



## Legend Power Systems Inc.

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended  
SEPTEMBER 30, 2015 AND 2014

*(Expressed in Canadian Dollars)*

Legend Power Systems Inc.  
CONSOLIDATED FINANCIAL STATEMENTS  
For the years ended September 30, 2015 and 2014

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

dhgroup.ca  
t 604.731.5881  
f 604.731.9923

## Independent Auditor's Report

To the Shareholders of Legend Power Systems Inc.

We have audited the accompanying consolidated financial statements of Legend Power Systems Inc., which comprise the consolidated statements of financial position as at September 30, 2015 and September 30, 2014, and the consolidated statements of comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended September 30, 2015 and September 30, 2014, 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 audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the 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 audits is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Legend Power Systems Inc. as at September 30, 2015 and September 30, 2014, and its financial performance and its cash flows for the years ended September 30, 2015 and September 30, 2014 in accordance with International Financial Reporting Standards.

Vancouver, B.C.  
January 21, 2016

*"D&H Group LLP"*

Chartered Professional Accountants

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

	September 30 2015	September 30 2014
<b>ASSETS</b>		
Current assets		
Cash	\$ 536,116	\$ 2,410,077
Amounts receivable (Note 5)	646,800	210,911
Inventory (Note 6)	572,912	123,462
Prepaid expenses and deposits (Note 8)	82,589	93,123
<b>Total current assets</b>	<b>1,838,417</b>	<b>2,837,573</b>
Non-current assets		
Property and equipment (Note 9)	22,953	19,647
Patents (Note 10)	286,739	450,539
<b>Total non-current assets</b>	<b>309,692</b>	<b>470,186</b>
<b>TOTAL ASSETS</b>	<b>\$ 2,148,109</b>	<b>\$ 3,307,759</b>
<b>LIABILITIES</b>		
Current liabilities		
Trade payables	\$ 189,060	\$ 105,602
Accrued liabilities	209,843	235,231
Finance fee payable	-	60,300
<b>Total current liabilities</b>	<b>398,903</b>	<b>401,133</b>
Non-current liabilities		
Warranty provision (Note 11)	142,000	89,000
<b>TOTAL LIABILITIES</b>	<b>540,903</b>	<b>490,133</b>
<b>SHAREHOLDERS' EQUITY</b>		
Common shares (Note 12)	32,008,782	30,935,539
Share-based payment reserve (Note 13)	7,640,496	7,383,995
Deficit	(38,042,072)	(35,501,908)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>1,607,206</b>	<b>2,817,626</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 2,148,109</b>	<b>\$ 3,307,759</b>

Commitments (Note 14)  
Contingent Liability (Note 15)  
Events after the reporting period (Note 19)

APPROVED BY THE BOARD OF DIRECTORS AND AUTHORIZED FOR ISSUE ON JANUARY 21, 2016

“Michael Atkinson”, Director      “Randy Buchamer”, Director

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

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

	Year ended September 30	
	2015	2014
Revenue	\$ 626,524	\$ 841,304
Cost of sales	191,566	605,875
<b>Margin</b>	<b>434,958</b>	<b>235,429</b>
Expenses		
Accretion expense	-	10,476
Advertising and promotion	62,072	13,181
Amortization of patents (Note 10)	163,800	163,800
Bad debts	61,865	-
Consulting services	135,958	301,833
Corporate	36,023	45,474
Depreciation of property and equipment	16,762	9,102
Financing fees	9,959	75,377
Insurance	37,282	36,345
Interest and bank charges	5,522	26,275
Investor relations	-	10,560
Legal and professional fees	109,447	75,801
Office and general	63,513	37,214
Product development	52,701	57,639
Rent	120,749	115,569
Salaries	1,248,085	678,719
Share-based compensation (Note 13)	553,117	286,057
Travel and entertainment	60,660	45,266
Warranty expense (Note 11)	205,679	19,000
	2,943,194	2,007,688
<b>Loss before other items</b>	<b>(2,508,236)</b>	<b>(1,772,259)</b>
Other items		
Foreign exchange	(17,861)	(6,894)
Inventory impairment (Note 6)	(29,867)	(36,752)
Loss on product installations (Note 7)	-	(200,103)
Other income	15,800	4,685
	(31,928)	(239,064)
<b>Net loss and comprehensive loss for the year</b>	<b>\$ (2,540,164)</b>	<b>\$ (2,011,323)</b>
<b>Loss per common share - basic and diluted</b>	<b>\$ (0.04)</b>	<b>\$ (0.04)</b>
<b>Weighted average number of common shares outstanding</b>	<b>58,317,892</b>	<b>45,997,997</b>

