



**ZENN Motor Company Inc.
Management's Discussion and Analysis
For the Three and Nine Months Ended
June 30, 2009**

This "Management's Discussion and Analysis" ("MD&A") has been prepared as of August 13, 2009 and should be read in conjunction with the unaudited interim consolidated financial statements of ZENN Motor Company Inc. (the "Company" or "ZMC") for the three and nine months ended June 30, 2009, the audited consolidated financial statements of the Company for the years ended September 30, 2008 and 2007 and the Company's Annual Information Form (AIF) dated January 27, 2009. Other than financial statement data for the years ended September 30, 2008 and 2007 which are audited, all financial analysis, data and information set out in this MD&A are unaudited and expressed in Canadian dollars.

FORWARD-LOOKING STATEMENTS

This MD&A includes forward-looking statements that involve various risks and uncertainties associated with the Company's business and the economic environment in which the business operates. When used herein the words "may", "would", "could", "will", "intend", "plan", "anticipate", "believe", "estimate", "expect" and similar expressions, as they relate to the Company or its management, are intended to identify forward-looking statements. Such statements are subject to known and unknown risks, uncertainties, assumptions and other factors outside of management's control that could cause actual results to differ materially from those expressed in the forward-looking statements. These risks and uncertainties include, but are not restricted to, the Company's limited operating history and history of losses, market acceptance of a new product, the ability of the Company to execute on its marketing plan, reliance on its distributors and host vehicle supplier, the ability of the Company to attract one or more original equipment manufacturers ("OEMs") as customers for its planned ZENNergy drivetrain solution or do so on a timely basis, dependence on the Company's retailer network, economic conditions, changes in government regulation, competition, the Company's ability to attract and retain key employees, the successful commercialization of the power storage technology being developed by EESor, the possibility that claims by EESor regarding the expected benefits of its EESU will not prove to be accurate, the possibility that the Company's equity investment in EESor may decline in value or have no or limited liquidity, the ability of the Company to raise capital or other forms of financing on acceptable terms when needed and potential change in foreign currency rates. See "Risk Factors" and the factors identified under the heading "Risk Factors" in the AIF dated January 27, 2009 incorporated by reference herein. Although the forward-looking statements contained in this MD&A are based upon what management believes to be reasonable assumptions, the Company cannot assure that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of the MD&A and, in the case of any document incorporated by reference herein, as of the dates of such document and, except in accordance with applicable law, the Company undertakes no obligation to publicly revise these forward-looking statements to reflect subsequent events or circumstances.

OVERVIEW OF BUSINESS

ZENN Motor Company Inc. continues to build on the principle and belief that zero emission electric vehicles ("EV") will be the automobiles of the future. Given the numerous financial, environmental and political issues associated with oil consumption, the Company foresees an inevitable shift away from fossil fuels to more sustainable and efficient pure electric drive systems for automotive transportation. The growing media coverage and government attention directly addressing these issues reinforces that the timing is very good for cost effective true zero emission vehicles to be offered to consumers around the world. To further support our views in the shift towards electric vehicles, major automotive



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manufacturers are announcing and promoting on an almost daily basis their current and future pure electric or hybrid electric vehicle programs.

ZENN Motor Company's mission is to be a leader in zero emission transportation solutions through the design, development and marketing of fully electric drivetrain technologies and services. ZMC intends to achieve this goal by leveraging its electric drivetrain expertise and by continuing to establish strategic relationships globally for both production and distribution in order to fully exploit the potential of its rights to the Electrical Energy Storage Unit ("EESU") being developed by EESor, Inc. ("EESor").

The Company's initial EV offering, a low speed electric vehicle called the ZENN™ - an acronym for "Zero Emission No Noise" - has been well received since its launch into the U.S. markets in late 2006. This class of vehicle, often referred as Neighbourhood Electric Vehicles (NEV) or Low Speed Vehicles (LSV), has a regulated top speed of 25 miles/40 km per hour and certain restrictions as to the type and speed limit of roads on which it can travel. For many people, the ZENN™ is the perfect alternative transportation solution for their urban travels and local errands. It also appeals to fleet operators such as security personnel on college campuses, military bases, meter readers, etc.

With the anticipated commercialization of EESor's energy storage technology, the Company will be in an excellent position to increase its offering of integrated systems incorporating high density power storage technologies.

This will be achieved by extending the Company's business model focusing on its core competency in electric drivetrains, its ability to integrate components and systems, and a belief in strategic partnerships for maximum leverage. These principles can be applied to a broad range of EV solutions, from low speed vehicles to highway-capable vehicles, each a variation based upon the common theme of integrating an electric drivetrain into a host vehicle and going to market through the best-available distribution channels.

The Company continues to expand its engineering competency and will continue augmenting its in-house expertise with third-party subject matter specialists as required. Investor interest and support for ZMC have been strong since the Company's initial public funding which has allowed it to raise sufficient capital to effectively pursue its business plan.

