ZENN Motor Company Inc.

Condensed Interim Consolidated Financial Statements

For the Three and Nine Months Ended June 30, 2014

(Unaudited)

Notice to Reader

The accompanying unaudited condensed interim consolidated financial statements of ZENN Motor Company Inc. (the "Company") for the three and nine months ended June 30, 2014, have been prepared by management and approved by the Board of Directors of the Company. These statements have not been audited, reviewed or verified by the Company's external auditors or any other accounting firm.

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

	Notes	June 30, 2014 (unaudited)	September 30, 2013 (audited)
Assets			
Current			
Cash		**$ 485,075**	$ 700,824
Short-term investments		**15,000**	15,045
Prepaid expenses and sundry assets		**129,772**	129,289
Current assets of discontinued operations	5	**34,780**	44,950
		664,627	890,108
Property and equipment	6	**2,815**	-
Deposit for rent		**5,946**	5,946
Long Term Insurance		**8,464**	-
EEStor technology rights	8	**-**	2,823,065
EEStor advance	8	**-**	198,198
Investment in EEStor, Inc.	8	**-**	8,828,185
Unallocated purchase price	8	**22,071,626**	-
Long lived assets of discontinued operations	5	**2,333**	23,333
		$ 22,755,811	$ 12,768,835
Liabilities			
Current			
Accounts payable and accrued liabilities	10	**$ 435,218**	$ 365,655
Current liabilities of discontinued operations	5	**50,000**	63,161
		485,218	428,816
Long Term			
Advances for technology agreements		**160,050**	-
		645,268	428,816
Shareholders' Equity			
Share capital	12	**63,117,725**	53,489,531
Contributed surplus		**7,058,733**	5,292,217
Warrant capital		**1,931,426**	1,223,960
Accumulated other comprehensive income		**10,782**	-
Non-controlling interest	8	**(410,919)**	-
Deficit		**(49,597,204)**	(47,665,689)
		22,110,543	12,340,019
		$ 22,755,811	$ 12,768,835

See accompanying notes

ZENN Motor Company Inc.
Unaudited Condensed Interim Consolidated Statements of Comprehensive Loss
For the three and nine months ended June 30
(in Canadian dollars)

		Three Months		Nine Months	
	Notes	**2014**	2013	**2014**	2013
Expenses					
General and administrative	**14,15,16**	**$ 635,518**	$ 381,013	**$ 1,573,047**	$ 1,130,661
Engineering and development	**7,14,15**	**295,124**	-10,403	**497,962**	163
Business development	**14,15**	**25,816**	33,140	**102,956**	52,177
		956,458	403,750	**2,173,965**	1,183,001
Interest Income		**1,190**	2,995	**9,714**	12,948
Share of the income/(loss) of associates	**8**	**-**	-	**(91,126)**	-
Loss from continuing operations		**(955,268)**	(400,755)	**(2,255,377)**	(1,170,053)
Loss from discontinued operations	**5,14**	**(7,000)**	(37,386)	**(21,000)**	(113,346)
Total Comprehensive Loss		**$(962,268)**	$(438,141)	**$(2,276,377)**	$(1,283,399)
Non-controlling interest		**237,863**	-	**410,919**	-
Loss attributed to ZENN		**$(724,405)**	**$(438,141)**	**$(1,865,458)**	**$(1,283,399)**
Loss per share, basic and diluted					
From continuing operations		**$(0.02)**	$(0.01)	**$(0.05)**	$(0.03)
From discontinued operations		**$(0.00)**	$(0.00)	**$(0.00)**	$(0.00)
Loss per share, basic and diluted		**$(0.02)**	$(0.01)	**$(0.05)**	$(0.03)
Weighted average number of common shares outstanding					
Basic and diluted		**53,993,394**	39,912,298	**49,374,827**	39,903,375

See accompanying notes

ZENN Motor Company Inc.
Unaudited Condensed Interim Consolidated Statements of Changes in Shareholders' Equity
For the nine months ended June 30
(in Canadian dollars)

