



Legend Power Systems Inc.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS For the three and nine months ended June 30, 2021 and 2020

(Expressed in Canadian Dollars)

Legend Power Systems Inc.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three and nine months ended June 30, 2021 and 2020

(Unaudited - Expressed in Canadian Dollars)

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

The accompanying unaudited condensed interim consolidated financial statements of Legend Power Systems Inc. for the three and nine months ended June 30, 2021 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 three and nine month periods ended June 30, 2021.

Legend Power Systems Inc.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited - Expressed in Canadian Dollars)

	Notes	June 30, 2021 \$	September 30, 2020 \$
ASSETS			
Current assets			
Cash and cash equivalents		10,380,637	2,286,005
Trade and other receivables	5(i)(iii)	1,161,576	973,446
Due from customers on contract	5(ii)	550,563	99,293
Prepaid expenses and deposits		92,085	64,971
Inventory	6	808,184	1,198,284
Total current assets		12,993,045	4,621,999
Property and equipment	7	145,337	125,691
Right of use assets	8	344,860	76,592
Intangible assets	9	15,699	-
Total assets		13,498,941	4,824,282
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable		765,792	365,800
Accrued liabilities		732,708	302,158
Deferred revenue		984	-
Lease liabilities	8	118,278	71,776
Warranty provision	11	51,370	117,892
Total current liabilities		1,669,132	857,626
Non-current liabilities			
Warranty provision	11	495,053	381,262
Payroll protection loan	10	165,247	165,047
Lease liabilities	8	219,147	4,997
Total liabilities		2,548,579	1,408,932
Shareholders' equity			
Share capital	12(i)	59,639,215	50,622,711
Contributed surplus		10,294,725	9,011,948
Accumulated other comprehensive loss		(81,814)	(120,782)
Deficit		(58,901,764)	(56,098,527)
Total shareholders' equity		10,950,362	3,415,350
Total liabilities and shareholders' equity		13,498,941	4,824,282

Nature of Business and Going concern (Note 1)

Segments (Note 4)

Commitments and Contingencies (Note 13)

Subsequent events (Note 18)

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

"Cos LaPorta", Director

"Randy Buchamer", Director

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

Legend Power Systems Inc.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

(Unaudited - Expressed in Canadian Dollars)

	Notes	For the three-months ended		For the nine-months ended	
		June 30,		June 30,	
		2021	2020	2021	2020
		\$	\$	\$	\$
Revenue		1,272,192	1,548	2,520,562	1,681,236
Cost of sales		926,609	-	1,884,413	1,326,031
Gross margin		345,583	1,548	636,149	355,205
Expenses					
Salaries and consulting		588,816	532,582	1,490,392	2,575,269
General and overhead		124,573	72,394	365,840	594,293
Selling costs		59,500	35,071	153,442	205,604
Share-based compensation	12(i)	194,292	120,245	564,857	267,177
Professional fees		54,607	116,028	196,855	292,504
Warranty expense	11	60,919	(13,941)	80,657	68,391
Product development		155,886	75,357	418,094	203,663
Foreign exchange gain		3,961	1,479	34,320	779
Amortization and Depreciation	7,8	43,215	44,443	121,850	132,500
Bad debt	5(i)	-	-	5,000	-
Total expenses		1,285,769	983,658	3,431,307	4,340,180
Operating loss		(940,186)	(982,110)	(2,795,158)	(3,984,975)
Inventory write-down	6	-	(36,703)	(2,746)	(61,093)
Intangible asset impairment		-	-	-	-
Interest expense on leases		(6,001)	(3,398)	(14,931)	(12,838)
Other income (expense)		(429)	6,969	9,598	44,839
Net loss for the period		(946,616)	(1,015,242)	(2,803,237)	(4,014,067)
Other comprehensive loss:					
Exchange difference arising on translation of foreign operations		11,177	(3,514)	38,968	18,976
Comprehensive loss for the period		(935,439)	(1,018,756)	(2,764,269)	(3,995,091)
Basic and diluted loss per share		(.009)	(.010)	(.027)	(.039)
Weighted average number of common shares outstanding, basic and diluted		103,647,372	101,871,081	103,034,668	101,857,128

