Legend Power Systems Inc.

CONSOLIDATED FINANCIAL STATEMENTS
For the years ended September 30, 2019 and 2018

(Expressed in Canadian Dollars)

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CONSOLIDATED FINANCIAL STATEMENTS

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(Expressed in Canadian Dollars)

Independent Auditor's Report

To the Shareholders of Legend Power Systems Inc.:

Opinion

We have audited the consolidated financial statements of Legend Power Systems Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at September 30, 2019, and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at September 30, 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian Generally Accepted Auditing Standards. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matter

The consolidated financial statements of Legend Power Systems Inc. for the year ended September 30, 2018 were audited by another auditor who expressed an unmodified opinion on those statements on January 23, 2019.

Other information

Management is responsible for the other information. The other information comprises Management’s Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. We obtained Management’s Discussion and Analysis prior to the date of this auditor’s report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company’s financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian Generally Accepted Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian Generally Accepted Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Joseph J. Chirkoff.

Vancouver, British Columbia

MNP LLP

January 28, 2020

Chartered Professional Accountants

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

	Notes	September 30, 2019 $	September 30, 2018 $
ASSETS			
Current assets			
Cash and cash equivalents		5,677,537	10,046,366
Trade Receivables	5(i)	655,320	1,573,298
Due from customers on contract	5(ii)	891,288	1,361,126
Prepaid expenses and deposits		130,118	192,603
Inventory	6	1,255,737	1,066,592
		8,610,000	14,239,985
Property and equipment	7	106,750	152,945
Intangible assets	8	8,385	120,956
		8,725,135	**14,513,886**
LIABILITIES AND SHAREHOLDER'S EQUITY			
Current liabilities			
Accounts payable	9	343,258	501,138
Accrued liabilities		249,906	79,665
Warranty provision	10	99,122	40,863
		692,286	621,666
Warranty provision	10	245,378	269,134
		937,664	890,800
Shareholders' equity			
Share capital	11(i)	50,549,482	50,409,303
Contributed surplus	11(ii)(iii)	8,656,967	8,435,643
Accumulated other comprehensive loss		(103,962)	-
Deficit		(51,315,016)	(45,221,860)
		7,787,471	13,623,086
		8,725,135	**14,513,886**

Segments (Note 4)
Commitments (Note 12)
Income taxes (Note 14)
Subsequent events (Note 16)

APPROVED BY THE BOARD OF DIRECTORS AND AUTHORIZED FOR ISSUE ON JANUARY 28, 2020

"Cos LaPorta", Director   *"Randy Buchamer"*, Director

Legend Power Systems Inc.

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

(Expressed in Canadian Dollars)

		For the years ended September 30,	
		2019	**2018**
	Notes	**$**	**$**
Revenue	4	2,334,525	6,595,063
Cost of sales		1,363,977	3,604,254
Gross margin		970,548	2,990,809
Expenses			
Salaries and consulting		4,168,347	2,957,528
General and overhead		1,077,478	819,724
Selling costs		385,690	650,239
Share-based compensation	11(ii)	286,043	427,533
Professional fees		222,381	163,977
Warranty expense	10	222,750	221,806
Product development		57,416	159,174
Foreign exchange loss (gain)		(130,087)	84,766
Amortization and depreciation	7,8	61,395	84,623
Bad debt	5(i)	-	48,943
		6,351,413	5,618,313
Operating loss		(5,380,865)	(2,627,504)
Inventory write-down	6	(102,410)	-
Intangible asset impairment	8	(772,818)	-
Other income		162,937	68,119
Net loss for the year		**(6,093,156)**	**(2,559,385)**
Other comprehensive loss:			
Exchange differences arising on translation of foreign operations		(103,962)	-
Comprehensive loss for the year		(6,197,118)	(2,559,385)
Basic and diluted loss per share		(0.06)	(0.03)
Weighted average number of common shares outstanding, basic and diluted		101,696,399	92,988,781