HIGHLIGHTS AND SUMMARY

The following outlines the key events during the three months ended June 30, 2009 and up to the date of this MD&A in the development of the Company, the EV market and the ZENN brand:

- During the three months ended June 30, 2009, the automotive industry continued to experience weak demand. North American auto sales were as much as 40% lower than the previous year. With rising unemployment, tight credit, the decline in the price of oil and gasoline, unit sales of ZENNs also continued to be weak.
- Gross revenue in the three and nine months ended June 30, 2009 was \$379,916 and \$1,316,535, respectively, compared to \$977,305 and \$2,618,477, respectively, in the prior year. Net loss in the three and nine month periods was \$2,576,021 or (\$0.08) per share and \$6,335,409 or (\$0.19) per share respectively, compared to losses of \$1,910,304 or (\$0.06) per share and \$5,425,895 or (\$0.18) per share, respectively, in the prior year.
- In April, the Company introduced a marketing program in the U.S. to stimulate sales interest in the ZENN. The Company is offering point-of-sale rebates to end users, which when combined with U.S. Federal tax incentives, allows for a suggested retail price point of US\$9,995. The launching of this program garnered the Company considerable press coverage and early indications are that it is generating the interest intended to move units.



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- On May 21, 2009, the Company confirmed the third-party verification of the permittivity results announced by EESor on April 22, 2009. The proof of permittivity is another positive step toward the development of a functioning capacitor-based energy storage unit suitable for, among other things, the energy requirements of electric vehicles. Confirmation of the announcement triggered a milestone payment of US\$700,000 pursuant to the Technology Agreement between the Company and EESor as well as the Company's option to acquire additional common shares of EESor. (see "*EESor Permittivity Announcement*")
- The Canadian dollar continued to strengthen relative to the US dollar. As a result, at June 30, 2009 the Company has written down the value of its inventory by \$390,972 to reflect net realizable value on anticipated sales into US markets.
- The Company continued to work through the technical details of a supply agreement for a 4-seater ZENN LSV and the cityZENN. In the interim, the Company continued to work on the ZENNergy drivetrain, a higher voltage powertrain for automotive applications designed to be powered by the EESor EESUU. The ZENNergy drivetrain is the core powertrain for the cityZENN project and a lower voltage version is intended to be the solution for LSV and lower speed applications.
- The Company participated in a number of high-profile industry and investor events during the period, including the Fortune Magazine "Brainstorm Green" conference in California, the Toronto Stock Exchange Clean Tech conference in Toronto and the keynote presentation at the 2009 Yale University Entrepreneurial Society conference. The Company was also the recipient of the prestigious 2009 Arthur Kroeger Award for excellence in Public Relations.
- The Company continued to receive significant coverage in the media, including profiles on the Business News Network and the FOX Business Network, and extensive print and electronic media coverage as well. The details of this coverage are available on our website at www.ZENNCars.com.
- On July 14, 2009 the Company completed a best efforts short form prospectus offering of common shares. The Company issued and sold 2,650,000 shares at a price of \$3.50 per share for gross proceeds of \$9,275,000. (see "*Subsequent Events – Prospectus Offering of Common Shares*")

EESOR PERMITTIVITY ANNOUNCEMENT

On May 21, 2009 the Company confirmed the permittivity results of the chemicals to be used in EESor's Electrical Energy Storage Units (EESU). The permittivity results were publicly announced by EESor in a press release dated April 22, 2009 and subsequently updated with additional details in a press release on April 29, 2009.

The verification process followed by the Company was in compliance with its Technology Agreement with EESor. The Company contracted with Professional Testing (EMI), Inc. (PTI) located in Round Rock, Texas to verify calibration and suitability of the test equipment to accurately measure capacitance over a defined temperature range in order to determine permittivity. The permittivity re-testing was conducted on hot-pressed dielectric layers provided by EESor and certified by them to have been made of materials produced on their production line. Dr. Edward D. Golla, a PhD in analytical chemistry, was independently contracted by ZMC and re-performed the testing of the dielectric layers. The calibration procedure was performed by PTI before and after Dr. Golla performed the retesting on ZMC's behalf.

EESor disclosed that it had exceeded the key Technology Agreement milestone of permittivity levels for its Composition Modified Barium Titanate powders (CMBT), the main material in their ultracapacitor



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energy storage technology. The tests undertaken by the Company as outlined above confirmed the attainment of a relative permittivity of at least 22,500 over an operating temperature range of -20 to +65 degrees centigrade.

EEStor Technology Agreement Milestone Payment

Verification of the permittivity test results triggered a milestone payment pursuant to the Technology Agreement between the two companies. The permittivity milestone payment of US\$700,000 was made prior to June 30, 2009 and the disbursement is reflected in the cash flow and investments for the quarter.

Additional Equity Investment in EEStor, Inc.

On April 30, 2007, the Company completed an investment in the common shares of EEStor. The Company acquired a 3.8% equity interest for a cash investment of US\$2,500,000 plus expenses incurred in connection with the purchase. The terms of the investment provided the Company with a right, exercisable at its sole discretion, to invest at the same price per share for an additional amount of up to US\$5,000,000 within 30 business days of EEStor announcing its permittivity test results meeting the predetermined parameters and verified by an independent third-party.

Confirmation of the permittivity results triggered the Company's option to acquire additional shares in EEStor and on July 2, 2009 the Company made an additional investment of US\$4,999,962 in the common share of EEStor. As a result of the investment, ZMC, through its wholly owned subsidiary ZENN Capital Inc., holds an approximately 10.7% equity interest in EEStor.

