Legend Power Systems Inc.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the three and six months ended March 31, 2021 and 2020

(Expressed in Canadian Dollars)

Legend Power Systems Inc.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three and six months ended March 31, 2021 and 2020

(Unaudited - Expressed in Canadian Dollars)

Legend Power Systems Inc.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited - Expressed in Canadian Dollars)

	Notes	March 31, 2021 $	September 30, 2020 (Audited) $
ASSETS			
Current assets			
Cash and cash equivalents		1,711,227	2,286,005
Trade and other receivables	5(i)(iii)	317,383	973,446
Due from customers on contract	5(ii)	431,212	99,293
Prepaid expenses and deposits		56,526	64,971
Inventory	6	705,533	1,198,284
		3,221,881	4,621,999
Property and equipment	7	168,316	125,691
Right of use assets	8	377,798	76,592
Intangible assets	9	12,923	-
		3,780,918	**4,824,282**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable		160,328	365,800
Accrued liabilities		248,926	302,158
Deferred revenue		5,607	-
Lease liabilities	8	124,231	71,776
Warranty provision	11	96,426	117,892
		635,518	857,626
Non-current liabilities			
Warranty provision	11	389,078	381,262
Payroll protection loan	10	163,538	165,047
Lease liabilities	8	245,699	4,997
		1,433,833	1,408,932
Shareholders' equity			
Share capital		51,279,256	50,622,711
Contributed surplus		9,115,968	9,011,948
Accumulated other comprehensive loss		(92,991)	(120,782)
Deficit		(57,955,148)	(56,098,527)
		2,347,085	3,415,350
		3,780,918	**4,824,282**

Nature of Business and 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 MAY 31, 2021

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

The accompanying notes are an integral part of these condensed interim 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 March 31,		For the six months ended March 31,	
		2021	2020	2021	2020
	Notes	$	$	$	$
Revenue		482,144	676,359	1,248,370	1,679,688
Cost of sales		393,624	459,794	957,804	1,326,031
Gross margin		88,520	216,565	290,566	353,657
Expenses					
Salaries and consulting		441,360	1,032,935	901,576	2,042,687
General and overhead		105,052	283,870	241,267	521,899
Selling costs		39,894	90,959	93,942	170,533
Share-based compensation	12(ii)	231,482	28,072	370,565	146,932
Professional fees		68,426	103,117	142,248	176,476
Warranty provision	11	3,655	70,738	19,738	82,332
Product development		126,305	95,571	262,208	128,306
Foreign exchange (gain) loss		5,437	85	30,359	(700)
Amortization and depreciation	7,8	41,535	30,744	78,635	88,057
Bad debt		5,000	-	5,000	-
		1,068,146	1,736,091	2,145,538	3,356,522
Operating loss		(979,626)	(1,519,526)	(1,854,972)	(3,002,865)
Inventory write-down	6	-	(7,180)	(2,746)	(24,390)
Interest expense on leases		(6,075)	(4,293)	(8,930)	(9,440)
Other income		2,872	14,372	10,027	37,870
Net loss for the period		(982,829)	(1,516,627)	(1,856,621)	(2,998,825)
Other comprehensive loss:					
Exchange differences arising on translation of foreign operations		7,533	36,926	27,791	22,490
Net loss and comprehensive loss for the period		(975,296)	(1,479,701)	(1,828,830)	(2,976,335)
Basic and diluted loss per share		(0.010)	(0.015)	(0.018)	(0.029)
Weighted average number of common shares outstanding		103,447,710	101,850,303	102,728,316	101,850,303

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

Legend Power Systems Inc.

CONSENSED 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)	-	-	146,932	-	-	146,932
Unrealized loss on foreign currency translation		-	-	-	-	22,490	22,490
Net loss for the period		-	-	-	(2,998,825)	-	(2,998,825)
Balance at March 31, 2020		**101,850,303**	**50,549,482**	**8,803,899**	**(54,336,607)**	**(81,472)**	**4,935,302**
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)	1,558,333	656,545	(266,545)	-	-	390,000
Share-based compensation	12(ii)	-	-	370,565	-	-	370,565
Unrealized gain on foreign currency translation		-	-	-	-	27,791	27,791
Net loss for the period		-	-	-	(1,856,621)	-	(1,856,621)
Balance at March 31, 2021		**103,578,636**	**51,279,256**	**9,115,968**	**(57,955,148)**	**(92,991)**	**2,347,085**

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

Legend Power Systems Inc.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited – Expressed in Canadian Dollars)

