Legend Power Systems Inc.

CONSOLIDATED FINANCIAL STATEMENTS
For the years ended September 30, 2020 and 2019

(Expressed in Canadian Dollars)

Legend Power Systems Inc.

CONSOLIDATED FINANCIAL STATEMENTS

Years ended September 30, 2020 and 2019

(Expressed in Canadian Dollars)

	Page
Independent Auditor’s Report	3 - 4
Consolidated Statements of Financial Position	5
Consolidated Statements of Loss and Comprehensive Loss	6
Consolidated Statements of Changes in Equity	7
Consolidated Statements of Cash Flows	8
Notes to the Consolidated Financial Statements	9 - 32

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, 2020 and September 30, 2019, and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years 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, 2020 and September 30, 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits 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 audits 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.

Materiality Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that during the year ended September 30, 2020, the Company had negative cash flows from operations and a net loss and, as at that date, had an accumulated deficit. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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 audits 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 audits 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.

MNP

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 audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

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 Brent Wolfe.

MNP LLP

Vancouver, British Columbia

Chartered Professional Accountants

January 28, 2021

MNP

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

	Notes	September 30, 2020 $	September 30, 2019 $
ASSETS			
Current assets			
Cash and cash equivalents		2,286,005	5,677,537
Trade and other receivables	5(i)(iii)	973,446	655,320
Due from customers on contract	5(ii)	99,293	891,288
Prepaid expenses and deposits		64,971	130,118
Inventory	6	1,198,284	1,255,737
		4,621,999	8,610,000
Property and equipment	7	125,691	106,750
Right of use assets	8	76,592	-
Intangible assets	9	-	8,385
		4,824,282	**8,725,135**
LIABILITIES AND SHAREHOLDER'S EQUITY			
Current liabilities			
Accounts payable		365,800	343,258
Accrued liabilities		302,158	249,906
Lease liabilities	8	71,776	-
Warranty provision	11	117,892	99,122
		857,626	692,286
Non-current liabilities			
Warranty provision	11	381,262	245,378
Payroll protection loan	10	165,047	-
Lease liabilities	8	4,997	-
		1,408,932	937,664
Shareholders' equity			
Share capital		50,622,711	50,549,482
Contributed surplus		9,011,948	8,656,967
Accumulated other comprehensive loss		(120,782)	(103,962)
Deficit		(56,098,527)	(51,315,016)
		3,415,350	7,787,471
		4,824,282	**8,725,135**

Going concern (Note 1)
Segments (Note 4)
Commitments (Note 13)
Income taxes (Note 15)
Subsequent events (Note 19)

APPROVED BY THE BOARD OF DIRECTORS AND AUTHORIZED FOR ISSUE ON JANUARY 25, 2021

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

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

Legend Power Systems Inc.

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

(Expressed in Canadian Dollars)

		For the years ended September 30,	
		2020	2019
	Notes	$	$
Revenue		2,027,933	2,334,525
Cost of sales	6	1,529,964	1,363,977
Gross margin		497,969	970,548
Expenses			
Salaries and consulting		3,137,969	4,168,347
General and overhead		684,739	1,077,478
Selling costs		242,184	385,690
Share-based compensation	12(ii)	383,310	286,043
Professional fees		293,009	222,381
Warranty expense	11	193,451	222,750
Product development		236,181	57,416
Foreign exchange gain		(22,071)	(130,087)
Amortization and depreciation	7,8,9	142,672	61,395
		5,291,444	6,351,413
Operating loss		(4,793,475)	(5,380,865)
Inventory write-down	6	(24,629)	(102,410)
Intangible asset impairment	9	(7,934)	(772,818)
Interest expense on leases	8	(9,858)	-
Other income		52,385	162,937
Net loss for the year		**(4,783,511)**	**(6,093,156)**
Other comprehensive loss:			
Exchange differences arising on translation of foreign operations		(16,820)	(103,962)
Comprehensive loss for the year		(4,800,331)	(6,197,118)
Basic and diluted loss per share	17	(0.05)	(0.06)
Weighted average number of common shares outstanding, basic and diluted		101,898,276	101,696,399

