



Legend Power Systems Inc.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended June 30, 2018 and 2017

(Unaudited – Prepared by Management)

(Expressed in Canadian Dollars)

Legend Power Systems Inc.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended June 30, 2018

(Unaudited - Expressed in Canadian Dollars)

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

The accompanying unaudited condensed interim consolidated financial statements of Legend Power Systems Inc. for the nine months ended June 30, 2018 have been prepared by and are the responsibility of the Company's management.

The auditor of Legend Power Systems Inc. has not performed a review of the unaudited condensed interim consolidated financial statements for the nine-month period ended June 30, 2018.

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

| | | June 30, 2018 | September 30, 2017 (Audited) |
|--------------------------------------|------------|---------------------|------------------------------------|
| | Notes | \$ | \$ |
| ASSETS | | | |
| Current | | | |
| Cash and cash equivalents | | 10,916,910 | 1,160,127 |
| Trade Receivables | 4(i) | 1,307,744 | 1,745,030 |
| Due from customers on contract | 4(ii) | 1,736,590 | 892,062 |
| Prepaid expenses and deposits | | 163,969 | 84,693 |
| Inventory | 5 | 1,366,580 | 1,010,276 |
| | | <u>15,491,793</u> | <u>4,892,188</u> |
| Property and equipment | 6 | 171,147 | 84,405 |
| Intangible assets | 7 | <u>104,383</u> | <u>107,060</u> |
| | | 15,767,323 | 5,083,653 |
| LIABILITIES | | | |
| Current | | | |
| Accounts payable | | 634,578 | 592,760 |
| Accrued liabilities | | 292,039 | 184,942 |
| Due to related parties | 11 | 19,642 | - |
| | | <u>946,259</u> | <u>777,702</u> |
| Warranty provision | 8 | <u>233,219</u> | <u>215,231</u> |
| | | <u>1,179,478</u> | <u>992,933</u> |
| Shareholders' equity | | | |
| Share capital | 9(i) | 50,249,640 | 38,421,253 |
| Contributed surplus | 9(ii)(iii) | 8,402,850 | 8,331,942 |
| Foreign currency translation reserve | | (24,681) | - |
| Deficit | | <u>(44,039,964)</u> | <u>(42,662,475)</u> |
| | | <u>14,587,845</u> | <u>4,090,720</u> |
| | | 15,767,323 | 5,083,653 |

Commitments (Note 10)
Subsequent event (Note 12)

APPROVED BY THE BOARD OF DIRECTORS AND AUTHORIZED FOR ISSUE ON AUGUST 22, 2018

"Michael Atkinson", Director "Randy Buchamer", Director

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

Legend Power Systems Inc.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

(Unaudited - Expressed in Canadian Dollars)

| | Notes | For the three months ended June 30, | | For the nine months ended June 30, | |
|---|-------|--|------------------|---------------------------------------|------------------|
| | | 2018 \$ | 2017 \$ | 2018 \$ | 2017 \$ |
| Revenue | 3 | 2,112,341 | 1,516,813 | 5,311,630 | 3,163,042 |
| Cost of sales | | 1,068,469 | 799,219 | 3,035,259 | 1,658,365 |
| Gross margin | | <u>1,043,872</u> | <u>717,594</u> | <u>2,276,371</u> | <u>1,504,677</u> |
| Expenses | | | | | |
| Salaries and consulting | | 718,675 | 497,275 | 2,203,916 | 1,359,933 |
| General and overhead | | 165,053 | 156,231 | 685,339 | 479,452 |
| Share-based compensation | 9(ii) | 79,152 | 95,573 | 349,765 | 210,180 |
| Professional fees | | 88,795 | 25,000 | 141,702 | 99,265 |
| Warranty provision | 8 | 88,510 | 61,000 | 86,829 | 97,000 |
| Product development | 7 | 16,198 | - | 83,106 | - |
| Bad debt | 4(i) | 48,943 | - | 48,943 | - |
| Amortization and depreciation | 6,7 | 17,483 | 51,432 | 43,512 | 149,750 |
| | | <u>1,222,809</u> | <u>886,511</u> | <u>3,643,112</u> | <u>2,395,580</u> |
| Loss before other items | | <u>(178,937)</u> | <u>(168,917)</u> | <u>(1,366,741)</u> | <u>(890,903)</u> |
| Other (expense) income | | <u>(8,910)</u> | <u>7,407</u> | <u>(10,748)</u> | <u>9,659</u> |
| Net loss for the period | | <u>(187,847)</u> | <u>(161,510)</u> | <u>(1,377,489)</u> | <u>(881,244)</u> |
| Other comprehensive loss | | | | | |
| Foreign exchange translation | | <u>(24,681)</u> | <u>-</u> | <u>(24,681)</u> | <u>-</u> |
| Total comprehensive loss for the period | | <u>(212,528)</u> | <u>(161,510)</u> | <u>(1,402,170)</u> | <u>(881,244)</u> |
| Basic and diluted loss per share | | <u>(0.002)</u> | <u>(0.002)</u> | <u>(0.015)</u> | <u>(0.011)</u> |
| Weighted average number of common shares outstanding | | 99,779,292 | 78,451,890 | 90,560,560 | 77,930,762 |

