EEStor Corporation

Condensed Interim Consolidated Financial Statements

For the Three Months Ended December 31, 2015

(in Canadian dollars)

Notice to Reader

The accompanying condensed interim consolidated financial statements of EEStor Corporation (the "Company") for the three months ended December 31, 2015, have been prepared by management and approved by the Board of Directors of the Company. These statements have not been audited, reviewed or verified by the Company's external auditors or any other accounting firm.

EEStor Corporation
Condensed Interim Consolidated Statements of Financial Position
As at December 31, 2015 and 2014
(in Canadian dollars)

	Notes	**December 31, 2015 (unaudited) $**	September 30, 2015 (audited)
Assets			
Current			
Cash		**914,375**	18,602
Short-term investments		**5,000**	12,000
Prepaid expenses and sundry assets		**224,196**	158,506
		1,143,571	189,108
Property and equipment		**86,525**	97,986
Deposit for rent		**-**	6,447
Long term insurance		**-**	2,647
EEStor technology, rights, patents and development costs	**6**	**19,199,425**	19,200,000
		20,429,521	19,496,188
Liabilities			
Current			
Accounts payable and accrued liabilities	**7**	**1,044,229**	861,731
Debt advances	**15**	**562,000**	459,697
		1,606,229	1,321,428
Shareholders' Equity			
Share capital	**9**	**64,756,491**	64,272,417
Contributed surplus		**7,326,341**	7,486,137
Warrant capital		**4,284,263**	3,298,483
Deficit		**(56,691,014)**	(56,154,147)
		19,676,081	18,902,890
Non-controlling interest	**6**	**(852,789)**	(728,130)
		20,429,521	19,496,188

Nature of operations and going concern (Note 1)
Commitments (Note 14)
Subsequent events (Note 18)

Approved by the Board

"Stewart Somers" Director (Signed)

"Ian Clifford" Director (Signed)

See accompanying notes

EEStor Corporation

Condensed Interim Consolidated Statements of Comprehensive Loss
For the three months ended December 31
(in Canadian dollars)

	Notes	2015 $	2014 $
Expenses			
General and administrative	**7,11,12,13**	**545,722**	597,859
Engineering and development	**11,12,13**	**115,804**	336,604
Loss from continued operations		**(661,526)**	(934,463)
Loss from discontinued operations		**-**	(7,000)
Total comprehensive loss		**(661,526)**	(941,463)
Net loss for the year attributable to:			
Loss for the period		**(536,867)**	(699,432)
Non-controlling interest in subsidiary	**6**	**(124,659)**	(242,031)
		(661,526)	(941,463)
Loss per share, basic and diluted		**(0.01)**	(0.01)
Weighted average number of common shares outstanding			
Basic and diluted		**63,038,179**	59,341,705

See accompanying notes

EEStor Corporation

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity
For the three months ended December 31
(in Canadian dollars)

	Notes	No. of Shares	Share Capital $	Contributed Surplus $	Warrant Capital $	Non-contolling Interest $	Comprehensive Income $	Deficit $	Shareholders' Equity $
Balances, September 30, 2015		**62,337,505**	**64,272,417**	**7,486,137**	**3,298,483**	**(728,130)**	**-**	**(56,154,147)**	**18,174,760**
Loss for the period		-	-	-	-	-	-	(536,867)	(536,867)
Non-controlling interest in subsidiary	6	-	-	-	-	(124,659)	-	-	(124,659)
Comprehensive loss for the period		**-**	**-**	**-**	**-**	**(124,659)**	**-**	**(536,867)**	**(661,526)**
Transactions with shareholders									
Extension of warrants in the period	10	-	-	(187,091)	187,091	-	-	-	-
Issuance of units - net of issuance costs	9	10,559,938	484,074	-	798,689	-	-	-	1,282,763
Transfer from warrant capital on expiry	10	-	-	-	-	-	-	-	-
Stock-based compensation	11,12	-	-	27,295	-	-	-	-	27,295
Balances, December 31, 2015		**72,897,443**	**64,756,491**	**7,326,341**	**4,284,263**	**(852,789)**	**-**	**(56,691,014)**	**18,823,292**
Balances, September 30, 2014		**59,444,505**	**63,627,231**	**7,181,885**	**2,631,839**	**3,523,103**	**21,489**	**(50,262,411)**	**26,723,136**
Loss for the period		-	-	-	-	-	-	(699,432)	(699,432)
Non-controlling interest in subsidiary	6	-	-	-	-	(242,031)	-	-	(242,031)
Total loss for the period		**-**	**-**	**-**	**-**	**(242,031)**	**-**	**(699,432)**	**(941,463)**
Translation gain/(loss)		-	-	-	-	-	18,314	-	18,314
Comprehensive loss for the period		**-**	**-**	**-**	**-**	**(242,031)**	**18,314**	**(699,432)**	**(923,149)**
Transactions with shareholders									
Stock-based compensation	11,12	-	-	182,144	-	-	-	-	182,144
Balances, September 30, 2014		**59,444,505**	**63,627,231**	**7,364,029**	**2,631,839**	**3,281,072**	**39,803**	**(50,961,843)**	**25,982,131**

