Legend Power Systems Inc.

CONSOLIDATED FINANCIAL STATEMENTS
For the years ended September 30, 2016 and 2015

(Expressed in Canadian Dollars)

Legend Power Systems Inc.

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended September 30, 2016 and 2015

(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 statement of financial position as at September 30, 2016, and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the year 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 audit. We conducted our audit 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 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, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matter

Without modifying our opinion, we draw attention to note 14 to the consolidated financial statements, which explains that certain comparative information for the year ended September 30, 2015 has been restated. The restated consolidated financial statements of **Legend Power Systems Inc.** for the year ended September 30, 2015 were audited by another auditor who expressed an unmodified opinion on those restated consolidated financial statements on January 21, 2016, except for note 14 which is as of January 23, 2017.

Ernst & Young LLP

Vancouver, Canada
January 23, 2017

Chartered Professional Accountants

D&H Group LLP
Chartered Professional Accountants
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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 statement of financial position as at September 30, 2015, and the consolidated statement of comprehensive loss, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended September 30, 2015, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 auditor's 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 auditor considers 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 audit 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, 2015 and its financial performance and its cash flows for the year ended September 30, 2015 in accordance with International Financial Reporting Standards.

Emphasis of matter - Restatement

Without modifying our opinion, we draw attention to Note 14 to the consolidated financial statements, which explains that certain comparative information for the year ended September 30, 2015 has been restated.

D&H Group LLP
Chartered Professional Accountants
10th Floor, 1333 West Broadway
Vancouver, BC V6H 4C1

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Other matter

The accompanying consolidated financial statements of Legend Power Systems Inc., which comprise the consolidated statement of financial position as at September 30, 2016, and the consolidated statements of comprehensive loss, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended September 30, 2016, and the summary of significant accounting policies and other explanatory information, were audited by another auditor who expressed an unmodified opinion on January 23, 2017.

D&H Group LLP

Vancouver, B.C.
January 21, 2016, except for Note 14
which is as of January 23, 2017

Chartered Professional Accountants

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

	Notes	September 30, 2016 $	September 30, 2015 restated, Note 14 $
ASSETS			
Current			
Cash		1,132,547	536,116
Receivables	5, 14	504,624	165,460
Inventory	6, 14	469,666	642,139
Prepaid expenses and deposits		49,416	82,589
		2,156,253	1,426,304
Property and equipment	7	40,062	22,953
Patents	8	122,939	286,739
		2,319,254	**1,735,996**
LIABILITIES			
Current			
Accounts payable		401,670	189,060
Accrued liabilities	14	221,779	152,083
		623,449	341,143
Warranty provision	9,14	192,000	124,000
		815,449	465,143
Shareholders' equity			
Share capital	11	33,458,288	32,008,782
Contributed surplus	11	8,861,305	7,640,496
Deficit	14	(40,815,788)	(38,378,425)
		1,503,805	1,270,853
		2,319,254	**1,735,996**

Going concern (Note 2)
Commitments (Note 12)
Events after the reporting period (Note 15)

APPROVED BY THE BOARD OF DIRECTORS AND AUTHORIZED FOR ISSUE ON JANUARY 23, 2017

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

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

Legend Power Systems Inc.

STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

(Expressed in Canadian Dollars - Unaudited)

	Notes	For the years ended September 30, 2016 $	2015 restated, Note 14 $
Revenue	4,14	2,079,126	202,944
Cost of sales	6,14	1,448,896	152,206
Gross margin		630,230	50,738
Expenses			
Amortization and depreciation	8,9	187,622	180,562
Bad debts		2,500	61,865
Financing fees		-	9,959
General and overhead		515,467	385,821
Professional fees		99,610	109,447
Product development		58,556	52,701
Salaries and consulting fees		1,698,547	1,384,043
Share-based compensation	11	415,127	553,117
Warranty expense	9,14	90,970	187,679
		3,068,399	2,925,194
Loss before others items		(2,438,169)	(2,874,456)
Foreign exchange		(4,082)	(17,861)
Other income		4,888	15,800
		806	(2,061)
Loss and comprehensive loss for the period	14	**(2,437,363)**	**(2,876,517)**
Basic and diluted loss per share		(0.04)	(0.05)
Weighted average number of common shares outstanding		66,390,800	58,317,892

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

Legend Power Systems Inc.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Expressed in Canadian Dollars - Unaudited)

