



ZENN Motor Company Inc.

Interim Consolidated Financial Statements

For the three and nine months ended

June 30, 2009

Unaudited

Notice to Reader

The accompanying unaudited interim consolidated financial statements of ZENN Motor Company Inc. (the "Company") for the three and nine months ended June 30, 2009 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.

Consolidated Balance Sheets

	Note	Jun. 30 2009 (Unaudited) \$	Sep. 30 2008 (Audited) \$
Assets			
Current			
Cash and cash equivalents		8,652,818	7,686,100
Short-term investments	2	100,000	7,000,000
Accounts receivable		83,697	80,069
Inventory	5	1,870,523	1,958,233
Prepaid expenses and sundry assets		<u>320,595</u>	<u>599,309</u>
		11,027,633	17,323,711
Property and equipment		265,091	362,413
Development costs	6	639,300	389,207
Rental deposits		96,988	98,552
EESor Technology Rights	7	2,303,275	1,510,145
Investment in EESor, Inc.	8	<u>2,857,815</u>	<u>2,857,815</u>
		<u>17,190,102</u>	<u>22,541,843</u>
Liabilities			
Current			
Accounts payable and accrued liabilities		1,496,307	2,078,969
Contingent loss on purchase commitments		-	176,053
		<u>1,496,307</u>	<u>2,255,022</u>
Shareholders' Equity			
Capital stock	9	43,402,179	41,863,409
Contributed surplus	11	1,697,669	1,322,066
Warrant capital	12	144,265	316,255
Deficit		<u>(29,550,318)</u>	<u>(23,214,909)</u>
		15,693,795	20,286,821
		<u>17,190,102</u>	<u>22,541,843</u>

ZENN Motor Company Inc.

Consolidated Statements of Operations and Deficit
For the three and nine months ended June 30
(Unaudited)

	Note	<u>Three Months</u>		<u>Nine Months</u>	
		<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
		\$	\$	\$	\$
Gross revenue		379,916	977,305	1,316,535	2,618,477
Provision for rebates	16	79,649	14,980	246,071	314,574
Net revenue		300,267	962,325	1,070,464	2,303,903
Cost of sales		295,427	933,104	1,175,882	2,200,804
Gross profit (loss)		4,840	29,221	(105,418)	103,099
Expenses					
Marketing and promotion		455,589	645,307	1,269,305	1,625,274
Engineering and development		467,942	155,202	953,552	488,894
General and administrative		1,255,062	1,145,950	3,678,917	3,427,189
Inventory write-down		390,972	-	390,972	59,367
Foreign exchange loss (gain)		6,759	12,279	10,955	(15,943)
Amortization		44,383	39,331	133,430	106,204
		2,620,707	1,998,069	6,437,132	5,690,985
Loss from operations		(2,615,867)	(1,968,848)	(6,542,550)	(5,587,886)
Interest income		39,846	58,544	207,141	161,991
Net loss for the period		(2,576,021)	(1,910,304)	(6,335,409)	(5,425,895)
Deficit, beginning of period		(26,974,297)	(18,991,877)	(23,214,909)	(15,476,286)
Deficit, end of period		(29,550,318)	(20,902,181)	(29,550,318)	(20,902,181)
Loss per share, basic and diluted		(0.08)	(0.06)	(0.19)	(0.18)
Weighted average number of shares outstanding		34,322,611	30,763,614	34,002,932	29,546,615

See accompanying notes

ZENN Motor Company Inc.

Consolidated Statement of Cash Flows For the three and nine months ended June 30 (Unaudited)

