



Legend Power Systems Inc.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS For the three and nine months ended June 30, 2022 and 2021

(Expressed in Canadian Dollars)

Legend Power Systems Inc.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three and nine months ended June 30, 2022 and 2021

(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, 2022 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 statements of loss and comprehensive loss for the three and nine month periods ended June 30, 2022.

Legend Power Systems Inc.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited - Expressed in Canadian Dollars)

		June 30, 2022	September 30, 2021 (Audited)
	Notes	\$	\$
ASSETS			
Current assets			
Cash and cash equivalents		4,683,174	9,287,141
Trade and other receivables	5(i)	491,117	562,290
Due from customers on contract	5(ii)	378,959	62,457
Prepaid expenses and deposits		361,513	135,101
Inventory	6	1,331,604	1,274,263
Total current assets		7,246,367	11,321,252
Property and equipment	7	96,139	144,247
Right of use assets	8	241,511	314,020
Intangible assets	9	62,964	17,619
Total assets		7,646,981	11,797,138
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Account payable		455,546	634,655
Accrued liabilities		292,273	355,780
Deferred revenue		12,778	12,589
Lease liability	8	132,452	112,176
Warranty provision	11	35,790	58,563
Total current liabilities		928,839	1,173,763
Non-current liabilities			
Warranty provision	11	232,106	343,860
Lease liability	8	93,974	191,927
Total liabilities		1,254,919	1,709,550
Shareholders' equity			
Share capital	12(i)	59,638,644	59,629,634
Contributed surplus		10,893,848	10,484,695
Accumulated other comprehensive loss		(2,206)	(90,448)
Deficit		(64,138,224)	(59,936,293)
Total shareholders' equity		6,392,062	10,087,588
Total liabilities and shareholders' equity		7,646,981	11,797,138

Segments (Note 4)

Commitments and Contingencies (Note 13)

APPROVED BY THE BOARD OF DIRECTORS AND AUTHORIZED FOR ISSUE ON AUGUST 24, 2022

“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 June 30,		For the nine-months ended June 30,	
		2022	2021	2022	2021
		\$	\$	\$	\$
Revenue		1,026,412	1,272,192	1,539,205	2,520,562
Cost of sales	6	977,765	926,609	1,395,749	1,884,413
Gross margin		48,647	345,583	143,456	636,149
Expenses					
Salaries and consulting		837,189	588,816	2,637,651	1,490,392
General and overhead		142,170	124,573	445,250	365,840
Selling costs		124,489	59,500	312,148	153,442
Share-based compensation	12(ii)	154,398	194,292	412,427	564,857
Professional fees		34,637	54,607	118,555	196,855
Warranty expense (recovery)	11	10,121	60,919	(115,883)	80,657
Product development		136,154	155,886	347,747	418,094
Foreign exchange loss		54,403	3,961	108,701	34,320
Amortization and depreciation	7,8,9	49,014	43,215	131,932	121,850
Bad debt	5	-	-	-	5,000
Total expenses		1,542,575	1,285,769	4,398,528	3,431,307
Operating loss		(1,493,928)	(940,186)	(4,255,072)	(2,795,158)
Inventory write-down	6	-	-	-	(2,746)
Interest expense on leases	8	(3,995)	(6,001)	(13,394)	(14,931)
Other income		5,742	(429)	66,535	9,598
Net loss for the period		(1,492,181)	(946,616)	(4,201,931)	(2,803,237)
Other comprehensive loss:					
Exchange difference arising on translation of foreign operations		46,683	11,177	88,242	38,968
Comprehensive loss for the period		(1,445,498)	(935,439)	(4,113,689)	(2,764,269)
Basic and diluted loss per share		(.013)	(.009)	(.036)	(.027)
Weighted average number of common shares outstanding, basic and diluted		117,568,971	103,647,372	117,554,709	103,034,668

