ZENN Motor Company Inc.

Condensed Interim Consolidated Financial Statements

For the Three Months Ended December 31, 2014

(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, 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 December 31, 2014 and September 30, 2014
(in Canadian dollars)

	Notes	December 31, 2014 (unaudited) $	September 30, 2014 (audited) $
Assets			
Current			
Cash		**249,815**	998,181
Short-term investments		**15,000**	15,000
Prepaid expenses and sundry assets		**146,421**	146,082
Current assets of discontinued operations		**16,333**	23,333
		427,569	1,182,596
Property and equipment		**55,338**	51,330
Deposit for rent		**5,946**	5,946
Long term insurance		**6,442**	7,552
Intangible asset - EEStor technology, rights and patents	6	**25,980,695**	25,948,442
		26,475,990	27,195,866
Liabilities			
Current			
Accounts payable and accrued liabilities	8	**450,639**	438,292
Current liabilities of discontinued operations		**43,220**	43,220
		493,859	481,512
Shareholders' Equity			
Share capital	10	**63,627,231**	63,627,231
Contributed surplus		**7,364,029**	7,181,885
Warrant capital		**2,631,839**	2,631,839
Accumulated other comprehensive income		**39,803**	21,486
Non-controlling interest	6	**3,281,072**	3,518,809
Deficit		**(50,961,843)**	(50,266,896)
		25,982,131	26,714,354
		26,475,990	27,195,866

Nature of operations and going concern (Note 1)
Commitments (Note 15)
Subsequent events (Note 18)

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	2014 $	2013 $
Expenses			
General and administrative	12,13,14	598,138	310,713
Engineering and development	5,12,13,14	336,604	25,799
Business development	12,13	720	29,406
		935,462	365,918
Interest Income		999	5,819
Share of the income/(loss) of associates		-	(24,123)
Loss from continuing operations		(934,463)	(384,222)
Loss from discontinued operations		(7,000)	(7,000)
Total comprehensive loss		(941,463)	(391,222)
Non-controlling interest	6	242,031	-
Loss attributed to ZENN		(699,432)	(391,222)

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	59,341,705	42,470,963

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 $	Non-contolling Interest $	Accumulated other Comprehensive Income $	Deficit $	Total Shareholders' Equity $
Balances, September 30, 2014		**59,444,505**	**63,627,231**	**7,181,885**	**2,631,839**	**3,523,103**	**21,489**	**(50,262,411)**	**26,723,136**
Loss for the period		-	-	-	-	-	-	(699,432)	(699,432)
Non-controlling interest for the period	6	-	-	-	-	(242,031)	-	-	(242,031)
Total loss for the period		**-**	**-**	**-**	**-**	**(242,031)**	**-**	**(699,432)**	**(941,463)**
Translation gain/(loss)		-	-	-	-	-	18,314	-	18,314
Comprehensive loss for the period		**-**	**-**	**-**	**-**	**(242,031)**	**18,314**	**(699,432)**	**(923,149)**
Transactions with shareholders									
Stock-based compensation	12,13	-	-	182,144	-	-	-	-	182,144
Balances, December 31, 2014		**59,444,505**	**63,627,231**	**7,364,029**	**2,631,839**	**3,281,072**	**39,803**	**(50,961,843)**	**25,982,131**
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		92,300	124,605	-	-	-	-	-	124,605
Transfer from warrant capital		-	45,116	-	(45,116)	-	-	-	-
Extension of warrants in the period		-	-	-	66,057	-	-	(66,057)	-
Issuance of units, net of issuance costs		3,704,000	1,512,481	-	1,916,870	-	-	-	3,429,351
Issuance of shares for EEStor pref shares		3,756,785	2,366,775	-	-	-	-	-	2,366,775
Transfer from warrant capital on expiry		-	-	1,244,901	(1,244,901)	-	-	-	-
Stock-based compensation	12,13	-	-	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**