	Notes	No. of Shares	Share Capital	Contributed Surplus	Warrant Capital	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)**	**$12,340,019**
Net loss for the period		-	-	-	-	(410,919)	-	(1,865,458)	(2,276,377)
Total loss for the period		**-**	**-**	**-**	**-**	**(410,919)**	**-**	**(1,865,458)**	**(2,276,377)**
Translation gain/(loss)		-	-	-	-	-	10,782	-	10,782
Comprehensive loss for the period		**-**	**-**	**-**	**-**	**(410,919)**	**10,782**	**(1,865,458)**	**(2,265,595)**
Transactions with shareholders									
Exercise of warrants	13	92,300	124,605	-	-	-	-	-	124,605
Transfer from warrant capital	13	-	45,116	-	(45,116)	-	-	-	-
Extension of warrants in the period	13	-	-	-	66,057	-	-	(66,057)	-
Issuance of units - net of issuance costs	12	3,704,000	1,512,481	-	1,808,368	-	-	-	3,320,849
Issuance of compensation warrants	12	-	-	-	108,502	-	-	-	108,502
Issuance of shares for EEStor Pref Shares	12	3,756,785	2,366,775	-	-	-	-	-	2,366,775
Issuance of shares for EEStor Pref Shares	8,12	6,000,000	5,400,000	-	-	-	-	-	5,400,000
EEStor shares/warrants exchange	12	896,085	179,217	-	16,907	-	-	-	196,124
Expiry EEStor warrants	13	-	-	2,351	(2,351)	-	-	-	-
Transfer from warrant capital on expiry	13	-	-	1,244,901	(1,244,901)	-	-	-	-
Stock-based compensation	14,15	-	-	519,264	-	-	-	-	519,264
Balances, June 30, 2014		**54,367,583**	**$ 63,117,725**	**$ 7,058,733**	**$ 1,931,426**	**$ (410,919)**	**$ 10,782**	**$ (49,597,204)**	**$ 22,110,543**
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		-	-	-	-	-	-	(1,283,399)	(1,283,399)
Transactions with shareholders									
Exercise of warrants		10,500	14,175	-	-	-	-	-	14,175
Transfer to share cap on exercise of warrants		-	5,132	-	(5,132)	-	-	-	-
Issuance of units, net of issuance costs		-	-	-	-	-	-	-	-
Issuance of warrants		-	-	-	-	-	-	-	-
Stock-based compensation	14,15	-	-	432,965	-	-	-	-	432,965
Balances, June 30, 2013		**39,918,413**	**$53,489,531**	**$5,159,058**	**$1,223,960**	**$ -**	**$ -**	**$(47,334,011)**	**$12,538,538**

See accompanying notes

ZENN Motor Company Inc.
Unaudited Condensed Interim Consolidated Statements of Cash Flows
For the three and nine months ended June 30
(in Canadian dollars)

		Three Months		Nine Months	
	Notes	2014	2013	2014	2013
Cash flows provided by (used in) operations					
Net loss from continuing operations		**$ (955,268)**	$ (400,755)	**$ (2,255,377)**	$ (1,170,053)
Items not affecting cash					
Amortization	6,16	**312**	124	**494**	1,563
Loss/(Gain) on sale of property and equipment		**-**	(1,250)	**-**	(1,250)
Stock-based compensation	14	**242,026**	175,825	**519,264**	434,118
Translation gain/(loss)		**(4,794)**	-	**(2,646)**	-
Net change in purchase price		**37,935**	-	**37,935**	-
Share of the loss of associates	8	**-**	-	**91,126**	-
		(679,789)	(226,056)	**(1,609,204)**	(735,622)
Net changes in non-cash working capital					
Prepaid expenses and sundry assets		**50,681**	34,342	**6,142**	(15,808)
Accounts payable and accrued liabilities		**84,021**	19,002	**(223,937)**	37,521
		(545,087)	(172,712)	**(1,826,999)**	(713,909)
Investing					
EEStor equity investment	8	**-**	(52,006)	**(2,882,793)**	(103,956)
Acquisition of cash, EEStor	8	**-**	-	**954,806**	-
Short-term investments		**45**	699,978	**45**	1,599,978
Purchase of property and equipment	6	**(1,430)**	-	**(4,701)**	-
Proceeds on disposal of property and equipment	6	**1,392**	1,250	**1,392**	1,250
Long term insurance		**(8,464)**	-	**(8,464)**	-
Advances in technology agreements		**-**	-	**-**	(99,508)
		(8,457)	649,222	**(1,939,715)**	1,397,764
Financing					
Exercise of warrants	13	**-**	14,175	**124,605**	14,175
Issuance of shares, net of issuance costs	12	**-**	-	**3,429,351**	-
		-	14,175	**3,553,956**	14,175
Cash used in discontinued operations		**3,390**	(22,184)	**(2,991)**	(81,745)
Net change in cash		**(550,154)**	468,501	**(215,749)**	616,285
Cash, beginning of period		**1,035,229**	470,353	**700,824**	322,569
Cash, end of period		**$ 485,075**	$ 938,854	**$ 485,075**	$ 938,854