Legend Power Systems Inc.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(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, 2017		**82,786,258**	**38,421,253**	**8,331,942**	**(42,662,475)**	**-**	**4,090,720**
Common shares issued with public offering	11(i)	13,156,000	10,524,800	-	-	-	10,524,800
Share issue costs	11(i)	-	(1,171,307)	225,388	-	-	(945,919)
Warrants exercised	11(iii)	4,464,382	2,258,693	(472,940)	-	-	1,785,753
Options exercised	11(ii)	1,056,163	375,864	(76,280)	-	-	299,584
Share-based compensation	11(ii)	-	-	427,533	-	-	427,533
Net loss for the year		-	-	-	(2,559,385)	-	(2,559,385)
Balance at September 30, 2018		**101,462,803**	**50,409,303**	**8,435,643**	**(45,221,860)**	**-**	**13,623,086**
Commons shares issued for options exercised	11(ii)	387,500	142,743	(64,719)	-	-	78,024
Share issue costs		-	(2,564)		-	-	(2,564)
Share-based compensation	11(ii)	-	-	286,043	-	-	286,043
Unrealized gain on foreign currency translation		-	-	-	-	(103,963)	(103,963)
Net loss for the period		-	-	-	(6,093,156)	-	(6,093,156)
Balance at September 30, 2019		**101,850,303**	**50,549,482**	**8,656,967**	**(51,315,016)**	**(103,963)**	**7,787,471**

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

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

	Notes	For the years ended September 30, 2019 $	2018 $
Cash flows used in operating activities			
Loss for the year		(6,093,156)	(2,559,385)
Items not affecting cash:			
Amortization and depreciation	7,8	90,617	84,623
Share-based compensation	11(ii)	286,043	427,533
Warranty provision	10	34,503	221,806
Foreign exchange loss (gain)		(130,087)	49,047
Bad debt	5(i)	-	48,943
Inventory write-down	6	121,514	5,249
Intangible asset impairment	8	772,818	-
Changes in non-cash working capital items:			
Receivables, prepaids and deposits		752,607	14,301
Due from customers on contract		593,111	(486,691)
Inventory		(310,659)	(254,529)
Accounts payable and accrued liabilities		41,738	(219,882)
Due to related parties		(28,872)	28,915
		(3,869,823)	(2,640,070)
Cash flows used in investing activities			
Purchase of property and equipment	7	(38,860)	(139,699)
Product development costs	8	(665,808)	(27,336)
Interest income received		102,586	25,835
		(602,082)	(141,200)
Cash flows from financing activities			
Proceeds from public offering	11(i)	-	10,524,800
Share issuance costs	11(i)	-	(945,919)
Warrants exercise proceeds	11(iii)	-	1,785,753
Options exercise proceeds	11(ii)	75,460	299,584
		75,460	11,664,218
Effect of foreign exchange translation in cash		27,616	3,291
Net change in cash and cash equivalents for the year		(4,396,445)	8,882,948
Cash and cash equivalents, beginning of year		10,046,366	1,160,127
Cash and cash equivalents, end of year		**5,677,537**	**10,046,366**

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

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 AND STATEMENT OF COMPLIANCE

These 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The 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.

Comparatives

Certain prior period amounts are reclassified to conform with the presentation adopted in the current period. Specifically, $8,654 related to the book value of computer software was reclassified from equipment to intangible assets.

Changes in accounting policies

IAS 2 – *Inventories*

Inventory is measured at the lower of cost or net realizable value. The Company has historically assigned actual costs to transformers and controllers being as they are significant components with all other inventory components on a first in first out (FIFO) basis. Effective October 1, 2018 the Company elected to change its inventory measurement to a weighted average method. Management believes this change will provide greater efficiency and practicality in inventory measurement. The switch from FIFO to weighted average inventory measurement represents a change in accounting policy which is typically accounted for retrospectively in a Company's financial statements as if the new accounting policy was always in place. The retrospective application of this change of measurement for prior comparative periods is however impractical due to an incomplete inventory data set for the periods in question on transition to a third-party inventory management software. An assessment of the impact of the change in valuation indicates no material impact to the financial statements. The Company has therefore applied the new policy prospectively from the beginning of the earliest period feasible which commenced October 1, 2018. The inventory amount reflected in these statements as of September 30, 2019 was calculated under the new method.

