



## **Legend Power Systems Inc.**

### **CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS For the three months ended December 31, 2019 and 2018**

(Expressed in Canadian Dollars)

# Legend Power Systems Inc.

## CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2019 and 2018

(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, 2019 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, 2019.

**Legend Power Systems Inc.****CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

(Unaudited - expressed in Canadian Dollars)

		December 31, 2019	September 30, 2019
	Notes	\$	\$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		4,245,702	5,677,537
Trade Receivables	5(i)	621,267	655,320
Due from customers on contract	5(ii)	1,306,814	891,288
Prepaid expenses and deposits		68,698	130,118
Inventory	6	1,158,016	1,255,737
		<u>7,400,497</u>	<u>8,610,000</u>
<b>Property and equipment</b>	7	157,280	106,750
<b>Right of use assets</b>	3	173,642	-
<b>Intangible assets</b>	8	6,811	8,385
		<u>7,738,230</u>	<u>8,725,135</u>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>			
<b>Current liabilities</b>			
Accounts payable		308,091	343,258
Accrued liabilities		515,997	249,906
Lease liabilities	3	109,439	
Warranty provision	9	89,830	99,122
		<u>1,023,357</u>	<u>692,286</u>
<b>Lease liabilities – non current</b>	3	87,031	-
<b>Warranty provision</b>	9	240,910	245,378
		<u>1,351,298</u>	<u>937,664</u>
<b>Shareholders' equity</b>			
Share capital	10(i)	50,549,482	50,549,482
Contributed surplus	10(ii)(iii)	8,775,828	8,656,967
Accumulated other comprehensive loss		(118,398)	(103,962)
Deficit		(52,819,980)	(51,315,016)
		<u>6,386,932</u>	<u>7,787,471</u>
		<u>7,738,230</u>	<u>8,725,135</u>

Segments (Note 4)

Commitments (Note 11)

APPROVED BY THE BOARD OF DIRECTORS AND AUTHORIZED FOR ISSUE ON FEBRUARY 26, 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)

		<b>For the three months ended December 31,</b>	
	<b>Notes</b>	<b>2019</b>	<b>2018</b>
		<b>\$</b>	<b>\$</b>
<b>Revenue</b>	4	1,003,329	403,400
<b>Cost of sales</b>		789,229	76,832
<b>Gross margin</b>		<u>214,100</u>	<u>326,568</u>
<b>Expenses</b>			
Salaries and consulting		1,009,752	892,959
General and overhead		238,029	300,108
Selling costs		79,574	100,621
Share-based compensation	10(ii)	118,860	95,089
Professional fees		73,359	34,607
Warranty expense	9	11,594	35,314
Product development		32,735	11,311
Foreign exchange loss (gain)		(785)	(21,707)
Amortization and depreciation	3,7,8	57,313	36,541
		<u>1,620,431</u>	<u>1,484,843</u>
<b>Operating loss</b>		<u>(1,406,331)</u>	<u>(1,158,275)</u>
Inventory write-down	6	(94,218)	-
Other income		18,351	66,943
<b>Net loss for the period</b>		<u>(1,482,198)</u>	<u>(1,091,332)</u>
<b>Other comprehensive loss:</b>			
Exchange differences arising on translation of foreign operations		(14,436)	-
<b>Comprehensive loss for the period</b>		<u>(1,496,634)</u>	<u>(1,091,332)</u>
<b>Basic and diluted loss per share</b>		(0.015)	(0.011)
<b>Weighted average number of common shares outstanding, basic and diluted</b>		101,850,303	101,462,803

