Legend Power Systems Inc.

CONSOLIDATED FINANCIAL STATEMENTS
For the years ended September 30, 2018 and 2017

(Expressed in Canadian Dollars)

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(Expressed in Canadian Dollars)

Independent auditors' report

To the Shareholders of
Legend Power Systems Inc.

We have audited the accompanying consolidated financial statements of **Legend Power Systems Inc.**, which comprise the consolidated statements of financial position as at September 30, 2018 and 2017, and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Legend Power Systems Inc.** as at September 30, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP
Chartered Professional Accountants

Vancouver, Canada
January 23, 2019

Legend Power Systems Inc.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Expressed in Canadian Dollars)

	Notes	September 30, 2018	September 30, 2017
		$	$
ASSETS			
Current			
Cash and cash equivalents		10,046,366	1,160,127
Trade Receivables	5(i)	1,573,298	1,745,030
Due from customers on contract	5(ii)	1,361,126	892,062
Prepaid expenses and deposits		192,603	84,693
Inventory	6	1,066,592	1,010,276
		14,239,985	4,892,188
Property and equipment	7	152,945	84,405
Intangible assets	8	120,956	107,060
		14,513,886	5,083,653
LIABILITIES			
Current			
Accounts payable	9	501,138	592,760
Accrued liabilities		79,665	184,942
Warranty provision	10	40,863	23,395
		621,666	801,097
Warranty provision	10	269,134	191,836
		890,800	992,933
Shareholders' equity			
Share capital	11(i)	50,409,303	38,421,253
Contributed surplus	11(ii)(iii)	8,435,643	8,331,942
Deficit		(45,221,860)	(42,662,475)
		13,623,086	4,090,720
		14,513,886	5,083,653

Segments (Note 4)
Commitments (Note 12)
Income taxes (Note 14)

APPROVED BY THE BOARD OF DIRECTORS AND AUTHORIZED FOR ISSUE ON JANUARY 23, 2019

"Michael Atkinson", Director "Randy Buchamer", Director

The accompanying notes are an integral part of these consolidated financial statements.

Legend Power Systems Inc.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Expressed in Canadian Dollars)

	Notes	For the years ended September 30, 2018 $	2017 $
Revenue	4	6,595,063	4,228,756
Cost of sales		3,604,254	2,332,768
Gross margin		2,990,809	1,895,988
Expenses			
Salaries and consulting		2,957,528	1,968,328
General and overhead		819,724	468,795
Selling costs		650,239	363,577
Share-based compensation	11(ii)	427,533	366,305
Professional fees		163,977	124,627
Warranty expense	10	221,806	61,021
Product development		159,174	249,967
Foreign exchange loss (gain)		84,766	(4,998)
Amortization and depreciation	7,8	84,623	160,977
Bad debt	5(i)	48,943	-
		5,618,313	3,758,599
Operating loss		(2,627,504)	(1,862,611)
Other income		68,119	15,924
Net loss and comprehensive for the year		(2,559,385)	(1,846,687)
Basic and diluted loss per share		(0.03)	(0.02)
Weighted average number of common shares outstanding		92,988,781	78,922,080

The accompanying notes are an integral part of these interim consolidated financial statements.

Legend Power Systems Inc.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Expressed in Canadian Dollars)

	Notes	Number of Shares Issued	Capital Stock	Contributed Surplus	Deficit	Total Shareholders' Equity
		#	$	$	$	$
Balance at September 30, 2016		70,443,946	33,458,288	8,861,305	(40,815,788)	1,503,805
Common shares issued for warrants exercise		12,342,312	4,962,965	(895,668)	-	4,067,297
Share-based compensation		-	-	366,305	-	366,305
Net loss for the year		-	-	-	(1,846,687)	(1,846,687)
Balance at September 30, 2017		82,786,258	38,421,253	8,331,942	(42,662,475)	4,090,720
Common shares issued with public offering	11(i)	13,156,000	10,524,800	-	-	10,524,800
Share issue costs	11(i)	-	(1,171,307)	225,388	-	(945,919)
Warrants exercise	11(iii)	4,464,382	2,258,693	(472,940)	-	1,785,753
Option exercise	11(ii)	1,056,163	375,864	(76,280)	-	299,584
Share-based compensation	11(ii)	-	-	427,533	-	427,533
Net loss for the year		-	-	-	(2,559,385)	(2,559,385)
Balance at September 30, 2018		101,462,803	50,409,303	8,435,643	(45,221,860)	13,623,086

The accompanying notes are an integral part of these consolidated financial statements.

