



Legend Power Systems Inc.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS For the three months ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

Legend Power Systems Inc.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three months ended December 31, 2020 and 2019

(Unaudited - Expressed in Canadian Dollars)

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

The accompanying unaudited condensed interim consolidated financial statements of Legend Power Systems Inc. for the three months ended December 31, 2020 have been prepared by and are the responsibility of the Company's management.

The auditor of Legend Power Systems Inc. has not performed a review of the unaudited condensed interim consolidated statements of loss and comprehensive loss 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, 2020	September 30, 2020 (Audited)
	Notes	\$	\$
ASSETS			
Current assets			
Cash and cash equivalents		2,043,419	2,286,005
Trade and other receivables	5(i)	612,989	973,446
Due from customers on contract	5(ii)	259,897	99,293
Prepaid expenses and deposits		47,496	64,971
Inventory	6	973,049	1,198,284
		3,936,850	4,621,999
Property and equipment	7	131,554	125,691
Right of use assets	8	390,993	76,592
Intangible assets	9	270	-
		4,459,667	4,824,282
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable		287,738	365,800
Accrued liabilities		419,050	302,158
Deferred revenue		5,677	-
Lease liabilities	8	130,784	71,776
Warranty provision	11	108,360	117,892
		951,609	857,626
Non-current liabilities			
Warranty provision	11	382,873	381,262
Payroll protection loan	10	161,508	165,047
Lease liabilities	8	251,944	4,997
		1,747,934	1,408,932
Shareholders' equity			
Share capital		50,640,712	50,622,711
Contributed surplus		9,143,864	9,011,948
Accumulated other comprehensive loss		(100,524)	(120,782)
Deficit		(56,972,319)	(56,098,527)
		2,711,733	3,415,350
		4,459,667	4,824,282

Going concern (Note 1)
Segments (Note 4)
Commitments and Contingencies (Note 13)
Subsequent events (Note 18)

APPROVED BY THE BOARD OF DIRECTORS AND AUTHORIZED FOR ISSUE ON MARCH 1, 2021

“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)

		For the three months ended December 31,	
		2020	2019
		\$	\$
	Notes		
Revenue		766,226	1,003,329
Cost of sales	6	564,180	866,237
Gross margin		<u>202,046</u>	<u>137,092</u>
Expenses			
Salaries and consulting		460,216	1,009,752
General and overhead		136,215	238,029
Selling costs		54,048	79,574
Share-based compensation	12(ii)	139,083	118,860
Professional fees		73,822	73,359
Warranty expense	11	16,083	11,594
Product development		135,903	32,735
Foreign exchange loss (gain)		24,922	(785)
Amortization and depreciation	7,8,9	37,100	57,313
		<u>1,077,392</u>	<u>1,620,431</u>
Operating loss		<u>(875,346)</u>	<u>(1,483,339)</u>
Inventory write-down	6	(2,746)	(17,210)
Interest expense on leases	8	(4,112)	(5,146)
Other income		8,412	23,497
Net loss for the period		<u>(873,792)</u>	<u>(1,482,198)</u>
Other comprehensive loss:			
Exchange differences arising on translation of foreign operations		20,258	(14,436)
Comprehensive loss for the period		<u>(853,534)</u>	<u>(1,496,634)</u>
Basic and diluted loss per share	16	(0.008)	(0.015)
Weighted average number of common shares outstanding, basic and diluted		102,021,376	101,850,303

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

Legend Power Systems Inc.

CONSENSUED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Unaudited – Expressed in Canadian Dollars)

		Number of shares Issued	Capital stock	Contributed surplus	Deficit	Accumulated other comprehensive loss	Total shareholder's equity
		#	\$	\$	\$	\$	\$
Balance at September 30, 2019		101,850,303	50,549,482	8,656,967	(51,315,016)	(103,962)	7,787,471
IFRS 16 adjustment		-	-	-	(22,766)	-	(22,766)
Share-based compensation	12(ii)	-	-	118,860	-	-	118,860
Unrealized loss on foreign currency translation		-	-	-	-	(14,436)	(14,435)
Net loss for the period		-	-	-	(1,482,198)	-	(1,482,198)
Balance at December 31, 2019		101,850,303	50,549,482	8,775,827	(52,819,980)	(118,398)	6,386,932
Balance at September 30, 2020		102,020,303	50,622,711	9,011,948	(56,098,527)	(120,782)	3,415,350
Commons shares issued for options exercised	12(ii)	41,667	18,001	(7,167)	-	-	10,834
Share-based compensation	12(ii)	-	-	139,083	-	-	139,083
Unrealized gain on foreign currency translation		-	-	-	-	20,258	20,258
Net loss for the period		-	-	-	(873,792)	-	(873,792)
Balance at December 31, 2020		102,061,970	50,640,712	9,143,864	(56,972,319)	(100,524)	2,711,733