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

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, 2018		**101,462,803**	**50,409,303**	**8,435,643**	**(45,221,860)**	**-**	**13,623,086**
Commons shares issued for options exercised	12(ii)	387,500	142,743	(64,719)	-	-	78,024
Share issue costs		-	(2,564)		-	-	(2,564)
Share-based compensation	12(ii)	-	-	286,043	-	-	286,043
Unrealized gain on foreign currency translation		-	-	-	-	(103,962)	(103,962)
Net loss for the year		-	-	-	(6,093,156)	-	(6,093,156)
Balance at September 30, 2019		**101,850,303**	**50,549,482**	**8,656,967**	**(51,315,016)**	**(103,962)**	**7,787,471**
Commons shares issued for options exercised	12(ii)	170,000	73,229	(28,329)	-	-	44,900
Share-based compensation	12(ii)	-	-	383,310	-	-	383,310
Unrealized gain on foreign currency translation		-	-	-	-	(16,820)	(16,820)
Net loss for the year		-	-	-	(4,783,511)	-	(4,783,511)
Balance at September 30, 2020		**102,020,303**	**50,622,711**	**9,011,948**	**(56,098,527)**	**(120,782)**	**3,415,350**

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, 2020 $	2019 $
Cash flows used in operating activities			
Loss for the year		(4,783,511)	(6,093,156)
Items not affecting cash:			
Amortization and depreciation	7,8,9	238,529	90,617
Share-based compensation	12(ii)	383,310	286,043
Warranty provision	11	154,654	34,503
Foreign exchange gain		(37,606)	(130,087)
Inventory write-down	6	24,629	121,514
Interest paid on lease liabilities	8	13,292	-
Intangible asset impairment	9	7,934	772,818
Changes in non-cash working capital items:			
Receivables, prepaids and deposits		(129,282)	752,607
Due from customers on contract		668,722	593,111
Inventory		32,824	(310,659)
Accounts payable and accrued liabilities		72,629	12,866
		(3,353,876)	(3,869,823)
Cash flows from (used in) investing activities			
Purchase of property and equipment	7	(107,692)	(38,860)
Patent and trademark costs	9	(4,721)	(665,808)
Interest income received		-	102,586
		(112,413)	(602,082)
Cash flows from financing activities			
Payroll protection loan	10	166,507	-
Options exercise proceeds	12(ii)	44,900	75,460
Repayment of lease obligations	8	(157,675)	-
		53,732	75,460
Effect of foreign exchange translation in cash		21,025	27,616
Net change in cash and cash equivalents for the year		(3,412,557)	(4,396,445)
Cash and cash equivalents, beginning of year		5,677,537	10,046,366
Cash and cash equivalents, end of year		**2,286,005**	**5,677,537**

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.

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. 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 consolidated financial statements of the Company for the years ended September 30, 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 September 30, 2020, the Company has an accumulated deficit of $56,098,527 (2019 – $51,315,016), net loss of $4,783,511 (2019 net loss – $6,093,156) and negative cash flows from operations of $3,353,876 (2019 – $3,869,823). 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 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 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 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 and certain equity instruments and warrants that are within the scope of IFRS 2 Share-based payment, as explained in the accounting policies below.

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 consolidated financial statements are presented in Canadian dollars.

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) The Company's assessment of its ability to continue as a going concern requires judgments about the Company's ability to execute its strategy by funding future working capital requirements (note 1). The Company's objectives 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.

ii) The determination of an entity's functional currency is a matter of judgment based on an assessment of the specific facts and circumstances relevant to determining the primary economic environment of each individual entity within the group. The Company reconsiders the functional currencies used when there is a change in events or conditions considered in determining the primary economic environment of each entity.