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

Legend Power Systems Inc.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Unaudited - Expressed in Canadian Dollars)

| Notes | Number of | Capital Stock | Contributed | Deficit | Foreign | Total |
|--|--------------------|-------------------|------------------|---------------------|-----------------|-------------------|
| | Shares Issued | | Surplus | | currency | |
| | # | \$ | \$ | \$ | reserve | Equity |
| | | | | | \$ | \$ |
| Balance at September 30, 2016 (Audited) | 70,443,946 | 33,458,288 | 8,861,305 | (40,815,788) | - | 1,503,805 |
| Common shares issued for warrants exercise | 8,307,944 | 3,178,262 | (724,713) | - | - | 2,453,549 |
| Share-based compensation | - | - | 210,181 | - | - | 210,181 |
| Net loss for the period | - | - | - | (881,244) | - | (881,244) |
| Balance at June 30, 2017 | 78,751,890 | 36,636,550 | 8,346,773 | (41,697,032) | - | 3,286,291 |
| Common shares issued for warrants exercise | 4,034,368 | 1,784,703 | (170,955) | - | - | 1,613,748 |
| Share-based compensation | - | - | 156,124 | - | - | 156,124 |
| Net loss for the period | - | - | - | (965,443) | - | (965,443) |
| Balance at September 30, 2017 (Audited) | 82,786,258 | 38,421,253 | 8,331,942 | (42,662,475) | - | 4,090,720 |
| Common shares issued for private placement | 9(i) 13,156,000 | 10,524,800 | - | - | - | 10,524,800 |
| Share issue costs | 9(i) - | (1,166,743) | 225,388 | - | - | (941,355) |
| Warrants exercise | 9(iii) 4,464,382 | 2,258,693 | (472,940) | - | - | 1,785,753 |
| Option exercise | 9(ii) 611,993 | 211,637 | (31,305) | - | - | 180,332 |
| Share-based compensation | 9(ii) - | - | 349,765 | - | - | 349,765 |
| Effect of foreign currency translation | - | - | - | - | (24,681) | (24,681) |
| Net loss for the period | - | - | - | (1,377,489) | - | (1,377,489) |
| Balance at June 30, 2018 | 101,018,633 | 50,249,640 | 8,402,850 | (44,039,964) | (24,681) | 14,587,845 |