	<u>Three Months</u>		<u>Nine Months</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
	\$	\$	\$	\$
Cash flows from (to) operating activities				
Net loss for period	(2,576,021)	(1,910,304)	(6,335,409)	(5,425,895)
Add items not affecting cash flow				
Amortization	44,383	39,331	133,430	106,204
Stock based compensation	255,654	211,748	776,284	573,943
	<u>(2,275,984)</u>	<u>(1,659,225)</u>	<u>(5,425,695)</u>	<u>(4,745,748)</u>
Changes in non-cash working capital				
Accounts receivable	143,554	67,722	(3,627)	(22,362)
Inventory	548,615	(229,796)	87,710	(443,015)
Prepaid expenses and other assets	294,432	325,659	278,716	345,200
Accounts payable and accrued liabilities	(196,107)	169,665	(758,718)	57,569
	<u>(1,485,490)</u>	<u>(1,325,975)</u>	<u>(5,821,612)</u>	<u>(4,808,356)</u>
Cash flow from (to) investing activities				
Short-term investments	4,700,000	(10,000,450)	6,900,000	(10,000,450)
Development costs	-	(123,336)	(250,093)	(169,915)
Purchase of property, plant and equipment	(16,589)	(53,565)	(42,199)	(85,464)
Sale of property, plant and equipment	-	-	6,090	-
EEStor technology Rights	(793,130)	-	(793,130)	-
Rental deposits	-	(3,658)	1,563	5,557
	<u>3,890,281</u>	<u>(10,181,009)</u>	<u>5,822,231</u>	<u>(10,250,272)</u>
Cash flow from (to) financing activities				
Issue of shares, net of costs	-	14,086,598	-	14,086,598
Exercise of options and warrants	243,600	-	966,098	931,474
	<u>243,600</u>	<u>14,086,598</u>	<u>966,098</u>	<u>15,018,072</u>
Increase (decrease) in cash during period	2,648,391	2,579,614	966,718	(40,556)
Cash and cash equivalents at beginning of period	6,004,427	3,601,087	7,686,100	6,221,257
Cash and cash equivalents at end of period	8,652,818	6,180,701	8,652,818	6,180,701
Consists of:				
Cash	7,153,163	6,180,701	7,153,163	6,180,701
Cash equivalents	1,499,655	-	1,499,655	-
	<u>8,652,818</u>	<u>6,180,701</u>	<u>8,652,818</u>	<u>6,180,701</u>

See accompanying notes

ZENN Motor Company Inc.

Notes to Interim Consolidated Financial Statements
June 30, 2009
(Unaudited)

1. INTERIM REPORTING

ZENN Motor Company Inc. ("ZMC" or the "Company") prepares its financial statements in accordance with Canadian generally accepted accounting principles. The disclosures contained in these unaudited interim consolidated financial statements do not include all requirements of Canadian generally accepted accounting principles for the presentation of annual financial statements. Notwithstanding, the unaudited interim financial statements follow the same accounting policies and methods of application as the audited financial statements of the Company for the year ended September 30, 2008. These unaudited 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, 2008 and 2007.

Accounting measurements at interim dates inherently involve greater reliance on estimates than at year-end. In the opinion of management, the accompanying unaudited interim consolidated financial statements include all adjustments of a normal recurring nature to present fairly the position of the Company as at June 30, 2009 and reflect the results of operation for the three and nine month periods then ended.

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles ("GAAP") in Canada, within the framework of the significant accounting policies summarized below:

Basis of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries ZENN Motor Company Limited, ZENN Capital Inc., ZENN Vehicules Electriques Inc., ZENNErgy Inc., 2186025 Ontario Inc. and ZMC America, Inc. Inter-company balances and transactions are eliminated upon consolidation.

Cash and Cash Equivalents

Cash and cash equivalents are defined as deposits in banks and investments with original maturities of less than 90 days.

Short-term investments

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

Inventory

Inventory is valued at the lower of cost and net realizable value, with cost determined on a first in, first out basis for production and service stock and a combination of direct costs for materials with an allocation of labour and overhead for work in progress and finished goods. Reversals of previous write downs to net realizable value are permitted when there is a subsequent increase in the value of inventories.

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2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

EESor Technology Rights

The cost incurred to acquire the EESor Technology Rights, more fully described in Note 7, is being capitalized. The amortization period, if any, will be determined once the Technology Rights are available for use. The Company performs an impairment evaluation of the Technology Rights yearly or whenever events or changes in circumstances indicate that the carrying amount of the Technology Rights may not be recoverable. In the event that the agreement is terminated and the Company does not acquire the Technology Rights, the capitalized costs will be written off to operations. At June 30, 2009 no events or changes in circumstances had occurred which indicated that the carrying amounts of the Rights may not be fully recoverable.

Investment in EESor, Inc.

The Company has an investment in the common shares of EESor, Inc ("EESor"). The Company does not have significant influence, control or joint control over this investment. The common shares of EESor does not have a quoted market price in an active market, accordingly, the shares are carried at cost. The Company would recognize a loss on this investment when there is a permanent impairment in the value of the investment. To date, the Company has not recognized any impairment in the value of this 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 products are expensed as incurred unless they meet the criteria under Canadian GAAP for deferral and amortization. These costs will be amortized over the estimated useful life of the product, commencing with commercial production.