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) Certain of the Company's assets and liabilities are measured at fair value. In estimating fair value the Company uses market-observable data to the extent it is available. Information about the valuation techniques and inputs used in determining the fair value of financial instruments is disclosed in the respective notes.

ii) Management is required to assess property and equipment and 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. In testing for impairment, the Company utilizes a 5-year pro-forma cash flow model and 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.

iii) Management estimates average useful life of property plant and equipment based on historical experience and observations as well as the pattern in which an asset's economic benefits are consumed by the Company

iv) The interest rate chosen for the purpose of calculating the present value of leases reflects an estimation of the lessee's incremental borrowing rate to finance the purchase of similar property.

v) At September 30, 2020, provision for future warranty expense was forecasted by management based on recent historical experience and expectations of future warranty claim activity.

vi) At September 30, 2020, provisions for impairment of inventory were made using the best estimate of 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.

vii) Expected credit losses are estimates based on observations of historical collection history. 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, 2020.

viii) For those contracts that include both a system and its installation, the Company utilizes Management's best estimate of the relative fair value of revenue generated from the products delivered and the installation services provided. Installation revenue fair value is based on actual third party contractor pricing by product size multiplied by the average gross margin achieved by the Company over the preceding two fiscal years. The relative fair value of product is the difference between total sale price to customer and fair value estimate of installation revenue.

ix) The fair value of share-based compensation and warrants are estimated using the Black-Scholes option pricing model and rely on a number of estimates, such as the expected term, expected dividend yield, the volatility of the underlying share price, the risk free rate of return, and the estimated rate of forfeiture. Such estimates and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates of share-based compensation and warrants.

x) In assessing the probability of realizing income tax assets, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. The Company considers whether relevant tax planning opportunities are within the Company's control, are feasible, and are within management's ability to implement. Examination by applicable tax authorities is supported based on individual facts and circumstances of the relevant tax position examined in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred tax assets. The Company reassesses unrecognized income tax assets at each reporting period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Foreign currency translation

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 loss. Foreign currency translations arising as the result of conversions from functional currency to presentation currency are classified as comprehensive loss and presented accordingly.

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

The Company completed an assessment of its financial instruments as at September 30, 2020. The following table shows the classification under IFRS 9 and carrying values:

	New classification under IFRS 9
Cash	Amortized cost
Trade receivables	Amortized cost
Due from customers on contract	Amortized cost
Accounts payable	Amortized cost
Accrued liabilities	Amortized cost
Payroll protection program loan	Amortized cost

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 consolidated statement of loss.

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.

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 September 30, 2020.

Inventory

Inventory consists of components, work in progress and finished goods. Components are valued at the lower of cost and net realizable value, with cost determined using the average cost basis. Work in progress consists of components which have been assembled to completed sub-assemblies and includes direct and indirect production labour as well as production facility overhead costs. Finished goods consist of various sub-assemblies which to complete require additional production labour as well as production facility overhead costs.

The carrying value of inventory is analyzed by management for possible impairment at each reporting period and is carried at the lesser of cost or net realizable value. Inventory is subsequently recorded within cost of sales on the consolidated statements of loss and comprehensive loss at the time that the related sale of the finished good is realized in revenue.

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 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 loss.

Government assistance

The Company received certain government assistances in the form of subsidies from the Canadian government and forgivable loans from the U.S. government in connection with the COVID-19 pandemic. Subsidies are netted against applicable expense categories in the statements of loss and comprehensive loss. The benefit of a government loan at a below-market rate of interest is treated as a government grant. The loan is recognized at fair value on initial recognition as a financial liability. The benefit of the below-market rate of interest is measured as the difference between the carrying value of the loan and the proceeds received. The benefit is recognized on a systematic basis over periods in which the Company recognizes as expenses the related costs for which the grants are intended to compensate. Should an amount of the loan become forgivable or forgiveness is reasonably assured, the Company, will adjust the recorded amount of the government assistance that has not been forgiven or is repayable in accounts payable and accrued liabilities.

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 based 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.

i) 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.

ii) 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.

Summary of new accounting policies

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

Right-of-use assets

A contract is or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. For leases entered into subsequent to the adoption of IFRS 16 on October 1, 2019 the Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct cost incurred, and lease payments made at or before the commencement date less any lease incentives received. The right-of-use assets are depreciated on a straight-line basis over its lease term. Right-of-use assets are subject to evaluation of potential impairment.

Lease liabilities

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

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

Depreciation of right-of-use assets is allocated on a systematic basis between general and administration expense, cost of sales and inventory. Interest expense related to lease liabilities is included in interest expense.