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

Legend Power Systems Inc.  
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
*(Expressed in Canadian Dollars)*

	Year ended September 30, 2015				
	Common shares				
	Number of shares	Amount	Share-based payment reserve	Deficit	Total equity
Balance on September 30, 2014	56,801,964	\$ 30,935,539	\$ 7,383,995	\$(35,501,908)	\$ 2,817,626
Common shares issued for:					
Warrants exercised	2,404,758	721,427			721,427
Options exercised	190,667	55,200			55,200
Fair value of warrants exercised		284,493	(284,493)		-
Fair value of options exercised		12,123	(12,123)		-
Share-based compensation			553,117		553,117
Net loss for the year				(2,540,164)	(2,540,164)
Balance on September 30, 2015	59,397,389	\$ 32,008,782	\$ 7,640,496	\$(38,042,072)	\$ 1,607,206

	Year ended September 30, 2014				
	Common shares				
	Number of shares	Amount	Share-based payment reserve	Deficit	Total equity
Balance on September 30, 2013	31,730,497	\$ 27,552,956	\$ 5,716,802	\$(33,490,585)	\$ (220,827)
Common shares issued for:					
Cash	8,185,165	736,665			736,665
Warrants exercised	16,154,008	4,056,850			4,056,850
Options exercised	13,889	4,167			4,167
Finder's fees	718,405	64,657			64,657
Share issue costs		(98,620)			(98,620)
Fair value of warrants issued		(2,534,466)	2,534,466		-
Fair value of warrants exercised		1,200,168	(1,200,168)		-
Fair value of warrants for finder's fees		(46,838)	46,838		-
Share-based compensation			286,057		286,057
Net loss for the year				(2,011,323)	(2,011,323)
Balance on September 30, 2014	56,801,964	\$ 30,935,539	\$ 7,383,995	\$(35,501,908)	\$ 2,817,626

*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)*

	Year ended September 30	
	2015	2014
<b>Operating</b>		
Net loss for the year	\$ (2,540,164)	\$ (2,011,323)
Adjustments for:		
Accretion expense	-	10,476
Amortization of patents	163,800	163,800
Depreciation of property and equipment	16,762	9,102
Share-based compensation expense	553,117	286,057
Inventory impairment	29,867	36,752
Bad debts	61,865	-
Warranty provision	73,880	19,000
Changes in non-cash working capital accounts:		
(Increase) decrease in inventory	(479,317)	37,461
(Increase) decrease in amounts receivable, prepaid expenses and deposits	(508,100)	(98,222)
(Decrease) increase in trade payables, accrued liabilities and finance fee payable	(2,230)	(291,161)
<b>Total operating</b>	<b>(2,630,520)</b>	<b>(1,838,058)</b>
<b>Investing</b>		
Purchase of property and equipment	(20,068)	(17,282)
<b>Total investing</b>	<b>(20,068)</b>	<b>(17,282)</b>
<b>Financing</b>		
Issue of common shares	-	736,665
Stock options exercised	55,200	4,167
Warrants exercised	721,427	4,056,850
Share issue costs	-	(33,963)
Promissory note repayment	-	(500,000)
<b>Total financing</b>	<b>776,627</b>	<b>4,263,719</b>
Net change in cash	\$ (1,873,961)	\$ 2,408,379
Cash at beginning of year	2,410,077	1,698
Cash at end of year	\$ 536,116	\$ 2,410,077

See also Note 18

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

# Legend Power Systems Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

*(Expressed in Canadian Dollars)*

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### 1. NATURE OF BUSINESS

Legend Power Systems Inc. (hereafter referred to as the "Company") 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 under the trading symbol "LPS.V". The Company's share options and share purchase warrants are not listed.

