ZENN MOTOR COMPANY INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE MONTHS AND YEAR

ENDED SEPTEMBER 30, 2009

This "Management's Discussion and Analysis" ("MD&A") has been prepared as of January 28, 2010 and should be read in conjunction with the audited consolidated financial statements of ZENN Motor Company Inc. (the "Company" or "ZMC") for the years ended September 30, 2009 and 2008 and the Company's Annual Information Form (AIF) dated January 28, 2010. All financial amounts are expressed in Canadian dollars unless otherwise stated and other than financial statement data for the years ended September 30, 2009 and 2008 which are audited, all financial analysis, data and information set out in this MD&A is unaudited.

FORWARD-LOOKING STATEMENTS

This MD&A includes certain forward-looking statements that are based upon current expectations which involve risks and uncertainties associated with the Company's business and the economic environment in which the business operates. Any statements contained herein that are not statements of historical facts may be deemed to be forward-looking statements, including those identified by the expressions "anticipate", "believe", "plan", "estimate", "expect", "intend" and similar expressions to the extent they relate to the Company or its management. The forward-looking statements are not historical facts, but reflect the Company's current expectations regarding future results or events. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations, including the matters discussed in the section "Risks and Uncertainties" below and the "Risks and Uncertainties" section of the Company's AIF dated January 28, 2010.

Information contained in this MD&A relating to EEStor, Inc. (EEStor) or the energy storage technology being developed by EEStor has not been reviewed by EEStor and EEStor does not assume any responsibility for the accuracy or completeness of such information.

OVERVIEW OF BUSINESS

ZENN Motor Company Inc. continues to be built 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 the more sustainable and efficient electric drive systems for automotive transportation. The growing media coverage directly addressing these issues over the past several years reinforces that the timing couldn't be better for cost effective true zero emission vehicles to be offered to consumers around the world. To further reinforce this shift towards electric vehicles and despite the economic downturn, major automotive manufacturers continue to promote their current and future pure electric or hybrid electric vehicle programs.

The Company's mission is to be the global leader in enabling zero emission transportation solutions. To date, the Company's primary business has been the development, production and distribution of a fully-electric low-speed vehicle (LSV) called the ZENN™ ("ZENN"); assembled using the Microcar MC-2 host vehicle as the platform with a drivetrain system comprised primarily of conventional and generally available electrical components.

The Company also has certain marketing rights, upon payment of predetermined amounts, to an energy storage technology currently under development. If this technology is proven successful, it is expected to reduce the weight factor of energy storage by up to 90% when compared to conventional lead-acid batteries. The energy storage technology is explained in the Company's AIF dated January 28, 2010 in the section entitled "EEStor Technology Agreement". Management believes that this technology, if proven successful, will allow the Company to develop commercially viable technologies and solutions that will enable its customers to offer electric powered vehicles with greater speed and range and at a lower total cost of ownership than is afforded today by conventional battery systems, opening the door to a broader and more rapid acceptance of electric vehicle transportation solutions.

In recent years, the automotive industry has embraced electric vehicles (EVs) with most OEMs having some form of EV offering in their product strategy. Despite the recent economic downturn, their EV strategies have maintained significant momentum. In September 2009, the Company indicated its future business strategy would be in the design and development of ZENNergy™ technologies and solutions and that the previously announced cityZENN™, a highway capable EV, would not be brought to market as a commercial product. Management of the Company believes the economics of partnering with OEMs to be superior to marketing an offering that would compete with the OEMs' strategies.

ZENNergy technologies and solutions are described in the Company's AIF dated January 28, 2010 and such disclosure is incorporated herein by reference. In summary, ZENNergy is a suite of electric vehicle technologies, components and services designed to capitalize on the unique characteristics of EEStor's capacitor-based energy storage technology. Each ZENNergy solution will be specifically engineered to support the electric powertrain strategy of an automotive or speciality vehicle OEM or Tier 1 supplier or in the case of the retrofit strategy, a fleet owner or retrofit upfitting organization. In concert with this strategic focus, in December 2009, the Company announced that 2010 would be the last model year for the ZENN LSV and that it would cease production no later than April 30, 2010.

