



Legend Power Systems Inc.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six month periods ended March 31, 2016

(Unaudited - Prepared by Management)

(Expressed in Canadian Dollars)

Legend Power Systems Inc.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six month periods ended March 31, 2016

(Expressed in Canadian Dollars - Unaudited)

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Legend Power Systems Inc.
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the three and six month periods ended March 31, 2016
(Expressed in Canadian Dollars – Unaudited)

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

The accompanying unaudited condensed interim consolidated financial statements for Legend Power Systems Inc. for the three and six month periods ended March 31, 2016 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 three and six month periods ended March 31, 2016.

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

| | | March 31, 2016 | September 30, 2015 |
|-------------------------------|--------------|---------------------------|-------------------------------|
| | Notes | \$ | \$ |
| ASSETS | | | |
| Current | | | |
| Cash | | 990,830 | 536,116 |
| Receivables | | 2,287,343 | 646,800 |
| Inventory | 5 | 339,790 | 572,912 |
| Prepaid expenses and deposits | 6 | 104,173 | 82,589 |
| | | <u>3,722,136</u> | <u>1,838,417</u> |
| Property and equipment | 7 | 33,942 | 22,953 |
| Patents | 8 | <u>204,839</u> | <u>286,739</u> |
| | | 3,960,917 | 2,148,109 |
| <hr/> | | | |
| LIABILITIES | | | |
| Current | | | |
| Accounts payables | | 322,103 | 189,060 |
| Accrued liabilities | | 500,294 | 209,843 |
| | | <u>822,397</u> | <u>398,903</u> |
| Warranty provision | 9 | 198,000 | 142,000 |
| | | <u>1,020,397</u> | <u>540,903</u> |
| Shareholders' equity | | | |
| Share capital | 10 | 32,711,020 | 32,008,782 |
| Share based payment reserves | 10 | 8,728,275 | 7,640,496 |
| Deficit | | <u>(38,498,775)</u> | <u>(38,042,072)</u> |
| | | <u>2,940,520</u> | <u>1,607,206</u> |
| | | 3,960,917 | 2,148,109 |

Commitments (Note 11)
Contingent liability (Note 12)
Event after the reporting period (Note 14)

APPROVED BY THE BOARD OF DIRECTORS AND AUTHORIZED FOR ISSUE ON MAY 25, 2016

"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 COMPREHENSIVE LOSS

(Expressed in Canadian Dollars - Unaudited)

| | Notes | For the three months ended March 31, | | For the six months ended March 31, | |
|---|-------|---|------------------|---------------------------------------|--------------------|
| | | 2016 \$ | 2015 \$ | 2016 \$ | 2015 \$ |
| Revenue | | 1,018,323 | 114,328 | 1,796,675 | 266,993 |
| Cost of sales | | 509,433 | 36,979 | 860,369 | 124,401 |
| Gross margin | | <u>508,890</u> | <u>77,349</u> | <u>936,306</u> | <u>142,592</u> |
| Expenses | | | | | |
| Amortization and depreciation | 7, 8 | 48,773 | 46,258 | 93,676 | 90,941 |
| General and overhead | | 123,031 | 104,119 | 234,523 | 204,378 |
| Professional fees | | 19,500 | 40,026 | 42,947 | 61,026 |
| Product development | | 14,837 | 16,810 | 21,691 | 30,082 |
| Salaries and consulting fees | | 415,998 | 314,847 | 789,112 | 646,256 |
| Share-based compensation | 10 | 77,885 | 231,655 | 155,672 | 359,907 |
| Warranty provision | 9 | 18,000 | 2,000 | 56,000 | 20,000 |
| | | <u>718,024</u> | <u>755,715</u> | <u>1,393,621</u> | <u>1,412,590</u> |
| Loss before others items | | <u>(209,134)</u> | <u>(678,366)</u> | <u>(457,315)</u> | <u>(1,269,998)</u> |
| Loss on product installations | | - | (32,674) | - | (130,851) |
| Other income (expense) | | 2,017 | (1,829) | 612 | (1,246) |
| | | <u>2,017</u> | <u>(34,503)</u> | <u>612</u> | <u>(132,097)</u> |
| Loss and comprehensive loss for the period | | <u>(207,117)</u> | <u>(712,869)</u> | <u>(456,703)</u> | <u>(1,402,095)</u> |
| Basic and diluted loss per share | | <u>(0.003)</u> | <u>(0.018)</u> | <u>(0.007)</u> | <u>(0.035)</u> |
| Weighted average number of common shares outstanding | | 68,196,139 | 48,908,308 | 63,796,764 | 40,454,279 |

