



Legend Power Systems Inc.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended December 31, 2017 and 2016

(Unaudited)

(Expressed in Canadian Dollars)

Legend Power Systems Inc.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended December 31, 2017

(Unaudited - Expressed in Canadian Dollars)

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

		<u>December 31,</u> <u>2017</u>	<u>September 30,</u> <u>2017</u>
	Notes	\$	\$
ASSETS			
Current			
Cash		2,032,452	1,160,127
Receivables	4	2,707,863	2,637,092
Inventory	5	1,316,158	1,010,276
Prepaid expenses and deposits		245,305	84,693
		<u>6,301,778</u>	<u>4,892,188</u>
Property and equipment	6	100,233	84,405
Intangible assets	7	<u>107,060</u>	<u>107,060</u>
		6,509,071	5,083,653
LIABILITIES			
Current			
Accounts payable		887,494	592,760
Accrued liabilities		167,816	184,942
		<u>1,055,310</u>	<u>777,702</u>
Warranty provision	8	215,090	215,231
		<u>1,270,400</u>	<u>992,933</u>
Shareholders' equity			
Share capital	9	40,692,379	38,421,253
Contributed surplus	9	7,956,095	8,331,942
Deficit		<u>(43,409,803)</u>	<u>(42,662,475)</u>
		<u>5,238,671</u>	<u>4,090,720</u>
		6,509,071	5,083,653

Commitments (Note 10)
Subsequent event (Note 12)

APPROVED BY THE BOARD OF DIRECTORS AND AUTHORIZED FOR ISSUE ON MARCH 1, 2018

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

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

Legend Power Systems Inc.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

(Unaudited - Expressed in Canadian Dollars)

	Notes	For the three months ended December 31,	
		2017	2016
		\$	\$
Revenue	3	1,282,707	644,847
Cost of sales	5	849,200	369,688
Gross margin		<u>433,507</u>	<u>275,159</u>
Expenses			
Amortization and depreciation	6,7	12,039	47,929
General and overhead		228,963	163,009
Product development		66,908	-
Professional fees		24,000	28,625
Salaries and consulting fees		731,764	432,989
Share-based compensation	9	97,093	63,395
Warranty expense	8	17,409	13,000
		<u>1,178,176</u>	<u>748,947</u>
Loss before other items		<u>(744,669)</u>	<u>(473,788)</u>
Foreign exchange		(6,415)	(7,717)
Other income		3,756	3,750
		<u>(2,659)</u>	<u>(3,967)</u>
Loss and comprehensive loss for the period		<u>(747,328)</u>	<u>(477,755)</u>
Basic and diluted loss per share		<u>(0.01)</u>	<u>(0.01)</u>
Weighted average number of common shares outstanding		84,928,045	76,905,499

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> \$
Balance at September 30, 2016	70,443,946	33,458,288	8,861,305	(40,815,788)	1,503,805
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)
Balance at December 31, 2016	78,451,890	36,484,769	8,231,768	(41,293,543)	3,422,994
Balance at September 30, 2017	82,786,258	38,421,253	8,331,942	(42,662,475)	4,090,720
Common shares issued for Warrant exercise	4,464,382	1,785,754	-	-	1,785,754
Option exercise	47,830	12,432	-	-	12,432
Fair value reversed for warrants exercised	-	472,940	(472,940)	-	-
Share based compensation	-	-	97,093	-	97,093
Net loss for the period	-	-	-	(747,328)	(747,328)
Balance at December 31, 2017	87,298,470	40,692,379	7,956,095	(43,409,803)	5,238,671

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

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

		For the three months ended December 31,	
		2017	2016
	Notes	\$	\$
Cash flows used in operating activities			
Loss for the period		(747,328)	(477,755)
Items not affecting cash:			
Amortization and depreciation	6,7	12,039	47,929
Share-based compensation	9	97,093	63,395
Warranty provision	8	(141)	13,000
Changes in non-cash working capital items:			
Receivables, prepaids and deposits		(231,381)	(328,104)
Inventory		(305,882)	(245,719)
Accounts payable and accrued liabilities		277,608	(135,649)
		<u>(897,992)</u>	<u>(1,062,903)</u>
Cash flows used in investing activities			
Purchase of property and equipment	6	(27,869)	(14,379)
Product Development	7	-	(52,451)
		<u>(27,869)</u>	<u>(66,830)</u>
Cash flows from financing activities			
Warrant exercise proceeds	9	1,785,754	2,333,549
Option exercise proceeds	9	12,432	-
		<u>1,798,186</u>	<u>2,333,549</u>
Net change in cash		872,325	1,203,816
Cash, beginning of period		1,160,127	1,132,547
Cash, end of period		2,032,452	2,336,363