HIGHLIGHTS AND SUMMARY

The following summarizes the key events during the year ended September 30, 2009 and up to the date of this MD&A in the development of the Company:

- In August 2008, the global credit crisis initiated an unprecedented decline in the automotive industry. At the height of the crisis, auto industry unit sales fell by up to 40% from prior year levels. The impact on the Company's LSV market was equally profound. Key factors driving the acceptance of LSVs were high discretionary income, high price of oil and environmental concerns related to internal combustion engines. The credit crisis saw an erosion of discretionary income, the price of oil drop by half and many auto manufacturers bring smaller, fuel efficient low priced cars to the market. As a result, sales of the ZENN LSV declined from 67 units in the quarter ended June 30, 2008 to 19 in the same quarter of 2009. Sales volumes in later quarters of 2009 increased as a direct result of federal and state tax credits and substantial rebate programs provided by the Company to help retailers achieve a lower price point in their markets.
- In the first half of 2009, the Company continued the development of its next generation vehicles; the cityZENN and a four-passenger LSV. As the year passed however, it became apparent to management that shareholder value would be best served by partnering with OEM and Tier 1 manufacturers and bypass the commercial development of the cityZENN and larger LSV. Despite the economic challenges facing the automotive industry around the world, there remains a strong commitment to the development of electric vehicles in various forms including hybrids, plug-in hybrid electric and in some cases, pure electric vehicles. Management decided that the Company's preferred strategy would be to partner with the major automotive manufacturers as a strategic supplier. In September 2009 the Company announced that it would focus its efforts on the development of the ZENNergy technologies and solutions in anticipation of EEStor's Electrical Energy Storage Unit (EESU) and it would not bring the cityZENN to market as a commercial product.
- On May 21, 2009, the Company confirmed the independent verification of the permittivity results announced by EEStor on April 22, 2009. The confirmation represented a defined milestone as set out in the Technology Agreement between the two companies and triggered a milestone payment of

US$700,000 to EEStor. In addition, the confirmation also allowed the Company to exercise its option to make an additional equity investment in the common shares of EEStor.

- On July 2, 2009, the Company concluded an additional equity investment in EEStor, Inc. pursuant to rights obtained in connection with its 2007 investment in EEStor. The Company invested an additional US$5,000,000 at the same price per share as the previous investment. At the conclusion of the additional investment and currently, the Company holds an approximate 10.7% equity interest in EEStor.
- 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.
- On December 7, 2009, subsequent to the end of the year, the Company elaborated on its strategic direction of focusing on the ZENNergy strategy and announced that it would cease production of the ZENN LSV no later than April 30, 2010. The ZENN LSV was instrumental in developing the Company's brand and awareness and enhancing its competency in electric drivetrain technology. As a result of this announcement, the Company adjusted its inventory to net realizable value by taking a charge against operations in the fourth quarter of $1,033,029.
- Gross revenue in the quarter and for the year ended September 30, 2009 was $653,972 and $1,970,507, respectively compared to the corresponding prior year periods of $915,003 and $3,533,480, respectively. Net loss for the quarter was $3,753,671 or $(0.10) per share compared with a net loss of $2,312,728 or $(0.07) per share in the corresponding prior period. For the year ended September 30, 2009, the net loss was $10,089,127 or $(0.29) per share compared with a net loss of $7,738,623 or $(0.25) in 2008.

ANNOUNCEMENTS ON STRATEGIC DIRECTION

In September and December of 2009, the Company issued statements elaborating on its future direction and business strategy. In September, the Company indicated that its primary market strategy for highway capable and specialty vehicle transportation solutions will be through broad distribution of its ZENNergy™ technologies and solutions, powered by EEStor and integrating third party and proprietary technologies as required to meet the specific requirements of its customers. The previously announced cityZENN highway capable electric vehicle will not be developed into a stand-alone commercially available offering.