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 fiscal 2014; 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 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 August 28, 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, and EEStor, Inc. which the Company holds a 71.3% controlling interest in. 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 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 wholly-owned subsidiaries financial year end is September 30. The unaudited condensed interim 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. For the purpose of the unaudited condensed interim consolidated financial statements, EEStor’s accounts for the period are translated from US dollars to Canadian dollars.

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 purchase price allocation, 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.

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 with commercial production. In the event that a product program for which costs have been deferred is modified or cancelled, the Company will assess the recoverability of the deferred costs and if considered unrecoverable, will expense the costs in the period the assessment is made.

Patents and Trademarks

Patents and trademarks 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.

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)

Revenue Recognition

Revenue includes revenue from sale of samples and from licensing agreement. The revenue is measured at the fair value of the consideration received or receivable.

Sale of Samples

The proceeds from the sale of samples is recognized when the significant risk and rewards of ownership are transferred to the buyer, management and control of the asset has been transferred to the buyer, the amount of revenue can be measured reliably, when it is probable that the economic benefits associated with the transaction will flow to the Company and the costs incurred or to be incurred relating to the transaction can be measured reliably. The proceeds are netted against the engineering and development expenses.

Licensing Agreement

Revenues from licensing agreements are recognized when the rights to use the Company's technology are transferred, depending on the substance of the relevant agreement, provided that it is probable that the economic benefits go to the Company, the amount of revenue can be measured reliably and there are no further performance conditions. Cash received or amounts invoiced that do not meet the criteria for recognition are accounted for as advances for technology agreements.

Financial Instruments

Recognition and Measurement

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

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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.

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 8 to these consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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.

4. ACCOUNTING PRONOUNCEMENTS ISSUED BUT NOT YET EFFECTIVE

As at June 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.

(in Canadian dollars)

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:

	June 30 , 2014 **$**	September 30, 2013 $
Current assets of discontinued operations		
Accounts receivable[1]	**6,780**	16,950
Prepaid and sundry assets[2]	**28,000**	28,000
	34,780	44,950
Long lived assets of discontinued operations		
Prepaid insurance[2]	**2,333**	23,333
	2,333	23,333

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

	June 30, 2014 **$**	September 30, 2013 $
Current liabilities of discontinued operations		
Severance accrual[3]	**-**	13,161
Warranty accrual[4]	**50,000**	50,000
	50,000	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 period end.

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

	Three Months Ended June 30		**Nine Months Ended June 30**	
	2014 **$**	2013 $	**2014** **$**	2013 $
Revenue	**-**	13,170	**-**	46,267
Cost of goods sold	**-**	9,132	**-**	30,445
Gross profit or (loss)	**-**	4,038	**-**	15,822
Expenses	**7,000**	41,424	**21,000**	129,168
Profit/(Loss) from discontinued operations	**(7,000)**	(37,386)	**(21,000)**	(113,346)

(in Canadian dollars)

6. PROPERTY AND EQUIPMENT

June 30, 2014

	Computer equipment	Office furniture	Total
	$	$	$
Cost			
Balance, September 30, 2013	56,526	42,029	98,555
Purchase	4,701	-	4,701
Disposal	(1,430)	-	(1,430)
Balance, June 30, 2014	**59,797**	**42,029**	**101,826**
Accumulated Depreciation			
Balance, September 30, 2013	56,526	42,029	98,555
Provision	494	-	494
Disposal	(38)	-	(38)
Balance, June 30, 2014	**56,982**	**42,029**	**99,011**
Net Book Value	**2,815**	**-**	**2,815**