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, 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 costs	12(i)	-	(1,370,509)	317,816	-	-	(1,052,693)
Common shares issued for options exercised	12(ii)	1,722,000	732,013	(294,896)	-	-	437,117
Share-based compensation	12(ii)	-	-	564,857	-	-	564,857
Unrealized gain on foreign currency translation		-	-	-	-	38,968	38,968
Net loss for the period		-	-	-	(2,803,237)	-	(2,803,237)
Balance at June 30, 2021		117,542,303	59,639,215	10,294,725	(58,901,764)	(81,814)	10,950,362
Balance at September 30, 2021		117,542,303	59,629,634	10,484,695	(59,936,293)	(90,448)	10,087,588
Common shares issued for options exercised	12(ii)	26,668	9,010	(3,274)	-	-	5,736
Share-based compensation	12(ii)	-	-	412,427	-	-	412,427
Unrealized gain on foreign currency translation		-	-	-	-	88,242	88,242
Net loss for the period		-	-	-	(4,201,931)	-	(4,201,931)
Balance at June 30, 2022		117,568,971	59,638,644	10,893,848	(64,138,224)	(2,206)	6,392,062

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,	
		2022 \$	2021 \$
Cash flows used in operating activities			
Loss for the period		(4,201,931)	(2,803,237)
Items not affecting cash:			
Amortization and depreciation	7,8,9	133,111	156,216
Share-based payment	12(ii)	412,427	564,857
Warranty provision	11	(115,883)	78,306
Inventory write-down	6	49,223	2,746
Interest on lease liability	8	13,394	21,705
Accretion of payroll protection loan	10	-	12,143
Interest on payroll protection loan		-	(835)
Gain on sale of property and equipment		-	303
Bad debt expense		-	5,000
Lease termination	8	(409)	-
Changes in non-cash working capital items:			
Receivables, prepaids and deposits		(154,930)	(241,309)
Due from customers on contract		(316,502)	(451,270)
Inventory		(86,904)	279,377
Accounts payable and accrued liabilities		(243,673)	843,009
Deferred revenue		189	-
		<u>(4,511,888)</u>	<u>(1,532,989)</u>
Cash flows provided by (used in) investing activities			
Purchase of property and equipment	7	(11,412)	(7,944)
Proceeds from disposal of property and equipment	7	-	1,597
Purchase of intangible assets	9	(51,396)	(15,699)
		<u>(62,808)</u>	<u>(22,046)</u>
Cash flows provided by (used in) financing activities			
Proceed from public offering	12(i)	-	10,350,000
Share issuance cost	12(i)	-	(1,052,693)
Proceeds from options exercised	12(ii)	5,736	437,117
Repayment of lease obligation	8	(123,999)	(121,429)
		<u>(118,263)</u>	<u>9,612,995</u>
Effects of foreign exchange translation in cash		88,992	36,672
Net change in cash and cash equivalents for the period		(4,692,959)	8,057,960
Cash and cash equivalents, beginning of period		9,287,141	2,286,005
Cash and cash equivalents, end of period		<u>4,683,174</u>	<u>10,380,637</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, 2022 and 2021

(Unaudited - Expressed in Canadian Dollars)

1. NATURE OF BUSINESS

Legend Power Systems Inc. (hereafter referred to as the “Company” or “Legend”) is incorporated under the laws of the Province of British Columbia and was established as a legal entity on June 4, 1987. The Company’s principal business activities are the 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 overall impact of the pandemic continues to be uncertain and dependent on actions taken by the U.S. and Canadian governments, businesses, and individuals to limit spread of the COVID-19 virus, as well as governmental economic response and support efforts.

As described in Note 2 of these condensed interim consolidated financial statements, management makes estimates and assumptions in preparing the financial statements. These estimates and assumptions have been made taking into consideration the economic impact of the COVID-19 pandemic and the significant economic volatility and uncertainty it has created.

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

2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

Basis of consolidation

The 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 as issued by the International Accounting Standards Board (“IFRS”). These should be read in conjunction with the Company’s last annual consolidated financial statements as at and for the year ended September 30, 2021 (“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

Legend Power Systems Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the nine months ended June 30, 2022 and 2021

(Unaudited - Expressed in Canadian Dollars)

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.