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)

| | <u>Number of Shares Issued</u> | <u>Capital Stock</u> | <u>Reserves</u> | <u>Deficit</u> | <u>Total Shareholders' Equity</u> |
|--|------------------------------------|----------------------|------------------|---------------------|---|
| | | \$ | \$ | \$ | \$ |
| 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 | 10,000 | 3,571 | (1,571) | - | 2,000 |
| Common shares issued for warrants exercised | 2,404,761 | 1,001,102 | (279,675) | - | 721,427 |
| Share-based compensation | - | - | 359,907 | - | 359,907 |
| Loss for the period | - | - | - | (1,402,095) | (1,402,095) |
| Balance at March 31, 2015 | 59,216,725 | 31,940,212 | 7,462,656 | (36,904,003) | 2,498,865 |
| Balance at September 30, 2015 | 59,397,389 | 32,008,782 | 7,640,496 | (38,042,072) | 1,607,206 |
| Common shares issued for cash | 8,300,000 | 1,660,000 | - | - | 1,660,000 |
| Common shares issued for finder's fees | 498,750 | 99,750 | - | - | 99,750 |
| Share issue costs for financing | - | (125,405) | - | - | (125,405) |
| Fair value of warrants issued | - | (879,272) | 879,272 | - | - |
| Fair value of warrants issued for finder's fees | - | (52,835) | 52,835 | - | - |
| Share-based compensation | - | - | 155,672 | - | 155,672 |
| Loss for the period | - | - | - | (456,703) | (456,703) |
| Balance at March 31, 2016 | 68,196,139 | 32,711,020 | 8,728,275 | (38,498,775) | 2,940,520 |

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

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

| | For the six months ended March 31, | |
|---|------------------------------------|-------------------------|
| | 2016 | 2015 |
| | \$ | \$ |
| Cash flows used in operating activities | | |
| Loss for the period | (456,703) | (1,402,095) |
| Items not affecting cash: | | |
| Amortization and depreciation | 93,676 | 90,941 |
| Share-based compensation | 155,672 | 359,907 |
| Warranty provision | 56,000 | 20,000 |
| Changes in non-cash working capital items | | |
| Decrease / (increase) in inventory | 233,122 | (233,359) |
| (Increase) in receivables, prepaids and deposits | (1,660,482) | (153,554) |
| Increase / (decrease) in accounts payable and accrued liabilities | 421,848 | (97,805) |
| | <u>(1,156,867)</u> | <u>(1,415,965)</u> |
| Cash flows used in investing activities | | |
| Purchase of property and equipment | <u>(22,765)</u> | <u>(13,690)</u> |
| Cash flows from financing activities | | |
| Issue of common shares | 1,660,000 | - |
| Warrant exercise proceeds | - | 721,427 |
| Stock option exercise proceeds | - | 2,000 |
| Share issue costs | (25,654) | - |
| | <u>1,634,346</u> | <u>723,427</u> |
| Net change in cash | 454,714 | (706,228) |
| Cash, beginning of period | <u>536,116</u> | <u>2,410,077</u> |
| Cash, end of period | <u>990,830</u> | <u>1,703,849</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 three and six month periods ended March 31, 2016

(Expressed in Canadian Dollars - Unaudited)

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

As at March 31, 2016, the Company had working capital of \$2,899,739 (September 30, 2015: \$1,439,514) and an accumulated deficit of \$38,498,775 (September 30, 2015: \$38,042,072). During the six-months ended March 31, 2016 the Company incurred a net loss of \$456,703 (2015: \$1,402,095). Based on the working capital as at March 31, 2016 and estimated cash requirements and sources in fiscal 2016, 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.

2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

These condensed consolidated interim 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, 2015. 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.

There have been no significant changes to the Company's accounting policies from those disclosed in the consolidated financial statements for the years ended September 30, 2015 and 2014. There have also been no significant changes in judgements or estimates from those disclosed in the consolidated financial statements for the years ended September 30, 2015 and 2014.

Legend Power Systems Inc.
Notes to the Condensed Interim Consolidated Financial Statements
For the three and six month periods ended March 31, 2016

(Expressed in Canadian Dollars - Unaudited)

3. 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.

