



Legend Power Systems Inc.

CONSOLIDATED FINANCIAL STATEMENTS For the years ended September 30, 2022 and 2021

(Expressed in Canadian Dollars)

Legend Power Systems Inc.

CONSOLIDATED FINANCIAL STATEMENTS

Years ended September 30, 2022 and 2021

(Expressed in Canadian Dollars)

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

Independent Auditor's Report

To the Shareholders of Legend Power Systems Inc.:

Opinion

We have audited the consolidated financial statements of Legend Power Systems Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at September 30, 2022, and September 30, 2021, 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, 2022, and September 30, 2021, 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.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that during the year ended September 30, 2022, the Company had negative cash flows from operations and a net loss, and as at that date, had an accumulated deficit. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above 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 the 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.

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, 2022

MNP LLP
Chartered Professional Accountants

Legend Power Systems Inc.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Expressed in Canadian Dollars)

		September 30, 2022	September 30, 2021
	Notes	\$	\$
ASSETS			
Current assets			
Cash and cash equivalents		3,085,986	9,287,141
Trade and other receivables	5(i)(iii)	716,146	562,290
Due from customers on contract	5(ii)	206,311	62,457
Prepaid expenses and deposits		329,050	135,101
Inventory	6	1,589,593	1,274,263
Total current assets		5,927,086	11,321,252
Non-current assets			
Property and equipment	7	119,976	144,247
Right of use assets	8	207,049	314,020
Intangible assets	9	50,018	17,619
Total non-current assets		377,043	475,886
Total assets		6,304,129	11,797,138
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Account payable		212,928	634,655
Accrued liabilities		345,041	355,780
Deferred revenue		30,699	12,589
Lease liability	8	125,620	112,176
Warranty provision	11	69,313	58,563
Total current liabilities		783,601	1,173,763
Non-current liabilities			
Warranty provision	11	106,015	343,860
Lease liability	8	63,542	191,927
Total liabilities		953,158	1,709,550
Shareholders' equity			
Share capital	12(i)	59,635,094	59,629,634
Contributed surplus		10,994,841	10,484,695
Accumulated other comprehensive income (loss)		3,500	(90,448)
Deficit		(65,282,464)	(59,936,293)
Total shareholders' equity		5,350,971	10,087,588
Total liabilities and shareholders' equity		6,304,129	11,797,138
Nature of Business and Going Concern (Note 1)			
Segments (Note 4)			
Commitments and Contingencies (Note 13)			

APPROVED BY THE BOARD OF DIRECTORS AND AUTHORIZED FOR ISSUE ON DECEMBER 22, 2022

 "Cos LaPorta", Director

 "Randy Buchamer", Director

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

Legend Power Systems Inc.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

(Expressed in Canadian Dollars)

		For the years ended September 30,	
		2022	2021
		\$	\$
	Notes		
Revenue		2,118,033	2,713,816
Cost of sales	6	1,913,680	2,142,565
Gross margin		204,353	571,251
Expenses			
Salaries and consulting		3,362,230	2,194,955
General and administrative expenses		585,254	485,878
Selling costs		322,062	227,947
Share-based compensation	12(ii)	513,422	754,827
Professional fees		202,146	261,132
Warranty recovery	11	(208,451)	(45,778)
Product development		486,045	534,862
Foreign exchange loss		119,774	28,048
Amortization and depreciation	7,8,9	188,376	165,929
Bad debt	5(i)	-	5,000
Total expenses		5,570,858	4,612,800
Operating loss		(5,366,505)	(4,041,549)
Inventory write-down	6	-	(2,746)
Interest expense on leases	8	(16,773)	(20,370)
Other income	10	37,107	226,899
Net loss for the year		(5,346,171)	(3,837,766)
Other comprehensive loss:			
Exchange difference arising on translation of foreign operations		93,948	30,334
Comprehensive loss for the year		(5,252,223)	(3,807,432)
Basic and diluted loss per share		(.04)	(.04)
Weighted average number of common shares outstanding, basic and diluted		117,558,304	107,256,318

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, 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
Options exercised	12(ii)	26,668	9,010	(3,276)	-	-	5,734
Share issuance cost	12(i)	-	(3,550)	-	-	-	(3,550)
Share-based compensation	12(ii)	-	-	513,422	-	-	513,422
Net loss and comprehensive loss		-	-	-	(5,346,171)	93,948	(5,252,223)
Balance at September 30, 2022		117,568,971	59,635,094	10,994,841	(65,282,464)	3,500	5,350,971