Critical judgments

The following are critical judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements:

- i) The Company's assessment of its ability to continue as a going concern requires judgments about the Company's ability to execute its strategy by funding future working capital requirements. The Company's objectives are to ensure that there are adequate capital resources to safeguard the Company's ability to continue as a going concern and maintain adequate levels of funding to support its ongoing operations and development such that it can continue to provide returns to shareholders and benefits for other stakeholders
- ii) The determination of an entity's functional currency is a matter of judgment based on an assessment of the specific facts and circumstances relevant to determining the primary economic environment of each individual entity within the group. The Company reconsiders the functional currencies used when there is a change in events or conditions considered in determining the primary economic environment of each entity.

Estimation uncertainty

The following are key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year:

- i) Management is required to assess property and equipment and intangible assets for impairment in accordance with IAS 36. In assessing whether there is any indication that long-lived assets may be impaired, management is required to make judgments about whether there are any internal or external indicators of impairment. In testing for impairment, the Company utilizes a 5-year pro-forma cash flow model and in addition to various assumptions, the model includes a sensitivity analysis for future revenue scenarios according to three outcomes and net after-tax cash flows based on current operating costs.

Legend Power Systems Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the nine months ended June 30, 2022 and 2021

(Unaudited - Expressed in Canadian Dollars)

- 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, 2021.
- vii) For those contracts that include both a system and its installation, the Company utilizes Management's best estimate of the relative fair value of revenue generated from the products delivered and the installation services provided. Installation revenue fair value is based on actual third-party contractor pricing by product size multiplied by either; i) the average gross margin achieved by the Company over the preceding two fiscal years or; ii) the implied gross margin specific to a multi system order. The relative fair value of product is the difference between total sale price to customer and fair value estimate of installation revenue.
- viii) The fair value of share-based compensation and warrants are estimated using the Black-Scholes option pricing model and rely on a number of estimates, such as the expected term, expected dividend yield, the volatility of the underlying share price, the risk-free rate of return, and the estimated rate of forfeiture. Such estimates and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates of share-based compensation and warrants.
- ix) In assessing the probability of realizing income tax assets, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. The Company considers whether relevant tax planning opportunities are within the Company's control, are feasible, and are within management's ability to implement. Examination by applicable tax authorities is supported based on individual facts and circumstances of the relevant tax position examined in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred tax assets. The Company reassesses unrecognized income tax assets at each reporting period.

Legend Power Systems Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the nine months ended June 30, 2022 and 2021

(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, 2021.

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, 2022, 100% of the Company's revenues were attributable to Legend Canada (2021 - 95%) and 0% of revenues were attributable to Legend U.S. (2021 - 5%). 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, 2022				As at September 30, 2021			
	Legend Canada	Legend U.S.	Other Subs	Total	Legend Canada	Legend U.S.	Other Subs	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Assets	7,583,235	63,746	-	7,646,981	11,673,932	120,676	2,530	11,797,138
Liabilities	1,170,474	84,445	-	1,254,919	1,572,856	133,934	2,760	1,709,550

	Three-months ended June 30, 2022				Three-months ended June 30, 2021			
	Legend Canada	Legend U.S.	Other Subs	Total	Legend Canada	Legend U.S.	Other Subs	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	1,026,412	-	-	1,026,412	1,269,273	2,919	-	1,272,192
Cost of sales	(977,765)	-	-	(977,765)	(926,609)	-	-	(926,609)
Op costs	(1,033,509)	(509,066)	-	(1,542,575)	(930,228)	(342,792)	(12,749)	(1,285,769)
Other income (expense)	1,756	(9)	-	1,747	103,564	(109,994)	-	(6,430)
Net loss	(983,106)	(509,075)	-	(1,492,181)	(484,000)	(449,867)	(12,749)	(946,616)