	Number of Shares Issued	Capital Stock	Contributed Surplus	Deficit	Total Shareholders' Equity
		$	$	$	$
Balance at September 30, 2014	56,801,964	30,935,539	7,383,995	(35,501,908)	2,817,626
Common shares issued for stock options exercised	190,667	56,771	(1,571)	-	55,200
Common shares issued for Warrants exercised	2,404,758	1,001,102	(279,675)	-	721,427
Share-based compensation	-	-	446,695	-	446,695
Loss for the period (restated – see Note 14)	-	-	-	(2,876,517)	(2,876,517)
Balance at September 30, 2015	59,397,389	32,008,782	7,640,496	(38,378,425)	1,270,853
Common shares and warrants issued for cash	8,300,000	780,728	879,272	-	1,660,000
Common shares and warrants issued for finder's fees	498,750	46,914	52,835	-	99,750
Share issue costs for financing	-	(125,405)	-	-	(125,405)
Common shares issued for Warrants exercised	2,247,807	620,842	-	-	620,842
Fair value reversed for warrants Exercised	-	126,425	(126,425)	-	-
Share-based compensation	-	-	415,127	-	415,127
Loss for the period	-	-	-	(2,437,363)	(2,437,363)
Balance at September 30, 2016	**70,443,946**	**33,458,288**	**8,861,305**	**(40,815,788)**	**1,503,805**

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)

		For the years ended September 30,	
		2016	**2015**
			restated, Note 14
	Notes	**$**	**$**
Cash flows used in operating activities			
Loss for the period	14	(2,437,363)	(2,876,517)
Items not affecting cash:			
Allowance for doubtful debts		2,500	61,865
Amortization and depreciation	7	187,622	180,562
Inventory write-down	6	179,081	29,867
Share-based compensation		415,127	553,117
Warranty provision		68,000	73,880
Changes in non-cash working capital items			
Decrease / (increase) in inventory	14	(6,608)	(548,544)
(Increase) in receivables, prepaids and deposits	14	(308,491)	(26,760)
Increase / (decrease) in accounts payable and accrued liabilities	14	282,306	(77,990)
		(1,617,826)	(2,630,520)
Cash flows used in investing activities			
Purchase of property and equipment		(40,931)	(20,068)
Cash flows from financing activities			
Issue of common shares	10	1,660,000	-
Warrant exercise proceeds	10	620,842	721,427
Stock option exercise proceeds		-	55,200
Share issue costs		(25,654)	-
		2,255,188	776,627
Net change in cash		596,431	(1,873,961)
Cash, beginning of period		536,116	2,410,077
Cash, end of period		**1,132,547**	**536,116**

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

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 May 31, 2001. 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 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.

The Company's consolidated financial statements have been prepared on the historical cost basis.

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 September 30, 2016, the Company had working capital of $1,532,804 (September 30, 2015: $1,085,161) and an accumulated deficit of $40,815,788 (September 30, 2015: $38,378,425). During the year ended September 30, 2016 the Company incurred a net loss of $2,437,363 (2015: $2,876,517). Based on the working capital as at September 30, 2016 and estimated cash requirements and sources in fiscal 2016 (see note 13), 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

In addition to the Company, the consolidated financial statements include all subsidiaries. Subsidiaries are all corporations over which the Company is able, directly or indirectly, to control financial and operating policies, which is the authority usually connected with holding majority voting rights. Subsidiaries are fully consolidated from the date on which control is acquired by the Company. They are de-consolidated from the date that control by the Company ceases.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

The subsidiaries of the Company are as follows:

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

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

Comparative figures
Certain comparative figures have been reclassified to conform to current year presentation.

Foreign currency translation
Functional and presentation currency
The subsidiaries' functional currency 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 comprehensive income or loss.

Equipment
Equipment is stated at historical cost less depreciation and, where necessary, write-downs for impairment. Depreciation is calculated using the declining-balance 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.

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 ten years based on the estimated useful life of the asset at the time of purchase. 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

Warranty provision

Warranty provisions for the expected cost of warranty obligations are recorded as an expense at the date of the sale of Electrical Harmonizers. The provision is for estimated costs of product replacement and replacement due to product malfunction after installation. The provision is based on management's best estimates incorporating a number of factors including historical warranty claims and cost experience and the type and duration of warranty coverage. The Company reviews its recorded product warranty provisions quarterly and any adjustment is recorded as an expense.

Current and deferred income taxes

The 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 the income tax is also recognized in other comprehensive income (loss) or directly in equity, respectively.

Current tax

The 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.

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, the 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
Current market price of the underlying shares

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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 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 private placement units. The fair value of the share purchase warrants issued in the private placements is determined by the Black-Scholes method on the announcement date. The balance is allocated to the common shares.