In December 2009 the Company elaborated on the development of the ZENNergy strategy by indicating that it would cease production of the ZENN LSV no later than April 2010. The ZENN LSV was integral in the Company further developing its experience with EV technologies. It also helped the Company develop its brand and market awareness.

Management believes however, that these refinements to the Company's business strategy and focus provides for the most efficient allocation of Company resources to maximize future profit potential.

As a result of the Company's decision not to bring the cityZENN to market, the Company's discussions with an OEM which had been referenced in prior MD&A documents will not be taken to the point of a manufacturing or distribution arrangement. The Company established what it believes to be a good working relationship with the OEM and the OEM has expressed interest in the Company's ZENNergy offerings. The Company is still under non-disclosure with respect to the name of the OEM.

Selected Financial Information

The following table sets out selected financial information for the three most recently completed financial years and has been prepared in accordance Canadian generally accepted accounting principles.

(audited)	Years ended September 30		
	2009 $	2008 $	2007 $
Net revenues	**1,395,832**	3,043,906	2,024,462
Gross Loss	**(277,571)**	(28,710)	(277,887)
Net loss in period	**(10,089,127)**	(7,738,623)	(6,976,141)
Loss per share	**(0.29)**	(0.25)	(0.27)
Weighted average number of shares outstanding	**34,662,139**	30,555,711	25,943,379
Total assets on hand	**22,526,106**	22,541,843	13,400,668
Cash, cash equivalents, short term investments	**10,143,540**	14,686,100	6,221,257
Working capital	**9,655,369**	15,068,689	6,944,190
Shareholders' equity	**20,884,649**	20,286,821	11,765,732

The Company has not paid any dividends in the periods covered above and does not foresee paying dividends in the immediate future.

DISCUSSION OF OPERATING RESULTS

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

	Three Months ended Sept. 30 (unaudited)		Year ended Sept. 30 (audited)	
	2009 **$**	2008 $	**2009** **$**	2008 $
Gross revenue	**653,972**	915,003	**1,970,507**	3,533,480
Provision for rebates	**(328,604)**	(175,000)	**(574,675)**	(489,574)
Net revenue	**325,369**	740,003	**1,395,832**	3,043,906
Cost of sales	**497,522**	871,812	**1,673,403**	3,072,616
Gross profit (loss)	**(172,153)**	(131,809)	**(277,571)**	(28,710)
Marketing and promotion	**404,217**	641,837	**1,673,522**	2,267,111
Engineering and development	**987,164**	281,841	**1,940,716**	770,735
General and administrative	**1,123,780**	956,122	**4,802,747**	4,383,311
Inventory write-down	**1,033,029**	275,986	**1,424,001**	335,353
Foreign exchange loss (gain)	**6,817**	(58,121)	**17,771**	(74,064)
Contingent loss on purchase commitment	**-**	176,053	**-**	176,053
Amortization	**42,340**	36,610	**175,770**	142,814
Interest income	**(15,831)**	(129,409)	**(222,971)**	(291,400)
Net loss for the period	**(3,753,671)**	(2,312,728)	**(10,089,127)**	(7,738,623)
Loss per share	**(0.10)**	(0.07)	**(0.29)**	(0.25)

In the three months and year ended September 30, 2009 the Company recorded net revenue of $325,369 and $1,395,832, respectively (2008 – $740,003 and $3,043,906, respectively). The Company sold 35 ZENN LSVs in the three month period and 94 for the fiscal year, compared with 56 and 246, respectively in 2008.

Revenue in fiscal 2009 was 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 2008 prompting stimulus packages from various levels of government and discounted pricing from manufacturers to move inventory. April 2009 auto industry statistics indicate auto sales were down on average between 25% and 45% from 2008 levels, depending on the make and model of the vehicle.

