



Legend Power Systems Inc.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the three and nine months ended June 30, 2020 and 2019
(Unaudited – Prepared by Management)

(Expressed in Canadian Dollars)

Legend Power Systems Inc.

CONSOLIDATED FINANCIAL STATEMENTS

Three and nine months ended June 30, 2020, and 2019

(Unaudited - Expressed in Canadian Dollars)

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**NOTICE OF NO AUDITOR REVIEW OF
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

The accompanying unaudited condensed interim consolidated financial statements of Legend Power Systems Inc. for the nine months ended June 30, 2020 have been prepared by and are the responsibility of the Company's management.

The auditor of Legend Power Systems Inc. has not performed a review of the unaudited condensed interim consolidated financial statements for the nine-month period ended June 30, 2020.

Legend Power Systems Inc.**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

(Unaudited - expressed in Canadian Dollars)

		June 30, 2020	September 30, 2019 (Audited)
	Notes	\$	\$
ASSETS			
Current assets			
Cash and cash equivalents		3,242,115	5,677,537
Receivables	5(i)(ii)	121,365	655,320
Due from customers on contract	5(iii)	613,691	891,288
Prepaid expenses and deposits		88,672	130,118
Inventory	6	1,114,796	1,255,737
		5,180,639	8,610,000
Property and equipment	7	113,255	106,750
Right of use assets	3	107,325	-
Intangible assets	8	7,934	8,385
		5,409,153	8,725,135
LIABILITIES AND SHAREHOLDER'S EQUITY			
Current liabilities			
Accounts payable		279,168	343,258
Accrued liabilities		353,983	249,906
Lease liabilities	3	118,541	-
Warranty provision	10	93,287	99,122
		844,979	692,286
Payroll Protection Program Loan	9	197,747	-
Lease liabilities – non-current	3	6,164	-
Warranty provision	10	278,573	245,378
		1,327,463	937,664
Shareholders' equity			
Share capital	11(i)	50,622,711	50,549,482
Contributed surplus	11(ii)(iii)	8,895,814	8,656,967
Accumulated other comprehensive loss		(84,986)	(103,962)
Deficit		(55,351,849)	(51,315,016)
		4,081,690	7,787,471
		5,409,153	8,725,135

Segments (Note 4)

Commitments (Note 12)

Subsequent events (Note 15)

APPROVED BY THE BOARD OF DIRECTORS AND AUTHORIZED FOR ISSUE August 26, 2020

“Cos LaPorta”, Director“Randy Buchamer”, Director*The accompanying notes are an integral part of these consolidated financial statements.*

Legend Power Systems Inc.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

(Unaudited - expressed in Canadian Dollars)

	Notes	For the three months ended June 30,		For the nine months ended June 30,	
		2020	2019	2020	2019
		\$	\$	\$	\$
Revenue		1,548	676,139	1,681,236	1,848,982
Cost of sales		0	349,280	1,249,023	781,440
Gross margin		<u>1,548</u>	<u>326,860</u>	<u>432,213</u>	<u>1,067,542</u>
Expenses					
Salaries and consulting		532,582	1,035,908	2,575,269	3,167,792
General and overhead		72,394	255,005	594,293	781,001
Selling costs		35,071	69,817	205,604	266,832
Share-based compensation	11(ii)	120,245	86,150	267,177	250,533
Professional fees		116,028	44,885	292,504	153,564
Warranty provision	10	(13,941)	34,601	68,391	126,524
Product development		75,357	19,295	203,663	38,816
Foreign exchange (gain) loss		1,479	(9,282)	779	(17,687)
Amortization and depreciation	3,7,8	44,443	7,950	132,500	107,355
		<u>983,658</u>	<u>1,544,329</u>	<u>4,340,180</u>	<u>4,874,730</u>
Operating loss		<u>(982,110)</u>	<u>(1,217,469)</u>	<u>(3,907,967)</u>	<u>(3,807,188)</u>
Inventory write-down	6	(36,703)	-	(138,101)	-
Other income		3,571	41,316	32,001	137,251
Net loss for the period		<u>(1,015,242)</u>	<u>(1,176,154)</u>	<u>(4,014,067)</u>	<u>(3,669,937)</u>
Other comprehensive loss:					
Exchange differences arising on translation of foreign operations		(3,514)	-	18,976	-
Net loss and comprehensive loss for the period		<u>(1,018,756)</u>	<u>(1,176,154)</u>	<u>(3,995,091)</u>	<u>(3,669,937)</u>
Basic and diluted loss per share		<u>(0.010)</u>	<u>(0.012)</u>	<u>(0.039)</u>	<u>(0.036)</u>
Weighted average number of common shares outstanding		101,871,081	101,847,336	101,857,128	101,736,644

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

Legend Power Systems Inc.