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	(25,879)	(7,408)	(8,200)	(51,371)	(92,858)
Balance, September 30, 2013	**56,526**	**-**	**-**	**42,029**	**98,555**
Accumulated Depreciation					
Balance, September 30, 2012	81,932	7,408	8,200	92,310	189,850
Provision	473	-	-	1,090	1,563
Disposal	(25,879)	(7,408)	(8,200)	(51,371)	(92,858)
Balance, September 30, 2013	**56,526**	**-**	**-**	**42,029**	**98,555**
Net Book Value	**-**	**-**	**-**	**-**	**-**

7. DEVELOPMENT COSTS

As of June 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 three and nine months totaling $69,041 and $101,425, respectively, were included in "engineering and development" in the statement of comprehensive loss.

(in Canadian dollars)

8. ACQUISITION OF BUSINESS

On January 27, 2014, the Company acquired an additional 10% of the capital stock of EEStor from treasury for cash consideration of US$1.0 million resulting in a 51% interest in EEStor. The acquisition was completed for the specific purpose of ensuring integration and alignment of EEStor with the Company. ZENN also acquired 360,000 EEStor common shares from certain founders, directors and officers of EEStor (the "EEStor Principals") and their immediate family members in exchange for 5,400,000 common shares of the Company pursuant to the exercise of a put right by the EEStor Principals resulting in a 68.4% voting interest in EEStor following the completion of the acquisition. 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. On May 8, 2014, ZENN acquired 59,739 shares of common and Series A Preferred Stock of EEStor, on the basis of fifteen (15) ZENN common shares for each EEStor share exchanged. ZENN also acquired warrants of EEStor to acquire 18,099 shares of common stock of EEStor in exchange for warrants of ZENN having the same terms and conditions except that upon exercise the holder will receive fifteen (15) ZENN common shares for each share they otherwise would have received. Following the offer, ZENN owns 71.3% of the voting and equity shares of EEStor on an as-converted basis.

The purchase price was funded from the net proceeds of a private placement of equity units completed by the Company in November 2013.

Due to the complexity and timing of the acquisition, the Company is in the process of determining the estimated fair value of the net assets acquired as part of the acquisition and as a result any excess purchase consideration is allocated to the line item "Unallocated purchase price".

The unallocated purchase price of $22,071,626 represents the excess of purchase price over the fair values of net assets acquired. The unallocated purchase price will be allocated to appropriate accounts pending final determination by independent third party valuation of the fair values of assets acquired and liabilities assumed.

Net Assets Acquired	**CDN $**
Cash and cash equivalents	954,806
Prepaid expenses	32,723
Accounts payable and accrued liabilities	(280,300)
Customer deposit	(23,419)
Advance for technology agreements	(387,555)
Net change in purchase price	37,935
Net identifiable assets acquired	**334,190**
Unallocated purchase price	22,071,626
Total purchase price	**22,405,816**

	2014 **$**
Carrying value of investment in EEStor prior to control	12,879,237
Technology rights	2,823,065
Cash consideration paid	1,107,390
Fair value of common shares issued	5,596,124
Consideration given up	**22,405,816**

(in Canadian dollars)

8. ACQUISITION OF BUSINESS (cont'd)

EESTOR FINANCIAL INFORMATION

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

	June 30, 2014 US $	September 30, 2013 US $
Current assets	**120,415**	88,180
Long-term assets	**260,500**	357,139
Current liabilities	**101,772**	154,404
Long-term liabilities (1)	**4,399,150**	3,249,150
Total net assets	**(4,120,007)**	(2,958,235)

(1) Includes preferred shares totalling $4,028,000 in June and $3,028,000 in September.

As a result of the rights associated with the Series A Preferred Shares, the fair value attributed to the EEStor common shares outstanding at the acquisition date January 27, 2014, is $0. As at June 30, 2014, ZENN holds 50.2% of the common shares outstanding.