Short-term leases and leases of low-value assets

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

The Company has elected to not assess whether a rent concession that is the result of COVID-19 is a lease modification, provided the concession meets the following conditions:

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

(Expressed in Canadian Dollars)

- Any reduction in lease payments effects only payments originally due on or before June 30, 2021; and
- There is no substantive change to other terms and conditions of the lease.

Instead, the Company has recognized the rent concession as a negative variable lease payment adjustment of lease liability through profit and loss with depreciation of the right-of-use asset continued over the remaining lease term. The Company recorded total lease concessions of $46,656 between April and August of 2020.

Adoption of new accounting standards

IFRS 16, Leases

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

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

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

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

	$
Operating lease commitments as at September 30, 2019	194,242
Incremental borrowing rate as at October 1, 2019	10%
Discounted operating lease commitments at October 1, 2019	180,614
Lease liability recognized as at October 1, 2019	**180,614**

The right-of-use assets associated with these leases were initially measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to those leases recognized in the consolidated statement of financial position as at October 1, 2019.

Practical expedients applied

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

- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

(Expressed in Canadian Dollars)

- the accounting for operating leases with a remaining lease term of less than 12 months as at October 1, 2019 as short-term leases
- the Company has elected to not assess whether a rent concession that is the result of COVID-19 is a lease modification, as the concession met the conditions described when applying the standard outlined above on page 18.

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

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

- Right-of-use assets of $180,614 were recognized and presented separately in the consolidated statements of financial position.
- Lease liabilities of $180,614 were recognized and presented separately in the consolidated statements of financial position.

4. SEGMENTS

The Company has assessed two operating segments based on geographical location of sales and management decision making: Legend Power Systems Canada (“Legend Canada”) and Legend Power Systems Corp. - U.S. (“Legend U.S.). During the year ended September 30, 2020, 64% of the Company’s revenues were attributable to Legend Canada (2019 – 91%) and 36% of revenues were attributable to Legend U.S. (2019 – 9%). 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 September 30, 2020				**As at September 30, 2019**			
	Legend Canada	Legend U.S.	Other Subs	Total	Legend Canada	Legend U.S.	Other Subs	Total
	$	$	$	$	$	$	$	$
Assets	4,222,144	599,336	2,801	4,824,282	8,385,754	339,381	-	8,725,135
Liabilities	1,049,149	357,883	1,900	1,408,932	691,437	239,589	6,638	937,664

	Year ended September 30, 2020				**Year ended September 30, 2019**			
	Legend Canada	Legend U.S.	Other Subs	Total	Legend Canada	Legend U.S.	Other Subs	Total
	$	$	$	$	$	$	$	$
Revenue	1,288,960	738,973	-	2,027,933	2,130,227	204,298	-	2,334,525
Cost of sales	(1,130,776)	(399,188)	-	(1,529,964)	(1,196,239)	(167,738)	-	(1,363,977)
Op costs	(3,600,492)	(1,684,228)	(6,722)	(5,291,442)	(3,988,761)	(2,356,121)	(6,531)	(6,351,413)
Other costs	257,335	(247,373)	-	9,962	(36,111)	(676,180)		(712,291)
Net Loss	(3,184,973)	(1,591,816)	(6,722)	(4,783,511)	(3,090,884)	(2,995,741)	(6,531)	(6,093,156)

(Expressed in Canadian Dollars)

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
September 30, 2019	655,320	236,717	-	418,603

During the year ended September 30, 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).

At September 30, 2020, trade receivables from four of our customers accounted for 11%, 12%, 16% and 33%, respectively of the Company's trade receivables balance for a total 72% in aggregate. At September 30, 2019, trade receivables from five of our customers accounted for 10%, 12%, 15%, 20% and 21% respectively of the Company's trade receivables balance for a total 78% in aggregate.

ii) Due from customers on contract

At September 30, 2020, due from customers on contract amounted to $99,293 and at September 30, 2019, was $891,288. These amounts relate to equipment delivered and/or installation services performed for sales where revenue has been recognized, and customers had not yet been invoiced.

iii) Other receivable

At September 30, 2020, the Company had applied and was approved for, but had not yet received the Canada Emergency Wage Subsidy (CEWS) for the month of September 2020 in the amount of $51,608 which is included in receivables in the statement of financial position.