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

Legend Power Systems Inc.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Unaudited – 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 (Audited)		101,850,303	50,549,482	8,656,967	(51,315,016)	(103,962)	7,787,471
IFRS 16 adjustment		-	-	-	(22,766)	-	(22,766)
Options exercised		170,000	73,229	(28,330)	-	-	44,899
Share-based compensation	12(i)	-	-	267,177	-	-	267,177
Net loss and comprehensive loss		-	-	-	(4,014,067)	18,976	(3,995,091)
Balance at June 30, 2020		102,020,303	50,622,711	8,895,814	(55,351,849)	(84,986)	4,081,690
Balance at September 30, 2020 (Audited)		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)	-	(1,370,509)	317,816	-	-	(1,052,693)
Options exercised		1,722,000	732,013	(294,896)	-	-	437,117
Share-based compensation	12(i)	-	-	564,857	-	-	564,857
Net loss and comprehensive loss		-	-	-	(2,803,237)	38,968	(2,764,269)
Balance at June 30, 2021		117,542,303	59,639,215	10,294,725	(58,901,764)	(81,814)	10,950,362

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

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

	Notes	For the nine-months ended, June 30,	
		2021 \$	2020 \$
Cash flows used in operating activities			
Loss for the period		(2,803,237)	(4,014,067)
Items not affecting cash:			
Amortization and depreciation	7,8	156,216	173,032
Share-based payment	12(ii)	564,857	267,177
Warranty provision	11	78,306	27,360
Inventory write-down		2,746	61,093
Interest on lease liability	6	21,705	12,838
Accretion of payroll protection loan	8	12,143	321
Gain on sale of property and equipment	10	(835)	-
Loss on termination of lease		303	-
Bad debt expense	5(i)	5,000	-
Changes in non-cash working capital items:			
Receivables, prepaids and deposits		(241,309)	394,698
Due from customers on contract		(451,270)	466,280
Inventory		279,377	79,847
Accounts payable and accrued liabilities		843,009	33,720
		<u>(1,532,989)</u>	<u>(2,497,701)</u>
Cash flows provided by (used in) investing activities			
Purchase of property and equipment	7	(7,944)	(74,809)
Proceeds from disposal of property and equipment		1,597	-
Patent and trademarks	9	(15,699)	(4,721)
		<u>(22,046)</u>	<u>(79,530)</u>
Cash flows provided by (used in) financing activities			
Proceed from public offering	12(ii)	10,350,000	-
Share issuance cost	12(ii)	(1,052,693)	-
Payroll protection program loan	11	-	195,597
Option exercise proceeds	12(ii)	437,117	44,899
Repayment of lease liabilities		(121,429)	(117,696)
		<u>9,612,995</u>	<u>122,800</u>
Effects of foreign exchange translation in cash		36,672	19,009
Net change in cash and cash equivalents for the period		<u>8,057,960</u>	<u>(2,454,431)</u>
Cash and cash equivalents, beginning of period		<u>2,286,005</u>	<u>5,677,537</u>
Cash and cash equivalents, end of period		<u>10,380,637</u>	<u>3,242,115</u>

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

Legend Power Systems Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the nine months ended June 30, 2021 and 2020

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

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

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

As described in Note 2 of these financial statements, management makes estimates and assumptions in preparing the financial statements. These estimates and assumptions have been made taking into consideration the economic impact of the COVID-19 pandemic and the significant economic volatility and uncertainty it has created. In spite of the impact COVID-19 has had on the Canadian and U.S. economies, management estimates limited impact to its operations in fiscal 2021. Actual results could differ materially from these estimates, in which case the impact would be recognized in the consolidated financial statements in future periods.

