



## **Legend Power Systems Inc.**

### **CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**For the three months ended December 31, 2016**

(Unaudited – Prepared by Management)

(Expressed in Canadian Dollars)

# Legend Power Systems Inc.

## CONSOLIDATED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended December 31, 2016

(Unaudited - Expressed in Canadian Dollars)

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**Legend Power Systems Inc.**  
**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**For the three months ended December 31, 2016**  
(Unaudited - Expressed in Canadian Dollars)

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

The accompanying unaudited condensed interim consolidated financial statements of Legend Power Systems Inc. for the three months ended December 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 month period ended December 31, 2016.

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

		December 31, 2016	September 30, 2016
	Notes	\$	\$
<b>ASSETS</b>			
<b>Current</b>			
Cash		2,336,363	1,132,547
Receivables	4	832,385	504,624
Inventory	5	715,385	469,666
Prepaid expenses and deposits		49,759	49,416
		<u>3,933,892</u>	<u>2,156,253</u>
<b>Property and equipment</b>	6	47,462	40,062
<b>Intangible assets</b>	7	<u>134,440</u>	<u>122,939</u>
		<b>4,115,794</b>	<b>2,319,254</b>
<hr/>			
<b>LIABILITIES</b>			
<b>Current</b>			
Accounts payable		293,549	401,670
Accrued liabilities		194,251	221,779
		<u>487,800</u>	<u>623,449</u>
<b>Warranty provision</b>	8	<u>205,000</u>	<u>192,000</u>
		<u>692,800</u>	<u>815,449</u>
<b>Shareholders' equity</b>			
Share capital	9	36,484,769	33,458,288
Contributed surplus	9	8,231,768	8,861,305
Deficit		<u>(41,293,543)</u>	<u>(40,815,788)</u>
		<u>3,422,994</u>	<u>1,503,805</u>
		<b>4,115,794</b>	<b>2,319,254</b>

Going concern (Note 2)  
Commitments (Note 10)

APPROVED BY THE BOARD OF DIRECTORS AND AUTHORIZED FOR ISSUE ON FEBRUARY 22, 2017

"Michael Atkinson", Director

"Randy Buchamer", Director

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

**Legend Power Systems Inc.****CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**

(Unaudited - Expressed in Canadian Dollars)

	Notes	For the three months ended December 31,	
		2016	2015
		\$	\$
<b>Revenue</b>	3	644,847	533,387
<b>Cost of sales</b>	5	369,688	392,161
<b>Gross margin</b>		<u>275,159</u>	<u>141,226</u>
<b>Expenses</b>			
Amortization and depreciation	6,7	47,929	44,903
General and overhead		163,009	118,346
Professional fees		28,625	23,447
Salaries and consulting fees		432,989	373,114
Share-based compensation	9	63,395	77,787
Warranty expense	8	13,000	34,000
		<u>748,947</u>	<u>671,597</u>
<b>Loss before others items</b>		<u>(473,788)</u>	<u>(530,371)</u>
Foreign exchange		(7,717)	(499)
Other income		3,750	740
		<u>(3,967)</u>	<u>241</u>
<b>Loss and comprehensive loss for the period</b>		<u><b>(477,755)</b></u>	<u><b>(530,130)</b></u>
<b>Basic and diluted loss per share</b>		<u>(0.01)</u>	<u>(0.01)</u>
<b>Weighted average number of common shares outstanding</b>		76,905,499	59,493,028

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

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

	<u>Number of Shares Issued</u>	<u>Capital Stock</u> \$	<u>Contributed Surplus</u> \$	<u>Deficit</u> \$	<u>Total Shareholders' Equity</u> \$
<b>Balance at September 30, 2015</b>	<u>59,397,389</u>	<u>32,008,782</u>	<u>7,640,496</u>	<u>(38,378,425)</u>	<u>1,270,853</u>
Common shares and warrants issued for cash	8,300,000	1,660,000	-	-	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)
Fair value reversed for warrants exercised	-	(879,272)	879,272	-	-
Share-based compensation	-	-	77,787	-	77,787
Loss for the period	-	-	-	(530,130)	(530,130)
<b>Balance at December 31, 2015</b>	<b><u>68,196,139</u></b>	<b><u>32,711,019</u></b>	<b><u>8,650,390</u></b>	<b><u>(38,908,555)</u></b>	<b><u>2,452,855</u></b>
<b>Balance at September 30, 2016</b>	<b><u>70,443,946</u></b>	<b><u>33,458,288</u></b>	<b><u>8,861,305</u></b>	<b><u>(40,815,788)</u></b>	<b><u>1,503,805</u></b>
Common shares issued for warrant exercise	8,007,944	2,333,549	-	-	2,333,549
Fair value reversed for warrants exercised	-	692,932	(692,932)	-	-
Share based compensation	-	-	63,395	-	63,395
Net loss for the period	-	-	-	(477,755)	(477,755)
<b>Balance at December 31, 2016</b>	<b><u>78,451,890</u></b>	<b><u>36,484,769</u></b>	<b><u>8,231,768</u></b>	<b><u>(41,293,543)</u></b>	<b><u>3,422,994</u></b>