The Company's principal office is located at:

8561 Commerce Court,  
Burnaby, British Columbia,  
V5A 4N5,  
Canada

As at September 30, 2015, the Company had working capital of \$1,439,514 (September 30, 2014: \$2,436,440) and an accumulated deficit of \$38,042,072 (September 30, 2014: \$35,501,908). During the year ended September 30, 2015 the Company incurred a net loss of \$ 2,540,164 (2014: \$2,011,323). Subsequent to September 30, 2015, the Company raised \$1,660,000 in a private placement financing (see Note 19). Based on the working capital as at September 30, 2015, subsequent financing and estimated cash requirements and sources in fiscal 2015, 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.

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") appropriate for a going concern. 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.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Statement of compliance

These consolidated financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").



# Legend Power Systems Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

(Expressed in Canadian Dollars)

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

#### Basis of presentation

The Company's consolidated financial statements have been prepared on the historical cost basis except for the revaluation of certain financial assets and financial liabilities to fair value.

#### Details of the group

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.

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%

#### Consolidation principles

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 financial statements of each of the Company's subsidiaries are prepared in the local currency of their home jurisdictions. Consolidation of each subsidiary includes re-measurement from the local currency to the subsidiary's functional currency. The subsidiaries' functional currency, being the currency of the primary economic environment in which the subsidiaries operate, is the Canadian dollar. The consolidated financial statements are presented in Canadian dollars.

Exchange rates published by the Bank of Canada were used to translate subsidiary financial statements into the consolidated financial statements. Income and expenses for each statement of comprehensive loss presented are translated using the rates prevailing on the transaction dates. All resulting foreign exchange differences are recognized in comprehensive income or loss.

##### *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.

# Legend Power Systems Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

(Expressed in Canadian Dollars)

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

#### 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%

#### 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.

#### 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 comprehensive income (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.

# Legend Power Systems Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

*(Expressed in Canadian Dollars)*

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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 comprehensive profit or 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 the share award reserve. The fair value of awards is calculated using the Black-Scholes option pricing model which considers the following factors:

- Exercise price
- Expected life of the award
- Expected forfeitures
- Expected volatility
- Risk-free interest rate
- Current market price of the underlying shares

#### 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, 2015 the Company has not classified any financial assets as available for sale.

# Legend Power Systems Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

(Expressed in Canadian Dollars)

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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, 2015 the Company has not classified any financial liabilities as fair value through profit or loss.

#### Revenue recognition

The Company generates revenue through direct product sales, product sales and installations and in limited circumstances, ongoing energy savings revenue from past product installations.

The Company recognizes revenue on direct product sales when products have been delivered and collection is probable. The Company recognizes revenue on product sales and installations when products have been installed and all terms in the sales contract have been met to transfer risks and rewards of ownership. The terms of each installation contract vary and may include inspection and acceptance of the agreed upon energy savings as a result of the product installation. The Company recognizes ongoing energy savings revenue when collection is probable.

#### Inventory

Inventory is measured at the lower of cost or net realizable value. Costs are assigned to inventory by using specific identification of individual costs.

#### 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.

# Legend Power Systems Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

(Expressed in Canadian Dollars)

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

At September 30, 2015 management has determined no impairment indicators were present with respect to the Company's patents.

- (ii) Management is required to evaluate whether there are material uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. Management has concluded no material uncertainties exist with respect to the Company's ability to continue as a going concern as the Company has sufficient capital to continue business operations over the next twelve months. See also Note 1.
- (iii) 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.

#### *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) Provisions for income taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxation authorities. Where the final outcome of these tax-related matters is different from the amounts that were originally recorded, such differences will affect the tax provisions in the period in which such determination is made.
- (ii) At September 30, 2015 and 2014, 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.

# Legend Power Systems Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

(Expressed in Canadian Dollars)

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

#### 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.

### 3. CAPITAL RISK MANAGEMENT

The Company manages, as capital, the components of shareholders' equity. The Company's objectives, when managing capital, are to safeguard its ability to continue as a going concern in order to continue to develop and sell its products and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages its capital structure, and makes adjustments to it, in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may attempt to issue common shares, borrow, acquire or dispose of assets or adjust the amount of cash.