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

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

| | Notes | For the nine months ended June 30, | |
|---|--------|---------------------------------------|-----------------------|
| | | 2018 | 2017 |
| | | \$ | \$ |
| Cash flows used in operating activities | | | |
| Loss for the period | | (1,377,489) | (881,244) |
| Items not affecting cash: | | | |
| Amortization and depreciation | 6,7 | 49,007 | 149,750 |
| Share-based compensation | 9(ii) | 349,765 | 210,181 |
| Warranty provision | 8 | 86,829 | 97,000 |
| Bad debt | 4(i) | 48,943 | - |
| Changes in non-cash working capital items: | | | |
| Receivables, prepaids and deposits | | 352,028 | (1,691,023) |
| Due from customers on contract | | (862,152) | - |
| Inventory | | (306,043) | (538,394) |
| Accounts payable and accrued liabilities | | (59,686) | 221,989 |
| Other expense (income) | | 10,748 | (9,659) |
| Due to related parties | | 26,700 | - |
| | | <u>(1,681,350)</u> | <u>(2,441,400)</u> |
| Cash flows used in investing activities | | | |
| Purchase of property and equipment | 6 | (110,450) | (59,942) |
| Interest income received | | 20,956 | - |
| Product Development | 7 | - | (243,082) |
| | | <u>(89,494)</u> | <u>(303,024)</u> |
| Cash flows from financing activities | | | |
| Proceeds from Private Placement | 9(i) | 10,524,800 | - |
| Share issue costs | 9(i) | (941,355) | - |
| Warrants exercise proceeds | 9(iii) | 1,785,753 | 2,453,549 |
| Options exercise proceeds | 9(ii) | 180,332 | - |
| | | <u>11,549,530</u> | <u>2,453,549</u> |
| Effect of foreign exchange translation in cash | | (21,903) | - |
| Net change in cash during the period | | 9,778,686 | (290,875) |
| Cash, beginning of period | | <u>1,160,127</u> | <u>1,132,547</u> |
| Cash, end of period | | <u>10,916,910</u> | <u>841,672</u> |
| Non-cash transactions | | | |
| Fair value of warrants issued for share issue costs | | 225,388 | - |
| Acquisition of plant and equipment through accounts payable | | 22,622 | - |

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

Legend Power Systems Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended June 30, 2018, and 2017

(Unaudited - Expressed in Canadian Dollars)

1. NATURE OF BUSINESS

Legend Power Systems Inc. (hereafter referred to as the “Company” or “Legend”) is incorporated under the laws of the Province of British Columbia and was established as a legal entity on June 4, 1987. The Company’s principal business activities are the marketing of a patented device, the electrical “Harmonizer”, designed to provide energy savings through voltage optimization to commercial and industrial customers. The Company’s common shares are listed on the TSX Venture Exchange.

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

2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE AND GOING CONCERN

These condensed interim consolidated financial statements have been prepared in accordance with *IAS 34 – Interim financial reporting* (International Account Standard) which is in accordance with International Financial Reporting Standards (“IFRS”). They do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Company for the year ended September 30, 2017. These condensed interim 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.

As at June 30, 2018, the Company had working capital of \$14,545,534 (September 30, 2017 - \$4,114,486) and an accumulated deficit of \$44,039,964 (September 30, 2017 - \$42,662,475). During the nine months ended June 30, 2018 the Company incurred a net loss of \$1,377,489 (2017 - \$881,244).

In April 2018, the Company completed a \$10.5 million private placement (the “Offering”) by issuing 13,156,000 common shares, including an overallotment option, for total net proceeds of \$9,583,445. Based on working capital as at June 30, 2018 and estimated cash requirements and sources in fiscal 2018 and 2019, management believes the Company has sufficient capital to continue business operations over the next twelve months. In the long term, the continued business operations of the Company are dependent upon economic and market factors which involve uncertainties including profitable commercialization of its products and/or the Company’s ability to obtain adequate financing. There can be no assurance that the Company can achieve profitable commercialization of its products and/or obtain additional capital.

There have been no significant changes to the Company’s accounting policies, judgments or estimates from those disclosed in the consolidated financial statements for the year ended September 30, 2017.

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% |

Comparatives

Certain prior year amounts are reclassified to conform with the presentation adopted in the current year.

Legend Power Systems Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended June 30, 2018, and 2017

(Unaudited - Expressed in Canadian Dollars)

2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE AND GOING CONCERN – continued

New standards not yet adopted

The following is an overview of new accounting standards that the Company will be required to adopt in future years. The Company does not expect to adopt any of these standards before their effective dates. The Company is currently assessing the impact of the new standards.