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, 2017

(Unaudited - Expressed in Canadian Dollars)

1. NATURE OF BUSINESS

Legend Power Systems Inc. (hereafter referred to as the “Company” or “Legend”) is incorporated under the laws of the Province of British Columbia and was established as a legal entity on June 4, 1987. The Company’s principal business activities are the marketing of a patented device, the Electrical Harmonizer, designed to provide energy savings through voltage optimization to commercial and industrial customers. The Company’s common shares are listed on the TSX Venture Exchange.

The Company’s principal office is located at 1480 Frances Street, Vancouver, BC, V5L 1Y9, Canada

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

These condensed interim consolidated financial statements have been prepared in accordance with *IAS 34 – Interim financial reporting* (International Account Standard) which is in accordance with International Financial Reporting Standards (“IFRS”). They do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Company for the year ended September 30, 2017. These condensed interim consolidated financial statements have been prepared on a going concern basis, under the historical cost convention, except for certain financial assets and financial liabilities which are measured at fair value.

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

As at December 31, 2017, the Company had working capital of \$5,246,468 (September 30, 2017 - \$4,114,486) and an accumulated deficit of \$43,409,803 (September 30, 2017 - \$42,662,475). During the three months ended December 31, 2017 the Company incurred a net loss of \$747,328 (2017 - \$477,755). Based on working capital as at December 31, 2017 and estimated cash requirements and sources in fiscal 2018, management believes the Company has sufficient capital to continue business operations over the next twelve months. In the long term, the continued business operations of the Company are dependent upon economic and market factors which involve uncertainties including profitable commercialization of its products and/or the Company’s ability to obtain adequate financing. There can be no assurance that the Company can achieve profitable commercialization of its products and/or obtain additional capital.

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

NEW ACCOUNTING STANDARDS

New standards not yet adopted

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

Legend Power Systems Inc.
Notes to the Condensed Interim Consolidated Financial Statements
For the three months ended December 31, 2017

(Unaudited - Expressed in Canadian Dollars)

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

The Company is in the early stages of assessing the impact that these standards will have on the Company's consolidated financial statements and has started to assemble the documentation necessary for an accounting analyses. Based on initial research, the Company does not currently expect that IFRS 9 will have any material impact on its consolidated financial statements. The Company expects that IFRS 15 will have an impact on its consolidated financial statements but has yet to make a decision on the transition method to apply – the Retrospective Method (with or without one or more of three practical expedients) or the Cumulative Effect Method, and has yet to complete its analysis.

- (i) IFRS 9 - *Financial Instruments*. This standard partially replaces IAS 39 - *Financial Instruments: Recognition and Measurement*. IFRS 9 measures financial assets, after initial recognition, at either amortized cost or fair value. Existing IAS 39 classifies financial assets into four measurement categories. The standard is effective for annual periods beginning on or after January 1, 2018. In the year of adoption, the Company is required to provide additional disclosures relating to the reclassified financial assets and liabilities.
- (ii) IFRS 15 - *Revenue from contracts with customers*. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. IFRS 15 specifies how and when to recognize revenue as well as requires entities to provide users of financial statements with more informative, relevant disclosures. The standard supersedes IAS 18, Revenue, IAS 11, Construction Contracts, and a number of revenue-related interpretations. The new standard will apply to nearly all contracts with customers: the main exceptions are leases, financial instruments and insurance contracts.