Revenue Recognition

The Company's revenues are primarily derived from the sale of the ZENN™ and related items and financing programs in support of retailer purchases. Product sales revenue is recognized when persuasive evidence of an arrangement exists, the related revenue is fixed and determinable, collection is reasonably assured, there are no uncertainties surrounding product acceptance and the goods have been shipped (when title and risk and rewards of ownership have passed) from the Company's facilities. Revenue is reported net of allowances and rebates.

Service fee revenue related to the financing of accounts receivable up to 90 days is recognized when the service is provided and financing income is accrued at the posted rate over the 90 day period and collection is reasonably assured.

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2. 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"). Payments are measured at the fair value of the consideration received or the fair value of the equity instruments issued or liabilities incurred, whichever is more reliably measurable. Stock based compensation is charged to operations over the vesting period and the offset is credited to Contributed Surplus. Consideration received upon the exercise of stock options is credited to share capital and the related contributed surplus is transferred to share capital.

Use of Estimates

The preparation of financial statements in conformity with Canadian GAAP 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 year. Actual results could differ from those estimates.

Significant areas requiring the use of management estimates relate to the determination of the useful lives of property and equipment for amortization purposes, inventory impairment, amounts recorded as accrued liabilities, valuation of stock options and warrants, impairment assessment of the Technology Rights and the investment in EESor, valuation allowance on future tax assets and the fair value of financial instruments.

3. ADOPTION OF NEW ACCOUNTING POLICIES

Going Concern

In June 2007, The CICA modified Section 1400, "General Standards of Financial Statement Presentation", in order to require that management make an assessment of the Company's ability to continue as a going concern over a period which is at least, but is not limited to, twelve months from the balance sheet date. These new requirements are effective for fiscal years beginning on or after January 1, 2008 and the Company implemented them on October 1, 2008. The new requirements only address disclosures and will have no impact on the Company's financial results.

4. ACCOUNTING PRONOUNCEMENTS ISSUED BUT NOT YET EFFECTIVE

International Financial Reporting Standards ("IFRS")

The CICA plans to incorporate IFRS into the CICA Handbook as a replacement for current Canadian GAAP for most publicly accountable enterprises effective for fiscal years beginning on or after January 1, 2011. The transition date of October 1, 2011 for the Company will require restatement for comparative purposes of amounts reported by the Company for the year ended September 30, 2011. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS has not been determined at this time.

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5. INVENTORY

The following table summarizes the composition of inventory at June 30, 2009 and September 30, 2008:

	Jun 30, 2009	Sept 30, 2008
	\$	\$
Production and service stock	1,669,203	1,060,010
Work in progress	78,057	749,063
Finished goods	123,263	149,160
	1,870,523	1,958,233

Work in progress and finished inventory values include the direct cost of materials and an allocation of labour and overhead based on standard rates.

In the three months ended June 30, 2009 the Company has taken a charge against operations of \$390,972 related to the net realizable value of inventory. Of this amount, \$244,265 is related to the anticipated effect on sales of future foreign exchange rates and \$146,707 relates to changes in estimates of costs.

6. DEVELOPMENT COSTS

In the three and nine months ended June 30, 2009, the Company has deferred expenses of \$nil and \$250,093 respectively (2008 – \$123,336 and \$169,915) relating to the development of new products. Development costs include direct labour, materials and third party costs. No amortization has been taken to date.

7. EESTOR TECHNOLOGY RIGHTS

On August 24, 2004, the Company entered into a Technology Agreement (the "Agreement") with EESor, a privately owned corporation based in the United States. Under the terms of the Agreement, and subsequent amendments on November 26, 2004, September 30, 2005, August 16, 2006 and January 22, 2007, the Company may at its discretion and upon payment of milestone payments totaling US\$2,500,000, acquire certain exclusive and non-exclusive Technology Rights to purchase an electrical energy storage unit (the "EESU") currently under development.

On May 21, 2009 the Company confirmed the permittivity results announced by EESor on April 22, 2009. The confirmation of the results triggered a milestone payment under the technology agreement of US\$700,000.