Going concern uncertainty

These condensed interim consolidated financial statements of the Company for the nine months ended June 30, 2021 and 2020 (“financial statements”) have been prepared on a going concern basis that presumes the realization of assets and discharge of liabilities in the normal course of business. The financial statements do not include any adjustments to the amounts and classification of assets and liabilities that would be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

As at June 30, 2021, the Company has an accumulated deficit of \$58,901,764 (September 30, 2020 – \$56,098,527), and for the nine months ended June 30, 2021, recorded a net loss of \$2,803,237 (nine months ended June 30, 2020 net loss – \$4,014,067) and negative cash flows from operations of \$1,532,989 (nine months ended June 30, 2020 – \$2,497,701). Whether, and when, the Company can attain profitability and positive cash flows from operations is subject to material uncertainty. The application of the going concern assumption is dependent upon the Company’s ability to generate future profitable operations and obtain necessary financing to do so. The Company will need to raise additional

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

2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

Basis of consolidation

The condensed interim consolidated financial statements include the accounts of the Company and all of its subsidiaries. The subsidiaries of the Company are as follows:

Legend Power Systems Corp. – (USA) active	100%
0809882 B.C. Ltd. – (Canada) inactive	100%
LPSI (Barbados) Limited – (Barbados) inactive	100%

Assets, liabilities, revenue, and expenses of the subsidiaries are recognized in accordance with the Company's accounting policies. Inter-company transactions and balances are eliminated upon consolidation.

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

The functional currency of the Company, and its Canadian and Barbados subsidiaries is the Canadian dollar. The functional currency of the Company's U.S. subsidiary is the United States dollar. The condensed interim consolidated financial statements are presented in Canadian dollars.

Critical judgments and sources of estimation uncertainty

The preparation of these condensed interim consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the condensed interim consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These condensed interim consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the condensed interim consolidated financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Legend Power Systems Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the nine months ended June 30, 2021 and 2020

(Unaudited - Expressed in Canadian Dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the condensed interim consolidated financial statements are consistent with those followed in the preparation of the Company's annual consolidated financial statements for the year ended September 30, 2020, with the exception of:

Warrants issued in equity financing 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.

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 nine months ended June 30, 2021 95% of the Company's revenues were attributable to Legend Canada (2020 – 61%) and 5% of revenues were attributable to Legend U.S. (2020 – 39%). Each reportable segment derives its revenue from the sale and installation of the SmartGATE™ products. Transfer prices between operating segments are calculated on a non-arm's length basis.

	As at June 30, 2021				As at September 30, 2020			
	Legend Canada	Legend U.S.	Other Subs	Total	Legend Canada	Legend U.S.	Other Subs	Total
Assets	\$ 13,406,663	\$ 87,219	\$ 5,059	\$ 13,498,941	\$ 4,222,144	\$ 599,337	\$ 2,801	\$ 4,824,282
Liabilities	2,304,772	241,046	2,761	2,548,579	1,049,149	357,883	1,900	1,408,932

	Three months ended June 30, 2021				Three months ended June 30, 2020			
	Legend Canada	Legend U.S.	Other Subs	Total	Legend Canada	Legend U.S.	Other Subs	Total
Revenue	\$ 1,269,273	\$ 2,919	\$ -	\$ 1,272,192	\$ 1,548	\$ -	\$ -	\$ 1,548
Cost of sales	(926,609)	-	-	(926,609)	-	-	-	-
Op costs	(930,228)	(342,792)	(12,749)	(1,285,769)	(660,398)	(324,250)	990	(983,658)
Other income (expense)	103,564	(109,994)	-	(6,430)	19,614	(52,746)	-	(33,132)
Net loss	(484,000)	(449,867)	(12,749)	(946,616)	(639,236)	(376,996)	990	(1,015,242)

	Nine months ended June 30, 2021				Nine months ended June 30, 2020			
	Legend Canada	Legend U.S.	Other Subs	Total	Legend Canada	Legend U.S.	Other Subs	Total
Revenue	\$ 2,401,439	\$ 119,123	\$ -	\$ 2,520,562	\$ 1,033,878	\$ 647,358	\$ -	\$ 1,681,236
Cost of sales	(1,796,175)	(88,238)	-	(1,884,413)	(1,026,768)	(299,263)	-	(1,326,031)
Op costs	(2,494,858)	(917,465)	(18,984)	(3,431,307)	(2,825,814)	(1,510,946)	(3,420)	(4,340,180)
Other income (expense)	210,226	(218,305)	-	(8,079)	163,405	(192,497)	-	(29,092)
Net loss	(1,679,368)	(1,104,885)	(18,984)	(2,803,237)	(2,655,299)	(1,355,348)	(3,420)	(4,014,067)