The LSV sector and the Company's sales have reacted in a similar manner. Buyer motivation in the LSV consumer market is driven by several factors, including:

- Discretionary income,
- High oil prices,
- Environmental awareness and concern, and
- Incentives and stimuli which affect the cost of ownership.

The year 2009 can be characterized by relatively low oil prices, limited consumer credit and confidence, reduced discretionary spending and lower prices for fully functional conventional automobiles. In this environment, sales of LSVs to the Company's markets declined.

To the credit of the new U.S. Administration, environmental awareness was given prominent status in economic recovery programs. The U.S. Department of Energy committed billions of dollars in programs to lessen the U.S. dependency on foreign oil and protect the environment. At the consumer level, the U.S. Federal Government introduced in August, 2009 a program to provide tax credits to individuals and tax-paying corporations for the purchase of electric vehicles. The amount of the credit was a function of the amount of on-board energy storage in the vehicle. For purchasers of a ZENN LSV, the credit was worth approximately US$3,492.

The Company launched a number of incentive programs throughout the year including end-user rebates, free delivery to retailers and improved floor plan financing. While the programs generated interest and attention, ZENN sales did not materialize in any significant way and where sales did occur, there were significant financial subsidies from both the Company and various levels of government underwriting the transactions. Further depressing the sales volume was reluctance by retailers to maintain their pre- August 2008 inventory levels. As retailers sold through vehicles, they did not replace inventory but instead only ordered units as they were sold.

Buyer motivation in the LSV commercial market is substantially driven by government initiated environmental requirements, programs and incentives. Non-corporate institutions did not benefit from the federal tax incentives and for the most part, this market was particularly quiet throughout the year.

Cost of Sales

Cost of sales in the three months and year ended September 30, 2009 were $497,522 and $1,673,403, respectively (2008 - $871,812 and $3,072,616, respectively).

Cost of sales includes the following cost components:

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

A net realizable value test is applied to the inventory at each quarter end. The test includes such elements as average carrying value of a completed unit, foreign exchange rates, sales programs and incentives.

Gross Profit (Loss)

The Company recorded a Gross Loss of $172,153 in the quarter and $277,571 for the year.

In fiscal 2009, two factors reduced revenues and increased cost of sales apart from regular sales transactions. In the three months ended September 30, 2009 the Company recorded a provision for additional rebates in the amount of $196,741. The provision represents a reduction in the sales revenue of the Company in the period when the rebate amount is determined. Similarly, the Company conducts a detailed review of its future warranty obligation at the end of each quarter, taking into account current experience and the vehicles still under warranty. At September 30, 2009, the Company's assessment of its future warranty obligations warranted accruing an additional expense of $52,131.

Both the increase in rebate provision and additional warranty provision had an immediate negative impact on the Gross Profit for the period and the year.

Marketing and Promotion

(unaudited)	Three Months ended Sept. 30		Year ended Sept. 30	
	2009 **$**	2008 $	**2009** **$**	2008 $
Salaries and benefits	**185,212**	223,671	**947,684**	1,055,893
Programs and events	**149,779**	341,664	**454,410**	918,585
Trade shows	**3,399**	3,562	**22,270**	26,414
Travel and living	**25,842**	29,261	**147,694**	156,713
General and misc	**39,985**	43,679	**101,464**	109,506
Total	**404,217**	641,837	**1,673,522**	2,267,111

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 co-operative marketing programs as a method to advertise and promote the ZENN brand in its target geographic markets.

In the year ended September 2009, the Company's marketing group initiated a number of incentive programs to stimulate sales to retailers and to end users through the retailer network. The programs' objectives were to achieve a lower price point for the end user and took into account U.S. government incentive programs in determining the level of incentive provided by the Company. The incentives were applied to new sales and retailers' inventory and as a result, the costs are reflected in the additional rebate provisions rather than a program expense. In addition, the strengthening of the Canadian dollar toward the end of the year to C$1.07 for one U.S. dollar resulted in less revenue per U.S. dollar sales.