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,	
		2020	2019
		\$	\$
Cash flows used in operating activities			
Loss for the period		(873,792)	(1,482,198)
Items not affecting cash:			
Amortization and depreciation	7,8,9	48,028	59,209
Share-based compensation	12(ii)	139,083	118,860
Warranty provision	11	(7,921)	(13,760)
Foreign exchange gain		-	(785)
Inventory write-down	6	2,746	17,210
Interest paid on lease liabilities	8	4,112	5,147
Accretion of Payroll Protection Loan		4,064	-
Gain on sale of property and equipment		(835)	-
Changes in non-cash working capital items:			
Receivables, prepaids and deposits		366,675	(313,613)
Due from customers on contract		(160,604)	(46,673)
Inventory		222,489	80,511
Accounts payable and accrued liabilities		53,459	236,292
		<u>(202,496)</u>	<u>(1,339,800)</u>
Cash flows provided by (used in) investing activities			
Purchase of property and equipment	7	(27,113)	(74,809)
Disposal of property and equipment		1,597	-
Patent and trademark costs	9	(270)	(252)
Interest income received		-	21,935
		<u>(25,786)</u>	<u>(53,126)</u>
Cash flows provided by (used in) financing activities			
Options exercise proceeds	12(ii)	10,833	-
Repayment of lease obligations	8	(40,145)	(38,241)
		<u>(29,312)</u>	<u>(38,241)</u>
Effect of foreign exchange translation in cash		15,008	(668)
Net change in cash and cash equivalents for the period		(257,594)	(1,431,167)
Cash and cash equivalents, beginning of period		<u>2,286,005</u>	<u>5,677,537</u>
Cash and cash equivalents, end of period		<u>2,043,419</u>	<u>4,245,702</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, 2020 and 2019

(Unaudited - Expressed in Canadian Dollars)

1. NATURE OF BUSINESS

Legend Power Systems Inc. (hereafter referred to as the “Company” or “Legend”) is incorporated under the laws of the Province of British Columbia and was established as a legal entity on June 4, 1987. The Company’s principal business activities are the assembly, marketing and sale of a patented device, the “SmartGATE™”, which enables dynamic power management of an entire commercial or industrial building. The Company’s common shares are listed on the TSX Venture Exchange.

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

During 2020, the U.S. and Canadian economies experienced significant disruption and market volatility related to the global COVID-19 pandemic. The overall impact of the pandemic continues to be uncertain and dependent on actions taken by the U.S. and Canadian governments, businesses, and individuals to limit spread of the COVID-19 virus, as well as governmental economic response and support efforts.

The rapid worldwide spread of COVID-19 has prompted governments to implement restrictive measures to curb the spread of the pandemic. During this period of uncertainty, the Company’s priority has been to protect the health and safety of its employees, support and enforce government actions to slow the spread of COVID-19, and to continually assess and take appropriate actions to mitigate the risks to the business operations as a result of this pandemic.

The Company has implemented a COVID-19 response plan (the “COVID-19 Response Plan”) that includes a number of measures to safeguard against the spread of the virus at its offices and has maintained regular communications with suppliers, customers and business partners to monitor any potential risks to its ongoing operations. Operationally, the Company has shifted most of its employees to working remotely, which has been a relatively easy transition given much of the digital nature of our day-to-day operations. The Company is working closely with suppliers and customers to support them through this changing environment and in certain circumstances, considerations of more flexible options including extended payment terms, and payment deferrals.

As described in Note 3 of these financial statements, management makes estimates and assumptions in preparing the financial statements. These estimates and assumptions have been made taking into consideration the economic impact of the COVID-19 pandemic and the significant economic volatility and uncertainty it has created. In spite of the impact COVID-19 has had on the Canadian and U.S. economies, management estimates negligible negative impact to its operations in fiscal 2021. Actual results could differ materially from these estimates, in which case the impact would be recognized in the consolidated financial statements in future periods.