EEStor's operating expenses included in the consolidated statement of comprehensive loss for the period January 27, 2014 to June 30, 2014 are as follows:

	US $ Apr 1 - Jun 30	**US $ Jan 27 - Jun 30**
General and administrative expenses	148,744	283,711
Engineering and development	270,709	422,545
Interest income	-	(4)
Net loss	**419,453**	**706,252**
Loss attributed to ZENN	201,270	332,050
Non-controlling interest	218,183	374,202
Net Loss	**419,453**	**706,252**

The foreign exchange rate used for consolidation purposes relating to operating expenses from January 27 to March 31 is 1.1092 and 1.0902 for the period April 1 to June 30.

The proportionate share of loss reported in the Company's financial statements as share of income (loss) of associates for the period December 20, 2013 to December 31, 2013 is US$22,666 (CDN$24,123) converted at the average exchange rate of 1.0643 and from January 1 2014 to January 26, 2014 is US$61,533 (CDN$67,003) converted at the average exchange rate of 1.0889.

Acquisition costs in the amount of $65,447 were expensed as incurred.

The amount of non-controlling interest is determined by multiplying the net loss for the period by the percentage of common shares held by a third party. As at June 30, 2014 ZENN holds 50.2% of the commons shares outstanding and there are 5,955 warrants outstanding to purchase EEStor common shares which could dilute ZENN's current ownership percentage.

9. TECHNOLOGY AGREEMENTS

Power Symmetry

On November 15, 2013, EEStor entered into a Memorandum of Understanding ("MOU") with the intent to establish a joint venture with Power Symmetry, Inc. ("PSYM") to manufacture EEStor's electrical energy storage units ("EESU"), excluding key technologies, and granting certain exclusive rights to PSYM to purchase, distribute and use EESUs that are manufactured by the joint venture. The MOU has staged payments that tie to specific milestones and the aggregate potential payments to be made under the agreement is $21.1 million. Payments received from PSYM to date total $150,000 which has be recorded as a deposit as of the date of these statements until a formal agreement has been reached. In the event that the parties cannot formalize the agreement, the Company will issue 4,000 common shares to PSYM.

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 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.

ZENN agreement with EEStor

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).

(in Canadian dollars)

9. TECHNOLOGY AGREEMENTS (cont'd)

ZENN agreement with EEStor (cont'd)

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.

10. TRADE PAYABLES AND ACCRUED LIABILITIES

	June 30, 2014 **$**	September 30, 2013 $
Current liabilities of continued operations		
Trade accounts payable	**166,656**	40,326
Severance accrual	**-**	3,066
Accrued liabilities	**268,562**	322,263
Total current liabilities of continued operations	**435,218**	365,655

11. MANAGEMENT OF CAPITAL

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

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

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

The Company is not subject to any external capital requirements.

There have been no changes with respect to the overall capital management strategy during the three and nine months ended June 30, 2014.

12. 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.

On December 20, 2013, the Company completed the acquisition of EEStor Series A Preferred Shares and associated rights from third party vendors in consideration for US$1.5 million in cash and the issuance of 3,756,785 common shares of ZENN with a fair value of $2,366,775.

On January 27, 2014, the Company completed the acquisition of control of EEStor. The Company received Series A Preferred Shares and associated rights in consideration for US$1.0 million in cash and the issuance of 600,000 common shares of ZENN 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 ZENN with a fair value of $4,860,000.

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 ZENN on January 27, 2014. ZENN acquired 59,739 shares of common and Series A Preferred Stock of EEStor, on the basis of fifteen (15) ZENN common shares for each EEStor share exchanged. In addition ZENN 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, ZENN owns 71.3% of the voting and equity shares of EEStor on an as-converted basis.