CONDENSES INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Unaudited - expressed in Canadian Dollars)

		Number of shares Issued	Capital stock	Contributed surplus	Deficit	Accumulated other comprehensive loss	Total shareholder's equity
		#	\$	\$	\$	\$	\$
Balance at September 30, 2018 (Audited)		101,462,803	50,409,303	8,435,643	(45,221,860)	-	13,623,086
Options exercised	11(ii)	387,500	142,743	(64,718)	-	-	78,025
Share-based compensation	11(ii)	-	-	250,533	-	-	250,533
Net loss for the period		-	-	-	(3,669,937)	-	(3,669,937)
Balance at June 30, 2019		101,850,303	50,552,046	8,621,458	(48,891,797)	-	10,281,707
Balance at September 30, 2019 (Audited)		101,850,303	50,549,482	8,656,967	(51,315,016)	(103,962)	7,787,471
IFRS 16 adjustment	3	-	-	-	(22,766)	-	(22,766)
Options exercised	11(ii)	170,000	73,229	(28,330)	-	-	44,899
Share-based compensation	11(ii)	-	-	267,177	-	-	267,177
Unrealized loss on foreign currency translation		-	-	-	-	18,976	18,976
Net loss for the period		-	-	-	(4,014,067)	-	(4,014,067)
Balance at June 30, 2020		102,020,303	50,622,711	8,895,814	(55,351,849)	(84,986)	4,081,690

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

Legend Power Systems Inc.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited - expressed in Canadian Dollars)

	Notes	For the nine months ended June 30,	
		2020	2019
		\$	\$
Cash flows used in operating activities			
Loss for the period		(4,014,067)	(3,669,937)
Items not affecting cash:			
Amortization and depreciation	3,7,8	73,557	107,877
Share-based compensation	11(ii)	267,177	250,533
Warranty provision	10	27,360	(102,821)
Foreign exchange (gain) loss		779	(21,626)
Inventory write-down	6	138,101	(138,891)
Changes in non-cash working capital items:			
Receivables, prepaids and deposits		290,425	556,169
Due from customers on contract		466,280	762,886
Inventory		2,839	(282,692)
Accounts payable and accrued liabilities		28,339	16,278
		<u>(2,719,210)</u>	<u>(2,522,224)</u>
Cash flows used in investing activities			
Purchase of property and equipment	7	(74,809)	(452,626)
Product development costs	8	(4,721)	(51,714)
Interest income received		103,494	86,929
		<u>23,964</u>	<u>(417,411)</u>
Cash flows from financing activities			
Payroll protection program loan		195,918	
Option exercise proceeds		44,899	78,025
		<u>240,817</u>	<u>78,025</u>
Effect of foreign exchange translation in cash		19,007	11,020
Net change in cash and cash equivalents for the period		(2,454,429)	(2,861,610)
Cash and cash equivalents, beginning of period		<u>5,677,537</u>	<u>10,046,366</u>
Cash and cash equivalents, end of period		<u>3,242,115</u>	<u>7,195,776</u>

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

Legend Power Systems Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the nine months ended June 30, 2020 and 2019

(Unaudited - 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 assembly, marketing and sale of a patented device, the “SmartGATE™”, which enables dynamic power management of an entire commercial or industrial building. 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.

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments have adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company’s business or results of operations at this time.

2. BASIS OF PREPARATION

Statement of compliance

These condensed interim 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.

Basis of consolidation

The condensed interim 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.

Functional and presentation currency

The functional currency of the Company, its Canadian and Barbados subsidiaries is the Canadian dollar. The functional currency of the Company’s U.S. subsidiary is the United States dollar. The consolidated financial statements are presented in Canadian dollars.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the condensed interim consolidated financial statements are consistent with those followed in the preparation of the Company’s annual consolidated financial statements for the year ended September 30, 2019, except for the new policies and adoption of new standards effective as of October 1, 2019.

Legend Power Systems Inc.
Notes to the Condensed Interim Consolidated Financial Statements
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(Unaudited - expressed in Canadian Dollars)

Commencing October 1, 2019, the Company applied for the first time, IFRS 16, Leases. As required by IAS 34, the nature and effect of these changes are disclosed below.

