



Legend Power Systems Inc.

CONSOLIDATED FINANCIAL STATEMENTS For the years ended September 30, 2021 and 2020

(Expressed in Canadian Dollars)

Legend Power Systems Inc.

CONSOLIDATED FINANCIAL STATEMENTS

Years ended September 30, 2021 and 2020

(Expressed in Canadian Dollars)

	Page
Independent Auditor's Report	3
Consolidated Statements of Financial Position	4
Consolidated Statements of Loss and Comprehensive Loss	5
Consolidated Statements of Changes in Equity	6
Consolidated Statements of Cash Flows	7
Notes to the Consolidated Financial Statements	8 - 31

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. (the "Company"), which comprise the consolidated statements of financial position as at September 30, 2021 and September 30, 2020, 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, 2021 and September 30, 2020, 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.

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.

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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

Vancouver, British Columbia

December 22, 2021


Chartered Professional Accountants

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

		September 30, 2021	September 30, 2020
	Notes	\$	\$
ASSETS			
Current assets			
Cash and cash equivalents		9,287,141	2,286,005
Trade and other receivables	5(i)(iii)	562,290	973,446
Due from customers on contract	5(ii)	62,457	99,293
Prepaid expenses and deposits		135,101	64,971
Inventory	6	1,274,263	1,198,284
Total current assets		11,321,252	4,621,999
Property and equipment	7	144,247	125,691
Right of use assets	8	314,020	76,592
Intangible assets	9	17,619	-
Total assets		11,797,138	4,824,282
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Account payable	14	634,655	365,800
Accrued liabilities		355,780	302,158
Deferred revenue		12,589	-
Lease liability	8	112,176	71,776
Warranty provision	11	58,563	117,892
Total current liabilities		1,173,763	857,626
Non-current liabilities			
Warranty provision	11	343,860	381,262
Payroll protection loan	10	-	165,047
Lease liability	8	191,927	4,997
Total liabilities		1,709,550	1,408,932
Shareholders' equity			
Share capital	12(i)	59,629,634	50,622,711
Contributed surplus		10,484,695	9,011,948
Accumulated other comprehensive loss		(90,448)	(120,782)
Deficit		(59,936,293)	(56,098,527)
Total shareholders' equity		10,087,588	3,415,350
Total liabilities and shareholders' equity		11,797,138	4,824,282

Nature of Business (Note 1)
Segments (Note 4)
Commitments and Contingencies (Note 13)
Subsequent events (Note 19)

APPROVED BY THE BOARD OF DIRECTORS AND AUTHORIZED FOR ISSUE ON DECEMBER 21, 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)

	Notes	For the years ended September 30,	
		2021	2020
		\$	\$
Revenue		2,713,816	2,027,933
Cost of sales	6	2,142,565	1,529,964
Gross margin		571,251	497,969
Expenses			
Salaries and consulting		2,194,955	3,137,969
General and overhead		485,878	684,739
Selling costs		227,947	242,184
Share-based compensation	12(ii)	754,827	383,310
Professional fees		261,132	293,009
Warranty (recovery) expense	11	(45,778)	193,451
Product development		534,862	236,181
Foreign exchange loss (gain)		28,048	(22,071)
Amortization and depreciation	7,8	165,929	142,672
Bad debt	5(i)	5,000	-
Total expenses		4,612,800	5,291,444
Operating loss		(4,041,549)	(4,793,475)
Inventory write-down	6	(2,746)	(24,629)
Intangible asset impairment		-	(7,934)
Interest expense on leases		(20,370)	(9,858)
Other income	10	226,899	52,385
Net loss for the year		(3,837,766)	(4,783,511)
Other comprehensive loss:			
Exchange difference arising on translation of foreign operations		30,334	(16,820)
Comprehensive loss for the year		(3,807,432)	(4,800,331)
Basic and diluted loss per share		(.04)	(.05)
Weighted average number of common shares outstanding, basic and diluted		107,256,318	101,898,276

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)