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,	
		2022	2021
		\$	\$
Cash flows used in operating activities			
Loss for the year		(5,346,171)	(3,837,766)
Items not affecting cash:			
Share-based payment	12(ii)	513,422	754,827
Amortization and depreciation	7,8,9	189,554	210,119
Provision for slow moving inventory	6	57,044	117,134
Interest on lease liability	8	16,773	29,524
Warranty recovery	11	(208,451)	(45,778)
Loss (gain) on termination of lease	8	(409)	302
Forgiveness of payroll protection loan	10	-	(169,754)
Accretion and interest of payroll protection loan	10	-	13,331
Bad debt expense	5(i)	-	5,000
Inventory write-down	6	-	2,746
Gain on sale of property and equipment		-	(834)
Changes in non-cash working capital items:			
Receivables, prepaids and deposits		(343,587)	316,103
Due from customers on contract		(143,854)	36,836
Inventory		(383,964)	(341,349)
Accounts payable and accrued liabilities		(441,248)	344,102
Deferred revenue		18,110	
		<u>(6,072,781)</u>	<u>(2,565,457)</u>
Cash flows provided by (used in) investing activities			
Purchase of property and equipment	7	(11,412)	(12,321)
Proceeds from disposal of property and equipment	7	-	1,597
Purchase of intangible assets	9	(51,396)	(17,619)
		<u>(62,808)</u>	<u>(28,343)</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)
Option exercise proceeds	12(ii)	5,734	437,117
Repayment of lease obligation	8	(166,263)	(162,569)
		<u>(160,529)</u>	<u>9,562,274</u>
Effects of foreign exchange translation in cash		94,963	32,662
Net change in cash and cash equivalents for the year		(6,296,118)	6,968,474
Cash and cash equivalents, beginning of the year		9,287,141	2,286,005
Cash and cash equivalents, end of the year		<u>3,085,986</u>	<u>9,287,141</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, 2022 and 2021
(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 the last few years, the U.S. and Canadian economies experienced significant disruption and/or market volatility related to the global COVID-19 pandemic. The Company continues to experience supply chain constraints. 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.

As described in Note 2 of these consolidated financial statements, management makes estimates and assumptions in preparing the consolidated 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.

Going concern uncertainty

These consolidated financial statements of the Company for the years ended September 30, 2022 and 2021 (“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.

For the year ended September 30, 2022, the Company has an accumulated deficit of \$65,282,464 (2021 – \$59,936,293), net loss of \$5,346,171 (2021 – \$3,837,766) and negative cash flows from operations of \$6,072,781 (2021 – \$2,565,457). Whether, and when, the Company can attain profitability and positive cash flows from operations is subject to material uncertainty. The application of the going concern assumption is dependent upon the Company’s ability to generate future profitable operations and obtain necessary financing to do so. The Company will need to raise additional capital in order to fund its planned operations and meet its obligations. While the Company has been successful in obtaining financing to date and believes it will be able to obtain sufficient funds in the future and ultimately achieve profitability and positive cash flows from operations, there can be no assurance that the Company will achieve profitability and be able to do so on terms favorable for the Company. The above events and conditions indicate there is a material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern.

2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

Basis of consolidation

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

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

Legend Power Systems Inc.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2022 and 2021
(Expressed in Canadian Dollars)

LPSI (Barbados) Limited – (Barbados) inactive 100%

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

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These consolidated financial statements have been prepared on a going concern basis, under the historical cost convention, except for certain financial assets and financial liabilities which are measured at fair value and certain equity instruments and warrants that are within the scope of IFRS 2 Share-based payment, as explained in the accounting policies below.

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

Critical judgments and sources of estimation uncertainty

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and 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:

Legend Power Systems Inc.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2022 and 2021
(Expressed in Canadian Dollars)

- 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. No indicators were present for the years ended September 30, 2022 or September 30, 2021 therefore no impairment testing was performed.
- 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.
- 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, 2022.
- 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

Legend Power Systems Inc.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2022 and 2021
(Expressed in Canadian Dollars)

varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred tax assets. The Company reassesses unrecognized income tax assets at each reporting period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in net loss. Foreign currency translations arising as the result of conversions from functional currency to presentation currency are classified as comprehensive loss and presented accordingly.