### 4. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

#### *Fair value*

IFRS 7 establishes a fair value hierarchy for financial instruments measured at fair value that reflects the significance of inputs in making fair value measurements as follows:

Level 1 - applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2 - applies to assets or liabilities for which there are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly such as quoted prices for similar assets or liabilities in active markets or indirectly such as quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions.

Level 3 - applies to assets or liabilities for which there are unobservable market data.

# Legend Power Systems Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

(Expressed in Canadian Dollars)

### 4. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT – continued

The Company's fair value of cash under the fair value hierarchy is measured using Level 1 inputs. The recorded amounts for the Company's financial instruments approximate their fair value due to their short-term nature.

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

	September 30, 2015		September 30, 2014	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
<i>Fair value through profit or loss</i>				
Cash	\$ 536,116	\$ 536,116	\$ 2,410,077	\$ 2,410,077
<i>Loans and receivables</i>				
Amounts receivable	646,800	646,800	210,911	210,911
Financial liabilities				
<i>Other financial liabilities</i>				
Trade payables	\$ 189,060	\$ 189,060	\$ 105,602	\$ 105,602
Accrued liabilities	209,843	209,843	235,231	235,231
Finance fee payable	-	-	60,300	60,300

#### *Financial risk management objectives and policies*

The Company's financial instruments include cash, amounts receivable, trade payables, accrued liabilities, and finance fee payable. The risks associated with these financial instruments and the policies regarding their management are discussed below. Management monitors these risk exposures to ensure appropriate measures are implemented in a timely and effective manner.

#### *Foreign currency risk*

The Company has not entered into any derivative instruments to manage foreign exchange fluctuations.

At September 30, 2015 the Company has no significant foreign currency denominated financial liabilities, and did not hold any significant foreign currency denominated financial assets.

#### *Interest rate risk*

The Company is not exposed to significant interest rate risk.

#### *Credit risk*

Credit risk is the risk of an unexpected loss if the counterparty to a financial instrument fails to meet its contractual obligations. The credit risk associated with cash is believed to be minimal as cash is on deposit with Canadian and foreign banks that are believed to be creditworthy. Amounts receivable is comprised primarily of amounts due from large corporations. The Company does not believe it is exposed to significant credit risk.

#### *Liquidity risk*

Liquidity risk is managed by ensuring sufficient financial resources are available to meet obligations associated with financial liabilities. The table below is based on the contractual maturity dates of financial assets and the earliest date on which the Company can be required to settle financial liabilities.

# Legend Power Systems Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

(Expressed in Canadian Dollars)

### 4. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT – continued

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
Amounts receivable	\$ 19,836	626,964	-	-	\$ 646,800
Trade payables	\$ 213,758	-	-	-	\$ 213,758
Accrued liabilities	\$ 209,843	-	-	-	\$ 209,843

Contractual maturity analysis as at September 30, 2014					
	Less than 3 months	3 -12 months	1 - 5 years	Longer than 5 years	Total
Cash	\$ 2,410,077	-	-	-	\$ 2,410,077
Amounts receivable	\$ 210,911	-	-	-	\$ 210,911
Trade payables	\$ 105,602	-	-	-	\$ 105,602
Accrued liabilities	\$ 235,231	-	-	-	\$ 235,231
Finance fee payable	\$ 60,300	-	-	-	\$ 60,300

### 5. AMOUNTS RECEIVABLE

	September 30, 2015	September 30, 2014
Trade receivables	\$ 646,800	\$ 188,418
Canadian Goods & Services Tax refundable	-	22,493
	<u>\$ 646,800</u>	<u>\$ 210,911</u>

\$626,964 of the trade receivables are on extended credit terms of 90 days or over. Bad debt expense of \$61,865 resulted from a settlement with a distributor for cancellation of amounts owed as compensation for costs incurred in rectifying product issues which have since been resolved.