Engineering and Development

(unaudited)	Three Months ended Sept. 30		Year ended Sept. 30	
	2009 **$**	2008 $	**2009** **$**	2008 $
Salaries and benefits	**227,892**	188,752	**890,704**	637,950
Engineering services	**26,559**	76,519	**201,994**	149,878
Materials	**27,326**	173,311	**180,213**	227,939
Engineering administration	**66,087**	66,976	**278,598**	144,175
Gross expenses	**347,864**	505,558	**1,551,509**	1,159,942
Expenses deferred as development costs				
Salaries and benefits	**(259,260)**	81,947	**(157,503)**	157,503
Engineering services	**(380,040)**	76,519	**(231,704)**	231,704
Materials	**-**	65,251	**-**	-
Total deferred	**(639,300)**	223,717	**(389,207)**	389,207
Net engineering expenses in period	**987,164**	281,841	**1,940,716**	770,735

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 months and year ended September 30, 2009, the Company incurred gross costs related to ongoing engineering and support activities of $347,864 and $1,551,509, respectively. In the fourth quarter, the Company announced that it would not be bringing the cityZENN to market as a commercial product. As such, the deferred development costs associated with this project no longer met the deferral criteria set out in the CICA Handbook Section 3064. The costs that had been deferred - $389,207 at September 30, 2008 increasing to $639,300 by June 30, 2009, were expensed to engineering and are represented in the table above as bracketed amounts.

While the expenses were no longer eligible to be capitalized, the work that went into the cityZENN project provided valuable learning in support of the Company's ZENNergy strategy.

General and Administrative

(unaudited)	Three Months ended Sept. 30		Year ended Sept. 30	
	2009 **$**	2008 $	**2009** **$**	2008 $
Salaries and benefits	**382,212**	384,008	**1,820,153**	1,816,877
Non-cash compensation	**253,123**	164,899	**1,029,407**	738,841
Insurance	**69,119**	33,165	**367,077**	315,821
Legal, audit, regulatory	**71,095**	92,270	**332,830**	297,020
Occupancy costs	**111,561**	87,047	**409,234**	371,788
Other costs	**236,670**	194,733	**844,046**	842,964
Total	**1,123,780**	956,122	**4,802,747**	4,383,311

General and Administrative includes a broad range of costs including, salaries and benefits, travel and department specific costs for a number of functional areas including Executive, Finance, Investor Relations, Public Relations, and Administration. This group of expenses also includes rent, voice and data services, insurance and corporate compliance costs. The broad category also includes all non-cash cost of options and the unallocated production costs of the Saint Jerome facility.

For the three months and year ended September 30, 2009, the Company recorded the cost of stock options in the amounts of $253,123 and $1,029,407, respectively (2008 – $164,899 and $738,841, 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.

Included in "Other costs" in the three months and year ended September 30, 2009 are voice and data services and technologies, office administration and non-engineering consulting services. These three major sub-groupings represent approximately 79% and 82%, respectively of the total amounts show in the table.

Production expenses are allocated to both inventory and cost 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, there are costs that remain unallocated in this category. In the three months and year ended September 30, 2009, the labour and production facility costs not allocated to inventory and cost of sales remaining in this category amounted to $216,689 and $977,731, respectively (2008 – $282,922 and $1,220,431).

Inventory Write-down

In the year ended September 30, 2009 the Company has taken charges against operations of $1,424,001 to adjust the carrying value of its inventory.

At June 30, 2009, the Company recorded a charge against income of $390,972. 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 U.S. 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 U.S. dollar of revenue yielding $1.077 Canadian. The U.S. dollar/Canadian dollar exchange rate displayed considerable volatility throughout the year and the Company recorded the charge to protect future gross margins.

