



Legend Power Systems Inc.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended March 31, 2018 and 2017

(Unaudited – Prepared by Management)

(Expressed in Canadian Dollars)

Legend Power Systems Inc.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended March 31, 2018

(Unaudited - Expressed in Canadian Dollars)

	Page
Condensed Interim Consolidated Statements of Financial Position	4
Condensed Interim Consolidated Statements of Comprehensive Loss	5
Condensed Interim Consolidated Statements of Changes in Equity	6
Condensed Interim Consolidated Statements of Cash Flows	7
Notes to the Condensed Interim Consolidated Financial Statements	8 – 15

Legend Power Systems Inc.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended March 31, 2018

(Unaudited - Expressed in Canadian Dollars)

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 six months ended March 31, 2018 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 six month period ended March 31, 2018.

Legend Power Systems Inc.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Unaudited - Expressed in Canadian Dollars)

		March 31, 2018	September 30, 2017 (Audited)
	Notes	\$	\$
ASSETS			
Current			
Cash		2,534,706	1,160,127
Receivables	4	2,203,698	2,637,092
Inventory	5	1,019,276	1,010,276
Prepaid expenses and deposits		146,298	84,693
		<u>5,903,978</u>	<u>4,892,188</u>
Property and equipment	6	99,771	84,405
Intangible assets	7	<u>107,060</u>	<u>107,060</u>
		6,110,809	5,083,653
LIABILITIES			
Current			
Accounts payable		677,230	592,760
Accrued liabilities		237,954	184,942
		<u>915,184</u>	<u>777,702</u>
Warranty provision	8	177,850	215,231
		<u>1,093,034</u>	<u>992,933</u>
Shareholders' equity			
Share capital	9	40,755,099	38,421,253
Contributed surplus	9	8,114,793	8,331,942
Deficit		<u>(43,852,117)</u>	<u>(42,662,475)</u>
		<u>5,017,775</u>	<u>4,090,720</u>
		6,110,809	5,083,653

Commitments (Note 10)
Subsequent events (Note 12)

APPROVED BY THE BOARD OF DIRECTORS AND AUTHORIZED FOR ISSUE ON MAY 23, 2018

"Michael Atkinson", 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 March 31,		For the six months ended March 31,	
		2018 \$	2017 \$	2018 \$	2017 \$
Revenue		1,916,582	1,001,382	3,199,289	1,646,229
Cost of sales		1,117,590	489,458	1,966,790	859,146
Gross margin		<u>798,992</u>	<u>511,924</u>	<u>1,232,499</u>	<u>787,083</u>
Expenses					
Amortization and depreciation	6,7	13,990	50,389	26,029	98,318
General and overhead		291,323	160,212	520,286	323,221
Professional fees		28,907	45,640	52,907	74,265
Product development	7	-	-	66,908	-
Salaries and consulting fees		753,477	429,669	1,485,241	862,658
Share-based compensation	9	173,520	51,212	270,613	114,607
Warranty provision (adjustment)	8	(19,090)	23,000	(1,681)	36,000
		<u>1,242,127</u>	<u>760,122</u>	<u>2,420,303</u>	<u>1,509,069</u>
Loss before other items		<u>(443,135)</u>	<u>(248,198)</u>	<u>(1,187,804)</u>	<u>(721,986)</u>
Other income (expense)		<u>821</u>	<u>6,219</u>	<u>(1,838)</u>	<u>2,252</u>
Loss and comprehensive loss for the period		<u>(442,314)</u>	<u>(241,979)</u>	<u>(1,189,642)</u>	<u>(719,734)</u>
Basic and diluted loss per share		<u>(0.005)</u>	<u>(0.003)</u>	<u>(0.014)</u>	<u>(0.009)</u>
Weighted average number of common shares outstanding		87,360,718	78,451,890	85,951,194	77,670,198

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

Legend Power Systems Inc.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Unaudited - Expressed in Canadian Dollars)

