



Legend Power Systems Inc.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the three and six months ended March 31, 2020 and 2019
(Unaudited – Prepared by Management)

(Expressed in Canadian Dollars)

Legend Power Systems Inc.

CONSOLIDATED FINANCIAL STATEMENTS

Three and six months ended March 31, 2020, and 2019

(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 six months ended March 31, 2020 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 six-months period ended March 31, 2020.

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

		March 31, 2020	September 30, 2019 (Audited)
	Notes	\$	\$
ASSETS			
Current assets			
Cash and cash equivalents		2,611,886	5,677,537
Trade Receivables	5(i)	1,329,265	655,320
Due from customers on contract	5(ii)	890,656	891,288
Prepaid expenses and deposits		65,219	130,118
Inventory	6	1,075,597	1,255,737
		<u>5,972,623</u>	<u>8,610,000</u>
Property and equipment	7	134,774	106,750
Right of use assets	3	140,483	-
Intangible assets	8	7,069	8,385
		<u>6,254,949</u>	<u>8,725,135</u>
LIABILITIES AND SHAREHOLDER'S EQUITY			
Current liabilities			
Accounts payable		345,473	343,258
Accrued liabilities		423,110	249,906
Lease liabilities	3	152,644	-
Warranty provision	9	104,524	99,122
		<u>1,025,751</u>	<u>692,286</u>
Lease liabilities – non current	3	8,810	-
Warranty provision	9	285,086	245,378
		<u>1,319,647</u>	<u>937,664</u>
Shareholders' equity			
Share capital	10(i)	50,549,482	50,549,482
Contributed surplus	10(ii)(iii)	8,803,899	8,656,967
Accumulated other comprehensive loss		(81,472)	(103,962)
Deficit		(54,336,607)	(51,315,016)
		<u>4,935,302</u>	<u>7,787,471</u>
		<u>6,254,949</u>	<u>8,725,135</u>

Segments (Note 4)
Commitments (Note 11)
Subsequent events (Note 14)

APPROVED BY THE BOARD OF DIRECTORS AND AUTHORIZED FOR ISSUE May 27, 2020

“Cos LaPorta”, 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 March 31,		For the six months ended March 31,	
		2020	2019	2020	2019
		\$	\$	\$	\$
Revenue		676,359	769,443	1,679,688	1,172,843
Cost of sales		459,794	355,329	1,249,023	432,161
Gross margin		<u>216,565</u>	<u>414,114</u>	<u>430,665</u>	<u>740,682</u>
Expenses					
Salaries and consulting		1,032,935	1,238,925	2,042,687	2,131,884
General and overhead		283,870	225,888	521,899	525,996
Selling costs		90,959	96,394	170,533	197,015
Share-based compensation	10(ii)	28,072	69,294	146,932	164,383
Professional fees		103,117	74,072	176,476	108,679
Warranty provision	9	70,738	56,609	82,332	91,923
Product development		95,571	8,210	128,306	19,521
Foreign exchange (gain) loss		85	13,302	(700)	(8,405)
Amortization and depreciation	3,7,8	30,744	62,863	88,057	99,404
		<u>1,736,091</u>	<u>1,845,557</u>	<u>3,356,522</u>	<u>3,330,400</u>
Operating loss		<u>(1,519,526)</u>	<u>(1,431,443)</u>	<u>(2,925,857)</u>	<u>(2,589,718)</u>
Inventory write-down	6	(7,180)	-	(101,398)	-
Other income		10,079	28,992	28,430	95,935
Net loss for the period		<u>(1,516,627)</u>	<u>(1,402,451)</u>	<u>(2,998,825)</u>	<u>(2,493,783)</u>
Other comprehensive loss:					
Exchange differences arising on translation of foreign operations		36,926	-	22,490	-
Net loss and comprehensive loss for the period		<u>(1,479,701)</u>	<u>(1,402,451)</u>	<u>(2,976,335)</u>	<u>(2,493,783)</u>
Basic and diluted loss per share		<u>(0.015)</u>	<u>(0.014)</u>	<u>(0.029)</u>	<u>(0.024)</u>
Weighted average number of common shares outstanding		101,850,303	101,652,247	101,850,303	101,543,133

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

Legend Power Systems Inc.