In December 2009, the Company announced that it would cease production of the ZENN LSV no later than April 30, 2010. Management of the Company assessed the potential for selling fully completed ZENN LSV's through to the end of production date and the liquidation value of the remaining inventory. It also segregated inventory that is required for ongoing support, determined the excess inventory to be approximately $1,033,029 and recorded a charge against operations in that amount as of September 30, 2009.

Quarterly Financial Information

The following table sets out the quarterly results for the most recently completed eight quarters:

Three months ended	Net Revenue $	Expenses $	Loss in period $	Loss per share $
Dec. 31, 2007	694,856	1,776,496	(1,677,662)	(0.06)
Mar. 31, 2008	646,722	1,916,429	(1,837,940)	(0.06)
June 30, 2008	962,325	1,998,069	(1,910,304)	(0.06)
Sept. 30, 2008	740,003	2,310,328	(2,312,728)	(0.07)
Dec. 31, 2008	494,236	1,795,424	(1,786,420)	(0.05)
Mar. 31, 2009	275,961	2,021,047	(1,973,015)	(0.06)
June 30, 2009	300,267	2,620,707	(2,576,021)	(0.08)
Sept. 30, 2009	325,369	3,597,348	(3,753,671)	(0.10)

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 had a more appealing offering in the southern U.S. 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 in 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's sales fell to 24 units, partially based on the economic crisis and partially due to a lack of parts from a key supplier. An alternative supplier was brought on line in December 2008 and substantially all of these units were shipped in December.

In the three month periods ended March 31, 2009 and June 30, 2009, unit sales reflected the general economic malaise with shipments of 16 and 19 units, respectively. The Company introduced a number of incentive programs to stimulate sales with marginal success. In the period ended June 30, 2009, the Company wrote down the value of its inventory by $390,972 to reflect the strengthening of the Canadian dollar and the impact it had on export sales.

In the three months ended September 30, 2009, the Company sold 35 units, at substantially subsidized selling prices. The Company also took a charge of $1,033,029 to write down inventory to management's estimate of realizable value to the end of production date in April 2010.

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 EEStor technology rights. As of the date of this MD&A, a total of US$1,250,000 has been expended for milestone payments as indicated. Since the event which would trigger the milestone payment of US$500,000 is out of the control of the Company and has not occurred, the proceeds from this raise which were earmarked for this purpose have been redeployed to general corporate purposes.

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 general corporate purposes.

On July 14, 2009, the Company completed a prospectus offering of common shares raising gross proceeds of $9,275,000. In the prospectus, the Company indicated that the net proceeds combined with cash resources on hand, were expected to be expended as follows:

ZENNergy engineering and development	$1,000,000
ZENNergy business development	$750,000
Capital expenditures	$500,000
Operating costs	$7,200,000
EEStor milestone payment	$580,000

In the three months to September 30, 2009, the Company expended the following amounts against the planned use of funds:

	Planned Expenditures $	Expended in Current Period $
ZENNergy engineering and development	1,000,000	347,864
ZENNergy business development	750,000	75,240
Capital expenditures	500,000	15,135
Operating costs	7,200,000	1,658,287
EEStor milestone payment	580,000	nil

LIQUIDITY AND CAPITAL RESOURCES

In the three months and year ended September 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 development 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 September 30, 2009 were $10,143,540. The Company's cash burn has not changed significantly year over year. Discontinuing production of the ZENN LSV represents an opportunity to reduce the rate of cash burn. Because of the ongoing costs to clear inventory and execute the closing of the Saint-Jerome assembly facility by April 2010, management does not expect to see a significant reduction in cash burn from this directional change until the third fiscal quarter of 2010. Furthermore, it is the Company's expressed intention to redeploy its resources into the development of the ZENNergy strategy and as a result, there may be no net reduction of cash burn from exiting the LSV production business but rather more focused spending.

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.