Cash and cash equivalents

Cash and cash equivalents are comprised of cash on hand, deposits in banks and investment with maturities of 12 months or less from the acquisition date, cashable within 30 days. The carrying value of these financial instruments approximate their fair values because of the short-term nature.

Financial Instruments

Item	Fiscal Years 2022 and 2021
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
Lease liability	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 plus transaction cost, if any, 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.

Legend Power Systems Inc.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2022 and 2021
(Expressed in Canadian Dollars)

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, 2022.

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

Legend Power Systems Inc.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2022 and 2021
(Expressed in Canadian Dollars)

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 overhead, cost of sales and inventory. Interest expense related to lease liabilities is allocated on a systematic basis between general and overhead expense, cost of sales and inventory.

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 recognized 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.

Legend Power Systems Inc.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2022 and 2021
(Expressed in Canadian Dollars)

Impairment of long-lived assets

Impairment tests for long-lived assets are performed when there is an indication of impairment. At each reporting date, an assessment is made to determine whether there are any indications of impairment. If any indication of impairment exists, an estimate of the long-lived asset's recoverable amount is calculated. The recoverable amount is determined as the higher of fair value less costs of disposal and the asset's value in use. If the carrying value of a long-lived asset exceeds its recoverable amount, the asset is impaired, and an impairment loss is charged to net loss to reduce the carrying amount of the long-lived asset to its recoverable amount.

Warranty provision

Warranty provision for the expected cost of warranty obligations is recorded as an expense at the date of the sale of a SmartGATE™ system. The provision is for estimated costs of product replacement due to a malfunction in the system after installation. The provision is based on management's best estimates incorporating a number of factors including historical number and timing 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

Legend Power Systems Inc.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2022 and 2021
(Expressed in Canadian Dollars)

transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates [and laws] that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realized, or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Share-based payments

The fair value, at the grant date, of equity-settled share awards is charged to the statement of loss and comprehensive loss over the period for which the benefits of employee and others providing similar services are expected to be received. The corresponding accrued entitlement is recorded in contributed surplus. The fair value of awards is calculated using the Black-Scholes option pricing model which considers the following factors: exercise price, life of the award, expected forfeitures, expected volatility, risk-free interest rate and current market price of the underlying shares.

When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value is measured by use of a valuation model. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioral considerations.

Warrants issued in equity financing transactions

The Company engages in equity financing transactions to obtain the funds necessary to continue operations. These equity financing transactions may involve issuance of common shares or units. Units typically comprise a certain number of common shares and share purchase warrants. Depending on the terms and conditions of each equity financing transaction, the warrants are exercisable into additional common shares at a fixed price prior to expiry as stipulated by the terms of the transaction.

The Company has adopted a residual 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:

Legend Power Systems Inc.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2022 and 2021
(Expressed in Canadian Dollars)

- Persuasive evidence the contract exists, which occurs when the contract is signed by both the Company and the customer.
- The performance obligation is met, which occurs on delivery to and receipt of the equipment by the customer with the exception of bill-and-hold agreements, where the customer has agreed that upon completion of the equipment and its preparation for shipping (the “Hold Date”), title to the equipment shall have passed to customer.
- The transaction price is clearly specified in the contract. The transaction price is recognized in revenue and allocated to product revenue when the performance obligation described above has been completed.
- ii) Revenue from product sales with installation services contracts are recognized when the following conditions are met:
 - Persuasive evidence the contract exists, which occurs when the contract is 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, 2022 and 2021
(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, 2022, 99% of the Company’s revenues were attributable to Legend Canada (2021 - 96%) and 1% of revenues were attributable to Legend U.S. (2021 – 4%). 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, 2022				As at September 30, 2021			
	Legend Canada	Legend U.S.	Other Subs	Total	Legend Canada	Legend U.S.	Other Subs	Total
Assets	6,244,273	59,856	-	6,304,129	11,673,932	120,676	2,530	11,797,138
Liabilities	877,099	66,559	9,500	953,158	1,572,856	133,934	2,760	1,709,550
	Year ended September 30, 2022				Year ended September 30, 2021			
	Legend Canada	Legend U.S.	Other Subs	Total	Legend Canada	Legend U.S.	Other Subs	Total
Revenue	2,102,068	15,965	-	2,118,033	2,593,812	120,004	-	2,713,816
Cost of sales	(1,913,680)	-	-	(1,913,680)	(2,054,327)	(88,238)	-	(2,142,565)
Op costs	(3,816,173)	(1,745,415)	(9,270)	(5,570,858)	(3,233,255)	(1,355,670)	(23,875)	(4,612,800)
Other income (expense)	22,774	(2,440)	-	20,334	319,894	(116,111)	-	203,783
Net loss	(3,605,011)	(1,731,890)	(9,270)	(5,346,171)	(2,373,876)	(1,440,015)	(23,875)	(3,837,766)