- (i) IFRS 9 - *Financial Instruments*. This standard partially replaces IAS 39 - *Financial Instruments: Recognition and Measurement*. IFRS 9 measures financial assets, after initial recognition, at either amortized cost or fair value. Existing IAS 39 classifies financial assets into four measurement categories. The standard is effective for annual periods beginning on or after January 1, 2018. In the year of adoption, the Company is required to provide additional disclosures relating to the reclassified financial assets and liabilities.
- (ii) IFRS 15 - *Revenue from contracts with customers*. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. IFRS 15 specifies how and when to recognize revenue as well as requires entities to provide users of financial statements with more informative, relevant disclosures. The standard supersedes IAS 18, Revenue, IAS 11, Construction Contracts, and a number of revenue-related interpretations. The new standard will apply to nearly all contracts with customers: the main exceptions are leases, financial instruments and insurance contracts.
- (iii) IFRS 16 – *Leases*
In January 2016, IFRS 16, was issued which requires, among other things, lessees to recognize leases traditionally recorded as operating leases in the same manner as financing leases. The standard replaces IAS 17, *Leases*, and is effective for annual periods beginning of after January 1, 2019 with earlier application permitted.

3. SEGMENTS

The Company has one operating segment and operates in two geographical areas, Canada and the United States. All of the Company's revenues in the nine months ended June 30, 2018 were in Canada. In the nine months ended June 30, 2017, 2% of revenues were in the U.S., and the rest in Canada. Two customers accounted for 13%, and 12% respectively of the Company's revenues for the nine months ended June 30, 2018 and two customers accounted for 17% and 12% respectively for the nine months ended June 30, 2017. Product revenues and installation services accounted for 62% and 38% of revenue respectively for the nine months ended June 30, 2018 and 87% and 13% respectively for the nine months ended June 30, 2017.

4. RECEIVABLES

i) Trade Receivables

Aging of trade receivables as follows:

| Trade Receivables | Total due | 0-30 days | 31-90 days | 91 to a year | Over a year |
|--------------------|-----------|-----------|------------|--------------|-------------|
| | \$ | \$ | \$ | \$ | \$ |
| June 30, 2018 | 1,307,744 | 1,108,429 | - | 192,445 | 6,870 |
| September 30, 2017 | 1,745,030 | 950,375 | 431,620 | 363,035 | - |

During the nine months ended June 30, 2018, the Company wrote off a trade receivable amount of \$48,943 (2017 - \$nil) to bad debt.

Legend Power Systems Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended June 30, 2018, and 2017

(Unaudited - Expressed in Canadian Dollars)

4. RECEIVABLES - continued

At June 30, 2018, receivables from four of our customers accounted for 34%, 26%, 13% and 11%, respectively of the Company's trade receivables balance for a total of 84% in aggregate. Receivables from three customers accounted for 11%, 13%, and 16%, respectively of the Company's trade receivables balance for a total of 40% in aggregate at September 30, 2017.

ii) Due from customers on contract

Due from customers on contract amounts of \$1,736,590 at June 30, 2018 and \$892,062 at September 30, 2017, relates to equipment delivered and/or installation services performed for sales where revenue has been recognized, and customers had not yet been invoiced.

Maturity of due from customers on contract amounts are as follows:

| Due from customers on contract | Total due | 0-30 days | 31-90 days | 91 to a year | Over a year |
|--------------------------------|-----------|-----------|------------|--------------|-------------|
| | \$ | \$ | \$ | \$ | \$ |
| June 30, 2018 | 1,736,590 | 89,856 | 1,253,893 | 392,841 | - |
| September 30, 2017 | 892,062 | 560,323 | - | 331,739 | - |

5. INVENTORY

Inventories consist of the following, as at:

| | June 30, 2018 | September 30, 2017 |
|-----------------------------------|------------------|--------------------|
| | \$ | \$ |
| Finished products ("Harmonizers") | 80,508 | 142,602 |
| Work in progress inventory | 235,356 | - |
| Transformers and components | 1,050,716 | 867,674 |
| | 1,366,580 | 1,010,276 |

During the nine months ended June 30, 2018, inventories were recognized as cost of sales in the amount of \$1,060,177 (2017 – \$834,451) and inventory impairment was also recognized as cost of sales in the amount of \$5,249 (2017 – \$Nil). Inventory impairment resulted from the write-off of components scrapped due to obsolescence.