	Notes	Number of shares issued #	Share capital \$	Contributed surplus \$	Deficit \$	Accumulated other comprehensive loss \$	Total shareholders' equity \$
Balance at September 30, 2019		101,850,303	50,549,482	8,656,967	(51,315,016)	(103,962)	7,787,471
Options exercised		170,000	73,229	(28,329)	-	-	44,900
Share-based compensation	12(ii)	-	-	383,310	-	-	383,310
Net loss and comprehensive loss		-	-	-	(4,783,511)	(16,820)	(4,800,331)
Balance at September 30, 2020		102,020,303	50,622,711	9,011,948	(56,098,527)	(120,782)	3,415,350
Bought Deal offering	12(i)	13,800,000	9,655,000	695,000	-	-	10,350,000
Share issuance cost	12(i)	-	(1,380,090)	317,816	-	-	(1,062,274)
Options exercised	12(ii)	1,722,000	732,013	(294,896)	-	-	437,117
Share-based compensation	12(ii)	-	-	754,827	-	-	754,827
Net loss and comprehensive loss		-	-	-	(3,837,766)	30,334	(3,807,432)
Balance at September 30, 2021		117,542,303	59,629,634	10,484,695	(59,936,293)	(90,448)	10,087,588

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,	
		2021	2020
		\$	\$
Cash flows used in operating activities			
Loss for the year		(3,837,766)	(4,783,511)
Items not affecting cash:			
Share-based payment	12(ii)	754,827	383,310
Amortization and depreciation	7,8,9	210,119	238,529
Forgiveness of payroll protection loan	10	(169,754)	-
Provision for slow moving inventory	6	117,134	-
Warranty provision	11	(45,778)	154,654
Interest on lease liability	8	29,524	13,292
Accretion and interest on payroll protection loan	10	13,331	-
Bad debt expense	5(i)	5,000	-
Inventory write-down	6	2,746	24,629
Gain on sale of property and equipment		(834)	-
Loss on termination of lease	8	302	-
Foreign exchange gain		-	(37,606)
Intangible asset impairment		-	7,934
Changes in non-cash working capital items:			
Receivables, prepaids and deposits		316,103	(129,282)
Due from customers on contract		36,836	668,722
Inventory		(341,349)	32,824
Accounts payable and accrued liabilities		344,102	72,629
		<u>(2,565,457)</u>	<u>(3,353,876)</u>
Cash flows (used in) investing activities			
Purchase of property and equipment	7	(12,321)	(107,692)
Proceeds from disposal of property and equipment	7	1,597	-
Patent and trademarks	9	(17,619)	(4,721)
		<u>(28,343)</u>	<u>(112,413)</u>
Cash flows provided by (used in) financing activities			
Proceed from Bought Deal offering	12(ii)	10,350,000	-
Share issuance cost	12(ii)	(1,062,274)	-
Payroll protection program loan	11	-	166,507
Option exercise proceeds	12(ii)	437,117	44,900
Repayment of lease obligation	8	(162,569)	(157,675)
		<u>9,562,274</u>	<u>53,732</u>
Effects of foreign exchange translation in cash		32,662	21,025
Net change in cash and cash equivalents for the year		6,968,474	(3,412,557)
Cash and cash equivalents, beginning of year		2,286,005	5,677,537
Cash and cash equivalents, end of year		<u>9,287,141</u>	<u>2,286,005</u>

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

Legend Power Systems Inc.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2021 and 2020
(Expressed in Canadian Dollars)

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 and much of 2021, the U.S. and Canadian economies experienced significant disruption and/or 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.

As described in Note 2 of these consolidated 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.

The Company anticipates that other than supply chain constraints, the majority of its operations will not be materially impacted by COVID-19 during fiscal 2022. Supply chain issues have created challenges for the Company in securing certain inventory components at reasonable prices and in a timely manner, but this is viewed as a temporary condition which to date has not resulted in any lost business. Actual results could differ materially from these estimates, in which case the impact would be recognized in the consolidated financial statements in future periods.

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.

Legend Power Systems Inc.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2021 and 2020
(Expressed 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 consolidated 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. 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) 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.
- ii) 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
- iii) 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.

Legend Power Systems Inc.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2021 and 2020
(Expressed in Canadian Dollars)

- iv) Provision for future warranty expense was forecasted by management based on recent historical experience and expectations of future warranty claim activity.
- v) 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.
- vi) 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, 2021.
- vii) 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 either; i) the average gross margin achieved by the Company over the preceding two fiscal years or; ii) the implied gross margin specific to a multi system order. The relative fair value of product is the difference between total sale price to customer and fair value estimate of installation revenue.
- viii) 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.
- ix) 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.

Legend Power Systems Inc.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2021 and 2020
(Expressed in Canadian Dollars)

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

Item	Fiscal Years 2021 and 2020
Cash and cash equivalents	Amortized cost
Trade receivables and other 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, 2021.