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	2014 $	2013 $
Cash flows provided by (used in) operations			
Net loss from continuing operations		**(934,463)**	(384,222)
Items not affecting cash			
Depreciation and amortization	**14**	**9,393**	-
Stock-based compensation	**12,13**	**182,144**	87,838
Translation gain/(loss)		**5,947**	-
Write off of patents		**12,277**	-
Share of the loss of associates	**6**	**-**	24,123
		(724,702)	(272,261)
Net changes in non-cash working capital			
Prepaid expenses and sundry assets		**(339)**	282
Accounts payable and accrued liabilities		**12,347**	91,850
		(712,694)	(180,129)
Investing			
EEStor equity investment	**6**	**-**	(1,775,403)
Purchase of property and equipment		**(8,725)**	-
Purchase of patents and trademarks		**(28,057)**	-
Long term insurance		**1,110**	-
		(35,672)	(1,775,403)
Financing			
Exercise of warrants		**-**	124,605
Issuance of shares, net of issuance costs		**-**	3,429,351
		-	3,553,956
Cash used in discontinued operations		**-**	(9,429)
Net change in cash		**(748,366)**	1,588,995
Cash, beginning of period		**998,181**	700,824
Cash, end of period		**249,815**	2,289,819

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.

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 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, 2014 and 2013.

These unaudited condensed interim consolidated financial statements were authorized for issuance by the Board of Directors of the Company on March 2, 2015.

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., ZMC America, Inc, and EEStor, Inc. which ZENN holds on an as-converted basis 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.

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 share based transactions, amount 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.

Investment in EEStor, Inc.

Prior to the acquisition of control on January 27, 2014, 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 December 31, 2014, 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 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.

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.

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.

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 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.

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.

(in Canadian dollars)

4. ACCOUNTING PRONOUNCEMENTS ISSUED BUT NOT YET EFFECTIVE

As at December 31, 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. DEVELOPMENT COSTS

As of December 31, 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 totaling $99,426 in the three month period were included in "engineering and development" in the statement of comprehensive loss.

Following the independent third party verification test results provided in late December 2014, the Company will begin to defer any development costs incurred beginning January 1, 2015.

6. INVESTMENT IN EESTOR, INC.

EESTOR FINANCIAL INFORMATION

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

	December 31, 2014 US $	September 30, 2014 US $
Current assets	**129,062**	377,851
Long-term assets	**50,900**	50,303
Current liabilities	**41,310**	40,585
Total net assets	**138,652**	**387,569**

(in Canadian dollars)

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

EEStor's operating expenses included in the consolidated Statement of Comprehensive Loss for the quarter ended December 31, 2014 are as follows:

	US $
General and administrative expenses	130,647
Engineering and development	296,280
Net loss	**426,927**
Loss attributed to ZENN	213,890
Non-controlling interest	213,037
Net Loss	**426,927**

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 December 31, 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.

7. 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 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, ZENN 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 ZENN's exclusive rights to purchase electrical energy storage units ("EESUs") under development by EEStor.

(in Canadian dollars)

7. TECHNOLOGY AGREEMENTS (cont'd)

ZENN agreement with EEStor (cont'd)

Under the New Technology Agreement, among other rights, ZENN 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") ZENN 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, ZENN 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, ZENN 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 ZENN. In the event that ZENN 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 ZENN had made a total of US$2,000,000 (CDN$2,303,275) in defined milestone payments to EEStor pursuant to the Old Agreement.

8. TRADE PAYABLES AND ACCRUED LIABILITIES

	December 31, 2014 **$**	September 30, 2014 $
Current liabilities of continued operations		
Trade accounts payable	**44,064**	69,307
Accrued liabilities	**406,575**	368,985
Total current liabilities of continued operations	**450,639**	438,292

9. 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.

(in Canadian dollars)

9. MANAGEMENT OF CAPITAL (cont'd)

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, 2014.

10. SHARE CAPITAL

The Company has authorized an unlimited number of common shares.

11. 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, 2014		December 31, 2013	
	Number of Options	Weighted Average Exercise Price $	Number of Options	Weighted Average Exercise Price $
Outstanding, beginning of period	**4,369,300**	**0.94**	3,069,163	1.38
Granted[(1)(2)]	**1,296,000**	**0.50**	-	-
Expired	**-**	**-**	(316,466)	(2.48)
Outstanding, end of period	**5,665,300**	**0.84**	2,752,697	1.25

(1) Includes 440,000 options granted for investor relations consulting services and vest equally on each 3, 6, 9 and 12 month anniversaries with an expiry date one year from the grant date.

(2) Includes 850,000 options granted to officers and certain directors, including an EEStor director, 400,000 vest equally over a twelve month period and 450,000 vest equally over an eighteen month period. These options will expiry five years from the date of grant.