Management believes the Company has adequate cash resources on hand to fund its operations through the end of the current fiscal year. The realization of accounts receivable and inventory in the LSV discontinued operations are considered by management to be at greater risk because of the general economic downturn, the risk specifically associated with the automotive sector and the Company's stated ending of production. The Company's floor plan financing program which has in the past provided financing to qualified Retailers, has been substantially reduced in scope.

Since announcing the end of production of the LSV, the Company has been making a concerted effort to convert its inventory to cash. It is the opinion of management that the fundamentals which would support strong LSV sales will be slow to return and it is in the best interest of the shareholders to liquidate the inventory as quickly as possible.

Short Form Prospectus Offering

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 have a term of 18 months and expire on January 14, 2011. Using the Black-Scholes model, the non-cash cost of the compensation warrants was determined to be $170,525. This amount 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 cash costs in the amount of $288,730 primarily for legal, accounting, filing fees, printing and travel. Net proceeds from the offering, including the non-cash cost of the compensation warrants, was $8,305,620.

The Company intends to use the net proceeds as indicated in the section above.

EEStor Permittivity Announcement

In May 2009, the Company confirmed the permittivity results of the material to be used in EEStor's EESU. The permittivity results were publicly announced by EEStor 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 EEStor. 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 EEStor 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.

EEStor 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 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 of US$700,000 pursuant to the Technology Agreement between the two companies. The Company's rights pursuant to the Technology Agreement are detailed in the Company's AIF dated January 28, 2010.

Equity Investment in EEStor, Inc.

In April 2007, the Company completed its initial investment in the common shares of EEStor. The Company acquired an approximate 3.8% interest for a cash investment of US$2,500,000. The terms of the investment also 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 days of EEStor announcing its permittivity test results meeting the predetermined parameters and verified by an independent third party. In May, 2009, the Company received independent verification of the permittivity results announced by EEStor and indicated its intention to exercise its additional investment rights. In July, the Company concluded the additional investment in EEStor in the amount of US$5,000,000. As a result of the two investments, the Company holds an approximate 10.7% interest in the share capital of EEStor.

Since EEStor is a private company, there is no ready market for this investment and liquidity, if required, cannot be assured.

CAPITAL COMMITMENTS

Except as noted below, the Company does not have any material commitments for capital assets as at the year-end or the date of this MD&A.

The Company has a commitment with respect to its EEStor technology rights whereby payment is contingent on EEStor achieving specific milestones. As at September 30, 2009 and the date of this MD&A, there remains one milestone payment due to EEStor in the amount of US$500,000 which is due within 15 days of independent verification of a production quality EESU meeting defined specifications. The timing of the final payment in accordance with the EEStor Technology Agreement is dependent on EEStor's development and independent verification and accordingly, is not in the control of the Company.

OFF BALANCE SHEET ARRANGEMENTS

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

RELATED PARTY TRANSACTIONS

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

CRITICAL ACCOUNTING ESTIMATES AND POLICIES

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.

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 more significant assumptions made by management in the preparation of the Company's financial statements relate to the impairment test of the Company's investment in the EEStor technology marketing rights, the fair value of the investment in shares of EEStor, the valuation of inventory, valuation of fixed assets and the fair value of stock based payments.

Management of the Company conducts a review of the carrying value of its Technology Agreement with EEStor on a regular basis. Management of the Company would be obliged to revalue the carrying value of the Technology Agreement if it was in possession of information that indicated or if it believed that the technology under development by EEStor would not or could not be developed, or if EEStor were abandoning its development efforts for any reason. In the past year, EEStor announced and the Company obtained independent verification of EEStor exceeding the permittivity targets in the Technology Agreement which in the opinion of management is a clear indication of EEStor's commitment and progress and the ongoing value of the Technology Agreement.

A similar assessment is applied to the carrying value of the Company's investment in the share capital of EEStor. Since EEStor is a private company with no ready market for its shares, the investment is carried at cost and changes in value are not reflected in comprehensive income.