Legend Power Systems Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)

	Notes	For the years ended September 30, 2018	2017
		$	$
Cash flows used in operating activities			
Loss for the year		(2,559,385)	(1,846,687)
Items not affecting cash:			
Amortization and depreciation	7,8	84,623	160,977
Share-based compensation	11(ii)	427,533	366,305
Warranty provision	10	221,806	23,231
Foreign exchange loss (gain)		49,047	(4,998)
Bad debt	5(i)	48,943	-
Inventory write-down	6	5,249	15,162
Changes in non-cash working capital items:			
Receivables, prepaids and deposits		14,301	(1,283,600)
Due from customers on contract		(486,691)	(892,062)
Inventory		(254,529)	(555,772)
Accounts payable and accrued liabilities		(219,882)	154,253
Due to related parties		28,915	-
		(2,640,070)	(3,863,191)
Cash flows used in investing activities			
Purchase of property and equipment	7	(139,699)	(82,381)
Product development costs	8	(27,336)	(107,060)
Interest income received		25,835	12,915
		(141,200)	(176,526)
Cash flows from financing activities			
Proceeds from public offering	11(i)	10,524,800	-
Share issue costs	11(i)	(945,919)	-
Warrants exercise proceeds	11(iii)	1,785,753	4,067,297
Options exercise proceeds	11(ii)	299,584	-
		11,664,218	4,067,297
Effect of foreign exchange translation in cash		3,291	-
Net change in cash and cash equivalents for the year		8,882,948	27,580
Cash and cash equivalents, beginning of year		1,160,127	1,132,547
Cash and cash equivalents, end of year		10,046,366	1,160,127
Non-cash transactions			
Fair value of warrants issued for share issue costs	11(i)(1)(2)	225,388	-

The accompanying notes are an integral part of these consolidated financial statements.

(Expressed in Canadian Dollars)

1. NATURE OF BUSINESS

Legend Power Systems Inc. (hereafter referred to as the "Company" or "Legend") is incorporated under the laws of the Province of British Columbia and was established as a legal entity on June 4, 1987. The Company's principal business activities are the marketing of a patented device, the "SmartGATE™", designed to provide energy savings through voltage optimization to commercial and industrial customers. The Company's common shares are listed on the TSX Venture Exchange.

The Company's principal office is located at 1480 Frances Street, Vancouver, BC, V5L 1Y9, Canada

2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These consolidated financial statements have been prepared on a going concern basis, under the historical cost convention, except for certain financial assets and financial liabilities which are measured at fair value.

As at September 30, 2018, the Company had working capital of $13,618,319 (September 30, 2017 - $4,114,486) and an accumulated deficit of $45,221,860 September 30, 2017 - $42,662,475). During the year ended September 30, 2018 the Company incurred a net loss of $2,559,385 (2017 - $1,846,687).

In April 2018, the Company completed a $10.5 million public offering (the "Offering") by issuing 13,156,000 common shares, inclusive of an overallotment option, for total net proceeds of $9,578,881 (Note 11(i)). Based on working capital as at September 30, 2018 and estimated cash requirements, projected sales and gross margins for fiscal 2019, management believes the Company has sufficient capital to continue business operations over the next twelve months. In the long term, the continued business operations of the Company are dependent upon economic and market factors which involve uncertainties including profitable commercialization of its products and/or the Company's ability to obtain adequate financing. There can be no assurance that the Company can achieve profitable commercialization of its products and/or obtain additional capital.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements include the accounts of the Company and all of its subsidiaries. The subsidiaries of the Company are as follows:

Legend Power Systems Corp. – (USA) active	100%
0809882 B.C. Ltd. – (Canada) inactive	100%
LPSI (Barbados) Limited – (Barbados) inactive	100%

Assets, liabilities, revenue and expenses of the subsidiaries are recognized in accordance with the Company's accounting policies. Inter-company transactions and balances are eliminated upon consolidation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Comparatives

Certain prior year amounts are reclassified to conform with the presentation adopted in the current year. The reclassified amounts in the consolidated statement of financial position are: trade receivable for an amount of $892,062 reclassified to due from customers on contract, an amount of $23,395 has been reclassified out of warranty provision into current portion of warranty provision; and the reclassified amounts in the consolidated statement of loss and comprehensive loss are:
an amount of $240,650 related to commissions and sale distribution costs, previously recorded to costs of sales and general and overhead costs of $122,927 of costs related to sales were reclassified to selling costs for a total of $363,577. The Company has also reclassified segmented assets, liabilities, revues and expense for the prior year, see Note 4 – Segments.

Foreign currency translation

Functional and presentation currency

The functional currency of the Company and its subsidiaries is the Canadian dollar. The consolidated financial statements are presented in Canadian dollars.

Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in net income or loss.

Cash and cash equivalents
Cash and cash equivalents comprise of cash on hand, deposits in banks and investment with maturities of 12 months or less from the acquisition date, cashable within 30 days. The carrying value of these financial instruments approximate their fair values because of the short-term nature.