	Notes	For the six months ended March 31, 2021 $	2020 $
Cash flows provided by (used in) operating activities			
Loss for the period		(1,856,621)	(2,998,825)
Items not affecting cash:			
Amortization and depreciation	7,8,9	101,373	116,918
Share-based compensation	12(ii)	370,565	146,932
Warranty provision	11	17,387	45,110
Inventory write-down	6	2,746	24,390
Interest paid on lease liabilities	8	13,071	9,440
Accretion on Payroll Protection Loan	10	7,184	-
Interest on Payroll Protection Loan	10	930	-
Gain on sale of property and equipment		(835)	-
Loss on termination of lease		303	-
Changes in non-cash working capital items:			
Receivables, prepaids and deposits		648,870	(773,876)
Due from customers on contract		(331,920)	202,111
Inventory		384,970	155,750
Accounts payable and accrued liabilities		(244,445)	161,950
		(886,422)	(2,910,100)
Cash flows provided by (used in) investing activities			
Purchase of property and equipment	7	(11,950)	(74,809)
Disposal of property and equipment		1,597	-
Product development		-	(2,335)
Patent and trademark costs	9	(12,923)	-
		(23,276)	(77,144)
Cash flows provided by (used in) financing activities			
Options exercise proceeds	12(ii)	390,000	-
Repayment of lease obligations	8	(80,290)	(77,551)
		309,710	(77,551)
Effect of foreign exchange translation in cash		25,210	(856)
Net change in cash and cash equivalents for the period		(599,988)	(3,064,795)
Cash and cash equivalents, beginning of period		2,286,005	5,677,537
Cash and cash equivalents, end of period		**1,711,227**	**2,611,886**

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

1. NATURE OF BUSINESS AND GOING CONCERN

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 2 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 six months ended March 31, 2021 and 2020 ("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 March 31, 2021, the Company has an accumulated deficit of $57,955,148 (September 30, 2020 – $56,098,527), and for the six months ended March 31, 2021, recorded a net loss of $1,856,621 (2020 net loss – $2,998,825) and negative cash flows from operations of $886,422 (2020 – $2,910,100). 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 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 ("IFRS") as issued by the International Accounting Standards Board ("IASB"). 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.

(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 six months ended March 31, 2021 92% of the Company's revenues were attributable to Legend Canada (2020 – 61%) and 8% of revenues were attributable to Legend U.S. (2020 – 39%). 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 March 31, 2021				As at September 30, 2020			
	Legend Canada	Legend U.S.	Other Subs	Total	Legend Canada	Legend U.S.	Other Subs	Total
	$	$	$	$	$	$	$	$
Assets	3,723,925	56,993	-	3,780,918	4,222,144	599,337	2,801	4,824,282
Liabilities	1,194,744	233,756	5,333	1,433,833	1,049,149	357,883	1,900	1,408,932

	Three months ended March 31, 2021				Three months ended March 31, 2020			
	Legend Canada	Legend U.S.	Other Subs	Total	Legend Canada	Legend U.S.	Other Subs	Total
	$	$	$	$	$	$	$	$
Revenue	485,487	(3,343)	0	482,144	670,286	6,073	0	676,359
Cost of sales	(388,269)	(5,355)	0	(393,624)	(448,900)	(10,894)	0	(459,794)
Op costs	(737,419)	(327,761)	(2,966)	(1,068,146)	(1,215,369)	(595,070)	(2,660)	(1,813,099)
Other costs	66,848	(70,051)	0	(3,203)	185,036	(105,129)	0	79,907
Net Loss	(573,353)	(406,510)	(2,966)	(982,829)	(808,947)	(705,020)	(2,660)	(1,516,627)

	Six months ended March 31, 2021				Six months ended March 31, 2020			
	Legend Canada	Legend U.S.	Other Subs	Total	Legend Canada	Legend U.S.	Other Subs	Total
	$	$	$	$	$	$	$	$
Revenue	1,132,166	116,204	0	1,248,370	1,032,330	647,358	-	1,679,688
Cost of sales	(869,566)	(88,238)	0	(957,804)	(1,026,768)	(299,263)	-	(1,326,031)
Op costs	(1,564,630)	(574,673)	(6,235)	(2,145,538)	(2,165,416)	(1,186,696)	(4,410)	(3,356,522)
Other costs	106,662	(108,311)	-	(1,649)	143,791	(139,751)	0	4,040
Net Loss	(1,195,368)	(655,018)	(6,235)	(1,856,621)	(2,016,063)	(978,352)	(4,410)	(2,998,825)