(in Canadian dollars)

11. STOCK OPTIONS (cont'd)

Options outstanding at the end of December 31, 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	**2,866,000**	**3.92**	**0.42**	863,323	0.39
$0.76 to $1.25	**1,259,500**	**1.67**	**0.99**	954,499	1.01
$1.26 to $1.75	**1,189,800**	**0.88**	**1.35**	1,189,800	1.35
$1.76 to $2.25	**350,000**	**0.36**	**1.99**	350,000	1.99
Total	**5,665,300**	**2.56**	**0.84**	3,357,622	1.07

Warrant Transactions

The following table outlines the warrant transactions and numbers outstanding:

	December 31, 2014		December 31, 2013	
	Number of Warrants	**Weighted Average Exercise Price $**	Number of Warrants	Weighted Average Exercise Price $
Outstanding and exercisable, beginning of period	**9,338,772**	**0.91**	2,504,000	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	**9,338,772**	**0.91**	3,926,240	1.50

12. STOCK-BASED COMPENSATION AND STOCK-BASED PAYMENTS

In the year ended December 31, 2014, the Company recorded $182,144 (2013 - $87,838) 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%, (ii) expected volatility if approximately 170%, (iii) risk free interest rate of 1.02%, (iv) the average expected life of 1.09 years, and (v) the average share price on date of issuance of $0.57. 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 $0.37 per instrument.

(in Canadian dollars)

13. EMPLOYEE BENEFITS EXPENSE

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

	December 31, 2014 **$**	December 31, 2013 $
Wages and salaries	**174,253**	125,258
Statutory deductions	**15,487**	5,719
Stock-based compensation	**180,132**	78,895
	369,872	209,872

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

	December 31, 2014 **$**	December 31, 2013 $
Wages and salaries	**175,328**	-
Statutory deductions	**40,926**	-
Stock-based compensation	**2,012**	-
	218,266	-

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

	December 31, 2014 **$**	December 31, 2013 $
Wages and salaries	**-**	15,841
Stock-based compensation	**-**	8,943
	-	24,784

14. DEPRECIATION

The components of the Company's depreciation and amortization expense included in the general and administrative expenses for the three months ended December 31, 2014 is $1,171 (2013 - nil), and the amortization expense included in engineering and development expenses is $5,166 (2013 – nil).

15. COMMITMENTS

The Company is contracted for minimum lease payments relating to premises in 2015 for $53,512.

(in Canadian dollars)

16. 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 11 above.

The remuneration of key management personnel during the three months ended December 31, 2014 and 2013 were as follows:

	December 31, 2014 **$**	December 31, 2013 $
Wages and salaries	**140,115**	125,351
Statutory deductions	**7,542**	3,267
Stock-based compensation	**138,533**	86,973
	286,190	215,591

As at December 31, 2014, the net outstanding balance payable to the Company's directors was $34,125.

Consulting Agreement

An agreement was entered into with Mr. J. Gregory Gooch, a member of the EEStor Board of Directors for his weekly consulting services relating to the EEStor technology at an hourly rate of $110 per hour. During the quarter ended December 31, 2014 fees and other expenses of $25,517 were incurred.

Employee Advance

During the quarter ended December 31, 2014, ZENN advanced to Mr. Ian Clifford, a director and CEO of the Company, the amount of $27,171. The promissory note issued evidencing the advance provides for a 2% annual interest charge and a maturity date of March 31, 2015. As at December 31, 2014, the amount of $40,671 of the loan remains outstanding.

17. SEGMENTED INFORMATION

As at December 31, 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.

18. SUBSEQUENT EVENTS

Non-brokered Private Placement

On February 5, 2015 the Company completed a non-brokered private placement. The Company issued and sold 2,793,000 units at a price of $0.375 per unit raising gross proceeds of $1,047,375. Each unit consisted of one common share and one half of one common share purchase warrant. Each share purchase warrant entitles the holder to acquire one common share at a price of $0.58 until August 5, 2016. All securities issued pursuant to the private placement are subject to a 4-month hold period until June 6, 2015.

The Company paid cash finders' fee of $23,940 and issued 63,840 non-transferable finder's warrants to registered dealers in connection with the offering. Each finder's warrant entitles the holder to acquire one common share at a price of $0.58 until August 5, 2016.