Legend Power Systems Inc.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2021 and 2020
(Expressed in Canadian Dollars)

Inventory

Inventory consists of components, work in progress & finished sub-components 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.

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-

Legend Power Systems Inc.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2021 and 2020
(Expressed in Canadian Dollars)

term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

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 trademarks. 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.

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

Legend Power Systems Inc.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2021 and 2020
(Expressed in Canadian Dollars)

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

Legend Power Systems Inc.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2021 and 2020
(Expressed in Canadian Dollars)

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 method with respect to the measurement of common shares and share purchase warrants issued as units. Proceeds are first allocated to the common shares according to the fair value of the common shares at the time of issuance and any residual in the proceeds is allocated to warrants.

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.

When customer discounts are offered on contracts consisting of 2 or more discreet product units, the total discount is allocated to each unit based on relative stand-alone selling prices.

- 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.

Legend Power Systems Inc.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2021 and 2020
(Expressed in Canadian Dollars)

- 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 signed 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, which is based upon the residual amount of total transaction price after accounting for the fair value of installation services; and ii) installation services, either known in advance or is estimated based on historical 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.

Adoption of new accounting standards

There are no new standards or amendments to standards and interpretations issued by the IASB that are not yet effective that would be expected to have a material impact on the consolidated financial statements of the Company.

Legend Power Systems Inc.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2021 and 2020

(Expressed in Canadian Dollars)

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 year ended September 30, 2021, 96% of the Company’s revenues were attributable to Legend Canada (2020 – 64%) and 4% of revenues were attributable to Legend U.S. (2020 – 36%). 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, 2021				As at September 30, 2020			
	Legend Canada	Legend U.S.	Other Subs	Total	Legend Canada	Legend U.S.	Other Subs	Total
Assets	11,673,932	120,676	2,530	11,797,138	4,222,144	599,336	2,802	4,824,282
Liabilities	1,572,856	133,934	2,760	1,709,550	1,049,149	357,883	1,900	1,408,932

	Year ended September 30, 2021				Year ended September 30, 2020			
	Legend Canada	Legend U.S.	Other Subs	Total	Legend Canada	Legend U.S.	Other Subs	Total
Revenue	2,593,812	120,004	-	2,713,816	1,288,960	738,973	-	2,027,933
Cost of sales	(2,054,327)	(88,238)	-	(2,142,565)	(1,130,776)	(399,188)	-	(1,529,964)
Op costs	(3,233,255)	(1,355,670)	(23,875)	(4,612,800)	(3,600,492)	(1,684,228)	(6,722)	(5,291,442)
Other income (expense)	319,894	(116,111)	-	203,783	257,335	(247,373)	-	9,962
Net loss	(2,373,876)	(1,440,015)	(23,875)	(3,837,766)	(3,184,973)	(1,591,816)	(6,722)	(4,783,511)

5. RECEIVABLES

i) Trade receivables

Aging of trade receivables as follows:

Trade receivables	Total due	0-30 days	31-90 days	90+ days
	\$	\$	\$	\$
September 30, 2021	479,849	442,535	-	37,314
September 30, 2020	921,838	899,967	16,221	5,650

During the year ended September 30, 2021, the Company wrote off trade receivables in the amount of \$5,000 (2020 - \$nil) to bad debt and the expected credit loss was \$nil (2020 – \$nil).

At September 30, 2021, trade receivables from two customers accounted for 11% and 79% respectively of the Company’s trade receivable balance for a total 90% 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.

ii) Due from customers on contract

At September 30, 2021, due from customers on contract amounted to \$62,457 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.

Legend Power Systems Inc.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2021 and 2020

(Expressed in Canadian Dollars)

- iii) Other receivables at September 30, 2021
- a) the Company had applied and was approved for, but had not yet received certain Government of Canada Emergency Wage Subsidies in the amount of \$31,066;
 - b) the Company was allocated a rebate of \$46,375 by a US based utility which had not been received at September 30, 2021 (was subsequently received); and
 - c) the Company had advanced \$5,000 to an employee.