IFRS 16, Leases

IFRS 16 supersedes IAS 17, Leases, IFRIC 4, Determining whether an Arrangement contains a Lease, and other related Standard Interpretations Committee ("SIC") interpretations. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and require lessees to account for most leases under a single on-balance sheet model.

On adoption of IFRS 16, the Company recognized lease liabilities in relation to property leases, vehicle leases and an equipment leases, all of which had previously been classified as 'operating leases' under the principle of IAS 17. As of October 1, 2019, these liabilities were measured at the present value of the remaining lease payments discounted at 10%, which reflects the lessee's incremental borrowing rate to finance the purchase of similar property. The Company has applied IFRS 16 using the modified retrospective approach, whereby the cumulative effect of adopting IFRS 16, if any, is recognized as an adjustment to opening retained earnings as at October 1, 2019, with no restatement of comparative information. Under this method using the practical expedient available, the Company has recognized the right of use assets equal to the lease liabilities less any lease incentives received.

The lease liabilities as at October 1, 2019 can be reconciled to the operating lease commitments as of September 30, 2019 as follows:

	\$
Operating lease commitments as at September 30, 2019	247,913
Incremental borrowing rate as at October 1, 2019	10%
Discounted operating lease commitments at October 1, 2019	229,565
Lease liability recognized as at October 1, 2019	229,565

The right-of-use assets associated with these leases were initially measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to those leases recognized in the consolidated statement of financial position as at September 30, 2019.

Practical expedients applied

In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the Standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Company has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Company relied on its assessments previously made in applying IAS 17 and IFRIC 4.

Based on the foregoing, as at October 1, 2019:

- Right-of-use assets of \$206,800 were recognized and presented separately in the interim condensed consolidated statement of financial position.
- Lease liabilities of \$229,565 were recognized and presented separately in the interim condensed consolidated statement of financial position.

Legend Power Systems Inc.
Notes to the Condensed Interim Consolidated Financial Statements
For the nine months ended June 30, 2020 and 2019

(Unaudited - expressed in Canadian Dollars)

Summary of new accounting policies

The Company has adopted the following new accounting policies upon implementation of IFRS 16 on October 1, 2019:

Right-of-use assets

The Company recognizes right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct cost incurred, and lease payments made at or before the commencement date less any lease incentives received. The right-of-use assets are depreciated on a straight-line basis over its lease term. Right-of-use assets are subject to evaluation of potential impairment.

Lease liabilities

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments). The lease payments also include the exercise price of purchase options, if any, reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is re-measured if there is a modification, a change in the lease term or a change in the in-substance fixed lease payments.

Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases of properties (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below \$5,000). Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Summary of new significant judgements

Determining the lease term of contracts with renewal options

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Company has the option, under some of its leases to lease the assets for additional terms of one to ten years. The Company applies judgement in evaluating whether it is reasonably certain to exercise the option to renew, including the consideration of all relevant factors that create an economic incentive to exercise the renewal option. After the commencement date, the Company reassesses the lease term if

Legend Power Systems Inc.
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(Unaudited - expressed in Canadian Dollars)

there is a significant event or change in circumstances that is within its control and affects its ability to exercise the option to renew.

Amount recognized in the statement of financial position and statements of comprehensive loss

Set out below are the carrying amounts of the Company's right-of-use assets and lease liabilities and the movements during the nine-month period ended June 30, 2020.

	Right-of-use assets	Lease liabilities
	\$	\$
As at October 1, 2019	206,800	229,565
Depreciation expense	(99,475)	-
Interest expense	-	12,836
Payments	-	(117,696)
As at June 30, 2020	107,325	124,705

Depreciation of right-of-use assets is included in general and administration expenses. Interest expense related to lease liabilities is included in debenture and other interest expense.

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 Legend Power Systems Corp. - U.S. ("Legend U.S."). During the nine months ended June 30, 2020, 62% of the Company's revenues were attributable to Legend Canada (2019 – 89%) and 38% of revenues were attributable to Legend U.S. (2019 – 11%). Each reportable segment derives its revenue from the sale and installation of the SmartGATE™ products. Transfer prices between operating segments are calculated on a 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.