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

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

	Notes	For the three months ended December 31,	
		2016	2015
		\$	\$
<b>Cash flows used in operating activities</b>			
Loss for the period		(477,755)	(530,130)
Items not affecting cash:			
Amortization and depreciation	6,7	47,929	44,903
Share-based compensation	9	63,395	77,787
Warranty provision	8	13,000	34,000
Changes in non-cash working capital items:			
Receivables, prepaids and deposits		(328,104)	(486,512)
Inventory		(245,719)	140,838
Accounts payable and accrued liabilities		(135,649)	179,329
		<u>(1,062,903)</u>	<u>(539,785)</u>
<b>Cash flows used in investing activities</b>			
Purchase of property and equipment	6	(14,379)	(550)
Product Development	7	(52,451)	-
		<u>(66,830)</u>	<u>(550)</u>
<b>Cash flows from financing activities</b>			
Warrant exercise proceeds	9	2,333,549	-
Issue of common shares	9	-	1,660,000
Share issue costs		-	(25,654)
		<u>2,333,549</u>	<u>1,634,346</u>
<b>Net change in cash</b>		1,203,816	1,094,011
<b>Cash, beginning of period</b>		<u>1,132,547</u>	<u>536,116</u>
<b>Cash, end of period</b>		<u><b>2,336,363</b></u>	<u><b>1,630,127</b></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 months ended December 31, 2016**

(Unaudited - Expressed in Canadian Dollars)

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**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 condensed interim consolidated financial statements have been prepared in accordance with *IAS 34 – Interim financial reporting* (International Account Standard) which is in accordance with International Financial Reporting Standards ("IFRS"). They do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Company for the year ended September 30, 2016. 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 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 December 31, 2016, the Company had working capital of \$3,446,092 (September 30, 2016 - \$1,532,804) and an accumulated deficit of \$41,293,543 (September 30, 2016 - \$40,815,788). During the three months ended December 31, 2016 the Company incurred a net loss of \$477,755 (2015 - \$530,130). Based on working capital as at December 31, 2016 and estimated cash requirements and sources in fiscal 2017, management believes the Company has sufficient capital to continue business operations over the next twelve months. In the long term, the continued business operations of the Company are dependent upon economic and market factors which involve uncertainties including profitable commercialization of its products and/or the Company's ability to obtain adequate financing. There can be no assurance that the Company can achieve profitable commercialization of its products and/or obtain additional capital.

There have been no significant changes to the Company's accounting policies, judgments or estimates from those disclosed in the consolidated financial statements for the year ended September 30, 2016.

**NEW ACCOUNTING STANDARDS**

**New standards not yet adopted**

The following is an overview of new accounting standards that the Company will be required to adopt in future years. The Company does not expect to adopt any of these standards before their effective dates.



**Legend Power Systems Inc.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**For the three months ended December 31, 2016**

(Unaudited - Expressed in Canadian Dollars)

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

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. SEGMENTS**

The Company has one operating segment and operates in one geographical area, Canada. Five customers accounted for 10.7%, 11.8%, 10.7%, 16.7%, and 10.9% respectively, of the Company's sales for the three months ended December 31, 2016. Product sales and installation services account for 87% and 12% of revenue respectively for the three months ended December 31, 2016.

**4. RECEIVABLES**

Trade Receivables	Total due	0-30 days	31-60 days	61-90 days	91-120 days	Over 120-days
	\$	\$	\$	\$	\$	\$
September 30, 2016	314,051	80,810	16,949	-	114,761	101,531
December 31, 2016	791,943	425,066	126,323	77,625	-	162,929

	December 31, 2016	September 30, 2016
	\$	\$
Accounts receivable (Trade)	791,943	314,051
GST Refundable	40,442	190,573
	<b>832,385</b>	<b>504,624</b>

Receivables from three of our customers account for 11%, 15%, and 14% respectively of the Company's accounts receivable balance for a total of 40% in aggregate at December 31, 2016.

**Legend Power Systems Inc.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**For the three months ended December 31, 2016**

(Unaudited - Expressed in Canadian Dollars)

**5. INVENTORY**

Inventories consist of the following, as at:

	December 31, 2016	September 30, 2016
	\$	\$
Finished goods ("Harmonizers")	52,845	108,747
Transformers and components	662,540	360,919
	<b>715,385</b>	<b>469,666</b>

During the three months ended December 31, 2016, inventories were recognized as cost of sales in the amount of \$180,749 (2015 - \$120,538).