EEStor, Inc. is a privately held company. As such, there is no ready market for this investment and liquidity, if required, cannot be assured.



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DISCUSSION OF OPERATING RESULTS

The following table summarizes the Company's operating results for the three and nine months ended June 30, 2009 and 2008.

	Three Months ended June 30		Nine Months ended June 30	
	2009	2008	2009	2008
	\$	\$	\$	\$
Gross revenue	379,916	977,305	1,316,535	2,618,477
Provision for rebates	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	4,840	29,221	(105,418)	103,099
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	1,255,060	1,145,950	3,678,917	3,427,189
Inventory write-down	390,972	-	390,972	59,367
Foreign exchange (gain) loss	6,759	12,279	10,955	(15,943)
Amortization	44,383	39,331	133,430	106,204
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)
Loss per share	(0.08)	(0.06)	(0.19)	(0.18)

Revenue

In the three and nine months ended June 30, 2009, the Company recorded gross revenue of \$379,916 and \$1,316,535, respectively (2008 - \$977,305 and \$2,618,477, respectively). The Company sold 19 ZENN LSVs in the quarter, a marginal increase from the previous quarter and a decline from 67 in the same quarter of 2008.

Revenue in the three and nine months ended June 30, 2009 are a reflection of the weak economic environment in North America and the world at large. Sales of automobiles in the US began a precipitous decline in September/October 2008 and the slowdown continues. April 2009 auto industry statistics indicate auto sales are still down on average between 25% and 45% from April 2008, depending on the make and model of the vehicle.

Buyer motivations in the LSV consumer market can be characterized as a discretionary spend, driven by high oil prices and/or an environmental awareness and concern. The current North American environment however is characterized by relatively low oil prices, limited consumer credit and confidence, reduced discretionary spending and low prices for conventional automobiles that provide full automotive functionality and are relatively fuel efficient. As a result, sales of LSVs to this market have declined. To the credit of the new U.S. Administration, environmental awareness has been given prominent status in economic recovery programs. The U.S. Federal Government has, among other



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"green" actions, provided a tax credit of up to US\$3,500 to buyers of electric LSVs. A number of individual states are also providing incentives in various forms and amounts.

In April 2009, the Company launched an incentive program in the form of end-user rebates which, when coupled with the US federal tax credits, effectively lowered the net retail price of a ZENN to around US\$9,995. The market has reacted well to the price point but it is sustainable only because of government subsidization.

Buyer motivation in the LSV commercial market is substantially driven by government initiated environmental programs and incentives. The Company believes this market will be more active in the near term than the consumer market and has increased its initiatives related to selling through the U.S. GSA Program, and by virtue of being listed on the California and Florida State Bidders' lists.

Cost of Sales

Cost of sales in the three and nine months ended June 30, 2009, were \$295,427 and \$1,175,882, respectively (2008 - \$933,104 and \$2,200,804, respectively). The 2009 year to date amount includes an additional charge of \$136,546, recorded in the first quarter to reflect an adjustment to estimated warranty liability.

Cost of sales includes the following cost components:

- The landed cost of the materials and parts sold;
- Allocation of direct labour and overhead based on standard costs; and
- A reserve for estimated future warranty claims.

Because of the decline in sales and the order lead time to procure the major inventory components, the Company, in the short term, is protected from any major impact on product cost due to foreign exchange fluctuations. The Company is exposed to foreign exchange changes on the selling side of its business as a stronger Canadian dollar results in a negative impact on the translation of U.S. dollar sales. Because of the run-up in the value of the Canadian dollar relative to the US dollar subsequent to the quarter end, the Company has taken a charge to write down inventory by \$390,972. (see section "*Inventory Write-Down*"). The write-down is intended to provide for positive gross profit in future periods but gross profit is still at risk in the event of an even stronger dollar.

Marketing and Promotion

Marketing and promotion activities focus on promotion of the ZENN brand, product management, the creation of sales support materials and programs and management of the retailer network. The Company also uses a co-operative marketing program, in partnership with Retailers, as a key method to advertise and promote the ZENN brand in its target geographic markets. This program offers the best way of connecting with ZENN's target demographic by providing Retailers a shared participation in eligible promotional activities and advertising campaigns. Management's belief is that greater leverage can be obtained by ZMC with limited resources through financially committed Retailers who bring a strong understanding of the local marketplace.

At the beginning of April the Company launched an aggressive retail campaign to re-engage the buyers of ZENNs in the U.S. In order to cut through the clutter of the "fire sale" images prevalent in the automobile market, the Company needed to make a strong statement that would drive interest back to LSVs and address the changing values of our vehicle in an environment of record lower gas and vehicle prices. The Company introduced its "\$9,995 Program" which is achieved through a combination of the U.S. federal tax credit and rebates from both the retailer and ZMC. The initial feedback indicates the new price point is very effective in driving interest in LSVs and the ZENN with



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numerous "electric vehicle" related websites as well as other mainstream media picking up the press release related to the program. Since the launch of the program, the Company has seen a significant increase in web and retailer showroom traffic.