	As at June 30, 2020				As at September 30, 2019			
	Legend Canada	Legend U.S.	Other Subs	Total	Legend Canada	Legend U.S.	Other Subs	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Assets	4,877,859	525,691	5,603	5,409,153	8,385,754	339,381	-	8,725,135
Liabilities	957,412	368,652	1,399	1,327,463	691,437	239,589	6,638	937,664

	Three months ended June 30, 2020				Three months ended June 30, 2019			
	Legend Canada	Legend U.S.	Other Subs	Total	Legend Canada	Legend U.S.	Other Subs	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	1,548	-	-	1,548	471,503	204,636	-	676,139
Cost of sales	-	-	-	-	(101,754)	(247,526)	-	(349,280)
Op costs	(660,398)	(324,250)	990	(983,658)	(892,137)	(660,362)	(8,170)	(1,544,329)
Other costs	19,614	(52,746)	-	(33,132)	274,876	(233,560)	-	41,316
Net Loss	(639,236)	(376,996)	990	(1,015,242)	(247,512)	(936,812)	(8,170)	(1,176,154)

Legend Power Systems Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the nine months ended June 30, 2020 and 2019

(Unaudited - expressed in Canadian Dollars)

	Nine months ended June 30, 2020				Nine months ended June 30, 2019			
	Legend Canada	Legend U.S.	Other Subs	Total	Legend Canada	Legend U.S.	Other Subs	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	1,033,878	647,358	-	1,681,236	1,644,346	204,636	-	1,848,982
Cost of sales	(949,760)	(299,263)	-	(1,249,023)	(533,914)	(247,526)	-	(781,440)
Op costs	(2,825,814)	(1,510,946)	(3,420)	(4,340,180)	(3,113,169)	(1,768,092)	6,531	(4,874,730)
Other costs	86,397	(192,497)	-	(106,100)	366,453	(229,202)	-	137,251
Net loss	(2,655,299)	(1,355,348)	(3,420)	(4,014,067)	(1,636,284)	(2,040,184)	6,531	(3,669,937)

Three customers accounted for 10%, 13% and 38% of the Company's revenues for the nine months ended June 30, 2020 compared with three customers for 16%, 14%, and 11% for the same nine months of fiscal 2019.

5. RECEIVABLES

i) Trade receivables

Aging of trade receivables as follows:

Trade receivables	Total due	0-30 days	31-90 days	90+
	\$	\$	\$	\$
June 30, 2020	67,866	-	2,260	65,606
September 30, 2019	655,320	236,717	-	418,603

At June 30, 2020, trade receivables from two of our customers accounted for 36% and 53% respectively of the Company's trade receivables balance for a total 89% in aggregate. At September 30, 2019, receivables from five of our customers accounted for 10%, 12%, 15%, 20% and 21% respectively of the Company's trade receivables balance for a total 78% in aggregate.

ii) Other receivable

At June 30, 2020, the Company had applied and was approved for, but had not yet received the Canada Emergency Wage Subsidy (CEWS) for the month of June 2020 in the amount of \$53,499.

iii) Due from customers on contract

At June 30, 2020, due from customers on contract amounted to \$613,691 and at September 30, 2019 was \$891,288. These amounts relate to equipment delivered and/or installation services performed for sales where revenue has been recognized, and customers had not yet been invoiced.

Legend Power Systems Inc.
Notes to the Condensed Interim Consolidated Financial Statements
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(Unaudited - expressed in Canadian Dollars)

6. INVENTORY

Inventories consist of the following, as at June 30, 2020 and September 30, 2019:

	June 30, 2020	September 30, 2019
	\$	\$
Finished products ("SmartGATE™")	75,861	90,266
Work in progress	517,770	520,048
Transformers and components	521,165	645,423
	1,114,796	1,255,737

During the nine months ended June 30, 2020, inventories were recognized as cost of sales in the amount of \$156,268 (2019 – \$179,487) and the Company recorded a write down of inventory in the amount of \$138,101, related to valuation adjustments of \$113,711 and equipment damaged in transit of \$24,390 (2019 - increase in inventory valuation adjustment of \$138,891).