3. SEGMENTS

The Company has one operating segment and operates in two geographical areas, Canada and the United States. All of the Company's sales in the three months ended December 31, 2017 and 2016 were in Canada. Three customers accounted for 23.3%, 24.4% and 24.9% respectively of the Company's sales for the three months ended December 31, 2017 and five customers accounted for 10.7%, 10.7%, 10.9%, 11.8%, and 16.7% respectively for the three months ended December 31, 2016. Product sales and installation services account for 51.1% and 49.9% of revenue respectively for the three months ended December 31, 2017 and 81.1% and 18.9% 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, 2017	2,637,092	1,935,881	431,620	-	125,610	143,981
December 31, 2017	2,707,863	1,218,966	-	1,032,982	323,800	132,115

	December 31, 2017	September 30, 2017
	\$	\$
Accounts receivable (Trade)	2,707,863	2,637,092

Legend Power Systems Inc.
Notes to the Condensed Interim Consolidated Financial Statements
For the three months ended December 31, 2017

(Unaudited - Expressed in Canadian Dollars)

4. RECEIVABLES - continued

Receivables from four of our customers account for 11.9%, 14.3%, 20.8% and 36.8% respectively of the Company's accounts receivable balance for a total of 83.8% in aggregate at December 31, 2017. Receivables from three customers account for 10.9%, 13.1%, and 16.4%, respectively of the Company's receivable balance for a total of 40.4% in aggregate at September 30, 2017.

5. INVENTORY

Inventories consist of the following, as at:

	December 31, 2017	September 30, 2017
	\$	\$
Finished products ("Harmonizers")	219,274	142,602
Transformers and components	1,096,884	867,674
	1,316,158	1,010,276

During the three months ended December 31, 2017, inventories were recognized as cost of sales in the amount of \$295,244 [2016 – \$180,749] and inventory impairment was also recognized as cost of sales in the amount of \$5,249 [2016 – \$Nil]. Inventory impairments resulted from the write-off of components scrapped due to their obsolescence and the fact that they will not be used in the production of finished products.

6. PROPERTY AND EQUIPMENT

	Computer equipment	Computer software	Equipment and furniture	Leasehold Improvements	Total
	\$	\$	\$	\$	\$
Cost					
Balance at September 30, 2016	76,196	100,847	295,574	20,805	495,422
Additions	25,749	2,856	53,904	139	82,378
Balance at September 30, 2017	101,945	103,433	351,478	20,944	577,800
Additions	4,462	8,343	15,064	-	27,869
Balance at December 31, 2017	106,407	111,776	366,542	20,944	605,669
Accumulated Depreciation					
Balance at September 30, 2016	68,762	93,541	280,084	12,973	455,360
Additions	9,036	8,662	18,385	1,952	38,035
Balance at September 30, 2017	77,798	102,203	298,469	14,925	493,395
Additions	3,242	2,011	6,299	489	12,039
Balance at December 31, 2017	81,040	104,214	304,768	15,414	505,436
Net book value					
At September 30, 2017	24,147	1,230	53,009	6,019	84,405
At December 31, 2017	25,367	7,562	61,774	5,530	100,233

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(Unaudited - Expressed in Canadian Dollars)

7. INTANGIBLE ASSETS

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

	Patents	Product Development	Total
	\$	\$	\$
Cost			
Balance at September 30, 2016	1,638,099	-	1,638,099
Additions	-	107,060	107,060
Balance at September 30, 2017	1,638,099	107,060	1,745,159
Additions	-	-	-
Balance at December 31, 2017	1,638,099	107,060	1,745,159
Amortization			
Balance at September 30, 2016	1,515,160	-	1,515,360
Additions	122,939	-	122,939
Balance at September 30, 2017	1,638,099	-	1,638,099
Additions	-	-	-
Balance at December 31, 2017	1,638,099	-	1,638,099
Carrying Amount			
At September 30, 2017	-	107,060	107,060
At December 31, 2017	-	107,060	107,060

During fiscal 2017, activities associated with development of the Company's next generation technology were classified as having progressed from the research phase, into the development stage, thus certain related expenditures during the year were capitalized. At such time as the Company's next generation technology reaches the production phase and starts to generate economic benefits, amortization of development costs will commence and continue over the useful economic life of the technology.

8. WARRANTY PROVISION

	Total
	\$
Balance at September 30, 2016	192,000
Warranty fulfillments	(37,790)
Additional provision, net	61,021
Balance at September 30, 2017	215,231
Warranty fulfillments	(17,550)
Additional provision, net	17,409
Balance at December 31, 2017	215,090

The Company provides a warranty on its equipment for a period of 10 years. The warranty provision will be used to fulfill warranty claims, should they arise, over the 10-year warranty period provided to customers.