	Number of Shares Issued	Capital Stock \$	Contributed Surplus \$	Deficit \$	Total Shareholders' Equity \$
Balance at September 30, 2016 (Audited)	70,443,946	33,458,288	8,861,305	(40,815,788)	1,503,805
Common shares issued for warrants exercise	8,007,944	3,026,481	(692,932)	-	2,333,549
Share-based compensation	-	-	114,607	-	114,607
Net loss for the period	-	-	-	(719,734)	(719,734)
Balance at March 31, 2017	78,451,890	36,484,769	8,282,980	(41,535,522)	3,232,227
Common shares issued for warrants exercise	4,334,368	1,936,484	(202,736)	-	1,733,748
Share-based compensation	-	-	251,698	-	251,698
Net loss for the period	-	-	-	(1,126,953)	(1,126,953)
Balance at September 30, 2017 (Audited)	82,786,258	38,421,253	8,331,942	(42,662,475)	4,090,720
Common shares issued for warrants exercise	4,464,382	2,258,694	(472,940)	-	1,785,754
Option exercise	211,993	75,152	(14,822)	-	60,330
Share-based compensation	-	-	270,613	-	270,613
Net loss for the period	-	-	-	(1,189,642)	(1,189,642)
Balance at March 31, 2018	87,462,633	40,755,099	8,114,793	(43,852,117)	5,017,775

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)

		For the six months ended March 31,	
		2018	2017
	Notes	\$	\$
Cash flows used in operating activities			
Loss for the period		(1,189,642)	(719,734)
Items not affecting cash:			
Amortization and depreciation	6,7	26,029	98,318
Share-based compensation	9	270,613	114,607
Warranty provision	8	(37,381)	36,000
Changes in non-cash working capital items:			
Receivables, prepaids and deposits		371,791	(956,130)
Inventory		(9,000)	(428,499)
Accounts payable and accrued liabilities		137,482	(150,483)
		<u>(430,108)</u>	<u>(2,005,921)</u>
Cash flows used in investing activities			
Purchase of property and equipment	6	(41,397)	(40,949)
Product Development	7	-	(130,819)
		<u>(41,397)</u>	<u>(171,768)</u>
Cash flows from financing activities			
Warrants exercise proceeds	9	1,785,754	2,333,549
Options exercise proceeds	9	60,330	-
		<u>1,846,084</u>	<u>2,333,549</u>
Net change in cash		1,374,579	155,860
Cash, beginning of period		1,160,127	1,132,547
Cash, end of period		2,534,706	1,288,407

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 six months ended March 31, 2018, and 2017
(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 marketing of a patented device, the Electrical Harmonizer, 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, STATEMENT OF COMPLIANCE AND GOING CONCERN

These condensed interim consolidated financial statements have been prepared in accordance with *IAS 34 – Interim financial reporting* (International Account Standard) which is in accordance with International Financial Reporting Standards (“IFRS”). They do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Company for the year ended September 30, 2017. These condensed interim 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.

The going concern basis of accounting assumes the Company will continue to realize the value of its assets and discharge its liabilities and other obligations in the ordinary course of business. Should the Company be required to realize the value of its assets in other than the ordinary course of business, the net realizable value of its assets may be materially less than the amounts shown in the consolidated financial statements. These consolidated financial statements do not include any adjustments to the amounts and classifications of assets and liabilities that may be necessary should the Company be unable to repay its liabilities and meet its other obligations in the ordinary course of business or to continue operations.

As at March 31, 2018, the Company had working capital of \$4,988,794 (September 30, 2017 - \$4,114,486) and an accumulated deficit of \$43,852,117 (September 30, 2017 - \$42,662,475). During the six months ended March 31, 2018 the Company incurred a net loss of \$1,189,642 (2017 - \$719,734). Subsequently in April 2018, the Company announced closing of a \$10.5 million private placement, including an overallotment option. Based on working capital as at March 31, 2018 and estimated cash requirements and sources in fiscal 2018, 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.

There have been no significant changes to the Company’s accounting policies, judgments or estimates from those disclosed in the consolidated financial statements for the year ended September 30, 2017.

NEW ACCOUNTING STANDARDS

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.

Legend Power Systems Inc.
Notes to the Condensed Interim Consolidated Financial Statements
For the six months ended March 31, 2018, and 2017
(Unaudited - Expressed in Canadian Dollars)

2. BASIS OF PREPARATION, STATEMENT OF COMPLIANCE AND GOING CONCERN - continued

Based on accounting analysis, the Company does not currently expect that IFRS 15 and IFRS 9 will have a material impact on its consolidated financial statements.

- (i) 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.
- (ii) IFRS 15 - *Revenue from contracts with customers*. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. IFRS 15 specifies how and when to recognize revenue as well as requires entities to provide users of financial statements with more informative, relevant disclosures. The standard supersedes IAS 18, Revenue, IAS 11, Construction Contracts, and a number of revenue-related interpretations. The new standard will apply to nearly all contracts with customers: the main exceptions are leases, financial instruments and insurance contracts.