CONDENSES INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Unaudited - expressed in Canadian Dollars)

		Number of shares Issued	Capital stock	Contributed surplus	Deficit	Accumulated other comprehensive loss	Total shareholder's equity
		#	\$	\$	\$	\$	\$
Balance at September 30, 2018 (Audited)		101,462,803	50,409,303	8,435,643	(45,221,860)	-	13,623,086
Options exercised	10(ii)	380,000	139,485	(63,485)	-	-	76,000
Share-based compensation		-	-	164,383	-	-	164,383
Net loss for the period		-	-	-	(2,493,783)	-	(2,493,783)
Balance at March 31, 2019		101,842,803	50,548,788	8,536,541	(47,715,643)	-	11,369,686
Balance at September 30, 2019 (Audited)		101,850,303	50,549,482	8,656,967	(51,315,016)	(103,962)	7,787,471
IFRS 16 adjustment	3	-	-	-	(22,766)	-	(22,766)
Share-based compensation	10(ii)	-	-	146,932	-	-	146,932
Unrealized loss on foreign currency translation		-	-	-	-	22,490	22,490
Net loss for the period		-	-	-	(2,998,825)	-	(2,998,825)
Balance at March 31, 2020		101,850,303	50,549,482	8,803,899	(54,336,607)	(81,472)	4,935,302

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 six months ended March 31,	
		2020	2019
		\$	\$
Cash flows used in operating activities			
Loss for the period		(2,998,825)	(2,493,783)
Items not affecting cash:			
Amortization and depreciation	3,7,8	50,601	99,404
Share-based compensation	10(ii)	146,932	164,383
Warranty provision	9	45,110	91,923
Foreign exchange (gain) loss		(700)	(8,405)
Inventory write-down	6	101,398	(138,891)
Changes in non-cash working capital items:			
Receivables, prepaids and deposits		(875,975)	932,950
Due from customers on contract		202,111	701,284
Inventory		78,742	(357,241)
Accounts payable and accrued liabilities		160,156	(260,885)
		<u>(3,090,450)</u>	<u>(1,269,261)</u>
Cash flows used in investing activities			
Purchase of property and equipment	7	(74,809)	(21,298)
Product development costs	8	(2,335)	(227,737)
Interest income received		102,798	39,457
		<u>25,654</u>	<u>(209,578)</u>
Cash flows from financing activities			
Option exercise proceeds		-	76,000
		<u>-</u>	<u>76,000</u>
Effect of foreign exchange translation in cash		(855)	11,770
Net change in cash and cash equivalents for the period		(3,064,796)	(1,402,839)
Cash and cash equivalents, beginning of period		5,677,537	10,046,366
Cash and cash equivalents, end of period		2,611,886	8,655,297

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, 2019 and 2018

(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 assembly, marketing and sale of a patented device, the “SmartGATE™”, which enables dynamic power management of an entire commercial or industrial building. 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.

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments have adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company’s business or results of operations at this time.

2. BASIS OF PREPARATION

Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). These consolidated financial statements have been prepared on a going concern basis, under the historical cost convention, except for certain financial assets and financial liabilities which are measured at fair value.

Basis of consolidation

The condensed interim consolidated financial statements include the accounts of the Company and all of its subsidiaries. The subsidiaries of the Company are as follows:

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

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

Functional and presentation currency

The functional currency of the Company, its Canadian and Barbados subsidiaries is the Canadian dollar. The functional currency of the Company’s U.S. subsidiary is the United States dollar. The consolidated financial statements are presented in Canadian dollars.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the condensed interim consolidated financial statements are consistent with those followed in the preparation of the Company’s annual consolidated financial statements for the year ended September 30, 2019, except for the new policies and adoption of new standards effective as of October 1, 2019.

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Notes to the Condensed Interim Consolidated Financial Statements
For the three months ended December 31, 2019 and 2018

(Unaudited - expressed in Canadian Dollars)

Commencing October 1, 2019, the Company applied for the first time, IFRS 16, Leases. As required by IAS 34, the nature and effect of these changes are disclosed below.

IFRS 16, Leases

IFRS 16 supersedes IAS 17, Leases, IFRIC 4, Determining whether an Arrangement contains a Lease, and other related Standard Interpretations Committee ("SIC") interpretations. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and require lessees to account for most leases under a single on-balance sheet model.

On adoption of IFRS 16, the Company recognized lease liabilities in relation to property leases, vehicle leases and an equipment leases, all of which had previously been classified as 'operating leases' under the principle of IAS 17. As of October 1, 2019, these liabilities were measured at the present value of the remaining lease payments discounted at 10%, which reflects the lessee's incremental borrowing rate to finance the purchase of similar property. The Company has applied IFRS 16 using the modified retrospective approach, whereby the cumulative effect of adopting IFRS 16, if any, is recognized as an adjustment to opening retained earnings as at October 1, 2019, with no restatement of comparative information. Under this method using the practical expedient available, the Company has recognized the right of use assets equal to the lease liabilities less any lease incentives received.