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

5. RECEIVABLES

i) Trade receivables

Aging of trade receivables as follows:

Trade receivables	Total due	0-30 days	31-90 days	90+ days
	\$	\$	\$	\$
June 30, 2021	1,145,825	1,126,367	-	19,458
September 30, 2020	921,838	899,967	16,221	5,650

During the three and nine months ended June 30, 2021, the Company wrote off trade receivables in the amount of \$nil (Q3 2020 - \$nil) and \$5,000 (nine months ended June 30, 2020 - \$nil) respectively to bad debt and the expected credit loss at June 30, 2021 was nominal (2020 – nominal).

ii) Due from customers on contract

At June 30, 2021, due from customers on contract totaled \$550,563 and at September 30, 2020, was \$99,293. These amounts relate to equipment delivered and/or installation services performed for sales where revenue has been recognized, and customers had not yet been invoiced.

iii) Other receivables

At June 30, 2021, the Company had applied and was approved for, but had not yet received the Canada Emergency Rent Subsidy (CERS) for the months April and May 2021, totaling \$10,750 (September 30, 2020 - \$nil) which is included in receivables in the statement of financial position. An employee loan of \$5,000 secured by a promissory note with an interest rate of 0% and maturing August 31, 2021 is also included in Other receivables (September 30, 2020 – \$nil).

6. INVENTORY

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

	June 30, 2021	September 30, 2020
	\$	\$
Finished products ("SmartGATE")	-	9,376
Finished sub-components	230,886	705,238
Transformers and components	577,298	483,670
Total inventory	808,184	1,198,284

During the three and nine months ended June 30, 2021, inventories were recognized as cost of sales in the amount of \$192,362 (Q3 2020 - \$nil) and \$773,377 (nine months ended June 30, 2020 – \$156,268) respectively. During the three and nine months ended June 30, 2021 the Company recorded an inventory impairment of \$nil (Q3 2020 - \$36,703) and \$2,746 (nine months ended June 30, 2020 - \$61,093) respectively.

Legend Power Systems Inc.

Notes to the Condensed Interim Consolidated Financial Statements

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(Unaudited - Expressed in Canadian Dollars)

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	2,550	76,940	5,394	84,884
Disposal	-	(13,487)	-	(13,487)
Adjustment	(439)	-	-	(439)
Balance, June 30, 2021	141,080	622,785	44,245	808,110
Accumulated depreciation				
Balance, September 30, 2019	112,661	388,904	21,101	522,666
Additions	16,669	66,784	5,340	88,793
Adjustment	2	-	-	2
Balance, September 30, 2020	129,332	455,688	26,441	611,461
Additions	7,025	53,904	3,480	64,409
Disposal	-	(12,724)	-	(12,724)
Adjustment	(373)	-	-	(373)
Balance, June 30, 2021	135,984	496,868	29,921	662,773
Net book value				
At September 30, 2020	9,637	103,644	12,410	125,691
At June 30, 2021	5,096	125,917	14,324	145,337

8. RIGHT OF USE ASSETS AND LEASE LIABILITIES

Office lease

The Company entered into a 3-year Vancouver head office lease on April 1, 2018. The Company's estimated incremental borrowing rate at the inception of the lease of 10% has been used to determine the present value of the minimum lease payments which was determined to be \$157,361 as of October 1, 2019.