6. INVENTORY

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

	2020	2019
	$	$
Finished products ("SmartGATE™")	9,376	90,266
Finished sub-components	705,238	520,048
Transformers and components	483,670	645,423
	1,198,284	**1,255,737**

During the year ended September 30, 2020, inventories were recognized as cost of sales in the amount of $292,093 (2019 – $498,188). During the year ended September 30, 2020 the Company recorded an inventory impairment of $24,629 (2019 - $102,410).

(Expressed in Canadian Dollars)

7. PROPERTY AND EQUIPMENT

During fiscal 2020, $7,975 of depreciation and amortization were allocated to cost of goods sold (2019 - $29,222).

	Computer equipment	Equipment and furniture	Leasehold improvements	Computer Software	Total
	$	$	$	$	$
Cost					
Balance at September 30, 2018	126,607	437,130	26,819	125,418	715,974
Reclassification				(125,418)	(125,418)
Purchases	12,318	14,510	12,032	-	38,860
Balance at September 30, 2019	138,925	451,640	38,851	-	629,416
Additions	-	107,692	-	-	107,692
Disposals	-	-	-	-	-
Adjustments	44	-	-	-	44
Balance at September 30, 2020	138,969	559,332	38,851	-	737,152
Accumulated depreciation					
Balance at September 30, 2018	92,228	336,071	17,966	116,764	563,029
Reclassification	-	-	-	(116,764)	(116,764)
Depreciation	20,433	52,833	3,135		76,401
Balance at September 30, 2019	112,661	388,904	21,101	-	522,666
Additions	16,669	66,784	5,340	-	88,793
Disposals	-	-	-	-	-
Adjustments	2	-	-	-	2
Balance September 30, 2020	129,332	455,688	26,441	-	611,461
Net book value					
At September 30, 2019	**26,264**	**62,736**	**17,750**	**-**	**106,750**
At September 30, 2020	**9,637**	**103,644**	**12,410**	**-**	**125,691**

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.

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.

(Expressed in Canadian Dollars)

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.

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.

Set out below are the carrying amounts of the Company's right-of-use assets and lease liabilities and the movements during the year ended September 30, 2020.

	Right-of-use assets	Lease liabilities
	$	$
As at October 1, 2019	180,614	180,614
Effect of lease modification	40,542	40,542
Depreciation expense	(144,564)	-
Interest expense	-	13,292
Payments	-	(157,675)
As September 30, 2020	**76,592**	**76,773**

<u>Right of use Assets</u>

	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
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
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**

(Expressed in Canadian Dollars)

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 during 2020	(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
Lease payable, current	62,865	7,353	1,558	71,776
Lease payable, non-current	-	-	4,997	4,997

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 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 Fiscal 2020 the Company expensed all product development costs based on a similar outcome to the analysis performed during fiscal 2019.

(Expressed in Canadian Dollars)

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.

	Patents	Product development	Computer software	Total
	$	$	$	$
Cost				
Balance at September 30, 2018	1,638,099	134,396	-	1,772,495
Reclassification	-	-	125,418	125,418
Purchases	3,213	655,293	7,302	665,808
Impairment	-	(789,689)	-	(789,689)
Balance at September 30, 2019	1,641,312	-	132,720	1,774,032
Purchases	4,721	-	-	4,721
Impairment	(7,934)	-	-	(7,934)
Balance at September 30, 2020	1,638,099	-	132,720	1,770,819
Accumulated Amortization				
Balance at September 30, 2018	1,638,099	13,440	-	1,651,539
Reclassification	-	-	116,764	116,764
Amortization	-	3,432	10,784	14,216
Impairment	-	(16,872)	-	(16,872)
Balance at September 30, 2019	1,638,099	-	127,548	1,765,647
Amortization	-	-	5,172	5,172
Balance at September 30, 2020	1,638,099	-	132,720	1,770,819
Carrying Amount				
At September 30, 2019	**3,213**	**-**	**5,172**	**8,385**
At September 30, 2020	**-**	**-**	**-**	**-**

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 September 30, 2020, the carrying value of the loan is $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 fiscal 2020, $34,205 was recorded as an offset to salaries, $5,955 related to accretion of the loan carrying value was recorded in general and overhead costs and $6,696 due to foreign exchange differences was recorded to other comprehensive loss. During the year ended September 30, 2020, $811 of interested was accrued in connection with the loan. No payments were required or made during the year.