6. INVENTORY

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

	September 30, 2021	September 30, 2020
	\$	\$
Finished products ("SmartGATE")	12,686	9,376
Work in progress and finished sub-components	554,597	705,238
Transformers and components	706,980	483,670
	1,274,263	1,198,284

During the year ended September 30, 2021, inventories were recognized as cost of sales in the amount of \$914,900 (2020 -\$292,093). During the year ended September 30, 2021, the Company recorded an inventory impairment of \$2,746 (2020 – \$24,629) for damaged products against inventory. Further, the Company recorded a provision for slow-moving and obsolescence of \$117,134 (2020 - \$nil).

7. PROPERTY AND EQUIPMENT

	Computer equipment	Equipment and furniture	Leasehold improvements	Total
	\$	\$	\$	\$
Cost				
Balance, September 30, 2019	138,925	451,640	38,851	629,416
Additions	-	107,692	-	107,692
Adjustment	44	-	-	44
Balance, September 30, 2020	138,969	559,332	38,851	737,152
Additions	4,691	96,771	5,394	106,856
Disposal	-	(13,487)	-	(13,487)
Adjustment	(278)	-	-	(278)
Balance, September 30, 2021	143,382	642,616	44,245	830,243
Accumulated depreciation				
Balance, September 30, 2019	112,661	388,904	21,101	522,666
Additions	16,640	66,784	5,340	88,764
Adjustment	32	-	-	32
Balance, September 30, 2020	129,333	455,688	26,441	611,462
Additions	8,497	74,330	4,646	87,473
Disposal	-	(12,724)	-	(12,724)
Adjustment	(215)	-	-	(215)
Balance, September 30, 2021	137,615	517,294	31,087	685,996

Legend Power Systems Inc.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2021 and 2020
(Expressed in Canadian Dollars)

Net book value				
At September 30, 2020	9,636	103,644	12,410	125,690
At September 30, 2021	5,767	125,322	13,158	144,247

During the year ended September 30, 2021 additions to equipment and furniture includes \$94,535 relating to SmartGATE Insights units transferred from Inventory.

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 the date of transition to IFRS 16.

During fiscal 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 year ended September 30, 2021 the Company made lease obligation payments of \$152,638 (2020 - \$146,560), recorded \$114,587 (\$134,478) in depreciation (\$37,814 of which was allocated to inventory and cost of sales), and \$27,737 (2020 - \$11,522) in interest expense related to this lease liability (\$9,153 of which was allocated to Inventory and cost of sales).

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.

The Company has recognized CERS rent subsidies 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.

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. The Company recognized a loss on termination of lease for the amount of \$302 in other income (expense).

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.

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.

Legend Power Systems Inc.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2021 and 2020

(Expressed in Canadian Dollars)

During the year ended September 30, 2021 the Company made lease obligation payments of \$7,806 (2020 - \$9,158), recorded \$6,378 (2020 - \$8,405) in depreciation, and \$1,219 (2020 - \$1,102) in interest expense related to this lease liability.

During the year ended September 30, 2021, \$1,337 (2020 - \$2,101) and \$5,401 (2020 - \$6,304) respectively of depreciation and amortization were allocated to cost of goods sold.

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 year ended September 30, 2021 the Company made lease obligation payments of \$2,125 (2020 - \$1,957), recorded \$1,681 (2020 - \$1,681) in depreciation and \$568 (2020 - \$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.

Right of use Assets

	Office lease	Car lease	Equipment lease	Total
	\$	\$	\$	\$
Cost				
Balance, October 1, 2019	157,361	15,409	7,844	180,614
Effect of lease modification	40,542	-	-	40,542
Balance, 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, September 30, 2021	539,891	21,385	7,844	569,120
Accumulated depreciation				
Balance, 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	114,587	6,378	1,681	122,646
Reduction due to lease termination	-	(12,110)	-	(12,110)
Balance, September 30, 2021	249,065	2,673	3,362	255,100
Net book value				
At September 30, 2020	63,425	7,004	6,163	76,592
At September 30, 2021	290,826	18,712	4,482	314,020

Legend Power Systems Inc.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2021 and 2020
(Expressed in Canadian Dollars)

Lease Obligations

	Office lease	Car lease	Equipment lease	Total
	\$	\$	\$	\$
Balance, 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	(152,638)	(7,806)	(2,125)	(162,569)
Interest portion of payments	27,737	1,219	568	29,524
Additions	-	21,385	-	21,385
Termination of lease	-	(2,997)	-	(2,997)
Balance, September 30, 2021	279,952	19,154	4,998	304,104
Lease payable, current	105,646	4,810	1,720	112,176
Lease payable, non-current	174,306	14,344	3,277	191,927
Total lease payable	279,952	19,154	4,997	304,103

The future undiscounted minimum lease commitments for the Company's leases are as follows:

	Office lease	Car lease	Equipment lease	Total
	\$	\$	\$	\$
Less than 1 year	127,504	6,455	2,125	136,084
Between 2 and 3 years	187,040	12,910	3,542	203,492
Between 4 and 5 years	-	3,227	-	3,227
Total	314,544	22,592	5,667	342,803

9. INTANGIBLE ASSETS

During the fiscal year ended September 30, 2021 the Company incurred \$17,619 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.