7. PROPERTY AND EQUIPMENT

	Computer equipment	Equipment and furniture	Leasehold improvements	Computer Software	Total
	\$	\$	\$	\$	\$
Cost					
Balance at September 30, 2018	126,607	437,130	26,819	125,418	715,974
Reclassification				(125,418)	(125,418)
Purchases	12,318	14,510	12,032	-	38,860
Balance at September 30, 2019	138,925	451,640	38,851	-	629,416
Additions	-	74,809	-	-	74,809
Disposals	-	-	-	-	-
Adjustments	179	-	-	-	179
Balance at June 30, 2020	139,104	526,449	38,851	-	704,404
Accumulated depreciation					
Balance at September 30, 2018	92,228	336,071	17,966	116,764	563,029
Reclassification	-	-	-	(116,764)	(116,764)
Depreciation	20,433	52,833	3,135	-	76,401
Balance at September 30, 2019	112,661	388,904	21,101	-	522,666
Additions	13,439	50,940	4,005	-	68,384
Disposals	-	-	-	-	-
Adjustments	99	-	-	-	99
Balance June 30, 2020	126,199	439,844	25,106	-	591,149
Net book value					
At September 30, 2019	26,264	62,736	17,750	-	106,750
At June 30, 2020	12,905	86,605	13,745	-	113,255

8. INTANGIBLE ASSETS

In 2007, the Company purchased the worldwide patents for the SmartGATE™ (formerly "Electrical Harmonizer"). These patents are now fully amortized. During fiscal 2019 the Company incurred patent registration costs associated with a new, internally generated technology.

Legend Power Systems Inc.

Notes to the Condensed Interim Consolidated Financial Statements For the nine months ended June 30, 2020 and 2019

(Unaudited - expressed in Canadian Dollars)

During the fourth quarter of Fiscal 2019, the Company tested its product development costs for impairment. The tests were performed using pro-forma cash flow projections and certain other assumptions. Based on this analysis, development costs associated with internally generated technologies was impaired. Consequently, as at September 30, 2019 an impairment charge of \$772,818 was recorded. For the nine months ended June 30, 2020 product development costs were expensed.

On October 1, 2018 the company reclassified the asset type for purchased computer software, from Property and Equipment to Intangible Assets. Prior period amounts in the below table have been reclassified to conform with the presentation adopted in the current period.

	Patents	Product development	Computer software	Total
	\$	\$	\$	\$
Cost				
Balance at September 30, 2018	1,638,099	134,396	-	1,772,495
Reclassification	-	-	125,418	125,418
Purchases	3,213	655,293	7,302	665,808
Impairment	-	(789,689)	-	(789,689)
Balance at September 30, 2019	1,641,312	-	132,720	1,774,032
Additions	4,721	-	-	4,721
Balance at June 30, 2020	1,646,033	-	132,720	1,778,753
Accumulated Amortization				
Balance at September 30, 2018	1,638,099	13,440	-	1,651,539
Reclassification	-	-	116,764	116,764
Amortization	-	3,432	10,784	14,216
Impairment	-	(16,872)	-	(16,872)
Balance at September 30, 2019	1,638,099	-	127,548	1,765,647
Amortization	-	-	5,172	5,172
Balance at June 30, 2020	1,638,099	-	132,720	1,770,819
Carrying Amount				
At September 30, 2019	3,213	-	5,172	8,385
At June 30, 2020	7,934	-	-	7,934

9. PAYROLL PROTECTION PROGRAM LOAN

On May 1, 2020, the Company received a loan in the amount of \$197,422 pursuant to the United States Coronavirus Aid, Relief, and Economic Security Act's (the CARES Act), Paycheck Protection Program (PPP). The loan matures on May 1, 2022 and bears interest at a rate of 1%. The loan is forgivable in circumstances where the funds are used for payroll costs, interest on mortgages, rent and utilities and that at least 75% of the forgiven amount must have been used for payroll. During the three months ended June 30, 2020, \$325 of interest was accrued in connection with the loan.

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(Unaudited - expressed in Canadian Dollars)

10. WARRANTY PROVISION

	Total
	\$
Balance at September 30, 2018	309,997
Warranty fulfillments	(188,247)
Additional provision	222,750
Balance at September 30, 2019	344,500
Warranty fulfillments	(41,031)
Additional provision	68,391
Balance at June 30, 2020	371,860

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 June 30, 2020, the average remaining years of equipment under warranty was 6.56 years (September 30, 2019 – 6.97 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 June 30, 2020, the Company had 102,020,303 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.