	Nine-months ended June 30, 2022				Nine-months ended June 30, 2021			
	Legend Canada	Legend U.S.	Other Subs	Total	Legend Canada	Legend U.S.	Other Subs	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	1,539,205	-	-	1,539,205	2,401,439	119,123	-	2,520,562
Cost of sales	(1,395,749)	-	-	(1,395,749)	(1,796,175)	(88,238)	-	(1,884,413)
Op costs	(2,950,112)	(1,448,646)	230	(4,398,528)	(2,494,858)	(917,465)	(18,984)	(3,431,307)
Other income (expense)	55,563	(2,422)	-	53,141	210,226	(218,305)	-	(8,079)
Net loss	(2,751,093)	(1,451,068)	230	(4,201,931)	(1,679,368)	(1,104,885)	(18,984)	(2,803,237)

Legend Power Systems Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the nine months ended June 30, 2022 and 2021

(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, 2022	490,755	298,247	166,963	25,545
September 30, 2021	479,849	442,535	-	37,314

During the three and nine months ended June 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).

At June 30, 2022, trade receivables from two customers accounted for 38% and 53%, respectively of the Company's trade receivables balance for a total 91% 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 June 30, 2022, due from customers on contract amounted to \$378,959 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.

6. INVENTORY

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

	June 30, 2022	September 30, 2021
	\$	\$
Finished products ("SmartGATE")	189,088	12,686
Finished sub-components	131,296	554,597
Transformers and components	1,011,220	706,980
Total inventory	1,331,604	1,274,263

During the three and nine months ended June 30, 2022, inventories were recognized as cost of sales in the amount of \$702,951 (2021 – \$192,362) and \$1,087,890 (2021 - \$773,377) respectively. During the three and nine months ended June 30, 2022, the Company recorded an inventory impairment of \$49,223 (2021-\$nil) and \$49,223 (2021-\$2,746) respectively.

Legend Power Systems Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the nine months ended June 30, 2022 and 2021

(Unaudited - Expressed in Canadian Dollars)

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 31, 2021	143,382	642,616	44,245	830,243
Additions	2,429	8,983	-	11,412
Adjustment	68	-	-	68
Balance, June 30, 2022	145,879	651,599	44,245	841,723
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	2,841	53,184	3,495	59,520
Adjustment	68	-	-	68
Balance, June 30, 2022	140,524	570,478	34,582	745,584
Net book value				
At September 30, 2021	5,767	125,322	13,158	144,247
At June 30, 2022	5,355	81,121	9,663	96,139

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 three months and nine month ended June 30, 2022, the Company made lease obligation payment of \$41,733 (2021 - \$38,994) and \$120,791 (2021 - \$113,643), respectively. Depreciation expense for the three months and nine months ended June 30, 2022 was \$34,041 (2021 - \$31,182) and \$97,165 (2021 - \$94,897), respectively, of which \$32,064 (2021 - \$28,216) was allocated to inventory and cost of sales. Interest expense for the three months and nine months ended June 30, 2022 was \$5,820 (2021 - \$7,987) and \$18,913 (2021 - \$20,581), respectively, of which \$6,241 (2021 - \$6,775) was allocated to inventory and

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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 CERS rent subsidies as a negative variable lease payment adjustment of lease liability through profit and loss with depreciation of the right-of-use asset continued over the remaining lease term. The Company recorded total lease concessions of \$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 (expense).

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. The Company recognized a gain on termination of \$4,205 in other income (expenses).

During the three months and nine months ended June 30, 2022, the Company made lease obligation payments of \$nil (2021 - \$1,614) and \$1,614 (2021 - \$6,192) respectively. Depreciation expense for the three months and nine months ended June 30, 2022 was \$nil (2021 - \$1,337) and \$1,178 (2021 - \$5,042), was recorded as cost of sales respectively. Interest expense for the three months and nine months ended June 30, 2022 was \$nil (2021 - \$512) and \$403 (2021 - \$734), respectively.