During the nine months ended June 30, 2021, the Company renegotiated the lease, extending it for an additional 3-years, resulting in a modification in the amount of \$341,988 to the right-of-use asset and to the lease liability. The Company's estimated incremental borrowing rate at the extension date of the lease was 10% which has been used to determine the present value of the minimum lease payments. Also, during the three and nine months ended June 30, 2021 the Company made lease obligation payments of \$38,994 (Q3 2020 - \$37,324) and \$113,643 (nine months ended June 30, 2020 - \$109,235) respectively, recorded \$31,182 (Q3 2020 - \$34,355) and \$85,504 (Q3 2020 - \$94,897) respectively in depreciation, \$28,216 of which was allocated to inventory and \$7,987 (Q3 2020 - \$2,726) and \$20,531 (nine months ended June 30, 2020 - \$9,668) respectively in interest expense related to this lease liability of which \$6,775 was allocated to Inventory.

The Company entered into a 379-day Toronto regional office lease on December 18, 2017 which at the Company's option was extended for a one-year period to December 31, 2019. The Company utilized the practical expedient for short-term leases and on adoption it was not capitalized due to the fact its

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remaining lease term would be less than 12 months as at October 1, 2019. Remaining lease payments of \$9,000 were expensed as incurred.

Car leases

The Company entered into a 4-year car lease on August 1, 2017. The Company's estimated incremental borrowing rate at the inception of the lease of 10% has been used to determine the present value of the minimum lease payments which was determined to be \$15,409 as of October 1, 2019. On March 9, 2021, it was decided that the lease would not be renewed and the vehicle was returned on March 19, 2021, thereby terminating the lease contract.

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

During the three and nine months ended June 30, 2021 the Company made lease obligation payments of \$1,614 (Q3 2020 - \$2,289) and \$6,192 (nine months ended June 30, 2020 - \$6,868) respectively, recorded \$1,337 (Q3 2020 - \$2,101) and \$5,042 (nine months ended June 30, 2020 - \$6,304) respectively in depreciation and \$512 (Q3 2020 - \$251) and \$734 (nine months ended June 30, 2020 - \$902) respectively in interest expense related to this lease liability.

During the three and nine months ended June 30, 2021, \$1,337 (Q3 2020 - \$2,101) and \$5,401 (nine months ended June 30, 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 three and nine months ended June 30, 2021 the Company made lease obligation payments of \$531 (Q3 2020 - \$531) and \$1,594 (nine months ended June 30, 2020 - \$1,594) respectively, recorded \$420 (Q3 2020 - \$420) and \$1,261 (nine months ended June 30, 2020 - \$1,261) respectively in depreciation and \$137 (Q2 2020 - \$175) and \$440 (nine months ended June 30, 2020 - \$550) respectively in interest expense related to this lease liability.

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

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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	-	(15,408)	-	(15,408)
Balance, June 30, 2021	539,891	21,386	7,844	569,121
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	85,504	5,042	1,261	91,807
Reduction due to lease termination	-	(12,110)	-	(12,110)
Balance, June 30, 2021	219,982	1,337	2,942	224,261
Net book value				
At September 30, 2020	63,425	7,004	6,163	76,592
At June 30, 2021	319,909	20,049	4,902	344,860
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	(113,643)	(6,192)	(1,594)	(121,429)
Interest portion of payments	20,531	734	440	21,705
Additions	-	21,385	-	21,385
Termination of lease	-	(2,997)	-	(2,997)
Balance, June 30, 2021	311,741	20,283	5,401	337,425
Lease payable, current	111,909	4,691	1,678	118,278
Lease payable, non-current	199,832	15,592	3,723	219,147
Total lease payable	311,741	20,283	5,401	337,425

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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	136,439	6,455	2,125	145,019
Between 2 and 3 years	217,100	12,910	4,073	234,083
Between 4 and 5 years	-	4,841	-	4,841
Total	353,539	24,206	6,198	383,943

9. INTANGIBLE ASSETS

During the nine months ended June 30, 2021 the Company incurred \$15,699 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.