Going concern uncertainty

These condensed interim consolidated financial statements of the Company for the three months ended December 31, 2020 and 2019 (“financial statements”) have been prepared on a going concern basis that presumes the realization of assets and discharge of liabilities in the normal course of business. The financial statements do not include any adjustments to the amounts and classification of assets and liabilities that would be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

As at December 31, 2020, the Company has an accumulated deficit of \$56,972,319 (September 30, 2020 – \$56,098,527), and for the three months ended December 31, 2020: recorded a net loss of \$873,792 (2019 net loss – \$1,482,198) and negative cash flows from operations of \$202,496 (2019 – \$1,378,041). Whether, and when, the Company can attain profitability and positive cash flows from operations is subject to material uncertainty. The application of the going concern assumption is dependent upon the Company’s ability to generate future profitable operations and obtain necessary financing to do so. The

Legend Power Systems Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended December 31, 2020 and 2019

(Unaudited - Expressed in Canadian Dollars)

Company will need to raise additional capital in order to fund its planned operations and meet its obligations. While the Company has been successful in obtaining financing to date and believes it will be able to obtain sufficient funds in the future and ultimately achieve profitability and positive cash flows from operations, there can be no assurance that the Company will achieve profitability and be able to do so on terms favorable for the Company. The above events and conditions indicate there is a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

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.

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") using accounting policies consistent with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS"). These should be read in conjunction with the Company's last annual consolidated financial statements as at and for the year ended September 30, 2020 ("last annual financial statements"). The accounting policies applied by the Company in these condensed interim consolidated financial statements are the same as those applied in the last annual financial statements. These condensed interim consolidated financial statements do not include all of the information required for full annual financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of changes in the Company's financial position and performance since the last annual financial statements.

The functional currency of the Company, and 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 condensed interim consolidated financial statements are presented in Canadian dollars.

Critical judgments and sources of estimation uncertainty

The preparation of these condensed interim 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 condensed interim consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These condensed interim consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the condensed interim 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.

Legend Power Systems Inc.

Notes to the Condensed Interim Consolidated Financial Statements For the three months ended December 31, 2020 and 2019

(Unaudited - Expressed 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, 2020.

4. SEGMENTS

The Company has assessed two operating segments based on geographical location of sales: Legend Power Systems Canada ("Legend Canada") and Legend Power Systems Corp. - U.S. ("Legend U.S."). During the three months ended December 31, 2020, 84% of the Company's revenues were attributable to Legend Canada (2019 – 36%) and 16% of revenues were attributable to Legend U.S. (2019 – 64%). Each reportable segment derives its revenue from the sale and installation of the SmartGATE™ products. Transfer prices between operating segments are calculated on a non- arm's length basis.

	As at December 31, 2020				As at September 30, 2020			
	Legend Canada	Legend U.S.	Other Subs	Total	Legend Canada	Legend U.S.	Other Subs	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Assets	4,325,122	134,545	-	4,459,667	4,222,144	599,336	2,801	4,824,282
Liabilities	1,392,537	353,030	2,367	1,747,934	1,049,149	357,883	1,900	1,408,932

	Three months ended December 31, 2020				Three months ended December 31, 2019			
	Legend Canada	Legend U.S.	Other Subs	Total	Legend Canada	Legend U.S.	Other Subs	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	646,679	119,547	0	766,226	362,044	641,285	-	1,003,329
Cost of sales	(481,297)	(82,883)	0	(564,180)	(577,868)	(288,369)	-	(866,237)
Op costs	(827,211)	(246,912)	(3,269)	(1,077,392)	(950,047)	(591,626)	(1,750)	(1,543,423)
Other costs	39,814	(38,260)	-	1,554	(41,245)	(34,622)	0	(75,867)
Net Loss	(622,015)	(248,508)	(3,269)	(873,792)	(1,207,116)	(273,332)	(1,750)	(1,482,198)

5. RECEIVABLES

i) Trade receivables

Aging of trade receivables as follows:

Trade receivables	Total due	0-30 days	31-90 days	90+
	\$	\$	\$	\$
September 30, 2020	921,838	899,967	16,221	5,650
December 31, 2020	612,989	384,041	7,310	221,638

During the three months ended December 31, 2020, the Company wrote off trade receivable in the amount of \$nil (2019 - \$nil) to bad debt and the expected credit loss was nominal (2019 – nominal).