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.

Amortization of investments in property 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.

ADOPTION OF NEW ACCOUNTING POLICIES

In the year ended September 30, 2009, the Company adopted a number of new accounting policies and disclosure requirements as detailed in Notes 3 and 4 to the September 30, 2009 audited financial statements. None of the changes has had a material or significant impact on the Company's consolidated financial statements. Following is a summary of the key changes as they may affect the Company and their impact:

New Accounting Policies

Financial Instruments – Disclosure

Handbook Section 3862 requires an entity to provide disclosures to enable users to evaluate the significance of financial instruments for an entity's financial position and performance, including disclosures about fair value. In addition, disclosure is required of qualitative and quantitative information about the nature and extent of risks arising from financial instruments, including specified minimum disclosures about liquidity risk and market risk. The quantitative disclosures must also include a sensitivity analysis for each type of market risk to which an entity is exposed, showing how net income and other comprehensive income would have been affected by reasonably possible changes in the relevant risk variable. The Company has included disclosures recommended by this new Handbook section in Note 20 to the September 30, 2009 audited financial statements.

Financial Instruments – Presentation

Handbook Section 3863 replaces the existing requirements on presentation of financial instruments which have been carried forward unchanged to this new section. The adoption of this standard did not have any impact on the presentation of the Company's financial instruments.

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 has implemented them effective October 1, 2008. The new requirements only address disclosures and had no impact on the Company's financial results.

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.

Business Combinations

In January 2009, the CICA issued Section 1582 "Business Combinations". This section is effective January 1, 2011 and applies prospectively to business combinations for which the acquisition date is on or after the first annual reporting period of the Company beginning on or after January 1, 2011, specifically October 1, 2011 for the Company. Early adoption is permitted. This section replaces Section 1581 "Business Combinations" and harmonizes the Canadian standards with IFRS. The Company does not anticipate that the adoption of this standard will impact its financial results.

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 and uncertainties 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 AIF dated January 28, 2010 available on SEDAR at www.sedar.com, which is hereby incorporated by reference herein. Some of these risks, presented in greater detail in the AIF, include the following:

- Dependence on the successful development, commercialization and integration of the EEStor technology and potential impact on the Company if this does not occur in a timely manner, or if the commercial EESU does not possess the anticipated functionality and benefits,
- Early stage of development, history of losses,
- EEStor equity investment,
- Development of ZENNergy technologies,
- Additional financing requirements.

ADDITIONAL DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE

As of September 30, 2009, the Company had no deferred costs related to development or start up. Additional required disclosure for ventures without significant revenue is included in the section "Discussion of Operating Results" above.

SUBSEQUENT EVENTS

In December 2009, the Company announced that it would cease production of the ZENN LSV no later than April 30, 2010. This date corresponds to the termination of the sub-lease on its assembly facilities in Saint-Jerome, Quebec where the Company has exercised an early termination provision. Management of the Company assessed the sales prospects in the current market, in conjunction with the lease termination and have taken a charge against operations to adjust the net realizable value of the inventory.

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 January 28, 2010:

Designation of Security	Expiry	Exercise Price	Number or Principal Amount Outstanding	If Convertible, Exercisable or Exchangeable for Common Shares, the Maximum Number of Common Shares Issuable
Common Shares	N/A	N/A	37,215,263	N/A
Options	April 3, 2011 to December 8, 2014	$1.30 to $5.03[(1)]	2,480,500	2,480,500
May 2008 Agent Warrants	January 14, 2011	$3.50	106,000	106,000
TOTAL (maximum number of common shares, fully-diluted)			39,801,763	

Features of the options and warrants are described in the Notes to the September 30, 2009 audited consolidated financial statements.

The weighted average exercise price of the options and warrants is $2.95.

ADDITIONAL INFORMATION

Additional information relating to the Company, including the Company's AIF dated January 28, 2010, can be found on SEDAR at www.sedar.com.