Adoption of new accounting standards

IFRS 15 – Revenue From Contracts With Customers

IFRS 15, Revenue from Contracts with Customers ("IFRS 15") – replaces IAS 18, Revenue, IAS 11 Construction Contract and related interpretations. Under IFRS 15, revenue is recognized when a customer obtains control of the goods. Determining the timing of the transfer of control, at a point in time, over time, requires judgement.

IFRS 15 contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five step analysis of transactions to determine whether, how much, and when revenue is recognized. The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs. The standard became effective for annual periods beginning on or after January 1, 2018. The Company adopted IFRS 15 on October 1, 2018.

The Company has adopted IFRS 15 using the cumulative effect method (without practical expedients), with the effect of initially applying this standard at the date of initial application. Accordingly, the information presented for 2018 has not been restated. It is presented, as previously reported, under IAS 18. The adoption of the new standard does not have a material impact on the Company's financial statements; however, disclosures have been updated to reflect the requirements of the standard.

IFRS 9 – Financial Instruments

IFRS 9, Financial Instruments ("IFRS 9") – replaces IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 simplifies the classification and measurement requirements for financial instruments, which replaces the multiple classification and measurement models in IAS 39. The standard became effective for annual periods beginning on or after January 1, 2018. The Company adopted IFRS 9 on October 1, 2018.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale. Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities. It also amends the impairment model by introducing a new "expected credit loss" model for calculating impairment.

IFRS 9 also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness; however, it provides more hedging strategies that are used for risk management to qualify for hedge accounting and introduces more judgement to assess the effectiveness of a hedging relationship.

The adoption of this standard did not have a material impact on the measurement of the Company's financial instruments, however additional disclosures have been provided.

Foreign currency translation

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.

Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in net income or loss.

Cash and cash equivalents

Cash and cash equivalents are comprised of cash on hand, deposits in banks and investment with maturities of 12 months or less from the acquisition date, cashable within 30 days. The carrying value of these financial instruments approximate their fair values because of the short-term nature.

Financial Instruments

Financial Assets

The Company classifies its financial assets in the category, "Financial assets at amortized cost". Financial assets at amortized cost are initially recognized at fair value and subsequently carried at amortized cost less any impairment. They are classified as current assets or non-current assets based on their maturity date. Financial assets are derecognized when they mature or are sold, and substantially all the risks and rewards of ownership have been transferred. Gains and losses on derecognition of financial assets classified as amortized cost are recognized in the income statement.

Financial Liabilities

Financial liabilities are recognized initially at fair value, net of transaction costs incurred and are subsequently measured at amortized cost. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in profit and loss over the period to maturity using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

The Company completed an assessment of its financial instruments as at January 1, 2018. The following table shows the original classification under IAS 39 and the new classification under IFRS 9:

	Original classification under IAS 39	**New classification under IFRS 9**
Cash	Loans and receivables, amortized cost	Amortized cost
Trade receivables	Loans and receivables, amortized cost	Amortized cost
Due from customers on contract	Loans and receivables, amortized cost	Amortized cost
Accounts payable	Other financial liabilities, amortized costs	Amortized cost
Accrued liabilities	Other financial liabilities, amortized costs	Amortized cost

Impairment of Financial Assets at Amortized Cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the loss allowance for the financial asset is measured at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the loss allowance is measured for the financial asset at an amount equal to twelve month expected credit losses. For trade receivables, the Company applies the simplified approach to providing for expected credit losses, which allows the use of a lifetime expected loss provision. Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized. Given the nature, balances and the collection history of the Company's receivables, Management has applied a nominal loss allowance at adoption and as at September 30, 2019.