See accompanying notes

EEStor Corporation
Condensed Interim Consolidated Statements of Cash Flows
For the quarter ended December 31
(in Canadian dollars)

	Notes	2015 $	2014 $
Cash flows provided by (used in) operations			
Net loss from continuing operations		**(661,526)**	(934,463)
Items not affecting cash			
Depreciation and amortization	13	**14,870**	9,393
Stock-based compensation	11,12	**27,295**	182,144
Write off of patents	6	**-**	12,277
		(619,361)	(730,649)
Net changes in non-cash working capital			
Prepaid expenses and sundry assets		**(65,690)**	(339)
Accounts payable and accrued liabilities		**182,498**	12,347
		(502,553)	(718,641)
Investing			
Short-term investments		**7,000**	-
Purchase of property and equipment		**-**	(8,725)
Purchase of patents and trademarks		**(2,835)**	(28,057)
Sundry long term assets		**9,095**	1,110
		13,260	(35,672)
Financing			
Debt advances		**205,000**	
Repayment of debt advances	15	**(102,697)**	-
Issuance of units, net of issuance costs	9	**1,282,763**	-
		1,385,066	-
Cash used in discontinued operations		**-**	-
Net change in cash		**895,773**	(754,313)
Cash, beginning of period		**18,602**	998,181
Cash, end of period		**914,375**	243,868

See accompanying notes

1. NATURE OF OPERATIONS AND GOING CONCERN

EEStor Corporation (the "Company", formerly ZENN Motor Company Inc.) is incorporated under the Business Corporations Act (Ontario) and its common shares are listed on the TSX Venture Exchange under the symbol “ESU” (formerly “ZNN”). Any specific reference to “EEStor” herein means EEStor, Inc. alone a 71.3% subsidiary of EEStor Corporation. The Company’s head office is located at 21 St. Clair Avenue East, Suite 301, Toronto, Ontario, M4T 1L9. The Company's business strategy is to focus on the licensing applications and partnership opportunities of its new ceramic-based capacitor technology, currently under development by EEStor across a broad spectrum of industries and applications. EEStor is a subsidiary of the Company as of January 27, 2014.

The Company's success depends on the commercialization of its technology; however, there is no assurance that EEStor will be successful in the completion of the enhancement phases to warrant the anticipated licensing opportunities in the technology.

Currently, the Company is pursuing the raising of funds by an equity investment, debt borrowing or a combination of both. On December 24, 2015, the Company raised approximately $1.6 million by an equity investment (see note 9); the first of multiple planned tranches (see note 18). There can be no assurance that additional financing will be available on commercially reasonable terms or at all. If adequate funds are not available on acceptable terms, the Company may not be able to fund its operations and as a result may be required to substantially reduce or temporarily cease its operations, including but not limited to the reduction of payroll costs, development activities and other operating expenditures. Any such actions could have a material adverse effect on the Company's business, financial condition and prospects. Prior to March 31, 2015, the Company began maintaining a cash management program which encompasses restricting a number of non-discretionary expenses including certain management and director remuneration in addition to extending the payment of various accounts payable amounts. In order to assist the Company until additional financing could be identified, the Company obtained advances from certain arm’s length shareholders in the amount of $664,697. After repayments of $102,697 during the current quarter, the remaining debt advances total $562,000 as at December 31, 2015. There is no assurance that this financial support may be available in the future. These conditions may cast significant doubt about the Company’s ability to continue as a going concern into the foreseeable future. These financial statements do not include any adjustments, which could be material, to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities.