Property and equipment

Equipment is stated at historical cost less depreciation and, where necessary, write-downs for impairment. Depreciation is calculated using the straight-line method at the following annual rates:

Computer equipment	33%
Computer software	100%
Equipment and furniture	33%
Leasehold improvements	20%

The useful lives, residual values and method of depreciation are reviewed at each financial year-end and adjusted if appropriate.

Intangible assets

The Company's intangible assets are comprised of patents. Patents are recorded at cost less accumulated amortization and, where necessary, write-downs for impairment. Amortization is calculated using the straight-line method over five years based on the estimated useful life of the asset. Patents are assessed for impairment whenever there is an indication they might be impaired. The amortization period and amortization method are reviewed at the end of each reporting period. Patents maintenance costs are expensed as incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Impairment of long-lived assets

Impairment tests for long-lived assets are performed when there is an indication of impairment. At each reporting date, an assessment is made to determine whether there are any indications of impairment. If any indication of impairment exists, an estimate of the long-lived asset's recoverable amount is calculated. The recoverable amount is determined as the higher of fair value less costs of disposal and the asset's value in use. If the carrying value of a long-lived asset exceeds its recoverable amount, the asset is impaired, and an impairment loss is charged to net income or loss to reduce the carrying amount of the long-lived asset to its recoverable amount.

Research and development costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Company can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale
- Its intention to complete and its ability and intention to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete, and the asset is available for use. It is amortised over the period of expected future benefit estimated to be over 5 years. Amortization is recorded in cost of sales. During the period of development, the asset is tested for impairment annually.

Warranty provision

Warranty provision for the expected cost of warranty obligations is recorded as an expense at the date of the sale of a SmartGATE™ system. The provision is for estimated costs of product replacement due to a malfunction in the system after installation. The provision is based on management's best estimates incorporating a number of factors including historical number of warranty claims and cost experience per claim as well as duration of warranty coverage. The Company reviews its product warranty provision quarterly with any adjustment recorded in net income or loss.

Current and deferred income taxes

Tax expense is comprised of current and deferred income taxes. Tax is recognized separately in the statement of loss and comprehensive loss, except to the extent that it relates to items recognized in other comprehensive income (loss) or directly in equity. In this case, income tax is also recognized in other comprehensive income (loss) or directly in equity, respectively.

Current tax

Current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Deferred tax

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates [and laws] that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realized, or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Share-based payments

The fair value, at the grant date, of equity-settled share awards is charged to the statement of loss and comprehensive loss over the period for which the benefits of employee and others providing similar services are expected to be received. The corresponding accrued entitlement is recorded in contributed surplus. The fair value of awards is calculated using the Black-Scholes option pricing model which considers the following factors: exercise price, life of the award, expected forfeitures, expected volatility, risk-free interest rate and current market price of the underlying shares.

When equity instruments are granted to non-employees, they are recorded at the fair value of the goods and services received, unless the fair value of the goods and services received cannot be reasonably measured, in which case they are measured using the equity instruments issued. Expenses are recorded in the statement of comprehensive loss. Amounts related to the cost of issuing shares are recorded as a reduction of share capital.

When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value is measured by use of a valuation model. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioral considerations.

Warrants issued in equity financing transactions

The Company engages in equity financing transactions to obtain the funds necessary to continue operations. These equity financing transactions may involve issuance of common shares or units. Units typically comprise a certain number of common shares and share purchase warrants. Depending on the terms and conditions of each equity financing transaction, the warrants are exercisable into additional common shares at a fixed price prior to expiry as stipulated by the terms of the transaction.

The Company has adopted a residual value method with respect to the measurement of common shares and share purchase warrants issued as units. The fair value of the share purchase warrants issued as part of units is determined by the Black-Scholes method on the announcement date. The balance is allocated to the common shares.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held to maturity, available for sale, loans and receivables or at fair value through profit or loss.

Financial assets classified as fair value through profit or loss are measured at fair value with unrealized gains and losses recognized through comprehensive profit or loss. Cash is classified as fair value through profit or loss.

Financial assets classified as loans and receivables and held to maturity are measured at amortized cost. Amounts receivable are classified as loans and receivables.
Financial assets classified as available for sale are measured at fair value with unrealized gains and losses recognized in other comprehensive loss except for losses in value that are considered other than temporary. At September 30, 2018, the Company has not classified any financial assets as available for sale or held to maturity.

Transaction costs associated with financial assets at fair value through profit or loss are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

All financial liabilities are initially recorded at fair value and designated upon inception as fair value through profit or loss or other financial liabilities.

Financial liabilities classified as other financial liabilities are measured at amortized cost. Trade payables, accrued liabilities and finance fee payable are classified as other financial liabilities.

Financial liabilities classified as fair value through profit or loss are measured at fair value with unrealized gains and losses recognized through comprehensive profit or loss. At September 30, 2018, the Company has not classified any financial liabilities as fair value through profit or loss.