3. SEGMENTS

The Company has one operating segment and operates in two geographical areas, Canada and the United States. All of the Company's sales in the six months ended March 31, 2018 were in Canada. In the six months ended March 31, 2017, 5% of sales were in the U.S., and the rest in Canada. Three customers accounted for 19.8%, 11.6% and 11.3% respectively of the Company's sales for the six months ended March 31, 2018 and one customer accounted for 27% for the six months ended March 31, 2017. Product sales and installation services accounted for 58.5% and 41.5% of revenue respectively for the six months ended March 31, 2018 and 86% and 14% respectively for the six months ended March 31, 2017.

4. RECEIVABLES

Trade Receivables	Total due	0-30 days	31-60 days	61-90 days	91-120 days	Over 120 days
	\$	\$	\$	\$	\$	\$
September 30, 2017	2,637,092	1,935,881	431,620	-	125,610	143,981
March 31, 2018	2,203,698	1,699,695	99,434	-	50,204	354,365

	March 31, 2018	September 30, 2017
	\$	\$
Accounts receivable (Trade)	2,203,698	2,637,092

Legend Power Systems Inc.
Notes to the Condensed Interim Consolidated Financial Statements
For the six months ended March 31, 2018, and 2017
(Unaudited - Expressed in Canadian Dollars)

4. RECEIVABLES - continued

At March 31, 2018, receivables from one of our customers accounted for 18% of the Company's total accounts receivable balance. Receivables from three customers accounted for 10.9%, 13.1%, and 16.4%, respectively of the Company's receivable balance for a total of 40.4% in aggregate at September 30, 2017.

5. INVENTORY

Inventories consist of the following, as at:

	March 31, 2018	September 30, 2017
	\$	\$
Finished products ("Harmonizers")	198,522	142,602
Work in progress inventory	23,430	-
Transformers and components	797,324	867,674
	1,019,276	1,010,276

During the six months ended March 31, 2018, inventories were recognized as cost of sales in the amount of \$700,332 (2017 – \$459,632) and inventory impairment was also recognized as cost of sales in the amount of \$5,249 (2017 – \$Nil). Inventory impairments resulted from the write-off of components scrapped due to their obsolescence and the fact that they will not be used in the production of finished products.

6. 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	12,553	8,343	20,499	-	41,395
Balance at March 31, 2018	114,498	111,776	371,977	20,944	619,195
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	6,895	4,436	13,720	978	26,029
Balance at March 31, 2018	84,693	106,639	312,189	15,903	519,424
Net book value					
At September 30, 2017	24,147	1,230	53,009	6,019	84,405
At March 31, 2018	29,805	5,137	59,788	5,041	99,771

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Notes to the Condensed Interim Consolidated Financial Statements
For the six months ended March 31, 2018, and 2017
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7. INTANGIBLE ASSETS

In 2007, the Company purchased the worldwide patents for the Electrical Harmonizer. These patents are now fully amortized.

	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	-	-	-
Balance at March 31, 2018	1,638,099	107,060	1,745,159
Amortization			
Balance at September 30, 2016	1,515,160	-	1,515,360
Additions	122,939	-	122,939
Balance at September 30, 2017	1,638,099	-	1,638,099
Additions	-	-	-
Balance at March 31, 2018	1,638,099	-	1,638,099
Carrying Amount			
At September 30, 2017	-	107,060	107,060
At March 31, 2018	-	107,060	107,060

During fiscal 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 year were capitalized. At such time as the Company's next generation technology reaches the production phase and starts to generate economic benefits, amortization of development costs will commence and continue over the useful economic life of the technology.

8. WARRANTY PROVISION

	Total
	\$
Balance at September 30, 2016	192,000
Warranty fulfillments	(37,790)
Additional provision, net	61,021
Balance at September 30, 2017	215,231
Warranty fulfillments	(35,700)
Provision adjustment	(1,681)
Balance at March 31, 2018	177,850

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.

Legend Power Systems Inc.
Notes to the Condensed Interim Consolidated Financial Statements
For the six months ended March 31, 2018, and 2017
(Unaudited - Expressed in Canadian Dollars)

9. SHARE CAPITAL AND CONTRIBUTED SURPLUS

The Company's authorized share capital is an unlimited number of common shares without par value. At March 31, 2018, the Company had 87,462,633 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.

