange rate for the period of 1.0643.

**(in Canadian dollars)**

## 10. DEVELOPMENT COSTS

As of December 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

| | **December 31, 2013** **$** | September 30, 2013 $ |
|---|---|---|
| **Current liabilities of continued operations** | | |
| Trade accounts payable | **40,268** | 40,326 |
| Severance accrual | **-** | 3,066 |
| Accrued liabilities | **417,237** | 322,263 |
| **Total current liabilities of continued operations** | **457,505** | 365,655 |

## 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 months ended December 31, 2013.

**(in Canadian dollars)**

## 13. 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 year. 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 year. Expected volatility is based on historical volatility. Compensation warrants were not measured at the fair value of the services received as the fair value for such services was not reliably measurable. The total share issuance costs were $383,151.

## 14. STOCK OPTIONS

### Stock Option Plan

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

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

| | December 31, 2013 | | December 31, 2012 | |
|---|---|---|---|---|
| | Number of Options | Weighted Average Exercise Price | Number of Options | Weighted Average Exercise Price |
| | | $ | | $ |
| **Outstanding, beginning of period** | **3,069,163** | **1.38** | 2,814,100 | 1.59 |
| Granted[(i)] | **-** | **-** | 60,000 | 0.73 |
| Expired | **(316,466)** | **(2.48)** | (239,900) | (1.96) |
| **Outstanding, end of period** | **2,752,697** | **1.25** | 2,634,200 | 1.54 |

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

**(in Canadian dollars)**

## 14. STOCK OPTIONS (cont'd)

Options Outstanding at the end of December 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 $0.75 | **586,665** | **1.27** | **0.74** | 521,664 | 0.74 |
| $0.76 to $1.25 | **623,832** | **4.01** | **1.12** | 207,829 | 1.12 |
| $1.26 to $1.75 | **1,192,200** | **2.86** | **1.35** | 853,930 | 1.35 |
| $1.76 to $2.25 | **350,000** | **2.22** | **1.99** | 233,331 | 1.99 |
| **Total** | **2,752,697** | **2.71** | **1.25** | 1,816,754 | 1.23 |

### Warrant Transactions

The following table outlines the warrant transactions and numbers outstanding:

| | **2013** | | 2012 | |
|---|---|---|---|---|
| | **Number of Warrants** | **Weighted Average Exercise Price $** | Number of Warrants | Weighted Average Exercise Price $ |
| **Outstanding and exercisable, beginning of period** | **2,504,000** | **1.35** | 2,514,500 | 1.35 |
| Issued | **3,926,240** | **1.50** | - | - |
| Exercised | **(92,300)** | **(1.35)** | - | - |
| Expired | **(2,411,700)** | **(1.35)** | - | - |
| **Outstanding and exercisable, end of period** | **3,926,240** | **1.50** | 2,514,500 | 1.35 |

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

## 15. STOCK-BASED COMPENSATION AND STOCK-BASED PAYMENTS

In the three months ended December 31, 2013, the Company recorded $87,838 (2012 - $100,222) in stock based compensation costs. Of this amount, $nil (2012 - $1,413) was included in the loss from discontinued operations.

The fair value of options is determined using the Black-Scholes option pricing. The Company includes an estimated forfeiture rate, with actual forfeitures reversed in the period they occur. The were no options granted in the current period. The weighted average fair value of the cost of grants in the prior period was approximately $0.40 per instrument.

**(in Canadian dollars)**

## 16. EMPLOYEE BENEFITS EXPENSE

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

| | **December 31, 2013** **$** | December 31, 2012 $ |
|---|---|---|
| Wages and salaries | **125,458** | 102,905 |
| Statutory deductions | **5,719** | 6,422 |
| Severance costs | **(200)** | - |
| Stock-based compensation | **78,895** | 98,809 |
| | **209,872** | 208,136 |

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

| | **December 31, 2013** **$** | December 31, 2012 $ |
|---|---|---|
| Wages and salaries | **15,841** | - |
| Statutory deductions | **-** | - |
| Stock-based compensation | **8,943** | - |
| | **24,784** | - |

## 17. COMMITMENTS

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

| | | |
|---|---|---|
| 2014 | $ | 53,512 |
| 2015 | | 71,349 |
| | **$** | **124,861** |

## 18. RELATED PARTY TRANSACTIONS

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

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

**(in Canadian dollars)**

## 18. RELATED PARTY TRANSACTIONS (cont'd)

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

| | **December 31, 2013** **$** | December 31, 2012 $ |
|---|---|---|
| Wages and salaries | **125,351** | 76,817 |
| Statutory deductions | **3,267** | 1,929 |
| Stock-based compensation | **86,973** | 98,150 |
| | **215,591** | 176,896 |

As at December 31, 2013, the outstanding balance payable to the Company's Board of Directors was $26,875.

## 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 as at December 31, 2013.

## 20. SUBSEQUENT EVENTS

### Agreement of Controlling Interest in EEStor

On January 23, 2014, the Company completed its previously announced investment agreement with EEStor and certain principals of EEStor. In consideration for an aggregate investment of US$1.0 million (CDN$1,107,390), ZENN received a number of Series A1 Preferred Shares of EEStor that provided it with 51% of the outstanding equity and voting shares of EEStor on an as-converted and fully-diluted basis. In addition, 360,000 additional common shares of EEStor were acquired from existing EEStor shareholders in exchange for 5,400,000 ZENN common shares providing ZENN with an approximate 68.4% equity and voting interest in EEStor on an as-converted basis. ZENN has also been granted the right to acquire all remaining EEStor shares held by certain EEStor principals and their immediate family members (representing approximately 24.7% of the outstanding EEStor shares) at a value to be agreed upon or fair value as determined by an independent valuator if agreement cannot be reached, at any time before a merger of ZENN and EEStor, which the parties have agreed to explore.

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

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

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

## 20. SUBSEQUENT EVENTS (cont'd)

### Stock Option Grants

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

### Proposed Exchange Offer for EEStor Shares

On February 18, 2014, the Company announced that it intends to offer all shareholders of EEStor who did not participate in the share exchange announced by ZENN on January 27, 2014 the opportunity to exchange their EEEStor shares for shares of ZENN. ZENN intends to offer to acquire up to an additional 141,463 shares of EEStor, or approximately 6.9% of the outstanding EEStor shares, on the basis of fifteen (15) ZENN common shares for each EEStor share exchanged. If all EEStor shares sought are exchanged, ZENN would issue 2,121,945 common shares, or approximately 4.0% of the number of common shares currently outstanding.