**6. PROPERTY AND EQUIPMENT**

	Computer equipment	Computer software	Equipment and furniture	Leasehold Improvements	Total
	\$	\$	\$	\$	\$
<b>Cost</b>					
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
Additions	4,599	-	9,638	139	14,376
Balance at December 31, 2016	80,795	100,847	307,212	20,944	509,798
<b>Accumulated Depreciation</b>					
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
Additions	1,247	2,220	3,022	487	6,976
Balance at December 31, 2016	70,009	95,761	283,106	13,460	462,336
<b>Net book value</b>					
At September 30, 2016	7,434	7,306	17,490	7,832	40,062
<b>At December 31, 2016</b>	<b>10,786</b>	<b>5,086</b>	<b>24,106</b>	<b>7,484</b>	<b>47,462</b>

**Legend Power Systems Inc.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
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**7. INTANGIBLE ASSETS**

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

	Patents	Product Development	Total
	\$	\$	\$
<b>Cost</b>			
Balance at September 30, 2015	1,638,099	-	1,638,099
Additions	-	-	-
Balance at September 30, 2016	1,638,099	-	1,638,099
Additions	-	52,451	52,451
Balance at December 31, 2016	1,638,099	52,451	1,690,550
<b>Amortization</b>			
Balance at September 30, 2015	1,351,360	-	1,351,360
Additions	163,800	-	163,800
Balance at September 30, 2016	1,515,160	-	1,515,160
Additions	40,950	-	40,950
Balance at December 31, 2016	1,556,110	-	1,556,110
<b>Carrying Amount</b>			
At September 30, 2016	122,939	-	122,939
<b>At December 31, 2016</b>	<b>81,989</b>	<b>52,451</b>	<b>134,440</b>

**8. WARRANTY PROVISION**

	Total
	\$
Balance at September 30, 2015	124,000
Warranty fulfillments	(22,970)
Additional provision, net	90,970
Balance at September 30, 2016	192,000
Warranty fulfillments	-
Additional provision, net	13,000
<b>Balance at December 31, 2016</b>	<b>205,000</b>

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.

**9. 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.

**Legend Power Systems Inc.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**For the three months ended December 31, 2016**

(Unaudited - Expressed in Canadian Dollars)

**9. SHARE CAPITAL AND CONTRIBUTED SURPLUS - continued**

**Issued Share Capital**

- a) During the three months ended December 31, 2016, the following transactions occurred:
- i. During October 2016, 7,549,054 warrants were exercised at \$0.30 each for total proceeds of \$2,264,716 and 458,890 warrants were exercised at \$0.15 for proceeds of \$68,834.
- b) During the year ended September 30, 2016, the following transactions occurred:
- i. During September 2016 356,665 warrants were exercised at \$0.15 each for total proceeds of \$53,499.75.
  - ii. During July 2016 1,780,031 warrants were exercised at \$0.30 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.

**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 December 31, 2016, including the changes during the period, is as follows:

	Share options	Exercise price
		\$
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	<b>6,064,496</b>	<b>0.34</b>
Forfeited	(440,000)	0.31
<b>Balance, December 31, 2016</b>	<b>5,624,496</b>	<b>0.34</b>

**Legend Power Systems Inc.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**For the three months ended December 31, 2016**  
(Unaudited - Expressed in Canadian Dollars)

**9. SHARE CAPITAL AND CONTRIBUTED SURPLUS - continued**

The following table summarizes share options outstanding and exercisable at December 31, 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	986,668	0.55	September 30, 2019
175,000	60,000	0.35	May 31, 2020
1,606,666	267,779	0.25	January 26, 2021
175,000	29,167	0.25	February 9, 2021
<b>5,624,496</b>	<b>3,388,943</b>		

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, 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
Exercised	(8,007,944)	0.29
<b>Balance, December 31, 2016</b>	<b>8,798,750</b>	<b>0.40</b>

# Legend Power Systems Inc.

## Notes to the Condensed Interim Consolidated Financial Statements For the three months ended December 31, 2016

(Unaudited - Expressed in Canadian Dollars)

### 9. 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 December 31, 2016:

Number of warrants	Exercise price	Expiry date
	\$	
8,798,750	0.40	December 30, 2017

### 10. 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	2019	\$128,580
2018	\$125,240	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.

### 11. RELATED PARTY DISCLOSURES

The Company entered into the following related party transactions during the three months ended December 31, 2016 and 2015.

During the three months ended December 31, 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:

	Three months ended	
	December 31, 2016	December 31, 2015
	\$	\$
Salaries and fees to key management employees	80,513	75,500
Share based compensation	35,336	43,741

(ii) Transactions with Directors:

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

	Three months ended	
	December 31, 2016	December 31, 2015
	\$	\$
Share based compensation	15,508	11,683