During the fiscal year-ended 2020, 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. During Fiscal 2020 the Company expensed all product development costs.

Legend Power Systems Inc.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2021 and 2020
(Expressed in Canadian Dollars)

	Patents	Computer software	Total
	\$	\$	\$
Cost			
Balance, September 30, 2019	1,641,312	132,720	1,774,032
Additions	4,721	-	4,721
Impairment	(7,934)	-	(7,934)
Balance, September 30, 2020	1,638,099	132,720	1,770,819
Additions	17,619	-	17,619
Balance, September 30, 2021	1,655,718	132,720	1,788,438
Accumulated depreciation			
Balance, September 30, 2019	1,638,099	127,548	1,765,647
Amortization	-	5,172	5,172
Balance, September 30, 2020	1,638,099	132,720	1,770,819
Amortization	-	-	-
Balance, September 30, 2021	1,638,099	132,720	1,770,819
Carrying amount			
At September 30, 2020	-	-	-
At September 30, 2021	17,619	-	17,619

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 with a maturity date of May 1, 2022 (2-year term) and bearing interest at a rate of 1% was forgiven in full by Small Business Administration (SBA) on July 26, 2021. The funds were used for payroll costs. 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 year ended September 30, 2021, \$11,827 (2020 - \$5,955) related to accretion of the loan carrying value was recorded to other income and \$1,504 (2020 - \$812) interest expense was accrued.

Legend Power Systems Inc.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2021 and 2020
(Expressed in Canadian Dollars)

	Total
	\$
Balance, September 30, 2019	-
Additions	165,117
Accretion expense	5,955
Interest expense	812
Adjustment	(6,837)
Balance, September 30, 2020	165,047
Accretion expense	11,827
Interest expense	1,504
Loan forgiveness	(169,754)
Adjustment	(8,624)
Additions	-
Balance, September 30, 2021	-

During fiscal year 2021 the Company received a total of \$394,107 (fiscal year 2020 - \$444,679) in COVID related subsidies from the Government of Canada which has been recorded as an offset to salaries and consulting, and general and overhead.

11. WARRANTY PROVISION

	Total
	\$
Balance, September 30, 2019	344,500
Warranty fulfillment	(38,794)
Additional provision	193,451
Balance, September 30, 2020	499,154
Warranty fulfillment	(50,953)
Decrease in provision	(45,778)
Balance, September 30, 2021	402,423
Warranty provision, current	58,563
Warranty provision, non-current	343,860
Total	402,423

The Company provides a variable length warranty on its equipment of between 3 and 10-years. The warranty provision will be used to fulfill warranty claims, should they arise, over the warranty period provided to customers. As at September 30, 2021, the average remaining years of equipment under warranty was 5.92 years (September 30, 2020 – 6.39 years).

Legend Power Systems Inc.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2021 and 2020
(Expressed in Canadian Dollars)

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, 2021, the Company had 117,542,303 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.

On June 15, 2021, the Company completed a bought deal public offering by issuing a total of 13.8 million units, including the exercise of the underwriters' overallotment option, for gross proceeds of \$10,350,000. Each unit consists of one common share of the company and one-half of one common share purchase warrant. Each warrant entitles the holder thereof to purchase one common share at an exercise price of \$0.95 at any time up to 24 months following the closing date of the offering. The Company incurred a total \$1,380,090 share issuance costs, of which \$317,816 relates to the issuance of 816,800 finders' warrants (Note 12(iii)).

During the year ended September 30, 2021, a total of 1,722,000 shares were issued upon the exercise of stock options.

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.