Legend Power Systems Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended June 30, 2018, and 2017

(Unaudited - Expressed in Canadian Dollars)

6. PROPERTY AND EQUIPMENT

| | Computer equipment | Computer software | Equipment and furniture | Leasehold Improvements | Total |
|---------------------------------|-----------------------|----------------------|-------------------------------|---------------------------|----------------|
| | \$ | \$ | \$ | \$ | \$ |
| Cost | | | | | |
| Balance at September 30, 2016 | 76,196 | 100,847 | 297,574 | 20,805 | 495,422 |
| Additions | 25,749 | 2,586 | 53,904 | 139 | 82,378 |
| Balance at September 30, 2017 | 101,945 | 103,433 | 351,478 | 20,944 | 577,800 |
| Additions | 24,920 | 21,985 | 80,292 | 5,875 | 133,072 |
| Balance at June 30, 2018 | 126,865 | 125,418 | 431,770 | 26,819 | 710,872 |
| Accumulated Depreciation | | | | | |
| Balance at September 30, 2016 | 68,762 | 93,541 | 280,084 | 12,973 | 455,360 |
| Additions | 9,036 | 8,662 | 18,385 | 1,952 | 38,035 |
| Balance at September 30, 2017 | 77,798 | 102,203 | 298,469 | 14,925 | 493,395 |
| Additions | 11,391 | 9,027 | 24,338 | 1,574 | 46,330 |
| Balance at June 30, 2018 | 89,189 | 111,230 | 322,807 | 16,499 | 539,725 |
| Net book value | | | | | |
| At September 30, 2017 | 24,147 | 1,230 | 53,009 | 6,019 | 84,405 |
| At June 30, 2018 | 37,676 | 14,188 | 108,963 | 10,320 | 171,147 |

7. INTANGIBLE ASSETS

In 2007, the Company purchased the worldwide patents for the Electrical Harmonizer. These patents are now fully amortized.

| | Patents | Product Development | Total |
|-------------------------------|-----------|------------------------|----------------|
| | \$ | \$ | \$ |
| Cost | | | |
| Balance at September 30, 2016 | 1,638,099 | - | 1,638,099 |
| Additions | - | 107,060 | 107,060 |
| Balance at September 30, 2017 | 1,638,099 | 107,060 | 1,745,159 |
| Additions | - | - | - |
| Balance at June 30, 2018 | 1,638,099 | 107,060 | 1,745,159 |
| Amortization | | | |
| Balance at September 30, 2016 | 1,515,160 | - | 1,515,160 |
| Additions | 122,939 | - | 122,939 |
| Balance at September 30, 2017 | 1,638,099 | - | 1,638,099 |
| Additions | - | 2,677 | 2,677 |
| Balance at June 30, 2018 | 1,638,099 | 2,677 | 1,640,776 |
| Carrying Amount | | | |
| At September 30, 2017 | - | 107,060 | 107,060 |
| At June 30, 2018 | - | 104,383 | 104,383 |

Legend Power Systems Inc.
Notes to the Condensed Interim Consolidated Financial Statements
For the three and nine months ended June 30, 2018, and 2017

(Unaudited - Expressed in Canadian Dollars)

7. INTANGIBLE ASSETS - continued

During the nine months ended June 30, 2018, all amounts related to development activities were expensed to product development. During fiscal 2017, activities associated with development of the Company's next generation technology were classified as having progressed from the research phase, into the development stage, thus certain related expenditures during the year were capitalized. The Company's next generation technology has reached the production phase and started to generate economic benefits thus amortization of development costs has commenced during the three months ended June 30, 2018 and will continue over the estimated useful economic life of the technology of 10 years.

8. WARRANTY PROVISION

| | Total |
|---------------------------------|----------------|
| | \$ |
| Balance at September 30, 2016 | 192,000 |
| Warranty fulfillments | (37,790) |
| Additional provision | 61,021 |
| Balance at September 30, 2017 | 215,231 |
| Warranty fulfillments | (68,841) |
| Additional provision | 86,829 |
| Balance at June 30, 2018 | 233,219 |

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.