Legend Power Systems Inc.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2022 and 2021
(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
	\$	\$	\$	\$
September 30, 2022	716,146	682,648	-	33,498
September 30, 2021	479,849	442,535	-	37,314

During the year ended September 30, 2022, the Company wrote off trade receivables in the amount of \$nil (2021 - \$5,000) to bad debt and the expected credit loss was nominal (2021 – nominal).

As at September 30, 2022, trade receivables from five customers accounted for 10%, 11%, 15%, 16% and 34%, respectively of the Company's trade receivables balance for a total 86% in aggregate. At September 30, 2021, trade receivables from two customers accounted for 11% and 79%, respectively of the Company's trade receivables balance for a total 90% in aggregate.

ii) Due from customers on contract

At September 30, 2022, due from customers on contract amounted to \$206,311 and at September 30, 2021, was \$62,457. 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

	2022	2021
	\$	\$
Rebate	-	46,375
Canada Emergency Wage Subsidies	-	31,066
Due from Employee	-	5,000
	-	82,441

At September 30, 2021, 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; 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 the Company had advanced \$5,000 to an employee.

6. INVENTORY

Inventories consist of the following, as at September 30, 2022 and September 30, 2021:

	September 30, 2022	September 30, 2021
	\$	\$
Finished products ("SmartGATE")	124,867	12,686
Work in progress and finished sub-components	302,568	554,597
Transformers and components	1,162,158	706,980
	1,589,593	1,274,263

Legend Power Systems Inc.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2022 and 2021
(Expressed in Canadian Dollars)

During the year ended September 30, 2022, inventories were recognized as cost of sales in the amount of \$1,209,031 (2021 – \$914,900). During the year ended September 30, 2022, the Company recorded an inventory impairment of \$nil (2021-\$2,746). Further, the Company recorded a provision for slow-moving and obsolescence of \$57,044 (2021 - \$117,134). Total provision recognized against inventory as at September 30, 2022 was \$174,178 (2021 - \$117,134).

7. PROPERTY AND EQUIPMENT

	Computer equipment	Equipment and furniture	Leasehold improvements	Total
	\$	\$	\$	\$
Cost				
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
Additions	2,429	53,090	-	55,519
Adjustment	449	-	-	449
Balance, September 30, 2022	146,260	695,706	44,245	886,211
Accumulated depreciation				
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
Additions	3,434	71,696	4,660	79,790
Adjustment	449	-	-	449
Balance, September 30, 2022	141,498	588,990	35,747	766,235
Net book value				
At September 30, 2021	5,767	125,322	13,158	144,247
At September 30, 2022	4,762	106,716	8,498	119,976

During the year ended September 30, 2021, the Company sold some equipment and furniture for proceeds of \$1,597. As result of the sale, the Company recognized gain on sale of \$834 in other income.

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. During the year ended

Legend Power Systems Inc.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2022 and 2021
(Expressed in Canadian Dollars)

September 30, 2022, the Company made lease obligation payments of \$162,524 (2021 - \$152,638). Depreciation expense for the year ended September 30, 2022 was \$131,207 (2021 - \$114,587), of which \$43,298 (2021 - \$37,814) was allocated between inventory and cost of sales. Interest expense for the year ended September 30, 2022 was \$23,828 (2021 - \$27,737), of which \$7,863 (2021 - \$9,153) was allocated between inventory and cost of sales. On January 1, 2022, certain costs related to property taxes and insurance premiums related to the leased asset became known and unavoidable for the upcoming year. As a result, those payments became fixed in-substance at that time giving rise to a lease modification. An adjustment was made in the amount of \$44,628 to the right-of-use asset and lease liability.