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Notes to the Condensed Interim Consolidated Financial Statements
For the three months ended December 31, 2020 and 2019

(Unaudited - Expressed in Canadian Dollars)

ii) Due from customers on contract

At December 31, 2020, due from customers on contract amounted to \$259,897 and at September 30, 2020, was \$99,293. 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, 2020 and September 30, 2020:

	December 31 2020	September 30 2020
	\$	\$
Finished products ("SmartGATE™")	200,774	9,376
Finished sub-assemblies	366,055	705,238
Transformers and components	406,220	483,670
	973,049	1,198,284

During the three months ended December 31, 2020, inventories were recognized as cost of sales in the amount of \$248,961 (Q1 2020 – \$34,421). During the three months ended December 31, 2020 the Company recorded an inventory impairment of \$2,746 (Q1 2020 - \$17,210).

Legend Power Systems Inc.
Notes to the Condensed Interim Consolidated Financial Statements
For the three months ended December 31, 2020 and 2019

(Unaudited - Expressed in Canadian Dollars)

7. PROPERTY AND EQUIPMENT

During the three months ended December 31, 2020, \$2,101 of depreciation and amortization were allocated to cost of goods sold (2019 - \$1,896).

	Computer equipment	Equipment and furniture	Leasehold improvements	Computer Software	Total
	\$	\$	\$	\$	\$
Cost					
Balance at September 30, 2019	138,925	451,640	38,851	-	629,416
Additions	-	107,692	-	-	107,692
Disposals	-	-	-	-	-
Adjustment (foreign exchange)	44	-	-	-	44
Balance at September 30, 2020	138,969	559,332	38,851	-	737,152
Additions	-	21,719	5,394	-	27,113
Disposals	-	(13,487)	-	-	(13,487)
Adjustment (foreign exchange)	(282)	-	-	-	(282)
Balance at December 31, 2020	138,687	567,564	44,245	-	750,496
Accumulated depreciation					
Balance at September 30, 2019	112,661	388,904	21,101	-	522,666
Additions	16,669	66,784	5,340	-	88,793
Disposals	-	-	-	-	-
Adjustment (foreign exchange)	2	-	-	-	2
Balance September 30, 2020	129,332	455,688	26,441	-	611,461
Additions	2,708	16,690	1,043	-	20,441
Disposals	-	(12,724)	-	-	(12,724)
Adjustment (foreign exchange)	(237)	-	-	-	(237)
Balance December 31, 2020	131,803	459,654	27,484	-	618,942
Net book value					
At September 30, 2020	9,637	103,644	12,410	-	125,691
At December 31, 2020	6,884	107,910	16,761	-	131,554

8. RIGHT OF USE ASSETS AND LEASE LIABILITIES

Office lease

The Company entered into a 3-year Vancouver head office lease on April 1, 2018. The Company's estimated incremental borrowing rate at the inception of the lease of 10% has been used to determine the present value of the minimum lease payments which was determined to be \$157,361 as of October 1, 2019. A right-of-use asset was determined to be \$157,361 on October 1, 2019 with a corresponding lease obligation recognized for the same amount. During fiscal 2020, the Company made lease obligation payments of \$146,560, recorded \$134,478 in depreciation and \$11,522 in interest expense related to this lease liability. On January 1, 2020, certain costs related to property taxes and insurance premiums related to the leased asset became known and unavoidable for the upcoming year. As a result, those payments became fixed in-substance at that time giving rise to a lease modification. An adjustment was made in the amount of \$40,542 to the right-of-use asset and to the lease liability.

During the three months ended December 31, 2020, the Company renegotiated the lease, extending it for an additional 3-years, resulting in a modification in the amount of \$341,988 to the right-of-use asset and to the lease liability. The Company's estimated incremental borrowing rate at the extension date of the lease was 10% which has been used to determine the present value of the minimum lease payments.

Legend Power Systems Inc.
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(Unaudited - Expressed in Canadian Dollars)

Also, during the three months ended December 31, 2020 the Company made lease obligation payments of \$37,324 (Q1 2020 - \$35,421), recorded \$25,066 (Q1 2020 - \$30,842) in depreciation and \$3,809 (Q1 2020 - \$4,604) in interest expense related to this lease liability.