Legend Power Systems Inc.
Notes to the Condensed Interim Consolidated Financial Statements
For the three months ended December 31, 2017

(Unaudited - Expressed in Canadian Dollars)

9. SHARE CAPITAL AND CONTRIBUTED SURPLUS

The Company's authorized share capital is an unlimited number of common shares without par value. All issued common shares are fully paid. Contributed Surplus consist of the accumulated fair value of common share options recognized as share-based compensation, fair value of warrants and fair value of broker warrants.

Issued Share Capital

- a) During the three months ended December 31, 2017, the following transactions occurred:
 - i. 4,464,382 warrants were exercised at \$0.40 each for total proceeds of \$1,785,754; and
 - ii. 47,830 options were exercised for total proceeds of \$12,432.

- b) During the year ended September 30, 2017, the following transactions occurred:
 - i. 12,342,312 warrants were exercised at between \$0.15 and \$0.40 each for total proceeds of \$4,067,297. The fair value reversal for these warrants was \$895,668.

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 months ended December 31, 2017

(Unaudited - Expressed in Canadian Dollars)

9. SHARE CAPITAL AND CONTRIBUTED SURPLUS - continued

A summary of the Company's share options outstanding at December 31, 2017, including the changes during the period, is as follows:

	Share options	Exercise price
		\$
Balance, September 30, 2016	6,064,496	0.34
Granted	2,825,000	0.30
Forfeited	(446,667)	0.31
Expired	(183,333)	0.42
Balance, September 30, 2017	8,259,496	0.32
Granted	200,000	0.75
Exercised	(47,830)	0.26
Forfeited	(165,000)	0.32
Balance December 31, 2017	8,246,666	0.33

The following table summarizes share options outstanding and exercisable at December 31, 2017:

Options outstanding	Options exercisable	Exercise price	Expiry date
		\$	
537,500	537,500	0.30	May 21, 2018
552,500	552,500	0.30	August 20, 2018
900,000	900,000	0.20	February 23, 2019
1,480,000	986,668	0.55	September 30, 2019
170,000	100,000	0.35	May 31, 2020
1,596,666	798,333	0.25	January 26, 2021
175,000	87,501	0.25	February 9, 2021
250,000	250,000	0.30	October 10, 2021
2,150,000	358,333	0.27	May 2, 2022
235,000	-	0.56	September 18, 2022
200,000	-	0.75	December 5, 2022
8,246,666	5,064,167		

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:

	Three months ended December 31, 2017	Year ended September 30, 2017
Risk-free interest rate	1.37%	1.38%
Estimated volatility	109.19%	108.55%
Expected life (years)	3.59%	3.57

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 months ended December 31, 2017

(Unaudited - Expressed in Canadian Dollars)

9. SHARE CAPITAL AND CONTRIBUTED SURPLUS - continued

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, 2016	16,806,694	0.35
Exercised	(12,342,312)	0.33
Balance, September 30, 2017	4,464,382	0.40
Exercised	(4,464,382)	0.40
Balance, December 31, 2017	-	0.00

As at December 31, 2017, the Company did not have any warrants outstanding.

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:

2018	\$125,240
2019	\$128,580
2020	\$131,920

The lease payments are subject to changes or increases in additional rent, generally described as the Company's portion of the landlord's common area charges and property taxes.

The Company has an employment agreement with the President and CEO of the Company that contains severance provisions whereby termination without cause could result in additional costs to the Company unless re-negotiated or settled otherwise.

Legend Power Systems Inc.
Notes to the Condensed Interim Consolidated Financial Statements
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(Unaudited - Expressed in Canadian Dollars)

11. RELATED PARTY DISCLOSURES

The Company entered into the following related party transactions during the three months ended December 31, 2017 and 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:

	Three months ended	
	December 31, 2017	December 31, 2016
	\$	\$
Salaries and fees to key management employees	88,812	80,513
Share based compensation	30,553	35,336
	<u>119,365</u>	<u>115,849</u>

(ii) Transactions with Directors:

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

	Three months ended	
	December 31, 2017	December 31, 2016
	\$	\$
Share based compensation	19,622	15,507

12. SUBSEQUENT EVENT

Subsequent to December 31, 2017:

- a) 64,163 stock options were exercised for proceeds of \$17,899; and
- b) 42,500 stock options were forfeited.