2. STATEMENT OF COMPLIANCE

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standard (“IFRS”) 34, “Interim Financial Reporting” (“IAS 34”) as issued by the International Accounting Standards Board ("IASB").

These unaudited condensed interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements of EEStor Corporation for the years ended September 30, 2015 and 2014.

The unaudited condensed interim consolidated financial statements were authorized for issuance by the Board of Directors of the Company on February 29, 2016.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries EEStor Limited (formerly ZENN Motor Company Limited), ZENN Capital Inc., ZENNergy Inc., ZMC America, Inc., and EEStor, Inc. in which the Company holds a 71.3% controlling interest on an as-converted basis. The losses incurred by EEStor from January 27, 2014 (date of acquisition of control) and onward have been included in the Condensed Interim Statement of Comprehensive Loss. Intercompany transactions and balances are eliminated on consolidation.

These consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair value. The Company's wholly-owned subsidiaries financial year end is September 30. The consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company and its subsidiaries. EEStor's financial year end is December 31 and its functional currency was changed to Canadian dollars during the year ended September 30, 2015 (2014 - US dollars).

Investment in EEStor, Inc.

Prior to the acquisition of control of EEStor, the Company had an investment in the common shares of EEStor which was categorized as an "available for sale" financial instrument. The common shares of EEStor did not have a quoted market price in an active market and fair value could not be reliably measured; accordingly, the shares were carried at cost. The Company would recognize a loss on this investment if there is objective evidence that there was an impairment in the value of the investment. Upon acquisition of significant influence on December 20, 2013, the Company accounted for the investment using the equity method. Under the equity method, on initial recognition the investment was recognised at cost and the carrying amount was increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The investor's share of the investee's profit or loss was recognised in the investor's profit or loss. Distributions received from an investee reduce the carrying amount of the investment.

EEStor technology, rights, patents and development costs

Intangible assets with a finite useful life, such as the EEStor technology, rights, patents and development costs, are recorded at cost (being acquisition costs) less the accumulated amortization and the accumulated impairment losses.

Research and development costs are incurred in the design, testing and commercialization of the Company's products. Research related costs are expensed as incurred. Development costs are expensed in the year incurred unless the Company can demonstrate all of the following criteria under IFRS 38, Intangible Assets: (i) technical feasibility of completing the intangible asset so that it will be available for use or sale; (ii) intention to complete the intangible asset and use or sell it; (iii) ability to use or sell the intangible asset; (iv) how the intangible asset will generate future economic benefits; (v) availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and (vi) the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The EEStor technology, rights, patents and development costs will be amortized over the estimated useful life of the product, commencing when the asset is available for use. As the intangible assets, other than patents, are not yet available for use, no amortization is being taken. Amortization of patents is recognized in profit and loss by applying the straight-line method to the cost of the asset based on the legal life of the patent. The amortization method, residual values and useful lives are reviewed on each reporting date and adjusted as needed.

3. SIGNIFICANT ACCOUNTING POLICIES (cont`d)

EEStor technology, rights, patents and development costs (cont'd)

Intangible assets with finite lives but not yet available for use are assessed annually for impairment. Impairment is determined by comparing the recoverable amount of such assets with their carrying amounts. The Company applies various methodologies in calculating the recoverable amount (being the higher of value in use or fair value less costs to sell). The Company's primary measure is a discounted cash flows method, based on forecasted revenues to determine fair value less costs to sell.

Provisions

A provision is recognized in the consolidated statement of financial position when the Company has a present legal or constructive obligation as a result of a past event, and it's probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to liability.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable costs of meeting its obligations under the contract.