During fiscal 2020 the Company accrued a total of $495,747 COVID related subsidies from the Government of Canada which has been recorded as an offset to salaries and lease costs, respectively.

(Expressed in Canadian Dollars)

11. WARRANTY PROVISION

	Total
	$
Balance at September 30, 2018	309,997
Warranty fulfillments	(188,247)
Additional provision	222,750
Balance at September 30, 2019	344,500
Warranty fulfillments	(38,797)
Additional provision	193,451
Balance at September 30, 2020	**499,154**
Warranty provision, current	117,892
Warranty provision, non-current	381,262

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, 2020, the average remaining years of equipment under warranty was 6.39 years (2019 – 6.97 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 September 30, 2020, the Company had 102,020,303 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.

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, 2020, including the changes during the year, is as follows:

	Share options	Weighted average exercise price
		$
Balance, September 30, 2018	**7,113,333**	**0.37**
Granted	2,450,000	0.28
Exercised	(387,500)	0.20
Expired	(1,865,000)	0.48
Forfeited	(317,500)	0.47
Balance, September 30, 2019	**6,993,333**	**0.32**
Granted	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**

An amount of $383,310 was recorded to share-based compensation expense for 1,577,511 options vested during the year ended September 30, 2020 (2019 – 1,339,870 options vested for $286,043).

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, 2020 and 2019:

	2020	2019
Risk-free interest rate	0.28 – 1.61%	1.36 – 1.75%
Estimated volatility (average)	89%	75.84 – 84.60%
Expected life (average years)	3.65	2.92 - 3.67
Forfeiture rate (average)	20.52%	19.50 - 19.96%
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 September 30, 2020:

Options outstanding	Options exercisable	Exercise price	Year of expiry
		$	
125,000	125,000	0.75	2020
1,566,666	1,566,666	0.25	2021
1,740,000	1,735,834	0.26 - 0.75	2022
621,668	262,503	0.38 - 0.92	2023
2,613,334	882,508	0.18 - 0.30	2024
695,000	19,834	0.17 - 0.40	2025
7,361,668	**4,592,345**		

(Expressed in Canadian Dollars)

iii) Warrants

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

	Number of warrants	Weighted average exercise price
		$
Balance, September 30, 2018	703,410	0.80
Exercised	nil	nil
Balance, September 30, 2019	703,410	0.80
Expired	(703,410)	0.80
Balance, September 30, 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

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.

As at September 30, 2020 the Company was a named plaintiff in a statement of claim (action #1) and in a second matter was a named defendant in a statement of claim (action #2) both filed with the Ontario Superior Court of Justice. The Company, based on best estimates, recorded a liability totaling $36,000 for both amounts as of September 30, 2020. Both legal matters were resolved subsequent to September 30, 2020 as to; action #1 – certain amounts owing to ex-employees were settled for payment by the Company of $18,000 and; action #2 – certain claims arising on dismissal of an ex-employee were settled for payment by the Company of $18,000.

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 years ended September 30, 2020 and 2019.

(Expressed in Canadian Dollars)

(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	413,250	434,896
Car allowance	4,800	9,600
Share-based compensation	98,262	75,123
	516,312	519,619

(ii) Transactions with Directors:

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

	2020	**2019**
	$	**$**
Director's fees	-	77,500
Share-based compensation	70,908	99,059
	70,908	176,559

At September 30, 2020, a total of $14,569 (2019 - $Nil) was due to related parties for consulting fees and expenses reimbursement.