As at June 30, 2009, the Company has made the following payments to EESor:

- (i) US\$100,000 upon execution of the amended and restated agreement,
- (ii) US\$650,000 upon the Company raising a specified minimum capital,
- (iii) US\$550,000 upon third party verification of EESor producing barium nitrate powder with pre-defined specifications, and
- (iv) US\$700,000 upon third-party verification of defined permittivity tests meeting predefined parameters.

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7. EESTOR TECHNOLOGY RIGHTS (cont'd)

As at June 30, 2009, there remains one milestone payment under the Agreement in the amount of US\$500,000 which is payable within 15 business days following delivery of a production quality EESU by EESor and third-party verification of the EESU meeting defined operating parameters.

8. INVESTMENT IN EESTOR, INC.

On April 30, 2007 the Company concluded an investment of US\$2,500,000 in the common shares of EESor, Inc. The cost of the investment, including all related costs, totaled CDN\$2,857,815 for a 3.8% equity interest. The terms of the investment provide the Company with a right to invest an additional amount of up to approximately US\$5,000,000 at the same price per share as the initial investment. The right is exercisable at the Company's sole discretion within 30 business days of EESor providing independent third party verification of permittivity tests meeting predefined parameters. The size of the Company's additional investment may be limited as a result of other EESor shareholders electing to participate in the raise. Should the other EESor investors elect to maximize their investments, the Company's additional investment would be limited to approximately US\$2,000,000.

As disclosed in Note 7, on May 21, 2009, the Company confirmed the permittivity results announced by EESor on April 22, 2009, triggering the additional purchase rights option of the Company noted above. Subsequent to the reporting period, on July 2, 2009 the Company concluded its additional investment in EESor with a further investment of approximately US\$5,000,000. As a result of the two investments, the Company has a 10.7% ownership in share capital of EESor, Inc. (See Note 20 – "Subsequent Events")

The common shares of EESor are not traded in a public market and no quoted market price is available. Accordingly, the investment is carried at cost.

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9. CAPITAL STOCK

Authorized:

Unlimited common shares

Issued and outstanding common shares:

	Number of Shares	Value \$
Balance September 30, 2006	22,591,081	11,812,599
Issued on exercise of warrants (i)	852,420	907,667
Prospectus offering February 15, 2007 (ii)	3,773,585	8,891,942
Prospectus offering May 25, 2007 (iii)	1,562,500	4,469,447
Balance September 30, 2007	28,779,586	26,081,655
Issued on exercise of warrants (iv)	790,430	1,935,597
Prospectus offering on May 30, 2008 (v)	4,060,000	13,846,157
Balance September 30, 2008	33,630,016	41,863,409
Issue on exercise of options (vi)	3,333	10,794
Balance December 31, 2008	33,633,349	41,874,203
Issued on exercise of options (vii)	650,000	1,188,200
Balance March 31, 2009	34,283,349	43,062,403
Issued on exercise of warrants (viii)	64,960	339,776
Balance June 30, 2009	34,348,309	43,402,179

- (i) Includes net cash proceeds of \$662,269 and reclassification from Warrant Capital of \$245,398.
- (ii) On February 15, 2007, the Company issued an aggregate of 3,773,585 common shares for gross proceeds of \$10,000,000. Share issuance costs relating to the transaction were \$1,108,058 including 188,679 warrants with an ascribed value of \$161,170. Each warrant entitles the holder to purchase one common share at \$2.65 prior to August 14, 2008 at which time the warrant will expire.
- (iii) On May 25, 2007, the Company issued an aggregate of 1,562,500 common shares for gross proceeds of \$5,000,000. Share issuance costs relating to the transaction were \$530,553 including 62,500 warrants with an ascribed value of \$75,810. Each warrant entitles the holder to purchase one common share at \$3.20 prior to November 24, 2008 at which time the warrant will expire.
- (iv) Includes net cash proceeds of \$1,434,273 and reclassification from Warrant Capital of \$501,324.

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9. CAPITAL STOCK (cont'd)

- (v) On May 30, 2008 the Company issued an aggregate of 4,060,000 common shares for gross proceeds of \$15,225,000. Share issuance costs relating to the transaction were \$1,378,843 including 162,400 warrants with an ascribed value of \$240,441. Each warrant entitles the holder to purchase one common share at \$3.75 prior to November 30, 2009 at which time the warrant will expire.
- (vi) Includes cash proceeds of \$7,499 and reclassification from Contributed Surplus of \$3,295.
- (vii) Includes cash proceeds of \$715,000 and reclassification from Contributed Surplus of \$473,200.
- (viii) Includes cash proceeds of \$243,600 and reclassification from Warrant Capital of \$96,176.