Property and equipment

Equipment is stated at historical cost less depreciation and, where necessary, write-downs for impairment. Depreciation is calculated using the straight-line method at the following annual rates:

Computer equipment	3-years
Equipment and furniture	3-years
Leasehold improvements	5-years

The useful lives, residual values and method of depreciation are reviewed at each financial year-end and adjusted if appropriate.

Intangible assets

Intangible assets consist of computer software, patents, and product development assets. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least annually at each year end.

Computer software relates to expenditures incurred to acquire and implement software used within the business. Software assets are amortized over their estimated useful lives which is 1-year.

Patent and trademark assets consist of professional fees incurred for the filing of patents and the registration of trademarks for product marketing purposes. Patent and trademark registration fees paid are amortized on a straight-line basis over 5 years.

The useful lives of internally generated product development assets are each estimated independently. Each of the products currently under development is forecasted to have a useful life of 5 years.

Research and development costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Company can demonstrate:

- the technical feasibility of completing the intangible asset so that the asset will be available for use or sale
- its intention to complete and its ability and intention to use or sell the asset
- how the asset will generate future economic benefits

- the availability of resources to complete the asset
- the ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete, and the asset is available for use. It is amortised over the period of expected future benefit and is recorded in cost of sales. During the period of development, the asset is tested for impairment annually.

Impairment of long-lived assets

Impairment tests for long-lived assets are performed when there is an indication of impairment. At each reporting date, an assessment is made to determine whether there are any indications of impairment. If any indication of impairment exists, an estimate of the long-lived asset's recoverable amount is calculated. The recoverable amount is determined as the higher of fair value less costs of disposal and the asset's value in use. If the carrying value of a long-lived asset exceeds its recoverable amount, the asset is impaired, and an impairment loss is charged to net income or loss to reduce the carrying amount of the long-lived asset to its recoverable amount.

Warranty provision

Warranty provision for the expected cost of warranty obligations is recorded as an expense at the date of the sale of a SmartGATE™ system. The provision is for estimated costs of product replacement due to a malfunction in the system after installation. The provision is based on management's best estimates incorporating a number of factors including historical number of warranty claims and cost experience per claim as well as duration of warranty coverage. The Company reviews its product warranty provision quarterly with any adjustment recorded in net income or loss.

Current and deferred income taxes

Tax expense is comprised of current and deferred income taxes. Tax is recognized separately in the statement of loss and comprehensive loss, except to the extent that it relates to items recognized in other comprehensive income (loss) or directly in equity. In this case, income tax is also recognized in other comprehensive income (loss) or directly in equity, respectively.

Current tax

Current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates [and laws] that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realized, or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Share-based payments

The fair value, at the grant date, of equity-settled share awards is charged to the statement of loss and comprehensive loss over the period for which the benefits of employee and others providing similar services are expected to be received. The corresponding accrued entitlement is recorded in contributed surplus. The fair value of awards is calculated using the Black-Scholes option pricing model which considers the following factors: exercise price, life of the award, expected forfeitures, expected volatility, risk-free interest rate and current market price of the underlying shares.

When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value is measured by use of a valuation model. The expected life used in the model is adjusted, based on management’s best estimate, for the effects of non-transferability, exercise restrictions, and behavioral considerations.

Warrants issued in equity financing transactions

The Company engages in equity financing transactions to obtain the funds necessary to continue operations. These equity financing transactions may involve issuance of common shares or units. Units typically comprise a certain number of common shares and share purchase warrants. Depending on the terms and conditions of each equity financing transaction, the warrants are exercisable into additional common shares at a fixed price prior to expiry as stipulated by the terms of the transaction.

The Company has adopted a residual value method with respect to the measurement of common shares and share purchase warrants issued as units. The fair value of the share purchase warrants issued as part of units is determined by the Black-Scholes method on the announcement date. The remaining balance is allocated to the common shares.

Revenue recognition

The Company generates revenue through a) product sales and b) product sales with installation services.

The total transaction price of a customer arrangement is expected to vary depending on type of equipment and whether or not installation service is included.

a) Revenue from product sales contracts is recognized when the following conditions are met:

- Persuasive evidence the contract exists, which occurs when the contract is signed by both the Company and the customer.