	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	15,699	-	15,699
Balance, June 30, 2021	1,653,798	132,720	1,786,518
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, June 30, 2021	1,638,099	132,720	1,770,819
Carrying amount			
At September 30, 2020	-	-	-
At June 30, 2021	15,699	-	15,699

10. PAYROLL PROTECTION PROGRAM LOAN and COVID SUBSIDIES

On April 30, 2020, the Company received a loan in the amount of \$201,507 (US\$144,865) pursuant to the United States Coronavirus Aid, Relief, and Economic Security Act's (the CARES Act), Paycheck Protection Program (PPP). The loan matures on May 1, 2022 (2-year term) and bears interest at a rate of 1%. The loan is forgivable in circumstances where the funds are used for payroll costs, interest on mortgages, rent and utilities and that at least 75% of the forgiven amount must have been used for payroll. At June 30, 2021, the carrying value of the loan is \$165,247 (September 30, 2020 - \$165,047) which includes a foreign currency adjustment of \$31,919. On initial recognition, the Company measured the loan at its fair value of \$165,117, which was the present value of the proceeds received discounted at the market rate of interest, which the Company deemed to be 10%. In connection with the loan, during the three and nine months ended June 30, 2021, \$3,584 (Q3 2020 - \$nil) and \$10,768 (nine months ended June 30, 2020 -

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\$nil) respectively related to accretion of the loan carrying value was recorded to Other income and \$445 (Q3 2020 - \$325) and \$1,375 (nine months ended June 30, 2020 - \$325) respectively of interest was accrued in connection with the loan. No payments were required or made during the period.

During the three and nine months ended June 30, 2021 the Company received a total of \$76,173 (Q3 2020 - \$257,081) and \$342,499 (nine months ended June 30, 2020 - \$257,081) respectively in COVID related subsidies from the Government of Canada which has been recorded as an offset to salaries and consulting, and general and overhead.

11. WARRANTY PROVISION

	Total
	\$
Balance, September 30, 2019	344,500
Warranty fulfillment	(38,797)
Additional provision	193,451
Balance, September 30, 2020	499,154
Warranty fulfillment	(33,388)
Additional provision	80,657
Balance, June 30, 2021	546,423
Warranty provision, current	51,370
Warranty provision, non-current	495,053
Total	546,423

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 June 30, 2021, the average remaining years of equipment under warranty was 6.13 years (September 30, 2020 – 6.39 years).

12. SHARE CAPITAL AND CONTRIBUTED SURPLUS

i) Share Capital

The Company's authorized share capital is an unlimited number of common shares without par value. At June 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 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 \$1,370,509 share issuance costs, of which \$317,816 relates to the issuance of 816,800 finders' warrants (Note 12(iii)).

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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, 2021, including the changes during the period, is as follows:

	Share options	Weighted average exercise price
		\$
Balance, September 30, 2019	6,993,333	0.32
Granted	1,690,000	0.32
Exercised	(170,000)	0.26
Expired	(425,000)	0.28
Forfeited	(726,665)	0.38
Balance, September 30, 2020	7,361,668	0.32
Granted	2,657,544	0.48
Exercised	(1,722,000)	0.25
Expired	(141,666)	0.69
Forfeited	(549,066)	0.41
Balance, June 30, 2021	7,606,480	0.37

The weighted average remaining contractual life of stock options outstanding as of June 30, 2021 is 3.16 years.

During the three and nine months ended June 30, 2021 \$194,292 (Q3 2020 - \$120,245) and \$564,857 (nine months ended June 30, 2020 - \$267,177) respectively was recorded to share-based compensation expense for vesting of incentive stock options.

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

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

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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, 2021 and 2020:

	June 30, 2021	June 30, 2020
Risk-free interest rate (average)	0.38%	1.32%
Estimated volatility (average)	98%	85%
Expected life (average)	3.74	3.69
Forfeiture rate (average)	21.15%	19.98%
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.

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

Options outstanding	Options exercisable	Exercise price	Year of expiry
		\$	
305,000	305,000	0.26 - 0.75	2022
1,865,000	1,802,500	0.27 - 0.92	2023
2,605,000	1,661,667	0.18 - 0.46	2024
2,596,480	594,802	0.17 - 0.47	2025
235,000	5,000	0.65 - 0.84	2026
7,606,480	4,368,969		

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, June 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 June 30, 2021 is 1.96 years.

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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 7,716,800 warrants in connection with a public offering and overallotment option. 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.