The Company entered into a 379-day Toronto regional office lease on December 18, 2017 which at the Company's option was extended for a one year period to December 31, 2019. The Company utilized the practical expedient for short-term leases and on adoption it was not capitalized due to the fact its remaining lease term would be less than 12 months as at October 1, 2019. Remaining lease payments of \$9,000 were expensed as incurred.

Car leases

The Company entered into a 4-year car lease on August 1, 2017. The Company's estimated incremental borrowing rate at the inception of the lease of 10% has been used to determine the present value of the minimum lease payments which was determined to be \$15,409 as of October 1, 2019. A right-of-use asset was determined to be \$15,409 on October 1, 2019 with a corresponding lease obligation recognized for the same amount. During fiscal 2020, the Company made lease obligation payments of \$9,158, recorded \$8,405 in depreciation and \$1,102 in interest expense related to this lease liability.

During the three months ended December 31, 2020 the Company made lease obligation payments of \$2,289 (Q1 2020 - \$2,289), recorded \$2,101 (Q1 2020 - \$1,896) in depreciation and \$147 (Q1 2020 - \$350) in interest expense related to this lease liability.

The Company was also party to a second car lease with a 3-year term commencing June 1, 2018. As of October 1, 2019, the Company was in the process of retiring the lease, thus the Company utilized the practical expedient for short-term leases and it was not accounted for as an operating lease due to the fact its remaining lease term would be less than 12 months as at October 1, 2019. Remaining lease payments of \$4,854 were expensed as incurred.

Office equipment

The Company entered into a 5-year photocopier lease on June 1, 2019. The Company's estimated incremental borrowing rate at the inception of the lease of 10% has been used to determine the present value of the minimum lease payments which was determined to be \$7,844 as of October 1, 2019. A right-of-use asset was determined to be \$7,844 on October 1, 2019 with a corresponding lease obligation recognized for the same amount. During fiscal 2020, the Company made lease obligation payments of \$1,957, recorded \$1,681 in depreciation and \$668 in interest expense related to this lease liability.

During the three months ended December 31, 2020 the Company made lease obligation payments of \$531 (Q1 2020 - \$531), recorded \$420 (Q1 2020 - \$420) in depreciation and \$156 (Q1 2020 - \$192) in interest expense related to this lease liability.

Set out below are the carrying amounts of the Company's right-of-use assets and lease liabilities.

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

Right of use Assets

	Office lease	Car lease	Equipment lease	Total
	\$	\$	\$	\$
Balance at October 1, 2019	157,361	15,409	7,844	180,614
Effect of lease modification	40,542	-	-	40,542
Balance at September 30, 2020	197,903	15,409	7,844	221,156
Effect of lease modification	341,988	-	-	341,988
Balance at December 31, 2020	539,891	15,409	7,844	563,144
Accumulated depreciation				
Balance at October 1, 2019	-	-	-	-
Additions	134,478	8,405	1,681	144,564
Balance September 30, 2020	134,478	8,405	1,681	144,564
Additions	25,066	2,101	420	27,587
Balance December 31, 2020	159,544	10,506	2,101	172,151
Net book value				
At October 1, 2019	157,361	15,409	7,844	180,614
At September 30, 2020	63,425	7,004	6,163	76,592
At December 31, 2020	380,347	4,903	5,743	390,993

Lease Obligations

	Office lease	Car lease	Equipment lease	Total
	\$	\$	\$	\$
Balance at October 1, 2019	157,361	15,409	7,844	180,614
Effect of lease modification	40,542	-	-	40,542
Lease payments	(146,560)	(9,158)	(1,957)	(157,675)
Interest portion of payments	11,522	1,102	668	13,292
Balance September 30, 2020	62,865	7,353	6,555	76,773
Effect of lease modification	341,988	-	-	341,988
Lease payments	(37,324)	(2,290)	(531)	(40,145)
Interest portion of payments	3,809	147	156	4,112
Balance December 31, 2020	371,338	5,210	6,180	382,728
Lease payable, current	123,977	5,211	1,597	130,784
Lease payable, non-current	247,361	-	4,583	251,944

9. 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 and 2020 the Company incurred patent registration costs associated with a new, internally generated technology.

During the fiscal year-ended 2020 and 2019, the Company tested patents and product development costs for impairment. The tests were performed using pro-forma cash flow projections and certain other assumptions. Based on this analysis at September 30, 2020, patents were impaired resulting in a charge of \$7,934 and as at September 30, 2019 development costs associated with internally generated technologies was impaired resulting in an impairment charge of \$772,818. During the three months ended December 31, 2020 the Company expensed all product development costs.