### 6. INVENTORY

Inventories consist of the following, as at:

	September 30, 2015	September 30, 2014
Transformers and components	\$ 572,912	\$ 123,462

During the year ended September 30, 2015, inventories were recognized as cost of sales in the amount of \$133,164 (2014 - \$223,249). Inventory impairment during 2015 was \$29,867 (2014 - \$36,752), which 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.



# Legend Power Systems Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

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### 7. LOSS ON PRODUCT INSTALLATIONS

During the 2014 fiscal year, the Company incurred costs associated with failed installations that took place in 2014 and prior years as a result of failures of certain components within the installed Harmonizer systems. No revenue was recognized relating to the failed installations. Failures resulted in the removal of the Harmonizer systems. Loss on product installations includes installation costs, removal costs and electrical system damages at the installation sites.

### 8. PREPAID EXPENSES AND DEPOSITS

	September 30, 2015	September 30, 2014
Rent deposit	\$ 33,415	\$ 33,415
Prepaid insurance	14,205	13,477
Prepaid retainers and deposits	6,081	14,794
Prepaid testing fees	26,817	29,918
Other	2,071	1,519
	<u>\$ 82,589</u>	<u>\$ 93,123</u>

### 9. PROPERTY AND EQUIPMENT

	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	<u>72,399</u>	<u>91,973</u>	<u>277,967</u>	<u>12,152</u>	<u>454,491</u>
Depreciation					
Balance, October 1, 2014	61,999	77,443	267,876	7,458	\$ 414,776
Depreciation	2,818	7,596	3,917	2,431	16,762
Balance, September 30, 2015	<u>64,817</u>	<u>85,039</u>	<u>271,793</u>	<u>9,889</u>	<u>\$ 431,538</u>
Carrying amount at September 30, 2015	<u>\$ 7,582</u>	<u>\$ 6,934</u>	<u>\$ 6,174</u>	<u>\$ 2,263</u>	<u>\$ 22,953</u>

	Computer equipment	Computer software	Equipment and furniture	Leasehold improvements	Total
Cost					
Balance, October 1, 2013	\$ 62,763	\$ 75,377	\$ 266,849	\$ 12,152	\$ 417,141
Additions	622	5,542	11,118	-	17,282
Balance, September 30, 2014	<u>63,385</u>	<u>80,919</u>	<u>277,967</u>	<u>12,152</u>	<u>434,423</u>
Depreciation					
Balance, October 1, 2013	60,773	75,148	264,725	5,028	\$ 405,674
Depreciation	1,226	2,295	3,151	2,430	9,102
Balance, September 30, 2014	<u>61,999</u>	<u>77,443</u>	<u>267,876</u>	<u>7,458</u>	<u>\$ 414,776</u>
Carrying amount at September 30, 2014	<u>\$ 1,386</u>	<u>\$ 3,476</u>	<u>\$ 10,091</u>	<u>\$ 4,694</u>	<u>\$ 19,647</u>

# Legend Power Systems Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

(Expressed in Canadian Dollars)

### 10. PATENTS

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

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

	<u>Total</u>
Cost	
Balance, October 1, 2013	\$ 1,638,099
Additions, disposals, transfers	-
<u>Balance, September 30, 2014</u>	<u>\$ 1,638,099</u>
Amortization	
Balance, October 1, 2013	\$ 1,023,760
Amortization	163,800
<u>Balance, September 30, 2014</u>	<u>\$ 1,187,560</u>
<u>Carrying amount at September 30, 2014</u>	<u>\$ 450,539</u>

### 11. WARRANTY PROVISION

Included in the amount expensed during the year ended September 30, 2015 is \$152,769 for replacement of controller units (September 30, 2014 - \$ Nil).