10. MANAGEMENT OF CAPITAL

The Company's objective when managing capital is to maintain its ability to continue as a going concern for the benefit of shareholders and other stakeholders. As an early stage venture, the Company must manage the balance between cash conservation and prudent investment in its operations in order to further 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 capital stock, warrant capital, contributed surplus and deficit. The Company's practice has been to raise sufficient capital to take the Company toward a target milestone, with successive capital raises being at a higher price and 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 capital markets, and there is no assurance that this approach will be practical on a go forward basis.

There has been no change with respect to the overall capital risk management strategy during the three and nine month periods ended June 30, 2009.

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11. CONTRIBUTED SURPLUS

The following summarizes the change in contributed surplus:

Balance September 30, 2006	117,715
Stock-based compensation expense fiscal 2007	466,740
Balance September 30, 2007	584,455
Stock-based compensation expense in fiscal 2008	738,841
Less exercise of options	(1,230)
Balance September 30, 2008	1,322,066
Stock-based compensation expense in period ending December 31, 2008	256,917
Transfer from warrant capital on expiry of warrants	75,814
Less exercise of options	(3,295)
Balance December 31, 2008	1,651,502
Stock-based compensation expense in period ending March 31, 2009	263,713
Less exercise of options	(473,200)
Balance March 31, 2009	1,442,015
Stock-based compensation expense in period ending June 30, 2009	255,654
Balance June 30, 2009	1,697,669

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12. WARRANT CAPITAL

The following summarizes the change in warrant capital:

	Amount
	\$
Balance September 30, 2006	584,324
Issued on financing in fiscal 2007	236,980
Exercise of warrants in fiscal 2007	(245,396)
Balance September 30, 2007	575,908
Issued on financing in fiscal 2008	240,441
Exercise of warrants in fiscal 2008	(500,094)
Balance September 30, 2008	316,255
Transfer to contributed surplus on expiry of warrants	(75,814)
Balance December 31, 2008	240,441
No activity in period	
Balance March 31, 2009	240,441
Exercise of warrants in period	(96,176)
Balance June 30, 2009	144,265

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13. STOCK OPTIONS AND WARRANTS

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. Options are for a term not to exceed five years and generally vest over a three year period. 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 table outlines the options transactions and numbers outstanding:

	Outstanding		Exercisable	
	Number of Options	Weighted Average Exercise Price \$	Number of Options	Weighted Average Exercise Price \$
Balance September 30, 2006	936,666	1.05	126,666	0.45
Granted in fiscal 2007	1,003,000	3.10		
Exercised in fiscal 2007	-	-		
Forfeited in fiscal 2007	(7,200)	(3.50)		
Balance September 30, 2007	1,932,466	2.11	396,664	0.93
Granted in fiscal 2008	76,000	4.27		
Exercised in fiscal 2008	(800)	(3.50)		
Forfeited in fiscal 2008	(16,400)	(3.62)		
Balance September 30, 2008	1,991,266	2.18	1,210,330	1.59
Granted in period	1,136,700	2.53		
Exercised in period	(3,333)	2.25		
Forfeited in period	(13,867)	(3.30)		
Balance December 31, 2008	3,110,766	2.30	1,385,318	1.71
Exercised in period	(650,000)	1.10		
Balance March 31, 2009	2,460,766	2.62	749,051	2.27
Forfeited in period	(9,604)	4.15		
Balance June 30, 2009	2,451,162	2.61	916,107	2.51

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13. STOCK OPTIONS AND WARRANTS (cont'd)

The following table summarizes options outstanding by expiry date at June 30, 2009:

Expiry Date	Number of Options	Exercise Price \$	Number of Exercisable Options
January 18, 2010	126,666	0.45	126,666
April 3, 2011	30,000	1.40	30,000
June 11, 2011	30,000	1.45	30,000
August 20, 2011	100,000	1.30	66,666
November 21, 2011	505,000	2.40	336,663
March 18, 2012	29,600	3.50	20,800
March 27, 2012	10,000	3.57	6,666
May 6, 2012	4,800	3.41	3,200
June 17, 2012	100,000	3.50	66,666
June 24, 2012	300,000	3.95	199,998
July 15, 2012	20,000	5.03	6,667
November 22, 2012	25,198	4.29	9,991
June 3, 2013	33,198	4.25	12,124
October 15, 2013	1,087,500	2.55	-
October 28, 2013	19,200	1.87	-
November 17, 2013	30,000	2.05	-
	2,451,162		916,107