- The performance obligation is met, which occurs on delivery to and receipt of the equipment by the customer with the exception of bill-and-hold agreements, where the customer has agreed that upon completion of the equipment and its preparation for shipping (the “Hold Date”), title to the equipment shall have passed to customer.

- The transaction price is clearly specified in the contract. The transaction price is recognized in revenue and allocated to product revenue when the performance obligation described above has been completed.

b) Revenue from product sales with installation services contracts are recognized when the following conditions are met:

- Persuasive evidence the contract exists, which occurs when the contract is singed by both the Company and the customer.

- The two performance obligations are met 1) delivery of equipment and 2) installation of the equipment at the customer's location.

- The transaction price is clearly specified in the contract. The transaction price is recognized in revenue and allocated to product revenue and installation revenue respectively when the product is delivered and then when installation is complete. Allocation of the total transaction price between equipment and installation services utilizes Management's best estimate of fair value for i) the product based upon normal pricing and discounting practices for the product when it is sold separately; and ii) installation services which is estimated based on third party contractor pricing, which requires management to make certain estimates and critical judgments in the process of measuring contracts that include both a system and its installation. The total contractual consideration is allocated between product and installation services based on their relative fair value.

- Revenue from the product component is recognized as above and revenue from installation services is recognized when the equipment has been installed.

Generally, revenue is recognized as long as persuasive evidence of an arrangement exists, performance obligations have been met, the fee is fixed or determinable, and collectability is reasonably assured.

Loss per share

Basic and diluted loss per share is determined by dividing the loss attributable to common shareholders by the weighted average number of common shares outstanding during the reporting period. Diluted loss per share is not separately presented, as the effect of securities exercisable into common shares would reduce the amount presented as loss per share.

Critical judgments and sources of estimation uncertainty

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical judgments

The following are critical judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the financial statements:

i) Management is required to assess whether to test its development costs included in intangible assets for impairment in accordance with IAS 36. In assessing whether there is any indication that long-lived assets may be impaired, management is required to make judgments about whether there are any internal or external indicators of impairment. Judgement is required in determining the technical and commercial feasibility and in assessing the probability of future economic benefits and the useful life of the asset per management's best estimation of the next development updates.

   At September 30, 2019, management has determined no impairment indicators were present with respect to the Company's development costs previously capitalized.

ii) For those contracts that include both a system and its installation, the Company utilizes Management's best estimate of fair value for the products and revenue for the installation services is estimated based on third party contractor pricing.

Estimation uncertainty

The following are key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year:

i) At September 30, 2019, provisions for future warranty expense was forecasted by management based on recent historical experience and expectations of future warranty claim activity.

ii) At September 30, 2019, provisions for impairment of inventory were made using the best estimate of the net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs to complete the sale for finished goods and replacement cost for raw materials.

iii) At September 30, 2019, provisions for impairment of intangibles were made using a 5-year pro-forma cash flow model. In addition to various assumptions, the model includes a sensitivity analysis for future revenue scenarios according to three outcomes and net after-tax cash flows based on current operating costs.

New standards not yet adopted

The following is an overview of new accounting standards that the Company will be required to adopt in future years. The Company does not expect to adopt any of these standards before their effective dates. The Company is currently assessing the impact of the new standards and it cannot reasonably estimate the impact of adoption except as stated below.

a) IFRS 16 – Leases. In January 2016, IFRS 16, was issued which requires, among other things, lessees to recognize leases traditionally recorded as operating leases in the same manner as financing leases. IFRS 16 now prescribes the accounting policies and disclosures applicable to leases for both lessees and lessors. Under the new standard, an asset (the right to use the lease item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases. The standard replaces IAS 17, Leases, and is effective for annual periods beginning of after January 1, 2019 with earlier application permitted. The Company expects its facility leases to be recorded on the statement of financial position as a result of the transition. The Company's assessment of the impact is still in progress.