During the year ended September 30, 2021 the following stock options were granted:

- December 22, 2020 - 2,225,000 with an exercise price of \$0.47 and a 5-year term¹;
- On March 15, 2021 - 150,000 with an exercise price of \$0.65 and a 5-year term¹;
- On April 26, 2021 - 30,000 with an exercise price of \$0.84 and a 5-year term¹;
- On June 16, 2021 - 80,000 with an exercise price of \$0.70 and a 5-year term¹;
- On July 2, 2021 - 300,000 with an exercise price of \$0.75 and a 5-year term¹; and
- On July 2, 2021 - 300,000 with an exercise price of \$0.75 and a 3-year term².

The options granted during the year ended September 30, 2021 vest as to:

¹ 1/6 vest on the 6-month anniversary of grant and each 6-month anniversary thereafter

² 1/4 vest on the 3-month anniversary of grant and each 3-month anniversary thereafter

Legend Power Systems Inc.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2021 and 2020

(Expressed in Canadian Dollars)

A summary of the Company's share options outstanding at September 30, 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	3,257,544	0.53
Exercised	(1,722,000)	0.25
Expired	(141,666)	0.69
Forfeited	(557,400)	0.41
Balance, September 30, 2021	8,198,146	0.40

The weighted average remaining contractual life of stock options outstanding as of September 30, 2021 is 2.82 years (September 30, 2020 – 1.59 years).

During the year ended September 30, 2021 \$754,827 (2020 - \$383,310) was recorded to share-based compensation expense for vesting of incentive stock options.

During the year ended September 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) 72,544 now vest based on meeting performance criteria on or before April 30, 2021 (criteria met), which was previously April 1, 2021 and ii) 72,544 vest based on meeting performance criteria on or before August 31, 2021 (criteria met), which was previously July 1, 2021.

During fiscal 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 years ended September 30, 2021 and 2020:

	September 30, 2021	September 30, 2020
Risk-free interest rate (average)	0.44%	0.28 - 1.61%
Estimated volatility (average)	99%	89%
Expected life (average)	3.65	3.65
Forfeiture rate (average)	20.58%	20.52%
Dividend rate (average)	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.

Legend Power Systems Inc.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2021 and 2020
(Expressed in Canadian Dollars)

The following table summarizes share options outstanding and exercisable at September 30, 2021:

Options outstanding	Options exercisable	Exercise price	Year of expiry
		\$	
1,575,000	1,575,000	0.26 - 0.75	2022
595,000	595,000	0.38 - 0.92	2023
2,905,000	1,742,500	0.18 - 0.75	2024
2,593,146	682,345	0.17 - 0.47	2025
530,000	31,667	0.65 - 0.84	2026
8,198,146	4,626,512		

iii) Warrants

The continuity of share purchase warrants is as follows:

	Warrants	Weighted average exercise price
		\$
Balance, September 30, 2019	703,410	0.80
Expired	(703,410)	0.80
Balance, September 30, 2020	-	-
Issued	7,716,800	0.95
Balance, September 30, 2021	7,716,800	0.95

Warrants outstanding	Warrants exercisable	Exercise price	Year of expiry
		\$	
7,716,800	7,716,800	0.95	2023
7,716,800	7,716,800		

The weighted average remaining contractual life of warrants outstanding as of September 30, 2021 is 1.71 years.

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.

During June 2021, the Company issued:

- a) 6,900,000 unit warrants in connection with the bought deal public offering and overallotment option which based on the residual method were fair valued at \$695,000 and recorded in contributed surplus; and
- b) 816,800 warrants to the underwriters of the offering fair valued at \$0.3891 each for a total of \$317,816 which was recorded in contributed surplus. The warrants were valued on the date of issuance using the Black-Scholes option-pricing model with the following assumptions:

Legend Power Systems Inc.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2021 and 2020
(Expressed in Canadian Dollars)

	September 30, 2021	September 30, 2020
Risk-free interest rate	0.32%	-
Estimated volatility	111%	-
Expected life	2.00	-
Forfeiture rate	0.00%	-
Dividend rate	0.00%	-

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 years ended September 30, 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:

	2021	2020
	\$	\$
Salaries and consulting fees to key management personnel	494,125	413,250
Share-based compensation	215,797	98,262
Car allowance	7,200	4,800
	717,122	516,312

(ii) Transactions with Directors:

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

	2021	2020
	\$	\$
Share-based compensation	171,704	70,908
	171,704	70,908

Legend Power Systems Inc.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2021 and 2020

(Expressed in Canadian Dollars)

At September 30, 2021, a total of \$NIL (September 30, 2020 - \$14,569) was due to related parties for consulting fees and expenses reimbursement.