Revenue recognition

The Company generates revenue through product sales and product sales with installation services.

The total price of a customer arrangement is expected to vary depending on type of equipment and whether or not installation service is included. For those contracts that include installation services the Company utilizes Management's best estimate of fair value for the products based upon normal pricing and discounting practices for the product when sold separately. Fair value of installation services is estimated based on third party contractor pricing. The total contractual consideration is allocated between product and installation services based on their relative fair value. Revenue from products and services is recognized so long as persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectability is reasonably assured and for bill-and-hold arrangements, the customer has agreed that upon completion of equipment and preparation for shipping (the "Hold Date"), title to the equipment has passed to the customer.

Inventory

Inventory is measured at the lower of cost or net realizable value. Transformer and controller costs are assigned to inventory at actual costs. Component inventory is measured based on first in first out.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Loss per share

Basic and diluted loss per share is determined by dividing the loss attributable to common shareholders by the weighted average number of common shares outstanding during the reporting period. Diluted loss per share is not separately presented, as the effect of securities exercisable into common shares would reduce the amount presented as loss per share.

Critical judgments and sources of estimation uncertainty

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical judgments

The following are critical judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the financial statements:

i) Management is required to assess whether to test its development costs included in intangible assets for impairment in accordance with IAS 36. In assessing whether there is any indication that long-lived assets may be impaired, management is required to make judgments about whether there are any internal or external indicators of impairment. Judgement is required in determining the technical and commercial feasibility and in assessing the probability of future economic benefits and the useful life of the asset per management's best estimation of the next development updates.

   At September 30, 2018, management has determined no impairment indicators were present with respect to the Company's development costs previously capitalized.

ii) For those contracts that include both a system and its installation, the Company utilizes Management's best estimate of fair value for the products and revenue for the installation services is estimated based on third party contractor pricing.

Estimation uncertainty

The following are key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year:

i) At September 30, 2018, provisions for future warranty expense was forecasted by management based on recent historical experience and expectations of future warranty claim activity.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

ii) At September 30, 2018, provisions for impairment of inventory were made using the best estimate of the net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs to complete the sale for finished goods and replacement cost for raw materials.

New standards not yet adopted

The following is an overview of new accounting standards that the Company will be required to adopt in future years. The Company does not expect to adopt any of these standards before their effective dates. The Company is currently assessing the impact of the new standards and it cannot reasonably estimate the impact of adoption except as stated below.

a) IFRS 9 - Financial Instruments. This standard partially replaces IAS 39 - Financial Instruments: Recognition and Measurement. IFRS 9 measures financial assets, after initial recognition, at either amortized cost or fair value. Existing IAS 39 classifies financial assets into four measurement categories. The standard is effective for annual periods beginning on or after January 1, 2018. In the year of adoption, the Company is required to provide additional disclosures relating to the reclassified financial assets and liabilities. The Company intends to adopt IFRS 9 in the fiscal year starting October 1, 2018 and is currently in the process of determining impacts of adoption.

b) IFRS 15 - Revenue from contracts with customers. IFRS 15 is effective for annual periods beginning on or after January 1, 2018 and it creates a single source of revenue requirements for all entities in all industries. The main impact of IFRS 15 in preparation and disclosure of financial statements are as follows:

   i) IFRS 15 specifies how and when to recognize revenue through a five-step model framework for revenue recognition: identifying the contract, identifying the performance obligations (including bill on hold agreements) in the contract to determine which goods or services are distinct and require a separate performance obligation, determining the total transaction price (recognizing and allocating variable consideration), allocating the transaction price to the performance obligations, and determining whether revenue should be recognized at a point in time or through stages of completion. The main concept is that revenue should be recognized to reflect the transfer of promised goods or services to customers in an amount that reflects the consideration that the entity expects to receive in exchange for those goods or services.

The Company intends to adopt IFRS 15 in its consolidated financial statements for the year commencing October 1, 2018. The Company is in the process of assessing the final impact of the IFRS 15 on its consolidated financial statements. This standard may be adopted using a full retrospective or modified retrospective approach. The Company will finalize the transition method it will apply and quantify the financial reporting impact of adoption in the first quarter of fiscal 2019.

c) IFRS 16 – Leases. In January 2016, IFRS 16, was issued which requires, among other things, lessees to recognize leases traditionally recorded as operating leases in the same manner as financing leases. IFRS 16 now prescribes the accounting policies and disclosures applicable to leases for both lessees and lessors. The standard replaces IAS 17, Leases, and is effective for annual periods beginning of after January 1, 2019 with earlier application permitted. The Company expects its facility leases to be recorded on the balance sheet as a result of the transition and is in the process of quantifying the impact.