*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
		#	\$	\$	\$	\$	\$
<b>Balance at September 30, 2018</b>		<b>101,462,803</b>	<b>50,409,303</b>	<b>8,435,643</b>	<b>(45,221,860)</b>	<b>-</b>	<b>13,623,086</b>
Share-based compensation	10(ii)	-	-	95,089	-	-	95,089
Net loss for the period		-	-	-	(1,091,332)	-	(1,091,332)
<b>Balance at December 31, 2018</b>		<b>101,462,803</b>	<b>50,409,303</b>	<b>8,530,732</b>	<b>(46,313,192)</b>	<b>-</b>	<b>12,626,843</b>
<b>Balance at September 30, 2019</b>		<b>101,850,303</b>	<b>50,549,482</b>	<b>8,656,967</b>	<b>(51,315,016)</b>	<b>(103,963)</b>	<b>7,787,471</b>
IFRS 16 adjustment	3	-	-	-	(22,766)	-	(22,766)
Share-based compensation	10(ii)	-	-	118,860	-	-	118,860
Unrealized loss on foreign currency translation		-	-	-	-	(14,435)	(14,435)
Net loss for the period		-	-	-	(1,482,198)	-	(1,482,198)
<b>Balance at December 31, 2019</b>		<b>101,850,303</b>	<b>50,549,482</b>	<b>8,775,827</b>	<b>(52,819,980)</b>	<b>(118,398)</b>	<b>6,386,932</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,	
		2019	2018
		\$	\$
<b>Cash flows used in operating activities</b>			
Loss for the period		(1,482,198)	(1,091,332)
Items not affecting cash:			
Amortization and depreciation	3,7,8	26,051	36,541
Share-based compensation	10(ii)	118,860	95,089
Warranty provision	9	(13,760)	35,314
Foreign exchange loss		(785)	(21,707)
Inventory write-down	6	94,218	(138,891)
Changes in non-cash working capital items:			
Receivables, prepaids and deposits		(313,613)	334,888
Due from customers on contract		(46,673)	895,837
Inventory		3,503	(378,907)
Accounts payable and accrued liabilities		236,356	(105,760)
		<u>(1,378,041)</u>	<u>(338,928)</u>
<b>Cash flows used in investing activities</b>			
Purchase of property and equipment	7	(74,809)	(12,602)
Product development costs	8	(252)	(125,490)
Interest income received		21,935	25,835
		<u>(53,126)</u>	<u>(112,257)</u>
<b>Cash flows from financing activities</b>		<u>-</u>	<u>-</u>
<b>Effect of foreign exchange translation in cash</b>		(668)	18,253
<b>Net change in cash and cash equivalents for the period</b>		(1,431,167)	(451,185)
<b>Cash and cash equivalents, beginning of period</b>		<u>5,677,537</u>	<u>10,046,366</u>
<b>Cash and cash equivalents, end of period</b>		<u><b>4,245,702</b></u>	<u><b>9,613,434</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, 2019 and 2018

(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 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.

#### 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.

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.



**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)

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**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 a lease liability in relation to property leases, vehicle leases and equipment leases 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 asset equal to the lease liability 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:

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	\$
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
<b>Lease liability recognized as at October 1, 2019</b>	<b>229,565</b>

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The right-of-use assets associated with these property leases were initially measured at the 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;
- reliance on previous assessments on whether leases are onerous;
- 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)

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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

**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)

there is a significant event or change in circumstances that is within its control and affects its ability to exercise the option to renew. The Company included the renewal period as part of the lease term for substantially all of its property leases due to the significance of these assets to its operations.

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 three-month period ended December 31, 2019.

	Right-of-use assets	Lease liabilities
	\$	\$
As at October 1, 2019	206,800	229,565
Depreciation expense	(33,158)	-
Interest expense	-	5,146
Payments	-	(38,241)
<b>As at December 31, 2019</b>	<b>173,642</b>	<b>196,470</b>

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 the Legend Power Systems Corp. - U.S. ("Legend U.S."). During the three months ended December 31, 2019, 36% of the Company's revenues were attributable to Legend Canada (2018 – 100%) and 64% of revenues were attributable to Legend U.S. (2018 – 0%). Each reportable segment derives its revenue from the sale and installation of the SmartGATE™ products. Transfer prices between operating segments are calculated on 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. The Company has restated segmented assets, liabilities, revenues and expense and net loss and comprehensive loss for the prior year following the change in the composition of its reportable segments in the three months ended December 31, 2019.