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13. STOCK OPTIONS AND WARRANTS (cont'd)

Warrant Transactions

The following table outlines the warrant transactions and numbers outstanding:

	Outstanding		Exercisable	
	Number of Warrants	Weighted Average Exercise Price \$	Number of Warrants	Weighted Average Exercise Price \$
Balance September 30, 2006	2,628,182	0.94	1,453,357	1.10
Granted in fiscal 2007	251,179	2.79		
Exercised in fiscal 2007	(852,420)	0.78		
Cancelled in fiscal 2007	(643,357)	0.75		
Balance September 30, 2007	1,383,584	1.47	852,116	1.91
Granted in fiscal 2008	162,400	3.75		
Exercised in fiscal 2008	(789,616)	1.81		
Balance September 30, 2008	756,368	1.46	224,900	3.60
Expired unexercised in period	(62,500)	3.20		
Cancelled in period	(531,468)	0.75		
Balance December 31, 2008	162,400	3.75	162,400	3.75
No activity in period				
Balance March 31, 2009	162,400	3.75	162,400	3.75
Exercised in period	(64,960)	3.75		
Balance June 30, 2009	97,440	3.75	97,440	3.75

The following warrants were outstanding at June 30, 2009

Expiry Date	Number of Warrants	Exercise Price
November 30, 2009	97,440	\$3.75

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(Unaudited)

14. STOCK-BASED COMPENSATION AND STOCK-BASED PAYMENTS

In the three and nine months ended June 30, 2009, the Company recorded \$255,654 and \$776,284 (2008 - \$211,748 and \$573,943) in stock-based compensation costs and included this amount in the General and Administrative expenses.

The fair value of options and warrants is determined using the Black-Scholes option pricing model with the following assumptions: (i) dividend yield of 0% (2008 - 0%), (ii) expected volatility of approximately 91% (2008 - 61%), (iii) risk free interest rate of 2.9% (2008 - 4%), and (iv) the expected life of 3 years (2008 - 3 years). The Company has assumed no forfeiture rate as adjustments for actual forfeiture are made in the period they occur.

15. COMMITMENTS AND CONTINGENCIES

Operating Lease

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

2009	\$	388,143
2010		399,587
2011		142,720
2012		38,800
	\$	969,250

Supplier Agreement

The Company's supply agreement for host vehicle gliders contains a minimum annual purchase requirement in order to maintain the agreement in good standing. In January 2009, the Company and supplier executed an amendment to the agreement whereby the Company relinquished exclusive territorial rights in exchange for a revised minimum purchase objective of approximately \$800,000 per year in each of the remaining two years of the agreement.

16. MARKETING PROGRAM

The Company may, from time to time, initiate marketing programs which provide a rebate to the retailer for units sold under the program. The program would generally apply to sales of the retailer's inventory on hand ("groundstock"). The Company maintains a provision for rebates, initially recorded as a reduction in revenue to compensate the retailers for the rebates when earned. When a program involving a rebate on groundstock is approved by management, the provision for rebate balance is assessed as a function of the expected rebates to be paid and the retailers' groundstock at that point in time. If the provision for rebates is not sufficient to cover the potential liability under the program, the Company makes an immediate adjustment to the provision in the form of a reduction of current quarter sales.

ZENN Motor Company Inc.

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16. MARKETING PROGRAM (cont'd)

In an effort to stimulate US sales and to leverage a recently announced US Federal tax incentive program, on April 5, 2009 the Company initiated an end consumer incentive program involving groundstock rebates and recorded a charge of \$97,608 against revenues in the prior period ended March 31, 2009 to adequately provide for the anticipated liability related to the program. The rebate liability is substantially US dollar based and is considered a monetary liability for foreign exchange purposes. As such, the estimated US dollar liability is translated at the end of period foreign exchange rate and the difference is accounted for as a foreign exchange gain or loss.

17. WARRANTY RESERVE ESTIMATE

A provision for future warranty costs is recorded at the time of sale of each product. The adequacy of the overall provision for future warranty costs is reviewed quarterly by the Company. If the analysis indicates that a change is required in the overall provision, it is charged through cost of good sold in the period when the change is determined. In the three and nine months ended June 30, 2009, the Company has recorded additional reserves for warranty costs of \$nil and \$136,546 respectively and has recorded the amount as an increase in cost of sales in the period indicated.