(Expressed in Canadian Dollars)

4. SEGMENTS

The Company has assessed two operating segments based on geographical location of sales and management decision making: Legend Power Systems Canada ("Legend Canada") and the Legend Power Systems Corp. - U.S. ("Legend U.S.). Legend Canada derives all its revenues from Canada and in the year ended September 30, 2018 100% of the Company's revenues were attributable to Legend Canada (2017 – 99%). All Legend U.S. revenues are derived from the U.S. and in the year ended September 30, 2018 $nil revenues were attributable to U.S. (2017 – 1%). Each reportable segment derives its revenue from the sale and installation of the SmartGATE™. Transfer prices between operating segments are on non- arm's length basis.

The comparative tables below show assets and liabilities, revenues and expenses and net loss and comprehensive loss for each segment. The Company has restated segmented assets, liabilities, revenues and expense and net loss and comprehensive loss for the prior year following the change in the composition of its reportable segments in the year ended September 30, 2018. Of the assets presented in the table below an amount of $270,861 for Legend Canada and $3,040 for Legend U.S. are non-current assets.

	September 30, 2018			September 30, 2017			
	Legend Canada	Legend U.S.	Total	Legend Canada	Legend U.S.	Adjustments and eliminations	Total
	$	$	$	$	$	$	$
Assets	14,107,955	405,931	14,513,886	5,077,807	58,396	(52,550)	5,083,653
Liabilities	852,968	37,832	890,800	992,933	52,550	(52,550)	992,933
Revenues	6,595,063	-	6,595,063	4,224,008	58,396	(53,648)	4,228,756
Expenses	(8,437,268)	(717,180)	(9,154,448)	(6,074,860)	(54,231)	53,648	(6,075,443)
Net (loss) income and comprehensive loss	(1,842,205)	(717,180)	(2,559,385)	(1,850,852)	4,165	-	(1,846,687)

Adjustments and eliminations consist of inter-segment revenues, receivables and payables.

One customer accounted for 17% of the Company's revenues for the year ended September 30, 2018 compared with two customers for 15% and 12% respectively for the year ended September 30, 2017. Product revenues and installation services accounted for 66% and 34% respectively of total revenue for the year ended September 30, 2018 compared with 79% and 21% respectively for the year ended September 30, 2017.

(Expressed in Canadian Dollars)

5. RECEIVABLES

i) Trade Receivables

Aging of trade receivables as follows:

Trade Receivables	Total due	0-30 days	31-90 days	91 to a year	Over a year
	$	$	$	$	$
September 30, 2018	1,573,298	1,321,166	219,890	25,372	6,870
September 30, 2017	1,745,030	1,043,819	431,620	269,591	-

During the year ended September 30, 2018, the Company wrote off a trade receivable amount of $48,943 (2017 - $nil) to bad debt.

At September 30, 2018, receivables from four of our customers accounted for 60%, 14%, and 14%, respectively of the Company's trade receivables balance for a total of 88% in aggregate. Receivables from three customers accounted for 11%, 13%, and 16%, respectively of the Company's trade receivables balance for a total of 40% in aggregate at September 30, 2017.

ii) Due from customers on contract

Due from customers on contract amounts of $1,361,126 at September 30, 2018 and $892,062 at September 30, 2017, relates to equipment delivered and/or installation services performed for sales where revenue has been recognized, and customers had not yet been invoiced.

6. INVENTORY

Inventories consist of the following, as at September 30, 2018 and 2017:

	2018	2017
	$	$
Finished products ("SmartGATE™")	148,475	142,602
Work in progress inventory	56,837	-
Transformers and components	861,280	867,674
	1,066,592	1,010,276

During the year ended September 30, 2018, inventories were recognized as cost of sales in the amount of $1,324,215 (2017 – $1,712,032) and inventory impairment was also recognized as cost of sales in the amount of $5,249 (2017 – $15,162). Inventory impairment resulted from the write-off of components scrapped.

(Expressed in Canadian Dollars)

7. PROPERTY AND EQUIPMENT

	Computer equipment	Computer software	Equipment and furniture	Leasehold Improvements	Total
	$	$	$	$	$
Cost					
Balance at September 30, 2016	76,196	100,847	297,574	20,805	495,422
Additions	25,749	2,586	53,904	139	82,378
Balance at September 30, 2017	101,945	103,433	351,478	20,944	577,800
Additions	31,181	21,985	85,652	5,875	144,693
Disposals	(6,519)	-	-	-	(6,519)
Balance at September 30, 2018	126,607	125,418	437,130	26,819	715,974
Accumulated Depreciation					
Balance at September 30, 2016	68,762	93,541	280,084	12,973	455,360
Additions	9,036	8,662	18,385	1,952	38,035
Balance at September 30, 2017	77,798	102,203	298,469	14,925	493,395
Additions	15,956	14,561	37,602	3,041	71,160
Disposals	(1,526)	-	-	-	(1,526)
Balance at September 30, 2018	92,228	116,764	336,071	17,966	563,029
Net book value					
At September 30, 2017	24,147	1,230	53,009	6,019	84,405
At September 30, 2018	34,379	8,654	101,059	8,853	152,945

(Expressed in Canadian Dollars)

8. INTANGIBLE ASSETS

In 2007, the Company purchased the worldwide patents for the SmartGATE™ (formerly "Electrical Harmonizer"). These patents are now fully amortized.