Part of the "\$9,995 Program" involves end-buyer rebates that will be reimbursed by the Company to the retailer. As noted earlier, to account for the potential rebate liability of this program on retailers' already purchased inventory, the Company recorded an additional provision for rebates of \$97,608 in the prior quarter. To help launch the program, the Company is also providing extra co-operative advertising support to Retailers in their local markets. The "\$9,995 Program" is specific to the US market. Incentive programs are also targeted in the Quebec market where the provincial government offers personal tax credits for zero emission vehicles. The Company also has responded to the challenging retail market by increasing its focus on U.S. sales to federal, state and municipal agencies. The Company believes there will be growth in the LSV commercial and fleet business over the next 24 months driven by federally supported programs and mandates. In April, the Company participated at the Alternative Fuel Vehicle Institutes Conference in Orlando as well as a number of events in Washington, DC to further develop its position as a GSA- registered provider of LSVs.

The Company continues to focus its Retailer efforts on key U.S. markets and to evaluate its Retailer network accordingly. Furthermore, with the economic downturn, a number of marginal Retailers have exited the business. As of the date of this MD&A, the Company has 24 retailers in the US.

Engineering and Development

Engineering and development includes all costs related to ongoing product engineering, support and technical services and warranty claim management. Costs related to new product development are deferred if they meet the criteria set out in the CICA Handbook Section 3064.

In the three and nine months ended June 30, 2009, the Company incurred gross costs related to ongoing engineering and support activities of \$467,942 and \$1,203,645, respectively (2008 - \$278,537 and \$658,809, respectively). The increase in costs year over year reflects the increased number of engineering staff, facilities costs and a significant increase in contracted services and materials related to the development of ZENNergy drivetrains for the cityZENN, conversion/retrofits and a next generation LSV.

In the three and nine months ended June 30, 2009, the Company deferred \$nil and \$250,093, respectively (2008 - \$123,336 and \$169,915, respectively) in costs related to new product development. The projects where expenses have been deferred relate to the development of the cityZENN, ZMC 4-seater LSV and the ZENNergy drivetrain. In the three months ended June 30, 2009, the Engineering group re-evaluated a number of Lithium based power-packs for inclusion in its solutions. As a result of these efforts, the Company does not see Lithium as an economically viable power source for its offerings, particularly with the progressed state of development of the EESU as indicated by EESor. The new research into Lithium packs, and other research activities in the period do not qualify under CICA Section 3064 for deferral and the Company expense all engineering efforts for the period.



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The following table summarizes the Engineering and supports services costs for the periods indicated:

	Three Months ended June 30		Nine Months ended June 30	
	2009 \$	2008 \$	2009 \$	2008 \$
Salaries and benefits	235,426	162,310	662,813	449,197
Engineering services and materials	152,477	65,291	304,347	113,575
Service and support costs	18,504	29,914	23,977	33,300
Other costs	61,535	21,022	212,508	62,737
Gross expenses	467,942	278,537	1,203,645	658,809
Expenses deferred as development costs				
Salaries and benefits	nil	(52,418)	(138,697)	(79,618)
Engineering services and materials	nil	(70,917)	(111,396)	(90,297)
Total	467,942	155,202	953,552	488,894

General and Administrative

General and Administrative is a broad grouping of costs not captured elsewhere including, salaries and benefits, rent, telecommunications, insurance, corporate compliance for a number of departments including Executive, Finance, Investor Relations, Public Relations, and Administration. The broad category also includes non-cash compensation costs related to options and the unallocated production costs of the Saint Jerome facility.

For the three and nine months ended June 30, 2009, the Company recorded the cost of stock options in the amounts of \$255,654 and \$776,284, respectively (2008 – \$211,748 and \$573,943, respectively). While there is no cash associated with the options, their value, determined using the Black-Scholes model, is recorded as an expense in the period.

Production expenses have been allocated to both inventory and costs of sales for direct labour and overhead based on predetermined standards. Labour costs are allocated based on standard production rates and the standard cost per direct labour hour. Overhead is allocated based on standard costs and the practical production capacity of the facility. Since the facility is not operating at full production capacity, there are costs that remain unallocated in this category. In the three and nine months ended June 30, 2009, the Company's labour and production facility costs not allocated to inventory and cost of sales remaining in this category amounted to \$245,704 and \$748,861, respectively (2008 – \$277,575 and \$937,509, respectively). The decrease reflects the cost containment efforts of the production management team.



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The following table summarizes the General and Administrative costs for the periods indicated:

	Three Months ended June 30		Nine Months ended June 30	
	2009 \$	2008 \$	2009 \$	2008 \$
Salaries and benefits	469,878	466,090	1,437,940	1,432,868
Non-cash compensation	255,654	211,748	776,284	573,943
Insurance	101,001	95,640	297,959	280,798
Legal, audit, regulatory	77,813	65,455	263,825	204,750
Occupancy costs	103,498	95,183	297,674	284,741
Other costs	247,218	211,834	605,235	650,089
Total	1,255,062	1,145,950	3,678,917	3,427,189

Inventory Write-down

In the three and nine months ended June 30, 2009 the Company has taken a charge against operations of \$390,972 and \$390,972 (2008 \$nil and \$59,367 respectively) to adjust the carrying value of its inventory. The primary cause for the adjustment is to reflect the strengthening of the Canadian dollar relative to the US dollar in the period subsequent to the quarter end.