The lease liabilities as at October 1, 2019 can be reconciled to the operating lease commitments as of September 30, 2019 as follows:

	\$
Operating lease commitments as at September 30, 2019	247,913
Incremental borrowing rate as at October 1, 2019	10%
Discounted operating lease commitments at October 1, 2019	229,565
Lease liability recognized as at October 1, 2019	229,565

The right-of-use assets associated with these leases were initially measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to those leases recognized in the consolidated statement of financial position as at September 30, 2019.

Practical expedients applied

In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the Standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Company has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Company relied on its assessments previously made in applying IAS 17 and IFRIC 4.

Based on the foregoing, as at October 1, 2019:

- Right-of-use assets of \$206,800 were recognized and presented separately in the interim condensed consolidated statement of financial position.
- Lease liabilities of \$229,565 were recognized and presented separately in the interim condensed consolidated statement of financial position.

Legend Power Systems Inc.
Notes to the Condensed Interim Consolidated Financial Statements
For the three months ended December 31, 2019 and 2018

(Unaudited - expressed in Canadian Dollars)

Summary of new accounting policies

The Company has adopted the following new accounting policies upon implementation of IFRS 16 on October 1, 2019:

Right-of-use assets

The Company recognizes right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct cost incurred, and lease payments made at or before the commencement date less any lease incentives received. The right-of-use assets are depreciated on a straight-line basis over its lease term. Right-of-use assets are subject to evaluation of potential impairment.

Lease liabilities

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments). The lease payments also include the exercise price of purchase options, if any, reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is re-measured if there is a modification, a change in the lease term or a change in the in-substance fixed lease payments.

Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases of properties (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below \$5,000). Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Summary of new significant judgements

Determining the lease term of contracts with renewal options

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Company has the option, under some of its leases to lease the assets for additional terms of one to ten years. The Company applies judgement in evaluating whether it is reasonably certain to exercise the option to renew, including the consideration of all relevant factors that create an economic incentive to exercise the renewal option. After the commencement date, the Company reassesses the lease term if

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there is a significant event or change in circumstances that is within its control and affects its ability to exercise the option to renew.

Amount recognized in the statement of financial position and statements of comprehensive loss

Set out below are the carrying amounts of the Company's right-of-use assets and lease liabilities and the movements during the six-month period ended March 31, 2020.

	Right-of-use assets	Lease liabilities
	\$	\$
As at October 1, 2019	206,800	229,565
Depreciation expense	(66,317)	-
Interest expense	-	9,439
Payments	-	(77,550)
As at March 31, 2020	140,483	161,454

Depreciation of right-of-use assets is included in general and administration expenses. Interest expense related to lease liabilities is included in debenture and other interest expense.

4. SEGMENTS

The Company has assessed two operating segments based on geographical location of sales and management decision making: Legend Power Systems Canada ("Legend Canada") and Legend Power Systems Corp. - U.S. ("Legend U.S."). During the six months ended March 31, 2020, 62% of the Company's revenues were attributable to Legend Canada (2019 – 100%) and 38% of revenues were attributable to Legend U.S. (2019 – 0%). Each reportable segment derives its revenue from the sale and installation of the SmartGATE™ products. Transfer prices between operating segments are calculated on a non-arm's length basis.

The comparative tables below show assets and liabilities, revenues and expenses and net loss and comprehensive loss for each segment.

As at:	March 31, 2020			September 30, 2019		
	Legend Canada	Legend U.S.	Total	Legend Canada	Legend U.S.	Total
	\$	\$	\$	\$	\$	\$
Assets	5,583,881	671,068	6,254,949	8,385,754	339,381	8,725,135
Liabilities	1,122,389	197,258	1,319,647	698,055	239,589	937,644

Three months ended:	March 31, 2020			March 31, 2019		
	Legend Canada	Legend U.S.	Total	Legend Canada	Legend U.S.	Total
	\$	\$	\$	\$	\$	\$
Revenues	670,286	6,073	676,359	769,443	-	769,443
Operating Costs	(1,141,021)	(595,070)	(1,736,091)	(1,152,306)	(693,251)	(1,845,557)
Net loss	(811,607)	(705,020)	(1,516,627)	(709,200)	(693,251)	(1,402,451)

Legend Power Systems Inc.