Balance, October 1, 2013	\$ 70,000
Warranty fulfillments	-
<u>Additional provision</u>	<u>19,000</u>
Balance, September, 30, 2014	89,000
Warranty fulfillments	(152,679)
<u>Additional provision</u>	<u>205,679</u>
<u>Balance, September 30, 2015</u>	<u>\$ 142,000</u>

# Legend Power Systems Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

*(Expressed in Canadian Dollars)*

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### 12. CAPITAL & RESERVES

The Company's authorized share capital is an unlimited number of common shares without par value. All issued common shares are fully paid.

a) 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 raised \$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 share based-payment reserve for all warrants and options exercised up to September 30, 2015 was \$296,616.

b) During the year ended September 30, 2014, the following transactions occurred:

- (i) On October 21, 2013, the Company completed a private placement in which it issued a total of 8,185,165 units at \$0.09 per unit for aggregate gross proceeds of \$736,665. 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 \$0.15 per share until October 18, 2016. The Company paid finder's fees of 10% of the funds raised, satisfied by the issuance of 718,405 units at a price of \$0.09 each.
- (ii) During March and April 2014, the Company raised \$1,543,352 from the exercise of 10,289,010 warrants. Of the 10,289,010 warrants exercised, 10,111,165 were under the early exercise program. The program was to encourage the early exercise of two sets of outstanding warrants. To encourage the early exercise of the original warrants, the Company amended their terms so that each holder who exercised original warrants on or before March 31, 2014 received an additional non-transferable share purchase warrant (an "Additional Warrant").

As part of the early exercise program 10,111,165 warrants were issued. Each Additional Warrant entitles the holder to acquire one common share of the Company at an exercise price of \$0.30 until October 18, 2016 or July 31, 2016 depending on the tranche. The fair value of the warrants issued, was estimated using the Black-Scholes option pricing model, was \$1,471,961. The assumptions used were: a risk-free interest rate of 1.103 - 1.158%; an estimated volatility of 107.64 - 132.05%; an expected life of twenty seven to thirty months; an expected dividend yield of 0%; and an estimated forfeiture rate of 0%.

Any original warrants not exercised under the incentive exercise programs shall continue to be exercisable to purchase only common shares of the Company on their original terms.

- (iii) On April 15, 2014 the Company raised \$4,167 by issuing 13,889 shares resulting from a stock option exercise at \$0.30 each.

# Legend Power Systems Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

(Expressed in Canadian Dollars)

### 12. CAPITAL & RESERVES - continued

- (iv) On May 16, 2014, the Company raised \$71,500 from the exercise of 238,333 warrants at \$0.30 each.
- (v) On August 20, 2014, the Company raised \$120,000 from the exercise of 400,000 warrants at \$0.30 each. These warrants had expiry dates of February 27, 2015 and July 31, 2016.
- (vi) During September 2014, the Company raised \$2,321,999 from the exercise of 5,226,665 warrants at between \$0.30 and \$0.45 each.
- (vii) The fair value reversed for all warrants and options exercised up to September 30, 2014 was \$1,200,168.

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.

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

	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
<b>Balance, end of year</b>	<b>10,510,053</b>	<b>\$0.29</b>

	September 30, 2014	
	Number of Warrants	Weighted Average Exercise Price
Balance, beginning of year	10,905,084	\$0.36
Issued	19,014,735	\$0.23
Exercised	(16,154,008)	\$0.25
Expired	(851,000)	\$0.45
<b>Balance, end of year</b>	<b>12,914,811</b>	<b>\$0.29</b>

The following table summarizes information of the number of common shares reserved pursuant to the warrants outstanding and exercisable at September 30, 2015:

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
<b>10,510,053</b>		

# Legend Power Systems Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

(Expressed in Canadian Dollars)

### 13. SHARE-BASED COMPENSATION

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, 2015, including the changes during the period, is as follows:

	Number of Share Options	Weighted Average Exercise Price
Balance, October 1, 2013	2,958,997	\$0.45
Granted	1,030,000	\$0.20
Exercised	(13,889)	\$0.30
Cancelled	(325,783)	\$1.47
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

The following table summarizes share options outstanding and exercisable at September 30, 2015:

Share Options Outstanding	Share Options Exercisable	Exercise Price	Expiry Date
66,666	66,666	\$0.63	November 3, 2015
499,998	499,998	\$0.63	February 10, 2016
299,999	241,666	\$0.42	April 18, 2017
541,667	361,110	\$0.30	May 21, 2018
557,830	557,830	\$0.30	August 20, 2018
960,000	475,000	\$0.20	February 23, 2019
1,480,000	246,668	\$0.55	September 30, 2019
175,000	-	\$0.35	May 31, 2018
275,000	-	\$0.35	May 31, 2020
4,856,160	2,448,938		