The Company has recognized Canada Emergency Rent Subsidies (CERS) 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 \$2,362 between September 2021 and October 2021.

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.

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. On December 20, 2021, it was decided that the lease would be terminated. As a result of the termination, the Company received cash of \$3,795 from the lessor and recognized a gain on termination of \$4,204 in other income.

During the year ended September 30, 2022, the Company made lease obligation payments of \$1,614 (2021 - \$7,806). Depreciation expense for the year ended September 30, 2022 was \$1,178 (2021 - \$6,378) and recorded as cost of sales. Interest expense for the year ended September 30, 2022 was \$403 (2021 - \$1,219) related to this lease liability.

Office equipment

The Company entered into a 5-year photocopier lease on June 1, 2019. The Company's estimated incremental borrowing rate at the inception of the lease of 10% has been used to determine the present value of the minimum lease payments which was determined to be \$7,844 as of October 1, 2019. A right-of-use asset was determined to be \$7,844 on October 1, 2019 with a corresponding lease obligation recognized for the same amount.

During the year ended September 30, 2022, the Company made lease obligation payments of \$2,125 (2021 - \$2,125). Depreciation expense for the year ended September 30, 2022 was \$1,680 (2021 - \$1,681). Interest expense for the year ended September 30, 2022 was \$405 (2021 - \$568).

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

Legend Power Systems Inc.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2022 and 2021
(Expressed in Canadian Dollars)

Right of use Assets

	Office lease	Car lease	Equipment lease	Total
	\$	\$	\$	\$
Cost				
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
Effect of lease modification	44,628	-	-	44,628
Termination of lease	-	(21,385)	-	(21,385)
Balance, September 30, 2022	584,519	-	7,844	592,363
Accumulated depreciation				
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
Additions	131,207	1,178	1,680	134,065
Termination of lease	-	(3,851)	-	(3,851)
Balance, September 30, 2022	380,272	-	5,042	385,314
Net book value				
At September 30, 2021	290,826	18,712	4,482	314,020
At September 30, 2022	204,247	-	2,802	207,049

Legend Power Systems Inc.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2022 and 2021
(Expressed in Canadian Dollars)

Lease Obligations

	Office lease	Car lease	Equipment lease	Total
	\$	\$	\$	\$
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
Effect of lease modification	44,628	-	-	44,628
Lease payments	(162,524)	(1,614)	(2,125)	(166,263)
Interest portion of payments	23,828	403	405	24,636
Termination of lease	-	(17,943)	-	(17,943)
Balance, September 30, 2022	185,884	-	3,278	189,162
Lease payable, current	123,720	-	1,900	125,620
Lease payable, non-current	62,164	-	1,378	63,542
Total lease payable	185,884	-	3,278	189,162

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	135,253	-	2,125	137,378
Between 2 and 3 years	63,460	-	1,417	64,877
Total	198,713	-	3,542	202,255

9. INTANGIBLE ASSETS

During the year ended September 30, 2022 the Company incurred \$32 (2021 - \$17,619) in legal fees associated with patent application costs and \$51,364 (2021 - \$nil) in computer software.

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.

	Patents	Computer software	Total
	\$	\$	\$
Cost			
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
Additions	32	51,364	51,396
Balance, September 30, 2022	1,655,750	184,084	1,839,834

Legend Power Systems Inc.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2022 and 2021
(Expressed in Canadian Dollars)

Accumulated depreciation			
Balance, September 30, 2020	1,638,099	127,548	1,765,647
Amortization	-	5,172	5,172
Balance, September 30, 2021	1,638,099	132,720	1,770,819
Amortization	-	18,997	18,997
Balance, September 30, 2022	1,638,099	151,717	1,789,816
Carrying amount			
At September 30, 2021	17,619	-	17,619
At September 30, 2022	17,651	32,367	50,018

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 related to accretion of the loan carrying value was recorded to other income and \$1,504 interest expense was accrued.

Payroll Protection Program Loan continuity schedule:

	Total
	\$
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	-
Balance, September 30, 2022	-

During the year ended September 30, 2022, the Company received a total of \$14,721 (2021 - \$394,107) in COVID related subsidies from the Government of Canada. The Company repaid a total of \$42,885 related to the Canadian Emergency Wage Subsidy during the fiscal year ended September 30, 2022.