9. 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 June 30, 2018, the Company had 101,018,633 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.

| | Common shares | Share capital |
|--|----------------------|----------------------|
| | | \$ |
| Balance, September 30, 2016 | 70,443,946 | 33,458,288 |
| Issued with warrants exercise | 12,342,312 | 4,962,965 |
| Balance, September 30, 2017 | 82,786,258 | 38,421,253 |
| Issued with private placement ⁽¹⁾ | 12,500,000 | 8,882,247 |
| Over - allotment option ⁽²⁾ | 656,000 | 475,810 |
| Issued with exercise of warrants | 4,464,382 | 2,258,693 |
| Issued with exercise of options | 611,993 | 211,637 |
| Balance June 30, 2018 | 101,018,633 | 50,249,640 |

Legend Power Systems Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended June 30, 2018, and 2017

(Unaudited - Expressed in Canadian Dollars)

9. SHARE CAPITAL AND CONTRIBUTED SURPLUS – continued

- 1) On April 6, 2018, the Company completed a \$10 million private placement, issuing 12.5 million common shares at a price of \$0.80 per share. The Company paid a cash commission of \$531,240 to the underwriters and incurred additional share issue costs of \$373,627 in legal and filing fees bringing the net proceeds to \$9,095,133. The company issued 664,050 broker warrants to the underwriters in connection with this private placement. Each broker warrant entitles the holder to purchase one common share of the Company at \$0.80 per share until April 6, 2020. An amount of \$212,886 was recorded to share issue costs for the fair value of the brokers warrants issued to the underwriters, calculated using Black Scholes Model with the following assumptions: share price \$0.80, exercise price \$0.80, expected life 2 years, annual volatility 73% and risk-free rate 1.36%.
- 2) On April 30, 2018, the company completed an over-allotment option exercised by the underwriters in connection with the April 6, 2018 Offering. As a result, the Company issued an additional 656,000 common shares at a price \$0.80 per share for additional gross proceeds of \$524,800. The Company paid cash commission of \$31,488 to the underwriters and incurred additional cash share issue costs of \$5,000, bringing the net proceeds to \$488,312. The Company issued 39,360 brokers warrants to the underwriters at a price of \$0.80 expiring April 30, 2020. An additional amount of \$12,502 was recorded to share issue costs for the fair value of the broker warrants issued to the underwriters in connection with the over-allotment. Fair value of the 39,360 broker warrants was calculated using the Black Scholes pricing model using the following assumptions: share price \$0.80, exercise price \$0.80, expected term 2 years, annual volatility 71.78% and risk-free rate of 1.43%.

ii) Stock Options

The Company has an incentive share option plan (the “Plan”). Under the Plan a total of 10% of the Company’s outstanding common shares are reserved for the issuance of share options to directors, officers, employees and consultants. The terms of each option award are fixed by the directors at the time of grant. Share options awarded have a maximum term of five years. Share options vest over various time periods from the grant date to five years at the discretion of the board of directors.

A summary of the Company’s share options outstanding at June 30, 2018, including the changes during the period, is as follows:

| | Share options | Weighted average exercise price |
|------------------------------|------------------|------------------------------------|
| | | \$ |
| Balance, September 30, 2016 | 6,064,496 | 0.34 |
| Granted | 2,825,000 | 0.30 |
| Forfeited | (446,667) | 0.31 |
| Expired | (183,333) | 0.42 |
| Balance, September 30, 2017 | 8,259,496 | 0.32 |
| Granted | 720,000 | 0.78 |
| Exercised | (611,993) | 0.29 |
| Forfeited | (519,167) | 0.35 |
| Balance June 30, 2018 | 7,848,336 | 0.37 |

During the nine months ended June 30, 2018, the Company granted 720,000 (2017 – 2,825,000) stock options. The weighted average fair value of options granted during the nine months ended June 30, 2018 was \$0.34 per option (2017 - \$0.14).

Legend Power Systems Inc.

Notes to the Condensed Interim Consolidated Financial Statements For the three and nine months ended June 30, 2018, and 2017

(Unaudited - Expressed in Canadian Dollars)

9. SHARE CAPITAL AND CONTRIBUTED SURPLUS – continued

During the nine months ended June 30, 2018, 611,993 (2017 – nil) stock options were exercised for total proceeds of \$180,332 (2017- \$nil). An amount of \$31,305 was transferred to share capital from contributed surplus in connection with these exercises (2017 - \$nil).