During the year ended September 30, 2017, activities associated with development of the Company's next generation technology were classified as having progressed from the research phase, into the development stage, thus certain related expenditures during the years were capitalized. During the year ended September 30, 2018 an amount of $27,336 (2017 - $107,060) was capitalized to product development. The Company's next generation technology has reached the production phase and started to generate economic benefits thus amortization of development costs has commenced during fiscal year 2018 and will continue over the estimated useful economic life of the technology of 5 years. As at September 30, 2018, remaining useful life of the product development was 5 years (2017 – 5 years).

	Patents	Product Development	Total
	$	$	$
Cost			
Balance at September 30, 2016	1,638,099	-	1,638,099
Additions	-	107,060	107,060
Balance at September 30, 2017	1,638,099	107,060	1,745,159
Additions	-	27,336	27,336
Balance at September 30, 2018	1,638,099	134,396	1,772,495
Amortization			
Balance at September 30, 2016	1,515,160	-	1,515,160
Additions	122,939	-	122,939
Balance at September 30, 2017	1,638,099	-	1,638,099
Additions	-	13,440	13,440
Balance at September 30, 2018	1,638,099	13,440	1,651,539
Carrying Amount			
At September 30, 2017	-	107,060	107,060
At September 30, 2018	-	120,956	120,956

9. ACCOUNTS PAYABLE

Accounts payable consist of the following, as at September 30, 2018 and 2017:

	2018	2017
	$	$
Trade payables	363,351	579,937
Sales tax payable	108,872	12,823
	472,223	592,760

(Expressed in Canadian Dollars)

10. WARRANTY PROVISION

	Total
	$
Balance at September 30, 2016	192,000
Warranty fulfillments	(37,790)
Additional provision	61,021
Balance at September 30, 2017	215,231
Warranty fulfillments	(127,040)
Additional provision	221,806
Balance at September 30, 2018	309,997

The Company provides a warranty on its equipment for a period of 10 years. The warranty provision will be used to fulfill warranty claims, should they arise, over the 10-year warranty period provided to customers. As at September 30, 2018, the average remaining years of equipment under warranty was 7.96 years (2017 – 8.08 years).

11. SHARE CAPITAL AND CONTRIBUTED SURPLUS

i) Share Capital

The Company's authorized share capital is an unlimited number of common shares without par value. At September 30, 2018, the Company had 101,462,803 shares issued and outstanding. All issued common shares are fully paid. Contributed Surplus consists of the accumulated fair value of common share options recognized as share-based compensation, fair value of warrants and fair value of broker warrants.

	Common shares	Share capital
		$
Balance, September 30, 2016	70,443,946	33,458,288
Issued with warrants exercise	12,342,312	4,962,965
Balance, September 30, 2017	82,786,258	38,421,253
Issued with public offering (1)	12,500,000	8,877,683
Over - allotment option (2)	656,000	475,810
Issued with exercise of warrants	4,464,382	2,258,693
Issued with exercise of options	1,056,163	375,864
Balance September 30, 2018	101,462,803	50,409,303

1) On April 6, 2018, the Company completed a $10 million public offering, issuing 12.5 million common shares at a price of $0.80 per share. The Company paid a cash commission of $531,240 to the underwriters and incurred additional share issue costs of $378,191 in legal and filing fees bringing the net proceeds to $9,090,569. The Company issued 664,050 broker warrants to the underwriters in connection with this public offering. Each broker warrant entitles the holder to purchase one common share of the Company at $0.80 per share until April 6, 2020. An amount of $212,886 was recorded to share issue costs for the fair value of the brokers warrants issued to the underwriters, calculated using Black Scholes Model with the following assumptions: share price $0.80, exercise price $0.80, expected life 2 years, annual volatility 73% and risk-free rate 1.36%.