At June 30, 2009 a US dollar of sales resulted in \$1.163 of Canadian dollar revenue. By July 31, 2009, the Canadian dollar had strengthened by 7.4% resulting in a US dollar of revenue yielding \$1.077 Canadian. The US dollar/Canadian dollar exchange rate has displayed considerable volatility in the past year and the Company has taken the charge to protect future gross margins.

QUARTERLY FINANCIAL INFORMATION

The following table sets out the quarterly results for the past eight quarters:

Three months ended	Gross Revenue ⁽¹⁾ \$	Expenses ⁽²⁾ \$	Loss in period \$	Loss per share \$
Sept. 30, 2007	678,749 ⁽³⁾	2,438,027	(2,661,496)	(0.09)
Dec. 31, 2007	900,424 ⁽⁴⁾	1,776,496	(1,677,662)	(0.06)
Mar. 31, 2008	740,748 ⁽⁵⁾	1,916,429	(1,837,940)	(0.06)
June 30, 2008	977,305 ⁽⁶⁾	1,998,069	(1,910,304)	(0.06)
Sept. 30, 2008	915,003 ⁽⁷⁾	2,310,328	(2,312,728)	(0.07)
Dec. 31, 2008	545,392 ⁽⁸⁾	1,795,378	(1,786,373)	(0.05)
Mar. 31, 2009	391,227 ⁽⁹⁾	2,021,047	(1,973,015)	(0.06)
June 30, 2009	379,916 ⁽¹⁰⁾	2,620,707	(2,576,021)	(0.08)

Notes:

(1) Interest income is not shown in this table.



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- (2) Expenses are operating expenses and do not include cost of sales.
- (3) Before a provision of \$300,000 for potential future rebate claims on sales made in year.
- (4) Before a provision of \$205,568 for potential rebate claims on sales in the quarter.
- (5) Before a provision of \$94,026 for potential rebate claims on sales in the quarter.
- (6) Before a provision of \$14,980 for potential rebate claims on sales in the quarter.
- (7) Before a provision of \$175,000 for potential rebate claims on sales in the quarter.
- (8) Before a provision of \$51,156 for potential rebate claims on sales in the quarter.
- (9) Before a provision of \$115,266 for potential rebates on a marketing program introduced in the quarter
- (10) Before a provision of \$79,649 for potential rebate claims on sales in the quarter.

In the three months ended September 30, 2007, the Company sold 47 ZENN units. The Company launched a marketing effort called the Ambassador Program. The objective of the Ambassador Program was to seed vehicles into the market by providing a point-of-sale rebate to end-user customers and allowing the retailer to claim a rebate of up to US\$3,000 from the Company for those units sold under the Ambassador Program. In anticipation of future rebates against units already sold to Retailers, the Company recorded a provision of \$300,000 as a reduction of revenue in the quarter. The Company also recorded a provision against inventory at September 30, 2007 of \$339,000 to reflect the net realizable value of inventory on hand expected to be sold under the Program in subsequent periods. The Ambassador Program was introduced at the end of the quarter on September 21, 2007 and consequently had little effect on sales in the period. It was substantially completed by March 31, 2008.

In the three months ended December 31, 2007, the Company booked orders for 83 units and sold 69 for revenue recognition purposes. The Company recorded a provision of \$205,560 under the Ambassador Program in anticipation of future rebate claims against the vehicles sold in the period. Unit sales are recorded at full value and a provision is made for the anticipated rebate claim as a reduction in revenue and a liability is set up pending the actual claim.

In the three months ended March 31, 2008, the Company booked orders for 65 units and shipped 54 for revenue recognition purposes. The Company began shipping the alternating current (AC) powertrain and air conditioning as an option for the 2007 ZENN. The 2008 ZENN was introduced toward the end of the quarter. Additional units of the 2007 ZENN were sold under the Ambassador Program and the Company recorded a provision for rebates of \$94,026.

In the three months ended June 30, 2008, the Company booked orders for 64 units and shipped 67 for revenue recognition purposes. With the availability of the air conditioning system, the Company has a more appealing offering in the southern US markets where California and Florida represented 38% and 22%, respectively, of the orders in the period. Also in the quarter, the Company increased its development activities on new products. In the three months ended June 30, 2008, the Company deferred development charges in the amount of \$123,336 relating to new product development.

In the three months ended September 30, 2008 the Company was able to ship 56 ZENNs until supplier issues resulted in a lack of drivetrain components. At the time of the supply interruption, the Company had over 50 orders in hand. In the quarter, the Company assessed the market conditions and readied plans for financial incentives to move retailer ground stock and wholesale orders. As a result of these plans, the Company recorded a provision for future rebates of \$175,000, reduced the carrying value of inventory by \$193,750 and recorded a contingent expense on outstanding purchase commitments of \$176,053 to adjust for an anticipated reduction in the net realizable value of inventory because of planned programs.

In the three months ended December 31, 2008, the Company was limited in its ability to ship for 12 weeks due to supply chain interruptions and shipped 24 units. The Company found an alternative



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supplier and carried out the necessary reengineering to incorporate parts from the alternative supplier into the ZENN. During the period when the Company was not able to ship new vehicles, the global economy accelerated its decline as evidenced by available credit and a precipitous decline in auto sales.