Notes to the Condensed Interim Consolidated Financial Statements For the three months ended December 31, 2019 and 2018

(Unaudited - expressed in Canadian Dollars)

Six months ended:	March 31, 2020			March 31, 2019		
	Legend Canada	Legend U.S.	Total	Legend Canada	Legend U.S.	Total
	\$	\$	\$	\$	\$	\$
Revenues	1,032,330	647,358	1,679,688	1,172,843	-	1,172,843
Operating Costs	(2,169,826)	(1,186,696)	(3,356,522)	(2,227,028)	(1,103,372)	(3,330,400)
Net loss	(2,020,473)	(978,352)	(2,998,825)	(1,390,411)	(1,103,372)	(2,493,783)

Three customers accounted for 10%, 13% and 38% of the Company's revenues for the six months ended March 31, 2020 compared with three customers for 12%, 17%, and 23% for the same six months of fiscal 2019.

5. RECEIVABLES

i) Trade receivables

Aging of trade receivables as follows:

Trade receivables	Total due	0-30 days	31-90 days	90+
	\$	\$	\$	\$
March 31, 2020	1,329,265	794,224	366,977	168,064
September 30, 2019	655,320	236,717	-	418,603

At March 31, 2020, trade receivables from three of our customers accounted for 14%, 16%, and 28% respectively of the Company's trade receivables balance for a total 58% in aggregate. At September 30, 2019, receivables from five of our customers accounted for 10%, 12%, 15%, 20% and 21% respectively of the Company's trade receivables balance for a total 78% in aggregate.

ii) Due from customers on contract

At March 31, 2020, due from customers on contract amounted to \$890,656 and at September 30, 2019 was \$891,288. These amounts relate to equipment delivered and/or installation services performed for sales where revenue has been recognized, and customers had not yet been invoiced.

6. INVENTORY

Inventories consist of the following, as at March 31, 2020 and September 30, 2019:

	March 31, 2020	September 30, 2019
	\$	\$
Finished products ("SmartGATE™")	41,665	90,266
Work in progress	412,677	520,048
Transformers and components	621,255	645,423
	1,075,597	1,255,737

During the six months ended March 31, 2020, inventories were recognized as cost of sales in the amount of \$152,711 (2019 – \$179,487) and the Company recorded a write down of inventory in the amount of

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(Unaudited - expressed in Canadian Dollars)

\$101,398, related to valuation adjustments of \$77,008 and equipment damaged in transit of \$24,390 (2019 - increase in inventory valuation adjustment of \$138,891).

7. PROPERTY AND EQUIPMENT

	Computer equipment	Equipment and furniture	Leasehold improvements	Computer Software	Total
	\$	\$	\$	\$	\$
Cost					
Balance at September 30, 2018	126,607	437,130	26,819	125,418	715,974
Reclassification				(125,418)	(125,418)
Purchases	12,318	14,510	12,032	-	38,860
Balance at September 30, 2019	138,925	451,640	38,851	-	629,416
Additions	-	74,809	-	-	74,809
Disposals	-	-	-	-	-
Adjustments	439	-	-	-	439
Balance at March 31 2020	139,364	526,449	38,851	-	704,664
Accumulated depreciation					
Balance at September 30, 2018	92,228	336,071	17,966	116,764	563,029
Reclassification	-	-	-	(116,764)	(116,764)
Depreciation	20,433	52,833	3,135	-	76,401
Balance at September 30, 2019	112,661	388,904	21,101	-	522,666
Additions	9,661	34,619	2,670	-	46,950
Disposals	-	-	-	-	-
Adjustments	274	-	-	-	274
Balance March 31, 2020	122,596	423,523	23,771	-	569,890
Net book value					
At September 30, 2019	26,264	62,736	17,750	-	106,750
At March 31, 2020	16,768	102,926	15,080	-	134,774

8. INTANGIBLE ASSETS

In 2007, the Company purchased the worldwide patents for the SmartGATE™ (formerly “Electrical Harmonizer”). These patents are now fully amortized. During fiscal 2019 the Company incurred patent registration costs associated with a new, internally generated technology.

During the fourth quarter of Fiscal 2019, the Company tested its product development costs for impairment. The tests were performed using pro-forma cash flow projections and certain other assumptions. Based on this analysis, development costs associated with internally generated technologies was impaired. Consequently, as at September 30, 2019 an impairment charge of \$772,818 was recorded. For the six months ended March 31, 2020 product development costs were expensed.