13. STOCK OPTIONS

Stock Option Plan

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

(in Canadian dollars)

13. STOCK OPTIONS (cont'd)

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

	Outstanding		Exercisable	
	Number of Options	**Weighted Average Exercise Price $**	Number of Options	Weighted Average Exercise Price $
Balance September 30, 2013	**3,069,163**	**1.39**		
Expired/Cancelled	(316,466)	(2.48)		
Balance December 31, 2013	**2,752,697**	**1.25**	**1,816,754**	1.23
Granted[1]	826,000	0.85		
Balance March 31, 2014	**3,578,697**	**1.16**	**2,147,054**	1.27
Granted[2]	1,440,000	0.33		
Expired/Cancelled	(187,500)	(0.85)		
Balance June 30, 2014	**4,831,197**	**0.92**	**2,942,862**	1.21

(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 June 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	**2,026,665**	**3.72**	**0.44**	573,331	0.73
$0.76 to $1.25	**1,262,332**	**2.17**	**0.99**	827,331	1.02
$1.26 to $1.75	**1,192,200**	**1.39**	**1.35**	1,192,200	1.35
$1.76 to $2.25	**350,000**	**0.87**	**1.99**	350,000	1.99
Total	**4,831,197**	**2.53**	**0.92**	2,942,862	1.21

(in Canadian dollars)

13. 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 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)**	-	-
EEStor warrants exchange	**271,485**	**2.52**	-	-
EEStor warrants expired	**(37,275)**	**(2.18)**	-	-
Outstanding and exercisable, end of period	**4,160,450**	**1.56**	2,514,500	1.35

14. STOCK-BASED COMPENSATION AND STOCK-BASED PAYMENTS

In the three and nine months ended June 30, 2014, the Company recorded $242,026 and $519,264 (2013 - $171,520 and $432,965), respectively, in stock based compensation costs. Of this amount, $nil (2013 – ($4,305) and ($1,153), respectively, was included in the loss from discontinued operations.

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 148% (2013 – 120%), (iii) risk free interest rate of 1.07% (2013 – 1.13%), (iv) the average expected life of 2 years (2013 – 2 years), and (v) the average share price on date of issuance of $0.52 (2013 - $1.09). 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.

15. EMPLOYEE BENEFITS EXPENSE

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

	Three Months Ended June 30		**Nine Months Ended June 30**	
	2014	2013	**2014**	2013
	$	$	**$**	$
Wages and salaries	**183,392**	111,601	**528,153**	376,379
Statutory deductions	**18,120**	6,953	**48,313**	29,162
Stock-based compensation	**216,779**	156,148	**460,997**	401,323
	418,291	274,702	**1,037,463**	806,864

(in Canadian dollars)

15. EMPLOYEE BENEFITS EXPENSE (cont'd)

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

	Three Months Ended June 30		**Nine Months Ended June 30**	
	2014 $	2013 $	**2014 $**	2013 $
Wages and salaries	**170,657**	-	**287,792**	-
Statutory deductions	**33,379**	-	**58,818**	-
Stock-based compensation	**3,264**	-	**3,264**	-
	207,300	-	**349,874**	-

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

	Three Months Ended June 30		**Nine Months Ended June 30**	
	2014 $	2013 $	**2014 $**	2013 $
Wages and salaries	**(20)**	6,250	**31,945**	10,417
Statutory deductions	**(1)**	-	**5,346**	-
Stock-based compensation	**21,983**	19,677	**55,003**	32,795
	21,962	25,927	**92,294**	43,212

16. DEPRECIATION

The components of the Company's depreciation and amortization expense included in the general and administrative expenses for the three and nine months ended June 30, 2014 is $312 and $454, respectively.

17. COMMITMENTS

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

2014	$	17,837
2015		71,349
	$	**89,186**

(in Canadian dollars)

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, Chief Executive Officer and the Chief Financial Officer.

Key management personnel may also participate in the Company's stock-based compensation plans. See Note 13 above.

The remuneration of key management personnel during the three and nine months ended June 30, 2014 and 2013 were as follows:

	Three Months Ended June 30		Nine Months Ended June 30	
	2014 **$**	2013 $	**2014** **$**	2013 $
Wages and salaries	**122,478**	94,292	**382,282**	313,048
Statutory deductions	**3,768**	1,583	**21,989**	11,936
Stock-based compensation	**208,622**	175,016	**483,924**	431,263
	334,868	270,891	**888,195**	756,247

As at June 30, 2014, the net outstanding balance payable to the Company's directors was $31,543.

19. SEGMENTED INFORMATION

At June 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.

20. SUBSEQUENT EVENTS

Non-brokered Private Placement

The Company has not completed its non-brokered private placement.