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, 2021 and September 30, 2020:

	2021	2020
	\$	\$
Net loss before tax	(3,837,766)	(4,783,511)
Statutory tax rate	26.7%	26.7%
Expected income tax (recovery)	(1,023,404)	(1,275,602)
Non-deductible and other items	172,548	105,912
Change in tax rates	270,561	(13,241)
Effect of foreign jurisdiction tax rates	(8,205)	-
Effect of foreign exchange	85,688	(93,607)
Share issuance costs	(367,801)	-
Change in estimates	(2,696)	227,311
Change in deferred tax asset not recognized	873,309	1,049,227
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:

	2021	2020
	\$	\$
Net operating losses carryforwards and non-capital loss carryforwards	83,739	50,407
Inventory	-	(17,428)
Property and equipment	-	(395)
Intercompany balances	-	(12,161)
Right to Use Assets	(83,739)	(20,423)
Net deferred tax assets (liabilities)	-	-

The unrecognized deductible temporary differences as at September 30, 2021 and September 30, 2020 is comprised of the following:

	2021	2020
	\$	\$
Net operating losses carryforward and non-capital losses carryforwards	38,612,082	34,899,766
Intangible assets	127	1,642,961
Financing Costs	1,292,343	376,473
Property and Equipment	1,386,969	1,717,065
Lease liabilities	304,103	76,939
Capital losses	479,254	479,254
Inventory	70,168	-
Warranty Provision	402,423	499,150
Total unrecognized deductible temporary differences	42,547,469	39,691,608

Legend Power Systems Inc.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2021 and 2020
(Expressed in Canadian Dollars)

The Company has not recognized a deferred tax asset in respect of non-capital loss carryforwards of approximately \$38,612,082 (2020: \$34,899,766) 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	\$
2022	93,942
2023	82,243
2024	13,790
2025	39,367
2026	1,542,098
2027	717,734
2028	1,446,958
2029	1,916,941
2030	2,892,303
2031	2,791,344
2032	2,245,572
2033	2,114,505
2034	1,710,223
2035	2,059,193
2036	2,070,911
2037	1,663,929
2038	1,381,356
2039	2,011,450
2040	2,964,327
2041	2,118,365
Indefinite	6,735,531
Total	38,612,082

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, accrued liabilities and payroll protection loan program. 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, 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 fiscal year ended September 30, 2021 by approximately \$132,390 (year ended September 30, 2020 - \$138,205).

Legend Power Systems Inc.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2021 and 2020

(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 short term interest rates, which during the fiscal year ended September 30, 2021 averaged 0.64% (2020 – 1.68%). A 1% nominal change in interest rates would have affected the Company's results of operations for the the year ended September 30, 2021 by approximately \$17,300 (2020 - \$22,926). 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, 2021, trade receivables from two of our customers accounted for 11% and 79% respectively of the Company's trade receivables balance for a total 90% 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 September 30, 2021 (September 30, 2020 – nominal).

Concentration risk

Two customers accounted for 15%, and 57% of the Company's revenues for the year ended September 30, 2021 compared with 11%, 13% and 32% of the Company's revenues for the year ended September 30, 2020.

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, 2021 the Company had cash and cash equivalents of \$9,287,141 (September 30, 2020 – \$2,286,005) to settle its current liabilities of \$1,173,763 (September 30, 2020 – \$857,626). The following table summarizes the amount of contractual undiscounted future cash flow requirements as at September 30, 2021 and 2020:

As at September 30, 2021	Carrying amount	Contractual cash flows	Less than 1 year	1 to 3 years
Account payable	634,655	634,655	634,655	-
Accrued liabilities	355,780	355,780	355,780	-

As at September 30, 2020	Carrying amount	Contractual cash flows	Less than 1 year	1 to 3 years
Account payable	365,800	365,800	365,800	-
Accrued liabilities	302,158	302,158	302,158	-
Payroll protection loan	165,047	194,041	-	194,041

Legend Power Systems Inc.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2021 and 2020
(Expressed in Canadian Dollars)

17. LOSS PER SHARE

	2021	2020
	\$	\$
Basic	(.04)	(.05)
Diluted	(.04)	(.05)
Weighted average common shares outstanding - basic and diluted	107,256,318	101,898,276

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)) and warrants (note 12(iii)).

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

Subsequent to September 30, 2021 the Company granted 360,000 incentive stock options with an exercise price of \$0.39 and a term of 5-years.