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 three months and nine months ended June 30, 2022, the Company made lease obligation payments of \$531 (2021 - \$531) and \$1,594 (2021 - \$1,594), respectively. Depreciation expense for the three months and nine months ended June 30, 2022 was \$420 (2021 - \$420) and \$1,261 (2021 - \$1,261), respectively. Interest expense for the three months and nine months ended June 30, 2022 was \$96 (2021 - \$137) and \$320 (2021 - \$440).

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, 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, June 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
Termination of lease	-	(12,110)	-	(12,110)
Balance, September 30, 2021	249,065	2,673	3,362	255,100
Additions	97,164	1,178	1,261	99,603
Termination of lease	-	(3,851)	-	(3,851)
Balance, June 30, 2022	346,229	-	4,623	350,852
Net book value				
At September 30, 2021	290,826	18,712	4,482	314,020
At June 30, 2022	238,290	-	3,221	241,511

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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
Payments	(120,791)	(1,614)	(1,594)	(123,999)
Interest portion of payments	18,913	403	320	19,636
Termination of lease	-	(17,943)	-	(17,943)
Balance, June 30, 2022	222,702	-	3,724	226,426
Lease liability, current	130,598	-	1,854	132,452
Lease liability, non-current	92,104	-	1,870	93,974
Total lease liability	222,702	-	3,724	226,426

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	145,257	-	2,125	147,382
Between 2 and 3 years	95,190	-	1,948	97,138
Total	240,447	-	4,073	244,520

9. INTANGIBLE ASSETS

During the three and nine months ended June 30, 2022 the Company incurred \$32 in legal fees associated with patent application costs and \$51,364 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, June 30, 2022	1,655,750	184,084	1,839,834

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Accumulated depreciation			
Balance, September 30, 2020	1,638,099	132,720	1,770,819
Amortization	-	-	-
Balance, September 30, 2021	1,638,099	132,720	1,770,819
Amortization	-	6,051	6,051
Balance, June 30, 2022	1,638,099	138,771	1,776,870
Carrying amount			
At September 30, 2021	17,619	-	17,619
At June 30, 2022	17,651	45,313	62,964

10. PAYROLL PROTECTION PROGRAM LOAN and COVID SUBSIDIES

On April 30, 2020, the Company received a loan in the amount of \$201,507 (US\$144,865) pursuant to the United States Coronavirus Aid, Relief, and Economic Security Act's (the CARES Act), Paycheck Protection Program (PPP). The loan with a maturity date of May 1, 2022 (2-year term) and bearing interest at a rate of 1% was forgiven in full by Small Business Administration (SBA) on July 26, 2021. The funds were used for payroll costs. On initial recognition, the Company measured the loan at its fair value of \$165,117, which was the present value of the proceeds received discounted at the market rate of interest, which the Company deemed to be 10%. In connection with the loan, during the year ended September 30, 2021, \$11,827 (2020 - \$5,955) related to accretion of the loan carrying value was recorded to other income and \$1,504 (2020 - \$812) interest expense was accrued.

Payroll Protection Program Loan continuity schedule:

	Total (\$)
Balance, September 30, 2019	-
Additions	165,117
Accretion expense	5,955
Interest expense	812
Adjustment	(6,837)
Balance, September 30, 2020	165,047
Accretion expense	11,827
Interest expense	1,504
Loan forgiveness	(169,754)
Adjustment	(8,624)
Additions	-
Balance, September 30, 2021 and June 30, 2022	-

During the three and nine months ended June 30, 2022, the Company received a total of \$nil (2021 - \$342,499) COVID related subsidies from the Government of Canada which has been recorded as an offset to salaries.

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11. WARRANTY PROVISION

	Total
	\$
Balance, September 30, 2020	499,157
Warranty fulfillment	(50,956)
Decrease in provision	(45,778)
Balance, September 30, 2021	402,423
Warranty fulfillment	(18,644)
Decrease in provision	(115,883)
Balance, June 30, 2022	267,896
Warranty provision, current	35,790
Warranty provision, non-current	232,106
Total	267,896

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, 2022, the average remaining years of equipment under warranty was 5.14 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 June 30, 2022, the Company had 117,568,971 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)).