(Unaudited - 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
March 31, 2021	148,610	91,137	51,216	6,257

During the three and six months ended March 31, 2021, the Company wrote off trade receivables in the amount of $5,000 (2020 - $nil) and $5,000 (2020 - $nil) respectively to bad debt and the expected credit loss was nominal (2020 – nominal).

ii) Due from customers on contract

At March 31, 2021, due from customers on contract amounted to $431,212 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.

iii) Other receivables

At March 31, 2021, the Company had applied and was approved for, but had not yet received the Canada Emergency Wage Subsidy (CEWS) and the Canada Emergency Rent Subsidy (CERS) for the months January to March, in the amount of $163,773 (September 30, 2020 - $nil) which is included in receivables in the statement of financial position. An employee loan of $5,000 secured by a promissory note with an interest rate of 0% and maturing May 31, 2021 is also included in Other receivables (September 30, 2020 – $nil).

6. INVENTORY

Inventories consist of the following, as at March 31, 2021 and September 30, 2020:

	March 31 2021	September 30 2020
	$	$
Finished products (“SmartGATE™”)	130,033	9,376
Finished sub-assemblies	178,616	705,238
Transformers and components	396,884	483,670
	705,533	**1,198,284**

During the three and six months ended March 31, 2021, inventories were recognized as cost of sales in the amount of $332,054 (Q2 2020 - $118,290) and $581,015 (1H 2020 – $152,711) respectively. During the three and six months ended March 31, 2021 the Company recorded an inventory impairment of $nil (Q2 2020 - $7,180) and $2,746 (1H 2020 - $24,390) respectively.

(Unaudited - Expressed in Canadian Dollars)

7. PROPERTY AND EQUIPMENT

During the three and six months ended March 31, 2021, $1,603 (Q1 2020 - $1,897) and $3,704 (1H 2020 - $3,793) respectively of depreciation and amortization were allocated to cost of goods sold.

	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	-	80,554	5,394	-	85,948
Disposals	-	(13,487)	-	-	(13,487)
Adjustment (foreign exchange)	(355)	-	-	-	(355)
Balance at March 31, 2021	138,614	626,399	44,245	-	809,258
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	5,226	34,965	2,315	-	42,506
Disposals	-	(12,724)	-	-	(12,724)
Adjustment (foreign exchange)	(301)	-	-	-	(301)
Balance March 31, 2021	134,257	477,929	28,756	-	640,942
Net book value					
At September 30, 2020	**9,637**	**103,644**	**12,410**	**-**	**125,691**
At March 31, 2021	**4,357**	**148,470**	**15,489**	**-**	**168,316**

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.

During the six months ended March 31, 2021, 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. Also, during the three and six months ended March 31, 2021 the Company made lease obligation payments of $37,325 (Q2 2020 - $36,489) and $74,649 (1H 2020 - $71,910) respectively, recorded $29,256 (Q2 2020 - $30,841) and $54,322 (1H 2020 - $61,683) respectively in depreciation, $17,926 of which was allocated to Inventory and $8,736 (Q2 2020 - $3,810) and $12,545 (1H 2020 - $8,414) respectively in interest expense related to this lease liability of which $4,141 was allocated to Inventory.

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. On March 9, 2021, it was decided that the lease would not be renewed and the vehicle was returned on March 19, 2021, thereby terminating the lease contract.

A new 4-year car lease was entered into on March 19, 2021. The incremental borrowing rate is estimated to be 10% and is used to determine the present value of the minimum lease payments which amounts to $21,385 as of March 19, 2021. A right-of-use asset was recognized for the same amount.

During the three and six months ended March 31, 2021 the Company made lease obligation payments of $2,290 (Q2 2020 - $2,290) and $4,579 (1H 2020 - $4,579) respectively, recorded $1,603 (Q2 2020 - $1,897) and $3,704 (1H 2020 - $3,793) respectively in depreciation and $76 (Q2 2020 - $301) and $223 (1H 2020 - $651) respectively 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.

During the three and six months ended March 31, 2021 the Company made lease obligation payments of $531 (Q2 2020 - $531) and $1,062 (1H 2020 - $1,062) respectively, recorded $421 (Q2 2020 - $421) and $841 (1H 2020 - $841) respectively in depreciation and $147 (Q2 2020 - $183) and $303 (1H 2020 - $375) respectively 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.