(Expressed in Canadian Dollars)

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.). Legend Canada derives all its revenues from Canada and in the year ended September 30, 2019, 91.5% of the Company's revenues were attributable to Legend Canada (2018 – 100%). All Legend U.S. revenues are derived from the U.S. and in the year ended September 30, 2019, 8.5% of revenues were attributable to U.S. (2018 – 0%). Each reportable segment derives its revenue from the sale and installation of the SmartGATE™. Transfer prices between operating segments are 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 year ended September 30, 2019.

	Year ended September 30, 2019		**Year ended September 30, 2018**	
	Legend Canada	**Legend U.S.**	**Legend Canada**	**Legend U.S.**
	$	$	$	$
Assets	8,385,754	339,381	14,107,955	405,931
Liabilities	691,437	239,589	852,968	37,832
Revenues	2,130,227	204,298	6,595,063	-
COGS and operating expenses	(5,183,111)	(2,902,951)	(8,437,268)	(717,180)
Comprehensive loss	**(3,090,884)**	**(2,995,741)**	**(1,842,205)**	**(717,180)**

Adjustments and eliminations consist of inter-segment revenues, receivables and payables.

Three customers accounted for 11%, 12% and 20% of the Company's revenues for the year ended September 30, 2019 compared with one customer for 17% for the year ended September 30, 2018.

5. RECEIVABLES

i) Trade receivables

Aging of trade receivables as follows:

Trade receivables	**Total due**	**0-30 days**	**31-90 days**	**90+**
	$	**$**	**$**	**$**
September 30, 2019	655,320	236,717	-	418,603
September 30, 2018	1,573,298	1,321,166	219,890	32,242

During the year ended September 30, 2019, the Company wrote off trade receivable in the amount of $nil (2018 - $48,943) to bad debt.

(Expressed in Canadian Dollars)

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. At September 30, 2018, receivables from four of our customers accounted for 60%, 14%, and 14%, respectively of the Company's trade receivables balance for a total 88% in aggregate.

ii) Due from customers on contract

At September 30, 2019, due from customers on contract amounted to $891,288 and at September 30, 2018 was $1,361,126. 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 September 30, 2019 and 2018:

	2019	2018
	$	$
Finished products ("SmartGATE™")	90,266	148,475
Finished sub-components	520,048	56,837
Transformers and components	645,423	861,280
	1,255,737	**1,066,592**

During the year ended September 30, 2019, inventories were recognized as cost of sales in the amount of $498,188 (2018 – $1,324,215). The Company recorded a write down of inventory in the amount of $110,349, related to valuation adjustments. $7,939 was included in cost of goods sold and $102,410 was included in inventory impairment (2018 - $5,249). Additional write down in the amount of $11,165 related to the inventory count result was included in the cost of goods sold.

(Expressed in Canadian Dollars)

7. PROPERTY AND EQUIPMENT

During fiscal 2019, $29,222 of depreciation and amortization were allocated to cost of goods sold (2018 - $nil).

	Computer equipment	Equipment and furniture	Leasehold improvements	Computer Software	Total
	$	$	$		$
Cost					
Balance at September 30, 2017	101,945	351,478	20,944	103,433	577,800
Purchases	31,181	85,652	5,875	21,985	144,693
Disposals	(6,519)	-	-		(6,519)
Balance at September 30, 2018	126,607	437,130	26,819	125,418	715,974
Reclassification				(125,419)	(125,418)
Purchases	12,318	14,510	12,032	-	38,860
Balance at September 30, 2019	138,925	451,640	38,851	-	629,416
Accumulated depreciation					
Balance at September 30, 2017	77,798	298,469	14,925	102,203	493,395
Depreciation	15,956	37,602	3,041	14,561	71,160
Disposals	(1,526)	-	-		(1,526)
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
Net book value					
At September 30, 2018	34,379	101,059	8,853	8,654	152,945
At September 30, 2019	**26,264**	**62,736**	**17,750**	**-**	**106,750**

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.

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.