On October 1, 2018 the company reclassified the asset type for purchased computer software, from Property and Equipment to Intangible Assets. Prior period amounts in the below table have been reclassified to conform with the presentation adopted in the current period.

Legend Power Systems Inc.

Notes to the Condensed Interim Consolidated Financial Statements For the three months ended December 31, 2019 and 2018

(Unaudited - expressed in Canadian Dollars)

	Patents	Product development	Computer software	Total
	\$	\$	\$	\$
Cost				
Balance at September 30, 2018	1,638,099	134,396	-	1,772,495
Reclassification	-	-	125,418	125,418
Purchases	3,213	655,293	7,302	665,808
Impairment	-	(789,689)	-	(789,689)
Balance at September 30, 2019	1,641,312	-	132,720	1,774,032
Additions	2,335	-	-	2,335
Balance at March 31, 2020	1,643,647	-	132,720	1,776,367
Accumulated Amortization				
Balance at September 30, 2018	1,638,099	13,440	-	1,651,539
Reclassification	-	-	116,764	116,764
Amortization	-	3,432	10,784	14,216
Impairment	-	(16,872)	-	(16,872)
Balance at September 30, 2019	1,638,099	-	127,548	1,765,647
Amortization	-	-	3,651	3,651
Balance at March 31, 2020	1,638,099	-	131,199	1,769,298
Carrying Amount				
At September 30, 2019	3,213	-	5,172	8,385
At March 31, 2020	5,548	-	1,521	7,069

9. WARRANTY PROVISION

	Total
	\$
Balance at September 30, 2018	309,997
Warranty fulfillments	(188,247)
Additional provision	222,750
Balance at September 30, 2019	344,500
Warranty fulfillments	(37,222)
Additional provision	82,332
Balance at March 31, 2020	389,610

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. As at March 31, 2020, the average remaining years of equipment under warranty was 6.58 years (September 30, 2019 – 6.97 years).

10. SHARE CAPITAL AND CONTRIBUTED SURPLUS

i) Share Capital

The Company's authorized share capital is an unlimited number of common shares without par value. At March 31, 2020, the Company had 101,850,303 shares issued and outstanding. All issued common shares are fully paid. Contributed Surplus consists 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, 2019 and 2018

(Unaudited - expressed in Canadian Dollars)

ii) 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 outstanding at March 31, 2020, including the changes during the period, is as follows:

	Share options	Weighted average exercise price
		\$
Balance, September 30, 2018	7,113,333	0.37
Granted	2,450,000	0.28
Exercised	(387,500)	0.20
Expired	(1,865,000)	0.48
Forfeited	(317,500)	0.47
Balance, September 30, 2019	6,993,333	0.32
Granted	765,000	0.30
Expired	(250,000)	0.30
Forfeited	(355,831)	0.41
Balance, March 31, 2020	7,152,502	0.31

During the six months ended March 31, 2020, the Company granted 765,000 stock options (2019 – 705,000). The weighted average fair value of options granted during the six months ended March 31, 2020 was \$0.30 per option (2019 - \$0.14).

An amount of \$146,932 was recorded to share-based compensation expense for 779,173 options vested during the six months ended March 31, 2020 (2019 – 744,033 options vested for \$164,383).

During the six months ended March 31, 2020 no stock options were exercised (2019 - 380,000 stock options exercised for total proceeds of \$76,000).

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 during the six months ended March 31, 2020 and 2019:

	2020	2019
Risk-free interest rate	1.56 – 1.61%	1.75%
Estimated volatility (average)	80%	85%
Expected life (years)	3.68	3.63
Forfeiture rate (average)	19.12%	19.88%
Dividend rate	0.00%	0.00%

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.

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The following table summarizes share options outstanding and exercisable at March 31, 2020:

Options outstanding	Options exercisable	Exercise price	Year of expiry
		\$	
200,000	200,000	0.35 - 0.75	2020
1,666,666	1,666,666	0.25	2021
2,010,001	1,695,003	0.26 - 0.75	2022
417,501	230,836	0.55 - 0.92	2023
2,838,334	485,839	0.18 - 0.30	2024
20,000	-	0.18	2025
7,152,502	4,278,344		

iii) Warrants

The continuity of share purchase warrants during the periods ended March 31, 2020 and September 30, 2019 is as follows:

	Number of warrants	Weighted average exercise price
		\$
Balance, September 30, 2018	703,410	0.80
Exercised	nil	nil
Balance, September 30, 2019 and March 31, 2020	703,410	0.80

In April 2018, the Company issued 703,410 broker warrants to the underwriters in connection with the Offering and overallotment option. Each broker warrant entitles the holder to purchase one common share of the Company at \$0.80 per share until April 2020.