	Three months ended December 31, 2019		Three months ended December 31, 2018	
	Legend Canada	Legend U.S.	Legend Canada	Legend U.S.
	\$	\$	\$	\$
Assets	6,991,173	747,056	13,143,614	330,544
Liabilities	1,061,614	281,296	822,563	50,006
Revenues	362,044	641,285	403,400	-
Operating costs	(1,027,840)	(591,626)	(1,084,611)	(410,121)
<b>Net loss</b>	<b>(1,207,116)</b>	<b>(273,332)</b>	<b>(681,211)</b>	<b>(410,121)</b>

Two customers accounted for 16% and 64% of the Company's revenues for the three months ended December 31, 2019 compared with five customers for 25%, 21%, 20%, 18% and 11% for the same three months of 2018.

**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)

**5. RECEIVABLES**

**i) Trade receivables**

Aging of trade receivables as follows:

<b>Trade receivables</b>	<b>Total due</b>	<b>0-30 days</b>	<b>31-90 days</b>	<b>90+</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
December 31, 2019	621,267	156,934	250,039	214,294
September 30, 2019	655,320	236,717	-	418,603

At December 31, 2019, trade receivables from four of our customers accounted for 12%, 18%, 24% and 43% respectively of the Company's trade receivables balance for a total 97% 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 December 31, 2019, due from customers on contract amounted to \$1,306,814 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 December 31, 2019 and September 30, 2019:

	<b>December 31, 2019</b>	<b>September 30, 2019</b>
	<b>\$</b>	<b>\$</b>
Finished products ("SmartGATE™")	61,917	90,266
Work in progress	512,720	520,048
Transformers and components	583,379	645,423
	<b>1,158,016</b>	<b>1,255,737</b>

During the year three months ended December 31, 2019, inventories were recognized as cost of sales in the amount of \$34,421 (2018 – \$49,325). The Company recorded a write down of inventory in the amount of \$94,218, related to valuation adjustments of \$77,008 and equipment damaged in transit of \$17,210.

**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)

**7. PROPERTY AND EQUIPMENT**

	Computer equipment	Equipment and furniture	Leasehold improvements	Computer Software	Total
	\$	\$	\$	\$	\$
<b>Cost</b>					
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	(119)	-	-	-	(119)
Balance at December 31 2019	138,806	526,449	38,851	-	704,106
<b>Accumulated depreciation</b>					
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	5,319	17,571	1,335	-	24,225
Disposals	-	-	-	-	-
Adjustments	(65)	-	-	-	(65)
Balance December 31, 2019	117,915	406,475	22,436	-	546,826
<b>Net book value</b>					
<b>At September 30, 2019</b>	<b>26,264</b>	<b>62,736</b>	<b>17,750</b>	<b>-</b>	<b>106,750</b>
<b>At December 31, 2019</b>	<b>20,891</b>	<b>119,974</b>	<b>16,415</b>	<b>-</b>	<b>157,280</b>

**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 three months ended December 31, 2019 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
	\$	\$	\$	\$
<b>Cost</b>				
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	252	-	-	252
Balance at December 31, 2019	1,641,564	-	132,720	1,774,284
<b>Accumulated Amortization</b>				
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	-	-	1,826	1,826
Balance at December 31, 2019	1,638,099	-	129,374	1,767,473
<b>Carrying Amount</b>				
<b>At September 30, 2019</b>	<b>3,213</b>	<b>-</b>	<b>5,172</b>	<b>8,385</b>
<b>At December 31, 2019</b>	<b>3,465</b>	<b>-</b>	<b>3,346</b>	<b>6,811</b>

#### 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	(25,354)
Additional provision	11,594
<b>Balance at December 31, 2019</b>	<b>330,740</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. As at December 31, 2019, the average remaining years of equipment under warranty was 6.98 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 December 31, 2019, 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 December 31, 2019, including the changes during the period, is as follows:

	Share options	Weighted average exercise price
		\$
<b>Balance, September 30, 2018</b>	<b>7,113,333</b>	<b>0.37</b>
Granted	2,450,000	0.28
Exercised	(387,500)	0.20
Expired	(1,865,000)	0.48
Forfeited	(317,500)	0.47
<b>Balance, September 30, 2019</b>	<b>6,993,333</b>	<b>0.32</b>
Granted	745,000	0.30
Expired	(250,000)	0.30
Forfeited	(125,830)	0.39
<b>Balance, December 31, 2019</b>	<b>7,362,503</b>	<b>0.32</b>

During the three months ended December 31, 2019, the Company granted 745,000 stock options (2018 – nil). The weighted average fair value of options granted during the three months ended December 31, 2019 was \$0.30 per option (2018 - \$nil).

An amount of \$118,860 was recorded to share-based compensation expense for 610,004 options vested during the three months December 31, 2019 (2018 – 408,752 options vested for \$95,089).

During the three months ended December 31, 2019 and 2018 no stock options were exercised.

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 three months ended December 31, 2019 and 2018:

	2019	2018
Risk-free interest rate	1.56 – 1.61%	n/a
Estimated volatility	80.42 – 80.55%	n/a
Expected life (years)	3.68	n/a
Forfeiture rate	19.26%	n/a
Dividend rate	0.00%	n/a

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 December 31, 2019:

Options outstanding	Options exercisable	Exercise price	Year of expiry
		\$	
250,000	200,000	0.35 - 0.75	2020
1,666,666	1,666,666	0.25	2021
2,088,333	1,680,836	0.26 - 0.75	2022
473,337	241,673	0.55 - 0.92	2023
2,884,167	300,837	0.18 - 0.30	2024
<b>7,362,503</b>	<b>4,090,012</b>		

**iii) Warrants**

The continuity of share purchase warrants during the years ended December 31, 2019 and 2018 is as follows:

	Number of warrants	Weighted average exercise price
		\$
Balance, September 30, 2018	703,410	0.80
Exercised	nil	nil
<b>Balance, September 30, 2019 and December 31, 2019</b>	<b>703,410</b>	<b>0.80</b>

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 December 4, 2017 the Company entered into an agreement to lease premises in Toronto, Ontario and on March 22, 2018 the Company entered into an agreement to lease premises in Vancouver, B.C. When taken together the lease agreements require the following minimum lease payments in each of the below fiscal years:

2020	\$150,845
2021	\$70,841

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 months ended December 31, 2019 and 2018.

(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:

	<b>2019</b>	<b>2018</b>
	\$	\$
Salaries and consulting fees to key management personnel	108,750	108,437
Share-based compensation	54,779	24,661
	<u>163,529</u>	<u>133,098</u>

(ii) Transactions with Directors:

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

	<b>2019</b>	<b>2018</b>
	\$	\$
Director's fees	-	-
Share-based compensation	31,562	36,905

At December 31, 2019, 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 the US dollar versus Canadian dollar exchange rate fluctuation risks through operations of its US subsidiary and expenses incurred in US dollars. As at December 31, 2019 all of Company's liquid assets and liabilities were held in Canadian dollars and US dollars. A significant change in the USD exchange rate relative to the Canadian dollar could affect the Company's results of operations. A change in the value of US dollar by 10% relative to the value of the Canadian dollar would have affected the Company's results of operations for the three months ended December 31, 2019 by approximately \$23,871 (2018 - \$26,000).

# Legend Power Systems Inc.

## Notes to the Condensed Interim Consolidated Financial Statements

### For the three months ended December 31, 2019 and 2018

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#### **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 three months ended December 31, 2019 averaged 1.25% (2018 – 0.5% to 1.6%). A 1% change in interest rates would have affected the Company's results of operations for the three months ended December 31, 2019 by approximately \$11,376 (2018 - \$94,000). 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 December 31, 2019, trade receivables from four of our customers accounted for 12%, 18%, 24% and 43% respectively of the Company's trade receivables balance for a total 97% 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 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 December 31, 2019 the Company had cash and cash equivalents of \$4,245,702 to settle its current liabilities of \$1,023,357.