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, 2016 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, 2016 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.

Sales and installation services are set forth separately in the contractual arrangements such that the total price of the customer arrangement is expected to vary as a result of the inclusion or exclusion of installation services. 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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

practices for the product when sold separately. Revenue from installation services is estimated based on third party contractor pricing. 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.

Inventory
Inventory is measured at the lower of cost or net realizable value. Transformer and controller costs are assigned to inventory by using specific identification of individual costs. Component inventory is measured at weighted average cost.

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 patent and property and equipment 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.

At September 30, 2016 management has determined no impairment indicators were present with respect to the Company's patents.

(ii) Under IAS 18, management is required to assess, for each sale of goods, whether it is probable that the Company will be able to collect from the customer on the sale. Management is not aware of any circumstances that would impact the Company's ability to collect the amounts outstanding on the sales made.

(iii) For those contracts that include installation services the Company utilizes Management's best estimate of fair value for the products and revenue from installation services is estimated based on third party contractor pricing which are included in the consolidated statement of loss and comprehensive loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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, 2016 and 2015, provisions for impairment of inventory were made using the best estimate of the net realizable value.

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 comprehensive profit or loss so as to reduce the carrying amount of the long-lived asset to its recoverable amount.

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.

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. The Company continues to evaluate the impact of these standards 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.

(Expressed in Canadian Dollars)

4. SEGMENTS

The Company has one operating segment and operates in one geographical area, Canada. One customer accounted for 49.8% of the Company's sales for the year ended September 30, 2016. Product sales and installation services account for 79% and 21% of revenue respectively for the year ended September 30, 2016.

5. RECEIVABLES

	Total due	0-30 days	31-60 days	61-90 days	91-120 days	Over 120-days
	$	$	$	$	$	$
September 30, 2015	165,460	82,411	-	-	83,049	-
September 30, 2016	314,051	80,810	16,949	-	114,761	101,531

	September 30, 2016	September 30, 2015
	$	$
Accounts receivable	314,051	165,460
GST Refundable	190,573	-
	504,624	**165,460**

Receivables from four customers account for 33%, 15%, 16% and 29% respectively of the Company's receivable balance for a total of 93% in aggregate at September 30, 2016.

6. INVENTORY

Inventories consist of the following, as at:

	September 30, 2016	September 30, 2015
	$	$
Finished goods ("Harmonizers")	108,747	-
Transformers and components	360,919	642,139
	469,666	**642,139**

During the year ended September 30, 2016, inventories were recognized as cost of sales in the amount of $470,744 (2015 - $133,164) and inventory impairment was also recognized as cost of sales in the amount of $179,081 (2015 - $29,867). Inventory impairments resulted from the write down of components to their estimated net realizable value due to the expectation that they will not be used in the production of controllers for transformers sold.

(Expressed in Canadian Dollars)

7. PROPERTY AND EQUIPMENT

	Computer equipment	Computer software	Equipment and furniture	Leasehold Improvements	Total
	$	$	$	$	$
Cost					
Balance at September 30, 2014	63,385	80,919	277,967	12,152	434,423
Additions	9,014	11,054	-	-	20,068
Balance at September 30, 2015	72,399	91,973	277,967	12,152	454,491
Additions	3,797	8,874	19,607	8,653	40,931
Balance at September 30, 2016	76,196	100,847	295,574	20,805	495,422
Accumulated Depreciation					
Balance at September 30, 2014	61,999	77,443	267,876	7,458	414,776
Additions	2,818	7,596	3,917	2,431	16,762
Balance at September 30, 2015	64,817	85,039	271,793	9,889	431,538
Additions	3,945	8,502	8,291	3,084	23,822
Balance at September 30, 2016	68,762	93,541	280,084	12,973	455,360
Net book value					
At September 30, 2015	7,582	6,934	6,174	2,263	22,953
At September 30, 2016	**7,434**	**7,306**	**17,490**	**7,832**	**40,062**

8. PATENTS

In 2007, the Company purchased the worldwide patents for the Electrical Harmonizer. The patents are amortized over their estimated remaining lives.

	Total
	$
Cost	
Balance at September 30, 2014	1,638,099
Additions	-
Balance at September 30, 2015	1,638,099
Additions	-
Balance at September 30, 2016	1,638,099
Amortization	
Balance at September 30, 2014	1,187,560
Additions	163,800
Balance at September 30, 2015	1,351,360
Additions	163,800
Balance at September 30, 2016	1,515,160
Carrying Amount	
At September 30, 2015	286,739
At September 30, 2016	**122,939**

(Expressed in Canadian Dollars)

9. WARRANTY PROVISION

Included in the amount expensed during the year ended September 30, 2016 is $90,970 for replacement of controller units (September 30, 2015 - $187,679).