In the three months ended March 31, 2009, the Company's sales continue to be negatively affected by a number of economic conditions in its markets including restrictive credit, low consumer confidence hampering discretionary spending and low gas prices at the pump. In the three month period, the Company shipped 16 units compared with 54 in the corresponding quarter of the prior year. The Company recorded its first sales in Quebec.

In the three months ended June 30, 2009, the Company's sales again reflect the economic environment of its markets. The Company sold 19 ZENN compared with 67 in the corresponding period of the prior year. Marketing and sales efforts are being focused on commercial and fleet applications where demand is supported by governmental mandates for no and low emission vehicles.

ANALYSIS OF USE OF FUNDS

On February 15, 2007, the Company completed a prospectus offering of common shares raising gross proceeds of \$10,000,000. In the prospectus, the Company indicated that US\$1,750,000 would be used for milestone payments related to its EESor technology rights. As of June 30, 2009, a total of US\$1,250,000 of the funds raised has been used as payment pursuant to the technology rights and US\$500,000 remained outstanding. The final US\$500,000 milestone payment would be required on the delivery of a production quality EESU by EESor.

On May 30, 2008, the Company completed a prospectus offering of common shares raising gross proceeds of \$15,225,000. In the prospectus, the Company indicated that the net proceeds of the offering would be used to fund working capital and for general corporate purposes.

LIQUIDITY AND CAPITAL RESOURCES

In the three months ended June 30, 2009 and up to the date of this MD&A, the Company continues to incur losses and is drawing on its cash resources as it develops the business.

The Company's financial liquidity is currently supported by cash, cash equivalents and short term investments. The Company is in the developmental stage and is not cash flow positive. The Company's ongoing ability to remain liquid will depend on a number of factors including, timing and volume of sales, future profit margins, investments in non-cash working capital and its ability to raise capital to fund the development of the business (see "Risks and Uncertainties").

The Company's total cash, cash equivalents and short term investments at June 30, 2009 were \$8.6 million. The balance reflects the Technology Agreement milestone payment of US\$700,000 having been paid. A proforma cash balance at June 30, 2009 reflecting the additional investment in EESor and the estimated net cash proceeds of the prospectus offering would be approximately \$11.3 million. Although the cash burn has not changed significantly year over year, changes to the nature of the business operations could materially alter the monthly rate of cash consumption.

Cash resources are invested in accordance with an investment policy approved by the Board of Directors. In addition to stipulating the type of instrument, the policy also stipulates that short-term investments must be fully liquid.



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While the Company has adequate cash resources on hand, the realization of accounts receivable and the realization of inventory are considered by management to be at greater risk because of the recent general economic downturn and the risk specifically associated with the automotive sector. The Company has a program whereby it provides "floor-plan" financing to qualified Retailers for between 60% and 75% of the retailer cost of the ZENN, for a period of up to 90 days. This program has been invaluable in that it allows Retailers to show more vehicles for their invested working capital and provides the Company with a fair return on the interest it charges to carry the receivable. A significant proportion of the amounts receivable from Retailers is protected through export development insurance and personal guarantees. The Company continually re-examines the levels of credit it extends to its qualified Retailers and is closely monitoring payment patterns to mitigate the risk of bad debts.

The economic problems that have affected the sale of traditional automobiles in the Company's primary markets continue to have a similar effect on the LSV market. Because of lead-time requirements for purchase commitments, the Company's inventory level increased through the first quarter of fiscal 2009. The Company considers the inventory saleable but the time to convert to cash may be extended as a result.

Capital Commitments

Except as noted below, the Company does not have any material commitments against its capital resources as at June 30, 2009 or the date of this MD&A.

- The Company has a commitment with respect to its investment in its EESor technology rights whereby payment is contingent on EESor achieving specific milestones. As at June 30, 2009 there remained one milestone payment under the EESor Technology Agreement in the amount of US\$500,000 and would become due within 15 business days of delivery by EESor of a production quality EESU meeting defined specifications.
- The Company has operating lease commitments as follow:

Fiscal 2009	\$ 385,503
Fiscal 2010	\$ 391,667
Fiscal 2011	\$ 142,720
Fiscal 2012	\$ 38,800
- The Company has a minimum annual purchase requirement under its agreement with Microcar in order to retain certain rights. In January 2009, the Company and Microcar revised the minimum purchase requirement for 2009 and 2010 to reflect approximately \$800,000 in purchases in each of the two years.

OFF BALANCE SHEET ARRANGEMENTS

The Company has not entered into any off balance sheet transactions.

RELATED PARTY TRANSACTIONS

During the three and nine months ended June 30, 2009 and up to the date of this MD&A, the Company did not engage in any related party transactions.



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CRITICAL ACCOUNTING ESTIMATES AND POLICIES

The Company's financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Management has made certain estimates and assumptions that affect the reported amount of assets and liabilities. The most significant assumptions made by management in the preparation of these financial statements relate to the valuation of inventory, warranty reserves, fixed assets and the fair value of stock based payments.

The consolidated financial statements of the Company include the statements of the Company and its wholly-owned subsidiaries ZENN Motor Company Limited, ZENN Vehicules Electriques Inc., ZENN Capital Inc., ZENNergy Inc., 2186025 Ontario Inc. and ZMC America, Inc.