Legend Power Systems Inc.

Notes to the Condensed Interim Consolidated Financial Statements For the three months ended December 31, 2020 and 2019

(Unaudited - Expressed in Canadian Dollars)

	Patents	Product development	Computer software	Total
	\$	\$	\$	\$
Cost				
Balance at September 30, 2019	1,641,312	-	132,720	1,774,032
Purchases	4,721	-	-	4,721
Impairment	(7,934)	-	-	(7,934)
Balance at September 30, 2020	1,638,099	-	132,720	1,770,819
Purchases	270	-	-	270
Balance at December 31, 2020	1,638,369	-	132,720	1,771,089
Accumulated Amortization				
Balance at September 30, 2019	1,638,099	-	127,548	1,765,647
Amortization	-	-	5,172	5,172
Balance at September 30, 2020	1,638,099	-	132,720	1,770,819
Amortization	-	-	-	-
Balance at December 31, 2020	1,638,099	-	132,720	1,770,819
Carrying Amount				
At September 30, 2020	-	-	-	-
At December 31, 2020	270	-	-	270

10. PAYROLL PROTECTION PROGRAM LOAN and COVID SUBSIDIES

On April 30, 2020, the Company received a loan in the amount of \$201,507 (US\$144,865) pursuant to the United States Coronavirus Aid, Relief, and Economic Security Act's (the CARES Act), Paycheck Protection Program (PPP). The loan matures on May 1, 2022 (2-year term) and bears interest at a rate of 1%. The loan is forgivable in circumstances where the funds are used for payroll costs, interest on mortgages, rent and utilities and that at least 75% of the forgiven amount must have been used for payroll. At December 31, 2020 the carrying value of the loan is \$161,508 (September 30, 2020 - \$165,047). On initial recognition, the Company measured the loan at its fair value of \$165,117, which was the present value of the proceeds received discounted at the market rate of interest, which the Company deemed to be 10%. In connection with the loan, during the three months ended December 31, 2020, \$4,064 (2019 - \$nil) related to accretion of the loan carrying value was recorded to Other income. During the three months ended December 31, 2020, \$472 of interest was accrued in connection with the loan. No payments were required or made during the year.

During the three months ended December 31, 2020 the Company received a total of \$43,471 (2019 - \$nil) COVID related subsidies from the Government of Canada which has been recorded as an offset to salaries.

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11. WARRANTY PROVISION

	Total
	\$
Balance at September 30, 2019	344,500
Warranty fulfillments	(38,797)
Additional provision	193,451
Balance at September 30, 2020	499,154
Warranty fulfillments	(24,004)
Additional provision	16,083
Balance at December 31, 2020	491,233
Warranty provision, current	108,360
Warranty provision, non-current	382,873

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, 2020, the average remaining years of equipment under warranty was 6.30 years (September 30, 2020 – 6.39 years).

12. 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, 2020, the Company had 102,061,970 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.

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.

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A summary of the Company's share options outstanding at December 31, 2020, including the changes during the period, is as follows:

	Share options	Weighted average exercise price
		\$
Balance, September 30, 2019	6,993,333	0.32
Granted	1,690,000	0.32
Exercised	(170,000)	0.26
Expired	(425,000)	0.28
Forfeited	(726,665)	0.38
Balance, September 30, 2020	7,361,668	0.32
Granted	2,225,000	0.47
Exercised	(41,667)	0.26
Expired	(125,000)	0.75
Forfeited	(112,169)	0.40
Balance, December 31, 2020	9,307,832	0.35

An amount of \$139,083 was recorded to share-based compensation expense for vesting during the three months ended December 31, 2020 (2019 – \$118,860).

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, 2020 and 2019:

	2020	2019
Risk-free interest rate	0.33%	1.56 – 1.61%
Estimated volatility (average)	98%	80.42 – 80.55%
Expected life (average years)	3.75	3.68
Forfeiture rate (average)	20.95%	19.26%
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.