4. FINANCIAL INSTRUMENTS

The fair values of the Company's financial instruments are summarized in the following table:

| | March 31, 2016 | | September 30, 2015 | |
|--|----------------|------------|--------------------|------------|
| | Carrying value | Fair value | Carrying value | Fair value |
| Financial assets | | | | |
| <i>Fair value through profit or loss</i> | | | | |
| Cash | \$ 990,830 | \$ 990,830 | \$ 536,116 | \$ 536,116 |
| <i>Loans and receivables</i> | | | | |
| Amounts receivable | 2,287,343 | 2,287,343 | 646,800 | 646,800 |
| Financial liabilities | | | | |
| <i>Other financial liabilities</i> | | | | |
| Trade payables | \$ 322,103 | \$ 322,103 | \$ 189,060 | \$ 189,060 |
| Accrued liabilities | 500,294 | 500,294 | 209,843 | 209,843 |

Legend Power Systems Inc.
Notes to the Condensed Interim Consolidated Financial Statements
For the three and six month periods ended March 31, 2016
(Expressed in Canadian Dollars - Unaudited)

4. FINANCIAL INSTRUMENTS – continued

Contractual maturity analysis as at March 31, 2016

| | Less than 3 months | 3 -12 months | 1 - 5 years | Longer than 5 years | Total |
|---------------------|-----------------------|-----------------|----------------|------------------------|--------------|
| Cash | \$ 990,830 | - | - | - | \$ 990,830 |
| Accounts receivable | \$ 1,743,429 | 543,914 | - | - | \$ 2,287,343 |
| Trade payables | \$ 322,103 | - | - | - | \$ 322,103 |
| Accrued liabilities | \$ 500,294 | - | - | - | \$ 500,294 |

Contractual maturity analysis as at September 30, 2015

| | Less than 3 months | 3 -12 months | 1 - 5 years | Longer than 5 years | Total |
|---------------------|-----------------------|-----------------|----------------|------------------------|------------|
| Cash | \$ 536,116 | - | - | - | \$ 536,116 |
| Accounts receivable | \$ 19,836 | 626,964 | - | - | \$ 646,800 |
| Trade payables | \$ 189,060 | - | - | - | \$ 189,060 |
| Accrued liabilities | \$ 209,843 | - | - | - | \$ 209,843 |

5. INVENTORY

Inventories consist of the following, as at:

| | March 31, 2016 | September 30, 2015 |
|-----------------------------|-------------------|-----------------------|
| Transformers and components | \$ 339,790 | \$ 572,912 |

During the six-months ended March 31, 2016, inventory recognized as cost of sales amounted to \$302,295 (2015 - \$116,185).

6. PREPAID EXPENSES AND DEPOSITS

| | March 31, 2016 | September 30, 2015 |
|--------------------------------|-------------------|-----------------------|
| Rent deposit | \$ 42,914 | \$ 33,415 |
| Prepaid insurance | 20,495 | 14,205 |
| Prepaid retainers and deposits | 21,217 | 6,081 |
| Prepaid testing fees | 17,587 | 26,817 |
| Other | 1,960 | 2,071 |
| | \$ 104,173 | \$ 82,589 |

Legend Power Systems Inc.
Notes to the Condensed Interim Consolidated Financial Statements
For the three and six month periods ended March 31, 2016

(Expressed in Canadian Dollars - Unaudited)

7. PROPERTY AND EQUIPMENT

| | Computer equipment | Computer software | Equipment and furniture | Leasehold improvements | Total |
|--|-----------------------|----------------------|----------------------------|---------------------------|------------|
| Cost | | | | | |
| Balance, October 1, 2015 | \$ 72,399 | \$ 91,973 | \$ 277,967 | \$ 12,152 | \$ 454,491 |
| Additions | 1,276 | 550 | 20,939 | - | 22,765 |
| Balance, March 31, 2016 | 73,675 | 92,523 | 298,906 | 12,152 | 477,256 |
| Depreciation | | | | | |
| Balance, October 1, 2015 | 64,817 | 85,039 | 271,793 | 9,889 | \$ 431,538 |
| Depreciation for the period | 1,747 | 4,465 | 3,301 | 2,263 | 11,776 |
| Balance, March 31, 2016 | 66,564 | 89,504 | 275,094 | 12,152 | \$ 443,314 |
| Carrying amount at March 31, 2016 | \$ 7,111 | \$ 3,019 | \$ 23,812 | \$ - | \$ 33,942 |