Accounting for Stock-Based Payments and Compensation

The Company applies a fair value based method of accounting for all stock-based payments ("Payments"). Under this method the Company recognizes compensation expense for employee stock option awards, based on the grant date fair value, for each tranche installment over the vesting period of the options. Each installment is valued separately, based on assumptions determined from historical data, and recognized as compensation expense over each installment's individual tranche vesting period and the offset is credited to contributed surplus. Forfeiture estimates are recognized in the period they are estimated and are revised for actual forfeitures in subsequent periods. Consideration received upon the exercise of stock options is credited to share capital and the related contributed surplus is transferred to share capital.

In situations where non-employee stock-based compensation is issued and some or all of the goods or services received by the entity as consideration cannot be measured reliably, it is measured at the fair value of the stock-based payment.

Financial Instruments

Recognition and Measurement

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

Financial Instrument	Classification	Measurement
Cash	Fair value through profit or loss	Fair value
Short-term investments	Fair value through profit or loss	Fair value
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Debt advances	Other financial liabilities	Amortized cost

Financial assets and liabilities classified as fair value through profit or loss are measured at fair values initially and at each reporting period with changes in fair value in subsequent periods included in net loss. Transaction costs are expensed when incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (cont`d)

Financial Instruments (cont'd)

Financial assets classified as loans and receivables are measured initially at fair value and transaction costs. Liabilities classified as other financial liabilities are measured initially at the amount required to be paid, less, when material, a discount to reduce the liability to fair value and transaction costs. Subsequently loans and receivables and other financial liabilities are carried at amortized cost using the effective interest method.

Financial assets classified as available for sale are initially measured at fair value plus transaction costs and are subsequently carried at fair value with changes in fair value included in other comprehensive income, except investment in shares without a quoted market price which are measured at cost, if fair value cannot be reliably measured.

Financial instruments measured at fair value are required to be categorized into one of three hierarchy levels that are based on the transparency of the inputs used to measure the fair values of assets and liabilities.

Level 1 inputs are determined by reference to quoted prices in active markets for identical assets and liabilities.

Level 2 inputs, other than quoted prices included in Level 1, are based on either directly or indirectly observable market data.

Level 3 inputs used in a valuation technique are not based on observable market data.

The Company's cash and short-term investments are categorized as Level 1.

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at exchange rates in effect at the reporting date. Non-monetary assets and liabilities are translated at historical exchange rates at the respective transaction dates. Revenue and expenses are translated at the rate of exchange at each transaction date. Gains or losses on translation are included in general and administrative expenses.

Financial statements of subsidiaries for which the functional currency is not the Canadian Dollar are translated into Canadian Dollar as follows: all asset and liability accounts are translated at the reporting date exchange rate and all earnings and expense accounts are translated at average exchange rates for the period. The resulting translation gains and losses are recorded as foreign currency translation adjustments in other comprehensive income and recorded in "Comprehensive Income" in equity.

Use of Estimates and Judgements

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Significant areas requiring the use of management estimates relate to:

(i) Impairment of EEStor technology, rights, patents and development costs

Management has assessed the Company as one cash generating unit. Determination of the amount of an impairment is based on management's estimate of the fair value less costs to sell of the intangible assets. The basis of calculation (relief from royalty method) involves many estimates such as projected revenues, discount rates and royalty rates.

3. SIGNIFICANT ACCOUNTING POLICIES (cont`d)

Use of Estimates and Judgements (cont'd)

(ii) Share based transactions

The Company uses an option pricing model to determine the fair value of share based compensation. Inputs to the model are subject to various estimates relating to volatility, interest rate and expected life of the instrument. Fair value inputs are subject to market factors as well as internal estimates. The Company considers historic trends together with any new information to determine the best estimate of fair value at the date of grant.

Separate from the fair value calculation, the Company is required to estimate the expected forfeiture rate of stock-based compensation.

(iii) Non-controlling interest in EEStor on the date of acquisition of control

On date of acquisition of control of EEStor, the Company had to determine the fair value of the assets acquired and through the use of estimates, allocate the value of those net assets to the non-controlling interest.

(iv) Going concern

The Company makes significant judgements with respect to uncertainties in the ability of the Company to continue as a going concern based on estimates of future operations. The ability of the Company to continue as a going concern is dependent on the successful generation of revenue and financing.