Inventory is valued at the lower of cost and net realizable value. Cost is 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 at standard cost for work in progress and finished goods.

Reserves for future warranty costs are assessed on a regular basis against current experience and future assumptions and adjusted through cost of sales as required.

Amortization of investments in property, plant and equipment is calculated at various rates intended to reflect the useful life of the asset.

The fair value of stock based compensation and payments is calculated using the Black Scholes option pricing model. For stock based payments that vest on a calendar or periodic basis, such as director or management options, the Company accrues the fair value cost during the vesting period. The Company charges the fair value of all other stock based payments at the time of vesting.

CHANGES IN ACCOUNTING POLICIES

Going Concern

Effective October 1, 2008, the Company has adopted the modified Section 1400 of the CICA handbook "General Standards of Financial Statement Presentation" which requires management to 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. This new requirement only addresses disclosure and does not have an impact on the Company's financial results.

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 year ends beginning on or after January 1, 2011.

Under the transition rules, the Company's first year reporting under IFRS will be its fiscal year beginning October 1, 2011 and ending September 30, 2012. As the Company reports its interim results beginning with the quarter ended December 31, 2011 (its first quarter under IFRS) it will be required to restate under IFRS, the comparative information for the quarter ended December 31, 2010, which will have been previously reported under Canadian GAAP.

The Company has initiated an internal project to assess the implications of moving to IFRS including choice of accounting policies, how they might be applied, and information systems to support IFRS and internal controls.



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RISKS AND UNCERTAINTIES

An investment in the Company should be considered highly speculative due to the nature of the Company's activities and its current stage of development. These risk factors could materially affect the Company's future operating results and could cause actual events to differ materially from those described in forward-looking statements contained herein relating to the Company.

This section should be read in conjunction with and is qualified by the "Risk Factors" section of the Company's Annual Information Form ("AIF") dated January 27, 2009 available on SEDAR at www.sedar.com, which is hereby incorporated by reference herein. Some of these risks are highlighted below:

History of Losses

The Company has a limited history of sales and has generated losses from operations to date. The Company expects to continue to incur significant expenditures for general administrative activities, including sales and marketing and research and development activities. As a result of these costs, the Company needs to generate and sustain significantly higher sales and gross margins to achieve and sustain profitability. There can be no assurance that implementation of the Company's operational strategies will result in the Company becoming profitable.

EEStor Technology

The Company's rights to the power storage technology being developed by EEStor are subject to the Company making additional payments to EEStor on its achievement of certain technical milestones. Any failure of the Company to make the milestone payments or to do so by the deadline dates required could result in the termination of the Company's rights and could have a material adverse effect on the Company's business, results of operations, cash flow, financial condition and prospects.

The EEStor energy storage technology, to which the Company has certain rights, is still under development and may not be successfully commercialized at all, in a manner providing the features and benefits claimed by EEStor while under development, or on a timely basis. Furthermore, the Company may not be able to successfully incorporate this technology into its current or proposed products. There can be no assurance that any statements, including claims made by EEStor regarding the expected benefits of its EESU, will prove to be accurate. Actual results and future events could differ materially from those anticipated or implied in such statements.

Economic Conditions

Along with other automotive companies, the Company has been and will continue to be impacted by the onset of a global recession in the fourth quarter of 2008, which severely impacted consumer confidence. With higher unemployment and worsening consumer sentiment, it is likely that available discretionary income will decline and reduce consumer spending at the retail level. It cannot be predicted whether or when economic conditions will change and many economists predict that the recession will be prolonged and that conditions may deteriorate further before there is any improvement.

Continuing weak economic conditions in the markets in which the Company operates as a result of the current global economic crisis, lower consumer spending, lower consumer confidence, higher inflation or even deflation, political conditions, unemployment, declines in stock markets, labor strikes or other



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factors affecting economic conditions generally, could negatively impact the Company's sales in 2009, or beyond. In addition, current and future conditions in the economy have an inherent degree of uncertainty. As a result, it is difficult to estimate the level of growth or contraction for the economy as a whole. It is even more difficult to estimate growth or contraction in various parts, sectors and regions of the economy. Prevailing economic uncertainties render estimate of future income and expenditures very difficult to make. Adverse general economic conditions may negatively affect the sales of the Company's products, increase exposure to losses from bad debts, increase the cost and decrease the availability of financing, increase the risk of loss on investments, or increase costs associated with manufacturing and distributing products.

4-Seater ZENN and cityZENN Negotiations

The Company is currently engaged in negotiating a supply agreement for the 4-seater ZENN and cityZENN projects. While there has been substantial progress and management is confident of a positive outcome, there can be no assurance that the negotiations will conclude favorably until all definitive documentation is executed. Should the current negotiations not conclude favourably, the timing of the 4-Seater ZENN and cityZENN projects could be materially delayed which could have a material adverse effect on the Company's business, results of operations, cash flow, financial condition and prospects.

ZENNergy Drivetrain and cityZENN Development Programs

The Company is investing in the development of highway capable EV technologies including the ZENNergy drivetrain and the cityZENN projects. Technical, financial, operational or other factors may interfere with the Company's ability to successfully complete these projects or incorporate the technologies into marketable products which could have a material adverse effect on the Company's business, results of operations, cash flow, financial condition and prospects.