| | Computer equipment | Computer software | Equipment and furniture | Leasehold improvements | Total |
|--|-----------------------|----------------------|----------------------------|---------------------------|------------|
| Cost | | | | | |
| Balance, October 1, 2014 | \$ 63,385 | \$ 80,919 | \$ 277,967 | \$ 12,152 | \$ 434,423 |
| Additions | 9,014 | 11,054 | - | - | 20,068 |
| Balance, September 30, 2015 | 72,399 | 91,973 | 277,967 | 12,152 | 454,491 |
| Depreciation | | | | | |
| Balance, October 1, 2014 | 61,999 | 77,443 | 267,876 | 7,458 | \$ 414,776 |
| Depreciation for the year | 2,818 | 7,596 | 3,917 | 2,431 | 16,762 |
| Balance, September 30, 2015 | 64,817 | 85,039 | 271,793 | 9,889 | \$ 431,538 |
| Carrying amount at September 30, 2015 | \$ 7,582 | \$ 6,934 | \$ 6,174 | \$ 2,263 | \$ 22,953 |

Legend Power Systems Inc.
Notes to the Condensed Interim Consolidated Financial Statements
For the three and six month periods ended March 31, 2016

(Expressed in Canadian Dollars - Unaudited)

8. PATENTS

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

| | <u>Total</u> |
|--|---------------------|
| Cost | |
| Balance, October 1, 2015 | \$ 1,638,099 |
| Additions, disposals, transfers | - |
| Balance, March 31, 2016 | <u>\$ 1,638,099</u> |
| Amortization | |
| Balance, October 1, 2015 | \$ 1,351,360 |
| Amortization for the period | 81,900 |
| Balance, March 31, 2016 | <u>\$ 1,433,260</u> |
| Carrying amount at March 31, 2016 | <u>\$ 204,839</u> |

| | <u>Total</u> |
|--|---------------------|
| Cost | |
| Balance, October 1, 2014 | \$ 1,638,099 |
| Additions, disposals, transfers | - |
| Balance, September 30, 2015 | <u>\$ 1,638,099</u> |
| Amortization | |
| Balance, October 1, 2014 | \$ 1,187,560 |
| Amortization for the year | 163,800 |
| Balance, September 30, 2015 | <u>\$ 1,351,360</u> |
| Carrying amount at September 30, 2015 | <u>\$ 286,739</u> |

9. WARRANTY PROVISION

The estimate for warranty provision as at March 31, 2016 is \$198,000 (September 30, 2015 - \$142,000).

| | |
|--------------------------------|----------------|
| Balance, October 1, 2015 | \$ 142,000 |
| Additional provision | 56,000 |
| Balance, March 31, 2016 | <u>198,000</u> |

Legend Power Systems Inc.
Notes to the Condensed Interim Consolidated Financial Statements
For the three and six month periods ended March 31, 2016

(Expressed in Canadian Dollars - Unaudited)

10. SHARE CAPITAL AND RESERVES

The Company's authorized share capital is an unlimited number of common shares without par value. All issued common shares are fully paid. Reserves 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 six-months ended March 31, 2016, the following transactions occurred:

- (i) 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 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%; and an estimated forfeiture rate of 0%. The residual value of \$780,728 was attributed to the common shares.

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

- (ii) 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.
- (iii) On February 27, 2015, the Company raised \$721,427 from the exercise of 2,404,758 warrants at \$0.30 each.
- (iv) 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.
- (v) The 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.

Legend Power Systems Inc.
Notes to the Condensed Interim Consolidated Financial Statements
For the three and six month periods ended March 31, 2016

(Expressed in Canadian Dollars - Unaudited)

10. SHARE CAPITAL AND RESERVES - continued

A summary of the Company's share options at March 31, 2016, including the changes during the period, is as follows:

| | | |
|-----------------------------|-----------|--------|
| Balance, October 1, 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, March 31, 2016 | 6,064,496 | \$0.34 |