(v) Development costs

Management monitors the progress of the EEStor technology. Significant judgement is required to distinguish between the research and development phases. Development costs are recognized as an asset when the following criteria are met: (i) technical feasibility; (ii) management's intention to complete the project; (iii) the ability to use or sell; (iv) the ability to generate future economic benefits; (v) availability of technical and financial resources; (vi) ability to measure the expenditures reliably. Research costs are expensed as incurred. Management also monitors whether the recognition requirements for development assets continue to be met and whether there are any indicators that capitalized costs may be impaired.

4. ACCOUNTING PRONOUNCEMENTS ISSUED BUT NOT YET EFFECTIVE

IAS 1 Presentation of Financial Statements

Amendments are designed to further encourage companies to apply professional judgment in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that companies should use professional judgment in determining where and in what order information is presented in the financial disclosures.

4. ACCOUNTING PRONOUNCEMENTS ISSUED BUT NOT YET EFFECTIVE (cont'd)

IFRS 9 Financial Instruments

Financial Instruments - IFRS 9 was issued by the IASB in July 2014 and will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. A new hedge accounting model is introduced and represents a substantial overhaul of hedge accounting which will allow entities to better reflect their risk management activities in the financial statements. The most significant improvements apply to those that hedge non-financial risk, and so these improvements are expected to be of particular interest to non-financial institutions. Effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted.

Property, Plant and Equipment – IAS 16 and Intangible Assets IAS 38

On May 12, 2014, the IASB amended IAS 16 – Property, Plant and Equipment and IAS 38 – Intangible Assets to clarify that a revenue-based approach to calculate depreciation and amortization generally is not appropriate as it does not reflect the consumption of the economic benefits embodied in the related asset. These amendments must be applied prospectively for annual periods beginning on or after January 1, 2016. The amendments to IAS 16 and IAS 38 are not expected to have a significant impact on the Company's financial statements.

5. TECHNOLOGY AGREEMENTS

Light Electric Vehicles

On March 10, 2013, EEStor entered into a new technology agreement with Light Electric Vehicles Company ("LEV") a privately held corporation in the state of Oregon, that provides LEV with the transferable, perpetual, worldwide exclusive rights to purchase electronic energy storage units ("EESU") for one, two and three wheeled commercial passenger vehicles using electricity as the nonhuman energy source for the vehicle's propulsion system. The technology agreement has staged payments that tie to specific technical milestones and the delivery of production quality EESUs. The aggregate potential payments to be made under the agreement is $29.95 million. Previous payments received to date from LEV regarding the technology rights from prior agreements total $1.45 million.

Lockheed Martin Corporation

On December 10, 2007, EEStor entered into a technology agreement with Lockheed Martin Corporation ("LMC") a Maryland corporation acting through its Missiles and Fire Control business unit located in Grand Prairie, Texas, that provides LCM with a non-transferable, non-sublicensable worldwide exclusive rights to purchase EESU for the Government Defense and Homeland Security fields. The technology agreement has staged payments that tie to purchasing requirements of EESUs. The aggregate potential payments to be made under the agreement is $120.0 million.

(in Canadian dollars)

6. EESTOR TECHNOLOGY, RIGHTS, PATENTS AND DEVELOPMENT COSTS

CONTINUITY OF ASSETS

Intangible asset at September 30, 2014	$	25,948,442
Additional patent cost		55,201
Patent write off		(43,532)
Patent amortization		(6,981)
Deferred development cost		621,901
Impairment of intangible assets (i)		(7,375,031)
Intangible asset at September 30, 2015	$	19,200,000
Additional patent cost		2,834
Patent amortization		(3,409)
Intangible asset at December 31, 2015	$	19,199,425

(i) In September 2015, the Company's annual impairment testing determined that the carrying value of the EEStor technology, rights, patents and development costs exceeded their recoverable amount and as a result the Company recorded an impairment charge of $7,375,031. The recoverable amount was determined using a discounted cash flows valuation method to reflect the fair value less costs to sell. Significant inputs into the calculation are the estimated potential royalty rate of 3.5% - 7.5% (based on comparable publicly available licensing data), projected after-tax revenues, a growth rate of 5% (2% beyond the 5 year period) and a discount rate of 30% to 45% per annum. The benefit of unused tax losses has not been reflected in the determination of the fair value less costs to sell. The recoverable amount has been determined at a Level 3 of the fair value hierarchy.