(Expressed in Canadian Dollars)

11. SHARE CAPITAL AND CONTRIBUTED SURPLUS - continued

2) On April 30, 2018, the Company completed an over-allotment option exercised by the underwriters in connection with the April 6, 2018 Offering. As a result, the Company issued an additional 656,000 common shares at a price $0.80 per share for additional gross proceeds of $524,800. The Company paid cash commission of $31,488 to the underwriters and incurred additional cash share issue costs of $5,000, bringing the net proceeds to $488,312. The Company issued 39,360 brokers warrants to the underwriters at a price of $0.80 expiring April 30, 2020. An additional amount of $12,502 was recorded to share issue costs for the fair value of the broker warrants issued to the underwriters in connection with the over-allotment. Fair value of the 39,360 broker warrants was calculated using the Black Scholes pricing model using the following assumptions: share price $0.80, exercise price $0.80, expected term 2 years, annual volatility 71.78% and risk-free rate of 1.43%.

ii) Stock Options

The Company has an incentive share option plan (the "Plan"). Under the Plan a total of 10% of the Company's outstanding common shares are reserved for the issuance of share options to directors, officers, employees and consultants. The terms of each option award are fixed by the directors at the time of grant. Share options awarded have a maximum term of five years. Share options vest over various time periods from the grant date to five years at the discretion of the board of directors.

A summary of the Company's share options outstanding at September 30, 2018, including the changes during the period, is as follows:

	Share options	Weighted average exercise price
		$
Balance, September 30, 2016	6,064,496	0.34
Granted	2,825,000	0.30
Forfeited	(446,667)	0.31
Expired	(183,333)	0.42
Balance, September 30, 2017	8,259,496	0.32
Granted	875,000	0.74
Exercised	(1,056,163)	0.28
Expired	(275,000)	0.30
Forfeited	(690,000)	0.41
Balance September 30, 2018	7,113,333	0.37

During the year ended September 30, 2018, the Company granted 875,000 (2017 – 2,825,000) stock options. The weighted average fair value of options granted during the year ended September 30, 2018 was $0.30 per option (2017 - $0.20).

An amount of $427,533 was recorded to share-based compensation expense for 1,822,642 options vested during the year ended September 30, 2018 (2017 - $366,305 for 1,481,387 options vested)

During the year ended September 30, 2018, 1,056,163 (2017 – nil) stock options were exercised for total proceeds of $299,584 (2017- $nil). An amount of $76,280 was transferred to share capital from contributed surplus in connection with these exercises (2017 - $nil).

(Expressed in Canadian Dollars)

11. SHARE CAPITAL AND CONTRIBUTED SURPLUS - continued

The fair value of share options awarded to employees, directors and consultants was estimated on the dates of award using the Black-Scholes option-pricing model with the following assumptions during the years ended September 30, 2018 and 2017:

	2018	2017
Risk-free interest rate	1.52 - 2.10%	0.60 - 1.77%
Estimated volatility	82.59 - 88.06%	92.49 - 117.79%
Expected life (years)	3.00 - 3.50	3 - 5
Forfeiture rate	19.60 - 20.44%	20.57 - 21.99%
Dividend rate	0.00%	0.00%

The Black-Scholes option pricing model was developed for use in estimating the fair value of share options that have no vesting provisions and are fully transferable. Also, option-pricing models require the use of estimates and assumptions including the expected volatility. The Company uses expected volatility rates which are based upon historical volatility rates. Changes in the underlying assumptions can materially affect the fair value estimates.

The following table summarizes share options outstanding and exercisable at September 30, 2018:

Options outstanding	Options exercisable	Exercise price	Year of Expiry
		$	
2,245,000	2,245,000	0.20 - 0.55	2019
170,000	120,000	0.35	2020
1,951,666	1,668,055	0.25 - 0.30	2021
2,126,667	771,253	0.27 - 0.75	2022
620,000	10,000	0.55 - 0.92	2023
7,113,333	4,814,308		

iii) Warrants

The continuity of share purchase warrants during the years ended September 30, 2018 and 2017 is as follows:

	Number of warrants	Weighted average exercise price
		$
Balance, September 30, 2016	16,806,694	0.35
Exercised	(12,342,312)	0.33
Balance, September 30, 2017	4,464,382	0.40
Exercised	(4,464,382)	0.40
Issued, broker warrants	703,410	0.80
Balance, September 30, 2018	703,410	0.80

During the year ended September 30, 2018, 4,464,382 (2017 – 12,342,312) investors warrants were exercised at $0.40 (2017 – average price $0.33) for total proceeds of $1,785,753 (2017 - $4,067,297). An amount of $472,940 (2017 - $895,668) was transferred to share capital from contributed surplus in connection with this exercise.

In April 2018, the Company issued 703,410 broker warrants to the underwriters in connection with the Offering and overallotment option. Each broker warrant entitles the holder to purchase one common share of the Company at $0.80 per share until April 2020.

(Expressed in Canadian Dollars)

12. COMMITMENTS

On December 4, 2017 the Company entered into an agreement to lease premises in Toronto, Ontario and on March 22, 2018 the Company entered into an agreement to lease premises in Vancouver, B.C. When taken together the lease agreements require the following minimum lease payments in each of the below fiscal years:

2019	$182,856
2020	$143,219
2021	$70,775

The lease payments are subject to changes or increases in additional rent, generally described as the Company's portion of the landlord's common area charges and property taxes.