(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
Additions		21,385		21,385
Termination of lease		(15,409)		(15,409)
Balance at March 31, 2021	539,891	21,385	7,844	569,120
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	54,322	3,704	841	58,867
Reduction due to lease termination	-	(12,109)	-	(12,109)
Balance March 31, 2021	188,800	-	2,522	191,322
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 March 31, 2021	351,091	21,385	5,322	377,798

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	(74,649)	(4,579)	(1,062)	(80,290)
Interest portion of payments	12,545	223	303	13,071
Additions	-	21,385	-	21,385
Terminations	-	(2,997)	-	(2,997)
Balance March 31, 2021	342,749	21,385	5,796	369,930
Lease payable, current	118,018	4,576	1,637	124,231
Lease payable, non-current	224,731	16,809	4,159	245,699

9. INTANGIBLE ASSETS

During the six months ended March 31, 2021 the Company incurred $12,923 in legal fees associated with the application for a European patent on certain aspects of the SmartGATE Platform as well as Canadian and US trademark protection for various of the Company’s marks.

(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	12,923	-	-	12,923
Balance at March 31, 2021	1,651,022	-	132,720	1,783,742
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 March 31, 2021	1,638,099	-	132,720	1,770,819
Carrying Amount				
At September 30, 2020	-	-	-	-
At March 31, 2021	12,923	-	-	12,923

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 March 31, 2021, the carrying value of the loan is $163,538 (September 30, 2020 - $165,047) which includes a foreign currency adjustment of $33,488. 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 and six months ended March 31, 2021, $3,120 (Q2 2020 - $nil) and $7,184 (1H 2020 - $nil) respectively related to accretion of the loan carrying value was recorded to Other income and $458 (Q2 2020 - $nil) and $930 (1H 2020 – $nil) respectively of interest was accrued in connection with the loan. No payments were required or made during the period.

During the three and six months ended March 31, 2021 the Company received a total of $254,151 (Q2 2020 - $nil) and $297,622 (2020 - $nil) respectively in COVID related subsidies from the Government of Canada which has been recorded as an offset to salaries and consulting, and general and overhead.

(Unaudited - Expressed in Canadian Dollars)

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	(33,388)
Additional provision	19,738
Balance at March 31, 2021	485,504
Warranty provision, current	96,426
Warranty provision, non-current	389,078

The Company provides a warranty on its equipment for a period of 10 years. The warranty provision will be used to fulfill warranty claims, should they arise, over the 10-year warranty period provided to customers. As at March 31, 2021, the average remaining years of equipment under warranty was 6.38 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 March 31, 2021, the Company had 103,578,636 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.

(Unaudited - Expressed in Canadian Dollars)

A summary of the Company's share options outstanding at March 31, 2021, 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	2,547,544	0.47
Exercised	(1,558,333)	0.25
Expired	(141,666)	0.69
Forfeited	(415,124)	0.41
Balance, March 31, 2021	**7,794,089**	**0.37**

During the three and six months ended March 31, 2021 $231,482 (Q2 2020 - $28,072) and $370,565 (1H 2020 – $146,932) respectively was recorded to share-based compensation expense for vesting.

During the three months ended March 31, 2021, the performance vesting provisions associated with 285,000 outstanding stock options granted on September 15, 2020 with an exercise price of $0.35 were amended such that i) 85,500 now vest based on meeting performance criteria on or before April 30, 2021 (met subsequent to March 31, 2021), which was previously April 1, 2021 and ii) 85,500 vest based on meeting performance criteria on or before August 31, 2021, which was previously July 1, 2021.

During the three months ended March 31, 2021, the performance vesting provisions associated with 250,000 outstanding stock options granted March 4, 2019 with an exercise price of $0.23 per share were amended such that 100,000 of the 150,000 stock options unvested as of January 25, 2021, immediately vested and 50,000 were cancelled. A total of 200,000 of the original 250,000 stock options have now fully vested.

The fair value of share options awarded to employees, directors and consultants was estimated on the dates of award using the Black-Scholes option-pricing model with the following assumptions during the six months ended March 31, 2021 and 2020:

	2021	2020
Risk-free interest rate (average)	0.35%	1.59%
Estimated volatility (average)	97.9%	80.0%
Expected life (average)	3.7	3.7
Forfeiture rate (average)	20.2%	19.1%
Dividend rate	0.0%	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.