	Total
	$
Balance at September 30, 2014	89,000
Warranty fulfillments	(152,679)
Additional provision, net	187,679
Balance at September 30, 2015	124,000
Warranty fulfillments	(22,970)
Additional provision, net	90,970
Balance at September 30, 2016	192,000

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.

10. SHARE CAPITAL AND CONTRIBUTED SURPLUS

The Company's authorized share capital is an unlimited number of common shares without par value. All issued common shares are fully paid. Contributed Surplus consist 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 year ended September 30, 2016, the following transactions occurred:

i. During September 2016 356,665 warrants were exercised at $.15 each for total proceeds of $53,499.75.

ii. During July 2016 1,780,031 warrants were exercised at $.30 each for total proceeds of $534,009.30 and 254,302 warrants with an exercise price of $0.30 expired unexercised.

iii. On May 9, 2016, the Company received $33,333 from the exercise of 111,111 warrants at $0.30 each.

iv. On December 30, 2015, the Company completed a private placement in which it issued a total of 8,300,000 units at $0.20 per unit for aggregate gross proceeds of $1,660,000. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitled the holder to purchase one share at a price of $0.40 per share until December 30, 2017. The Company paid finder's fees on the funds raised, satisfied by the issuance of 498,750 units.

The fair value of the unit warrants, estimated using the Black-Scholes option-pricing model, is $932,107. The assumptions used were: a risk-free interest rate of 0.48%; an estimated volatility of 107.98%; an expected life of two years; an expected dividend yield of 0%. The residual value of $780,728 was attributed to the common shares.

(Expressed in Canadian Dollars)

10. SHARE CAPITAL AND CONTRIBUTED SURPLUS - continued

b) During the year ended September 30, 2015, the following transactions occurred:

(i) On October 6, 2014 the Company issued 10,000 shares resulting from a stock option exercise at $0.20 each for proceeds of $2,000.

(ii) On February 27, 2015, the Company received $721,427 from the exercise of 2,404,758 warrants at $0.30 each.

(iii) On April 2, 2015 the Company issued 180,667 shares resulting from a stock option exercise at between $0.20 and $0.30 each for proceeds of $53,200.

(iv) The total fair value reversed for all warrants and options exercised up to September 30, 2015 was $296,616.

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 at September 30, 2016, including the changes during the period, is as follows:

	Share options	**Exercise price**
		$
Balance, September 30, 2014	3,649,325	0.35
Granted	1,965,000	0.50
Exercised	(190,667)	0.29
Forfeited	(542,498)	0.27
Expired	(25,000)	0.49
Balance, September 30, 2015	4,856,160	0.41
Granted	1,941,666	0.25
Forfeited	(166,666)	0.42
Expired	(566,664)	0.63
Balance, September 30, 2016	**6,064,496**	**0.34**

(Expressed in Canadian Dollars)

10. SHARE CAPITAL AND CONTRIBUTED SURPLUS - continued

The following table summarizes share options outstanding and exercisable at September 30, 2016:

Options outstanding	Options exercisable	Exercise price	Expiry date
		$	
183,333	183,333	0.42	April 18, 2017
541,667	541,667	0.30	May 21, 2018
557,830	557,830	0.30	August 20, 2018
910,000	762,499	0.20	February 23, 2019
1,480,000	740,000	0.55	September 30, 2019
175,000	-	0.35	May 31, 2018
275,000	91,667	0.35	May 31, 2020
1,766,666	261,113	0.25	January 26, 2021
175,000	29,167	0.25	February 9, 2021
6,064,496	**3,167,276**		

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:

	Year ended September 30, 2016	Year ended September 30, 2015
Risk-free interest rate	1.50%	1.74%
Estimated volatility	112.84%	108.00%
Expected life (years)	3.63	3.76

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.