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

Options outstanding	Options exercisable	Exercise price	Year of expiry
		\$	
1,533,332	1,533,332	0.25	2021
1,740,000	1,740,000	0.26 - 0.75	2022
595,000	350,001	0.38 - 0.92	2023
2,605,000	1,210,843	0.18 - 0.30	2024
2,834,500	68,335	0.17 - 0.47	2025
9,307,832	4,902,511		

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iii) Warrants

The continuity of share purchase warrants is as follows:

	Number of warrants	Weighted average exercise price
		\$
Balance, September 30, 2019	703,410	0.80
Expired	(703,410)	0.80
Balance, September 30, 2020 and December 31, 2020	nil	0.80

In April 2018, the Company issued 703,410 broker warrants to the underwriters in connection with a public offering and overallotment option. Each broker warrant entitled the holder to purchase one common share of the Company at \$0.80 per share until April 2020. All of the broker warrants expired unexercised.

13. COMMITMENTS AND CONTINGENCIES

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.

14. RELATED PARTY DISCLOSURES

The Company considers a person or entity a related party if they are a member of key management personnel, including their close relatives, an associate or joint venture, those having significant influence over the Company, as well as entities that are controlled by related parties. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

The Company entered into the following related party transactions during the three months ended December 31, 2020 and 2019:

(i) Transactions with Key Management Personnel:

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

	2020	2019
	\$	\$
Salaries and consulting fees to key management personnel	97,875	108,750
Car allowance	-	2,400
Share-based compensation	35,432	54,779
	133,307	165,929

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(ii) Transactions with Directors:

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

	2020	2019
	\$	\$
Share-based compensation	10,012	31,562
	10,012	31,562

At December 31, 2020, a total of \$Nil (September 30, 2020 - \$14,569) was due to related parties for consulting fees and expenses reimbursement.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments

The Company's financial instruments consist of cash and cash equivalents, trade receivables, due from customers on contract, accounts payable and amounts due to related parties. The carrying values of these financial instruments are not based on fair value but approximate their fair values because of their short-term nature. The PPP loan is classified at amortized cost and accounted for using the effective interest rate method. Its carrying value approximates fair value as the interest rate used to discount the instrument approximates incremental borrowing rates available to the Company.

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, 2020 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, 2020 by approximately \$27,343 (2019 - \$23,871).

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, 2020 averaged 1.15% (2019 – 1.25%). A 1% nominal change in interest rates would have affected the Company's results of operations for the three months ended December 31, 2020 by approximately \$4,600 (2019 - \$11,376). 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, 2020, trade receivables from four of our customers accounted for 14%, 15%, 17% and 39%, respectively of the Company's trade receivables balance for a total 82% in aggregate. At September 30, 2020, trade receivables from four of our customers accounted for

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11%, 12%, 16% and 33%, respectively of the Company's trade receivables balance for a total 72% in aggregate. Given the nature, balances and the collection history of the Company's receivables, Management has applied a nominal loss allowance as at December 31, 2020 (September 30, 2020 – nominal).

Concentration risk

Four customers accounted for 12%, 15%, 25% and 48% of the Company's revenues for the three months ended December 31, 2020 compared with two customers for 16% and 64% of the Company's revenues in the same period of 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, 2020 the Company had cash and cash equivalents of \$2,038,085 (September 30, 2020 – \$2,286,005) to settle its current liabilities of \$951,609 (September 30, 2020 – \$857,626).

16. LOSS PER SHARE

	Three months ended December 31	
	2020	2019
	\$	\$
Basic	(0.008)	(0.015)
Diluted	(0.008)	(0.015)
Weighted average common shares outstanding – basic and diluted	102,021,376	101,850,303

Common share equivalents that could potentially dilute net income per basic share in the future, were not included in the computation of diluted earnings per share because the impact would have been anti-dilutive, and which included all issued stock options (note 12(ii)).

17. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to ensure that there are adequate capital resources to safeguard the Company's ability to continue as a going concern and maintain adequate levels of funding to support its ongoing operations and development such that it can continue to provide returns to shareholders and benefits for other stakeholders. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the Company's underlying assets. The Company plans to use funds from the future sale of products to fund operations and expansion activities.

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18. SUBSEQUENT EVENTS

Subsequent to December, 31, 2020 a total of 1,516,666 options were exercised for proceeds of \$379,166, 140,000 options were cancelled or forfeited, and 16,666 expired.

On January 25, 2021, the Company revised the terms of 150,000 stock options which had been recorded as expired as of September 30, 2020. On January 25, 2021, 100,000 of the stock options were re-granted and fully vested.