(Expressed in Canadian Dollars)

	Patents	Product development	Computer software	Total
	$	$	$	$
Cost				
Balance at September 30, 2017	1,638,099	107,060	-	1,745,159
Purchases	-	27,336	-	27,336
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
Accumulated Amortization				
Balance at September 30, 2017	1,638,099	-	-	1,638,099
Amortization	-	13,440	-	13,440
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
Carrying Amount				
At September 30, 2018	-	120,956	-	120,956
At September 30, 2019	**3,213**	**-**	**5,172**	**8,385**

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable consist of the following, as at September 30, 2019 and 2018:

	2019	2018
	$	$
Trade payables and accrued liabilities	593,165	363,351
Sales tax payable	-	108,872
	593,165	472,223

10. WARRANTY PROVISION

	Total
	$
Balance at September 30, 2017	215,231
Warranty fulfillments	(127,040)
Additional provision	221,806
Balance at September 30, 2018	309,997
Warranty fulfillments	(188,247)
Additional provision	222,750
Balance at September 30, 2019	**344,500**

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 September 30, 2019, the average remaining years of equipment under warranty was 6.97 years (2018 – 7.96 years).

11. 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 September 30, 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.

1) On April 6, 2018, the Company completed a $10 million public offering, issuing 12.5 million common shares at a price of $0.80 per share. The Company paid a cash commission of $531,240 to the underwriters and incurred additional share issue costs of $378,191 in legal and filing fees bringing the net proceeds to $9,090,569. The Company issued 664,050 broker warrants to the underwriters in connection with this public offering. Each broker warrant entitles the holder to purchase one common share of the Company at $0.80 per share until April 6, 2020. An amount of $212,886 was recorded to share issue costs for the fair value of the brokers warrants issued to the underwriters, calculated using Black Scholes Model with the following assumptions: share price $0.80, exercise price $0.80, expected life 2 years, annual volatility 73% and risk-free rate 1.36%.

2) On April 30, 2018, the Company completed an over-allotment option exercised by the underwriters in connection with the April 6, 2018 Offering. As a result, the Company issued an additional 656,000 common shares at a price $0.80 per share for additional gross proceeds of $524,800. The Company paid cash commission of $31,488 to the underwriters and incurred additional cash share issue costs of $5,000, bringing the net proceeds to $488,312. The Company issued 39,360 brokers warrants to the underwriters at a price of $0.80 expiring April 30, 2020. An additional amount of $12,502 was recorded to share issue costs for the fair value of the broker warrants issued to the underwriters in connection with the over-allotment. Fair value of the 39,360 broker warrants was calculated using the Black Scholes pricing model using the following assumptions: share price $0.80, exercise price $0.80, expected term 2 years, annual volatility 71.78% and risk-free rate of 1.43%.

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.

(Expressed in Canadian Dollars)

A summary of the Company's share options outstanding at September 30, 2019, including the changes during the period, is as follows:

	Share options	Weighted average exercise price
		$
Balance, September 30, 2017	**8,259,496**	**0.32**
Granted	875,000	0.74
Exercised	(1,056,163)	0.28
Expired	(275,000)	0.30
Forfeited	(690,000)	0.41
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**

During the year ended September 30, 2019, the Company granted 2,450,000 (2018 – 875,000) stock options. The weighted average fair value of options granted during the year ended September 30, 2019 was $0.28 per option (2018 - $0.74).

An amount of $286,043 was recorded to share-based compensation expense for 1,339,870 options vested during the year ended September 30, 2019 (2018 - 1,822,642 options vested for $427,533).

During the year ended September 30, 2019, 387,500 (2018 – 1,056,163) stock options were exercised for total proceeds of $142,743 (2018 - $299,584). An amount of $64,719 was transferred to share capital from contributed surplus in connection with these exercises (2018 - $76,280).

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 years ended September 30, 2019 and 2018:

	2019	2018
Risk-free interest rate	1.36 – 1.75%	1.52 – 2.10%
Estimated volatility	75.84 – 84.60%	82.59 – 88.06%
Expected life (years)	2.92 - 3.67	3.00 – 3.50
Forfeiture rate	19.50 – 19.96%	19.60 – 20.44%
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.