11. COMMITMENTS

On March 22, 2018 the Company entered into an agreement to lease premises in Vancouver, B.C. which has the remaining lease payments in each of the below fiscal years:

2020	\$74,652
2021	\$74,652

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.

The Company has a management services agreement with the CFO 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.

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12. RELATED PARTY DISCLOSURES

The Company entered into the following related party transactions during the three and six months ended March 31, 2020 and 2019.

(i) Transactions with Key Management Personnel:

The following amounts were incurred with respect to Key Management Personnel; being the Company's CEO and the CFO:

	Three months ended March 31,		Six months ended March 31,	
	2020	2019	2020	2019
	\$	\$	\$	\$
Salaries and consulting fees to key management personnel	108,750	107,300	217,500	215,737
Share-based compensation	-	25,801	54,778	50,462
	108,750	133,101	272,278	266,199

(ii) Transactions with Directors:

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

	Three months ended March 31,		Six months ended March 31,	
	2020	2019	2020	2019
	\$	\$	\$	\$
Share-based compensation	-	14,562	31,562	51,467

At March 31, 2020, a total of \$16,188 (September 30, 2019 - \$Nil) was due to related parties for consulting fees and expenses reimbursement.

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments

The Company's financial instruments consist of cash and cash equivalents, trade receivables, accounts payable and amounts due to related parties. The carrying values of these financial instruments approximate their fair values because of their short-term nature.

Risk management

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 is exposed to U.S. dollar versus Canadian dollar exchange rate fluctuation risk due to operations of its U.S. subsidiary which receives revenues and incurs expenses in U.S. dollars. As at December 31, 2019 all of Company's liquid assets and liabilities were held in Canadian dollars and U.S. dollars. A significant change in the U.S. dollar versus Canadian dollar exchange rate could affect the Company's results of operations. A change in the value of US dollar by 10% relative to the value of the

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Canadian dollar would have affected the Company's results of operations for the six months ended March 31, 2020 by approximately \$84,000 (2019 - \$90,000).

Interest rate risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. The Company is exposed to interest rate risk due to its potential impact on cash and cash equivalents. The Company earns interest on deposits based on current market interest rates, which during the six months ended March 31, 2020 averaged 1.25% (2019 – 0.5% to 2.2%). A change of 1% in the interest rate yields would have affected the Company's results of operations for the six months ended March 31, 2020 by approximately \$20,000 (2019 - \$47,000). The Company does not have any interest-bearing liabilities.

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 deemed to be creditworthy. Receivables are comprised primarily of amounts due from various customers. The Company is exposed to credit risk through accounts receivable from customers. At March 31, 2020, trade receivables from three of our customers accounted for 14%, 16%, and 28% respectively of the Company's trade receivables balance for a total 58% in aggregate. At September 30, 2019, trade receivables from five of our customers accounted for 10%, 12%, 15%, 20% and 21% respectively of the Company's trade receivables balance for a total 90% in aggregate. Given the nature, balances and the collection history of the Company's receivables, Management has applied a nominal loss allowance as at March 31, 2020 and September 30, 2019.

Liquidity risk

Liquidity risk is managed by ensuring sufficient financial resources are available to meet obligations associated with financial liabilities. The Company has in place a planning and budgeting process which helps determine the funds required to ensure the Company has the appropriate liquidity to meet its operating and growth objectives. As at March 31, 2020 the Company had cash and cash equivalents of \$2,611,886 to settle its current liabilities of \$1,025,751.

14. SUBSEQUENT EVENTS

On May 1, 2020, the Company received a loan in the amount of US\$144,865 pursuant to the United States Coronavirus Aid, Relief, and Economic Security Act's (the CARES Act), Paycheck Protection Program (PPP). The loan matures on May 1, 2022 and bears interest at a rate of 1%. The loan is forgivable in circumstances where the funds are used for payroll costs, interest on mortgages, rent and utilities and that at least 75% of the forgiven amount must have been used for payroll.

On May 11, 2020, the Company received \$64,637 pursuant to its claim for the Canada Emergency Wage Subsidy (CEWS) in relation to the 28-day period from March 15, 2020 to April 11, 2020.

Subsequent to March 31, 2020, 703,410 broker warrants with an exercise price of \$0.80 per warrant, expired unexercised.