(Unaudited - Expressed in Canadian Dollars)

The following table summarizes share options outstanding and exercisable at March 31, 2021:

Options outstanding	Options exercisable	Exercise price ($)	Year of expiry
1,725,000	1,725,000	0.26 - 0.75	2022
595,000	418,334	0.38 - 0.92	2023
2,655,001	1,391,678	0.18 - 0.30	2024
2,660,088	88,336	0.17 - 0.47	2025
150,000	-	0.65	2026
7,794,089	**3,623,348**		

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 March 31, 2021	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 and six months ended March 31, 2021 and 2020:

(i) Transactions with Key Management Personnel:

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

	Three months ended March 31, 2021	Three months ended March 31, 2020	Six months ended March 31, 2021	Six months ended March 31, 2020
	$	$	$	$
Salaries and consulting fees to key management personnel	108,750	108,750	206,625	217,500
Share-based compensation	50,694	-	86,128	54,778
Car allowance	2,400	2,400	2,400	4,800
	161,844	111,150	295,153	277,078

(ii) Transactions with Directors:

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

	Three months ended March 31, 2021	Three months ended March 31, 2020	Six months ended March 31, 2021	Six months ended March 31, 2020
	$	$	$	$
Share-based compensation	35,486	-	45,498	31,562

At March 31, 2021, a total of $16,188 (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 March 31, 2021 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 six months ended March 31, 2021 by approximately $65,502 (2020 - $84,000).

(Unaudited - Expressed in Canadian Dollars)

Interest rate risk
Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. The Company is exposed to interest rate risk due to its potential impact on cash and cash equivalents. The Company earns interest on deposits based on current market interest rates, which during the six months ended March 31, 2021 averaged 1.15% (2020 – 1.25%). A 1% nominal change in interest rates would have affected the Company's results of operations for the six months ended March 31, 2021 by approximately $8,082 (2020 - $20,000). The Company does not have any interest-bearing liabilities.

Credit risk
Credit risk is the risk of an unexpected loss if the counterparty to a financial instrument fails to meet its contractual obligations. The credit risk associated with cash is believed to be minimal as cash is on deposit with Canadian and foreign banks that are deemed to be creditworthy. Receivables are comprised primarily of amounts due from various customers. The Company is exposed to credit risk through accounts receivable from customers. At March 31, 2021, trade receivables from three of our customers accounted for 18%, 31%, and 44%, respectively of the Company's trade receivables balance for a total 92% in aggregate. 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. Given the nature, balances and the collection history of the Company's receivables, Management has applied a nominal loss allowance as at March 31, 2021 (September 30, 2020 – nominal).

Concentration risk
During the three and six months ended March 31, 2021, two customers accounted for 47% and 52% (Q2 2020 – four customers for 11%, 13%, 21%, and 34%) and three customers accounted for 15%, 20%, and 48% (1H 2020 - three customers for 10%, 13% and 38%) respectively of the Company's revenues.

Liquidity risk
Liquidity risk is managed by ensuring sufficient financial resources are available to meet obligations associated with financial liabilities. The Company has in place a planning and budgeting process which helps determine the funds required to ensure the Company has the appropriate liquidity to meet its operating and growth objectives. As at March 31, 2021 the Company had cash and cash equivalents of $1,711,227 (September 30, 2020 – $2,286,005) to settle its current liabilities of $635,518 (September 30, 2020 – $857,626).

16. LOSS PER SHARE

	Three months ended March 31		Six months ended March 31	
	2021	**2020**	**2021**	**2020**
	$	**$**	**$**	**$**
Basic	(0.010)	(0.015)	(0.018)	(0.029)
Diluted	(0.010)	(0.015)	(0.018)	(0.029)
Weighted average common shares outstanding – basic and diluted	103,447,710	101,850,303	102,728,316	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.

18. SUBSEQUENT EVENTS

Subsequent to March 31, 2021 the Company:

(a) Entered into an agreement with Stifel GMP, as lead underwriter on behalf of a syndicate of underwriters which have agreed to purchase, on a bought deal basis, 12,000,000 units of the Company at a price of $0.75 per Unit, for aggregate gross proceeds of $9,000,000.

Each unit will consist of one common share of the Company and one-half of one common share purchase warrant. Each warrant will entitle the holder thereof to purchase once common share at an exercise price of $0.95 at any time up to 24 months following the closing date.

The Underwriters will also have the option, exercisable in whole or in part at any time on or up to 30 days after the closing date, to purchase up to an additional 1,800,000 units (and/or the components thereof) to cover over-allotments, if any, and for market stabilization purposes. In the event that the option is exercised in its entirety, the aggregate gross proceeds of the offering will be $10,350,000.

The offering is scheduled to close on or about June 11, 2021 and is subject to certain conditions including, but not limited to, the receipt of all necessary approvals including the approval of the TSX Venture Exchange and the securities regulatory authorities.

(b) Issued 163,667 common shares pursuant to the exercise of incentive stock options.