During the year ended September 30, 2018 an amount of $153,787 (2017 - $112,482) was recorded to rent expense for the monthly lease payments.

The Company has an employment agreement with the President and CEO of the Company that contains severance provisions whereby termination without cause could result in additional costs to the Company unless re-negotiated or settled otherwise.

The Company has a management services agreement with the CFO of the Company that contains severance provisions whereby termination without cause could result in additional costs to the Company unless re-negotiated or settled otherwise.

13. RELATED PARTY DISCLOSURES

The Company entered into the following related party transactions during the years ended September 30, 2018 and 2017.

(i) Transactions with Key Management Personnel:

The following amounts were incurred with respect to Key Management Personnel; being the Company's CEO and the CFO:

	2018	2017
	$	$
Salaries and consulting fees to key management personnel	374,691	339,090
Share-based compensation	184,322	162,269
	559,013	501,359

(ii) Transactions with Directors:

The following amounts were incurred with respect to non-executive directors of the Company:

	2018	2017
	$	$
Share-based compensation	69,089	72,569

At September 30, 2018, a total of $28,915 (2017 - $nil) was due to related parties for consulting fees and expenses reimbursement.

(Expressed in Canadian Dollars)

14. INCOME TAXES

The recovery of income taxes shown in the statement of loss and comprehensive loss and deficit differs from the amounts obtained by applying statutory rates to the loss before provision for income taxes as follows:

	2018	2017
	$	$
Net loss before taxes	(2,559,384)	(1,846,687)
Combined federal and provincial income tax rate	26.75%	26.25%
Expected income tax recovery	(685,000)	(485,000)
Non-deductible expenses	117,000	99,000
Share issue costs incurred during the year	(245,000)	-
Unrecognized benefits of tax attributes	943,000	337,000
Other including differences in foreign tax rates and foreign exchange	(130,000)	49,000
Actual income tax recovery	-	-

The following temporary differences have not been set up as deferred tax assets:

	2018	Year of Expiry	2017	Year of Expiry
	$		$	
Operating loss carryforwards	25,604,000	2022 to 2038	22,964,000	2022 to 2037
Property and equipment	1,522,000	none	1,445,000	none
Share issuance costs	825,000	2039 to 2040	243,000	2038 to 2040
Patent	1,638,000	none	1,638,000	none
Taxable capital losses	240,000	none	240,000	none
Warranty provision	310,000	none	215,000	none

There are approximately $24,200,000 (2017 - $22,300,000) Canadian operating losses and $1,400,000 (2017 - $600,000) US operating losses available to reduce taxable income in future years.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments

The Company's financial instruments consist of cash and cash equivalents, trade receivables, accounts payable and amounts due to related parties. The carrying values of these financial instruments approximate their fair values because of their short-term nature.

Risk management

The risks associated with these financial instruments and the policies regarding their management are discussed below. Management monitors these risk exposures to ensure appropriate measures are implemented in a timely and effective manner.

Foreign currency risk

The Company is exposed to the US dollar versus Canadian dollar exchange rate fluctuation risks through operations of its US subsidiary and expenses incurred in US dollars. As at September 30, 2018 all of Company's liquid assets and liabilities were held in Canadian dollars and US dollars. A significant change in the USD exchange rate relative to the Canadian dollar could affect the Company's results of operations. A change in the value of US dollar by 10% relative to the value of the Canadian dollar would have affected the Company's results of operations for the year ended September 30, 2018 by approximately $43,000 (2017 - $nil).

Interest rate risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. The Company is exposed to interest rate risk due to its potential impact on cash and cash equivalents. The Company earns interest on deposits based on current market interest rates, which during the year ended September 30, 2018 ranged from 0.5% to 1.6% (2017 – 0.5% to 1.4%). A 1% change in interest rates would have affected the Company's results of operations for the year ended September 30, 2018 by approximately $54,700 (2017 - $11,500). The Company does not have any interest-bearing liabilities.

Credit risk

Credit risk is the risk of an unexpected loss if the counterparty to a financial instrument fails to meet its contractual obligations. The credit risk associated with cash is believed to be minimal as cash is on deposit with Canadian and foreign banks that are deemed to be creditworthy. Receivables are comprised primarily of amounts due from various customers. The Company is exposed to credit risk through accounts receivable from customers. At September 30, 2018, receivables from three customers accounted for 60%, 14% and 14%, respectively of the Company's receivable balance for a total of 88% in aggregate. Receivables from three customers accounted for 11%, 13%, and 16%, respectively of the Company's receivable balance for a total of 40% in aggregate at September 30, 2017.

Liquidity risk

Liquidity risk is managed by ensuring sufficient financial resources are available to meet obligations associated with financial liabilities. As at September 30, 2018 the Company had cash and cash equivalents of $10,046,366 to settle its current liabilities of $621,666.