(Expressed in Canadian Dollars)

15. INCOME TAXES

The following table reconciles the expected income tax expense (recovery) at the Canadian statutory income tax rates to the amounts recognized in the statement of operations and comprehensive loss for the year ended September 30, 2020 and September 30, 2019:

	2020	2019
	$	$
Net loss before taxes	(4,783,511	(6,093,156)
Statutory tax rate	26.7%	26.8%
Expected income tax recovery	(1,275,602)	(1,630,000)
Non-deductible expenses	105,912	84,000
Change in tax rates	(13,241)	-
Foreign tax rate difference	(93,607)	-
Change in estimates	227,311	-
Other	-	100,000
Change in deferred tax asset not recognized	1,049,227	1,446,000
Total income tax expense (recovery)	-	-

Deferred taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax values. Details of deferred of assets (liabilities) are as follows:

	2020	2019
	$	$
Net operating loss carryforwards and non-capital loss carryforwards	50,407	-
Inventory	(17,428)	
Property and equipment	(395)	-
Intercompany balances	(12,161)	-
Right of use Assets	(20,425)	-
Net deferred tax assets (liabilities)	-	-

(Expressed in Canadian Dollars)

The unrecognized deductible temporary differences as at September 30, 2020 and September 30, 2019 is comprised of the following:

	2020	2019
	$	$
Net operating losses carryforward and non-capital loss carryforwards	34,899,766	31,447,000
Intangible assets	1,642,961	1,638,000
Financing costs	376,473	590,000
Property and equipment	1,717,065	1,605,000
Lease liabilities	76,939	
Capital losses	479,254	480,000
Warranty provision	499,150	327,000
Total unrecognized deductible temporary differences	39,691,609	36,087,000

The Company has not recognized a deferred tax asset in respect of non-capital loss carryforwards of approximately $34,942,546 (2019: $31,447,000) which may be carried forward to apply against future income for Canadian income tax purposes, subject to the final determination by taxation authorities, expiring in the following years:

Expiry	$
2024	1,225,025
2025	239,566
2026	562,996
2027	261,911
2028	1,426,404
2029	2,089,099
2030	2,892,320
2031	2,811,300
2032	2,249,617
2033	2,114,594
2034	1,710,253
2035	2,059,270
2036	2,071,009
2037	1,664,070
2038	1,381,456
2039	2,011,450
2040	2,820,897
Indefinite	5,308,529
Total	34,899,766

16. 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 September 30, 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 year ended September 30, 2020 by approximately $138,205 (2019 - $269,865).

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, 2020 averaged 1.68% (2019 – 1.25%). A 1% nominal change in interest rates would have affected the Company's results of operations for the year ended September 30, 2020 by approximately $22,926 (2019 - $73,697). 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, 2020, trade receivables from four of our customers accounted for 11%, 12%, 16% and 33%, respectively of the Company's trade receivables balance for a total 72% in aggregate. At September 30, 2019, receivables from five of our customers accounted for 10%, 12%, 15%, 20% and 21% respectively of the Company's trade receivables balance for a total 78% in aggregate. Given the nature, balances and the collection history of the Company's receivables, Management has applied a nominal loss allowance as at September 30, 2020 (2019 – nominal).

Concentration risk
Three customers accounted for 11%, 13%, 32% of the Company's revenues for the period ended September 30, 2020 compared with 11%, 12% and 20% of the Company's revenues for the year ended 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, 2020 the Company had cash and cash equivalents of $2,286,005 (2019 – $5,677,537) to settle its current liabilities of $857,626 (2019 – $692,286).

(Expressed in Canadian Dollars)

17. LOSS PER SHARE

	2020	2019
	$	$
Basic	(0.05)	(0.06)
Diluted	(0.05)	(0.06)
Weighted average common shares outstanding – basic and diluted	101,898,276	101,696,399

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)).

18. 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.

19. SUBSEQUENT EVENTS

On October 16, 2020, the Company received $51,608 pursuant to its claim for the Canada Emergency Wage Subsidy (CEWS) in relation to the 28-day period from August 30, 2020 to September 26, 2020.

Subsequent to September, 30, 2020 a total of 2,225,000 stock options were granted, 1,383,333 were exercised, 125,000 expired, and 41,669 stock options were forfeited.

On December 8, 2020, the Company agreed to an extension of its Vancouver head office lease. The term of the Lease was extended for a further period of three (3) years commencing on the 1st day of April 1,2021 up to and including the 31st day of March, 2024.

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.