The Company's business and financial plan relies heavily on the introduction of new products that have limited testing in the marketplace. There can be no assurance that the products will be accepted in the market or that sales projections will be achieved. Consumer acceptance of the Company's products will depend upon several factors, including demonstrating the establishment of these products to consumers, developing and introducing new products and continuing to address market needs as competitors introduce new products. The Company may be required to engage in extensive advertising, educational programs or other means to market its products. Failure of the Company's products to achieve market acceptance would have a material adverse effect on the Company's business, results of operations, cash flow, financial condition and prospects.

EESstor Equity Investment

EESstor, Inc. is a private corporation. There is no ready market to determine the value of its shares or to provide liquidity. There can be no assurance that the EESstor shares will not decrease in value below the amount paid by the Company or that the Company will be able to sell part or all of its investment, should it desire to do so. EESstor may at any time, secure additional financing from other sources diluting the Company's equity interest.

Maintenance of Rights under Microcar Supply Agreement

Pursuant to the terms of the July 2005 supply agreement for host vehicles entered into with Microcar SAS (Microcar), the Company has specified annual minimum purchase requirements (MPR) in order to maintain the supply agreement in good standing. In January 2009, Microcar and the Company



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agreed to an amendment to the supply agreement whereby the Company would give up territorial exclusivity with the Microcar platform in exchange for a reduction in the MPR to 100 units per annum.

Termination of the supply agreement, for any reason, or the interruption or delay in the supply of host vehicles to the Company could have a material adverse effect on the Company's business, results of operations, cash flow, financial condition and prospects.

Exchange Rate Fluctuations

The Company transacts substantially all of its sales in US dollars and purchases production inventory in Euros, US dollars and Canadian dollars. The Company does not currently have any hedging programs in place to manage the potential exposure to fluctuations in the Euro/US/Canadian dollar exchange rates.

SUBSEQUENT EVENTS

Additional investment in EESstor Common Shares

As noted in the section "*EESstor Permittivity Announcement*", on July 2, 2009 the Company, through its wholly owned subsidiary ZENN Capital Inc. exercised its maximum additional investment option acquired in connection with its initial investment in April 2007. The Company invested an additional US\$4,999,962 to increase its equity interest in EESstor, Inc. to 10.7%.

Management of the Company believes the investment provides the shareholders of ZENN Motor Company Inc. a passive opportunity to participate in opportunities that the EESstor technology represents, beyond those of the automotive section.

Prospectus Offering of Common Shares

In June, the Company approached the equity markets to raise capital for the EESstor investment and future operations. The equity markets continue to reflect the general state of the economy and have a reduced appetite for early stage investments compared to a year ago. On July 14, 2009, the Company completed a best efforts short form prospectus offering of common shares. The Company issued a total of 2,650,000 common shares at a price of \$3.50 per share for gross proceeds of \$9,275,000.

The compensation to its agents for this transaction was a cash commission of \$510,125 and compensation warrants for the purchase of 106,000 common shares at \$3.50 per share. The compensation warrants which have a term of 18 months from the date of closing, expire on January 14, 2011. Using the Black-Sholes model, the non-cash cost of the compensation warrants was calculated to be \$170,525. The non-cash cost of the warrants has been included in Warrant Capital and is a share issuance cost in determining net proceeds.

In addition to the agents' commission, the Company incurred estimated additional cash costs in the amount of \$250,000 primarily for legal, accounting, filing fees, printing and travel. The total cost of the offering, including non-cash costs is estimated to be \$930,650 for net proceeds of \$8,344,350.

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 EESstor milestone payment under the EESstor Agreement;
- (ii) approximately \$1,000,000 for ZENNergy electric drivetrain engineering and development;



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- (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.

ADDITIONAL DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE

As of June 30, 2009 the Company had total deferred development costs in the amount of \$639,300. The Company did not defer development costs in the three months ended June 30, 2009 as noted in the Engineering section.

Expense details for administrative and engineering expenses are set out in their respective sections.

OUTSTANDING SHARES

The following table outlines all outstanding voting or equity securities of the Company and all other securities of the Company which are convertible into, or exercisable or exchangeable for, voting or equity securities as of August 13, 2009:

Designation of Security	Expiry	Exercise Price	Number or Principal Amount Outstanding	Maximum Number of Common Shares Issuable on Exercise or Conversion
Common Shares	N/A	N/A	37,015,238	N/A
Options	January 18, 2010 to November 17, 2013	\$0.45 to \$5.03 ⁽¹⁾	2,449,563	2,449,563
Agent Compensation Warrants	November 30, 2009 January 14, 2011	\$3.75 \$3.50	80,511 106,000	80,511 106,000
TOTAL (maximum number of common shares, fully-diluted)				39,651,312

⁽¹⁾ The weighted average exercise price is \$2.61.

The terms of the options and warrants are described in the notes to the September 30, 2008 audited consolidated financial statements of the Company except for the 106,000 agent compensation warrants issued in conjunction with the prospectus offering which closed July 14, 2009 which are described in the section "*Liquidity and Capital Resources*".

ADDITIONAL INFORMATION

Additional information relating to the Company, including the Company's Annual Information Form dated January 27, 2009, can be found on SEDAR at www.sedar.com.