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:

	September 30, 2015	September 30, 2014
Risk-free interest rate	1.74%	1.96%
Estimated volatility	108.00%	98%
Expected life (years)	3.76	3.97
Estimated forfeiture rate	17.57%	15.42%

# Legend Power Systems Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

(Expressed in Canadian Dollars)

### 13. SHARE-BASED COMPENSATION - continued

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.

### 14. COMMITMENTS

The Company leases office 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 \$92,990.

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 that includes severance provisions whereby termination without cause could result in additional costs to the Company unless re-negotiated or settled otherwise.

### 15. 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 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. As at September 30, 2015, the Company believes 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. No amount has been provided for this claim in the financial statements.

### 16. RELATED PARTY DISCLOSURES

A number of key management personnel and non-executive directors, and/or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of the entities outlined below. A number of these entities transacted with the Company during the reporting period. The terms of conditions of the transactions with key management personnel and non-executive directors and/or their related parties 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.

#### (i) Transactions with Key Management Personnel:

The following amounts were incurred with respect to the CEO and CFO:

	September 30, 2015	September 30, 2014
Salaries to key management employees	\$ 302,000	\$ 246,650
Share-based compensation	\$ 64,125	\$ 33,413

# Legend Power Systems Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

(Expressed in Canadian Dollars)

### 16. RELATED PARTY DISCLOSURES - continued

#### (ii) Transactions with Other Related Parties:

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

	September 30, 2015	September 30, 2014
Share-based compensation	\$ 13,629	\$ 100,239

### 17. INCOME TAXES

Deferred income tax assets and liabilities of the Company as at September 30, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
	\$	\$
Deferred income tax assets		
Loss carryforwards	5,351,283	4,870,299
Other	<u>126,091</u>	<u>157,614</u>
	5,477,374	5,027,913
Valuation allowance	<u>(5,477,374)</u>	<u>(5,027,913)</u>
Net deferred income tax assets	<u>-</u>	<u>-</u>

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

	<u>2015</u>	<u>2014</u>
	\$	\$
Income tax rate reconciliation		
Combined federal and provincial income tax rate	<u>26.0%</u>	<u>26.0%</u>
Expected income tax recovery	660,443	575,954
Non-deductible expenses	(192,828)	(135,008)
Share issue costs	31,523	39,404
Effect of reduction in statutory rate	-	(41,073)
Unrecognized benefit of income tax losses	<u>(499,138)</u>	<u>(439,277)</u>
Actual income tax recovery	<u>-</u>	<u>-</u>

As at September 30, 2015, the Company has non-capital losses of approximately \$20,654,171 carried forward for Canadian income tax purposes and are available to reduce taxable income for future years. The non-capital losses expire between 2024 and 2035.

# Legend Power Systems Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

*(Expressed in Canadian Dollars)*

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### 18. SUPPLEMENTAL DISCLOSURE OF CASH FLOW AND NON-CASH TRANSACTIONS

Supplemental disclosure of cash paid for taxes and interest and non-cash financing and investing activities include the following:

	September 30, 2015	September 30, 2014
<hr/>		
Financing activities:		
Fair value of warrants issued on brokerage fees of private placements	-	46,838
Cash paid during the period for interest on promissory notes	-	20,333
<hr/>		

### 19. EVENTS AFTER THE REPORTING PERIOD

In January 2016, the Company completed a private placement by issuing 8,300,000 units at \$0.20 each for proceeds of \$1,660,000. Each unit consists of one common share and one non-transferable warrant entitling the purchase of a common share for two years at \$0.40 each.

During the year, the Company delivered and installed harmonizers with an invoice amount of \$189,980. The Company has determined, while delivery and invoicing occurred during the September 30, 2015 fiscal year, that otherwise the generally accepted criteria for revenue recognition were not met during the year. The Company anticipates recognizing this sale during the 2016 fiscal year.