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.

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A summary of the Company's share options outstanding at June 30, 2022, including the changes during the period, 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	(1,520,000)	0.27
Forfeited	(711,665)	0.38
Balance, June 30, 2022	8,739,813	0.38

The weighted average remaining contractual life of stock options outstanding as of June 30, 2022 is 3.09 years (September 30, 2021 – 2.82 years).

During the three and nine months ended June 30, 2022 \$154,398 (2021 – \$194,292) and \$412,427 (2021 - \$564,857) respectively was recorded to share-based compensation expense for vesting.

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

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, 2022 and 2021:

	2022	2021
Risk-free interest rate (average)	2.31%	0.35%
Estimated volatility (average)	99%	98%
Expected life (average)	3.71	3.74
Forfeiture rate (average)	21.36%	21.15%
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.

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The following table summarizes share options outstanding and exercisable at June 30, 2022:

Options outstanding	Options exercisable	Exercise price	Year of expiry
		\$	
423,334	423,334	0.26 - 0.75	2022
595,000	595,000	0.38 - 0.92	2023
2,565,000	2,355,000	0.18 - 0.75	2024
2,083,145	1,185,645	0.17 - 0.47	2025
773,334	186,667	0.39 - 0.84	2026
2,300,000	-	0.19 - 0.32	2027
8,739,813	4,745,646		

iii) Warrants

The continuity of share purchase warrants is as follows:

	Warrants	Weighted average exercise price
		\$
Balance, September 30, 2020	-	-
Issued	7,716,800	0.95
Balance, September 30, 2021 and June 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		

The weighted average remaining contractual life of warrants outstanding as of June 30, 2022 is 0.96 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:

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Risk-free interest rate	0.32%
Estimated volatility	111%
Expected life	2.00
Forfeiture rate	0.00%
Dividend rate	0.00%

13. COMMITMENTS AND CONTINGENCIES

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

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, 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:

	Three months ended June 30,		Nine months ended June 30,	
	2022	2021	2022	2021
	\$	\$	\$	\$
Salaries and consulting fees to key management personnel	134,565	178,750	352,731	385,375
Share-based compensation	59,803	85,320	131,142	171,448
Car allowance	2,400	2,400	7,200	4,800
	196,768	266,470	491,073	561,623

(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,	
	2022	2021	2022	2021
	\$	\$	\$	\$
Share-based compensation	56,360	88,343	128,895	133,841
	56,360	88,343	128,895	133,841

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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, 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 nine months ended June 30, 2022 by approximately \$154,000 (2021 - \$111,000).

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, 2022 averaged 0.26% (2021 - 1.15%). A 1% nominal change in interest rates would have affected the Company's results of operations for the nine months ended June 30, 2022 by approximately \$43,856 (2021 - \$10,715). 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, 2022, trade receivables from two customers accounted for 38%, and 53%, respectively, of the Company's trade receivables balance for a total of 91% 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 of 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 June 30, 2022 (September 30, 2021 - nominal).

Concentration risk

During the three months and nine months ended June 30, 2022, two customers accounted for 37% and 63% (2021 - two customers accounted for 24% and 76%), and two customers accounted for 52% and 42% (2021 - three customers accounted for 10%, 16% and 62%), respectively, of the Company's revenues.

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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, 2022 the Company had cash and cash equivalents of \$4,683,174 (September 30, 2021 – \$9,287,141) to settle its current liabilities of \$928,839 (September 30, 2021 – \$1,173,763).

16. LOSS PER SHARE

	Three-months ended June 30,		Nine-months ended June 30,	
	2022	2021	2022	2021
	\$	\$	\$	\$
Basic	(.013)	(.010)	(.036)	(.027)
Diluted	(.013)	(.010)	(.036)	(.027)

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.