Warrants

A 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, 2014	12,914,811	0.29
Exercised	(2,404,758)	0.30
Balance, September 30, 2015	10,510,053	0.29
Issued	8,798,750	0.40
Exercised	(2,247,807)	0.28
Expired	(254,302)	0.30
Balance, September 30, 2016	**16,806,694**	**0.35**

(Expressed in Canadian Dollars)

10. SHARE CAPITAL AND CONTRIBUTED SURPLUS – continued

The following table summarizes information of the number of common shares reserved pursuant to the warrants outstanding and exercisable at September 30, 2016:

Number of warrants	Exercise price	Expiry date
	$	
458,890	0.15	October 18, 2016
7,549,054	0.30	October 18, 2016
8,798,750	0.40	December 30, 2017
16,806,694		

11. COMMITMENTS

On February 9, 2016 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:

2017	$121,900
2018	$125,240
2019	$128,580
2020	$131,920

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.

12. RELATED PARTY DISCLOSURES

The Company entered into the following related party transactions during the year ended September 30, 2016 and 2015.

During the year ended September 30, 2016 and 2015, 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:

	Year ended	
	September 30, 2016	**September 30, 2015**
	$	**$**
Salaries and fees to key management employees	291,535	302,000
Share based compensation	230,740	295,613

(Expressed in Canadian Dollars)

12. RELATED PARTY DISCLOSURES - continued

(ii) Transactions with Directors:

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

	Year ended	
	September 30, 2016	**September 30, 2015**
	$	**$**
Share based compensation	75,296	63,618

13. INCOME TAXES

Deductible temporary differences not recognized

	2016	**Expiry**	**2015**	**Expiry**
	$		**$**	
Operating loss carry forwards	21,546,344	2022 to 2036	21,347,000	2022 to 2035
Property and equipment	1,407,445	-	1,384,000	-
Share issuance cost	414,132	-	460,008	-
Patent	1,515,160	-	1,351,360	-
Taxable capital losses	239,627	-	239,627	-
Warranty provision	192,000	-	124,000	-
	25,314,708		23,182,706	

Income tax rate reconciliation	**2016**	**2015**
	$	**$**
Net income (loss) before tax	(2,437,363)	(2,876,517)
Combined federal and provincial income tax rate	26.25%	26.25%
Expected income tax recovery	(640,000)	(755,000)
Non-deductible expenses	109,000	145,193
Share issue costs incurred during the year	(33,000)	-
Unrecognized benefit of tax attributes	515,000	768,087
Other including differences in foreign tax rates and foreign exchange	49,000	(158,280)
Actual income tax recovery	-	-

14. RESTATEMENT

During fiscal 2015, the Company received a purchase order for equipment with an invoice amount of $423,580. The Company has determined, while invoicing occurred during the 2015 fiscal year, that the criteria for revenue recognition were not met during the year.

The following tables outline the effect of the changes made to the consolidated financial statements as originally filed.

(Expressed in Canadian Dollars)

14. RESTATEMENT - continued

Impact on the Consolidated Statements of Financial Position as at September 31, 2015:

	As at September 30, 2015		
	Previously Reported	**Change**	**Restated**
	$	**$**	**$**
Accounts receivable	646,800	(481,340)	165,460
Inventory	572,912	69,227	642,139
Accrued liabilities	209,843	(57,760)	152,083
Warranty provision	142,000	(18,000)	124,000
Retained earnings (deficit)	(38,042,072)	(336,353)	(38,378,425)

Impact on the Consolidated Statements of Loss and Comprehensive Loss for the year ended September 30, 2015:

	Year Ended September 30, 2015		
	Previously Reported	**Change**	**Restated**
	$	**$**	**$**
Revenue	626,524	(423,580)	202,944
Cost of sales	191,566	(69,227)	152,206
Warranty expense	205,679	(18,000)	187,679
Net income (loss) for the period	(2,540,164)	(336,353)	(2,876,517)
Basic and diluted loss per share	(0.04)	(0.01)	(0.05)

Impact on Consolidated Statements of Cash Flows for the year ended September 30, 2015:

	Year Ended September 30, 2015		
	Previously Reported	**Change**	**Restated**
	$	**$**	**$**
Net income (loss) for the period	(2,540,164)	(336,353)	(2,876,517)
Net change in non-cash working capital items:			
Inventory	(479,317)	(69,227)	(548,544)
Accounts receivable and prepaids	(508,100)	481,340	(26,760)
Accounts payable and provisions	(2,230)	(75,760)	(77,990)

As shown in the table above, all adjustments affected only non-cash items; therefore, there was no impact to cash provided by operating activities and no impact to cash used in investing activities or cash provided by financing activities.

15. EVENTS AFTER THE REPORTING PERIOD

During October 2016, 7,549,054 warrants were exercised at $0.30 each for total proceeds of $2,264,716.20 and 458,890 warrants were exercised at $0.15 for proceeds of $68,834.