EEStor Financial Information

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

	December 31, 2015 US $	September 30, 2015 US $
Current assets	**15,267**	20,804
Long-term assets	**832,807**	845,347
Total assets	**848,074**	866,151
Current liabilities	**564,524**	493,645
Long-term liabilities (i)	**5,801,701**	5,717,629
Total liabilities	**6,366,225**	6,211,274
Shareholders' deficiency	**(5,518,151)**	(5,345,123)

(i) Includes preferred stock totalling $4,028,000

(in Canadian dollars)

6. EESTOR TECHNOLOGY, RIGHTS, PATENTS AND DEVELOPMENT COSTS (cont'd)

EEStor's operating expenses included in the Consolidated Statement of Comprehensive Loss for the three months ended December 31, 2015 and 2014 are as follows:

	2015 US $	2014 US $
General and administrative expenses	**83,798**	130,647
Engineering and development	**86,732**	296,280
Net loss	**170,530**	426,927
Loss attributed to the Company	**85,436**	213,890
Non-controlling interest in subsidiary	**85,094**	213,037
Net Loss	**170,530**	426,927

The amount of non-controlling interest is determined by multiplying the net loss for the period by the percentage of common stock held by a third party. As at December 31, 2015, the Company holds 50.1% of the common stock outstanding and there are 3,726 warrants outstanding to purchase EEStor common stock which could dilute the Company's current ownership percentage.

7. TRADE PAYABLES AND ACCRUED LIABILITIES

	December 31, 2015 $	September 30, 2015 $
Current liabilities of continued operations		
Trade accounts payables and accrued liabilities (i)	**1,044,229**	861,731
Debt advances (note 15)	**562,000**	459,697
Total current liabilities of continued operations	**1,606,229**	1,321,428

(i) The Company has recorded for the three months ended December 31, 2015, a provision for costs associated with the debt advances in the amount of $56,200.

8. MANAGEMENT OF CAPITAL

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

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

8. MANAGEMENT OF CAPITAL (cont'd)

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

The Company is not subject to any external capital requirements.

There have been no changes with respect to the overall capital management strategy during the three months ended December 31, 2015.

9. SHARE CAPITAL

The Company has authorized an unlimited number of common shares.

On December 24, 2015, the Company completed a non-brokered private placement of 10,559,938 units of the Company at $0.15 per unit for gross proceeds of $1,583,991. Each unit consists of one common share and one common share purchase warrant. Each common share purchase warrant entitles the holder to purchase one common share at a price of $0.30 and expires on December 24, 2018. The proceeds from the issuance of units are allocated between share capital and warrant capital, with the fair value of the warrants of $985,780 being allocated to warrant capital and the residual allocated to share capital. The fair value of the warrants is estimated using Black-Scholes pricing model with the following assumptions: share price $0.135, dividend yield 0%, risk free interest rate 0.62%, volatility 143%, and an expected life 3.0 years. Expected volatility is based on historical volatility. In connection with the private placement, the Company paid a finder's fee of $17,220 and issued 114,800 compensation warrants expiring on December 24, 2018. Each compensation warrant is exercisable into one common share at a price of $0.30. The fair value of the compensation warrants estimated at $10,717 Black-Scholes pricing model with the following assumptions: share price $0.135, dividend yield 0%, risk free interest rate 0.62%, volatility 143%, and an expected life 3.0 years. Expected volatility is based on historical volatility. Compensation warrants were not measured at the fair value of the services received as the fair value for such services was not reliably measurable.