Issued Share Capital

- a) During the six months ended March 31, 2018, the following transactions occurred:
 - i. 4,464,382 warrants were exercised at \$0.40 each for total proceeds of \$1,785,754. An amount of \$472,940 was transferred from contributed surplus to share capital in connection with this exercise; and
 - ii. 211,993 options were exercised for total proceeds of \$60,330. An amount of \$14,822 was transferred from contributed surplus to share capital in connection with this exercise.

- b) During the year ended September 30, 2017, the following transactions occurred:
 - i. 12,342,312 warrants were exercised at between \$0.15 and \$0.40 each for total proceeds of \$4,067,297. An amount of \$895,668 was transferred from contributed surplus to share capital in connection with this exercise.

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.

Legend Power Systems Inc.
Notes to the Condensed Interim Consolidated Financial Statements
For the six months ended March 31, 2018, and 2017
(Unaudited - Expressed in Canadian Dollars)

9. SHARE CAPITAL AND CONTRIBUTED SURPLUS - continued

A summary of the Company's share options outstanding at March 31, 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	300,000	0.81
Exercised	(211,993)	0.28
Forfeited	(240,833)	0.32
Balance March 31, 2018	8,106,670	0.34

The following table summarizes share options outstanding and exercisable at March 31, 2018:

Options outstanding	Options exercisable	Exercise price	Year of Expiry
		\$	
944,170	944,170	0.30	2018
2,370,000	2,370,000	0.20-0.55	2019
170,000	100,000	0.35	2020
1,995,000	1,424,446	0.25-0.30	2021
2,527,500	425,418	0.27-0.75	2022
100,000	-	0.92	2023
8,106,670	5,264,034		

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 six months ended March 31, 2018 and 2017:

	2018	2017
Risk-free interest rate	1.42%	1.52%
Estimated volatility	108.18%	112.28%
Expected life (years)	3.58	3.62

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.

Legend Power Systems Inc.
Notes to the Condensed Interim Consolidated Financial Statements
For the six months ended March 31, 2018, and 2017
(Unaudited - Expressed in Canadian Dollars)

9. SHARE CAPITAL AND CONTRIBUTED SURPLUS - continued

Warrants

Summary of the number of common shares reserved pursuant to the Company's outstanding warrants 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
Balance, March 31, 2018	-	-

As at March 31, 2018, the Company did not have any warrants outstanding.

10. COMMITMENTS

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

2018	\$67,435
2019	\$136,539
2020	\$139,879
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.

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.

Legend Power Systems Inc.
Notes to the Condensed Interim Consolidated Financial Statements
For the six months ended March 31, 2018, and 2017

(Unaudited - Expressed in Canadian Dollars)

11. RELATED PARTY DISCLOSURES

The Company entered into the following related party transactions during the three and six months ended March 31, 2018 and 2017.

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

(i) Transactions with Key Management Personnel:

	Three months ended March 31,		Six months ended March 31,	
	2018	2017	2018	2017
	\$	\$	\$	\$
Salaries and fees to key management employees	99,577	84,938	188,389	165,451
Share based compensation	24,504	38,595	55,057	73,931
	124,081	123,533	243,446	239,382

(ii) Transactions with Directors:

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

	Three months ended March 31,		Six months ended March 31,	
	2018	2017	2018	2017
	\$	\$	\$	\$
Share-based compensation	15,904	12,618	35,526	28,126

12. SUBSEQUENT EVENTS

- a) On April 6, 2018, the Company closed a bought deal offering of 12.5 million common shares at a price of \$0.80 per share for gross proceeds of \$10 million. The Company paid cash commission to a syndicate of underwriters ("the Underwriters"), equal to 6% of the gross proceeds of the offering subject to a reduced rate of 3% for subscribers on the Company's president's list and issued 664,050 broker warrants to the Underwriters. Each broker warrant entitles the holder to purchase one common share of the Company at the offering price for a period expiring two years from the grant date.
- b) On April 30, 2018, the Company announced that the Underwriters exercised the over-allotment option granted to them in connection with the Offering. As a result, the Company issued an additional 656,000 common shares at a price of \$0.80 per share, for additional gross proceeds of \$524,800. The Company paid a cash commission to the Underwriters equal to 6% of the gross proceeds of the over-allotment and issued 39,360 broker warrants to the Underwriters.
- c) During April and May 2018, 350,000 options were exercised for total proceeds of \$105,000.