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 nine months ended June 30, 2018 and 2017:

| | 2018 | 2017 |
|-------------------------|----------------|-----------------|
| Risk-free interest rate | 1.52 - 2.02% | 0.59 - 0.80% |
| Estimated volatility | 84.58 - 88.06% | 92.49 - 117.35% |
| Expected life (years) | 3.00 - 3.50 | 3.00 - 3.36 |
| Forfeiture rate | 19.65 - 20.44% | 21.32 - 21.99% |
| 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 June 30, 2018:

| Options outstanding | Options exercisable | Exercise price | Year of Expiry |
|---------------------|---------------------|----------------|----------------|
| | | \$ | |
| 544,170 | 544,170 | 0.30 | 2018 |
| 2,620,000 | 2,620,000 | 0.20-0.55 | 2019 |
| 295,000 | 182,500 | 0.35-0.75 | 2020 |
| 1,734,999 | 1,167,779 | 0.25 | 2021 |
| 2,149,167 | 734,169 | 0.27-0.75 | 2022 |
| 505,000 | - | 0.68-0.92 | 2023 |
| 7,848,336 | 5,248,618 | | |

iii) Warrants

The continuity of share purchase warrants during the nine months ended June 30, 2018 and fiscal year 2017 is as follows:

| | Number of warrants | Weighted average exercise price |
|-------------------------------|--------------------|---------------------------------|
| | | \$ |
| Balance, September 30, 2016 | 16,806,694 | 0.35 |
| Exercised | (12,342,312) | 0.33 |
| Balance, September 30, 2017 | 4,464,382 | 0.40 |
| Exercised | (4,464,382) | 0.40 |
| Issued, broker warrants | 703,410 | 0.80 |
| Balance, June 30, 2018 | 703,410 | 0.80 |

During the nine months ended June 30, 2018, 4,464,382 warrants were exercised at \$0.40 each for total proceeds of \$1,785,753. An amount of \$472,940 was transferred to share capital from contributed surplus in connection with this exercise.

Legend Power Systems Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended June 30, 2018, and 2017

(Unaudited - Expressed in Canadian Dollars)

9. SHARE CAPITAL AND CONTRIBUTED SURPLUS – continued

In April 2018, the company issued 703,410 broker warrants to the underwriters in connection with the Offering and overallotment option. Each broker warrant entitles the holder to purchase one common share of the Company at \$0.80 per share until April 2020.

10. COMMITMENTS

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

| | |
|------|-----------|
| 2018 | \$42,717 |
| 2019 | \$145,539 |
| 2020 | \$139,879 |
| 2021 | \$70,775 |

The lease payments are subject to changes or increases in additional rent, generally described as the Company's portion of the landlord's common area charges and property taxes.

The Company has an employment agreement with the President and CEO of the Company that contains severance provisions whereby termination without cause could result in additional costs to the Company unless re-negotiated or settled otherwise.

11. RELATED PARTY DISCLOSURES

The Company entered into the following related party transactions during the three and nine months ended June 30, 2018 and 2017.

(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 June 30, | | Nine months ended June 30, | |
|---|--------------------------------|---------|-------------------------------|---------|
| | 2018 | 2017 | 2018 | 2017 |
| | \$ | \$ | \$ | \$ |
| Salaries and fees to key management employees | 96,946 | 85,028 | 285,335 | 250,479 |
| Share-based compensation | 103,465 | 38,241 | 158,522 | 112,172 |
| | 200,411 | 123,269 | 443,857 | 362,651 |

(ii) Transactions with Directors:

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

| | Three months ended June 30, | | Nine months ended June 30, | |
|--------------------------|-----------------------------|--------|----------------------------|--------|
| | 2018 | 2017 | 2018 | 2017 |
| | \$ | \$ | \$ | \$ |
| Share-based compensation | 18,000 | 19,287 | 53,526 | 47,413 |

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Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended June 30, 2018, and 2017

(Unaudited - Expressed in Canadian Dollars)

11. RELATED PARTY DISCLOSURES - continued

At June 30, 2018, a total of \$19,642 (2017-\$nil) was due to related parties for expenses reimbursement.

12. SUBSEQUENT EVENT

Subsequent to June 30, 2018, 444,170 stock options were exercised for total proceeds of \$119,251.