10. STOCK OPTIONS

Stock Option Plan

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

(in Canadian dollars)

The following tables outline the stock option transactions and numbers outstanding as at December 31, 2015 and December 31, 2014:

	2015		2014	
	Number of Options	**Weighted Average Exercise Price**	**Number of Options**	**Weighted Average Exercise Price**
		$		**$**
Outstanding, beginning of period	**3,657,800**	**0.24**	4,369,300	0.94
Granted[(1)(2)]	**-**	**-**	1,296,000	0.50
Expired	**(220,000)**	**(0.32)**	-	**-**
Forfeited	**(8,337)**	**(1.27)**	-	**-**
Outstanding, end of period	**3,429,463**	**0.64**	5,665,300	0.84
Exercisable	**3,199,457**	**0.64**	3,357,622	1.07

(1) Includes 440,000 options granted for investor relations consulting services and vest equally on each 3, 6, 9 and 12 month anniversaries with half of the options expiring six months (June 22, 2015) from the grant date and the remainder expiring on December 22, 2015.

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

(in Canadian dollars)

10. STOCK OPTIONS (cont'd)

Options outstanding at the end of December 31, 2015:

	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price $	Number outstanding	Weighted average exercise price $
$0.25 to $0.50	**1,410,000**	**3.33**	**0.32**	1,410,000	0.32
$0.51 to $0.75	**1,013,663**	**3.60**	**0.59**	863,657	0.60
$0.76 to $1.00	**337,000**	**2.60**	**0.85**	257,000	0.85
$1.01 to $1.25	**154,000**	**2.09**	**1.13**	154,000	1.13
$1.26 to $1.50	**514,800**	**0.56**	**1.35**	514,800	1.35
Total	**3,429,463**	**2.90**	**0.64**	3,199,457	0.64

Warrant Transactions

The following table outlines the warrant transactions and numbers outstanding as at December 31, 2015 and December 31, 2014:

	2015		2014	
	Number of Warrants	**Weighted Average Exercise Price $**	Number of Warrants	Weighted Average Exercise Price $
Outstanding and exercisable, beginning of period	**10,554,457**	**0.96**	9,338,772	0.91
Issued	**10,674,738**	**0.30**	-	-
Outstanding and exercisable, end of period	**21,229,195**	**0.56**	9,338,772	0.91

11. STOCK-BASED COMPENSATION AND STOCK-BASED PAYMENTS

In the quarter ended December 31, 2015, the Company recorded $27,295 (2014 - $182,144) in stock based compensation costs.

The fair value of options is determined using the Black-Scholes option pricing model with the following weighted average assumptions: (i) dividend yield of 0% (2014 – 0%), (ii) expected volatility of approximately 0% (2014 – 170%), (iii) risk free interest rate of 0% (2014 – 1.02%), (iv) the average expected life of 0 years (2014 – 1.09 years), and (v) the average share price on date of issuance of $NIL (2014 - $0.57). Expected volatility is based on historical volatility. The Company includes an estimated forfeiture rate, with actual forfeitures reversed in the period they occur. The weighted average fair value of the cost of grants in the period was approximately $NIL (2014 - $0.37) per instrument.

(in Canadian dollars)

12. EMPLOYEE BENEFITS EXPENSE

Salaries and employee benefits expense included in the general and administrative expenses during the three months ended December 31, 2015 and December 31, 2014 are as follows:

	December 31, 2015 **$**	December 31, 2014 $
Wages and salaries	**222,581**	174,253
Statutory deductions	**7,963**	15,487
Stock-based compensation	**27,295**	180,132
	257,839	369,872

Salaries and employee benefits expense included in the engineering and development expenses during the three months ended December 31, 2015 and December 31, 2014 are as follows:

	December 31, 2015 **$**	December 31, 2014 $
Wages and salaries	**89,225**	175,328
Statutory deductions	**6,825**	40,926
Stock-based compensation	**-**	2,012
	96,050	218,266

13. DEPRECIATION AND AMORTIZATION

The Company's depreciation and amortization expense included in the general and administrative expenses for the three months ended December 31, 2015, is $773 (2014 – $1,171) and the amortization expense included in engineering and development expenses is $14,097 (2014 – $5,166).

14. COMMITMENTS

The Company is contracted for minimum lease payments relating to the Toronto and Cedar Park offices as follows:

2016	$	207,335
2017		237,806
2018		181,148
2019		77,369
2020		77,369
	$	**781,027**

(in Canadian dollars)

15. RELATED PARTY TRANSACTIONS

Key management personnel are those individuals having authority and responsibility for planning, directing and controlling the activities of the Company, including members of the Company's Board of Directors. The Company considers key management to be the members of the Board of Directors, the Chief Executive Officer and the Chief Financial Officer.