Legend Power Systems Inc.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2022 and 2021
(Expressed in Canadian Dollars)

11. WARRANTY PROVISION

	Total
	\$
Balance, September 30, 2020	499,154
Warranty fulfillment	(50,953)
Decrease in provision	(45,778)
Balance, September 30, 2021	402,423
Warranty fulfillment	(18,644)
Decrease in provision	(208,451)
Balance, September 30, 2022	175,328
Warranty provision, current	69,313
Warranty provision, non-current	106,015
Total	175,328

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, 2022, the average remaining years of equipment under warranty was 4.89 years (September 30, 2021 – 5.92 years).

12. SHARE CAPITAL AND CONTRIBUTED SURPLUS

i) Share Capital

The Company's authorized share capital is an unlimited number of common shares without par value. At September 30, 2022, the Company had 117,568,971 (2021 – 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, 2022, the Company incurred an additional \$3,550 share issuance costs in relation to the bought deal public offering on June 15, 2021.

During the year ended September 30, 2022, a total of 26,668 (2021 - 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, 2022 the following stock options were granted:

Legend Power Systems Inc.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2022 and 2021
(Expressed in Canadian Dollars)

- October 25, 2021 – 360,000 with an exercise price of \$0.39 and a 5-year term¹;
- January 11, 2022 – 50,000 with an exercise price of \$0.30 and a 5-year term¹;
- March 8, 2022 – 1,100,000 with an exercise price of \$0.32 and a 5-year term¹;
- March 28, 2022 – 40,000 with an exercise price of \$0.31 and a 5-year term¹; and
- June 13, 2022 – 1,250,000 with an exercise price of \$0.19 and a 5-year term¹;

The options granted during the year ended September 30, 2022 vest as to:

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

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

A summary of the Company's share options outstanding at September 30, 2022, including the changes during the year, is as follows:

	Share options	Weighted average exercise price
		\$
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
Granted	2,800,000	0.27
Exercised	(26,668)	0.22
Expired	(1,535,000)	0.27
Forfeited	(1,456,665)	0.40
Balance, September 30, 2022	7,979,813	0.38

The weighted average remaining contractual life of stock options outstanding as of September 30, 2022 is 2.98 years (September 30, 2021 – 2.82 years).

During the year ended September 30, 2022, \$513,422 (2021 - \$754,827) 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.

Legend Power Systems Inc.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2022 and 2021
(Expressed in Canadian Dollars)

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, 2022 and 2021:

	September 30, 2022	September 30, 2021
Risk-free interest rate (average)	2.31%	0.44%
Estimated volatility (average)	99%	99%
Expected life (average)	3.71	3.65
Forfeiture rate (average)	21.36%	20.58%
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 September 30, 2022:

Options outstanding	Options exercisable	Exercise price	Year of expiry
		\$	
595,000	595,000	0.38 - 0.92	2023
2,550,000	2,425,836	0.18 - 0.75	2024
1,961,478	1,128,980	0.17 - 0.47	2025
573,335	190,003	0.39 - 0.75	2026
2,300,000	191,670	0.19 - 0.32	2027
7,979,813	4,531,489		

iii) Warrants

The continuity of share purchase warrants is as follows:

	Warrants	Weighted average exercise price
		\$
Balance, September 30, 2021	7,716,800	0.95
Balance, September 30, 2022	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		

Legend Power Systems Inc.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2022 and 2021
(Expressed in Canadian Dollars)

The weighted average remaining contractual life of warrants outstanding as of September 30, 2022 is 0.71 years (September 30, 2021 - 1.71 years).

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:

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 and COO 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, 2022 and 2021:

- (i) Transactions with Key Management Personnel:

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

	2022	2021
	\$	\$
Salaries and consulting fees to key management personnel	490,981	494,125
Share-based compensation	172,019	215,797
Car allowance	9,600	7,200
	672,600	717,122

At September 30, 2022, a total of \$nil (September 30, 2021 - \$nil) was due to related parties for consulting fees and expenses reimbursement.