(Expressed in Canadian Dollars)

The following table summarizes share options outstanding and exercisable at September 30, 2019:

Options outstanding	Options exercisable	Exercise price	Year of expiry
		$	
250,000	250,000	0.30	2019
265,000	215,000	0.35 - 0.75	2020
1,691,666	1,691,666	0.25	2021
2,111,667	1,366,668	0.26 - 0.75	2022
515,000	177,506	0.55 - 0.92	2023
2,160,000	75,835	0.215 - 0.46	2024
6,993,333	**3,776,675**		

iii) Warrants

The continuity of share purchase warrants during the years ended September 30, 2019 and 2018 is as follows:

	Number of warrants	Weighted average exercise price
		$
Balance, September 30, 2017	4,464,382	0.40
Exercised	(4,464,382)	0.40
Issued, broker warrants	703,410	0.80
Balance, September 30, 2018 and 2019	**703,410**	**0.80**

During the year ended September 30, 2019, nil (2018 – 4,464,382) investors warrants were exercised (2018 – average price $0.40) for total proceeds of $nil (2018 - $1,785,753). An amount of $nil (2018 - $472,940) was transferred to share capital from contributed surplus in connection with this exercise.

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.

12. 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.

During the year ended September 30, 2019 an amount of $180,145 (2018 - $153,787) was recorded to rent expense for the above monthly lease payments.

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.

(Expressed in Canadian Dollars)

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.

13. RELATED PARTY DISCLOSURES

The Company entered into the following related party transactions during the years ended September 30, 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:

	2019	**2018**
	$	**$**
Salaries and consulting fees to key management personnel	434,896	374,691
Share-based compensation	75,123	184,322
	510,019	559,013

(ii) Transactions with Directors:

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

	2019	**2018**
	$	**$**
Director's fees	77,500	-
Share-based compensation	99,059	69,089

At September 30, 2019, a total of $Nil (2018 - $28,915) was due to related parties for consulting fees and expenses reimbursement.

(Expressed in Canadian Dollars)

14. INCOME TAXES

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

	2019	2018
	$	$
Net loss before taxes	(6,093,156)	(2,559,384)
Combined federal and provincial income tax rate	26.75%	26.25%
Expected income tax recovery	(1,630,000)	(685,000)
Non-deductible expenses	84,000	117,000
Share issue costs incurred during the year	-	(245,000)
Unrecognized benefits of tax attributes	1,446,000	943,000
Other including differences in foreign tax rates and foreign exchange	100,000	(130,000)
Actual income tax recovery	-	-

The following temporary differences have not been set up as deferred tax assets:

	2019	Year of Expiry	2018	Year of Expiry
	$		$	
Operating loss carryforwards	31,447,000	2022 to 2039	25,604,000	2022 to 2038
Property and equipment	1,605,000	None	1,522,000	none
Share issuance costs	590,000	2039 to 2040	825,000	2039 to 2040
Patent	1,638,000	none	1,638,000	none
Taxable capital losses	240,000	none	240,000	none
Warranty provision	327,000	none	310,000	none

There are approximately $27,000,000 (2018 - $24,200,000) Canadian operating losses and $4,500,000 (2018 - $1,400,000) US operating losses available to reduce taxable income in future years.

15. 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 September 30, 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 year ended September 30, 2019 by approximately $269,865 (2018 - $43,000).

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 year ended September 30, 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 year ended September 30, 2019 by approximately $73,697 (2018 - $54,700). 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 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. At September 30, 2018, receivables from four of our customers accounted for 60%, 14%, and 14%, respectively of the Company's trade receivables balance for a total 88% 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 September 30, 2019 the Company had cash and cash equivalents of $5,677,537 to settle its current liabilities of $692,286.

16. SUBSEQUENT EVENTS

Subsequent to September 30, 2019 a total of 765,000 stock options were granted and 544,162 stock options were forfeited.