The following table summarizes share options outstanding and exercisable at March 31, 2016:

| Share Options Outstanding | Share Options Exercisable | Exercise Price | Expiry Date |
|---------------------------|---------------------------|----------------|--------------------|
| 183,333 | 183,333 | \$0.42 | April 18, 2017 |
| 541,667 | 459,722 | \$0.30 | May 21, 2018 |
| 557,830 | 557,830 | \$0.30 | August 20, 2018 |
| 910,000 | 615,001 | \$0.20 | February 23, 2019 |
| 1,480,000 | 493,332 | \$0.55 | September 30, 2019 |
| 175,000 | - | \$0.35 | May 31, 2018 |
| 275,000 | 45,833 | \$0.35 | May 31, 2020 |
| 1,766,666 | - | \$0.25 | January 26, 2021 |
| 175,000 | - | \$0.25 | February 9, 2021 |
| 6,064,496 | 2,355,051 | | |

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:

| | March 31, 2016 | September 30, 2015 |
|---------------------------|-------------------|-----------------------|
| Risk-free interest rate | 1.74% | 1.74% |
| Estimated volatility | 107.98% | 108.00% |
| Expected life (years) | 3.76 | 3.76 |
| Estimated forfeiture rate | 17.57% | 17.57% |

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 three and six month periods ended March 31, 2016

(Expressed in Canadian Dollars - Unaudited)

10. SHARE CAPITAL AND RESERVES - continued

Warrants

A summary of the number of common shares reserved pursuant to the Company's outstanding warrants is as follows:

| | March 31, 2016 | |
|-------------------------------|-----------------------|------------------------------------|
| | Number of Warrants | Weighted Average Exercise Price |
| Balance, beginning of period | 10,510,053 | \$0.29 |
| Issued | 8,798,750 | \$0.40 |
| Balance, end of period | 19,308,803 | \$0.34 |

| | September 30, 2015 | |
|-----------------------------|-----------------------|------------------------------------|
| | Number of Warrants | Weighted Average Exercise Price |
| Balance, beginning of year | 12,914,811 | \$0.29 |
| Exercised | (2,404,758) | \$0.30 |
| Balance, end of year | 10,510,053 | \$0.29 |

The following table summarizes information of the number of common shares reserved pursuant to the warrants outstanding and exercisable at March 31, 2016:

| Number of Warrants | Exercise Price | Expiry Date |
|-----------------------|----------------|-------------------|
| 2,034,333 | \$0.30 | July 31, 2016 |
| 815,555 | \$0.15 | October 18, 2016 |
| 7,660,165 | \$0.30 | October 18, 2016 |
| 8,798,750 | \$0.40 | December 30, 2017 |
| 19,308,803 | | |

11. COMMITMENTS

The Company leases premises in Burnaby, B.C. under an operating lease that expires on July 31, 2016. The Company is obligated to make lease payments under this operating lease of \$32,546.

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:

| | |
|------|-----------|
| 2016 | \$59,280 |
| 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.

Legend Power Systems Inc.
Notes to the Condensed Interim Consolidated Financial Statements
For the three and six month periods ended March 31, 2016

(Expressed in Canadian Dollars - Unaudited)

11. COMMITMENTS - continued

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. CONTINGENT LIABILITY

On May 25, 2015 the Company was named as a defendant in an action initiated by a former consultant for unpaid fees together with additional damages in the amount of \$100,000 for breach of contract, \$25,000 for aggravated damages and \$25,000 for punitive damages. The Company has filed a statement of defense denying all claims and no further action has been taken on the claim.

As at March 31, 2016, the likelihood of loss is not determinable and the amount is not reasonably estimable. Management believes the Company has a valid defense to this claim.

13. RELATED PARTY DISCLOSURES

The Company entered into the following related party transactions during the six-months ended March 31, 2016. The terms and conditions of the transactions were no more favorable than those available, or which might reasonably be expected to be available, on similar transactions with non-related entities on an arm's length basis.

During the six-months ended March 31, 2016, 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:

| | March 31, 2016 | March 31, 2015 |
|--------------------------------------|-------------------|-------------------|
| Salaries to key management employees | \$ 143,355 | \$ 151,000 |
| Share-based compensation | \$ 91,492 | \$ 175,998 |

(ii) Transactions with Other Related Parties:

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

| | March 31, 2016 | March 31, 2015 |
|--------------------------|-------------------|-------------------|
| Share-based compensation | \$ 21,749 | \$ 36,713 |

14. EVENT AFTER THE REPORTING PERIOD

On May 9, 2016, 111,111 warrants were exercised at \$.30 each for total proceeds of \$33,333.