Legend Power Systems Inc.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2022 and 2021
(Expressed in Canadian Dollars)

(ii) Transactions with Directors:

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

	2022	2021
	\$	\$
Share-based compensation	176,982	171,704
	<u>176,982</u>	<u>171,704</u>

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, 2022 and September 30, 2021:

	2022	2021
	\$	\$
Net loss before tax	(5,346,171)	(3,837,766)
Statutory tax rate	26.7%	26.7%
Expected income tax (recovery)	(1,428,021)	(1,023,404)
Non-deductible and other items	152,416	172,548
Change in tax rates	-	270,561
Effect of foreign jurisdiction tax rates	(14,349)	(8,205)
Effect of foreign exchange	(194,265)	85,688
Share issuance costs	(948)	(367,801)
Change in estimates	(30,104)	(2,696)
Change in deferred tax asset not recognized	1,515,271	873,309
Total income tax expense (recovery)	<u>-</u>	<u>-</u>

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:

	2022	2021
	\$	\$
Non-capital loss carryforwards	56,635	83,739
Intangible Assets	(1,330)	-
Right to Use Assets	(55,305)	(83,739)
Net deferred tax assets (liabilities)	<u>-</u>	<u>-</u>

The unrecognized deductible temporary differences as at September 30, 2022 and September 30, 2021 is comprised of the following:

	2022	2021
	\$	\$
Net operating losses carryforward and non-capital losses carryforwards	45,019,827	38,612,082
Intangible assets	-	127
Financing Costs	830,894	1,292,343
Property and Equipment	1,338,415	1,386,969
Lease liabilities	189,160	304,103

Legend Power Systems Inc.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2022 and 2021
(Expressed in Canadian Dollars)

Capital losses	479,254	479,254
Inventory	123,017	70,168
Warranty Provision	175,328	402,423
Total unrecognized deductible temporary differences	48,155,895	42,547,469

The Company has not recognized a deferred tax asset in respect of non-capital loss carryforwards of approximately \$45,019,826 (2021: \$38,612,082) which may be carried forward to apply against future income for Canadian and US income tax purposes, subject to the final determination by taxation authorities, expiring in the following years:

Expiry	\$
2022	100,725
2023	88,181
2024	14,796
2025	42,316
2026	1,527,451
2027	718,480
2028	1,448,737
2029	2,030,588
2030	2,892,431
2031	2,823,581
2032	2,252,106
2033	2,114,649
2034	1,710,271
2035	2,059,317
2036	2,071,069
2037	1,664,157
2038	1,381,356
2039	2,011,450
2040	2,964,327
2041	2,182,894
2042	3,607,603
Indefinite	9,313,341
Total	45,019,826

The amount of aggregate temporary difference associated with an intercompany receivable that is considered part of the Company's net investment in subsidiary for which deferred tax liabilities have not been recognized is \$540,675.

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 lease liability. The carrying values of these financial instruments are not based on fair value but approximate their fair values because of their short-term nature.

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.

Legend Power Systems Inc.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2022 and 2021
(Expressed in Canadian Dollars)

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, 2022 all of Company's liquid assets and liabilities were held in Canadian dollars and US dollars. A significant change in the USD exchange rate relative to the Canadian dollar could affect the Company's results of operations. A change in the value of US dollar by 10% relative to the value of the Canadian dollar would have affected the Company's results of operations for the year ended September 30, 2022 by approximately \$190,690 (2021 - \$132,390).

Interest rate risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. The Company is exposed to interest rate risk due to its potential impact on cash and cash equivalents. The Company earns interest on deposits based on current market interest rates, which during the year ended September 30, 2022 averaged 0.45% (2021 – 0.64%). A 1% nominal change in interest rates would have affected the Company's results of operations for the year ended September 30, 2022 by approximately \$55,700 (2021 - \$17,300). 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, 2022, trade receivables from five customers accounted for 10%, 11%, 15%, 16% and 34% respectively of the Company's trade receivable balance for a total 86% in aggregate. 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. Given the nature, balances and the collection history of the Company's receivables, Management has applied a nominal loss allowance as at September 30, 2022 (September 30, 2021 – nominal).

Concentration risk

During the year ended September 30, 2022, two customers accounted for 48% and 37% (2021 - two customers accounted for 15% and 57%), 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 September 30, 2022 the Company had cash and cash equivalents of \$3,085,986 (September 30, 2021 – \$9,287,141) to settle its current liabilities of \$783,601 (September 30, 2021 – \$1,173,763).

17. LOSS PER SHARE

	2022	2021
	\$	\$
Basic	(.05)	(.04)
Diluted	(.05)	(.04)

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.