Key management personnel may also participate in the Company's stock-based compensation plans (note 10).

The remuneration of key management personnel were as follows:

	December 31, 2015 **$**	December 31, 2014 $
Wages and salaries	**209,158**	140,115
Statutory deductions	**3,537**	7,542
Stock-based compensation	**21,969**	138,533
	234,664	286,190

As at December 31, 2015, the outstanding compensation for key management personnel, as defined above, was $206,670; for management $145,670 (2014 - $NIL) and for directors $61,000 (2014- $34,125). In addition, the outstanding compensation for EEStor employees amounted to $221,222.

Employee Advance

The Company has received a promissory note in the amount of $41,634 for net advances provided to Mr. Ian Clifford, a director and CEO of the Company, as at September 30, 2015. Terms of the promissory note require the retirement of the debt by September 30, 2016 and an annual interest charge of 2%.

Debt Advance

During the three months ended December 31, 2015, the Company received advances of $205,000 (2014 - $NIL) and repaid certain advances of $102,697 (2014 - $NIL). These advances were provided by certain arm's length shareholders to assist the Company until additional financing has been obtained in order that the Company be able to operate with sufficient funds. As at December 31, 2015 the Company owed $562,000 (2014 - $NIL). The Company has agreed that the debt advances will be repaid by September 30, 2016. Although no terms have been finalized, during the three months ended December 31, 2015, the Company recorded a quarterly provision for costs in the amount of $56,200 (2014 - $NIL) associated with the debt advances.

16. FINANCIAL INSTRUMENTS

Fair Value

The fair value of cash, short-term investments, accounts payable, accrued liabilities and debt advances approximates their carrying value due to the short term nature of these financial instruments.

Interest Risk

Interest rate risk is the impact that changes in interest rates could have on the Company's income and liabilities. The Company's exposure to interest rate risk is negligible.

Currency Risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The only significant financial instrument of the Company denominated in US dollars is cash of $213. The Company's exposure to currency risk is negligible.

Credit Risk

Credit risk arises from the possibility that the entities to which the Company sells products may experience financial difficulties and be unable to fulfill their contractual obligations. Since the Company no longer sells its LSV products, its sales credit risk is negligible.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due.

The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. Senior management is also actively involved in the review and approval of planned expenditures.

As at December 31, 2015, the Company has current liabilities of $1,606,229 due within 12 months and has a cash balance of $914,375. As at December 31, 2015, the Company has a working capital deficiency of $462,659 and accordingly, the Company is subject to liquidity risk. Management plans to raise additional capital in order to continue the development of the EEStor technology and to maintain its operations.

17. SEGMENTED INFORMATION

As at December 31, 2015, the operations and assets of the Company's wholly-owned subsidiaries are located in Canada. The operations and assets of EEStor are located in Cedar Park, Texas.

18. SUBSEQUENT EVENTS

Stock Option Grant

On February 23, 2016, the Company announced that it has granted options to acquire an aggregate of 2,990,000 common shares to officers and directors of the Company under the Company's stock option plan. Each option is exercisable to acquire one common share at a price of $0.195; 320,000 options will vest quarterly over a twelve month period, 1,680,000 vest quarterly over an eighteen month period and 990,000 vest quarterly over a twenty four month period. These options will expire five years from the date of the grant.

18. SUBSEQUENT EVENTS (cont'd)

Non-brokered Private Placement

On February 23, 2016 the Company completed the second tranche of its previously announced non-brokered private placement. The Company issued and sold 3,075,723 units at a price of $0.15 per unit raising gross proceeds of $461,358. Each unit consisted of one common share and one common share purchase warrant. Each share purchase warrant entitles the holder to acquire one common share at a price of $0.30 until February 23, 2019. All securities issued pursuant to the private placement are subject to a 4-month hold period until June 22, 2016.

The Company paid cash finders' fees of $24,000 and issued 160,000 warrants having the same terms as the warrants issued to subscribers under the offering