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 June 30, 2020, including the changes during the period, is as follows:

	Share options	Weighted average exercise price
		\$
Balance, September 30, 2018	7,113,333	0.37
Granted	2,450,000	0.28
Exercised	(387,500)	0.20
Expired	(1,865,000)	0.48
Forfeited	(317,500)	0.47
Balance, September 30, 2019	6,993,333	0.32
Granted	1,005,000	0.29
Exercised	(170,000)	0.26
Expired	(275,000)	0.30
Forfeited	(683,333)	0.38
Balance, June 30, 2020	6,870,000	0.31

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An amount of \$267,177 was recorded to share-based compensation expense for 1,475,841 options vested during the nine months ended June 30, 2020 (2019 – 1,165,701 options vested for \$250,533).

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 nine months ended June 30, 2020 and 2019:

	2020	2019
Risk-free interest rate	0.33 – 1.61%	1.50%
Estimated volatility (average)	85%	82%
Expected life (years)	3.69	3.58
Forfeiture rate (average)	19.98%	19.80%
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 June 30, 2020:

Options outstanding	Options exercisable	Exercise price	Year of expiry
		\$	
125,000	125,000	0.75	2020
1,566,666	1,566,666	0.25	2021
1,740,000	1,730,834	0.26 - 0.75	2022
385,000	250,002	0.55 - 0.92	2023
2,793,334	815,007	0.18 - 0.30	2024
260,000	-	0.16 - 0.30	2025
6,870,000	4,487,509		

iii) Warrants

The continuity of share purchase warrants during the periods ended June 30, 2020 and September 30, 2019 is as follows:

	Number of warrants	Weighted average exercise price
		\$
Balance, September 30, 2018	703,410	0.80
Exercised	nil	nil
Balance, September 30, 2019	703,410	0.80
Expired	(703,410)	0.80
Balance, June 30, 2020	nil	0.80

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

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12. COMMITMENTS

On March 22, 2018 the Company entered into an agreement to lease premises in Vancouver, B.C. which has the remaining lease payments in each of the below fiscal years:

2020	\$37,325
2021	\$74,652

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.

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 three and nine months ended June 30, 2020 and 2019.

(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:

	Three months ended June 30,		Nine months ended June 30,	
	2020	2019	2020	2019
	\$	\$	\$	\$
Salaries and consulting fees to key management personnel	97,875	108,750	315,375	313,750
Share-based compensation	54,779	24,660	109,557	75,122
	152,654	133,410	424,932	388,872

(ii) Transactions with Directors:

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

	Three months ended June 30,		Nine months ended June 30,	
	2020	2019	2020	2019
	\$	\$	\$	\$
Director's fees	-	31,051	-	61,051
Share based compensation	41,661	47,592	73,223	99,059
	41,661	78,643	73,223	160,110

At June 30, 2020, a total of \$14,569 (September 30, 2019 - \$Nil) was due to related parties for consulting fees and expenses reimbursement.

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14. 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 U.S. dollar versus Canadian dollar exchange rate fluctuation risk due to operations of its U.S. subsidiary which receives revenues and incurs expenses in U.S. dollars. As at June 30, 2020 all of Company's liquid assets and liabilities were held in Canadian dollars and U.S. dollars. A significant change in the U.S. dollar versus Canadian dollar exchange rate 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 nine months ended June 30, 2020 by approximately \$166,000 (2019 - \$204,831).

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 nine months ended June 30, 2020 were between 1.15% and 2.2% (2019 – 0.5% to 2.2%). A change of 1% in the interest rate yields would have affected the Company's results of operations for the nine months ended June 30, 2020 by approximately \$26,000 (2019 - \$59,000). 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 June 30, 2020, two of our customers accounted for 36% and 53% respectively of the Company's trade receivables balance for a total 89% in aggregate. At September 30, 2019, trade receivables from five of our customers accounted for 10%, 12%, 15%, 20% and 21% respectively of the Company's trade receivables balance for a total 90% in aggregate. Given the nature, balances and the collection history of the Company's receivables, Management has applied a nominal loss allowance as at June 30, 2020 and September 30, 2019.

Liquidity risk

Liquidity risk is managed by ensuring sufficient financial resources are available to meet obligations associated with financial liabilities. The Company has in place a planning and budgeting process which helps determine the funds required to ensure the Company has the appropriate liquidity to meet its operating and growth objectives. As at June 30, 2020 the Company had cash and cash equivalents of \$3,242,115 to settle its current liabilities of \$844,979.

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15. SUBSEQUENT EVENTS

On July 24, 2020, the Company received \$62,943 pursuant to its claim for the Canada Emergency Wage Subsidy (CEWS) in relation to the 28-day period from June 7, 2020 to July 4, 2020.