13. COMMITMENTS AND CONTINGENCIES

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

The Company has a management services agreement with the CFO of the Company that contains severance provisions whereby termination without cause could result in additional costs to the Company unless re-negotiated or settled otherwise.

14. RELATED PARTY DISCLOSURES

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

The Company entered into the following related party transactions during the three and nine months ended June 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:

	Three months ended June 30,		Nine months ended June 30,	
	2021	2020	2021	2020
	\$	\$	\$	\$
Salaries and consulting fees to key management personnel	178,750	97,875	385,375	315,375
Share-based compensation	85,320	54,779	171,448	109,557
Car allowance	2,400	-	4,800	4,800
	266,470	152,654	561,623	429,732

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(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,	
	2021	2020	2021	2020
	\$	\$	\$	\$
Directors' fee	-	-	-	-
Share-based compensation	88,343	41,661	133,841	73,223
	88,343	41,661	133,841	73,223

At June 30, 2021, a total of \$37,188 (September 30, 2020 - \$14,569) was due to related parties for consulting fees and expenses reimbursement.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments

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

Risk management

The risks associated with these financial instruments and the policies regarding their management are discussed below. Management monitors these risk exposures to ensure appropriate measures are implemented in a timely and effective manner.

Foreign currency risk

The Company is exposed to the US dollar versus Canadian dollar exchange rate fluctuation risks through operations of its US subsidiary and expenses incurred in US dollars. As at June 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 nine months ended June 30, 2021 by approximately \$111,000 (nine months ended June 30, 2020 - \$136,000).

Interest rate risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. The Company is exposed to interest rate risk due to its potential impact on cash and cash equivalents. The Company earns interest on deposits based on current market interest rates, which during the nine months ended June 30, 2021 averaged 1.15% (2020 - 1.25%). A 1% nominal change in interest rates would have affected the Company's results of operations for the nine months ended June 30, 2021 by approximately \$10,715 (2020 - \$26,000). The Company does not have any interest-bearing liabilities.

Credit risk

Credit risk is the risk of an unexpected loss if the counterparty to a financial instrument fails to meet its contractual obligations. The credit risk associated with cash is believed to be minimal as cash is on deposit with Canadian and foreign banks that are deemed to be creditworthy. Receivables are comprised primarily of amounts due from various customers. The Company is exposed to credit risk through accounts receivable from customers. At June 30, 2021, trade receivables from one of our customers accounted for

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97% of the Company's trade receivables balance. 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 June 30, 2021 (September 30, 2020 – nominal).

Concentration risk

During the three and nine months ended June 30, 2021, two customers accounted for 24% and 76% (Q3 2020 – \$nil revenue) and three customers accounted for 10%, 16%, and 62% (nine months ended June 30, 2020 - three customers for 10%, 13% and 38%) respectively of the Company's revenues.

Liquidity risk

Liquidity risk is managed by ensuring sufficient financial resources are available to meet obligations associated with financial liabilities. The Company has in place a planning and budgeting process which helps determine the funds required to ensure the Company has the appropriate liquidity to meet its operating and growth objectives. As at June 30, 2021 the Company had cash and cash equivalents of \$10,380,637 (September 30, 2020 – \$2,286,005) to settle its current liabilities of \$1,669,132 (September 30, 2020 – \$857,626).

16. LOSS PER SHARE

	Three months ended		Nine months ended	
	June 30,		June 30,	
	2021	2020	2021	2020
	\$	\$	\$	\$
Basic	(.009)	(.010)	(.027)	(.039)
Diluted	(.009)	(.010)	(.027)	(.039)
Weighted average common shares outstanding - basic and diluted	103,647,372	101,871,081	103,034,668	101,857,128

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

17. CAPITAL MANAGEMENT

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

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18. SUBSEQUENT EVENTS

Subsequent to June 30, 2021 the Company:

- (a) Applied for and was granted forgiveness of the loan in the amount of \$201,507 (US\$144,865) received pursuant to the United States Coronavirus Aid, Relief, and Economic Security Act's (the CARES Act), Paycheck Protection Program (PPP).