18. FINANCIAL INSTRUMENTS

Fair Value

The fair value of the investment in EEStor is not readily determinable as the common shares of EEStor, Inc. are not traded in a public market.

Concentration of Credit Risk and Economic Dependence

The Company is subject to business risks inherent with a small number of customers and an economic dependency on key suppliers of specialty products.

At June 30, 2009, five retailers each represented more than 10% of the accounts receivable balance and collectively represented 79% (September 30, 2008 – one retailer represented 44%).

In the three months ended June 30, 2009, four retailers each represented more than 10% of the revenue in the period for a cumulative total of 67% (2008 – two retailers represented 26%). In the nine months ended June 30, 2009, two retailers each represented more than 10% of the Company's revenue in the period for a cumulative total of 29% (2008 – two retailers represented 32%).

At June 30, 2009, one supplier represented 14% (September 30, 2008, one supplier represented 16%) of the period end accounts payable balance and one supplier represented 11% (2008 – 31%) of the Company's purchases of production materials during the three month period then ended.

ZENN Motor Company Inc.

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18. FINANCIAL INSTRUMENTS (cont'd)

Foreign Currency Risk

The Company is exposed to foreign exchange risk on monetary assets and liabilities that are denominated in US dollars and Euros. Foreign currency risk arises due to fluctuations in foreign currency exchange rates, which could affect the Company's financial results. As at June 30, 2009, 98% (September 30, 2008 - 99%) of accounts receivable are denominated in US dollars and 24% (September 30, 2008 - 31%) of accounts payable and accrued liabilities are denominated in US dollars and are subject to foreign currency risk. The Company does not use derivative products or hedges to manage foreign currency risks.

Credit Risk

Credit risk arises from the possibility that the entities to which the Company sells products may experience financial difficulties and be unable to fulfill their contractual obligations. The Company actively manages its credit risk by setting credit policies, purchasing credit insurance where possible, and securing personal and third party guarantees where possible.

19. SEGMENTED INFORMATION

Substantially all of the Company's revenues are derived from the sale of the ZENN™. The following table sets out the revenue percentages segregated by market:

	Three Months		Nine Months	
	Ended March 31		Ended June 30	
	2009	2008	2009	2008
	\$	\$	\$	\$
U.S. based revenue	98%	100%	87%	100%
Canadian based revenue	2%	0%	13%	0%
Total revenue	100%	100%	100%	100%

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20. SUBSEQUENT EVENTS

EEStor Equity Investment

On July 2, 2009 the Company completed an additional investment in the common shares of EEStor, Inc. The investment was made pursuant to the Company's rights acquired with its initial investment in EEStor in April 2007. The additional investment was triggered by the permittivity milestone confirmed by the Company on May 21, 2009.

The additional investment of US\$4,999,962 was made at the same price per share as the initial investment. As a result of the two investments, the Company holds a 10.7% interest in the share capital of EEStor, Inc.

Prospectus Offering

On July 14, 2009 the Company completed a best efforts short form prospectus offering of common shares. Pursuant to the offering, the Company issued and sold a total of 2,650,000 common shares, at a price of \$3.50 per share for gross proceeds of \$9,275,000. As part of the agents' compensation, the Company issued 106,000 compensation warrants entitling the holder of each warrant to purchase one common share of the Company at a price of \$3.50. The warrants expire on January 14, 2011 if not exercised by that date.

The Company's estimate of cash costs related to the offering includes the agents' commission at 5.5% of the gross proceeds and additional costs of approximately \$250,000. The total cost of the offering, including \$170,525 of non-cash cost related to the compensation warrants, is expected to be approximately \$930,650.

The Company intends to use its available cash resources, combined with the estimated net proceeds of the Offering, for the following purposes:

- (i) approximately \$580,600 (US\$500,000) for the final EEStor milestone payment under the EEStor Agreement;
- (ii) approximately \$1,000,000 for ZENNergy electric drivetrain engineering and development;
- (iii) approximately \$750,000 for customer and business development for the ZENNergy electric drivetrain;
- (iv) approximately \$500,000 for capital expenditures and other development costs, and
- (v) the balance to fund operations and for general corporate purposes.